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ADAPTING MANAGEMENT STRATEGIES TO ENTER NEW GLOBAL MARKETS

by

KARUNA VINEETHA VEMULAPALLI

A THESIS

Presented to the Faculty of the Graduate School of the  
MISSOURI UNIVERSITY OF SCIENCE AND TECHNOLOGY

In Partial Fulfillment of the Requirements for the Degree

MASTER OF SCIENCE IN ENGINEERING MANAGEMENT

2009

Approved by

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Dr. Susan Murray  
Dr. William Daughton

## ABSTRACT

With globalization spreading its roots into every country, people from various countries are working together, and will be trying to understand the cultural differences between the organizations in different nations. Effective management of the cultural differences will be an important and competitive advantage. Keeping in mind the different perceptions of the term “Management” by varying cultures, namely United States and India, this research will be focused on understanding and managing these differences.

The proposed research will deal with concepts of cultural diversity, economic differences, intercultural and organizational differences between the two countries. Understanding why some factors like motivation, responsibility, and sense of belonging to an organization differ between the two countries, this research will assist an American company wishing to operate an organization in India.

In order to understand these cultural differences in a practical manner, this research also analyzes a case study of the McDonald’s food chain launch in India; its progress over the last few years, and its adaptation to a new market by being culturally sensitive. Finally, a roadmap and suggested improvements that McDonald’s should consider if it is to continue its success in India will be outlined.

## ACKNOWLEDGMENTS

I would like to thank my advisor, Dr. Dow for providing me the opportunity to work with him and for the constant support he had shown throughout this research effort. I would also like to thank Dr. Susan Murray for her continual support and the valuable input she provided. A special note of thanks for the financial aid I had received throughout my study at the university. I would also like to thank Dr. William Daughton for the direction he provided me during this research effort.

I would also like to thank my family and my friends for their support and inspiration. Above all, I would like to thank Department of Engineering Management and Systems Engineering at Missouri S&T for giving me the opportunity to work here.

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## 1. INTRODUCTION

Protectionism which has been the predominant economic policy for the longest period of time has gradually given way to a more open, free trade paradigm. Protectionist policies aimed at restricting imports, sheltering domestic markets, and restricting flow of capital. Free trade, on the other hand, works by encouraging "survival of the fittest" since domestic markets are open to external competitors. It also encourages entrepreneurs to invest in favorable markets far from home. This paradigm shift has been happening simultaneously with "shrinking" of the world due to development of high quality, cheap communication, and easier travel. The combination of the above two factors has led to companies that have been successful locally, to expand and spread out all over the world in response to new and exciting opportunities. This expansion has also brought up a set of new challenges in adapting and flourishing in different environments. Due to the enterprising nature and relatively easily available capital in the United States, home grown companies have been extending their reach into almost every country in the world. India and China whose markets have been recently opening up have been particularly attractive. This is chiefly because of their size, being untapped, having very fast growing economies, and a growing, more mobile middle class. Many well established companies like McDonalds, Kentucky Fried Chicken, Dominos, and Pizza Hut have recently expanded their operations into India and China.

The 1991 economic reforms in India were particularly designed to reduce the government control in the economy and increasingly promoted a market friendly environment to attract multinational companies and foreign direct investment. Many multinational companies had rushed into the Indian market; some of these have done exceedingly well while others have not. Among the reasons for successful American multinational companies to fail in India, lack of understanding of differences in management practices can be considered a prime reason. Therefore, adapting management practices to suit the culture in which they operate has become imperative.

According to Peter F. Drucker, the father of modern management, “management is a function, a discipline, a task to be done; and managers are the professionals who practice this discipline, carry out the functions, and discharge these tasks.”<sup>1</sup> Modern management as we know it has predominantly evolved in highly capitalistic and western societies, especially in the United States where it is considered to be task oriented. This approach towards management as a task oriented discipline does not identify with collectivistic societies like India. This can be linked to the difference in cultural, economic, and social backgrounds of the two countries. Therefore, the management practices followed in these countries are different from one another.

The different approaches to management in the two countries arise from several factors. Some of these factors are intrinsic to an organization while others are extrinsic. This research addresses the factors that produce these differences, including concepts of cultural diversity, economic differences, intercultural communication, and organizational differences between the two countries. Understanding why some factors like motivation, responsibility, and a sense of belonging to an organization differ between the two countries will assist an American company wishing to manage projects in India.

In order to understand these cultural differences in a practical manner, this research analyzes a case study of the McDonald’s food chain launch in India; its progress over the last few years, and its adaptation to a new society by being culturally sensitive. In addition, a comparative study between Kellogg’s and McDonald’s is also performed to demonstrate McDonald’s key success factors. Kellogg’s was used for this comparative study because it also belongs to the food industry and relates well to the cultural aspects that must be considered when entering a new market. Finally, a roadmap and suggested improvements that McDonald’s should consider if it is to continue its success in India will be outlined.

## 2. CULTURAL DIFFERENCE

The manner in which individuals of a particular society think, behave, and perceive is a reflection of the ideologies developed and cultivated over a period of time. These characteristics can be the result of values, beliefs, behaviors, and norms that the individual has developed through their interactions with the society; collectively, they are called as 'culture.' Hofstede defines culture as "a collective phenomenon, because it is at least partly shared within the same social environment where it was learned. It is the collaborative programming of the mind that distinguishes the member of one group or category of people from another."<sup>2</sup> Factors as wide-ranging as religion, literacy, climate, economic development, legal systems, and technology shape any region's culture.

Hofstede<sup>3</sup> identified five dimensions of culture, which vary depending on the person's national culture:

1. Power distance
2. Uncertainty avoidance
3. Individualism and collectivism
4. Masculinity and femininity
5. Long-term versus short-term orientation

He used these five dimensions to outline a basic framework which influences the characteristic and values of any particular culture. For this study he surveyed employees of IBM, a large multinational corporation, located in 72 different countries and analyzed over 116,000 questionnaires. The analysis was focused on differences between nations in responding to questions regarding various employee values. From his analysis, he assigned an index value to each of the five dimensions listed above, which would help understand the differences in values and behavioral orientation of people from different cultural backgrounds. For the purpose of this research the index values for United States and India have been isolated and summarized in Table 2.1.

Table 2.1. Hofstede's Cultural Dimensions

<b>Dimension/ Country</b>	<b>United States</b>	<b>India</b>	<b>World Average</b>
Power Distance	40	77	57
Uncertainty Avoidance	46	40	65
Individualism	91	48	43
Masculinity	62	56	49
Long-Term Orientation	29	61	48

## **2.1. POWER DISTANCE**

Hofstede's definition states "power distance as a measure of the interpersonal power or influence a superior and a subordinate share as perceived by the less powerful of the two, the subordinate." It is essentially the measure of the equality or inequality that exists among the people in a society or nation. A high power distance rating is an indication of great inequalities of power and wealth. India has a power distance index of 77, and the United States has an index of 40; the world average is 56.5. These values indicate that in India there is enormous difference between the power and wealth levels, while the United States has greater equality between societal levels.

In societies like the United States that have a low power distance index, the hierarchical structure is flexible and roles frequently interchange depending on the needs of a project. It is acceptable for a superior to report to a subordinate for a specific task, and subordinates expect to be consulted before decisions are made for the team. These conditions in the United States are regarded as positive and participative leadership, but they may be viewed negatively in the Indian context. Indian management tends to promote a more assertive style of leadership in which subordinates expect to be told what to do. Communication and authority are expected to flow from the top down, and this

inequality in power is comfortably accepted, in fact, preferred. Information is communicated within the organization through rigid communication channels. The differences in salary ranges are also wide compared to those in lower power distance societies, and the pay scale drops sharply as one moves down the hierarchy. A CEO of a software company can take home as much as 300,000 EUR, whereas a manager is paid around 12,000 EUR, and a young graduate can expect to receive around 3,600 EUR per annum<sup>4</sup>. This difference in pay is explicit and is widely accepted throughout most organizations. Since subordinates fear their superiors, open confrontation and disagreements are generally avoided.

## **2.2. UNCERTAINTY AVOIDANCE**

Uncertainty avoidance refers to a society's tolerance for uncertainty and ambiguity. Its index is a measure of how comfortable a society is with facing an unstructured situation. A high uncertainty avoidance society has placed high value on security and long-term employment. The United States and India are in this sense similar since both of them have a relatively low rating. The world average is 65; The United States has an index of 46, and India has an index of 40.

In practice, the difference in this trait becomes evident when it is combined with another dimension such as, power distance. In the United States, which is a low power distance society, a subordinate may be willing to make a decision on his own without too much emphasis on his superior's reaction when his decision is in the best interest of the organization. His acceptance of the risk that his superior may disapprove of his work is increased because he does not fear his superior and can approach him to explain his work. Hence, when combined with the power distance index, the significance of uncertainty avoidance is much lower than the actual value itself. However, in a country like India, an employee might be willing to face uncertainty over his superior's approval, but his acceptance of this risk is decreased by the fear of not obeying his superior's instructions. This fear is a response to the high power distance index, and it influences the effect of low uncertainty avoidance, making uncertainty more significant than its actual value would suggest. Hence, the Indian worker acts in the manner expected of him or just

follows instructions in order to avoid disagreement with his superior,<sup>5</sup> even if he is aware that his actions might not be in the best interests of the organization. This example demonstrates that, depending on its interaction with the other dimensions, the uncertainty avoidance index varies significantly between the two countries and thus cannot be considered a similar factor. Political influence, an uncertain future, a dynamic business environment, and the risk-adverse nature of Indian managers are some of the main factors that determine the uncertainty avoidance levels in their management styles.<sup>6</sup>

### **2.3. INDIVIDUALISM AND COLLECTIVISM**

Hofstede notes that “individuality stands for a society in which the ties between individuals are loose: Everybody is expected to look out for himself/herself and her/his immediate family only. Collectivism stands for a society in which people from birth itself are integrated into strong, cohesive in-groups, which throughout people’s lifetimes continue to protect them in exchange for unquestioning loyalty.”<sup>7</sup> A high individuality index indicates a society that emphasizes on individuality and independence, whereas a low index indicates a society in which collectivism and the common good are given priority. The United States ranks very high on the individualism index with a score of 91, whereas India has an index of only 48.

