

McDonald's Case: Teaching Note for the Instructor

Part I: Series Overview

For more than a decade, WRI's Sustainable Enterprise Program (SEP) has harnessed the power of business to create profitable solutions to environment and development challenges. BELL, a project of SEP, helps universities, graduate schools and corporations integrate environmental issues into their educational programs, and provides new thinking about the relationship between business and the environment. To order this case visit www.wri.org or call 1.800.537.5487. Please contact valeriev@wri.org to obtain reprinting permission.

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Purpose and Positioning

The McDonald's case series is comprised of three cases, two supporting notes and a video that lay the foundation for an active discussion of a broad range of environmental management issues regarding how to develop partnerships between businesses and environmental groups, how to use life cycle analysis (LCA) for decision making, and how environmental issues impact corporate strategy.

The series was designed to be taught as an MBA elective corporate strategy course on environmental management. However, it has been tested with both MBA and Natural Resources students. It would also be appropriate for an executive education program.

This series of cases focuses on the work of a Joint Task Force of McDonald's Corp. and the Environmental Defense Fund (EDF); first, as it addresses McDonald's solid waste management strategy and second, as it poses the question of whether or not to replace polystyrene packaging with paper wrap. This series allows students to consider how environmental issues affect corporate strategy, how selecting appropriate partners can build credibility, and how to frame decision-making in situations of limited information and conflicting perspectives.

Susan Svoboda, manager of the University of Michigan Corporate Environmental Management Program (CEMP), prepared this case under the guidance of Stuart Hart, director of CEMP and assistant professor of Corporate Strategy and Organizational Behavior at the U-M School of Business Administration, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. This document may be used by either students or faculty for background information. Distributed with permission from the National Pollution Prevention Center for Higher Education. Copyright © 1995 World Resources Institute.

The specific challenge of determining which packaging material, paper or polystyrene, will satisfy McDonald's performance criteria as well as its environmentally concerned customers is the central issue of the case. As corporations seek to improve their environmental management performance, they will require new methods and tools. Life Cycle Analysis (LCA) is one such tool that helps companies to understand the environmental impacts associated with their products, processes, and activities. LCA is controversial and still evolving as a methodology. However, the principles behind LCA thinking are being rapidly adopted by manufacturers and service organizations alike as a way of opening new perspectives and expanding the debate over environmentally sound products and processes. The goal of LCA is not to arrive at the answer but, rather, to provide important inputs to a broader strategic planning process. Sufficient life cycle data is included to enable students to use LCA principles in order to reach a recommendation.

Case Content and Lessons

CASE A

The "A" case gives background information on McDonald's that is essential to the analysis throughout the series. McDonald's fundamental principles, organizational structure, and management style are discussed, as well as its overall strategy and objectives. Its recent marketing efforts and operational practices are also presented.

A summary of McDonald's environmental strategy is provided, including an excerpt from the corporation's policy statement declaring the importance of being an environmental leader. Background information on the formation of the joint task force with EDF and on EDF itself is covered.

The case then goes into more depth on environmental efforts proposed by the task force relating to source reduction, reuse of materials, recycling, and composting (presented in order of the U.S. EPA waste management hierarchy).

The case concludes with a discussion of the growing importance of environmental groups in terms of public confidence. The joint task force was one of the first high-profile, collaborative efforts between business and an environmental group. As such it posed opportunities and challenges for both parties. EDF hoped it would become a model to be used by other companies, but risked being accused by environmentalists of "selling out." McDonald's hoped it would give them needed credibility with their customers; however, potential task force disputes could further hurt their position.

The case concludes by raising the issue that businesses today face an increasing credibility gap with the public. However, environmental groups are trusted by the public. As a result, environmental organizations are rapidly adding members as individuals seek to understand and monitor corporate environmental practices. Yet despite educational efforts and various environmental initiatives, McDonald's reputation was eroding.

The supplementary note on the Trash Crisis gives the reader additional information on U.S. disposal practices and issues relating to landfilling, incinerating, recycling, and composting trash that will aid students' analysis of the case.

CASE B1

Case B1 narrows the scope of the case to the debate surrounding polystyrene "clamshell" sandwich containers in order to frame a teachable situation for LCA. Environmentally concerned customers oppose these containers despite scientific arguments that they are preferred over paper wraps. The case opens with a description of McDonald's deteriorating public image - especially with children, their most loyal customer base - and the urgency for making the "right" choice.

