

# The Coca-Cola Company Struggles with Ethical Crises

## INTRODUCTION

As one of the most valuable brand names worldwide, Coca-Cola has generally excelled as a business over its long history. However, in recent decades the company has had difficulty meeting its financial objectives and has been associated with a number of ethical crises. As a result, some investors have lost faith in the company. For example, Warren Buffet (board member and strong supporter of and investor in Coca-Cola) resigned from the board in 2006 after years of frustration over Coca-Cola's failure to overcome its challenges.

Since the 1990s Coca-Cola has been accused of unethical behavior in a number of areas, including product safety, anti-competitiveness, racial discrimination, channel stuffing, distributor conflicts, intimidation of union workers, pollution, depletion of natural resources, and health concerns. The company has dealt with a number of these issues, some via private settlements and some via court battles, while others remain unresolved. Although its handling of different ethical situations has not always been lauded, Coca-Cola has generally responded by seeking to improve its detection and compliance systems. However, it remains to be seen whether the company can permanently rise above its ethical problems, learn from its mistakes, make necessary changes, avoid further problems, and still emerge as a leader among beverage companies.

## HISTORY OF THE COCA-COLA COMPANY

Founded in 1886, the Coca-Cola Company is the world's largest beverage company. In addition to Coca-Cola and Diet Coke, it sells other profitable brands including Powerade, Minute Maid, and Dasani water. To service global demand, the company has the world's largest distribution system, which reaches customers and businesses in nearly every country on the planet.

Until the mid-twentieth century Coca-Cola focused on expanding market share within the United States. After World War II, however, the company began to recognize the opportunity in global sales. In the last part of the twentieth century Coca-Cola extended this global push, taking advantage of international revenue opportunities and fierce soft drink competition in an effort to dominate the global soft drink industry. By the late 1990s Coca-Cola had gained more than 50 percent global market share in the soft drink industry, while PepsiCo, Coke's greatest rival, stood around 15 to 20 percent. Coca-Cola remains largely focused on beverages, while PepsiCo has diversified into snack foods and drinks such as wa-

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ters, teas, and fruit juices. While Pepsi has tended to focus more on American markets, the largest portion of Coca-Cola's net operating revenues (59 percent in 2012) now come from outside the United States. As the late Roberto Goizueta, former CEO of Coca-Cola, once said, "Coca-Cola used to be an American company with a large international business. Now we are a large international company with a sizable American business."

In spite of international recognition and a strong brand, Coca-Cola has run into numerous difficulties. The company's problems began in the mid-1990s at the executive level. In 1997 Doug Ivester became CEO. Ivester, heralded for his ability to handle the company's complex finances, had been groomed for the position by Goizueta. However, Ivester's tenure as CEO was short. He was not well-equipped to handle the tough competition from Pepsi combined with the many ethical disasters Coke faced throughout the 1990s. Some people even began to doubt "Big Red's" reputation and its future prospects. Ivester's departure in 1999 represented a high-profile aberration in a relatively strong 100-year record.

In 2000 Doug Daft, the company's former president and chief operating officer (COO), replaced Ivester as CEO. Daft's tenure too was rocky, and the company continued to have problems throughout the early 2000s. For example, the company was allegedly involved in racial discrimination, misrepresentations of market tests, manipulation of earnings, and the disruption of long-term contractual arrangements with distributors.

By 2004 Neville Isdell, former chairman and CEO of Coca-Cola Beverages Plc in Great Britain, was called out of retirement to improve Coca-Cola's reputation; however, the company continued to face ethical crises. These problems aside, Coca-Cola's overall performance seemed to improve under Isdell's tenure. In 2008 Isdell relinquished the role of CEO to then-president and COO Muhtar Kent. Isdell also decided to step down as chair of the board in order to return to retirement. Under Kent's leadership, Coca-Cola is seeking to revise its strategy through social responsibility initiatives, brand expansion, and company diversity. When Kent took over as CEO in 2008, women held 23 percent of the senior management roles at Coca-Cola—that number has now risen to above 30 percent.

## PEPSICO: SERIOUS COMPETITION

Coca-Cola has been a success for more than 120 years. In contrast, PepsiCo (founded at roughly the same time) did not become a serious competitor until after World War II, when it came up with the idea to sell its product in larger portions for the same price as Coke. The "cola wars" picked up speed in the mid-1960s and have not abated since. Today the two American companies wage war primarily on international fronts. While the fight occasionally grows ugly, with accusations of anticompetitive behavior, generally the two companies remain civil.

