Operational Risk Management In The Restaurant Industry – A Case Study Of The Largest Restaurant Chain In Vietnam

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Abstract

Research purpose:
This comprehensive study analyzes the current risk state within the largest restaurant chain in Vietnam. Identified risks in the restaurant chain include process execution, food safety, labor safety, financial management, restaurant reputation, tangible asset loss, system failures, and internal fraud.
Research motivation:
The critical need for effective risk management strategies within the largest restaurant chain in Vietnam, driven by the industry's heightened vulnerability to risks such as food safety, operational inefficiencies, and financial instability. By exploring the root causes of various risks and proposing advanced management strategies, the research aspires to contribute significantly to enhancing the risk management capabilities of the Vietnamese restaurant industry, thereby safeguarding its long-term viability and competitiveness.
Research design, approach, and method:
The author employs a mixed-method approach, combining quantitative data from the investigation and survey of risk events throughout 2023 with qualitative analysis to explore the root causes of these risks.
Main findings:
The results indicate that risks are primarily concentrated in three main groups: food safety, process execution, and workplace safety. Furthermore, the study reveals differences in risk distribution between restaurant chains in Vietnam's Northern and Southern regions. Risk events are also more prevalent in major cuisines which are BBQ, Hotpot and Others, particularly in Hanoi and Ho Chi Minh City. The study also highlights that inconsistencies in employee training, insufficient supervision, and the underutilization of modern management technologies contribute to operational challenges.
Practical/managerial implications:
The research underscores the necessity of adopting advanced risk management strategies, including integrating artificial intelligence (AI) and blockchain and incorporating ESG criteria into risk management to enhance risk detection, improve transparency, and strengthen brand reputation.

Keywords: Risk, risk management, the restaurant chain, Vietnam

1. INTRODUCTION

The post-COVID-19 landscape has heightened the urgency of risk management in the Vietnamese restaurant industry. Businesses are contending with financial instability due to factors such as increased operating costs, reduced consumer spending, and climate change challenges. The global economic downturn and shifts in consumer demand have led to a 38% closure rate and a 30% revenue decline for food service businesses in Vietnam in 2020. Inflation and stringent monetary policies have further exacerbated the situation, raising input costs by 10-15%.

Moreover, the industry is undergoing transformation with the adoption of emerging technologies such as AI, IoT, and Big Data, which are enhancing efficiency and fostering innovative business models. Compliance with environmental regulations has led to a 20% increase in costs, while demographic changes and evolving legal landscapes present multifaceted business challenges, including adapting to changing consumer preferences, meeting social responsibility expectations, and navigating complex legal requirements.

Furthermore, cyber security risks and health crises, like pandemics, pose threats to restaurant operations. In light of these challenges, effective risk management is crucial for the sustainability and growth of Vietnamese restaurant businesses. This study is aimed at providing practical risk management solutions based on research at a major restaurant chain in Vietnam, offering tangible tools to address the challenges faced. The paper will outline the research framework, methodology, results, discussion, and recommendations, charting a course for the future and inspiring confidence in the industry.

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2. RESEARCH FRAMEWORK FOR RISK MANAGEMENT IN THE RESTAURANT INDUSTRY

2.1 Risk

Risk is a common concept in management and business, understood as the possibility of an event or situation occurring that could negatively impact the objectives or expected outcomes of an organization or individual. ISO 31000 defines *risk* as "the effect of uncertainty on objectives," including positive and negative effects (ISO 31000, 2018). This means that risk is not only associated with adverse outcomes but can also relate to opportunities or positive results if appropriately managed. In the business context, risks are often categorized into types such as financial risk, operational risk, legal risk, and strategic risk. Each type of risk requires different management and control measures to minimize its impact on the organization. *Risk* can also be defined as the likelihood of an event or situation affecting an organization's ability to achieve its strategic objectives (Lam, 2003). Lam emphasizes the necessity of proactive and comprehensive risk management to protect and optimize the value of the business (Lam, 2003). Therefore, risk is unavoidable in all activities, and the urgency of effective risk management cannot be overstated in achieving goals and ensuring the organization's sustainability.

2.2. Risks in the Restaurant Industry

Risks in the restaurant industry can be understood as any factors or events that may cause losses, disrupt operations, or reduce service quality, affecting customer satisfaction and the business's profitability. Based on their origins and impacts, risks in the restaurant industry can be categorized into various groups. Some common risks are food safety, financial management, service quality, and legal risks.

