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<b>Author</b>	Weathers, Charles
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## McDonald's and East Asian Globalization

Charles Weathers

Today McDonald's has 30,220 restaurants in 121 countries, serving nearly 46 million people every day. It is the largest quick service restaurant organization in the world. The early development of McDonald's reflected the changing culture of the United States. More and more people had begun to drive cars and live far from work, and they often wanted to eat in a hurry. Many restaurants began to serve people in cars. The McDonald brothers responded very effectively by using automation and standardization to make their restaurant faster. The innovations they developed helped McDonald's to become a major global enterprise.

In 1940, Mac and Dick McDonald opened a restaurant in San Bernardino, California. Rather surprisingly, the restaurant immediately became a hit, and the brothers were soon making a lot of money. But they were still not satisfied. They believed that they needed to speed up service. In 1948, they began to automate the process of preparing and serving the food. First, they got rid of the carhops (waitresses who served food to people in cars). Then they reduced the number of items in the menu and focused on hamburgers. They used disposable plates and silverware, so they did not need a dishwasher. They even used a machine to make hamburger patties.<sup>1)</sup>

As David Halberstam wrote, the McDonalds "turned their kitchen into an assembly line."<sup>2)</sup> They automated the restaurant business just like Henry Ford had automated car manufacturing. The McDonalds improved old machines and invented some new ones to help prepare the food. Just as automation made it possible for Ford to make cars much cheaper, automation made it possible for McDonald's to lower prices and attract more families. The food was cheap so young families could afford to eat there regularly. The brothers became famous in the restaurant business, and many aspiring entrepreneurs contacted them to ask for their advice.

In 1954, an ambitious entrepreneur named Ray Kroc traveled to San Bernardino to see McDonald's for himself. Kroc saw that the customers were happy because the restaurant was cheap, fast, and clean, and because the food was good. Kroc was so impressed by the operation that he asked to become the franchise manager.<sup>3)</sup> The McDonalds agreed. The McDonalds had

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1) David Halberstam, *The Fifties* (New York: Ballantine Books, 1993), p. 157-58.

2) Halberstam, p. 158.

3) Halberstam, p. 162-63.

worked hard to perfect their system, but they did not want to do the hard work of franchising. They were satisfied with the small fortune they were making.

Unlike the brothers, however, Kroc wanted to make a big fortune. He did not like the franchise deal he made with the McDonalds because the fees were low. The start-up fee was \$950 and an annual commission of 1.9% (the McDonalds received 0.4% and Kroc 1.5%). Ironically, the deal became the key to McDonald's' success : Since the fees were low, the corporation had to help new franchisees in order to make money. The deal also motivated Kroc to continue improving the system.<sup>4)</sup> So, for example, McDonald's continued to develop new equipment, such as devices to check the quality of meat and improve the quality of french fries. Unlike many fast food chains, it treated suppliers well.

Like Ford, Kroc was obsessive about his business. He worked very hard, and he insisted that quality had to be high and that restaurants had to be perfectly clean. Kroc was also like Ford in other ways. He was a control freak and often disagreed with stockholders. In 1961, he bought out the McDonald brothers so he could own the entire corporation. Kroc insisted that franchise owners work hard and follow the corporation's strict rules exactly. However, he regarded them as partners and did not exploit them.

The corporation sometimes adopted the franchise owners' innovations.<sup>5)</sup> A Cincinnati owner invented the Filet-O-Fish. A Pittsburgh owner invented the Big Mac because the steelworkers wanted something bigger than a hamburger. The Egg McMuffin was developed in Santa Barbara.

McDonald's established Hamburger University to train new franchise owners and maintain high quality.<sup>6)</sup> The first class was in the basement of a McDonald's restaurant, but the company soon opened a state-of-the-art facility at its headquarters in Oak Brook, Illinois. The courses last three weeks. Today, 65,000 McDonald's managers have graduated from Hamburger University, and there are 30 full-time teachers. They use translators and special equipment to teach in 22 languages. By 2000, McDonald's had also established Hamburger Universities in England, Japan, Germany, and Australia. Hamburger University is believed to be the first corporate university. Some people made fun of it at first, but other fast food chains soon copied McDonald's by introducing their own training schools. Today there are many corporate universities in the U.S., and they have started to compete with traditional educational institutions for students.<sup>7)</sup>

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4) H. W. Brands, *Masters of Enterprise : Giants of American Business from John Jacob Astor and J. P. Morgan to Bill Gates and Oprah Winfrey* (New York : The Free Press, 1999), pp. 215-16.

5) Brands, pp. 218-19.

