Changes on employees retention and performance in kfc

Employees are considered as the best resources particularly in the service business sector. Also employees are the key stakeholders who are affected mostly due to organisational management or ownership change. Downsizing and rightsizing are some of the key issues resulting from the mergers and acquisitions globally and this affects the international policies and strategies of the multinationals. Also employees' policies are mostly at stake. This issue is, therefore, being analysed to study the impacts of frequent ownership changes in KFC particularly from 1971 to 1986 on the employees' retention and growth. As KFC is a global giant in fast-food / service business sector and faced frequent ownership changes in a short span of time so this case can add value to the reader of this report and other businesses to understand the relation of employees' retention, performance and productivity with the leadership / ownership issues and how such situation can be dealt.

– Kentucky Fried Chicken (KFC) – An Introduction

In 1930 KFC was launched and the mission was to provide quality, service and cleanliness (QSC) to the customers and consumers. Competition level was very low in the industry particularly in the domestic market. KFC growth was good in its initial decades but with the increasing competition in the domestic market the cake size started squeezing. Popeyes, the major competitor for KFC, was born in 1972 which comes second with a share (12. 7%) and KFC (55. 2%) (http://lidan. y3k. org/blog/en/2004/04/kfcs-localization-strategies-in-china/). In early 1950s KFC went in the foreign market (http://www. kfc. com/about/history. asp).

3. 0 – Research Question

“ Did the past frequent ownership changes in KFC have an impact on the employees’ retention and performance?”

4. 0 – Objectives

The key objectives of this study are to;

1. Assess whether frequent ownership changes affect managerial policies
2. Study whether the frequent ownership changes have an impact on employees’ retention rate
3. Evaluate the impacts of organisational ownership change son employees’ performance

– Literature Review

Fast-food is considered as convenience food that can be cooked and served very quickly. On the average, 1/5th of the population of the USA (which is approximately 45 million people) eats every day in a fast-food restaurant. The term fast-food denotes speed in both food preparation and customer service, as well as speed in customer eating habits. The designation, “ quick service” (http://www. answers. com/topic/fast-food? cat= entertainment) has been traditionally preferred by the restaurant industry.

There are certain forces which makes an industry attractive globally. As fast-food industry grew in the USA competition also became tough in the domestic market. Industry faced maturity stage (http://www. kfc. com/about/history. asp). At this stage of industry life cycle companies started entering in the foreign markets in order to survive.

The doors for industrial growth and reforms had opened due to the economic revolution after World War II. Governments needed the foreign businesses to come and participate in the economic development of the country. For example China relaxed its policies regarding the western service businesses particularly agricultural modernisation plans of China needed poultry industry to grow (http://www. franchisetochina. com/h3. htm).

Fast-food is considered as economical and easy to cook food. Chicken is relatively cheaper ingredient as compared to mutton and beef. Also chicken growth is economical because it grows faster and consumes fewer inputs. In many Asian and Latin Americans countries chicken is traditional food. These all factors lead to economies of scale for fast food industry particularly related with chicken meals. Consumer market has changed tremendously. Drivers like global economic reforms and higher divorce rate in the USA have led to more female workers (http://lidan. y3k. org/blog/en/2004/04/kfcs-localization-strategies-in-china/) and they need ready meal to save time. The average mother of a child under 15 spends more on fast food every year than on books, music, movies and video games combined, according to a new report (Mindlin, 2008). Health conscious consumers' taste has also changed. People like to have some light meal during work hours (http://topics. nytimes. com/top/reference/timestopics/subjects/f/fast_food_industry/index. html).

These forces made the industry attractive and increased the potential and demand of fast-food in the world.

Fast-food industry apparently has a localisation approach. McDonalds, Pizza Hut, KFC, etc have adapted their organisational culture and menu according to host country culture and values. Particularly KFC deployed localisation strategies in China and McDonalds removed pork from its menu in India. Figure 2 below explains that a balance is necessary to achieve a successful strategic move in the foreign market. Respond locally through learning the cultural values of host country and integrate them with the company's global core values.

Global Integration

Local Responsiveness

Cross Boundary Learning

Fast-food industry flourished in the USA during the last centaury. The chicken segment was the 5th in terms of sales in the fast-food industry and there were few competitors as compared to other segments. For instance the sandwich chain segment which included McDonalds, Burger King and Wendy had 12 competitors while KFC had only 5. KFC was the overall 6th biggest (http://lidan. net/blog/2004/04/kfcs_localization_strategies_in_china. html).

