THE CHALLENGES FACING THE PHARMACEUTICAL INDUSTRY FRANCHISING IN KENYA: THE CASE OF FRANCHISEE

BY
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DECLARATION

I declare that, this research study is my own original work and has not been presented for award of any degree in any university.

Signed: 

Date: 

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This research has been submitted for examination with my approval as the university supervisor.

Signed: 

Date: 

Mrs. Margaret Ombok
Lecturer UoN.
DEDICATION

To my family: my dear wife Jacinta and children Winfred, June and Ike
ACKNOWLEDGEMENTS

To the almighty God who has given me life and ability to pursue this course.

To my family and friends for understanding, support and encouragement that kept me going all the way.

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ABSTRACT

The pharmaceutical industry plays a key role in the provision of health, employment, research, beauty e.t.c. in any part of the world. Doctors can only prescribe for their patients, what is in the market from the pharmaceutical industry. For many years the industry has been seen as one of the most lucrative businesses one can venture into. The purpose of this study was to determine the challenges faced by the pharmaceutical franchising in Kenya with a reference to franchisees.

A descriptive research design was used in the study. The population of interest was all the pharmaceutical firms in Kenya engaged in franchising. A total of 86 firms are involved in franchising of pharmaceutical products in Kenya. Fifty questionnaires were send out and it is from this population where we obtained 32 respondents giving a response rate of 64%. Primary data was collected using semi-structured questionnaires. The questionnaires were dropped and picked later. Quantitative analysis was done using descriptive statistics, mainly frequencies, percentages, mean scores, and standard deviation. The results are presented in table form.

From the results of the study most of the franchising firms in pharmaceutical industry are locally owned with only a small number being multinational firms. Most of the firms studied have operated for less than 20 years indicating franchising in the industry is relatively young. Majority of the firms do both distribution and marketing while a few do distribution or marketing alone.

The challenges were measured using mean score and standard deviation. The challenges were grouped into five categories. From the results of this study, franchising obstacles category was the most significant category of challenges tested. Franchising agreement and knowledge of franchising by the franchisee were moderate categories, while finance and franchising application were not significant categories according to the respondents. The mean scores of the categories were pooled together and the overall result was that all the challenges were moderate with no significant variations among the respondents.

From the results of individual challenges parallel importation, counterfeits, the possibility of the franchiser appointing a competing franchisee, and the relationship between the franchiser and franchisee being mutual were the most significant challenges. Majority of the challenges were perceived as moderate by the respondents and most showed significant variation within the respondents. These challenges included the franchiser does not register all the required patent rights in the territory of operation of the franchisee, the franchisee does not benefit from ready made business system and concept from the franchiser, the franchiser is likely to take
over the business in the next five years once it peaks up, the franchisee must pay a fee for use of business concept, the franchisee lacks detailed knowledge of the concept of franchising, franchisers and financial institutions believe that the franchisee does not have the skills to manage and operate the business and that the respondents see franchises as being expensive.

A number of challenges to the respondents were not serious according to the results. These included the ability by the franchisee to maintain the required standards by the franchiser, provision of training by the franchiser to the franchisee, management support by the franchiser to the franchisee, provision of credit facilities by the franchiser to the franchisee, time to delivery of goods ordered by the franchisee, the franchiser interfering with the franchisees by doing business in their exclusive territory, the franchiser does not do the required advertising as agreed in the business contract, the franchiser does not declare the correct expected failure rate of the business, the Kenyan legal framework is inadequate in protecting the franchisee, the franchisee and the franchiser mutually are dependent, the provision of management expertise by the franchisee, there are no franchising opportunities in Kenya, and that there is no retail place available to open a franchise.

From the study it is recommended that pharmaceutical firms in franchising and those who may want to enter this business model understand and address these key issues especially the illegal business which constitutes a big percentage of the challenges facing pharmaceutical franchising in Kenya. There is need for the pharmacy and poisons board (PPB) and the Kenya Bureau of Standards (KEBS) to enforce the rules and regulations already in place to curb this illegal business. The research limitation was the failure of some of the respondents not filling their questionnaires in good time to be included in the analysis of this study. Further research incorporating the franchiser challenges needs to be done to complete the picture.
CHAPTER ONE

INTRODUCTION

1.1 Background

The purpose of a business is to provide people with the things they need. What people need varies from person to person, country to country and economy to economy. Most companies start as single small units serving local and/or regional markets. As a business grows it needs to refine and develop its original ideas and objectives. If its strategies have proved successful in surviving, making profits and grow then perhaps other entrepreneurs will be drawn in to compete in the market. The successful business will always be looking to its customers and potential customers; it will constantly be assessing changes in tastes and demand ready to respond by refining its strategies accordingly (Pearce and Robinson, 1989).

Attractiveness of an industry and competitive conditions are the main source of challenges. According to Thompson and Strickland (1997), a firm's assessment of the industry and competitive environment directly affects how it should try and position itself in the industry, and what its competitive strategy should be. The business opportunities a company has and the threats it faces to challenge its position, are key in influencing the strategy adopted. To deal effectively with all that affects the ability of a company to grow profitably, a company has to design strategic management process they feel will facilitate the optimal positioning of the firm in its competitive environment (Pearce and Robinson, 1989).

Competitive strategy consists of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position (Thompson & Strickland, 2002). It concerns what a firm is doing in order to gain a sustainable competitive advantage. Sustainable competitive advantage is born out of core competencies that yield long-term benefit to the company. Prahalad and Hamel (1990) define a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics: it provides access to a wide variety of markets, it increases perceived customer benefits, and it is hard for competitors to imitate. The global economy requires firms that wish to attain competence internationally to become more flexible in their operations, to use advanced technology to produce high quality, reasonably priced goods, and to rely on market oriented methods of operation (Prahalad and Hamel, 1990). It is by forming cooperative agreements that firms can...
best focus on the combination of cost reduction and customer service orientation which is the important prerequisite for improving competitiveness of companies.

Simultaneous assessment of external environment and company profile enables a firm to identify a range of possibly attractive interactive opportunities. These opportunities are possible avenues for investment. The business model and strategy a firm adopts will be influenced by several factors including economic, political, social, and technological and industry factors. The operating environment involves factors in the immediate competitive situation that provide many of the challenges a particular firm faces in attempting to attract or acquire needed resources or in striving to profitably market its goods and/or services. Among the most prudent are the firm's competitive position, customer profile, reputation and accessible labor market.

