

## case study

# Clashing Values, Firm Identity, and Changing Social Norms: The case of Chick-fil-A

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## Learning Objectives

- To discuss the implications of adhering to the business' vision/mission/purpose statement in the face of changing social norms.
- To examine the response to an image crisis for a restaurant chain organization and the effects of sudden publicity on resulting financial outcomes.
- To consider how a company's expansion into new markets may be met with the repercussions of past perceptions.
- To understand how a focus on product and service quality may help to support a firm through times of potential crisis.

## Introduction

Dave has a dilemma. His son, Brandon has just recently had the opportunity to dine at the new Chick-fil-A that has opened in the area. Brandon has expressed his love for Chick-fil-A's food, is turning eight today and has requested a platter of nuggets for his party. Dave's friends and family all think highly of the popular quick service restaurant chain, praising its friendly employees and delicious menu. However, Dave was raised in a household with two fathers, and is a huge supporter of gay marriage and LGBT rights. The huge public uproar over Chick-fil-A's Chief Operating Officer Dan Cathy's hard-lined remarks made the viewpoints of Chick-fil-A's executives clear: marriage between a man and a woman is the only acceptable form of the institution. Dave doesn't want to disappoint his son and his friends, however he is uncertain if he should support the chain with his business. How can Dave make everyone happy while staying true to his personal beliefs?

The origins of Dave's dilemma stem from events that occurred a few years prior to his son's birthday party. On July 16th, 2012, during a seemingly routine interview on The Ken Coleman Radio Show, Dan Cathy makes a statement that ignites a storm of public outcry, "I think we are inviting God's judgment on our nation when we shake our fist at him and say, 'We know better than you as to what constitutes a marriage.' I pray God's mercy on our generation that has such a prideful, arrogant attitude to think we have the audacity to define what marriage is about." Though Cathy would later state that he was only attempting to solidify the company's perception in the eyes of the

public, for many, Cathy has just crossed the thin line which separates moral conviction and prejudice. This potentially inflammatory opinion is also projected on Cathy's family-run company. However, although the comment served to bring the Cathy family's moral values to light, a look at the history and company culture of Chick-fil-A shows that his expressed beliefs are hardly surprising.

## Origins of Chick-fil-A & Growth of the Company

From the beginning, the driving force of Chick-fil-A's success has been Truett Cathy. Spending his early years in a poverty-stricken household, Cathy combined his desire to work hard with an entrepreneurial spirit to open his first restaurant, the Dwarf House, in 1946. Notably, Cathy decided that the restaurant would not open on Sundays, to reflect biblical principles and allow time for attending church. The Dwarf House was a success in its own right, but the real breakthrough came from the creation of a fried chicken sandwich, which was derived from his mother's recipe. The sandwich was a runaway success with restaurants lining up to purchase the license to sell Cathy's unique concept, however Cathy worried about the lack of quality control that would result from selling the rights to the recipe. As a result, Cathy opened the first Chick-fil-A restaurant in Atlanta in 1967. By beginning a new restaurant concept, Cathy and his family were able to retain their high standards while still making their delicious food available to the masses.

Originally opened exclusively in shopping mall food courts, the fast food chain later expanded into free-standing units in the late 1980's, with drive-thrus adding a valuable component of service. Cathy's initial plans to expand were deliberately conservative as he was determined to retain ownership of the company. His chief concern regarding franchising the company lay in losing control of standards to local owners. Cathy's strategy was to turn the franchising of a Chick-fil-A into a relationship unique to today's fast food restaurant industry. When a new location is determined to be viable, the company seeks out potential owners and requires an initial commitment of \$10,000; an incredibly low amount compared to other firms. The owner is then put through an intensive training program before being allowed to begin operations, as well as agreeing to have no other active business ventures (Company Fact Sheet, 2015). The resulting business is then considered a relationship between the parent company and the owner, as opposed to a traditional franchise agreement.