For the first time in history, supermarket sales of Pepsi overtook Coke's supermarket sales in 1979. It wasn't until early 2006, however, that PepsiCo enjoyed a market value greater than Coca-Cola for the first time. Pepsi's strategy of focusing on snack foods and innovative approaches in the non-cola beverage market has helped the company gain market share and surpass Coca-Cola in overall performance. During the 2008–2009 recession PepsiCo's diversification strategy continued to pay off, which helped grow the company into the largest snack-maker in the world. On the other hand, some investors fear for Coca-Cola's long-term prospects because of the company's dependence on international sales and a strong dollar. Combined with a global economic downturn, these are liabilities that may hurt Coca-Cola's long-term profitability. Because PepsiCo does 60 percent of its business in North America, a strong dollar does not adversely affect the company as much as it does Coca-Cola. These factors may give PepsiCo more of an upper-hand over Coca-Cola in the future.

## COCA-COLA'S REPUTATION

Coca-Cola remains one of the most recognized brand names in the world today, with a market value of more than \$173 billion in 2013. The company has always demonstrated strong market orientation, making strategic decisions and taking action to attract, satisfy, and retain customers. During World War II, for example, then-president Robert Woodruff distributed Coke around the world to sell to members of the armed services for a nickel a bottle. This strategy gave soldiers an affordable taste of home, created lifelong loyal customers, and increased global brand recognition. The presence of Coca-Cola products in almost every corner of the globe today shows how successful the company's international marketing strategy has been. Savvy marketing and a reputation for quality have always been hallmarks of Coca-Cola and have helped to make the product ubiquitous.

However, in the 1990s and 2000s poor decisions, mismanagement, and alleged misconduct cast a shadow over the company. In 2000 Coca-Cola failed to make the top ten of *Fortune's* annual "America's Most Admired Companies" list for the first time in ten years. In 2001 the company disappeared from the top 100 of *Business Ethics* magazine's annual list of "100 Best Corporate Citizens." For a company that had been on both lists for years, this was disappointing but not unexpected given its recent ethical crises. However, there are signs that Coca-Cola is bouncing back. In 2013 Coca-Cola ranked fourth in *Fortune's* "World's Most Admired Companies" and number fifteen in *Corporate Responsibility Magazine's* "100 Best Corporate Citizens" list, while PepsiCo was number 43.

## CRISIS SITUATIONS

In 1996 Coca-Cola traded just below \$50 a share. In 2013 it ranged between \$58 and \$69. This slow growth may be attributed to various internal problems associated with top management turnover and departure of key investors, as well as external problems that have

led to a loss of reputation. The following incidents exemplify some of the key crises Coca-Cola has faced in the last several years.

## CONTAMINATION SCARE

Perhaps the most damaging of Coca-Cola's crises—and a situation dreaded by every company—began in June 1999 when about thirty Belgian children became ill after consuming Coke products. Although the company issued an isolated product recall, the problem escalated. The Belgian government eventually ordered the recall of all Coca-Cola products, which prompted officials in Luxembourg and the Netherlands to recall Coke products as well. Coca-Cola finally determined that the illnesses were the result of an improperly processed batch of carbon dioxide. Coca-Cola was slow to issue a response to the problem, taking several days to address the media. The company had initially judged the problem to be minor and did not immediately investigate the extent of the issue. The slow response time led to a public relations nightmare. France soon reported more than 100 people sick from bad Coke and temporarily banned all Coca-Cola products as well. Soon thereafter, a shipment of Bonaqua, a new Coca-Cola water product, arrived in Poland contaminated with mold. In each of these instances, the company's slow responses and failure to acknowledge the severity of the situation harmed its reputation and cast doubt on then-CEO Ivester's ability to successfully lead.

The contamination crisis was exacerbated in December 1999 when Belgium ordered Coca-Cola to halt the "Restore" marketing campaign it had launched in order to regain consumer trust and sales in Belgium. A rival firm claimed that the campaign strategy—which included free cases of the product, discounts to wholesalers and retailers, and extra promotion personnel—was unlawful. The claim was upheld under Belgium's strict antitrust laws, and Coca-Cola was forced to abandon the campaign. This decision, following the previous crisis, further reduced Coca-Cola's market standing in Europe.

