



FACULTY OF BUSINESS AND ECONOMICS
SCHOOL OF GRADUATE STUDIES

**The Challenges and Prospects of Managing
Specialty Restaurants in Ethiopia: A Case Study of
Teshomech Kitfo Restaurant**

**A Project Paper Presented in Partial Fulfillment of the
Requirement for a Masters Degree in
Business Administration**

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**JUNE, 2010
ADDIS ABABA, ETHIOPIA**

Acknowledgements

First glory be to the Almighty God, for he has been the ultimate source of my strength. I thank Professor Tigineh Mersha for making this work so interesting and for showing me a new insight on the subject. The paper has benefited immensely from his thoughtful inputs. I would like to extend my gratitude to the management and staff of Teshomech Kitfo Restaurant for the valuable support they have given me and for providing me with the necessary information that helped me complete this paper. I am deeply grateful to my family for giving me support and valuable advice in all my endeavors.

Thank you

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List of Abbreviations

CEM	Centre for Entrepreneurship and Management
EPRDF	Ethiopian Peoples' Revolutionary Democratic Front
FCFS	First Come First Served
GEM	Global Entrepreneurship Monitor
VAT	Value Added Tax
SBO	Small Business Owner

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Abstract

This paper presents a case study of Teshomech Kitfo Restaurant which is a specialty restaurant located in Addis Ababa. Teshomech Kitfo Restaurant was established in November 1992 with a registered capital of 7,000 birr. The owners of the Restaurant are Mr. Antonios and his wife Mrs. Teshomech. The first branch of Teshomech Kitfo Restaurant was opened in Haya Hulet area of Addis Ababa. When the restaurant was opened, it was fully staffed by the owners and their children. Currently, the restaurant has two branches and about 40 employees. Despite the presence of many factors that are constraining the growth of the business, Teshomech Kitfo Restaurant is a profitable enterprise. However, the business still has the opportunity for further growth and profitability. This paper assesses the operational and managerial challenges that the restaurant is encountering, describes the kitfo preparation process as well as human resource management issues at the restaurant, explores alternative expansion strategies, and proposes some recommendations that can help Teshomech Kitfo Restaurant achieve its goals more fully.

Chapter One

1. Introduction

1.1. Background of the study

The concept of “entrepreneur,” first introduced by Richard Cantillon (1755) and popularized by J.S. Mill (1848), originally meant a merchant, venturer or employer. While many simply equate entrepreneurship with starting one’s own business, most economists believe it is more than that (www.usinfo.state.gov).

To some economists, the entrepreneur is the one who is willing to bear the risk of a new venture if there is a significant chance for profit. Others emphasize the entrepreneur’s role as an innovator who markets his innovation. Still other economists say that entrepreneurs develop new goods or processes that the market demands and are not currently being supplied (www.usinfo.state.gov). For economist Jean Bapiste Say, the entrepreneur is a person who creates value (Dees, Emerson, and Economy, 2001).

In the 20th century, economist Joseph Schumpeter focused on how the entrepreneur’s drive for innovation and improvement creates upheaval and change. Schumpeter viewed entrepreneurship as a force of “creative destruction.” The entrepreneur carries out “new combinations,” thereby helping render old industries obsolete. Established ways of doing business are destroyed by the creation of new and better ways to do them (Schumpeter, 1942).

Business expert Peter Drucker took this idea further, describing the entrepreneur as someone who actually searches for change, responds to it, and exploits change as an opportunity. A quick look at changes in communications—from typewriters to personal computers to the Internet—illustrates these ideas (Drucker, 1985).

Most economists today agree that entrepreneurship is a necessary ingredient for stimulating economic growth and employment opportunities in all societies. In the developing world, successful small businesses are the primary engines of job creation, income growth, and poverty reduction. Therefore, government support for entrepreneurship is a crucial strategy for economic development (www.usinfo.state.gov).

African entrepreneurs are classified into two broad categories; Micro enterprises or solo entrepreneurs and Small and medium-size enterprises (Kiggundu, 2001). On the other hand, the entrepreneurship classification used by the Global Entrepreneurship Monitor (GEM) classifies entrepreneurs into *opportunity entrepreneurs* and *necessity entrepreneurs* (Reynolds et al., 2001).

Opportunity entrepreneurs are those who pursue ‘a business opportunity for personal interest’ (Reynolds et al., 2001) and are often motivated to start and grow their business by ‘pull’ factors which include the desire to achieve financial success and independence, family tradition and the drive to create new products and services (Sriram and Mersha, 2006). On the other hand, *necessity entrepreneurs* go into their own business for economic survival, forced by ‘push’ factors such as the lack of job opportunities due to insufficient education, low skills and job discrimination (Basu and Altinay, 2002). *Necessity entrepreneurs* are typically one-person operations and comprise the dominant group of entrepreneurs in Africa and other emerging markets (Reynolds et al., 2001). They are normally prevalent in sectors such as retail and personal services and often comprise solo and micro enterprises that are owned and managed by women (McDade and Spring, 2005). These entrepreneurs are often less educated, typically have very low start-up capital and their organizational and managerial skills are very limited. Record keeping is poor and the level of their business activity is very limited and failure rates are high. Further, not all individuals in this group may take up such entrepreneurial activities as a full time operation; like *opportunity entrepreneurs*, some may be engaged in such endeavors on a part-time basis to supplement the family income. A significant difference though is that *necessity entrepreneurs* are compelled to engage in business activities to make ends meet while *opportunity entrepreneurs* take up business activities willingly to pursue a personal interest (Reynolds et al., 2001), create jobs and to accumulate wealth. *Opportunity entrepreneurs* have the potential to grow their business from solo or micro enterprise to small and medium-sized enterprises and have better capital and managerial resources. Nevertheless, their failure rate during the first three years is very high (Kiggundu, 2002).

African entrepreneurs face some unique challenges that hamper their ability to survive and grow, and Ethiopian start-ups are no different. The political, economic and bureaucratic landscape in which most African entrepreneurs operate are generally similar even though there are unique challenges and opportunities prevailing in each nation which must be taken into account in

formulating effective policies to promote entrepreneurship. Takyi-Asiedu (1993) noted that compared with public service jobs, engaging in a business venture has not historically been considered a high status profession in Africa although entrepreneurs may become well respected citizens when they get rich. This has also been true in Ethiopia (Mersha, Sriram, and Hailu, 2010).

During the past five decades, the ebb and flow of entrepreneurial activity in Ethiopia have varied with the political climate. The waning years of Emperor Haile Selassie's regime in the 1970s may be considered a watershed in the evolution of entrepreneurship in Ethiopia as several college graduates started working for themselves (Mersha, Sriram, and Hailu, 2010). While the overwhelming majority still sought employment with public or private organizations during this time, a good number of young educated Ethiopians started considering entrepreneurship as a viable career option. Significantly, the Centre for Entrepreneurship and Management (CEM) was created at that time with donor assistance to increase managerial and technical capacity of current and nascent entrepreneurs (Mersha, Sriram, and Hailu, 2010).

Unfortunately, this trend was quickly reversed when the military regime took power and declared socialism as state economic policy in the mid 1970s. During this time, private enterprises were discouraged. While necessity entrepreneurs and those who had no other option continued to struggle, the entrepreneurial energy seen in the last few years of Emperor Haile Selassie's regime waned in part due to fear of potential backlash by leftist ideologues and also due to fear of possible expropriation by the socialist government (Mersha, Sriram and Hailu, 2010).

After the fall of the military regime, the EPRDF privatized most state owned enterprises and reversed the military regime's socialist policies. The current entrepreneurial environment in Ethiopia is relatively inviting and more stable when compared with the past regime. The government has formulated different policies that encourage entrepreneurs to take the initiative to start new ventures of their own. Despite several challenges, entrepreneurship in Ethiopia has started flourishing again.

Among the different kinds of entrepreneurs in Ethiopia, those who are engaged in the restaurant business are significant. The restaurant industry plays a crucial role in the overall economy of Ethiopia by creating job opportunities for a considerable number of people.

While many restaurants serve a variety of meals from different cultures, there are many specialty restaurants that specialize in preparing only a specific kind of food. Examples are Tigrian restaurants, Chinese restaurants, Indian restaurants, Arabian restaurants and so on. Among these specialty restaurants, kitfo restaurants are the major and most popular ones. This study assesses the operational and managerial activities of kitfo restaurants in Ethiopia.

1.2. Statement of the Problem

Addis Ababa is growing fast and many luxurious modern restaurants are being opened in the city. There are also many specialty restaurants engaged in preparing different kinds of delicious cultural foods. The entrepreneurs who start these business ventures have opportunities for growth and financial success. However, they also encounter several obstacles in their day-to-day operational and managerial activities.

This case study examines the challenges and opportunities encountered by one specialty restaurant called Teshomech Kitfo Restaurant. Established in 1992, the restaurant now is a profitable operation that has two facilities and hires about 40 employees. The restaurant currently faces both challenges as well as opportunities for even greater growth. The challenges include concerns about rising competitive pressures, difficulty to find skilled workforce and the adverse impact of the escalation of the cost of living on demand, among others. In spite of these challenges, however, management also believes that there is a strong potential for growth and increased profitability. Based on thorough examination of the day-to-day operations of the restaurant such as process management, quality control, and human resource management issues, this study seeks to explore what strategic directions Teshomech Kitfo Restaurant should take so that it can achieve even greater success by improving its operations and by exploiting its potential for growth and increased profitability.

1.3. Objectives of the study

1.3.1. General objective

The general objective of the case study was assessing the managerial challenges of small, specialized restaurants in Ethiopia by identifying the opportunities that are available and the challenges that are constraining the success of their operations.

1.3.2. Specific objectives

- Understanding the operational and managerial activities of kitfo restaurants in Ethiopia.
- Identifying the problems those are impeding Teshomech Kitfo Restaurant and other similar restaurants from achieving their specified objectives.
- Identifying the factors, if any, that may contribute to effective and efficient functioning of specialized restaurants, specifically kitfo restaurants, in Ethiopia.
- Proposing recommendations that may help management to more effectively tackle the challenges and to more fully exploit the available opportunities.

1.4. Delimitation and limitations of the study

1.4.1. Delimitation of the study

Due to the existence of many specialized restaurants in the city and the limited time allotted to the project, this study has focused only on Teshomech Kitfo Restaurant which is located in Addis Ababa. It has particularly focused on the two branches of the restaurant which are located around Haya Hulet and Bole, Wollo Sefer areas.

1.4.2. Limitation of the study

Sufficient documents concerning the subject under study were lacking. Time constraint has prevented proper and thorough review of empirical and theoretical data that are related to the study. Lack of relevant data and biased judgment of interviewees were some of the other problems which were encountered.

1.5. Significance of the study

The study derives its significance from the coverage of an area where relatively little work has been done. It contributes to better understanding and improving the management of operational activities in small and medium sized businesses, especially specialized restaurants in Ethiopia. The case study has critically analyzed the existing operations management practices at the restaurant. The restaurant that was studied, and other similar businesses as well, could use the findings of the study to improve their operations and may encourage other business organizations to conduct similar studies of their own. It would encourage the development of other case studies on Ethiopian businesses which can enrich the learning process in business education in Ethiopia.

1.6. Methodology

1.6.1. Design

The method which was used for conducting this study was the case study method.

1.6.2. Data collection instruments, variables, and materials

This study was undertaken by collecting both primary and secondary data.

- Primary data was collected from the owners/managers using structured interviews. Interview is used because it facilitates face-to-face communication and also allows asking relevant follow-up questions when necessary. Observation of the restaurant's activities also was one way of gathering data. The results of the interviews and observations were used to document the management strategy and operations of the kitfo restaurant.
- Secondary data was collected from journals, books, the internet and other published materials like the New York Times. Due to their absence, documents such as annual reports and procedure manuals were not used.

1.6.3. Data analysis procedures

The data obtained through interviews, observations and other sources were summarized, organized, and analyzed. Pertinent process flow diagrams and other supporting visuals were also used to present the facts of the case study more vividly.

1.7. Ethical considerations

In this study, special emphasis was given to ethics in the data collection process and in the overall research process. The ethical issues that were addressed are the following:

- The objectives of the study were clearly stated in the proposal and the participants were appropriately informed about those objectives.
- The plan of the study was reviewed by the project advisor.
- Addis Ababa University was the sponsor of the study and this was clearly stated at the start of the interviews that were conducted with the participants.
- The interviewees took part in the study on voluntarily basis. They also had the right to withdraw from the study any time they wanted to. The study was conducted in such a way that it would not interfere with the business activities of the study sites.

1.8. Expected Results

As indicated above, this project presents a case study of a specialty restaurant in Addis Ababa. The expected result of the study was an accurate and complete presentation of the pertinent facts of the subject restaurant to facilitate thorough understanding of its operations and generating useful recommendations to management. A related result would be developing a case study based on a real Ethiopian business organization that can serve as a valuable teaching/learning tool.

