FACTORS AFFECTING THE PERFORMANCE OF FRANCHISEES IN THE FAST FOOD INDUSTRY IN KENYA

BY:

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DECLARATION

This research project is my original work and has not been submitted for examination to any other university.

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

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DEDICATION

I dedicate this work to my amazing parents Mr. & Mrs. Ndeto and my dear siblings Mutio, Mbithe and William.

ABSTRACT

As Kenya continues to embrace the concept international trade and of opening up borders through international business, many international organisations have seen the potential of the Kenyas economy and its market. The fast food industry in Kenya is pne of the fastest growing and this has began attracting many international players to compete in this space. However, there are several factors that an internationals fast food organisation has to consider as they enter and operate in the Kenyan market. This study sought to establish the factors (both internal & extternal) that affect the performance of international fast food franchisees operating in Kenya. This population of this study was census of all the international fast food franchisees in Kenya. The study is based on primary data which was collected through questionnaires. The results show that the five key factors that affect the perfomance of fast food franchisees in Kenya are the firms networks, the firms product/service, the country risk(political/economic), The intensity of competition and the size of the market. The study recommends that government needs to provide more information on the industry and provide clear guidelines that govern specifically the fast food industry in Kenya. The study was carried out to establish the factors that affect the performance of international fast food franchisees in Kenya. The study used the four internal factors and six external factors as proposed by Hollensen (2011). The researcher sought to establish if any of these factors affect the organizations sampled in the census and if so, to what extent they affect the performance of organizations. While the Kenyan market is rich with potential for international fast food franchises to exploit, some have not yet been able to crack the industry and the researcher sought to understand what factors affect their performance when they set up in Kenya. The study shows that while all four factors i.e. firm size, international experience, product/service and firm network affect the performance of a franchisee, there are two main factors that fast food franchisees should consider. The two internal factors that affect to the greatest extent are the product/service of the firm and the firms' networks in the host country. From the research findings, all the external factors considered in this study were found to have an effect on the performance of international fast food franchisees. The study concluded that the three external factor that fast food franchisees should pay attention to are; country risk, intensity of competition and the market size if they are to perform well in the industry. The study also shows that the ease of entry into the fast food industry for franchises is average which means that if a firm takes into consideration all the factors mentioned above, it will be able to enter and compete in the fast food industry in Kenya. The study recommends that government should create a public information resource easily accessible for those seeking to enter the fast food franchising in Kenya. The Study further recommends that the revival of the Kenya Franchise Association to help set structures, policy and guidelines interpretations around fast food franchising in Kenya.

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ABBREVIATIONS & ACRONYMS

CEO Chief Executive Officer

GDP Gross Domestic Product

KFC Kentucky Fried Chicken

SPSS Statistical Package For Social Sciences

UAE United Arab Emirates

UK United Kingdom

USA United States of America

WTO World Trade Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the recent decades, foreign markets across the world have opened up and allowed many firms to move from a national scale to competing internationally in other countries. The opening of international open market has made it easy for international firms to look for new markets and opportunities in other countries away from their countries of origin. They have been several factors that have prompted franchisors to pursue the African markets such relaxed trade barriers in some African countries, western market saturation. This has forced franchisors to look for alternate distribution channels for their products and services in African markets. (Kendal H, 2014) Kenya is often viewed as one of the African markets with growth potential which is why many franchises are setting camp in Kenya.

Kenya has been part of the World Trade Organization since 1st January 1995 as a result of the Kenyan trade reforms that started in the 90s. Kiringia (2004) noted that in the Kenyan market, the years after 1990 led to a steady reduction of tariff rates and tarrif bands. This greatly helped Kenya position itself in the international trade space. Kiringai (2004) explained in her study that "From 1990, duty rates on imported raw materials and spare parts were also targeted for reduction so as to reduce the anti-export bias and improve the country's competitiveness." One of the ways Kenya has opened up its market is by imports from international firms by allowing them to set up and operate in Kenya through various modes one which is international franchising. However, foreign market entry through international franchising is only appropriate for certain kinds of companies. Burton & Cross (1995) stated that "International

franchising is a foreign market entry mode that involves a relationship between the entrant(franchisor) and a host country entity, in which the former transfers, under contract, a business package(or format), which it has developed and owns, to the latter"

Malinda (2016) in her World Bank report noted that increased disposable income amongst the Kenyan population had spiked the consumer expenditure. This means that more people in Kenya have extra money to spend on food, drinks and shopping. This can also be attributed to the increased construction of shopping malls and recreation facilities that are in most urban areas of Kenya. Most if these shopping malls have a food court section which in most cases is occupied by one or two fast food franchises. Malinda, C (2016) observed that as a result of this increased consumer expenditure more money and time was being spent by Kenyans on new drinking and eating habits, For example there were more people eating out during lunch breaks and ordering for fast food in the evenings. A factor that has contributed significantly to the growth of the fast food industry in Kenya. Most fast food restaurants in Kenya run till late hours because there is a large urban population that prefers to eat fast food as opposed to going home to cook as previously done.

According to the Kenya Franchise Association data, "the average startup investment in money and time for a franchise in the food/restaurant industry in Kenya is US$100,000." Due to the different business operating environments in different countries, organizations have to carefully consider before entering any market. A company may be able to successfully set up and operate in one country but might find it extremely difficult to survive in another country because of the business environment. Some of the factors a company has to consider before going into a new country are its own resources (financial), structures and the country's cultural

environment. These are the two biggest challenges firms are likely to face when entering a new country.

According to research by Timothy Bates on survival of franchised businesses in the US, after 4 years of operation on 62% of franchised business has survived at the end of the period. According to the British Franchise Association, 50% of franchise systems fail over a period of 10 years. There are many internal and external factors that determine the survival of an international franchise when operating in a host country. Some international firms are able to strategically deal with these factors to operate successfully, but some may not have the capability to survive these factors and end up exiting the host country.

