2015, *ESET* launched an all-new range of next-generation business security products that offers maximum proactive protection with enhanced usability for all sizes of company, highlighting the new strategy focus on business customers.

The international scope of the business is not only reflected in a larger volume and share of foreign sales but also in R&D centres on all continents. *ESET* runs malware research and R&D centres in Europe (Bratislava, Kosice, Krakow and Prague), the Americas (Buenos Aires, Montreal and San Diego) and Asia (Singapore). Spreading its malware research centres over many time zones allows *ESET* to respond effectively to the rise of cyber threats and technological challenges. This is the only way to learn quickly about new cyber threats and to monitor trends. It also gives access to programming talent and knowledge hubs that are located all over the world.

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DISCUSSION QUESTIONS

1. How did entrepreneurs in Slovakia create a leading global player in the antivirus software industry?
2. From a resource-based view, what are *ESET*'s sources of competitive advantage?
3. From an institution-based view, country-of-origin images reflect the view and perceptions of (potential) customers regarding the rules of the game in the country of origin. How does this affect companies in Central and Eastern Europe?
4. What can companies do to address negative country-of-origin perceptions?

INTEGRATIVE CASE 12

McDONALD'S REINVENTS ITSELF IN INDIA

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When fast food giant *McDonald's* was eying the Indian markets, they knew they had to do things differently from elsewhere in the world. The fast food concept was as yet unknown to the country, incomes were low and food supply chains were unreliable. Most challenging for the king of hamburgers: 80% of Indians are Hindu and thus consider cows as holy and hence to be treated with respect rather than eaten. Similarly, Muslims do not eat pork and neither do most Hindu. Hence, some serious rethinking of the business was called for.

McDonald's planned ahead carefully. Some five years before the opening of its first restaurants, they started building a local supply chain. When *McDonald's* scouts arrived in 1991, hardly any lettuce was being grown in India. *McDonald's* identified suitable suppliers and helped them to develop farming and supply chain management practices that would enable the delivery of the required quantities reliably all year round to the *McDonald's* processing plants. Similar initiatives created local supply chains for sesame seed buns and for milk – for which the latest cold chain technology (i.e. the processes to keep food cold during procurement, warehousing, transporting and retailing) was critical to secure quality in the hot Indian climate.

Worldwide, *McDonald's* was using a franchise model in which local entrepreneurs operate restaurants under the *McDonald's* brand and use the *McDonald's* operating systems and supply chains. Yet in emerging economies, a pure franchising arrangement was difficult because contract enforcement was difficult, while local entrepreneurs were reluctant to invest in facilities that depended on the goodwill of a giant foreign player. Thus, in India, *McDonald's* established two 50:50 joint ventures with local entrepreneurs: with real estate magnate Mr Vikram Bakshi they established *Connaught Plaza Restaurants Ltd (CPRL)* in New Delhi, and with Mr Amit Jatia they established *Hardcastle* in Mumbai. These joint ventures acted as the *McDonald's* franchisees and opened their first restaurants in 1996.

The menu they offered was substantially adapted to local tastes. India became the first country where *McDonald's* served non-beef and non-pork products. They started with a mutton burger, but that had to

be discontinued due to low consumer demand and also supply chain challenges. Instead they focused on chicken and fish-based burgers. Yet the hottest product was vegetarian, the Aloo Tikki Burger, which was made from mashed potatoes and peas, flavoured with Indian spices. Over the next few years, they deepened the adaptation by developing the menu, including the Chicken Maharajah Mac as a signature dish and the Paneer Salsa Wrap, a cottage cheese based snack. The success formula combined a localized menu with reliable quality and affordable prices. A particular hit was the 'Happy Menu' for 20 rupees (€0.30). Home delivery of *McDonald's* menus started in 2004, initially in Delhi but soon in the vicinity of all major *McDonald's* outlets. With this deep adaptation strategy, *McDonald's* grew the number of restaurants by entering other major cities, partnering with *CPRL* in the North and East of the country, and *Hardcastle* in the South and West.

Many vegetarians in India are very strict in their expectations of vegetarian food; no ingredients of animal origins are supposed to touch the product anywhere in the production process. Thus, *McDonald's* displayed menus on different coloured boards: green for vegetarian and purple for non-vegetarian. The food was prepared in separate parts of the kitchen, and staff wore different coloured uniforms. The value chains were completely separated from the food processing plant to the point of service for the consumer. *McDonald's* thus built a reputation as a trustworthy supplier of vegetarian food and eventually opened restaurants for pilgrims near famous shrines, the most demanding of all vegetarian clients!