1.9. Work Plan

No	Description of activity	March				April				May				June	
		Week				Week				Week				Week	
		1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th	9 th	10 th	11 th	12 th	13 th	14 th
1	Project topic approval	✓	✓												
2	Discussions on the topic			✓	✓										
3	Review of literature				✓	✓	✓								
4	Proposal preparation and submission					✓	✓	✓	✓						
5	Preparation of data collection materials						✓	✓							
6	Data collection							✓	✓	✓					
7	Data analysis and interpretation										✓	✓			
8	Submission of first draft												✓		
9	Incorporation of advisor's recommendations													✓	
10	Revision and submission of final draft													✓	✓

1.10. Budget breakdown

No.	Item/activity description	Unit	Unit Price (ETB)	Quantity	Total price	
1	Stationery materials	Flash disk (2 GB)	No.	500	1	500
		Paper	Pack	60	5	300
		Pen	No.	2	10	20
		Pencil	No.	.50	6	3
		Re-writable CD	No.	20	3	60
2	Transportation	Lump sum	-	-	400	
3	Photocopy, printing reports and questionnaire and binding reports	Lump sum	-	-	300	
4	Miscellaneous expenses	Lump sum	-	-	300	
5	Contingency	Lump sum	-	-	500	
TOTAL COST					2,383.00	

Chapter Two

2. Literature Review

2.1. Who is an Entrepreneur?¹

There is no one definitive profile which explains what makes up an entrepreneur. Successful entrepreneurs come in various ages, income levels, gender, and race. They differ in education and experience. But research indicates that most successful entrepreneurs share certain personal attributes, including: creativity, dedication, determination, flexibility, leadership, passion, self-confidence, and “smarts” (www.usinfo.state.gov).

Creativity is the spark that drives the development of new products or services or ways to do business. It is the push for innovation and improvement. It is continuous learning, questioning, and thinking outside of prescribed formulas. Dedication is what motivates the entrepreneur to work hard 12 hours a day or more even seven days a week, especially in the beginning, to get the endeavor off the ground. Planning and ideas must be joined by hard work to succeed. Dedication makes it happen. Determination is the extremely strong desire to achieve success. It includes persistence and the ability to bounce back after rough times. For the true entrepreneur, money is not the motivation. Success is the motivator and money is the reward. Flexibility is the ability to move quickly in response to changing market needs. It is being true to a dream while also being mindful of market realities. Leadership is the ability to create rules and to set goals. It is the capacity to follow through to see that rules are followed and goals are accomplished. Passion is what gets entrepreneurs started and keeps them there. It gives entrepreneurs the ability to convince others to believe in their vision. It can't substitute for planning, but it will help them to stay focused and to get others to look at their plans. Self-confidence comes from thorough planning, which reduces uncertainty and the level of risk. It also comes from expertise. It gives the entrepreneur the ability to listen without being easily intimidated. (www.usinfo.state.gov)

“Smarts” consists of common sense joined with knowledge or experience in a related business or endeavor. The former gives persons good instincts while the latter expertise. Many people have smarts they don't recognize. For example, a person who successfully keeps a household on a

¹This excerpt was taken from a work by U.S. Department of State/Bureau of International Information Programs.

budget has organizational and financial skills. Employment, education, and life experiences all contribute to smarts.

Every entrepreneur has these qualities in different degrees. A person may lack one or more of the skills but many of the skills can be learned. Or, someone can be hired who has strengths that the entrepreneur lacks. The most important strategy is to be aware of strengths and to build on them. (www.usinfo.state.gov)

2.2. Determinants of Entrepreneurial Success²

Starting a new business venture is a big challenge in any environment but sustaining and growing the business is more so. This is a fact even in industrialized nations where systems are in place to facilitate the launching of new businesses. The failure rates at these countries are very high. There is a great challenge in launching, sustaining and growing business ventures in third world countries especially in African countries (Kiggundu, 2002).

Entrepreneurial success, be it in developed or under developed countries, is determined by factors like:

Personal/behavioral factors are traits such as internal locus of control, risk taking propensity and energy level. Studies show that most African entrepreneurs start a new venture for economic survival or personal growth.

Business climate: Environment may create a business climate that fosters entrepreneurship by helping to provide the necessary resources and other forms of assistance or one that strangles entrepreneurial efforts by placing intractable barriers to entrepreneurial pursuits. Studies show that the business climate in most African countries is less conducive compared to developed nations (Mersha, Sriram, and Hailu, 2010).

Innovativeness and size: African entrepreneurs tend to provide a limited range of services and are not innovative in creating new products or new markets. The fact that most entrepreneurial firms are small and operate independently constrains their access to important business networks,

² This excerpt was taken from a work by Mersha, T., Sriram, V., and Hailu, M. (2010). Nurturing Opportunity Entrepreneurs in Africa: Some Lessons from Ethiopia. *Journal of Global Business Advancement*, 3(2), 155-175.

limits their innovative capacity in creation new goods and services and weakens their competitiveness. While this may help to minimize exposure to risk and uncertainty, the use of the octopus form of organization scatters the available resources, reduces the firm's leverage in utilizing its core capabilities for competitive advantage and inhibits its growth. With access to critical resources highly limited and their potential for innovation and efficiency curtailed, most entrepreneurial firms in Africa lack competitive prowess and eventually go out of business (Mersha, Sriram, and Hailu, 2010).

Entrepreneurial competency includes the behavioral managerial and technical capacity to successfully establish and manage a new business. Most African entrepreneurs have limited entrepreneurial competency partly due to the lack of specialized education and training (Kiggundu, 2002).

Culture: The relative success of new business start-ups is influenced by a nation's cultural traits. Entrepreneurship is facilitated by highly individualistic and masculine cultures with low uncertainty avoidance and low power distance. Typically, entrepreneurial success is positively correlated with individualism and negatively correlated with uncertainty avoidance. Cultures that grant high social status to entrepreneurs also promote entrepreneurship (Mersha, Sriram, and Hailu, 2010).

2.3. Marketing for Small Businesses³

One of the greatest needs of managers of small businesses is to understand and develop marketing programs for their products and services. Small Business success is based on the ability to build a growing number of satisfied customers. Today's marketing programs are built around the "marketing concept" and performance, which directs managers to focus their efforts on identifying, satisfying and following up the customer's needs, all at a profit (www.sba.gov).

2.3.1. The Marketing Concept

The marketing concept rests on the importance of customers to a firm and states that all company activities should be aimed at satisfying customer needs. Company goals should be based on maximizing sales volume there by profit.

To use the marketing concept, a small business should:

³ This excerpt was taken from *a publication by U.S. Small Business Administration.*

- Determine the needs of their customers (Market Research);
- Analyze their competitive advantages (Market Strategy);
- Select specific markets to serve (Target Marketing); and
- Determine how to satisfy those needs (Market Mix) (www.sba.gov).

2.3.1. 1. Market Research

In order to manage the marketing functions successfully, good information about the market is necessary. This can be done through a small market research program based on a questionnaire given to present customers and/or prospective customers and disclosing problems and areas of dissatisfaction that can be easily remedied, or new products or services that could be offered successfully. Market research should also encompass trends that may affect sales and profitability levels like population shifts, legal developments, and the local economic situations. Competitor activity also should be monitored. It is also very useful to know the strategies of competitors or who competitors are (www.sba.gov).

2.3.1.2. Marketing Strategy

Marketing strategy encompasses identifying customer groups (Target Markets), which a small business can serve better than its target competitors, and tailoring its product offerings, prices, distribution, promotional efforts and services towards that particular market segment (Managing the Market Mix). The strategy which is formulated should try to address customer needs which currently are not being met in the market place and which represent adequate potential size and profitability.

2.3.1.3. Target Marketing

Owners of small businesses have limited resources to spend on marketing activities. Concentrating their marketing efforts on one or a few key market segments is the basis of target marketing. The major ways to segment a market are:

- ***Geographical segmentation*** - specializing in serving the needs of customers in a particular geographical area.
- ***Customer segmentation*** - identifying and promoting to those groups of people most likely to buy the product. In other words, selling to the heavy users before trying to develop new users.

2.3.1.4. Market Mix

There are four key marketing decision areas in a marketing program. They are

- Products and Services,
- Promotion
- Distribution and
- Pricing (www.sba.gov)

The marketing mix is used to describe how managers combine these four areas into an overall marketing program.

Products and Services - effective product strategies for a small business may include concentrating on a narrow product line, developing a highly specialized product or service or providing a product-service package containing an unusual amount of service.

Promotion - includes advertising, salesmanship and other promotional activities. A high quality salesmanship is a must for small businesses because of their limited ability to advertise heavily.

Price - determining price level is the major factor affecting total revenue. Small businesses can often command higher prices because of the personalized service they can offer.

Distribution - manufacturers and service providers must decide how to distribute their products and services and must make sure that they reach target customers at the desired time (www.sba.gov).

2.3.2. Marketing Performance

After marketing program decisions are made, managers need to evaluate how well decisions have turned out. Standards of performance need to be set up so results can be evaluated against them. Managers should audit their company's performance at least quarterly.

The key questions to ask here are: Is the company doing all it can to be customer-oriented? Do the employees make sure the customer's needs are truly satisfied and leave them with the feeling that they would enjoy coming back? Is it easy for the customer to find what he or she wants and at a competitive price? (www.sba.gov).

2.4. Success Factors Important to Small Business Owners⁴

As the majority of small business owners (SBOs) work on a full-time basis within their businesses, then logically most business decisions must be taken by the owners, either individually or with a partner. Therefore the personal abilities and motivations of the SBOs will impact on whether they want to grow the business or simply decide to maintain a size that they feel comfortable with. It is not simply a matter of environmental factors impacting on business opportunities, as the SBOs themselves make or assist those opportunities. However little has been written about businesses that do not pursue active growth or the potentially conflicting measures of success between the SBO's personal goals and the financial requirements of operating a successful business (Walker and Brown, 2004).

Most discussion of success in the existing literature refers predominantly to financial criteria. Very limited attention is given to the issue of whether small business owners ever achieve their personal goals, which can often be their initial motivation for starting a business. Measuring the success of the small business is likely to reflect a combination of the personal characteristics and attributes of the SBO together with their reasons for starting the business (Walker and Brown, 2004).

2.4.1. Small Business Growth and Financial Success

Small business success can be measured by financial and non-financial criteria although the former has been given most attention in the literature. Traditional measures of business success have been based on either employee numbers or financial performance, such as profit, turnover or return on investment. Implicit in these measures is an assumption of growth that presupposes all small business owners want or need to 'grow' their businesses. For businesses to be deemed successful these financial measurements require increases in profit or turnover and/or increased numbers of employees. Economic measures of performance have generally been popular due to the ease with which they can be administered and applied since they are 'hard' measures. Furthermore businesses must be financially viable to survive. However, given that some businesses have no interest in growth, thereby implying that financial gain is not their primary or

⁴ This excerpt was taken from a work by Walker, E., and Brown, A. (2004). What Success Factors are Important to Small Business Owners? *International Small Business Journal*, 22(6), 577–594.

only motivation, then there must therefore be other non-financial criteria that these SBOs use to measure their business success (Walker and Brown, 2004).

2.4.2. Non-financial Success Measures

Non-financial measures of success used by business owners, such as autonomy, job satisfaction or the ability to balance work and family responsibilities are subjective and personally defined and are consequently more difficult to quantify. The 'hard' measures previously mentioned therefore are easier to understand and can be used in a comparative way against existing data and as benchmarks for future measures. Non-financial measures are based on criteria that are personally determined by the individual business owner although commonalities within the cohorts of SBOs occur. These non-financial measures presume that there is a given level of financial security already established; it may be that this is within the business, or that the SBO does not require the business to be the primary source of income. The expression of being either 'pulled' or 'pushed' into starting a business has been used extensively in the literature (Sriram and Mersha, 2006). A 'pull' motivation is associated with the individual having a reasonably strong positive internal desire to start a business venture. The opposite motivation is 'push', which is associated with a possible equally strong desire, but based on external negative reasons. A number of pull motivation factors are identified in the literature including: personal freedom, independence gained from being one's own boss, personal satisfaction, a less rigid, more flexible lifestyle and greater job satisfaction. A study by Fielden et al., (2000) indicated that a large proportion of their sample (88%) listed making money as a motivator; however, 71% mentioned that job satisfaction, greater independence, creating opportunities, encountering new challenges, and pursuing one's own interests were criteria which were of real importance to them. Historically these non-financial measures have often been associated with businesses that have been referred to as 'life-style' businesses. These life-style businesses are supposedly not interested in financial gain and have no intention of growing their businesses into larger entities (Beaver, 2002).

2.5. The Fundamental Competitive Strategy in the Service Industry: Quality⁵

In today's competitive business environment, quality is viewed as a strategy that permeates every phase of management. The evolution of Quality Management into an all-pervasive philosophy of management took shape through the works of several experts (Akdağ and Doğan, 2001).

As the service industry grew, problems started to arise within the service production of today's competitive business environment. In order to be successful, the businesses in the service industry must maintain competitive advantage, and must try to increase the importance of quality improvement rather than the price which is similar to what the firms are activating in the manufacturing industry. As national competition switched its place with global competition the businesses started to search for new techniques. One of the most important search has been to produce the goods and services in the way to satisfy the needs and wants of the customers through quality (Akdağ and Doğan, 2001).

Education, health, social security, justice, internal and external security, banks, hotels, transportation, restaurants etc., can be given as examples for the service industry. Crosby (1979) has stated that the cost of poor service quality is 30-40% of the total cost. Because of this, determining the factors affecting service quality and trying to improve the service quality will cause in a decrease in the service costs. For this to happen, first the characteristics of service should be distinguished from other products (Akdağ and Doğan, 2001).

