

**FRANCHISING STRATEGY AND COMPETITIVE ADVANTAGE OF  
INTERNATIONAL FOREIGN FAST FOOD FIRMS IN KENYA**

**BY**

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## DECLARATION

This research project is my original work and has not been presented for examination in any other University.

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

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## **DEDICATION**

This project is dedicated to every Kenyan child who struggles to get an education against a background that doesn't give them an equal chance with others.

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## **ABBREVIATIONS AND ACRONYMS**

**KEFRA** : Kenya Franchise Association

**KFC** : Kentucky Fried Chicken

**MBA** : Master of Business Administration

**MNC** : Multinational Corporation

**RBV** : Resource-Based View

**UAE** : United Arab Emirates

**USA** : United States of America

## ABSTRACT

Franchising is an arrangement where an organization (Franchisor) allows another organization or individual (Franchisee) to use its trade name and business concept in return for a fee. It is one of the strategies employed by multinational corporations (MNCs) to penetrate foreign markets. Franchising is considered as a low risk and low commitment foreign market entry strategy for organizations which is why it is more popular in the service industry. This study focused on franchising strategy and competitive advantage within the context of fast food industry in Kenya. There has been a revolution in the industry over the last 20 years in which well-known international fast food chains have established operations in the country. The Kenyan economy has grown over the years with a growing middle income class and a swelling urban population with tight work schedules. This has caused a change in lifestyle characterized by many people eating out and ordering packed food during working hours. The growth in the fast food industry can be attributed to the fact that Kenya is still a growing economy and investment in a basic needs industry is lucrative business. The objective of this study was to establish whether the franchising strategy contributes to competitive advantage of international foreign fast food franchises in Kenya. In order to achieve the stated objective, a survey of the various fast food franchises was carried out. The study was based on primary data collected through the questionnaire method. From the results, it was established that the competition level is quite high in the fast food industry with the dominant players being international franchises. Choice of a market entry strategy is influenced by certain factors and the findings of this study established that franchisor's size and image, superior brands and international experience informed the choice of franchising system for the surveyed firms. The study also established that the fast food franchises gain competitive edge over their rivals by offering quality service to the customers as well as ensuring high quality of the food served in the outlets. The RBV advances the argument that a firm's resources are the primary source of competitive advantage. The international development of resources, nature of the resources and different ways of utilizing these resources has an impact on the profitability of an organization. The outcome of this study emphasizes the importance of resources to a firm. The respondents agree that the performance of the firms has been improved through resources obtained from the franchising network. This leads to a conclusion that franchising strategy has an impact on the overall performance of the franchised business. The study recommends that the government puts in place laws and policies to govern the operations of the franchised businesses in Kenya to ensure there is fair competition in the industry. This study was confined to the international fast food franchises and further studies are required to understand the application of franchising and competitive advantage in the larger food and beverage industry.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Business organizations across the world are dealing with the challenge of shrinking markets due to increased competition from other established firms as well as new entrants into the industry. To survive this, the firms need to make a strategic move in order to maintain their market share as well as explore new markets. An organization may find that for some reasons, technological, regulatory or otherwise, it is necessary for the firm to focus on a wider geographical scope and get more involved in retail operations of its products and services (Andrew, Robin & Amanda, 2008). The firm may not desire or even afford vertical integration in its distribution. For such a firm franchising becomes an attractive option. Franchising is a relationship which is difficult to define in one particular way (Pengilley, 1985). In simple terms, it's a form of business relationship where one company allows another company or individual to use its trade name and business model in return for a fee. It originated from the USA back in 1850s and later spread to other parts of the world. Some of the well-known franchises include KFC (1930), Burger King (1954) and McDonald's (1955).

Agency theory is one of the approaches used to explain the franchising concept. It is concerned with conflict of interest between people that have different interests in the same resources (Jensen & Meckling, 1976). According to the theory, franchising relationship reduces the incentive and supervision costs inherent in the relationship between the principal (franchisor) and the agent (franchisee). This happens because the franchisees are more focused on maximising the profits of their outlets and are unlikely to engage in opportunistic behaviours that could compromise performance.

The resource-based view focuses on sources of competitive advantage for an organization. It focuses on the firm's internal environment as a key element for competitive advantage and emphasises the resources that firms have developed over time help to compete in its business environment (Wang, 2014). Dyer and Singh (1998) offered a relational view of competitive advantage that focuses on a firm's networks as a key feature for understanding competitive advantage. They believe that inter-firm partnerships and networks may be a source of competitive advantage.

Franchising has gained wide acceptance across the world and in different sectors of the economy. Global research shows that franchised businesses are the most profitable, the fastest growing and the biggest job creators. The International Franchise Association predicts that employment growth in the franchise sector will continue to outpace the growth of employment in all other businesses. This business model is currently riding on an unparalleled wave of growth worldwide which makes it an interesting area to study.

In Kenya, franchising is dominated by food businesses, which also dominate franchising globally. A number of multinational fast food chains have started operations in the country. There has been a change in lifestyle where people spend more time and money eating out or ordering food during working hours (Malinda, 2013). Consumer Lifestyle Reports have recorded increased consumer expenditure on eating out and drinking habits mostly among the urban population as a result of growth in the disposable income.

### **1.1.1 Foreign Market Entry Modes**

Technological advancement has made the world a global village hence enhancing business transactions across the world. There is stiff competition among business organizations as each seeks to remain relevant in a dynamic environment. Firms have had to be more strategic in their operations in order to have advantage over their rivals in the industry. The firms may consider going into markets in a different geographical location beyond the national borders of the country where it's incorporated. When a firm establishes operations outside its home country, the new market can be termed as a foreign market (Rugman and Verbeke, 2004).

Once the firm has identified an appropriate market, the next decision is on how to penetrate the market. There are several ways of entering into international markets which include exporting, licensing, franchising, joint ventures and foreign direct investment. Many firms begin with exporting in small scale and later grow the volumes exported once they realize the potential benefits in the foreign market (Buckley, 2005). Licensing and franchising are contractual arrangements the enable a firm to set operations in a foreign country without making a direct investment. A joint venture on the other hand is an entity jointly owned by two or more companies. Lastly, foreign direct investment is the establishment of production facilities in overseas countries. It represents a more direct involvement in the local economy (Worthington & Britton, 2006).

The choice of a market entry mode is influenced by the company's strategic orientations, objectives, international competitiveness and resource capability (Ndungu, 2014). It involves careful assessment of firm-specific ownership advantages, location advantages and internationalization advantages (Griffin, 2007).

Strategic decisions have to be a priority of the top management so as to avoid collapsing and insolvency of the business. Organizations use different entry modes for different foreign markets owing to the fact that each market is unique and one particular strategy may not be suitable for all markets.

### **1.1.2 Franchising as a Foreign Market entry strategy**

Franchising is a business relationship in which the franchisor (owner of product or service) allows other organizations or individuals (the franchisees) to use the franchisor's brand name and other systems of operations for a certain period in return for a fee. It is a business strategy for building presence in foreign markets (Bashel, 2010). According to McAuley (2001), franchising has enabled many firms to build internationally recognized brands around the world. Franchising is a general term used to mean anything from the right to use a name to the total business concept.

There are two major types of franchising. Product and trade name franchising is a contractual arrangement in which the franchisees are only allowed to buy or sell franchisor's product or production line (Hollensen, 2004). A classic example of this is Coca Cola Company which has independent bottlers around the world, and supplies them with concentrate and specifications to prepare soft drinks. The second type is business format franchising which refers to the holistic relationship between the franchisors and franchisees/sub-franchisors not only the products and services.

Franchising is considered as one of the low risk and low commitment foreign market entry strategies for organizations which is why it is more popular in the service industry. Companies would therefore prefer to use franchising as it eases some of the risks that may arise from market conditions in the foreign country (Hackett, 1976).

It is a Win-Win relationship where the franchisor is able to expand its market presence without eroding its own capital, and the franchisee gains access to established business systems, at lower risk, for their own commercial advantage. Though it is viewed as one of the easiest ways to gain access to an already structured business, it doesn't come without challenges.

### **1.1.3 Competitive Advantage**

Competitive advantage refers to a superiority gained by a firm when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation (Business Dictionary). There are several factors that enable a firm to gain such superiority. These include; ease of access to raw materials and at fair prices, well trained staff, strategic location and superior technology. According to Michael Porter, there are two ways in which a firm gains advantage over the rivals in the market; cost leadership and differentiation (Porter, 1985). He argues that competitive advantage is achieved by either providing value more efficiently (low cost) or providing goods or services that customers perceive to have more value hence accepting to pay a premium price (differentiation).

