



Book Everything I Know About Business I Learned at McDonald's

The 7 Leadership Principles that Drive Break Out Success

Paul Facella and Adina Genn
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Recommendation

Every day, McDonald's serves food to nearly 50 million people in 30,000 restaurants worldwide. It owns about half of the globally branded, fast food restaurants outside the U.S. In India, you can order a Maharaja Mac with two lamb patties. New Zealand's Kiwi Burger has a slice of beef and a fried egg. In Uruguay, the egg on the McHuevo burger is poached. With annual sales at the typical outlet averaging more than \$2 million, many franchisees have become millionaires. In fact, seven out of 10 current McDonald's executives began as restaurant "crewmembers" and built their careers through the chain. Ray Kroc, who made McDonald's the world's largest fast food company, once said he didn't know what type of food it would be selling in the year 2000 (he died in 1984), but he was certain that it would be selling more of that food than anyone else. Author Paul Facella worked at McDonald's for 33 years. Albeit with the attitude of a fond insider, he details its history and philosophy, and the lessons he learned from the legendary Kroc. *BooksInShort* relishes serving up this primer on McDonald's – and in some sense, America's – way of doing business.

Take-Aways

- Ray Kroc built McDonald's in 1955.
- In 1966, McDonald's had around 800 restaurants and more than \$200 million in annual sales. By 1999, it had nearly 30,000 stores and more than \$40 billion in sales.
- McDonald's lives by the "QSC" principle: "quality, service, cleanliness." Kroc quickly shut down any branch that did not meet the QSC standard.
- This philosophy and its corporate standards have made it the world's largest restaurant company.
- Kroc refused to take kickbacks, even though they were standard when he started in the restaurant business.
- Kroc instituted handshake deals with suppliers, an approach still in effect today.
- He made his kitchens into "fishbowls," so customers could see how clean they were.
- McDonald's operations depend on a "three-legged stool": "corporate, suppliers and franchisees."
- Corporate staff members learn from taking field visits to McDonald's restaurants. The visits also keep managers in touch with customers.
- McDonald's operating philosophy and core values would work well for any business.

Summary

The Big Mac: It Certainly Is That

Paul Facella's career at McDonald's began in 1966 at store number 768 on New York's Long Island. At age 16, he started as a member of the kitchen crew. At the time, McDonald's had 862 restaurants and \$219 million in sales. By the time Facella retired from the company's management 33 years later, it had 28,707 stores and more than \$40 billion in annual sales. No other restaurant organization in the world can match its amazing growth rate or sales figures. McDonald's, known for its iconic Golden Arches and its famous Big Mac hamburger, is one of the world's most recognized brands. McDonald's proud advertising message, "billions and billions sold," shows how well its marketing works. At heart, the business operates with clear, elevated principles, including its touchstone: "QSC" – "quality, service and cleanliness."

"McDonald's system did a lot right – a whole lot right, again and again, year after year."

The company built its international franchise on seven “leadership principles”: probity, strong interpersonal bonds, high quality, leadership, valor, communication and acknowledgment of its top achievers. These touchstones continue to mold the way the company operates:

1. “Honesty and Integrity: All in a Handshake”

During the mid-1950s, when Ray Kroc began building McDonald’s, kickbacks – bribes from suppliers to get restaurants’ contracts – were standard operating procedure in the food business. Even though kickbacks benefited restaurateurs like Kroc, he refused to play this dishonest game. He took a much different tack. He established handshake deals with suppliers instead of using complicated contracts filled with legal fog. Many McDonald’s suppliers are second-generation and even third-generation firms that still work with the company on the basis of a handshake.

“The promise to do right by the operator in order to best serve the customer was a given within the company.”