Food safety is one of the most significant risks for restaurants as it directly affects customer health and the business's reputation. This risk can arise from improper food storage, contamination during processing, or the use of low-quality material. According to research by Kim et al. (2013), the lack of food safety controls can lead to food poisoning incidents, causing severe damage to the restaurant's reputation and profitability.

Financial risks in the restaurant industry are often associated with fluctuations in the cost of ingredients, employee wages, and other operational expenses. Factors such as inflation, exchange rate volatility, or changes in tax policy can all impact a restaurant's profitability. Park and Kim (2016) shows that liquidity ratios and financial efficiency are critical factors affecting financial risks in the restaurant industry.

Service quality is a crucial determinant of customer satisfaction, and any decline in service quality can lead to customer loss and decreased revenue. This risk may arise from inadequately trained staff, ineffective management, or inconsistent service processes. Frazer (2012) emphasizes that failing to maintain an effective internal control system can lead to a decline in service quality, negatively affecting the restaurant's business performance.

Legal risks in the restaurant industry may include non-compliance with food safety regulations, labor safety, and other legal requirements related to business operations. Such violations can result in fines, suspension of operations, or even closure of the restaurant. Shanker et al (2021) points out non-compliance with legal regulations can significantly increase restaurant risks, especially in partnerships with logistics service providers.

Risks in the restaurant industry are inevitable and require strict management. By understanding and effectively managing these risks, restaurants can protect their profitability, maintain service quality, and ensure legal compliance, creating a stable and sustainable business environment.

2.3. Operational Risk Management in the Restaurant Industry

Operational risk management in the restaurant industry is crucial for ensuring successful and sustainable business operations. Effective operational risk management allows for the timely identification, assessment, and response to potential threats, such as food safety incidents, cost fluctuations, and customer service issues, thereby protecting profitability and maintaining customer satisfaction. Numerous studies have highlighted the importance of risk management across various aspects of restaurant chains, including finance, legal issues, marketing, product quality, technology, human resources, strategy, partnerships, and supply chains.

Gu and Kim (2002) conducted a study on systemic risk in restaurant businesses, with their findings emphasizing the direct impact of asset efficiency and liquidity. Their analysis revealed that these two factors are crucial in determining systemic risk. A subsequent study by Park and Kim (2016) expanded on this by identifying factors such as liquidity ratios, efficiency ratios, leverage ratios, and company size in determining systemic risk. They observed that the impact of these factors decreases as the level of risk increases, implying that as business risk rises, the effectiveness of risk management measures diminishes.

Frazer (2012) noted that over 67% of restaurants fail within the first three years of operation due to inadequate internal control systems. Meanwhile, Kim et al. (2013) showed that increased advertising expenditure can heighten the equity risk of restaurant businesses. In their study on supply chain risk management in the fast food industry in New Zealand, Cui and

Basnet (2015) highlighted that dependence on foreign suppliers and stringent food safety standards increase the industry's vulnerability. Shanker et al (2021) studied the risks associated with partnerships between restaurants and third-party logistics providers, identifying risks at both macro and micro levels.

The latest research by Aarti and Rachel (2023) has further underscored the importance of effective operational risk management. Their study indicated that effective risk management not only mitigates potential threats but also enhances customer loyalty and improves business performance. This finding reinforces the significant role of risk management in the restaurant industry.

3. METHODOLOGY

This report employs a mixed-method approach, combining quantitative and qualitative research methods to conduct a detailed analysis of risk events (RE) within the restaurant system throughout 2023, focusing on the fourth quarter of 2023. Data was collected from various sources, including CCTV systems, internal control reports from Compliance Assurance (CA), Quality Assurance (QA), Franchise Audit (FAU), Health, Safety and Environment (HSE), Mystery Shopper (MS), Customer Satisfaction (CS), and incident logs from the field. The quantitative method was applied to statistically analyze the frequency of risk events based on criteria such as event type, geographic location, and restaurant brand. The qualitative method was used to analyze the root causes of risk events by assessing detailed reports and on-site observations. Once collected and analyzed, the data was presented through tables and risk maps to provide a comprehensive and detailed view of the risk management situation within the restaurant system.

4. RESULTS AND DISCUSSION

The operational risk report for restaurants in 2023 indicates that the restaurant system faces significant challenges in managing and controlling risks. The total number of risk events 2023 reached 114,670, highlighting the need to improve the current risk management system (Figure 1). These risk events were primarily concentrated in three main groups, accounting for over 90% of the total events: (i) Process execution (delays, incorrect task execution); (ii) Food safety and hygiene (mainly related to food safety); (iii) Labor and workplace safety (fire prevention, safety, and labor protection).