In his theory of competitive advantage, Porter explains that the nature of competition and sources of competitive advantage differ among industries and that it is possible for a firm to gain such advantage from a particular sector of the industry in a certain country (Porter, 1990). The Porter's Diamond which is a system of determinants of competitive advantage implies that the overall performance of a firm is determined by how it performs similar activities differently from other firms. Therefore, a firm's profitability or performance is determined by the structure and competitive dynamics of the industry within which it operates (Schendel 1994).



While Porter focuses on the industry, other researchers have argued that a firm's internal environment is a key driver for competitive advantage. The resource-based view of the firm (RBV) emphasises that the resources a firm has developed over time help to compete in the environment. Barney (1991) suggests that other than the general resources of a firm, there are additional resources, such as physical capital resources, human capital resource and organisational capital resources which all together influence a firm's performance.

#### **1.1.4 Fast Foods industry in Kenya**

Kenya is the most developed economy within the East African region. In 2015, the World Bank confirmed that Kenya had attained a lower-middle income country status. The country is considered the gate way to the region and an economic hub. It plays a host to several regional headquarters for international organizations including the United Nations. The government of Kenya is perceived to be more investment friendly and the population is becoming increasingly urbanized especially the youth. As a result, there are a lot of business opportunities which have attracted different players including MNCs.

The fast food industry in Kenya comprises of both local and international firms. Majority of these are concentrated around the major towns with the highest number being in Nairobi which has more than 500 restaurants. International fast food chains have been competing to set base in Kenya. Most of the foreign food businesses operating in Kenya offer door to door delivery to clients. This aspect together with a wide variety of foods and preference for international brands has endeared them to many Kenyans. A growing middle income class, increased per capita income and high urban population have also created more opportunities for firms in the food business.

There has been a revolution in the industry in the last 20 years. Franchising, which was not much appreciated, has been successfully used by international companies coming into the Kenyan market. Steers Ltd was the first international fast food chain to start operations in Kenya in 1997. To date, a number of world-renowned firms such as KFC, Subway, Domino's Pizza and Cold Stone Creamery have successfully opened in Nairobi (Malinda, 2016). The growth in the food industry can be attributed to the fact that Kenya is still a growing country and investment in the basic needs sector is lucrative business.

### **1.1.5 International Foreign Fast Food firms in Kenya**

The international franchise market in Kenya has grown intensively with the fast food industry being on the lead. According to Gavin Bell, the founder of KEFRA, international food franchises are thriving in the East African region because customers trust established brands. Kenya has various popular and established regional fast food franchises such as Debonairs and Steers whose origin is South Africa. These two brands were launched in Kenya 20 years back and are operated by Hoggers Ltd under a franchise contract. This marked the beginning of revolution in the Kenyan fast food industry.

The period from the year 2010 to date has seen world-renown fast food chains set foot into the Kenyan Market. From the international front, we have brands like KFC, Subway, Pizza hut and Domino's pizza. Kuku foods Limited is the franchise holder for KFC while On Nom Nom Limited runs Dominos and ColdStone Creamery brands. The United Arab Emirates has not been left behind as Caramel Restaurant & Lounge entered the market in 2014. The latest entrant is the International Burger franchise, Burger King, which opened the first outlet in November 2016.

Most of the international brands start their operations in Nairobi before going into other towns across the country. The evolving lifestyle of Kenyans can be seen through the upsurge of shopping malls and recreational facilities in Nairobi and the other major towns; Mombasa, Kisumu and Eldoret (Malinda, 2013). These malls create opportunities for the international franchises to open more outlets across the country as they provide rental space which meets the expected standards for the firms. The introduction of the devolved units of government as per constitution 2010 which are focusing on attracting investors also creates more opportunity for international foreign fast foods franchises. Therefore, it's expected that this market will continue growing.

## **1.2 The Research Problem**

Franchising is the most common market entry mode used by MNCs going into foreign markets. Companies choose to use franchising as it eases some of the risks that arise from market conditions in the host country (Hackett, 1976). Baena (2012) carried out a study on master franchising as a foreign market entry mode with a focus on the Spanish Franchise system. She wanted to determine how market conditions may constraint entry mode choice into the Middle East Nations. The conclusion was that franchising is preferred because it provides the flexibility and economies of scale to worldwide operations. Ruiz (2014) studied Franchising: A choice of entrepreneurship in the Honduran fast food industry and concluded that extensive research, flexibility to accommodate cultural differences and a well-designed training program would result to success of fast food franchises. The conclusions drawn from these studies cannot be applied to other parts of the world without further research. This is because market conditions differ in different parts of the world and what has worked in one region may not necessarily apply in another region.

A number of local studies have been done on market entry strategies in the Kenyan context. Achola (2016) researched on franchising as a market entry strategy by KFC into Kenya. She focused on the appropriateness of this entry mode for KFC and concluded that it is the most appropriate for the firm. Mumbua (2016) carried out a study on factors affecting franchises in the fast food industry in Kenya. The conclusion of the study is that both internal and external factors affect performance but the firm needs to pay more attention to country risk, intensity of competition and the market size. Wanja (2015) carried out a study on strategic management practices by fast food franchises in Nairobi and concluded that management practices have an impact on performance. Nyangi (2010) focused on competitive strategies adopted by the motor vehicle franchise holders while Mutamba (2012) studied manufacturing companies. Other studies include Ochola (2015) on paint manufacturers and Sogo (2015) who focused on the banking industry.

The fast food industry in Kenya has been a target of major international fast food chains for the last five years. Big names like Burger King, Subway, Dominos and Snack Attack have found their way into the Kenyan market. There have been a few local studies on fast food franchises but they focused on other aspects than the impact of market entry strategy on the firm's performance (Maina 2015, Wanja 2015, Mumbua 2016, and Achola 2016). Therefore, there exists a knowledge gap on the influence of franchising strategy on the firm's competitive advantage. The local studies adopted both the cross-sectional survey and case study methods in carrying out the research. This study is a cross-sectional survey but focused on the franchise holders. The major point of departure was on the target respondents and data analysis which sought to establish the relationship between franchising and competitive advantage. This was intended to fill the methodology gap.

From the forerunning, it's evident that the earlier studies have not been exhaustive. This study therefore sought to fill the existing gap by establishing how franchising as a market entry strategy contributes to the competitive advantage of the fast food firms in Kenya. It was guided by the following research question; does franchising as a market entry strategy enhance the competitive advantage of International foreign Fast Food Franchises in Kenya?

### **1.3 Research Objectives**

The objective of this study was to determine how franchising as a market entry strategy impacts on the competitive advantage of international foreign Fast Food Franchises in Kenya.

### **1.4 Value of the Study**

To date, Kenya lacks any specific legislation on franchising leaving the players to rely on other business legislations for legal guidance. This study has provided some insights to the government and other policymakers who should decide how to regulate the international franchises and formulate a legal framework within which the businesses should operate. Proper regulation will facilitate the culture of fair business practices in the industry hence promoting the growth of the franchising concept and development of international business.

This study highlights the impact of the market entry strategy on competitiveness of fast food businesses. The results obtained are useful to Kenyan entrepreneurs who need to appreciate franchising as a market entry strategy and its impact on the business performance. Those seeking to penetrate into new markets in the region have a reference point when making decisions on the entry mode to employ.

The concept of franchising continues to attract the attention of many scholars as it continues to be used by many businesses across the world. This study has added to the available pool of knowledge on franchising and form a basis on which further research can be carried out. It has helped fill some of the gaps left by earlier studies and support literary citations for future academic research.

The future looks bright for franchising business. As the world embraces this form of partnering between organizations, Kenya as a nation should not be left behind. The Kenyan population is relatively young, becoming increasingly urbanized and there is a high level of computer literacy (Malinda, 2013). Therein lies great potential for businesses across all sectors of the economy. The constitutional reforms of 2010 created 47 counties and this means greater investments prospects outside the Nairobi city. Franchising has the capacity to offer some solutions to the many challenges that Kenyans have to deal with especially high rates of unemployment among the youth.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Franchising is a format of doing business that is being widely used in different parts of the world. According to McAuley (2001), franchising has enabled many firms to develop large brands around the world. There are quite a numbers of misconceptions about franchising, with the most common being that the franchisee is "buying a franchise." In reality, the franchisees only invest their resources in a franchising system` in order to gain access to a preferred brand name, system of operations and support, technical or in other forms, from the franchisor.

