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**Realism or Idealism? Corporate Social Responsibility and the  
Employee Stakeholder in the Global Fast-Food Industry**

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## **Abstract**

The more extreme forms of employee exploitation usually found in third world or developing countries, often receives a lot of media attention. Much less is said about the exploitation of employees in the industrialised West, where it is often assumed that companies - especially those advocating corporate social responsibility (CSR) – will not only respect employee's rights, by adhering to national and supranational law, but will also provide employees with decent pay and working conditions. This paper critically examines this assumption by providing a qualitative international analysis of the employment practices of the McDonald's Corporation. The findings suggest that despite being a strong advocate for CSR, low wages, abuses of labour rights and health safety standards and union-busting practices are a feature of employment at McDonald's in most countries. In this context the concept of CSR is fundamentally unrealistic and can be seen as little more than a clever employer-driven public relations exercise aimed at avoiding harder forms regulation.

## CSR and the employee stakeholder

Corporate social responsibility (CSR) is now on the global agenda, the USA, the European Union (EU) and a number of developing countries are all looking to corporations to help address issues such as inequality, health and unemployment. CSR is based on the concept of 'stakeholder democracy', which is premised on the notion that organisations are made up of a number of different stakeholders with a multiplicity of interests, all of whom should have an influence over the organisation's activities. This concept is supposed to preclude the privileging of any one interest above the rest (Zadek, 2001), however, the question remains as to how much influence different stakeholders will have in practice. Thompson and McHugh (1995) suggest that stakeholder democracy is fundamentally unrealistic about the distribution of decision-making power inside organisations, because it is the owners who hold the key 'stakes' in the organization and ultimately it will be their interests that predominate. Zadek (1993) also argues that shareholder interests are always likely to predominate, favouring financial over non-financial outcomes, with markets tending to reward bad rather than good behaviour, maximising short term profits and externalising costs to individuals, the state and the region in terms of unemployment, poor working conditions, health and stress problems and pollution. Furthermore, whilst the more extreme forms of employer exploitation such as child labour in 'branded' sweatshops<sup>i</sup> often receives a lot of media coverage - much less is said about the day-to-day abuses of employee rights in the industrialised countries, where it is assumed that companies (especially those adopting CSR) at least adhere to the spirit and letter of prevailing labour law and perhaps go beyond it in providing workers with decent pay and working conditions.

### **Employee stakeholders in the industrialised West**

Part of the explanation for this may be that we assume that employment rights violations in the West are neither frequent nor serious and only involve small numbers of employees. Furthermore, we may assume that modern technology is improving the nature of work, removing low-skilled, dangerous, systematized and repetitive work and delivering employees into a Post-Fordist (Piore and Sabel, 1984) and/or post-industrial (Becker, 1964) society - where companies invest in their workforces, improving their

‘human capital’ in order to cope with an increasing complexity of tasks and more service oriented work (Fuchs, 1968; Bell, 1973). However, as more recent analysis suggests, there is little evidence for such a conclusion (Williams et al., 1987). In fact there is considerable evidence to suggest that Taylorist/Fordist regimes are not only persistent, but indispensable for many employers (Schumann et al., 1995; Stillman, 2003), with many industries becoming dominated by a global standardisation of homogenous products (Smith, 1991; Ritzer, 1993), reflecting an increasingly automated and internationalised production process (Babson, 1995; Taylor and Bain, 1999) and, where employers use information and communication technologies across a range of sectors and countries to focus on short-term goals paying little attention to social issues and employee protections (Wickham, 2000).

In most mainland European countries for example, where employee protections are arguably greater than elsewhere, there are increasing concerns about long hours disrupting the work life balance and increasing levels of labour turnover, absenteeism, stress, burnout, injuries and heart disease (Hobfoll, 1998; Reich, 2000). Around half of the employees in the EU report that they now have to work at very high speed to tight deadlines, that their work is monotonous and repetitive, with no possibility of task rotation and more than a third have no influence on task order (Docherty et al., 2002). In the UK where working hours are longer than the rest of Europe, work related grievances have increased dramatically since the 1980s (NACAB, 1997) and in the last two years there has also been a wave of company pension scheme closures prompting calls for more socially responsible corporate governance (Morgan, 2004). In the US, the situation is arguably much worse, the typical American works 350 hours a year more than his European counterpart (Docherty et al., 2002) and an increasing number of companies are unwilling to provide US employees with health insurance in a country that does not guarantee basic healthcare <sup>ii</sup>. US labour rights violations are also increasing, over the last 50 years the numbers of US employees who have suffered reprisals union activity or membership have increased to over 20,000 per year. However, these figures only scrape the surface, the vast majority of cases are never reported either because of employer intimidation or because employees do not know where or who to complain to (Human Rights Watch, 2000). By the late 1980s alone, US employers were estimated to be

spending \$1 billion per annum on union-busting<sup>iii</sup> law firms and other union-busting activity (Lawler, 1990).

