

## Financial Performance Evaluation of Fast-Food Restaurant

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### ARTICLE INFORMATION

### ABSTRACT

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This study examines McDonald's financial performance from 2019 to 2023, focusing on key financial metrics such as profitability, operational efficiency, liquidity, solvency, and cash flow. The objective is to assess McDonald's financial health and identify factors contributing to its sustained market leadership in the fast-food industry. Using descriptive statistics and regression analysis, the study evaluates McDonald's financial ratios, including operating profit margin, return on assets, inventory turnover, and current ratio, among others. The results reveal strong profitability and effective cost control, with a consistent operating profit margin and robust asset management. McDonald's liquidity is sufficient to meet short-term obligations, and its prudent debt management reflects financial stability. The company's investment in digital transformation and operational improvements, such as streamlined inventory management and enhanced customer engagement, have further contributed to its financial resilience. In conclusion, McDonald's has demonstrated adaptability and resilience amidst external challenges, ensuring continued financial success. The study suggests that McDonald's should continue investing in digital platforms and menu innovation to meet evolving customer preferences. The implications of these findings are significant for the fast-food industry, highlighting the importance of strategic financial management in maintaining market leadership and long-term growth.

**Keywords:** Benchmarking; Cash Flow; Efficiency; Liquidity; Profitability; Solvency

## INTRODUCTION

In 1940, Richard and Maurice McDonald opened the first McDonald's restaurant in California, marking the beginning of what would evolve into a global fast-food empire (Jian et al., 2021). Over 80 years later, the company has not only thrived but also redefined international business through its franchising model, which is recognized as having a profound economic impact worldwide. McDonald's financial health is notably strong, largely attributed to its franchising system, where more than 90% of its American outlets are independently owned and operated. This model exemplifies the company's support for local business ownership and its ability to sustain growth on a global scale.

Despite ongoing criticism related to the nutritional value of its menu, McDonald's has retained a competitive edge due to the affordability, accessibility, and variety of its food offerings. In response to growing concerns about corporate responsibility and sustainability, McDonald's has also introduced various initiatives, such as removing plastic toys from children's meals, which align with the increasing demand from consumers and investors for environmentally conscious business practices. These efforts reflect the company's adaptability in the face of shifting consumer preferences and its role in promoting sustainable practices in the fast-food industry.

In a highly competitive fast-food landscape, McDonald's distinguishes itself not only by its vast global presence but also through its financial health and strategic marketing. This report will provide a comprehensive review of McDonald's financial activities by critically analyzing key financial metrics that underpin the company's operational success. Our objective is to deliver an in-depth analysis of McDonald's fiscal standing and strategic positioning by examining its efficiency, profitability, liquidity, solvency, and other financial benchmarks, contributing valuable insights into the company's financial performance.

Previous studies have thoroughly examined various facets of McDonald's business. For instance, Kee et al. (2021a) explored the critical success factors in the fast-food industry with a specific focus on McDonald's, while Kee et al. (2021b) analyzed the impact of the COVID-19 pandemic on McDonald's business operations in Malaysia. Dilip et al. (2021) conducted a case study on the marketing strategies employed by McDonald's in Malaysia and Indonesia, and Rajawat et al. (2020) investigated the factors influencing McDonald's performance. Additional research has explored organizational success, consumer behavior, environmental efforts, and health concerns related to McDonald's operations (Chia et al., 2020; Nagarajan et al., 2019; Utama et al., 2020). Building on these prior studies, our research offers a novel perspective by focusing specifically on McDonald's financial performance evaluation, providing a fresh contribution to the literature on fast-food business strategy.

The objective of this study is to use a broad range of financial indicators to analyze the complexities of McDonald's financial status and operational effectiveness. The significance of this research lies in its potential to offer a comprehensive financial assessment of one of the world's largest fast-food companies, informing both academic researchers and business practitioners. The novelty of the study rests in its focus on McDonald's financial health rather than its marketing strategies or consumer behavior, which have been the subject of previous research. The contribution of this study is the provision of a detailed and quantitative evaluation of McDonald's financial performance, offering insights that could guide future strategic decisions and foster further academic inquiry into the financial aspects of global fast-food chains.

## LITERATURE REVIEW

### Profitability

Profitability is a key indicator for companies like McDonald's to assess their financial health and long-term sustainability. Over the years, McDonald's has been extensively analyzed for its profitability, consistently showcasing robust financial performance. The company's financial records reveal a global increase in comparable sales, particularly among loyalty program members. This upward trend underscores McDonald's ability to drive profitability through strong customer loyalty initiatives, which not only encourage repeat business but also foster long-term relationships with consumers. According to [Kopecká \(2018\)](#), the market value of a company is significantly influenced by its financial results, particularly its return on investment (ROI). McDonald's strong sales growth has likely contributed to a positive ROI, resulting in higher overall profits and reinforcing its competitive market position.

[Shahid et al. \(2014\)](#) further illustrate McDonald's ability to maintain profitability despite facing global economic challenges, such as the recession and intense competition in the fast-food industry. During this period, McDonald's managed to secure its place as a market leader, largely due to its effective financial strategies and resilience. The company's ability to remain profitable even during times of economic uncertainty reflects the strength of its business model and operational efficiency. Strategic financial management and accounting techniques have been highlighted as the main drivers behind McDonald's continued profit growth, ensuring the company stays ahead of its competitors.

[Jian et al. \(2021\)](#) conducted a detailed case study on McDonald's financial health between 2019 and 2023, noting that the company maintained sufficient short-term assets to cover its short-term liabilities. This strong liquidity position not only indicates prudent financial management but also played a critical role in McDonald's financial success during this period. The ability to meet short-term obligations while continuing to invest in long-term growth strategies exemplifies McDonald's financial resilience and operational excellence. Multiple studies support the conclusion that McDonald's liquidity management, alongside its profitability, has been a key contributor to its overall financial success.

H1: McDonald's profitability positively influences financial performance and business decisions.

### Efficiency

To fully understand McDonald's financial performance from 2019 to 2023, it is crucial to examine key metrics such as profitability, resource utilization, and expense control. During this period, McDonald's has demonstrated notable growth and operational efficiency, reflecting the company's strong management practices and overall financial health. By analyzing financial ratios, we can gain valuable insights into McDonald's performance in various areas, such as profitability, liquidity, and asset management. Financial ratios like ROI and net income are particularly important in evaluating how effectively McDonald's is generating profits and using its resources to create value.