In a highly individualistic society like the United States, dependence is generally viewed as a negative trait implying immaturity or weakness. In comparison, hierarchical societies like India consider dependency as a positive trait. A relatively low individualism index implies that family and group attainments take precedence over work outcomes.<sup>8</sup> There is emphasis on the “common good” or “thinking for the group” approaches that offer a sense of security and oneness. This difference in the individualism index manifests itself when factors like decision making are considered. In a collectivist society like India, managers and workers at all levels tend to think in terms of “we.” Decisions therefore are a result of careful consideration of the various factors that might affect the people involved directly and indirectly in the decision. Dismissing an employee on the basis of poor performance is an acceptable norm in a highly individualistic society like the United States where the employee-employer relationship is considered strictly

professional. The same decision in India would be more complicated to make since interpersonal relationships are more important and most decisions give strong priority to interpersonal considerations such as the response of co-workers, unions and even the effects of a decision on the employee's family. The tendency toward high dependency within the employees makes downsizing a very complicated task in India. It must be implemented very gradually through attrition and other natural processes, unlike in the United States where rapid downsizing is an accepted practice.

#### **2.4. MASCULINITY AND FEMININITY**

Hofstede pointed out that "masculinity stands for a society in which social gender roles are clearly distinct: Men are supposed to be assertive, tough, and focused on material success; women are supposed to be more modest, tender, and concerned with quality of life. Femininity stands for a society in which social gender roles overlap: Both men and women are supposed to be modest, tender, and concerned with the quality of life."<sup>9</sup> A country with a high masculinity index is a society in which emotional gender roles are visibly defined and interchanging of these roles is uncommon. India has a masculinity index of 56, whereas the United States has an index of 62.

Although India has an intermediate score on the masculine index, Indian society continues to be male dominated, and the number of women in higher ranks of all professions is still minute.<sup>10</sup> Although women are highly respected, this respect does not necessarily translate into equality on the work place or in earnings.<sup>11</sup> In general, Indians of both sexes tend to be more submissive and modest. Very often, they do not speak or object unless asked specifically for their opinion, and they have a tendency to focus on personal relationships.

#### **2.5. LONG-TERM VERSUS SHORT-TERM ORIENTATION**

According to Hofstede, "long term orientation stands for the fostering of virtues oriented towards future rewards, in particular, perseverance and thrift. Its opposite pole, short term orientation, stands for the fostering of virtues related to the past and present, in particular, respect for tradition, preservation of "face" and fulfilling social obligations."<sup>12</sup>

In short, countries with a high long-term orientation index tend to look for future rewards and have a positive attitude towards savings. They place enormous emphasis on security and growth with respect to career and family. India and the United States score on opposite ends of the long-term orientation index. The United States has an index of 29, whereas India scores 61; the world average is 48.

Due to the high long-term orientation index, planning and saving for the future are very important for most Indian employees. Saving towards retirement funds starts early in the career; a good retirement plan is one of the criteria employees seek in their organizations. Also, maintaining long-term relationships is given high priority; hence, disagreements or differences are communicated only indirectly to safeguard the future of the relationship.



### **3. IMPLICATIONS**

The five dimensions determined by Hofstede tend to have several cultural implications in determining the management practices followed by a nation. Some of these differences in managerial practices can be intrinsic to the organization, while others are extrinsic. It is vital that these are understood from the U.S. perspective to assist an American company wishing to manage projects in India. Some of these intrinsic implications are explained below.

#### **3.1. HIERARCHICAL ORGANIZATIONS**

A direct result of the high power distance index for India is its steep hierarchies, which are highly sensitive to distinctions of wealth, rank, power, and age. A manager working in this environment must comprehend the importance of these distinctions for management. A high power distance index indicates much more formal organizations than those of the West. Open team meetings including higher level management are generally not favored since subordinates prefer to be instructed by their immediate superiors. Unlike in the United States, maintaining social harmony for Indians does not depend on bringing everyone to the same level, but rather on respecting a person's position, implying that "the higher the position of the requestor, the greater the importance ascribed to the task."<sup>13</sup> Studies also show that most employees do not appreciate the participative style of management because those who live in hierarchical societies may not want the responsibilities that come with empowerment.<sup>14</sup> Making effective use of status consciousness enables a manager to obtain timely cooperation from his subordinates. An effective way to use status would be to involve superiors in a project by including them in project kick-off, ground breaking, product roll-out, or other critical milestones. This tangible presence of senior leaders motivates most Indian employees to work with greater concentration.<sup>15</sup>

#### **3.2. MOTIVATIONAL ASPECTS**

The motivational needs of a highly individualistic and nonhierarchical society like the United States depend a great deal on authority and responsibility. Intrinsic factors

such as control over one's work and recognition tend to drive motivation positively, whereas a highly structured and rigid environment tends to have a negative effect. In a collectivistic society like India, work is considered a responsibility toward family and friends. Because the needs of the group are stressed over those of the individual, many Indian workers are sufficiently motivated even by repetitive and routinized jobs in highly formalized organizations as long as family needs are met. Job satisfaction and employee productivity depend a great deal on extrinsic factors such as pay, promotions, relationship with peers, working conditions, and job security.<sup>16</sup> Also, due to concern for the collective good, incentive systems tend to reward all employees equally regardless of their performance, and promoting employees based on seniority with no regard for their performance is common practice.<sup>17</sup> Hence, monetary rewards and job security are the most effective ways to motivate the Indian work force. An American manager would have to modify his motivational theories to fit the Indian setting and would have to demonstrate fairness and objectivity to a skeptical Indian workforce.<sup>18</sup>

### **3.3. ETHICAL ATTITUDES**

Almost all of Hofstede's dimensions have a significant effect in shaping the ethical considerations of a culture. Among the conclusions by P. Maria Joseph Christie et al. (2003)<sup>19</sup> from their study on the differences in ethical attitudes between managers from India and the United States, were those attitudes relating chiefly to the most significant factors such as nepotism, sharing of insider information, and obedience to superiors.

Due to the higher levels of collectivism and an emphasis on relationships, Indians see nothing wrong with hiring a family member who is in dire need, whereas their U.S. counterparts would find this highly unethical. Most Indians are obligated to help family members and friends, especially when need arises. Attitudes are similar towards sharing an organization's inside information with close family and friends because the interests of family or in-group take precedence over professionalism. American managers, therefore, must understand that this practice is not intended to divulge confidential information for profit making or conspiracy; rather, it is an act resulting from the trust placed in close

confidants that information will not be misused. Another area in which ethical attitudes might differ is in the compliance of a subordinate with an unethical order issued by a superior. Indians do not consider following such an order unethical since their ethical sense is overruled by the high power distance index. Finally, injury to the environment is considered more unethical and damaging than in the West; thus, western managers must take additional precaution to retain the support of subordinates when dealing with environmental issues.

### **3.4. FREQUENCY OF THE “PING”**

Completing tasks on time is crucial to keeping a project on schedule. A western project manager must understand how to make his subordinates meet their deadlines. To do so, he must understand how deadlines are prioritized in the Indian context.

Project management and planning methodologies followed in the West are not applicable in India because they follow a different set of protocols for prioritizing and completing assigned tasks. According to Heather Robinson,<sup>20</sup> (a principal consultant at Success Across Borders, an organization development consultancy) Western project management methodologies are strongly based on the “conveyor belt” style of planning and prioritization, whereas India adopts a more cyclical approach. In the West, and specifically in the United States, when a task must be assigned to a particular person, the earlier the assignment is made, the more certain it is that the task will be completed on time. Assignment well in advance is an indication that the task should be given priority and completed by the given deadline. The person to whom the task is assigned does not expect to be reminded of the deadline or of the task’s importance because the instructions are understood to be valid unless amended. Hence, tasks are completed on a first-in first-out system unless an exception is required. But in the Indian context the approach is different. Due to their cyclic sense of timing and planning, Indians are culturally inclined to follow a last-in first-out system when prioritizing and completing tasks. Assigning a task well ahead of the deadline will not ensure that it is treated as a high priority and completed on time. In addition to prior notice, checking on the progress is essential to keeping a task on target. Because the person to whom the task is assigned will tend to

suspend current tasks to process the most recent request, until they are interrupted by another request. Periodic progress checks, therefore, ensure that a task continues to be a high priority. These periodic checks, or “pings,” might address smaller milestones and include e-mailing project information, responding to questions or even sending a personal note inquiring about the employee’s well being. By keeping in mind that the frequency with which the task is revisited is more important than the time elapsed between the scheduling and delivery, managers can ensure timely completion of tasks.<sup>21</sup>

### **3.5. MAINTAINING RELATIONS**

India has a relatively low masculinity index, which implies that employees are more concerned with personal relationships than with work performance. Precedence is given to tasks assigned by those individuals who matter more, personally as well as professionally. As a result, projecting personal interest and building a relationship with subordinates is vital to maintaining schedules.