Many of the companies that have argued strongly for the adoption of CSR are multinational corporations (MNCs), yet it could be argued that it is the MNC, which often drives technological change aimed at asserting managerial prerogative and reducing labour costs, this is partly suggested by the increased disparity of incomes between senior management and their employees. In 2002 for example, chief executives in the top 100 US companies, earned an average of \$1017 per hour, compared with \$16.23 per hour for the average US employee (Teather, 2003). The above analysis suggests that many MNCs and other employers are not acting in a socially responsible manner, but how can this be achieved in practice and what are the alternatives?

### **Regulating the multinational corporation**

There is nothing new about the problem of regulating employers and MNCs in particular. Various international institutions such as the OECD (Organization for Economic Cooperation and Development) and the ILO (International Labour Organization) have produced public codes of conduct intended to curb exploitative employer behaviour. The core sanctions of the ILO's recent Declaration on Fundamental Principles and Rights at Work (1998) include the right to join a trade union and collective bargaining, the elimination of child and forced labour and discrimination. However, the problem with these public codes is that there are no sanctions to ensure compliance. ILO codes also exclude any interference with national employment laws and have no legal sanctions to interfere with international agencies such as the IMF (International Monetary Fund), the World Bank and the WTO (World Trade Organization), which often sideline and sometimes undermine employment rights in favour of other outcomes (Hepple, 1999; Reyes, 2001).

Employers have been keen to promote voluntary self-regulation such as private codes of conduct and CSR. Private codes of conduct can be seen as the forerunners of CSR and many such codes often claim adherence to the ILO's core labour standards. In the USA for example, all of the Fortune 500 companies (including NIKE, Reebok, and Levi's) have private codes of conduct. However, with no sanctions to make companies comply,

the reasons for their popularity with companies, appears to be much more to do with protecting corporate reputations and attracting customers rather than protecting vulnerable workers or providing good pay and conditions (Maitland, 1999; Klein, 2001). Klein referring to a number of scandals involving Disney, Levis and Wal-Mart, states (2001: 430):

*...[private] codes of conduct are without exception ... drafted by public relations departments ...in the immediate aftermath of an embarrassing media investigation...their original purpose is not to reform but to muzzle the offshore watchdog groups.*

It can be argued that the main aim of CSR and private codes of conduct is to persuade policy-makers not to tighten-up or increase hard forms of regulation such as national labour law and supranational labour law such as that found in the EU. Yet it is only through such 'hard' forms of regulation, that employees have been provided with any meaningful protections in the employment field. Indeed as the following sections indicate, in many western mainland European countries national labour law is rigorous and in theory provide workers with a far wider range of employment rights than that found in most other countries (including the UK and USA) and, employers can sometimes face serious financial sanctions if such rights are not observed (Ferner and Hyman, 1998).

But how effective are systems of national law and EU law in practice and, how do they compare with employer-driven solutions such as CSR? Can CSR ensure that companies will act in a socially responsible manner and is CSR significantly different from private codes of conduct? This article attempts to address these questions by providing an international and comparative analysis of the employment practices of a strong advocate of CSR, the McDonald's Corporation and its worldwide operations.

## Research issues

The findings are based on nearly ten years of empirical research examining labour relations in the European fast-food industry. In the early part of the study the author undertook a period of direct observation working in German and UK McDonald's

restaurants. However, the bulk of the empirical data derives from over 300 face to face interviews carried out in a number of countries and the analysis of documentary materials. Interviews have usually varied in between half an hour and two hours in length depending on circumstances, all interviews were taped and transcribed. Interviews have been conducted with ex- and current McDonald's employees and managers, franchisees and trade union officials in Germany, the UK, US, Russia, Austria, Belgium, Denmark, Finland, France, the Netherlands, Ireland, Italy, Spain and Sweden. In addition interviews have been conducted with international trade union bodies and a number of national employer's associations in different countries. It is important to note that ordinary crew employees make up by far the largest proportion of all employees (around 90 percent), each outlet varies in size between 35 and over 100 employees (in larger drive-in operations). A typical outlet with around 45-50 employees usually has four to five salaried staff, the rest of the workforce are hourly paid and this often includes 'floor', 'swing' or 'shift' managers. It is these hourly-paid employees that are the main focus of this article.

## McDonald's, McWonderful?

*The organization cannot trust the individual; the individual must trust the organization* (Ray Kroc<sup>iv</sup>, quoted in Love, 1995: 144).