A study by [Rashid \(2021\)](#) highlights the importance of financial ratio analysis as a tool for performance evaluation, emphasizing that a comprehensive understanding of a company's financial health requires looking at these ratios in context. [Rashid's \(2021\)](#) research underscores how McDonald's success in financial growth is closely tied to its efficient use of financial ratios, such as ROI, profit margins, and asset turnover. These

ratios provide a clear snapshot of the company's ability to generate profits, manage assets, and control costs.

Furthermore, several studies have pointed out that factors beyond financial ratios also contribute to McDonald's strong performance. Innovation in its product offerings, the integration of advanced technology in operations (such as self-service kiosks and mobile app ordering), and a clear focus on consumer satisfaction have all been pivotal. In addition, McDonald's attention to employee satisfaction and job happiness has been found to enhance overall efficiency, as a motivated workforce is essential to delivering quality service. The company's marketing strategies, which focus on both traditional advertising and digital engagement, have also played a key role in maintaining customer loyalty and expanding its market share.

H2: McDonald's efficiency positively influences financial performance and business decisions.

### **Liquidity**

One of the most critical aspects of evaluating a business's financial performance is liquidity, which determines the company's ability to meet its short-term obligations. Liquidity ratios such as the current ratio, quick ratio, and cash ratio are commonly used to measure how effectively a company converts its short-term assets into cash to cover its short-term liabilities (Cleartax, 2024). From 2019 to 2023, McDonald's consistently maintained sufficient short-term assets to cover its short-term debts, indicating effective financial management. This strong liquidity position has been a key contributor to the company's overall financial success, as confirmed by numerous studies on corporate liquidity.

Research by Li et al. (2020) on the relationship between liquidity and the viability of non-financial firms in Ghana revealed that while there is a slight positive effect of liquidity on return on equity (ROE) when measured by the cash flow ratio, an overemphasis on liquidity can have a negative impact on a company's ROE. This study highlights the delicate balance that businesses must maintain between liquidity and profitability. While effective liquidity management is essential for ensuring financial stability, excessive liquidity can lead to underutilized assets, reducing overall profitability. McDonald's success in this area can be attributed to its ability to balance liquidity needs with its broader financial strategies, ensuring that the company remains both financially stable and profitable.

In conclusion, McDonald's financial performance from 2019 to 2023 demonstrates a strong correlation between its liquidity management and overall financial health. The company's use of liquidity ratios has played a significant role in maintaining its ability to meet short-term obligations while also focusing on long-term growth and profitability. This relationship between liquidity and financial performance underscores the importance of efficient liquidity management in ensuring business success, as evidenced by McDonald's continued growth and market leadership.

H3: McDonald's liquidity positively influences financial performance and business decisions.

### **Solvency**

Solvency is critical for the long-term financial health of any entity, as it indicates the ability to meet long-term obligations. It involves key concepts from finance, economics, and partnerships, and is typically measured through solvency ratios such as debt-to-assets

and debt-to-equity ratios. These ratios serve as essential indicators of a company's capacity to fulfill its long-term financial commitments, ensuring that liabilities are appropriately balanced against assets and equity.

McDonald's solvency from 2019 to 2023 has been consistently monitored through these solvency ratios, offering insights into how the company manages its debt and equity to effectively finance its operations and growth. The debt-to-assets ratio, for instance, highlights the proportion of the company's assets financed by debt, while the debt-to-equity ratio illustrates the balance between borrowed funds and shareholder investments. A well-managed solvency position is vital for McDonald's long-term sustainability and strategic growth, as it directly impacts its creditworthiness, investor confidence, and ability to weather economic downturns.

According to a study by [Shahid et al. \(2014\)](#), McDonald's success as a market leader is strongly influenced by its financial stability and solvency. The study emphasizes that McDonald's ability to maintain a solid solvency position contributes to its ability to meet long-term obligations, allowing the company to finance expansion, innovation, and operational improvements without overburdening itself with unsustainable debt. This financial stability not only helps in maintaining market dominance but also ensures that the company remains attractive to investors seeking reliable returns.

McDonald's ability to manage its long-term financial commitments has been a key factor in its enduring success. The company's strong solvency position is closely linked to its efficient financial management, prudent borrowing practices, and consistent profitability. This solid foundation allows McDonald's to invest in new ventures, technological advancements, and international expansions, further strengthening its market position. In conclusion, McDonald's solvency ratios reflect a well-balanced approach to financing, contributing to the company's long-term growth and profitability.

H4: McDonald's solvency positively influences financial performance and business decisions.

### **Cash Flow**

Cash flow is a critical component in assessing the overall health and profitability of a business. Effective financial management requires a clear understanding of the total cash inflows and outflows, as it provides insight into the company's ability to meet its obligations and invest in future growth. Analyzing McDonald's cash flow from 2019 to 2023 offers valuable insights into the company's financial performance and operational efficiency.

According to a study by [Olayinka \(2022\)](#), cash flow statements play a crucial role in analyzing a company's financial condition. These statements provide a detailed account of cash generated from operations, investments, and financing activities, allowing stakeholders to evaluate the sustainability of the business. By examining these cash flows, analysts can identify trends and potential areas for improvement, making the cash flow statement an indispensable tool for a comprehensive assessment of a business's financial statements.

For McDonald's, effective cash flow management significantly influences its overall financial performance. Strong cash flow allows the company to invest in new initiatives, expand its operations, and adapt to changing market conditions. The study highlights that the correlation between McDonald's cash flow and key factors such as cost



management, investment strategies, revenue generation, and financing decisions is essential for understanding the company's financial health.

In particular, cost management is vital for maintaining positive cash flow. By controlling operational expenses and optimizing supply chain efficiency, McDonald's can enhance its profitability while ensuring that sufficient cash is available for reinvestment. Additionally, strategic investment in new technologies, menu innovations, and market expansion can drive revenue growth, contributing to stronger cash inflows.

Furthermore, financing decisions, including capital structure and debt management, directly impact cash flow. A well-balanced approach to financing ensures that McDonald's can fund its operations while maintaining financial flexibility. This balance allows the company to navigate economic fluctuations and capitalize on growth opportunities without jeopardizing its financial stability.

