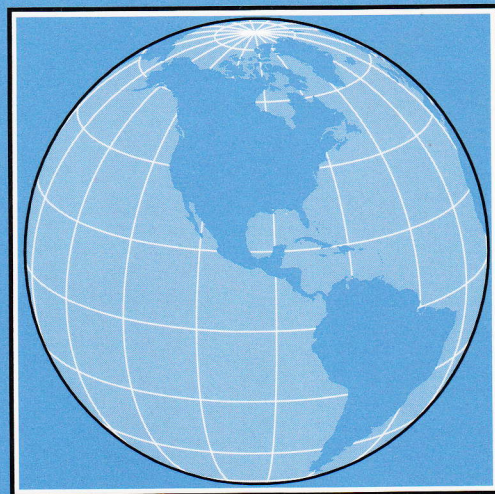


# MANAGEMENT INTERNATIONAL

CASES, EXERCISES, AND READINGS



Dorothy Marcic • Sheila M. Puffer



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## 20. Management education and employee training at Moscow McDonald's<sup>5</sup>

McDonald's is one of the largest fast food chains in the world. Founded in the 1950s in the United States, it has expanded worldwide and has become a household word. After fourteen years of negotiations McDonald's succeeded in opening a restaurant and processing plant in Moscow in 1990. The focus of this article is the management education and employee training practices adopted at Moscow McDonald's. This material is presented following an overview of the start-up of operations in Russia.

### Background on the Moscow Operation

The joint venture (JV) was created in April 1987. The agreement was signed between McDonald's Restaurants of Canada and the firm, Mosrestaurantservice (a "trust" *obedinenie*, under the Moscow City Council). In accordance with existing legislation, the JV had to be registered with the USSR Ministry of Finance. Moscow McDonald's was registered December 15, 1988 and was assigned registration number 159 (i.e., it was one of the first JVs). The USSR Ministry of Finance registered invested capital (*ystavnoi fond*) of 14 million rubles (approximately \$20 million on the official exchange rate prevailing at the time). The Soviet partner's share was 51 per cent, the Canadians' share, 49. The Canadian partners agreed not to take profits out of the country, but to reinvest them in a chain of twenty restaurants in Moscow. To ensure a high quality of work at Moscow McDonald's, McDonald's Restaurants of Canada invested a total of \$50 million (including their contribution to the initial invested capital). Forty million dollars was allocated for design and construction, equipment, and training personnel for the processing plant. Ten million dollars was used for design and construction, equipment, and personnel training for the restaurant in Pushkin Square (currently operational) and Ogarkova Street in Moscow.

The creation of the JV was the culmination of twenty years of negotiations that began during the Montreal Olympics in 1976 at the initiative of George Cohan, president and CEO of McDonald's Restaurants of Canada, Limited. They had wanted to open a restaurant in Moscow for the 1980 Olympics, but were not successful. The negotiations were protracted and went on and off over the years, and did not always go smoothly. One of the reasons was that the members of the negotiating team changed several times, hence continuity was lost.

The management of Moscow McDonald's is run by the executive committee (*direktsia*) headed by a general director (who must be a Canadian citizen) and a deputy general director (a Soviet citizen). Currently the head office is located in the Minsk Hotel in downtown Moscow. Initially they rented two rooms, however, with the growth of the number of personnel, they now occupy an entire floor.

The general director reports to the board (*upravlenie*) of the JV which makes the key decisions. The board consists of two Soviets and two foreign members who have voting rights, and two Soviets and two foreign representatives who have no voting rights. Unanimity is

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required for all decisions. The chairperson of the board must be a Soviet citizen, the deputy chairperson a representative of the Canadian side.

### **The processing plant**

The main differentiation in the conditions of working in the USSR from other countries was the construction of a food processing and distribution plant. This plant is the only one of its kind in McDonald's worldwide system.

The food processing plant became operational in mid-January 1990. It is one of the most modern food processing facilities in Europe. Equipment was imported from fifteen countries. For example, the milk processing equipment was from Sweden, the potato processing equipment from the Netherlands, the baking systems from the U.S., Sweden, Canada and other countries.

The floor space of 10,000 square meters contains processing lines for meat, milk, baking. There is a shop for potato processing, mayonnaise, ketchup, cheese, etc. There are several quality control laboratories, and strict sanitation standards are observed. The daily processing capacity is 55,981 kilograms, one million hamburger buns, 72,000 kg. of potatoes, 90,000 liters of milk, and 127,740 slices of cheese.

