



# McDonald's

## SOCIAL RESPONSIBILITY REPORT

### *We Are Committed:*

- To doing what is right
- To being a good neighbor and partner in your community
- To conducting our business with the environment in mind

# INTRODUCTION

## OUR FIRST SOCIAL RESPONSIBILITY REPORT: HOLDING OURSELVES ACCOUNTABLE

Our goal with this initial McDonald's social responsibility report is to share with you a review of McDonald's progress and plans related to the community, environment, and people.

The principles behind our commitment to social responsibility were ingrained in our culture by McDonald's Corporation founder, Ray Kroc, who spoke nearly half a century ago of the importance of giving back to the local communities our restaurants served. Ray Kroc did not articulate this as a corporate strategy nor would he have listed social responsibility on a corporate balance sheet. He simply knew its worth because being a good neighbor and corporate citizen are intrinsic to McDonald's approach to business.

While this belief is still at the core of McDonald's values, its meaning and practical application have evolved through the years. Today, Chairman and CEO Jack Greenberg's vision is that McDonald's will contribute to making the world a better place, and he has challenged our company to provide socially responsible leadership in every community in which we do business.

**... socially responsible leadership begins a process that involves more awareness on the issues that will make a difference ...**

Making the commitment to being a socially responsible leader begins a process that involves more awareness on the issues that will make a difference – within communities, on behalf of the environment, and with the people who are McDonald's. So, we consider this report a beginning and a template by which we will measure our progress in the area of social responsibility.

**“Corporate social responsibility is achieving commercial success in ways that honor ethical values and respect for COMMUNITIES, the natural ENVIRONMENT, and PEOPLE.”**

**– Business for Social Responsibility (BSR), a non-governmental organization whose mission is to promote corporate social responsibility**

We have organized this report keeping the emerging Global Reporting Initiative (GRI)\* Guidelines in mind. We have strived to achieve GRI goals of providing information that is clear, that provides stakeholders with reliable and relevant information to invite further discussion, that serves as an internal management tool for continuous improvement, and that is in a format that is easy to understand and facilitates comparison with others, contributing to credibility. GRI also provides flexibility and encourages incremental progress toward meeting these guidelines. This is important to McDonald's because of our challenges in gathering information when more than 70% of our restaurants are owned and operated by some 5,500 individual entrepreneurs in 121 countries around the world.

As you learn more about our social responsibility performance, we invite you to let us know what you think. Visit our social responsibility web site and send us your comments or questions at:

**[www.mcdonalds.com/corporate/social/](http://www.mcdonalds.com/corporate/social/)**

\* The Global Reporting Initiative (GRI) is an international, multi-stakeholder effort to create a common framework for voluntary reporting of the economic, environmental, and social impact of organization level activity. The GRI mission is to elevate the comparability and credibility of sustainability reporting practices worldwide. The GRI incorporates the active participation of businesses, accountancy, human rights, environmental, labor, and governmental organizations.

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# McDONALD'S COMMITMENT TO SOCIAL RESPONSIBILITY

## A MESSAGE FROM JACK GREENBERG, CHAIRMAN AND CEO

Thank you for your interest in McDonald's first Social Responsibility Report.

We truly value McDonald's face-to-face relationship with the customers we serve in 121 countries. This unique perspective has taught us that our global business brings with it global responsibilities.

So, you have a right to ask ... "Is McDonald's committed to social responsibility?" This is a fundamental question about our business and our values that we are glad to answer.

Yes, McDonald's is committed to social responsibility. We are committed to doing the right thing. We want to make a positive difference in the world. This commitment began with our founder Ray Kroc. It continues with me, is shared by our management team, and reaches across our front counters to our customers and their communities.

The McDonald's in your community is most likely owned and operated by a local man or woman – your neighbor – who creates jobs, makes local investments, buys goods from regional suppliers, and is dedicated to giving back to the community. Of McDonald's 29,000 restaurants, more than 70% are independently owned and operated by 5,500 franchisees and partners, not the company.

Nevertheless, we recognize the Golden Arches may represent something different in many parts of the world, so we understand that customers and neighbors alike may have questions about who we are and what we represent.

McDonald's is addressing legitimate questions, including ones about globalization, nutrition, and the environment. Our brand can sometimes be used as a symbol for these kinds of issues. Although we may not always agree on every issue, we want to be responsive and more transparent.

So, what do you think when you see the Golden Arches?

We are asking that question, and we are listening carefully.

There is more work to be done. We know we are not perfect. Our hope is that this first Social Responsibility Report will begin to demonstrate that we are backing up our words with substantive actions.

Thank you,



Jack M. Greenberg  
Chairman and CEO



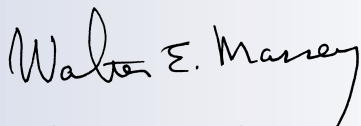
## A GOOD START ON REPORTING

On behalf of the Corporate Responsibility Committee of McDonald's Board of Directors, I am proud of the company's initial effort to report extensively on our social responsibility efforts.

This report is a good beginning, establishing a benchmark on where McDonald's is today, what the goals are, and the plans the company has established to reach those goals. I hope you will find the company's forthright assessment of where we are and where we want to be in all aspects of our commitment to the community, environment, and people as reassuring as I did. It is good to know that these plans for the future are rooted in a heritage of giving back to communities, innovative environmental programs, and core values and ethics that will provide a strong foundation and momentum for the company's social responsibility plans.

In an effort to make the world a better place, McDonald's has set forth on a journey that puts it on a path of continuous improvement. The road to being a socially responsible corporation is not only long, but it's one that requires constant attention as new and unanticipated issues arise. This report provides a valuable roadmap that will enable McDonald's to measure its progress and enhance its standards of performance.

It's the direction that's important, and that's what you will find in this report. On behalf of my fellow members, I encourage your continued interest in our progress.



Walter E. Massey, Ph.D.

Chairman of the Corporate Responsibility Committee  
McDonald's Corporation Board of Directors

## WHERE SOCIAL RESPONSIBILITY FITS INTO BUSINESS STRATEGIES

This snapshot of McDonald's vision and business strategies illustrates where social responsibility fits into our organization. Our socially responsible expectations are an essential part of our core values. These values shape what our owner/operators, employees, and suppliers around the world do to serve the interests of the markets in which we operate. Good citizenship develops through the local interpretation of global principles.

Our people also are vital to successfully incorporating good citizenship into our corporate strategy and worldwide operations. McDonald's is aware that a diverse team of well-trained individuals working together is key to our continued success.



### OUR CORE VALUES

- We give back to the communities in which we do business. We are a local business. We must be leaders in social responsibility. Our customers view us by the positive influence we have on the neighborhood, its people, and the environment.
- We are dedicated to providing customers unparalleled levels of Quality, Service, Cleanliness, and Value.
- We are committed to our people.
- We believe in the "three-legged stool", the partnership of our owner/operators, employees, and suppliers working together.
- We are committed to franchising.
- We believe in a decentralized management approach.
- We lead through innovation.
- We approach all aspects of our business with honesty and integrity. We hold ourselves to the highest possible ethical standards.
- We grow the business for our shareholders.

## PROFILE: "MY McDONALD'S"

The McDonald's on your street corner is likely to be owned and operated by a local entrepreneur. This profile of a typical McDonald's owner/operator illustrates his or her role in the restaurant and in the community.

- I own and operate a McDonald's restaurant.
- I live in the community in which I work.
- I know the names of the senior citizens who meet regularly at my restaurant for morning coffee or tea.
- I participate in local community groups and support local teams, schools, and charities.
- I employ 50 to 100 people, most of whom live in the neighborhood.
- My employees and I reflect the diversity of the community.
- My restaurant typically serves about 1,500 customers a day.
- We recycle our corrugated shipping boxes and used shortening.
- I am a hands-on entrepreneur, hiring staff, working shoulder-to-shoulder with crew members, and greeting customers.
- I depend on local suppliers.
- I offer educational resources for my staff at my restaurant.
- My McDonald's offers customers convenience and quality food at affordable prices.
- I am committed to maintaining our food quality by making sure my staff is well-trained on proper food storage, handling, and cooking procedures.
- My restaurant supports Ronald McDonald House Charities.
- I am doing my part to make the community a better place.



## McDONALD'S SYSTEM

Our success is often attributed to the unique partnering approach within McDonald's. This means that owner/operators, employees, and suppliers each support the McDonald's system – they are, in essence, interdependent.

- Our owner/operators know their neighbors. They understand their community's distinct culture. McDonald's commitment to franchising helps ensure that we are a neighborhood business. The vast majority of McDonald's restaurants are owned and operated by 5,500 independent, local entrepreneurs.
- It is our philosophy to secure quality suppliers for our restaurants. McDonald's suppliers include many household names in the countries in which we operate. Our suppliers also include many other companies that have grown their business as we have grown ours. As a whole, we estimate that 80 percent of a restaurant's supplies come from the local country, with the balance usually coming from the bordering countries or within the continent.
- McDonald's company employees play a central role in providing leadership, brand management, direction, and a cultural foundation upon which our owner/operators, suppliers, and other stakeholders rely.

## McDONALD'S AROUND THE WORLD

McDonald's is the world's leading foodservice company with more than 29,000 restaurants, serving nearly 46 million people each day in 121 countries. More than 70% of McDonald's restaurants around the world are owned and operated by independent, local business entrepreneurs.

### MENU AND ADAPTATION

Since our beginning, McDonald's core menu items have remained virtually unchanged. They were – and are – a model of simplicity. As we grow and operate around the world, we develop additional products to meet the local country's cultural preferences, from teriyaki burgers in Japan to spicy chicken sandwiches in China.

### INFORMATION

McDonald's was the first in our industry to provide nutritional information for customers. For many years, we have voluntarily provided nutrition information to help our customers make informed choices when eating at our restaurants. Most recently, in the United States, we raised the bar in our industry by voluntarily adding information about the source of natural flavorings in our core menu items. For examples of nutritional information, visit:

Sweden: [www.mcdonalds.se/maten](http://www.mcdonalds.se/maten)

France: [www.mcdonalds.fr](http://www.mcdonalds.fr)

USA: [www.mcdonalds.com/countries/usa/food/nutrition\\_facts](http://www.mcdonalds.com/countries/usa/food/nutrition_facts)



*In addition to our core menu items, which include our world-famous Big Mac™ and fries, McDonald's offers many choices for our customers around the world, including salads, soups, carrots, fruit and yogurt parfaits, juices, milk, bottled mineral water, eggs, potatoes, grilled chicken, and other selections.*



*The Teriyaki McBurger sandwich in Japan is made with a toasted McDonald's sesame seed bun, lettuce, and a special sweet mayonnaise. The seasoned pork patty is cooked and then dipped in spicy teriyaki sauce.*

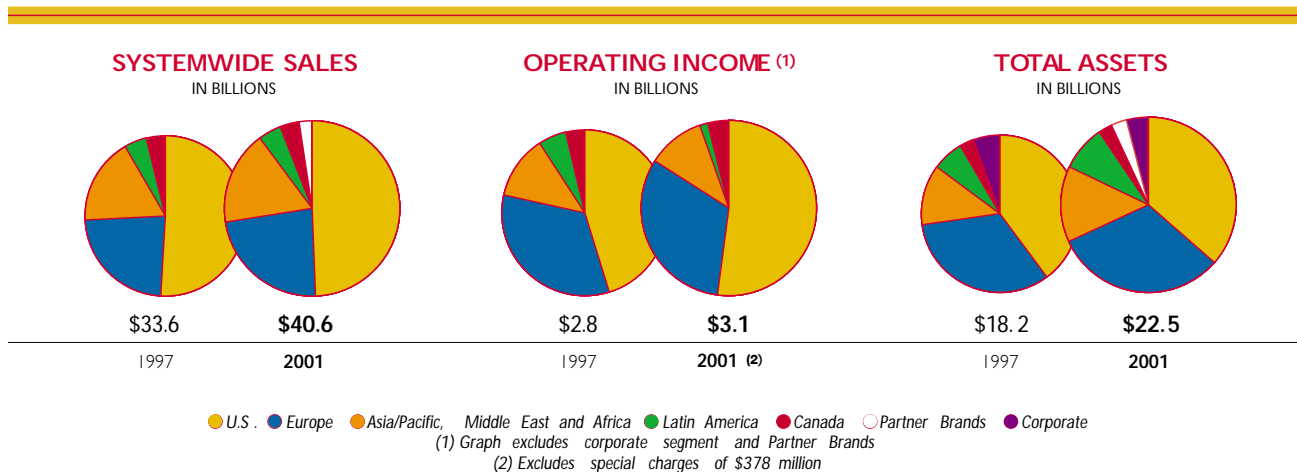


*The Spicy Chicken Filet Burger sandwich in China is made with a toasted McDonald's bun, lettuce, and special McChicken Sauce.*



# FINANCIAL HIGHLIGHTS

## 5-year performance



For additional financial and investor information about McDonald's Corporation, please visit the investor section ([www.mcdonalds.com/corporate/investor/index.html](http://www.mcdonalds.com/corporate/investor/index.html)) of this website.

