

CHAPTER I

INTRODUCTION

1.1 The History of KFC

Harland Sanders was born on September 1890. At the age 6, his father died, since then he started to take the role as the breadwinner of the family. This has forced him to drop out of school since he was young. He's been a farmer, firefighter, soldier, and insurance agent. In 1930 he started to make fried chicken for visitors in Corbin Kentucky. In 1939 he completed the state-of-the-art *Original Recipe* fried chicken with 11 types of spices. It's all downhill from there.

In the 50's Sanders made a nationwide tour to introduce KFC franchise and KFC start gaining success. In 1964, Sanders sold the franchise rights to investors including Jack Massey and John Y Brown Jr. Then it began its nationwide success marked by the opening of the first KFC National Training Center in 1978. At the age of 90, Harland Sanders died. He was awarded as "Kentucky Colonel" by the governor. Currently, KFC has more than 11,000 restaurants in more than 80 countries around the world. Everyday, it serves nearly eight million customers worldwide.

Meanwhile, in Indonesia, KFC franchising right is held by PT.Fastfood Indonesia, Tbk from Yum! Brands Inc. Yum! Brands Inc. is the owner of franchises under the brand of KFC, Pizza Hut, Taco Bell, A&W, and Long John Silvers. The name Yum! was chosen as it represents the vision of the company to bring that expression in the face of its customers all over the world. PT. Fastfood Indonesia was incorporated by Gelael Group in 1978 and opened its first KFC restaurant in October 1979 at Melawai, Jakarta. The success and growth of the first ever *Quick Service Restaurant (QSR)* in Indonesia

was then followed by the opening of many KFC restaurants in other major cities in Indonesia. PT. Fastfood Indonesia was then incorporated as public company in 1994 and registered in Jakarta Stock Exchange with majority of shares held by PT. Gelael Pratama (43%) and PT. Megah Eraraharja (35.6%). 20.8% is held by public and the rest (0.8%) is held by a economic cooperation.

As of 2005, the company owns 237 restaurants, of which 93 are located in Jabotabek, and the rest are located outside Jabotabek.. The company owns a mobile catering unit, 76 out of its 237 restaurants provide home delivery services and two serve 24/7. It has 9.280 employees and recorded total sales of more than 1.028 Trillion Rupiah at the end of year 2005.

1.2 The History of McDonalds

McDonald's Corporation is currently the world's largest fast-food restaurant chains. The business started way back in the year 1940 when siblings, Dick and Mac McDonald open their first restaurant in San Bernardino California. The McDonald brothers changed and set the new standard of modern fast-food restaurant with the introduction of "*Speedee Service System*" in 1948.

Then come Ray Kroc who saw an opportunity in this market, he managed to make a deal that gave him an exclusive right to franchise McDonald's in US. He's the one who opened the company's first franchised restaurant on April 15, 1955 in Des Plaines, Illinois which was the ninth McDonald's restaurant in all at that time. Not long after that, Kroc purchased the McDonald brother's equity in the company and has been leading the company's worldwide expansion since then.

The McDonald's Corporation's business model has a little difference from most of other fast-food chains. The company collects franchise fees, supplies, and percentage of sales like most other fast-food chains. However, in addition to that, McDonald's also collects rent fee which partly linked to sales performance. More interestingly, the company owns most of the properties on which McDonalds' franchises are placed.

In order to ensure its global standards, McDonald's set up Hamburger University in Oak Brook, Illinois. This is the place where every single of McDonald's franchisees is trained.

Currently, McDonald's has over 20,000 restaurants which can be found in 120 countries around the world, and around 80% are franchises. It employs more than 447,000 workers worldwide. Everyday, it serves nearly 54 million customers resulting in revenue as huge as 20.460 Billion USD in year 2005.

1.3 Ethical Consumer Value

Consumer value determines the perception held in the mind of consumer regarding a certain product. Therefore, it's so closely related to marketing in which is all about meeting consumer demands with the right perceived value. Consumer value itself can manifest itself in many forms including brand value, nutritional value, quality, price, health value, ethical value, etc. All this play a certain role in consumers' perception which eventually affects their purchase behavior.

Lately, with the rise of ethical consumerism, an increasing concern lies in more ethical form of consumer value. Thus, it is called ethical consumer value. Ethical consumerism itself means buying things that are made ethically. In other words, favoring ethical products and businesses that operate on principles based primarily on

benefit for greater good rather than self-interest. In implementation, this rising concept basically adopts the similar consumer values above-mentioned such as Brand Value, Nutritional Value, Quality Value, Ethical Value, etc with added emphasis on corporate social responsibility (CSR).