### **The restaurant**

The first restaurant of the Moscow McDonald's joint venture opened January 31, 1990. The restaurant is located on Pushkin Square, in the center of Moscow, the city's historical and cultural center. This location is one of the factors contributing to the great popularity of the restaurant for Moscovites and visitors.

The founders of the JV anticipated that they would serve 10,000 to 15,000 customers a day. On opening day 30,000 people showed up. This set a world record for McDonald's for an opening day (this was surpassed by the opening of the restaurant in Beijing, China several months later). This turned out to be their slowest day. In the first year of operation an average of 45,000 customers a day visited the restaurant.

Moscow McDonald's is not only the most visited restaurant in the McDonald's worldwide system, it is also the largest. The floor space is 2,200 square meters. It includes 700 seats and 27 cash registers. Although customers are served on average within less than one minute, they must wait in line to enter the restaurant for thirty minutes to one hour. Recently the waiting time has decreased.

### **Selection of managers**

During the start-up phase McDonald's drew upon the expertise of their employees from around the world. Initially there were 45 western managers from various countries. This number was gradually reduced, so that by March 1991, only seven remained. By June 1991, this number should be reduced to four. All these managers were replaced by Soviets.

Initially McDonald's hired 28 managers, but within the first year, the number increased to 40 because of high customer demand and the need to increase the work force nearly twofold.

The first four managers selected for the highest positions were in their early thirties and had supervisory experience in the restaurant business in the USSR. Georgii Smoleevskii had ten years' experience in public catering, including managing a staff of 350 in a Moscow restaurant. He studied economics at the Soviet Trade Institute and pursued graduate studies in food catering.



Mikhail Shelesnov's background included supervising seven food establishments, which he toured daily. He received two degrees from the Moscow Higher Technical School and studied the economics of retail trade at the Plekhanov Institute of the Economy, also in Moscow.

Khamzat Khazbulatov was formerly assistant manager of the prestigious Budapest restaurant in Moscow, where he managed a staff of 650. His responsibilities included approving new menu items, overseeing service and kitchen operations, and training of new employees. His previous experience included managing another restaurant and working as a chef for the Food Service Center. He received a degree in food service technology engineering from the Plekhanov Institute. He was chosen as manager of the Moscow restaurant because he was the best student in Canada and won the coveted "Archie" award. He was then promoted to deputy general director of the entire Soviet operation.

Vladimir Zhurakovskii worked for ten years for Tiajpromexport, an exporter of metallurgical equipment for the Ministry of External Relations. His work there included a four-year assignment in Pakistan. Mr. Zhurakovskii was educated in blast furnace engineering at the Moscow Steel and Alloys Institute.

### **Selection of crew members**

The success of the operation in the first year was due in large part to the personnel policies conducted with Soviet workers. The human resources system enabled the JV to avoid many of the problems typically encountered by many JVs that seriously harm their operations when they use a large number of Soviet workers.

First, Moscow McDonald's JV based their recruitment on a broad solicitation of applications and a competition. This was in marked contrast to the hiring practices of other JVs which consisted of one of two practices: either hiring personnel already employed by the Soviet JV partner, or hiring people based on patronage and influence and personal contacts. These latter practices did not guarantee the best workers. Workers from the Soviet JV partner were often either unable or unwilling to work according to international standards. Not only did they need to be retrained with respect to their skills, but their work attitudes also needed to be changed.

Moscow McDonald's placed a single advertisement in Moscow newspapers soliciting applications. By the fall of 1989, when they started to hire workers, they had received approximately 27,000 applications. This created a base for selecting the most energetic, motivated, intelligent and outgoing young men and women. When the restaurant opened they had a staff of 630. Within a year the staff nearly doubled, to 1,100. The overall number of workers in the restaurant, the processing plant and the administrative offices increased to 1550. The positive aspect of holding a hiring competition was not only that the administration could select the best of this large number of applicants, but also the competition itself motivated the young people even more to work in the JV, and developed a feeling of pride in them and a higher degree of satisfaction with having been hired.

The criteria used in the initial screening of applications included the following: The applicant had to have a telephone in order to be reached easily (in the USSR, telephones are not as widely available as in the U.S. - 10% of the people have access). They needed to live within a half-hour of the restaurant. Five thousand applicants met these criteria and each one was interviewed. Two assistant managers interviewed everyone and both had to agree in order for the candidate to be considered further. Candidates then had a second interview with the Canadian managers.

Following its practice widely used in its U.S. restaurants, McDonald's decided to hire Moscow teenagers as crew members. Whereas the motivation for hiring teenagers in the U.S. is largely for economic reasons (crew members initially earn slightly above the minimum wage), in the USSR the primary reason was to hire people with no prior work experience. The idea was that it would be easier to instill McDonald's work habits and standards in people who knew no other way to work than to disabuse people of unacceptable work habits they had acquired in previous jobs.