The evolution of multi-national companies often entails progressively involved strategies. The first entails import-export, the second involves foreign licensing and technology transfer and third by direct investment overseas. This third level requires large capital outlays as well as management efforts. Companies internationalize to gain market share, create barriers of entry cheap labor etc. Example, IBM entered the Japanese market, gained influential market share and hence denied its Japanese competitors the vital cash and production experience they needed to invade the USA (Watson, 1982). In deciding to go abroad the company needs to define its international objectives and policies. The firm has to decide whether to market in a few countries or many and determine how fast to expand its business. (Kotler, 2000). Once a company decides to target a particular country, it has to determine the best mode of entry. Its broad choices are direct export licensing, joint-ventures and direct investment. A company can also enter a foreign market through franchising which is a complete form of licensing.
1.1.1 Franchising

Franchising (from the French for honesty or freedom) is a method of doing business wherein a franchisor licenses trademarks and tried and proven methods of doing business to a franchisee in exchange for a recurring payment, and usually a percentage piece of gross sales or gross profits as well as the annual fees. Various tangibles and intangibles such as national or international advertising, training, and other support services are commonly made available by the franchisor, and may indeed be required by the franchisor, which generally requires audited books, and may subject the franchisee or the outlet to periodic and surprise spot checks. Failure of such tests typically involves non-renewal or cancellation of franchise rights. According to Needham et al (2002), Franchising is a form of licensing in which the franchiser provides a total marketing programme, which involves the brand name, product, method of operation and management training and advice. Kotler and Armstrong (2003) define a franchise as a contractual association between a manufacturer, wholesaler or service organization (franchiser) and independent business people (franchisee) who buy the right to own and operate one or more units in the franchise system. Franchise systems are normally based on some unique product or service, method of doing business, trade name, goodwill or patent that the franchiser has developed. Many global companies including Avis car rental, Benetton and the Body shop have been successful in exploiting this method of expansion.

Franchising goes beyond sales contracts, because of their long term focus of the know-how transfers that are implied and because of the many provisions (territorial exclusivity, tied sales, quality controls, etc.) that a franchise relationship can entail. Thus, the franchise contract is a hybrid organization form in the sense of Williamson [1991] and several theoretical and empirical papers have sought to analyze the trade-off between franchising and company ownership, mostly on a within-country basis [Brickley and Dark, 1987, Lafontaine, 1992, Brickley,1999; Lafontaine and Slade, 2001; Penard and al., 2004]. However, franchising has been taking new directions especially due to competition in various franchise agreements/contracts. This has led to various types of franchise movements together with their new challenges. With such challenges the stakeholders in the market must respond to these challenges in order to stay and continue in their businesses.

The main benefits are that it is a means to expand rapidly into new markets with minimum investment. In Franchising, semi-independent business owners or franchisees pay fees and royalties to a parent company or franchiser in return for the right to sell its products and services and use its business format and system (Seaborough, 1996). Franchisees do not
establish their own autonomous businesses but instead buy a success package from the franchiser, who shows them how to use it. Seaborough (1996) adds that franchisees do not have freedom to change the way they run their businesses, but they do have a formula for success provided by the franchiser.

There are three basic types of franchising (though others have been documented) trade name franchising, product distribution franchising and pure franchising (Seaborough, 1996). Trade name franchising involves a brand name such as McDonalds or Benetton where the franchisee purchases the right to become identified with the franchiser's trade name without distributing particular products exclusively under the manufacturer's name. Product distribution franchising involves licensing the franchisee to sell specific products under the manufacturers' brand name and trademark through a selected, limited distribution network. This system is commonly used to market motor vehicles, petroleum products, cosmetics and home appliances. Pure or comprehensive or business format franchising involves providing the franchisee with a complete business format including licenses, products and services to be sold, facilities, methods of operation, a marketing strategy, quality control processes and the necessary business services. The franchisee purchases the right to use all the elements of a fully integrated business operation. Pure franchising is the fastest growing and popular among fast food restaurants, business service firms, car rental and educational institutions.

1.1.2 The Pharmaceutical Industry in Kenya

The pharmaceutical industry in Kenya has undergone numerous changes since being liberalized in the early 1990s. There has been an influx of many pharmaceutical companies into the market, either as direct investment, indirect investments, licensing (franchising) holding (Ronoh, 2002). In 2007 there were 144 registered pharmaceutical distributors and manufacturers. Fifty eight are involved in manufacturing while 86 are purely distributors, operating as franchisees, for both local and international firms (Kenya Medical Directory, 2006/2007). The pharmaceutical industry in Kenya is mainly through imports though a few firms manufacture locally. Traditionally the European Union has been the source of most drugs. But since the downturn of the economy in early 1990s, Asia, China and Latin America have become alternative sources especially India (Ronoh, 2002). These new entrants have posed a serious competitive challenge to the multi-national companies: most have had to use other models of doing business in order to remain competitive in the Kenyan market. Most original branded products have been exposed to generics that are cheaper and within reach of
the better part of the Kenyan population. In-fact many multi-national companies have pulled out of Kenya due to the entry of generics.

Ongubo (2003) states that there are over 7000 registered pharmaceutical products presented in various formulations in the Kenyan market. Ronoh (2002) points out that there are over 452 pharmaceutical firms in the Kenyan market with well over 700 medical representatives. According to Vinayak (2001), the pharmaceutical industry on Kenya comprises manufacturing companies that import raw materials and manufacturer finished products for sale in Kenya and East Africa, multinational companies that import raw materials and manufacturer finished products for sale in Kenya and East Africa, multinational companies that import finished research products into the country, and undertake to market these either directly or through agents, Kenyan agents who are local firms operating on franchise agreement with foreign manufacturers, and local pharmaceutical trading firms engaged only in distribution. The pharmaceutical industry has undergone tremendous changes over the last decade globally, the real growth and prominence of the industry started after the Second World War (Vinayak, 2001). According to Majunder (1996), increased competition, information technology success of free market economies and an increasing voice of the developing countries have all led to substantial changes.

Today the pharmaceutical managers are faced with great issues. These are reduced purchasing power, entry of health management organizations (HMO), reduced growth rate increased competition, consumer awareness, pressure of pricing especially in government tenders. This has resulted to cut-throat competition and reduced profits (Odhiambo, 1999). The management in the industry has had to adjust its strategic planning to ensure availability of products while sustaining the needed profits. One way the industry has adopted to minimize costs of operation is through franchising.

1.2 Statement of the Problem

The pharmaceutical industry plays a key role in the health sector in provision of drugs, innovative treatment in disease areas through research and dissemination of medical information. The configuration of competitive forces such as intensity of competition, new entrants, substitute products and supplier and buyer power have transformed the environment a great deal creating the need for firms to change their competitive position (Ndiho, 2001). Ndubai (2003) adds that pharmaceutical firms are faced with numeral challenges; customer demands and unorthodox intra-industry competition.
Franchising is an ongoing business relationship that includes not only product, service and trade mark, but the entire business concept is itself a marketing strategy and plan, and a continuing process of assistance and guidance (Kostecka, 1988). Kotler, (2000) states that business format franchising is mutually beneficial to both the franchiser and franchisee. Among the benefits reaped by franchisers are the license to cover a territory, the motivation and hard work of employees who are entrepreneurs not hired hands, the franchisees familiarity with local communities and conditions, and the enormous purchasing power of the franchiser. Franchisees benefits from buying into a proven business with well known and accepted brand name. They find it easy to borrow money from financial institutions, and they receive support from areas ranging from marketing and advertising to site selection and staffing. In their 1993 study, Martin and Justis found that one of the most important reasons for adopting franchised distribution is to acquire and conserve capital. This phenomenon is exacerbated by the clear need by the franchiser to establish distribution network as rapidly as possible (Fladmoe, 1996).