Some customs used in India to maintain close relations, might be viewed as unethical by U.S. managers; these include gift giving and employee ingratiation. Presenting one’s superior with gifts during religious holidays is customary in the Indian tradition. Such gift giving implies an understanding of one’s lower position and respect for authority. It is a method of thanking the superior for the guidance and support provided. Thus favors unrelated to and beyond the scope of organizational relationships may not reflect a hidden agenda. Unlike in the West, where accepting a gift obliges one to return an equal favor, Indians expect unwavering support and protection from their immediate superiors. An American manager must use his discretion, therefore, when refusing personal gifts and favors from Indian employees to make sure they do not misread the refusal as a rejection or a personal snub.<sup>22</sup>

### **3.6. DIRECT DISAGREEMENT AND NEGATIVE FEEDBACK**

An inclination to avoid disagreement is a result of the Indian concern for long-term personal relationships. India’s higher power distance rating also influences their tendency to disagree in a direct manner. Most Indian employees accommodate rather than

confront each other with any disagreement they might have. If communicating a disagreement is imperative, Indian's use indirect methods or communicate through an intermediate. Often, when asked if a given task can be completed, most Indians respond affirmatively, which generally means that they will make an honest effort; this response indicates neither certainty nor any acceptance of personal responsibility if the task cannot be completed. In general, disagreements are openly expressed only when a long-term trustworthy relationship has already been established. Keeping this tendency in mind will help American managers avoid unnecessary tensions.

Similarly, communicating negative feedback openly is regarded as rude since most of the employees would associate it with "loss of face" in the work place. A more subtle or indirect approach to communicating such feedback is to hold back an ordinary favor or to communicate dissatisfaction through a mutually trusted intermediary. Thus an American manager must exercise patience in communicating such negative messages.

Explained above are the cultural implications intrinsic to management practices within an organization; these implications are common among most Indians when considered collectively. Apart from adapting to these variations, cultural implications extrinsic to an organization also need to be taken into consideration to be successful. These extrinsic factors can be broadly classified into economic, political, and legal implications. They tend to vary depending on the industry to which the organization belongs. The following case study explores these extrinsic factors which are unique to an organization when operating in India.

## 4. MCDONALD'S IN INDIA

### 4.1. INTRODUCTION

McDonald's is a leading global food service retailer with more than 30,000 restaurants serving 52 million people in more than hundred countries each day. More than 70% of McDonald's restaurants worldwide are owned and operated by independent local owners. McDonald's is one of the world's best-known and most valued brands, holding a leading share in the globally branded quick service restaurant segment of the informal eating-out market in virtually every country in which it does business.<sup>23</sup>

McDonald's entered the Indian market in 1996 and opened its first outlet in an affluent residential neighborhood of India's capital.<sup>24</sup> Entering an international market was not new to McDonald's; they had started their international journey with the Canadian market in 1967, and since then had expanded to over 119 countries on six different continents.<sup>25</sup> The reason for McDonald's enormous success abroad was its use of franchising and its ability to be flexible in adapting to the local customs and needs.

Like most other organizations, McDonald's faced hurdles in marketing abroad. For example, in 1991 a poster with a celebrated French chef was displayed in a number of outlets in Netherlands. The poster contained an image of Paul Bocuse with four other chefs examining a batch of dressed chicken; the caption indicated that the chefs were thinking of Big Macs. This was considered an insult to French haute cuisine, and McDonald's was obligated to apologize. Similarly, a major scandal arose when McDonald's printed two million bags displaying the flags of 24 competitors in a soccer championship. One of them was the Saudi Arabian flag with the words "There is no God but Allah, and Mohammed is his prophet." This was considered insulting to their religion, to have this message printed on a disposable bag.<sup>26</sup> From various instances like these, McDonald's had matured culturally over the years and learned to be sensitive to critical aspects of the international market. Therefore, when they entered the Indian market, their entry and expansion strategy were carefully planned to accommodate with the political, economical, and cultural context of the subcontinent.

## 4.2. THE INDIA ROADMAP

Food is a very important aspect of the Indian culture, and home cooked food is considered healthy and fresh by most Indians. With thousands of ethnic groups, each with their own distinct food habits, Indian cuisine offers a variety of dishes specific to various geographic locations. For this reason, the Indian fast food business is not as prominent as in the West. Creating a common menu that would appeal throughout India was a challenging task in itself. Until the early nineties, very few fast food chains had been consistently able to prosper, and those who did prosper offered predominantly Indian cuisine. However, by the mid-nineties, food service sales had increased significantly, and the fast food market had shown considerable growth. The most important factors contributing to this change were growing income, population growth and urbanization.<sup>27</sup>

With the growth in income levels and urbanization, there was a shift in traditional Indian food habits, and an increasing number of people were willing to spend money on fast food. These people were not hesitant to experiment with international cuisines. Additionally, India's economic policies were liberalized to attract foreign investment and multinational companies. During this period, U.S. based fast food chains such as KFC, Pizza Hut, and Subway had rushed into the Indian market to take first mover advantage. McDonald's on the other hand had spent more than half a decade studying consumer needs and sketching a road map for its entry into the market. The road map followed emphasized key factors affecting McDonald's future and success in India. A study by Kishore Dash<sup>28</sup> of The Garvin School of International Management examined these factors; they are summarized below:

***Emphasis on Local Management:*** McDonald's established joint ventures on a 50:50 basis with local entrepreneurs based on their India-centric management strategies and a familiarity with the Indian bureaucracy.

***“Politically Correct” Strategy:*** McDonald's took care not to offend the practitioners of any religion and completely eliminated pork and beef from their menu, because the cow

is considered holy by Hindus and the Muslims do not consume pork. Almost 75% of the menu was developed to suit Indian needs and attract Indian customers.

***Employment Opportunities:*** By providing employment to the local population, and by creating opportunities for the Indian agricultural workforce, McDonald's was able to gain the support of the government and the people even though it was a foreign company.

***Green Sensitivity:*** To stave off attacks from environmental and animal activists, McDonald's developed several captions such as "keep your city clean" and "we love green." They were able to create a brand image as an environmentally conscious organization interested in the health and welfare of the society.

***Pricing:*** The pricing strategy followed by McDonald's attracted customers initially by creating entry level products and allowing the customer to graduate to higher priced products. The low prices were successful in bringing in more people. Products in this price range were targeted towards students and young middle class families.

***Location:*** Identifying appropriate locations for setting up their outlets seemed to be McDonald's biggest strength. They opened their first couple of outlets in metropolitan cities where upper classes were well aware of the brand. Gradually, they expanded to other areas and opened outlets in strategic positions such as in gas and railway stations where they could reach out to the middle and lower middle class population. Also, they targeted multiplexes and malls where they would have a consistent flow of customers willing to spend money for a low-cost burger or fries.

***Cultural Sensitivity:*** The most important aspect in which McDonald's surpassed that of other MNCs in India is that it was able to connect culturally to its customers. McDonald's customized its products and provided higher quality, which attracted a loyal customer base. Introducing local products for local palates worked well for McDonald's in India, and the effort required much research and planning.



### 4.3. A COMPARATIVE STUDY OF MCDONALD'S AND KELLOGG'S

This work makes a comparative study between Kellogg's and McDonald's to determine the key factors in McDonald's success. Kellogg's was selected for this comparison because it also belongs to the food industry and also faced similar cultural challenges when entering the Indian market.

Kellogg's was founded in 1906, and it is the world's largest cereal company, with products manufactured in 17 countries and marketed in more than 180 countries around the world.<sup>29</sup> It entered the Canadian market within a decade of its establishment and soon started to export cereal to most parts of the world, including Australia and Europe.<sup>30</sup> During the 1980s, Kellogg's had almost 40% of the market for ready-to-eat cereal and had record level sales in the market. However, by the nineties, Kellogg's began to struggle in the face of strong competition from other manufacturers, and gradually their sales began to stagnate. They began to search for markets beyond their traditional European and American reach, and they identified India as one of their most promising new territory. They entered the Indian market in 1994, launching Corn Flakes with a total investment of \$65 million.<sup>31</sup> Kellogg's expected that if it could capture at least 2% of the 250 million-strong middle class population, they would have a market larger than that in the United States itself.

But the launch of Kellogg's in India did not reach the expected goals in the first year; the company barely reached 20% of its projected sales. Fourteen years after its shaky launch, Kellogg's had diverged into other products, such as snacks and cookies, and it had introduced several varieties of cereal to suit Indian tastes. Nonetheless, it had met with little success. A comparative study shows where Kellogg's went wrong and McDonald's succeeded.

**4.3.1. Addressing the Cultural Barrier.** The most important step in entering an unknown market is to study the culture of the local population to adapt to the new environment.

When Kellogg's entered the Indian market, the ready-to-eat breakfast sector had huge potential for growth because there were not many competitors who produced products of the quality as that of Kellogg's. Their major hurdle, therefore, was to create a market for ready-to-eat cereals by encouraging the population to develop a taste for them. Indians treat breakfast as a full meal, like lunch or dinner, and the traditional breakfast consists of fresh, hot idli, dosa, or parathas. Kellogg's flakes were conventionally manufactured to be crisp when consumed with cold milk. Unlike in the West, Indians always boil their milk and consume it warm or lukewarm with sugar. The addition of hot milk to the flakes turned them soggy instantly and made them taste bland. If consumed with cold milk, it was not sweet enough since the sugar does not dissolve easily in cold milk. Instead of modifying their product, Kellogg's expected customer habits to change over time.<sup>32</sup> This change never occurred, however, because it could not overcome years of tradition and habit, especially with a relatively expensive product. Kellogg's did try to Indianize some of its products after a few years in the Indian market under the 'Mazza' label by creating ethnic flavors, but these were not well received since they seemed very outlandish.<sup>33</sup> The precise reason for the failure of Kellogg's was due to the fact that the taste of its products did not suit the Indian breakfast habits.