- McDonald's operates in the foodservice industry and primarily operates quick-service restaurants under the McDonald's brand. To capture additional meal occasions, McDonald's also operates other restaurant concepts under its Partner Brands: Boston Market, Chipotle Mexican Grill, and Donatos Pizzeria. The Company also has an investment in Pret A Manger.
- We plan to add 1,300 to 1,400 McDonald's restaurants and open 100 to 150 new Partner Brand restaurants in 2002.
- When McDonald's went public in 1965, 100 shares cost \$2,250. On December 31, 2001, those shares, adjusted for our 12 stock splits, were worth about \$2 million.

- McDonald's is included in many indices including the Dow Jones Industrial Index, the S&P 500 and the S&P Globally Traded Stock Index.
- As a publicly traded corporation, McDonald's common stock is owned by more than one million investors, including McDonald's employees, owner/operators, suppliers and several hundred thousand individual investors as well as large institutional investors such as mutual funds.

Stock Exchanges: New York, Chicago, Euronext Paris, German and Swiss.

Trading Symbol: MCD

## *This report summarizes our performance in these broad categories*

- **Community** – McDonald's supports activities that benefit neighborhoods, families, and children.
- **Environment** – McDonald's has a responsibility to protect our environment for future generations. We share a belief that the right to exist in an environment of clean air, clean earth, and clean water is fundamental and unwavering.
- **People** – Working toward a vision to become the best employer in each community around the world, McDonald's is committed to supporting and valuing its employees, their growth, and contributions.
- **Marketplace** – Beyond these primary performance categories, we also describe our efforts to help make a difference in supplier workforce conditions/employment practices, animal welfare, and children's safety.

## GOALS AND PRIORITIES

Within each section, we have included our goals and next steps.

McDonald's is working with the non-governmental organization Business for Social Responsibility (BSR) to assist us in creating an internal process to examine our strengths, gaps, and opportunities for improvement. We commissioned an internal social responsibility assessment by BSR that was completed in May 2001, and we plan to continue this biennially to assess our progress internally. This assessment process also will help us continually increase our knowledge of emerging best practices, so that we can further enhance McDonald's social responsibility performance.

We operate our business as part of the wider community, and we strive to meet and exceed the expectations of our internal and external stakeholders. That is why we consult, listen and act to build on our record of social responsibility as an integral part of our approach to business.

Social responsibility is a way of thinking, caring, and responding to a multitude of complex community, environmental, and people issues and circumstances. With this in mind, our goal is to utilize and leverage every opportunity to advance the level of awareness and depth of understanding of various social responsibility issues, policies, and practices within McDonald's system. Indeed, BSR noted in its assessment report to McDonald's that "the single major issue that emerged from the assessment process relates to the company's ability to drive social responsibility down through and across its operating system to suppliers and into restaurants."

This report's content is weighted toward company initiatives and programs, since these are what we control and influence directly, reflecting performance and activities within the last two years. We will strive to report more owner/operator and supplier activities in the future.

While we have not conducted an external audit of this report, we are open to doing so in the future as this field emerges with generally acceptable practices. Independent verification is important because it can enhance the quality, credibility, and usefulness of the information, and provide support to the management systems that are in place to achieve ongoing social responsibility progress. In the meantime, we will continue to consult with key stakeholders, and listen and learn from them.

## REPORTING CHALLENGES

- We are a foodservice company: Most social responsibility reports thus far have come from companies involved with manufacturing or more intensive industries in which there are more quantifiable environmental data, like water and air emissions. We do not have comparable data.
- We are 70% franchised around the world: Currently, we do not have systems to collect and aggregate what some 5,500 independent owner/operators do for their community, people and environment at the local level.
- We partner with our suppliers: Because we are in the foodservice business, many of the things we do have an indirect impact through our suppliers. These can involve such complex matters as genetically modified organisms, employment issues, refrigerants that contribute to global warming, land impacts from cattle grazing, and animal antibiotic use. We also use these supplier relationships to lead industry reforms, from food safety to social compliance. McDonald's increased efforts to manage social issues with suppliers are detailed in the environmental and supplier compliance sections of this report.
- Developing metrics: Most of our current goals and measurements are related to processes, systems development, and standard setting. Since metrics are necessary for accountability and measurement purposes, we will work to further develop these in the future.

# COMMUNITY

- **Introduction:** Importance of giving back to our communities
- **Ronald McDonald House Charities (RMHC):** Improving the health and well being of children
- **Local Support and Involvement:** Supporting communities around the world
- **Community Development:** Fostering economic vitality and growth opportunities
- **Goals and Priorities:** Next steps

## INTRODUCTION

### IMPORTANCE OF GIVING BACK TO OUR COMMUNITIES

McDonald's serves as a partner to a variety of organizations in local communities. We have a special focus on children's programs. This is best illustrated through our support of Ronald McDonald House Charities (RMHC). RMHC's mission is to create, find, and support programs that directly improve the health and well being of children.

Ronald McDonald Houses, for example, allow families to stay in a home-like atmosphere while their child undergoes medical attention at a nearby hospital. Our corporate philanthropic programs support RMHC and other children's causes.

The strength of McDonald's community involvement is with our owner/operators, who are community leaders providing support to their neighborhoods. McDonald's owner/operators help local educational efforts, offer scholarships, serve on local boards, and support community causes.

Sometimes there is resistance to McDonald's when we enter a new market or expand in an existing market. In some cases, community stakeholders have shared concerns related to planning permission, architectural design,

increased traffic or congestion, or waste and litter. When the community has questions, we do our best to address them. Our business depends on community support. McDonald's brings a portfolio of community investment benefits (including jobs, training, opportunity, personal involvement, and leadership) into a community.

Beyond local community issues, some individuals have broader concerns about McDonald's, such as whether we export and promote lifestyles and consumption patterns not consistent with local cultures. We realize McDonald's is sometimes used by critics of globalization as a symbol for addressing their issues, which go beyond McDonald's scope. In essence, we are a network of local businesses owned by local entrepreneurs, who hire local people, and purchase from regional and national suppliers and service companies.

We are committed to being socially responsible leaders in the communities in which we do business. We care about our local communities, our people and customers, and our broader societal role.

## RONALD McDONALD HOUSE CHARITIES (RMHC)

### IMPROVING THE HEALTH AND WELL BEING OF CHILDREN

McDonald's and our owner/operators support programs through Ronald McDonald House Charities (RMHC). RMHC, a public charity founded in 1984 in memory of Ray Kroc, in partnership with its local Chapters, has donated more than \$300 million to programs that improve the lives of children and their families in neighborhoods worldwide. Funds for these grants are raised through a variety of special events, outside corporate partnerships, and community programs.

McDonald's Corporation provides free goods and services covering 100 percent of the management and general costs for RMHC's global office. Funding and volunteer support come from McDonald's owner/operators, restaurant and regional staff, and suppliers. McDonald's customers support RMHC generously through a variety of fundraising events and programs, including collection canisters in McDonald's restaurants worldwide.



### **HOME AWAY FROM HOME**

*One of the new Ronald McDonald Houses is a four-story, 18,775 square feet (approximately 1,744 square meters) facility, located in Tokyo's Setagaya ward next to*

*National Okura Hospital. The House, which serves the hospital's National Center for Child Health and Development, has 18 bedrooms (each accommodating three people), a spacious family room, a children's playroom, and a modern kitchen facility.*



### **HEALTH CARE CLOSE TO HOME**

*RMHC launched its international Ronald McDonald Care Mobile program to bring free health and dental care directly to children in underserved communities. This program's goal is to improve health*

*outcomes through screenings, preventive care, and health education, and to provide continuity of care. Chapters and their selected clinical service providers have served more than 7,000 children with educational programs and services ranging from routine physicals and immunizations to dental sealants and fillings. Ronald McDonald Care Mobile sites include: Buenos Aires, Argentina; Billings, Montana; Philadelphia, Pennsylvania; San Jose, California; Worcester, Massachusetts; Pittsburgh, Pennsylvania; Winston-Salem, North Carolina; Houston, Texas; and Hilton Head, South Carolina.*

## **RONALD McDONALD HOUSE PROGRAM**

Ronald McDonald Houses operate throughout the world, providing comfort to families with seriously ill children. The program began with support from McDonald's individuals in Philadelphia, Pennsylvania. The first Ronald McDonald House was established in Philadelphia in 1974. Today, there are more than 200 Ronald McDonald Houses in more than 20 countries. They range from a five-bedroom House facility in Geneva, Switzerland, to an 84-bedroom House in New York, NY, to a walk-up apartment in Vienna, Austria. More than three million families have stayed in a Ronald McDonald House, or nearly 100,000 families a year.

## **RECONSTRUCTIVE FACIAL SURGERY FOR KIDS**

RMHC awarded nearly \$4 million in grants to Interplast and Operation Smile to fund 40 medical missions in 28 countries throughout Latin America and Asia.

The grants supported facial reconstructive surgery for nearly 8,000 children who have no access to this kind of modern, highly specialized medical care.

## **EFFORTS TO ELIMINATE MATERNAL AND NEONATAL TETANUS (MNT)**

A \$5 million grant from RMHC to the U.S. Fund for UNICEF (The United Nations Children's Fund) will be used to help eliminate maternal and neonatal tetanus from every country in the world by the year 2005. This disease kills an estimated 600 infants in developing countries each day.

For additional information on these programs and more, visit: [www.rmhc.org](http://www.rmhc.org)

## LOCAL SUPPORT AND INVOLVEMENT

### RELIEF

Whether they are tornadoes or hurricanes, floods or earthquakes, riots or other disasters, McDonald's – through our owner/operators, employees, and suppliers – has a longtime record of helping communities in need.

For example, McDonald's partners with the American Red Cross and its International Red Cross network to provide food and other support to disaster victims, meals for the professionals and volunteers on the scene to aid them, and a haven of safety for others in the community.

