



Saudi Arabia

A story that should be heard

McDONALD'S SAUDI ARABIA REPORT ON LOCALIZATION OF THE WORKFORCE



**ANNUAL REPORT
2013**

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McDONALD'S CHANGED MY LIFE

A SAUDI GENERATION



Ministry of Labor honors McDonald's Saudi Arabia for its success in localization

McDONALD'S FAMILY OF SAUDI ARABIA

MODEL FOR SUCCESSFUL LOCALIZATION



PRINCE MISHAAL BIN KHALID AL SAUD, PRESIDENT OF THE RIYADH INTERNATIONAL CATERING CORPORATION

Localization of the workforce and adapting to local conditions and culture have been at the top of McDonald's agenda for two decades

More than 20 years have passed since McDonald's opened its first branch in Saudi Arabia, during which time we have come a very long way, and passed several significant milestones.

We have instilled a work ethic in young Saudis, initiated several important humanitarian and social programs, and maintained our commitment to providing the highest standards of quality and service throughout our network, at the same time as continually adapting our delicious menu to suit the taste of our customers. It is these achievements and more that puts us at the top of the quick service restaurant (QSR) sector with a lion's share of the market.

At McDonald's Saudi Arabia both the Riyadh International Catering Corporation, developmental licensee for McDonald's in central, eastern and northern regions of the Kingdom, and Reza Food Services, the developmental licensee for the western and southern regions of the

Kingdom – we believe that our people are the most important assets we have.

This belief stems from our conviction that investing in our people is not just a business option, but a national duty, and represents an investment in the future of the Kingdom. And that is exactly why we established job localization to study the needs and wants of young Saudis, so we could draw them into the attractive work environment we offer.

We reviewed working hours, adapted our recruitment procedure, and designed training programs to give them the skills to enable them to achieve their goals and aspirations. We offer a working environment of enthusiasm, vitality, equality, security and respect. Recruits benefit from a clear career development path which will take them from a crew member today to a restaurant manager in the future. And we haven't forgotten the financial incentive which we continuously review



SHEIK ABDUL RAHMAN ALI REZA, GENERAL MANAGER OF REZA FOOD SERVICES

and adjust to keep pace with their needs and wants and the rising cost of living.

Our shared commitment to find solutions to the obstacles to localization is why we have built such a strong partnership with the Ministry of Labor and the HRDF. We have received a great deal of support and encouragement for our localization programs from HE Adel Bin Mohamed Fakih, the Minister of Labor, as well as from his predecessor, the late Dr Ghazi Al-Qosaibi, may God rest him in peace.

It was Dr Ghazi who, wearing a McDonald's cap at at our 'Our youth: the wealth of our country' celebration, paid tribute to our young Saudi recruits, saying: "My sons, you are role models, and you set a fine example. I hope God will bless our country with more people like you."

At the same time, he also expressed his hopes that companies that had not yet initiated their own localization initiatives should follow our example – and not just imitate our products!

Since then we have had a growing number of applicants year after year, so much so that now, at least 500 young Saudis apply to work at McDonald's each and every month.

Today, McDonald's Saudi Arabia has 160 restaurants across the Kingdom, with a staff of 4,713 including 1,361 Saudi nationals. Our ambition is to grow to 240 restaurants by 2015 – which, for a company that invests in the local economy, is a challenging target. By then, we will be employing thousands of nationals.

Not only will this underscore our firm belief in the inherent ability of our country's youth, it will also be the perfect illustration of the immense value to the Kingdom of properly trained Saudis, with the right attitude, good morals, loyalty to their employer, and a sincere desire to work towards self-reliance and achieving their aspirations.

This is exactly why we are so intent on insisting on high standards, providing a stimulating work environment, and

treating our staff well. The fact that our employees tell us that they are proud to work for McDonald's proves that we're on the right track.

Last year we published our first report on job localization, in the process receiving a lot of very positive feedback from both the public and the business community.

In this document we continue the story of our progress within the QSR sector, and to share our experiences with any other private sector companies and organizations that might be able to benefit from them. In these pages you can learn about our successful SR 4500 campaign, and how we've approached the problems of localization. You will also hear about our approach to employing people with Down's Syndrome, and hear what a success one of our Saudi recruits has made of his career since joining us in 2007.

**Mishaal bin Khalid Al Saud
Abdul Rahman Ali Reza**

McDONALD'S INVESTING IN YOUNG SAUDIS

Localization of employment has always been of major concern to McDonald's Saudi Arabia, ever since we opened our first branch in 1993.

Right from those days we began planning for the future, with the ultimate aim to achieve full nationalization in all our branches.