There are various theories that have been advanced on the subject of franchising as it continues to attract the interest of many scholars. Agency theory is concerned with conflict of interest between people that have different interests in the same resources (Jensen & Meckling, 1976). It seeks to explain the nature of relationship between the franchisor and the franchisees. RBV emphasizes the importance of a firm's internal resources as a source of competitive advantage while Relational View focuses on the relationship of a firm and its business partners.

Franchising is a relatively new concept in Kenya compared to other parts of the world. It only gained popularity in the last 20 years. The industry has shown steady growth and evolved from single –unit owners to multi-unit operators who have largely focused on strategy and growth (Malinda, 2013). Franchises in the food and beverage industry are the most successful going by the growth rates and demand. This study narrowed down to the international fast food franchises in Kenya.

## **2.2 Theoretical Foundation**

This study was based on three key theories; Agency theory, Resource- based view and the relational view of competitive advantage.

### **2.2.1 Agency Theory**

Agency theory is one of the key theories that have been used in earlier studies on franchising. This theory was developed by economists in the 1970s and is concerned with conflict of interest between people that have different interests in the same resources (Jensen & Meckling, 1976). The theory developed over time as many scholars carried out further studies on how it plays out in different sectors. Franchising is seen as an agency relationship because the franchisor (principal) authorizes the franchisee (agent) to carry out the business on their behalf (Fama & Jensen, 1983). The theory assumes the franchisor and franchisee have different motivations in this relationship.

The theory tries to come up with better ways of structuring relationships in which one party (the principal) defines the duties of another party (the agent). While nothing stops the franchisor from hiring a manager to run the outlets, the manager may not realize his full potential since he has no direct interest in the business (Khan, 2014). The theory suggests that some form of ownership in the business reduces the chances for inappropriate behaviour by the agents since it makes their compensation dependent on their performance (Mathieu, 1997).



According to the theory, franchising reduces the supervision costs inherent in any agency relationship. This happens because the franchisees are more focused on maximizing the profits of their outlets and are unlikely to engage in opportunistic behaviour. The franchisee has to assume accountability and take full responsibility for the performance of his outlet. He is responsible for any profits or losses made by the outlet (Lafontaine, 1992). If the franchisee acts inappropriately or does not involve the franchisor in operations, his personal compensation will suffer not to mention the legal actions that the corporation might take against the franchisee.

### **2.2.2 Resource Based View**

Michael Porter's theory of competitive advantage was based on an analysis of the industry using the five force model. The five forces under consideration consist of the following: barriers to entry, threat of substitutes, bargaining power of suppliers, bargaining power of buyers and rivalry among competitors (Porter 1985). In this perspective, a firm's sources of market power explain its relative performance. Porter (2005) suggests that the most successful companies are those with a competitive advantage. A firm will only have a competitive advantage if it possesses a resource that others in the industry do not have.

Contrary to Porter's focus on the industry, other scholars have shifted the view to the resources that a firm possesses as the primary source of competitive advantage; Prahalad & Hamel (1990) and Rumelt (1991). This approach is known as the Resource Based View. Scholars who support this view argue that only strategically important and useful resources and competencies should be viewed as sources of competitive advantage (Barney 1991). These resources would be both tangible and intangible resources.

Rumelt (1984) advanced the theory further by arguing that the internal development of resources, the nature of those resources, and the various ways of utilizing resources are related to profitability. Barney (1991) added more weight to the argument by identifying four characteristics of resources essential for gaining sustainable competitive advantage as value, rarity, imperfect imitability, and imperfect substitutability. RBV holds that resources that give competitive advantage to the firm must be confined within the firm's boundaries.

### **2.2.3 Relational view of Competitive Advantage**

Dyer and Singh (1998) offered a relational view of competitive advantage that focuses on a firm's networks as key feature for understanding competitive advantage. They believe that inter-firm partnerships and networks are a source of competitive advantage. This view was developed to address the weaknesses of resource based view. RBV was not able to explain how firms gain competitive advantage in situations where there exists multiple relationships between the firm and its business partners in the industry (Barney, 1991).

According to the relational perspective, the establishment of an effective alliance and the evolution of inter-firm routines that facilitate the sharing of knowledge and information help generate relational rents. Dyer and Singh define a relational rent as "a supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners" They identified four relational rents as sources of competitive advantage; relation-specific assets, knowledge-sharing routines, complementary resources and capabilities and effective governance (Dyer & Singh 1998).

While Porter's theory suggests that the primary source of superior performance is the bargaining power of the firm in the market, the RBV suggests that it arises from the set of unique resources, capabilities and knowledge of a firm. RBV has emerged as one of the popular theories of competitive advantage (Furrer et al., 2008). On the other hand, relational view suggests that competitive advantage arises from the shared knowledge and complementary resources of the network. Wang (2014) presented a framework for analysing business in the context of business relationship.

### **2.3 Foreign Market entry strategies**

There are several ways of entering into international markets which include exporting, licensing, franchising, joint ventures and foreign direct investment. Many firms begin with exporting in small scale and later grow the volumes exported once they realize the benefits in the foreign market (Buckley, 2005). Sharan (2003) classifies exports into two types: direct and indirect export. Direct export is where a company sells the products in a foreign market through agents. Indirect exporting is where the company uses intermediaries to reach consumers in the target market.

Licensing and franchising are contractual arrangements that enable a firm to set operations in a foreign country without making any direct investment. In a licensing agreement, the licensor grants the licensee the right to use its patents, trademarks, copyrights or trade secrets in exchange for payments of fees and royalties. On the other hand, franchising can be termed as an existing business relationship where the right to distribute the firm's products are granted to the franchisee by the franchisor using the latter's system and brand for a certain fee (Arasa & Gideon, 2015).

A joint venture has five common objectives: market entry, risk/reward sharing, technology sharing and joint product development, and conforming to government regulations. Other benefits of joint ventures include political connections and distribution channel access that may depend on relationships (Foley, 1999). Lastly, foreign direct investment is the establishment of production facilities in overseas countries and it represents a more direct involvement in the local economy (Worthington & Britton, 2006).

## **2.4 Franchising, International Business and Competitive advantage**

Franchising strategy is an alternative to vertical integration and helps achieve a more centralized control without much capital investment (Hitt, 1997). It is a concept widely used in international business. International business refers to expanding the operations of a particular business beyond its country's borders (Davis, Et al 1997). Earlier studies have implied that the franchisor know-how contribute to competitive advantage and performance of the franchise network. The franchisor plays a critical role in the survival, profitability and global performance of the franchise network.

Competitive advantage is obtained when an organization acquires a set of attributes that allows it to outperform its competitors. Some scholars argue that this advantage is influenced by the position of the firm in the market while others believe it's the resources possessed by the firm that lead to the superior performance. According to Michael Porter, the origin of superior performance lies in a firm's market position that allows it to defend or influence the competitive forces of the industry (Porter, 1986). On the other hand, the RBV claim that the advantage arises from the way an organization uses the resources it possesses or controls, when these resources are valuable, rare and difficult to imitate or substitute (Barney, 1991).

Franchising contributes to the superior performance as it allows the franchisees to tap into the resources of a well-established organization. The franchisee gains access to a strong and recognized brand which becomes easier to sell in the market. According to Holmes (2003) the franchising model creates an ownership mentality to the franchisee who is more likely to devote time, attention and capital in growing the business. This would boost the performance of the business just because the franchisee has that sense of ownership and is therefore motivated to work harder.

## **2.5 Summary of Empirical studies and Knowledge gaps**

Several studies have been carried out by different scholars on the area of franchising. Banerjee & Duflo (2008), in their study on franchises around the world concluded that franchises have gained prominence in the twenty first century because of people's entrepreneurial spirit and the ease of forming a franchise. Wheeler (2006) studied the factors affecting food franchises in the United States. He concluded that government regulation and bureaucracies are the major challenges the franchises face. Alon & MC Kee (1999) focused on impact of the economic and cultural environment and agrees that they are critical factors for survival of an international franchise.

