

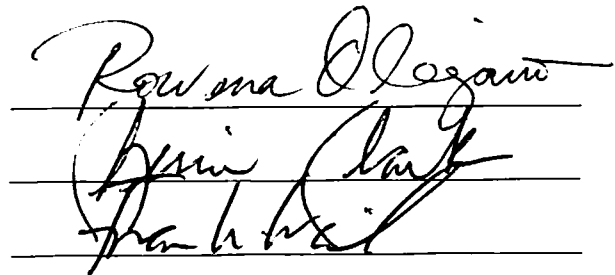
**From San Bernardino to Shanghai:
Domestic and Global Challenges at McDonald's Corporation
1954-1992**

By

Kyle Wilson

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On the basis of this thesis and of
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we, the undersigned, recommend
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McDonald's Facts*

One out of every fifteen American workers got their first job from McDonald's.

Due to the success of Chicken McNuggets, McDonald's is the second largest chicken retailer in the United States.

McDonald's serves 7% of the U.S. population every day.

McDonald's accounts for five percent of all Coca-Cola sold. If McDonald's were a country, it would be the sixth largest consumer nation of Coke.

McDonald's is the largest owner of retail real estate in the world.

100 shares of stock bought at the company's initial public offering in 1965, costing \$2,250, would have multiplied into 74,360 shares valued at nearly \$2.6 million today.

The busiest McDonald's in the world is located in Moscow on Pushkin Square. It serves between 40,000 and 50,000 customers daily.

* Sources: Love, John. Behind the Arches., <http://www.mcdonalds.com>

Introduction

“The role that [corporate] culture plays will be even more critical than it is in today’s corporate world. Without strong cultural bonds, atomized work units would fly off in a centrifugal plane. The winners in the business world of tomorrow will be the heroes who can forge the values and beliefs, the rituals and ceremonies, and a cultural network of storytellers and priests that can keep working productively in semi-autonomous units that identify with a corporate whole.”¹

- Terrence Deal and Allan Kennedy

In the second half of the twentieth century, America bore witness to a multitude of economic triumphs. Many corporations were able to succeed because they installed effective business practices. These methods would come to characterize a corporation and be identified as the “corporate culture.” Every corporation has a culture. Usually this culture consists of a defined collection of beliefs and values that tie into how the company does business and performs tasks. While cultures are different from corporation to corporation, the success or the failure of a corporation can in many ways be traced to the culture. In their book Corporate Cultures, Terrence Deal and Allan Kennedy outline five core elements of a corporate culture and in turn explain why having a strong corporate culture is vital to the success of a corporation.

The first element of a corporate culture is the business environment - the arena in which a company performs their chosen trade. “To succeed in the marketplace, each company must carry out certain kinds of activities very well,” Deal and Kennedy explain. “The environment in which a company operates determines what it must do to be a success. The business environment is the single greatest influence in shaping a corporate culture.” If a company’s success is tied to strong sales, then they will work their hardest to make sure they reach their goals. If the company’s success is tied to innovation, then

¹ Deal, Terrence and Kennedy, Allan. Corporate Cultures: The Rites and Rituals of Corporate Life. Reading, MA: Addison-Wesley, 1982.

they will dedicate a lot of their resources to making sure that they can create new and exciting goods. Whatever their trade, the business environment in which a company interacts is vital in defining what a corporation must do to be successful.²

The second element of corporate culture is values. Values “are the basic concepts and beliefs of an organization; as such they form the heart of the organization.”³ The values of a company “define ‘success’ in concrete terms for employees and establish standards of achievement within the organization.”⁴ These values are usually clearly defined for all of the employees, and managers implement these values “openly and without embarrassment.”⁵ These values also set the boundaries and expectations for employees within the corporations. “[Managers] didn’t tolerate deviance from the company standards.”⁶ If the business environment outlined objectives, values defined the strategies to achieve them.

The third element of corporate culture is the presence of “heroes” within the corporation. “These people personify the culture’s values and as such provide tangible role models for employees to follow.” The heroes of a corporation are those who made great achievements for the betterment of the company. These achievements would then lead to a great amount of recognition throughout the corporation, and soon other employees would want to emulate the heroes’ actions. “Strong culture companies have many heroes. These achievers are known to virtually every employee with more than a

² Deal and Kennedy, 13-14.

³ *ibid*, 14.

⁴ *ibid*, 14.

⁵ *ibid*, 14.

⁶ *ibid*, 14.

few months tenure in the company. And they show every employee 'here's what you have to do to succeed around here.'"⁷

The fourth element of a corporate culture is the company's rites and rituals. "These are the systematic and programmed routines of day-to-day life in the company. In their mundane manifestations-which we call rituals-they show employees the kind of behavior that is expected of them."⁸ These rituals are important because not only do they make the workplace more efficient by creating a set of expectations and guidelines for every employee, they also allow for easier succession from employee to employee. Rites and rituals help a corporation to sustain a generational identity.

The final element of corporate culture as outlined by Deal and Kennedy is what they call "the cultural network." The cultural network is defined as "the primary means of communication within an organization, the cultural network is the 'carrier' of the corporate values and heroic mythology."⁹ This corporate network could take the form of corporate websites, newsletters, or even corporate universities.

The elements of a corporate culture show why a strong corporate culture is important in generating success for a company. Deal and Kennedy give two reasons for why having a strong culture is so essential. The first is that "a strong culture is a system of informal rules that spells out how people are to behave most of the time."¹⁰ With these preset expectations a business can run in a more efficient manner. The second reason for the importance of a strong culture is that it "enables people to feel better about what they

⁷ Deal and Kennedy, 14.

⁸ *ibid*, 14.

⁹ *ibid*, 15.

¹⁰ *ibid*, 15

do, so they are more likely to work harder.”¹¹ A company with a strong culture is recognized as a good company in the business world, and therefore that also reflects positively for the employees of that corporation.

It is within the contexts of how Deal and Kennedy define a strong corporate culture that the story of the remarkable growth of McDonald’s Corporation will be defined. By studying McDonald’s corporate culture, it becomes apparent that the corporate culture is what allowed the company to become such a success. McDonald’s exhibits all of the traits of a strong corporate culture, but is a unique story in the annals of business history because of its decentralized nature. McDonald’s at its core is a franchise organization, a hybrid organizational structure that allows franchisors like McDonald’s to profit off the rights to operate their business model by selling them to franchisees.¹² McDonald’s allows for entrepreneurs across the globe to take ownership of one or a few McDonald’s stores, and share in the success of a system which the founders of McDonald’s created. The way that McDonald’s communicates its expected practices and rules defines the core of McDonald’s “corporate culture.” Explaining the formation, communication, and adaptation of this corporate culture is the primary goal of this thesis.

Heroes act as a key component for a corporate culture. The hero story of McDonald’s unique and enigmatic founder, Ray Kroc, propelled the company to its astonishing success. Kroc would harbor the formation of the McDonald’s corporate culture, and in studying his contributions to the company the foundation of McDonald’s corporate culture can be identified. As a character study, Kroc embodies the ideal

¹¹ Deal and Kennedy, 16

¹² Norton, Seth W. “An Empirical Look at Franchising as an Organizational Form.” The Journal of Business. Vol. 61 No. 2. Apr. 1988.

qualities of the American entrepreneur: creativity, optimism, ambition and unlimited work ethic. Kroc's fingerprints are found throughout the restaurant. Kroc created a training program and the mantra of Quality, Service, Cleanliness and Value. According to Kroc, *QSC and V* would become "gospel" as it was taught to every franchiser and manager at Hamburger University- one of the largest and most widely recognized corporate universities.¹³ As the company's revenues reached the billions, the infallibility of the Golden Arches grew larger and larger. As Joe Kincheloe states in his book The Sign of the Burger: McDonald's and the Culture of Power, "Kroc parlayed his story to the media as a saga of entrepreneurial ingenuity supported by the ideology of free enterprise. Business magazines turned him and his McDonald's into holy icons."¹⁴ Kroc acted as a guide for thousands of small businessmen in America in creating the McDonald's franchising empire. From its clean and simple appearance to what was at first a simple menu with fair prices, the McDonald's of the 1960s and 70s "meshed with Kroc's personality and vision to produce the McDonald's Epic." But as McDonald's began to expand and succeed, it began to have its critics. The interesting saga in the "McDonald's Epic" is not the economic success of the restaurant, but the characteristics of the corporation which helped it to succeed.¹⁵ As McDonald's began to span the globe, the corporate culture would adapt to the needs and demands of each local economy and culture.

¹³ Kroc, Ray. Grinding it Out: The Making of McDonald's. New York: St. Martin's Press, 1977.

¹⁴ Kincheloe, Joe. The Sign of the Burger: McDonald's and the Culture of Power. Philadelphia: Temple University Press, 2002. Pgs 51-52

¹⁵ Jakle, Sculle. Fast Food: Roadside Restaurants in the Automobile Age. Baltimore: The Johns Hopkins University Press, 1999.

Studies of McDonald's have been performed by many scholars in the past. But, a thorough discussion of McDonald's corporate culture and how it has contributed to the success of the corporation has not occurred. John Love's McDonald's: Behind the Arches is seen as the definitive business history of the corporation. It covers the founding of the original restaurant in San Bernardino all the way up until the mid-1980s. While the research is thorough and the history writing found throughout the book is outstanding, it does not fully discuss the culture found in McDonald's. Curiously enough, a visit to the index in the back of the book shows that the words "culture" or "corporate culture" are not indexed at all. The book does not explicitly discuss the impact of McDonald's culture contributing to its success.¹⁶

Few works discuss McDonald's corporate culture, but that does not mean that scholarly contributions have not shown the adaptability McDonald's corporate culture. Social anthropologists James Watson and Sidney Mintz compiled the work Golden Arches East: McDonald's in East Asia as an argument that "fairly banal cultural artifacts such as cheeseburger restaurants have socially significant implications for contemporary debates about the nature of globalization, questions of cultural hegemony, the transformative potential of transnational and the philosophic confrontations between Occidental Modernity and Asian Orientalism."¹⁷ McDonald's was very successful when it entered the Asian market. This book "assesses the ramifications of American-style fast food production and consumption in Asia with an eye towards explicating the multivariate ways in which the 'culture of McDonald's' has become meaningfully

¹⁶ Love, John. McDonald's: Behind the Arches. New York: Bantam, 1995.

¹⁷ Gibson, Michael. "Golden Arches East: McDonald's in East Asia Book Review." Journal of Peace Research, Vol. 36, No. 5. 1999.

engaged with Asian ideas and social practices.”¹⁸ While this book pertains more to East Asian culture, the book allows for a study of the business practices of the corporation when they attempt to adapt their restaurants to a certain culture.

The most recent published scholarly piece discussing McDonald’s and its corporate culture is Dr. Mary-Angie Salva-Ramirez’s “McDonald’s: A Prime Example of Corporate Culture” found in the Winter 1995 edition of the journal *Public Relations Quarterly*. Although terse, the article highlights Hamburger University as the communicant of McDonald’s corporate culture and how the success of McDonald’s was so closely tied to the presence of a strong culture within McDonald’s. This thesis will look to expand greatly upon Dr. Salva-Ramirez’s work.

By incorporating the principles introduced by Deal and Kennedy in synthesis with a various amount of other resources, this thesis will illustrate how McDonald’s formulated and communicated the strong corporate culture that helped it to thrive in the global economy. Chapter One will act as a narrative history of McDonald’s hero and founder, Ray Kroc, as he molds the corporation within the confines of its business environment. Chapter Two will investigate the formation of the companies values, while also giving light to the corporation’s primary cultural network: Hamburger University. Chapter Three will comment on the rites and rituals of the internal corporate culture of McDonald’s, while also introducing new heroes that would contribute to the success of McDonald’s. Chapter Four will show how McDonald’s strong and adaptable corporate culture was able to ensure success in foreign markets.

¹⁸ Gibson.

Chapter One

Ray Kroc and the Genesis of a Culture

“Luck is a dividend of sweat. The more you sweat, the luckier you get.”
-Ray Kroc¹

In the context of a corporate culture, every corporation has their heroes. These heroes personify what to do and what not to do. They act as inspiration not only for those within the company, but for persons in other industries as well. For McDonald's, no hero looms larger than Ray Kroc. His story and work to create McDonald's Corporation Inc. stands of one of the greatest business successes in the second half of the twentieth century. His vast work and life experiences were vital in creating the core foundations of the McDonald's corporate culture. By looking at the creation of McDonald's corporate culture through the eyes of its penultimate hero, the origins of McDonald's corporate culture can be understood.

