

Casestudy:
WHERE'S THE BEEF? IT'S IN YOUR FRIES!

**H.B. Bharti and
Vegetarian Legal Action Network (VLAN)
versus
McDonald's**

In April 2001, fast food chain McDonald's got caught up in a debacle after it emerged that its US French fries contained natural beef extract. When this information was publicly disclosed, Hindus and vegetarians worldwide reacted with fury. They felt misled and cheated even though the company never explicitly claimed that its fries were suitable for vegetarians. A range of pressure groups, including the Vegetarian Legal Action Network (VLAN) and the Hindu interest group Shiv Sena, called for an investigation, a public apology and claimed damages from the company.

Societal Interface Management Challenges

PUBLIC ✨ PRIVATE	PROFIT - ✨ NON-PROFIT	EFFICIENCY ✨ ETHICS/EQUITY	
Relationship with government and intermediary (FDA): the listing of individual flavour enhancers in products is not required under FDA legislation.	<p>Keeping consumers informed: what is full disclosure?</p> <p>Relationship with consumers from different cultures, different types of consumers and consumer organisations</p> <p>Food is more than just a commodity</p> <p>Relationship via communities (Ronald-McDonald House)</p> <p>Tension in relationship with trade unions.</p>	<p>Domestic consumer market profits from adding beef extract 'flavour enhancers' to fries</p> <p>Standardization of products (and image) on behalf of mass production and distribution versus product differentiation</p> <p>Lack of flexibility due to rationalisation</p> <p>Relationship with competitors</p>	<p>Does 'Quality, Service, Cleanliness, Value for money' also mean transparent information on ingredients?</p> <p>'Reduce, Reuse, Recycle' as foundational value or means of control?</p> <p>Should 'emotional stress' of consumers be prevented?</p> <p>The core role of trust in business</p>

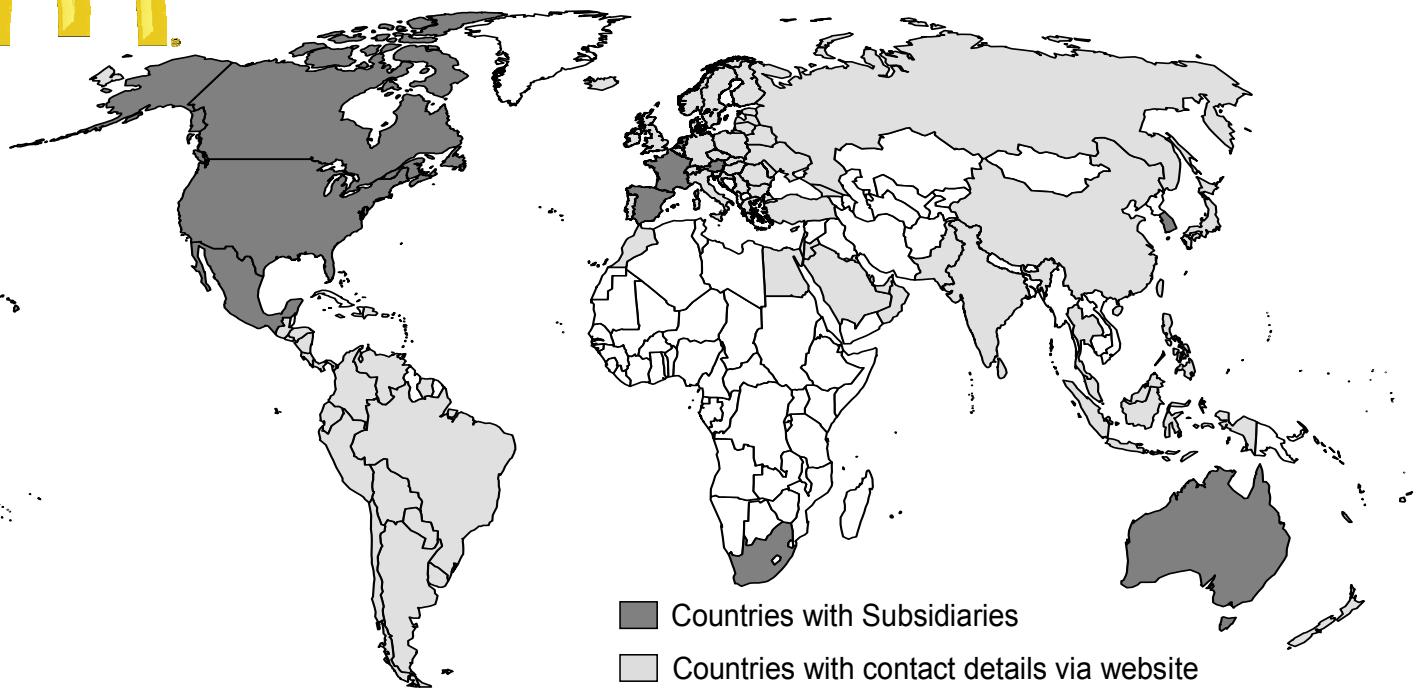
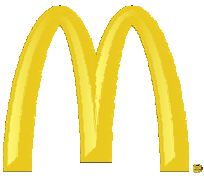
This case has been written by Alex van der Zwart with Rob van Tulder (RSM Erasmus University). This case applies the methods and theories as used in the book "International business-society management: linking corporate responsibility and globalization" (2006, Routledge), www.ib-sm.org. The Dutch newspaper articles in this case have mostly been translated into English.