The majority of young people hired were between 18 and 27 years old. For many of them it was their first job. This was unusual because in the USSR teenagers seldom worked and there are labor laws protecting them. (For example, they must have time off to write exams, etc.) Initially 40 percent of the workers were hired on a full-time basis. By March 1990 the management changed it to 80 percent. The reason was that it was difficult for teenagers to study and work at the same time.

### **McDonald's human resources philosophy and methods**

McDonald's used the same philosophy about human resources that it uses all over the world, such as McDonald's is one big family, and McDonald's cares about their workers' lives at work and outside work. This had a very big influence on their relations with their workers. The young people were very pleased and proud to wear the McDonald's uniform. They like the fact that, regardless of their position, they all call each other by their first name. They like to wear their nametag on their chest. They like to talk with customers with a smile, as if playing a theatrical role. There is nothing like this in Soviet management. This uniqueness strengthens the feeling of being special and exceptional and correspondingly has a positive impact on their work attitude. The McDonald's JV regularly conducts various events to recognize specific milestones and achievements of the workers. In addition, crew meetings, attended by crew members and management, are held every three months. This strengthens the feeling of family, and is a very strong motivator.

A big motivator is monthly social events such as boat trips on the Moscow River, sporting events, attending cultural events, and other forms of recreation paid for by the joint venture. To celebrate Hallowe'en (which is not observed in the USSR), the Canadian staff decorated the restaurant and had a Hallowe'en party, complete with costumes. It was an interesting and fun cross-cultural event.

### **Organization of work**

An important aspect of human resources management for Soviet workers is the system of how the work is organized. The well-defined organization of work with the clear division of responsibilities (job description) and accountability makes it easier for people to do their jobs, simplifies communication between workers, and creates a better work atmosphere.

Modern equipment also made their work easier and simplified various operations. The cleanliness of the operation (sanitation standards) also played a big motivating role, as did the modern design of the facilities. Cleanliness and aesthetics made work more attractive, especially for those who had previous experience in Soviet enterprises and organizations.



### **Compensation system**

The compensation system played an exceptionally important role in motivating the Soviet work force because wages were substantially higher than the average Soviet wage. Crew members were paid two rubles an hour when the restaurant first opened (This was increased in April 1991 in response to the general price increases announced by the Soviet government). This enabled young people to earn two and half times the average national salary. Substantially higher wages than the national average were also paid to office staff and people who worked in the processing facilities. The people worked in the restaurant were paid more than those in the processing plant. However, the plant workers were paid higher wages than in other typical Soviet factories and worked in attractive surroundings. The plant was built in a Moscow suburb where many people previously did not have steady jobs and had to commute to other areas for work. Hence they were glad to get a steady job close to home.

Another important aspect of the compensation system was free health benefits at high quality private clinics and hospitals, free vacations at recreation areas (health spas, seaside resorts), and free meals while on the job.

Crew members receive wage increases of 15 to 25 cents an hour for mastering various tasks and meeting performance targets (product and service quality, time spent filling orders).

McDonald's also arranged for employees to order (at the employees' expense) groceries from other suppliers. This was to help them cope with the food supply problems they encountered. However, the company strictly enforced the policy of firing employees who committed theft of company property.

McDonald's uses competitions and contests to encourage good performance. Teams compete to win prizes. Contests are organized at the store, regional, national and international level. The crowning glory is the annual international competition. The best crews from around the world have a cook-off at a choice location (e.g., in 1984 McDonald's sponsored a cooking olympics in Los Angeles to parallel the Olympic Games held there at the same time). Participants win a trip, prizes and are treated like VIPs.

### **Training methods**

McDonald's applied the same training methods in its Moscow operation that it uses world-wide. We will describe these methods, evaluate their success in the first year of operation, and assess the possibilities for the future.

### **Training managers**

Twenty-eight managers were selected who worked in the restaurant industry. All of them studied in Toronto from 3 to 8 months in order to prepare them for future positions of managers and assistant manager of various outlets in the USSR. In 1989 the managers of the production processing line were trained in Western Europe where the equipment came from - to operate the equipment (Sweden, Holland, Germany). Eighty-five workers in the restaurant studied in Moscow and joined the management ranks.