## COMPETITIVE ISSUES

In the late 1990s, government inquiries into the company's marketing tactics plagued the company throughout Europe. Because EU countries have strict antitrust laws, all firms must pay close attention to market share and position when considering joint ventures, mergers, and acquisitions. During the summer of 1999 Coca-Cola began an aggressive expansion push in France, and the French government responded by refusing Coca-Cola's bid to purchase Orangina, a French beverage company. French authorities also forced Coca-Cola to scale back its acquisition of Cadbury Schweppes, maker of Dr Pepper.

Moreover, in late 1999 Italy successfully won a court case against Coca-Cola over anticompetitive prices, prompting the European Commission to launch a full-scale probe into the company's competitive practices. In addition, PepsiCo and Virgin Cola accused Coca-Cola of

using rebates and discounts to crowd their products off the shelves. Coca-Cola's strong-arm tactics were found to be in violation of European laws, once again demonstrating the company's lack of awareness of European culture and laws.

Despite these legal tangles, Coca-Cola products, along with many other U.S. products, dominate foreign markets worldwide. The growing omnipresence of U.S. products, especially in highly competitive markets, makes corporate reputation, both perceived and actual, essential to building relationships with business partners, government officials, and other stakeholders.

### ALLEGATIONS OF RACIAL DISCRIMINATION

In 1999 Coca-Cola's reputation was dealt another blow when 1,500 African American employees sued for racial discrimination. The lawsuit, which eventually grew to include 2,000 current and former employees, accused the company of discriminating in areas of pay, promotion, and performance evaluation. Plaintiffs charged that the company grouped African American workers at the bottom of the pay scale and that they earned around \$26,000 a year less than Caucasian employees in comparable jobs. The suit also alleged that top management had known about companywide discrimination since 1995 but had done nothing about it. In 1992 Coca-Cola had pledged to spend \$1 billion on goods and services from minority vendors, an action designed to show the public that Coca-Cola did not discriminate, but the lawsuit from its own employees painted a different picture. Although Coca-Cola strongly denied the allegations, the lawsuit provoked unrest within the company. In response, Coca-Cola created a diversity council and the company paid \$193 million to settle the claims.

### INFLATED EARNINGS RELATED TO CHANNEL STUFFING

Coca-Cola was also accused of channel stuffing during the early 2000s. Channel stuffing is the practice of shipping extra, unrequested inventory to wholesalers and retailers before the end of a quarter. A company counts the shipments as sales although the product often remains in warehouses or is later returned. Because the goods have been shipped, the company counts them as revenue at the end of the quarter. Channel stuffing creates the appearance of strong demand (or conceals declining demand) and results in inflated financial statement earnings and the subsequent misleading of investors.

In 2004 Coca-Cola was accused of sending extra concentrate to Japanese bottlers between 1997 and 1999 in an effort to inflate its profits. The company was already under investigation; in 2000 a former employee had filed a lawsuit accusing the company of fraud and improper business practices. The company settled the allegations, but the Securities and Exchange Commission (SEC) did find that channel stuffing had occurred. Coca-Cola had pressured bottlers into buying additional concentrate in exchange for extended credit.

## TROUBLE WITH DISTRIBUTORS

In early 2006 Coca-Cola once again faced problems—this time on its home front. Fifty-four of its U.S. bottlers filed lawsuits against Coke and the company's largest bottler, Coca-Cola Enterprises (CCE). The suit sought to block Coke and CCE, both based in Atlanta, from expanding delivery of Powerade sports drinks directly to Walmart warehouses instead of to individual stores. Bottlers alleged that the Powerade bottler contract did not permit warehouse delivery to large retailers. They claimed that Coke breached the agreement by committing to provide warehouse delivery of Powerade to Walmart and by proposing to use CCE as its agent for delivery. The main problem was that Coke was attempting to step away from the century-old tradition of direct-store delivery (DSD), in which bottlers deposit drinks at individual stores, stock shelves, and build merchandising displays. Bottlers claimed that if Coke and CCE went forward with their plan, it would greatly diminish the value of their businesses.

In their defense, Coke and CCE asserted that they were simply trying to accommodate a request from Walmart for warehouse delivery (which is how PepsiCo distributes its Gatorade brand). CCE had also proposed making payments to other bottlers in return for taking over Powerade distribution in their territories. However, bottlers feared such an arrangement violated antitrust laws. The bottlers and Coca-Cola reached an undisclosed agreement in 2007. As part of the settlement, warehouse deliveries were deemed acceptable in some situations, and guidelines were developed for assessing those situations.