Services distinguished from products according to some of their characteristics (Parasuraman et al., 1988).

- Services are more abstract, while products are more concrete. It is hard to explain and define service.

⁵ This excerpt was taken from a work by Akdağ, H., and Doğan, Ö. (2001). *The Fundamental Competitive Strategy in the Service Industry: Quality, A Review of Social, Economic & Business Studies*, 1(1), 1-16.

- Products are more homogeneous and could be produced according to a standard, while services are more heterogeneous. The services under one institution could differ from one customer to another and from one moment to another.
- Customers face with services at the production stage at the service sector. On the other hand products are delivered to the customers after production and usually products become consumable after the production stage is finished this makes the product more advantageous over services.
- Products can be stocked and consumed in another time. The products can also be transported from one place to another, but services cannot be stocked nor can they be transported. The customer does not obtain a concrete thing when service is bought. While the ownership of the product passes to the customer as soon as it is bought.
- Services are the sum of activities and operations. They cannot be tested before they are bought or consumed. The customer does not have the chance to understand the quality of the service without using it.
- Services are produced with the help of several subservices. The customer evaluates the service as a sum. The service quality depends on the total service expectations of the customer (Akdağ and Doğan, 2001).

As explained above the service quality comes into life whenever the customer (the one who gets the service) and the supplier (the companies or service personnel who supplies the service) have a face to face contact also called a "*Moment of Truth*." Service quality is what you serve at that moment. If a problem occurs in service that moment is the best time to solve this problem (Akdağ and Doğan, 2001).

The customer takes hard time in evaluating the service quality when compared with the product quality. For example, evaluating the quality of health services is more complicated than the evaluation of an automobile quality. In most cases the customer does have exact and net criteria when evaluating the service quality. The customer does not evaluate the service quality at the end of the service. Service quality is even more important at the stage of service process (Akdağ and Doğan, 2001).

There are several definitions given for the service quality. Service quality may be defined as; zero defect of human performance, right diagnosis, politeness, trust, effective performance, time management, and getting rid of each and every mistake (Akdağ and Doğan, 2001).

Deming's definition of quality for the service sector is to meet and go beyond the expectations of the customers. Therefore even though product and service differ in several ways, it is better to take the product and service into consideration together because they do complete each other (Deming, 1986).

As service quality is to meet and go beyond the expectations of customers, how can managers evaluate the percentage of satisfaction when there is nothing concrete in hand? Parasuraman and his friends produced the SERVQUAL scale in order to measure the perceived service quality (Parasuraman, 1988). Service quality dimensions of SERVQUAL;

Reliability: Ability to perform the promised service dependably and accurately.

Assurance: Knowledge and courtesy of employees and their ability to convey trust and confidence.

Responsiveness: Willingness to help customers and provide prompt service.

Tangibles: Physical facilities, equipment, and appearance of personnel.

Empathy: Caring, individualized attention.

Research has shown that as the perceived service quality increases the return of customers and proposing to others increase, which results to an increase in profitability. The perfect service done to the customer usually brings repeated job opportunities and recommendations together with it (Akdağ and Doğan, 2001).

It is seen that the companies, which have a high service quality, do know about quality and the managers and workers work together to meet the needs and expectations of the customers. In order to obtain an effective quality management and a quality culture; quality standards must be formulated in order to meet the expectations of the customers. For this to happen motivated and capable employees should be recruited in order to materialize these standards. After the recruitment process the employees should be trained, taught to participate, informed about the inspection and award system, and also they must be informed about the job description and

performance standards. And finally a feedback system should be formed to see whether the goals are reached or not (Akdağ and Doğan, 2001).

Although the use of technology is very huge nowadays, still human factor is the most important place in the service standards. The successful service companies depend on human factor in a great proportion. As workforce performance determines the service output, the workforce must be educated in order to increase quality (Akdağ and Doğan, 2001).

2.6. When Does Franchising Help Restaurant Chain Performance?⁶

Long an engine of growth for the restaurant and hotel industries, franchising is used widely in the United States. Franchisees sell more than 40 percent of the retail goods and services sold in the United States, and their impact is strong internationally as well. Approximately 39 percent of lodging sales occur in franchised properties, and the percentages are even higher for restaurants (46 percent) and specialty-food retailing (55 percent) (Ketchen, Combs, and Upson, 2006).

Despite franchising's popularity, few studies have examined the mechanisms by which franchising affects the performance of the franchisor. One possibility is that franchising helps a franchisor's performance by allowing a firm quickly to reach a critical mass needed to compete effectively (Ketchen, Combs, and Upson, 2006).

The success of firms such as Choice Hotels and Applebee's in the west that have relied heavily on franchising seems to support this view. A contrasting view is that franchising undermines franchisors' performance because franchisees cut corners in ways that the franchisor would not. For example, a hotel franchisee might reduce its maintenance budget to lower expenses—a move that will reduce customers' perceptions of the hotel brand's quality (Ketchen, Combs, and Upson, 2006).

⁶ This excerpt was taken from a work by Ketchen, D., Combs, J. and Upson, J. (2006). When Does Franchising Help Restaurant Chain Performance? *Cornell Hotel and Restaurant Administration Quarterly*, 47(1), 14-26.

2.6.1. Strategic Groups of Franchisors

There are two main schools of thought on why firms choose to offer franchises. Devotees of each theory contend that their ideas explain franchising decisions across all firms. Some suggest instead that each school's insights are valid, but the principles of each apply to different groups of firms.

Human capital: The first school of thought is the resource-scarcity view, which argues that franchisees bring one or both of two key resources to the franchising firm: intellectual capital and financial capital. Gaining intellectual capital, or managerial expertise, via franchising is attractive because it helps a chain grow with well-managed units. Top managers of firms attempting to expand have many demands on their time. One of the largest is identifying knowledgeable, motivated, and honest managers in each geographic market and then monitoring them. Top managers can determine whether their systems for hiring, training, and monitoring local managers are adequate by assessing whether they can deliver the number of trained general and district managers needed to meet the firm's growth targets. If a chain seeks to build fifty new outlets in the next year, for example, but can provide only twenty new, fully trained general managers during that time, then the firm's human resources systems cannot deliver the needed intellectual capital (Ketchen, Combs, and Upson, 2006).

If the firm lacks the ability to develop enough local managers, franchising may be a way to acquire the intellectual capital necessary to expand. Because franchisees invest their own funds in company outlets, only people confident in their managerial abilities are likely to purchase a franchise.

Once selected, franchisees are motivated to excel at key activities, such as finding and retaining good employees, because they have a stake in their outlets' performance. The result, from the resource-scarcity view, is a set of motivated and skilled franchisees that operate without drawing substantial resources from headquarters. Based on this logic, gaining access to a pool of good local managers might be the driving force behind some firms' choosing to grow through franchising (Ketchen, Combs, and Upson, 2006).

Financial capital: Some researchers argue that a lack of financial capital causes firms to expand through franchising, because franchisees furnish growth capital when they build outlets. Rather than turn to stockholders, lenders, or bondholders who may demand high rates of return for a

business they consider to be risky or that is relatively unknown, firms needing financial capital to fuel growth might find that capital from franchisees is available at a relatively low cost.

Research indicates that firms that use franchising to acquire financial capital do not necessarily lack intellectual capital. By the same token, firms that use franchising to gain intellectual capital do not necessarily lack financial capital. Thus, each resource plays a distinct role in franchising decisions. That insight led us to expect to find two distinct franchisor groups. One group, which is called *manager-scarce franchisors*, uses franchising because its members have a low capacity to develop intellectual capital. The other group which is referred as *money-scarce franchisors*, uses franchising because its members need financial capital (Ketchen, Combs, and Upson, 2006).

Agency theory. Agency theory supports the second school of thought on why firms choose to franchise. An agency relationship exists whenever one entity (i.e., the principal) delegates authority to a second (i.e., the agent). In a franchise setting, the franchisor is a principal that delegates authority to a local outlet manager, who is either a company employee or a franchisee. Even though agents are legally and ethically bound to act in their principals' best interest, the fact is that principals and agents often have different goals. Consequently, the principal must either keep track of its agents' behavior or offer strong incentives to ensure that its agents do, in fact, act in the principal's best interest. Franchisees have strong incentives to exert effort because, as franchise owners, their own money is at risk should the outlet or the franchise fail. From the agency standpoint, the potential for considerable profits is an incentive. In contrast, managers who are employees but not agents do not have their own money at risk and their compensation, typically a salary plus bonus, is less affected by outlet profits. Thus, firms can devote less energy to monitoring franchised outlets compared to an employee relationship. This is important when direct observation is costly, such as when outlets are widely dispersed geographically. Based on agency theory, it is expected to find a set of firms that we call *agency franchisors*, which franchise primarily in response to challenges arising from geographic dispersion (Ketchen, Combs, and Upson, 2006).

Maintaining control. The scenario described above does not consider the potential costs to franchisors of franchising, including the risk that franchisees will maximize the profit of their outlets to the principal's detriment, for example, at the expense of the chain's overall reputation. Franchisees might, for instance, choose not to implement important sales promotions, or they

might jeopardize quality by overemphasizing cost reductions. In contrast, managers of company owned properties can be coerced to follow standard operating procedures and to implement promotions under threat of termination or a financial penalty. Thus, firms whose competitive advantage is based on their brand-name reputation might seek to protect their advantage through company ownership of outlets (Ketchen, Combs, and Upson, 2006).

Franchisors also can protect their specialized knowledge through company ownership. Franchising raises the cost of distributing such knowledge chain wide because franchisees cannot be forced to undergo additional training and must be sold on any operational changes or improvements. Thus, company ownership might be the preferred approach when extensive training and support is needed to ensure that outlet managers understand operating procedures. Overall, firms whose competitive advantage is based on a brand name and on transferring specialized knowledge to outlet managers are expected to emphasize company ownership to avoid the risks and costs associated with franchising. We thus expected to find a set of firms, labeled *franchising minimizers* that possess strong brand-name reputations, rely on specialized knowledge, and infrequently use franchising (Ketchen, Combs, and Upson, 2006).

2.7. Predictors of Relationship Quality and Loyalty in the Chain Restaurant Industry⁷

Relational bonds can create social and financial switching barriers that provide firms with an advantage insulated from competitor actions (Seiders et al. 2005, p. 30). Therefore, customers who have a high relational bond with a company are less likely to change their buying behavior than customers who have a low relational bond. This relational bond is referred to as *relationship quality* (Hyun, 2010). Relationship quality between a company and its customers indicates long-term marketing success and marketing effectiveness, so large numbers of companies are making marketing investments to enhance relationship quality.

⁷ This excerpt was taken from a work by Hyun, S. (2010). Predictors of Relationship Quality and Loyalty in the Chain Restaurant Industry, *Journal of Cornell Hospitality Quarterly*, 51(2), 251-267.

The concept of relationship quality was extended to customer loyalty by Oliver (1999) who defined loyalty as “a deeply held commitment to buy or patronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior.” Strong relationship quality between a company and its customers leads to loyalty. Oliver postulated that loyalty is the goal that companies should pursue to ensure their success. It is strongly believed that relationship quality and customer loyalty have a powerful impact on a firm’s performance; consequently, companies in different industries consider those two factors to be important sources of competitive advantage (Hyun, 2010).

The chain restaurant industry is no exception. Large numbers of chain restaurants are channeling more staff and marketing resources into relationship quality management. For example, restaurant operators gather point-of-sale information about patrons at the point of purchase or by placing customer comment cards on dining tables in a restaurant. Restaurant marketers compile it into a customer database and use it for strengthening customer relationships (e.g., providing incentives to frequent diners, dissemination of points for purchases, mailing birthday cards, special offers, free gifts, promotions, events, and complaint handling) (Hyun, 2010).

Restaurant owners and managers understand that loyal customers are worth a great deal more than casual ones, so many restaurants adapt various types of customer oriented marketing strategies and loyalty programs. These strategies increase customer commitment, lead to positive word-of-mouth, and generate loyalty, consequently increasing the restaurant’s revenue over the long term. Restaurants that maintain a strong relationship quality with their loyal customers can easily increase their competitive power. Recently, chain restaurants have begun to decrease their focus on short term product transactions and to increase their focus on long-term customer relationship quality management and customer loyalty formation. Previous researchers have noted the importance of relationship marketing strategies in enhancing relationship quality. Many companies invest in relationship marketing and relationship quality management because these are recognized as key measures of long term marketing success. Relationship quality increases customer retention and provides competitive power by being an intangible, asset that is difficult to duplicate by competitors. While current research clearly indicates that a company’s relationship quality and customer loyalty are major factors influencing long-term profit and

performance, our understanding of the factors that influence the formation of relationship quality and loyalty for chain restaurants is relatively weak (Hyun, 2010).

2.7.1. Relationship Quality

Relationship quality is defined as a customer's perceptions of how well the relationship fulfills his or her expectations, predictions, goals, and desires (Jarvelin and Lehtinen 1996). More practically, Crosby, Evans, and Cowles (1990) stated that relationship quality indicates a service provider's ability to reduce customers' perceived uncertainty, ensuring reliance on the provider's integrity. Strong relationship quality indicates that the customer has been satisfied with the service provider's past performance, trusts the service provider's future performance, and wishes to maintain the relationship.