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McDonald's

McDonald's is the largest and best-known fast food chain in the world with more than 30,000 restaurants in 121 countries and an annual turnover of more than 40 billion dollars. The corporation's core business is expanding its franchises and services in a worldwide chain of restaurants. The corporation with the *Golden Arches* was founded by Ray Kroc in 1955. The McDonald's philosophy is: *'Quality, Service, Cleanliness and Value for money'*. The corporation has grown large through large-scale standardization which enabled it to achieve extremely high levels of production efficiency and control over suppliers. *The McDonaldization of Society* (Ritzer, 1993) is synonymous with the rationalization of society, low wages, flexible labour, no trade unions and uniformity. McDonald's also presents itself as a socially responsible corporate citizen. A lot of time, attention and money are invested in projects, employment opportunities for minorities, sponsoring, clean-up projects and helping children, for instance through the Ronald McDonald House charity. The environmental policy of McDonald's is based on the three Rs: *Reduce, Reuse and Recycle*. The corporation's most significant competitors are Burger King and Wendy's. McDonald's is listed on the Dow Jones Index.



Restaurants at year end⁰⁰

56% of the McDonald's restaurants were located outside of the US

	2003	2002	2001
U.S.	13,609	13,491	13,099
Europe	6,186	6,070	5,794
APMEA	7,475	7,555	7,321
Latin America	1,578	1,605	1,581
Canada	1,339	1,304	1,223
Other	942	1,083	1,075
Total	31,129	31,108	30,093

Source: http://www.mcdonalds.com/contact/contact_us/restaurant_visit_outside.html October 2003
 source: 20F 2003 p85



Conflict

Throughout the world, more than forty million people visit McDonald's each day. Half of the customers visit US establishments.¹ Despite the fact that McDonald's is lauded worldwide for its CSR policy, the reputation of the company came under pressure in May 2001 due to allegations of socially unaccountable conduct. The company became embroiled in a debacle surrounding its French fries. To the great displeasure of vegetarians and Hindus, it was revealed that US French fries contained a flavour enhancer made of beef extract.

It seems that MacDonalD's was not unaware of its customers preferences. In 1990, the fast food chain started using using vegetable oil in the wake of the criticism from consumers and public interest groups for its use of animal fats. Along with the switch to vegetable frying oil, McDonald's also undertook to offer customers a low-cholesterol item on the menu. In the 1970s and 1980s, McDonald's introduced meat-free and beef-free products, such as the chicken burger, vegetable burger and the fish burger so as to meet the needs of its vegetarian and Hindu customers. Rumour has it, however, that to compensate for the loss of (beef) flavour as a result of the switch to vegetable oil, it was decided to add 'natural' beef flavouring to the fries during step one (pre-frying) of the preparation process. In his 270 page book, *Fast Food Nation*, Eric Schlosser gives a poetic account of the reasons and emotions that informed this decision (Schlosser, 2001). Competitors Wendy's and Burger King, however, serve completely meat-free products.

H. B. Barti and Vegetarian Legal Action Network (VLAN)

In this case, H.B. Barti, a lawyer from Seattle, took the initiative to file a lawsuit against McDonald's. The Vegetarian Legal Action Network (VLAN) also made its voice heard. The network was founded in 1999 when six vegetarian law students from George Washington University became actively involved in the labelling practices of fast food restaurants and food and nutrition companies. The mission of VLAN is to protect the rights of vegetarians.