McDonald's, on the other hand spent nearly half a decade investigating the market, culture, and various other factors such as eating habits, pricing, supply chain management, and the political environment so that they would be able to blend easily into the local culture even while introducing a foreign cuisine. Most of the Indian population is Hindu and consider the Cow to be holy. Muslims, who also form a substantial part of the population, avoid pork. Therefore, McDonald's eliminated beef and pork completely from their menus and substituted vegetarian items to satisfy the significant number of vegetarians. Also, the eating habits vary widely across the country and among the states. McDonald's quickly adapted to these changes by customizing their menu according to the preferences of the local population. Vegetarian and non-vegetarian foods were strictly segregated and prepared in separate utensils so as not to offend any religious beliefs. French fries were not flavored with beef tallow as they are elsewhere, and egg was avoided even in ice creams and mayonnaise.<sup>34</sup> This adaptation helped McDonald's

become widely accepted because the food items did not seem unfamiliar. Also this adaptation was clearly presented to the customer when they advertised by the mention of “Sudh Shakahari” menu, which meant “pure vegetarian,” so customers were not hesitant to try their products. This strategy attracted wide attention and was instrumental in bringing in a large part of the vegetarian population, who came to constitute a majority of their customers.

**4.3.2. Pricing Strategy.** Kellogg’s initially differentiated their products with convincingly expensive packaging designed to keep flakes extra crisp. This packaging required that the cereal be priced at almost twice as high as their competitors, and packaging alone contributed nearly 45% of the cost of the product.<sup>35</sup> The average cost of Kellogg’s was 21 rupees per 100 grams compared to 16.5 rupees per 100 grams of its competitors. This premium image made it seem unattainable to the average consumer. The company lost out on the mass market, and even the customers at higher end did not perceive any extra benefits in Kellogg’s products. After initial sales problems, they slashed their prices, but the initial premium image created by the company lingered on, affecting sales for years. The company seemed to cater only to the upper class and thus seemed beyond the reach of the very critical middle class.<sup>36</sup>

When McDonald’s entered the Indian market, the company promoted its image but with an enormous emphasis on the needs of the local community. They adopted a strategy “Brand globally, advertise locally.”<sup>37</sup> They believed in the concept of wooing consumers with low-priced entry level products and expected customers to move gradually toward higher priced products. They also slashed the prices of some for their products like nuggets, ice cream, and the vegetarian burger. With low prices and adaptation to local tastes, they were able to sell 40% more of their vegetarian burger than what they had estimated.<sup>38</sup> McDonald’s was willing to cut down on prices initially, even if they would take longer to break even, since they followed the pricing strategy expressed in their mission statement, “being in touch with the pricing of our competitors allows us to price our products correctly, balancing quality and value.”<sup>39</sup> This approach

worked well, allowing them to gain the upper middle class market that forms a substantial part of the population.

**4.3.3. Positioning Front.** From the very beginning of its product launch, Kellogg's strongly emphasized highly on the health benefits of its cereal, claiming the benefits as the basis for its high price. They launched several products targeted at health issues, such as "Project Red Alert," which addressed iron deficiency in children. Other products focused on weight loss issues.<sup>40</sup> The advertising campaign focused so much on these health benefits that the products were viewed as health foods, rather than the fun and tasty foods they represent in other markets. Also, the advertising was initially targeted only at children and not at the entire family. Further Kellogg's decided to concentrate only on middle level retail stores so that they could maintain a uniform quality of service. But this hindered their customer reach and put a portion of the population out of reach<sup>41</sup> thereby reducing sales considerably.

McDonald's did not advertise its products as a substitution for traditional products as Kellogg's did; rather it provided the consumer with one more option. Also, McDonald's targeted students, an age group open to change and experimentation. They also slashed their prices to make their products affordable to this group.<sup>42</sup> The strategic locations of their outlets were also instrumental in capturing the young crowd who were beginning to explore new options.

#### **4.4. THE ROAD AHEAD**

Therefore, due to the various adaptations in the management and business strategies undertaken by McDonald's, its performance in the Indian market has been more impressive than the performance of most multinational food chains. The growth in the number of McDonald's outlets is shown in Figure 4.1; the number of outlets by 2010 is targeted to reach 366.

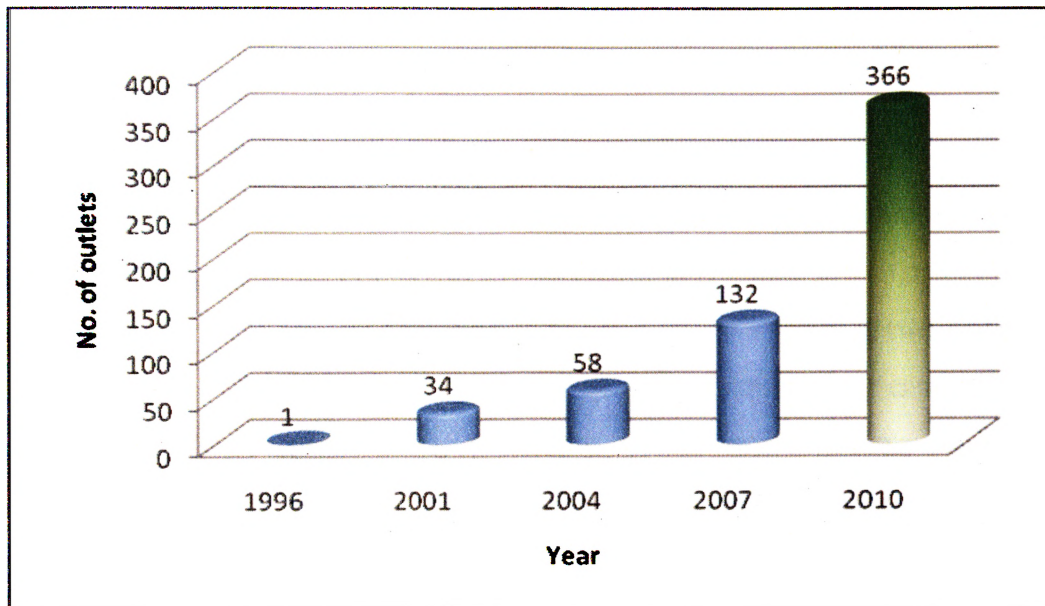


Figure 4.1. Number of McDonald's outlets<sup>43</sup>

To achieve this projected figure, McDonald's will have to continue research into the culture of the Indian market along with constant adaptation of its management and business strategy. At present McDonald's has 155 outlets; 79 of these are in the northern and eastern regions while 53 are located in the western and southern regions. The strategy followed by McDonald's in opening new outlets can be traced closely to the economic map of India. They began their expansion through the metropolitan cities and are now cautiously moving towards 2 and 3 tier cities. This expansion into smaller cities will be the key to McDonald's success in India since broadening their customer base is vital to establishing itself as a food chain which is consistent country wide.

## 5. SURVEY

### 5.1. INTRODUCTION

The aim of this survey is to establish how successful McDonald's has been in adapting to the cultural requirements of the Indian market, and provide recommendation for future expansion. The survey was distributed to customers across two outlets in India; located in Mumbai and Chennai. A total of 459 responses have been utilized for the following analysis. This sample is representative of the Indian society with the average household income being higher than overall Indian standards since the outlets were located in comparatively affluent localities. An inter-rater reliability rating of the responses indicated a 100% match. Table 5.1. summarizes the demographics of the sample.

Table 5.1. Characteristic of sample (Annual Income calculated with \$1= Rs.50)

	N= 459	
Age	No. of samples	Percentage
8-15 years	64	13.94%
16-23 years	120	26.14%
24-31 years	142	30.93%
32-39 years	74	16.12%
40-47 years	32	6.77%
48 years and up	18	3.92%
No answer	9	1.96%
Sex		
Male	241	52.50%
Female	215	46.84%
No answer	3	0.65%

Table 5.1. Characteristic of sample (Annual Income calculated with \$1= Rs.50) (cont)

<b>Annual Income(in \$)</b>	<b>No. of samples</b>	<b>Percentage</b>
Below \$1000	10	2.17%
Between \$1000 and \$2000	33	7.18%
Between \$2001 and \$3000	47	10.23%
Between \$3001 and \$5000	78	16.99%
Between \$5001 and \$10000	146	31.80%
Greater than \$10001	131	28.54%
No answer	14	3.05%

## 5.2. ANALYSIS AND RECOMMENDATIONS

**5.2.1. Targeted Age Group.** McDonald's uses a family centric and child centric strategy; its outlets in India are called "McDonald's Family Restaurants," as compared to simply "McDonald's" as in other parts of the world. In spite of this, they focused heavily on attracting children by tying up with various companies like Coke, Barbie, Cadbury, and Hot Wheels.

According to the survey, only 14% of the customers who visited McDonald's were children below the age of 15. This percentage is much lower than the average number of children who visited McDonald's during its launch in 1996; the initial percentage was as high as 33%.<sup>44</sup> This decrease in the number of children is not a positive sign for McDonald's since traditionally children have remained their stronghold worldwide. Additionally, 26.14% of the consumers were between the ages of 16 to 23 years; this category comprises of high school and college going students who seem to have the spending power and the inclination towards trying a different cuisine. However, the highest categories of costumers were observed to be from age groups 24 to 31 years.

These consumers comprise of the working class; they represent a vast majority of the middle class population consisting of young parents. Hence McDonald's in India will have to adopt a new strategy to attract more children and retain their grasp on the 24 to 31 year category.

**Recommendation 1:** Providing offers in the "Family Pack" category will tend to retain majority of the customers who are young families; parents tend to bring children along, hence increasing the number of prospective customers. Offering student discounts, which is a relatively new concept in India, will attract youngsters and help build a broader customer base.

**5.2.2. Income Levels and Pricing.** McDonald's had targeted the middle class as their primary customers since it comprised the majority of the Indian population. The most frequent consumers of McDonald's in India fit in the income levels between \$5000 and \$10000, closely followed by the \$10000 and above income category. These two categories comprise of the higher middle class and elite population, which is indicative that McDonald's did target the right section of the society. However, there seems to be a steep difference between the customer levels of the lower middle and the upper middle class; the lower middle class contributed to only 16.99% in comparison to 31.80% by the upper middle class.