6) "Hamburger University", available at [www.mcdonalds.com/corporate/careers/hambuniv/hambuniv.html](http://www.mcdonalds.com/corporate/careers/hambuniv/hambuniv.html). All internet materials used in this article were accessed in December 2002.

7) Hannah Sauer and Daniel Schugurensky, "1961: McDonald's Starts First Corporate University," available at [fcis.oise.utoronto.ca/~daniel\\_schugurensky/assignment1/1961mcdonalds.html](http://fcis.oise.utoronto.ca/~daniel_schugurensky/assignment1/1961mcdonalds.html). The number of corporate universities grew from 400 to 1,600 from 1988 to 1998. On Motorola's corporate university, see William Wigggenhorn, "Motorola U: When Training Becomes an Education," *Harvard Business Review* (July-August 1990), pp. 71-83.

McDonald's works to create a positive image, and has usually been successful. Kroc insisted that McDonald's target families as its primary customers.<sup>8)</sup> McDonald's still considers children to be special customers. Its advertisements are often aimed at children. In addition, McDonald's works hard to recruit minorities. McDonald's began recruiting blacks as franchise owners in the late 1960s when the chain began to expand into inner cities. It is reported that over half of black restaurant owners in the U. S. today are McDonald's owners.<sup>9)</sup> McDonald's claims that 37% of its American franchise owners are women and minorities, and that it has close ties to female- and minority-owned suppliers. Overseas as well, McDonald's tries to create a positive image by participating in charitable and community events, and by using local staff and local suppliers.

However, the corporation cannot escape all controversies. Many people complain that the food at McDonald's is bad for your health. In 2001, the book *Fast Food Nation* gained a great deal of attention. It claimed that pay in the restaurants is low and that safety standards in suppliers are poor.<sup>10)</sup> Recently, labor rights activists in Hong Kong organized demonstrations against McDonald's restaurants in Hong Kong, charging that they were using toys made by illegal child workers in China.<sup>11)</sup> The chain has also been targeted overseas sometimes by anti-American demonstrators. The chain is often closely identified with the U. S. even though it tries hard to localize its overseas operations.<sup>12)</sup>

Whatever the problems, McDonald's influence on the food industry has been huge. In the 1950s, for example, the founders of Burger King and Taco Bell were strongly influenced by McDonald's example. And today, McDonald's is having an important impact on economies and cultures around the globe. As we shall see in the following examples of McDonald's operations in East Asia, the corporation has extended standardization in product and strategy worldwide. But it has also been flexible when operating in new countries.

### McDonald's in Hong Kong

Hong Kong is one of the most densely populated cities in the world. Half of the world's 50 busiest McDonald's are located there. Fast food has long been part of the local culture - time equals money in Hong Kong, so people value speed and convenience. But almost all fast food was basically Chinese until the 1970s. So when McDonald's decided to start business operations in

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8) Halberstam, pp. 163-64.

9) Brands, p. 220.

10) See Rob Walker, "No Accounting for Mouthfeel," *New York Times*, January 21, 2001, a book review of *Fast Food Nation: The Dark Side of the All-American Meal*, by Eric Schlosser (Boston: Houghton Mifflin Co., 2001). Available at [www.nytimes.com/books/01/01/21/reviews/010121.21walkert.html](http://www.nytimes.com/books/01/01/21/reviews/010121.21walkert.html). Schlosser is a respected business journalist, and his book has had very positive reviews.

11) Mike Chinoy, "Activists Claim McDonald's Toys Made with Child Labor," *CNN.com*, September 5, 2000, available at [www.cnn.com/2000/ASIANOW/east/09/05/mcdonalds.child.labor/](http://www.cnn.com/2000/ASIANOW/east/09/05/mcdonalds.child.labor/).

12) See David Barboza, "When Golden Arches Are Too Red, White and Blue," *New York Times*, October 14, 2001. Available at [www.mindfully.org/WTO/McDonalds-Red-White-Blue.htm](http://www.mindfully.org/WTO/McDonalds-Red-White-Blue.htm).