1.1.1 Concept of International Business

International business is defined as “the exchange of goods and services among businesses or individuals across different countries.” (Wikipedia) International business as a field of study focuses on understanding how countries trade with each other and how multinationals operate across borders. Exchange between countries is not only about goods and services but also involves labor, medical advances, art, sports and cultural events. The growth of international business can be attributed to factors such as technology, relaxed government business restrictions, increased global competition, improved political relationships amongst nations and changing consumer needs. The concept of international business among nations are centered on various aspects such as exporting/importing, balance of trade, balance of payment and exchange rate.

Each country has its own rules and regulations that protect and advance its interest in the sphere of international business. Multinational corporations seeking to enter

global markets must understand these regulations and operate within them. Multinational corporations play a big role in international trade as their main business exchange of goods, services and resources across borders. In essence, international business gives domestic companies access to new markets which means increased sales and lower market through access to cheaper labor and raw materials. Industries such as manufacturing, fast food, consumer electronics and energy players are the most attractive for international business opportunities.

1.1.2 Concept of Franchising

Venturing into foreign markets is often seen as one of the strategies business can use for business growth and expansion. Globalization has made it possible for companies to do business across borders and into different continents. Organizations are able to expand internationally through various mode of entries into foreign markets. According to international business scholars there are four modes of entry that companies can choose when venturing into foreign markets; exporting, foreign direct investment, joint venture and licensing. Franchising as a foreign entry business strategy is a type of licensing agreement which is basically a contractual agreement between the franchisee and the franchisor who owns the licenses of the business. Licensing gives a company the permission and rights to use the owners (franchisor) property for a certain period which is agreed upon at an agreed fee following agreed guidelines. Erramilli (1990) pointed out that "service firms, by frequency, tend to select licensing/franchising as their entry mode of choice, followed by subsidiary or branch office openings and joint ventures." According to Hackett (1976) companies choose to use franchising as it eases some of the risks that arise from market conditions in the host country.

Meaney (2004) defines franchising as “a legal business arrangement, governed and created by a contract, under which the franchisor (owner/supplier) sells to a franchisee (retailer/buyer) the right to sell certain goods and/or services of the supplier under specific, agreed-upon conditions”. According to the International Franchise Association, there are generally two types of business franchising relationships. (i) The business format franchise relationship where “the franchisor provides the franchisee its trade name, products and services and the entire system of operating the business. This includes elements such as site selection, operating manuals, training, quality control, brand standards, a marketing strategy and business advisory support.” (ii) The traditional/product distribution franchising is “franchising where the focus is not in the system of doing business but the products manufactured or supplied by the franchisor to the franchisee.” (International Franchise Association)

Franchising is viewed as one of the low risk and low commitment strategies for international organizations which is why it is popular in the service industry. The franchise arrangement is an arrangement whereby the franchisor permits – licenses the franchisee, in exchange for a fee, to exploit the system developed by the franchisor. While franchising is often viewed as the easiest way to run a business as most structures have already been set, the process is more complicated than many know.

1.1.2.1 Challenges of Franchising as a Mode of Entry

Selection of a mode of entry can be explained as choosing the best and most strategic way for an organization to venture into foreign markets by maximizing on the opportunities in that market. (Root 1994) There are many factors that are taken into account before making decisions regarding the entry mode choice. Tepjun (2016) Anderson & Gatignon (1986) define foreign market entry mode as “the institutional

arrangement chosen by a firm for the foreign market, which can range from non-equity forms of market entry such as exporting and licensing, to equity forms such as joint venture and a wholly owned subsidiary."

The mode of entry that an organization chooses when venturing into foreign market is determined by many factors. Mode of entry is a very strategic decision that requires intense research on the pros and cons of each mode before a decision is made. According to Greening et al. (1996) for companies that want to grow, exploring opportunities in foreign markets is one of the best options. While most structures in franchising agreements are already set, the franchisee faces some common disadvantages such as the initial high costs, lack of creative freedom, brand and menu guidelines and labor sourcing challenges. Before a franchise can be successful, they have to figure out how to deal with these challenges which are mostly internal.

Just like any foreign market entry mode, there are several internal and external factors that come with choosing franchising. Some of the internal factors that a fast food firm has to consider when venturing into new markets are the firm's size, international experience, the product they are selling and their network. There are also external factors that the firms must be pay attention to if it is to survive in the host country. These are cultural distance, market potential, country risks, market barriers and finally intensity of competition. These factors are the center of this study. The study aims to establish which internal and external factors make it hard for international franchisees to operate successfully in the Kenyan market.

1.1.2.2 Fast Food Franchising Industry in Kenya

Entering foreign markets like Kenya through franchising has become extremely popular in the past 10 years. The franchising industry in Kenya has grown fast and

there are franchises in almost every industry, from well-known national brands to smaller international brand that are now starting to establish in Kenya. This has increased in the recent past especially in the food industry in Kenya. One of the earliest fast food franchises in Kenya was opened in the late 90s. Steers Ltd started its operations in Kenya in 1997 as the fast international fast food outlet. One of the fastest growing industries in Kenya when it comes to franchising is the fast food industry. This is particularly fueled by the spending habits of Kenyans on drinks, food and clothes as a result of growing disposable income. Kenyans lifestyle trends can easily be seen from their choice of recreational activities which includes where they wine and dine.

The fast food franchising industry in Kenya has also been accelerated by the increasing number of shopping malls In Kenya. Most of the major shopping malls around Kenya have a section dedicated as a food court. This means that companies seeking to enter the fast food business have a lot of rental space ready at the shopping malls in Kenya. Some of the major shopping malls in Kenya that house international franchises are the Junction mall, Sarit Centre, The Hub, Garden City, Nyali Mall (Mombasa), Kisumu mall (Kisumu) and the Buffalo Mall(Naivasha) .While there are many franchises in the food industry that have had successful entries in the market many of them struggle to expand their business across the country and end up closing shop e.g Wimpy.