#### SEPTEMBER 11

*McDonald's responded immediately to the U.S. national tragedy by providing more than 750,000 free*



*meals around the clock at McDonald's mobile restaurants at the disaster sites in New York City, at the Pentagon, and in Pennsylvania. At each location, 45-ft-long trucks filled with McDonald's Quarter Pounders, Chicken McNuggets, bottled water, and soft drinks were delivered to feed the work forces there. More than \$2 million has been collected, to date, from RMHC in-store canisters. McDonald's cookies and juice were delivered to blood donation centers throughout the United States and Canada. An additional \$1 million donation each from McDonald's Corporation and RMHC were pledged for relief efforts.*

### McHAPPY DAY FUNDRAISERS

McHappy Day is a fundraising event in many countries around the world that supports RMHC and other charitable causes. For example, in 2000, McDonald's Brazil raised

funds for Instituto Ronald McDonald (RMHC), benefiting 61 Brazilian institutions that assist children with cancer. During McHappy Day 2000, more than 500 restaurants donated proceeds from the sale of Big Mac™ sandwiches and "McDía Feliz" items to help children. About 34,000 McDonald's employees, 210 suppliers, 152 owner/operators, volunteer artists, personalities, and Olympic athletes worked side-by-side all day helping prepare and sell Big Mac™ sandwiches.

### McDONALD'S FAMILY CHARITY

The McDonald's Family Charity was created to assist members of the McDonald's system worldwide who have been affected personally by natural disasters. Members eligible to receive funds include employees working at any of the more than 29,000 McDonald's and subsidiaries' restaurants and offices worldwide, as well as employees of McDonald's suppliers.

### CORPORATE GIVING

In addition to our support of Ronald McDonald House Charities, McDonald's provides direct charitable contributions. In 2000, our recorded corporate cash contributions amounted to more than \$10 million to charitable causes. The majority of these contributions emanate from respective McDonald's markets, with the balance coming from our corporate home office. Additionally, our recorded contributions to local causes from owner/operators and affiliates accounted for more than \$8 million. While we are not able to completely capture all giving, significant contributions and additional donated products and services to those in need are provided by our corporate offices and owner/operators.

Moreover, McDonald's Corporation donates goods and services to Ronald McDonald House Charities, including the free use of its facilities, equipment, materials, and limited services. The free goods and services provided by McDonald's

Corporation cover 100 percent of the costs that RMHC would otherwise incur for management and general costs and partially defray fund-raising and program services expenditures. For the years ended December 31, 2001 and 2000, the value of the free goods and services provided by McDonald's Corporation totaled \$4,078,000 and \$2,125,000, respectively.

## LOCAL INVOLVEMENT

McDonald's owner/operators and managers sponsor a variety of family programs, such as activity days for children and restaurant tours. Our restaurants support various community activities that exemplify our philosophy to give



### CLEAN UP

*McDonald's Australia is a major sponsor of the annual Clean Up Australia Day, the country's biggest community participation event. In 1999, a record 750,000 volunteers collected 125,000 tons of rubbish in 870 towns and cities across the country.*



### SAFETY

*The ten McDonald's restaurants on the Sunshine Coast in Queensland, Australia, work together as a region to sponsor a number of events, organizations, and activities in their area to give back to their local communities. This sponsorship with Surf Lifesaving*

*Queensland, for instance, involves the provision of sun safe equipment to protect children from the sun.*



### SUPPORT

*Guangzhou University Soccer League sponsored by McDonald's Guangzhou in China won its championship in*

*2001 and was awarded half-a-year of free hamburgers. McDonald's continues to foster sports spirit in the Chinese youth community, where soccer is becoming an increasingly popular sport.*

back to the communities we serve. Local or regional restaurants often work together for a larger cause, such as:

- In the last decade, McDonald's in Russia has provided more than \$4.5 million to multiple Russian charitable organizations for projects ranging from purchasing medical and transportation equipment to providing meals to those in need.
- In honor of Ray Kroc's memory, McDonald's USA celebrated Founder's Week with a seven-day volunteer effort to give back to the communities we serve. Thousands of McDonald's employees, owner/operators, and suppliers have participated. McDonald's USA has donated nearly 100,000 hours of community service during Founder's Week since 1999.
- McDonald's of Saudi Arabia supports the Al-Faysaliah Children's Welfare and Jeddah Autism Center organizations, sponsoring parties for children in which a specially trained host conducts games that are appropriate for the group.

## EDUCATION

We partner with major organizations to develop curriculum support materials and scholarship programs. We also make other contributions including cash, food, computers, Happy Meal™ toys, event sponsorships, and educational programs and services.

Some examples include:

- In Chile, McDonald's – along with the Chilean Education Minister – supported a reading contest. The support provided funding for the production of a book compiling all winners' works, as well as prizes.
- Through the McInternet Program for schools and seniors, restaurant employees in Costa Rica teach free internet lessons during quiet periods. Each month, McDonald's Costa Rica also donates products to community events, including special school programs.

- McDonald's Australia funds the McDonald's Camp Quality Puppet Program, which tours schools in New South Wales, Queensland, South Australia, Victoria, and Western Australia with the aim of better educating children about cancer, its treatment, and effects. Since its inception in 1989, the puppet show has been performed for more than one million children and significantly helped raise the level of cancer education in Australian schools.

## INTERNATIONAL YOUTH CAMP

McDonald's extended its sponsorship to the Olympic Youth Camp program through Olympic Achievers in 2000. This program brought together more than 400 young men and women from around the globe to attend the Youth Camp in Sydney, where they participated in a variety of arts, sports, and cross-cultural activities. McDonald's was the first-ever global company to sponsor the National Olympic Committee (NOC) selection of the 2000 Sydney Youth Camp participants from nearly 200 countries around the world. Participating McDonald's restaurants and



*In 2000, McDonald's and The Walt Disney Company recognized 2,000 exceptional young people worldwide for their outstanding contributions to their communities. These "Millennium Dreamers" Ambassadors represented nearly 90 countries and ranged in age from eight to 15 years old. In association with UNESCO (United National Education, Scientific and Cultural Organization), the Millennium Dreamers program was the largest and most extensive children's program of its kind.*



NOCs worldwide worked together to select two or more McDonald's Olympic Achievers from each country to attend the Sydney 2000 Olympic Youth Camp.

## COMMUNITY DEVELOPMENT

Each of our restaurants brings opportunities for each local community, meaningful community employment, regional suppliers, and community contractors and professionals. When McDonald's opens a restaurant in a new country, a local management and entrepreneurial team is in charge. Before they begin to construct their restaurants, they also help build a supply infrastructure within the local economy.

## LOCAL INVESTMENT EXAMPLES

- McDonald's is the largest employer of youth in Colombia. Between 1995 and September 2000, more than \$500 million and nearly 400,000 hours in employee training were invested. Employees acquire transferable skills including: problem-solving, teamwork, leadership, communication, and time management. McDonald's Colombia employs approximately 1,000 individuals. McDonald's 350 regional suppliers export: 10 million pounds of coffee to the United States, 18 tons of lettuce to Venezuela weekly, napkins to McDonald's Ecuador and Venezuela, and uniforms to McDonald's Venezuela (creating 600 employment opportunities in manufacturing alone).
- McDonald's Israel opened its first restaurant in October 1993. Today, McDonald's Israel operates more than 90 restaurants and sources more than 80 percent of its ingredients locally, including 100 percent Kosher beef patties, potatoes, lettuce, buns, and milkshake mix. McDonald's Israel employs 3,000 Israelis.

- In the United States, more than one-third of our restaurants are owned and operated by women and minorities. McDonald's USA purchases approximately \$3 billion in food, equipment, and services from women- and minority-owned businesses every year. In many cases, we helped these businesses get started.

## CONSTRUCTION AND DESIGN

Like most service companies, much of our strength is in our brand image. Part of that image stems from the consistency of our brand icons – like the Golden Arches. Because it is important for us to be visible to our customers, our architects have designed restaurant styles that maintain the traditional McDonald's look that our customers have come to know and expect. We want to be accepted within the community and so, when possible, we will adapt to local culture and community planning preferences. For example, in Rossio, Portugal, one of the most emblematic squares in Lisbon, McDonald's has fully restored the area, parts of which date back to the 18th century. McDonald's also fully restored the front of the building in which it is located. In Porto, Portugal, McDonald's chose the famous Imperial café location for our restaurant. Filled with poetic and cultural tradition, the Imperial café, with its beautiful interior and exterior featuring an enormous eagle with open wings, is an architectural jewel.



*Although the idea of opening a McDonald's restaurant near the main square of Krakow, Poland, met with opposition*

*initially, McDonald's was ultimately praised for its efforts to meet the requirements set by local authorities.*



*In the UK, McDonald's restaurants have been developed and adapted in many conservation areas and close to sites of historic interest, including next to the Tower Hill in London.*

## GOALS AND PRIORITIES

- ❑ Increase the reach and impact of support to Ronald McDonald House Charities (RMHC) with a focus on international expansion
- ❑ Develop a formal reporting tool to capture community involvement activities
- ❑ Create a better measurement system to capture more of the company's in-kind and owner/operator charitable contributions
- ❑ Consider structuring and implementing a formal volunteerism program
- ❑ Evaluate expanding our employee scholarship program

# ENVIRONMENT

- **Introduction:** Evolving to environmental sustainability
- **Environmental Organization:** Structure and management processes
- **Environmental Impacts:** What we know about our ecological influence
- **Goals and Priorities:** Next steps

## INTRODUCTION

### EVOLVING TO ENVIRONMENTAL SUSTAINABILITY

McDonald's approach to the environment is in transition from a traditional approach of environmental responsibility, embodied by the practical philosophy of "reduce, reuse, recycle," to a broader sustainable framework. Historically, McDonald's has implemented environmental responsibility in the management of our own restaurant systems. These include waste management, packaging use, the building environment, energy efficiency, and litter control. For the most part, these issues are easy to touch and see, because they are directly related to our restaurants.

Our vision for the environment is now entering a new stage of development within the framework of a "sustainable" society. McDonald's is partnering with the sustainability organization, The Natural Step (TNS), to help us incorporate into our business what the TNS describes as "the minimum system conditions required for society to operate in balance with the rest of nature." Achieving deeper levels of environmental stewardship is consistent with our business needs as well. For example, we depend upon a food supply that is sustainable.

*"Sustainability is the minimum system conditions required for society to operate in balance with the rest of nature."*

- The Natural Step

### THIS IS A JOURNEY

Can McDonald's achieve "sustainability"? The word "sustainability" is often used, but what does it mean in practical terms? And how can we put sustainable principles into practice that are clearly understood and motivating for McDonald's staff, owner/operators, and suppliers – and our customers? We are embarking on a journey in which the answers are not obvious. Sustainable solutions are not quickly found and implemented. General knowledge of the technical aspects of sustainability, even with the experts and professionals in the field, is nascent, so this vision for the environment entails both challenges and opportunities.

In this section, we provide information about how we will integrate environmental sustainability within McDonald's, including the overarching strategies, tangible actions, and specific outcomes to make sustainability an integral part of what we do. We are committed to addressing the underlying causes of non-sustainability. This means McDonald's needs to balance our efforts to control and reduce the tangible impacts of our restaurants, like waste and energy use, with comparable efforts beyond the four walls of our restaurants to positively influence "upstream" supplier impacts. Addressing "upstream" issues with our suppliers is taking on much more prominence in McDonald's environmental strategies. For example, our commitment to reducing packaging and adding recycled content is an established priority, and now we will investigate purchasing our paper products from sources that use certified sustainable forestry practices.

Another illustration is our testing of alternative packaging materials for our Big Mac™ and other hamburger sandwiches, through materials such as EarthShell (see page 27). In addition, we need to focus on additional strategic approaches, examining beef with a sustainability filter, and asking our suppliers for ways to improve the sustainability of cattle and dairy cow practices. These are examples of ways our efforts are evolving – how we need to challenge our traditional thinking, start asking different and better questions, and balance our focus and actions on both restaurant and supply chain impacts.

We are dedicated to learning. We have started to gain the knowledge of sustainable principles and science that will provide the compass to guide us as we continue to integrate this framework into our business and in partnership with our suppliers.