The franchise explosion in the US in recent years has increasingly saturated the domestic market. Franchising is, however, not without challenges. Franchisee complaints filed with the Federal Trade Commission against parent companies has risen substantially (Kotler, 2000). The most common complaints: franchisers 'encroach' on existing franchisees' territory by bringing in another store; higher than reported failure rates; and exaggerated claims of support. These are some of the conflicts between the franchiser who benefit from growth, and the franchisees who benefit only when they can earn a decent living.

The rapid growth of franchising has attracted the interest of academic researchers with close to 100 articles in a variety of academic fields having been published on this topic by the mid 1990s (Elango and Fried, 1997). Dozens more have been published since then. Of particular interest is the motivation for firms to franchise rather than to expand through company owned units.

Franchising is one of the strategies adopted by large foreign pharmaceuticals to enter the Kenyan market. These large firms use Kenyan agents under franchise agreements to sell and distribute their products (Vinayak, 2001). Locally, very little, research has been carried out on franchising, particularly in the pharmaceutical industry. The local agents, operating under franchise are not immune from the challenges facing the industry. There is therefore, evidence of a gap that this study intended to fill. Due to this evident gap, this study was seeking to answer the crucial research question of what are the challenges facing the pharmaceutical industry franchising in Kenya with reference to the franchisee.
1.3 **Objective of the study**

The objective of this study was to establish the challenges facing the pharmaceutical industry franchising in Kenya with reference to the franchisee.

1.4 **Importance of the study**

The results of this study may be useful to:

(i) Practitioners and firms in the pharmaceutical industry in Kenya who can use this information to gain a deeper understanding of franchising.

(ii) International pharmaceutical companies wishing to enter the Kenyan market by way of franchise agreements with local companies and agents will also benefit from the knowledge generated by the study after finding the challenges which might be affecting the industry.

(iii) Academics and researchers undertaking studies in related fields will also find the study very useful as a source of reference.
CHAPTER TWO
LITERATURE REVIEW

2.1 Franchising

The US Department of Commerce has defined franchising as a method of doing business by which a franchisee is granted the right to engage in offering, selling, or distributing goods or services under a marketing format which is designed by the franchisor. The franchisor permits the franchisee to use the franchisor's trademark, name, and advertising (Kostecka, 1987).

The origin of the franchise term can be found in France in the middle ages where it described the release from duties and taxes (Young, McIntyre and Green, 2000). The development of the first franchise systems reaches back to the beginning of industrialization. In 1860, the American Singer Sewing Machine Company equipped dealers with the right to sell their sewing machines on own calculation and in their own name (Kostecka, 1987). This distribution system was used until the middle of the 20th century by some automobile and beverage manufacturers and is today known as product distribution franchising. The most currently well known example of this procedure is the license allocation of the American beverage manufacturer Coca Cola (Kostecka, 1987). In contrast to its traditional form, modern franchising is much more than the assignment of the trademark and the passing on of know how. It covers an extensive package of established achievements of the franchisor, which ensure an accurate duplication of a successful system. As a return service for the provided know how, the assignments of rights as well as the support of the building up and the guidance of enterprise, the franchisee commits himself to the payment of royalties. One of the inventors of this modern franchising is the fast-food chain McDonald's, which nowadays possesses a global network of more than 26,000 restaurants. Beside small differences, the design, organization and products of McDonald's are similar in every country.

Franchising has grown so fast since the 1950s that it is now pervasive in the US economy. In a study by PriceWaterhouse-Coopers (2004), it was estimated that in 2001 there were more than 767,000 business establishments in the United States engaged in franchising, providing directly or indirectly more than 18 million jobs, over $506 billion in payroll, and over $1.5 trillion of output. According to the study, franchising now dominates certain sectors of the US economy. For example, over 56 percent of quick service restaurants are franchises. Franchising is also one of the fastest growing US exports, and it is now estimated that franchising in terms of number of franchised units will grow 12 to 14 percent per year in the future (Justis and Judd, 2003).
While store managers have authority over some operational decisions such as managing inventory levels, for most chains, significant strategic and operational decisions are often retained at the chain level, such as advertising, purchasing, or selecting the product mix. It is more challenging to retain control over these overarching decisions at the chain level when market-type dispersion is high. Specifically, market-type dispersion leads to two control problems: First, from a corporate perspective, relative differences in local conditions make it more difficult for the chain headquarters to monitor and control individual stores (Landier et al., 2006). Second, from a demand perspective, a chain with wide ranging customer bases will have a harder time appealing to all its customers (Anderson and Mittal, 2000). Previous literature in control systems in chain organizations, suggests franchising control mechanisms are used to provide incentives to the franchisees running the stores and to cope with higher monitoring costs in geographically dispersed stores (Brickley and Dark, 1987; Lafontaine, 1992). Interviews with chain managers also reveal that franchising mechanisms have other advantages over internal control systems when dealing with market-type dispersion. First, they attract franchisees with entrepreneurial and market-sensing skills that are superior to those possessed by company owned-store managers. Second, they attract entrepreneurs who are better able to bear risk. Third, they allow the chain to allocate risk to local franchisees who, thanks to their superior knowledge of the market and their flexibility to adapt their operating procedures to local conditions, perceive lower risk in operating the store than the risk perceived by the chain.

2.2 Categories of Franchising

Franchising has evolved over time and we can now distinguish two broad categories of franchising: product distribution franchising and business format franchising. According to Kostecka (1987) business format franchising consists of a continuing commercial relationship between a firm with a proven business system (the franchisor) and a third party (the franchisee). The franchisor grants rights to the franchisee for a given period of time to operate their business system using a common brand and common format for promoting, managing, and administering this business. Examples of business format franchising are quick service restaurants (McDonalds, Burger King) and lodging (Marriott, Hilton). Product distribution franchising, on the other hand, is a more limited business relationship, whereby the franchisor grants the franchisee the right to use its trademark, but may not provide her/him with a system of running its business. Examples are automobile dealerships (Ford, Pontiac), and gas stations (Texaco, Shell). Business format franchising is now much more prevalent than product
distribution franchising, with about 4.3 times as many establishments, and providing 4 times as many jobs in 2001 (PriceWaterhouse-Coopers, 2004). The difference between product franchising and business format franchising is that the latter offers a method of operation or business system that includes a strategic plan for growth and ongoing guidance (Falbe and Dandridge, 1992).

Other categories of franchising have also been documented: Classic franchises are a business form that allows for rapid expansion; they attract individual capital to replicate a proven business idea, taking advantage of operating efficiencies and the distribution of fixed costs across outlets. They offer far less risk of failure to both parent and members. According to the U.S. Small Business Administration, fewer than 5 percent of all franchise efforts fail each year as compared with an annual failure rate of over 30 percent among small businesses.

A social franchise is a fusion of a classic franchise and a social marketing program. Just as social marketing uses traditional retail outlets to expand the sale of low-cost commodities in the private sector, social franchising is a mechanism to expand the delivery of affordable health services (Montagu, 2002; Stephenson et al., 2004). Although drawing from the commercial model, social franchises differ from their commercial counterparts in several ways. The parent and members of a commercial franchise are both for-profit entities as compared with the social franchise, in which the parent is typically a not-for-profit entity and the members are independent for-profit health providers (although for-profit franchisors are beginning to emerge). Social franchises are compelled to meet social objectives, such as increased access to priority health services, which may require altering their business practices (Smith, 2002; Montagu, 2002). Social franchises can be either stand-alone or fractional in terms of their service portfolio, and the franchisor may own several of the clinics, which is known as "plural franchising".