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## Company Culture

It is easy to see the Christian values that were instilled into the Chick-fil-A company from its founders. A plaque emblazoned with a portion of the company's mission, "To glorify God" sits proudly near the entrance to the firm's headquarters in Atlanta, Georgia (Chick-fil-A Executive Bios, 2012). The decision to remain closed on Sundays is also a reflection of the company's culture, despite a prediction of adding \$190 million in new worth were the company to change this policy (PrivCo, 2012). The company's persistent emphasis on Christian principles raises the obvious question: Do Chick-fil-A employees necessarily have to subscribe to the Christian faith in order to stay with the company, and if so, to what degree? Cathy's answer is as follows, "Not at all, but we ask that you make your business decisions based on biblical principles. There seem to be no conflicts when we tell people of various faiths how important it is to stick to the Scriptures in business decisions. In the Scriptures we learn how to handle our businesses, how to give customers good service and how to treat employees." (Novack, 2012).

As a privately owned, family business, Chick-fil-A has considerably less parties involved in decision making compared to a publicly traded firm. The Cathy family occupies three executive positions, with younger generations actively involved in the corporate office. This level of control allows the chain to remain true to Truett Cathy's original Four Tenets, created in 1971 in response to the steadily growing number of restaurants:

1. Instead of selling franchises, Chick-fil-A will form joint ventures with independent Operators.

Cathy reasoned that this would, "guarantee quality, supervision, and the motivation of partnership." The turnover among Chick-fil-A operators is low at 5% a year. Among hourly workers, turnover is 60%, compared with the average 107% for the industry. Cathy states, "We tell applicants, 'If you don't intend to be here for life, you needn't apply.'" In addition, Cathy encourages quality interaction between Operators, team members and customers, both in the restaurant and in the community.

2. Stores will only be opened in major shopping malls.

Positioning the company primarily in shopping malls took advantage of a timely niche opening in the fast food marketplace as shopping malls were rapidly increasing in popularity. This was also a method by which the company could minimize capital costs per store. Today, Chick-fil-A owns many stores in a variety of locations outside of shopping malls, however, the emphasis on corporate control of where these locations are positioned remains the same.

3. Growth will be financed primarily internally.

By financing all new locations internally, Cathy guaranteed ownership would remain in his hands and that the company would be able to run according to Christian principles. It also diminished the chances that quality control might become unmanageable due to too fast a pace of growth. This principle remains in place today.

4. The chief emphasis will be on people.

"This," Cathy wrote, "is the essence of the philosophy of life that God has entrusted to us." Cathy continued, "Most (operators) feel that this is more than just a job. They feel either a divine call or the satisfaction of a desire to make a difference in the world. They contribute greatly to the development of teenagers who work in our restaurants, creating a wholesome atmosphere in which to work and modeling positive leadership traits that teenagers will take into their adult lives. Our Operators consider themselves to be mentors to the next generation." (Cathy, *It's Easier to Succeed Than Fail*, 1989).

To maintain Truett Cathy's Four Tenets, the strategic direction of Chick-fil-A's policies has remained in the family. As the second generation of leadership prepares to hand over the reins to their children, the core business principles have been instilled with nothing given for free. Incoming members of the Cathy family are required to spend multiple years with outside firms before coming on board at a store manager position. Advancement through the corporate ladder is earned in the same fashion as it would be for any other eligible candidate (Stanford, 2007).

A final notable Christian principle which Chick-fil-A has chosen to embrace is the principle of altruism. In 2010 alone, the last year for which tax information was available, Chick-fil-A donated well over eight million dollars to various charities. The focus of Chick-fil-A's corporate giving program is supporting youth, family and educational programs. The WinShape Foundation, an organization created by Chick-fil-A in 1982 to "help shape winners" and "facilitate personal growth", is responsible for funneling Chick-fil-A's donations to various charities which provide camping programs for more than 13,000 children annually, support 14 foster homes which care for more than 100 children, as well as a number of organizations which offer marriage enrichment retreats. Additionally, Chick-fil-A has awarded more than \$30 million in college scholarships to its hourly employees over the years. (About: WinShape Foundation, 2012)