Hong Kong, it faced a cultural problem: Most people thought that hamburgers and sandwiches were snacks, not main courses.<sup>13)</sup>

When McDonald's opened its first Hong Kong restaurant in 1975, it decided to stress its American identity. For several years, McDonald's displayed its name only in English in order to emphasize that it was different from Chinese-style restaurants. The chain became popular with young people because they felt like they were enjoying America's laid-back (relaxed) culture.<sup>14)</sup>

By the 1990s, however, eating at McDonald's was a common experience rather than a cultural one. It had 25 percent of the fast food market. In late 2001, there were 212 McDonald's restaurants employing over 10,000 people in the small territory. One reason it became so popular was that it was cheaper than traditional Chinese fast food restaurants. In fact, Hong Kong McDonald's were cheaper than those in the US.<sup>15)</sup> However, the competition among fast food restaurants is intense, and McDonald's has been Hong Kong's biggest advertiser in recent years.<sup>16)</sup>

One reason why McDonald's became popular was that it was clean. Managers always insisted that bathrooms had to be clean. At first, employees often protested when asked to clean the toilet, saying that it was already cleaner than the one at their home, but managers would tell them that it was not clean enough. Today, many young people in Hong Kong refuse to eat at restaurants they think are dirty, and many women patronize McDonald's because they have trouble finding clean bathrooms anywhere else.<sup>17)</sup>

McDonald's is especially popular with junior and high school students, who flock to the restaurants in the afternoons. They find the atmosphere relaxing after the strict discipline of school. In addition, McDonald's restaurants provide more space than other fast food restaurants. Students often study there. Some students stay at McDonald's until closing time because their homes are so crowded. Moreover, the restaurants are safe. Gang members do not go to McDonald's because smoking and drinking are not allowed, and managers are careful to keep gangs from causing trouble in their restaurants.<sup>18)</sup>

McDonald's in Hong Kong is very popular with children, and works hard to attract them. Hostesses lead games for the children. In 2001 Hong Kong McDonald's hosted 18,909 birthday parties with over 590,000 people.

Americans expect service workers to be friendly when they serve customers, and McDonald's in America emphasizes its "service with a smile." However, Hong Kong consumers care more about

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13) James L. Watson, "McDonald's in Hong Kong," in Watson, ed., *Golden Arches East: McDonald's in East Asia* (Stanford University Press, 1997).

14) Watson, pp. 82-83, 86.

15) Watson, p. 87.

16) Watson, p. 99; *The Star*, "McDonald's the biggest HK advertiser," March 27, 2002, available at [www.siamfuture.com/asianews/asianewstxt.asp?aid=2297](http://www.siamfuture.com/asianews/asianewstxt.asp?aid=2297). However, the chain presently plans to reduce spending on advertising significantly because of the weak economy.

17) Watson, pp. 89-90.

18) Watson, pp. 105-07.

efficiency than friendliness. If they see workers smiling, they often assume that they are playing instead of working.<sup>19)</sup>

As in other countries, McDonald's works hard to improve its image by running charities and participating in community activities. Ronald McDonald performs magic and education shows for children in schools and hospitals. The first Ronald McDonald House in Asia was opened in 1996 to help families with sick children. McDonald's also established the McDonald's Youth Football Program, which provides free football training to about 30,000 young boys and girls every year.<sup>20)</sup>

McDonald's has had some difficulty localizing its operations in Hong Kong. It long imported most of its supplies from the U. S. since the territory was small, even though most McDonald's overseas subsidiaries try to use local suppliers. However, Hamburger University Hong Kong, the world's seventh Hamburger University, was opened in 2002.

### McDonald's in China

McDonald's has made China a priority in its global and Asian business strategies since the large population means huge market potential. McDonald's has used a strategy of be the first in, control supply and distribution, and develop strong local contacts.<sup>21)</sup> The company began working in the early 1980s to establish operations in China. Establishing a reliable distribution network was difficult. The first McDonald's in China opened in Beijing in 1992. By the end of 1996, there were 29 McDonald's in Beijing. In 2001, there were 360.

When McDonald's started up in China, it represented America and modernity to many Chinese people.<sup>22)</sup> Its efficient service and clean buildings were described by the Chinese media as examples of modernity. Newspaper reporters also praised the company's strict quality control. In particular, they were impressed by its high standards for potatoes. However, the government soon decided to promote Chinese fast-food companies, and the media became more critical of McDonald's.<sup>23)</sup>

Some Chinese believe that McDonald's is successful because it has egalitarian and democratic values. They believe that it is egalitarian, for example, because the staff is friendly and polite to everyone. In addition, the atmosphere is different from Chinese restaurants. The Chinese are often competitive when they eat in good restaurants. People often try to outdo each other by ordering more expensive food and drinks. Some people rent private rooms to avoid competition. At McDonald's the competition problem does not exist since the choice is limited and the quality is

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19) Watson, pp. 90-92.

20) See the McDonald's Hong Kong website at [mcdonalds.com.hk/english/about/](http://mcdonalds.com.hk/english/about/).