In 1999 fast-food industry sales rose by 5. 4% with around 0. 8 million restaurants in the USA and during the same period full service restaurants grew by 7%. Gradually the due to saturation in the sector companies started exiting the industry (like Boston was acquired by McDonalds) or decided to enter in the foreign markets. Domestically the chicken market seemed saturated and the growth rate in the USA was only 1% (http://lidan. y3k. org/blog/en/2004/04/kfcs-localization-strategies-in-china/).

According to available literature, the estimated annual worth of the UK fast-food market is £7. 82 billion (Keynote 2003), equal to an average spend of £20/month/adult (Schröder and McEachern, 2005). Due to busier consumer lifestyles and dual-working families with children emphasis is increasingly being placed on quick meal solutions (Atkins and Bowler 2001). Therefore there is a market growth of 19% in fast-food since 1998 (Keynote 2003).

For service business sector, particularly, manpower or employees are key resources to gain profitability (Heskett and Sasser, 1994). Take figure 3 below. Customer loyalty stimulates profit and growth in the business and customer's loyalty is a direct result of the customer satisfaction. Satisfaction is largely influenced by the services' value provided to the customers and consumers and this value is created by the loyal, satisfied and productive employees. However employees' satisfaction is resulted primarily from the high-quality support services and policies that enable the employees to deliver results to the customers (http://hbr. org/1994/03/putting-the-service-profit-chain-to-work/ar/1).

Service Value Chain

This model reveals that employees are key resources particularly for the service business organisations. Streamlined organisational processes and consistency in the organisational policies help facilitate the employees in service industry (particularly) to deliver quality services to the customers and add value with efficient performance to achieve sustainable growth and profitability. However consistent policies and long term strategic planning also need stability in the organisation's management (http://www. referenceforbusiness. com/management/Or-Pr/Planning. html) and author also understands that the organisational ownership change should not influence and change the organisational policies especially employees' policies in the service business sector at a stroke or right from day one rather lead time should be given to the employees and other stakeholders so that everybody can adjust with the changing environment.

Employees are considered as a company's live hood. If employees in an organisation are highly motivated and proactive, every effort will be done by the employees to achieve the organisational goals as well as keep track of industry performance to address any potential challenges. This two-prong approach builds an organisation's stability. On the other hand with low motivation level of employees an organisation is completely vulnerable to both internal and external challenges because the employees are not going the extra mile to maintain the organisation's stability and thus unstable organisation ultimately underperforms (http://www. ehow. com/how-does_5407144_employee-motivation-impact-organizational-performance_. html).

In today's work environment want a relaxed and hygienic work environment and have fun with a balance between the life, work and family (http://humanresources. about. com/od/motivationrewardretention/Employee_Motivation_Recognition_Rewards_Retention. htm).

Literature also reveals that key employee retention is critical to the long term health and success of any business or organistaion. Managers agree that manager's ole is key to retain best employees to ensure business success (http://humanresources. about. com/od/retention/a/more_retention. htm).

Important organising principles include organisational values in designing HRM polices. Compensation and developing an individual are deeply related with the satisfaction and commitment of the employees which mean particularly in the service business sector employee retention and growth with performance also depends on management's policies at strategic board level (Rosete, 2006).

Employees' retention in the quick service industry is key to success of the business. Quick service companies retain the most desirable employees by recognizing employees' contribution to the organisation because recognition is an effective leadership tool that motivates the employees and acknowledges the efforts and creativity or willingness of employees to exert extra effort. The biggest problem for the quick service industry and which creates major drains of profit and human resources is employee turnover. According to a report the annualised turnover rate of employees was 16% in 2000. The same turnover numbers as related to the quick service industry are employees 150% and management 20%. The cost of turnover shares an average cost of replacing an employee is equal to the annual salary plus benefits. In the aftermath of industry downsizing, employee loyalty is also on decline. There is 11% decline in the worker's commitment. However leadership (which means a consistent organisational policies with least possible changes) is key to retain and develop employees because the quick service industry has a direct correlation of sales, profits as compared to employee turnover (Forrer and Guerrieri, 2002).

Organisational culture is developed by the management policies and leadership style. once established, the organisational culture is highly resistant to change. Employees tend to stick to a set way of working. However frequent management or ownership changes also change the working pattern and organisational goals. This may make the employees more resistant with decreased performance (Tom and Michael, 2000).