McDonald's attracted not only families but a crowd of young urban professionals and college students, and it became a standard feature in India social life. As one BBC journalist observed:

> *One table has two elderly couples in serious discussion; the other has a coy-looking woman and man trying to have a conversation amidst the din. With a bit of eavesdropping I find out that this is traditional matchmaking but in a modern Indian way. The parents have introduced the potential bride and groom who are having their first official date under the watchful eyes of their mothers and fathers. The parents meanwhile are sorting out the details of the proposed marriage, all over a Maharaja Mac Meal.*

Yet, business did not develop equally well across the country. *McDonald's* was happy with its partner in the South and East, and in 2010 sold its stakes in *Hardcastle* to its local partner Amit Jatia who henceforth operated as a franchisee for the South and West. *McDonald's* was less satisfied with its partner in the North, and in 2008 offered Vikram Bakshi to buy him out of the joint venture, offering US$5 million for the 50% stake in *CPRL*. Yet, Bakshi thought that was a ridiculously low offer and asked an accounting firm for an assessment, which valued *CPRL* at US$331 million. Thus, Bakshi asked for more than US$100 million for his shares. With such discrepant expectations, negotiations were complex and dragged on behind closed doors but yielded no agreement.

Termination of foreign-local joint ventures was not unusual in India at the time. They had often been established because foreign investors needed a local partner to deal with local regulatory requirements and to ensure appropriate localization of their strategy. But this need for local partners diminished over time. Thus, according to industry observers, of 21 JVs started in consumer industries, only six survived. Of the 15 terminated JVs, one-third ended in public conflict.

In August 2013, *McDonald's* took the drastic action of refusing the re-election of Bakshi as Managing Director of *CPRL*, alleging financial misconduct. However, Bakshi fought back and took the case to the *National Company Law Tribunal (NCLT)*, demanding reinstatement as Managing Director. In October 2013, *McDonald's* moved the case to the *London Court of International Arbitration (LCIA)*, a court often specified in international business treaties as the last resort for arbitration between joint venture partners. Meanwhile, both sides shared unflattering comments about each other in the local media, which harmed the brand – *McDonald's* annual revenue growth in the North and East of the country slowed to 6% in 2015, after 29% four years earlier. Instead of opening 135 new stores, the official target, *CPRL* only opened 16 new stores. With a more aggressive growth strategy, *Domino's Pizza* overtook *McDonald's* as market leader for fast food, reaching a market share of 10.9%, while the *McDonald's* share dropped to 7.6%, according to Euromonitor. In 2012, *McDonald's* market share had been estimated to be 19%.

In 2017, the drama reached a new climax. In January, Bakshi refused to sign new food service licences, arguing that he had concerns over the quality of food supplies (which were managed by a separate unit controlled by *McDonald's*). With the expiry of licences in June, 43 shops in New Delhi had to close. In July, the *NCLT* ruled in favour of Bakshi and asking for him to be reinstated as Managing Director while also appointing an administrator to cast the deciding vote in the case of disputes between the two co-owners. Bakshi then signed the food services licences and soon re-obtained operating licences for the *CPRL* restaurants in New Delhi.

In August, 21 *McDonald's* cancelled their franchise with *CPRL* (which is still 50% owned) citing non-payment of royalties as the reason (which Mr Bakshi disputed). Giving Bakshi two weeks' notice, *McDonald's* demanded that *CPRL* stop using its name and its supplier network. All 169 restaurants were to close putting 6500 jobs at risk. After the deadline, *McDonald's* terminated the franchising agreements and advised its suppliers not to supply *CPRL*. Yet, due to the localization strategy, most of the local suppliers were contractually related to *CPRL* not to *McDonald's*, and thus they did not want to risk breach of contract and so continued to supply *CPRL*.

On September 11, the *LCIA* ruled that Bakshi had to sell his stake in *CPRL* at a price according to the methodology specified in the original joint venture contract, and to be established by independent experts appointed by the *LCIA*. It also requested that Bakshi cooperate with *McDonald's* to ensure all necessary legal approvals were obtained. On December 20, a logistics provider, *Radhakrishna Foodland*, discontinued its service to *CPRL*, which led to the closure of 84 outlets. However, Bakshi soon contracted an alternative supplier, *ColdEx Logistics*, and reopened the restaurants in early January. *McDonald's* objected to the new supplier and raised safety and quality control concerns. As it no longer could monitor the quality of the cold chain, McDonald's sought a court injunction to prohibit *CPRL* from using the McDonald's name; yet it lost its case in the Delhi High Court on January 11. By summer of 2018, *CPRL* continued to operate McDonald's stores and despite the conflict with the brand owner, reported rising sales.

Meanwhile, Amit Jatia continued to innovate at his restaurants in the South and West of the country, including new services and consumer experiences, such as a breakfast menu, a more diverse and healthier range of products, and enhanced home delivery service. For example, in 2016, a new Chicken Kebab burger made of minced chicken and Indian spices was launched across the South and West of the country. As *McDonald's* was looking for an alternative franchising partner for the North and East of India, Amit Jatia was a leading candidate. But first, it had to disentangle its relationship with Vikram Bakshi.

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DISCUSSION QUESTIONS

1. Do you think *McDonald's* entry strategy was appropriate for the Indian market?
2. What have been key success factors for growing the *McDonald's* business in India?
3. What are the probable causes for the conflict with their co-owner, Vikram Bakshi?
4. How could the conflict with Vikram Bakshi best be resolved?