Global Society 18.1 **The changing face of the McDonald's corporation**

In 2003, the then Chairman and Chief Executive of McDonald's, Jim Cantalupo, said, 'The world has changed. Our customers have changed. We have to change, too', promising investors that the company no longer wanted to be bigger than everybody else, just better. His speech came at a time when McDonald's had announced its first quarterly loss since 1965 and faced increasingly public attacks from environmental activists and health specialists. McDonald's' reputation for good service was also flagging, with the company ranked the worst for customer satisfaction in America, below health insurers and banks. All this resulted in the share price falling from more than US$48 in 1999, to a ten-year low of US$12 in 2003.

The article below illustrates how McDonald's has had to move away from its founder's original philosophy in order to adapt to local contexts in an age of globalization.

Adapt or die

The wind of change is blowing through the empire of fast food. The vision of endless growth through new markets across the planet for fast food companies now looks unsustainable when it's not what people want anymore. When fashions, styles and tastes change, it's time to adapt or die. As the fast food companies have expanded around the world, they have had to adapt to local sensitivities. In the old days, no franchise holder could deviate from the 700-page McDonald's operations manual known as 'the Bible'. But that policy may be changing.

In the 34 restaurants in India, the 'Maharaja Mac' is made of mutton, and the vegetarian options contain no meat or eggs. There were disturbances in India when it was learned that McDonald's French fries were precooked in beef fat in the USA, because Hindus revere cows and cannot eat beef.

Likewise, McDonald's in Pakistan offers three spicy 'McMaza meals': Chatpata Chicken Roll, Chicken 'n' Chutni Burger and Spicy Chicken Burger. All three are served 'with Aaloo fingers and a regular drink'.

In the USA itself, the taste for the food of the Eisenhower-era brightly coloured takeaway has

McDonald's has been trying to reinvent itself in recent years, following a fall in sales. This new-look London branch is now virtually indistinguishable from a bar or coffee shop.

changed over 50 years too. What the market is meant to offer is more choice, not less. In the heartland of America, at Evansville, Indiana, there's now a McDonald's With the Diner Inside, where waitresses serve 100 combinations of food, on china. This is not Ray Kroc's vision of stripping out choice to save time and money.

At the end of 2002, McDonald's began closing 175 outlets in ten countries. Some were branches in cities like London, but the company pulled out altogether from certain countries that were not giving appropriate financial returns. The reasons for these corporate changes may not be just to do with fast food.

One of Ray Kroc's partners once admitted that McDonald's was not really in the food business at all, but in real estate. McDonald's actually makes most of its money from rent, because it owns more retail property than any other company on earth. Land is more valuable than appetite, and the sites are more valuable an asset than what they sell.

Will McDonald's mutate into another business entirely, in order to survive?

Source: BBC WorldService.com, 'Fast Food Factory': www.bbc.co.uk/worldservice/specials/1616_fast food/page9.shtml (accessed 28/07/07)

economy, few would dispute the importance of these findings. Departing from rigid vertical command structures, many organizations are turning to 'horizontal', collaborative models in order to become more flexible and responsive to fluctuating markets. In this section, we shall examine some of the main forces behind these shifts, including globalization and the growth of information technology, and consider some of the ways in which late modern organizations are reinventing themselves in the light of the changing circumstances.

THINKING CRITICALLY

What does the recent experience of the McDonald's corporation tell us about the impact of globalization on large companies? Does the changing face of McDonald's invalidate Ritzer's thesis of 'MacDonaldization'? In what ways might Roland Robertson's concept of glocalization (see chapter 4) be the best guide to understanding the reality of global businesses today?

Organizational change: the Japanese model

Many of the changes now witnessed in organizations around the world were first pioneered amongst some of the large Japanese manufacturing corporations, such as Nissan and Panasonic. Although the Japanese economy suffered in the 1990s, it has been phenomenally successful during most of the post-war period. This economic success was often attributed to the distinctive characteristics of large Japanese corporations – which differed substantially from most business firms in the West. As we shall see, many of the organizational characteristics associated with Japanese corporations have been adapted and modified in other countries in recent years.

Japanese companies have diverged from the characteristics that Weber associated with bureaucracy in several ways:

1 *Bottom-up decision-making.* The big Japanese corporations do not form a pyramid of authority as Weber portrayed it, with each level being responsible only to the one above. Rather, workers low down in the organization are consulted about policies being considered by management, and even the top executives regularly meet them.
2 *Less specialization.* In Japanese organizations, employees specialize much less than their counterparts in the West. Young workers entering a firm in a management training position will

spend the first year learning generally how the various departments of the firm operate. They will then rotate through a variety of positions in both local branches and national headquarters in order to gain experience in the many dimensions of the company's activities. By the time employees reach the peak of their careers, some 30 years after having begun as a trainee, they will have mastered all the important tasks.