Raymond Albert Kroc was born on October 5, 1902, in Oak Park, Illinois. He wasn't the most studious of children, but he did have a rampant imagination. Kroc recalls, “They called me Danny Daydreamer a lot...I never considered my dreams wasted energy; they were invariably linked to some form of action.”² Kroc found two quick passions in life, baseball and the piano. But even both of those passions would take on a commercial aspect in his lifetime. In his later years, Kroc would purchase the San Diego Padres and he would moonlight as a professional piano player in his early twenties. But it was activity and action that would define Ray Kroc's character. Even high school became boring for him, and so when the United State entered World War I at the end of his

¹ Moser, P. “The McDonald's Mystique.” *Fortune* 1988, July 4, pg 113.

² Kroc, Ray. Grinding it Out: The Making of McDonald's. New York: St. Martin's Press, 1977.

sophomore year, Kroc lied about his age and became a Red Cross ambulance driver. In what some may call fate, one of his fellow drivers was a young man who lied about his age and would later become one of America's great entrepreneurs, Walt Disney.³

When he returned from the war, Kroc began to identify that his skills and abilities led him to being a natural salesman. By the time he was seventeen, he was making more money than his father selling items like coffee beans and ribbon novelties, and playing the piano on the side. Like many his age returning from the war, he fell in love and sought to get married at a young age. His father said he could do that on one condition: get a real job. Kroc did that and got a job selling paper cups for Lily. Kroc entered the job as a paper cup salesman with the ambition and enthusiasm that would come to define his time as fast-food's finest manager. "I don't know what appealed to me so much about paper cups," he later wrote in his autobiography. "Perhaps it was mostly because they were so innovative and upbeat. But I sensed from the outset that paper cups were part of the way America was headed."⁴

The paper cup industry was Kroc's introduction to the American restaurant industry. His primary clients were soda counters in Chicago, and the growing proliferation of carry out service made paper cups a logical choice. Success came easily for Kroc in this industry, and he soon found himself running a team of paper cup salesmen. But soon Danny Daydreamer would grow out of his job as a paper cup salesman, and he looked to find new ventures for the Lily Cup Company. Kroc soon discovered the milkshake. One dairy bar owner in Battle Creek, Michigan, found a way

³ Carey, Charles W. "Kroc, Ray." American Inventors, Entrepreneurs and Business Visionaries. New York: Facts on File. 2002.

⁴ Kroc, 23

to create a cheaper milkshake, and Kroc convinced Earl Prince, an owner of many Chicago-area ice cream stands, to enter the milkshake business. The new business was an instant success for Prince, and the demand was so high that Prince himself created a new mixing machine for his milkshakes. The five spindle multi-mixer instantly caught the attention of Kroc: “this was the invention that really made big volume milkshake production possible, and it changed the course of my life.”⁵ At age thirty-seven, the always intuitive and independent Kroc finally did something he was itching to do, go into business for himself. Kroc bought the exclusive selling rights to the Multi-Mixer and started his own entrepreneurial endeavor.

While an instant hit, Multi-Mixer sales eventually did slow. Kroc now had to look for a new endeavor to generate revenue for his machine. He realized that he had to be proactive in finding ways to expand the multi-mixer market. That’s when a phone call came from a small but successful restaurant in San Bernardino, California. The McDonald brothers were placing an order for their ninth and tenth Multi-Mixers for their restaurant. Any restaurant that needed machines to make fifty milk shakes at a time caught the attention of the newly re-energized Kroc. So at the age of fifty-two, Ray Kroc got onto an airplane to Los Angeles just to see what this restaurant was doing so well.

Food service in the early 1950s was dominated by diners and “car-hops”- where teenage James Dean-esque greasers would roll up to these drive-in restaurants on weekend nights and drink milkshakes while hanging out with their friends. The main background for the outdoor dining scene was California, where year round temperate weather and plenty of real estate made it easy for many food service entrepreneurs to

⁵ Kroc, 55

make their start. Two of these entrepreneurs were Dick and Mac McDonald, who left depression-ravaged New Hampshire in search of opportunity in California. When Hollywood didn't give them the big break they wanted, they entered the food service industry with their first McDonald carhop in Pasadena. The restaurant served hot dogs and milkshakes, and had three waitresses working the parking lot that was constantly filled with teenagers.⁶ This restaurant was by no means revolutionary, and while the McDonald's did make a tidy profit from this small wood shack, they sought a larger restaurant. As would many McDonald's franchisees in the future, the McDonald's looked to the suburbs and settled on a fast-growing suburb fifty miles east of Los Angeles- San Bernardino.

The new San Bernardino restaurant would indeed be the start of something unique. The menu was expanded featuring items like Barbequed pork sandwiches and, of course, hamburgers. The San Bernardino store was only six hundred square feet but had an eye-catching design that would soon make it the number one hangout for all teenagers in this growing suburb. The McDonald brothers were now members of the *nouveau riche* in this suburb and even owned one of the largest mansions in the town. But in seeing an increase in competition, and being a part of a high cost industry, the McDonald's thought they could improve upon the car-hop format. As Dick McDonald says, "We just became bored. The money was coming in, and there wasn't much for us to do."⁷

The McDonald brothers decided to go back to the drawing board. They wanted to create a restaurant that would increase speed of service, lower the costs incurred by the business and in-turn find a way to expand their customer base. "We'd say to ourselves

⁶ Love, 13.

⁷ *ibid*, 13.

that there had to be a faster way. The cars were jamming up the lot. Customers weren't demanding it, but our intuition told us that they would like speed. Everything was moving faster. The supermarkets and dime stores had already converted to self-service, and it was obvious to the future of drive-ins was self-service."⁸

The McDonald's new system, the "Speedy Service System", would revolutionize the food service industry. The system not only changed how the food was made, but also how it was served. Paper cups, containers and napkins replaced the pricey and hard to maintain dishware that was a staple at all carhops. Custom made grills and cooking utensils were designed by the brothers to ensure speed and efficiency. All hamburgers were prepared the same way, so that there were no confusion or delay in creation of food and so that they could make food in anticipation of high volume times. As Dick McDonald says, "If we gave people a choice, there would be chaos."⁹

With self-service and a smaller menu, there was skepticism that the McDonald brother's new restaurant would find the success that their original restaurant had. Teenagers no longer saw this as a hangout without the carhop atmosphere. But with teenagers no longer occupying this new restaurant, an entire new clientele was opened up for the McDonald brothers: middle-class families. Families saw their clean kitchen and low-prices and for the first time saw a restaurant where they could feed their entire family for a reasonably low price.

The McDonald brothers saw another interesting development in their clientele; children were taking an immediate liking to their restaurant. The small menu in combination with low prices meant that kids could get a meal for themselves without any

⁸ Love, 15

⁹ *ibid*, 15

fear. “The kids loved coming to the counter,” Art Bender, one of the first employees of the new restaurant, recalled. “They could still see Mama in the car, but they also could feel independent. Pretty soon, it sinks in that this is great for business.” And it was. The McDonalds saw that by appealing to kids, they could also bring their parents to the counter, which only meant more money for the restaurant. The McDonald brothers began advertising their family appeal; they promoted directly to children; and perhaps most importantly, “McDonald’s countermen were carefully instructed to be extra attentive to young consumers.”^{10 11}

The McDonald brothers were now reaping the benefits of their new invention. The San Bernardino store was seeing a sales increase of forty percent by 1951 and would make upwards of \$350,000 by 1955. This success did not go unnoticed by the rest of the restaurant industry. Before Ray Kroc got to the brothers, they already began franchising the Speedy Service System. For a flat franchise fee of \$1,000, a person could have the McDonald’s system and name. But after that, there was no support from the McDonald brothers. The brothers had many offers for their restaurant operation before Ray Kroc came along, but did not find the right offer. Neither brother wanted to travel, and they were content with just spending their time in San Bernardino. Where the McDonald brothers had succeeded in creating a new restaurant, they were failures in the world of franchising. As Love comments, “the McDonalds saw franchising as a way of making money without building an organization to supervise the quality of the franchised

¹⁰ Love, 16

¹¹ Several scholars and activist groups highlight the importance of the McDonald’s corporations in creating the consumerist nature in children and the amount of advertising presented towards children. For further discussions of this, consult Katherin Toerpe’s “Small Fry, Big Spender: McDonald’s and the Rise of a Children’s Consumer Culture. 1955-1985.”

operations. That was not unusual. No one before them had viewed franchising in any other light.”¹² No one, that is, until the McDonald brothers met Ray Kroc.

When Ray Kroc arrived in Los Angeles, his goal was not to become a restaurant franchise operator. His goal was to learn the practices that he could tell other drive-in restaurants to employ so that every drive-in in America could have ten Multi-mixers. Looking at what many would consider a slowing point of their career, Kroc just wanted to find a way to sell more milk shake mixers. His mind would be changed when he pulled into the sleepy desert town of San Bernardino.

Kroc narrates the experience of seeing the San Bernardino store for the very first time in his autobiography. He recalls that he was “not impressed” by the small octagonal building that was the McDonald’s restaurant. He even went as far to call the edifice “a typical, ordinary-looking drive-in.”¹³ Kroc observed as the employees were preparing for the opening, “Something was definitely happening here, I told myself. The tempo of their work picked up until they were bustling around like ants in a picnic.”¹⁴ Kroc stood in amazement of the organization and precision of the McDonald’s kitchen, and he knew that he was witnessing something special.

As a paper cup salesman and then as Mr. Multi-Mixer, Kroc understood what it took to be a great restaurant, and he saw that the McDonald brothers had a great system figured out. He walked around and talked to some of the well over one hundred customers there at lunchtime. They all emphasized the same qualities of the restaurant: low price, good food and no hassle. Kroc saw this restaurant being adaptable to all

¹² Love, 22-25

¹³ Kroc, 7.

¹⁴ *ibid*, 7

neighborhoods nationwide: a cheap, family-friendly restaurant that all could enjoy. Most importantly to Kroc, it could sell him a lot of Multi-Mixers and he was desperate at this point.¹⁵ After the lunchtime crowd died down, which was two and a half hours after opening, Kroc introduced himself to the McDonald brothers. They got along instantly and over dinner that night discussed the future of McDonald's. When franchising became a topic of discussions, the McDonald brothers noted the failure of their past franchising and their unwillingness to leave San Bernardino. The McDonald's saw the benefit of franchising, but they didn't have the right franchise agent. That's when Ray Kroc asked the question that would forever change his life. "Well. what about me?"¹⁶

Ray Kroc left Los Angeles the next day with a franchising agreement worked out with the McDonald brothers: a one-time \$950 franchising payment, with 1.4 percent of the annual sales going to Kroc, and .5 percent going to the McDonald brothers. Each store would be identical to other stores in process and menu, and architecture. When Kroc signed the franchising agreement, the McDonald brothers and their personal architect had invented the one symbol that made McDonald's restaurants ubiquitous – The Golden Arches. While this franchising agreement was important, it was no secret that Kroc got the short end of the stick. But, as noted, the irony of the bad deal would actual lead to Kroc's ingenious form a franchising and future success because it would force him to work harder than most franchisors. "The typical franchising company made its money by levying steep start-up fees or by selling supplies to its franchises. In the first instance the franchising company lacks much incentive to ensure the franchises' continuing success:

¹⁵ Kroc, 9

¹⁶ *ibid*, 12

in the second its profits came, to some degree, at the expense of its franchises.”¹⁷ In coming to an agreement with the McDonald brothers and observing the ingenious of the Speedy Service System, the foundation of McDonald’s corporate culture was created. With Multi-mixers now thrown out the window, Kroc realized the only way for him to make any money was to provide support for his franchisees and create a system that would allow for the creation of a quality product that all could enjoy. Luckily, this task was perfect for Kroc, as his obsession with perfection and quality would allow him to create a corporation and a system that reflected his personality.