Kroc made sure that all his restaurants were totally transparent, with “no walls,” “no doors” and “fishbowl” kitchens. He wanted customers to see everything inside the entire restaurant. Does McDonald’s “We have nothing to hide” approach pay off? It seems so. Annually, 7,000 prospects apply for McDonald’s grueling, owner-operator training program. The company selects only 70 or so to join the “McFamily,” as it is known among employees. All McDonald’s managers learn:

- Always treat people in a fair manner and with utmost respect.
- Lasting partnerships are not based on quick profits, but on honesty, trust and integrity.
- Run from anything illegal, immoral or unethical.
- Your customers are your kings and queens. Treat them as such.
- To build trust, be open in all your operations and dealings with others.
- Make your word your bond. Deliver what you promise.
- Be a good corporate citizen.

2. “Relationships”

McDonald’s treats the need to form strong relationships as a nearly sacred concept. Honorary Chairman Fred Turner characterized McDonald’s corporate relationships as a “three-legged stool,” made up of staff, suppliers and owner-operators. Each group thoroughly depends on the other two and cannot stand without them. Case in point: In 1959, McDonald’s was almost broke due to a real-estate transaction that had backfired. Someone had pocketed funds the company needed to construct new stores. Suddenly it had to come up with \$500,000 it did not possess or face the possibility of bankruptcy. To protect McDonald’s, its suppliers, including Honey Hill Dairy, Interstate Foods and Continental Coffee, quickly kicked in the money.

“Ray Kroc never graduated from high school. Most of the executives in the early years and throughout the history of the company had a remarkable lack of formal education.”

McDonald’s maxim that its owner-operator licensees are “in business for themselves, but not by themselves” typifies the company’s support for cooperative relationships. Additionally, McDonald’s is not a highly centralized organization led by elite executives who confer only with each other. At McDonald’s, everyone is on a first-name basis. “This company is made [up] of 3,000 presidents,” said Frank Behan, former senior vice president. Relationship realities include:

- Your organization cannot survive without its stakeholders. Treat them like gold.
- Know your co-workers and what is important to them.
- Make your co-workers your friends and they will do anything to help you.
- Competition between colleagues is self-defeating. Teamwork is more productive.
- When you mentor others, your investment in them becomes far more valuable.

3. “Standards: Never Be Satisfied”

McDonald’s executives who came up through the ranks are known as people with “ketchup in their blood.” They operate with a single staunch standard: “Never be satisfied.” Ray Kroc instituted this philosophy from the beginning. McDonald’s common lore includes this story from its early days: Kroc went to an immensely popular branch that did not meet the company’s high cleanliness standards. He drove to the restaurant and saw customers who wanted to order food waiting in a long line that snaked deep into the parking lot. Kroc jumped up on an outdoor picnic table. “I’m Ray Kroc. I own McDonald’s,” he shouted to the surprised patrons. “This restaurant doesn’t meet our standards. It’s terrible and I am embarrassed, so I am closing the store.”

“It’s not what you do, but the way you do it.” [– Ray Kroc]

Displeased with the quality of the food at another restaurant, Kroc ordered the manager to cut his prices. “Your food is not worth anything,” he said. “It doesn’t taste good.” Every McDonald’s employee must meet specified QSC job standards and each manager must fulfill QSC store standards. At the typical McDonald’s, employees wash the windows and garbage bins every day, inside and outside. They try to keep the bathrooms perfect and the stainless steel kitchen equipment shining. Kroc believed that no matter how well you do things, you can always do them better. This remains a guiding principle at McDonald’s, as do these concepts:

- “Good enough” is never good enough.
- Build your organization’s strengths and minimize its weaknesses.
- Fix your problems. If you don’t, they will just get worse.
- Promote only those who strive for the highest standards.
- The standards you set become the air your staff and customers breathe.

4. “Lead by Example”

Facella did not meet Kroc until 1978. By then, Facella was the director of McDonald's New York operations. Kroc, who was visiting from corporate headquarters in Oak Brook, Illinois, wanted to take Facella out to dinner. Kroc picked him up in a shiny stretch limo to go to 21, a celebrated New York restaurant and former glamorous speakeasy. When Facella got in the limo, Kroc told him to call him "Ray." Facella started to sit in an uncomfortable "flip" seat behind the limo's front bench. "You are my guest tonight," said Kroc, waving Facella to the plush back seat. "I'll sit there." After dinner, Kroc took Facella on a tour of 21's famous basement, which has a "secret door" that concealed the restaurant's liquor supply during Prohibition. Facella never forgot Kroc's graciousness. Kroc gave the young midlevel manager a role model to emulate. Lessons to learn:

- Your employees judge you by your actions, not your words. Act accordingly.
- Stay close to your customers so you understand them.
- Visits to the field are the best moments to teach your organization's expectations and values, and to observe what is going on in your company outside your office.
- The promotions you make demonstrate the qualities you value and expect.
- Philanthropy is not just good business. It is also the right thing to do.