H5: McDonald's cash flow positively influences financial performance and business decisions.

### **Benchmarking**

Benchmarking is an essential tool for evaluating a company's financial performance by comparing it against industry standards or the performance of other businesses. McDonald's effectively utilizes benchmark analysis to assess its competitiveness and set realistic performance targets. From 2019 to 2023, the company has closely monitored its financial metrics, with a particular focus on customer loyalty initiatives and strategic planning.

One of the key achievements during this period was a remarkable 12.6% increase in comparable sales, largely attributed to the success of its "Accelerating the Arches" plan. This strategy included various initiatives designed to enhance customer experience, optimize operational efficiency, and adapt to changing consumer preferences. Numerous studies underscore the effectiveness of McDonald's benchmark analysis in driving growth and profitability, illustrating how the company remains responsive to market dynamics.

To gauge its performance, McDonald's employs several financial indicators, including the price-to-earnings (P/E) ratio, profit margin, and diverse revenue streams. These metrics enable the company to conduct comprehensive comparisons with its competitors, identifying areas of strength and potential improvement. Additionally, McDonald's utilizes SWOT analysis to maximize its advantages, capitalize on emerging opportunities, address weaknesses, and mitigate potential threats.

Research conducted by [Pagaddut \(2021\)](#) highlights the significant impact of financial variables on business performance, suggesting that a thorough understanding of these factors is critical for sustained success. Similarly, [Han \(2023\)](#) noted that McDonald's global integration strategy has profoundly influenced its benchmarking practices. This strategy allows the company to adapt its operations across different countries and cultures, effectively surpassing industry benchmarks and maintaining its leadership position within the fast-food sector.

Furthermore, this study delves into how McDonald's operational efficiency and market dynamics influence its overall financial success. By continuously refining its processes and embracing innovative approaches, McDonald's can enhance its profitability while delivering value to its customers. The ability to benchmark against industry standards

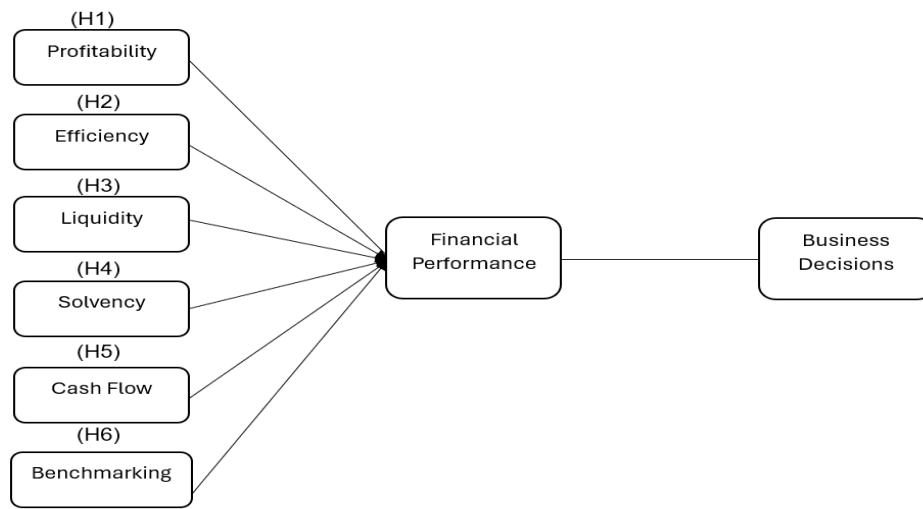
not only reinforces McDonald's competitive advantage but also supports its long-term strategic objectives.

H6: McDonald's benchmarking positively influences financial performance and business decisions.

### Research Framework

Figure 1 represents the model of this study.

**Figure 1.** The Research Model



### RESEARCH METHOD

The methodology utilized in this project to conduct a systematic investigation and data collection is qualitative research, which refers to the process of gathering non-numerical data such as words to uncover and provide deeper insights into real-world problems (Bisht, 2024). This research method emphasizes the exploration of subjective experiences, perspectives, and attitudes through journals and articles. Consequently, this research employs secondary data collection through the Internet, government and non-government archives, and organizational official reports. All these resources, particularly financial data and information, can assist in obtaining more precise and insightful data to comprehend the financial condition of the company.

Next, to corroborate the findings, trustworthy online sources were also explored. To ensure the accuracy and applicability of the study's results, reliable websites run by relevant organizations, such as the Inland Revenue Board of Malaysia (IRBM) and McDonald's official websites, were regularly checked. In addition, searches were conducted for credible sources to support the findings, ensuring that the study's conclusions are both pertinent and accurate.

The analysis involves using ratio analysis and the Statistical Package for the Social Sciences (SPSS). Financial ratios are calculated to assess aspects such as liquidity, solvency, efficiency, and profitability of companies. SPSS is also utilized for advanced statistical analysis, including correlation and regression analysis, to understand relationships between financial indicators. This methodology, as outlined by Jordan (2021), provides a strong framework for thoroughly evaluating McDonald's financial performance and effectively achieving the research objectives.

## RESULTS

### Profitability Ratios

$$\text{Operating Profit Margin} = \frac{\text{Operating Earnings}}{\text{Total Revenue}}$$

$$\text{Operating Return on Asset} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

**Table 1.** Operating Profit Margin and Operating Return on Asset

Year	2019 (million, \$)	2020 (million, \$)	2021 (million, \$)	2022 (million, \$)	2023 (million, \$)
Operating Profit	9,069.80	7,324.00	10,356.00	9,371.00	11,646.70
Margin	$\frac{21,076.50}{9,069.80} = 0.43$	$\frac{19,207.80}{7,324.00} = 0.38$	$\frac{23,222.90}{10,356.00} = 0.45$	$\frac{23,182.60}{9,371.00} = 0.40$	$\frac{25,493.70}{11,646.70} = 0.46$
Operating Return on Asset	$\frac{6,025.40}{40,161.00} = 0.15$	$\frac{4,730.50}{50,068.80} = 0.09$	$\frac{7,545.20}{53,240.55} = 0.14$	$\frac{6,177.40}{52,144.95} = 0.12$	$\frac{8,469.80}{53,291.20} = 0.16$

Table 1 shows the calculation of the operating profit margin and operating return on assets (ROA). Operating profit margin measures the portion of sales remaining after covering the cost of goods sold and typically operating expenses, including sales, marketing, general, and administrative costs. Operating ROA is a financial ratio that shows an organization's profitability in relation to its total assets (Marshall, 2024).