21) Ian Hunter, "Big Mac in China: And the Cattle Grew Restless." Written for Anomalies Project, Stockholm School of Economics & EIJIS, 1997. Available at [www.hhs.se/eijs/anomaly/](http://www.hhs.se/eijs/anomaly/).

22) Yunxiang Yan, "McDonald's in Beijing," in Watson, ed., pp. 41-42, 71-72. Note, however, that perceptions of McDonald's generally change over time.

23) James L. Watson, "Introduction: Transnationalism, Localization, and Fast Foods in Asia," in Watson, ed., *Golden Arches East: McDonald's in East Asia* (Stanford: Stanford University Press), pp. 4-5.

basically the same. And, of course, there is no alcohol. For many Chinese who need to host meals but do not have much money, McDonald's has become the best option.<sup>24)</sup>

McDonald's emphasizes its modern image. For example, the restaurants offer five-minute tours to customers. The guides show the visitors the facilities and explain how the ovens and other equipment work. They also show visitors where the staff wash hands, and where they throw away food that is no longer fresh enough. Managers claim that the food is cooked scientifically so that it is very nutritious.<sup>25)</sup>

McDonald's gives special treatment to children in China.<sup>26)</sup> Each restaurant has several female receptionists who learn children's names and make friends with them. The restaurants also have special birthday parties for children. "Auntie McDonald" plays games with the children at the parties and gives them presents.

Chinese children love Big Macs and french fries, but most adults are more attracted by McDonald's style than its food. Some young men who do not have a lot of money take their girl friends to McDonald's for dates. Since the menu is limited, they do not have to worry about spending too much money. Many Beijing McDonald's have tables for couples. Best of all, McDonald's has apple pie and ice cream, perfect choices for a date in China.<sup>27)</sup>

McDonald's has worked hard to localize its business in China. The China subsidiary describes itself as a Chinese company. It emphasizes that almost all of its staff is Chinese, and that almost all of its food is locally produced. McDonald's reportedly buys 95% of its raw materials locally. In addition, the restaurants participate in community affairs and have ties to schools. The staff sometimes give small presents to young students and teachers.<sup>28)</sup>

It has been difficult to provide high-quality supplies. China is the world's second biggest potato-growing country, but the size and shape of potatoes is not right for McDonald's French fries. It took McDonald's almost ten years to develop the right potato. Distribution was another difficult problem. McDonald's had to set up its own distribution network in order to be sure that supplies would arrive on time, and that food would be fresh. Lettuce has to be delivered by air to ensure freshness.<sup>29)</sup>

McDonald's is a popular employer. Peter Tan, CEO of McDonald's China, estimates that a McDonald's manager makes twice as much as managers in a government office, and that the restaurant's regular employees make at least twice as much as road construction workers. Even college graduates are anxious to work for the chain. In China, Tan said, it is a great job.<sup>30)</sup>

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24) Yan, p. 51.

25) Yan, pp. 44-45.

26) Yan, pp. 51-52, 60-64.

27) Yan, pp. 49-51.

28) Hunter; Yan, pp. 54-56.

29) Hunter.

30) Eric Ringham, "New economy finds room for the West," *Star Tribune*, June 21, 2001. Available at [www.startribune.com/stories/1653/646280.html](http://www.startribune.com/stories/1653/646280.html).

McDonald's is second in China's fast food industry to Kentucky Fried Chicken (KFC). KFC started operations in China a little later than McDonald's, but it has an advantage because the Chinese tend to prefer chicken to beef. (On the other hand, McDonald's may have an advantage in India since it offers vegetarian burgers instead of hamburgers, while KFC cannot easily replace chickens with vegetables.) In 2001, KFC had 400 restaurants in China. The market is already large, and it has been expanding 20 percent a year. However, competition is intense, and it is expected that more fast food companies will enter China since the country has joined the WTO. The government wants to encourage domestic fast food chains to start up. However, Chinese businesspeople still lack the management experience and financial resources to compete with established multinational corporations like McDonald's and Kentucky Fried Chicken.<sup>31)</sup>

### McDonald's in South Korea

McDonald's has had a tougher time operating in South Korea than in other East Asian countries. Koreans are often suspicious of multinational corporations, and many people think that McDonald's is a dangerous foreign influence. In addition, the Korean culture creates unusual problems for fast food restaurants.

In the 1970s, McDonald's conducted a market survey in Korea. The survey said that Koreans did not like to buy foreign products, so the company abandoned plans to open restaurants in Korea. During the 1980s, however, McDonald's believed that the environment had changed. People were more enthusiastic about internationalization because of the 1986 Asian Games and the 1988 Olympics, which were both held in Seoul. The first McDonald's in Korea opened in 1988.<sup>32)</sup> By 1994 there were 26 restaurants. The rate of expansion was slower than in other East Asian countries. However, McDonald's used the World Cup as an opportunity to expand quickly, and by the end of 2001 there were about 320 McDonald's restaurants. By then, McDonald's was the second largest fast food chain, after Lotteria.