McDonald's made its first ever loss in its history in 2002 (Walsh, 2003) and it is often the target for many anti-globalization protesters. However, the \$40 billion corporation is still expanding and is still the market leader in most national economies where it operates. According to its own website ([www.McDonalds.com](http://www.McDonalds.com)) at the end of 2003 it employed 1.6 million people in 31,129 outlets (up from 31,108 in 2002 and 30,093 in 2001) worldwide and served over 46 million customers per day. More than one in ten Americans is reckoned to have got their first job at McDonald's and it has now taken over from the US Army as America's largest job training program (Vidal, 1997; Royle, 2000). Fast-food is one of the world's truly global industries, the top 10 US fast-food chains alone, led by McDonald's, Burger King, KFC and Pizza Hut, had a combined turnover of almost \$100 billion, employing over 5 million workers in 107,000 units worldwide (Foodservice, 2002a).



McDonald's now publishes its own 'sustainability' and 'social' reports and has also taken part in meetings with other large corporations and NGOs (such as Amnesty and Greenpeace) at a number of World Economic Forums. In 2002 social report the Chief Executive of the McDonald's Corporation, stated 'how McDonald's will make the world a better place', although the only result of the meeting at the Davos World Economic forum seems to have been a new initiative on litter. In its 2004 corporate social responsibility report ([www.McDonalds.com](http://www.McDonalds.com)), McDonald's states:

*Aspiring to be the best employer ...holding ourselves to the highest possible ethical standards and more...our commitment to ensuring the integrity of the company in all of its dealings with stakeholders. ...Managers treat employees as they would want to be treated, employees are respected and valued, all of us act in the best interest of the company, pay is at or above local market, employees value their pay and benefits, restaurants are adequately staffed...to allow for work-life balance...*

Some commentators have chosen to see only the positive side of the jobs created by McDonald's. Blundell (2000) for example, lists the benefits of working for the company in the USA: private healthcare, pension scheme, paid holidays, company car, sick pay, stock options and share purchase schemes, telephone assistance and clothing allowance. It is true that that senior McDonald's managers are well paid, but what Blundell (2000) fails to point out is that such benefits are predominantly for those in salaried or senior management positions. Blundell (2000) also suggests that McDonald's provides a lot of education and training and possibilities for advancement, pointing out that many managers and franchisees begin life as crew. However, this is somewhat misleading, firstly, because all franchisees (in addition to the money required) have to undertake the work of crew and train as restaurant management for one year (unpaid) in order to qualify for a franchise, and many senior managers also buy franchises as a retirement 'nest egg'. Secondly, the vast growth of the corporation and its high labour turnover levels mean that only a tiny fraction of employees ever get beyond the basic crew level. Education and training is very limited unless workers progress to the level of management (Royle, 2000). While there is no question that McDonald's creates jobs in developing countries and particularly for marginalized sections of the labour market, the

following sections argue that for the vast majority of the workforce, the pay and working conditions in these jobs is far from being ‘overwhelmingly positive’ as Blundell (2000: 46) asserts.

## McDonald’s Behind the Counter

*We sold them a dream and paid them as little as possible.* (Ray Kroc, in Vidal, 1997: 40)

Work at McDonald’s is low-skilled, hard and often unrelenting, as one of the company mottos suggests: *...if there’s time to lean there’s time to clean*. McDonald’s often boasts about its performance related pay, however, low wages are a persistent feature and as labour turnover for the majority of the workforce is often very high (between 100 and 300 per cent), the vast majority of McDonald’s workers rarely get beyond the basic starting wage or qualify for additional benefits (which are in any case minor unless promoted to management). For the smaller numbers of hourly-paid employees that remain in employment for six months or more, they might earn between 5 and 15 UK pence (or its equivalent in Euros or dollars) per hour extra for very good or exceptional performance (and depending on their manager’s decision). A comparison of top manager’s pay and the basic McDonald’s starting wage is particularly revealing. In 1994 a typical US worker would start work on around £2.50 (\$4.00) per hour, while top US executives were earning between £380 and £740 per hour for a forty-hour week (between 150 and nearly 300 times the wages of 85 percent of the workforce). In 1993 when lower level UK executives were being paid £75,000 per year, the then UK President stated at the McLibel trial<sup>v</sup> that (Vidal, 1997: 218): *...he didn’t think that a pay rise (for workers) of 5 (UK) pence per hour in two years was ‘low’*. Since the mid 1990s wages have barely moved with inflation, with the result that unless trade unions have been able to ‘persuade’ McDonald’s into accepting a collective agreement, the corporation invariably pays on or just a few cents or pennies above the minimum wage (lower where no minimum wage exists) (Royle, 2000). Since McDonald’s is the market leader in most countries it arguably depresses wages for the whole sector. As the McLibel Judge (Mr. Justice Bell) commented on the UK operation (Vidal, 1997: 312): *... the British McDonald’s operation pays low wages and it depresses wages for other workers in the industry*.