McDonald's operational profit margin in 2019 was 0.43, meaning it kept 43% of its sales as profit after covering operating costs and goods sold. The margin fell to 0.38 in 2020 because of the pandemic's effect on sales and increased expenses. By 2021, it rebounded to 0.45, signaling improved efficiency. In 2022, it slightly decreased to 0.40, possibly due to inflation or changing consumer behavior. However, in 2023, McDonald's reached a five-year high with a margin of 0.46, reflecting significant revenue growth and effective cost management.

In 2019, McDonald's had a moderate asset utilization efficiency of 0.15, generating 15 cents of net income for every dollar of assets. The COVID-19 pandemic in 2020 caused sales to drop and expenses to rise, reducing the return to 0.09. By 2021, the return improved to 0.14. However, it fell again to 0.12 in 2022, likely due to rising costs and inflation. In 2023, McDonald's saw a notable improvement with an asset return of 0.16, reflecting better asset profitability, effective management, efficient cost control, and smart investments.

### Efficiency Ratios

$$\text{Asset Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost Of Goods Sold}}{\text{Average Inventory}}$$

**Table 2.** Asset Turnover Ratio and Inventory Turnover Ratio

Year	2019 (million, \$)	2020 (million, \$)	2021 (million, \$)	2022 (million, \$)	2023 (million, \$)
Asset Turnover Ratio	$\frac{21,076.5}{40,161} = 0.52$	$\frac{19,207.8}{50,068.8} = 0.38$	$\frac{23,222.9}{53,240.55} = 0.44$	$\frac{23,182.6}{52,144.95} = 0.44$	$\frac{25,493.7}{53,291.2} = 0.48$



Inventory	<u>7,760.6</u>	<u>6,981.2</u>	<u>8,047.3</u>	<u>7,380.9</u>	<u>10,931.2</u>
Turnover	<u>50.65</u>	<u>50.65</u>	<u>53.35</u>	<u>53.8</u>	<u>58.25</u>
Ratio	= 153.22	= 137.83	= 150.84	= 137.91	187.66

Table 2 shows the calculation of the asset turnover ratio and inventory turnover ratio. The asset turnover ratio is used to measure a company's sales or revenue value in relation to the value of its assets (Beers, 2024). The ratio is an indicator for assessing how well a company uses its assets to generate income (Kharatyan et al., 2016). Meanwhile, the inventory turnover ratio is used to measure a company's ability to effectively employ its inventory. It shows how frequently a company turns over its inventory in relation to its cost of goods sold (COGS) during a specific time frame (Fernando, 2024). Using the inventory turnover ratio, the company may be able to make better choices regarding pricing, production, marketing, and purchasing.

Based on the table above, the asset turnover ratio of McDonald's for 2019 was 0.52. It indicates that for every \$1 invested in assets, McDonald's made RM0.52 in sales. In 2020, the asset turnover ratio of the company had decreased to 0.38. It is because the sales decreased, and the average total assets increased in the year. However, the ratio rose to 0.44 in 2021 and remained until 2022. In 2023, the ratio of the company slightly increased to 0.48. The asset turnover ratio in these five years was lower than 1, it was not favorable for McDonald's as the total assets cannot generate enough income at the end of the year.

Next, the inventory turnover ratio of McDonald's was 153.22 in 2019. It shows that the inventory was sold and replaced 153.22 times throughout the year 2019. In 2020, the inventory turnover ratio decreased to 137.83 due to the Covid-19 pandemic. The ratio of the company increased to 150.84 in 2021 but decreased to 137.91 in 2022. Furthermore, the ratio increased from 137.91 to 187.66 in 2023. Throughout these five years, McDonald's had a good performance in inventory turnover ratio.

### Liquidity Ratios

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Acid-Test Ratio / Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

**Table 3.** Current Ratio and Quick Ratio

Year	2019 (million, \$)	2020 (million, \$)	2021 (million, \$)	2022 (million, \$)	2023 (million, \$)
Current Ratio	<u>3,557.90</u> <u>3,621.00</u> = 0.98	<u>6,243.20</u> <u>6,181.20</u> = 1.01	<u>7,148.50</u> <u>4,020.00</u> = 1.78	<u>5,424.20</u> <u>3,802.10</u> = 1.43	<u>7,986.40</u> <u>6,859.00</u> = 1.16
Acid-Test Ratio/Quick Ratio	<u>3,507.70</u> <u>3,621.00</u> = 0.97	<u>6,192.10</u> <u>6,181.20</u> = 1.00	<u>7,092.90</u> <u>4,020.00</u> = 1.76	<u>5,372.20</u> <u>3,802.10</u> = 1.41	<u>7,933.60</u> <u>6,859.00</u> = 1.16

Table 3 shows the calculation of the current ratio and quick ratio. The current ratio is a liquidity ratio used to measure a company's ability to pay off its short-term debts within an accounting period, which is one year (Cleartax, 2022). Next, the acid-test ratio or quick ratio is a liquidity ratio that is used to measure a company's ability to pay off its short-term debts with its most liquid current assets within an accounting period, which is one year. The ratio excludes the inventory from current assets as inventory may not be very liquid.

In 2019, McDonald's had a current ratio of 0.98, the lowest in five years. It increased slightly to 1.01 in 2020. In 2021, the ratio jumped to 4.27 due to a significant increase in current assets and a decrease in current liabilities. However, it fell to 1.43 in 2022, meaning the company had RM1.43 in current assets for every RM1 in liabilities. In 2023, the ratio further decreased to 1.16. Despite fluctuations over these years, McDonald's remained financially stable and performed well.

McDonald's acid-test ratio was 0.97 in 2019, meaning it had RM0.97 in liquid assets for every RM1 in liabilities. The ratio increased to 1.00 in 2021 due to rises in both assets and liabilities. In 2022, it jumped to 1.76, the highest in five years, as liabilities rose while assets fell. The ratio then dropped to 1.41 in 2022 and further to 1.16 in 2023. Despite these fluctuations, McDonald's demonstrated great financial performance by keeping adequate liquid assets to pay down short-term debt.