Locally, the concept of franchising has attracted the attention of many researchers. Achola (2016) researched on franchising as a market entry strategy by KFC into Kenya. She focused on the appropriateness of this entry mode for KFC and concluded that it is the most appropriate for the firm. Mumbua (2016) carried out a study on factors affecting franchisees in the fast food industry in Kenya. He focused on factors internal to the firm as well as external factors. The conclusion of the study is that the three external factors these firms should pay more attention to are; country risk, intensity of competition and the market size in order to perform well in this industry.

Wanja (2015) researched on the management practices applied by fast food franchises in Nairobi City County to enhance performance. Her conclusion was that strategic management has a positive relationship to the performance of the fast food franchises and that management practices influence performance.

Research on franchising has focused on a wide range of issues including legal aspects of franchising (Lim & Frazer, 2000), franchised and company –owned units (Krueger, 1991) and the efficient operations of the franchise systems (Lewis & Lambert, 1991). There have been several studies on franchising in the fast food industry but some of these were carried out in other parts of the world. The environment in the USA and other regions of the world are so different from Kenya and the findings cannot be applied in this context without further studies. The local studies focused on aspects other than how franchising impacts on competitive advantage of the firm. Therefore, there exists a knowledge gap which this study was seeking to fill.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter summarizes the processes and techniques that were used in carrying out the study in order to achieve the set objectives. It focuses on research design, data collection and data analysis. Research design is the conceptual structure within which any research is carried out. It constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2004). For descriptive studies, a good research design is one that minimizes bias while maximizing the reliability of data collected.

When conducting the research, the researcher has to obtain relevant data in order to achieve the set out objectives. Such data is obtained from both primary and secondary sources. Primary data is collected afresh, for the first time and thus is more original in character (Kothari, 2004). It is collected through observation, interviews and questionnaires. On the other hand, secondary data is data collected from other sources like records and documents (Mugenda, 2009). It can be obtained from both published and unpublished documents.

The data collected has to be processed, analyzed and interpreted in order to derive meaning and conclusions from it. It goes through editing, coding, classification and tabulation so as to make it ready for analysis. The analysis maybe either descriptive or statistical. Descriptive analysis focuses on the distributions of one variable while statistical analysis is concerned with various tests of significance in order to ascertain to what extent the collected data can be said to indicate some conclusions (Kothari, 2004). It is only after this that the researcher is able to make some interpretation by comparing the results with prior predictions and past research.

### **3.2 Research design**

Research design is a detailed description of the procedure employed by the researcher in an attempt to answer various research questions (Cooper & Schindler, 2006). The best approach for carrying out this study was through a descriptive cross-sectional survey. The major purpose of such a study is to describe the state of affairs as they exist at present. The main difference from other kinds of research is that in a descriptive study, the researcher has no control over the variables and can only report what has happened or is happening. The researcher understood that they are not in a position to influence the decisions of the firms in the industry under review and hence the choice of descriptive form of a study.

The researcher considered a descriptive cross-sectional study the most appropriate to determine whether and how franchising impacts on the competitive advantage of the fast food franchises in Kenya. The descriptive study was in form of a census survey as all the fast food franchises were targeted. A census is a complete enumeration of all items in the population and was preferred since the population of this study is small (Appendix 2). The census makes it possible to get more comprehensive information which is all inclusive and therefore gives the true picture of the chosen segment of the industry.

International foreign fast food franchises in Kenya are operated through contractual agreements with both local and international firms. There are a number of franchise holders that have been entrusted with running these businesses. This study focused on major franchise holders such as Innscor Kenya, Hoggers Limited, Kuku Foods and On Nom Nom Limited among others. This approach enabled the researcher to gather more information in view of limited time and financial resources.



### **3.3 Population of the Study**

Population is the larger group from which a sample is taken and it should capture variability to allow more reliability to the study, (Kombo & Tromp 2006). The target population of this study was all the franchise holders for the international fast food businesses operating in Kenya (Appendix 2). It was the intention of the researcher to collect data from the entire population across the country. However, due to the short timeline within which the study had to be carried out, this was not possible.

The accessible population of this study is the international fast food franchises which have offices in Nairobi city. The researcher settled for Nairobi since this is where most national offices for international firms are located. The previous studies Wanja (2015) and Mumbua (2016) carried out their studies in Nairobi and there is a generalization that most fast food franchises are located within the city.

Further, the researcher acknowledged that the population of this study is quite heterogeneous. It consists of firms from different parts of the globe whose period of operations in Kenya differs significantly. The industry experience of Steers brand franchisee who has been in the Kenyan market for the last 20 years is certainly different from that of Burger King which is barely a year old in the country. This introduced another dynamic that the researcher felt would have an impact on the outcome of the study.

### **3.4 Data Collection**

There are two sources of data; primary and secondary data. Primary data is collected through various ways; observation, personal interviews, telephone interviews or through questionnaires (Kothari, 2004). This study relied on both primary and secondary data. The primary data was collected through the questionnaire method. The researcher settled on the questionnaires because it's a more economical method, less time consuming and the data collected is free from the researcher's bias. According to Mugenda and Mugenda (2008) secondary data is data collected from other sources such as industry reports, annual reports and online journals.

The choice of respondents in any survey is critical as it determines the usefulness and reliability of the information obtained. The target respondents in this study were managers at the head offices of international fast food franchise holders. The data collection instrument was dropped in their offices and picked later. Respondents were expected to give insights on some of the resources they have acquired as a result of the franchising model which contribute to gaining competitive advantage.

The other important aspect the researcher considered is the ethical issues that may arise in the data collection process. It is considered unethical to collect information without the knowledge of participants, and their expressed willingness and informed consent (Kumar, 2011). The kind of data sought after in this study is sensitive business information and the respondents were reluctant to give such information. The researcher therefore considered it important to maintain high level of confidentiality and ensure the information obtained will not be misused.

### **3.5 Data Analysis**

The data collected through questionnaires was checked for accuracy and completeness. It was edited, classified and tabulated before carrying out descriptive analysis. Descriptive analysis focused on working out measures of central tendency and dispersion measures. The researcher calculated the mean for the data in order to rank factors that a firm considers in choosing the franchising strategy. It has also been used to rank resources in terms of their contribution to gaining competitive advantage for the firm.

Standard deviation is the most widely used measure of dispersion. It is used to measure the amount of variation of a set data of values. In this study, standard deviation has been used to establish the variation of a particular firm's data from the industry average. The results of this analysis have been presented using tables and charts. In order to perform all these analysis, the Statistical Package for Social Sciences (SPSS) software was utilized.

The data was analyzed as per the three sections of the questionnaire. The first part focused on the general information of the organization and the respondent. Part two focused on the choice of market entry strategy. This was intended to give a clear view as to why the firm settled for franchising as opposed to other market entry modes. The last part dealt with the resources that a firm has acquired as a result of the association with an international organization. By doing this, the researcher aimed at demonstrating how franchising strategy impacts on a firm's resources which in return enables a firm to gain competitive advantage.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter focuses on the analysis and interpretation of the data collected from the target firms. The data was obtained through the questionnaires which were administered using the drop- and –pick later approach. The target respondents were managers in the major fast food franchises based in Kenya. Responses were obtained from different departments including marketing, finance and Human Resource Department. This provides a broader view as the responses represents the entire organization unlike if only one department was targeted.

The objective of the study was to establish how franchising strategy impacts on the competitive advantage of the international foreign fast food firms in Kenya. To achieve this, the questionnaires had close-ended questions. The focus was on the resources obtained through the franchise network and how these resources contributes to superior performance of the firm. Of interest also was the intensity of competition in the fast food industry in Kenya.

Questionnaires were sent out to 15 franchises which the researcher considered to be the major players in the industry. Only 9 questionnaires were duly completed and returned making a response rate of 60%. This is a sufficient response rate and therefore the researcher proceeded with the data analysis. In carrying out the analysis, the researcher focused on the demographic characteristics of the firms, choice of market entry strategy, resources accessed through the franchise network and how these resources impact on the competitive advantage of the firms.

## **4.2 Demographic Characteristics of the Firms**

This section is concerned with the general information about the firm. The information helps in understanding the background of the organization under review. It sought details on the name of organization, length of operations in Kenya, number of branches, country of origin and information on the respondent with respect to their position and length of service in the organization.

The respondent's length of service in the organization was considered important as it has an impact on their knowledge of the organization's activities. Employees who have been in the organization for long would be able to give more valid information about the firm. By seeking to know the position held, the researcher wanted to gauge whether the respondent has the capacity to comment on such important matters.