During the course of the conflict, the Hindu political groups and parties Shiv Sena, Bharatiya Janata Party (BJP), and the Internet action group McSpotlight Network also voiced their viewpoint.

The controversy erupted when Hitesh Shah, a vegetarian of Indian origin working and living in Los Angeles, approached McDonald's headquarters to enquire after the oil that is used in cooking French fries. Shah learned that in the US, natural flavourings made from beef extract is added to the French fries at the factories where they are processed. According to the American Code of Federal Regulations set down by the Food and Drug Administration (FDA), natural flavourings need not be listed individually on product packaging.² This practice of McDonald's is therefore sanctioned by American legislation. In April 2001, a furious Shah informed journalists at the newspaper *India West*. The result was a high-profile article 'Where's the beef? It's in your French fries!'.³ The issue turned out to be explosive for McDonald's. In the first week of May 2001, newspapers and television stations around the world covered the affair in all its detail.⁴

¹ Dailey, P.B. (2001), 'On fry detail', *Restaurants & Institutions Chicago*, 15 June 2001.

² Sundaram, V. (2001), 'Where's the beef? It's in Your French Fries', *India West*, 6 April 2001. Can also be found on: www.hbharti.com

³ www.mcspotlight.org/media/press/mcdis/indiawest090401.html, consulted on 14 March 2004.

⁴ http://news.bbc.co.uk/1/hi/english/world/south_asia/newsid_1312000/1312774.stm, consulted on 15 May 2004.



The Seattle-based lawyer, H.B. Bharti, filed a lawsuit against McDonald's on behalf of two vegetarians and one Hindu.⁵ Almost immediately, the Vegetarian Legal Action Network (VLAN) sided with the claimants.⁶ Bharti subsequently received hundreds of telephone calls from concerned vegetarians. As a result, Bharti decided to file a class action lawsuit on behalf of all fifteen million vegetarians and one million Hindus in the US.^{7,8} The claim amounted to more than 450 million euros.⁹ According to Bharti, McDonald's actions were in breach of the Washington Consumer Protection Act and have caused 'emotional stress' in vegetarian and Hindu consumers. The fast food chain, he argued, had deliberately deceived vegetarians and Hindus. Moreover, since McDonald's had maintained for ten years that the ingredients in its fries were meat-free, consumers had lost all confidence in the corporation. According to the pressure groups, the company had manipulated the facts.¹⁰

On 4 May 2001, the Board of McDonald's openly admitted the use of beef extract in the preparation of its fries.^{11,12} The Board also stated that the company had never claimed that the fries were suitable for vegetarians.^{13, 14} The objective of the switch to vegetable oil in 1990 was partly to increase the nutritional value of its fries and to make it suitable to a low-cholesterol diet. Moreover, the company acted completely in accordance with labelling legislation and, as it had announced in 1990, the fries are cooked in 100 percent vegetable oil in all restaurants.¹⁵ In Islamic and Hindu countries, McDonald's fully observed the (religious) dictates governing food preparation and consumption.



Demonstrations worldwide

In the first week of May 2001, worldwide protest actions were organised against McDonald's. The Hindu interest group Shiv Sena held a demonstration in the Indian capital, New Delhi and the destruction of Ronald McDonald dolls and restaurants in India, England and on the Fiji islands followed.^{16,17} In addition, hundreds of articles expressing outrage at McDonald's conduct were posted on Internet sites. Slowly but surely, the company came to epitomise deceitful marketing practices which created much suspicion and distrust among (potential) consumers. Civil society organisations in India demanded that their government shut down all 28 McDonald's restaurants. The Board of McDonald's attempted to appease the Indian population by declaring in national newspapers that all products, including fries, that are sold in Indian McDonald's restaurants are vegetarian and have always been.

⁵ www.hbharti.com, consulted on 11 February 2002.

⁶ www.veggielawyers.org, see also the website of VLAN www.veggiefries.org

⁷ www.planetveggie.com, consulted on 21 September 2001.

⁸ 'Hindus, vegetarians sue McDonald's over frying process', *Seattle Post*, 2 May 2001.

⁹ 'Attorney hopes for \$1B in McDonald's french fry suit', *USA Today*, 25 May 2001.

¹⁰ Remark by H.B. Bharti on www.rediff.com, consulted on 13 March 2002.

¹¹ 'McDonalds confirms its French Fries are made with Beef Extract', *Boston Globe*, 4 May 2001.

¹² 'Fast-Food lawsuit extracts a fry fact', *Seattle Times*, 3 May 2001.