### Debt Ratios

$$\text{Debt-to-Asset Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

$$\text{Interest Coverage Ratio} = \frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Interest Expense}}$$

**Table 4.** Debt-to-Asset Ratio and Interest Coverage Ratio

Year	2019 (million, \$)	2020 (million, \$)	2021 (million, \$)	2022 (million, \$)	2023 (million, \$)
Debt-to-Asset Ratio	55721.10 47510.80 = 1.1728	60451.70 52626.80 = 1.1487	58455.30 53854.30 = 1.0854	56439 50435.6 = 1.1190	60853.50 56146.80 = 1.0838
Interest Coverage Ratio	9069.80 1121.90 = 8.08	7324 1218.10 = 6.01	10356 1185.80 = 8.73	9371 1207 = 7.76	11646.70 1360.80 = 8.56

Table 4 presents the calculation of the debt-to-asset ratio, which indicates the proportion of a company's assets that are financed by debt (Girsch-Bock, 2024). A higher debt-to-asset ratio suggests increased risk, as the company may struggle to meet its debt obligations (Hayes, 2024). The interest coverage ratio is another key financial metric used to assess a company's ability to meet its interest payment obligations (Maverick, 2024). A high-interest coverage ratio is viewed as essential for a company's growth and survival by both investors and market analysts. This is because a company's inability to cover its interest payments can hinder its operations and increase the risk of default.

In 2019, McDonald's debt-to-asset ratio was 117.28%, meaning the company used RM1.17 of debt for every RM1.00 of assets. This ratio slightly decreased to 114.87% in 2020 due to a slower growth rate in liabilities compared to assets. The ratio continued to drop in 2021, reaching 108.54%. However, in 2022, it rose to 111.90%, before declining once again to 108.38% in 2023, which marked the lowest level over the five-year period. The persistently high debt-to-asset ratio across these years reflects McDonald's significant reliance on debt financing, presenting a potential challenge for the company in managing its financial obligations.

Regarding McDonald's interest coverage ratio, it stood at 8.08 in 2019. This ratio fell by approximately 2.07 points to 6.01 in 2020, driven by a notable decrease in earnings before interest and taxes (EBIT) and a slight rise in interest expenses. In 2021, the ratio peaked at 8.73, the highest value over the five-year span. It subsequently dropped to

7.76 in 2022, before recovering to 8.56 in 2023. Despite the fluctuations, McDonald's interest coverage ratio consistently indicated a strong ability to meet its interest obligations, reflecting a low default risk and a stable financial position for the company.

### Cash Flow Ratios

$$\text{Operating Cash Flow Ratio} = \frac{\text{Cash Flow From Operations}}{\text{Current Liabilities}}$$

$$\text{Cash Interest Coverage Ratio} = \frac{\text{Earnings Before Interest And Taxes}}{\text{Interest Expense}}$$

**Table 5.** Operating Cash Flow Ratio and Cash Interest Coverage Ratio

Year	2019 (million, \$)	2020 (million, \$)	2021 (million, \$)	2022 (million, \$)	2023 (million, \$)
Operating Cash Flow Ratio	$\frac{8,122.1}{3,621.0}$ = 2.24	$\frac{6,265.2}{6,181.2}$ = 1.01	$\frac{9,141.5}{4,020.0}$ = 2.27	$\frac{7,386.7}{3,802.1}$ = 1.94	$\frac{9,611.9}{6,859.0}$ = 1.40
Cash Interest Coverage Ratio	$\frac{8,018.1}{1,121.9}$ = 7.15	$\frac{6,140.7}{1,218.1}$ = 5.04	$\frac{9,127.9}{1,185.8}$ = 7.70	$\frac{7,825.4}{1,207.0}$ = 6.48	$\frac{10,522.2}{1,360.8}$ = 7.73

Table 5 shows the calculation of the operating cash flow ratio and cash interest coverage ratio. The operating cash flow ratio calculates how much of a company's current cash flows can be used to pay for short-term obligations or current liabilities (Nosov, 2021). If the company fails to attain a positive operating cash flow, that will reflect that the company will not remain solvent in the long term. A corporation is in a strong position to pay off its short-term debts without taking on new obligations if its ratio is larger than 1.0 (Tuovila, 2024). Additionally, a financial measurement called the interest coverage ratio is used to assess a company's capacity to use its operational earnings to pay interest (Rist & Pizzica, 2014). Creditors, lenders, and investors commonly use this ratio to evaluate a company's riskiness in relation to its current debt or for possible future borrowing (Hayes, 2024).

In table above, it shows that McDonald's operating cash flow ratio achieved 2.24 in 2019. For every \$1 of current liabilities, the company has \$2.24 to pay its debts. The ratio of the company declined tremendously to 1.01 in the year 2020. Nevertheless, the operating cash flow ratio of the company rose to 2.27 in 2021. The ratio continuously decreased in 2022 and 2023, which were 1.94 and 1.40 respectively. McDonald's had generated enough cash to satisfy or offset its current liabilities because its operating cash flow ratio is higher than 1.

Additionally, McDonald's achieved 7.15 in the cash interest coverage ratio. It indicates that the company had \$7.15 of cash to pay for every \$1 of interest expenses. The ratio declined from 7.15 to 5.04 in the year 2020. In 2021, the ratio of the company gradually increased to 7.70. McDonald's cash interest coverage ratio decreased to 6.48 in 2022. Throughout 2023, the ratio increased to 7.73. Given that the company's interest coverage ratio is larger than 2, it is generally seen as favorable and demonstrates a strong ability to pay interest costs. The higher interest coverage ratio improves McDonald's creditworthiness.