1.1.2.3 Fast Food Franchisees in Kenya

Kenya has various popular and established fast food franchises such as Pizza Inn, Debornairs and Steers. The past five years have seen many international franchises enter the market e.g American chains Subway, Kentucky Fried Chicken popularly known as KFC, Naked Pizza and Om Nom Nom — franchise holder for Domino's

Pizza; and ColdStone Creamery; South African brands Big Square and Adega Restaurants, and UAE-owned Caramel Restaurant & Lounge.

Steers which is the oldest fast food franchise in Kenya is owned by Hoggers Ltd. Hoggers limited runs several brands in Kenya which include Steers, Debonairs and Ocean Basket. Hoggers Ltd runs eight Steers, five Debonairs Pizza & 2 Ocean Basket franchises in Kenya, and is currently rolling out more branches of the same around Kenya in 2016. While several South African fast food brands have tried entering the Kenyan market and failed, Steers and Debonairs (run by Hogger Ltd) have been in the market for 19 years since the launch in 1997.

The number of fast food franchises in Kenya is likely to go up in the next two years. International Burger franchise Burger King is set to open it's first branch in Kenya by November 2016. Subway first set up shop in Kenya in 2013 and has operated successfully in the Kenya and now has 6 stores across Nairobi. The Subway Kenya franchise is operated by Liberty Eagle Holdings. The company has also announced plans to expand to other parts of Kenya such as Kisumu and Mombasa by end of 2017. Kentucky Fried Chicken (KFC) a US fast-food giant entered the Kenyan market in 2011 and the Kenyan franchise is operated by Kuku Foods East Africa Ltd. Kuku Foods East Africa has now opened over 10 stores across Kenya with 3 more expected by the end of 2016. KFC is the largest international chicken franchise serving across the world and has been operating for over 60 years.

1.1.3 The Concept of Performance

Performance of an organization is usually determined by several factors depending on the industry that an organization operates in. Organizational performance can be defined as the extent to which an organization has meet its objectives. Companies can

determine their performance by assessing their financial and non-financial indicators or Key performance Indexes (KPIs) against the set objectives. Different organizations have different elements against which their measure performance based on the organizations objectives. In most cases, the results and outcomes of a companies are what determine its performance levels. Some companies measure their performance on customer satisfaction, other measure against the financial profit made and other in non-profit organization measure against the impact made through their work.

In the recent past, manager have begun measuring organizational performance as successful if they are both effective and efficient in their operations. In this school of thought, an organization is deemed as performed well if it is able to meet its goals (effectiveness) with as minimum resources as possible (efficiency). In most profit making organizations, organizational performance is determined by the amount of profit made during its operations. In general performance of an organisation is greatly determined by the leadership, amount of resources available, Structure and infrastructure and employees.

1.2 Research Problem

One of the modes of entry into international markets is franchising. Franchising is one of the ways an organization can participate in global trade. Just like all other modes of entry, franchising has several challenges that both the franchisor and franchisee must try and overcome if they are to succeed in the new market. When it comes to the Kenyan market, many franchising have faced the problem of adapting to the market properly. Many franchises assume that the marketing strategies they used in other parts of the world will work in Kenya. However, the Kenyan market and consumer is very complicated to crack especially when it comes to lifestyle choices such as food.

For example, fast foods such as the popular fish and chicken restaurants (Kenchick) are still far more popular than any international franchise. This can be attributed to the cost of their products. Many franchises have to figure out how to compete with the low prices their competitors offer and still make profits to survive. While the Kenyan middle class is growing and has a considerable amount of disposable income, one has to carefully study the market to understand how to penetrate it. This is where most franchises face problems.

Kenya's GDP increased by 5.9 percent in the first quarter of 2016. According to a report by World Bank, the accommodation and restaurant industry grew by 12.1 percent. Despite its past problems, the last decade has seen Kenya restore stability to its currency markets and significant structural and economic reforms have contributed to sustained economic growth. This has made Kenya very attractive for investors. According to the latest report by World Bank, Doing Business in Kenya index (2015), Kenya rose 28 places in ease of doing business in Kenya. This means that businesses are finding it easier to establish in Kenya but there are still certain regulations and policies that international franchises still have to overcome to be able to compete and operate in the Kenya market. For example, there are certain labor laws they have to follow that are not necessarily in other countries. They also have to adhere to the city council regulations and food standards which some franchises find restrictive.

With this scenario, many international franchises have found it extremely difficult to survive in the Kenyan market and many of them opt to leave the market. However, there are many franchisees that have managed to study the market and adapt accordingly and have been able to survive the market. This study seeks to identify the challenges franchisees face and how they can overcome them to survive the ever growing Kenyan market. This proposal then aims to answer the question; what are

factors (both internal and external) that affect the performance of international food franchises operating in Kenya?

1.3 Research Objectives

The main objective of this study was to identify the factors that affect the performance of international fast food franchisees that operate in the Kenyan market.

The study was guided by the following objectives:

i. To identify the external factors that affect the performance of fast food franchises in Kenya

ii. To establish the internal factors that affect the performance of fast food franchises in Kenya

1.4 Value of the Study

The findings of this study will be of benefit to international food franchises seeking to set up in Kenya as it highlights the challenges they are likely to face and how to overcome these challenges. The study will help management and decision makers come up with proper strategies to help them enter and survive in the Kenyan fast food industry.

Academics and business researchers will also find this study useful for support literary citations as well as for developing themes for further research. The study hopes to make theoretical, practical and methodological contributions in the international business field. Researchers will be able to use the study to further their study in this area by reviewing the literature and highlighting academic gaps to fill. Franchising is an important strategy when it comes to international trade for Kenya and this study will provide useful information for government and trade policy

makers. From the challenges and recommendations highlighted in this study, policy makers will have information to help them understand what is hindering international trade when it comes to franchising in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the existing literature on the factors affecting international franchisors. It also reviews the theories that seek to explain the concept of international franchising.