But low pay is not the only issue. The violation of employee's rights is commonplace in many McDonald's outlets around the world. For example, 'Off-the-clock' work, which is unpaid work, often undertaken in small segments of time, e.g. working through breaks, working before shifts start or after they finish, waiting in rest areas and clocking on when the restaurant is busy, clocking off when it is not, is common in many McDonald's European operations (Royle, 2000) and endemic in North America (Leidner, 2002; Reiter, 2002; Tannock, 2001). Mr Justice Bell also condemned the practice of sending workers home without payment for the rest of their shift when restaurants are quiet, suggesting that McDonald's was far more interested in cost cutting than in valuing their employees (Vidal, 1997: 313): *...it shows where the ultimate balance lies between saving a few pounds (sterling) and the interest of ... often young employees.*

In Germany McDonald's employment of large numbers of foreign workers has led to accusations of slave labour, where in some cases workers are almost constantly on call and dare not question management prerogative because they are dependent on the company for their work permits (Royle, 2000; Royle, 2002). In August 2002 the US State Department criticised McDonald's for exploiting foreign students. McDonald's recruited around 400 foreign students to work in three US states, many coming from Poland and Slovakia as part of a government-sanctioned 'educational exchange' programme. Good wages were promised, but McDonald's was deducting so much money from employees' pay that their net pay was zero. Most of the deductions were to pay \$2,000 per month rent for five students to share a two-bedroom flat. The students were told that if they did not accept the rental agreement they would lose their jobs. Deductions were also made for Medicare and social security despite the fact that these students were legally exempt from such payments (Roche, 2002).

In many countries it is common practice for young McDonald's workers to be persuaded to compete in all-night cleaning 'parties', which go on until the early hours of the morning, with prizes like cinema tickets for the best cleaners. On many occasions employees complain about miscalculations of holiday pay and sick pay and no or inadequate notice of shift changes. Reducing labour costs appears to be a major imperative for the McDonald's system, leading to some situations where assistant

restaurant managers, keen to impress their store manager with the lowest costs on their shifts, electronically adjust employees' clocking-in times to reduce the wage bill (Royle, 2000). Complaints about health and safety regulations such as dangerously slippery floors, inadequate ventilation, no or inadequate safety clothing or gloves (for working in freezers or dealing with hot oils and dangerous chemicals) are also commonplace. In 1992, a McDonald's worker in Manchester was killed (electrocuted) by a faulty fat-filtering machine, a leaked McDonald's memo admitted that there had been several instances where employees received severe shocks from faulty equipment. McDonald's was later ordered to install safety devices to its electrical equipment in its wash-up areas (Royle, 2000; Royle, 2005). Despite McDonald's claims to the contrary, and the fact that in theory McDonald's has a number of mechanisms for workers to air their grievances (RAP sessions and suggestions schemes) managers are under much greater pressure to reduce costs than to act on worker's grievances. The result is that management rarely respond to worker's complaints unless forced to do so by trade unions (where these exist) or bad publicity.

Finally, many workers complain of overly aggressive restaurant management practices, but the worst cases, which can only be described as harassment and intimidation, seem to be reserved for those employees trying to form unions or assert their employment rights (Vidal, 1997; Royle, 2000; 2004a; 2005). Some commentators might argue that it is mostly young people who work at McDonald's and therefore such complaints should not be taken too seriously because these employees will eventually move on to something better. However, are young workers not entitled to the same rights as everyone else? In any case, in many countries McDonald's employees are not always young, McDonald's is often the 'repository' for very large numbers of economic migrants who may be both educated and 'older' but who cannot find work elsewhere because of language difficulties and problems with the recognition of their qualifications (Royle, 1999c; 2000).

### **Union-busting in North America**

In this context one might expect that frustrated employees might try to join a trade union? In fact many have done so, however, McDonald's has a long and successful

record of union-busting (Royle, 2000). As McDonald's CEO in 1991 stated (BNA, 1991: 66): *McDonald's is basically a non-union company and intends to stay that way.* In the USA in the 1970s McDonald's routinely used lie-detector tests to weed out potential unionists. As a leaked memo from McDonald's top executives reveals (Vidal, 1997: 231):

*I think [the union] was effective in ...reaching the public with the information that we do use polygraph tests in a Gestapo-type manner.*

Despite numerous unionisation attempts in North America fast-food employers have successfully kept unions out of the business (Leidner, 2002; Reiter, 2002). In Toronto, Canada in 1993, for example, employees tried to organise one McDonald's restaurant, more than the required 55 percent of employees signed union cards, so union recognition (certification) should have been automatic. However, in a 'McFlurry' of legal actions McDonald's used the courts to stop the recognition process, claiming that there had been election irregularities. In the meantime the company temporarily improved conditions in the restaurant, harassed and intimidated union supporters, distributed 'just vote no' badges and 'no union' tee-shirts. Thirty-five days of hearings and five months later the Labour Board ordered a new union election. McDonald's hosted a party for the workers on the weekend before the election and held paid captive audience meetings to 'explain' about the 'dangers' of unionisation. The unionisation attempt failed, remaining union members were eventually ousted and working conditions soon returned to the way they had been before the union drive began (Reiter, 2002).