The prices at McDonald's in India are among the cheapest in the world; the Big Mac is priced around \$0.75 in India compared to \$2.90 in the United States.<sup>45</sup> In spite of this relatively low pricing, 37.03% of the consumers found eating at McDonald's a bit on the costlier side. 25.92% of them found it affordable and 18.95% indicated that it was very expensive. Apart from the actual pricing itself, the image of McDonald's as an outlet for the upper classes still lingers. This image can cause problems for McDonald's when it expands into two and three tier cities where the income levels of the middle class are expected to be much lower than that of the sampled data.



**Recommendation 2:** To shed the upper class image, McDonald's will have to introduce basic lower level products especially in those outlets which are located in 2 and 3 tier cities. Once they achieve a loyal customer base in these cities, they can gradually increase the product and price range.

**5.2.3. Customer Preferences.** To indicate how some of the variations in the food habits between McDonald's and other local restaurants affected costumers, they were asked to evaluate which practices of McDonald's they found most inconvenient. 23.96% of consumers disliked food being served in trays and being wrapped in paper; a larger majority did not seem to mind most of the practices which were different. These included practices such as style in which the menu was presented, paying at the counter and the absence of a provision to wash hands. 43.13% of the customers indicated that none of these practices were inconvenient. Additionally, 58.82% indicated that they view eating at McDonald's as a quick snack in comparison with only 13.50% of them who viewed it as a complete meal. This perception is due to the fact that most Indian meals consist of rice or chapattis and are traditionally very heavy and filling. This difference in perception indicates that eating at McDonald's is not a substitution to their regular eating habits, but is only a supplement.

**Recommendation 3:** Introducing traditional food items (rice/chapattis) along with their meal packages will help adding to the variety of items on the menu. This will increase the frequency of customers who turn up regularly for lunch and dinner since the meals will be heavier and filling.

Due to the family centric strategy McDonald's has adopted, many of its outlets in India have play areas for children and actively promote birthday parties. Few outlets have also provided lounges for senior citizens to relax. 41.61% of the customers feel that McDonald's is a place to socialize and meet with friends while 25.05% of them consider it a fun family joint; only 18.08% showed inclination towards the quality of food available. This higher inclination towards the ambience of the restaurant when compared to the quality of food is due to the fact that most traditional Indian restaurants do not have

large seating capacities and hence do not support customers spending time at the table after the completion of their meal. Most customers found it convenient to spend time with family, children, and friends at McDonald's since they were not expected to leave as soon as they finished their food. This culture of McDonald's suited the consumer needs since most of them were in the age group of 24 to 31 years and were inclined to socialize.

**Recommendation 4:** Providing gaming options is a relatively new concept in India. This when featured in McDonald's can be used to encourage youngsters to visit McDonald's, since they get to spend more time with friends and have fun.

**5.2.4. The Child Centric Strategy.** Having targeted children as an important part of their customer base, only 23.96% of parents indicated that they visited McDonald's because of their children. Among the reasons stated for their willingness to allow their children to eat at McDonald's compared to other restaurants, most parents indicated cleanliness and quality as the key factors. Whereas, majority of those who did not prefer McDonald's, indicated concern over unhealthy food and obesity. 97.0% of parents were worried about these health issues. This factor can be considered as one of the main contributors towards the decrease in number of children visiting McDonald's in India.

**Recommendation 5:** In recent years McDonald's has struggled with the same issue in the U.S. They have expanded their menu to include apples, juice, and milk in the happy meal; also they added many new salads to the adult menu. McDonald's in India should follow to similar course. Creation and promotion of healthier foods, inspired by the local food habits will aid in reducing health concerns. McDonald's has introduced of baked items instead of fried items in India,<sup>46</sup> which is a step in the right direction. Improvising on these kinds of food products will bring in more customers.

**5.2.5. Suggested Improvements.** The customers were almost equally divided when asked on what factors they would like to see improvements in McDonald's. 29% wanted more adaptation towards local tastes, while an equal number of them wanted a wider range of products. While McDonald's has done a good job in adaptation to the local tastes, this area would require constant improvements with addition of new products from time to time. Making sure that the consumers do not get bored with the narrow range of products will be a constant challenge.

Other improvements indicated by the customers were to increase information and advertising about McDonald's. Nearly 27% of them wanted to see change in this aspect. Although, the clown which is the mascot for McDonald's is recognized worldwide, advertising in India using the same mascot might not have worked well. Most Indian children and youngsters closely relate themselves to cricket and movie stars. Due to the high power distance index, most leaders and role models are almost perceived to be god like. Hence utilizing this factor in advertising can be instrumental in bringing in more youngsters. Parking was also indicated as a key issue; this can be attributed to the prime locations of most of the outlets. Since they are located in highly populated and developed localities, providing sufficient parking can become an impending issue.

***Recommendation 6:*** Advertising using Indian movie and cricket stars will help children and youngsters identify more closely with the brand. This can be done alongside the universal mascot.

***Recommendation 7:*** Introduction of a larger number of drive-through facilities in high population localities to ease the parking problems. The outlets which need to be equipped with these drive-through facilities will have to be chosen carefully, since they might be redundant in certain outlets which are located in less congested localities.

**5.2.6. Regional Differences.** The surveys were distributed at two different locations, namely Mumbai and Chennai. Although there was no noticeable difference in the income levels between the two cities, the customer perception of the pricing varied. 56% of customers (Chennai and Mumbai together) indicated that they found McDonald's expensive. Nearly 67% of these customers belonged to Chennai; only 33% from Mumbai felt the same about pricing. This shows the spending habits among consumers differed upon the region. Similarly, majority of the customers who indicated that they did not find the culture of McDonald's inconvenient belonged to Mumbai. Only 27% from Mumbai indicated that they preferred more adaptation when compared to 72% from Chennai. This difference in perception between the two states is a strong indication of the diversity with the country.

**Recommendation 8:** Uniform pricing of products might not work in India since regional difference in spending habits is high. Products might have to vary in price depending on the location of the outlet. McDonald's management will be well served to realize India is a very diverse country with significant regional differences.

**Recommendation 9:** Apart from adaptation to the Indian scenario in general, introduction of local specialties to cater to the local culture is very important.

### **5.3. LIMITATIONS FOR MCDONALD'S IN INDIA**

In spite of the above mentioned recommendations some factors such as political sensitivity, anti-American mindset, and lower economic development will tend to hamper the growth of McDonald's in India;<sup>47</sup> these factors are common to most of the international organizations in India. Due to the high differences in economic growth throughout the country, McDonald's cannot be expected to have the same degree of popularity in all regions.

#### **5.4. LIMITATION OF THE SURVEY AND ANALYSIS**

This survey has analyzed the performance and success of McDonald's in India with respect to the cultural factors extrinsic to the organization such as the understanding between the consumers and the organization itself. Cultural factors intrinsic to the organization, such as adaptation required by employers towards the employees and vice versa have not been studied. Such an analysis will enable a deeper understanding of the inherent cultural differences, and hurdles faced by McDonald's while managing its organization in India.

## 6. SUMMARY AND CONCLUSIONS

From the study of Hofstede's cultural dimensions and the analysis of McDonald's performance in India, the following can be concluded.

- Management in United States is considered as a task oriented discipline; hence tasks are given higher priority than relationship building. This approach will not work while managing in India; management will have to be considered a relationship oriented discipline. Allocating resources and time towards relationship building is vital to successful management of organizations in India.
- A single management strategy will not work for the entire country. Regional differences and the presence of a variety of subcultures will require at least a minimum degree of customization when managing in different parts of the country.
- Indian employees and consumers do have the tendency to absorb a certain level of culture which is alien to them. It is important that management practices learn to identify the degree to which it is acceptable, and draw a line.

Thus, management practices which need to be followed while managing in India have been suggested. Making positive use of the differences in indexes between the two nations will facilitate smoother adaptation. An expatriate manager will have to be tolerant towards the endemic cultural priorities of India as a country.

## APPENDIX

### SURVEY



Adapting Management Strategies to Enter New Global Markets  
 Student: Karuna Vemulapalli, Faculty Advisor: Dr .Benjamin Duke Dow  
 EMSE Department, Missouri University of Science and Technology

I am a graduate student in Engineering Management at Missouri University of Science and Technology. This survey is a part of the research I am doing to analysis how McDonald's has performed since its launch in India about a decade ago. This survey would help in bringing out how McDonalds has adapted and evolved to suit the culture and tastes of the Indian subcontinent. It would also help focus on what improvements would be required, from the customer point of view.

#### 1. Age Group:

< 15    16-23                    24-31                    32-39                    40-47                    48 & up

#### 2. Gender: Male/ Female

#### 3. Income Level (per annum in INR):

- 0 - 50,000
- 1,00,000 - 1,50,000
- 2,50,000 - 5,00,000
- 50,000 – 1,00,000
- 1,50,000 - 2,50,000
- 5,00,000 & above

#### 4. Which part of McDonald's culture do you find inconvenient?

- Style in which the menu is presented
- Paying at the counter
- Meals served in trays and are wrapped in paper
- Absence of a provision to wash hands
- Other: \_\_\_\_\_

- None

5. Which of these describes McDonald's best, in your opinion?

- A place to eat good quality food
- A place to hang out and meet friends
- A fun place with good ambience
- A fun family joint
- None of the above

6. How often would you prefer to visit McDonald's vs. other restaurants?

- Every time I eat out
- Every alternate time I eat out
- Two out of five times
- Less often than the above
- Other: \_\_\_\_\_

7. You would prefer to visit McDonald's for

- A complete meal
- A snack
- A quick grab place when you are out
- Other: \_\_\_\_\_

8. How would you rank McDonalds's on an affordability scale?'

- Very affordable
- Affordable
- A bit on the costly side
- Very expensive
- Don't know