2.2 Theoretical Foundation

This section presents the theoretical foundation and review of the study. There are many theories that explain franchising. However, this study is anchored on two theories; the agency theory and the Resource Scarcity theory.

2.2.1 The Agency Theory

The Agency Theory is one of the most popular theories that explain franchising. This theory is based on the concept where one firm hires an organization to provide a service. In this case the franchisor acts as the firm and the franchisee is the organization hired. It is based on the principal and agent relationship. It is described as an agency relationship because the (principal) authorizes the other party (agent) to carry out a certain task on its behalf (Fama & Jensen, 1983). This theory assumes that both the principal (franchisor) and the agent (franchisee) have different motivations which make the working relationship successful. There are no competing motivations. Franchising aligns the interests of the principal (franchisor) and the agent (franchisee) which means there is less need for monitoring a greater probability for high performance from the franchisee. (Lafontaine,1992)

The motivation for the franchisor is the management fee/royalties that come when the relationship is successful. For the franchisee, the business needs to succeed because he has put in capital and skill. While a franchisor could easily hire a manger to oversee and run its outlets, the manager may perform sub optimally as he has no direct interest in the business. (Khan, A 2014). With the franchising concept, there is very little need for monitoring on the part of the franchisor as the franchisee has a direct interest in the success of the business. The franchisee has already put in enough risk by providing capital & royalty fees. The franchisors (principal) risk is also reduced as the franchisee (agent) is responsible for any profit or loses made by the business. (Lafontaine,1992)

2.2.2 The Resource Scarcity Theory

The resource scarcity theory states that firms use the franchising mode of entry as a way to secure capital. In this case the capital is obtained from the franchisee. There are many companies that often turn to franchising as a means/source of business capital. (Oxenfeldt & Kelly,1968). The franchising model requires that the franchisee pay a certain fixed fee as initial capital to join that specific franchise and royalty fees thereafter in return for the franchisors support. The resource scarcity theory thus considers franchising as a business growth strategy and one of the means that a company can use to minimize its financial constraint and also as a solution to management challenges. (Carney &Gedajlovic,1991)

The resource scarcity theory also suggests that franchising is adopted as a mode of entry as it fills the gap of market knowledge and experience in foreign markets. For a firm looking to grow to new markets, there are certain resources that need to be addressed such as getting quality management, knowledge of the local market and

capital. (Khan,M, 2014). The franchisor is able to tap into the local market knowledge and experience that the franchisee has about the new market. Franchisees usually are firms that have operated in the host country and have considerable operating knowledge of the business environment which makes it easier for them to adapt easily. This is a key area that the franchisor lacks. The franchisee and franchisor relationship is often a mutual relationship and the franchisee contributes credible local market knowledge. (Caves & Murphy, 1976). In return, the franchisee gets the brand tools and support needed to establish the franchise in the host country.

Different franchising studies have also concluded that franchising reduces the time a franchisor would use in selecting outlet managers and other aspects of human resources. (Oxenfeldt & Kelly 1969). The resource scarcity theory has a few shortcomings as many scholars argue it is only a temporary solution to scarce resources in new markets. Analysis of the resource scarcity suggest that after many years, when the franchised chains no longer have capital constraints and have proper knowledge of the local market, the will go back to their previous system of fully owning and running the companies.(Oxenfeldt & Kelly, 1968). However, this is countered by the argument that if franchising was simply a method to overcome financial constraints then many franchisors like KFC & MacDonalds would have by now brought back their assets from the franchisee but this hasn't been the case. Most Franchisors have long term agreements with their franchisees.

2.3 International Franchising

International franchising is described as "a diversity of business arrangements in which a parent company grants to others the right to use its products, technology, service or trademarks and brand name in a prescribed manner in return for a lump sum payment and ongoing fees calculated as some percentage of sales."

(McDonald,Burton & Dowling,2002) Alon (2006) noted that international franchising growth can be attributed to push and pull factors. The push factors are the factors that force a company out of its current market. Some of these push factors are when the current domestic markets are saturated/flooded, when the market in which the company is operating has stiff competition and when a company's profits start diminishing. The pull factors are those factor that attract a company to a foreign market. Some of these pull factors are favorable political and economic environment. Olutu(2011) in his study noted that franchising has been observed by industrial watchers as the key strategy adopted by multinationals to promote and expand their trade in other untapped markets and this cut across different sectors including the fast food sector.

The concept of franchising can be traced back to the 1800s in the UK when a system called 'tied house' was introduced to control the sale of alcohol to innkeepers. One of the earliest franchising example in the manufacturing industry was through the Singer Sewing Machine Company which established a franchising system in 1860 by giving exclusive rights to distributors. The history of fast food franchising can be traced to the 1950s in the United States of America. Dining spots were the fast to embrace the franchising model as they had standardized menus, easily recognizable signage and standard advertising strategies. The first of such fast food franchises was MacDonalds. The concept of fast food is often seen to draw more interest from franchises as opposed to companies starting their own independent outlets. This can be attributed to the higher rate of success, established structural stability and steady cash flow that comes faster from franchises (Mendelsohn, 2004).

Franchising is a mode of entry in the international business space that drives international trade. It is one of the least risky strategies that international companies

use when reaching global markets. Nickel, Mchugh & Mchugh,2002 define a franchise agreement as "an arrangement whereby someone with a good idea for business (the franchisor) sells the rights to use the business name and to sell a product or service (the franchise) to others (the franchisee) in a given territory." Chay et al (1990) observed that "more than 75% of the expected growth in the world's trade over the next decades will come from developing countries." This is why many companies are looking to expand into the African markets to tap into these resources.