5. "Courage: Telling It Like It Is"

During the 1980s, the U.S. Army offered McDonald's an incredibly lucrative, one-of-a-kind business opportunity: to set up restaurants on all army bases. Through this McDonald's would have substantially expanded its operations and sales. At the same time, it could have made McDonald's the restaurant of choice for thousands of young soldiers who might continue to patronize it in civilian life. After much thought, then-CEO and Chairman Fred Turner turned down the deal. Why? Because the Army planned to supervise the individual McDonald's restaurants. This ran directly counter to McDonald's model of individual franchise owner-operators who uphold its vital QSC standards. In business, as in life, it takes courage to do the right thing. Turner did the right thing. Maintaining the company's standards meant more to him than profits. He knew:

- You know when something is wrong. Don't choose that path.
- Strive for what is right, even if it shakes up the status quo.
- Playing it safe is no way to conduct business. The world rewards risk takers.
- Welcome challenges, no matter how difficult, so you and your company grow.
- Be straightforward and truthful.

6. "Communication"

From 1967 to 1973, McDonald's underwent massive decentralization. Instead of looking to Oak Brook for direction, owner-operators now would turn to their regional offices. Decentralization greatly improved internal communication. Under the old system, owner-operators would call Oak Brook with questions and concerns, skipping their regional offices. Then Oak Brook executives had to call the appropriate regional office for its perspective. That was inefficient. Now, McDonald's regional offices can make their own primary decisions about acquiring and developing land, licensing and other matters. The information flow is better and the company can operate much closer to the ground, where the customers are. The communication lessons are:

- Communicate your goals and objectives so employees understand them.
- Open direct communication between your stakeholders and your decision makers.
- Be proactive in your communication. Never let harmful rumors fester.
- "My way or the highway" is a dumb way to do business. Use feedback, employee involvement and occasional compromises to create a better route.
- Make employee gatherings opportunities to promote openness and respectful debate.
- Never make business debates personal. Show respect for everyone's ideas.

7. "Recognition"

Microsoft knows software. MGM knows film. And McDonald's knows hamburgers. But it also knows recognition. McDonald's annually gives 23 special awards to licensees, suppliers and, of course, employees. It also gives out numerous regional and zone awards. The awards are substantial and the presentations often involve the honoree's relatives. For instance, when McDonald's honored David Delgado for his activities in a national Hispanic organization, he recalls, "Ed Schnitt, then the president of the company, came down to our area and congratulated me in front of the whole floor." Delgado also received a week's vacation at the company's plush Lake Geneva corporate retreat. Delgado says that his recognition "encouraged other people to join organizations as well." This demonstrates that companies should:

- Reward workers whenever possible.
- To inspire employees, praise good performance in public with their families present.
- Designate a high-profile area of the workplace to acknowledge good work. Routinely update it.
- Send handwritten notes to employees about their good work. Such messages can have as much positive impact as a gift or money, indeed, sometimes even more.
- Still, make performance awards as meaningful as possible.
- Set up an awards budget and don't be cheap.

"We take the hamburger business more seriously than anyone else." [– Kroc]

McDonald's standards, values and principles are universal. They work for McDonald's. They can also work for your firm. McDonald's leaders always set their sights as high as possible. That is the best way – and, according to McDonald's, the only way – to become a true market leader.

About the Authors

Paul Facella spent 33 years at McDonald's, advancing from crewperson to regional vice president. He learned about business directly from McDonald's founder, the legendary Ray Kroc. **Adina Genn** is a journalist.