Stand-alone franchises more closely mirror commercial franchises, such as McDonald's restaurants, and are sometimes termed "brick and mortar" franchises, a reference to the requirement that physical buildings must be built or reconstructed with a uniform appearance. However, not all stand-alone franchises require franchise sites to share identical layouts. The distinguishing element of stand-alone franchises is that franchisees are the exclusive provider of the franchisor's services and products, adhering to a required operations system (Montagu, 2002; Smith, 2002). Healthstore (formerly CFWshops) in Kenya is an example of a stand-alone health franchise.
Fractional franchises are a further adaptation of a classic franchise, where existing health providers add a specified set of services to their current practice. Given that the franchise system involves converting existing practitioners into franchisees, the term "conversion franchise" is sometimes used. In fact, fractional franchises are the most common type of franchise in the health sector, particularly with regard to reproductive health and family planning services. While fractional franchises require lower start-up costs than stand-alone franchises, the fact that quality assurance extends only to the franchised services, opens the door for un-franchised services and products to tarnish the brand name. (Montagu, 2002; Grant et al., 2004). Greenstar in Pakistan and Well Family Midwife Clinics in the Philippines are two widely known fractional franchises (Smith, 2002).

With plural franchises, the franchisor owns and operates some but not all of the franchised outlets (Bradach, 1998). Owning one or more franchised outlets can contribute to franchisor viability through increased revenues, and can also provide a "model" training facility. Janani in India is a franchise that fits all three definitions of social franchise. Its Titli outlets are organized around the fractional structure while its Surya clinics represent the stand-alone structure. More recently, Janani has purchased and now operates some of the Surya clinics and as such, is also a plural franchise

2.3 Challenges in Franchising

Hill and Jones (2001) have documented that franchising lessens the financial burden of swift expansion and so permits rapid growth of the firm. A differentiated large company can reap the advantages of large-scale advertising as well as economies in purchasing, management and distribution. The company is also able to pursue cost leadership and differentiation simultaneously because franchising allows costs to be controlled locally and differentiation to be achieved by marketing on a national level (Chen, 1995). According to Porter (1980), there are several reasons why an industry may consist of many small companies rather than a few large ones. Some industries offer a few economies of scale and so large companies do not have an advantage over smaller enterprises. In some industries large size leads to diseconomies of scale. An industry may also be fragmented because customers' needs are so specialized that only small job lots of products are required, and thus there is no room for large scale operations to meet customer needs. Strategic managers are however keen to gain the cost advantages of pursuing a low cost strategy or the sales and revenues advantages of differentiation by circumventing the problems of a fragmented industry. Over the last thirty years, many firms have developed competitive strategies to achieve consolidation in fragmented industries. To
grow, consolidate their industries and become the industry leaders, many have had to rely on franchising (Hill and Jones, 2001).

In franchising, a parent firm grants the franchisee the right to use the parent firm's name, reputation and business skills at a particular location or area. (Hill and Jones, 2001). If the franchisee also acts as the manager he is strongly motivated to control the business closely, and make sure that the quality and standards are consistently high so that customers needs are always satisfied such motivation is particularly useful in a strategy of differentiation, for which a company's ability to maintain its uniqueness is very important. Franchising has been facing many challenges in various industries like the difficulty in controlling the many small retail outlets that must be operated while at the same time retaining their uniqueness. Franchising may inhibit a company's ability to achieve global strategic coordination. The more significant disadvantage is the absence of strict quality control. Franchisees in far off locations may not be as concerned about quality as they should be, and poor quality may lead to low sales in that particular market and a decline in the entire parent company's reputation (Chen, 1995).

At the core of franchising practice lies a contract which is supposed to impose obligations on the franchisor and his franchisee(s). By this contract, the franchisee usually agrees to a payment scheme and to several provisions, including exclusive dealings, quality standards, and conditions of contract termination and so on. Likewise, the franchise contract stipulates the duties of the franchisor, including know-how transfers, management assistance, territorial exclusivity, advertisement expenditures and so on. Inevitably, both parties may try to cheat on their partners, for instance by playing down the turnover made thanks to the franchised trademark, by refusing to disclose some strategic know-how and, more generally, by exploiting the unavoidable incompleteness of the contract. These incentives to cheat will be determined, in part, by the effectiveness of contract enforcement, which, in turn, derives from the efficiency of the judiciary (Anderlini and al., 2001). Therefore, the institutional framework serves to reduce the uncertainty associated to individual transactions characterized by some degree of incompleteness (North, 1990). The laws are meant to provide the parties with rules and safeguards that cannot be circumvented. In such a context, the behavior of the economic agents should be significantly influenced by the laws themselves (Posner, 1998) as well as by the effectiveness of their enforcement (Shavell, 2004) and their complexity (Kaplow, 2000). In particular, some aspects of the organizational choices of firms, such as franchising, can be explained by characteristics of the institutional framework (Hadfield, 1990).
How intellectual property rights influence corporate strategies has mostly been studied in the case of patent protection. Several cross-industry or time-series samples have been used to investigate how differences in patent protection affects R&D investment (Sakkikabara and Branstetter, 2001; Arora and al., 2003). On an international setting, concerns have focused on how national differences in patent protection, measured through surveys or through a qualitative index (Ginarte and Park, 1999; Ostergard, 2000), may explain international trade flows (Maskus et Penubarti, 1995; Smith, 1999) or foreign direct investment and location choices (Lee and Mansfield, 1996; Smarzynska, 2004).

First, greater trademark protection should indeed translate into a higher franchise rate. As the protection increases, competition from infringers' decreases and the franchisee should be willing to pay higher sums to use this trademark. Better trademark enforcement also reduces the risk of opportunism: for instance, absent effective trademark protection, a franchisee can imitate in appropriable know-how and use it to produce a counterfeit product. On the other hand however, low protection and greater risk of infringement may also be conducive to franchising: indeed, a franchisor would rather franchise his trademark and be paid low franchise fees than be merely imitated with no compensation in return. By legally entering the network, the franchisee is spared the hassle of lengthy legal procedures and may gain access to specific know-how.

In spite of the clear empirical results supporting the argument, entrepreneurs continue to insist that one of the main reasons for using franchising is that it obviates the need to search for funds. Lafontaine (1992), for example, found that 76 out of 130 of the franchisors questioned for his study saw franchising as a mechanism for gaining the funds needed to grow their businesses fast. Dant (1995) also noted that lack of capital was one of the main reasons why companies started franchising, with 60% of the entrepreneurs interviewed stating access to capital as the reason for using the franchise system.