¹³ Rajghatta, C. (2001), 'US Hindus take on McDonalds over French Fries', *The Times of India*, 3 May 2001.

¹⁴ www.abcnews.com, consulted on 15 March 2002.

¹⁵ http://www.mcdonalds.com/app_controller.nutrition.categories.ingredients.index.html#1, consulted on 13 March 2004.

¹⁶ www.bjp.org, consulted on 11 February 2003.

¹⁷ 'For Hindus and vegetarians, Surprise in McDonalds Fries', *The New York Times*, 20 May 2001.



The company also launched extensive investigations and promised to provide truthful information in an open and transparent manner. The investigations by the FDA and the Brihanmumbai Municipal Corporation confirmed that McDonald's fries in India did not contain any beef extract.

Apology

In a mea culpa on 24 May 2001, the Board of McDonald's issued an apology for the misunderstanding and 'confusion' that was created by the unclear information about its French fries in American restaurants.^{18,19,20} The company maintained that it never intended to mislead American citizens into thinking that the fries were appropriate to a vegetarian lifestyle. This announcement could not prevent the lawsuit which Bharti, with the support of a great number of opinion organisations, had been preparing for a long time.²¹

In its apology, McDonald's added that it would review its labelling policy.^{22,23} The recipe would not be altered,²⁴ but 'beef source' would be included in the list of ingredients.²⁵ Since the debacle, a comprehensive list of French Fries ingredients fries can now be found on the website of McDonald's US: "Potatoes, partially hydrogenated soybean oil, natural flavor (beef source), dextrose, sodium acid pyrophosphate (to preserve natural color). Cooked in partially hydrogenated vegetable oils, (may contain partially hydrogenated soybean oil and/or partially hydrogenated corn oil and/or partially hydrogenated canola oil and/or cottonseed oil and/or sunflower oil and/or corn oil). TBHQ and citric acid added to help preserve freshness. Dimethylpolysiloxane added as an anti-foaming agent."



While McDonald's took steps to enhance transparency, issued an apology and adopted a new labelling policy, but it refrained from modifying the ingredients of French fries produced in the US. In the meantime, a wide range of American Hindus and vegetarians signed up for the lawsuit due to the (emotional) suffering inflicted on them. In a press release of 1 June 2002, the Board once more expressed its mea culpa regarding the 'confusion' it created. Bharti was pleased with the outcome. According to Bharti, no one would be able to remember how much McDonald's eventually paid out in ten years' time. The

public apology and the disclosure of product information, however, would totally transform the manner in which food companies engage with consumers in future, especially since McDonald's is the market leader and other companies would have to follow suit. 'In the last 100 years, no other mega-corporation has paid millions of dollars and apologized, admitted wrongdoing, and agreed to disclose ingredients which they had been hiding for years. This is an unheard of result in this country.'²⁶

¹⁸ www.cnn.com/europe/business, consulted on 13 March 2002.

¹⁹ Dailey, P.B. (2001), 'On fry detail', *Restaurants & Institutions Chicago*, 15 June 2001.

²⁰ Reuters (2001), 'Mac-frietjes smaken naar rundvlees' (ENG: 'Mac-fries taste like beef'), *Algemeen Dagblad (NL)*, 25 May 2001.

²¹ Sachdev, A (2001), 'McDonald's apologizes for fries 'confusion'', *Chicago Tribune*, 25 May 2001.

²² McLennan, L (2001), 'News Extra: the making of the modern chip', *The Times*, 24 May 2001.

²³ http://www.mcdonalds.com/app_controller.nutrition.categories.ingredients.index.html#1, consulted on 13 January 2005.

²⁴ Sachdev, A (2001), 'McDonald's apologizes for fries 'confusion'', *Chicago Tribune*, 25 May 2001.

²⁵ http://www.mcdonalds.com/app_controller.nutrition.categories.ingredients.index.html#1, consulted on December 3rd 2004.

²⁶ www.hbharti.com, consulted on 15 July 2002.