In 1930 KFC was launched with a mission to provide quality, service and cleanliness (QSC) to the customers. KFC grew well in domestic market but later competition became hard in the local market. McDonalds, Wendy, Boston etc had entered in the market leading to shrunken market size. The major competitor for KFC, Popeyes, was born in 1972 which comes second with a share (12. 7%) and KFC (55. 2%) (http://lidan. y3k. org/blog/en/2004/04/kfcs-localization-strategies-in-china/). In 1950s KFC went in the foreign market (http://www. kfc. com/about/history. asp). Thus KFC earned first mover advantage and brand recognition. In 1964 it entered the UK, in 1970s Japan and Asia Pacific, in 1987 China and in 1990s South Asia (http://www. kfc. com/about/history. asp).

KFC has a multi domestic strategy (http://mason. gmu. edu/~tgoddar1/m411wk7. htm) to enter the foreign markets because of cultural, economical, social, legal and political factors in the host countries and this strategy also resulted in certain benefits which include; helped KFC to react to high pressures for local responsiveness, to tailor products to meet customer needs in each country of operation, to create wholly owned foreign divisions and to help core competencies transfer from home country. In addition to this; access to resources and skills in the host country, differentiation advantage through combined core competences, becoming the dominant competitor, increased profits and reduced bureaucratic costs were some of the factors to adopt multi domestic strategy.

Market Entry Strategies

Few Examples

KFC's international composition provides a mix of foreign market entry strategies (please refer to figure 4). KFC enters the foreign / international market either through joint venture or company-owned foreign subsidiary. However mostly KFC expands its global franchise network. This is also important to know that organisational culture of KFC is mostly decentralised at operational level because franchisees are business partner or allies of KFC and the KFC's employees' policies are implemented through franchising channel. It is also important here to note that organisational culture must be matched or aligned with the national culture or domestic culture. KFC is a global organisation working in many countries around the globe. KFC core organisational culture must be adapted in the host culture so that employees in the host country and customers in the host country can adopt and adapt KFC's themes and menu easily and there should be no communication gaps. This also helps facilitate the employees to adjust with the organisational culture and deliver quality services to the customers.

A high demand for services has been created due to the socioeconomic development in 1980s and 1990s (Davis, 2000). This reflects the potential for service businesses' growth like the fast-food businesses.

In recognition of the distinct nature of transitional markets (Arnold and Quelch 1998), many foreign companies have sought other ways to compete with the domestic or local offerings by “ clothing their brands in local costumes” (Belk, 2000). According to Zhou and Hui (2003) “ localisation of language, product characteristics, advertising content and even product meanings” is a common way accepted by the multinationals in most transitional economies.

Hofstede (1980) states that culture is a complex and multifaceted construct. One of the basic dimensions of the culture is individualism – collectivism. Individualistic culture stresses on independence, freedom, high levels of competition, achievement and pleasure. However the collectivistic culture has a tendency to embrace the interdependency, family security, social hierarchies, low level of the competition and cooperation (Triandis, 1993).

Also advertising is a type of shared or social communication. It is reflective and indicates or specifies cultural values and norms (http://lidan. y3k. org/blog/en/2004/04/kfcs-localization-strategies-in-china/). As cultural differences are reflected by the advertising and advertising appeals which are specific approaches or ways advertisers use to communicate the customers’ needs and wants (Bovee and Arens, 1989), should manifest such differences across the countries.

Collectivism involves the subordination of personal interests to the goals of the group and stresses on sharing, cooperation and coordination and a group welfare concern (Zhang and Neelankavil, 1997). Sometimes minor differences in the culture put major impacts on the strategies of the companies which may affect positively or negatively the employees and the customers.

Some cultures are very open to franchising especially for western businesses. An example is the UK and Europe. There are big franchising association or bodies in such countries for example British Franchise Association promoting and accrediting excellence in franchising and European Franchise Federation whose aims and objectives include promotion of franchising in European countries, protecting the franchise industry with Code of Ethics, encouraging and developing franchising in European countries, requesting the interest of franchising to international organisations, promoting European franchising worldwide, serving the members along with the exchange of documentation and information between the national association or federations in Europe and in the world (http://www. thebfa. org/index. asp).

Such big platforms secure the franchisors even during the recession or economic downturn or situations like credit crunch periods and provide security to foreign businesses in the host countries to come and invest in a relatively risk free environment. Also franchising is cost effective, time saving, secure and easy to learn way to enter a new country. This reflects that a right foreign market entry strategy may help reduce the impacts of recession or economic downturns (if any) but also the cultural implications need to be integrated in the organisational employees’ strategies so that talent retention and development can be facilitated.

But it is also important to note from the following paragraphs that organisational cultures are dependent on the leadership (owners) policies and practices and a consistent policy should be there to gain long lasting profitability and employees' performance with minimum organisational changes.