Along the way we've learned about the obstacles that could hinder turning our plans into reality – in the process confronting the following questions:

- what is the best way to recruit young Saudi nationals?
- what do they want and need?
- what might dissuade them from working in restaurants?

To answer these questions, we needed to get closer to young Saudis so we could understand their concerns. We discovered that the fundamental problems to address would be societal and cultural barriers to the type of work we were offering.

The bottom line was that working in a quick service restaurant was considered socially unacceptable – which is clearly a very tough challenge to address, let alone overcome.

PHASE 1 – POLARIZATION

Just three years after opening our first branch, we formed an employment localization committee – an approach that up till then, few companies had focused upon.

We took it upon ourselves to attract young Saudis, and started conducting exit interviews to understand better what made recruits choose to leave, as well as conducting further research.

What we discovered initially was that young Saudis were reluctant to work in the QSR sector because they were both ashamed of facing the public, and lacked confidence in their English skills, with all our original training materials only available in that language. We had



MORE AND MORE YOUNG SAUDIS HAVE JOINED McDONALD'S

noticed a reluctance of many Saudi recruits to attend training – the dropout rate reaching a staggering 149 percent.

Furthermore, we faced the issue that many of our remoter branches were too far away from homes, and the lack of adequate public transport made it difficult for them to travel. This issue was further exacerbated by the long work shifts and our day-and- night schedule. Working in the kitchen rather than on the serving station was another problem area.

Over time, however, we've been able to address each of these issues.

As we've grown, we've opened more and more branches closer to potential recruits' home neighborhoods, and we've also translated all our training courses into Arabic. We've also adopted a policy of greater flexibility in terms of work schedules and locations.

Additionally, we were able to attract more young Saudi job hunters by taking part in recruitment fairs where we could communicate the particular advantages and benefits of working with McDonald's. Nevertheless, the results were below expectations, so in 2005 we instituted a

new national committee for employment localization to complement the first body which had achieved localization rates of 27 percent.

The committee renewed efforts to understand the needs of young Saudis, and suggested an idea to manage the recruitment process in branches near their homes, rather than bringing them to the head office, consequently shortening the process to only three days, including the medical examination, interview and contract signing.

A great deal of emphasis was also paid to training. Using Arabic-speaking trainers, offering English lessons and courses in topics such as self-confidence and dealing with others all helped Saudi recruits develop their job skills and their personal capabilities.

The combination of a stimulating work environment and the provision of a clear career path based on self-development and learning helped boost McDonald's localization rate and reduce the turnover rate – as well as paying dividends to the McDonald's brand.

All this changed with the introduction of the Nitaqat program in 2012.

PHASE 2 – NITAQAT

Up until this point, McDonald's had been leading the way in job localization, but when the Ministry of Labor introduced the Nitaqat program and Hafiz, all changed.

Nitaqat was a ministerial resolution which introduced four levels of Saudization (platinum/ green / yellow/ red) which companies had to achieve depending on which sector they operated in, while Hafiz introduced monthly subsidies of SR2000 for jobseekers. The combined effect of these initiatives was to diminish McDonald's localization leadership. Applications from young Saudis fell considerably, and many

recruits leaving for other jobs, with other employers more than happy to offer jobs to well-trained McDonald's staff.

Meanwhile, the introduction of Hafiz resulted in many potential team members opting to sign on as job seekers and take advantage of the subsidy rather than working – meaning that employers were indirectly forced to raise salary levels in order to stimulate the supply of labor.

We were then back to square one, and had to ask ourselves how to attract young Saudis in the face of this new legislation that had made for a more competitive job market, how to reduce the turnover rate, and what we could

do to ensure job proficiency and brand loyalty of our recruits.

Our solution was to launch a huge employment campaign centered on the branches, with particular efforts aimed at remote areas, in which we also overhauled the employment benefits, offering housing, transportation to and from work, two days leave per week, five days leave every three months with a ticket, and three weeks' vacation every 11 months.

But despite all those advantages, we didn't achieve the desired success, leading us to phase three, the SR 4500 campaign, which you can read about overleaf.



ADVANTAGES FOR EMPLOYEES
IN REMOTE AREAS



SECURE HOUSING



FREE TRANSPORTATION



TWO DAYS OFF WEEKLY



FIVE DAYS OFF EVERY THREE MONTHS
WITH A FREE TICKET



THREE WEEKS OFF EVERY 11 MONTHS

A QUANTUM LEAP FORWARD



McDonald's SR4500 package, based on ground realities and youth expectations, has become a game-changing benchmark

PHASE THREE – THE SR4500 CAMPAIGN

Of the estimated Saudi population of 20 million, some 60 percent are below the age of 25. Increasing the employment levels of this group is a major task that needs a concerted effort from the state and the private sector.