Demonstrable indicators of reputational damage

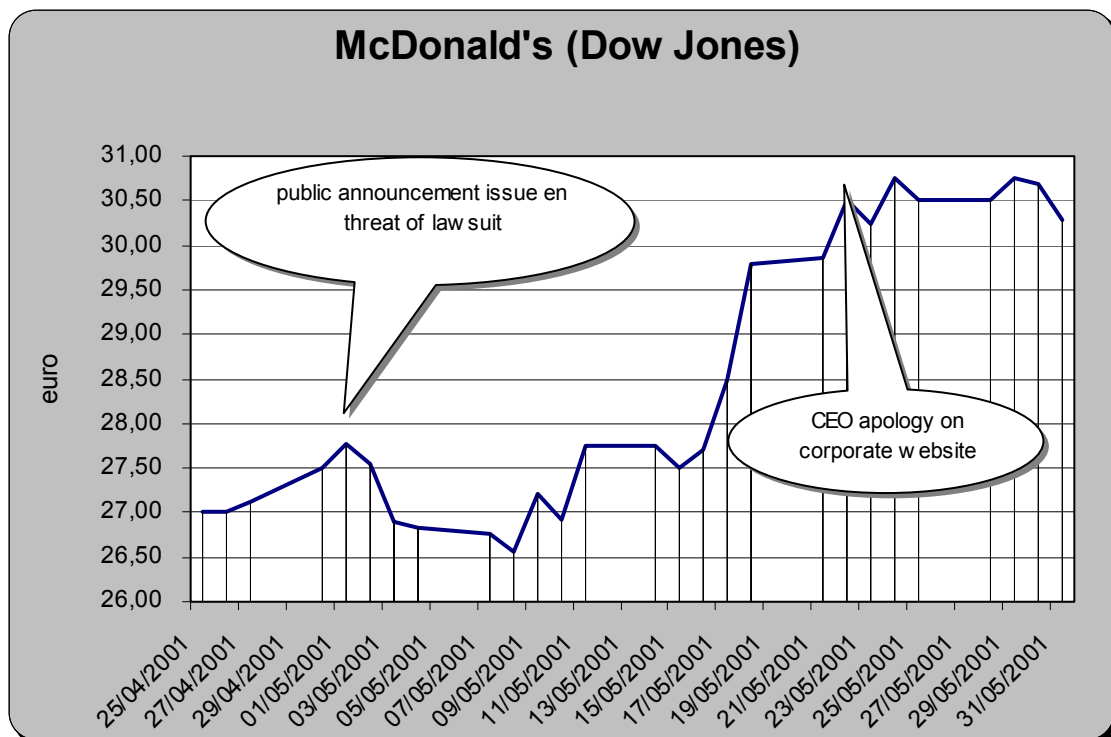
Consumer market

Given the number of vehement reactions to and demonstrations against McDonald's, it can be assumed that the corporation sustained significant reputational damage on its consumer market.

One would expect sales, particularly among vegetarians and Hindus, to have dropped. The first quarter of 2001 displayed declining figures, just like the beginning of 2002.²⁷ Competitors such as KFC and Wendy's, on the other hand, displayed positive figures. The Board of McDonald's attributed this to lower exchange rates and concerns about BSE and foot and mouth disease in Europe.

Capital market

The issue arose at an unfavourable time for McDonald's. Sales were already under pressure due to low exchange rates and concerns about BSE, swine fever and foot and mouth disease in Europe.²⁸ In examining the price movements of the McDonald's share on the Dow Jones Index a period of five weeks was selected: 25 April to 31 May 2001. During this period, the debacle was publicised, the application for a lawsuit was submitted and the Board of McDonald's issued its apologies. The price movements of the McDonald's share on the Dow Jones Index for this period can be seen in the figure below.



In the first week of May 2001, when there were an abundance of reports on the issue in the media, the share price declined by almost 4,5 per cent. In the second week, the share price recovered to its former level. Indeed, in the third and fourth weeks of May, the share price

²⁷ www.fortune.com/, consulted on 18 juli 2002.

²⁸ Sachdev, A (2001), 'McDonald's apologizes for fries 'confusion'', *Chicago Tribune*, 25 May 2001.



rose steadily. On the day of the apology (24 May 2001) the share price increased by 1,7 per cent, while the DJ Index registered an increase of ‘merely’ 0,15 percent. In general, it can thus be maintained that there was a significant response on the capital market, even if it was only at the outset of the debacle. Afterwards, the share price recovered markedly, possibly assisted by the apology issued by the Board of McDonald’s.

Labour market

Data on the labour market for McDonald’s USA are difficult to obtain. This is partly due to the fact that McDonald’s is a loosely structured franchise corporation and to obtain data, it must be collected from each individual franchise. This, coincidentally, is a deliberate human resources policy of McDonald’s, who employs a large flexible work force who are paid relatively low wages. Given that it is a decentralised organisation (with a central image created through a corporate brand), the human resources policy is less vulnerable to reputational damage on the labour market. McDonald’s Netherlands reported that it did not experience negative impacts in recruitment or on staff.