When addressing problems faced by Coca-Cola, the media tends to focus primarily on the company's reputation rather than on its relations with bottlers, distributors, suppliers, and other partners. Without these strategic partnerships, Coca-Cola would not be where it is today. Such partnerships involve sharing in risks and rewards. Issues such as the contamination scare and racial discrimination allegations, especially when handled poorly, can reflect on business relationships beyond the key company's business. When the reputation of one company suffers, all those within the supply chain suffer in some way. This is especially true because Coca-Cola adopted an enterprise-resource system that linked Coca-Cola's once highly secret information to a host of partners. The company's crises also harmed Coke's partner companies, their stakeholders, and eventually their bottom lines.

## INTERNATIONAL PROBLEMS RELATED TO UNIONS

More sinister accusations against Coca-Cola have surfaced in Colombia and Guatemala. Since 1989 eight unionized workers employed at the Coca-Cola bottling plant in Colombia had been killed, 48 had been forced into hiding, and 65 had received death threats. Many believe the deaths and threats were the results of intimidation against union workers. The union, which alleged that Coke and its local bottler were complicit in the intimidation and the deaths, sought reparations for the families of the slain and displaced workers. Coke de-

nied the allegations and noted that only one of the eight workers was killed on the bottling plant premises. Also, the company maintains that the other deaths were byproducts of Colombia's four-decades-long civil war. As a result of the problems in Colombia, among other concerns, in 2007 a group of hundreds of people including Teamsters, environmentalists, human rights proponents, and student activists gathered in New York City to protest Coca-Cola.

Coca-Cola was later sued by Guatemalan workers alleging that they and their families at the Coke-owned bottling plant Incasa had been victims of violence after the workers decided to join unions. The plaintiffs accused Coke of knowing about the retaliation that unionized workers face in Guatemala but doing little to prevent it. A Coca-Cola spokeswoman has stated that although the company has a minority stake in Incasa, the Guatemalan plant is independently owned.

#### ISSUES REGARDING WATER USAGE, POLLUTION, AND SUPPLY CHAIN OVERSIGHT

Coca-Cola has also encountered trouble at its bottling plants in India, fielding accusations of both groundwater depletion and contamination. In 2003 the Centre for Science and Environment (CSE) tested soft drinks produced in India by Coca-Cola and other companies; findings indicated extreme levels of pesticides from using contaminated groundwater. In 2004 the first set of standards for pesticides in soft drinks was developed, supported by an Indian parliamentary committee. Although Coca-Cola denied the allegations, stating that its water is filtered and its final products are tested before being released, sales dropped temporarily by 15 percent.

In the Indian city of Varanasi, Coca-Cola was also accused of contaminating the groundwater with wastewater. Officials at the company admitted that the plant did have a wastewater issue but insisted that a new pipeline had been built to eliminate the problem. However, during the early 2000s a number of tests were conducted regarding "sludge" produced at Coca-Cola's Indian plants. These tests, conducted by the Central Pollution Control Board of India and the British Broadcasting Corporation, came up with toxic results.

The company runs bottling plants in a handful of drought-plagued areas around India, and groups of officials blame the plants for a dramatic decline in available water. In 2004 local officials closed a Coca-Cola plant in the Indian state of Kerala; however, the closure was overturned by Kerala's court. Although the court agreed that Coca-Cola's presence contributed to water depletion, it stated the company was not solely to blame. Nonetheless, farmers and local residents, forced to vie with Coca-Cola for water, have protested Coca-Cola's presence both there and throughout India.

As a result of these accusations, the University of Michigan requested that the Energy and Resources Institute in New Delhi research the issues. The university had suspended its contracts with Coca-Cola until the company hired third parties to investigate the claims. The Energy and Resources Institute's findings indicated that Coca-Cola's soda did not contain higher-than-normal levels of pesticides. However, the report did indicate that the company's bottling plants were stressing water resources and suggested that the company do a better job of considering a plant's location based on resources and future impact.

In late 2013 Oxfam International, an international federation that investigates and fights against social injustice, poverty, and human rights violations, encouraged Coca-Cola to scrutinize its suppliers about the possibility that they engaged in "land grabs," a practice where local farmers and residents are forced off their land commonly by large and influential institutions. Coca-Cola responded to the allegations by disclosing the names of its suppliers and agreeing to conduct independent assessments of its top sugar suppliers. The actions of Coca-Cola reflect the increased supply chain oversight expected from large, multinational corporations today.