It was in this context that McDonald's commissioned in-depth research to understand the needs and aspirations of young Saudis, and to learn more about

their attitudes toward working in the QSR sector, and why some young Saudis are keen to shift jobs so frequently.

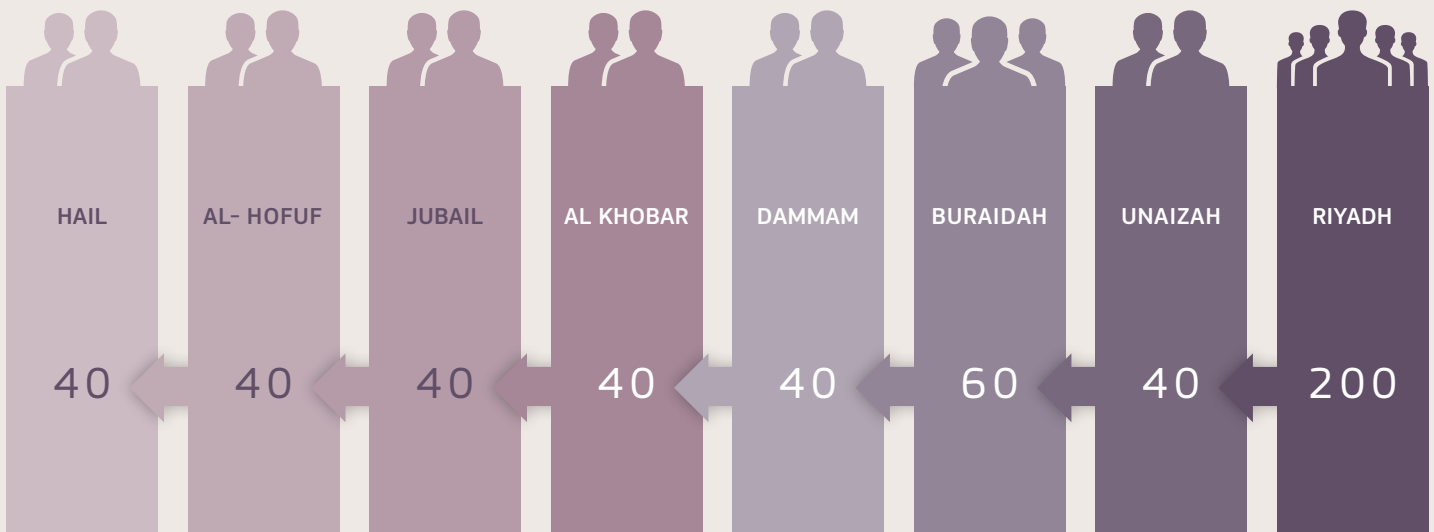
This study would inform the third phase of McDonald's localization program, the 4500 campaign.

Our research sample consisted of 500 Saudi men below the age of 25 of varying educational levels across eight cities: Riyadh, Dammam, Al Khobar, Al- Hofuf, Jubail, Hail, and Buraidah and Onaizah. We wanted to find out about their main motives for working and what were essential for them to consider accepting a job.

Unsurprisingly, more than half said that earning a salary is the most essential driver for unemployment, the research revealed a wealth of useful data.

- young Saudis in major cities (Riyadh, Dammam, Al Khobar) are more willing to accept jobs compared to smaller cities,

4500 CAMPAIGN RESEARCH SAMPLE



WHAT WOULD YOU DO?

- 20 percent of respondents said that they would work at McDonald's depending on a better salary and additional benefits
- 31 percent of respondents were not at all interested in working in the QSR sector
- 20 percent would work for McDonald's only if desk jobs were available
- 13 percent would work at McDonald's for any salary, without any condition
- 9 percent said they would irrespective of salary/benefits, on condition that it is a desk job.

at a time when about 40 percent of respondents did not work.

- 58 percent of young job seekers use newspapers as their primary job hunting channel; 32 percent rely on relatives and friends to inform them about available jobs; 27 percent use the Internet; and 19 percent send their CVs to employment offices.
- As a result of these findings, McDonald's widened its approach to recruitment, participating in Ministry of Labor and HRDF recruitment campaigns alongside press and Internet campaigns.

The survey suggested that young Saudis are in favor of desk jobs, and tend to reject field positions unless coupled with a good salary and flexible work conditions. Even those who were willing to work at McDonald's, said they would not

be prepared to do any cleaning, which they believed would contradict their culture – making this one of the major problem areas in terms of finding a local workforce.

