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Kentucky Fried Transparency

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Kentucky Fried Transparency

Timeline of Events:

Nov. 23, 2012: The website of a state-run newspaper alleges that a KFC supplier had been raising chickens in unsanitary conditions, and was using hormones and antibiotics to grow 'quick chickens' in 45 days. The allegations quickly spread online. KFC China responds online over the next few days, pledging to investigate.

Nov. 29: Yum issues news release saying it expects its China same-store sales to drop by 4% in the fourth quarter, blaming it on the weak economy and high year-ago growth.

Dec. 6: Yum holds an investor conference, again mentioning the economy and tough year-ago comparisons as reasons for the decline; doesn't mention concerns among Chinese consumers.

Dec. 18: Chinese state-run TV station CCTV airs a national broadcast alleging KFC improperly used antibiotics in chickens supplied by Chinese companies.

Dec. 21: Yum says it is cooperating with the Chinese government's review of two suppliers who provided chicken with unapproved levels of antibiotics and that recent publicity on the matter has resulted in a 'moderate sales impact the past few days.'

Jan. 7, 2013: Yum issues a filing with the SEC saying that due to publicity about the government investigation, same-store sales in China are expected to drop 6% in the fourth quarter, versus its earlier estimate of a 4% decline.

Jan. 10: Sam Su, CEO of Yum's China operations, apologizes to Chinese consumers for the company's handling of the issue.

Source: The Wall Street Journal

On January 11, 2013, the Wall Street Journal ran an article titled, *KFC's China Flap Holds Lessons for Investors*. The article outlines Yum! Brands Inc's (Kentucky Fried Chicken's parent company) troubles in China and raises the question, "When do shareholders of US companies need to know about a brand's problems abroad?"

[Original article \(1/12/2013\)](#) – may need to be logged in to UWT library to retrieve

According to their website, Yum! Brands is the leading retail developer in China with nearly 5000 restaurants in more than 800 cities. Their China division generates about 50% of revenue for Louisville, KY based Yum! Brands.

Management is concerned about transparency of accurate information to their shareholders and the market, maintaining their position as the largest provider of quick-serve food in China and the issue of food quality assurance. Your team has been asked to research this situation, analyze the current state of affairs and make recommendations to management of Yum! Brands as to how they should proceed.

The Yum! Brands 2011 Social Responsibility Report states:

About Us

Yum! Brands, Inc. is the world's largest restaurant company, with nearly 38,000 restaurants in over 110 countries and territories and over 1 million associates. At Yum!, we are truly proud of the unique culture we've built, one that's filled with energy, opportunity, and fun.

Our Food

We are committed to improving the nutritional attributes of our menu, promoting physical activity programs and always providing great tasting food. Operating great restaurants that meet the highest food safety standards is also part of this commitment and is evident in every aspect of our business.

The Environment

As Yum! continues on its journey to become The Defining Global Company that Feeds the World, we feel that we have a corporate social, economic, and environmental responsibility to our customers, employees, and shareholders to be forward thinking, and intentional in our environmental sustainability vision.

Our Huge Heart

We believe in giving back to the communities in which we work and live, making a positive difference in the lives of our customers and associates and their families. We provide financial support to charities across the world. We know that as individuals and as a system we can make this world a better place.

Throughout the [website](#), [annual report](#) and [social report](#) of Yum! Brands, there is a consistent message of dedication to quality food and nutrition, the environment, and contributing to their communities.

The management team is concerned about the reputational harm to Yum! Brands and specifically the KFC brand reputation in China. They also want to ensure that their corporate reputation is not affected by a perceived lack of transparency with issues that arise abroad. With nearly 38,000 restaurants in over 120 countries, Yum! Brands' growth strategy relies on the confidence of the market in their ability to:

- Build leading brands across China in every single category
- Drive aggressive international expansion and build strong brands everywhere
- Dramatically improve US brand positions, consistency and returns
- Drive industry leading long-term shareholder and franchisee value

What, if anything, should happen right now, and how will your recommendations will play out over the next few years?

This case provides you an opportunity to use your knowledge and research skills to explore the issues related to corporate social responsibility, reputation, communications, supply chain management, reporting transparency and multiple other related topics.

You have the next 72 hours to develop your presentation to the panel of judges who will represent the management of Yum! Brands. You will have 10 minutes to make your presentation and to convince the panel that your team's recommendations represent the best course of action at this time. The judges will then have 10 minutes to ask you questions about your recommendations. Be prepared to defend your position in a professional manner.

You may use any publicly available information about this article and the organizations involved. You may not contact the company, organizations, or the reporter for additional information.

This case description and the attached links are presented solely for the purpose of case study discussion. It is not intended to serve as an illustration of effective or ineffective management.