1.4 Corporate Social Responsibility (CSR)

Corporate Social Responsibility can be defined as an organization's status and activities with respect to perceived societal obligations (Brown and Dacin, 1997, cited in Schroder and McEachern, 2005).

CSR in the history of modern society was originally started from a book by Howard R. Bowen titled *Social Responsibilities of the Businessman* which became one of the bestsellers in the 50's and the 60's. Bowen's idea was "*companies have responsibilities to perform their activities in line with values and purpose that the surrounding community wants to achieve*". During the 1970-1980 period, this definition of CSR was stretched by Archie Carroll in his book stating that companies need to increase the society's quality of life so that it will support companies existence.

All this concept then continually develop into what we known as *stakeholder theory*, stating that corporate responsibilities has extend out from only emphasizing groups with interest in financial return. Instead, the environment and the community surrounding has to be corporate concerns also.

In the 90's the concept of CSR develop much more vastly. Many models to complement CSR were born including Corporate Social Performance (SCP), Business Ethics Theory (BET), Corporate Citizenship, and Good Corporate Governance.

Since then, the popular and mostly implemented CSR is classified into two major categories which are *cause-branding* and *venture philanthropy*. Cause-branding uses a *top-down* approach in which companies set a program of social and environmental to be taken care of themselves. In other hands, venture philanthropy uses the *bottom-up* approach. Here, companies, sometimes helped by non-profit organization try to overcome any issues that rise up in the society.

CSR is very closely related to the concept of Sustainable Development in which the idea is companies should make decisions not solely for financial purposes such as profits or dividends, but also have to consider the short-term and long-term social and environmental consequences of their activities.

Eventually, CSR in the simplest conception means that there won't be any companies that could advance further if they are surrounded in a weak and poor society or in an environment that doesn't support these companies existence.

According to Investor Magazine (29 Maret-11 April 2007), the potential for CSR fund in Indonesia is quite big amounting to 60 Trillion Rupiah from both private and government-owned company. This is solely based on a research from Menko Kesra, around 28 Trillion Rupiah comes from bank's soft loans for micro business, 5 Trillion Rupiah comes from Government-Owned-Companies, and the rest are revenues from big companies. This fact shows the increasing importance of CSR in Indonesia.

1.5 Why KFC & McDonalds?

Fast food companies as we all know has been an inseparable part of our lives. Everywhere we go, malls, even small department stores we see fast food stalls. When it

comes to lunchtime, with the hectic schedule we have, fast food is the ultimate answer. And the significance of fast food has been increasing day in and day out.

One Academy Award Nominee, a Documentary Movie titled “Super Size Me” by Morgan Spurlock has shown the increasing concern over Fast-Food and its effect to society. In the movie, the producer/director/main actor, Morgan Spurlock engage himself in what he calls “The McDonald’s Diet” where in a course of 30 days, he can’t eat anything but those in the McDonalds Menu and he has to try all the menu at least once. And the result is he gained more than 20 pounds in just thirty days, from 185.5 pounds to 210 pounds. His Body Mass Index rose from 23.2 (within the healthy range of 19-25) to 27 (overweight). He also experienced mood swings, sexual dysfunction, and nearly had a liver damage. At the end it took him fourteen months to lose the weight he gained.

This shows that fast-food might impact our lives in ways unseen that we never thought about before. Especially in this case, with the emergence of fast food everywhere in the world, I believe that the bigger the size of a company (especially KFC and McDonalds as Multi National Companies), the bigger the power it contains, and the bigger it’s ability to influence our life. This is strengthened by the view that multi-national company (MNC) power, policy and values are increasingly coming to dominate the global economy (Brinkman and Brinkman, 2002). This also means that these big companies have even more responsibility towards the society and the community where they are located. It has led to more and more CSR activities performed by McDonalds and KFC.

1.6 McDonalds CSR Initiatives

○ Food Safety & Quality Policy

McDonald's food safety policy begins at the very beginning of the cycle which is the supplier. McDonald's suppliers must have several food safety programs which include program for sanitation, pest control, microbiological control, and hazard analysis critical control point (HACCP) program. HACCP is known worldwide as an effective program to prevent food-borne illnesses. McDonalds has established special safeguards to ensure the safety of their beef supplies and also their poultry supplies from avian influenza.