However, some of the company's charitable efforts are not universally approved. Since 2003, Chick-fil-A has donated a staggering \$5 million plus to groups that support the conversion of homosexual men and women into what most Christians believe is a healthier, heterosexual lifestyle. Many of these organizations are considered by gay rights organizations to be hate groups. An even larger amount of money has been donated to Christian marriage counseling organizations that have stated they do not support the notion of marriage by couples who are of the same sex. These donations have been criticized by organizations such as the Gay and Lesbian Alliance Against Defamation, the National Gay and Lesbian Task Force, and the Human Rights Campaign. (Equality Matters, 2012)

## Dan Cathy Reacts

Dan Cathy awoke the morning of June 17th to find his comments from the afternoon before plastered across headlines nationwide. On the one hand, the response was startling; the social media era was

certainly well underway. In addition to traditional news outlets focusing on his comments, thousands of tweets, blogs and Facebook posts were already weighing in on the issue across public airways. The message was compounded even further by the timing. It was an election year and politicians of both parties were quick to express their opinion of the issue. Further, select members of the religious right began to raise up the Cathy family as champions of their cause, lengthening the news cycle and increasing public exposure. Negative spinoffs of Chick-fil-A's popular "Eat Mor Chikin" media campaign began popping up on the internet. No doubt consideration of the changing social environment of the United States were also running through Dan's mind. At the time Chick-fil-A was founded, the ramifications of taking a relatively hardline stance on a political issue such as gay marriage were considerably less than today's modern era. The increasing legalization and acceptance of LGBT rights, as well as the ability for a message to be instantaneously transmitted to millions of social media users, necessitated a much different thought process than in the past.

Two weeks after Dan Cathy's interview on The Ken Coleman Radio Show, he accepted an interview with the Baptist Press, a news service of the Southern Baptist Convention. As it happened, less than a month earlier, delegates at the annual meeting of the Southern Baptist Convention voted that marriage was "the exclusive union of one man and one woman". Cathy was expected to make a nondescript statement which would neither please nor anger either side of the debate. Shortly after opening the interview, Cathy was asked outright whether he opposed gay marriage. To the public's amazement, Dan Cathy flatly responded, "Guilty as charged. We are very much supportive of the family- the biblical definition of the family unit. We are a family owned business, a family led business, and we are married to our first wives. We give God thanks for that." In the eyes of the public, Cathy had clearly chosen a side: the company would maintain views which were in line with the Baptist faith which his father built the company on. Chick-fil-A had just openly declared themselves anti-gay.

### ***The Public Reacts***

Public opinion in response to Cathy's statements ranged from wholehearted support to disgust with the reactions and counter reactions by the opposing groups receiving widespread media coverage. Many gay rights organizations called for an all-out boycott of Chick-fil-A, demanding that anyone who had a stake in the matter "pick a side". After Cathy's interviews with the Baptist Press went public, Thomas Menino, the Mayor of Boston stated that he would not allow the company to open franchises in the city unless the company "opened up its policies." In Chicago, Alderman Proco "Joe" Moreno announced that he would under no circumstances allow Chick-fil-A to build a second store in the city stating, "They'd have to do a complete '180.'" The Mayor of Chicago, Rahm Emanuel echoed Moreno's sentiments stating, "Chick-fil-A's values are not Chicago Values." Emanuel would later go on record

stating, "They disrespect our fellow neighbors and residents. This would be a bad investment, since it would be empty." Days later, the Mayor of San Francisco echoed the sentiments of both the Mayor of Boston and the Mayor of Chicago stating in a tweet, "Very disappointed Chick-Fil-A doesn't share San Francisco's values and strong commitment to equality for everyone... Closest Chick-fil-A is 40 miles away & I strongly recommend that they not try to come any closer." Students at Northeastern University passed a resolution in the student senate to cancel plans for a Chick-fil-A franchise on campus, stating that "the student body does not support bringing CFA to campus." Davidson College in North Carolina announced that, in response to a petition which received 500 signatures, the school would stop serving Chick-fil-A on campus.