#### COCA-COLA'S IMPACT ON HEALTH

For years Coca-Cola has been battling consumer perceptions that its soft drinks contribute to obesity. In 2008 Coca-Cola launched a "Motherhood and Myth-Busting" campaign in Australia, attempting to convince the public that a diet including soda was healthy for children. The Australian Competition and Consumer Commission promptly took Coca-Cola to court after the Obesity Policy Coalition, the Parents' Jury, and the Australian Dental Association all filed complaints. As a result, in 2009 the company was forced to release new advertisements in a number of Australian newspapers correcting information such as the amount of caffeine found in Diet Coke. Coca-Cola admits that it did not supply consumers with detailed information during its campaign. Also in 2008 the FDA declared that the company had violated the Federal Food, Drug, and Cosmetic Act when naming the Coca-Cola Diet Plus beverage. Using "plus" in the name indicated an unsubstantiated nutritional claim.

The next year Coca-Cola was sued by the Center for Science in the Public Interest regarding misleading marketing that concerned the contents of its VitaminWater. Although the beverage is marketed as healthy, it contains a high amount of sugar. (One television advertisement featured a woman describing how VitaminWater has allowed her to use so few sick days she could "play hooky" at home with her boyfriend.) Coca-Cola tried to have the lawsuit dismissed, but a judge ruled that it could continue after determining that VitaminWater lacked the nutritional requirements needed to make certain health claims. Coke also faced challenges in California with a proposed regulation that would make it mandatory to label genetically modified foods. Known as proposition 37, it was defeated in 2012. Coke and Pepsi, among many others, contributed millions of dollars to help defeat the proposed law.



As concerns over obesity escalate, the U.S. government is considering imposing a tax on soft drinks. The massive national deficit has added fuel to the fire, with some lawmakers recommending a soda tax as a way to reduce the deficit. Coca-Cola and similar companies vehemently oppose such a tax and accuse the government of unfairly targeting its industry. CEO Muhtar Kent believes the problem of obesity stems more from a “sedentary lifestyle” than from sugary beverages. He also points to the fact that the average caloric content in soft drinks has dropped 25 percent over the last two decades through the adoption of diet beverages. The trade group for Coca-Cola and other soft-drink makers is spending millions of dollars in lobbying efforts and has run advertisements encouraging consumers to oppose the tax. In 2013, Coca-Cola launched a new ad campaign in an effort to portray the obesity epidemic as a complex problem, requiring the cooperation of businesses, governments, and local communities to alleviate. One of the campaign’s advertisements titled “Coming Together” reminds viewers that reducing caloric intake, a major factor in reducing weight, may require more than simply eliminating Coke products. The campaign also includes programs aimed to encourage more physical activity in schools and communities.

Another possible challenge for Coca-Cola involves claims that certain ingredients in its products could contribute to cancer. In 2011 the Center for Science in the Public Interest (CSPI) wrote a letter to the Food and Drug Administration urging the agency to institute a ban against caramel coloring in soda drinks and other products. CSPI maintains that the caramel coloring contains two cancer-causing ingredients. The American Beverage Association has denied this view, claiming that there is no evidence that shows caramel coloring causes cancer in humans. However, California subsequently made plans to consider labeling products that contain caramel coloring. Pepsi and Coca-Cola reformulated their products in California and adopted a caramel coloring that did not contain the problematic ingredients. Interestingly, a later study revealed that 10 out of 10 samples of Pepsi products sold outside of California across the nation still contains a controversial ingredient, while only one out of 10 Coca-Cola products did so. This suggests that Coca-Cola has gone beyond merely complying with state law and is taking action to address concerns across the nation.

## RECOVERY FROM ETHICAL CRISES

Following the health scare in Belgium, Belgian officials closed their investigation involving Coca-Cola and announced that no charges would be filed. A Belgian health report indicated that no toxic contamination had been found inside Coke bottles. The bottles did contain tiny traces of carbonyl sulfide, producing a rotten-egg smell, but it was not nearly enough to be toxic. Officials also reported no structural problems within Coca-Cola’s production plant.