## ENVIRONMENTAL ORGANIZATION

### STRUCTURE AND MANAGEMENT PROCESSES

In 1990, McDonald's established a corporate environmental department and formalized our environmental policy. At the same time, several McDonald's markets established their own environmental functions.

## POLICY: OUR COMMITMENT TO THE ENVIRONMENT

We believe we have a responsibility to protect the environment for future generations. This responsibility is derived from our unique relationship with millions of consumers worldwide, whose quality of life tomorrow will be affected by our stewardship of the environment today. We share their belief that the right to exist in an environment of clean air, clean earth, and clean water is fundamental and unwavering. We realize that in today's world, a business leader must be an environmental leader as well. We are determined to analyze every aspect of our business in terms of its impact on the environment and to take actions beyond what is expected if they hold the prospect of leaving future generations an environmentally sound world. We will lead, both in word and in deed.

Our environmental commitment and behaviors are guided by the following principles:

- Conserving and protecting natural resources
- Encouraging environmental values and practices
- Effectively managing solid waste
- Ensuring accountability procedures

We are committed to timely, honest, and forthright communication with our customers, shareholders, suppliers, employees, and owner/operators. We will continue to seek the counsel of experts in the environmental field. By maintaining a productive, ongoing dialogue with all of these stakeholders, we will learn from them and move ever closer to doing all we can to preserve and protect the environment.

[This company policy is currently being updated and revised to expand to McDonald's sustainable aspirations. For complete text, see Our Commitment to the Environment in the McDonald's USA web section.]

## GLOBAL ENVIRONMENTAL COUNCIL

In keeping with McDonald's decentralized management structure, each country's managing director is responsible and accountable for addressing environmental issues. Environmental conditions and priorities vary around the world, according to each country's distinct culture, infrastructure, and environmental needs. Waste management systems, packaging, and construction materials are examples of practices that are directly influenced by a country's infrastructure.

To support McDonald's goal of sustainability, we recently formed a Global Environmental Council (GEC). This Council will: 1) identify strategic global priorities, initiatives, and projects; and 2) advise and assist McDonald's decentralized system in learning, planning, and making progress toward McDonald's vision of sustainability. The GEC is comprised of 17 senior leaders from all four management zones of our business, including environmental leaders, as well as representatives from key functions such as Operations, Purchasing, Communications, and Development. The GEC includes an outside advisor from The Natural Step.

The GEC reports to the Social Responsibility Steering Committee. McDonald's Board of Director established a Corporate Responsibility Committee whose charter includes a review of the company's environmental performance and direction.

## ENVIRONMENTAL IMPACTS

### WHAT WE KNOW ABOUT OUR ECOLOGICAL INFLUENCE

Understanding the scope and extent of McDonald's impact on the environment in running our restaurant business provides a

critical foundation for our work. This examination allows McDonald's leadership, both at the corporate and country level, to address the most relevant strategies and actions. Notwithstanding our decentralized system, McDonald's restaurants around the world have the same primary environmental inputs and outputs. We need to learn much more about each of these areas. The following descriptions summarize what we know in general terms, because McDonald's does not yet measure, track, and monitor all of these areas in every country. We are beginning a process, however, to enable the inclusion of more comparable data in future reporting.

#### Inputs include:

- Energy
- Packaging, toys, and operating supplies
- Food
- Water
- Construction materials to build and maintain the restaurant
- Service providers (such as waste haulers, recyclers, and maintenance)
- Transportation

#### Outputs include:

- Used packaging and food waste
- Construction material waste (used in constructing new restaurants or remodeling existing ones)
- Waste water
- Emissions to air and water

## ENERGY USE

Our restaurants use combinations of electricity and gas as primary fuel sources. Depending on local availability and technology, these combinations can fluctuate significantly, although we typically use more electricity than gas. Use per restaurant per month also varies around the globe, but the average range falls within 25,000-45,000 kilowatt hours and 1,000-4,000 cubic meters of gas. Per square foot of restaurant space, the foodservice industry is an energy-intensive business. McDonald's restaurant size varies, but the average restaurant is about 3,000 square feet (about 279 square meters) and requires energy to support activities within the restaurant, including a heating and air-conditioning system, walk-in cooler and freezer, indoor and outdoor lighting, cooking equipment, and several small pieces of equipment.

McDonald's has built energy-efficient restaurants that have reduced energy use. We also know that energy conservation practices within a restaurant (start-up schedules, equipment maintenance, etc.) can reduce energy use another 10 percent.

## PACKAGING AND MATERIALS USE

McDonald's packaging is a visible manifestation of our environmental actions. We have made progress in reducing packaging volume and adding recycled content. However, disposable packaging can represent a larger, material use and consumption issue.

Recognizing this responsibility of using disposable packaging, McDonald's has a well-established process and history of working with our suppliers to find ways to streamline our packaging and minimize the use of resources. The result of this long-term work has kept us at the forefront of packaging efficiency and recycled content use. For instance, based on

USA numbers, the average restaurant uses about 1,000 pounds of packaging per week, while serving approximately 10,000 customers.

The main items using recycled content are napkins, carry-out bags, drink carriers, Happy Meal™ bags and boxes, and trayliners. Using recycled content for direct food packaging is restricted and highly regulated, due to food hygiene, so we are limited in this area. Based on global use, McDonald's uses approximately 400 pounds of recycled paper per restaurant per week.

McDonald's packaging use differs around the world based on local supplier availability, cultural differences, waste management practices, and infrastructure. The demands placed on quick-service food packaging are high. Because it protects the product until consumed and contributes to providing safe food, packaging must meet the requirements for restaurant and take-away consumption.



*In the early 1990s in most parts of the world, McDonald's changed our carry-out bags from bleached, 100 percent virgin paper fiber to unbleached, recycled content. During that same time, McDonald's purchased more than \$4 billion worth of products made from recycled materials for use in the construction and operation of our restaurants worldwide.*

The packaging we use for customers is primarily paper-based (ranging from 75 percent to more than 90 percent worldwide), and the balance is mostly plastic. The packaging used for shipping and transport is typically corrugated cardboard boxes, with secondary shipping packaging consisting mostly of polyethylene plastic film. Corrugated boxes for all supplies delivered to McDonald's totals an average of 600 pounds per week per restaurant.

## WASTE AND LITTER

While our employees work to ensure order and cleanliness both inside and surrounding our restaurants, McDonald's is concerned about litter. We realize the negative image litter reflects upon us when people do not dispose of their items properly. We also know that litter can be prevented. McDonald's has operational procedures that include a daily inspection of the area around the restaurant for litter pick-up, and we support many efforts to educate consumers about litter prevention.

Recycling is highly dependent on the infrastructure and culture of the countries and communities in which we do business. Some waste is a valuable commodity in parts of the world. Our items that are most recyclable are corrugated boxes and cooking oils. The ability to recycle consumer packaging varies from country to country. For example, several communities specifically prohibit direct food packaging from recycling. McDonald's has various practices and forms of recycling, including composting, in areas of the world that have the appropriate support infrastructure. Most of McDonald's waste is organically based, including mostly paper-based packaging, along with food residues, so it is compatible for composting.

| Packaging Use Based on Average McDonald's USA Restaurant | Use by Weight % |
|--|-----------------|
| <b>Paper Items</b>                                       |                 |
| Cold cups and napkins                                    | 38%             |
| Folding cartons and clamshells                           | 14%             |
| Carry out bags and drink carriers                        | 17%             |
| Sandwich wraps, f-flute containers                       | 6%              |
| Happy Meal™ cartons, bags and insulated wraps            | 5%              |
| Miscellaneous wraps, bags, cups                          | 1%              |
| <b>Plastic Items</b>                                     |                 |
| Lids for cups, cutlery and coffee stirrers               | 6%              |
| Cold cups and salad packaging                            | 3%              |
| Breakfast packaging, hot cups and bowls                  | 2%              |
| Salad packaging, straws, desert cups, bags               | 2%              |
| <b>Operating Supplies</b>                                |                 |
| Paper towels and tissue                                  | 3%              |
| Can and prep pan liners                                  | 2%              |
| In-store trays and tray liners                           | 1%              |



McDonald's Germany's posters encourage customers to clean up and not litter. Slogans include: "Have a clean attitude" and "Litter bugs are an endangered species."

To encourage environmental awareness and protection, McDonald's Japan has created a "Thank You Box" to separate their litter. It includes clearly identified illustrations so customers can separate and dispose of plastic garbage, trash other than plastic, and beverages with ice.





*McDonald's Korea, in partnership with a major paper pulp supplier, collects and recycles paper cups from our restaurants, which are recycled into tissue products and supplied to McDonald's.*



*McDonald's Germany has an in-store recycling collection system. Customer waste is brought to these tray carts, which includes a separate place for draining liquids.*

## TRANSPORTATION

We are exploring ways to improve distribution efficiencies and reduce the impacts of transportation, especially related to energy use and other infrastructure effects. McDonald's works with independent companies that are, in many cases, dedicated to distributing food and paper goods to our restaurants and supporting the McDonald's system. Regional distribution centers service an average of 200 to 300 restaurants each.



*McDonald's Switzerland has developed ways to increase the proportion of combined rail transportation and direct transfer of*

*containers from railway wagons onto trucks, and vice versa from three to 28 percent of all goods moved since 1996.*

## WATER

McDonald's has recently organized a Global Water Team that works to understand our water treatment and use, and to learn ways to conserve its use in our restaurants. Safe, quality water is a fundamental need for our business. In countries in which the water supply does not meet minimum standards for safety and quality, advanced water treatment systems are used.

The average water use of a McDonald's restaurant is 10 to 15 cubic meters (2,600 to 4,000 gallons) of water per day. Typically, 20 percent of the water is used for purposes such as drinks and watering the landscape, while 80 percent of the water leaves through the waste drains.



*With Australia being the driest continent on Earth, McDonald's Australia has invested in technology to improve the quality of waste water from restaurant operations. Along with in-store procedures to reduce the amount of material getting into drains, there has been an improvement of approximately 90 percent in waste water quality in those stores.*

*Reducing water consumption also is a priority for the restaurants. Approximately 25 percent of water used by restaurants in Australia is on landscaping. By reviewing landscape watering times and frequencies and the type of plants used in different climates, many stores have been able to reduce their reliance on water in the garden. This Vertical Gravity Separator (VGS) (as shown) pre-treats waste water prior to release to city sewers. The VGS removes waste materials.*

## SUPPLIER IMPACTS AND RAW MATERIALS

The environmental effects from the sourcing of our goods, materials, and services – whether it is meat, sandwich wraps, ketchup, grilling equipment, or flooring materials – are referred to as upstream impacts.

Nearly \$11 billion of goods and materials are purchased, much of which are supplied regionally. This purchasing power brings with it a responsibility to work with our suppliers on sustainability issues and to ensure they have standards and policies that are sustainable.

McDonald's historic approach with suppliers is one of collaboration. We expect high standards, top quality, and a commitment to support McDonald's long-term goals. Our long-term supplier relationships make partnering for supply chain environmental management the best approach for McDonald's. McDonald's continues to learn about best practices in purchasing sustainable goods and services, and we are increasing our efforts with our supply partners to make progress toward our sustainability vision.

## ACTIONS

- **Protecting rain forests:** McDonald's long-standing rain forest policy clearly details our commitment to rain forest preservation. We do not buy any beef from rain forest lands. This is strictly prohibited.
- **Phase-out chlorofluorocarbons (CFCs) in packaging:** McDonald's was the first foodservice company to announce the phase-out of CFCs in our packaging in the late 1980s.
- **Packaging changes:** McDonald's has changed our packaging in ways that have influenced the entire industry. Because of McDonald's USA's breakthrough partnership with the Environmental Defense Fund in the

early 1990s, significant packaging changes were developed for the U.S. business. Most were transferred globally and eventually adopted by the quick service industry as a whole. Examples include recycled, unbleached carry-out bags; recycled napkins and trayliners; and shipping boxes with more than 40 percent recycled content.