Satisfaction and trust have been discussed as issues of great importance in the relationship quality literature. It is strongly believed that satisfaction is a key indicator that influences relationship quality. The role of satisfaction in relationship quality involves evaluation of a service provider's past performance and the way in which it has shaped expectations of future performance. In this sense, satisfaction is a prerequisite of relationship quality formation because if a customer is not satisfied with the service provider, the relationship cannot continue (Hyun, 2010).

2.8. Attributes Influencing Restaurant Patrons' Behavior⁸

In the restaurant industry, complex attributes influence patrons' behavior. Different researchers have proposed various attributes to explain patrons' behavior, but five of these are widely accepted-quality of food, price, service, location, and clean environment (Hyun, 2010).

Food quality: Murphy, Pritchard, and Smith (2000, p. 43) define quality as "a concept that can provide insights on how to rejuvenate products and the way they are viewed by customers." In the restaurant industry, quality of food is the most important influence on patrons' behavior (Sulek and Hensley, 2004). Consequently, many studies of restaurant marketing have focused on

⁸ This excerpt was taken from a work by Hyun, S. (2010). Predictors of Relationship Quality and Loyalty in the Chain Restaurant Industry, *Journal of Cornell Hospitality Quarterly*, 51(2), 251-267.

determinants of food quality. Presentation and appropriate temperature have been suggested as aspects of food quality evaluation. Researchers have postulated that these attributes are determinants of customer satisfaction in the restaurant industry. Moreover, food quality is related to safety issues and thus influences the trustworthiness of a restaurant (Knight, Worosz, and Todd 2007). Large numbers of customers consider health an important factor in life, so food quality is related to the credibility of the restaurant.

Price: Similarly, price has always been considered an important criterion in restaurant marketing. Price and quality are objective attributes that can change patrons' behavior; consequently, they are key determinants of the success of a restaurant business. To attract and maintain customers, marketers must continually improve the quality of products and lower prices. Price influences patrons' behavior. If the price is high, customers tend to expect higher-quality food. Also, a reasonable price level is a critical factor influencing customer satisfaction and trust. Studies indicated that price fairness influences trust and satisfaction, which are two components of relationship quality. If customers believe that they are being overcharged, they do not trust the restaurant and will be less likely to visit it in the future (Hyun, 2010).

Service quality: A large number of studies have postulated that service quality is a critical factor influencing patrons' behavior in the restaurant industry (e.g. Chow et al. 2007; Soriano 2002). For example, Soriano (2002) stated that restaurant customers consider quality of service to be an important factor when they select a restaurant, and Chow et al. (2007) cited service quality as an important strategy for positioning in the restaurant industry. Moreover, previous studies strongly supported the belief that service quality is a key determinant of customer satisfaction (e.g., Chow et al. 2007; Soriano 2002) and a key determinant of trust. Chow et al. (2007) investigated service quality in restaurant operations in China and concluded that service quality influences patrons' satisfaction.

Location: The location of a restaurant is another important attribute that influences patrons' behavior and satisfaction (Soriano 2002). Sun (1995) and Soriano (2002) stated that restaurant patrons expect a convenient location when they dine out. According to Tzeng et al. (2002), customers place considerable emphasis on location when they select restaurants. Lim and Ya (1997) investigated factors influencing restaurant service quality. They analyzed data collected

from 132 tourists in South Korea. The regression analysis revealed that convenience of location was one of the most important evaluation criteria of restaurant service quality.

Environment: Last, environment is an important influence on patrons' behavior and customer satisfaction. When patrons are satisfied with the restaurant's ambience, their probability of returning greatly increases. Specifically, lighting, ample space, and music are important factors for customer satisfaction (Hyun, 2010).

2.8.1. Loyalty

Loyal customers produce huge amounts of revenue and demand less time and attention, making them an important asset of a company (Yang and Peterson 2004). Therefore, many companies select loyalty as their fundamental business goal because loyal customers purchase the same brands against all odds and at all costs. It is widely recognized that high levels of satisfaction result in loyal customers (Hyun, 2010).

According to Oliver (1999), satisfaction is necessary to loyalty, but customer satisfaction becomes less important as loyalty begins to form. The impact of satisfaction on loyalty has been empirically tested in previous studies. It was found that satisfaction is positively and significantly related to firm loyalty and profitability. Positive satisfaction is a key antecedent of loyalty formation (Hyun, 2010).

2.9. The Role and Effect of Job Satisfaction and Empowerment on Customers' Perception of Service Quality: A Study in the Restaurant Industry⁹

2.9.1. Employee Empowerment

The term *empowerment* has been defined in many different ways. According to Lee and Koh (2001), the management literature presents two views of empowerment: (1) the view "behavior of supervisor" that empowers their employees and (2) the "psychological state of a subordinate"

⁹ This excerpt was taken from a work by Gazzoli, G., Hancer, M., and Park, Y. (2010). The Role and Effect of Job Satisfaction and Empowerment on Customers' Perception of Service Quality: A study in the restaurant industry, *Journal of Hospitality & Tourism Research*, 34(1), 56-77.

view. Scholars adopting the first view defined empowerment as sharing power with or moving power participative management and job enrichment. Researchers adopting the second view, commonly known as psychological empowerment, defined it as the experience of being empowered. However only a few studies have attempted to assess the relationship between empowerment and customers' perception of service quality. In a research conducted on an educational setting using professors (employees) and students (customers), Snipes et al. (2005) found that the direct path connecting feelings of empowerment and customers' perceived service quality was not significant. However, their study revealed through a post hoc analysis that feelings of empowerment had a significant and indirect effect on customers' perception of service quality through job satisfaction.

Using hotel employees and their respective customers in the research design, Hartline and Ferrell (1996) found that empowerment, under suitable conditions, plays a significant role on job satisfaction and customers' perception of service quality. Linking the above findings to the "Cycle of Success" model proposed by Schlesinger and Heskett (1991), it is found that if employees feel a high level of empowerment they would be more satisfied with their jobs, have a better sense of task control, thus facilitating employees' work actions that are required to make changes to improve the quality of service of their respective restaurants.

2.9.2. Job Satisfaction and Service Quality

The relationship between job satisfaction and service quality has been suggested by the "Cycle of Success" model (Schlesinger & Heskett, 1991). This model proposes that employee satisfaction, which is influenced by internal service quality, leads to increased employee performance, which in turn leads to customer satisfaction, customer loyalty, and increased financial performance of a firm. Job satisfaction has also been empirically tested and positively related to customers' perception of service quality in several service industries such as banking, hotels and education (Gazzoli, Hancer and Park, 2010).

2.10. Why Restaurants Fail¹⁰

¹⁰ This excerpt was taken from a work by Parsa, H., Self, J., Njite, D. and King, T. (2005). Why Restaurants Fail? *Cornell Hotel and Restaurant Administration Quarterly*, 46(3), 304-322.

The restaurant industry and its analysts have long pondered the enigmatic question of why restaurants fail (Parsa, Self, Njite, and King, 2005). Restaurant failures have been attributed to economic and social factors, to competition and legal restrictions, and even to government intervention. Most hospitality research has focused on the relative financial performance of existing restaurants instead of examining the basic nature of restaurant failures, and most of these studies considered only bankruptcy reports. Most bankruptcy studies are limited in their scope, however, because many restaurant closures result from change-of-ownership actions, rather than bankruptcies. These change-of-ownership transactions are treated as legal matters instead of actual bankruptcy procedures and may not be included in public records. Furthermore, because the focus of academic research has remained primarily on bankruptcy studies, the qualitative aspects of business failures have received little attention. In writing this article, we hope to determine the underlying factors that determine the viability of a restaurant (Parsa, Self, Njite, and King, 2005).

2.10.1. Types of Restaurant Failures

Restaurant failures can be studied from economic, marketing, and managerial perspectives (Parsa, Self, Njite, and King, 2005). Of these three perspectives, we observe that restaurant failures have been studied primarily from the economic perspective.

Economic perspective: This category includes restaurants that failed for economic reasons such as decreased profits from diminished revenues; depressed profits resulting from poor controls; and voluntary and involuntary bankruptcies, involving foreclosures, takeover by creditors, receiverships, or frozen assets for nonpayment of receipts (Parsa, Self, Njite, and King, 2005).

Marketing perspective: This category consists of restaurants that cease to operate at a specified location for marketing reasons, such as a deliberate strategic choice of repositioning, adapting to changing demographics, accommodating the unrealized demand for new services and products, market consolidation to gain market share in selected regions, and realignment of the product portfolio that requires selected unit closures (Parsa, Self, Njite, and King, 2005).

Managerial perspective: This category consists of restaurant failures that are the result of managerial limitations and incompetence. Examples of this group include loss of motivation by owners; management or owner burnout as a result of stress arising from operational problems;

issues and concerns of human resources; changes in the personal life of the manager or owner; changes in the stages of the manager or owner's personal life cycle; and legal, technological, and environmental changes that demand operational modifications (Parsa, Self, Njite, and King, 2005).

2.10.2. Definitions of Restaurant Failure

Complicating the analysis, we could find no universal definition of restaurant failure, despite the fact that the way a business's failure is defined can greatly alter the failure rate (Parsa, Self, Njite, and King, 2005). Studies that use a narrow definition of failure, such as bankruptcy, necessarily have the lowest failure rates, while studies that use a broad definition, such as change of ownership, show the highest failure rates. The definition chosen is usually dictated by the data that the researcher has available, with each definition subject to its own inherent advantages and disadvantages (Parsa, Self, Njite, and King, 2005).

Because no reports are required when a business closes, gathering such data involves subjective approaches. An advantage of bankruptcy as the definition of failure, for instance, is the relative ease of obtaining data. The disadvantage of bankruptcy data, however, is its narrow nature. Restaurants that close for any other reason would simply not be included-even for a financial reason, such as failing to achieve a reasonable income for its owners or investors. On the other end of the spectrum, the change-of-ownership definition or "turnover rate" includes all types of business closures. Consequently, turnover rates are much higher than bankruptcy failure rates, regardless of whether the turnover was due to the owner's retirement or due to a change of ownership, such as when a sole proprietorship adds a partner (Parsa, Self, Njite, and King, 2005)

2.10.3. Organizational Life Cycle

As with all business organizations, restaurants follow certain stages in a life cycle. At any point along these life-cycle stages, a business can suffer setbacks catastrophic enough to lead to failure (Parsa, Self, Njite, and King, 2005).

Throughout the life cycle, the first stages are the most vulnerable, which is why the highest proportion of businesses that close is relatively new. This "liability of newness" has linked organizational adolescence to increased organizational mortality rates. One reason for early failure is that new businesses typically have limited resources that would allow them to be flexible or adapt to changing conditions. Following that logic, it is believed that the longer a

company is in business, the less likely it is to fail. Prior research has found that as each year of survival goes by, the failure rate is likely to go down, and by the fourth, fifth, and sixth years, only a modest, but steady, number fail each year. After seven years, the propensity for failure drops dramatically (Parsa, Self, Njite, and King, 2005).

2.10.4. Reasons for Restaurant Failure

2.10.4.1. Competitive Environment

The environment in which the restaurant operates helps to determine its success or failure. Some attributes of the competitive environment that can influence a restaurant's failure are the business's physical location, its speed of growth, and how it differentiates itself from other restaurants in the market. In addition to the problem of having less cash to handle immediate situations, operators of new restaurants are often unable to manage rapid growth or changes, lack experience in adapting to environmental turbulence, and usually show inadequate planning. An additional failure factor for independent restaurateurs is the ability of chain restaurants, with their economies of scale, to outspend the independents to gain greater market share (Parsa, Self, Njite, and King, 2005).

2.10.4.2. Firm Size

In addition to the age of the firm, research has found a correlation between size and survival. In this regard, the larger firms are more likely to remain in business than small operations. Richardson stated that "both suppliers and bankers are prejudiced against smaller firms. They tend to take longer to act against a slow-paying large enterprise than they do against a smaller firm, because they equate bigness with safety and security." That said, small firms tend to be positioned for growth, but if that growth occurs too rapidly, a restaurant's propensity to fail actually increases because of the ensuing financial stresses. These financial stresses include a high cost of goods sold, debt, and relatively small profit margins (Parsa, Self, Njite, and King, 2005).

2.10.4.3. Restaurant Density

A restaurant's location in its market and its ability to differentiate itself from its competition also help determine whether it will survive. While a restaurant can benefit from close proximity to competition and restaurants are often located in clusters to attract more traffic, as in a "restaurant row," an operation could find itself in a cluster of restaurants within which it cannot compete

effectively. In that regard, a restaurant's inability to differentiate itself from its competition can be fatal. The restaurant's reaction to competitive pressures from excess density depends in part on the nature of its ownership (Parsa, Self, Njite, and King, 2005).

2.10.4.4. External Factors

External environments can change rapidly and companies may not be able to change accordingly. Knowing the nature of one's market is of primary importance to success. Many restaurants fail each year from an inability to understand, adapt to, or anticipate market trends, especially given that some market trends are more difficult to foresee than others. To provide the products desired as market preferences shift, operations must trust and have working relationships with their suppliers. Because the resources necessary for business survival come from the external environment, this relationship is important in explaining restaurant failure (Parsa, Self, Njite, and King, 2005). O'Neill and Duker found that government related policies affect business failures. Along that line, Edmunds pointed to the heavy burden of taxation and regulation as contributing to increased business-failure rates. Jogaratnam, Tse, and Olsen suggested that successful independent restaurant owners must develop strategies that enable them to continuously adapt to the changing environment and find ways to "link with, respond to, integrate with, or exploit environmental opportunities."

