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Q&A: For McDonald's Khasbulatov, It's All About People

By Rachel Nielsen

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McDonald's Khamzat Khasbulatov pointing out the giant line that awaited the Pushkin Square restaurant every working day for its first three years. In the photograph directly behind him, a younger Khasbulatov is showing McDonald's second Russian restaurant to President Boris Yeltsin in 1993. **Vladimir Filonov**

Of all the places you might look for a person who once ran state-owned restaurants in the Soviet Union, the echelons of top executives at McDonald's might not be an obvious choice.

But for Khamzat Khasbulatov, 56, the knowledge that he gained from his studies and his stint in Moscow's communist-era restaurants set him on a path to becoming one of the fast-food giant's top executives and one of only 24 members of the corporation's global management team.

Khamzat Khasbulatov

Education

1977 – Plekhanov University of National Economy, Moscow. Bachelor's degree, department of food engineering and organization

Work Experience

2005 – Present - McDonald's Eastern Europe division, president; McDonald's Russia, CEO
1999 – 2005 - McDonald's Russia, president
1997 – 1999 - Moscow McDonald's, general director
1990 – 1997 - Moscow McDonald's, deputy general director
1989 – 1990 - Moscow McDonald's, manager of the Pushkin Square restaurant
1988 – 1989 - McDonald's, trainee (Canada, United States and Russia)
1979 – 1988 - Manager, state-owned eating establishments (Moscow)
1977 – 1979 - Military service

In fact, Khasbulatov's near-decade experience in the Soviet restaurant industry made him a logical candidate to be part of the local talent joining the joint venture negotiated between City Hall and McDonald's Canada in 1988.

The corporate culture of McDonald's, which he learned over the following years, was a dramatic change from what he had experienced running a state-owned culinary enterprise, however.

"The approach — how the business is developed, focus on very small details, customer and employee are first, how we treat all of these small parts of business — that was different under McDonald's than it used to be under the state organizations," Khasbulatov said in an interview with The Moscow Times.

McDonald's first sent Khasbulatov to Canada and the United States for extensive training and made him the top manager of the yet-unopened Pushkin Square restaurant in 1989. During its grand opening on Jan. 31, 1990, the store shattered McDonald's record for first-day sales, serving more than 30,000 customers.

Today, he has more than 34,000 people working for him at 330 McDonald's restaurants in Russia alone.

Along the way, Khasbulatov served a Big Mac to Boris Yeltsin, used real estate investments to help the business over currency hurdles and increase its cash flow and steered it through the ruble devaluation of the early 1990s and the 1998 financial crisis. None of that has deterred

his company from opening more than 300 restaurants throughout western and southern Russia.

Khasbulatov credits mentors such as onetime McDonald's CEO Fred Turner as well as George Cohon, who brought the American restaurant icon to Canada and then waged a 14-year campaign to introduce the Golden Arches to the Soviet Union, for showing him the dedication, humility and fun-loving spirit that he has incorporated into his leadership style.

The recent agreement to make Rosinter the first franchisee here and Khasbulatov's readiness to expand his operation to support more franchisees are precursors to the next phase of development for McDonald's Russia, which serves 1 million customers per day here.

"Looking back at my personal career, I can call myself a very successful man because I had luck meeting great people, making great decisions, having a great team," Khasbulatov said.

This interview has been edited for length and clarity.

Q: How did you wind up at McDonald's?

A: In the '60s, my mom and my father ran a small grocery store. It was state-owned. When I finished school in Chechnya, I came to Moscow and went to college here. My area of concentration was the restaurant business, and I studied for five years. When you completed your undergraduate studies, they used to prepare people to be ready to run a business. That was a great school for me. When you start to work and you have a background in basic finance, basic accounting, basic construction, it was the kind of background where you understand basic stuff, like labor law.

My decision to go to that university had nothing to do with my parents' business. When I came to Moscow, I knew that I wanted to attend this university because I thought it would be interesting for me. After I completed my studies, I stayed in Moscow working in the industry. I used to run a state-owned restaurant myself.

When McDonald's signed a deal with the Moscow city government, I was called by the city government to come for an interview, and that was how I joined McDonald's in 1988. When I moved from a state-owned restaurant to McDonald's, it was not really a significant change for me as an industry, as a business. But the approach — how the business is developed, focus on very small details, customer and employee are first, how we treat all of these small parts of business — that was different under McDonald's than it used to be under the state organizations.

Q: What are some lasting memories from the opening of the Pushkin Square store?

A: I remember when Fred Turner, who was one of the early executives of the company, stayed with me all night at the restaurant. We had hundreds of people who had come from across the globe to be part of this great event in Russia and who went to the Kremlin for a gala dinner on the eve of the opening.