Other forms of protest occurred. Most notably, gay rights activists organized a "Kiss Off" to occur on August 3rd in Chick-fil-A locations across the United States, an event where LGBT (Lesbian, Gay, Bisexual, Transgender) individuals were asked to show affection to one another at or near their local Chick-fil-A in order to protest the restaurant chain. In response to the Baptist Press interview, the Jim Henson Company, which had made a licensing arrangement with Chick-fil-A in 2011, announced that it would cease business relations with the fast food company and donate the planned payment for the brand to the Gay and Lesbian Alliance Against Defamation organization.

Negative effects were not only felt in the public arena, but also had repercussions for Chick-fil-A's supply chain, notably on chicken suppliers like Tyson Foods. A closer examination of the daily share price for Tyson showed that the largest drop as well as the highest volatility of trading occurred between August 3rd and August 6th 2012; the timeframe immediately following the comments made by Cathy (Bloomberg), clearly demonstrating that there is a definite correlation between Chick-fil-A and Tyson Foods, and that in reaction to the negative publicity based on the anti-gay comments, share prices fell steeply for Tyson Foods, showing the inter-relatedness of the two companies.

A second negative impact to Chick-fil-A was one of an intrinsic nature. The polling organization YouGov, an international internet-based market research firm based in the United Kingdom, did a study on the effects of the comments by Dan Cathy on the brand's image and found that in the span of two days the brand's image had fallen 25 points in the span of 3 days. The metric for this measurement is the BrandIndex scale, which is measured by National QSR Restaurant Sector. The scale has a spectrum of 100 to -100 (100 being the highest and -100 being the lowest) and prior to the comments being made the brand had a score of 65, and three days later the score had fallen to 40.



These numbers in some way represent “an America that values and respects its LGBT neighbors and rejects rhetoric like Dan Cathy’s that seeks to demean and de-humanize the LGBT community” (Marzilli, 2012). Thus, the polarizing nature of the comments made by Dan Cathy, and the widespread negative response from the strong contingent of gay rights support groups came down in full force and damaged Chick-fil-A’s brand image as well as alienated customers.

In response to the outcry against Chick-fil-A, former Arkansas Governor Mike Huckabee initiated a Chick-fil-A Appreciation Day movement to counter a boycott of the restaurant launched by the company’s opponents. The public response was staggering. Over 600,000 individuals signed up to attend the event on Facebook. On August 1st, Chick-fil-A restaurants experienced a show of public support across the nation resulting in unprecedented sales (Weiler, V., Gerardo, P., Farris, P.W., & Simko, P.J., 2013). A consulting firm that analyzed the event estimates that the average Chick-fil-A restaurant increased sales by roughly 30% netting on average 367 more customers than a typical Wednesday (Bloomberg). From these statistics, it becomes clear that although there was considerable backlash stemming from the comments by Dan Cathy, the bottom line financial performance remained positive, due in large part to outspoken and well-connected supporters of the brands’ Christian roots (i.e. Glenn Beck).

### *Eat Mor Chikin...?*

Due to the fact that Chick-fil-A is a privately held company, financial data is not released to the public. However, according to the company’s website, “system-wide sales in 2012 reached \$4.6 billion... these figures represent a 14 percent increase over the chain’s 2011 performance and a same store sales increase of 8 percent”. Further, the restaurant chain has consistently grown its sales to reach \$5.1 billion in 2013 and \$6 billion in 2014 (Company Fact Sheet, 2015). The average Chick-fil-A store reports \$3.3 million in sales annually, com-

pared to industry giant McDonald’s \$2.5 million; an impressive feat given that Chick-fil-A operates only six days a week (Bixler, 2014).