(http://www.mcdonalds.com/corp/values/purchasing/food_safety.html)

It doesn't stop there, McDonalds has further policies and standards to ensure food quality at restaurant level. First of all, all workers are trained on food safety since day one of work with their own Operations and Training manual that covers food safety issues on critical control points at restaurant level – from supply and delivery until storage, preparation, and holding.

○ Nutrition

McDonalds has a program in its website that delivers information to their customers on how many amounts of nutrition contained in each of their menus. They also have the “*Bag A Meal*” options where customers can pick on some menu's and it will do an automatic calculation of the nutrition and compared it to the daily intakes value. (<http://app.mcdonalds.com/bagamcmeal>)

- **Ronald McDonald House of Charities (RHMC)**

“A strong mind. A strong body. And a safe, supportive place to grow. These are things that every child needs - and deserves. Helping to provide these things is what we do.” (<http://www.rmhc.org/rmhc/index/about.html>).

RHMC has three core programs which are Ronald McDonald House, Ronald McDonald Family Room and Ronald McDonald Care Mobile. Ronald McDonald House program begun in 1974, it provides what they call *“a home away from home”* for families whose children are seriously ill and receiving treatment at nearby hospitals. Ronald McDonald Family Room simply moves the comfort of a Ronald McDonald House to a hospital. It is intended to reduce the stress of patients from the tensions of being in a hospital. Lastly, the Ronald McDonald Care Mobil supports the society with cheap medical, dental and health services directly to children who in needs in rural and urban areas.

1.7 McDonalds CSR Fact Sheet (www.mcdonalds.com)

- **Food Quality**

- McDonald’s serves 100% beef, 100% chicken, and Grade A eggs
- McDonald’s food comes only from certified suppliers who are audited and inspected on a regular basis
- Many of the foods McDonald’s serves are from the same trusted brands consumers purchase at the grocery store to enjoy at home – Dannon, Kraft, Nestlé, Heinz, and many others.

- **Food Safety**

- More than 2,000 safety, quality and inspection checks surround McDonald's food as it moves from the farms to our restaurants
- McDonald's requires that 72 safety protocols are conducted every single day in McDonald's restaurants
- McDonald's works closely with independent experts on science, health and food to help McDonald's develop the most stringent safety protocols.

- **Nutrition**

- For 30 years, McDonald's has provided comprehensive nutrition information -- the first in the QSR industry to do so; this year, nutrition information is on packaging, putting it right in the hands of customers
- McDonald's serves premium salads, chicken, yogurt, bottled water, fruit & more
- A McDonald's hamburger is 260 calories and 9 grams of fat, and is the same size as it was when introduced in 1955.

1.8 KFC's CSR Initiatives

- **Supplier Code of Conduct**

In the case of KFC, its' parent company, Yum! Brands, Inc. took control of the whole supplier control of its subsidiaries including KFC. The supplier code of conduct ensures Yum's suppliers to follow these strict rules in:

- Laws and Regulation Compliance

Every supplier have to abide all applicable laws, and codes or regulation regarding wages and benefits, worker's compensation, working hours, equal opportunity, worker and product safety.

- Employment Practices

Further, every supplier must also comply with Yum's standards in working hours and condition, no discrimination policy, and child labor policy.

- Audits and Inspections

Each of Yum's supplier must do audits and inspections continually to ensure their ability to meet Yum's standards. Inability to comply with these standards might result in termination of supplier relationship.

(<http://www.kfc.com/about/supplier.asp>)

In addition to this, KFC also has its own Poultry Processing Guidelines and Farm Level Guidelines in order to keep the safety and quality of the supplies.

(http://www.kfc.com/about/animalwelfare_guidelines.asp)

o **Nutrition**

In terms of nutrition, KFC has been providing customers with nutrition information as well as the ingredients of each one of their menus; all are download-able through their official website at KFC.com. In addition, it also provide program that allows its customer to pick a set of menu and calculate the nutrition contained within.

o **Animal Welfare Program**

Yum! Brands, Inc. continually maintains its commitment in humane treatment of animal. Yum's animal welfare program begins with the assembling of KFC Animal Welfare Advisory Council which consists of experts in this field. This advisory

council is the one who design the animal welfare program and conduct audits and inspection strictly to ensure KFC's compliance to the program.

<http://www.kfc.com/about/animalwelfare.asp>)

1.9 Putting Things In Perspective

In Indonesia, every McDonalds and KFC store has to comply with the same strict regulations and standards set by the principal in US especially the food safety & food quality standard, also the supplier standard.