Most young Saudis don't consider themselves the main decision-makers about their career with 35 percent of respondents saying they follow the advice of their parents and 31 percent following the advice of their families and relatives, with only 25 percent considering themselves as the decision-makers in accepting any job.

As for the most attractive jobs, 36 percent of respondents favored public sector office jobs; 30 percent favored the QSR sector; and another 25 percent said public sector field jobs, while very few respondents were positive about starting their own businesses. So, despite QSR work not being the first choice, it is a sector that suits the nature of the qualifications of many of the respondents.

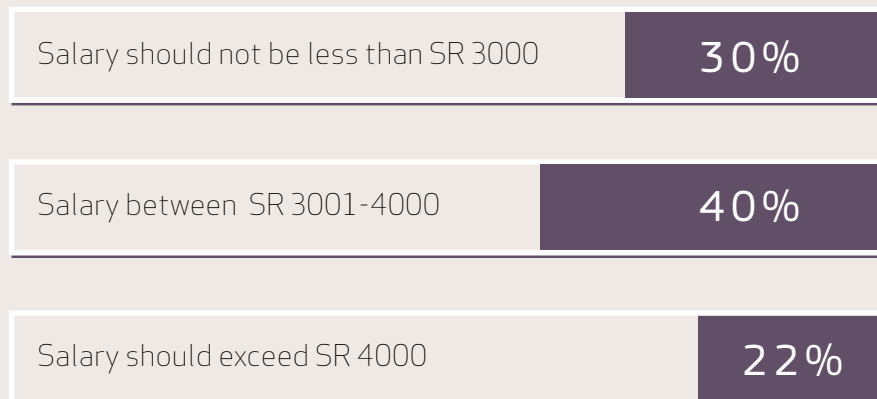
Questions regarding acceptable salaries generated some interesting responses: 30 percent of the respondents said it should be no less than SR3,000; 40 percent said SR3,001-4,000; and 22 percent said the salary should exceed SR4,000, giving an average of SR3,756 as an acceptable salary, compared to the average SR3,327 which respondents currently earned.

When asked about the most important criteria they considered in searching for jobs, 86 percent of the respondents said that salary is a major concern; working hours was a priority for 46 percent; 41 percent said work environment; and 30 percent cited their career path and the nature of the work assigned to them.

Results from the study, then, played a significant part in shaping our next campaign.

The conclusion that young Saudis would be interested in a career with McDonald's if this meant receiving a good salary, flexible working hours, and a comfortable work environment was the spark that

SALARY RESEARCH





OUR 4500 CAMPAIGN SAW RECRUITMENT RISE TEN-FOLD

lit the flame of our 4500 campaign in November 2012, which was also to be a game-changer for the entire Saudi QSR sector.

As a result we set the starting salary at SR4,500, offered flexibility in working hours, more choice in choosing a work location, two days off per week, and a clear career path with increased opportunity for professional development training.

As soon as we launched this campaign, applications soared from an average of 150 per month to 1,487 – the campaign really had reshaped the entire industry.

McDonald's 4500 riyals campaign changed the rules of the labor market and achieved a quantum leap in the industry as a whole, making McDonald's Saudi Arabia the main engine for the growth in the sector, and a key player in changing employment policies in the labor market.

Our campaign became a model to be imitated. The message was, either catch up with McDonald's Saudi Arabia and meet the requirements of Saudi youth employment, or miss out on

the opportunity of keeping up with developments in the market.

Competitors and companies in other industries soon started following our lead, launching their own, similar campaigns, and as a result hundreds of thousands of Saudis entered the labor market, generating immeasurable benefit to the nation. In just one year, the minimum wage jumped from SR3,000 to SR4,500 riyals, constituting an important milestone in Saudi employment history.

The immense success of the 4500 campaign didn't mean that we were changing the way we worked – only that we were becoming more flexible and adaptable to align ourselves more with Saudi attitudes and custom. Which is an important learning point considering the ambitious plans we have for opening opportunities for female employment, such as administrative and teleworking roles.

DIFFICULT BEGINNING – HAPPY ENDING

Hiring people with special needs is an important part of McDonald's social responsibility strategy

"Thank God I was blessed with a comfortable work environment, and that I am able to rely on myself. But the most beautiful thing of all is that everyone here is treating me so well – thank you McDonald's."

With these words, Abdul Rahman Al-Ahmari – who was born with Down's Syndrome – describes his feelings about working in McDonald's Saudi Arabia. He is now enjoying his eighth year as a member of the primary crew in the kitchen.

Down's Syndrome is a condition that affects every aspect of a person's life, but this does not prevent McDonald's from embracing those affected and enabling them to become productive members of society.