3 *Job security.* The large corporations in Japan are committed to the lifetime employment of those they hire; the employee is guaranteed a job. Pay and responsibility are geared to seniority – how many years a worker has been with the firm – rather than to a competitive struggle for promotion.

4 *Group-oriented production.* At all levels of the corporation, people are involved in small cooperative 'teams', or work groups. The groups, rather than individual members, are evaluated in terms of their performance. Unlike their Western counterparts, the 'organization charts' of Japanese companies – maps of the authority system – show only groups, not individual positions.

5 *Merging of work and private lives.* In Weber's depiction of bureaucracy, there is a clear division between the work of people within the organization and their activities outside. This is in fact true of most Western corporations, in which the relation between firm and employee is an economic one. Japanese corporations, by contrast, provide for many of their employees' needs, expecting in return a high level of loyalty to the firm. Workers receive material benefits from the company over and above their salaries. The electrical firm Hitachi, for example, studied by Ronald Dore (1973), provided housing for all unmarried workers and nearly half of its married male employees. Company loans were available for the education of children and to help with the cost of weddings and funerals.

Studies of Japanese-run plants in Britain and the United States indicate that 'bottom-up' decision-making does work outside Japan. Workers seem to respond positively to the greater level of involvement these plants provide (White and Trevor 1983). It seems reasonable to conclude, therefore, that the Japanese model does carry some lessons relevant to the Weberian conception of bureaucracy. Organizations that closely resemble Weber's ideal type are probably much less effective than they appear on paper, because they do not permit lower-level employees to develop a sense of involvement and autonomy in relation to their work tasks.

Until recently, many British and US business writers looked to the Japanese corporation as a model that Anglo-American companies should follow (Hutton 1995). The slowdown in the Japanese economy during the 1990s has led many experts to question this assumption. The commitment and sense of obligation that many Japanese companies traditionally had towards their staff may have encouraged loyalty, but it has also been criticized as inflexible and uncompetitive. As we have seen, during much of the post-war period core workers in Japanese companies could expect to be with the same company their entire working lives, dismissals or redundancies were rare and ambition for promotion was not particularly encouraged. The economic problems facing the country from the early 1990s, which only now appear to be easing, have meant that the future of Japanese business is torn between traditionalists, seeking to preserve the old system, and radical capitalists supporting reform towards a more competitive, individualistic model of business (Freedman 2001).

Transforming management practices

Most of the components of the 'Japanese model' described above come down to issues of management. While it is impossible to ignore specific production-level practices developed by the Japanese, a large part of the Japanese approach focused on management–worker relations and ensured that employees at all levels felt a personal attachment to the company. The emphasis on teamwork, consensus-building approaches and broad-based employee participation were in stark contrast to traditional Western forms of management that were more hierarchical and authoritarian.

In the 1980s, many Western organizations introduced new management techniques in order to boost productivity and competitiveness. Two popular branches of management theory – **human resource management** and the **corporate culture** approach – indicated that the Japanese model had not gone unnoticed in the West. The first of these, human resource management (HRM), is a style of management which regards a company's workforce as vital to economic competitiveness: if the employees are not completely dedicated to the firm and its product, the firm will never be a leader in its field. In order to generate employee enthusiasm and commitment, the entire organizational culture must be retooled so that workers feel they have an investment in the workplace and in the work process. According to HRM, human resources issues should not be the exclusive domain of designated 'personnel officers', but should be a top priority for all members of company management.

HRM is based on the assumption that there is no serious conflict within the company between workers and employers and there is therefore little need for trade unions to represent the workforce. Instead, HRM presents the company as an integrated whole, the only rivalry being that with its competitor firms. Instead of dealing with its workers through negotiation with trade unions, companies using the techniques of HRM seek to individualize their workforce by providing individual contracts and performance-related pay. Recent studies have shown that whilst workers may comply with the dictates of HRM at work, many are privately cynical about the assumption of corporate unity that underlies it (Thompson and Findlay, 1999).

THINKING CRITICALLY

Think about workplaces that you have either worked in or seen in action. How widespread was the use of information technology and what, exactly, was it used for? Was management surveillance of employees seen as an issue by workers themselves? Do you think the potential dangers facing workers are real, or is the impact of information technology on their working lives essentially benign? What steps, if any, do you think can be taken to counter these trends?

The second management trend – creating a distinctive **corporate culture** – is closely related to human resource management. In order to promote loyalty to the company and pride in its work, the company's management works with employees to build an organizational culture involving rituals, events or traditions unique to that company alone. These cultural activities are designed to draw together all members of the firm – from the most senior managers to the newest employee – so that they make common cause with each other and strengthen group solidarity. Company picnics or 'fun days', 'casual Fridays' (days on which employees can 'dress down') and company-sponsored community service projects are examples of techniques for building a corporate culture.

In recent years, a number of Western companies have been founded according to the management principles described above. Rather than constructing themselves according to a traditional bureaucratic model, companies like the Saturn car company in the United States have organized themselves along these new managerial lines. At Saturn, for example, employees