Franchising is a business concept that has its roots from the USA. It later spread to other parts of the world and has been received and viewed differently in different continents. The firm's country of origin has impact on how the franchisees perceive this business concept. The researcher expected that the views of the respondents would be largely informed by the ideas obtained through the mother organization.

### **4.2.1 Duration of the Franchise's Operations in Kenya**

The study sought information on how long the organization has had operations in the country. This is important since the experience of the firm in the industry is key in understanding the market dynamics. The targeted firms have been in Kenya for varying durations which means their outlook of the market environment is different. On the question of how long the franchise has operated in the country, the responses given are as per table 4.1;

**Table 4.1** Duration of Operations in Kenya

<b>Number of Years</b>	<b>Frequency</b>	<b>Percent</b>
2-5 years	4	44.4
5-10 years	1	11.1
more than 10 years	4	44.4
<b>Total</b>	<b>9</b>	<b>100.0</b>

**Source: Research Data, 2017**

In their responses, 4 out of the 9 firms that responded have been in Kenya for 2 to 5 years representing 44.4%, 1 of the 9 has been in the industry for 5-10 years representing 11% while the other 4 firms have been in Kenya for more than 10years representing 44.4% of the respondents. This implies that the growth in franchising concept in the Kenyan fast food industry has been in different phases. The researcher observed that the regional fast food chains mainly those from South Africa were the first entrants in the industry and form the 44% that have been in the market for more than 10years. The second phase is marked by the entry of large international players that represent 44% who have entered the industry in the last 2 to 5 years.

#### **4.2.2 The Number of outlets the Firm has in Kenya**

The study sought to establish the number of outlets each firm operates in Kenya. This would give an indication of the growth and expansion rate in the industry. A firm only opens up more outlets once there has been a good reception of their products in the market. Asked to indicate the number of outlets the franchise has in the country so far, the responses obtained are as tabulated in table 4.2;

**Table 4.2** Number of Outlets in Kenya

<b>Number of Outlets</b>	<b>Frequency</b>	<b>Percent</b>
Less than 5	2	22.2
6-10	5	55.6
11-15	1	11.1
more than 15	1	11.1
<b>Total</b>	<b>9</b>	<b>100.0</b>

**Source: Research Data, 2017**

From the table above, it's evident that the firms are not widely spread out into the market. 22.2% of the respondents have less than 5 outlets while 11.1 % have 11 to 15 outlets and only 1 firm has more than 15 outlets in the country. Majority of the players in the industry have 6 to 10 outlets representing 55.6% of the respondents. As outlined earlier, the concept of franchising is relatively new in Kenya and it's therefore expected that the firms would take some time to understand the market before opening up more branches.

### **4.3 Market Entry Strategy**

There has been a revolution in the business world over the years aided by the technological advancement. The world has become a global village and many business organizations are seeking to set operations in foreign markets away from the countries where they are incorporated. The choice of a market entry mode is a key management decision and is informed by the company's objectives, international competitiveness and resource capability.

This study focused on the use of franchising as a foreign market entry strategy by international fast food firms in Kenya. The respondents were asked to give their view on what factors influenced the choice of franchising strategy as opposed to other market entry modes. The factors listed in the questionnaire ranged from the firm's brands and image, business risks as well as resource-based factors.

It was also necessary to establish how the choice of the entry mode impacts on the resources of the firm. This was building on the relational perspective which stresses on the benefits a firm realizes from shared resources of inter-firm networks. The researcher grouped the resources into five categories; Financial, Physical, Technological, Human and Intangible resources. For each category, the respondent was to indicate if the resource has been boosted by the franchising relationship and how valuable is the category of resources to the firm.

#### **4.3.1 Factors that influence the choice of Franchising Strategy as a foreign market entry mode**

This study sought to establish what factors motivated the franchisees to enter into a franchising relationship with international firms. Some scholars argue that franchising is more preferred as it enables a firm to gain access to a more established business system while reducing the risks associated with starting a business. A likert type question outlining seven factors ranked on a five scale point was given to the respondents. A rating of 1 would imply the factor is the least motivator while a rating of 5 would imply the factor is the greatest motivator. The results obtained are analyzed as per the next table;



**Table 4.3** Factors influencing choice of Franchising Strategy

<b>Factor</b>	<b>Mean</b>	<b>Std. Deviation</b>
International experience	4.2222	.83333
Superior brands	4.8889	.33333
Access to financial resources	3.2222	1.20185
Access to better technology	3.5556	1.33333
The franchisor's size and image	5.0000	.00000
Reduce the risk involved in starting the business	3.0000	1.50000
The level of competition in the fast food industry	3.1111	1.45297

**Source: Research Data, 2017**

The mean for the responses was calculated to give the general view of the respondents on the factors that influence the choice of franchising strategy. A mean of 1 to 1.5 implies that the factor was the least motivator while means of 4.5 to 5 implies that the mentioned factor was the greatest motivator. From the table above, the respondents ranked the franchisor's size and image highest with a mean of 5 followed by superior brands with a mean of 4.8 and international experience was the third with 4.2 as the mean. This implies that an organization's public image has an effect on its overall performance and those considering a contractual relationship with the organization take interest in its image. Secondly, the results point out to the high value attached to the brand name and it is a major consideration in choosing business partners.

Franchising is believed to be a low risk strategy of venturing into new markets. From the results obtained, reduced risk of doing business was rated to give moderate motivation in settling for franchising. Financial resources are key for any organization but the results obtained indicate that access to financial resources was given average rating. The other two factors, access to better technology as well as levels of competition had a mean of 3.5 and 3.1 respectively. This again indicates a moderate rating in terms of motivating the firms to enter into a franchising arrangement.

### **4.3.2 The importance of different resources to a firm**

This study also focused on the importance attached to different resources by the firm. According to the RBV theory, the resources that a firm possess are the primary source of competitive advantage. The question posed to the respondents focused on five major categories of resources and the respondent was to rate them on a scale of 5. The results from the respondents are analyzed in table 4.4 below;

**Table 4.4** Importance of different resources to a Firm

<b>Resources</b>	<b>Mean</b>	<b>Std. Deviation</b>
Financial Resources	4.2222	.44096
Physical resources	4.3333	.86603
Human resources	4.1111	.78174
Technological resources	3.7778	.97183
Intangible resources	3.5556	1.13039

**Source: Research Data, 2017**

From the table above, the means from the responses lies between 3.5 and 4.3 for all the resources. Physical resources were ranked highest with a mean of 4.3 followed closely by financial resources with a mean of 4.2. Human resources were rated third with a mean of 4.1. Means of 3.5 to 4.4 implies that the resource is highly valuable to the organization. These results indicate a very small variation in the mean for all the five categories listed.

This kind of results imply that all these resources are considered very important to any firm and are interlinked in the way a firm utilizes them to ensure they result to good organizational performance. Rumelt (1984) argues that the internal development of resources, the nature of these resources and the various ways of utilizing resources have an impact on the profitability of an organization.

### **4.3.3 The impact of partnership with International Firms on the Franchise's resource capability**

The other area of focus was on how partnering with an international firm through the franchising model impacts on a firm's resource capability. This was based on the relational perspective of competitive advantage which suggests that superior performance arises from the shared knowledge and complementary resources of the inter-firm network. The respondents were required to give a yes or no answer as to whether the partnership has boosted the resource capability for each category. A no response would return a value close to zero while a yes response would be represented by values close to one. The results from the data obtained is tabulated in table 4.5;

**Table 4.5** Impact of Franchising on resource capability

<b>Resources</b>	<b>Mean</b>	<b>Std. Deviation</b>
Financial Resources	1.2222	.44096
Physical Resources	1.7778	.44096
Human Resources	1.2222	.44096
Technological Resources	1.3333	.50000
Intangible Resources	1.4444	.52705

**Source: Research Data, 2017**

From the analysis above, the mean lies between 1.2 and 1.7 for all resources implying a unanimous view that the franchising relationship impacts on the firm's resources. Majority of the respondents agreed that at least 3 out of the five resource categories listed had been boosted through the franchising arrangement. The researcher therefore concludes that these firms have acquired resources that they would otherwise not have if they were not part of the international network of firms.

#### **4.4 The Concept of Competitive Advantage**

Competitive advantage is obtained when an organization acquires a set of attributes that allows it to outperform the competitors. Michael Porter argues that this advantage is influenced by the position of the firm in the market while other scholars believe it's the resources possessed by the firm that lead to such superior performance. Franchising is believed to contribute to the superior performance as it allows the franchisees to tap into the resources of a well-established organization.