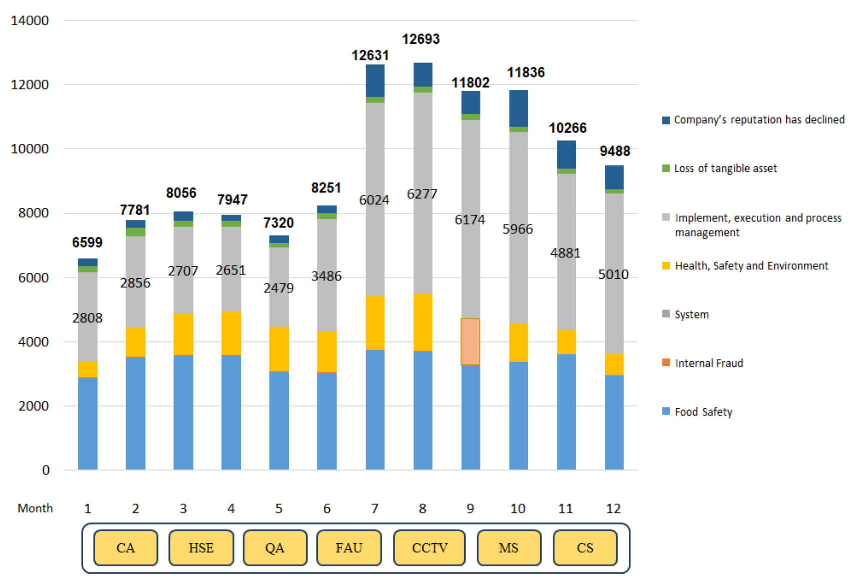

Fig. 1. Statistics of Risk Events in 2023

Source: Compiled by the author

In addition, the statistical results also indicate that the Southern region continues to report a higher number of risk events than the Northern region (approximately 8% more). This disparity may stem from differences in process implementation and supervision, as well as inconsistencies in training quality and compliance with internal regulations (Figure 2).

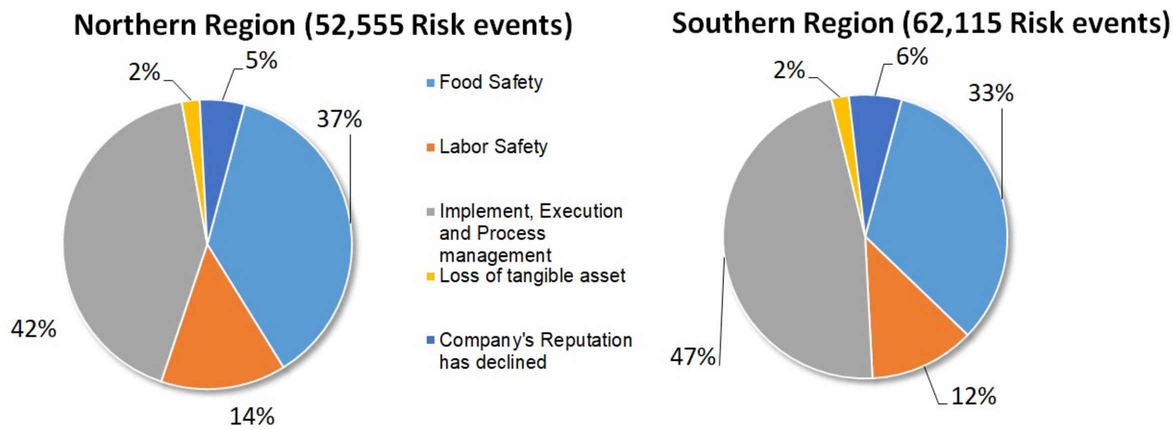

Fig. 2. Risk Event Statistics in the Northern and Southern Regions

One of the most significant risk groups is related to process implementation, execution, and management, with 15,857 events recorded in the fourth quarter of 2023. These issues include slow food/beverage service, delayed table clearing/setup compared to regulations, incorrect food preparation processes, and errors in inventory management. The second highest risk group is the food safety and hygiene risk group, with 9,897 events involving prominent issues such as unsanitary utensils, processing and storage areas, unclean processing spaces, inadequate waste handling processes, and processing areas with residual water, grease, or leftover food. Additionally, materials and food products failed to meet standards (foreign objects, contaminants, insects, etc.). The labor and occupational safety risk group, with 2,565 events, focused on violations of fire safety regulations, electrical safety issues, risks of gas leaks, and explosions due to unsafe gas systems and charcoal ignition systems. The corporate reputation risk group, with 2,784 events, included behaviors such as violating customer service standards and breaches of brand image criteria. These risks are not just operational; they are also damaging our corporate reputation. All these risks indicate a lack of employee training and process supervision. These errors reduce service quality and resource waste and increase operational costs. The primary causes stem from inconsistencies in employee training, lack of care and responsibility, and a supervisory system that is not robust enough to detect and promptly address arising issues (Figure 3).