*Environmental Defense staff Richard Denison and Jackie Prince Roberts worked at a McDonald's restaurant to understand how to reduce waste within*

*McDonald's. As a result of our partnership, by the end of the 1990's, McDonald's USA eliminated 150,000 tons of packaging; purchased more than \$3 billion worth of recycled products; and recycled more than two million tons of corrugated cardboard.*

*"The most significant achievement was demonstrating action – actually going to the public and making changes in packaging and waste reduction that they could see, and making some changes behind the counter they could not see. Now, when we do a program with other companies, we aspire to meet this standard."*

*Jackie Prince Roberts,  
Director,  
Alliance for Environmental Innovation  
Environmental Defense*

- **Exploring alternative refrigerants:** McDonald's has worked with its suppliers, the United Nations Environmental Programme, the U.S. Environmental Protection Agency (EPA), experts, and other stakeholders on an improvement process with refrigerants used in the foodservice industry. We seek solutions that go beyond the current use of hydrofluorocarbons because they contribute to climate change. Because alternatives are

not commercially available for our industry, development work is necessary. McDonald's and our suppliers have a special team working on solutions, with a near-term goal of building an HFC-free restaurant in 2002.

- **Animal antibiotics:** McDonald's has studied the animal antibiotic issue, and we agree with experts that their use should be managed in order to minimize their impact on antibiotic resistance in humans. As a result, McDonald's USA told our poultry suppliers one year ago to discontinue the use of fluoroquinolones. This decision was made far ahead of federal guidelines and was based on a review of United States scientific research. In Europe, suppliers have been approached to not use growth-promoting antibiotics used in human medicine in poultry rearing.
- **Biotechnology awareness:** Biotechnology is a challenging issue, with stakeholders having a wide spectrum of views, emotions, and concerns about the use of biotechnology today and in the future. McDonald's will continue to monitor ongoing developments closely in our continuing efforts to listen, learn, and evaluate.

Our input to biotechnology providers includes:

- More research and studies are necessary. Studies from mainstream scientists and academics are consistent in identifying certain gaps in knowledge and research.
- Emphasis should be placed on introducing biotech products that benefit consumers, with clear attributes such as enhanced nutrition.
- Because consumer confidence and acceptance are paramount, more needs to be done by those involved with advancing biotechnology to engage the relevant stakeholders in the debate and to help educate the public about the science.

Based on these factors, McDonald's will evaluate whether to purchase new biotechnology products in the future. We will review the status of regulatory approvals, customer acceptance, consumer benefits, and the state of scientific research.

## GOALS AND PRIORITIES

Our challenges include managing a McDonald's system that is very decentralized involving independent business people – our owner/operators and suppliers. We need to define environmental sustainability and design educational approaches for McDonald's staff and owner/operators so that sustainability is meaningful and actionable in the countries in which we operate. Additionally, while working upstream with supply chain issues is extremely important, doing so is complex. For example, we are optimistic that refrigerant solutions will be developed that do not impact global warming. The fact remains that while we can ask for change, we are dependent on new or existing suppliers to make change happen. With refrigerants, McDonald's restaurants, even collectively, purchase just a small fraction of HFCs in the marketplace, so it is imperative that we work with other purchasers to ask for the same changes.

One of McDonald's toughest challenges is to develop quantifiable data for ongoing environmental performance. Because we are in the service industry, we have minimal emissions and few reporting requirements by law or regulation. With the development of a McDonald's Environmental Management System, the foundation of measurement and accountability can be built into our local restaurants. Currently, most of our goals and measurements are related to processes, systems development, and standard setting.

□ **Develop systems to integrate environmental sustainability into McDonald's system:**

- Revise the 1990 environmental policy to include our aspirations for sustainability (2002).
- Develop a McDonald's Environmental Management System (EMS) that can work in all of the countries in which we operate. This will include a set of minimum standards, with an ongoing process to establish and review targets and measurements for continuous improvement toward sustainability. Our goal is to develop a process that recognizes the large differences among countries and encourages the flexibility required in attaining sustainability goals, given the variation inherent in each country regarding business environment, culture, and infrastructure (2003).
- Educate McDonald's owner/operators, employees, suppliers, and customers. Expanding the scope of our educational role will serve to motivate our system to advance sustainability in daily jobs and decision making. In 2002, we plan to establish a web-based sustainable resource information system for McDonald's employees, owner/operators, and suppliers. Recognizing that our customers represent an even greater force for change, we will extend this education to our customers, starting with web-based materials on sustainability.
- Work with The Natural Step to detail McDonald's sustainable impacts at two levels (by 2002):
  - The restaurant: factors that staff can control and influence, such as energy use and waste management

- Regional/corporate: factors beyond the restaurant, such as purchasing practices for food and paper or constructing new or remodeled restaurants

This information will serve as a foundation for future decision making that moves McDonald's closer to sustainability.

□ **Address key supply chain sustainability issues:**

- Work with stakeholders on key emerging issues that are most relevant to achieving progress. We are committed to examining priority environmental issues thoroughly, listening to a broad spectrum of stakeholders, and meeting with scientific and non-governmental organizations. We have done this over the past few years on topics such as genetically modified (GM) foods; alternatives to hydrofluorocarbon (HFC) refrigerants; initial research with animal antibiotics and the scientific concern about antimicrobial resistance; and environmental sustainability.
- Continue to advance our knowledge and understanding of alternative refrigerants.
- Continue to monitor biotechnology developments and stay abreast of scientific studies. Evaluate new biotechnology products with stakeholders to help make informed decisions on our purchasing practices.
- Continue to work with the animal agricultural industry and environmental, health, and animal welfare stakeholders to develop management systems that help reduce human health impacts related to antimicrobial resistance.

- Work in formal partnership with The Center for Environmental Leadership in Business, a division of Conservation International on implementing sustainable agricultural and conservation practices and standards within our food supply chains. This project is already underway. We are working together to assess our products and to start developing minimum guidelines for prioritized products in 2002.
- Develop a global approach to purchasing paper packaging from supply sources that ensure sustainable forestry practices.

Chicago market. EarthShell™ is neither paper nor plastic. It is made mostly from calcium carbonate and recycled potato starch, with some recycled paper fiber, water, and coatings.

❑ **Provide input and information to McDonald's countries and zones to assist them in addressing environmental issues:**

- A Worldwide Energy Task Force has recently been created to champion, coordinate and drive energy use reductions. This team has representatives from all the major geographical zones, and from the critical functional areas of expertise, including Equipment, Development, Environment, Operations and Finance.
- Work to keep our communities looking clean through both hands-on clean-up programs and customer education, and working alongside local authorities and interested parties.
- Continue to advance recycling systems, including composting systems, especially for behind-the-counter packaging.
- Continue to provide packaging leadership, examining more ways to reduce packaging, add recycled content, and use unbleached materials and alternative and innovative new materials. For example, McDonald's USA is currently testing EarthShell™ packaging in the

# PEOPLE



- **Introduction:** We aspire to be the best employer in each community around the world
- **People Promise:** We value you, your growth, and your contributions
- **Advanced Training and Development:** Hamburger University
- **Diversity:** Committed to a diverse workforce
- **Goals and Priorities:** Next steps

## INTRODUCTION

### WE ASPIRE TO BE THE BEST EMPLOYER IN EACH COMMUNITY AROUND THE WORLD

Our People Vision is supported by the People Promise we make to the millions of current and future McDonald's employees in countries around the world:

### *We Value You, Your Growth, and Your Contributions.*

Five people principles reflect McDonald's values and the culture we embrace:

1. *Respect and Recognition*
2. *Values and Leadership Behaviors*
3. *Competitive Pay and Benefits*

#### 4. *Learning, Development and Personal Growth*

#### 5. *Resources to Get the Job Done*

These principles govern the philosophical underpinnings of how we want our employees treated. This means valuing contributions of the more than 1.5 million people who make our restaurants run in more than 29,000 restaurants, 24 hours a day, 7 days a week, 365 days a year. The numbers of widely different countries, communities and cultures present a real challenge to achieving consistent implementation of the People Promise.

We believe in the value of a decentralized, locally managed and franchised restaurant business. This business concept means that restaurants are operated by local entrepreneurs, who best understand the local culture because they live and work in it.

Most of what we describe here applies directly to McDonald's company restaurants and staff. McDonald's management team is responsible for our company people policies, practices, and progress. Of course, many corporate programs are used by McDonald's owner/operators, but it is important to note that people management is one of the skills and expectations of our franchisees. We test our performance – and the extent of improvements – by surveying employees on how we are implementing the People Promise in restaurants.

A typical McDonald's restaurant is a \$1.6 million business. Keeping it running every day is no easy task: the restaurant has to be clean, the food has to be hot and fresh, supplies have to be ready, customers have to be served, and you have to work with a busy team. Having fun on the job, treating employees well on a day-to-day basis, and building a close-knit sense of teamwork will improve the work environment and employees' views of what they do.

An impressive list of people with very successful careers – in McDonald's, in the industry, and in other fields generally – credit their experience at McDonald's for giving them invaluable lifelong job skills. In many countries, the majority of our restaurant and higher-level management and many owner/operators started as restaurant employees.

Examples:

- The Australia National Training Association has named McDonald's Australia Employer of the Year. McDonald's is certified by the government of Australia's National Training Authority, which allows McDonald's managers to receive university credit in management.
- In an award acknowledging the role of its employees, McDonald's Bolivia was recognized as providing "The Best Customer Service" three years in a row, through a certified, independent survey.
- McDonald's Brazil has been named "The Best Company to Work For."
- The Netherlands Joint Industrial Counsel recognized McDonald's Netherlands publicly for its successful multicultural employment practices.
- McDonald's Sweden was recognized as "The Best Developer of People."

## PEOPLE PROMISE

### RESPECT AND RECOGNITION

McDonald's seeks to manifest a culture through which we demonstrate respect for all employees and express appreciation to outstanding employees.

- For example, in the 2002 Olympics Crew Incentive Program, restaurant employees and

managers from 16 countries served McDonald's food at the 2002 Winter Olympic Games in Salt Lake City, Utah and "showed they're the best" to thousands of Olympic athletes, coaches, and spectators. While in Salt Lake City, they were provided with free tickets to Olympic events.

- In the United States, creative restaurant recognition programs are as varied as the different regions of the country. The East Division holds a celebratory awards banquet for all restaurant managers. The West Division conducts a "best restaurant" competition with a \$1,000 cash prize and a trip to Disneyland for the winners.

## VALUES AND LEADERSHIP BEHAVIORS

McDonald's beliefs and the way it acts on those beliefs provide the foundation for principle-centered people leadership. We approach all aspects of our business with honesty and integrity, communicating openly, listening and understanding, valuing diverse opinions and encouraging people to express their views, working as a team, accepting responsibility for individual actions, and appreciating and acknowledging the strengths of others.

We have developed, and continue to improve upon, our methods of training managerial employees on all aspects of day-to-day people practices in order to better build consistency in valuing people. We know the task is never over, as each new person and each new situation bring new training needs and challenges.

- An example of our commitment to our people is McDonald's use of two-way communication opportunities between management and employees. Direct, ongoing communication is a key part of McDonald's business environment as it allows dialogue with all levels of management and provides a way to surface

ideas, issues, and questions. Dialogue is facilitated through regular restaurant employee meetings, informal “rap” sessions that lead to problem-solving action plans, one-on-one performance appraisals, commitment surveys and evaluation action plans, and employee rallies in anticipation of major marketing promotions. Solving employee concerns – surfaced through direct communication channels – early and proactively is the best way to maintain and improve the work environment.