Kroc’s unique view into franchising – the franchisor and franchisee working together to perfect operations and enhance profits – would help Kroc succeed early on. In his conversations with the McDonald brothers, he foresaw the business environment that faced his young company. “This is probably going to be one of the most competitive businesses in the U.S. And we have the only real solid approach to the business,” Kroc says. “The other ones are going to die like flies. It will be survival of the fittest, and we are going to be on the top of the list of the fittest. I know we have the only clean, honest franchise.”¹⁸ To have this clean and honest franchise, Kroc would have to build from the ground up. He would have to work with every franchisee in perfecting the cooking process, the cleanliness of stores and the beliefs that he had. This would require a great team at the home base, and when McDonald’s System Inc. was created in 1955, Kroc understood the challenges that lay ahead of him. In choosing the Chicago suburb of Des

¹⁷ Brands, H.W. “Ray Kroc: Sweating Hamburgers.” Masters of Enterprise. New York: The Free Press, 1999. Pg. 221

¹⁸ Kroc, as quoted in Love, 56-57.

Plaines for his first-store location, Kroc was able to address the challenging of adapting the McDonald's store to areas outside of San Bernardino.

Perhaps no event acts as a perfect character study of Ray Kroc more than his personal account of his attempts to cook his first French fries in his McDonald's store in Des Plaines, Illinois. In what Kroc would refer to as a "fascinating ritual", Kroc went about detailing the process of cutting the skinned potatoes into shoestring form, and washing them in cold water until the water was white with starch. He then fried the potatoes just like the McDonalds. "The result was a perfectly fine looking, golden brown potato that snuggled up against the palate with a taste...well, like mush," Kroc lamented. "I was aghast...They were as good, actually, as the French fries you could buy at other places. But that was not what I wanted. They were not the wonderful French fries I had discovered in California."¹⁹ Kroc called the McDonald brothers, and they couldn't figure out the problem. Kroc then got into contact with experts at the Potato and Onion Association. By working with the scientists they discovered that the storing methods of the McDonald brothers allowed the potatoes to dry out and generate the crisp, starch filled taste. Kroc built potato storage bins exactly to the specifications of the San Bernardino bins and made them *de rigueur* for every McDonald's franchisee. Kroc spent months working with Ed MacLuckie, his first store manager, in perfecting the process of cooking the French fry. Kroc shared his secrets with every franchisee that came along, and in turn proved that McDonald's could adapt their system to the demands of different locations.

¹⁹ Kroc, 77

With the process of franchising finalized, Kroc realized that he had to surround his corporation with talented people to match his strengths. Kroc knew that he could sell the franchises, but he needed support in other areas of expertise. His financial support came to him in the form of Harry Sonneborn, a gifted businessman who as the Vice President of Tastee Freeze knew Kroc since his Multi-Mixer days. Sonneborn's experience previously in franchising with Tastee Freeze was invaluable for Kroc. With the help of Sonneborn, Kroc spawned the idea for McDonald's to be transformed from a franchise licensor to the "restaurant development business". Sonneborn created Franchise Realty Corporation, a real estate purchasing company with the primary purpose of building McDonald's stores in preferred locations. This new method of franchising opened up a new revenue stream for Kroc's company: charging rent for the land. What started as a one thousand dollar side investment grew into a \$170 million dollar backbone of the McDonald's corporations and it was all thanks to Sonneborn's and Kroc's ingenuity.²⁰

When it came time for Kroc to begin selling franchises, he hired Fred Turner as his Operations Manager. Fred's first introduction to Ray Kroc was as a franchisee. To learn the ropes of running a McDonald's store, Fred gladly accepted a job working at the Des Plaines McDonald's. Kroc instantly saw his potential. "Fred was a terrific worker. He had a natural feel for the rhythms and priorities that make a McDonald's restaurant click," Kroc observed.²¹ Shortly thereafter, he found himself working in the corporate headquarters as the Operations Manager. Here Turner would act as the head of the brain trust through all of the processes that a McDonald's would need to succeed. from supply

²⁰ Kroc, 87

²¹ *ibid*, 93

chain to how to cook a hamburger. Kroc finally had a man who could wrangle all of those complex issues. Now Kroc could finally focus on his best strength – selling franchises.

Like many small corporations at their birth, McDonald's corporate culture reflected the personalities of its founding fathers. The McDonald Brothers created the exacting standards that made the McDonald's restaurant, and later on the McDonald's brand, an example of the utmost professionalism and quality. They would create the food items that would make McDonald's famous, and they found the key demographic that would make McDonald's a nationwide success – families. While the brothers' early attempts at franchising failed, the reason they failed was that they lacked a good salesman with the knowledge of the consequences of failure. That man was Ray Kroc. As he began to sell more and more franchises, McDonald's Corporation would begin to reflect his attitudes and beliefs until he was practically deified. His ambition, optimism, creativity and obsession with perfection would take a strangle hold on the attitudes of the company. Kroc became the ultimate personification of McDonald's corporate culture by creating a system that was perfect for the business environment that the corporation faced. Kroc became McDonald's hero. With the aid of Harry Sonneborn and Fred Turner, Kroc would turn the McDonald's Corporation into an empire.

Chapter Two

Ants and Architects: The Two Cultures of McDonald's

"In the dispersed, helter-skelter world of the radically decentralized atomized organization, some glue is absolutely essential to hold independent work units together."¹

-Terrence Deal and Allan Kennedy

As corporations become larger and larger in size, business leaders look for ways to create a single motivation in all of their employees – a way to establish a corporate culture. As McDonald's was beginning to grow and expand, Ray Kroc found it a challenge to accommodate and train all of the new managers and franchisees that were becoming a part of the McDonald's family. That is why in 1961, Kroc began to design a corporate training program that would separate McDonald's from the rest of the pack – Hamburger University. By formulating a way to communicate his ideals of McDonald's corporate culture, Kroc created the blueprint for McDonald's eventual success. By selling the corporate culture through the form of a diploma at Hamburger University, McDonald's would grab the attention of prospective entrepreneurs, the media and the rest of the business world.

Hamburger University acted as the cultural network for the rites and rituals of McDonald's Corporation. The values of Kroc's important mantra of *QSC and V* (Quality, Service, Cleanliness and Value) would be distributed in what would eventually become a \$40 million campus in the Chicago suburb of Oak Brook. Hamburger University became the model for corporate universities everywhere. With this tool, Ray Kroc had the means to create his corporation's identity and culture – he had the ideal cultural network.

¹ Deal and Kennedy, 108.

Hamburger University was going to be the central nervous system of McDonald's Corporate Culture. Hamburger University would instill managers worldwide with their organizational culture, their "vision statement", which would have only one overriding value – *QSC and V*.²

The challenge facing Kroc in creating a corporate culture would be daunting. Hundreds of independent franchisees would be located nationwide, and eventually worldwide. Keeping them all to the company line would lead to the creation of Hamburger University so that Kroc could "build a restaurant system that would be known for food of consistently high quality and uniform methods of preparation."³ This would help "to ensure repeat business based on the system's reputation rather than on the quality of a single store or operator."⁴ Hamburger University would be, and still acts as, McDonald's Corporation's glue.

But admission to Hamburger University was only reserved for those who were future franchisors or those employees seen as worthy for management. Those who went to Hamburger University were fostered to have an entrepreneurial mindset. Usually, those at Hamburger University already had experience working in a McDonald's store knowing only the importance of process and consistent quality. The young men and women who would work the cash registers, fryers and drive-thru window would embrace a different corporate culture than what would characterize the corporate culture of a franchisor or corporate officer.

² Salva-Ramirez, Mary-Angie. "McDonald's: A Prime Example of Corporate Culture." *Public Relations Quarterly*. Vol 40, No. 4. Pg 30.

³ Kroc. 86

⁴ *ibid.* 86.

The employees of every McDonald's store would work in the same way that Kroc described them when he first laid eyes on the employees in San Bernardino, "like ants in a picnic."⁵ Strict procedural guidelines for operations defined what made McDonald's stand out from the rest of the crowd. In her experience behind the counter, Kathleen Deveny stated that:

"Here every job is broken down into the smallest of steps, and the whole process is automated. The videotape that introduces new employees to French fries, for example, starts with boxes of frozen fries rolling off a delivery truck. Stack them in the freezer six boxes high, leave one inch between the stacks, two inches between the stacks and the wall. Cooking and bagging the fries is explained in even greater detail: 19 steps."⁶

Hamburger University provides a glimpse into what is expected of managers and franchisees, but by looking at the Management Development Program developed by McDonald's one can see what is expected of McDonald's "crew members" – low-level employees at every McDonald's store. This development program could help a low-level employee make his way to the actual Hamburger University, where the employee could then become a manager. This fifty-day training program dedicated training to each part of the business day: it detailed the preparation and maintenance of every food item and piece of equipment.⁷ The program is obsessed with process and maintenance of food products; in fact only seven of three hundred and six pages of the manual are dedicated to customer service. In reading this training manual, one sees that McDonald's truly believed that in perfecting the process of creating a hamburger customer satisfaction was nearly assured. But sprinkled throughout the manual are management "modules", which

⁵ McDonald's Corporation. 7

⁶ Deveny. "Bag Those Fries, Squirt That Ketchup, Fry That Fish." *Business Week*, 10/13/86.

⁷ McDonald's Corporation. "The Management Development Program." 1987. From Browne Popular Culture Library, Bowling Green State University, Bowling Green, OH. p. 4.

provide a glimpse into the values of the corporation by presenting situational analysis for the trainee. While focusing a majority of the program on food preparation methods, the manual also discusses in details the importance of the company's values. The manual also explains to the reader how these rigid guidelines for such simple processes feed in to the philosophies of McDonald's corporate culture. In some ways, reading this traces the origins of *QSC and V*.

The module identifies the most basic aspect of customer's demands of McDonald's- speed. "The primary reason people eat at McDonald's or any other fast-service restaurant is convenience," the literature asserts.⁸ "They want a meal that requires a minimum of effort and planning. And, since few people like to eat quickly, the time requires for ordering and waiting for the order to be filled must be as short as possible."⁹ The variable that the module identifies in the "formula for satisfaction" is the quality of the food that the customer will consume. "While quality of food is not as important as convenience, no restaurant can survive serves appetizing product. The food must be prepared from wholesome, high-grade ingredients, cooked to taste, and served in an attractive manner. While a convenient location and fast service may initially attract people. high quality food will make them repeat customers."¹⁰ The module goes on to state that "other aspects that help to hold customers are the right pricing and an enjoyable environment."¹¹ This, of course, alludes two the final two components of *QSC and V*: Cleanliness and Value. The module notes that customers "appreciate and look forward to

⁸ "Management Module 16." McDonald's Corporation. The Management Development Program. 1987. From Browne Popular Culture Library. Bowling Green State University, Bowling Green, OH. p. 242-243.

⁹ *ibid.* 243.

¹⁰ *ibid.* 243

¹¹ "Management Module 16.", McDonald's Corporation, 243

clean, friendly surroundings.”¹² By identifying the core needs of customers and incorporating into their operation philosophies McDonald’s created a corporate culture that would ensure success on a customer satisfaction standpoint. “If you deliver *QSC and V* to your customer, you are helping ensure that [customers’] expectations are being met and satisfied.”¹³ By explaining the reasoning for the company’s values, McDonald’s made it easier for employees to embrace the values. These values put into action would become the rites and rituals of the corporation.

Customer satisfaction can assure that more and more people would walk through the doors of a McDonald’s store, but to ensure growth in profits the operational efficiency of each McDonald’s store would be vital. The module asserts to the reader that there is a true correlation between a store’s *QSC* and profits; and in a manager’s ability to affect labor control and crew productivity.¹⁴ The module noted that if a crew of workers’ productivity directly correlated with the sales demands placed on the crew by customers than the store’s *QSC* would be affected in a negative manner. “If your crew is not cleaning, restocking or assisting each other during drops in volume, you are managing ineffective.”¹⁵ By not keeping their ants consistently busy a manager would be forced to either: (1) keep the entire crew past normal working hours, (2) not be ready for the next sales rush, (3) or may force the manager to overwork a few members of the crew to catch up.¹⁶ McDonald’s saw these inefficiencies as devastating to the company. “The results of

¹² “Management Module 16.”, McDonald’s Corporation, 243

¹³ *ibid*, 243.

¹⁴ *ibid*, 244.

¹⁵ *ibid*, 219.