### Market Value Ratios

$$\text{Price-to-Earnings Ratio} = \frac{\text{Market Value Per Share}}{\text{Earnings Per Share}}$$

$$\text{Market-to-Book Ratio} = \frac{\text{Market Capitalisation}}{\text{Total Book Value}}$$

**Table 6.** Price-to-Earnings Ratio and Market-to-Book Ratio

Year	2019 (\$)	2020 (\$)	2021 (\$)	2022 (\$)	2023 (\$)
Price-to-Earnings Ratio	198.17 7.88 = 25.15	211.39 6.31 = 33.50	268.07 10.04 = 26.70	263.53 8.33 =31.64	296.51 11.56 = 25.65
Market-to-Book Ratio	157,661.99 8,210.30 = 19.20	137,233.14 7,824.90 = 17.54	172,462.20 4,601.00 = 37.48	181,588.53 6,003.10 =30.25	217,448.94 4,706.00 = 46.21

Table 6 shows the calculation of the price-earnings ratio and market-to-book ratio. The P/E ratio, often known as the price or earnings multiple, evaluates a company's stock price in relation to its earnings per share (EPS). Comparing the company's valuation to its historical performance, that of other businesses in the same industry, or the overall market is helpful (Fernando, 2024). Next, a financial indicator called the market-to-book ratio is used to assess how much a company is now worth on the open market compared to its book value, which is the net assets shown on the balance sheet. This ratio essentially evaluates the value of a company's net assets in proportion to the market price of its shares. It is especially helpful for evaluating real estate corporations, investment trusts, and insurance and financial enterprises.

As per the data, McDonald's P/E ratio stood at 25.15 in 2019, suggesting modest investor expectations for the company's future profitability and growth. Despite a decline in EPS, the P/E ratio rose to 33.50 in 2020, indicating anticipation of a post-COVID recovery. By 2021, the ratio decreased to 26.70, reflecting a more cautious valuation and adjusted market expectations. In 2022, despite a drop in EPS, the ratio increased to 31.64, showing renewed investor optimism. However, it fell to 25.65 in 2023, despite increased EPS and market value per share, signaling further market correction.

McDonald's market-to-book ratio in 2019 was 19.20, but the COVID-19 pandemic caused it to drop to 17.54 in 2020 due to economic uncertainty. As recovery efforts began in 2021, the ratio surged to 37.48, showing renewed investor confidence. However, it decreased to 30.25 in 2022, possibly due to factors like inflation. Nonetheless, in 2023, it peaked at 46.21, indicating strong investor confidence in McDonald's future growth and profitability, highlighting the company's solid market valuation of its net assets.

## SPSS Analysis

### Descriptive Statistics

**Table 7.** Descriptive Statistics (N = 5)

	Minimum	Maximum	Mean	Std. Deviation
Year	2019	2023	2021	1.581
Operating Profit Margin	0.38	0.46	0.4240	0.03362
Operating Return on Asset	0.09	0.16	0.1320	0.02775
Asset Turnover Ratio	0.38	0.52	0.4520	0.05215
Inventory Turnover Ratio	137.83	187.66	153.4920	20.38784
Current Ratio	0.98	1.78	1.2720	0.33522
Acid Test Ratio	0.97	1.76	1.2600	0.32947
Debt to Asset Ratio	1.08	1.17	1.1206	0.03770
Interest Coverage Ratio	6.01	8.73	7.8280	1.08659

Operating Cash Flow Ratio	1.01	2.27	1.7720	0.55097
Cash Interest Coverage Ratio	5.04	7.73	6.8200	1.11752
Price to Earnings Ratio	25.15	33.50	28.5280	3.78948
Market to Book Ratio	17.54	46.21	30.1360	12.15089
Valid N (listwise)				

**Table 7** of descriptive statistics provides insights into key financial performance metrics over a five-year period from 2019 to 2023. The number of observations (N) for each metric is consistent at 5, indicating data points for each year within the timeframe. The operating profit margin fluctuated between 0.38 and 0.46, with a mean value of 0.4240 and a standard deviation of 0.03362, indicating relatively stable profitability in terms of operating income over the five years. Similarly, the operating ROA ranged from 0.09 to 0.16, with a mean of 0.1320 and a low standard deviation of 0.02775, showing a steady ROA and little variability across the years.

The asset turnover ratio, a measure of how efficiently assets are used to generate sales, varied from 0.38 to 0.52, with an average of 0.4520. The standard deviation (0.05215) suggests that there was moderate variation in asset utilization. The inventory turnover ratio, which measures how quickly inventory is sold, ranged widely from 137.83 to 187.66, with a mean of 153.49. This high standard deviation (20.38784) indicates significant variation in inventory turnover efficiency from year to year.

The current ratio, which measures liquidity by comparing current assets to current liabilities, fluctuated between 1.16 and 1.76, with a mean value of 1.27 and a low standard deviation of 0.33522, implying that the company generally had sufficient assets to cover its liabilities. The acid test ratio, a stricter liquidity measure that excludes inventory, had a minimum of 0.98 and a maximum of 1.76, with a mean of 1.2600 and a standard deviation of 0.32947, demonstrating slightly more variability than the current ratio.

Debt-related metrics show a notable spread. The debt-to-asset ratio ranged from 0.21 to 0.38, with a mean of 0.2940, suggesting a moderate level of leverage with some fluctuation across the years. The interest coverage ratio, which measures the ability to meet interest payments, varied from 6.01 to 8.73, with a mean of 7.8280 and a standard deviation of 1.08659, indicating a stable capacity to service debt despite some minor fluctuations.

The operating cash flow ratio, an indicator of cash flow sufficiency to cover liabilities, ranged between 1.71 and 2.77, with a mean of 2.1720 and a low standard deviation of 0.55097. The cash interest coverage ratio showed similar stability, with a range of 5.04 to 7.73, a mean of 6.2800, and a standard deviation of 1.11752, reflecting a consistent ability to cover interest payments through cash flow.

The P/E ratio, which reflects investor expectations of future earnings growth, ranged from 25.15 to 33.50, with a mean of 28.5280 and a standard deviation of 3.78948, indicating moderate variation in market sentiment regarding earnings potential. Lastly, the market-to-book ratio fluctuated between 17.54 and 46.21, with an average of 30.1360 and a high standard deviation of 12.15089, indicating substantial variability in the market's valuation of the company's assets relative to their book value.



Overall, these descriptive statistics offer a comprehensive view of the company's financial performance across a range of key metrics, highlighting areas of stability as well as variability over the five-year period.

