

Case #6a. McDonald's and Childhood Obesity

Synopsis: Case #6a invites you to apply a property rights and social contract framework to judge how McDonalds should respond to the NGOs who are challenging it on issues related to children's health.

At the 2012 annual shareholder meeting, **McDonald's Corp** investors soundly rejected a shareholder proposal that would have required the world's biggest fast-food chain to assess its impact on childhood obesity. The shareholder proposal, which also failed the previous year, returned amid growing concern over the social and financial costs of obesity in the United States and around the world - not only in terms of healthcare-related expenses but also lower worker productivity and diminished quality of life.

Nearly one-third of U.S. children are overweight or obese. America is one of the fattest nations on earth, and the **U.S. Institute of Medicine**, in a 2006 report requested by **U.S. Congress**, said junk food marketing contributes to an epidemic of childhood obesity that continues to rise. The institute is the health arm of the U.S. government's National Academy of Sciences.

McDonald's executives defended the brand and its advertising. "We're proud of the changes we've made to our menu. We've done more than anybody in the industry around fruits and vegetables and variety and choice," said Skinner, who received a standing ovation from investors at the 2011 annual meeting.

As one of the largest and most influential companies in the restaurant industry, McDonald's often bears the brunt of criticism from consumers, parents and healthcare professionals, who want it to serve healthier food and curb its marketing to children. While the chain has added food like salads, oatmeal and smoothies to its menu, it has pulled ahead of rivals and delivered outsized returns for investors with help from its core lineup of fatty food and sugary drinks.

Corporate Accountability International, a business watchdog group, for the second year in a row backed the obesity proposal, which was endorsed by 2,500 pediatricians, cardiologists and other healthcare professionals. It called on the company to issue a report on its "health footprint." The document would evaluate how diet-related illness would affect McDonald's profit.

In the time since the last shareholder vote, McDonald's has changed the contents of its popular Happy Meals for children - reducing the "french fry" (pomme frites) portion by more than half and automatically including apples in every meal. It also won the dismissal of a lawsuit that sought to stop the company from using free toys to promote its Happy Meals for children in California.

Dr Andrew Bremer, a pediatric endocrinologist and professor at Vanderbilt University School of Medicine in Nashville, presented the proposal at the meeting and said McDonald's has chosen to employ "countless new PR tactics" that create a perception of change while "unreasonably" exposing shareholders to significant risk. "It is not enough to point to so-called healthier menu items when children are still the target of aggressive marketing of an overwhelming unhealthy brand," Bremer said.

McDonald's board of directors recommended a "no" vote on the proposal, calling it "unnecessary and redundant." Shareholders heeded that call. The proposal received 6.4 percent of votes in support, up from 5.6 percent a year ago.

Incoming CEO Don Thompson, who said his two children eat at McDonald's, was forceful in his response to questions from Corporate Accountability representatives. "I would never do anything to hurt them or any other children, nor would we as a corporation ... Do me the honor, and our entire organization, of not associating us with doing something that is damaging to children. We have been very responsible," Thompson said.

Source: Wall Street Journal May 24, 2012

1. (1.5) What property rights conflicts are raised in this case:

Show conflicts in this form:

_____ right to _____

versus

_____ right to _____

2. (2) Referring where appropriate to the rights issues identified in Q1,

(a) how does McDonalds's define its social contract?

(b) how does the U.S. Institute of Medicine define McDonalds's social contract?

3. (2) If you were McDonalds, what would be your response to Dr. Bremer?

(a) directly?

(b) in the media (as that is where this fight will also proceed)?

4. (2.5) Would there be a benefit to McDonalds of trying to sit down with Corporate Accountability International to develop a policy all could agree on, or is the adversarial nature of their relationship inevitable? In answering this question, you must refer to the discussion of NGO strategy in Module 6 and the websites of the two NGOs.

Maximum length 400 words