In the present day, the continued financial growth and resiliency of Chick-fil-A is perhaps more understandable given the incredible impact its food and service has had on consumers. Superior levels of service quality, such as those for which Chick-fil-A has been often recognized, have been found to produce customers who become loyal to the organization, in turn producing favorable financial outcomes for the firm (Zeithaml, Berry & Parasuraman, 1996). The chain regularly wins awards in the quick service category from notable organizations such as JD Power and QSR Magazine. Chick-fil-A has also received top honors from Sandelman & Associates’ QSR Awards of Excellence, where scores obtained from consumers were significantly higher than strong competitors such as Chipotle and Five Guys Burgers & Fries (Sandelman & Associates, 2015). Perhaps just as important as its high levels of quality, the restaurant chain occupies a very unique space in the quick service industry. With a highly recognizable advertising campaign, proud declarations of their scholarships, incredible attention to children and a distinct response to customers (“My Pleasure”), Chick-Fil-A is considered by many to be a superior overall experience in comparison to its competitors.

The effects of Dan Cathy’s statements may have brought an upswing in sales temporarily due to strong support from certain quarters, however the firm faces opposition to opening stores in new markets. As Chick-fil-A attempts market entry into New York and the northeast region of the U.S., local politicians have made their opinion of the restaurant chain abundantly clear. Yet, the appeal of the chain cannot be denied: in 2014, Chick-fil-A captured the most market share (26.3%) for chains that served chicken as its primary meal, overtaking the spot long held by KFC (21.9%) (Bixler, 2014). As well, and perhaps more significantly, Chick-fil-A has become the most ‘kid-friendly’ restaurant over long-time incumbent McDonalds. This distinction signifies the

significant progress Chick-fil-A has made in becoming a favorite of the Millennial generation and younger families (Sandelman & Associates, 2015). The potential growth of the chain, with incredible room for expansion into the heavily populated Northeast cities, has been predicted to launch the firm into a top five competitor for the quick service restaurant industry (Bixler, 2014).

Yet one has to wonder if Chick-fil-A was fortunate in how the publicity event played out. A recent overlook in a new Indiana state law regarding the religious freedom of a business effectively allowed a business to discriminate against LGBT patrons by citing that the restaurant could refuse service based on their religious beliefs. A hasty amendment closed the loophole, however not before bringing the issue to the attention of the nation. On a wider scale, discrimination in restaurants (and other sectors of the service industry) on the basis of sexual orientation is only protected against where explicitly stated; which is not the case for multiple states, or on a federal level (Tripp, 2015). If the definition of a hospitable organization refers to being a kind and welcome host, than the exclusion of any individuals would seem to run counter to this concept.

Dan Cathy's remarks may have reflected his personal beliefs, however these values have the potential to conflict with both internal hiring practices and business opportunities in the future. The growing population and legal protection of LGBT individuals and families has the potential to make this an issue which Chick-fil-A will have to address in the near future. One estimate places the value of the 2014 LGBT travel market at \$181 billion globally; a number that will take any firm's executive take notice (Trejos, 2014). Major hospitality firms such as Marriott and Hilton have been very forward about embracing the LGBT community in their properties. With customized services that allow for comfort and an acknowledgement of an alternative lifestyle, the hotel chains are recognizing the business potential for this market segment well ahead of many of their competitors (Trejos, 2014). Similarly, Marriott's diversity and inclusion policies show a commitment to taking care of every guest, regardless of demographics (Marriott, 2015). The increase in legislation and acceptance of these non-traditional lifestyles may also run counter to the equitable treatment of Chick-fil-A's LGBT team members. The Human Rights Campaign, an organization committed to auditing organizations in relation to a firm's treatment of LGBT employees, rated Chick-fil-A a "0"; in comparison to substantially higher scores from competitors such as McDonalds and Burger King (Human Rights Campaign, 2014).