Creating an effective business strategy has been rather difficult. One reason is food culture. Bread has traditionally been regarded as a snack food in Korea. At first, most customers only bought little food but they often stayed in the restaurants for hours to talk. Naturally, fast food restaurants like customers to leave quickly. To change the customers' habits, McDonald's introduced set meals. The set meals are combinations that include a burger, french fries, and a drink at a reduced price. The set meals have encouraged customers to order more food and regard hamburgers as regular meals.<sup>33)</sup>

As in other countries, McDonald's Korea targets children in its advertising. It also took advantage of the recent World Cup, which was hosted jointly by Korea and Japan, to appeal to kids. McDonald's selected children from around the world to meet and help escort athletes

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31) Yan, pp. 71-72; Luo Jun, "McDonald's keen to sell first franchise," *Hong Kong Mail*, June 27, 2001. Available at [www.siamfuture.com/asiannews/asiannewstxt.asp?aid=1211](http://www.siamfuture.com/asiannews/asiannewstxt.asp?aid=1211).

32) Sangmee Bak, "McDonald's in Seoul," in Watson, ed., pp. 139-40.

33) Bak, pp. 144-45.



competing in the World Cup games. McDonald's has been an official World Cup sponsor since 1994.<sup>34)</sup>

McDonald's emphasizes its American identity. It claims that it sells the authentic American hamburger. By stressing its American identity, however, McDonald's also attracts criticism. Many Koreans accuse McDonald's of taking money out of the country. The managers argue that McDonald's Korea is a Korean company because Koreans own 50 percent of it. The employees like the company. They think that McDonald's is a model company because it donates money to local charities and reinvests much of its profits in Korea.<sup>35)</sup>

McDonald's buys most of its food and supplies locally. Nevertheless, the company has been involved in the national controversy about food. The government has tried to protect rice farmers from imports, and has criticized hamburgers as an American food. The government once made a poster showing healthy Korean rice beating up greasy foreign hamburgers.<sup>36)</sup> McDonald's has tried different strategies to improve its image. For example, the company hires the handicapped, which is unusual for service industry firms in Korea.<sup>37)</sup>

Another problem is that there are not enough male customers. Men usually eat more than women and leave faster, but there are more than twice as many female as male customers. In traditional restaurants, people pay after they finish the meal, and men often compete to pay for the whole table. Many men feel uncomfortable paying before eating, and about paying only for themselves. Women, on the other hand, are used to dividing bills. They also feel comfortable at McDonald's because there is no alcohol and the environment is child-friendly.<sup>38)</sup>

Korean customers stay in the restaurants much longer than American customers, putting pressure on profits. McDonald's has speeded customer flow by hiring hostesses. Since many people feel awkward about asking to share tables, the hostesses guide customers to tables. The hostesses also put subtle pressure on people to leave after eating.<sup>39)</sup>

## Conclusion

McDonald's has always had very strict rules for its franchises, but an important reason for its success overseas is flexibility and decentralization. For example, the menu varies to reflect local tastes: There is rice in Indonesia and coffee blends in Austria, a roast pork sandwich in Korea but no meat in India (there is the vegetarian Maharaja Mac instead). Also, local owners have a strong voice in management. At present, McDonald's has decided to adapt its international strategy to its

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34) See [media.mcdonalds.com](http://media.mcdonalds.com) at [www.media.mcdonalds.com/secured/news/pressreleases/2002/Press\\_Release\\_05302002.html](http://www.media.mcdonalds.com/secured/news/pressreleases/2002/Press_Release_05302002.html).

35) Bak, pp. 140-44, 153.

36) Bak, p. 137.

37) Seo Jee-yeon, "McDonald's "Glocalization" Drive Appealing to Koreans," *The Korea Times*, January 16, 2002. Available at <http://www.siamfuture.com/asiannews/asiannewstxt.asp?aid=2053>.

38) Bak, pp. 146-47, 148.

39) Bak, pp. 147-48.

home market, the United States, by giving franchise owners more voice in marketing and menu selection. Thus, the chain's global strategy has influenced home operations, and modified the emphasis on standardization.<sup>40)</sup>

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40) Barboza, David, "Increased Diversity Spurs McDonald's Comeback," *The New York Times*, February 12, 1999.