¹⁶ *ibid*, 220.

ineffective management of crew productivity are: 1. High Labor (lost profits); 2. Poor QSC (lost sales); 3. Poor crew moral (lost profits and sales)."¹⁷

McDonald's saw that it was vital to have competent store managers that could utilize their crew members effectively and ensure that customer satisfaction was assured through the tenants of *QSC and V*. That is why the creation of this Management Development Program was not only vital to the success of McDonald's as a corporation, but it shows how ingenious McDonald's was in ensuring that every member of their corporation embraced the philosophies of their corporate culture. Upon completion of the Management Development Program, the manager-to-be was ready to embark on the journey to one of the world's first corporate universities, Hamburger University.

While those who went through the Management Development Program were already indoctrinated in the ways of *QSC and V*, franchisees were not. When Kroc first developed Hamburger U he had the franchisee in mind.¹⁸ The purpose of Hamburger University simple: to teach people "the McDonald's formula" – its rites and rituals. This ranged from the preparation of all of the items on a McDonald's menu, equipment maintenance, purchasing, quality control and, of course, "Kroc's founding principles."¹⁹ But before entering Hamburger University, franchisees had to prove that their attitudes would meld with McDonald's culture.²⁰ As franchisee Norman Sinclair wrote:

¹⁷ "Management Module 16.", McDonald's Corporation. 220.

¹⁸ While research could not prove if MDP graduates went through different experiences than franchisees, one would assume that MDP's would go through a very similar training process at Hamburger U because they would be running a store in the same way a franchisee would.

¹⁹ Boas, M. & Chain, S. Big Mac: The Unauthorized Story of McDonald's. New York: Mentor. p. 76.

²⁰ Obviously, the cost of a franchise has grown over time. Estimates today place the cost of one McDonald's franchise at \$250,000. While in the U.S. Franchises are sold one at a

“After passing the interview panel, you work five days in a local McDonald’s store. If you get through that, you volunteer for 1800 hours of unpaid service. You don’t get to that stage without committing yourself. If it’s below your dignity to mop floors, clean toilets, and roll your sleeves up, then you’re not going to succeed: Your attitude is wrong.”²¹

The two-weeks spent at Hamburger University act as an introduction to the core of McDonald’s Management System: *QSC and V*. These values take their tangible form in the rites and rituals taught to every student. Classroom lectures from Hamburger University “professors” mix with practical applications of all lessons in a laboratory setting. Hands-on management training at this level is rare, and in fact Hamburger University was one of the first of a growing trend of corporate campuses.

It was in October of 1966 that Nancy Fraser reported on Hamburger University for *Life* Magazine. With this article, readers were given a close glimpse into how seriously the curriculum was taken, and how revolutionary Kroc’s idea was:

“Here at Hamburger U., which is a working model of McDonald “units” everywhere, the kitchen fairly hums with space-age gadgetry. There are computer-like controls over the fry cookery; dispensers for squirting precisely the right amount of ketchup...to delight the standardized American palate.”²²

Fraser also notes the enthusiasm with which the entire curriculum is handled at Hamburger University, saying that at the end of the day it is the purpose of Hamburger University to “instill the proper spirit as well as to teach the art and science of Hamburgerology.”²³ Dean Ray Stibeck was the first trainer at Hamburger University. While Stibeck had a unique style, he worked his hardest to make sure that each student

time. International franchises are handled differently and will be discussed later in the thesis.

²¹ Resener, Madlyn, et. al. “From Singapore to Sao Paulo, A Network of True Believers”. *Business Week*. 10/13/86. pg. 81.

²² Fraser, Nancy. “Hamburger University.” *Life*. 10/21/66, pg 100.

²³ Fraser. 100.

left with the same zeal for the McDonald's Operating system that he had. Stibeck implored that the McDonald's hamburgers have a "zipple" to it; to make sure that students "no longer look at a bun as a bun. It takes on a new meaning for you;" and that French fries was done when "it's *golden brown* in color, or emits a sound like leaves rustling in a stiff breeze."²⁴

The curriculum of Hamburger U. was a strict, no-nonsense introduction to the processes and operations that would make any independently operated McDonald's franchise a success. Stibeck also explains the expectations placed on a Hamburger University professor: "If I can hammer home to these guys the McDonald's trinity – Quality, Service and Cleanliness- it gives me great satisfaction."²⁵ Hamburger University acts as the primary cultural network of McDonald's. The values of *QSC and V* were put into practice in the classroom, creating a series of rites and rituals that would permeate throughout the corporation. McDonald's rewarded those who embodied the values of the company with promotions and opportunities to take on greater and greater leadership roles with the corporation. The higher up you were in the corporation, the looser the restrictions were. Those who were lucky enough to own a store or find themselves working at corporate headquarters were able to embrace an entirely different culture than that of an ant, one that would once again separate McDonald's from the rest of the fast-food industry.

By creating a franchise-based corporation, the success of the entirety of McDonald's Corporation depended on the franchisee and the executive team that supported them. Love ingeniously called this management concept the "trickle-up

²⁴ Fraser, 100

²⁵ *ibid*, 100

theory”.²⁶ Every phase of McDonald’s management culture in relations between franchisee and executive was characterized by support, reinforcement and continuous dialogue. This management “recipe” would make McDonald’s managerial culture in high demand worldwide.²⁷

Deveny explains what McDonald’s looked for in a franchisee. McDonald’s wanted someone with a “freewheeling, entrepreneurial style” that “tend to be hard-driving, creative business people who put their own money on the line.” Deveny notes that “these entrepreneurs help McDonald’s act smaller and younger than it is.”²⁸ Especially in foreign markets, where franchisees were given significant portions of countries if not the whole company, these traits would be vital to the success of McDonald’s.

The common traits of a McDonald’s executive were even more atypical of a large corporation. “Formal education counts for little at McDonald’s,” Deveny observes, “Fewer than half of its corporate officers graduated from college, and the company doesn’t employ a single Harvard MBA. Executives emphasize strong traditional values-loyalty, dedication, and service-in keeping with McDonald’s family-like culture.”²⁹ In other words, many of the executives followed in the footsteps of their prolific founder-Ray Kroc. Fred Turner, who would be McDonald’s CEO after Kroc’s retirement, started at the age of 23 as a grill cook. The CEO to follow Turner, Mike Quinlan, started working at the age of 18 in the McDonald’s mailroom. Other executives were college

²⁶ Love, 18.

²⁷ Deveny, Kathleen, et. al. “McWorld?” *Business Week*. 10/13/86

²⁸ *ibid.* 79.

²⁹ *ibid.* 79.

dropouts who started working at McDonald's when they first began to pop up across America.³⁰

Communications between executives and franchisees were constant and in many ways relaxed. Executives worked closely with franchisees to make sure that they were adhering to the operational lessons that they were taught at Hamburger University, but after that franchisees were encouraged to contribute to the growth of McDonald's. McDonald's in the mid-80's even created a position entitled "the vice-president of individuality." A position made to make "the company feel small...by developing a spate of awards, meetings and conventions" between the corporation and franchisees.³¹

The relationship, and cultural values, of the executive and the franchisee were vital to the success, spread and popularity of McDonald's Corporation throughout the world. The "tight-loose" management style, in which operational procedures were kept in close check but the culture permitted "a loose approach to individual creativity" made the job more enjoyable for the franchisee, for they felt truly invested into the progress of McDonald's, but also helped executives keep a pulse on what the customer truly wanted.³²

In the growth of a large, decentralized company in the dynamic business world, Deal notes that a company needs a "glue" to keep the company together.³³ With the spread of the corporate culture of *QSC and V*, and the ways in which McDonald's communicated that culture; the corporation struck cultural gold. With *QSC and V*, McDonald's had values that could cross all boundaries of economies, politics and

³⁰ Deveny, 79

³¹ *ibid*, 79.

³² *ibid*, 80.

³³ Deal, 193.

cultures. Deveny notes, “Anyone who thinks the blazing success is due solely to the popularity of hamburgers and fries, though, doesn’t understand McDonald’s. The company is exporting the management skills that spurred its growth in the U.S. – not just its fast food products.”³⁴ The exportation of a successful corporate culture across America and eventually across the globe would contribute greatly to the sun never setting on the golden arches.

³⁴ Deveny, “McWorld?”, 78.

Chapter 3

“Freedom Within the Framework”: Developing an Adaptable Corporate Culture

“We firmly believe that McDonald’s can successfully locate a store almost anywhere there are primary concentrations of population (i.e. suburbs and cities) and secondary concentrations (schools, shopping centers, industrial parks, stadiums, etc.).”

-Fourteen Research Company growth project report for McDonald’s, 1974.¹

The work of Ray Kroc and his coworkers created the framework of the McDonald’s corporate culture. The Speedy Service System provided the customer with a consistent, and often appreciated, dining experience. Kroc’s method of teaching the system, Hamburger University, was a future model of corporate universities and brought a credibility and respect to the McDonald’s Corporation that was beforehand unattainable. “The McDonald’s system” was a product of Kroc’s years of experience in the restaurant industry, Fred Turner and the McDonald Brothers’ technical expertise, and Harry Sonneborn’s penchant for choosing great real estate locations. With this system in place, and the changes that would be made throughout the 60s and 70s, McDonald’s would be able to dominate the fast food world. A loose definition of the system could be describes as a “unique partnership that strongly supported rather than bled franchisees”, a clever selection of real estate, and “deals with suppliers in a straightforward manner that relies more on gentlemen’s agreements than on signed contracts.”² Of course, a stricter definition of this would be that what McDonald’s was truly selling to their franchisees was their corporate culture.

When a franchisee came to purchase the franchise rights for a McDonald’s restaurant. the investor had to pay a steep price. But, for that large price they got a

¹ Kroc, 177-178

² Moser, “The McDonald’s Mystique”, 113.

plethora of support that almost assured success. As noted previously, the two most vital items that a franchisee received were: (1) the “Speedy Service System”, which are the ritualistic methods of McDonald’s delivering its product to the consumer; and (2) training and support from Hamburger University, whose training provided some of the best management advice one could find. But these two things, while providing the necessary tools for success, were not what made franchisees millionaires, and Kroc a billionaire. There were two key innovations to the franchise industry that made McDonald’s a success: real estate investments and a national advertising campaign.

As McDonald’s began to grow and expand, the profit from the fifteen-cent hamburger was not enough to sustain the corporation. As Love notes, Kroc was “romanticizing the fast food business.”³ New revenue streams had to be created for McDonald’s as food service revenues alone could not keep the company afloat. By creating Franchise Realty Corporation, the real estate division of McDonald’s, Harry Sonneborn created the opportunity for huge profits. Kroc hedged the success of his company on the growth of McDonald’s in the suburbs, and to ensure that the best locations were found in these suburbs, McDonald’s identified locations for restaurants before selling the franchise. By selling a single restaurant location, instead of the rights for a region, Sonneborn found a way for the company to profit from one city multiple times. By leasing the location of the restaurant, and then leasing that to the franchisee at a premium, McDonald’s had created a revenue stream that was guaranteed.⁴ Franchise Realty was the foundation for what would allow McDonald’s to become such a profitable corporation.

³ Love, 151.

⁴ Jakle and Skulle, 150

The other innovation brought about by Kroc that was a key selling point for “the system” would be the national advertising campaign that would be undertaken by McDonald’s corporation on behalf of its franchisees. “My own viewpoint is that of the promoter,” Kroc wrote in his memoirs, “I never hesitate to spend money in this area, because I can see it coming back to me with interest...A child who loves our TV commercials and brings her grandparents to a McDonald’s gives us two more customers. This is a direct benefit generated by advertising dollars.”⁵ Ray Kroc built a corporation that was ready to support its franchisees. now he just had to sell it. The ultimate irony was that the system did not need to be sold at all once the wheels were really turning for McDonald’s. There were more than enough people wanting a McDonald’s franchise.

The corporate culture found in the upper echelon of McDonald’s corporation was quite entrepreneurial in nature. While Kroc created a system and sold it effectively, there were definite opportunities for growth and change in the McDonald’s restaurant. Thanks to an open working relationship with his franchisees, these franchisees could contribute to change and growth for McDonald’s. In fact, many changes came in response to a franchises’ competitive need and were encouraged by McDonald’s executives. McDonald’s understood the importance of every franchise being adaptable to the local economy, so that they could optimize their profits. This strongly decentralized nature could have harmed the company, but instead McDonald’s saw it as an asset. McDonald’s acknowledges the challenge of decentralization and commented that, “We [the franchisees and corporation] need to act collectively and to share best practices.” McDonald’s even defined this balance of decentralized flexibility and standardization as

⁵ Kroc, 113.