The four people selected to become managers of the Moscow McDonald's operation received the same training as all McDonald's managers. The goal was for them to apply the same management techniques in the Moscow restaurant that are used in McDonald's 10,500 restaurants around the world. The managers were sent for training for 5 months to McDonald's Institute of Hamburgerology in Toronto, Ontario, Canada. The 1,000-hour training program included classroom instruction, equipment maintenance techniques, and on-

the-job training in restaurant management. This program gave them practical experience in all facets of McDonald's restaurant operations from making hamburgers to motivating crew members.

The managers spent an additional two weeks at McDonald's worldwide training center, Hamburger University, in Oakbrook, Illinois, U.S.A. There, along with 235 other managers from different countries, they participated in a course in advanced restaurant operations.

### **Training crew members**

The crew members received the standard McDonald's training program. In the United States McDonald's is often the first job that young people take, and the company's training practices are a solid foundation that can serve a person well in any type of employment. Many American employers value prospective candidates who have excelled at McDonald's because they recognize that these people have acquired good work habits.

One of the first things new employees do is watch a videotape that explains the work habits and attitudes expected of McDonald's crew members. Employees learn, for example, the essentials of personal grooming: to keep their hair neat, take a bath before coming to work (in Moscow there is a shower on the premises), wear a clean uniform, and wash their hands before handling food. They are taught the importance of discipline and responsibility: they must report to work on time, meet strict standards of quality and timeliness in filling food orders and other tasks. They are also instilled with a sense of initiative: when a co-worker needs help, they should not hesitate to pitch in, even if it is not their official task. Crew members also learn the basics of customer relations: to reach the counter before the customer appears, look the customer in the eye, greet him or her with a smile, and suggest additional items for purchase.

A fundamental aspect of McDonald's human resources philosophy is to give employees a sense of pride in doing a job well and being recognized for their achievements.

McDonald's has well-developed procedures for evaluating, rewarding and disciplining crew members. McDonald's policy on disciplinary action is focused on teaching and correction rather than on punishment. Employees receive instruction on how to perform tasks they are not doing well. Rarely is poor performance cause for dismissal. Firing is used as a last resort, and is reserved for such serious violations as swearing at customers or theft.

### **Moscow training program for crew members**

Training of crew members began on January 9, 1990. Every crew person received 60 hours of training, which included serving "practice" customers such as their parents and members of the media.

### **Career advancement**

McDonald's has a policy of promotion from within. The company views opportunities for career advancement as a way of motivating the work force. Within the first year of operation more than thirty crew members were promoted to management.

Take for example, the case of Ivan, who was hired as a maintenance person. He graduated from the Moscow Aviation Institute, one of the most prestigious institutes of higher education in the USSR. He had studied to become a spaceship designer. However, he saw McDonald's ad in the newspaper and applied. For the first three months he worked as a maintenance man on the night shift, and then was promoted to coordinator of the maintenance crew. Shortly thereafter, he was promoted to second assistant, and now he is assistant



manager. He aspires to be a store manager. This illustrates the career opportunities available at McDonald's however, it is important to keep in mind that Ivan was perhaps atypical in light of his fine education and personal capabilities. Ivan is glad to have been promoted, he likes to work with people, and he is happy to be a member of the McDonald's family, but at the same time he defines himself as Russian. Ivan thinks that people are the same around the world, that Russians are just like Canadians.

### **Discussion Questions**

- 1 Why did the Canadians invest more than their share of the ownership warranted?
- 2 How do you view the long negotiations? What are the advantages and disadvantages and the causes for the lengthy negotiations?
- 3 What are the reasons why McDonald's built a food processing plant?
- 4 What impact can this food processing plant have on the Soviet economy?
- 5 What other influence can the Pushkin Square location have on the work of Moscow McDonald's? That is, what problems might the location pose?
- 6 What factors influence the waiting time to enter Moscow McDonald's? That is, what factors might influence MM's popularity?
- 7 What problems and challenges might the international start-up team have faced in training Soviet employees? What techniques would be most useful to solve these problems?
- 8 Why is the clear definition of job responsibilities at McDonald's motivating for Soviet workers?
- 9 Why was modern equipment and facilities an effective motivator?
- 10 Why is the practice of helping employees place orders for their own groceries important?
- 11 What problems might McDonald's encounter in the future if it keeps the same training program in its Soviet restaurants that it has worldwide?
- 12 What problems could be created by attitudes like Ivan's that there is little difference between Russians and Westerners?
- 13 How will McDonald's reconcile their need for people to feel like members of the McDonald's family, while at the same time respecting employees' needs to be recognized as Russians?
- 14 What will be Ivan's attitude toward working at McDonald's when there are 20 restaurants in Moscow? How should McDonald's deal with these changes?
- 15 What problems should McDonald's anticipate given that 80 percent of its workforce is employed full time?