For 27-year-old Abdul Rahman, the journey began after receiving basic learning and rehabilitation from SAUT. He then received more than 18 months training at McDonald's with the help of a nurse and a specialist



ABDUL RAHMAN WITH PRINCE MISHAAL (R) & PRINCE WALEED

trainer, after which his successful career began. Like his colleagues, he now depends on himself entirely, and works without any extra supervision.

He says: "Up until I was 18, I learned at school how to become more self-reliant – and after that I began to train for a job with SAUT [the Down's Syndrome Society]. After that I was hired at McDonald's, but what I love the most is the treatment I receive from my supervisor and colleagues, which is why I continue to work here."

Abdul Rahman has a heart of gold, has a gentle, kind disposition and

performs all his responsibilities to the fullest. He truly has developed his capabilities and gained rich experience from his time with McDonald's.

Nasreen Al-Thalab, a training specialist with Saut, says that she was surprised by Abdul Rahman's control of his movements and the extent of his understanding and mastery of his work. She believes that he greatly benefitted from the clear McDonald's training curriculum, the use of a clear, simple training methodology – and words of encouragement to build his self-confidence.

Nasreen has called on other companies and institutions to follow McDonald's policy, saying: "The experience of McDonald's Saudi Arabia in the recruitment of people with Down's Syndrome can benefit the entire country.

"The goal of employment is not only providing job opportunities, but also to integrate people in the community. It can help people build their self-reliance so they can discover their abilities, encourage them to adapt and acquire social experiences. People with Down's Syndrome are really amazing people with pure hearts who have abilities which we should invest in."



A YEAR OF GROWTH AND TRIUMPHS



WINNING THE BEST WORKING ENVIRONMENT AWARD WAS A MAJOR ACHIEVEMENT

McDonald's Saudi Arabia has made a habit of success – and it's a habit we intend to continue. And although we consider success as standard, during 2013 there were some extra special achievements that deserve a special mention.

Take Firas Shawwaf, for example, who works in our Al-Mubarraz branch in Al-Ahsa, who last year became the first Saudi to win the Golden Hat award from McDonald's global training arm, the Hamburger University. His success was the result of a huge amount of hard work, his skill set and the application he demonstrated during his restaurant management training courses.

This international honor followed McDonald's Saudi Arabia winning second place in the Group's annual best business environment ratings. Since McDonald's Saudi Arabia first entered this category of awards in 2008, we have never been out of the leading positions, improving year-on-year until last year's runner's up spot which recognized our outstanding performance in the training and development of young Saudis.

The highlight of the year of which we are most proud, was our participation at the Ministry of Labor and HRDF-organized Ogbalak (which loosely translates as 'I was hired') event. Conceived as a forum to honor those organizations that have made most progress in creating employment opportunities for young Saudis, the high profile event was also the ideal platform for us to share our experience of job localization with other private sector organizations – indeed, we used the event to distribute the first issue of this report.

Ogbalak, says RICC vice president Prince Waleed bin Nasser Al Saud, was an important element of the Ministry of Labor's focus on nationalization, helping educate and guide private sector companies, and to make it easier to implement their own localization programs with the help of best-practice from the pioneering early-adopters, such as McDonald's.

Such a high-profile event also helps encourage the commitment and resolve of young Saudis,

many of whom are entering the job market for the first time.

Furthermore, believes Prince Waleed, events such as Ogbalak are proving invaluable in establishing a spirit of partnership between employers and the Ministry, which is in turn helping establish a cooperative and positive relationship between employers and employees. That is certainly the experience in McDonald's, with the loyalty being engendered beneficial to both parties – and to the national economy.

Our figures speak for themselves: during 2013, 7,634 young Saudis applied to work here, with 2,371 hired and 1,813 embarking on training courses. In 2012, 4,772 young Saudis applied, 1,834 were hired and 1,339 went through the training process, working in 160 restaurants in all parts of the Kingdom.

The progress we have made – as well as Saudi recruitment virtually doubling between 2012 and 2013, we achieved 45 percent localization in some areas of the country – is something we intend to continue into 2014 and beyond.

By the end of 2014 we intend to have hired 2,660 young Saudis, and made further progress in our expansion plans. By 2015 the number of McDonald's outlets in Saudi Arabia will have reached 240.

Now, 20 years after the opening of the first of McDonald's in the Kingdom, we stand at 4,713 employees, of whom about 1,361 are Saudi, while 3,152 have completed their training. Moreover, we have reduced staff turnover of Saudi recruits from 149 percent in 2001 to just 38 percent in 2013, and intend to further improve this figure, all of which clearly illustrate our sincere commitment to localize employment, and to continue growing our success in and for Saudi Arabia.