Typically, external environmental factors affect a segment of the industry broadly, rather than hit any single brand, for example, when a seafood shortage causes problems for all sea food restaurants or high prices for beef hurt hamburger and steakhouse segments. Consequently, the rate of restaurant ownership turnover may differ across different restaurant segments (Parsa, Self, Njite, and King, 2005).

2.10.4.5. Internal Factors

Management capabilities are of primary concern in preventing restaurant failure. Haswell and Holmes reported that weak management is an important factor for small business failure. Poor management can be connected to "poor financial conditions, inadequate accounting records, limited access to necessary information, and lack of good managerial advice." Other internal factors affecting failure rates of restaurants include poor product, internal relationships, financial volatility, organizational culture, internal and external marketing, and the physical structure and organization of the business. Managers' "inability to manage rapid growth and change" can lead

to business failure, concluded Hambrick and Crozier. Sharlit wrote, “The root causes of many business problems and failures lie in the executives’ own personality traits,” .Makridakis believes that corporations fail due to “organizational arteriosclerosis,” overutilization or underutilization of new technology, poor judgment in risk taking, overextending resources and capabilities, being overly optimistic, ignoring or underestimating competition, being preoccupied with the short term, believing in quick fixes, relying on barriers to entry, and overreacting to problems. West and Olsen determined five strategic factors used to determine the grand strategy of a firm. The management or owner’s strategic positioning has a strong influence on a business’s success. In agreement, Lee stated, “The most important criterion for success is management. Managers direct the marketing, oversee product quality and standardization, and decide when and how to adapt.

Chapter Three

3. Case Study of Teshomech Kitfo Restaurant

3.1. Background of the Organization

Teshomech Kitfo Restaurant was established in November 1992 with a registered capital of 7,000 birr. The owners, Mr. Antonios and Mrs. Teshomech, have been residents of Addis Ababa for more than 30 years. They were born and raised in the Guraghe region of southern Ethiopia, where “Kitfo” is the specialty of the people. The Guraghe people are the ones who introduced kitfo to other Ethiopians. Nowadays, kitfo is a meal of choice for most Ethiopians and is available in most social events like weddings and other occasions. Mrs. Teshomech was a house wife and Mr. Antonios used to work in government offices until his retirement in 1994. He has a B.A. Degree in Sociology and Social Administration from Addis Ababa University.

The couple had come up with the idea of opening a kitfo restaurant to get additional earnings to support their large family. It was becoming increasingly difficult for them to meet the family’s financial need with the meager salary that Mr. Antonios earned from his government job. So, they understood that they had to start some venture to subsidize their income. Though they didn’t have any prior business experience, they believed that starting a kitfo restaurant might work for them due to their familiarity with the Guraghe culture and the nature of the neighborhood which already had two established kitfo restaurants (Bekelech Kitfo Restaurant and Yohannes Kitfo Restaurant). Thus, they started Teshomech Kitfo Restaurant in 1992.

At the beginning, the whole business operation was handled by family members and the business was run in the family’s residence. At that time, in addition to kitfo, *yefim tibs* (grilled meat) and also Ethiopian traditional drink, *tej*, were served at the restaurant. Kitfo was prepared and made by Mrs. Teshomech with the help of her daughters. The three sons were the waiters, coordinators, and controllers of the business activity. Things had continued like this for about two years and by the year 1994, Mr. Antonios had retired from his job and started participating fully in the family business. His major responsibility was to host customers and handle complaints, if any.

By 1996, Teshomech Kitfo Restaurant became a profitable and popular restaurant in Addis Ababa. It was successful in attracting and retaining loyal customers. At that time, there were about 15 hired employees and this number continued to increase as years passed and as the business expanded.

In order to satisfy its customers' needs and to increase its accessibility, the restaurant opened its first branch in the year 2000 near Bole in the Wollo Sefer area. Thus, currently the kitfo restaurant is rendering its services in its two branches. The restaurant mainly prepares kitfo which is served with *injera* and *kocho* (false banana) and comes with two sides--cheese and spiced cabbage. Items on the menu also include spiced cabbage with meat. The former items on the menu like *yefim tibs* and *tej* are not currently offered. An order of kitfo at Teshomech's currently costs 70 birr. At present, there are about 40 employees working in the two branches of Teshomech Kitfo Restaurant. The sons and the daughter of the owners are engaged in managing the business. Mrs. Teshomech is responsible for the overall supervision of the kitfo preparation process and the workers at the restaurant. Mr. Antonios is still performing his job of greeting customers and handling complaints. Both of them are also active in social activities. The capital of the restaurant has increased considerably over the years. Despite the presence of many factors that are constraining the growth of the business, Teshomech Kitfo Restaurant is a profitable enterprise. The house next to the restaurant was bought in 2005 and the family which resided at the back rooms of the restaurant since 1992 moved into the new house.

The owners of Teshomech Kitfo House are diversifying their business into different sectors like producing construction materials such as gravel and selling computers and computer accessories. Teshomech Kitfo Restaurant claims that it is serving the best kitfo in town. (*Please see the New York Times article dated March 18, 2007 in Appendix 1*).

3.2. The Kitfo Preparation Process

Kitfo, which literally translates to "diced into pieces," is currently the most popular food in Ethiopia. According to the owners of Teshomech Kitfo Restaurant, there are different kinds of kitfo including beef kitfo, lamb kitfo and chicken kitfo. There is also *gomen* (cabbage) kitfo and *miser* (lentils) kitfo. In Addis Ababa, there is one kitfo restaurant that serves chicken kitfo on order. But, other kitfo restaurants are known only for preparing beef kitfo. *Miser* kitfo is

prepared only for a Guraghe traditional ceremony which takes place one month before a wedding. The ceremony is called *Yegenye* and at that occasion, the miser kitfo will be prepared by the bride's or bride groom's sisters.

In order to prepare a delicious kitfo the right kind of meat needs to be selected. The beef portions which are mainly used for kitfo are called the *talak* and *tanash (mehal agheda)*. In addition to the meat, the other critical ingredients of kitfo are the butter and *mitmita* (seasoned red chili). The butter used for the preparation of kitfo must be carefully selected and purified. Ripen butter cannot be used for kitfo because it will spoil the taste. The restaurant has its own butter supplier. The butter is bought in large amount and is melted with Teshomech's special recipe. The spices which are used for melting the butter are bought by Mrs. Teshomech herself and are prepared with the help of her daughters and employees. Also, the chili, which is used for kitfo is carefully seasoned. There are people at Mercato open air market who are Mrs. Teshomech's suppliers that prepare and ground chili. She personally goes there and supervises and checks the chili preparation process. There is also an ingredient which is called *yekitfo kimem* and it is prepared with Teshomech's special recipe.

After all these ingredients are prepared, the actual preparation of kitfo begins. The restaurant has its own beef suppliers and the beef is brought to the restaurant by the supplier's own vehicle. Upon receipt, the fatty and other unwanted parts are removed and the beef is minced. Beef can be minced either by hand or with a machine. At Teshomech Kitfo Restaurant, it is minced by hand. They said it is because when a machine is used, the beef will be squeezed too much and will lose its taste.

After it is minced, the beef will be put in a refrigerator so that it will not get spoiled and lose its color.

Kitfo preparation requires the application of heat. Depending on the level of heat used, Teshomech Kitfo Restaurant prepares five types of kitfo, namely; *Tire* (Raw), *Mok yale* (Very lightly grilled), *Leb leb* (Mildly grilled), *Geba yale* (Semi grilled), and *Tibs* (Grilled). This is presented in figures 1 and 4.

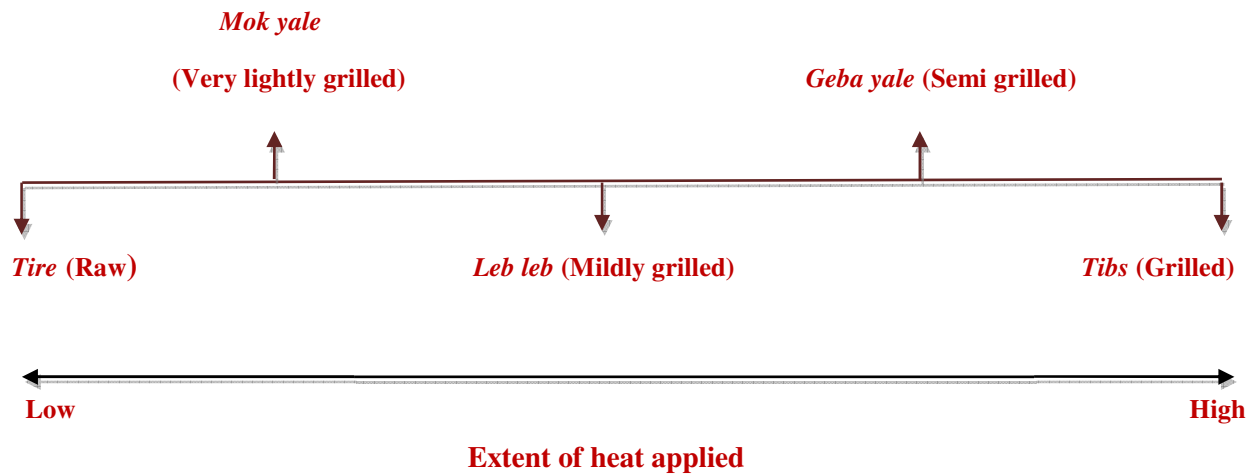


Figure 1. The Five Kitfo Types Prepared at Teshomech Kitfo Restaurant

The waiters take the customers' orders to the cook at the kitchen who is specialized in kitfo making. Actually, there are two of them at Teshomech's but they work interchangeably, one at the lunch time and the other at dinner time. First the cook will bring the kitfo frying pan and mix the required amount of melted butter with chili and *yekitfo kimem*. Then she will put minced meat that is enough for the ordered kitfo. Here, the cook needs to correctly estimate the amount of minced beef and other ingredients since no formal measurement is done. After that she will mix the beef with the ingredients thoroughly. The taste of the kitfo is highly impacted by the way it is mixed.

So, if for example, the order is *tire* (raw), the mixing process will be done by applying a little amount of heat to the beef. And the level of heat will be increased according to the order. After the kitfo is prepared, it will be served to the customers with *injera* and *kocho* (false banana) and comes with two sides--cheese and spiced cabbage. The *kocho* is presented in two types: warm and toasted (Figure 3).

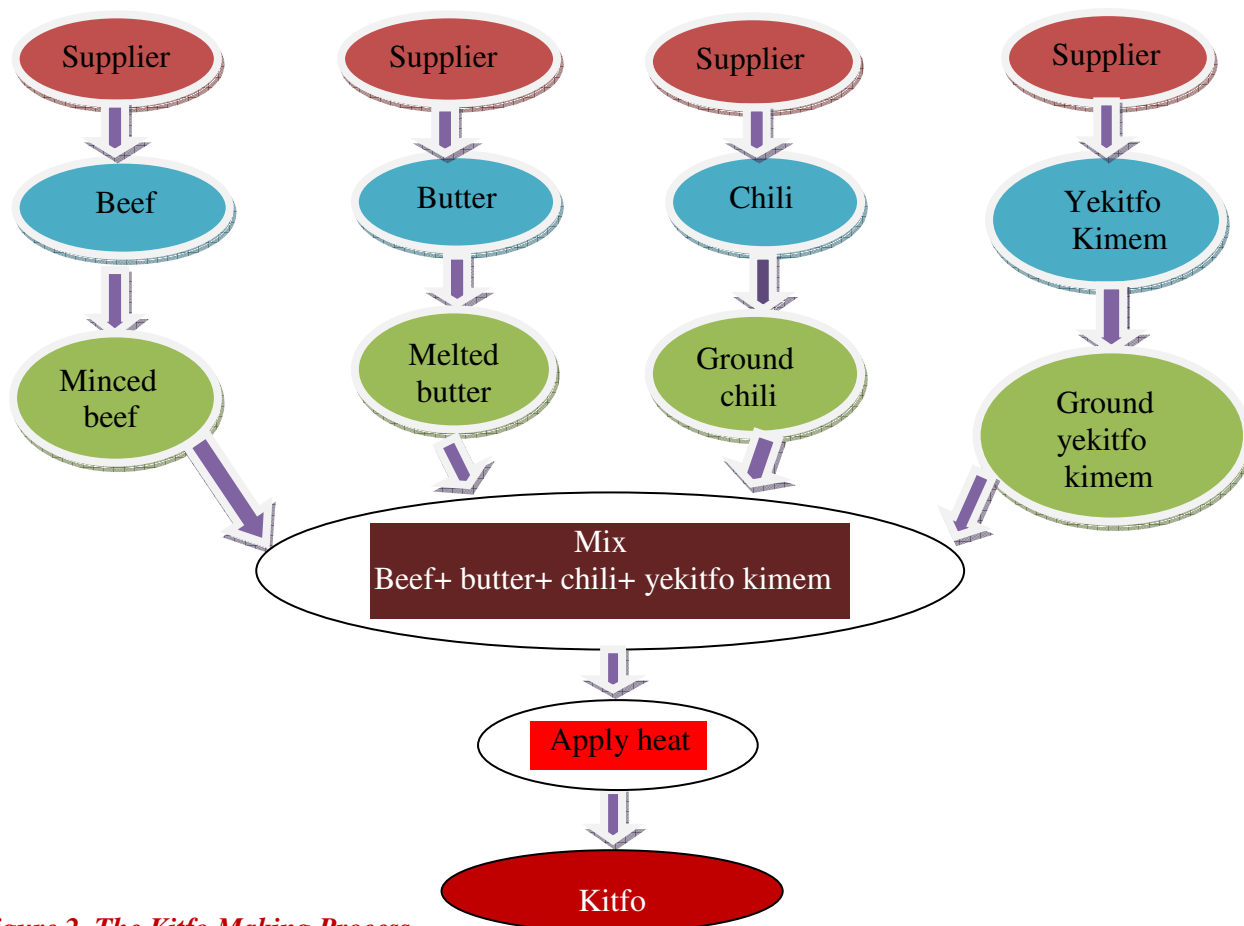


Figure 2. The Kitfo Making Process



Figure 3. Teshomech's Kitfo



Figure 4. The Five Kitfo Types Prepared at Teshomech Kitfo Restaurant

There is also a carryout (takeaway) service at Teshomech’s for customers who are interested in taking kitfo to their homes. The kitfo and the seasoned cabbage will be wrapped with aluminum package together with the cheese so that they will not get cold. All the other components of the kitfo will also be packed except for toasted *kocho*. The customer is charged for the cost of the aluminum package.