Fig. 3. Major Risk Groups in 2023

Source: Compiled Report by the Author

On the other hand, the results of the analysis also reveal the frequency of risk events occurring in the business units of the restaurant chain. There is a significant disparity between the Southern and Northern regions and among different cuisines. The listing of risk events shows that 80% of the events occurred in the top major cuisines, with differences between the South and the North. The rate of risk occurrence in the restaurant chains also varies between regions. In the North, risk events were primarily concentrated in the Hanoi area, with 9,976 events (accounting for 71.9% of the total events in the North). BBQ cuisine recorded the most events, with 4,138 occurrences. The average number of risk events per restaurant in the fourth quarter of 2023 was 62.8 events/restaurant, with 5 out of 12 business units exceeding the average rate, highlighting the need for targeted risk management in those units. In the South, the events were primarily concentrated in Ho Chi Minh City, with 11,726 events (accounting for 66.18% of the total events in the South), and BBQ cuisine again recorded the most events with 5,910 occurrences. The average number of risk events per restaurant in the fourth quarter of 2023 was 61.7 events/restaurant, with 4 out of 6 business units exceeding the average rate (Figure 4).

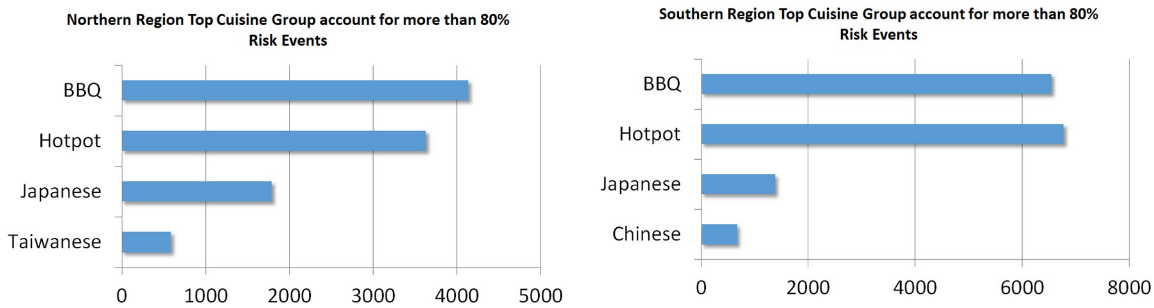

Fig. 4. Risk Distribution Rates Across Brands in the Northern and Southern Regions

Source: Compiled by the author

Moreover, the risks associated with inventory discrepancies and revenue, despite being classified as having a medium impact, are critical issues that can directly affect the restaurant's business performance (Figure 5). Inadequate management of these factors can lead to asset loss and reduced profitability. These issues stem from an inventory and revenue management system that needs to be fully optimized and inconsistencies in inventory checks and reporting. To address this issue, it is crucial to enhance the management system. The key to this enhancement lies in the application of modern technology, which can accurately and promptly track and analyze data, thereby reducing risks and improving business efficiency.