Access to limited resources is another of the alternative arguments used to explain the use of franchising (Oxenfeldt and Kelly, 1969). These authors state that the franchisor will decide to franchise some of his establishments when faced with difficulties for obtaining limited funding. Obtaining the capital needed for expanding the company is the typical situation (Oxenfeldt and Kelly, 1969; Ozanne and Hunt, 1971; Caves and Murphy, 1976) Franchisees often provide a large proportion of the investment needed to set up the new establishment, so the franchisor's effort is much smaller. However, it is unlikely that franchisors reason in terms of financial effort, but rather in terms of capital costs which are
more relevant for them. So the question to be asked is why the cost of expanding the business through franchising seems lower (although it is the dominant form) than that of other formulae such as borrowing or finding new financial partners (leading to growth in the form of "owned" establishments).

An initial explanation is that during the first few years of life of a chain, the franchisor is not a well-known company so there may be doubts as to the viability of the business, making it difficult to obtain the necessary funding to expand the commercial network. The problem can be solved by franchising and, in the long term, once the company has gained access to funding, the franchisor can recover control of the network by re-purchasing the establishments (Oxenfeldt and Kelly, 1969; Hunt, 1973).

2.4 Summary
Franchising is today used as a business format and it is the fastest growing method in USA with a turnover of well over 1.5 trillion US dollars. Though outlet managers have authority over some operational decisions, strategic and operational decisions are often retained at the parent company level e.g. selection of product mix, marketing strategy, and advertising. This may lead to certain challenges due to market dispersion such as relative differences in local conditions and the wide customer bases that are harder to appeal to all.

Franchising provides incentive for control over geographical locations, knowledge of local markets, and the monitoring of costs. There are two main categories of franchising; product distribution franchising and business format franchising. Business formant franchising is the most commonly used method than product method as the later is limited to using trademarks without systems of running the business being provided by the franchiser. Other categories have been documented such as social, classic and stand alone franchises.

There are challenges facing franchising and they vary from one category of franchising to another. Some of the challenges commonly registered are keeping the required standard set by the franchiser, encroachment by the franchisor to franchisee exclusive territory, exaggerated claims of support by franchiser, and franchiser declaration of lower failure rate than reality. Others external environment oriented such as counterfeits, parallel acquisition of franchiser exclusive products, generics, non-registration of patent in certain markets etc. No research has been carried out in franchising in the pharmaceutical industry in Kenya and therefore this study has filled a gap in knowledge.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design
The research used descriptive survey method. The descriptive survey method was used because it attempts to collect data from members of a population and helps the researcher to get the descriptive existing phenomena by asking individuals about their perceptions, attitudes, behaviour or values. Descriptive statistics were used simply to describe the sample we were concerned with. They were used in the first instance to get a feel for the data, in the second for use in the statistical tests themselves, and in the third to indicate the error associated with results and graphical output, (University of Leicester).

3.2 The Population
The population of interest in this study comprised pharmaceutical companies involved in marketing, and distribution of pharmaceutical products in Kenya. According to the Kenya Medical Directory of 2007, there are a total of 144 pharmaceutical firms involved in the manufacturing and distribution. Fifty-eight are manufacturers while 86 are distributors, operating as franchisees, for both local and international companies.

3.3 Sample and Sampling Technique
A sample size of 32 pharmaceutical firms was included in the study. This was considered as a fair representative of the population. Previous studies by Ongubo (2003) have relied on a similar sample size. Convenience sampling method was used to select the respondent firms.

3.4 Data Collection Method
Primary data was collected using a semi-structured questionnaire. One responded from each firm in managerial level was studied. The questionnaire was divided in two parts, II and I. Part I was designed to collect general details about the respondent while part II focused on the challenges the responded faces in franchising in the pharmaceutical industry. The drop and pick later method was used to collect data from the respondents.
3.5 Operationalization of Variables

The operational dimensions of the challenges facing franchising in the pharmaceutical industry in Kenya are given in Table 1 below. Lickert scale questionnaire was used to determine the extent to which franchising poses challenges to the pharmaceutical companies in Kenya.

Table 1: Operationalization Dimensions of Franchising

<table>
<thead>
<tr>
<th>Broad Dimensions of franchising challenges</th>
<th>Expanded Dimension</th>
<th>Relevance to Franchising</th>
<th>Relevant question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge of franchising</td>
<td>Information</td>
<td>Knowledge of franchisers, choice, selection</td>
<td>21.1, 21.2</td>
</tr>
<tr>
<td></td>
<td>Cost</td>
<td>Cost of start - up</td>
<td>21.5, 20</td>
</tr>
<tr>
<td>Franchising application</td>
<td>Qualifications</td>
<td>Franchisee suitability</td>
<td>15, 16, 21.4, 21.3</td>
</tr>
<tr>
<td></td>
<td>Time</td>
<td>Time taken for approval</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Royalties</td>
<td>Agreement on costs and benefits sharing</td>
<td>18</td>
</tr>
<tr>
<td>Franchising Agreement</td>
<td>Principles of franchising</td>
<td>Standards of the franchiser, franchisee. Availability of support services</td>
<td>5, 10, 11, 12, 17.</td>
</tr>
<tr>
<td>Franchising obstacles</td>
<td>Elements of franchising</td>
<td>Knowledge, skills, retail space</td>
<td>9, 14</td>
</tr>
<tr>
<td>Finance</td>
<td>Operations</td>
<td>Loan, collateral, stock</td>
<td>4, 6, 7, 19</td>
</tr>
</tbody>
</table>

3.6 Data Analysis Technique

Descriptive statistics was used to analyze the data. Data on the demographic profiles of the responded firms was summarized using frequencies and percentages determined. In order to determine the extent to which pharmaceutical companies in Kenya face the tested challenges, mean scores were be used to analyze the data. Standard deviation was used to determine whether there are variations in responses of the companies being studied.
CHAPTER FOUR
RESULTS

4.1 Introduction

This chapter contains analysis and findings from the study with the possible interpretations. This chapter is divided into three sections. The first section analyses the general information about the pharmaceutical firms doing franchising business as franchisees and their ownership in Kenya. The second section analyses their perception of the conditions of doing franchising business in pharmaceutical industry in Kenya in general. The third section gives the findings of the challenges facing the pharmaceutical franchising with a reference to the franchisee in Kenya. The findings presented in this chapter are based on data collected from the respondents. Out of the possible 86 firms targeted, 32 responded giving a response rate of 37 per cent. The sample respondents were representative of the target population and hence the result is valid. For the purpose of showing the relationship among variables, quantitative analysis was done using descriptive statistics. The results are presented in tables.

4.2 General Information on pharmaceutical firms

This section covers the general information on the pharmaceutical firms considered for this study from those who responded. These include ownership, years in operation, conditions in Kenya for doing pharmaceutical franchising as a franchisee and the nature of business, that is whether distribution or marketing or both.

4.2.1 Years in operation

In this section, the study sought to establish the number of years in which the firm has been in operation. The results are shown in the table below.
Table 2: Years in operation

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 5 years</td>
<td>2</td>
<td>6.2</td>
</tr>
<tr>
<td>6 - 10 years</td>
<td>7</td>
<td>21.8</td>
</tr>
<tr>
<td>11 - 15 years</td>
<td>8</td>
<td>25.0</td>
</tr>
<tr>
<td>16 - 20 years</td>
<td>10</td>
<td>31.2</td>
</tr>
<tr>
<td>&gt; 20 years</td>
<td>5</td>
<td>15.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research data

The results shown in Table 2 above, show that 6.2 % of the firms are between 1 and 5 years, 21.8 % between 6 and 10 years, 25.0 % are between 11 and 15 years 31.2 % between 16 and 20 years while 15.6 % are over 20 years. This shows the pharmaceutical industry franchising is young as majority of the firms have operated for less than 20 years. The majority are between the ages of 11 and 20 years (56.2 %).