“freedom within the framework.” They stated, “The framework is rooted in our values and provides common goals, principles and guidelines. Within the framework, local geographic business units and ultimately restaurant owner/operators and managers have the freedom – and the responsibility – to decide how they can best contribute toward our common goals and ensure adherence to our standards.”⁶ Some of the contributions from the “freedom within the framework” would change the company forever, and would prove that McDonald’s could adapt to challenges that it faced.

The first series of changes brought about to McDonald’s were additions to the menu. As Kroc commented, “the company has benefited from the ingenuity of its small businessmen while they were being helped by the system’s image and our cooperative advertising muscle. This, to my way of thinking, is the perfect example of capitalism in action. Competition was the catalyst for each of the new items.”⁷ Challenges to local McDonald’s restaurants prompted the need for changes, and McDonald’s corporate culture proved that it could handle these challenges. The three most prominent items that were contributed by Franchisees were the Egg McMuffin, the Filet-o-Fish sandwich and the Big Mac. Herb Peterson, who saw the revenue potential of McDonald’s serving breakfast in his large suburb of Santa Barbara, developed the Egg McMuffin. Lou Groen implored Kroc to adopt the Filet-o-Fish sandwich for his Cincinnati stores because the town’s large Catholic population would be going to Frisch’s Big Boy for a fish sandwich instead of McDonald’s on Fridays. And in the quest for a more satisfying larger portioned hamburger to balance out the menu, Pittsburgh franchisee Jim Delligatti made the two-all-beef-pattie-special-sauce-lettuce-cheese-pickles-onions-on-a-sesame-seed-bun

⁶ McDonald’s Corp. 40.

⁷ Kroc, 81

concoction that is lovingly referred to as the Big Mac.⁸ Competition was a motivating factor in the creation of these sandwiches that became vitally important to McDonald's future growth. With these menu additions, McDonald's proved that its corporate culture could allow for their franchisees to adapt to local conditions.

John Gibson and Oscar Goldstein worked their way to becoming the primary franchisees in the Washington D.C. area. While Gibson contributed money and real estate expertise, Goldstein showed the same commitment to advertising and operations that Ray Kroc embodied.⁹ In a way to advertise McDonald's to children, Goldstein took the opportunity to sponsor a new television program in Washington, *Bozo's Circus*, with the McDonald's brand. Bozo, played by a young Williard Scott, became immensely popular with young children and the benefits were being seen in area McDonald's restaurants. The appeal was simple, Love observes, Bozo implored children to "get Mom and Dad to take you to McDonald's."¹⁰ Although *Bozo's Circus* would eventually be canceled, Goldstein saw the appeal of the clown as an advertising vehicle to young children. Within a few months, commercials had been made and Ronald McDonald was born. Today, Ronald McDonald's likeness and brand have a value that probably is larger than the value of McDonald's company as a whole. "Ronald McDonald rivals Santa Claus and Mickey Mouse as our children's most familiar family characters," notes anthropologist Conrad Kottack.¹¹ It is hard to put a price on being held in the same esteem as Santa.

With the advancements brought about by the "freedom within the framework", McDonald's now had an ideal business model for global success. It had created a

⁸ Love, 150.

⁹ *ibid*, 220

¹⁰ *ibid*, 221

¹¹ Kottack, Conrad. "Rituals at McDonald's." Natural History. Jan. 1978. 75.

network of franchisees that could adapt to the demands of their local economy, while staying true to the values of McDonald's, most specifically *QSC and V*. McDonald's had become "a decentralized entrepreneurial network of locally owned stores that is very flexible and adapts very well to local conditions. [McDonalds's] offers an opportunity to entrepreneurs to run a local business with local people supplied by local infrastructure. Each creates a lot of small businesses around them."¹² With "the system" in place, McDonald's became America's largest food service company. The "Speedy Service System" and Hamburger University help to indoctrinate all employees in the ways of *QSC and V*. With great real estate scouting and advertising support nationwide, McDonald's was able to build a brand and image that would have an invaluable price and increasing profitability. The network of bright and inventive franchisees helped to grow McDonald's into the company that it is today. By granting each franchisee "freedom within the framework", McDonald's allowed every franchise to become immersed in the local economy and thus grant every franchise an even greater opportunity for success. McDonald's had conquered America by the 1970s. The next logical step was globalization.

¹² Naim. 29.

Chapter 4

Going Global: Exporting an Adaptable Corporate Culture

“McDonald’s should have run out its string a long time ago. It should have had its moment in the sun and then, in this crowded industry with notoriously fickle customers, should have been shoved aside. But McDonald’s moment is about 30 years old, and the sun never sets on McDonald’s empire.”
-Penny Moser, *Fortune Magazine*, 7/4/88¹

McDonald’s dominated the North American fast food business but the executives at McDonald’s knew that other avenues for growth had to be pursued in order to sustain the health of the company – and the happiness of their stockholders. At first, Kroc and others thought the best method of growth would be from diversification. Failed concepts included other types of restaurant concepts, from beer gardens to pie shops, and Kroc even investigated opening a theme park.² After a few flops, Kroc realized that the best business concept was the one that brought him success in the first place. Kroc decided that the best course of action for the company would be to export the golden arches. This chapter details four examples of how McDonald’s handled the global challenge in four completely different ways. When McDonald’s entered Japan, they placed the entire future of McDonald’s Japan in the hands of an ingenious entrepreneur. While in their endeavors into Europe, McDonald’s made their business movement on an entirely different set of corporate philosophies. When McDonald’s addressed the challenge of a different kind of economy in the Soviet Union, they worked to create the market in which they would work. While with their entrance into China in 1992, McDonald’s felt that their best method for entering the Chinese market was to act like they were exporting

¹ Moser, 113.

² Love, 414.

“Americana.” McDonald’s would make some surprising adaptations to their own corporate culture and even the culture of China. In all cases, the expansion of McDonald’s into other countries displays a corporate culture that is willing to adapt in order to achieve success.

For a smooth transition McDonald’s Corporation knew that it had to follow the franchising model for international expansion, but finding the most likely international market for franchising did come as a challenge. By 1971, numerous studies identified four countries that were ready for the U.S. model of franchising: Australia, New Zealand, Hong Kong, and Japan.³ For McDonald’s, and several other American companies, there was an instant appeal to one country – Japan. “The Japanese are spending more than ever before on consumer goods, and on food in particular; western-style foods are increasing in popularity; Japan has a long tradition of small shop-keeping and multi-level commodity distribution; and not least, the current Japanese government looks with favor on the introduction of U.S. business methods.”⁴ But with high property values, a high amount of bureaucracy and aforementioned cultural differences it was obvious to McDonald’s executives that they would need an ambitious and smart Japanese entrepreneur to ensure success. McDonald’s would need an entrepreneur whose beliefs matched the values of their corporate culture. That man would be Den Fujita.

While Ray Kroc didn’t have his entrepreneurial revelation until he was fifty-two, Den Fujita was relatively fortunate to find his at a younger age. A successful student at the prestigious Tokyo University during the U.S. occupation of Japan after the Second

³ Rothenberg, Aaron. “Japan, 3 Other Nation’s Need, Want Franchising.” The Marketing News. Vol. 5, Oct. 1971.

⁴ National Association of Franchised Businessmen Letter. July, 1970. pg. 4

World War, Fujita saw that there was a lot of opportunity in cooperating with their new inhabitants. He began by working as a translator in American occupation headquarters - one of the highest paying entry-level positions in the country.⁵ With the occupation, Fujita understood that a cultural change was coming, and that even though he was working with the country that defeated him in war and killed his father and siblings in bombing raids, importing Western products to Japan could be profitable.

At the age of twenty-five, Fujita started an import company aptly named Fujita & Company. He endured a modest beginning importing golf clubs and Florishiem shoes. Fujita's business really began to flourish when he found an idea target audience: women. "Fujita correctly foresaw a huge market for anyone capitalizing on the Japanese woman's fascination with designer name tags."⁶ Fujita soon built a fortune importing items like Christian Dior handbags and other women's accessories.⁷ However Fujita was not trying to sell Western culture, or the culture of a certain country. He was instead trying to sell the brand names that he believed would be of greatest appeal to the people of Japan. Fujita was selling "Dior, not France."⁸

Money was not the only reason for Fujita's belief in importing Western products. A bizarre series of personal beliefs also led to his total faith in Western products. Fujita believed normal Japanese business conventions and the Japanese way of life were weak. Being from Osaka, Fujita believed that Osakan businessmen are craftier than those in Tokyo because the Osaka's settlement by the Jews of over a thousand years prior, an

⁵ Sterngold, James. "Den Fujita, Japan's Mr. Joint Venture" *The New York Times*. March 22, 1992.

⁶ Love, 425.

⁷ Sterngold, 2.

⁸ Katayama, Frederick Hiroshi. "Japan's Big Mac". *Fortune*. 9/15/86, 116.

event that has never been verified.⁹ Fujita's success as a businessman led to him writing several popular books including The Jewish Way of Doing Business, Stupid People Lose Money, How to Become Number One in Business, and How to Blow the Rich Man's Bugle like the Jews Do.¹⁰ Fujita's rationale for bringing McDonald's to Japan was even wacky. He believed that the Japanese people eating more hamburgers would cause them to be "more blond." He adds, "The Japanese are very hardworking, but very weak, very small and our faces are so pale. I thought we had to strengthen ourselves. That's when I thought of beef."¹¹

Racial politics aside, Fujita was committed to bring McDonald's to Japan. Like Dior, Fujita knew that McDonald's was a brand that could succeed in Japan. McDonald's saw a committed and successful businessman who could lead McDonald's Japan. The first person from McDonald's to meet Fujita was Steven Barnes, the future chairman of McDonald's International, who was on assignment in Japan looking for a business partner. While from a pure monetary standpoint Fujita was a "small fry," Fujita's qualifications as a risk-taking entrepreneur appealed to Barnes. Barnes was impressed with Fujita's "open-mindedness and 100% commitment."¹² While many of the other prospective clients viewed a partnership with McDonald's as another investment, Barnes

⁹ Sterngold, 2.

¹⁰ Sterngold, 2. Regardless to say, this New York Times article did result in more than a few Letters to the Editor regarding Fujita's Anti-Semitism, even though Fujita himself claims not to be one.

¹¹ Sterngold, 2. Anthropologist Emiko Ohnuki-Tierney describes in her article McDonald's in Japan: Changing Manners and Etiquette that before World War II the consumption of beef by Western cultures was seen as disgusting by the Japanese. While still not a central part of the normal Japanese diet, the consumption of beef has become an accepted practice in Japan.

¹² Katayama, 115

saw that “Fujita seemed willing to devote his personal energies to the joint venture.”¹³ In Fujita, Barnes saw an entrepreneur with the same spirit of many of those found in McDonald’s upper echelon. In short time, Barnes and Fujita were on a flight to Chicago to meet with Ray Kroc.

Fujita left Oak Brook with an agreement on a 50-50 joint venture between himself and McDonald’s corporation, mostly because that is what he wanted. “I told Kroc-san I was only interested if it was a 50-50 joint venture, with a Japanese president,” Fujita recalled. “[Kroc] replied that his only condition was that we succeed. So we went ahead.”¹⁴ A joint venture was a departure for McDonald’s from their normal franchise arrangements, but complex global markets required that McDonald’s combine forces with knowledgeable business partners. Fujita was going to be able to build McDonald’s in Japan on his own terms, which was necessary for the success of McDonald’s Japan but also would translate in some drastic changes from the accepted norms of the American McDonald’s Corporation. This meant that for the first time McDonald’s strong corporate culture that was built in the Americas would be molded and adapted to meet the demands of a wholly different culture.