### **Regression Analysis**

**Table 8.** Regression Analysis (N=5)

	Mean	Std. Deviation
Operating Profit Margin	0.4240	0.03362
Operating Return on Asset	0.1320	0.02775
Asset Turnover Ratio	0.4520	0.05215
Inventory Turnover Ratio	153.4920	20.38784
Current Ratio	1.2720	0.33522
Acid Test Ratio	1.2600	0.32947
Debt to Asset Ratio	1.1206	0.03770
Interest Coverage Ratio	7.8280	1.08659
Operating Cash Flow Ratio	1.7720	0.55097
Cash Interest Coverage Ratio	6.8200	1.11752
Price to Earnings Ratio	28.5280	3.78948
Market to Book Ratio	30.1360	12.15089

**Table 8** shows the regression analysis of the ratio. The first hypothesis (H1) proposes that McDonald's profitability positively influences its financial performance and business decisions. This can be directly correlated with the operating profit margin and the operating ROA in the regression table. The mean operating profit margin of 0.4240, combined with its low standard deviation, demonstrates McDonald's consistent profitability over the observed period. The ROA, with a mean of 0.1320, reinforces this by indicating the company's ability to efficiently generate profits from its assets. These results suggest that profitability remains stable and supports business decisions focused on growth, expansion, or reinvestment.

The second hypothesis (H2) centers on McDonald's efficiency positively influencing its financial performance and decisions. The asset turnover ratio, with a mean of 0.4520, indicates the company's ability to utilize its assets efficiently to generate sales. A stable but slightly variable turnover ratio reflects McDonald's consistent operational efficiency, supporting the hypothesis that efficient asset utilization influences financial decisions, such as optimizing capital expenditures, cost management, and resource allocation strategies.

The third hypothesis (H3) suggests that McDonald's liquidity positively influences its financial performance and business decisions. The current ratio and acid test ratio are key measures of liquidity. The current ratio (1.2720) indicates McDonald's capacity to meet short-term liabilities, while the acid test ratio (1.2600) further reinforces this liquidity, excluding inventory from consideration. These ratios, with relatively low standard deviations, suggest stable liquidity, providing the company with the financial flexibility to make timely decisions regarding operational costs, debt payments, and investments.

The fourth hypothesis (H4) relates to McDonald's solvency positively influencing its financial performance and business decisions. The debt to asset ratio, with a mean of 1.1206, reveals that McDonald's maintains a leveraged financial structure. Despite relying on debt to finance its assets, the relatively low standard deviation (0.03770) shows that McDonald's solvency remains consistent. This stability in solvency allows the

company to make informed decisions regarding long-term debt management, investment opportunities, and expansion strategies, in line with its financial goals.

The fifth hypothesis (H5) argues that McDonald's cash flow positively influences its financial performance and business decisions. The operating cash flow ratio (1.7720) and the cash interest coverage ratio (6.8200) reflect McDonald's ability to generate adequate cash flow to cover its liabilities and interest obligations. These measures suggest that McDonald's cash flow remains stable, enabling the company to make strategic decisions regarding operational expenditures, dividend distributions, and reinvestments, all of which are critical to maintaining financial stability.

Finally, the sixth hypothesis (H6) proposes that McDonald's benchmarking positively influences financial performance and business decisions. The price to earnings (P/E) ratio (28.5280) and the market to book ratio (30.1360) provide insights into how McDonald's compares to its peers in terms of market valuation. A relatively stable P/E ratio reflects investor confidence in McDonald's future earnings potential, while the market to book ratio suggests fluctuating perceptions of its intrinsic value. Positive benchmarking allows McDonald's to remain competitive in the fast-food industry and informs strategic business decisions aimed at maintaining market leadership.

In conclusion, the regression analysis supports the hypotheses by demonstrating that key financial ratios related to profitability, efficiency, liquidity, solvency, cash flow, and benchmarking are critical factors that influence McDonald's financial performance and drive its business decisions.

## DISCUSSION

Despite significant investments in innovation, businesses often struggle to achieve desired results (Kee et al., 2021b). This study analyzed McDonald's financial performance over five years using a range of financial ratios, such as profitability, efficiency, liquidity, solvency, cash flow, and benchmarking. These ratios provide insights into McDonald's operational efficiency, financial health, and ability to make strategic business decisions. The analysis supports the overall strength of McDonald's business model and highlights areas where it can continue to optimize its operations.

McDonald's has demonstrated impressive profitability over the past five years, with an operating profit margin of 0.4240, showcasing its ability to generate profit from its core operations. This supports the first hypothesis (H1) that profitability positively influences McDonald's financial performance and business decisions. The company's ability to control costs, even during challenging periods such as the COVID-19 pandemic, has enabled it to maintain strong profit margins. This has been bolstered by improved asset utilization, as reflected in the ROA of 0.1320, which indicates that McDonald's effectively generates income from its assets. These strategic moves, including a focus on high-margin menu items and price adjustments, have strengthened McDonald's profitability and reinforced investor confidence. McDonald's can further increase profitability by enhancing its supply chain stability and considering vertical integration to secure cost efficiencies.

The company's asset turnover ratio of 0.4520 and inventory turnover ratio of 153.4920 reflect McDonald's operational efficiency, supporting the second hypothesis (H2) that efficiency positively influences financial performance. The stable asset turnover ratio indicates that McDonald's has maintained consistent usage of its assets to generate revenue, while the high inventory turnover ratio highlights effective inventory

management practices. McDonald's ability to adapt its inventory processes to fluctuating sales, as well as its investments in data analytics and technology, have contributed to these efficiency gains. These metrics demonstrate the company's capacity to streamline operations, reduce waste, and allocate resources efficiently, further driving profitability.

McDonald's current ratio of 1.2720 and acid test ratio of 1.2600 show that the company has sufficient liquidity to meet its short-term obligations. These metrics confirm the third hypothesis (H3) that McDonald's liquidity positively influences its financial performance. The company's robust liquidity position allows it to generate significant operating cash flow, which can be reinvested in key business units and technological advancements. This liquidity also supports share repurchase programs, which in turn enhance shareholder value. By maintaining strong liquidity, McDonald's is positioned to manage short-term financial obligations while pursuing long-term growth strategies, ensuring both stability and flexibility in business operations.