Figure 5. The Carryout (Takeaway) Service at Teshomech’s

3.3. Marketing at Teshomech Kitfo Restaurant

Marketing is the center of any business activity, be it a service or product business. Marketing activities are of great importance in retaining current customers as well as attracting new ones.

At Teshomech Kitfo Restaurant, formerly, there was a special program on Saturdays and Sundays. After kitfo was ordered, it would be prepared at the kitchen but will not be dished out there like what is done right now. Rather, the waiters would bring a tray with *injera*, *kocho* and small clay dishes called *taba* with a leaf on them called *tires* which are cut in circles and put it on the customers' table. Then, after the ordered kitfo is ready, a lady would bring the kitfo in a large *taba* and she would dish it out in front of the customers. Also the spiced cabbage and the cheese would be dished out there. On those two days, both the waiters and the lady who dished out the kitfo would wear an Ethiopian traditional cloth. If customers want additional butter in their kitfo, the waiters would bring them with a small pot which is prepared for this purpose. They would also get additional *injera* and *kocho*, if they wanted. There were and still are some customers who ask for additional butter, *injera* and *kocho* two and three times per order.

Currently, the above mentioned Saturday and Sunday specials are not offered at Teshomech's and the manner in which kitfo is presented to customers is the same from Monday to Sunday. It is prepared and dished out at the kitchen and presented to customers. But, customers can ask additional *injera*, *kocho* and butter, if they want.

The reason that the owners give for quitting the Saturday and Sunday specials is the time that the dishing out process consumes. Since most of the customers of Teshomech's are government workers and business people, they need to be quickly served and get back to work. The owners of Teshomech's said that their customers are those who are more interested in appreciating the quality of the food and service and they are doing their very best to meet the desires of their customers in the best way possible.

After meal, customers can order a traditionally prepared coffee. There is plain coffee, coffee with salt, and coffee with sugar. While coffee can be served with or without butter, Teshomech's specialty is coffee with salt and butter which is the popular tradition of the Guraghe people.



Figure 6. Teshomech's Special Coffee: Coffee with Salt and Butter

The waiters at both branches are courteous and devoted. They do their very best to satisfy the needs of their customers. They wear a neat gown with black trouser and black shoes. They have three kinds of gowns: blue, red, and yellow. They wear the blue one on Monday and Tuesday, the red on Friday, Saturday, and Sunday, and the yellow on Wednesday and Thursday. They have a welcoming face and are easy to talk to. They have the talent of making customers comfortable and feel at home.

The time that customers wait for their orders to be prepared and presented at Teshomech's can be considered reasonable, compared to the waiting time of many other restaurants in the city. When customers first come to Teshomech's, the owner Mr. Antonios will greet them and will make them feel at home and the waiters will immediately come and take the food and drink orders. After the order has been taken, it will be brought to the kitchen and put in to queue. In the meantime the waiters will bring the customers their ordered drinks. The ordered kitfo preparation

process at Teshomech Kitfo Restaurant strictly follows the First Come First Served (FCFS) principle. By no means will any customer be served ahead of his/her position in the queue. The average time that a given customer will wait until his/her order is prepared and presented is from seven to ten minutes. But, during lunch times, some days like Tuesday, Thursday, and Saturday, there is a large lunch time crowd. So, due to the long queue and because only one lady is preparing the kitfo, customers may sometimes wait for about fifteen minutes or so. But, this is a rare case. At times like this, the owner Mr. Antonios will do his best to make the waiting time less boring. Also the waiters now and then will come and ask if there is anything that they want until their order comes. When the order is ready, the waiters will bring it to the customers and they will apologize for keeping them waiting. While they are eating, they will come and ask if they want additional butter, *kocho*, injera or drinks and bring accordingly.

In service business, quality means meeting and even exceeding customer needs. Since Teshomech Kitfo Restaurant is a facility that prepares cultural foods, the presentation and the service as much as possible must reflect the culture of the Guraghe people. Customers need to see new things all the time; so, those in the business must be creative. They must listen to the heart beats of their patrons and react accordingly. The focus that is given for marketing activity at Teshomech Kitfo Restaurant is adequate but definitely not enough. When observing other kitfo restaurants, one can understand that much work is being done to match or exceed the service offered by the competition.

3.4. Human Resource Management at Teshomech Kitfo Restaurant

At Teshomech, there are about forty employees working full time. About twenty are located at the Haya Hulet branch and the rest are at Wollo Sefer branch. The majority are female workers. Each employee has his/her own assigned responsibility. At each branch, there are five or six waiters and all are male. The owners' sons and the daughter are the managers and are responsible for facilitating the tasks at the two branches. At each branch, there is one cashier and one male janitor responsible for keeping the cleanliness of the bath rooms. The waiters are the ones who clean the restaurant each morning and afternoon. From the females' side, there are two girls who wash the restaurant's food utensils. One woman toasts kocho. There are two women who make kitfo and they have three assistants. The major and most difficult work in kitfo making, which is mincing beef and cabbage, is performed by three women. The owners say that it is preferable if

the workers who mince kitfo are of Guraghe origin, preferably from the *Enemor* area. This is due to the familiarity of these people with beef and activities related to beef. So, these three women are the back bones of the kitfo restaurant. Any problem or delay in their activity will disrupt the whole kitfo making process. This is because all the other components of kitfo are prepared on aggregate basis and items like *injera* and *kocho* are baked in the morning. But, due to some reason if the beef arrives late, the workers will face difficulty of making the meat ready for the kitfo making process.

The salary paid for the workers especially for the female employees is not adequate compared to the work burden that they have, especially the ones mincing beef. It is true that their food and shelter expenses are covered by the restaurant but even if this is the fact, some adjustment must be made to their salary. Also, the owners do not take into consideration work experience while fixing the salary of their employees. An example for this can be, the employee who minces kitfo and has been working at Teshomech's for more than 6 years gets a salary that is equal with the one having a work experience of less than one year. This is very discouraging for the senior workers and will decrease their motivation. The male workers compensate this problem by the tips that they get from customers for the service they render but the female workers do not have this opportunity even though they are the ones facilitating much of the restaurant's work.

All the workers have one day off per month. The restaurant gives its employees incentives like bonuses at times of holidays and when there is a large order given by customers.

The restaurant gets the employees it needs through employment agents. After the managers of Teshomech Kitfo go and bring the employees from employment agencies, they will introduce them with the other workers of the restaurant and their work place will be shown to them. In the case of the waiters, a gown will be given to them and until they complete their orientations, they will perform simple tasks like assisting the other waiters by collecting used glasses, picking up trays, bringing additional *kocho*, *injera* and *butter* and cleaning the restaurant. But, they are not allowed to take orders from customers. They will be given the chance of learning the work and customer handling process by observing. The orientation process may last for a week or more. If the employee is a fast learner, it will take him a short time to get well acquainted with the work. Otherwise, he will stay a little longer as an assistant.

In the case of female employees, the ones who mince kitfo are given an on-the-job training. They will learn by doing. Also, they will learn the important steps by seeing their colleagues work. But in the case of the kitfo makers, like the waiters, they will learn the process by observing and working as an assistant for about a week or so and then they will be given an on-the-job training. Those with experience train the new workers.

The employee who bakes kocho will also have on-the-job training. The other tasks like baking injera, toasting *kocho*, and washing food utensils will not be given any special training but the employees, until they get used to the work they will work under close supervision. The work quality of all the employees will be checked by the restaurant's owners and managers.

3.5. Location of Teshomech Kitfo Restaurant

Both branches of the Teshomech Kitfo Restaurant are located at very good business areas where there are a good road and transportation facility. Formerly, the road of the Haya Hulet branch was bumpy and the branch was difficult to find except only for those who know its whereabouts. But now, it is paved and comfortable. The raw materials which are necessary for the work can be found not far from the business areas. Important facilities like banks can be found within walking distance from both the Haya Hulet and Wollo Sefer branches. Inputs like soft and alcoholic drinks are supplied and brought to the restaurants by the companies' own whole sellers' vehicles. There is a twenty four hours water and electricity supply at both branches. When electric power is off due to shortage, there are generators prepared to facilitate the work.

3.6. The Physical Layout of the Two Branches of the Restaurant

The branch of Teshomech Kitfo Restaurant Which is located at Haya Hulet area is a relatively small sized restaurant. It is divided in to three sections (Figure 8). The first one is a small sized room which before the opening of the restaurant was the family's salon. The size of the salon has not been changed. Also, no change has been done to its appearance, it looks old. It can hold around twenty four people. The other section is a medium sized dining hall which can hold around eighty people. And the third one is a partitioned room which can hold around twenty people. The overall appearance of the restaurant has not been adapted to reflect the cultural environment of the Guraghe people as some restaurants have done but it looks good. It has a good ambiance; good lighting and sufficient space and the restaurant uses classical and slow

music most of the time. The chairs and tables of the restaurant are comfortable and not space consuming. All in all, the restaurant is clean and cozy.

The other branch of Teshomech Kitfo Restaurant which is located at Bole, Wollo Sefer area is also small in size like that of the branch at Haya Hulet. There is a well furnished dining hall which can hold around seventy people (Figure 9). There is also a salon with two sections: the larger section can hold around forty people and the small one holds from fifteen to twenty people. The restaurant's environment has a peaceful vibe. The tables and chairs are the same as that of the Haya Hulet's branch, comfortable and not space consuming. But, here also, the restaurant has no cultural atmosphere; it looks like more of a full-service modern restaurant. Figure 10 represents a sample of the kitchen and dining room layout as well as the kitfo making process of the two branches of the restaurant.

3.7. Food Quality Control at Teshomech Kitfo Restaurant

The kitchens of both branches of Teshomech Kitfo are neat. Food safety at the restaurant is assured by making the food preparation process clean. Also when a new employee is hired, he/she will take a medical examination and the cost will be covered by the restaurant. The rest of the workers take a medical examination every six months. At every fixed time, the city's health bureau officers come and check whether or not the workers have taken the examination. They also check the cleanliness of the working area. In addition, the owner's elder son is a Doctor and whenever, the workers face a health problem he is there to help them.

The way kitfo is presented at both branches of Teshomech's is appealing to the eye and is appetizing.



Figure 7. A Meal for Three at Teshomech Kitfo Restaurant

Kitfo is a food which is stuffed with fat and protein, but even though most Ethiopians know this fact very well, they love eating kitfo.

The price of kitfo at Teshomech's is relatively expensive. The price at other kitfo restaurants which are found in the neighborhood is relatively cheaper when compared with Teshomech's price. For example, at Yohannes Kitfo Restaurant, the price of kitfo is 65 birr, at Yohemiya Kitfo it is 69 birr, and at Yegenye Kitfo Restaurant it is 60 birr. But at Teshomech's, the price of kitfo is 70 birr. Not many years ago, around 2002, the price of kitfo at Teshomech's was around 19 birr. But now, the price has almost quadrupled itself. This is making kitfo a food which is not affordable for many Ethiopians. Only those with good income can come and dine at restaurants like Teshomech's. The owners say this is the result of the escalation of the cost of living in the country. The components which are necessary for making kitfo are becoming very expensive from time to time. If a low price is set for the kitfo, it will be difficult to cover the cost of the inputs let alone to make a profit.