The first change in process between McDonald’s America and McDonald’s Japan was the selection of location. McDonald’s America believed in the importance of focusing growth in the suburbs of large American cities. The age of the automobile and the relatively low cost of real estate in America made these investment decisions even more rational. But Fujita knew that methods for introducing McDonald’s to Japan would have to be different. He convinced executives of McDonald’s to build the first

¹³ Katayama, 115

¹⁴ Weinberg, Neil. “Damn the Torpedoes.” *Forbes*. Vol. 121 Iss. 2. 1/26/1998

McDonald's in the busy Ginza shopping district in Tokyo, even though it went against every part of McDonald's beliefs to do so.¹⁵ McDonald's brass was not keen to the idea of an urban McDonald's, but Fujita saw the bigger picture for success in Japan. "To [Fujita], the masses of young pedestrians that flood Japanese cities were more promising customers than affluent but tradition-minded car owners in the suburbs."¹⁶ The Ginza store was small and narrow with little to no seating and no possibility of having a drive thru, all radically different from an American McDonald's store in the early 1970s. When McDonald's executives traveled to Tokyo in July of 1971, they believed that they were getting in way over their heads just by judging the location of the store. These executives would be proven wrong. The Ginza store would set single day records for the McDonald's Corporation within its first few months.¹⁷

Fujita's remarkable achievement of succeeding in the urban market taught McDonald's an invaluable lesson. McDonald's learned that an urban McDonald's would work and, in fact, thrive. In the decade following the Ginza store opening, McDonald's would open a series of inner-city stores in the US and they would become extremely profitable. "McDonald's recognized Fujita's achievement in 1984 by naming him and advisory director of the parent corporation."¹⁸ Fujita's achievements gave McDonald's America the confidence to enter markets that the philosophies of McDonald's had once deemed risky business. That would forever be Fujita's impact on the parent corporation, but in looking at other actions taken by Fujita one finds it remarkable how much leverage

¹⁵ Ohnuki-Tierney, Emiko. "McDonald's in Japan: Changing Manners and Etiquette." *Golden Arches East*. Ed. James Watson. Stanford: Stanford University Press, 1997.

¹⁶ Katayama. 115.

¹⁷ Love, 428

¹⁸ Katayama. 116.

McDonald's Corporation gave him. McDonald's America learned that allowing local entrepreneurs to start McDonald's franchises was a sound business decision. A chosen foreign leader, under the umbrella that was McDonald's Corporation, would run each joint venture as their own business – while abiding to the *QSC* values of the corporation.

Other actions that Fujita took to succeed in Japan were ones that were in sharp contrast to actions that Ray Kroc would have taken, but it illustrates even more the adaptable nature of McDonald's international ventures. Changes were made to the menu by Fujita to attract even more Japanese clients. Most Asian diets, especially the diets of the Japanese, are heavy in rice and meats. Since McDonald's consisted of sandwiches and French fries, Japanese culture regarded a meal at McDonald's as a snack.¹⁹ Additions had to be made in order to ensure the long-term future of McDonald's Japan, as profits could not continue if they were only serving snacks. The addition of Chinese fried rice and a soy sauce chicken sandwich were somewhat popular. But, just as the Big Mac was that one menu addition Ray Kroc needed to solidify his menu, Den Fujita found an item to bring Japanese patrons returning – the McTeriyaki burger. Like franchisors in America bringing the Filet-o-Fish and Egg McMuffin to the menu, Fujita shaped his menu to match cultural demands.

Another change in business philosophy was Fujita's position on advertising. While Kroc built up a strong advertising campaign year after year for his franchisees, Fujita "did not spend a single yen for advertising."²⁰ Thanks to the restaurant being in a high traffic area advertising was not necessary. "Pedestrians mobbed the store on opening day and kept coming. A year later the Ginza outlet set a McDonald's world record to one-

¹⁹ Ohnuki-Tierney, 162

²⁰ Katayama, 116.

day sales: \$14,000.” Fujita relied on word-of-mouth advertising and pedestrian traffic for the next three years without having to spend a dime on advertising.²¹ It was a risky proposition to rely on success without advertising, but Fujita played his cards right.

The final change that Fujita enacted upon the corporate philosophy of McDonald’s Japan and that was the role of franchising throughout the organization. Instead of selling individual franchises to entrepreneurial investors, Fujita chose to operate the majority of the McDonald’s on his own. Whereas in America only a small portion of the stores would be owned and operated by the company, Fujita himself owned the majority of the franchises. Of course this put Fujita in a very profitable position. “He not only owns 50% of McDonald’s (Japan) but also is far and away the parent company’s largest franchisee. He owns 480 of the 560 stores in Japan, and he plans to open 50 to 60 a year.”²²

In bringing McDonald’s to Japan, Den Fujita worked to create a restaurant system that was Japanese in character. But more importantly for McDonald’s corporation, their instant success in Japan created a model for future international growth. This model consisted of “dependence on a local entrepreneur with a substantial ownership position in a joint venture and even more autonomy than that of franchisees in the United States.”²³ Whereas franchisor-franchisee relationships in the States were much more controlled for the corporation, a joint venture relationship between McDonald’s and their business partners allowed for a more pliable and adaptable McDonald’s. The independence for the franchisors could allow for a different McDonald’s in each country,

²¹ Katayama, 116.

²² *ibid*, 116.

²³ Love, 428

but with the same characteristic trademarks that made McDonald's a worldwide institution. Knowing that McDonald's could be an international success, the corporation turned its eyes to Europe.

McDonald's arrived in to the United Kingdom in 1974, but the challenge for McDonald's in the UK was much different that those faced in the United States and in Japan. While the concept of fast food was introduced to England well before the arrival McDonald's, the qualities of these restaurants were poor. Local establishments had even been making hamburgers to no avail. The attempt to bring McDonald's to England and have success would be an uphill battle based purely on precedent, but McDonald's Corporation would be up to the task. In fact, one could say that they tackled the challenge with a little bit of cockiness, as exhibited in this statement in 1979 by then McDonald's President Edward Schmitt:

*"Their entire commercial structure is changing in Europe, it seems to me, from the typical shopping streets to outlying shopping center, for convenience. As that pattern continues to develop, then the total number of stores which we can put in those nations will increase dramatically. And it has to come, because they want convenience as much as Americans do. They're just a little late in finding out about it. So, I don't see much difference over there."*²⁴

Whereas in Japan McDonald's made several adaptations to their corporate culture, McDonald's believe in England that the people would come around to the McDonald's system. McDonald's worked to set up its own suppliers and even sent American businessmen over to run the parent companies, a departure from the joint venture system. Executive Vice President Bent Cameron observed. "We just plowed dumbly ahead using the same old system that we had in the U.S. It was like reliving

²⁴ "A Talk with McDonald's President Edward Schmitt." Fast Food: The Endless Shakeout. New York: Lebhar-Friedman Books, 1979. pg. 284

history.”²⁵ From an economic standpoint, this plowing was very successful. Amazingly, McDonald’s began to make an impact on European culture and even drew the ire of protestors.

What also makes the introduction of McDonald’s in England unique in comparison of those countries previously discussed is that the entrepreneur that brought McDonald’s to England was not a local Englishman, but an Ohio franchisee. Rhea sold his five Ohio franchises for \$1.7 million and made the jump to England because he saw an opportunity to make quality, affordable, and family-friendly fast food in England: an audience that Rhea believed other companies did not target appropriately.²⁶ Rhea observed the reputation of fast food in England and knew that the introduction of McDonald’s called for Rhea building something that he could be “proud of.”²⁷ The first store cost nearly \$2 million to build and featured some of the most ornate interiors and exteriors ever seen in a McDonald’s at the time. Rhea did this in order to combat the initial perception of fast food by the English. As Rhea comments, “I wanted to enter the market with a splash in order to overcome the bad reputation of the local hamburger.”²⁸

Another challenge for Rhea and other franchisees in Europe was finding the appropriate suppliers. McDonald’s exacting standards for quality of beef, breads and potatoes were puzzling to English suppliers. Many of these English suppliers believed that McDonald’s standards of quality were unnecessary, and some of these suppliers even went to go far to say that McDonald’s was spoiling the customer. But Rhea knew he had to stick to his guns: “We decided we were going to duplicate the McDonald’s System as

²⁵ Love, 419.

²⁶ *ibid.*, 439-440

²⁷ *ibid.*, 440

²⁸ *ibid.*, 440

it existed in the U.S. or die trying.”²⁹ Therefore, Rhea chose to import American suppliers to Europe so that they could comply with “the System’s” exacting standards. Joint ventures between McDonald’s Europe and American suppliers were started throughout Europe, and the American processes of food production were now brought to Europe. In Japan, McDonald’s entrusted their franchise to local businessmen and suppliers. But when McDonald’s arrived in England, they brought an American franchisor and overhauled the food production process to make things their own way. McDonald’s in England was not a new branch of the business, it really acted as more of an extension of the American corporation. In some ways, McDonald’s took for granted the cultural differences between the United States and Britain.

Profitability for McDonald’s in England took longer to develop than most other countries; in fact it took nearly a decade.³⁰ But as McDonald’s began to spread throughout the world it became for protest groups against multinational corporations. In no place was this seen as more apparent than in London. Agitation over labor and production practices, nutritional concerns, animal cruelty and exploitation of children by multinationals rallied a strong protest base. In fact, the longest civil trial in British history stemmed from a libel suit issued by McDonald’s against protestors from the London Greenpeace organization – today that trial is known as the McLibel trial. Events like this imply that McDonald’s made an impact on the European culture, or even that protestors saw McDonald’s as a threat to European culture. An investigation of McDonald’s in France shows that McDonald’s could have a profound impact on a nation’s culture.

²⁹ Love, 443

³⁰ *ibid*, 441

As an introduction to his book The Sign of the Burger, Dr. Joe Kincheloe uses the story of a French farmer in a small town protesting the opening of a McDonald's. Bove protested McDonald's rapid expansion in France because Bove wanted to "protest against U.S. imperialism, trade policies, and the promotion of *malbouffe*, or bad food."³¹ But, while Bove may have grabbed some headlines and grasped the imagination of a "fast food counter culture," fast food in France constantly grew in popularity throughout the 1980s. Like Japan, McDonald's was accepted by the younger generations in France. While Kincheloe tries to portray this story as French resistance to the Americanization and Fast Food, the "phenomenon" of fast food in France was a reality.³²

The popularity of fast food, and specifically McDonald's, in France is of import because the dining experience is such a central piece of French culture. This deep cultural pride is known as the "'patrimoine culinaire' which has been a central part of the national identity since the early nineteenth century."³³ Fantasia is quick to identify that the basic characteristics of fast food act as a "direct inverse to French gastronomic practices."³⁴ But McDonald's restaurants grew at such a fast rate: some Frenchmen felt that the basic tenants of French culture were under attack.³⁵ By 1989, the hand of the French Ministry of Culture was forced to establish the "National Council of Culinary Arts. The council was created to protect "the culinary patrimony".³⁶ By analyzing why the popularity of

³¹ Kincheloe, 3

³² Fantasia, Rick. "Fast Food in France". *Theory and Society*. Vol. 24 No. 2, Apr. 1995.

³³ *ibid*, 202.

³⁴ *ibid*, 202

³⁵ McDonald's restaurants in France did grow at a startling rate. It went from 109 in 1980 to 2036 just ten years later.

³⁶ *ibid*. 203.

fast food in France came about, one only needs to look at the demographic that fueled McDonald's to success in other nations – the young demographic.

Fantasia notes that the initial appeal of McDonald's to the French was due to it representing “a taste of the other”.³⁷ But soon after that, fast food became something “somewhat snobby and very Parisian”.³⁸ McDonald's became trendy; it even catered to Parisian fashion shows. But this acceptance of fast food by the younger, trendier French men and women was done also as a break from traditional cultural practices.³⁹ Young adults and middle-class workers were drawn to McDonald's because of its quick and inexpensive dining experience, which was inverse in nature to traditional French culture.⁴⁰

McDonald's and the introduction of fast food in France was a success. Remarkable the introduction also altered the dining practices of young French men and women. Bove and his peers fought against these cultural changes that were being presented, but they could not stop the changes. Many younger French men and women embraced the modern and American feel that McDonald's presented. Policy groups were even initiated to try and promote the dining culture of past generations, but McDonald's was able to integrate itself into French society. In many ways, McDonald's in France was embraced because of the American nature of the company. At the same time, McDonald's was showing it could have an effect on a culture. McDonald's next conquest would be not just of a different culture, but a different economy.

³⁷ Fantasia, 213.