The situation is not much different in the UK and Ireland. As Sid Nicholson, ex-personnel chief in the UK stated in 1986 (Vidal, 1997: 233): *We will never negotiate wages and conditions with a union and we discourage our staff from joining.* The 1999 UK Employment Relations Act, which includes new trade union recognition procedures has had no effect at McDonald's. McDonald's UK remains non-union and British unions admit that they have more or less given up trying to organise this sector. McDonald's Ireland has also remained entirely non-union. This is despite the fact that employees organised strikes, pickets and boycotted some stores that went on for six months in the late 1970s in order to get union recognition. Although the Labour Court decided in favour of the unions, McDonald's derailed the unionisation attempt firstly by disallowing union badges and

union notices in restaurants and then by harassing and dismissing union workers soon after the court decision was made. By the end of 1981 McDonald's had systematically removed nearly all the union members. More unfair dismissal cases took place in the 1980s, but McDonald's simply paid compensation and no unionisation attempts have been tried since.

### **McDonald's in mainland Europe**

In Western mainland Europe stronger labour legislation and more influential trade union movements theoretically present a much greater challenge for McDonald's. In countries like France and Italy, employers are automatically caught by sectoral collective agreements regardless of whether they have signed up to them or not. Many European employees are also entitled to various statutory forms of information and consultation rights and even rights to co-determine decisions with management in some countries, usually through some form of works council. Such statutory rights are an anathema for McDonald's management, who regard such matters as being purely the prerogative of the employer and where employee participation is premised on 'communication', such as team briefings and suggestion schemes; not a system of employee rights in decision-making. In addition one of the key roles of statutory works councils is to ensure that any collective agreement is correctly applied at the workplace. Consequently, McDonald's has wherever possible, undermined or removed such statutory mechanisms through a variety of 'avoidance strategies' (Royle, 1998; 2000). While this paper does not allow a full exploration of all McDonald's union-busting activities in Europe, the following is brief summary.

In Germany, McDonald's refuse to take part in negotiations for a collective agreement for 15 years; the corporation finally gave in 1989, establishing its own employer association (the BdS – *Bundesverband der Systemgastronomie*) in the process. In 2002 McDonald's once again derecognised the main German union and refused to negotiate a new collective agreement (a matter which is still settled at the time of writing). In addition McDonald's has been fighting the establishment of German works councils for over 30 years, with many hundreds of unfair dismissal cases associated with works councils going the labour courts. In 1995 for example, McDonald's spent around £250,000 buying 42 workers out of their employment contracts in order to remove eight

restaurant-level works councils and one company-level works council which had just been established. This is only one of a litany of works council avoidance strategies undertaken by the company since the 1980s and is still ongoing today (see Royle, 1998; 1999a; 2000, 2004a). In 1994 in France, twelve McDonald's managers were arrested and imprisoned for interfering with works council and union rights. In 1997 McDonald's tried to stop the mounting criticism this had caused, by announcing it was going to work with the unions and 'join the social landscape' (EIRR, 1997a). However, this had little practical impact and McDonald's continues to interfere in the election of union delegates and works councils in its outlets. By 2001 continuing dissatisfaction over working conditions in French restaurants led to one of the longest ever strikes at a McDonald's restaurant in Paris, it went on for 115 days. In Italy similar conflicts have taken place with some outlets being temporarily closed due to strike action in 2000. Although the Italian unions have had more success in recruiting union members than many other countries, existing sectoral level agreements, which automatically cover McDonald's, have not been able to raise basic pay in any significant way. Italian unions have also made a number of attempts to establish company- and plant-level collective agreements, none of these have been very significant or of a lasting nature. Furthermore, McDonald's continues to violate the sectoral collective agreement that is in place. Where union delegates have been established in restaurants they face ongoing difficulties and most union delegates are based in the larger cities of Milan, Rome, Florence and Bologna. In Spain McDonald's has used the law to capture works councils for management by getting its managers elected onto the councils. Even in Sweden and the Netherlands where relations with unions are less openly antagonistic and where McDonald's have been forced into paying higher wages and providing better conditions of work than elsewhere, the unions have found it almost impossible to establish union representatives in the outlets. This is important because matters such as health and safety, allocation to correct pay groupings, payment for unsociable hours and overtime and 'off-the-clock' are often violated in the outlets and very difficult to control without a union representative in every outlet (Royle, 2000).