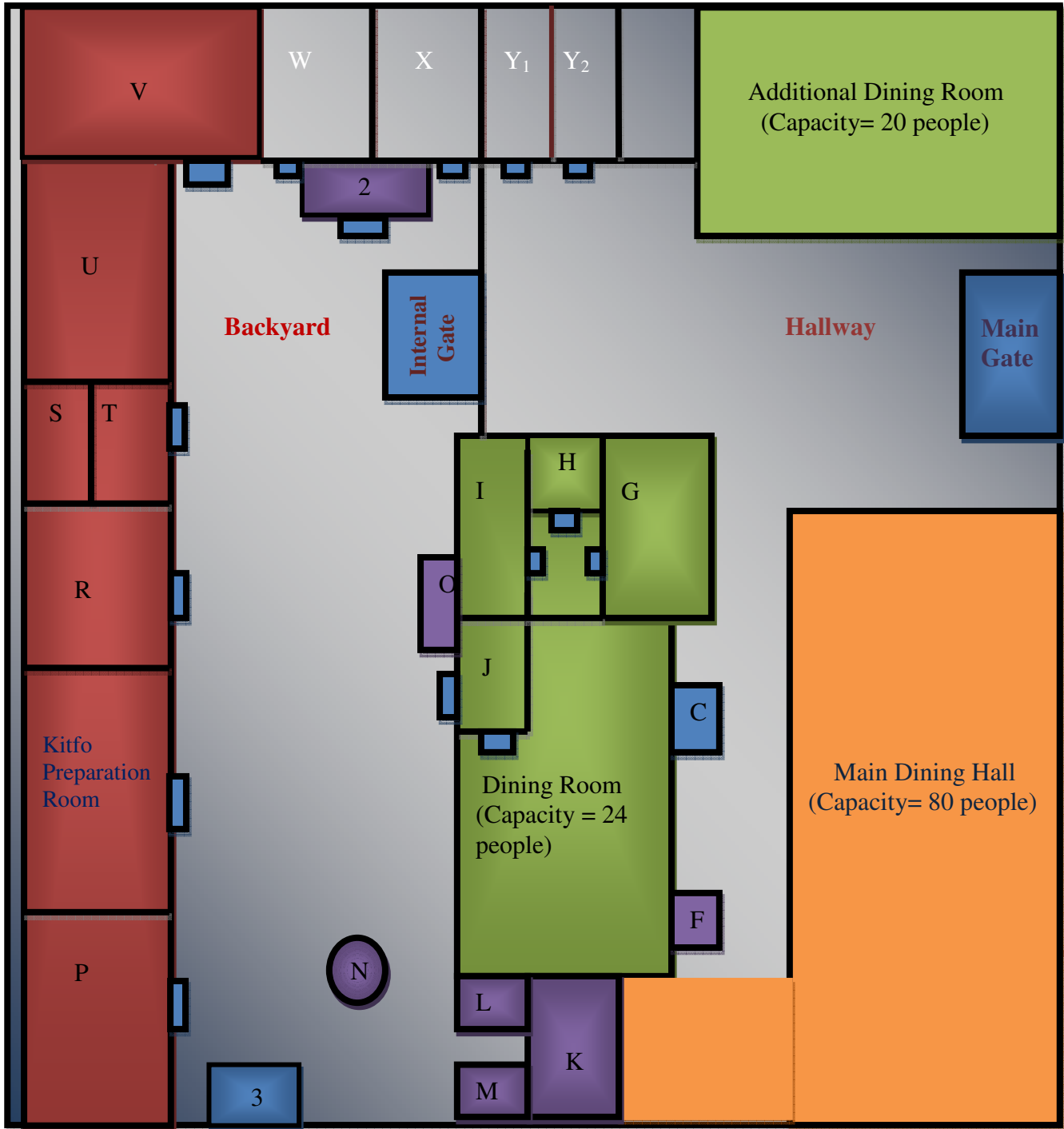


Figure 8. Layout of Teshomech Kitfo Restaurant, Haya Hulet Branch

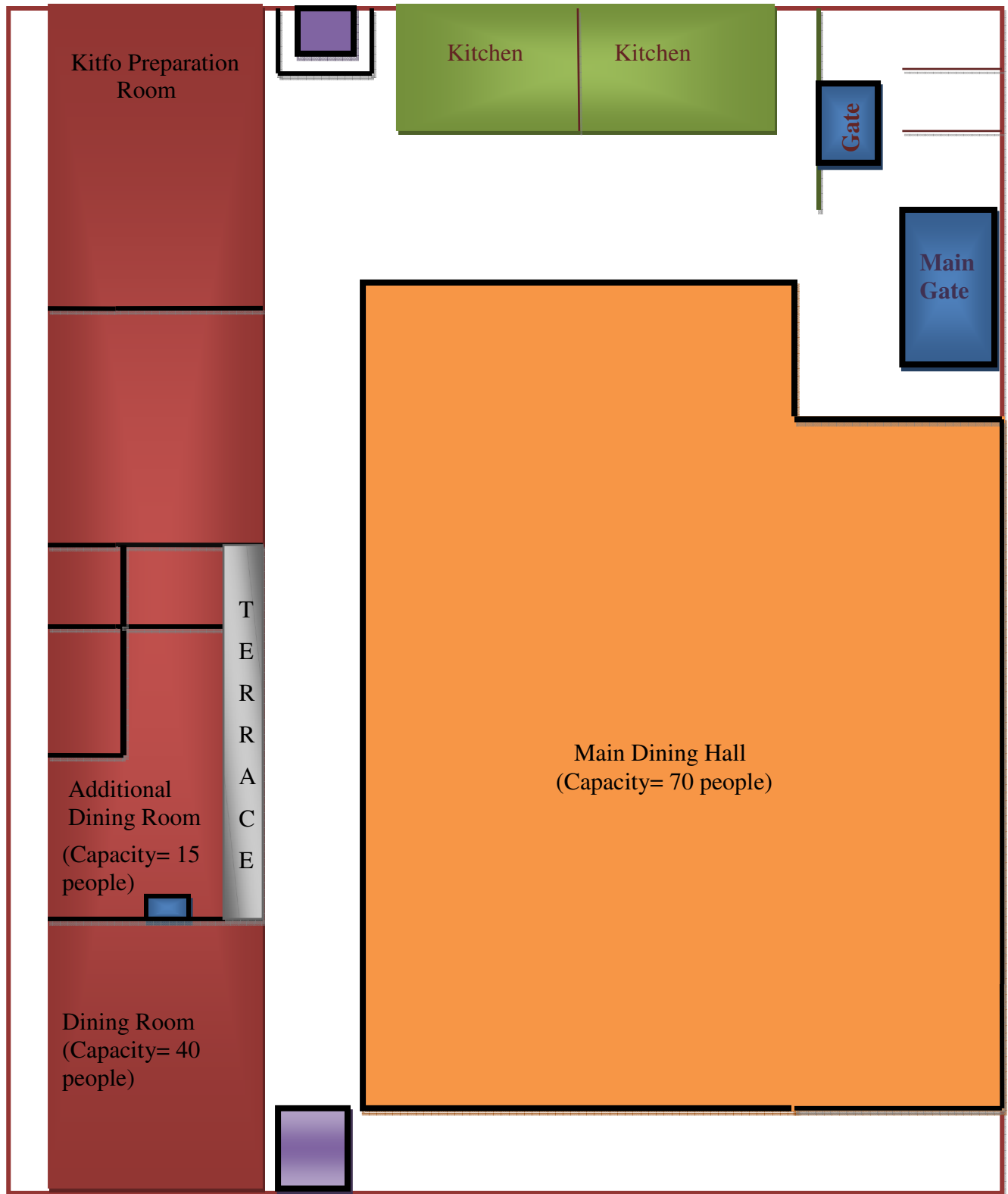


Figure 9. Layout of Teshomech Kitfo Restaurant, Wollo Sefer Branch

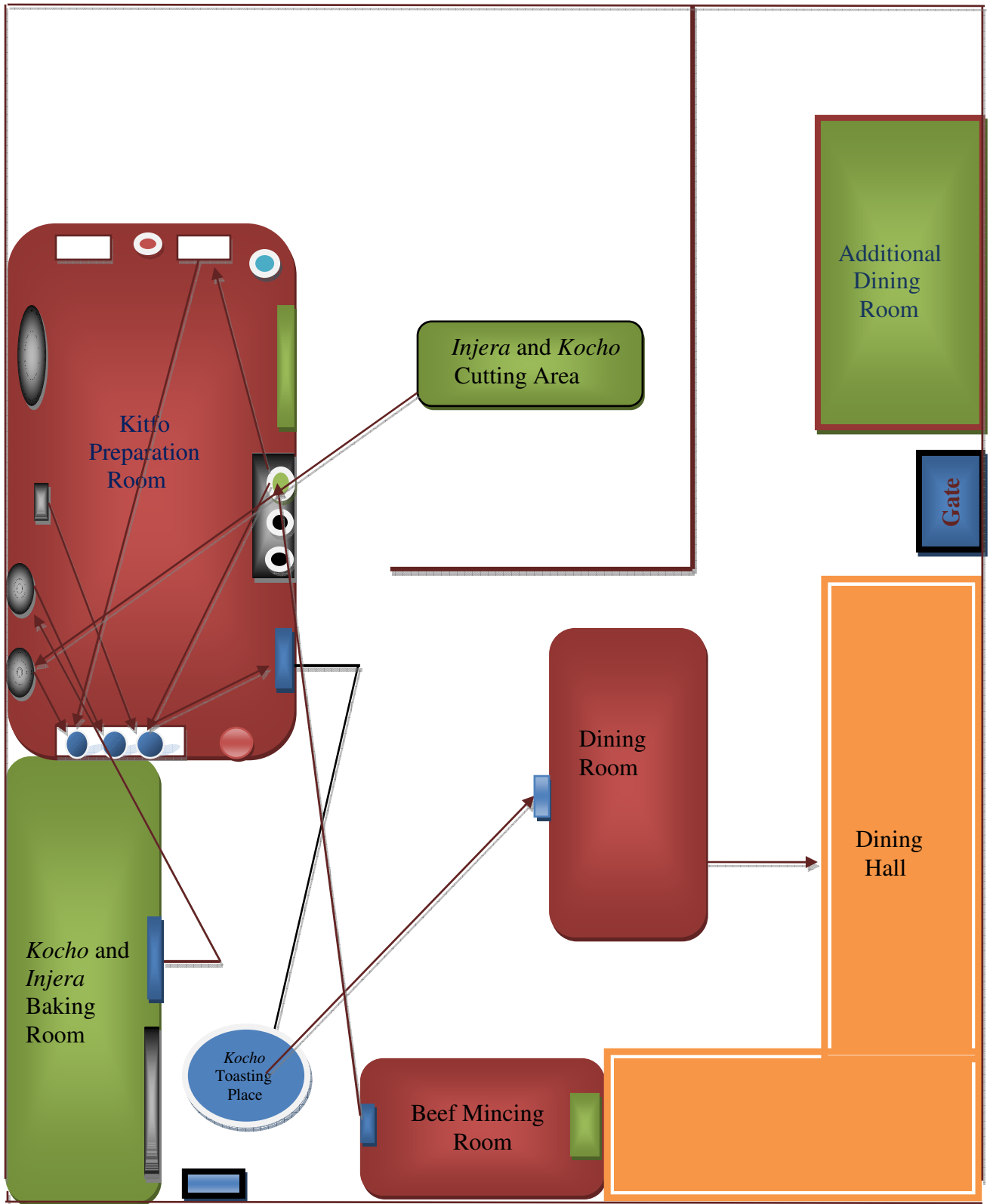


Figure 10. A Sample of Process Flow of Kitfo Preparation at Teshomech Kitfo Restaurant

3.9. New Product Development at Teshomech Kitfo Restaurant

As it was mentioned in the earlier parts, Teshomech Kitfo Restaurant is a specialty restaurant which is confined only to preparing mainly kitfo and in addition, spiced cabbage with meat. Many years before, it used to prepare other kind of national food i.e. *yefim tibs*, but now the owners have decided that they should concentrate on preparing kitfo only. Their reason for discontinuing preparing the other item on the menu was the difficulty of preparing other kinds of foods in addition to kitfo. They say kitfo is a kind of food which needs special attention for preparation. It has a long work process and it needs to be handled with care. If a given restaurant needs to prepare a delicious kitfo, they say, it should prepare kitfo only.

The Guraghe culture is rich in delicious foods. There are foods called *kokosye*, *zemamojat*, *ekuwet*, *gomen kitfo* and so many others. All these items are prepared from cabbage, cheese and meat, the components that Teshomech Kitfo Restaurant is currently using for kitfo making. So, considering to add some of these items on their menu can be a good option for the restaurant.

3.10. Which Strategy to Pursue: Expansion or Franchising?

Teshomech Kitfo Restaurant is a well known restaurant in Addis Ababa. It has many loyal customers. These customers come from different places, near and far, to dine at the two branches of the restaurant. The city is expanding from time to time and people are moving from the center to the developments which are located much further from the city center. So, Teshomech Kitfo Restaurant is becoming less accessible for its customers because it has only two branches which are located at relatively central areas of the city. The customers who have a better means of transportation can come and dine but the majority of them will be forced to switch to other nearby kitfo restaurants. Taking into consideration the increasing number of the kitfo restaurants in the city and the fierce competition that exists, not being accessible is a big disadvantage for the restaurant. Also, it must not be forgotten that Teshomech's price is one of the highest in the kitfo making business. So, businesses charging higher prices must have competitive advantages which differentiate them from their competitors, and having many branches and increasing their accessibility can be one of them. The question here is how Teshomech Kitfo Restaurant can become a more accessible restaurant.