The objective of this study was to establish whether franchising contributes to the competitive advantage of the foreign fast food firms. The section on competitive advantage focused on the levels of competition in the industry, the dominant players and the factors that give different firms a competitive edge over the competitors. The researcher sought to confirm the argument by the major theories tying competitive advantage to the resources of the firm.

By posing the question of the dominant players in the market, the researcher wanted to establish whether the firms understand their competitive environment. It would be impossible to compete effectively against an opponent that one is not familiar with. One of the key steps in gaining competitive advantage is studying the strengths and weaknesses of the competitors which enables the firm to perform similar activities with other players in the market but in a unique manner. This would help take either cost leadership approach or differentiation approach to gaining competitive advantage as suggested by Michael Porter.

#### **4.4.1 The Levels of competition in the fast food industry**

The concept of competitive advantage cannot apply in a situation where there is no competition. It was therefore important to start by establishing the levels of competition in the fast food industry. For any organization to remain relevant in the industry, there has to be a deliberate effort to study the competitive environment and make strategic decisions aimed at maintaining or improving their position in the market. The respondents were required to give their view on the level of competition; whether it's low, moderate or high. The results are as shown in the next table;

**Table 4.6** Competition levels in the Industry

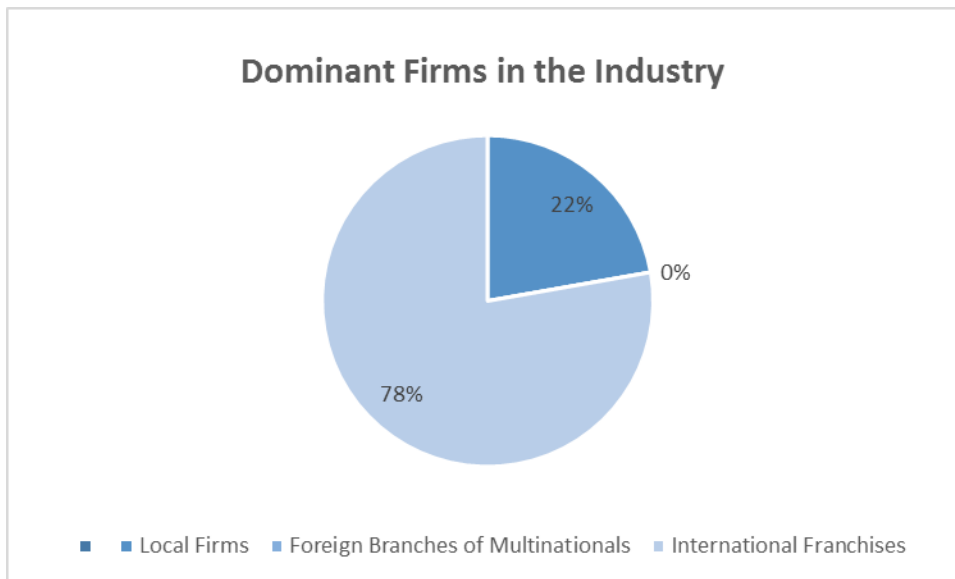
	<b>Frequency</b>	<b>Percent</b>
Moderate	2	22.2
High	6	66.7
Extremely high	1	11.1
<b>Total</b>	<b>9</b>	<b>100.0</b>

**Source: Research Data, 2017**

The responses given indicate that the competition in the industry is quite high. Majority of the respondents, 66.7% agree that competition is high while 22.2% consider it to be moderate. Only 11.1% of the respondents considers the competition to be extremely high. In view of this, the firms can't afford to sit still and hope to remain competitive but have to be creative and keep monitoring the competitor moves. Porter (1986) argues that the origin of superior performance lies in a firm's market position which allows it to defend or influence the competitive forces prevalent in the industry.

#### **4.4.2 The Dominant firms in the fast food Industry**

In order to remain competitive, each firm has to know who their major competitors are. The study sought to find out who are the dominant players in the industry. The respondents were to choose from three categories; Local firms, foreign branches of MNCs and International Franchises. The responses obtained indicate that the major players are the international franchises as illustrated in the figure below.



**Figure 4.1** Dominant firms in the industry

**Source: Research Data, 2017**

Understanding the industry structure is essential because it's the only way that a firm can strategically position itself in the industry. According to the figure above, 78% of the respondents agree that their major competitors are other international fast food franchises. This knowledge plays a great role when analysing the industry using the five force model as recommended by Michael Porter. It would be critical to watch out for any substitutes, new entrants and rivalry among the players in the industry.

#### **4.4.3 Factors that Influence the Competitive Advantage of the Firm**

The resource based view of competitive advantage suggests that a firm's resources are the main source of competitive advantage. Michael Porter on the other hand, argues that a firm acquires competitive advantage by performing similar activities to other firms in a unique way. The study sought to find out from the firms what their view is on this issue. The respondents were given a list of 6 factors which they were to rate in a scale of 5. A response of 1 indicates that factor is rated lowest while 5 indicates highest rating. The results are shown in the table below.

**Table 4.7** Factors that influence the Competitive Advantage of a Firm

<b>Factors</b>	<b>Mean</b>	<b>Std. Deviation</b>
The quality of food	4.3333	1.32288
The price of food	2.6667	1.41421
The technology used	3.4444	.88192
The brand name	4.3333	.70711
The service delivery to customers	4.5556	.52705
Staff qualification and training	4.1111	.92796

**Source: Research Data, 2017**

Means for the responses for each factor was calculated in order to establish the general view of the respondents. A mean of 1 to 1.5 implies that the factor is rated lowest in giving competitive advantage while a mean of 4.5 to 5 would indicate very high rating. From the results above, service delivery to customers was rated highest with a mean of 4.6. This is followed closely by quality of food and brand name. Staff qualifications and training has a mean of 4.1 indicating it plays an important role in giving the firms a competitive hedge. The price was rated lowly with a mean of 2.6

These results in a way identifies with Porter's view of competitive advantage. He argues that such an advantage is achieved by either providing value more efficiently (low cost) or providing goods or services that are perceived to have a higher value and therefore customers accept to pay a premium price (differentiation). As indicated in the table above, service delivery and quality of the product are rated highest. Once these two are guaranteed, then the price is not a major issue.



#### 4.4.4 The contribution of the firms International Network to Competitive Advantage

The researcher wanted to establish whether the relationship with an international firm does in any way contribute to giving the firm a competitive edge. This is founded on the relational view of competitive advantage which argues that a firm gains such advantage from the shared resources of a network of firms. Asked the question of the extent to which the factors discussed in the earlier section were as a result of being in a franchising relationship, the respondents had the following views.

**Table 4.8** Contribution of the Network to Competitive Advantage

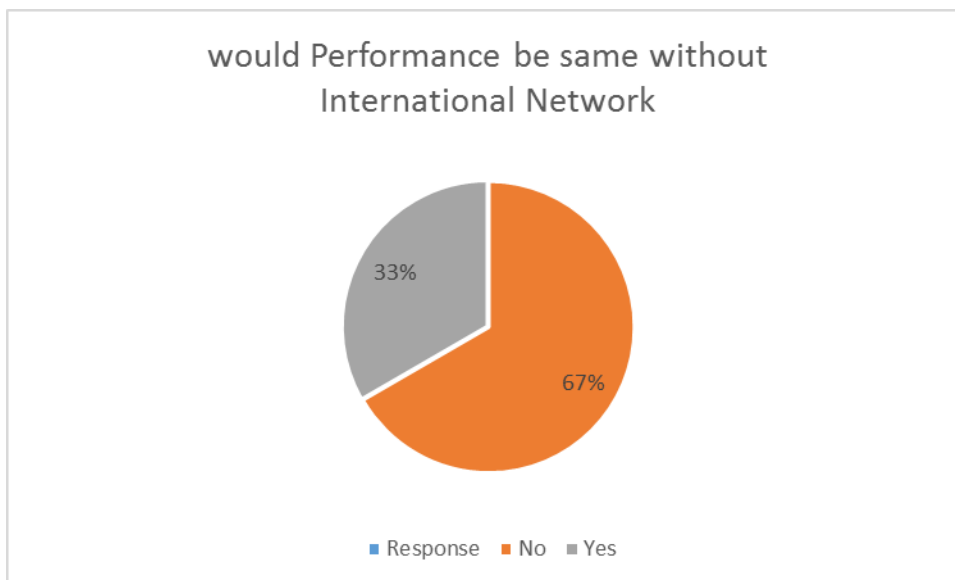
	<b>Frequency</b>	<b>Percent</b>
Average extent	2	22.2
Great extent	6	66.7
Very great extent	1	11.1
<b>Total</b>	<b>9</b>	<b>100.0</b>

**Source: Research Data, 2017**

From the table above, 6 out of 9 respondents, representing 66.7%, agree that the franchising relationship has to a great extent contributed to the firm acquiring resources that result to gaining competitive advantage. 22.2% felt that the contribution is only to an average extent while 11.1% view the contribution to be to a very great extent. It is therefore evident from the responses that the franchising strategy gives the firms access to resources that lead to competitive advantage.