### **McDonald's and its European Works Council**

The EU has introduced an increasing number of directives in social policy field. The 1994 European Works Council (EWC) Directive, which finally emerged after a lengthy process of political wrangling over many years was established to ensure that MNCs present in two or more EU countries with over 1000 employees, informed and consulted their employees about any trans-national employment issues that might affect them. Ramsay (1997) suggests that this directive is typical of the 'menu' driven approach of much EU social policy legislation, which allow the social partners to choose from a menu of alternative rules and structures. In other words the specific framework of each EWC would be the result of a complex bargaining process reflecting the relative bargaining power of employee representatives, unions and the employer.

In practice this means that for a EWC to effectively represent employee's interests, employee representatives are likely to need well organised and established trade union support at national-level, the Volkswagen EWC is often put forward as an example of this kind (Turner, 1996). However, in many cases MNCs have avoided or minimise union involvement ignoring the spirit of the directive. Pepsi-Co for example, kept unions out of the 'negotiation' procedure and allegedly locked all employee representatives in a room until they agreed to sign an EWC agreement that would guarantee a completely management orientated agenda for EWC meetings (Eurofood, 1996; Overell, 1996). Renault also caused an outcry when it closed its Belgian Vilvoorde factory without consulting its EWC (EIRR, 1997b). There have also been a number of other companies where the EWCs established have marginalized employee rights and particularly in terms of trade union representation, for example Marks and Spencer, BP, Unilever and Honda (LRD, 1995; Barnett, 1996).

McDonald's (perhaps predictably) opted to establish a 'voluntary' EWC under Article 13 in 1995. Our research on the McDonald's EWC (Royle, 1999b; 2000) clearly indicates that the 'agreement' which emerged violated the spirit and intent of the EWC directive and, for a number of reasons. Firstly, the majority of employee representatives are not really 'employees', in the sense one might have assumed was intended by the directive, they are almost entirely salaried managers. Can such representatives be relied upon to represent the interests of hourly-paid employees who make up over 90 per cent of the workforce? Secondly, McDonald's ruled out any opportunity for these representatives to



have a pre-meeting before meeting management on the grounds of ‘cost’. Without such meetings how are the employee representatives expected to develop a meaningful employee-side strategy? Thirdly, the agreement states that management will set the agenda. Fourthly, McDonald’s made it as difficult as possible for unions to become involved in the process and there continues to be a very low or non-existent level of trade union involvement in the appointment of representatives and EWC meetings. Fifthly, the way in which employee representatives were elected was rather dubious. For example, in the election of the German EWC employee representative, McDonald’s successfully side-stepped the existing union-backed works council chairman by an organised capture of the national-level election procedures. Although an ‘election’ had taken place, which appeared to give McDonald’s chosen candidate legitimacy, a closer examination of the election process revealed an astounding level of employer manipulation. Fifthly, international sectoral trade union organisations and employee side ‘experts’ have been kept out of the EWC. A sixth issue is that no effective mechanism was established to feedback employee interests or their interpretation of the meetings to the majority of employees, most McDonald’s employees do not even know the EWC exists or what it is for. Finally, a loophole in the EWC directive means that some 65 percent of McDonald’s 200,000 EU workers<sup>vi</sup> are employed in franchises and holding companies and are therefore not covered by the directive. A broader definition of the notion of ‘controlling undertaking’ is being sought by the ETUC in the current European Commission review of the directive, but whether franchises will be included in future remains to be seen (EWCB, 2004). The net result is that McDonald’s has effectively ‘captured’ the EWC for a purely management sponsored agenda defying both the spirit and intent of the directive.

### **McDonald’s and its supply chain outside the West**

In Russia a long running union recognition dispute began in 1998 that went on for four years or more. It took place at the McDonald’s food-processing factory (the ‘McComplex’) in Moscow. Motivated by the dramatic fall in the value of their wages after the economic crisis of 1998, rapidly worsening working conditions and health and safety violations, the McComplex workers decided to try to establish a union at the plant. Both the unions and employees were initially confident that they would have some

success in unionizing the factory and establishing a collective agreement. McDonald's immediately responded by threatening all workers thinking of establishing a union with dismissal, in one case death threats were made to the main union organizer. Demonstrations and pickets of the local government were organized and the IUF<sup>vii</sup>, wrote to the mayor of Moscow and the Russian labour ministry. In October 2000 the State Duma ruled that McDonald's should recognize the union and negotiate a collective agreement. McDonald's promised to do so but soon afterwards did just the opposite, embarking on a sophisticated and determined union-busting campaign, involving the continued harassment and intimidation of union members. By November 2002 only one union member from 500 employees was left. Working conditions at the plant are now said to be very 'unpleasant' and pay has remained close to its pre-1998 levels (Royle, 2005).

