Corporate Identity and Strategic Change: The Case of McDonald’s

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Introduction

Corporate identity describes what is central, distinctive, and enduring about an organization. It thus refers to organizational characteristics that remain relatively stable, that is, features that exhibit some degree of sameness or continuity over time (Albert and Whetten, 1985). For Miles and Cameron (1982), identity includes strategic predispositions, dominant values, and beliefs about the strategic decision-making process and distinctive competency. According to Dutton and Dukerich (1991), an organization’s identity acts as a filter during the interpretation, analysis, and strategic decision-making process. The members of an organization collectively read the environment based on a system of categories that has been built and often crystallized over time.

Past recipes, however, are not always appropriate in periods of major change. Consequently, during times of significant change, organizational identity can slow or delay strategic change (Ghoshal and Bartlett, 1988; Teece, Pisano and Shuen, 1997). Bouchiki and Kimberly (2003) go even further by asserting that identity is a trap to be avoided because it can limit an organization's capacity to adapt to change. Gioia and Thomas (1996) claim that identity must change before strategic change can occur.

But does this mean that identity is unchanging and cannot be altered? Elsbach and Kramer (1996) affirm that identity resistance can occur when the pressure to change is in opposition to the organization's current image or identity. Fox-Wolfgramm, Boal, and Hunt (1998) introduce the concept of plasticity of organizational identity, implying that a certain degree of change is possible without the identity changing in essence.
The objective of this paper is to analyze the strategic initiatives put forward by McDonald’s in response to major changes affecting the context in which the giants of the fast food industry operate: first, the internationalization process, and, second, the current trend towards healthy diets advocated by anti-junk food militants that has mercilessly decried the devastating effects of junk food. We are particularly interested in how McDonald's corporate identity impacted on the performance of its strategy. We carry an in-depth longitudinal case study of McDonald’s strategy to understand the sequential unfolding of events and develop a profile of the events that marked the evolution of the corporate strategy.

**McDonald's corporate identity**

Identity is the unique character of an organization that develops as a result of its history and experiences. An organization's history thus leaves a mark on its corporate identity (Dutton and Dukerich, 1991). Child (1997) qualifies this intangible inheritance as cultural values and standards. Dandridge, Mitroff, and Joyce (1980) view the present as unfolding from the past through myths, stories, and legends. As vehicles of collective symbolism, they can be described as relatively static and set frameworks that guide action and as devices that make it possible to construct and reconstruct a sense of reality. According to Boje (1991), firms are “storytelling systems” in which stories are similar to precedent cases in the judicial system. Stories constitute institutional memory and give meaning to complex reality. Kimberly and Bouchikhi (1995) demonstrate the importance and import of the founder's philosophy to the organization.

From the outset, McDonald’s has built its competitive advantage on operational excellence. Its founder, Ray Kroc, quite simply revolutionized the restaurant industry in the United States by imposing a discipline and a sophisticated production and delivery system that made it possible for a consumer in Texas to buy the same French fries as one in New York. This regularity in processes has given McDonald's a business identity that has been termed neo-Taylorism by some. Its offering can be summarized as low prices, limited menu, and fast service.
The growth strategy that McDonald's initiated in the 1960s was based on two thrusts: franchisees pay the company a percentage of sales and franchisees/tenants pay rent. Unlike other companies in this industry, McDonald’s owns most of the land and stores in its network, which enables it to reap additional revenues on sales. This is why McDonald’s is said to make money with its hamburgers and its real estate. During the 1960s and 1970s, McDonald’s opted to base its growth strategy on the real-estate component by purchasing more lots and restaurants, which provided significant financial leverage. The strategy began to lag in the United States only to reach new heights in the 1970s when the company went international.

**A first strategic change: Going international**

The very quick international growth diverted the organization from its original value and resulted in a certain amount of carelessness in managing its franchises (such as low control of franchisees, quality, delays in service). Determined to appease dissatisfied franchisees, McDonald’s stopped assessing franchisees according to national standards in 1993. This contributed to the erosion of the quality of McDonald's distribution network, thereby diluting the company's competitive advantage. Recent studies published in Quick Service Restaurant (QSR) magazine indicated that the average wait-time at McDonald’s drive-through window is 35 seconds longer than at Wendy's. On the other hand, McDonald’s clearly outstrips its competitors in terms of order accuracy.

It thus seems that the initial qualities of its services have been denatured, with service being labeled as slow, the quality as inconsistent, and the staff lacking in courtesy. The furious growth of McDonald's distribution network knocked the company's strategy for operational excellence out of kilter. Indeed, service quality and speed, typically high since the company's founding, was affected, which also caused an alignment problem with corporate identity. Furthermore, McDonald's strong international presence has made it more vulnerable to environmental events, such as mad cow disease, and ill will towards Americans.
A necessary strategic change: Health concerns

In recent years, the major fast-food chains have been forced to take a hard look at themselves in dealing with the trend towards healthy eating that has radically transformed the nutritional habits of North American consumers. According to the American Restaurant Association, the fast-food market has been plateaued since 1999. It appears that the fast food industry is losing inertia. In 2002, restaurants in Canada with table service turned in a 4.3% increase in sales, compared with 1.4% for restaurants without table service. These data have been confirmed by a study carried out by McKinsey that points to even more conservative performance: growth in the fast-food industry will not exceed 1% over the next 8 years. According to this study, the baby boomers (50-64) who opted for fast food for 65% of their meals will do so less frequently as they enter the over-64 group (57%). McDonald's was not spared: its share value tumbled by 70% from 1998 to 2004. Yet 2004 held out some hope for an upturn. McDonald's announced a 1.6 million increase in the number of customers served and an 11% increase in sales.

These fundamental changes in the environment required firms in this sector to make major strategic adjustments. This raises another issue: why did McDonald's take so long in responding to its customers' dietary concerns? Basil et al. (2005) state that it took McDonald's six years (from 1984 to 1990) to react to pressure group tactics and litigation before starting to adapt its service offer to the dietary concerns of its customers. The company's initially reacted modestly (light oil, 2% milk) before actually launching new products such as the McVeggie, the McLean, and pizza in the 1990s...all of which were flops.

McDonald’s attempted to adjust its strategy to deal with these important environmental changes. The company implemented a number of initiatives that were at odds with its identity. Without a doubt, the addition of McLean, McVeggie, and pizza gave McDonald's a more diversified menu. The cost, however, was failure to maintain its identity and the core values advocated by the company's founder: low prices, limited menu, and fast service. Broadening the menu pushed company away from its narrow product line and standardized processes that made fast service
and low price possible. This choice, however, drew the company away from its traditional values, resulting in an imbalance between its identity and strategy.

**Conclusion: A clash between identity and strategy**

McDonald’s gave into the temptation of trying to be everything for everybody, so that it slipped into an identity crisis in the eyes of its stakeholders. Bouchiki and Kimberly (2003) have reported on firms such as Moulinex and Polaroid that are trapped by identities that prevent them from seizing the opportunities offered by changing markets. Urgency permitting (as perceived by the main stakeholders), these organizations should begin by reviewing organizational identity.

There is every indication that the time has come for McDonald’s to undertake radical self-scrutiny. Before attempting any strategic change, however, it appears that the company must first review its corporate identity.
References