#### 4.4.5 Would performance remain same without the International Network?

In order to give more weight to the findings, the researcher sought to get the views of the respondents on how the performance would be without the firm being part of an international network. The respondents were to give a yes or no answer for the question of whether the performance levels would be the same if the business was not associated with an international firm. The responses obtained are illustrated in the figure below.



**Figure 4.2** Would performance be the same without the Network?

**Source: Research Data, 2017**

According to 67% of the respondents, the performance levels would not be same if the business was not a franchise. Only 33% felt that the franchising arrangement had no major impact on the performance hence would remain the same. This kind of result confirms that the market entry strategy has an impact on the overall performance of the firm. It gives the franchising strategy a high rating in terms of contributing to the resources that are a primary source of competitive advantage for the organization.

## 4.5 Discussion on the Findings

The objective of the study was to determine how franchising as a foreign market entry strategy impacts on the competitive advantage of international foreign fast food franchises in Kenya. Choice of a market entry mode is influenced by the firm's strategic objectives, international competitiveness and resource capability (Ndungu, 2014). Many companies prefer to use franchising as it eases some of the risks that arise from market conditions in the foreign country (Hackett, 1976). The study sought to establish what factors influence the choice of franchising strategy by the fast food firms. Majority of the respondents ranked the franchisors size and image highest followed by superior brands and international experience. Therefore, the results imply that the franchisors size and image, superior brands and international experience are the greatest considerations for a firm getting into a franchising arrangement.

The study also focused on the importance attached to different resources by the firm. Scholars that support the resource based theory suggest that a firms resources are the primary source of competitive advantage (Rumelt, 1991). Barney (1991) added that the resources that are essential for gaining competitive advantage are valuable, rare, imperfectly imitable and imperfectly substitutable. The respondents were asked to rate five categories of resources in order of importance. In the findings, physical resources were ranked highest followed closely by financial resources. The results showed a very small variation in the ranking implying that all the resources are considered important to the firm. Asked whether the franchising relationship impacts on the firm's resources, the respondents had a similar view. Majority of the respondents agreed that at least 3 out of the five resource categories listed had been boosted through the franchising arrangement.

On the question of competitive advantage, the researcher set out to establish what gives the firms a competitive edge over the rivals. In his theory of competitive advantage, Porter explains that the nature of competition and sources of competitive advantage differ among industries and that it is possible for a firm to gain such advantage from a particular sector of the industry in a certain country (Porter, 1990). He focuses on the firm's ability to position itself in a certain industry in order to gain a competitive edge over the rivals. The firm's profitability or performance is determined by the structure and competitive dynamics of the industry within which it operates (Schendel 1994). In this respect, the respondents were asked to comment on the competition levels in the industry. The results obtained indicate that the competition in the industry is quite high. They also indicated that international franchises are the dominant players in the fast food business.

Contrary to Porter's focus on the industry, the resource based theory shifted the view to the resources that a firm possesses as the primary source of competitive advantage. Scholars who support this view argue that only strategically important and useful resources and competencies should be viewed as sources of competitive advantage (Barney 1991). Looking at the factors that contribute to competitive advantage of the firms, the results shows that service delivery to customers was rated highest. Quality of food and the brand name were the next while staff qualifications and training was ranked fourth. In a study carried out on the same firms in 2016, the researcher concluded that product/service and the firm's network are factors that cut across the industry and affect performance of the firms (Mumbua, 2016). This points out to the importance of a firm's network in relation to performance.

The Relational view of competitive advantage focuses on a firm's networks as key feature for understanding competitive advantage. Dyer & Singh (1998) suggest that competitive advantage arises from the shared knowledge and complementary resources of a firm's network. Earlier studies have implied that the franchisor know-how contribute to competitive advantage and performance of the franchise network. When asked if the performance levels would be the same had the firm not partnered with an international player, majority of the respondents agree that performance would be different. This kind of result confirms that the market entry strategy has an impact on the overall performance of the firm. It gives the franchising strategy a high rating in terms of contributing to the resources that are a primary source of competitive advantage for the organization.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This Chapter focuses on the findings obtained from the data analysis as well as the conclusions reached. It also includes the recommendations and suggestions for further research on this topic. The researcher set out to establish how franchising strategy impacts on the competitive advantage of the international foreign fast food firms in Kenya. From the results of data analysis, the researcher will be able to give their view as to whether this objective has been met or not.

The findings and conclusions are in light of the two variables that were studied. First, the study focused on how franchising contributes to the resource capability of the firm. This is because competitive advantage arises from the resources of the firm and therefore the franchising strategy can only impact on competitive advantage through the resources. The summary and conclusions will also focus on the competition environment in the industry since this is the starting point for studying the concept of competitive advantage.

The study was based on three theories and at this point, the researcher seeks to link the outcome of the study to the underlying theories. This will build up on the resource based view and the relational view of competitive advantage. In addition, the researcher will look at the results obtained and make conclusions of the findings while at the same time giving regard to the outcome of the earlier studies. This chapter therefore, gives a brief overview of the findings, conclusion and recommendations that the researcher has for the various stakeholders.

## 5.2 Summary

This study was carried out in a bid to establish how franchising market entry strategy influences the competitive advantage of international fast food firms in Kenya. The franchising concept can only impact on competitive advantage indirectly through the resources it enables a firm to access. In order to establish what influenced the choice of franchising strategy, the study used seven factors i.e. international experience, superior brands, access to financial resources, better technology, firm size and image, reduced risks and competition levels in the industry. The franchisors size and image, superior brands and international experience appeared to be the factors that mostly influenced the choice. Reduced risk of doing business and financial resources were given a moderate rating.

On the aspect of the resources, the study focused on what value the firms attach to financial, physical, human, technological and intangible resources. The researcher also sought to know whether any of these resources had been accessed through the inter-firm network. In the findings, physical resources were rated the most valuable followed closely by financial resources. The results showed a very small variation in the ranking implying that all the resources are considered important to the firm. On the issue of whether the franchising relationship impacts on the firm's resources, the respondents had a unanimous view. Majority of the respondents agreed that at least 3 out of the five resource categories listed had been boosted or accessed through the franchising arrangement.

The other focus of the study was on the concept of competitive advantage. The competition levels in the industry were described as high and the majority of the respondents believe that international franchises are the dominant firms in the industry. The study used a six factor guide to establish which of the factors the firm considers to give them a competitive edge. The results shows that service delivery to customers is first followed by the quality of food offered. The brand name was third while staff qualifications and training was ranked fourth. The research findings indicate that these factors are to a great extent as a result of being in the franchise system of business.

### **5.3 Conclusion**

The objective of this study was to determine how franchising as a market entry strategy impacts on the competitive advantage of international foreign fast food franchises in Kenya. Competitive advantage is a concept that was developed by Michael Porter and refers to a superior performance realized by a firm when it acquires certain attributes that enables it to outperform its competitors. Porter believes that the nature of competition and sources of competitive advantage differ among industries and it is possible to gain such advantage from a particular sector of the industry in a certain country. This study was carried out on just one sector of the food and beverage industry and within the organizations that have gone beyond their national borders. From the results obtained, the competition levels are quite high and the firms surveyed believe that international franchises are the dominant players in this sector. This forms a basis on which conclusions can now be drawn from the findings in this study.



From the findings of the study, there are certain factors that a firm considers when choosing a foreign market entry strategy. The results indicate that the franchisor's size and image, superior brands and international experience are the major considerations for the firms in choosing franchising as a market entry strategy. According to the results obtained, we conclude that the firm size and image, brand name and international experience are the main factors that influence a decision to use the franchising system.