McDonald's is now one of the world's largest toy retailers by volume, however, the corporation does not directly manufacture the toys itself, but uses a number of Chinese toy factories who compete for the business to produce the plastic toys for 'happy meals' and other promotions (for example Disney and the Olympics) at the lowest possible cost. The result is appalling working conditions, slave wages and instances of child labour. In January 1992, twenty-three workers at a mainland Chinese factory producing McDonald's toys were hospitalised and three of them later died in hospital due to acute benzene poisoning (Royle, 2000). In February 1997 the IUF, reported that 25 workers at a Hong Kong factory producing McDonald's toys collapsed and two were hospitalised as a result of acetone poisoning. A week after this incident occurred the factory illegally fired 200 workers. McDonald's responded by saying that its factories are regularly audited, they investigated the factory and later claimed the problems had been resolved. However, one week after McDonald's statement, seven more workers were hospitalised after exposure to dangerous chemicals. Researchers at the Hong Kong Christian Industrial Committee who have been examining these kind of operations for a number of years (one of whom was interviewed in this study) have published a number of reports, stating that Hasbro, McDonald's, Mattel and Disney have all used factories in mainland China which employ child labour and treat employees like bonded slaves, who typically have to work seven day weeks and 15 hour days earning as little as 20 (euro) cents per hour or 1.7 euros for eight hours work (see for example HKCIC, 2001).

## Conclusion

The findings suggest that while some corporations are keen to take on the rhetoric of corporate social responsibility, they may be less keen to act in a socially responsible manner. In this study the notion of stakeholder democracy looks fundamentally unrealistic, because competitive pressure is always likely to encourage bad rather than good behaviour, with the more extreme forms of exploitation taking place in developing countries where national labour legislation is either not enforced, weak or non-existent.

In the case of McDonald's Chinese toys for example, McDonald's is (superficially at least) able to distance itself from the worst forms of labour exploitation, whilst reaping the benefits of the lowest possible costs. This is typical of modern brand management and what Klein (2001) describes as the 'discarded factory'. Large corporations are less and less interested in manufacturing products, but more interested in developing their brands. Klein (2001) suggests that according to this logic, corporations should not waste their resources on factories or on employees who will demand better pay and working conditions, but should spend on sponsorships, packaging, expansion, advertising and acquiring distribution and retail channels. The production of McDonald's toys by others (at mercilessly low prices), its immense advertising spend and the distribution of toys through its outlets is a perfect example of this.

In the case of its directly-owned Moscow food processing plant, McDonald's has also driven its costs down to very low levels, after initially offering relatively reasonable terms and conditions, by stopping workers from asserting their rights through a trade union and ignoring the ruling of the Russian parliament in the process. In the context of an economy desperate for foreign investment, it is no surprise that the stakeholder interests of employees take second place to those of capital and, that there was no political will from government to uphold the law and bring effective sanctions to bear against McDonald's in order to protect employee interests.

However, an equally significant aspect of these findings is that the violation of worker's rights is not restricted to third world and developing economies. In the USA and other

Anglo-Saxon countries McDonald's has repressed union activity and violated worker's rights over a wide range of issues (Royle and Towers, 2002). What is more surprising is that McDonald's has largely been able to do the same thing in many mainland European countries, despite the fact that employees in these countries have much greater protections in terms of statutory rights and stronger trade union movements (Royle, 2000). As a consequence of its anti-union practices McDonald's has experienced considerable conflict over the years with European unions and, has not always been able to avoid industry or sector-level collective bargaining. Nevertheless, the corporation has been much more successful in keeping unions out of its restaurants and has effectively undermined or avoided many aspects of statutory employee representation mechanisms in many countries. This is important not only because it removes the opportunity for employees to exercise their statutory rights to be adequately informed, consulted and (in some cases codetermine) management decisions, but also because without union-delegates or works councils in every outlet, collective agreements are frequently violated and there is no other way to ensure that workers are treated correctly regards their grievances, working conditions and remuneration.

The tendency to adopt this 'low-road' (Royle, 2004a) approach is, in part, fostered by the McDonald's franchise system<sup>viii</sup>. Franchisees are under great pressure from the corporation to reduce costs in order to meet McDonald's profitability targets. The low-road approach is also facilitated by a combination of small unit size and extremely paternalistic management with close monitoring of individual employees, and an automatic tendency to be non-union, which is often found in small firms and helps to drive down labour costs (Rainnie, 1989). In addition when franchisees fail to apply collective agreements or interfere with the establishment of statutory works councils and union delegates, McDonald's can merely respond by stating that these actions are not company policy (despite the fact that these things also occur in its directly-owned outlets). The franchise system also denies employee representation for 65 per cent of all its European workers in its European Works Council, because the legislation as currently interpreted does not apply to franchise operations.