The case then provides background information on packaging's utility to the food industry and to McDonald's. A brief description of how packaging has become an issue of public concern in the U.S. due to the growing volume of

packaging entering landfills, especially due to convenience products, is intended to provide context to students.

The consulting group Franklin Associates provided the task force with the LCA decision-making methodology. This tool is intended to facilitate a comparison of products in terms of their environmental impacts. LCA has three components: an inventory, an impact assessment, and an improvement analysis. The inventory component simply lists emissions, effluents, energy consumption, etc. Impact assessment addresses ecological and human-health impacts of these releases. Improvement analysis combines quantitative and qualitative data to determine opportunities for improvements in environmental impacts. Franklin Associates performs only the inventory component since it has the strongest scientific basis. Another supplementary note, discussed below, regarding LCA is provided to give students specific information on how to perform this analysis.

The case then provides students with a detailed description of the manufacturing process used to produce both paper and polystyrene sandwich containers. The actual life-cycle data from Franklin Associates that the task force used to reach a decision are included in Appendices A and B. The data in Appendix A is from a 1990 study that compared paper wrap to polystyrene. The data in the Appendix B compares these two alternatives with a new paper-based wrap called quilt-wrap. Quilt wrap is comprised of an inner layer of tissue to absorb grease, a layer of polyethylene for insulation, and another layer of paper for strength.

The case concludes by suggesting that the task force will need to make some assumptions about future disposal methods, unmeasured environmental impacts, and consumer response when using this tool. Also to be considered is McDonald's commitment to recycling especially relating to clamshells.

CASE B2

Case B2 presents the decision made by the joint task force and highlights reactions to the decision from various newspaper editors, suppliers, and the national polystyrene recycling center. Reactions differ greatly and students are faced with the question of whether they made the "right" decision.

SUPPORTING NOTES

The supporting note on LCA reviews the origins of the methodology and describes how it may be used for benchmarking efforts, setting resource-reduction targets, new product development, or comparing materials, products, or processes. The results of LCA are greatly affected by how managers establish the scope of the analysis, the level of data used, and the assumptions they make at each stage. Therefore, a detailed description of the types of information to be included at each stage of raw material extraction, processing, and disposal is included.

The supporting note on the Trash Crisis gives students background information on typical issues relating to landfill, incineration, recycling, and composting practices. This information is intended to improve their understanding of these issues in order to help them make more realistic assumptions in their analysis.

Assignment Questions and Case Sequencing

The cases are designed to be taught in a two-class sequence with video segments in both sessions. The following are suggested assignment questions:

CASE A

- Why did EDF approach McDonald's?
- Why did McDonald's enter into the Joint Task Force with EDF? Was EDF the right choice for a partner?
- How well does the structure of the Joint Task Force serve as a model for future partnerships?

- Has the Joint Task Force worked?

CASE B1

- Should McDonald's continue its recycling efforts or drop the "clamshell" sandwich container? Why?
- What are the difficulties in using LCA in decision-making?
- What are the appropriate boundaries for the analysis?
- Is there one best environmental solution? Will it change over time?

CASE B2

- Should McDonald's be accused of "flip-flopping" or commended for being adaptive?
- Is the customer always right? Does it matter if customer perceptions of environmental impacts are incorrect?

Case A Suggested Readings

Stenger, Wallace. "It All Began with Conservation." *Smithsonian* 21, no. 1 (April 1990): 35-43.

Prince, Jackie. "Launching A New Business Ethic: The Environment As A Standard Operating Procedure." *Industrial Management*, p. 15.

Case B Suggested Readings

"Management Brief: Food for Thought." *The Economist* (29 August 1992).

Part 2: Class Teaching Plans

Case A

OVERVIEW

The suggested teaching format begins with an assessment of the growing customer dissatisfaction with McDonald's environmental practices, particularly regarding packaging. From a strategic perspective, McDonald's reputation in terms of image, brand recognition, and franchise commitment is critical. Image and brand equity are particularly important to a company such as McDonald's that has outstanding name recognition. Maintaining a strong and committed distribution channel—the franchisees is equally critical.

From this, the discussion should move into issues relating to the creation of the Joint Task Force between McDonald's and EDF. The case presents the task force as a "first" collaborative effort between a major business and an environmental group. The discussion should be facilitated in order help the students understand the benefits and risks of such an arrangement to both parties. Next, students should discuss whether McDonald's lack of environmental credibility was unique or is an emerging problem across industries. Would issues differ between regulated versus non-regulated industries (consumer products versus chemical industry)? The case should generate a lively conversation of how to pick partners and how to structure the partnership for the best results.