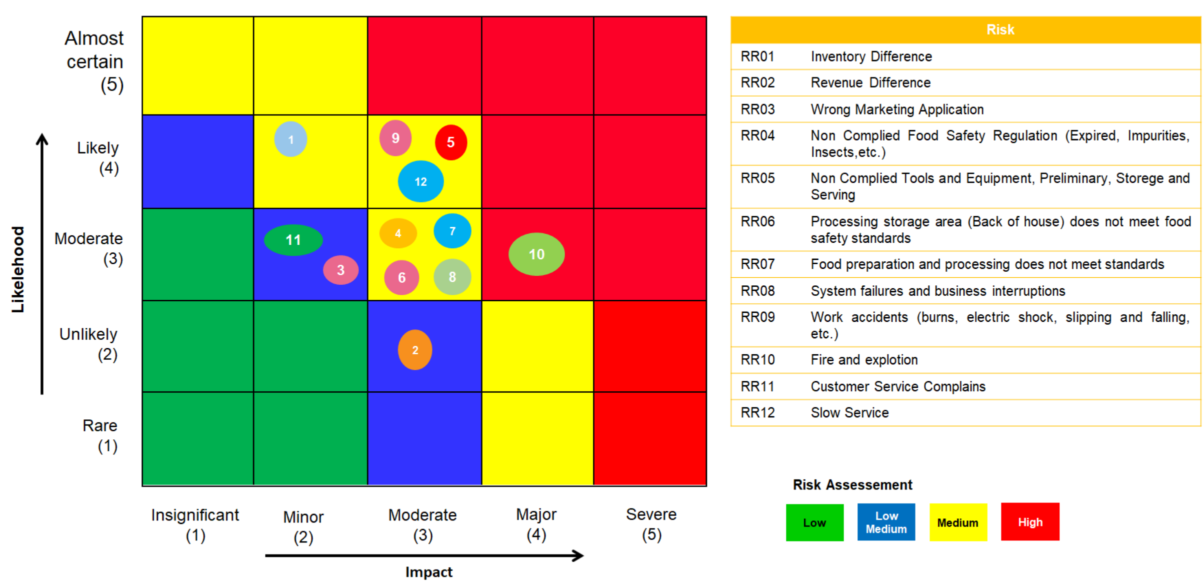

Fig. 5. Risk Map

Source: Compiled by the author

5. CONCLUSION

Examining risk management within Vietnam's largest restaurant chain has highlighted the critical need to enhance risk management effectiveness. In 2023, the restaurant chain encountered a significant 114,670 risk events, with the majority occurring in three key areas: process execution, food safety and hygiene (FSH), and labor safety. These findings underscore the potential for significant improvement in risk management, with the immediate requirement to strengthen risk management protocols to ensure continuous and sustainable business operations. The root causes of these risk events include inadequate employee training, limited supervision and inspection processes, underutilization of modern management technologies, compromised service quality, escalated operating costs, and damage to the brand's reputation. Addressing these issues can lead to a more secure and efficient operation.

The Vietnamese restaurant industry is anticipated to encounter challenges similar to those found in international studies. Jang et al. (2023) have highlighted that inconsistencies in process management and employee training contribute significantly to operational risks, mirroring the situation in Vietnam. These challenges could include maintaining consistent food quality and service standards across multiple locations. Additionally, Mensah et al. (2022) discovered that food safety and hygiene issues often stem from quality control and internal supervision deficiencies. This issue is particularly pronounced in Vietnam, where strict enforcement of hygiene standards is lacking.

According to the survey results, inventory and revenue management pose a moderate level of risk. Beasley et al. (2022) have warned that ineffective management could result in asset loss and decreased profitability, directly affecting the restaurant's competitiveness. This is becoming an increasing concern in Vietnam, where many restaurants still need to adopt modern management tools for precise data monitoring and analysis.

The findings of this study indicate that the restaurant industry in Vietnam is encountering challenges akin to those experienced in other countries. To improve the effectiveness of risk management, it is imperative to prioritize elevating the quality of training, reinforcing supervision, and embracing advanced management technologies. For restaurant chains in Vietnam, the pathway to enhancing risk management and bolstering competitiveness in an increasingly intricate business landscape involves drawing insights from international experiences.

Adopting a combination of conventional solutions and modern management technologies, alongside the incorporation of cutting-edge methods such as artificial intelligence (AI) and blockchain, as well as integrating ESG criteria into risk management, will undoubtedly amplify risk management capabilities. These innovative approaches will deliver notable advantages by fortifying the identification and mitigation of risks, enhancing transparency, and reinforcing brand reputation. Establishing a corporate culture centered around risk management and deploying sophisticated risk assessment tools will empower managers to make well-informed decisions and act promptly to mitigate potential risks. By executing these recommendations with precision, the leadership team of Vietnam's largest restaurant chain will significantly enhance its risk management capabilities. This will undoubtedly result in a sustainable competitive advantage in a volatile business landscape, thereby solidifying their pivotal role in the industry's success. The adoption of advanced methods such as artificial intelligence (AI) and blockchain, along with the integration of ESG criteria into risk management, will greatly strengthen risk management capabilities. These approaches will provide exceptional benefits by improving the detection and mitigation of risks, enhancing transparency, and bolstering brand reputation. Fostering a corporate culture focused on risk management and utilizing sophisticated risk assessment tools will empower managers to make more informed decisions and respond swiftly to potential risks.

By effectively implementing these recommendations, the leadership team of Vietnam's largest restaurant chain can significantly enhance its risk management capabilities. This will lead to a sustainable competitive advantage in a volatile business landscape, solidifying their pivotal role in the industry's success.

6. ACKNOWLEDGEMENTS

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