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Impact Analysis of Russia's Invasion of Ukraine on McDonald's Operations in Russia

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Abstract

McDonald's is a highly popular multinational fast-food company that has operated in Russia for over 30 years. However, following the Russia-Ukraine invasion, its operations became unstable, leading the company to decide to close its outlets and sell its business to local entrepreneurs. This decision was prompted by various factors, including community activism and international sanctions. Moreover, the company incurred significant financial losses due to the closure of its stores, totaling $1.4 billion. This study also investigates how McDonald's adapted to the risk of brand dilution by rebranding as Vkusno i Tocha to protect its global image. Using a descriptive qualitative method with an analytical framework based on Nash Equilibrium theory and conflict theory. The result of this study; finds that McDonald's acknowledged the need to withdraw from the Russian market due to the invasion and aimed to mitigate further negative impacts.

Keywords : Decision of McDonald's, Brand Dilution, Vkusno i Tocha.

Introduction

McDonald's, a global fast-food corporation, offers a diverse menu, including burgers, fries, and beverages (Ratriani, 2020). Founded by Richard and Maurice McDonald in San Bernardino, California, the company has grown into one of the world's most recognizable brands (HanGook McDonald’s, 2019). Serving millions daily, McDonald's sells approximately 75 burgers per second worldwide (Cahya, 2019). Its success stems from operational efficiency, emphasizing speed and cleanliness. Despite a simple menu, McDonald's consistently delivers value, enabling its expansion into international markets.

In 1990, McDonald's opened its first Russian outlet in Pushkin Square, Moscow, symbolizing the country's transition to capitalism and easing Soviet-American tensions (Rizal & Galih, 2023). Over three decades, the company expanded to 800 outlets with 62,000 employees (Elmira, 2022). However, Russia's 2022 invasion of Ukraine led McDonald's to suspend operations and eventually exit the Russian market, selling its business to local entrepreneurs (RNZ, 2022). Political instability disrupted operations, including supply chains and employee safety (Lestari, 2023). Multinational corporations like McDonald's face significant risks in volatile environments, necessitating strategic decision-making to protect global operations.

Beyond political factors, public pressure influenced McDonald's withdrawal. Activism, reflected in the #BoycottMcDonalds campaign, criticized the company's response to the humanitarian crisis, affecting other brands like Coca-Cola and Pepsi as well (Sharp, 2022). Western sanctions against Russia further complicated McDonald's supply chain (Lestari, 2023), increasing business risks.

Financial losses also played a crucial role. McDonald's reported a $1.4 billion loss from its Russian exit (Matten, 2022). Additionally, many Russians supported replacing Western brands with local alternatives as a rejection of Western influence (Turak, 2022). This shift diminished brand support and increased the risk of brand dilution, weakening consumer loyalty (Goldstein, 2022). Significant changes, such as changes to the logo, name, and menu (Syahrial, 2022), can cause confusion for consumers, who may feel a loss of brand identity that they previously recognized. By selling the business to local entrepreneur Alexander Govor and rebranding it as Vkusno i Tocha, McDonald's sought to prevent further negative impacts on the company due to the political situation (VOA, 2023).

McDonald's decision aimed to protect its global image. Kathleen Brooks, director of Minerva Analysis, highlighted the difficulty of withdrawing from Russia, emphasizing that reputational risks significantly impacted stock prices, leaving no alternative (Jones & Timmins, 2022). Although the rebranded entity changed its identity, it altered consumer experiences. McDonald's sought to distance itself from negative associations, prioritizing long-term brand integrity over short-term losses.

Research has examined the Russia-Ukraine conflict's economic impact. Markus, (2022), Gaur, Settles, & Väätänen, (2023), and Shereen et al., (2022) highlight disruptions in energy and food supply chains, leading to inflation and declining foreign investment. Meanwhile, Ratten, (2023) and Bamiatzi, et al, (2024) explore corporate strategy and social responsibility, analyzing how companies navigate geopolitical crises while adapting to shifting global conditions.