For discussion purposes, it may be useful to assign students either the role of McDonald's or EDF and then discuss the following questions from their assigned perspective.

Why did EDF approach McDonald's?

Students typically will respond with a number of issues that can be categorized by pro or con as follows:

Pros

- Potential high impact/good educational opportunity – McDonald's serves 18 million customers/day plus suppliers – worldwide
- Opportunity to test the practicality of the EPA hierarchy
- A cooperative venture would start to diffuse the “watchdog” image
- If you can influence the industry leader, you influence the industry

Cons

- Potential risk to reputation – EDF could be accused by other environmental groups of “selling out”

Why did McDonald's agree to the Task Force? Was EDF the right choice?

Exhibit 9 in Case A provides students with a synopsis of the twelve largest environmental groups. These groups could be viewed as falling into the following four categories of environmental management. This typology could be developed through class discussion.

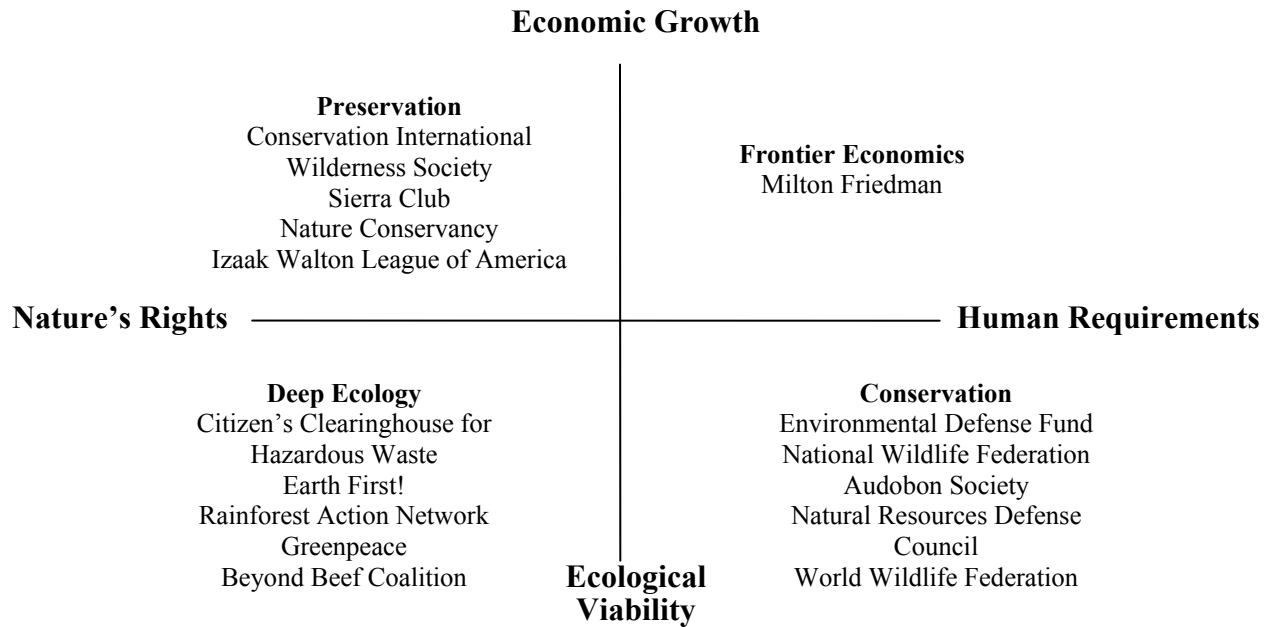
It should be noted in the class that it is unlikely that the groups in either the “preservation” or “deep ecology” quadrants could be developed into collaborative partners. In fact, McDonald's was being targeted by some of them for direct action (e.g., CCHW and the “McPuff” campaign). This leaves the “conservation” groups as the best choice. EDF clearly falls into this category.