2.4 Factors Affecting Franchising as A Mode of Entry

When a company decides to venture into a foreign market, it must have a full plan on the pros and cons that come with that mode of entry. All international franchisors must come up with a plan known as international entry strategy. An international entry strategy is "a comprehensive plan and it sets forth objectives, goals, resources and policies that will guide the international business activities." (Root, 1994). Many companies understand the importance of doing proper research to ensure they have picked the most suitable strategy to enter a market with. The strategy a company uses to enter a foreign market can easily destroy a firm. Some of the aspects that a company uses to determine which strategy to enter a foreign market with are the control levels involved, the type of permits needed and the resource commitment needed. (Alon, 2006)

2.4.1 External Factors Affecting Franchisees

When going into international markets some of the factors that an international franchisor has to consider are external factors. The external factors are considere as those aspect that are beyond the control of the firm. International business scholars such as (Hollensen,2001) have stated that some of the external factors that can affect

the franchisees are "socio-cultural distance, country risk and demand uncertainty, laws and regulations, market size and growth, geographical distance, direct and indirect trade barriers & competitive environment." International franchisors have many factors to consider as they analyze their opportunities and levels of success in the African market. Some of the factors they have to consider are the country's economy, its political situations and the cultural aspect of the country the organization wants to operate in. (Andersen, 1996) .Previous franchising studies have noted that the economic and cultural environment (Alon & McKee, 1999) are important factors in the survival of an international franchise. According to Burton & Cross (1995), the political environment of a country can't not be undermined as it is equally critical in the survival of a franchise.

2.4.2 Internal Factors Affecting Franchisees

When a company has decided to go into a foreign market by using the franchising model, it also need to access its internal structures and capacity to operate in a foreign market. This is where the resources scarcity theory come sin play explaining the internal firms resources capability in the franchising decision. Some of the internal factors to consider include; firm size, international experience, the product/service and the firm's network. Hollensen (2001) identified the internal factors a firm needs to consider as; how big the company is (company size), how long they have operated in foreign markets (international experience), how easy it is to use the product (product complexity)and if the product is different from others in the market (differentiation). A firm's ability to acquire and exploit resources from their local networks is also identified as an important factor in the survival of international franchisors. (Chetty & Agndal, 2007)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that were used in this study. It highlights the research design, data collection method and data analysis that was used in this study.

3.2 Research Design

A research design is the plan that the researchers plan to use to conduct the research process. The study used descriptive research design to study the research problem identified. According to (Cooper and Schindler, 2006) a descriptive study is a powerful research methodology that combines individual and (sometimes) group interviews with record analysis and observation. A descriptive study was found most suitable to determine the challenges facing international franchisees in the fast food industry in Kenya.

3.3 Population of the Study

According to Kombo and Tromp (2006) population is the larger group from which a sample is taken and it should capture variability to allow more reliability of the study. The population of this study was all the fast food franchises operating in Kenya currently. As of 2016, these companies are 10 according to the Kenya Franchise Association. A census study of all the companies was therefore the most appropriate. The respondents comprised of marketing managers of the mentioned food franchisees (Appendix 3) who are based in the Kenya offices.

3.5 Data Collection

The study used both primary and secondary data. Primary data was collected using questionnaires that were administered to the marketing managers or other marketing staff with help from research assistants. A questionnaire is a formalized schedule for collecting data from respondents.

Mugenda and Mugenda(2008) define primary data as “data that the researcher collects from respondents. Secondary data will be obtained from industry reports, annual reports and online journals.” According to Mugenda and Mugenda (2008) secondary data is data collected from other sources like records and documents.

3.6 Data Analysis

Data analysis is the process that starts immediately after data collection and ends at the point of interpretation (Kothari, 2004). The type of data that was collected for the study was of qualitative nature and thus was analyzed using content analysis. Content analysis was used to analyse qualitative data or aspect of the data collected from the open ended questions. The data collected from the questionnaires was checked for accuracy and completeness and entered into the Statistical Package For Social Sciences (SPSS) for analysis. Descriptive statistics were be used for any quantitative data. Descriptive statistics may include frequencies, measure of dispersion, percentages and measurements of tendencies. This data was displayed using graphs and graphs.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis, results and discussion. The data presented here is from the completed questionnaires which was summarized and presented in the form of frequency tables, mean and percentages. The objective of the study was to establish the factors that affect the performance of international fast food franchisees that operate in the Kenyan market. The research was a census of the entire industry of the 10 international fast food franchises operating in Kenya. The research was carried out o a sample size of 10 respondents and only 9 respondents completed and returned the questionnaires duly filled, making the response rate at 90%. This is an adequate response rate for statistical reporting. According to Mugenda and Mugenda (1999), a response rate of above 50% is a good response rate. This study made use of frequencies on single response questions. The study used the Likert scale for multiple response questions to collect and analyze the data where a scale of five points were used in computing means and standard deviations. These were presented in tables and charts as appropriate with explanations given in prose.

4.2 Demographic Information of Respondents

This section covers the general information of the respondents and the organizations considered for this study. These include management level, duration in management position and duration of the organizations operations in Kenya.

4.2.1 Respondents' Management level

The study sought to find out the respondents management level and the findings are shown in Table 4.1 below

Table 4.1 Respondents' Management Level

Level	Frequency	Percentage
Top Management	7	77.8%
Middle Management	2	22.2%
Lower Management	0	0
	9	100%

Source: Author 2016

From the study findings, majority of the respondents 77.8% were top managers in the various organizations sampled while the rest 22.2% were middle level managers. None of the respondents were of low management level. This means that majority of the opinions in this study came from top level management who are the decision makers in the organizations.

4.2.2 Respondents' Number of Years in the Position

The study sought to find out how long the respondents had been in their current positions and the findings are as shown in Table 4.2 below.

Table 4.2 Respondents number of years in Position

Duration	Frequency	Percentage

1 year and below	1	11.1%
1 – 3 years	3	33.3%
3- 5 years	4	44.4%
Above 5 years	1	11.1%
Total	9	100%

Source: Author 2016

From the Table 4.2 above, the study revealed that most of the respondents 44.4 % had been in their current positions for a period of 3- 5 years, 33.3 % had held their positions for a period of 1- 3 years and 11.1% had been in their current positions for above 5 years while another 11.1 had been in their positions for less than a year. The study concludes that the management has enough experience owing to the fact that most of the international fast food franchises are less than 5 years old in Kenya.