The resource based view maintains that a firm gains competitive advantage primarily from the resources it has developed over time. According to the relational perspective, such resources can be obtained through alliances and inter-firm networks leading to better performance than if the firm was operating as a stand-alone. This study established that the fast food franchises gain competitive edge over their rivals by offering quality service to the customers as well as ensuring proper quality of the products. The results also indicate that the performance of the firms has been improved through resources obtained from the franchising network. The researcher can therefore conclude that franchising strategy has an impact on the overall performance of the franchisees.

This study was based on a framework where franchising is seen as an avenue to access certain attributes that would in return give the firm a competitive advantage. Dyer & Singh (1998) suggest that competitive advantage arises from the shared knowledge and complementary resources of a firm's network. From the findings of the study, the researcher concludes that franchising strategy enables firms to access important resources which in return give rise to competitive advantage.

## 5.4 Recommendations

There is high competition in the fast food industry which is dominated by both local and international players. Without proper regulation, the foreign firms are likely to push the local entrepreneurs out of business. The researcher recommends that government should come up with laws and policies to ensure proper regulation and governance of the fast food industry in Kenya. This will lay down the guidelines to be followed by the players in the industry to create fair competition practices. A proper regulated sector would attract more organizations and individuals into the industry.

An attempt to get information from KEFRA revealed that the association is not active compared to associations in other industries. The researcher recommends the revival of the association to help set structures and policy guidelines and give other facilitations to the members. Such a body also creates an avenue for the views of the players to be conveyed to the government and other regulators. It is a good platform for the members to share ideas and take disciplinary action for any rogue behaviour.

The management of the firms should ensure that they conduct proper market survey in order to understand changing customer needs. As indicated by the findings in this study, the customers patronize the outlets on the basis of the quality of food and good customer service. The firms should ensure then that they maintain the highest level of quality at all times in order to remain competitive.

The study recommends that the government should give incentives to small and medium enterprises (SMEs) to encourage them get into such partnerships. The researcher also recommends that this model should be tried in the public sector to improve service delivery. The government should try to partner with foreign governments or private organizations in areas such as health provision.

## **5.5 Limitations of the study**

A number of challenges were encountered in carrying out this study. The managers expected to respond to the questionnaires were unavailable in the offices most of the times. Despite the questionnaires having been dropped early enough, some of the managers filled in the questionnaires hurriedly and this means they didn't have enough time to think through the responses. Some of the respondents kept the questionnaires for too long, thus delaying data analysis.

The other problem is that some of the respondents were hesitant to give some information which they considered sensitive and confidential, hence did not give adequate feedback. Only 2 firms were willing to give their annual turnover data. There was some kind of back and forth as the respondents had to be persuaded in order to provide information. In some firms, the questionnaires kept being shuffled from one department to another. As a result, five of the targeted firms didn't respond to the questionnaires completely.

The study was limited to fast food franchise holders yet the studied concepts could be as well applicable to the wider food and beverage industry. Further the researcher was not able to determine whether there exists a direct relationship between franchising and competitive advantage illustrated through a regression model. Lastly, the study was carried out within a very limited time which could have affected the outcome.

## **5.6 Suggestions for further Research**

This study focused on the competitive advantage of franchised fast food units. It would be important to carry out further studies aimed at establishing sources of competitive advantage in the entire food and beverage industry. The researcher also suggests further studies to establish whether there exists a direct relationship between market entry strategy and competitive advantage of organizations.

Franchising concept has been studied in respect to its application in the private commercial sector. It would be interesting to establish how this model can be applied in the public sector as well i.e. in education, public health. The researcher recommends this kind of study to form a basis for improving service delivery in the public sector through franchising.

The Methodology used in this study has limitations and the findings are not exhaustive; requiring further scrutiny. More studies using a different methodology may help create better conceptualization of the use of franchising as a market entry strategy and its impact on the competitive advantage of organizations.

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## APPENDICES

### APPENDIX I: Introduction Letter



## UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS

DATE...11/10/2017....

### TO WHOM IT MAY CONCERN

The bearer of this letter .....:-JANE MUTHONI KIURA.....

Registration No.... D61/79152/2015.....

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you



PATRICK NYAMBUTO

SENIOR ADMINISTRATIVE  
ASSISTANT  
SCHOOL OF BUSINESS

## APPENDIX II: Research Questionnaire

This is a questionnaire for an academic study on the competitive Advantage of International Fast Food Franchises in Kenya. Kindly give the appropriate responses to the following questions.

### Section A; General Information

- a) Name.....
- b) Gender                       Male                       Female
- c) Name of Organization.....
- d) Position in the Organization.....
- e) How long have you worked in the organization
  - Less than 1 Year
  - 1 – 2 Years
  - 2 – 5 Years
  - More than 5 Years
- f) How long has the organization been in Kenya?
  - Less than 1 Year
  - 1- 2 Years
  - 2 – 5 Years
  - 5– 10 Years
  - More than 10 Years
- g) How many outlets does the organization have in Kenya? .....
- h) Which is the country of Origin for the organization? .....
- i) What is the annual turnover for the organization? .....

## Section B: Market Entry Strategy

1. Which of the following factors motivated you to choose the franchising model of doing business? Please rate in a scale of 1-5, where 5 is the greatest motivation and 1 is the least motivation

<b>Motivating Factor</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
International Experience					
Superior brands /Quality					
Access to financial resources					
Access to better technology					
The franchisor's size and image					
Reduce the risks involved in starting a business					
The level of competition in the fast food industry					

2. How would you describe the value your organization attaches to the following resources? Please rank in order of importance ( 1- Not valuable 2- little value , 3- Moderate value, 4- high value, 5- Extremely valuable

<b>Resource</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Financial Resources	( )	( )	( )	( )	( )
Physical Resources	( )	( )	( )	( )	( )
Human Resources	( )	( )	( )	( )	( )
Technological Resources	( )	( )	( )	( )	( )
Intangible Resources	( )	( )	( )	( )	( )

3. Do you think the partnership with an international company has in any way boosted your resource capability? Please tick appropriately

<b>Company Resources</b>	<b>YES</b>	<b>NO</b>
Financial Resources		
Physical Resources		
Human Resources		
Technological Capacity		
Intangible Resources		

### **Section C; Competitive Advantage**

1. How would you describe the competition levels in the fast food industry in Kenya?

Very Low ( )                      Low ( )                      Moderate ( )                      High ( )  
Extremely High ( )

2. Which firms dominate the fast food industry in Kenya?

Local Firms ( )

Foreign Branches of Multinational Firms ( )

International Franchises ( )

3. Which of the following factors do you consider to give you a competitive edge over your rivals? In a scale of 1-5, where 1 = Lowest and 5= Highest

<b>Factor</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The quality of food					
Price of the food					
The technology used					
The brand name					
The service delivery to customers					
Staff qualifications and training					

4. To what extent are the above factors as a result of the relationship with an international company?

No Extent

Little Extent

Average Extent

Great Extent

Very Great Extent

5. Do you think the performance level would be the same if this business was not associated with an international firm? YES  NO

6. Any other comments .....

.....  
 .....  
 .....

*Thank you for your Cooperation*

### Appendix III: List of the major Fast Food Franchises in Kenya

	Franchise Name	Country of Origin	Year started in Kenya	Franchise Holder
1	Adega Restaurants	South Africa	2014	Mr. Sadiq Surya
2	Burger King	USA	2016	NAS Airport Services
3	Caramel Restaurant	UAE	2014	Caramel Group
4	Cold Stone Creamery	USA	2014	Om Nom Nom Ltd
5	Debonairs Pizza	South Africa	1998	Hoggers Limited
6	Domino's Pizza	USA	2014	Om Nom Nom Ltd
7	Gallitos	South Africa	2006	Innskor Kenya
8	Kentucky Fried Chicken	USA	2011	Kuku Foods Ltd
9	Ocean Basket	South Africa	2014	Hoggers Limited
10	Pizza Hut	USA	2016	Feast Limited
11	Pizza Inn	Zimbabwe	1998	Innskor Kenya
12	Snack Attack	UAE	2014	Mr. Khidher Adam
13	Steers	South Africa	1997	Hoggers Limited
14	Subway Limited	USA	2013	Liberty Eagle Holdings
15	Teriyaki Japan	Japan	2015	Toridoll Kenya

Source: <https://www.eatout.co.ke> (2017)