LISTENING TO OUR EMPLOYEES

Ours is a fast moving industry which is why we believe in constantly improving – and a big part of this is listening to what our staff think.

In late 2013 we conducted an in-depth staff survey, to discover more about their satisfaction with their McDonald's career, their motivations, and also about their long-term career choices. Our ultimate aim is to reduce staff turnover, to maintain and grow the proportion of Saudi employees – and to further the reputation of the McDonald's Saudi Arabia team as a happy, motivated and skilled team that continues to delight our customers.

The latest study – which was based on a sample of nearly 1,000 employees from Riyadh, the north and east of the country – gave us plenty of food for thought.

Overall, 88 percent of all employees were very satisfied with McDonald's, though this was down to 79 percent for Saudi nationals. One of the most pleasing aspects is the high score given to relationships with co-workers, which were in the high 90s. No wonder we have such a vibrant team ethic in our stores, then.

However, the purpose of this sort of study is continual progress, so we naturally focused on the areas in which we can improve – particularly those that affect our staff retention.

For our Saudi staff, opportunities for promotion and salary are the biggest issues.

The study also showed that we need to be more sensitive about calling Saudi nationals in when they are scheduled to be off work.

Overall, we believe that we do offer a clear career path, but clearly we need to keep reinforcing that. The fact that the turnover rate of Saudi employees is higher than other nationalities means that this group has less experience and consequently less likely to be promoted.

Increasing staff retention amongst Saudis would therefore have an immediate impact on their satisfaction with promotion opportunities. However, we do acknowledge the need to make the career planning process much more active and visible.

Unsurprisingly, salary is one of the major issues in staff retention rates – but by no means the sole factor. Since our main focus is on cutting down staff turnover, we asked questions about what motivated people to work, whether they planned to switch occupations, what their ideal occupations would be – and what salary levels would induce them to stay with us.

The research shows that whatever we do in terms of salary, 17 percent of our Saudi staff would always choose to move on, planning to stay less than a year with us. In contrast, nearly half have no intention of leaving at all, and

another 17 percent would only leave if another opportunity arose. Government jobs are overwhelmingly the preferred career path for our Saudi staff, with 71 percent favoring that sector in contrast to the 11 percent who named the QSR sector as their ideal career choice.

Clearly our goal is to reduce the turnover of Saudi staff in order to boost our localization levels, and to benefit our operations.

Of course there will always be some leakage, but a particularly pleasing aspect of the report is that 92 percent of Saudi employees strongly believe that their job at McDonald's is teaching them the necessary skills for the job market.

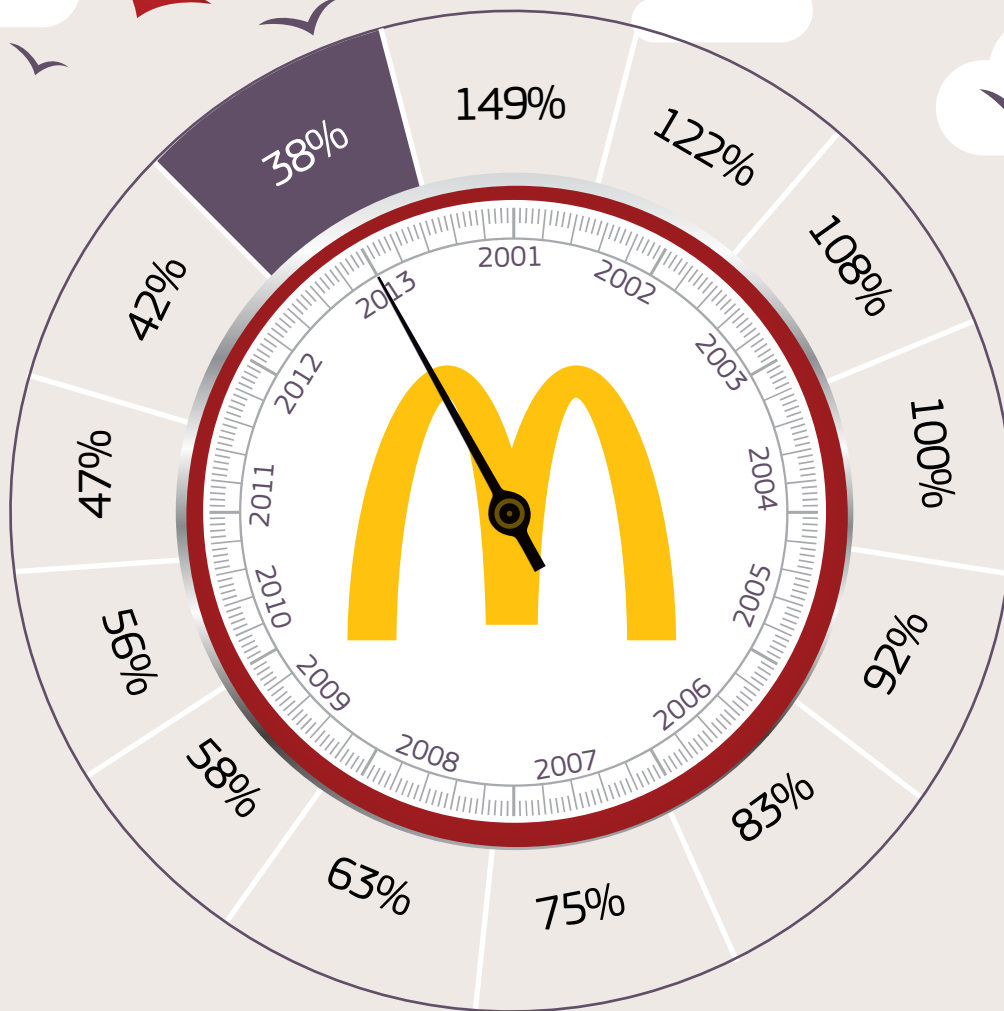
Proof positive that even when team members move on, that the McDonald's focus on employment localization and staff training is proving to be extremely beneficial for the nation as a whole.