But the chairman stayed with me — he was trying to support me as the store manager, to make sure that everything was ready and that we would open the store properly the next morning.

When we advertised through a local newspaper that we were hiring, we got about 30,000 applications for about 600 jobs. The quality of the people who sent in résumés was amazing. Most of them had finished college or were about to finish college. For the first three years, we used to have a line outside the restaurant. Not because we had very slow service! But because we had so many customers.

When you see the faces of customers who have never been treated as welcomed guests, that was a surprise for me.

Q: Why did Boris Yeltsin's visit McDonald's in June 1993?

A: It was at the second store that opened in Moscow, on Tverskaya Ulitsa. The president of Russia came for the grand opening. He spent a couple of hours. I showed him the store and the building. He got a Big Mac.

McDonald's was one of the first foreign companies that came and made investments in Russia. That is why Mr. Yeltsin came. We showed him the restaurant on the ground floor, and then we took him for lunch. We had informal, candid discussions about business and business prospects. He had a few people from the Russian government with him, and we had a few people from the McDonald's side. We had lunch. We had an open discussion about the history of the new Russia and its potential. We told Mr. Yeltsin that we had come for the long term, forever, that we would continuously be investing money to build Russia because we believe in Russia.

He said, "Open more stores, because you still have a line in Pushkin. You need more stores." Also, he asked me — he's from the Urals — he said, "Can you open in Yekaterinburg?"

We said, "Noooo, it's too far away!"

He said, "Go to the Urals, go to Siberia. Those are good regions to invest in."

We said, "We will be there someday." By the way, we opened in the Urals a long time ago.

Q: How was your supply chain created?

A: Most of the operations people came from Canada because it was a joint venture between the city of Moscow and McDonald's Canada. We had support from the United States and Europe as well. We had about 80 expats at the beginning.

We built a factory called McComplex. That was a smart decision, because at that time in Russia, you couldn't find reasonable, high-quality suppliers. That is why McDonald's made a huge investment to build McComplex before we opened the Pushkin Square store. We had eight production lines at that building, plus a distribution center. We had to produce beef patties, buns, dairy products, french fries, all the garnish products.

It took us almost 20 years before we fully outsourced all functions, including distribution. We used to have our own trucks to ship from McComplex to the restaurants.

Q: You had a brass plaque saying "rubles only" in the Pushkin Square outlet. Why?

A: There were a couple of Western companies operating in Russia in our industry, but many of them sold products and services only in hard currencies. We made the plaque to say that we will respect the local customers and we will serve our people with local currencies.

We made the decision to invest our ruble income, mostly to invest money to get more real estate for future openings. We opened a few office buildings in Moscow. That was also unique for Russia.

We sold the building on Tverskaya two years ago. That was a great investment. We leased that building to foreign companies to generate more hard currency, and that helped us to open more stores.

Also, we exported from McComplex to some European countries. We used to export pies, buns to the West. That helped us to get some reasonable income in hard currencies.

Q: How do you create your market strategy?

A: You have to have a very strong management team. We have really good managers at each level of the organization. Probably about 90 percent of my executive management team and mid-management team started as crew members at Pushkin Square or at the second or third stores.

We don't have any expats in our organization. The whole company is run by Russians. That is a win-win for the local company, because you have to understand the local consumer and environment. You have to understand how to deal with the market every minute, every day, every year.

We have a three-legged-stool philosophy of the company, which is: the company, suppliers and franchisees. That is exactly why the company became successful in many markets.

Unfortunately, we haven't had the three-legged stool from day one. Everything used to be based on one leg, because we were our own supply chain and we didn't have franchisees here in Russia.

Today we have a great operational foundation, we have a team, we have a supply chain system in place. What will be next? Maybe building the third leg now, that will be a goal.

Q: How is McDonald's Russia approach to franchising evolving?

A: As a company-owned operation, we have been successful. But we are getting bigger and bigger and bigger, and now we could use local partners to develop the business faster.

We'll continue to operate company restaurants here. At the same time, if we have the right partner, we can probably add more value to our business here. We signed a deal with one partner. If we find other reasonable partners to develop our brand in locales where we don't have the intention of developing today, the company will do it.

But it took us time. We had to make sure that the brand is protected. We want to make sure we have franchisees who will be dedicated to the McDonald's brand and philosophy. That is very important for us, because we don't want franchisees running stores in a different way than we

would run our company stores. For customers, it doesn't matter who gets profits and dividends. They have to get the same service, the same approach, the same equipment, the same stuff. That's a must.