9. Were you introduced to McDonalds because of your children?



- Yes
- No
- If yes, their ages \_\_\_\_\_

10. Would you prefer your children eating at McDonald's when they eat out compared to other restaurants?

- Yes
- No
- Why? / Why not? \_\_\_\_\_

11. Which area would you most like to see improvements in McDonalds's?

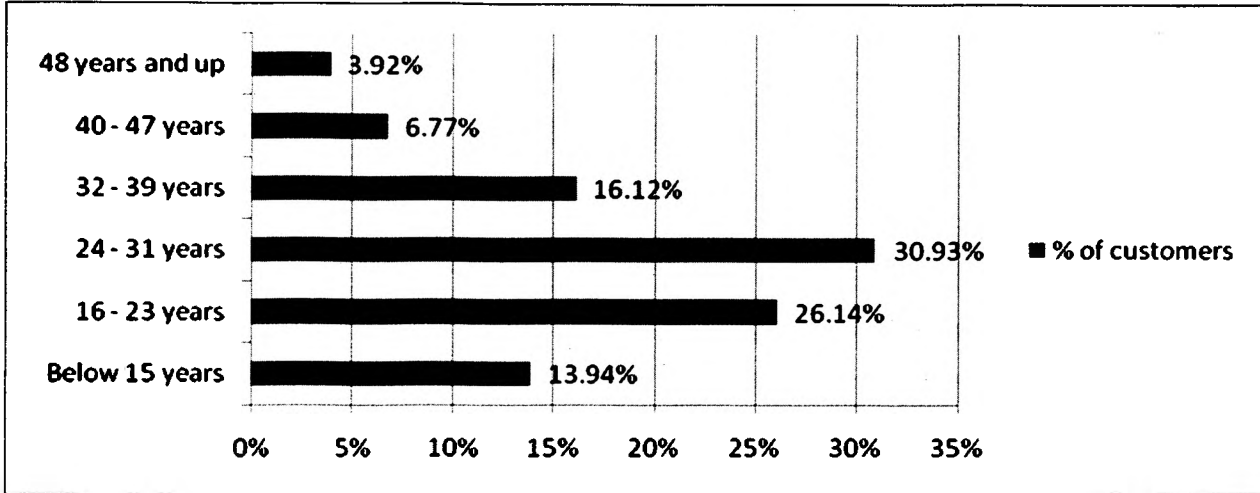
- More adaptation to local tastes (i.e. serving more Indian food)
- Increased information / advertising about McDonald's
- Wider price range of products
- Other: \_\_\_\_\_
- None

12. If you were going to improve McDonald's, what would be the specific change you would like to see?

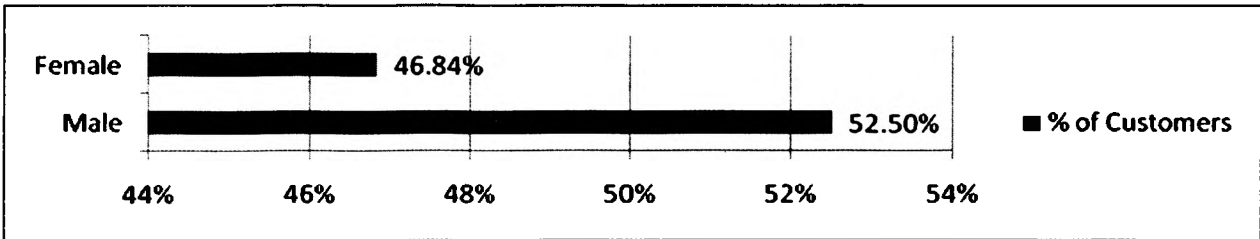
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## DATA ANALYSIS

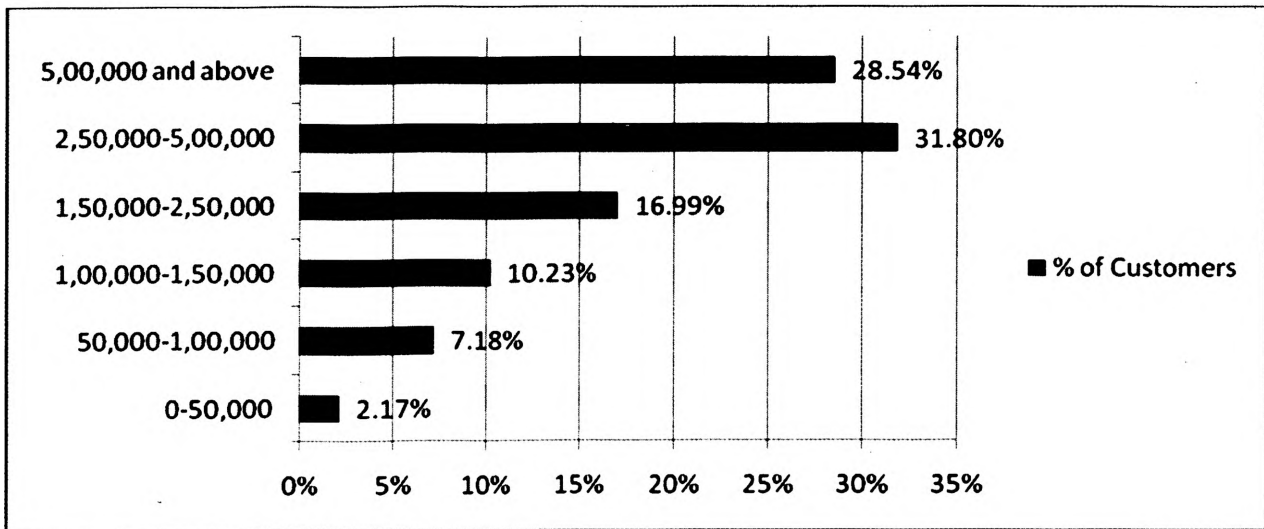
### 1. Age Group



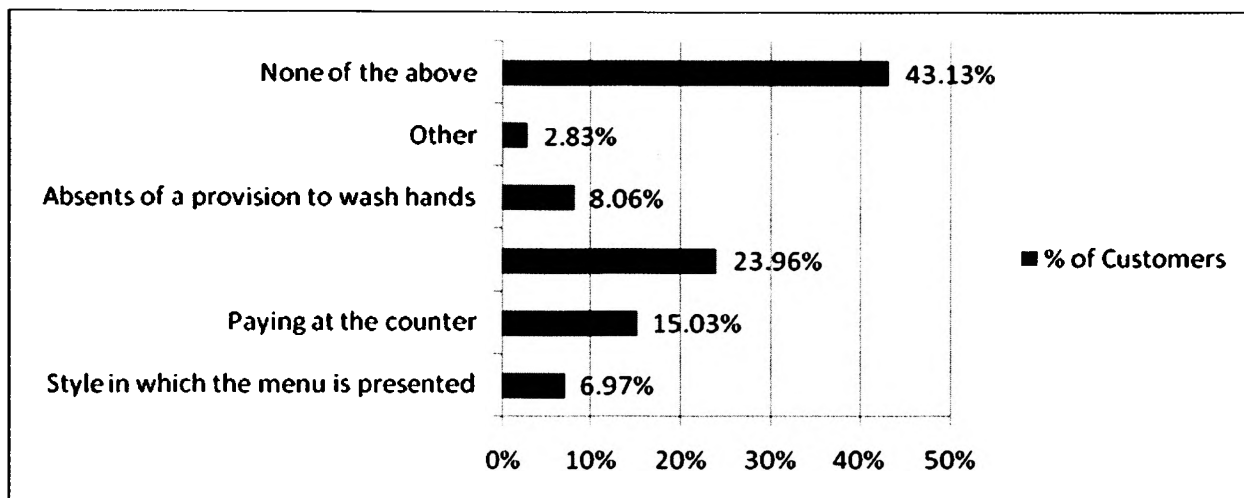
### 2. Gender



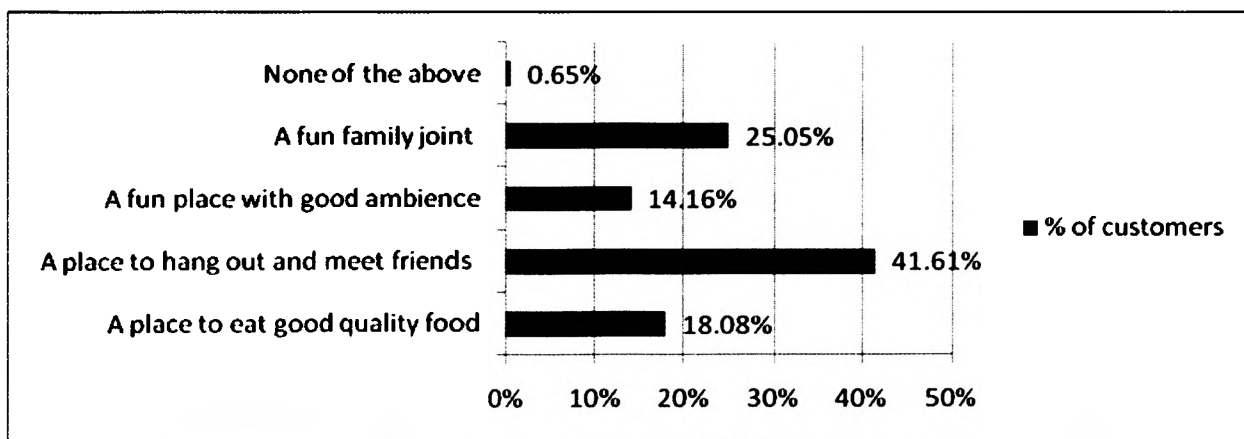
### 3. Income Level (per annum in INR)



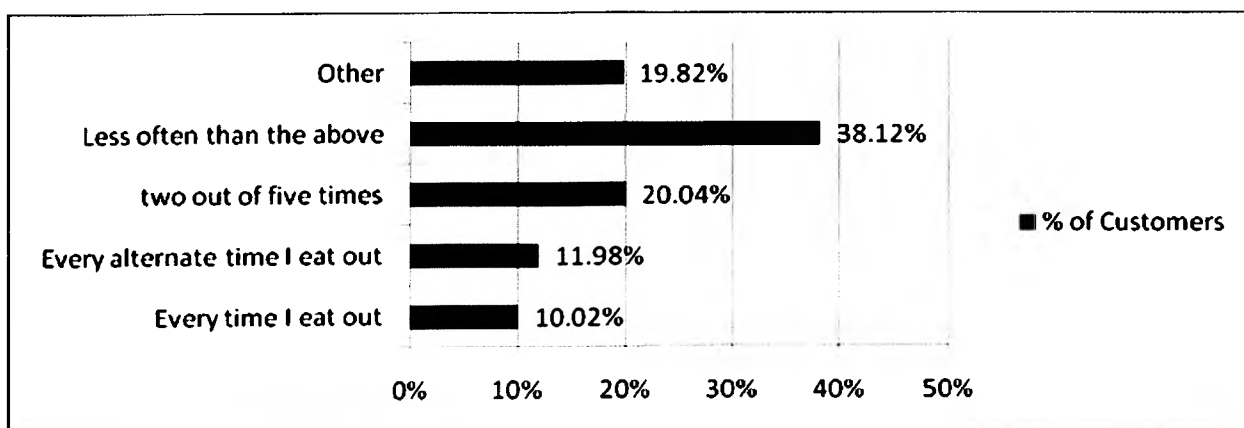
4. Which part of McDonald's culture do you find inconvenient?