- While we believe the values underlying the People Promise are universal, we have learned that their application and the process for employee relations must be local. We have pioneered concepts of employment in some countries, including the use of part-time employment where it did not previously exist. We have worked with local management and national institutions, including Ministries of Labor, to establish the legal basis and mechanism for part-time employment in accord with the local legal system and culture. In the Dominican Republic and Bolivia, we worked with Ministries of Labor, local counsel, and management to develop systems that conformed to local laws and guaranteed employees a specified income in exchange for a defined amount of work on a part-time basis. These pioneering efforts have created opportunities for employment, employee growth and advancement which would not have occurred otherwise.
- Around the world, our behaviors toward our people show McDonald's desire and efforts to act in a way that supports what we state. For example, McDonald's Australia places a premium on employee health and safety by implementing restaurant Workplace Safety Committees that champion safe work practices and generate ideas to minimize hazards and improve safety. Similar committees exist in many other McDonald's countries, including

Austria, Canada, Denmark, Norway, Sweden, and the UK. In addition, McDonald's has developed innovative tools to ensure candid, two-way communication and resolution of concerns that are raised. Examples include McDonald's UK's computerized In-Store Satisfaction survey and McDonald's Canada's Crew Connect Program that allows all employees to email their comments, concerns, and suggestions.

- McDonald's does not tolerate harassing behavior and has implemented anti-harassment policies. For example, in the U.S., a Zero Tolerance Policy is in effect, and McDonald's Netherlands has taken the step of training human resources consultants to serve as confidential counselors to advise and comfort those seeking help from unwanted conduct.

## COMPETITIVE PAY AND BENEFITS

McDonald's basic philosophy of competitive pay and benefits includes paying employees fairly and timely; providing incentives to motivate employees' improved performance and development; providing take-home value to the compensation package; providing benefits that employees value; being constantly aware of the economic environment and benefit trends; and demonstrating to prospective employees that McDonald's offers something special.

The setting of wage rates is a matter of great concern to us, as we are a labor-intensive business. The wage rates in each country are established independently, in accordance with national requirements and structures. Wage rates represent a careful balancing of the need to reward employees fairly for their productivity and improve their standards of living over time with the need of any business to be competitive and profitable. This balance must be achieved within the context of each country's unique economic circumstances and

our desire to provide an affordable product to that country's consumers. It is a balancing act that we constantly evaluate.

- Competitive pay is implemented on a local basis. For example, before the first McDonald's opened in Sri Lanka, the national wage code was examined to compare the jobs listed to those of a typical McDonald's. The wage rate instituted for restaurant employees was significantly above the required rate. In South Africa, our base wages and benefits package for our employees has exceeded those paid by most of our competitors. In addition, it is our philosophy to pay for performance, rewarding our employees for what they do, so that their increases over time exceed nationally required increases.
- Around the world, McDonald's provides various benefits to accommodate our employees' interests. McDonald's Australia builds loyalty and commitment with an international exchange scholarship program that provides airfare and other logistical and financial support to assist employees to spend a full school year living with a host family in another country. McDonald's USA has instituted the Alternative Work Approaches (AWA) program for staff employees. Options to work a non-traditional schedule or decreased hours without loss of benefits include flextime, compressed workweek, job sharing, and part-time work. McDonald's Germany instituted an ongoing employee bonus program, designed to involve all restaurant employees in continuously improving restaurant sales.

## LEARNING, DEVELOPMENT, AND PERSONAL GROWTH

McDonald's provides restaurant employees with employment skills – the ability to work on a team for common objectives, the importance of punctuality, customer focus, and a drive for personal excellence. These skills translate into advancement and growth because employees see daily role models who demonstrate the ability to grow on the job with McDonald's. In many countries, a majority of McDonald's restaurant management began as restaurant employees; around the world, many McDonald's staff employees and many McDonald's franchisees first started working in our restaurants. Globally, McDonald's implements innovative programs designed to maximize each employee's opportunities to grow and develop within the system.

- McDonald's works with local and government agencies worldwide to provide increased employment opportunities to individuals with disabilities, focusing appropriately on what each person can do. These include the activities of McDonald's Spain (ONCE Foundation), McDonald's Portugal (AAPC), McDonald's Austria (Jobfabrik), McDonald's Russia (employment of graduates of the Ronald McDonald Center for disabled children), McDonald's New Zealand (Workbridge), McDonald's USA (Chairmanship of the Employer's Committee of the Department of Labor's Office of Disability Employment Policy), and many others. Further, we are developing a pan-European initiative to provide employment opportunities for disabled individuals.

As one of the largest employer of students, McDonald's welcomes the special responsibility this places on us to ensure that younger workers are treated properly, that their employment is in conformance with legal standards, and that their schooling comes first.

Our efforts to fulfill our responsibility include technology to “build in” and monitor compliance; setting “buffers,” standards even more restrictive than the law, in order to prevent violations of the law; focusing on better staffing to reduce reliance on younger workers; and providing greater education and training of both managers and employees to make adherence to good practices top of mind.

- McDonald's also provides scholarships and other incentives to show student employees how much we value their education. Around the world, the number of scholarships granted to student-employees are in the thousands. McDonald's France partners with AFPA so that employees with baccalaureate degrees can earn certified qualification approved by the Ministry of Labor. McDonald's France also has pioneered an employee assessment program designed to help employees clearly identify a career plan, whether within or outside McDonald's. McDonald's United Kingdom (UK) makes annual Scholarship Awards to 100 student employees to assist with their studies. These awards have been endorsed by UK Government Ministers and leading sports personalities who recognize the motivational benefits.
- McDonald's Romania, Poland, and Czech Republic motivate management employees by providing opportunities for them to work at McDonald's in other countries, gaining a broader work experience and enabling greater diversity of career opportunities. McDonald's Croatia provides this opportunity to restaurant employees. McDonald's Argentina and the University of Morón jointly developed a program leading to a Bachelor in Retail Marketing degree, with McDonald's Argentina providing 50 scholarships per year to employees studying in this program. McDonald's Argentina's “Becamos tu Pasión” (“We Award Your Passion”) provides scholarships to

restaurant employees who demonstrated excellence in their studies, sports, or art, as well as in their commitment to their work at McDonald's. McDonald's Russia has an official scholarship program for student employees to help them successfully combine work and studies. Public officials from the Ministry of Education and the Ministry of Labor attended the awards ceremony honoring dozens of employees. McDonald's Austria has implemented a cooperative apprenticeship program, generating knowledgeable employees and positive feedback from vocational education teachers.

## RESOURCES TO GET THE JOB DONE

Providing the right tools to do the job enables employees to do their best. Providing resources takes many forms: eliminating barriers and burdens, streamlining processes to remove inefficiencies and increase productivity, and enabling others to increase their capacity and desire to perform.

- McDonald's Portugal and other markets have launched an intranet site to provide employees with information on our history, policies, compensation, and benefits. McDonald's Bahrain works in cooperation with the Ministry of Labor and Social Affairs to employ local Bahrain citizens and provide them with English language training. English as a Second Language (ESL) training programs are implemented to help employees in many McDonald's USA regions. McDonald's Pakistan (Karachi) pays for employees to receive English language training. McDonald's Saudi Arabia (Riyadh) provides Arabic language training to its expatriate workers.

- Following a successful pilot, McDonald's Japan is expanding its program to teach Japanese sign language to employees nationwide. This will enhance McDonald's Japan's efforts to create a barrier-free environment for hearing-impaired customers, and at the same time further integrate hearing-impaired employees into the McDonald's workforce.
- McDonald's Performance Development System (PDS) enables each employee to play a key role in driving his or her own performance to achieve McDonald's business results. Online, PDS contains a hyperlink to Learning Navigator, a professional development tool enabling each individual to find development resources specifically targeted to his/her own development needs and learning styles.
- Both McDonald's USA and McDonald's UK have developed Human Resources Consulting Centers, designed to provide expertise, consulting, and advice to field HR personnel, staff, and restaurant managers.
- McDonald's Denmark has developed an electronic HR information system to optimize the ability of restaurant managers to handle people-related tasks. McDonald's Finland instituted an annual HR Report summarizing their efforts to continuously improve people practices. McDonald's Hungary has developed an intensive management training program, designed to fully train outside hires to be competent people-oriented managers in less than a year. McDonald's USA has instituted a Human Resources Design Center to create strategies and business solutions to help field personnel deliver on the People Promise. McDonald's UK also has developed an innovative recruitment and retention guide to assist restaurant managers in hiring and keeping employees who most want to provide customers with an unparalleled quick-service restaurant experience.

## ADVANCED TRAINING AND DEVELOPMENT

### HAMBURGER UNIVERSITY

Our management development centers, such as Hamburger University (HU), have evolved and grown by creating an extensive curriculum to serve the learning and development needs of employees throughout their careers. The HU curriculum provides employees blended learning solutions that include shoulder-to-shoulder training within the restaurant, classroom sessions, on-the-job reference tools and electronic solutions. Our e-Learning provides just-in-time training and development for our employees, allowing them opportunity for simultaneous visual and auditory learning, while challenging them with job simulations that assess knowledge and skills.

The Mid-Management Program continues to develop employees as they move from managing a single restaurant to managing and consulting with groups of restaurants. Typical course offerings include Partnering for Results, Training Consultant Course, Managing the Organization, and Foundations of Leadership. All of the courses taught in the Restaurant Management and Mid-Management Curricula are accredited by the American Council on Education (ACE). Restaurant Management curriculum has been granted 12 college credit hours through ACE; the Mid-Management curriculum, including both HU and Regional courses, has been granted 22 college credit hours. By participating in our McDonald's courses, individuals can accumulate numerous credit hours toward a college degree.

Executive development is directed at the company's top executives in the organization worldwide and tailored to the unique learning needs of this group of leaders. Executive development also includes external seminars at leading universities or centers of excellence and executive coaching.



*Originally begun in the basement of a McDonald's restaurant in 1961 (shown in top picture); HU currently translates curriculum materials into 28 languages and provides live simultaneous interpretation of as many as six languages during course sessions. Campuses exist in Australia, Brazil, Germany (pictured above), Hong Kong and the United Kingdom.*

## DIVERSITY

***"None of us is as good as all of us."***

*- Ray Kroc*

Achieving diversity goals is a factor in evaluating the performance of leaders within the McDonald's system. Diversity goals are integrated through strategic business plans.

Our collaborative programs and activities promote the corporate vision for diversity and strategic business initiatives.

## DIVERSITY EDUCATION

We have developed a framework to provide diversity education throughout the organization through formal presentations, workshops, and seminars. Presentations and training materials, both customized and informal, are provided for integration into team and department processes.

Seminars and workshops like Leveraging Diversity, GenderSpeak, Asian Career Development, Black Career Development, Hispanic Career Development, and Women's Career Development, and White Male Forum serve as the cornerstone for bringing diversity to life in the organization in the U.S. Diversity education is an ongoing process, creating awareness and building skills for managing an inclusive, diverse workforce at McDonald's.

## WORKING WITH COMMUNITY PARTNERS

At McDonald's, we are committed to building our brand value and sustainable partnerships within the communities in which we do business. In the United States, McDonald's is proud to partner with national organizations such as Catalyst; Women's Foodservice Forum; National Urban League; National Association for the Advancement of Colored People; Organization of Chinese Americans; President's Committee on Employment of People with Disabilities; National Council of La Raza and the United States Hispanic Chamber of Commerce, as well as other national and local community organizations. As a result, McDonald's has been named the Best Company for Minorities, one of the Top 25 Companies for People with Disabilities, Best Employer for Asians, and among the Top 100 Companies for Women to Work.