Literature reveals that KFC has faced a lot of managerial and organisational changes since KFC's inception. The changes occurred mostly due to the changes in the ownership (or better to say in the leadership). Colonel Sanders first sold KFC in 1964 to a small group of investors that eventually took KFC public. Heublein, Inc, purchased KFC in early seventies (in 1971) and was highly involved in day to day operations. R. J. Reynolds then acquired Heublein in 1982. R. J. Reynolds had a more laid back approach and allowed business as usual at KFC. Finally in 1986, KFC was acquired by PepsiCo, which was trying to grow the quick service restaurant segment. PepsiCo, which presently runs Taco Bell, Pizza Hut and KFC, has a management style and corporate culture significantly different from that of KFC. PepsiCo has a consumer product orientation. In 1992, KFC did another reorganisation in the middle management ranks. KFC eliminated 250 out of the 1500 management positions at corporate and gave the responsibilities restaurant franchises and marketing managers (http://kelley_keith. tripod. com/mgmnt5313. html).

KFC history reveals that Heublein favoured a franchising strategy but had a low R&D budgets, Reynolds strategy was to leave the managers with freedom to run units with managerial expertise and PepsiCo though provided heavy financial backing to KFC but PepsiCo's hard employees' policies resulted in dissatisfaction, high turnover and decreased loyalty of the employees. A service business cannot afford employees' dissatisfaction (Irfan, 2008 and http://lidan. y3k. org/blog/en/2004/04/kfcs-localization-strategies-in-china/ & http://www. reocities. com/TimesSquare/1848/kfc. html).

Literature review reveals that the weaknesses of KFC have been determined as confusing corporate direction due to selling and reselling of KFC. KFC was sold three times between 1971 and 1986. However the organisational culture of KFC and PepsiCo are conflicting with each other. KFC was based on a laid back approach while PepsiCo culture has a fast track attitude. Since the acquisition KFC employees lacked the job security that KFC employees enjoyed before. Also top management turnovers like top managers of the KFC were replaced by the PepsiCo's own management have changed the organisational culture and leadership style which is creating job insecurity in the organisation (http://ivythesis. typepad. com/term_paper_topics/2009/09/kentucky-fried-chicken-and-the-global-fast-food-industry. html).

In conclusion from the information above it can be revealed that mergers and acquisitions are good for business growth but when ownership changes the resulting changes in the polices and culture of the organisation not only threaten the employees but also develop a resistant to change. This sometimes leads to employees' turnover or decreased performance. It does not mean that organisational change is not healthy for the organisational growth but there should be a reasonable frequency and in the organisational change pattern and particularly in the service business sector where employees are key resources to deliver value to the customers because losing skilled staff due to frequent change in the organisational policies (and sometimes change in organisational culture to which the skilled staff has stuck) may result in losing the right employees' and business profitability and performance may decline.

To conclude this further following methodology has been suggested in the literature to analyse such cases;

A case study has been suggested as a useful approach when the area of research is relatively unknown (Marschan-Piekkari and Welch, 2004). It is a more flexible approach suited to different types of research questions and is most frequently used approach in business studies particularly international business.

It has been suggested that case studies involve data collection through multiple primary and/or secondary sources such as verbal reports, personal interviews, observation and written reports (Marschan-Piekkari and Welch, 2004). Accordingly, the secondary research in this case study will involve written reports, journal articles, online information etc.

6. 0 – Methodology

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The study will be an analytical case study involving secondary research. A number of business models and frameworks like service value chain, Bartlett and Ghoshal and Total Global Strategy George S. Yip will be used to analyse the situation at macro and micro levels.

To meet the criteria for analytical approach (Dubey, 2009) the facts of information already available will be used and analysis of these facts will be done to make a critical evaluation of the material. It is important that there must be sufficient information to characterise, analyse and explain the unique features of the case, as well as to point out the characteristics and properties that are common to several cases or case studies.

Finally, this approach relies on the integrative powers of research: the ability to study an object with many dimensions and then to draw the various elements together in a cohesive interpretation (Marschan-Piekkari and Welch, 2004).

So where the area of research is relatively not known a more flexible approach which can suit the different types of research questions will be a case study approach. Also through secondary research the already available information and data is used and analysed to answer the research question but important issue is to understand that the data and information should be sufficient enough to analyse the unique features of the issue or case.

7. 0 – Limitations

There are following limitations in this case study;

Being a case study it will be focused on one company only and can give no additional analyses for the competitors’ business situations.

Primary research is not part of the methodology in this case study. Primary research can add value by validating the past or historical information (gathered by the secondary research) under current business circumstances.