OUR PARTNERSHIP WITH THE MINISTRY OF LABOR GOES FROM STRENGTH TO STRENGTH



McDONALD'S AT A GLANCE

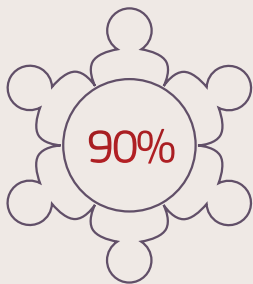
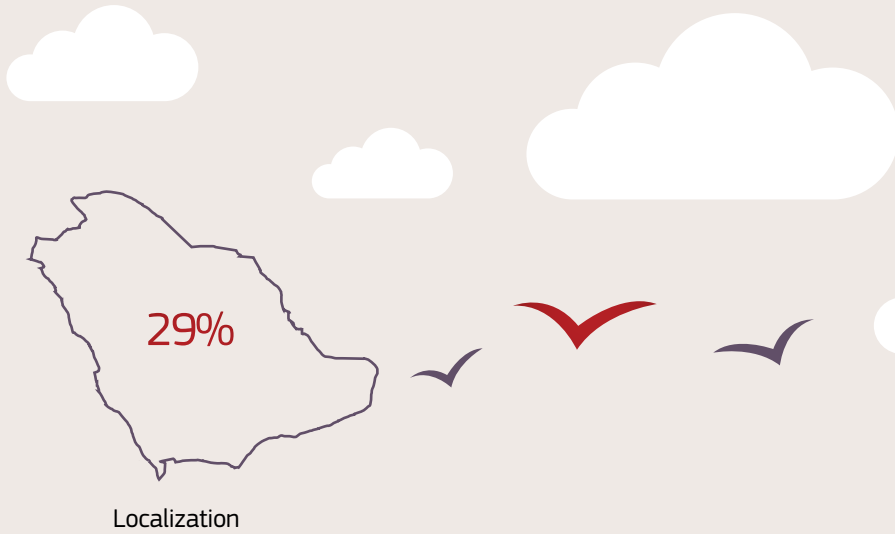
EMPLOYMENT TURN OVER



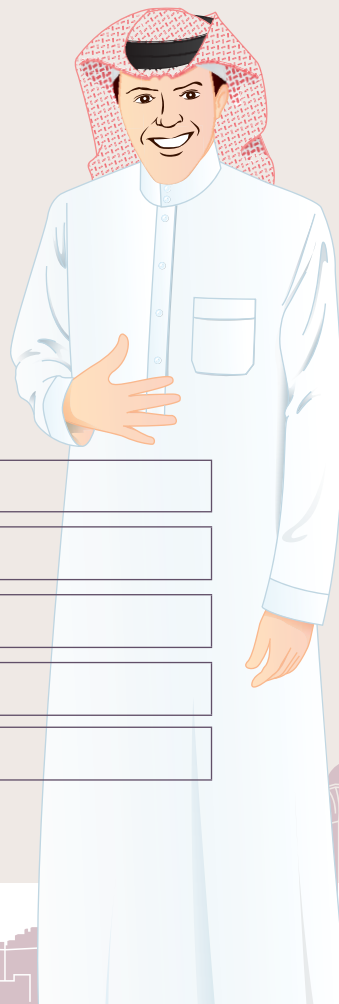
YEAR 2013:
Applicants: 7634
Who have been employed: 2371
Who have been trained: 1813