4.2.2 Ownership

This section aimed at determining the ownership of the firm, whether local, multinational or both. The results of which are presented in Table 3 below.

Table 3: Ownership

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>28</td>
<td>86.4</td>
</tr>
<tr>
<td>Multinational</td>
<td>4</td>
<td>13.6</td>
</tr>
<tr>
<td>Both local and multinational</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research data

As shown in Table 3 above, most of the firms are predominantly Kenyan owned 86.4 %. None of the firms sampled had mixed ownership as both multinational and local. This would mean most of the multinational firms use, the franchising business model to promote and distribute their products in Kenya.

4.2.3 Type of franchise business

This sought to determine the type of franchising agreements by the firms. The results are shown in Table 4 below.
Table 4: Type of franchise

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution</td>
<td>7</td>
<td>22</td>
</tr>
<tr>
<td>Distribution and Marketing</td>
<td>23</td>
<td>72</td>
</tr>
<tr>
<td>Marketing</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research data

The results show that most of the franchising agreements are for doing both product distribution and marketing, 72 %. Another 22 % do distribution alone while marketing alone is done by 6 % of all the firms sampled.

4.2.4 Respondents' view of franchising as a format of doing business in Kenya

This section looked at how the firms view franchising as a method of doing business in the pharmaceutical industry in Kenya. The results are shown in Table 4.

Table 5: Respondents' view on franchising as a business format

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very favourable</td>
<td>4</td>
<td>12.5</td>
</tr>
<tr>
<td>Favourable</td>
<td>27</td>
<td>84.3</td>
</tr>
<tr>
<td>Not favourable</td>
<td>1</td>
<td>3.2</td>
</tr>
<tr>
<td>Not a good format at all</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: research data

Most of the firms, 96.8 %, considered the pharmaceutical franchising as favourable format of doing business in Kenya. This is consistent with literature (Justis and Judd, 2003) showing it is one of the fastest growing formats of doing business in the US.
4.3 Challenges as viewed by the franchisee in the pharmaceutical industry in Kenya.

The objective of this study was to determine the challenges facing the pharmaceutical industry franchising in Kenya with a reference to the franchisee. The categories considered included knowledge of franchising by franchisee, franchising application, franchising agreement, franchising obstacles and financing of franchising. Data in this section are analysed using mean score and standard deviations. A mean score of 2.0 and below shows a serious challenge while 2.1 to 2.5 is moderate challenge and above 2.5 is not a challenge. A standard deviation of below 0 to 1.0 shows high level of consistency within the level of the challenge while above 1.0 shows lack of consistency or a significant difference in the way the respondents perceive the challenge in their businesses.

The mean score is such that the lower it is the more serious is the challenge, while the higher it is the less the severity of the challenge. The scores were grouped into five levels depending on how the challenge affected the respondent; Very Large Extent (score 1), Large Extent (score 2), Moderate Extent (score 3), Small Extent (score 4), No Extent (score 5).

4.3.1: Knowledge of franchising

For one to enter into franchising there is a need to have certain level of understanding of the business. These would include knowing the franchiser to select, choice of products, and cost of start up. The results of this category of challenges are presented in Table 6.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Mean Score</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>The franchisee does not have skills and knowledge of doing business</td>
<td>2.23</td>
<td>1.07</td>
</tr>
<tr>
<td>Franchisors and financial institutions believe that the franchisee does not have the skills to manage and operate the business</td>
<td>2.50</td>
<td>1.07</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>2.365</strong></td>
<td><strong>1.07</strong></td>
</tr>
</tbody>
</table>

Source: Research data

The results show that knowledge of franchising is a moderate challenge (average mean score 2.36) though there is a significant difference in the way the respondents perceive this as a challenge (average standard deviation 1.07)
4.3.2: Franchising Application

For a franchisee to enter into a contract one will need some basic qualifications to know the franchisee suitability, to understand time taken for approval and agreement costs and benefit sharing. The results of these as challenges are presented in Table 7.

Table 7: Franchising Application

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Mean Score</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>In our opinion the documented failure rate of our type of franchisee by</td>
<td>3.00</td>
<td>1.00</td>
</tr>
<tr>
<td>the franchiser is not correct</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The country's legal framework provides adequate punishment to those caught</td>
<td>2.86</td>
<td>1.25</td>
</tr>
<tr>
<td>doing illegal business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>There are no franchise opportunities in my area</td>
<td>3.05</td>
<td>1.25</td>
</tr>
<tr>
<td>There is no retail place available to open a franchise in my area</td>
<td>3.50</td>
<td>1.06</td>
</tr>
<tr>
<td>Some times the franchiser does not register all the required patent rights</td>
<td>2.18</td>
<td>0.96</td>
</tr>
<tr>
<td>within my exclusive territory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The franchiser and franchisee are not interdependent</td>
<td>3.23</td>
<td>1.11</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>2.97</strong></td>
<td><strong>1.10</strong></td>
</tr>
</tbody>
</table>

Source: Research data

Franchising application does not seem to be a challenge according to the respondents. The average mean score was 2.97. There was though a significant difference in the way the respondents perceive franchising application as a challenge with an average standard deviation

4.3.3: Franchising Agreement

In the contract signed between the franchiser and franchisee, the two must be clear on the principles of franchising such as the standards of the franchiser and franchisee and the availability of support services. The results of these challenges are shown in Table 8.
Table 8: Franchising Agreement

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Mean Score</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a likelihood of the franchiser appointing another competing franchisee our exclusive territory</td>
<td>2.00</td>
<td>0.98</td>
</tr>
<tr>
<td>The franchiser is likely to take over the franchise in the next five years</td>
<td>2.36</td>
<td>1.22</td>
</tr>
<tr>
<td>The franchiser does not interfere by directly doing business in our exclusive territory</td>
<td>2.82</td>
<td>1.3</td>
</tr>
<tr>
<td>The relationship between the franchiser and franchisee is governed by the franchise agreement</td>
<td>1.68</td>
<td>0.72</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>2.21</strong></td>
<td><strong>1.05</strong></td>
</tr>
</tbody>
</table>

Source: Research data

From the results on Table 8, franchising agreement between the franchisee and franchiser is a moderate challenge with a mean score of 2.21. However, the variation as measured by the standard deviation of 1.05 was just significant.

4.3.4: Franchising Obstacles

There are elements of franchising like knowledge, skills, retail space and business opportunities that may obstruct the process of franchising. These were looked at and the results are shown on Table 9.