Despite the fact that the broader quick food service sector is becoming increasingly competitive with more product offerings coming on to the market such as coffee and

sandwich shops, we argue that this 'low-road' labour approach is a sustainable business model in the medium term. The McDonald's system does not need a high level of 'cooperation' from the bulk of the workforce, in fact it is designed to do without it, where most employees are treated as units of production, in a system exemplified by low-skilled work, Tayloristic work organization and high labour turnover. In addition, with labour costs accounting for a high proportion of overall costs (Leidner, 2002) unions could have a serious impact on labour costs, so that from McDonald's viewpoint it is logical to either remove unions altogether, or alternatively where this is not possible (for example in countries where sectoral agreements automatically apply), McDonald's keeps unions out of its outlets, making it difficult for such agreements to be properly applied. This 'process' is also facilitated by the fact that trade unions themselves, find it difficult to organise the kind of 'acquiescent' workforce found in this sector (ethnic minorities, economic migrants, housewives, youth and sometimes those with learning difficulties) who are unlikely to question managerial prerogative (Royle, 1999c; 2000). One could also argue that there is nothing really new in this approach (Cain, 2003). However, for it to continue, McDonald's needs a continuous supply of acquiescent and low-skilled labour and the fact that the corporation has frequently had to 'import' economic migrants into 'richer' countries suggests that this is not always a straightforward issue. Nevertheless, Traxler (2003) argues that in the future, industrialized countries are likely to face a glut of labour in low skilled sectors of this kind, leading us to conclude that this situation will continue to 'oil the works' of the McDonald's system in the medium term.

One final part of the explanation for how this 'low-road' approach is exported across national boundaries is the role played by the organisation's corporate culture, which arguably moulds the required attitudes and responses of management. Willmott (1993) for example, argues that strong corporate cultures 'exclude and eliminate' other values, in this case McDonald's 'culture' appears to encourage managers to see unions as an unwarranted interference, which will 'destroy' the corporation and the 'good' management practices in which they have been trained. Part of this cultural imperative may be driven by the relatively deregulated, pro-employer environment of the USA where McDonald's is based (Towers, 1999).

In many Anglo-Saxon countries unions appear to have abandoned attempts to recruit in the quick food service sector because of the practical difficulties involved and the resources required. The problem for continental European unions is not just using the law (which itself was originally designed in the post-war settlement with manufacturing industry largely in mind) to establish statutory forms of workplace representation, but also maintaining it in the context of sustained employer hostility, an often 'acquiescent' workforce and high labour turnover.

Overall the analysis suggests that 'hard' forms of legal regulation (such as national law and EU law) need to be 'beefed-up' to be more effective, because quasi-legal regulation (such as ILO codes) are clearly inadequate. Furthermore, without the good faith of employers, private codes of conduct and other employer-driven solutions like CSR, are unlikely to be of any real value in protecting, let alone improving employee's representation rights, pay and working conditions. It is worth noting that in 2004, British Petroleum, the world's fifth largest company and standard-bearer for corporate social responsibility, slashed healthcare benefits for its American employees, whilst awarding huge pay increases to its executives (Gow, 2004). Taken together this analysis suggests that not only is the concept of stakeholder democracy unrealistic, but that it also sits uneasily with the endemic short-termism of Anglo-Saxon management, fuelled by economic liberalism and the need to return maximum short-term gains to shareholders.

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<sup>i</sup> There are a number of examples involving Disney, Wal-Mart, Nike and Gap in Pakistan, Indonesia, China, Vietnam and El Salvador (Klein, 2001).

<sup>ii</sup> Many US citizens who could not pay their medical bills have been forced into bankruptcy. 15 per cent of the US population (44 million Americans) now have no health insurance at all (Borger, 2003).

<sup>iii</sup> Union-busting: employers using all means at their disposal to either remove trade unions or stop workers from forming unions in their businesses.

<sup>iv</sup> Ray Kroc bought out the McDonald's brothers (including the right to use their name) in 1955 and established the modern corporation.

<sup>v</sup> The McLibel Trial was the longest running civil court case in the UK and created a mass of negative news coverage. McDonald's took two unemployed Greenpeace activists to trial for passing out derogatory leaflets in the street. The two activists had no resources of their own and McDonald's spent an estimated £10million on the case, nevertheless, the activists were able to prove that pay was low, that McDonald's exploited children and was cruel to animals (Vidal, 1997).

<sup>vi</sup> As we argue elsewhere (Royle, 2000) McDonald's has such a tight control over its franchisees that for all intents and purposes they are *defacto* McDonald's subsidiaries. The figure of 200,000 is based on the pre-2004 enlargement of the EU with 15 member states, it is now much larger

<sup>vii</sup> International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers':Associations.

<sup>viii</sup> Around 70 percent of McDonald's outlets worldwide are franchises. Many franchisees are increasingly complaining that McDonald's is 'cannibalising' its own system, by allowing too many outlets to be built in one area, putting additional downward pressure on franchise operating costs. Nevertheless, the success of the brand guarantees many willing new franchise applicants