YEAR 2012:
Applicants: 4772
Who have been employed: 1834
Who have been trained: 1339

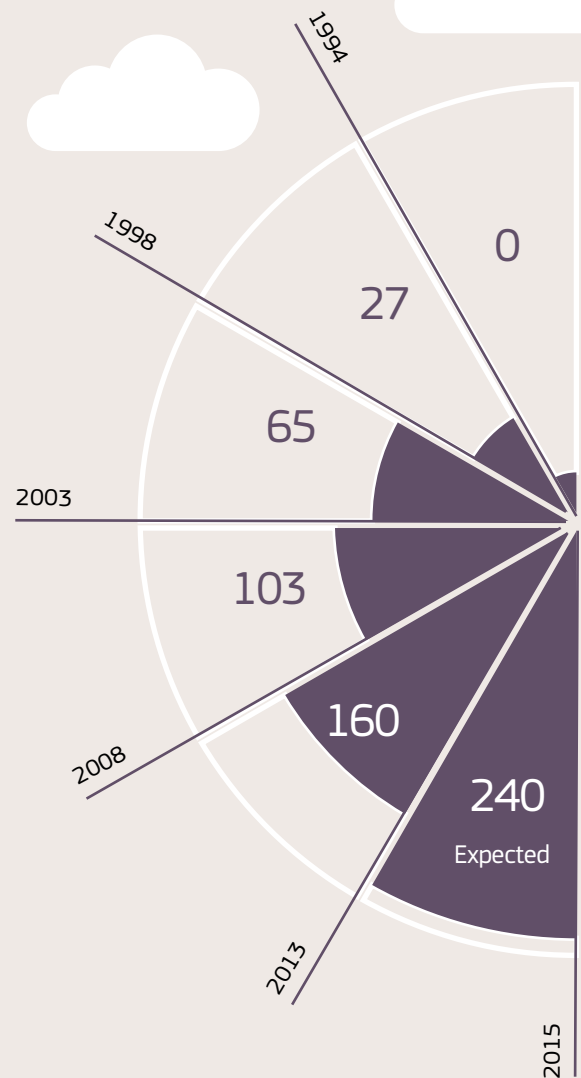
- McDonald's Saudi Arabia employees enjoy:
- an attractive salary
 - time off weekly
 - health insurance for the employee and his family
 - opportunity for promotions and career development
 - flexibility in the choice of working hours and work place



Applicants at McDonald's is their first employment



INCREASE IN NEW STORE OPENINGS



20	Year
160	Branches
4713	Employee
3152	Saudi Trainee
1361	Saudi Employee



McDONALD'S CHANGED MY LIFE

Mohammed Al-Ghamdi describes the six happy years he has worked with McDonald's Saudi Arabia



RESTAURANT MANAGER MOHAMMED AL-GHAMDI

My story began when I was a young child, when the McDonald's sign represented a wonderful thing for me. In fact, it still does. Ever since then, I have loved the atmosphere of McDonald's, and enjoyed watching the staff prepare one meal after another, in a rapid, accurate, and undeviating system.

Over the years, a feeling of loyalty grew in me, until I was 22 and started looking for work. I wanted to join a large national organization where I could achieve my goals and aspirations and look forward to a successful career. It was 2007 – and I found myself applying to McDonald's without hesitation.

At first glance, it may seem that working in quick service restaurants is not a great option – but if you cultivate a good work ethic, this simply isn't true. If there is one thing I learned at the beginning of my

career while I was a humble team member, it is that hard work and determination can really get you places. Working here really has helped strengthen my character.

Today, at the age of 29, I have achieved success and enjoyed a gradual career development.

I have become a restaurant manager, I am part of a respected nationwide company, I enjoy attractive employment benefits, and I work in what has been ranked among the best working environments in Saudi Arabia. McDonald's is a place of professionalism, flexibility, team spirit, and enthusiasm – and it has supported me on every step in my career path.

Of course, the road has not always been smooth, and has required study and determination.

In all, I have completed 14 McDonald's

training courses which have equipped me with all the necessary knowledge, skills, experience, confidence and respect, and which have encouraged me to learn more and become eligible for leadership.

McDonald's management is keen to enable young Saudis to achieve their aspirations by giving them the opportunity to thrive and mark their mark on the company's progress.

My success at McDonald's has made my family very happy and proud – now I'm happy to share the story of my success, hoping to inspire you to join me at McDonald's Saudi Arabia. Hopefully, one day you will be sharing your own success stories.

Mohammed Abdulaziz Al-Ghamdi