4.2.3 Organizations Operation Duration In Kenya

The study sought to establish how long each of the organizations had been operating in the Kenyan market and the findings are as shown in Table 4.3 below.

Table 4.3: Organizations Operation Duration in Kenya

Duration	Frequency	Percentage
Less than 1 year	1	11.1%
1-3 years	4	44.4%
3-5 years	1	11.1%

Above 5 years	3	33.3%
Total	9	100%

Source: Author 2016

According to the findings on how long the different international franchises have operated in Kenya, majority of the organizations have operated for a period of 1 to 3 years, 33.3 had been in Kenya for over 5 years and 11.1 had operated for 3 to 5 years while another 11.1% had only been in the Kenyan market for less than a year. The study revealed that majority of the international fast food franchises had operated in Kenya for less than 5 years.

4.3 Factors Affecting Performance Of Franchisees In Kenya

In this section, the researcher sought to establish which of the common internal and external factors that affect franchisees performance in host countries was applicable to the respondents. The four common internal factors according to Hollensen (2001) are firm size, international experience, the product/service and the firm's network. According to Hollensen (2001) the most common external factors that affect the performance of an international fast food franchise are country risk (politically/economically), market size, direct/indirect trade barriers, intensity of competition, sociocultural differences and laws and regulations. The findings of the research are as presented in this section.

4.3.1 Internal Factors Affecting Performance Of Fast Food Franchisees In Kenya

The study sought to establish which of the four internal factors affect the performance of the respondents' organization. Table 4.1 below shows the findings.

Table 4.4: Internal factors that affect the performance of fast food franchisees in Kenya

Internal Factors	Yes		No	
	Frequency	Percentage	Frequency	Percentage
Firm size	6	66.7%	3	33.3%
International Experience	7	77.8%	2	22.2%
Product/Service	9	100%	0	0%
Firms networks	9	100%	0	0%
Others(Specify)	-		-	

Source: Author 2016

From table 4.4 above, it is evident that majority 66.7% of the respondents believe that firm size greatly affects the performance of international fast food franchises operating in Kenya, while 33.3% indicated that firm size does not affect the performance. The research revealed that majority 77.8% of the respondents believe that international experience play a critical role in the performance of international fast food franchisees while 22.2% do not believe that it affects the performance. 100% of the respondents believe that the product/service being offered is a factor that affects the performance of the international fast food franchisees. The study found out that 100% of the respondents indicated that a firm's network is an important factor that affects the performance of an international fast food franchise in Kenya. The study revealed that having a unique product/service and having networks (connections with local partners) in the host country plays an important role in the performance of an international fast food franchisee.

4.3.2 Extent To Which The Internal Factors Affect Performance Of Fast Food Franchises.

The researcher sought to establish to what extent each of the internal factors affects the performance of fast food franchisees. The study used five point Likert scale which 5= great extent and 1=not at all. The findings of are shown below in table 4.5

Table 4.5 Extent to which Internal factors affect the performance of fast food franchisees

Internal Factors	Mean	Standard deviation
Firm size	3.11	1.83
International Experience	3.56	1.67
Product/Service	4.44	0.73
Firms networks	3.78	0.97
Others(Specify)	-	-

Source: Author 2016

According to the findings, majority of the respondents believe that the product/service affects performance of a fast food franchise (mean = 4.44), Firm networks (mean = 3.78), International experience (mean = 3.56) and firm size (mean = 3.11). These reveals that the product/service a firm is offering and the firm network have a great impact on the performance of an international fast food franchise operating in Kenya.

4.3.3 Ease Of Entry Into The Fast Food Industry In Kenya.

The researcher sought to establish how easy it is for an international fast food franchise to enter the fast food industry in Kenya. Table 4.6 below shows the findings

Table 4.6 Ease of entry into the Fast Food industry in Kenya

	Frequency	**Percentage**
Very Difficult	1	11.1%
Difficult	3	33.3%
Average	5	55.5%
Easy	0	0%
Very easy	0	0%

Source: Author 2016

According to the findings, majority of the respondents 55.5 % believe that the ease of entry in to the industry is average, 33.3 % considered it difficult while 11.1% considered it very difficult. The study revealed that the ease of entry into the fast food franchise industry is average.

4.3.4 External Factors Affecting Performance of Franchises In Kenya

The study sought to establish if the six external factors affect the performance of the respondents' organization. Table 4.7 below shows the findings.

Table: 4.7 External factors affecting performance of fast food franchisees in Kenya

External factors	Yes	No

	Frequency	Percentage	Frequency	Percentage
Country risk (Politically/economically)	9	100%	0	0%
Market size	6	66.7%	3	33.3%
Direct/indirect trade barriers	1	11.1%	8	88.9%
Intensity of competition	5	55.5%	4	44.4
Sociocultural difference	5	55.5%	4	44.4%
Laws and regulations	3	33.3%	6	66.7%
Others	-	-	-	-

Source: Author 2016

According to the findings in Table 4.7 above, all 100% of the respondents believe that country risk is a factor that affects the performance of a fast food franchise, 66.7% believe that market size is a factor to be considered while 33.3% do not consider it as a factor, while 55.5% indicated that both direct/indirect trade barriers and intensity of competition were factors to be considered and 44.4% did not consider the two factors. A minority of 33.3% of the respondents believe that laws & regulations in a country are factors that affect fast food franchising, 66.7% do not believe that laws and regulations affect in any way.