Q: Do you see McDonald's local development as a reflection of the growing middle class here?

A: Absolutely. Every single job that we create at McDonald's creates seven other jobs with our partners and suppliers. We have suppliers, construction companies and service companies, which have become successful examples of mid-size businesses. Our work with franchisees will be the next wave of developing the local small- and medium-size-business class.

There are so many businesses on which we have direct impact. When we started our business, there were no private companies. Most of the partner companies started from scratch. When we talk about McDonald's success over the past 22 years, our suppliers have had the same track, the same experience. They have the same stories. They have become partners not only with McDonald's. They have had success in retail. That is what we call a domino effect.

My restaurant managers probably qualify as middle class. They don't have their own business, but they're paid well and they're developed by the company.

Q: What advice do you have for foreign investors looking for opportunities here?

A: It's a huge market; it doesn't matter where you go. You go to the agricultural market, there is huge investment potential because you have land, water, access, you have everything here.

There are many areas where you can build a successful business in Russia. You talk about the middle class. The middle class in most developed countries contributes probably more than 50 percent of the economy, of GDP. In Russia, it's different, because we have huge monopolies, big companies that build GDP. But one day, the middle class will be playing a really significant role. You have to build the middle class to make sure that it will be the core of your GDP and economy.

Q: How do you regard the country's development over the last two decades?

A: Russia has gone through many milestones: the '90s, the Soviet Union's breakdown, hyper-inflation, privatization, again a crisis, the changes. I remember that 15 or 20 years ago, if you went to the regions, they used to have their own constitutions. It was difficult back then because you had one set of regulations and procedures in Moscow. When you went somewhere else, to Nizhny Novgorod or Saratov or Samara, they had different regulations and even laws.

That's changing. It's more predictable who will make the decision and where. Unfortunately, there is still a lot of bureaucracy to cope with, and it doesn't get easier. Everybody talks about corruption. Unfortunately, bureaucracy and corruption are linked, and everybody knows it. It used to take 18 months from the day I signed the real estate paperwork until I opened the door to customers. Today it takes longer because of all the permits and approvals.

Q: Who inspires you?

A: I had the privilege to know and meet a pioneer of the company, Fred Turner. He is passionate, he is absolutely great. He was always trying to understand what drives people to

make the right decisions and what we can do to support people.

One of his biggest issues was, "If Russians don't make enough, make sure that you pay them." For example, Russia never had had a mortgage system. He forced me to set up a mortgage program for our management team. He actually forced me. He said I had to go to banks and set up a special program for my people to make sure that our people have access to financing for their homes. I said, "Fred, we don't have a mortgage system in Russia." He said, "Create it! Do it yourself!"

That tells you a lot, when the chairman of a global company is dedicated to doing things to make the life of his people better, even if they are in a small market. Russia had only one store then.

George Cohon from Canada, the guy who opened Russia, is an unbelievable personality. He is open. He has always been great fun to work with. I found more enjoyment working with and knowing those people than I ever had before. So motivating, so much energy.

In Soviet times, you never had access to the big boss. When I was in my training in Canada, I used to have lunch at the executives' houses. They used to call me and invite me over. Who was I? Just a trainee. The president of the company, the vice president, the executive vice president, they used to call up and say, "Come to my house for lunch." It was simple, easy.

We work at a store at least twice a year. I like it because during that time, your crew people can tease you if you forget some procedures: "Oh my God, I haven't been to the kitchen in a year, I forgot!" A crew person will be standing there and tell me, "No, no, no, no, you're doing it wrong. OK, go back, fix this one." That is fun.

I have told my managers, "Someday you will run the company." It will happen, because our history shows that everybody who runs the company has gone through the store level.

Q: Do you see McDonald's charity work having a ripple effect on other companies or society as a whole?

A: As soon as we put the coin box in the store, I felt so proud of Russians, because they started to donate money. Today we get more donations from our customers than we get from fund-raising.

That tells you how people are very open to supporting and being part of charity. That is something that changed my mind. Why do you have to worry about companies if people change their minds and if people want to be part of charity and make donations? Not big ones, but if you have millions of people willing to donate money, that tells you people are willing to respect and be part of society.

The first Ronald McDonald House will be opened next year in Kazan. Nobody asked me to build it. When we made that decision, people were shocked when we said we want to be near this hospital with our charity. That will support 600 moms a year to be close to their children. It's so important for parents to be close, because they don't have enough money to pay for a hotel room or to rent an apartment. It is a great solution.

Charity should be part of your philosophy. It's not because somebody tells me, "You have to

invest money. You have to give money back to the community." But we do it because we believe it's the right approach.

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