³⁸ *ibid.* 213

³⁹ *ibid.* 214

⁴⁰ *ibid.* 218

Perhaps nothing shows the strength of McDonald's corporate culture more than its adaptation to another type of economy – when McDonald's entered the Soviet Union after *perestroika* in 1988.⁴¹ Like Japan, McDonald's entry into Moscow would be a joint venture. But this joint venture would not be with an individual. Thanks to the inherent nature of socialism, McDonald's joint venture would be with the city of Moscow.⁴² As Hertzfeld explains, the joint venture would be necessary for success in the Soviet Union because “[the joint ventures’] term have been tailored to the emerging facts of the Soviet political economy, even to the turmoil that accelerated reform is likely to produce.”⁴³

McDonald's direct-investment strategy into the Soviet economy had two simple “pillars” by which it would abide. The first was the belief in the steady growth of the company, not trying to make a quick buck. Hertzfeld notes that integration into the Soviet economy called for a patience which would allow “a liberal market revolution that will span a generation. For most companies, it would be futile to pursue quick profits...Rather, global companies ought to make plans to grow in the Soviet economy, to absorb and teach suppliers, as though ruble-backed assets will someday be worth owning.”⁴⁴ This philosophy led to McDonald's building an operation that would grow into many restaurants throughout Russia, which is obviously something that appealed to McDonald's. The second phase of the strategy would be what Hertzfeld called “vertical integration.” Hertzfeld defined this as “a top-to-bottom chain of linked or integrated

⁴¹ Hammil, Jim and Wersum, Alec. “Joint Ventures in Russia.” East-West Business Relations: Establishment and Developments. Ed. Jarmo Neimanen. Binghamton, NY: International Business Press, 1996. 23.

⁴² Hertzfeld, Jeffrey. “Joint Ventures: Saving Soviets from Perestroika.” Harvard Business Review. Jan-Feb 1991. 80.

⁴³ Hertzfeld, 80.

⁴⁴ *ibid*, 80. Because of the great devaluation of the ruble, it was worthless in the market economies of other nations.

enterprises, more or less in command of supplies and with independent access to its customers.”⁴⁵ These two aspects of McDonald’s entry into the Soviet Union would be important because there would be no true “market.” McDonald’s, upon entering the Soviet Union, would have to “create their markets, expand them, and develop them. Collectively, they must hold on for a market society.”⁴⁶ So why would McDonald’s enter a society where they actually had to create their entire market? The answer was simple: unlimited growth potential. As Hertzfeld comments, “there is virtually no limit to foreign exposure profit and participation.”⁴⁷

The steps that McDonald’s would make to enter the Soviet economy would be quite impressive. In fact, Hertzfeld editorializes in his article on how well McDonald’s corporate culture fit the demands to succeed in the Soviet Union. “In my view, no other venture (McDonald’s) reaches so well for what is possible or disciplines so well by what is necessary.”⁴⁸ Hertzfeld was so impressed because McDonald’s was able to bring the values of *QSC and V* to the devastated economy of the Soviet Union in a short amount of time. “From the beginning,” Hertzfeld notes, “McDonald’s and the joint venture have worked persistently with Soviet suppliers to develop reliable, high-quality sources of raw material for processing meat patties, producing French fries, preparing dairy products and baking buns and apple pies in the state-of-the-art plant and distribution facility.”⁴⁹ McDonald’s went as far to show farmers how to grow a proper

⁴⁵ Hertzfeld, 81

⁴⁶ *ibid.*, 81

⁴⁷ *ibid.*, 85.

⁴⁸ *ibid.*, 87.

⁴⁹ *ibid.*, 87.

potato. When the first McDonald's store opened in Pushkin Square in 1990 it opened with an overwhelming success and now serves over 50,000 meals a day.⁵⁰

McDonald's took a lot of risks upon entering the Soviet political economy, but its success was monumental. By adapting its corporate culture, exemplified in the steps made to create their own supply chain and enter into a joint venture with a city, McDonald's created an avenue for nearly unlimited growth. But more importantly, McDonald's was making an impact on the thinking of the Soviet Union. "Direct foreign investment is a fundamental engine of social change in the Soviet Union," Hertzfeld remarks.⁵¹ McDonald's was breaking down the barriers of the Soviet political economy almost a year before a single piece of the Berlin Wall was brought to the ground.

The effects of McDonald's on a socialist culture can be seen in McDonald's introduction to the people of China. Perhaps more importantly, one can see how McDonald's had to adapt to the culture upon which it was entering. After nearly a decade of negotiations with the Chinese government, McDonald's finally brought McDonald's to China in 1992.⁵² The demand for McDonald's in China was mutual, as McDonald's most assuredly wanted to gain market share in the world's largest country, and the Chinese had become more willing to accept Western culture. "There is a new tendency [by the Chinese people] to absorb foreign cultural influences and transform them into local institutions," Anthropologist Yunxiang Yan explains.⁵³ But with a socialist economy, McDonald's management, with the cooperation of the Beijing community, would have to

⁵⁰ Hertzfeld, 88.

⁵¹ *ibid.* 91.

⁵² Shapiro, Eben. "Overseas Sizzel McDonald's Profits." *The New York Times*, 17 April, 1992. D1

⁵³ Yan, Yunxiang. "McDonald's in Beijing: The Localization of Americana." Golden Arches East. Ed. James Watson. Stanford: Stanford University Press, 1997.

be the instrument of change to localize McDonald's and make it a success in China.⁵⁴

McDonald's was such an internationally stable company that it could take risks to ensure the McDonald's in China would work. Shockingly, some of the characteristics of the first Beijing store were drastic changes from the American model. In some ways McDonald's had learned from its past cultural ventures that they understood that to bring themselves profit, the corporate culture would once again have to adapt.

The first adaptation brought to the Chinese McDonald's was the location of the first restaurant. Just like the Japanese McDonald's model, McDonald's management chose to place their first McDonald's in the densely populated city of Beijing. With this in mind, the size of the restaurant would also be of importance. The first store in Japan was small, with seating barely enough for twenty-five. Because of the unique nature of the McDonald's restaurant in China, the dining experience for those who attend the restaurant would be a time of leisure and relaxation. With many of their clients spending anywhere between one to two hours in the restaurant, the McDonald's in Beijing was built as the largest restaurant in the corporation's history. Whereas the first Japanese store, much like the San Bernardino store, was built for quick service; the Beijing store was built in a way so that Chinese customers could enjoy the modernity, equality, and Americana that McDonald's represented.

Another difference between other international stores and the Beijing store would be the menu. McDonald's in Japan, France and the UK were menus that had certain items to adapt to the competition in each market. For McDonald's China, the menu was an identical reproduction of the American menu. This was done because "in the eyes of

⁵⁴ Yan, 41.

Beijing residents, McDonald's represents Americana and the promise of modernization. McDonald's highly efficient service and management, its spotless dining environment, and its fresh ingredients have been featured repeatedly by the Chinese media as exemplars of modernity".⁵⁵ Whereas McDonald's in other countries tried to adapt to their cultures, McDonald's in China was presented to their customers as a unique piece of Americana. Where as the appeal of McDonald's to most customers worldwide was McDonald's reputation for "cheap, quick, and predictable food", the appeal of McDonald's to the Chinese was that McDonald's was the "unfamiliar and the unroutine."⁵⁶ The mere fact that McDonald's didn't want to immerse itself in the culture of its new location went against 20 years of successful business practices.

The cultural role of McDonald's as a long term hang out for the Chinese was also a situation for which McDonald's had to adapt. With its unique menu, comfortable setting and clean appearance, McDonald's became a frequent date spot for young couples.⁵⁷ Later McDonald's restaurants in China took advantage of this surprising clientele by making portions of the restaurants called "Lover's corner", a portion of the restaurant that offered a quiet space, romantic atmosphere, and both seating for two.⁵⁸ McDonald's was continually showing that they were willing to adapt their Chinese restaurants to be unique from what one would consider the "typical" McDonald's.

A final difference in the Beijing store was the adoption of store ambassadors, like greeters at a Wal-Mart. Two ambassadors were constantly on the floor of the Beijing store welcoming in customers and helping them with any questions that they had about

⁵⁵ Yan, 41.

⁵⁶ *ibid*, 58.

⁵⁷ *ibid*, 50.

⁵⁸ *ibid*, 51.

the menu. These ambassadors were referred to as “Aunt McDonald” and “Uncle McDonald”.⁵⁹ Their purpose was to “establish long-term friendships with children and other customers who frequent the restaurant, in the attempt to personalize what might otherwise be a purely business transaction.”⁶⁰ Whereas, in other areas, a McDonald’s experience could be defined as one of routine and an impersonal nature, Yan quotes one mother of loving McDonald’s for the feeling of “goodwill, concern and sentiment” that it provided.⁶¹

With success in China, McDonald’s built a restaurant enterprise whose success was purely predicated by the American nature of the business. But, just because McDonald’s was attempting to present McDonald’s to the Chinese as an American restaurant they still made changes to the format of the restaurant to further enhance their success. McDonald’s did not take the Chinese culture for granted, like they did in some ways in Britain and the rest of Europe. Success in China showed that McDonald’s could succeed in “exporting Americana”.⁶²

The global success of McDonald’s points to a corporation that understood the demands placed on a corporation in the global marketplace. In their growth, it is remarkable to realize the amount of adaptations that McDonald’s had to make in their approach to selling their products while still adhering to the values of *QSC and V*. Whereas in the United States the only adaptations that would be needed would be the addition of a fish sandwich or a change in the advertising campaign, the demands of the global marketplace would be even more demanding. Globalization showed the strength of

⁵⁹ Yan, , 60.

⁶⁰ *ibid.* 60.

⁶¹ *ibid.*, 61.

⁶² Love. 430.

McDonald's corporate culture. In Japan, they were able to succeed in the urban marketplace. In Europe, they were able to bring convenience to a region that possibly didn't even know they wanted it. With their success in the Soviet Union, they were able to adapt their business practices to an entirely different political economy. And with their forays into China, McDonald's showed that they could make even more changes to be accepted into a foreign culture, but McDonald's would have an effect on the culture in return. After 1992, the sun would never set on the Golden Arches. The path that McDonald's Corporation took to get there reflects a company who knew exactly what they were doing: adapting their corporate culture while keeping core values intact.

Conclusion

McDonald's Global Conscience

As McDonald's approached the end of the twentieth century, its grand successes finally began to slow. A growing obesity problem in the United States, especially in children, forced many to reanalyze the role of McDonald's in their daily lives. Corporate scandals also changed society's outlook on large multinational corporations, as stockholders now demanded even more transparency. McDonald's saw that their role in society was coming into question, and the future of McDonald's holds with it several initiatives in which McDonald's hopes to stay favorable in the global mindset.

The opinion of McDonald's Corporations is, in some ways, divided into two camps. The first group is the customers of McDonald's, those who define McDonald's by the food they serve and the dining experience at any McDonald's. The second group, who most likely do not frequent the establishment, see McDonald's as a symbol of growing concerns such as, "U.S. hegemony, trampled rain forests, genetically modified foods, and cultural homogenization."¹ The interaction between McDonald's internal corporate culture and the outside culture of the United States and cultures abroad is something that can be a challenge to clearly define. But, at the same time, one can see ways in which McDonald's had an effect on outside cultures. Most of it was seen as a great benefit, but protest groups like Greenpeace challenged McDonald's in their business practices. Interactions between McDonald's and outside culture point to a greater issue facing many corporations worldwide today – the issue of corporate social responsibility. Corporate social responsibility is identified as the investigation of moral principles surrounding a

¹ Naim, Moises. "The FP Interview: McAtlas Shrugged." *Foreign Policy*. May 2001: Vol. 124, 26.

corporation and in turn the actual effects that businesses have on society.² From this comes the idea of a corporation as a responsible “citizen” of the society in which they occupy. Corporate citizenship is seen as “the set of activities undertaken by businesses to concretely meet social demands responsibly.”³ By looking at the criticisms placed against McDonald’s and in turn analyzing the nature of McDonald’s as a corporate citizen, one can deduce that there is a constant and evolving interaction between the culture of McDonald’s and the many cultures of the world. The role of how McDonald’s changed cultures for good or bad can be left in the hands of a sociologist or an anthropologist. The role of the historian is to observe what McDonald’s has done to interact with outside cultures by looking at its actions as a corporate citizen, and recently the interaction between the two has been a point of emphasis for McDonald’s Corporation.