Accessibility can be effective mainly through two ways: either through expansion or franchising. The owners of Teshomech's realize that they are not providing their customers adequate access. Also, while observing the experience of the other kitfo restaurants in Addis Ababa, one can see that the maximum number of branches that they have does not exceed three.

The owners of Teshomech's agree that they should open branches throughout the city even in up-country areas. But, they are unable to do this due to many reasons. The main reason that they mention is the nature of the work which requires close supervision and continuous follow up from the side of the owners. In order for a given kitfo restaurant branch to be well managed, the business needs to have at least two persons who know the whole work process and who has the ability to run and control the business effectively, one male and one female. Especially, those who prepare kitfo need to be watched closely because they are likely to make mistakes due to carelessness. Their mistake costs the restaurant a lot. So, a person who is responsible and well acquainted with the work must always be there to observe the situation. It is preferable if these persons are family or relatives because due to their connection, they will feel more responsible and handle the job as their own. The two branches of Teshomech Kitfo are currently being run this way. The other possibility is finding people who can work and manage the work as the family currently does. The owners say finding this kind of people is not an easy task. Some people may be slow learners and others may grasp the skill within little time but will not stay long. After so many effort have been applied to train them they will resign by giving different reasons. Nowadays, finding the right person for a job is becoming a headache for most restaurant owners. They say it is because most of the female workers are migrating in large number to Arab countries mainly Dubai and Lebanon and this is creating a labor imbalance within the country. The owners of Teshomech's said even most of the female workers currently working in their restaurant are on the process of going abroad. This is creating a big instability in the job. Under such kind of frustrating situation, they say it is very difficult to think of expanding the business and being able to properly manage the current branches is good enough.

The other option is making a franchising agreement with interested parties. Because this arrangement is not widely known in the country, until now there are no people who came and asked for a permission to work as a franchisee of Teshomech Kitfo Restaurant. Currently, the escalating expenses of kitfo components as well as other necessary inputs needed for the operation are becoming very much discouraging even for people who are in the business let

alone for new entrants. Selling kitfo together with other foods might work for new entrants but selling kitfo alone is becoming a business that requires high capital both at the start-up and during the operation time. Also, declining real income and rising cost of living in the city is making most people stop dining outside their homes and this is a big threat for new starters. Taxation system is the other daunting factor that business people in the country are currently facing. Fifteen percent VAT is added to the cost which makes it even more expensive.

But the owners of Teshomech Kitfo Restaurant didn't want to hide the fact that even if a franchisee party is found who is interested to franchise Teshomech's, they might hesitate to enter into franchise agreement with the new party. They say this is because 'Teshomech Kitfo' is a name that took eighteen years of irksome work to build. The business had passed through so many hardships to reach to this level of success and to gain this reputation. In foreign countries it may not be difficult to find good and responsible franchisees since the idea and the system is well developed there. But here in our country, it definitely is very difficult to find a trustworthy person/people who will consider the name as their own and care for it. They may be interested only with the money, so they might not give that much attention for the name. They may destroy years of work within a small period of time through inadequate service, poor management, poor quality food and others. This will ruin the reputation of Teshomech's Kitfo Restaurant thereby opening the door for competitors. So, the owners say franchising is a risky proposal due to the lack of awareness of franchise agreements.

They owners also revealed that they still have strong desire to expand Teshomech Kitfo Restaurant throughout Addis Ababa if the situation allows. Otherwise, they say it is better to concentrate on the current branches and try to diversify into other businesses when opportunities come.

Chapter Four

4. Summary, Conclusion and Recommendations

4.1. Summary and Conclusion

Entrepreneurial activities play a big role in a country's economy by acting as a catalyst for growth. Entrepreneurs create new businesses, generating jobs for themselves and for those they employ. In many cases, entrepreneurial activity increases competition and, with technological or operational changes, it can increase productivity as well.

This paper presents a case study of a popular specialty restaurant in Addis Ababa. Among the different kinds of specialty restaurants which are found in Addis Ababa, an emphasis was made on kitfo restaurants since they are the most popular. For this particular study, Teshomech Kitfo Restaurant was selected among about 15 well known kitfo restaurants found in the city. Teshomech Kitfo was selected due to its longer existence, good reputation in the kitfo business and easy access to information that the MBA student has¹¹. The two branches of the kitfo restaurant were used to show the managerial and operational activities of kitfo restaurants as a whole.

Data was collected from primary sources mainly through interviews and personal observation. Secondary sources like journals, books, the internet, and other published materials were also used to obtain background information. The interviews were conducted with the owners and the managers of the two branches. Based on the data collected, attempt was made to show the kitfo making process, marketing effort, human resource management issues, location, physical setting and layout, food quality control, process flow design, product development, and future strategic concern of Teshomech Kitfo Restaurant.

After critically analyzing the findings of the study, the following conclusion is forwarded about entrepreneurship in Ethiopia in general and Teshomech Kitfo Restaurant in particular.

Even though the current entrepreneurial environment of the country is much better now than it was two decades ago, still there are challenges that both *necessity* and *opportunity entrepreneurs* are facing, and the case of Teshomech Kitfo Restaurant is no different. The owners have started

¹¹ The MBA student is the daughter of the owners of Teshomech Kitfo Restaurant

the business to get additional earning to support their family. After so many years of hard work and commitment, it has now become a popular and profitable business having many loyal customers. The main factors contributing to the success of the restaurant are food quality and service excellence. These are the competitive advantages of Teshomech Kitfo Restaurant. The quality of the food is assured through the careful preparation of the kitfo and the cleanliness with which the work is handled. The kitfo is presented to customers in a very attractive way. The waiters and managers provide friendly and courteous service to customers.

On the down side, the appearance of the two branches of the restaurant looks more like a full-service modern restaurant. Even though it is a cultural restaurant, it does not reflect the culture of the Guraghe people. The marketing effort does not seem to be adequate. There are no special programs offered at Teshomech's in contrast to competitors. Teshomech Kitfo is a restaurant which specializes in serving kitfo—customers are not given other options apart from spiced cabbage with meat.

Teshomech Kitfo Restaurant currently has only two branches which are situated at the central area of the city. On the other hand, the population in Addis is moving to the more distant areas. So, having only two branches in a large city like Addis Ababa makes Teshomech's inaccessible to many potential customers. Moreover, Teshomech Kitfo Restaurant charges the highest price in the kitfo business which is not affordable for many people given the rising cost of living in the country.

The restaurant has a human resource management system that so far has proved effective. Teshomech Kitfo has managers who are competent and experienced, and they are running the business effectively. However, the management may need to reconsider the employee remuneration system. The salary paid to some of the hard working employees of the restaurant is not adequate. They may also need to reexamine the future direction of the restaurant. In particular, they need to examine if expansion is the appropriate strategy for Teshomech's at this point and if so, how.

4.2. Recommendations

Based on the conclusion given above the following recommendations are proposed for Teshomech Kitfo Restaurant.

1. The management of Teshomech Kitfo Restaurant must try to create a cultural vibe at its two branches. There are customers who come to the restaurant not only to appreciate the food and the service quality but also the physical appearance of the restaurant. Therefore, management must, as much as possible, add cultural touches to the look of the restaurant. They must monitor the marketing activities of their competitors and must be prepared to make adjustments to new realities in the market.
2. The management must reconsider the salary of their female employees and must pay them a salary that is commensurate with the workload that they carry. They must take into consideration the work experience of senior workers while paying salary. In future, it is advisable to devise a formal salary scale system.
3. In order to minimize the waiting time of customers on busier days like Tuesday, Thursday, and Saturday, it is suggested that both women preparing kitfo work together during the peak demand hours, i.e. lunch time. It will speed-up the process flow thereby decreasing customer complaints due to long waiting time.
4. Attempt must be made to expand the kitfo preparation rooms of both branches. They seem a little congested given the number of activities performed in them.
5. Instead of guessing the proportion of the minced beef for a given order, a formal weighing mechanism for the beef should be developed. This will make the work of the kitfo making women much easier and reduce variations in the portions (i.e. the amount of kitfo given per person).
6. A variety of delicious foods are available in the Guraghe culture. There are foods called *kokosye*, *zemamojat*, *ekuwet*, *gomen kitfo* and so many others. So, Teshomech Kitfo has the opportunity of expanding their menu since customers would like to have additional alternatives of foods available at the restaurant.

7. The management should explore ways of preparing kitfo in a special and even more expedient manner for people who are in a hurry or who may want their meals fast. This might help distinguish Teshomech Kitfo Restaurant from other kitfo restaurants in the city.
8. The management must strongly explore potential expansion opportunities. Of the two options for expanding the business—adding more branches or franchising—the former option (opening new branch restaurants) appears to be a more attractive strategy.

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Appendix 1

March 18, 2007

CHOICE TABLES | ADDIS ABABA, ETHIOPIA

Where the Dinner Table Is an Altar of Thanks

By DANIELLE PERGAMENT

Teshomech Kitfo House

The top of the food chain in Addis Ababa is kitfo — raw, spiced beef — and nowhere does it better than the Teshomech Kitfo House, hidden down a bumpy, unpaved road flanked by abandoned dwellings and small flocks of sheep. Two iron gates and a mammoth acacia tree marked its entrance; this popular restaurant, it seems, is only for those who know its whereabouts.

The speakeasy vibe continued inside. There were no menus, the clientele was entirely well dressed local residents, and there was only one thing to order: kitfo, which literally translates to “diced into pieces” in Amharic. It is the favored way to eat meat in Ethiopia, for those who can afford it (an order of kitfo at Teshomech costs 33 birr, about \$3.55).

The owner, Antonios Tekle Mariam, a tall, affable man, told me that he named the restaurant after his wife, Teshomech. But it was not time for small talk — he weaved me through the patio and dining room packed with a lunchtime crowd, past a yard where banana palm fronds and cabbage were drying in the sun, and into his kitchen.

In one room, three women in white butcher’s coats were chopping up raw meat with machetes, discarding fatty pieces and neatly arranging the choice ones. The meat was brought to a second room, to be spiced, seasoned and occasionally sautéed.

“You can have the meat cooked if you like,” Mr. Mariam said. “But real kitfo is raw. It is just warmed for a moment and served.”

Actually, it's a little more than that. I watched as a teenage sous chef poured melted butter over the raw meat, warmed it in a wok (meat slightly warmed like this is called leb leb) and sprinkled it with a bright orange powder known as mit mita, a fiery mix of red pepper, mustard seed and salt.

Once it was blended (but still quite raw), she scooped the meat onto a banana leaf next to three sides: grated cheese, drawn butter and a cabbage, cheese and pepper sauce. A small wrap of injera was added before the banana leaf was whisked off to the dining room.

I was squeamish about eating the kitfo, but my curiosity got the better of me. It was faintly oily from the butter but warm and spicy, not unlike steak tartare, but with more kick.

“Anyone can prepare kitfo,” Mr. Mariam said, as we watched the women scurry about the kitchen, armed with machetes and wooden gavel. “But kitfo comes from the Gurage region. I am from the Gurage region, and everyone in Addis knows I make the best kitfo.”

He paused and took in the surroundings again — deftly sliced sides of beef, neat rows of flank steaks pounded paper thin, a table piled high with assorted ground meat. Then he smiled and made his only joke of the day: “It’s in my blood.”

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Note: The interview was conducted in Amharic. The following is an English translation of the interview questions.

I am conducting a case study of Teshomech Kitfo Restaurant as part of my requirement to complete my Master of Business Administration Degree at Addis Ababa University. I have a few questions that I would like you to answer. I appreciate your time and cooperation.

Early Phase

1. Why did you decide to open a kitfo restaurant?
2. When did you open Teshomech Kitfo Restaurant?
3. Where was it first opened?
4. With how much capital was the business stated?

Location choice

1. What factors did you consider in your location choice?
2. When and where was the second branch of Teshomech Kitfo Restaurant opened?

Product Types

3. What food types were served when you opened the restaurant?
4. What are the food types that your restaurant is currently serving?
5. Are you planning on adding new product types?

Kitfo Preparation Process

6. What are the components needed for making kitfo?
7. Do you have your own component suppliers?
8. How many kinds of kitfo do you prepare?
9. What does your kitfo preparation process look like?

Employment

10. How many employees were there when you started the business?
11. How many employees do the two branches of the restaurant have at present?
12. How do you recruit your employees?
13. What does your employee remuneration system look like?
14. What is your employee training and development strategy?
15. What are the challenges that you encounter with regards to the human resource management of the restaurant?

Customers

16. Who are your customers?
17. What measures do you take to keep your current customers satisfied and to attract new ones?
18. What does your marketing efforts look like?
19. What do you think are your restaurants' competitive advantages?

Quality Control

20. Do you have your own quality control system?
21. How do you assure food safety at the restaurant?

Managerial Issues

22. Who was the manager of the business when it was started?
23. Who are the current managers of Teshomech Kitfo Restaurant?
24. Are there any differences in management philosophy/practice of the two branches?
25. What are the challenges that you encounter while running the business?

Performance status

26. How do you evaluate the current performance of Teshomech Kitfo Restaurant?
27. What are the challenges impeding the performance of the restaurant?

Expansion Strategy

28. Do you plan to expand your operations? If yes, what does your future expansion strategy look like?

29. Do you consider other forms of expansion strategies for your restaurant—apart from adding facilities, such as franchising?