Demonstrable indicators of disciplining

The attitude the management of McDonald’s adopted – once threatened by lawsuits – can be described as one of bridging, McDonald’s undertook several (disciplining) initiatives to manage the issue.

- In India, McDonald’s launched extensive investigations into the preparation method of fries served in its Indian restaurants.
- The Board apologised for the confusion it created.
- McDonald’s reviewed its labelling policy for the sake of clarity.²⁹
- Extensive information on all product ingredients has been added on the corporate website and in restaurants.
- A Dietary Practice/Vegetarian Advisory Panel was established to give advice on guidelines and restrictions on vegetarian products.³⁰
- As a result of the lawsuit, McDonald’s decided to donate 10 million dollars to, among others, Hindu and vegetarian organisations that are involved in charitable and educational projects.
- On 14 April 2002, McDonald’s published its first global Social Responsibility Report as part of a new strategy of openness and transparency.³¹ In the compilation of the report, the GRI guidelines were used as guiding principle.

Outcome

Whose interests were met?

In this case, it is unclear whose interests were acceded to most. McDonald’s disclosed information in an open and transparent manner. It is clear and widely known that beef extract is used in fries for the American market. Hindus and vegetarians felt that they had been

²⁹ McLennan, L (2001), ‘News Extra: the making of the modern chip’, *The Times*, 24 May 2001.

³⁰ www.mcdonalds.com/countries/usa/pressrelease/2002/06012002/06012002.html, consulted on 13 juli 2002.

³¹ <http://www.mcdonalds.com/corp/values/socialrespons.html>, consulted on 26 april 2002.



misled when they were put on the sidelines ten years ago. Only time will tell whether the donation of 10 million dollars is sufficient to restore trust.

Issue resolved, case closed?

The issue is resolved insofar it can be assumed that vegetarians and Hindus will avoid McDonald's (French fries) in the US. With respect to transparency on labels, FDA legislation has remained unchanged. In most countries, the misunderstanding was cleared up.

In its core markets, McDonald's is not willing to adjust to the demands of specific consumer groups. Clear and transparent information - but no change in the preparation method. The VLAN has insisted that the FDA change US legislation on public disclosure of product ingredients. The FDA rejected the demand. According to the founder of the VLAN, James Pizzirusso, 'McDonald's said they are complying with the law in terms of disclosing their ingredients, but they should go beyond the law'.³²

The aftermath

In June 2002, McDonald's finally issued a public apology for failing to communicate clearly to consumers. In addition, the Board launched a number of new initiatives so that greater care is taken in handling these matters in future. The company also made a commitment to communicate clearly about sensitive issues in future. At present, extensive lists of ingredients can be consulted on the website of the world's largest fast food chain. In 2002, the corporation is still in the moral spotlight regarding issues such as the alleged use of child labour in China for the production of games for Happy Meals and animal welfare on McDonald's cattle ranches.³⁶ The pastures that have been made available for cattle grazing in Argentina and the forest that is being burned for the same purpose in Brazil, are sure to elicit strong criticism (Werner and Weiss, 2002). In Europe, these issues do not seem to impact negatively on public opinion. Global concern around obesity and the responsibility of corporations is this issue.³³ The company plans to phase out its "super size" portions. McDonald's super size option has been targeted by critics as contributing to a growing obesity crisis in the developed world.³⁴ In relation to this McDonald's has faced a lawsuit in february 2003 on the alleged responsibility for causing obesity. The company, says the suit, engaged in 'deceptive practices' in its promotion and advertising.³⁵ Besides this, McDonald's is no.2 on the popular boycott list, just a slight bit more popular than ExxonMobil.³⁶ A positive sign is that in March 2004, *Fortune* magazine listed McDonald's among the top ten companies for social responsibility on its annual list of America's Most Admired Companies.



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³² www.veggielawyers.org, consulted on 13 November 2002.

³³ New York Times, "The Smoke and Mirrors Of Food Labelling", November 15th 2003.

³⁴ www.ethicalcorp.com, Alex Blyth, March 5th 2004.

³⁵ <http://www.mallenbaker.net/csr/nl/50.html#anchor840>, consulted on March 2nd 2005.

³⁶ <http://www.karmabanque.com/modules.php?op=modload&name=KarmaBoycott&file=boycott&id=1>