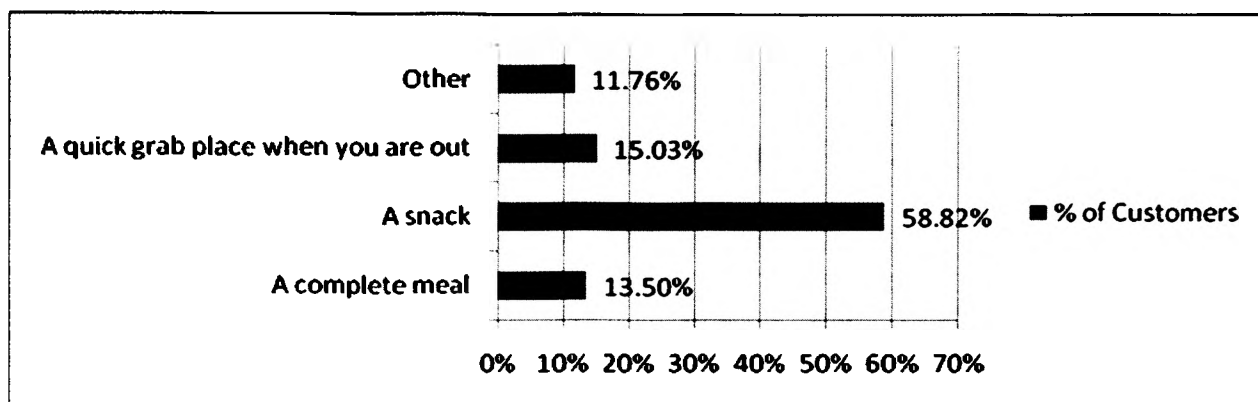
5. Which of these describes McDonald's best, in your opinion?



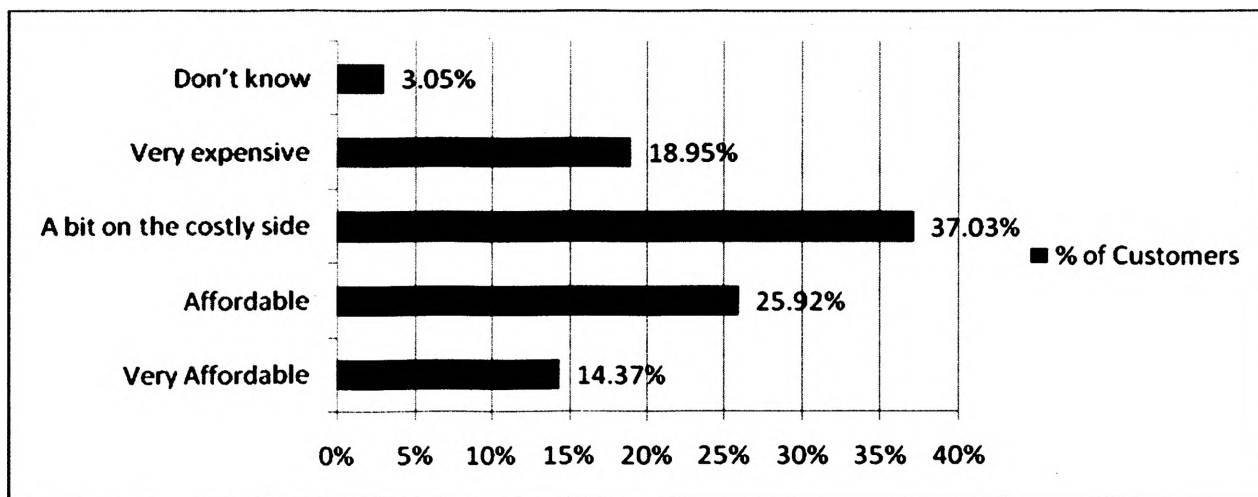
6. How often would you prefer to visit McDonald's vs. other restaurants?



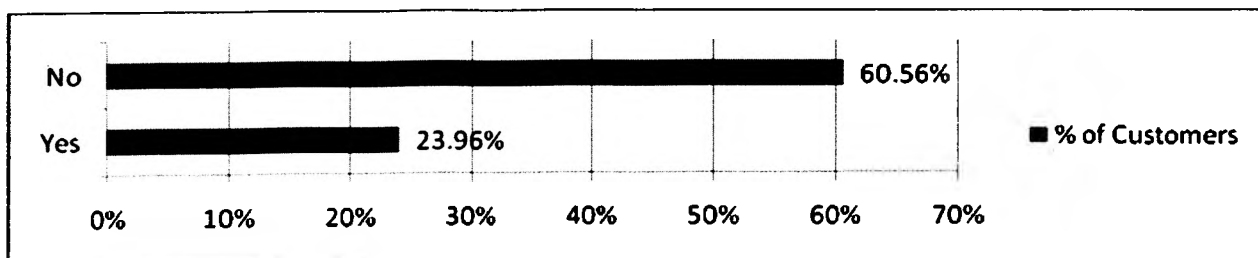
## 7. You would prefer to visit McDonalds for



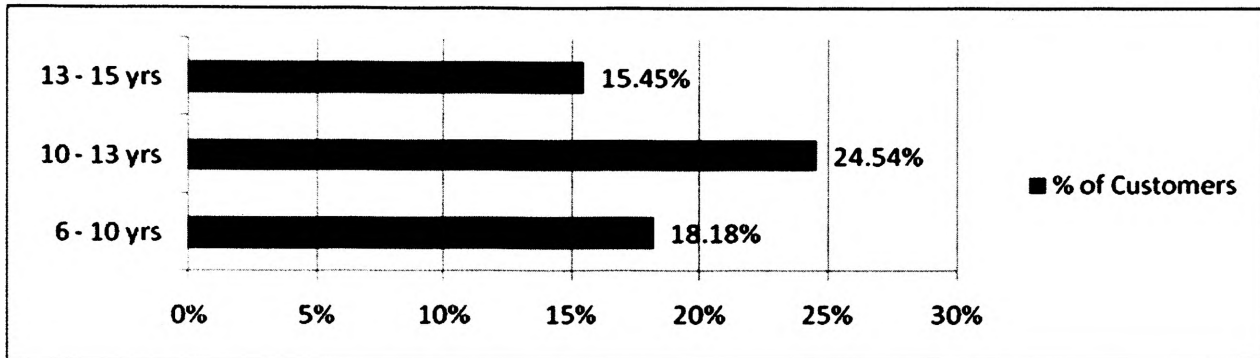
## 8. How would you rank McDonalds's on an affordability scale?



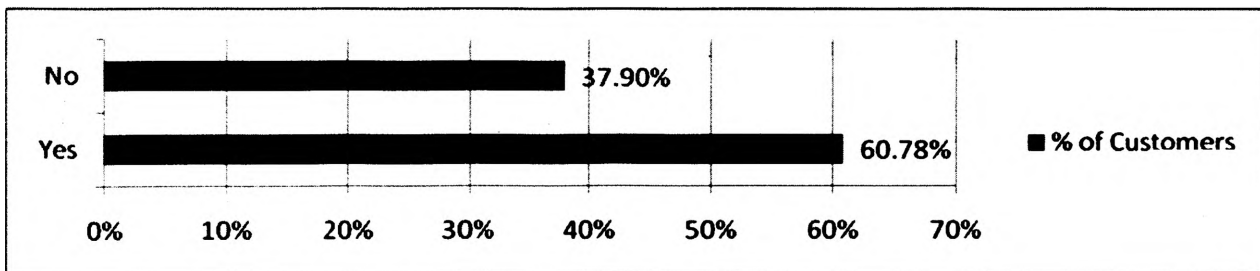
## 9. Were you introduced to McDonalds because of your children?