### ***Moving Forward***

It can be argued, as evidenced by the sales growth that Chick-fil-A still enjoys, that the negative publicity resulting from Dan Cathy's comments still served to drive loyal customers to support their chosen brand. However, it should be noted that Chick-fil-A has quietly made some concessions in response to the event, withdrawing their financial

support for the majority of the controversial organizations associated with an anti-gay point of view. Donations to organizations previously identified as hate groups have dwindled to almost nothing, with the foundation responsible for the funds, the Winshape Foundation, fading from the high level of attention once paid to it by Chick-fil-A press (Comer, 2014). In its place, the Chick-fil-A Foundation was created in 2013 as a charitable organization that could distinguish itself from previous entities which were seen in a negative light by LGBT political groups. By focusing on non-politically motivated areas such as food banks, public schools and assisting impoverished youths, the foundation remains relatively neutral in its funding and provides an outlet for charitable giving from the company.

More recently, Dan Cathy has expressed regret for his remarks, commenting that in the future, he would leave social issues to politicians and special interest groups. While the Cathy family's personal values with regards to the institution of marriage remain unchanged, Dan recognized that the debate is better suited outside of the restaurant chain and serves to alienate market segments from the company (Stafford, 2014). Cathy's decision to back away from the limelight has been answered with consternation from other Christian groups, who had championed the chain as a rallying cry in the debate over gay marriage. It is also evident that the stigma associated with Cathy's beliefs remains strong to this day, with politicians in many major markets showing their opposition to Chick-fil-A's expansion. New stores planned for New York City in particular have been met with hostility from local politicians, who are concerned that the message sent by Chick-fil-A is still reflective of anti-gay values. In the words of one New York City councilman, "They are not welcome here unless they can embrace all of New York's diverse community, including the LGBT community" (Kaufman, 2014). Even more recently, the Student Government Association of Johns Hopkins University voted to deny a Chick-fil-A store on campus, citing the anti-LGBT remarks from three years prior (Filloon, 2015).

### ***The Question of Waffling***

As a firm, the management of Chick-fil-A has an ongoing decision to make. A strong corporate identity has been shown to be vital to differentiating a firm from its competition, as well as giving customers a solid touch-point upon which impressions can be formed (Albert & Whetten, 1985). It can be argued that the stance taken by Chick-fil-A is a reflection of this concept, creating a relatively clear definition of how the company wants to be perceived. The negatives stemming from this identity, in this case, supporters of LGBT values and rights, are hoped to be compensated by high levels of quality. Service and product quality have been shown to drive customer retention, yet in the face of a changing society, it remains to be seen how far quality can carry a company financially (Cronin, Brady & Hult, 2000). There is a distinct possibility that the stigma associated with Chick-fil-A's position may outweigh the pub-

lic perception of the firm's food and customer service.

For now, a few key questions remain to be answered by the management of Chick-fil-A: should the firm bow to political and popular pressures that run counter to their biblical beliefs? Or does their strong commitment to the ideals upon which they were founded represent something even more valuable for their business? Finally, as the firm grows into new markets, how will the perceptions of potential customers like Dave be realized? Will the same level of financial success be realized, or will the negative perceptions of the Cathy family's personal beliefs hinder sales?

### Discussion Questions

- If you were in Dave's position, would you give Chick-fil-A your patronage? Does the expressed opinions of a company's leaders reflect the business as a whole?
- As gay marriage legalization and acceptance grows, do you believe the negative results of Dan Cathy's remarks will continue to hurt Chick-fil-A's brand image? If so, in what fashion?
- In what ways does the brand image crafted by Chick-fil-A differentiate itself from other quick service restaurant firms?
- Chick-fil-A is a privately run company with no presence on the stock market. If the restaurant was a public enterprise, how do you believe the Cathy family's response to the negative publicity would differ?
- If the type of negative perception experienced by Chick-fil-A was attributed to a competitor such as McDonald's, do you believe the resulting reaction would have been similar? Would the financial outcome have been as favorable?
- Pick a hotel or restaurant that you are a fan of and find the company's mission/vision statement (this could be listed as a purpose statement as well). Do you feel that this statement adequately portrays how the business operates?