4.3.5 Extent To Which The External Factors Affect Performance Of Fast Food Franchises.

The researcher sought to establish to what extent each of the external factors affects the performance of fast food franchisees. The study used five point Likert scale which 5= great extent and 1=not at all. The findings of are shown below in table 4.8

Table 4.8: Extent to which the external factors affect performance of fast food franchisees in Kenya

External factors	Mean	Standard Deviation
Country risk (Politically/economically)	4.89	0.33
Market size	3.33	1.41
Direct/indirect trade barriers	2.22	0.97
Intensity of competition	3.44	1.67
Sociocultural difference	3.11	1.61
Laws and regulations	3.11	1.26

Source: Author 2016

According to the findings in Table 4.8 above and using mean scores to determine the extent to which each external factor affects the performance of fast food franchisees in Kenya, the factors in Table 4.8 were ranked according to their extent. According to the table using mean, the extent to which country risk affects was (mean = 4.89), intensity of competition (mean= 3.44), market size (mean 3.33), sociocultural difference (mean= 3.11), laws& regulations (mean=3.11) and direct/indirect trade

barriers (mean = 2.22). The study thus revealed that country risk (politically & economically, intensity of competition and market size affect the most the performance of a fast food franchise in Kenya.

4.4 Discussion Of The Findings

The study sought to establish the factors that affect the performance of international fast food franchisees that operate in the Kenyan market. The respondents were asked to indicate which of the internal and external factors affect the performance of fast food franchisees in Kenya and to what extent the factors affect. The researcher listed four internal factors and six external factors as suggested by Hollensen (2011). The respondents were also asked to rate the ease of entry into the Kenyan fast food industry. The findings of the study have shown that the ease of entry into the fast food industry in Kenya is average. This can be attributed to the efforts the Kenyan government has made into opening up the Kenyan markets for foreign players. This is also evidenced by the World Bank (2016) Ease of Doing Business Index which ranked Kenya as number 108 out of 189 countries in the world. The study established that less than half of the international fast food franchisees in Kenya have entered the market in the last 5 years which indicates that the fast food industry is quickly growing.

The study established that two internal factors affect the performance of all fast food franchisees in Kenya. The study revealed that the two factors product/service and the firm's network are factors that cut across the industry and affect the firms performance. According to Hollensen (2011) the ability of a firm to be able to differentiate its product/service over those of its competitor helps the firm improve its performance. The firm's network is an important and critical asset when a firm is entering a country through franchising (Wan & Lowe, 2007). In this case a firms

networks are the local connections that a firm has in the local country that provide it with market knowledge, resources and skills.

The respondents also agreed that there are external factors that affect the performance of fast food franchisees in Kenya. The study established that all the external factors country risk, market size, trade barriers, intensity of competition, socio cultural differences and laws& regulations are factors that affect the performance of fast food franchises. The study revealed that while all the external factors affect the performance of their business it is to different extents for each business. The findings of the study revealed that the three main external factors that affect the franchisees are country risk, intensity of competition and the market size. According to Root (1994), external factors are factors that outside the direct control of the organization that are able to affect its operations. As revealed in this study, the fast food franchisees have no control over the political & economic stability of the country. They also have no control of the intensity of the competition as this is set by the market forces and the industry players. The market size of the industry is also out of the control of the fast food franchise as this is a demographical feature of the industry. These finding agree with the study of Lu & et al (2011) which concluded that country risk, competition & market size determine the performance of franchises in any industry.

4.5 Chapter Summary

In summary, chapter four analyses the responses of the filled questionnaires by the various management official from the nine out of ten organization that were part of this census study. The data has been summarized in tables which are interpreted. The data collected helped meet the objective of the study which was to establish the factors that affect the performance of international fast food franchisees that operate in the Kenyan market.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the key findings, conclusions drawn from the findings described and the recommendations drawn. The conclusions and recommendations were made in an effort to address the objective of the study was to establish the factors that affect the performance of international fast food franchisees that operate in the Kenyan market. This section also covers the limitations of the study and suggestions for future research.

5.2 Summary

The study was carried out to establish the factors that affect the performance of international fast food franchisees in Kenya. The study used the four internal factors and six external factors as proposed by Hollensen (2011). The researcher sought to establish if any of these factors affect the organizations sampled in the census and if so, to what extent they affect the performance of organizations. While the Kenyan market is rich with potential for international fast food franchises to exploit, some have not yet been able to crack the industry and the researcher sought to understand what factors affect their performance when they set up in Kenya.

The study shows that while all four factors i.e. firm size, international experience, product/service and firm network affect the performance of a franchisee, there are two main factors that fast food franchisees should consider. The two internal factors that affect to the greatest extent are the product/service of the firm and the firms' networks in the host country.

From the research findings, all the external factors considered in this study were found to have an effect on the performance of international fast food franchisees. However, the study revealed that the three external factor that fast food franchisees should pay attention to are; country risk, intensity of competition and the market size if they are to perform well in the industry. The study also shows that the ease of entry into the fast food industry for franchises is average which means that if a firm takes into consideration all the factors mentioned above, it will be able to enter and compete in the fast food industry in Kenya.

5.3 Conclusion

According to the findings of this study, the researcher can conclude that there are five main factors that affect the performance of fast food franchisees in the Kenyan market; Product/service of the firm, firm networks, country risk (political/economical), market size and intensity of competition in the industry. Whereas there are different factors that affect the organizations to different extents, the study established that for a firm to perform well in the Kenyan market they have to first establish proper networks in Kenya. This means getting local partners to help them set up and teach them about the Kenyan market. Without this it would be very hard for a firm to find proper footing in the market. The study also established the importance of having a unique product/service that will help a firm differentiate its products from its competitors. These two factors are internal which means the firm has control over them. Two firms such as Steers Ltd and Galitos Ltd have been in the

Kenyan market for the longest time and emphasized on the importance of these two internal factors.

The study concludes that while the four external factors; Product/service of the firm, firm networks, country risk (political/economical), market size and intensity of competition in the industry are outside of the control of the firm, the decision makers can't ignore these factors and have to critically analyze these four factors and set strategies and plans to help them adopt in this environment.

5.4 Recommendations

The study recommends that the government should create a public information resource for those seeking to enter the fast food franchising in Kenya. While the industry has been active for many years, it is still very hard for anyone to get information on the guidelines and rules of entering the fast food franchising industry in Kenya.