Pros

- McDonald's was under fire from consumer and environmental groups “McToxic/McPuff”
- They needed credibility as they had already switched from paper to polystyrene (clamshell) once based on the SRI study; EDF had expertise.
- EDF was perceived as a “mainstream” environmental group (conservation).
- Joint Task Force could improve their image with franchises and suppliers

Cons

- Opening the company up to scrutiny could be potentially embarrassing
- If the Task Force could not agree, the publicity could be damaging
- EDF may not be able to “deliver” the environmental community, that that community feels that EDF has compromised their position



**How well does the structure of the Joint Task Force serve as a model for future partnerships?
What guidelines would you establish in creating a partnership like this one?**

- Credibility
 - mixed team of participants includes operations people
 - task force given authority to make decisions
- Independence
 - each side covers their own expenses
 - each side may issue separate reports if agreement cannot be reached
 - McDonald's cannot refer to the task force in advertising unless authorized by EDF

Has the Task Force worked?

- EDF was able to convince McDonald's to give up their recycling efforts and focus on issues such as waste reduction that are higher on the waste management hierarchy.
- McDonald's credibility improved, letters and protests stopped.

Case B

Case B focuses on the task force's specific decision on whether or not to discontinue use of the polystyrene clamshell sandwich container. Using the information provided on packaging trends both in the U.S. and within McDonald's as a backdrop, students are asked to reach a decision by analyzing the same life cycle data the task force used to reach their decision. The discussions should focus on how to use life cycle data effectively by understanding its limitations and underlying assumptions.

Although each student should come to class prepared to make a decision about whether or not to discontinue the clamshells, it may improve the discussion to have a pre-selected team of students present their analysis and recommendation to the class (approximately 10—15 minutes). A discussion can then be generated around the

assumptions and constraints of LCA as used in their analysis.

Should McDonald's discontinue use of the polystyrene clamshells?

Student teams should present their logic in reaching a decision. The discussion will raise many more questions than answers; however, the students will learn from the complexity of these issues that there is no single, clear-cut answer. Issues that should be addressed include:

- Boundaries
 - Were the boundaries considered by the Joint Task Force the appropriate ones? Why wasn't container reuse (dishwashing) included?
- Comparison of pollutants
 - How many pollutants should be considered in the inventory? Were the right ones included in the report?
 - How should pollutants be compared? Does it make sense to add them up to a lump sum or are some more harmful than others? Is water pollution more or less serious than air pollution or the volume of solid waste? Should they be compared based on their contribution to specific problem—greenhouse gases versus groundwater contamination?
- Comparisons between companies/industries
 - Is there a uniform or consistent way to evaluate products or packaging across companies or industries?
 - How do the assumptions related to boundaries and pollutants affect comparisons between companies? Is each inventory unique to the company being analyzed?
 - Reported pollutant data is based on emissions generated assuming the national "mix" of disposal methods including incineration, landfilling, and recycling. What if a particular business has a substantially different mix—can it be compared?
- Data Sources
 - Is the inventory credible if the company itself provides the data? Should a third party conduct the analysis? Who should pay for it?
 - If industry data is used is it specific enough to produce valid results? If proprietary data is used the company may not want to share it with others in an industry study.
 - What about the objectivity of studies supported by either the paper or polystyrene industries?
- What is lost by canceling recycling efforts?
 - Since carry-out business is at least 60 percent of total volume and the best-case scenario for recycling is 40 percent, is this still worthwhile?
 - McDonald's could play a major role in recycling education due to its 18 million customers/day –what lessons should they teach?
 - McDonald's would have been a major/stable materials contributor to the struggling recycling industry – what will be the impact on this group?

Is there one best environmental solution?

The students should discuss the balance between needless flip-flopping in decision-making and necessary flexibility. Issues that are likely to be raised include the evolution of scientific knowledge, changes in public perception, changes in technologies that alter environmental impacts (e.g., non-chlorine bleached paper), and changes in our understanding of impacts (long-term effects of pollutants on employees).

The instructor might consider closing the discussion with the "Closing the Loop" figure which summarizes the underlying logic of LCA and its implication for the corporation. The model depicts how environmental management

must be a process of continuous improvement that encompasses all stages of the product's life cycle. Increasingly products and corporations are being judged using the above criteria. This model may be used to put McDonald's packaging decisions in perspective in order to address the question, "Are they done?"

Case B2

Case B2 is a one-page "what happened" case that should be handed out near the close of the second session. Case B2 presents the decision made by the joint task force to drop the clamshells and highlights reactions to the decision from various newspaper editors, suppliers, and the national polystyrene recycling center. Reactions differ greatly and students are faced with the question of whether they made the "right" decision.