This study provides an in-depth analysis of the impact of Russia's invasion of Ukraine on McDonald's decision to exit the Russian market. Unlike previous research, which primarily examines defensive strategies through the lens of Corporate Social Responsibility (CSR) theory, this study introduces a novel approach by exploring the strategic dynamics and conflicts faced by companies in complex geopolitical contexts using Nash Equilibrium and Conflict Theory. It aims to offer a broader understanding of how businesses navigate crises and interact within social and political frameworks.

Theoretical Framework

Multinational Companies or MNCs are business entities that operate in almost all countries, with the aim of maximizing profits through global expansion (Natalia, 2021). MNCs have a significant impact on countries, both in positive and negative aspects. MNCs can contribute greatly to increasing national income and creating new jobs, but on the other hand, they also have the potential to cause exploitation of human resources and environmental damage (Rezza, 2019). The challenges faced by MNCs are not always smooth; market instability can affect their investment decisions as well as their operations (Bitar, Mohamad, & Khoueiri, 2019) and this will obviously lead to financial losses for the company. Political instability and regulatory changes or negative public backlash against the MNC can trigger the risk of brand dilution (Fournier & Srinivasan, 2018).

It is important for companies to be able to adapt to the surrounding conditions, including in terms of understanding the regulations, culture, and social dynamics in the country concerned. Adjustments are important for the sustainability of company operations in order to establish good relationships with local communities and other stakeholders. Nash equilibrium theory, discovered by John Nash in 1950 (Salim, 2024), is useful for understanding the interaction between multinational companies and stakeholders, including governments and local communities. In a prisoner's dilemma situation, there is a case where two individuals are required to make interdependent decisions but without communicating, each individual has two choices, namely "Quiet" or "Fink", as in the matrix below:

Game Theory Model by Osborne

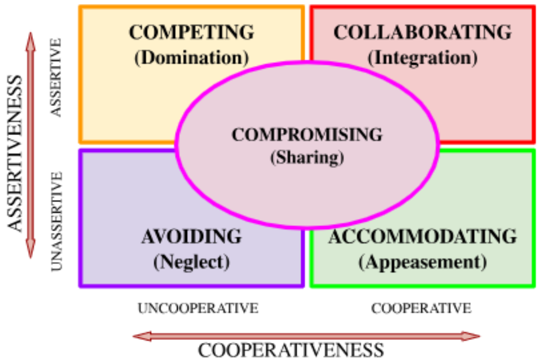
	Quiet	Fink
Quiet	**2, 2**	**0, 3**
Fink	**3, 0**	**1, 1**

Source; Osborne, M. J., (2000)

In the prisoner's dilemma, the result is that if both parties choose to "Quiet" then each gets a reward of 2 but this is not a nash equilibrium because there will be an urge to "Free Ride" from one of the players to "Fink" in order to get a greater benefit, as well as 0.3 or vice versa 3.0 if one acts "Fink" then the other should act the same way because otherwise the reward will be greater than if we choose to "Quiet", so the choice to Fink" each other. Nash equilibrium is called because this condition describes where each player has determined the optimal strategy carried out by other players so that no party or player has an incentive to change his choice after reaching the equilibrium point (Osborne, 2002). Thus in this context, the Nash equilibrium point actually exists in the same choice or strategy, namely both choose to "Fink" but in fact in this case between companies and the government have different strategies, and this difference has its own impact, especially for companies in the market.

In line with this thought, understanding strategic interactions in business can help in analyzing conflicts that occur in organizations, where conflicts often arise due to differences in goals, interactions, activities, and other interests between individuals or groups, these conflicting interests must be recognized in order to occur so that they cannot be ignored, the conflict certainly contains a belief for each party that the other party will thwart or even has thwarted its interests and this process reflects interactions that have occurred in the past which have resulted in obstruction of the goals of one of the parties (Rahim, 2015). The handling for this conflict theory uses the "Conflict Mode Instrument" model where this handling is based on 2 dimensions, namely "Assertiveness" or assertiveness by focusing on our own needs and "Cooperativeness" or cooperation by focusing on the needs of others:

Thomas-Kilmann Model of Conflict Management



Source; Kilmann and Thomas, (2008)

This model identifies five conflict resolution approaches: competing, avoiding, accommodating, compromising, and collaborating. The competing or collaborating style is assertive and uncooperative, relying on power to achieve one's objectives, often resulting in a win-lose outcome. The avoiding style is neither assertive nor cooperative, failing to achieve either party's goals, leading to a lose-lose situation as it merely delays or evades conflict resolution. The accommodating style prioritizes others' needs over one's own, while the compromising approach seeks a balance, partially satisfying both parties but risking neither achieving their full objectives. Finally, the collaborating style is both assertive and cooperative, ensuring that all parties fully achieve their goals, leading to a win-win outcome (Thomas & Kilmann, 2008).