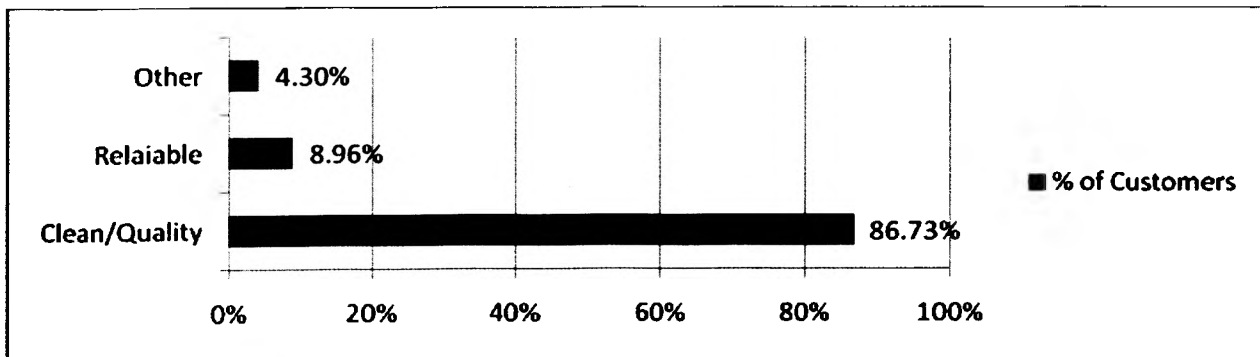
If yes, the indicated ages



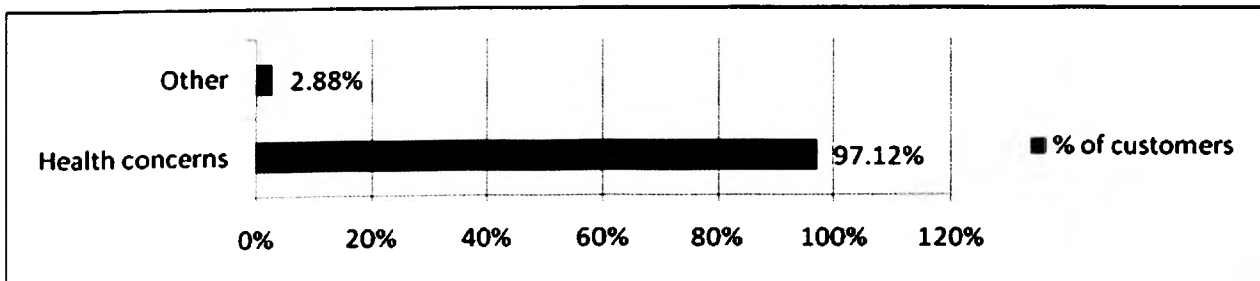
10. Would you prefer your children eating at McDonald's when they eat out compared to other restaurants?



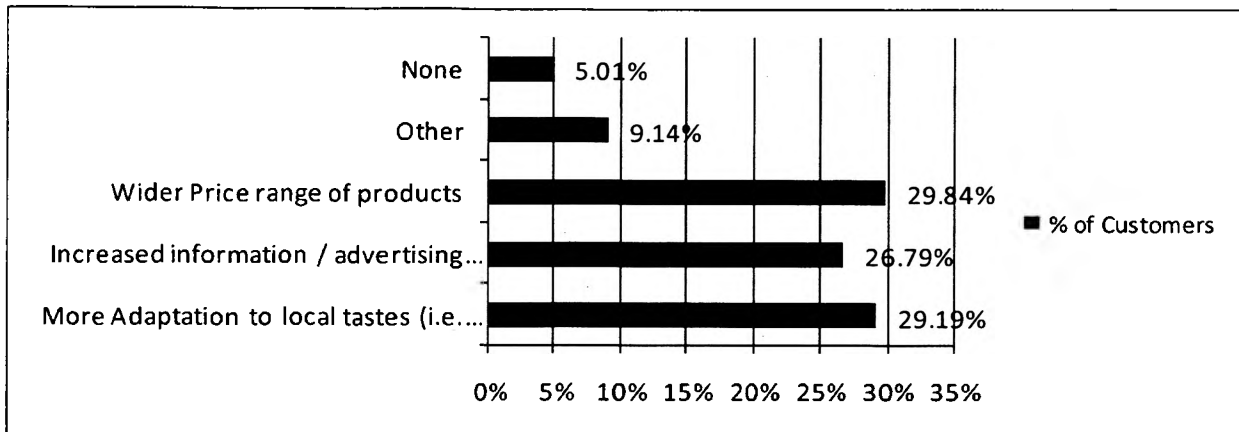
Among those who said yes



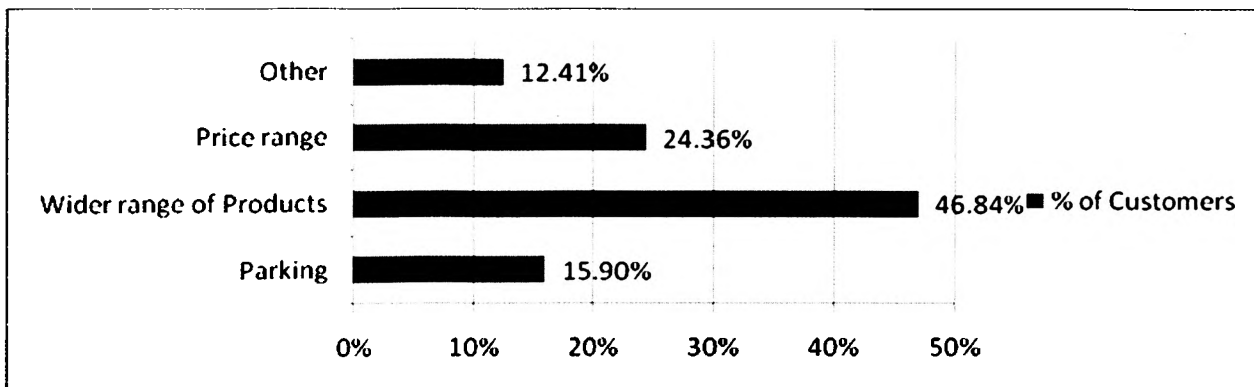
Among those who said no



11. Which area would you most like to see improvements in McDonald's?



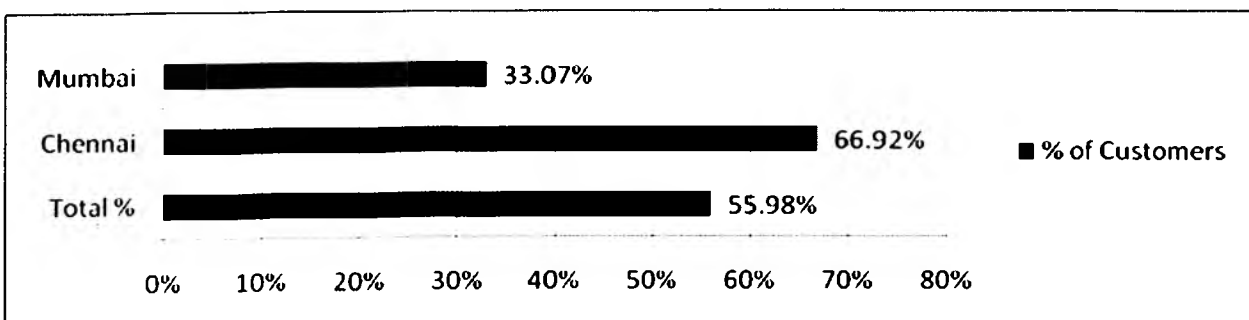
12. If you were going to improve McDonald's, what would be the specific change you would like to see?



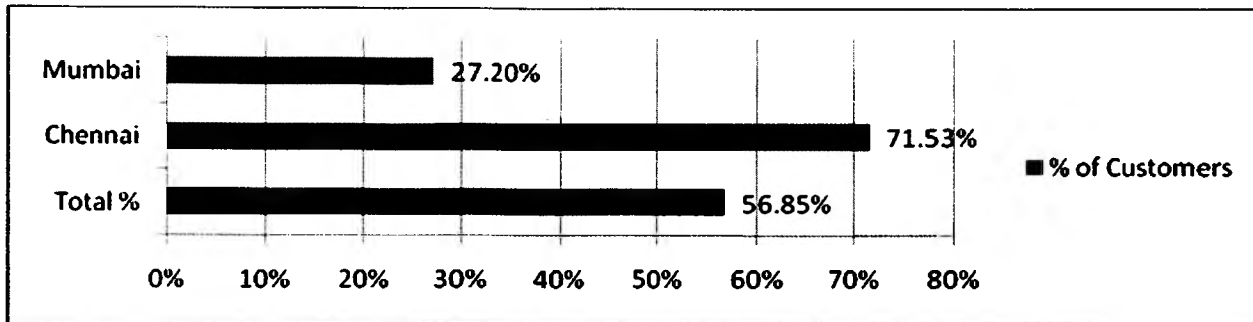
### Comparative Analysis:

Comparing the data between the two outlets, namely Chennai and Mumbai, the following results were generated

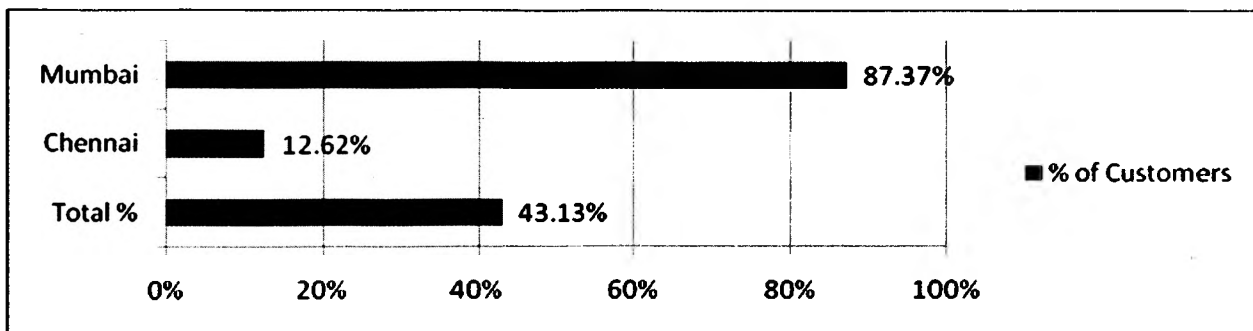
**Cost Factor:** Combining 'very expensive' and 'bit expensive' in question 8



**Adaptation:** Combining all those who indicated inconvenience in question 4



Those who chose 'none' option in question 4



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