## GOALS AND PRIORITIES

- ❑ Ensure that each country's McDonald's develops and implements strategies to:
  - Educate employees and owner/operators about the People Promise and actions to be taken
  - Demonstrate, as role models, the values and behaviors underlying the People Promise
  - Develop a reward and recognition system for individuals who champion and model People Promise practices
  - Review existing people practices, with input from stakeholders, including applicable employee representative bodies, and develop priorities for improvement
  - Review existing training materials regarding people practices and develop improved methods for including the importance of people practices on a daily and ongoing basis
  - Hold themselves accountable for people practices via:
    - Annual audits of restaurant people systems
    - Surveys of employee sentiment
    - Decision-making criteria, including employee promotions
    - Determine the best methodology for applying people principles to owner/operators
    - Reporting on strategies
- ❑ Develop systems for holding country management and senior corporate management accountable for corporate People Promise implementation
- ❑ Develop and disseminate to system, including owner/operators, business case research on the positive economic impact of consistent implementation of sound people practices
- ❑ Develop forums for broadly sharing positive examples of People Promise implementation
- ❑ Explore the feasibility of a centralized analysis of common issues raised in audits and surveys
- ❑ Ensure that each McDonald's market reviews laws and current practices regarding the employment of minors and determines how to ensure that labor market pressures do not result in violations of law or policy

# MARKETPLACE



- **Introduction:** Integrating Social Responsibility into QSC&V
- **Supplier Social Compliance:** Sustain supplier compliance - promote supplier responsibility
- **Working with Experts**
  - Animal Welfare
  - International Scientific Advisory Council (ISAC)
  - Happy Meal™ Toys and PlayPlace™ Safety
- **Goals and Priorities:** Next steps

## INTRODUCTION

### INTEGRATING SOCIAL RESPONSIBILITY INTO QSC&V

Because QSC&V – Quality, Service, Cleanliness, and Value – are McDonald's business fundamentals, these marketplace issues may appear on the surface to be separate from, and independent of, social responsibility. But the scope of marketplace issues has expanded in recent years, partly as a result of increased communication and transparency, along with increased interest by consumers, non-governmental organizations, and other stakeholders. Business for Social Responsibility (BSR) states: "There has been a shift away from 'buyer beware' toward an ethos in which companies are expected to bear a greater responsibility for the integrity, use, and consequence of their products and services."

McDonald's recognizes its fundamental obligations to provide QSC&V to its customers and also to influence, act positively, and continually challenge our system to identify new ways to protect health, safety, and quality within our system of people, products and services.

In practice, this is demonstrated by the way we approach many marketplace practices, such as these actions:

- Encouraging positive changes in the area of animal welfare, including creation of the industry's first independent board of academic, industry, and animal protection experts to advise us on issues related to the humane treatment of farm animals
- Creating a panel of independent experts – McDonald's International Scientific Advisory Council – to provide advice on additional steps we can take to protect beef safety
- Being among the first in the quick-service restaurant industry to implement the Hazard Analysis and Critical Control Point (HACCP) systems
- Working with independent, third-party labs, and government leaders to advance toy safety research that has already helped to raise toy safety standards

These marketplace issues are areas in which McDonald's has demonstrated social responsibility leadership. They show that we learn from and listen to outside experts, interested stakeholders, and open our business to innovations and new ideas.

## SUPPLIER SOCIAL COMPLIANCE

### SUSTAIN SUPPLIER COMPLIANCE – PROMOTE SUPPLIER RESPONSIBILITY

#### Our Commitment

As a responsible citizen of the global community, and a vital member of neighborhoods in 121 countries around the world, McDonald's is committed to high standards of behavior and performance on issues of social responsibility. We hold our suppliers to these same high standards.

Through our Supplier Code of Conduct, which describes how we expect our suppliers to treat their employees, we strive to be a leader in the area of social responsibility.

We believe that compliance means far more than issuing a Code to our suppliers. Compliance is a process, not an end in itself. This means that we will continually challenge our suppliers to identify new ways to protect the health, safety, and human rights of their employees. Compliance also involves working closely with our supply chain to address challenges in a responsible manner that considers the needs and expectations of our shareholders.

#### Our Values

In all our efforts, we strive to abide by the values that guide our actions and frame our program.

#### *Protecting suppliers' employees:*

- To understand important issues that affect our suppliers' employees
- To make our suppliers' employees aware of their rights

- To do business with suppliers that uphold our standards and respect the rights of their employees

#### *Correcting the problems:*

- To focus our efforts on dialogue, training, and clear guidelines
- To seek solutions to compliance issues that are effective today and sustainable tomorrow
- To be open about the challenges we face and persist in finding solutions

## COMPLIANCE PROGRAM DEVELOPMENT

In 1993, McDonald's formalized its Code of Conduct. We began to use the Code as one of many tools to set our expectations for our suppliers and to review supplier performance. In 1997, we refined the Code and distributed it to all of our suppliers. We also communicated our expectation that compliance is a condition of doing business with McDonald's.

In 1998, our goal was to focus on a region and industry that would serve as a laboratory for the development of a compliance process that could be rolled out more broadly to other regions or industries in which human rights concerns might justify closer scrutiny of our suppliers. On this basis, we focused our initial attention on our premium suppliers in China.

Throughout 1998, PriceWaterhouseCoopers worked closely with McDonald's personnel and with representatives of the agencies that source premiums for McDonald's. Out of this process, we developed a comprehensive set of materials designed to enable external social accountability monitors and internal compliance staff to evaluate the compliance progress of production facilities manufacturing McDonald's premiums.

## UNDERSTANDING THE ISSUES – ACTING ON THE ISSUES

### Assessment

We conduct monitoring through external auditors. These auditors use the McDonald's standardized verification process that includes on-site inspection, record verification, and employee interviews. The audits require monitors to be trained in a wide spectrum of workplace issues and to possess the interview skills to validate the different areas of compliance.

However, external audits are only one of several methods we use to assess the compliance of our suppliers. We also use stakeholder dialogues, training and education, self assessment procedures, and benchmarking to raise the level of awareness and continuous improvement within the supplier base. We realize the importance of developing a balanced understanding of this complex issue. We listen to and learn from our stakeholders. Through stakeholder dialogues we have enhanced our assessment tools, our data collection processes, and employee interview methods and have improved our understanding of supplier compliance challenges.

### Corrective Action

As important as the various assessment processes are, the real measure of progress is our corrective action process. Through the corrective action plan, compliance is reinforced in a tangible way by:

- Ensuring suppliers create specific plans to remedy areas of non-compliance
- Promoting the enactment of policies by our suppliers that will support ongoing compliance
- Verifying that the facility has established a process to ensure compliance
- Facilitating the communication of corrective actions by the suppliers to their employees

Corrective action plans are created by the production facilities with assistance from our direct suppliers. We persist in identifying opportunities and working through issues with our suppliers to address the root causes of problems and to create lasting solutions to the following:

- What is a safe and healthy work environment and how can this be maintained today and in the future?
- How can we ensure the proper administration and delivery of workplace benefits?
- What are appropriate management and worker practices to ensure rights are respected on a daily basis?

We believe that, by adopting an approach that understands the workers' challenges and the issues facing suppliers, we can find sustainable solutions that will be effective today and appropriate for tomorrow.

As a result of our auditing and engagement with the suppliers, many facilities in China have built new dormitories to provide better living conditions for their workers. This is but one of the many examples of improvements we have achieved through our compliance program. For more detail regarding corrective actions, see McDonald's Corporation Shareholder Report on Supplier Social Compliance.

## RESPONDING TO ALLEGATIONS

In August of 2000, a series of articles in the *South China Morning Post* alleged that a facility that was then producing Happy Meal™ premiums for McDonald's was employing child labor and forcing employees to work and live in squalid conditions. The allegations were serious, and we took them seriously. The China facility had been audited the previous year and was charged with implementing a corrective action plan to resolve issues identified during that audit (none of which resembled the allegations in the news reports).

Nevertheless, McDonald's immediately dispatched a multinational team of auditors from four different social compliance monitoring firms – SGS, ITS, BVQI and PwC – to conduct a full-scale audit of the facility.

This audit did not uncover evidence of child labor or below standard conditions in the facility. However, it did uncover serious record-keeping irregularities and related problems that caused McDonald's to question the supplier's commitment to our program. As a consequence, we terminated this supplier, meaning that none of the facilities owned or operated by this supplier could produce goods for McDonald's. Termination is always a last resort. Our philosophy on these issues is to protect the workers and correct the problems. We want facilities to raise their operations to the proper level, thereby keeping the plant open and jobs ongoing while the corrective action plans take hold.

Two important learnings grew out of this experience. First, while some groups have suggested that this incident exposed supposed "failings" of McDonald's compliance program, we believe that this experience demonstrates that our program works. Compliance programs cannot guarantee compliance, but they must incorporate processes that can deal swiftly and effectively with non-compliance. McDonald's program did precisely that – continually educate suppliers, remediate nonconformance, and terminate only as a last resort. Later in the year, McDonald's compliance program once again came under scrutiny from the *South China Morning Post*. This time, an editorial in the *Post* read:

*"Finding solutions to problems and remedying bad practices are by far the best options because they avoid throwing people out of work. By being open about the problem and attempting to solve difficulties, McDonald's is taking an enlightened approach that is an example to others."*

We have not found all of the answers, and we anticipate that issues will continue to arise that will require reflection, growth, and improvement. However, we believe that we are working to achieve our vision while balancing the everchanging needs of all our stakeholders on this issue.

## WORKING WITH EXPERTS

### ANIMAL WELFARE

Meat makes up a significant part of our menu and is integral to our supply chain purchasing management. Our size and scope bring a responsibility for the quality management of our meat supply chain.

McDonald's cares about the humane treatment of animals, so we are continuing to find ways to improve conditions and operations at our suppliers' facilities. Although McDonald's does not typically own, raise, or transport animals, we do recognize that our responsibility as a purchaser of food products includes working with our suppliers to ensure good animal handling practices. McDonald's believes that the humane treatment of animals is an integral part of our world-class supplier system. We buy our beef, pork, and poultry products from suppliers who commit to our high standards and share McDonald's commitment to animal welfare.

McDonald's requires its suppliers to meet or exceed all applicable government laws and regulations and meat industry standards related to animal welfare. McDonald's has developed global guiding principles for our approach to animal welfare. McDonald's Corporation will continually look for ways to improve our standards and work toward achieving them. Many McDonald's suppliers are surpassing these standards already. McDonald's continues to expand and integrate a comprehensive and objective measurement system for

good animal handling practices, based on animal behavior science and the work of Dr. Temple Grandin (see below). Abattoir audits are in place and in practice globally with our suppliers.

### **ANIMAL WELFARE COUNCIL**

McDonald's is educating our suppliers and key staff on animal welfare practices. McDonald's works with outside experts who share scientific information and research results that assist our supply chain. McDonald's has created the industry's first independent advisory board on animal welfare issues. The Animal Welfare Council is comprised of leading academic and animal protection experts.



*Dr. Temple Grandin is McDonald's chief advisor on animal welfare. Dr. Grandin is Assistant Professor of Animal Science at Colorado State University and a world-renowned expert and advocate for animal welfare. She has visited dozens of McDonald's suppliers and has been instrumental in implementing an animal welfare auditing system with our suppliers.*

*"McDonald's integrating animal welfare into its quality assurance program has made a huge difference. I have been in this business for more than 25 years, and I have never seen such a transformation."*



**Dr. Grandin,  
Assistant Professor of Animal Science  
Colorado State University**

## INTERNATIONAL SCIENTIFIC ADVISORY COUNCIL

McDonald's established the International Scientific Advisory Council, a panel of leading scientists and medical experts, to advise us on bovine spongiform encephalopathy (BSE). Members of this council review industry practices and McDonald's system initiatives in BSE prevention. This helps to promote the most effective policies and procedures.