Table 9: Franchising Obstacles

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Mean Score</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parallel imports usually hurt our business</td>
<td>1.32</td>
<td>0.57</td>
</tr>
<tr>
<td>Counterfeits are major threat to my business</td>
<td>1.36</td>
<td>0.79</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>1.34</strong></td>
<td><strong>0.68</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

Obstacles to franchising scored highest with a mean score of 1.34. This therefore poses the greatest challenge to the respondents. There was no significant difference among the respondents clearly showing consistent challenge to franchising in the pharmaceutical industry in Kenya.
4.3.5: Finance

For every business to start and succeed there must be a good source of the required finance by the franchisee. A lot of franchisers treat this as a source of revenue for their operations and in some cases could be the only reason for franchising their business. This as a challenge was asked to the respondents and the results are shown in Table 10.

Table 10: Finance

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Mean Score</th>
<th>Std dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>The franchiser does not provides the management support needed to run the business</td>
<td>2.76</td>
<td>1.18</td>
</tr>
<tr>
<td>The franchiser does not give credit facilities when needed by our company</td>
<td>2.55</td>
<td>1.01</td>
</tr>
<tr>
<td>Our goods are often delivered late</td>
<td>3.23</td>
<td>0.92</td>
</tr>
<tr>
<td>The franchisee must pay a fee for use of business concept</td>
<td>2.15</td>
<td>1.27</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>2.67</strong></td>
<td><strong>1.10</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

Finance according to the respondents does not seem to be a challenge with a mean score of 2.67 though there was a significant difference in the way they responded as shown by a standard deviation of 1.1.

4.3.6: Overall results among the challenge categories

To get an overall score of the challenges, we* pooled all the individual category scores and got an average of the mean score and the standard deviations. The results are shown in Table 11.

Table 11: Overall results among the challenge categories

<table>
<thead>
<tr>
<th>Challenge Category</th>
<th>Average mean score</th>
<th>Average Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge of franchising</td>
<td>2.35</td>
<td>1.07</td>
</tr>
<tr>
<td>Franchising Application</td>
<td>2.97</td>
<td>1.10</td>
</tr>
<tr>
<td>Franchising Agreement</td>
<td>2.21</td>
<td>1.05</td>
</tr>
<tr>
<td>Franchising Obstacles</td>
<td>1.34</td>
<td>0.68</td>
</tr>
<tr>
<td>Finance</td>
<td>2.67</td>
<td>1.10</td>
</tr>
<tr>
<td><strong>Average of the Mean scores</strong></td>
<td><strong>2.31</strong></td>
<td><strong>1.00</strong></td>
</tr>
</tbody>
</table>

Source: Research Data
CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
The aim of this study was to determine the challenges facing pharmaceutical industry franchising in Kenya with a reference to the franchisee. This chapter offers inferences from the study by discussing the findings gathered from the analysis as well as conclusion reached, limitations of the study, recommendations and suggestions for further research.

5.2 Discussion
According to Needham et al (2002), Franchising is a form of licensing in which the franchiser provides a total marketing programme, which involves the brand name, product, method of operation and management training and advice. Franchising is one of the strategies adopted by large foreign pharmaceuticals to enter the Kenyan market. These large firms use Kenyan agents under franchise agreements to sell and distribute their products (Vinayak, 2001).

5.2.1 General Information
Franchising is one of the fastest growing formats of doing business (Justus and Judd, 2003). From the results, about 97% of the respondents view franchising as a favourable way of doing business in the pharmaceutical industry in Kenya. This is further shown by the number of new pharmaceutical firms mostly locally owned (86%) which were registered in the recent past with 85% being in operation for less than 20 years. Only 14% were foreign owned and 15% of the respondents have operated for over 20 years. Majority (73%) of the firms do both distribution and marketing with only two (4.5%) doing marketing alone and 23% distribution only. The firms doing marketing alone are the youngest with all the two included in this study falling below five years in operation.

5.2.2 Categories of Franchising
Among the five categories of challenges,-franchising obstacles had a mean score 1.34 and was the most serious category of challenges faced by the respondents in conducting their business. The standard deviation was 0.68 showing the results were consistent in this category. Thus parallel importation and counterfeits are the most challenging and serious obstacles to pharmaceutical franchisees in Kenya. Franchising agreement category which consists of principles of franchising, standards of the franchiser and franchisee and availability of support services was a moderate category of challenges with a mean score of 2.21 and standard deviation 1.05. Knowledge of franchising category which involves the franchisee knowledge
of the franchiser and selection of products to franchise had a mean score of 2.35 and standard deviation of 1.07 and was therefore a moderate challenge with significant variation among the respondents. Loan, collateral and stock under the category of finance had a mean score of 2.67 and standard deviation 1.1 indicating it was not a challenge to the respondents. The application of franchising which involves qualifications of franchisee, time taken for approval and royalties had a mean score of 2.97 and a standard deviation of 1.1 hence was not a challenge to the respondents. Therefore, franchising obstacles and franchising agreement and knowledge of franchising are the categories of franchising challenges most experienced by the respondents.

5.2.3 Individual Challenges
The most serious challenges with a mean score less than 2.0 were four. Parallel importation of products by individuals or other pharmaceutical firms not licensed to import the products by the franchiser (mean score 1.32 and standard deviation 0.57) was leading showing almost all the firms considered this as a serious challenge in doing their business. The chance that the franchiser may appoint another competing franchisee was perceived as serious by the respondents with a mean score of 2.0 and standard deviation of 0.98. This is consistent with Anderlini et al 2001, who says that the franchiser may exploit the unavoidable incompleteness of the contract giving an incentive to cheat determined in part by the effectiveness of contract enforcement, which in turn, derives from the efficiency of the judiciary.

Counterfeit products in the market had a mean score of 1.36 and standard deviation of 0.79 showing this as among the serious challenges faced by the respondents. According to the pharmaceutical industry statistics, 30% of all the pharmaceutical products are counterfeits globally. The standard deviation shows no significant variations among the respondents. How intellectual property rights influence corporate strategies has mostly been studied in the case of patent protection. Several cross-industry or time-series samples have been used to investigate how differences in patent protection affects R&D investment (Sakkikabara and Branstetter, 2001; Arora and al., 2003). First, greater trademark protection should indeed translate into a higher franchise rate. As the protection increases, competition from infringers' decreases and the franchisee should be willing to pay higher sums to use this trademark. Better trademark enforcement also reduces the risk of opportunism: for instance, absent effective trademark protection, a franchisee can imitate in approipriable know-how and use it to produce a counterfeit product.

Franchising goes beyond sales contracts, because of their long term focus, of the know-how transfers that are implied and because of the many provisions (territorial exclusivity, tied sales,
quality controls, etc.) that a franchise relationship can entail. Thus, the franchise contract is a hybrid organization form in the sense of Williamson (1991). However, franchising has been taking new directions especially due to competition in various franchise agreements/contracts. This has led to various types of franchise movements together with their new challenges. With such challenges the stakeholders in the market must respond to these challenges in order to stay and continue in their businesses. Most of the respondents indicated that the relationship between the franchisee and franchiser is not governed by the signed contract with a mean score of 1.68 and a standard deviation of 0.72 showing no significant variations among the respondents.