However, that doesn't mean that all their principal initiatives are applied here in Indonesia. It's somehow indirectly implied that McDonalds and KFC subsidiary here in Indonesia is less aware of some of CSR initiatives compared to their principal in US. In terms of nutrition issues, both McDonalds Indonesia and KFC Indonesia haven't provided a form of transparency to their consumers. In US, this nutrition information can be found in each of its website but not here in Indonesia. Now, McDonalds in US have put this nutrition information directly to their products packaging. In Indonesia, McDonalds once put the Nutrition Facts of their menus in a leaflet on their plastic tray but after some time, the Nutrition Facts are no longer there. The more interesting thing is that McDonalds Indonesia doesn't even have a website to communicate with the consumers.

In addition to that, unlike their principal, both McDonalds Indonesia and KFC Indonesia have a much smaller amount of healthy alternatives for their consumers in their menus. Here in Indonesia the only healthy option ever pursued by both fast-food companies is offering salad menu.

I believe both also don't have animal welfare program as their principal do. It came to our attention also that animal welfare hasn't rise as a major concern here in Indonesia. In fact, when I browse through the net, I can only find one animal welfare organization in Indonesia called Indonesian Society for Animal Welfare (ISAW). It just began to exist in 2004 in Malang city and their program is only as far as zoo check and improving their animal care standard.

In terms of food quality and food safety, both McDonalds Indonesia and KFC Indonesia were found to be responsible. Of course they have their strict food quality and safety standards from their principal. And there's a special case here in Indonesia especially in times of *Avian Flu Disease*. KFC personally launch a marketing campaign through advertising that communicate the safety of eating KFC products since its cooked in 171 degrees; much higher than the standard set by Departemen Kesehatan Indonesia. Thus, it shows their awareness to serve the public through these CSR initiatives.

In terms of charity and social initiatives, McDonalds Indonesia definitely doesn't have the Ronald McDonalds House of Charities (RMHC), but they showed the similar concern on younger consumers in this case, the kids. They once arranged a fund raising that amounted 150 Million Rupiahs to help those kids in need. Just recently, in April 2007, they made a McD Fun Day in Kemayoran for these young consumers.

As for KFC, their social activities are more into charities. Their program is called KFC Peduli and it has become one of their routine programs. They have made food, medicine, and supplements donation to a remote village, Ogoalas located in Palu. They donate fund amounted 180 Million Rupiahs for the victims of earthquake in Yogyakarta. This donation also goes to every KFC employees in Yogyakarta who unfortunately became the victim of this disaster. Not only that, every three months, KFC conduct

blood donation in partner with Palang Merah Indonesia in which KFC employees are encouraged to participate.

All in all, CSR performed by McDonalds and KFC Indonesia is not new, but it's still questioned for its effectiveness. Not to mention, its still blur the level of consumers awareness to CSR, how these consumers are actually behaving towards their CSR initiatives, and also does it really give a positive return to the company. It's what drives this research to be conducted.

1.10 Scope

This research is a replication of previous research done in UK. It focused on young consumers considering it is McDonald's and KFC's main target market. Therefore, this research will also focus on the same target market, the young consumers in Indonesia. Young consumers are translated into teenagers and young adult between the age of 16-25 years old.

1.11 Aims

The aim of this research is to investigate consumer purchase behavior in relation to ethical consumer value.

1.12 Benefits

Empowered with the knowledge of how young consumers behave toward ethical consumer value, this will give insight unto:

1. What are the values that this particular target market perceived as important related to their fast-food purchase behavior.

2. Whether this particular target market really aware on CSR initiatives,
3. The implication in the marketing strategies.

1.13 Structure

Chapter 1 introduces the history of two major fast-food retailers in this case, McDonalds and KFC. It gives a brief look into their founder's success story until they managed to be a global corporation with worldwide operation. It also explains the concept of CSR, the importance of CSR and the CSR activities and programs by both McDonalds and KFC worldwide and specifically in Indonesia. Chapter 2 contains relevant theories regarding fast-food market and CSR that can be extracted from textbooks, journals or previous research about fast-food and ethical consumer value. Chapter 3 covers the specifications of research samples, sampling method, research methodology, how to get respondents and data analysis. Chapter 4 contains the result of the survey questionnaire. It also contains evaluation of the research result in regards of answering the research problem. It explains some of the most explicit and important findings in the research results. Chapter 5 contain conclusions of the research findings, and the researcher's recommendation, suggestions, or advices that are important for anyone who might interested in doing further research in the same area.