In this context, McDonald's decision to exit the Russian market and sell its outlets to local entrepreneurs reflects an avoiding approach. This aligns with conflict theory, as the company sought to minimize adverse impacts while navigating public, reputational, and financial pressures. The application of this theory supports the view that McDonald's strategic decision was a rational response to the complexities of the geopolitical crisis.

Method

This study examines the impact of Russia's invasion of Ukraine on McDonald's operations in Russia, focusing on the company's decision to exit the market amid various pressures. Employing a literature review method with a descriptive qualitative approach, the research follows a structured process to collect and analyze information from written sources, as outlined by Zed, (2014). Instead of conducting field research, researchers rely on relevant materials such as books, academic journals, and credible news sources. The collected data is systematically filtered and categorized into key themes to facilitate analysis, ensuring accuracy through the use of credible and accredited sources, along with re-verification of information.

By thematically organizing the data, researchers efficiently identify key findings while eliminating irrelevant information. The qualitative analytical approach includes literature analysis and data reduction, emphasizing the context and rationale behind McDonald's strategic decisions. Additionally, the study evaluates the impact of these decisions on the company's brand image and long-term sustainability amid the global crisis.

Discussion

The Russia-Ukraine Invasion Changed the Business Landscape of Western Companies

Russia's invasion of Ukraine created significant political tensions, prompting strong reactions from Western countries that had previously welcomed foreign investment as part of Russia's transition to capitalism (Rizal & Galih, 2023). In response to the invasion, Western nations imposed extensive economic sanctions aimed at pressuring Russia to cease its aggression. The United States, under President Joe Biden, announced 500 sanctions targeting Russia's war machine and imposed export restrictions on 100 companies and individuals. Similarly, the United Kingdom banned several Russian citizens from traveling, while the European Union sanctioned 200 organizations and individuals supporting Russia's efforts. Collectively, these three entities imposed over 16,500 sanctions, including freezing approximately $350 billion of Russia's foreign currency reserves and 70% of all Russian bank assets to weaken the country's economy (BBC, 2024).

These sanctions, combined with political tensions and the humanitarian crisis, created an increasingly unfavorable environment for multinational corporations.

Many Western companies, including Coca-Cola, Pepsi, Starbucks, and McDonald's, chose to withdraw from Russia (Sharp, 2022). Economic restrictions, such as export bans and frozen financial assets, severely disrupted multinational operations, leading to revenue losses, reduced customer access, and supply chain difficulties. In this uncertain situation, companies faced two critical choices: continue operating in Russia at the risk of reputational damage for disregarding the humanitarian crisis or exit the market, incurring financial losses from outlet closures and market withdrawal. Ultimately, many Western companies opted to leave Russia despite the financial setbacks.

Avoiding Uncertainty; McDonald's Strategy in Response to the Russian-Ukrainian Invasion.

The Russia-Ukraine invasion had a profound impact on McDonald's operations in Russia. While companies like Netflix and Levi’s swiftly exited the market, McDonald's initially continued operations, sparking public criticism and the #BoycottMcDonalds movement on social media. Many viewed this as a failure to uphold corporate values, with some even accusing McDonald's of indirectly supporting Russia’s war efforts (Sharp, 2022). This backlash threatened brand dilution, as consumers perceived the company as prioritizing profits over humanitarian concerns.

Meanwhile, Russia urged multinational companies to remain and condemned those leaving for political reasons (Murray, 2022). However, McDonald's eventual exit allowed for the rise of a local replacement, Vkusno i Tocha (VOA, 2023), which was embraced as a patriotic alternative. This shift in consumer loyalty not only diminished McDonald's brand value in Russia but also weakened its global standing in the fast-food industry.

McDonald's decision to exit the Russian market did not achieve a Nash equilibrium. In game theory, equilibrium occurs when both players adopt strategies that neither has an incentive to change. However, the "Free Ride" strategy, where one party benefits without equal participation, does not meet this criterion.