Majority of the challenges were perceived as moderate (mean score 2.1 to 2.5) by the respondents and most showed significant variation within the respondents with a standard deviation above 1.0. These challenges included: the franchiser does not register all the required patent rights in the territory of operation of the franchisee, the franchisee does not benefit from ready made business system and concept from the franchiser, the franchiser is likely to take over the business in the next five years once it peaks up, the franchisee must pay a fee for use of business concept, the franchisee lacks detailed knowledge of the concept of franchising, franchisers and financial institutions believe that the franchisee does not have the skills to manage and operate the business and that the respondents see franchises as being expensive.

Other challenges had a mean score above 2.5 and therefore not significant challenges to the respondents. Most had a standard deviation very close to one showing little variation to the way the respondents perceive these challenges. These include the ability of the franchisee to maintain the required standards by the franchiser (mean score 2.55 and standard deviation 0.96), provision of training by the franchiser to the franchisee (mean score 2.73 and standard deviation 1.08), management support by the franchiser to the franchisee (mean score 2.76 and standard deviation 1.18), provision of credit facilities by the franchiser to the franchisee (mean score 2.55 and standard deviation 1.01), time to delivery of goods ordered by the franchisee (mean score 3.23 and standard deviation 0.92), the franchiser interfering with the franchisees by doing business in their exclusive territory (mean score 2.82 and standard deviation 1.3), the franchiser does not do the required advertising as agreed in the business contract (mean score 2.91 and standard deviation 1.06), the franchiser does not declare the correct expected failure rate of the business (mean score 3.0 and standard deviation 1.0), the Kenyan legal framework is inadequate in protecting the franchisee (mean score 2.86 and standard deviation 1.25), the franchisee and the franchiser mutually are dependent (mean score 3.23 and standard deviation 1.11), the provision of management expertise by the franchisee (mean score 2.82 and standard
there are no franchising opportunities in Kenya (mean score 3.05 and standard deviation 1.25), there is no retail place available to open a franchise (mean score 3.5 and standard deviation 1.06).

5.2.4 Overall results on the challenge categories
Overall, the average mean score was 2.34 and standard deviation 1.0. This indicates that the overall score of all the challenges was moderate and was consistent with no significant variation among the respondents.

5.3 Conclusion
Most of the firms doing franchising business are fairly young and locally owned. Only a small number is involved in the marketing alone. Franchising obstacles are the most challenging in the operation of franchisees in Kenya due to parallel importation of pharmaceutical products and counterfeit products. Franchising agreement and the knowledge of franchising by the franchisee are moderate category of challenges. Finance and franchising application were not challenges to franchisees. On average all the categories pooled together were moderate as perceived by the respondents.

5.4 Recommendations
On the basis of these results, it was recommended that there should be a practical legal frame work to protect the franchisee from the franchiser's failure to keep his contractual obligations. It is also recommended that the Kenyan pharmaceutical regulators need to curb the threat of this industry by illegal business operators. For business entrants into pharmaceutical franchising they need to sign clear contract or alter the existing ones and put conditions in place to make sure the contract is strictly followed. Pharmaceutical industry in Kenya needs to get together and fight illegal business as stake holders.

5.5 Limitations of the study
Some of the franchisees are based outside Nairobi and we only managed to get two respondents from Mombasa. This is because we had to pick the questionnaires personally and made only one trip to the coast and some of the respondents had not filled their questionnaires on the day of collection. So out the 50 questionnaires send out we only got 32 back.

5.6 Suggestions for further research
This study only looked at the challenges facing the franchisee. Further studies need to be done to get the views of the franchisers in Kenya.
REFERENCES


University of Leicester Publication, (May 2000). Biology Department.


LETTER TO THE RESPONDENTS

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
P.O. BOX 30197
NAIROBI

Dear respondent,

I am a postgraduate student in the school of business, university of Nairobi. I am conducting a management research project study to establish the challenges facing the pharmaceutical industry franchising in Kenya.

This is in partial fulfilment of the requirements for Master of Business Administration degree. Kindly fill the attached questionnaire to the best of your knowledge. The information you give is needed purely for academic research and will be treated with strict confidence. A copy of the final report can be made available to you on request.

Your assistance will be highly appreciated. Thank you in advance.

Yours faithfully,

MBOLOI, M. MARGARET OMBOK
MBA Student University Supervisor
Appendix (ii)

Questionnaire

Part 1

Name of establishment: (optional)

Is the ownership Local? •

Multi-national? •

Both Local and Multi-national? •

Number of years in operation:

Type of franchisee business: (i) Distribution (sales) only •

(ii) Distribution and Marketing •

(iii) Marketing only •

Part II

1. How do you view franchising as a format of doing business in Kenya?

   Very favorable
   Favorable
   Not favorable
   Not a good format at all

   Give any reasons for your choice (optional)
Franchisees face challenges while doing their business, using the scale given below, please indicate the extent to which you face the following challenges.

1 Very Large Extent  
2 Large Extent  
3 Moderate Extent  
4 Small Extent  
5 No Extent

<table>
<thead>
<tr>
<th>No.</th>
<th>Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>It is not easy to maintain the required standards by the franchiser</td>
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<td>2</td>
<td>The franchiser does not provides the needed support in training as agreed in the contract</td>
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<td>3</td>
<td>The franchiser does not provides the management support needed to run the business</td>
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<td>4</td>
<td>The franchiser does not give credit facilities when needed by our company</td>
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<td>5</td>
<td>As a franchisee we are not granted the right to use the franchiser's system and business concept to operate the business</td>
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<td>6</td>
<td>As a franchisee we rarely benefit through business start-up based on a ready made business concept</td>
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<td>7</td>
<td>Our goods are often delivered late</td>
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<td>8</td>
<td>Some times the franchiser does not register all the required patent rights within my exclusive territory</td>
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<td>9</td>
<td>Parallel imports usually hurt our business</td>
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<td>10</td>
<td>There is a likely-hood of the franchiser appointing another competing franchisee our exclusive territory</td>
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<tr>
<td>11</td>
<td>The franchiser is likely to take over the franchise in the next five years</td>
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<td>12</td>
<td>The franchiser does not interfere by directly doing business in our exclusive territory</td>
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</table>
13. The franchiser does not do the required advertisement as agreed in the contract.

14. Counterfeits are major threat to my business.

15. In our opinion the documented failure rate of our type of franchisee by the franchiser is not correct.

16. The country's legal framework provides adequate punishment to those caught doing illegal business.

17. The relationship between the franchiser and franchisee is governed by the franchise agreement.

18. The franchiser and franchisee are not interdependent.

19. The franchisee must pay a fee for use of business concept.

20. The franchisee does not benefit from the franchiser's management expertise.

21. Please answer the following questions concerning obstacles to obtaining the franchise using the same scale above.

<table>
<thead>
<tr>
<th>No.</th>
<th>Question</th>
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<th>2</th>
<th>3</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Lack of detailed knowledge of the concept of franchising</td>
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<td>2.</td>
<td>Franchisors and financial institutions believe that the franchisee does not have the skills to manage and operate the business</td>
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<td>3.</td>
<td>There are no franchise opportunities in my area</td>
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<td>4.</td>
<td>There is no retail place available to open a franchise in my area</td>
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<td>5.</td>
<td>Franchises are too expensive</td>
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</table>

22. Please mention any other challenge not mentioned in the questionnaire that you may be facing.