In light of corporate scandals like Enron, the subject of corporate responsibility and accountability remains forefront in the minds of consumers. While in the early decades of McDonald’s existence, most interactions with the community and McDonald’s were decentralized. Each individual franchisee could determine how involved in the community they wanted to be, and usually community involvement was encouraged. The only national initiative was the Ronald McDonald’s Children’s House, which was created by a Philadelphia franchisee in conjunction with other organizations and soon spread across the nation.⁴ It was not until the corporate scandal era and the call for corporate responsibility that McDonald’s decided to document their contributions in

² Maignan, Isabelle, et. al. “Corporate Citizenship: Cultural Antecedents and Business Benefits.” *Journal of the Academy of Marketing Science*. Fall 1999. pg 456.

³ *ibid.* 457.

⁴ McDonald’s Corp. “Corporate Responsibility Report.” 2004.

http://www.mcdonalds.com/corp/values/socialrespons/sr_report.html. pg. 33.

maintaining corporate social responsibility and thus create several initiatives to enhance their corporate citizenship.

One of the biggest changes in seen over the course of McDonald's history is the role of McDonald's in a balanced diet. Many people have seen that a Big Mac and French fries can contribute to an unhealthy lifestyle. Books like Fast Food Nation and the documentary *Super Size Me*, where the director gained thirty pounds in a month eating nothing but McDonald's, led to a call for healthier foods at McDonald's. In turn, McDonald's began its largest initiative in corporate citizenship, promoting what they call a "balanced lifestyle" for their customers.⁵ Parts of this initiative include owner/operators supporting local sporting events, educating children on living a healthy lifestyle, and offering new menu choices like salads and fruits.

McDonald's also sought to take responsibility for the purchases that they were making. McDonald's called for "a food supply system that profitably yields high-quality, safe food products without supply interruption while creating a net benefit for employees, their communities, biodiversity and the environment."⁶ Ten guidelines were created to help guide franchisors and suppliers. Highlights of these guidelines include ensuring the safety of employees of both McDonald's and their suppliers, a call for environmental efficiency, and ensuring that all animals "needs for food, water and space are met consistently."⁷ Many criticize McDonald's for their supply chain. London Greenpeace attacks McDonald's for its waste saying that annually McDonald's cuts down "800 square miles of forest." Greenpeace also accuses McDonald's of inefficient business

⁵ McDonald's Corp., 8

⁶ *ibid*, 12

⁷ *ibid*. 12.

practices. They state that, “Of the 145 million tons of grain and soy fed to livestock, only 21 million tons of meat and by-products are used. *The waste is 124 million tons per year at a value of 20 billion US dollars.*”⁸ In an interview, McDonald’s CEO Jack Greenberg claimed that this was not true, and that McDonald’s in fact received environmental awards “almost every week.”⁹ The large nature of McDonald’s as a consumer of goods will always bring it under scrutiny, but McDonald’s has shown that it will try to be a leader in being as responsible a consumer as the market will allow them.

Another aspect of McDonald’s call for social responsibility was the responsibility of McDonald’s to their employees. Not only was this a commitment to employee education and development through Hamburger University, as discussed earlier, but this was also a commitment to diversity initiatives. As a sign of commitment to diversity, McDonald’s has a Chief Diversity Officer, Patricia Harris. Harris sees that the call for diversity throughout McDonald’s can be tied to their founder and hero. “Ray Kroc understood diversity when he said, ‘None of us is as good as all of us.’”¹⁰ Even the “ants” enjoyed employment on the whole. While quite Fordist and mechanical in their operations, employees do stick with McDonald’s. Professor Dennis H. Tootelian, in conducting a study of McDonald’s effects on local economies, stated, “I was impressed with how long employees remain with the company, normally around 1.6 years, which is more than twice the national average for employees in comparable age groups.”¹¹ McDonald’s commitment to their employees contributes to the length of stay. Sure there may be a minimal union presence throughout McDonald’s, but the opportunities for

⁸ <http://www.mcspotlight.org/case/pretrial/factsheet.html>

⁹ Naim, Moises. “The FP Interview: McAtlas Shrugged.” *Foreign Policy*. No. 124

¹⁰ McDonald’s Corp., 25.

¹¹ *ibid.* 28.

career advancement presented by McDonald's is pretty remarkable considering it is a minimum wage, entry level job.

Another aspect of McDonald's corporate citizenship that stands out is its economic impact on local economies. Because of the decentralized, franchised nature of the company a lot of the effects of opening a McDonald's are seen in small, local economies. Franchisors will use local suppliers, hire local employees, and usually live in the community. This local nature of many McDonald's restaurants creates a "multiplier effect" for the local economy. The majority of expenditures are made locally, bolstering local businesses, while the increased spending at McDonald's increases tax revenues. Also the creation of new jobs is greatly beneficial to these local economies. In Professor's Tootelian's conclusion he states that, "The combination of restaurant employment and expenditures has a pronounced impact on local economies because they recycle money back into the states that is used to purchase other goods and services and thereby create jobs."¹² Whereas some companies may drain an economy in the pursuit of natural resources or cheap labor, McDonald's has created a system that actually fosters the growth of local economies worldwide.

In this era of strong corporate cultures and the call for corporate responsibility, McDonald's has made attempts to become a model corporate citizen. While corporations like Enron brought with them questionable accounting practices, misogynistic cultures and complete corporate irresponsibility, McDonald's Corporation is trying to show that a multinational corporation can have a conscience. Corporate citizenship is the most outward expression of interaction between an internal corporate culture and cultures

¹² Tootelian, via McDonald's Corp, 80.

worldwide. Recent developments within McDonald's have shown that McDonald's wants to affect cultures in positive ways, and they are placing a lot of trust in their local franchisees to do just that. McDonald's initiatives for social responsibility point to a healthy and active corporate culture. By reflecting on the development of McDonald's corporate culture, the importance of McDonald's in the ongoing discussion of corporate cultures is apparent.

In their book Corporate Cultures, Terrence Deal and Allan Kennedy outlined the elements that were needed to build a strong corporate culture. They also advocated that a strong corporate culture was necessary for success in today's business world. By analyzing the actions of the McDonald's Corporation in the early 1950s and in its growth in the decades that followed, one sees that McDonald's corporate culture contains the elements that Deal and Kennedy thought were so vital to having a strong corporate culture.

McDonald's was molded by the business environment in which it found itself, not only by Ray Kroc in America but also by other leaders in other different cultures. Kroc saw that the emerging fast-food industry was going to be one of the fast growth industries in the post-war American boom. Kroc saw the environment as "survival of the fittest" and in order for McDonald's to be fit they had to fill a very particular niche in the fast-food environment. That niche would be one of a quality product, consistent service, friendly atmosphere, and a fair value. Kroc built the only "clean, honest" franchise of his era. and it was exactly what the business environment of the fast-food industry needed at that time. Kroc was not the only one to make sure that McDonald's was prepared for the coming business environment. The work of Den Fujita in molding McDonald's Japan

showed that McDonald's could be a huge success in different business environments. When McDonald's Americas thrived in the suburbs, Fujita was able to make McDonald's Japan a success in urban environments. In short time, the parent corporation adopted this urban model for McDonald's franchises and it was a success worldwide. Dean and Kennedy believed that the business environment was the most important element in shaping a corporate culture, and McDonald's proved that they are right. By identifying their market niche and creating a system so that they could dominate that market, McDonald's discovered a way to make fast food franchising one of the most profitable industries in today's economy.¹³

By identifying its market niche, McDonald's generating the core value of its corporation: *QSC and V*. Deal and Kennedy believed that values were able to define success to the employees and establish the standards by which something would be done.¹⁴ *QSC and V*, as exhibited through the philosophies of Ray Kroc but also in the Management Development Program Manual published by McDonald's, was exactly that sort of value. Every employee of McDonald's knew the importance of *QSC and V* from the CEO to the grill man. By embodying the values enclosed in *QSC and V*, McDonald's corporation believed that they could ensure return customers, a higher customer satisfaction and higher profits. Conrad Kottack's work in observing the rituals of McDonald's verified that McDonald's customers found comfort in the consistent manner of McDonald's operations so much so that many sought it out on a regular basis. The rapid growth and constant profits made by McDonald's through the last half of the

¹³ Deal and Kennedy, 14.

¹⁴ *ibid.* 14.

twentieth century verified that the ideals of *QSC and V* were the type that made McDonald's a worldwide phenomenon.

To give employees a tangible example of the importance of a corporation's values, Deal and Kennedy postulated that a company required heroes – persons who succeeded by following the values of the company.¹⁵ McDonald's had many heroes, and they embodied some of the same characteristics: entrepreneurial, creative, and hard working. Heroes took the form of franchisees like Ray Delligatti who invented the Big Mac, or John Gibson and Oscar Goldstein, who brought the world Ronald McDonald. Others were foreign entrepreneurs like Den Fujita, who proved that McDonald's could work in foreign cultures and in urban settings. But no hero loomed larger or was more important than Ray Kroc. Kroc showed each and every employee that if he wasn't willing to clean a toilet or wash a window, they didn't deserve to be a part of the corporation. After his death in 1981, Kroc's message would still be echoing throughout the halls of corporate headquarters. Mike Quinlan, CEO of McDonald's after Fred Turner stepped down, said, "If there's one reason for our success. it's that Ray Kroc instilled in the company basic principles. Standards of excellence. Don't compromise. Use the best ingredients. The best equipment."¹⁶ Having a hero like Ray Kroc helped to set the expectations of every employee of McDonald's corporation. Today, a quarter of a century after his death, Ray Kroc's lessons are still essential to the success of McDonald's.

McDonald's also had a series of rites and rituals that made for a strong corporate culture. Programs like the Management Development Program and Hamburger University taught employees what was expected of them throughout the workday. From

¹⁵ Deal and Kennedy, 14.

¹⁶ Moser, 113.

the first time that Ray Kroc laid eyes on the employees of the San Bernardino store, Kroc saw that rituals like the cleaning and starching of potatoes, the method of cooking a consistent hamburger, and the actions needed for a perfect milkshake were essential to the success of the corporation. More and more, the actions of McDonald's were regarded in this highly ritualized manner catching the attention of sociologists and anthropologists. These rituals brought about a set of expectations from customers, and when these expectations were met on a consistent basis it translated into more and more business for McDonald's. Deal and Kennedy saw the importance of rituals in the creation of a strong corporate culture, and McDonald's embraced these rituals.

Deal and Kennedy also outlined that a cultural network would have to be formed by a corporation if they wanted their company's values and rituals to be recognized throughout the corporation. Especially with the franchise nature of McDonald's this network was necessary. Hamburger University was the perfect vehicle for McDonald's cultural network where the values of *QSC and V* would become tangible in every graduate in the form of a bachelor of Hamburgerology. In the face of a global economy, McDonald's adapted Hamburger University so that its cultural network could cross even more boundaries. The main campus of Hamburger University now offers the same courses offered to American managers in 26 other languages. In fact, many of the foreign participants sit in the same classroom of the American students while translators sit in nearby booths.¹⁷ Instead of just being a training ground for American fast food managers, Hamburger U is now "the United Nations of Fast Food".¹⁸ Kroc was especially prescient

¹⁷ Zuber, Amy. "Hamburger University Beefs Up Its Curriculum with Global Curriculum". Nation's Restaurant News. New York: Vol. 31, Iss. 43. p 112.

¹⁸ Moser, 113.

in the formation of his corporate university, as it is now a very popular vehicle for multinational corporations to communicate their own corporate culture to their employees.

As exhibited throughout this thesis, McDonald's took the steps to create a strong and successful corporate culture. The elements of a corporate culture as exhibited by Deal and Kennedy verify the thesis' core objective of showing how much the corporate culture of McDonald's contributed to its success. A tough business environment led to the genesis of the core values that made McDonald's the company that it is today. With the work of heroes, employees of McDonald's Corporation saw that by following the rites and rituals of the company they as well could succeed. And by establishing a cultural network like Hamburger University, McDonald's had a method in which it could ensure that employees worldwide understood the importance of the values of *QSC and V*. The story of McDonald's, from birth in San Bernardino to expansion in Shanghai, shows that a strong corporate culture is a necessity for success in today's global economy.

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