The study recommends the revival of the Kenya Franchise Association to help set structures and policy guidelines interpretations around fast food franchising in Kenya. Currently, the Kenya Franchise operation is dormant and new players in the industry need such a body.

The researcher recommends that government needs to implement strict regulation and governance of the fast food franchising in Kenya to ensure that the players adhere to the labour laws, quality assurance practices and financial rules that all business operating in Kenya are supposed to follow.

On a managerial level, the researcher recommends that players in the fast food industry needs to come up with strategies that differentiate their product and find niche markets to concentrate on to avoid saturating the market with similar products.

5.5 Limitations of the study

The limitation faced by the researcher during data collection was the availability and busy schedules of the managers. Despite the questionnaires being submitted early enough to the mangers, some of the managers filled in the questionnaires hurriedly as the researchers deadline was approaching. This may have affected the study as they did not take time to think through analyze the questions. Another limitation was that the respondents were hesitant to give some information which they considered as sensitive and confidential, hence did not give adequate feedback. As a result, one organization in the census refused to respond to the questionnaires completely.

5.6 Areas of Further research

The study makes several recommendation for further study. The study proposed further research on the specific challenges that players in the fast food franchising face as they operate in the Kenyan market. While the factors affecting the players were identified in this study, the players would benefit from a study on the challenges and recommendations in the industry.

The study also recommends further research be carried out on how the Kenyan government can make the entry of fast food franchisees in Kenya as the market has a lot of potential.

Finally, the study recommends further research on marketing strategies fast food franchises in Kenya can use to explore the potential of the Kenyan market.

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APPENDICES

APPENDIX I:

LETTER OF INTRODUCTION

Mumbua Ndeto

P.O BOX 28007-00200

Nairobi, Kenya

Date: 18TH July 2016

Dear Sir/Madam,

RE: DATA COLLECTION

My name is Mumbua Ndeto a student pursuing a Masters of Business Administration (International Business) at the University of Nairobi School Of Business. I am undertaking a study to establish 'Factors Affecting the performance of Franchisees in Fast Food Outlets in Kenya'. This is part of requirement of the fulfillment of the course. The findings of this study will be used for academic purposes and/or to identify industry gaps and propose solutions.

The attached questionnaire is therefore intended to seek your views on the various aspects of franchising in the food industry in Kenya. Kindly fill it with all sincerity and honesty. The information you provide will be utilized purely for academic purposes and will be treated with outmost confidentiality.

Thank you for your cooperation.

Yours faithfully,

Mumbua Ndeto

Student (M.B.A)-D61/64788/2013

University of Nairobi (SOB)

APPENDIX II:

QUESTIONNAIRE

This is a questionnaire for an academic study on the factors affecting the performance of fast food franchisees in Kenya. Please mark the appropriate response with a tick on each of the following questions.

SECTION A; DEMOGRAPHICS

(a)Name……………………………………………………………………….

(Optional)

(b)Age of the respondent

20-25 years ( ) 26 - 30 years ( ) 31 - 35 years ( )

36- 40 years ( ) 41 - 45 years ( ) 46 - 50 years ( )

Above 50 years ( )

(c)Kindly indicate your gender

Male ( ) Female ( )

(d)What is your highest level of education?

Postgraduate [ ] Degree [ ] Diploma [ ]

(e)Name of organization…………………………………………………………..

(f)How long have you worked in the organization?

Less than 1 year [ ] 1-3 years [ ] 3-5 years [ ] above 5 years [ ]

(g)Which is your management level?

Top management [ ] Middle management [ ] Low management [ ]

(h)How long has your organization operated in Kenya?

Less than 1 year [ ] 1-3 years [ ] 3-5 years [ ] above 5 years [ ]

SECTION B: INTERNAL FACTORS AFFECTING THE PERFORMANCE OF FRANCHISEES IN KENYA

1. Do any of the following internal factors affect the performance of your organisation when operating in Kenya?

Internal Factors	**Yes**	**No**
Firm size		
International Experience		
Product/Service		
Firms network		
Others(Specify)		

2. To what extent do the following factors affect the performance of your business when operating in Kenya? (5-very great extent 4-great extent 3 –moderate extent 2- low extent 1- not at all)

	5	4	3	2	1
Firm size					
International experience					
Product/service					

Firms network					
Others (specify)					

3. How would you rate the ease of entry into the fast food industry in Kenya? Tick the box with your selection.

□Very difficult

□Difficult

□Average

□Easy

□Very easy

SECTION C: EXTERNAL FACTORS AFFECTING THE PERFORMANCE FRANCHISEES IN KENYA

1. Do any of the following external factors affect the performance of your organization when operating in Kenya?

Internal Factors	**Yes**	**No**

Country risk (politically/economically)		
Market size		
Direct/Indirect trade barriers		
Intensity of competition		
Sociocultural differences		
Laws & regulations		
Others (Specify)		

2. To what extent are the following external factors affect the performance of your business when operating in Kenya? (5-very great extent 4-great extent 3 – moderate extent 2- low extent 1- not at all)

	5	4	3	2	1
Country risk (Politically/economically)					
Market size					
Direct/Indirect trade barriers					

Intensity of competition					
Sociocultural differences					
Laws & regulations					
Others (Specify)					

3. Any additional comment on the challenges of fast food franchising in Kenya?

…………………………………………………………………………………….........

....

....

....

THANK YOU FOR YOUR COOPERATION

APPENDIX II:

LIST OF MAJOR INTERNATIONAL FAST FOOD FRANCHISEES IN KENYA

1.Adega Foods

2.Cold Stone Creamery

3.Dominos Ltd

4.Galitos Ltd

5.Kentucky Fried Chicken (KFC)

6.Ocean Basket Ltd

7.Naked Pizza

8.Pizza Hut Ltd

9.Steers Ltd

10.Subway Ltd