With this council, McDonald's is strengthening our beef safety program. McDonald's understands that independent validation of our food safety programs is key to ensuring the trust and confidence of our consumers.

McDonald's has built extra safeguards to protect against BSE. We require our suppliers to certify that their animals have been raised only on approved feed. We specifically exclude central nervous system tissue from cattle feed; this includes no use of Advanced Meat Recovery systems. At meat packing facilities, we have established strict procedures for stunning animals to prevent contamination.

## HAPPY MEAL™ TOYS AND PLAYPLACE™ SAFETY

For years, we have been driving state-of-the-art technology to scientifically analyze the safety of toys and other promotional items for the McDonald's system. We also have been working with the world's leading manufacturers and installers of safe playground equipment and renowned safety consultants so that playtime at McDonald's meets our strict specifications.

For example, "McBaby," a one-of-a-kind, multi-million dollar computerized "virtual child" and working model developed exclusively for McDonald's, was given to the United States Consumer Product Safety Commission (CPSC).

This safety technology is now enhancing America's official safety oversight for toys – including those available from our competitors and toy stores.



*The United States Consumer Product Safety Commission (CPSC) has recognized McDonald's safety leadership for children by presenting McDonald's with*

*the agency's highest safety award. CPSC Chairman Ann Brown presented the "Chairman's Commendation" to Jack Greenberg, McDonald's Chairman and CEO.*

## GOALS AND PRIORITIES

- Explore ways to increase customer awareness and knowledge about the nutritional choices at our restaurants
- Evaluate current cooking oils and consider alternatives to reduce saturated fat and trans fatty acid levels
- Provide research and development funding to leading scientists that will assist in detecting and further preventing BSE
- Continue to demonstrate animal welfare leadership
  - Explore sow gestation housing alternatives
  - Continue to integrate our global minimum standards for all animal species we purchase
- Work with other companies in our industry to promote animal welfare standards and leadership

The following social compliance goals describe our existing and planned efforts for our suppliers to achieve sustained compliance.

- Continue to develop improved evaluation tools

- Improve our auditing tools to more effectively monitor workplace issues such as hiring practices, workplace management and disciplinary methods, harassment, and workplace environmental, health and safety conditions.
  - Improve worker interview methods using more insightful questioning techniques and approaches based on the advice of stakeholders and consultants. We have modified the interview process to include on- and off-site worker visits incorporating a broader array of questions to address worker needs and concerns, and we continue to explore additional methods of collecting more candid and open worker feedback, such as an ombudsman program.
- ❑ Continually improve communication, awareness, education, and training
- *Enhanced Training:* We have continued to update our educational materials regarding workplace and worker issues. This training is targeted to suppliers, their facilities, external monitors, and local McDonald's personnel. In training, dialogues communicate our compliance expectations to our suppliers and, in turn, provide our suppliers with an opportunity to explain their practical challenges to us. Through this exercise, our understanding of workers' and suppliers' concerns have grown, and our compliance efforts have improved greatly. The format is created to encourage the "train the trainer" method of information transmission in order to support worker training and awareness.
  - *Worker Awareness Tools:* McDonald's has supported the efforts of our suppliers to create worker awareness tools to facilitate understanding of our code of conduct expectations by our suppliers' employees. Each lead supplier has created pamphlets, booklets, and cards that reinforce the elements of the McDonald's Code of Conduct for Suppliers in a way that workers will understand. We also are working with our suppliers to evaluate the effectiveness of this communication in a continual effort to reinforce the importance of compliance with the Code of Conduct and respect for workers' rights.
- *Benchmarking and Dialogues:* One of the hallmarks of our compliance program is continuous benchmarking with other similarly situated companies. Considerable time and effort are spent working with and learning from other companies. In addition to benchmarking with individual companies, we have engaged industry trade groups in similar discussions. McDonald's also has reached out to interested non-governmental organizations (NGOs), and we have received useful ideas and suggestions from these organizations. As our program continues to evolve, we will explore opportunities to put these ideas and suggestions into practice.
- ❑ Expansion of our program scope
- As mentioned earlier, McDonald's initially focused on a single industry during the creation phase of our monitoring program. Learning from our experiences in China, we have begun to expand the compliance assessment aspects of our program to other industries and geographic regions, as appropriate.
- Our first step in this process has been to conduct an up-to-date inventory of McDonald's supply chain around the globe and to redistribute the Code of Conduct to the entire supply chain. We have asked our suppliers to certify that they are in compliance with the Code.

- Our next step, which is ongoing, is a compliance assessment. The process of assessment begins with education of our suppliers on current compliance issues. This education includes assisting suppliers in identifying areas within their unique supply system that may require extra attention due to their geographic location or product conversion process. As these compliance opportunities are identified, suppliers will be asked to work with McDonald's to perform facility assessments. Based on these assessments, appropriate social compliance plans will be developed.
- Each of our goals represents a critical building block in achieving a sustained level of supplier compliance. We need to improve our understanding of the issues and effectively communicate with our suppliers regarding these issues. We also need to continue to improve our training and ensure this training is cascaded throughout the supply system.

Listening to our business partners and our stakeholders is essential to understanding their concerns and adopting practices that are effective in sustaining compliance.

As our commitment embraces today's broad scope of social responsibility, it acknowledges our accountability (governance, ethics, mission, vision, and values) to place (community), planet (environment), and people (marketplace, workplace, diversity, and human rights). Briefly, we describe some responsibilities within McDonald's to manage these issues.

## **SOCIAL RESPONSIBILITY STEERING COMMITTEE**

We have a core corporate group that encompasses diverse business functions that oversees our social responsibility strategies and actions. This team includes functions such as Corporate Communications and Social Responsibility, Corporate Compliance, Human Resources, McDonald's Charities, Strategy, and Worldwide Supply Chain Quality Assurance.

## **BOARD OF DIRECTORS**

The Board of Directors has focused its oversight responsibility on the company's social and environmental performance by establishing the Corporate Responsibility Committee. This Committee acts in an advisory capacity to the company's management with respect to policies and strategies that affect the company's role as a socially responsible organization, including, but not limited to, issues pertaining to health and safety, the environment, employee opportunities, consumers, and the communities where the company does business.

## **OPERATIONS**

Each of the countries we operate in has autonomy for running the day-to-day operations. At the lead are local joint venture partners, managing directors, and country managers, who understand and appreciate the customs and cultures of the people they serve. In this method of operation, McDonald's selects a local business person who shares McDonald's business philosophies to start a local company.

## **SUPPLIERS**

Our suppliers take the same leadership philosophy as McDonald's with respect to social responsibility issues – including environmental stewardship, diversity in the workforce, people practices, and support of our communities. Together, we have worked closely in a number of efforts featured in this report.

## **McDONALD'S CHARITIES**

Many of the company's philanthropic activities are directed and administered by this group. McDonald's provides all of the administrative support for Ronald McDonald House Charities, along with management of corporate contributions and administration of the McDonald's Family Charity, which was set up to help McDonald's employees in times of disaster or emergency.

## **QUALITY AND SAFETY**

McDonald's Quality Assurance Board, along with the Global Safety and Security Department, provides strategic global leadership for all aspects of food quality and safety. Further, quality assurance and supply chain specialists around the world work with McDonald's suppliers to ensure compliance with our standards and specifications. Plus, we routinely interact with our suppliers to encourage innovation, assure best practices, and drive continuous improvement.

## **HUMAN RESOURCES**

Human Resources is responsible for driving our People Promise throughout the entire system – from restaurant employees to owner/operators, to regional and corporate staff. This responsibility includes hiring people with the appropriate experience and skills, having effective tools to help us hire people who meet our needs, ensuring individual development plans are created for each employee, maximizing commitment, and providing reward systems that drive higher levels of performance.

## **DIVERSITY INITIATIVES**

This department provides leadership and the development framework for strategic planning and the future business integration of diversity for McDonald's. Furthermore, this group provides diversity consulting and support to owner/operator leadership groups.

## **SUPPLY CHAIN MANAGEMENT**

This group works to ensure that our suppliers have completed the required social compliance documentation, showing their accountability for the safety of the food, toys, and manufactured goods they provide and their adherence to our high standards of business ethics and integrity. Ongoing relationships with suppliers worldwide are created and developed to ensure they have the proper kind of social programs, such as those related to the environment, labor practices, and animal welfare. We also work to develop local suppliers, transferring technology and knowledge to them.

## **WORLDWIDE RESTAURANT SYSTEMS**

This group supports restaurant activity and execution at all levels around the world, while also stimulating innovation that continues to enhance McDonald's restaurant systems worldwide. In further support of quality practices in our restaurants, this group also coordinates management development and leadership training throughout the organization, with specific courses and programs targeted for swingshift managers, manager trainees and assistants, restaurant managers, mid-level managers, and executives.

## **ALLIANCES**

McDonald's will continue to seek out third-party groups, including government leaders, NGOs, customers, and key experts to help influence our business and social responsibility practices. McDonald's has been enriched by these alliances, and we continue to look for ways to establish meaningful dialogues whenever and wherever appropriate.

## ONLINE RESOURCES

### ORGANIZATIONS

Business for Social Responsibility  
([www.bsr.org](http://www.bsr.org))

Conservation International  
([www.conservation.org](http://www.conservation.org))

Environmental Defense  
([www.environmentaldefense.org](http://www.environmentaldefense.org))

Global Reporting Initiative  
([www.globalreporting.org](http://www.globalreporting.org))

The Natural Step  
([www.thenaturalstep.org](http://www.thenaturalstep.org))

Ronald McDonald House Charities  
([www.rmhc.org](http://www.rmhc.org))

### McDONALD'S POLICY DOCUMENTS REFERENCED

Animal Welfare Guiding Principles  
([www.mcdonalds.com/corporate/social/marketplace/welfare/guiding/](http://www.mcdonalds.com/corporate/social/marketplace/welfare/guiding/))

Corporate Shareholder Report on Supplier Social Compliance  
([www.mcdonalds.com/corporate/social/marketplace/supplier/](http://www.mcdonalds.com/corporate/social/marketplace/supplier/))

Corporate Vision for Diversity  
([www.mcdonalds.com/corporate/social/people/diversity/](http://www.mcdonalds.com/corporate/social/people/diversity/))

Our Commitment to the Environment (McDonald's USA)  
([www.mcdonalds.com/countries/usa/community/environ/info/commit/](http://www.mcdonalds.com/countries/usa/community/environ/info/commit/))

Rainforest Policy  
([www.mcdonalds.com/countries/usa/community/environ/info/rainforest](http://www.mcdonalds.com/countries/usa/community/environ/info/rainforest))

### FEEDBACK

Comments and suggestions on McDonald's Social Responsibility Report and programs  
([www.mcdonalds.com/corporate/social/welcome/contact/](http://www.mcdonalds.com/corporate/social/welcome/contact/))



# Social Responsibility

This report was coordinated by the McDonald's Social Responsibility Steering Committee, which served as an editorial board for this report.

We have worked with Business for Social Responsibility to help us assess our social responsibility programs, strengths, and opportunities for the future. We would like to thank BSR for their work and dedication to helping companies such as ours learn and integrate sustainable thinking into our culture.

We also thank The Natural Step for their help. TNS directly participates in McDonald's Global Environmental Council and recently began collaborating with McDonald's to assist us in our ongoing efforts to implement a sustainability framework into our business.

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We welcome your comments and suggestions at our social responsibility web site:

[www.mcdonalds.com/corporate/social/](http://www.mcdonalds.com/corporate/social/)



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