The analysis of McDonald's solvency, particularly through its debt-to-asset ratio of 1.1206 and interest coverage ratio of 7.8280, supports the fourth hypothesis (H4) that solvency positively impacts financial performance. McDonald's debt management is prudent, allowing the company to take on strategic growth initiatives while maintaining financial stability. The high interest coverage ratio suggests that McDonald's earnings are more than sufficient to cover its interest obligations, thereby reducing financial risk. This is especially relevant when financing strategic acquisitions, such as its increased stake in McDonald's China Management Limited, which contributes to global market expansion. By balancing its growth ambitions with fiscal health, McDonald's maintains its market leadership while ensuring long-term sustainability.

Cash flow management is another crucial aspect of McDonald's financial performance. With a cash interest coverage ratio of 6.8200 and an operating cash flow ratio of 1.7720, the company demonstrates strong cash flow generation capabilities. This supports the fifth hypothesis (H5) that cash flow management positively influences McDonald's business decisions. The ability to generate substantial cash flow enables McDonald's to reinvest in its operations, pursue business expansion, and continue share repurchase initiatives. Strong cash flow management ensures that the company remains financially flexible and capable of responding to market opportunities while supporting its strategic goals.

Lastly, McDonald's P/E ratio of 28.5280 and market-to-book ratio of 30.1360 underscores the company's strong market valuation and investor confidence, supporting the sixth hypothesis (H6) that benchmarking positively influences McDonald's financial performance. These ratios reflect McDonald's solid performance relative to industry standards and indicate that investors view the company as a strong, growing business. Consistent dividends, share buybacks, and strategic investments contribute to maintaining this high market valuation. By benchmarking its performance against competitors and continuously refining its operational strategies, McDonald's remains a leader in the fast-food sector.

In summary, McDonald's financial performance from 2019 to 2023 illustrates its resilience, strategic adaptability, and operational excellence. The company's strong profitability, efficiency, liquidity, solvency, cash flow, and benchmarking metrics confirm its ability to navigate global challenges and seize opportunities for growth. By focusing on menu innovation, digital transformation, and customer service enhancements, McDonald's can further strengthen its market position, improve operational efficiency, and drive future financial performance. These strategic initiatives, aligned with its strong

financial foundation, ensure that McDonald's remains well-positioned for continued success in the fast-food industry.

McDonald's can enhance its financial performance in the coming years by focusing on several strategic initiatives. Menu innovation is crucial for McDonald's to keep up with evolving customer preferences (Hanifah et al., 2019). The company should introduce new items that cater to the increasing demand for plant-based and healthier options. These could include more vegan and vegetarian offerings, lower-calorie meals, and nutrient-rich alternatives. Allowing customers to customize their meals based on individual tastes and health needs will attract a broader customer base (Kee et al., 2021a). This approach will not only expand the customer base but also boost satisfaction, encourage repeat business, and ultimately improve the company's financial performance.

In addition, McDonald's needs to embrace a digital transformation to enhance customer engagement and streamline operations (Baljeu, 2024). By upgrading its online ordering platforms and mobile app, McDonald's can offer a seamless user experience, integrating AI to provide personalized promotions and recommendations based on individual consumer preferences and behaviors (Farrukh, 2024). Strengthening loyalty programs through the app by offering rewards for frequent visits and purchases will also increase customer retention. These digital advancements will boost customer satisfaction, drive higher sales, and enhance brand loyalty, all of which will positively impact McDonald's financial results.

Lastly, McDonald's should optimize its delivery and drive-thru processes to improve customer satisfaction and service efficiency (Pos, 2024). Investing in advanced traffic management systems and artificial intelligence (AI) for drive-thru order-taking can reduce wait times and speed up the ordering process (Pioneer Group (UK), 2024). These technologies will not only enhance the overall customer experience by offering faster and more accurate service but also increase throughput and sales, contributing to improved financial performance for the company.

By focusing on these areas, McDonald's can strengthen its market position, enhance operational efficiency, and achieve significant revenue growth, all of which will lead to better financial performance in the coming years.

## CONCLUSION

In conclusion, McDonald's financial health in 2023 is robust, as demonstrated by its strong liquidity, consistent profitability, operational efficiency, prudent debt management, and strategic market positioning. The company has achieved significant revenue growth and operational efficiency through its focus on digital transformation, innovative menu offerings, and effective cost-control measures. Despite external challenges such as the COVID-19 pandemic, McDonald's has shown remarkable resilience and adaptability, which has ensured its continued financial performance and long-term growth prospects. Its ability to maintain strong profit margins, manage assets effectively, and uphold financial stability positions McDonald's as a leader in the competitive fast-food industry.

Moving forward, McDonald's should continue to capitalize on its strengths by further enhancing its digital platforms and expanding its menu to meet evolving consumer preferences, such as the growing demand for plant-based and healthier options. By continuing to invest in technology and personalized customer experiences, McDonald's can improve operational efficiency and customer satisfaction, driving further sales

growth. Additionally, the company should explore opportunities for vertical integration to stabilize its supply chain and increase control over costs, particularly during times of global disruption.

From a managerial perspective, McDonald's financial strategies provide valuable insights for other companies in the fast-food sector. The emphasis on liquidity, cash flow management, and strategic investments has allowed McDonald's to navigate uncertain economic conditions while maintaining profitability. These practices serve as a blueprint for businesses looking to enhance their financial resilience and long-term sustainability. By continuing to prioritize innovation, operational excellence, and sound financial management, McDonald's can sustain its leadership position and ensure long-term success.

### LIMITATIONS

The study on McDonald's financial performance from 2019 to 2020 has limitations due to constraints in the availability of historical data. Events such as the Covid-19 pandemic during this period may not be fully reflected, potentially affecting the accuracy of the findings. Additionally, the focus on quantitative ratios may overlook qualitative factors like management strategies and market trends. This could lead to a partial understanding of the underlying causes of McDonald's financial performance. Since the perfect R-square value in the regression model suggests overfitting, further testing may be necessary using a broader range of data to ensure the conclusions are applicable. The overfitting indicates that the model may not accurately predict outcomes in other contexts or periods, despite fitting the sample data well. Lastly, the reliance on publicly accessible financial records, which may lack complete and relevant data, could introduce potential gaps in the analysis.

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### DECLARATION OF CONFLICTING INTERESTS

The author(s) declare(s) that there is no conflict of interest.

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