In this case, McDonald's opted to "Fink" by withdrawing due to operational and reputational risks, while the Russian government merely issued condemnations without concrete actions to retain multinational businesses. Although Russia discouraged corporate exits, it failed to implement measures that would have effectively prevented their withdrawal.

To achieve equilibrium, the Russian government could have created a more favorable business environment to retain companies like McDonald's. This could have included open dialogue to address corporate concerns, policies to reassure businesses, and measures to ensure employee safety. Meanwhile, McDonald's could have mitigated reputational risks by clarifying its neutral stance—positioning itself as a service provider rather than a political actor—and directing profits from its Russian operations to humanitarian aid. Such a strategy might have balanced business sustainability with corporate responsibility, potentially preserving brand loyalty even amid crisis.

Overall, McDonald's decision to withdraw from the Russian market reflects an avoiding approach, aligning with its corporate values and long-term interests. By selling outlets to local entrepreneurs and allowing rebranding under a new Russian-owned brand, McDonald's sought to distance itself from the conflict and counter negative perceptions that it was prioritizing profit over ethical responsibility. This move aimed not only to protect its global reputation but also to minimize potential backlash against its outlets in other countries. Ultimately, the decision demonstrates a strategic effort to uphold corporate social responsibility and maintain ethical business practices amid geopolitical tensions.

Conclusion

Russia's invasion of Ukraine significantly impacted McDonald's, prompting its withdrawal from the Russian market in response to mounting political tensions. Remaining in Russia would have contradicted the company's values, as ignoring the humanitarian crisis was not an option. Various pressures such as public activism advocating boycotts, international sanctions, and financial losses totaling $1.4 billion due to store closures reinforced this decision. Additionally, delayed action led to negative perceptions, with some accusing McDonald's of indirectly funding Russia’s war. The risk of brand dilution further threatened its global image, making an avoidance strategy necessary to protect its reputation. To mitigate these risks, McDonald's sold its business to a local entrepreneur, leading to its rebranding as Vkusno i Tocha. This move highlights the company’s efforts to prevent further reputational damage in the global market. The study confirms that McDonald's exit was not solely driven by political factors but also by the need to ensure corporate sustainability and consumer trust. Ultimately, these findings offer valuable insights into how multinational corporations navigate strategic decision-making during complex global crises.

Recommendation

This study recommends that McDonald's should not return to Russia, as the region's political instability poses significant risks to its operations and global brand. The unpredictable market, fueled by ongoing geopolitical tensions and fluctuating regulations, exposes the company to potential supply chain disruptions and reputational harm. Re-entering Russia could damage McDonald's relations with other international markets, while resources spent on this re-entry might be better allocated to more stable, profitable regions. In light of these factors, focusing on emerging markets where the business environment is more secure could prove a more strategic and forward-looking approach.

Suggestion

This study also suggests that future research should examine the broader impact of Russia's invasion on multinational companies in the region. Investigating how different industries have been affected such as supply chain disruptions and shifts in market strategies could offer valuable insights into the conflict's wider effects on global business operations. Additionally, it could highlight sector-specific challenges, providing a better understanding of how geopolitical tensions shape corporate decision-making, risk management, and long-term strategies in conflict zones. This would contribute to a deeper analysis of the broader implications of political crises on international businesses.

Limitation and Future Research

Limitation of this research is the scarcity of detailed articles and data analyzing the operational impact of Russia's invasion on McDonald's. While general information on the conflict's economic effects and its impact on multinational corporations exists, few studies specifically address McDonald's challenges, such as supply chain disruptions and strategic shifts. The lack of company-specific data limits the analysis to broader geopolitical trends, and the rapidly changing conflict further complicates efforts to obtain accurate insights. This makes it difficult to fully assess the long-term implications for McDonald's, especially regarding the evolving political and regulatory landscape in Russia.

Future research should explore McDonald's operational challenges in greater detail, including supply chain disruptions and strategic decisions. Comparative studies on companies that stayed versus those that exited could offer insights into business sustainability. Additionally, analyzing consumer sentiment and brand recovery post-exit would help assess reputational impacts.

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