The racial discrimination lawsuit, along with the threat of a boycott by the National Association for the Advancement of Colored People (NAACP), led Coca-Cola to address its diversity issues. When the company settled the racial discrimination lawsuit, the agreement stipulated that Coke would donate \$50 million to a foundation supporting programs in minority

communities, hire an ombudsman reporting directly to the CEO to investigate complaints of discrimination and harassment, and set aside \$36 million to form a seven-person task force with authority to oversee the company's employment practices. The task force, which included business and civil rights experts, had unprecedented power to dictate company policy regarding the hiring, compensation, and promotion of women and minorities.

In response to the SEC's findings regarding channel stuffing, Coca-Cola created an ethics and compliance office, and the company is required to verify quarterly that it has not altered the terms of payment or extended special credit. Additionally, the company agreed to work to reduce the amount of concentrate held by international bottlers.

Coca-Cola has defended itself against allegations of violence in Colombia, and the Colombian court and the Colombian attorney generally support the company. The Eleventh Circuit Court of Appeals in Florida dismissed the lawsuit after concluding that the plaintiffs had not presented sufficient evidence of wrongdoing.

Although Coca-Cola's issues in India did cause a temporary dip in sales and ongoing protests, the company insists that it has taken measures to ensure safety and quality. Coca-Cola has partnered with local governments, NGOs, schools, and communities to establish rainwater-collection facilities across India. The goal is to work toward renewing and returning all groundwater. In addition, the company is strengthening its plant requirements and working with local communities to ensure the sustainability of local water resources. As a result, Coca-Cola has received several corporate social responsibility awards in areas such as water conservation, management, and community development initiatives. Despite its global work in water sustainability, groundwater-depletion issues continue to plague Coca-Cola in India. The state of Kerala has passed a law that allows individuals to seek compensation from the company. The government claims that Coca-Cola "over-extracted" groundwater and improperly disposed of sludge, causing damages to the environment and local populations. Coca-Cola has countered that the decision was not based on facts and claims that studies have failed to find a link between Coca-Cola's bottling operations and environmental damage. Nonetheless, government data show a drastic drop in groundwater levels at Kala Dera during the years Coca-Cola operated in the region. In 2013, Coca-Cola was met with opposition from local villages when it sought to increase its groundwater usage five-fold at its bottling plant in Mehdiganj. This situation could partially undermine Coca-Cola's sustainability image in India. In addition, Coca Cola's CEO, Muhtar Kent, publically stated in late 2013 that the company and its partners will invest \$5 billion in India by 2020 as part of an expansion strategy into emerging markets. This expansion will likely present future challenges for Coca-Cola and India to reconcile.

Responding to health issues related to Coca-Cola's products is a more complex process. The company itself cannot be held responsible for how many sugary or artificially sweetened beverages the public consumes. Ultimately, Coca-Cola's responsibility is to disclose honest,

detailed information regarding its products so that consumers may make educated beverage choices. Coca-Cola has also begun researching healthier products, both as a way to enhance its reputation and increase profits. To make its soft drinks healthier, Coca-Cola is investigating no-calorie sweeteners like stevia as future product ingredients. Coca-Cola is also creating smaller-sized soft drinks. The “Coke Mini” product is only 7.5 ounces and contains 90 calories. Additionally, Coca-Cola is making an effort to encourage consumers to exercise and embrace a healthy lifestyle through nutritional education and partnerships with governments, NGOs, and public health representatives. For instance, the company awarded a grant to the American Academy of Family Physicians to create educational content regarding soft drinks and sweeteners on AAFP’s health and wellness website. Although critics accuse AAFP of selling out, the AAFP has assured the public that it will not endorse the brands or products of any of its partners.

## **SOCIAL RESPONSIBILITY FOCUS**

Because Coca-Cola is a globally recognized brand and has a strong history of market orientation, the company has developed a number of social responsibility initiatives to further enhance its business. These initiatives are guided by the company’s core beliefs in marketplace, workplace, community, and environment. As stated in its Mission and Vision & Values statements, Coca-Cola wants to “Inspire Moments of Optimism” through brands and actions as well as to create value and make a positive difference in the countries in which it does business. For instance, Coca-Cola joined former U.S. Secretary of State Madeleine Albright and The Aspen Institute President and CEO Walter Isaacson on an initiative to provide assistance to entrepreneurs in Muslim-majority countries. The organization Partners for a New Beginning (PNB), with Albright as chair and Muhtar Kent and Isaacson as vice chairs, is working to encourage businesses, universities, NGOs, and other organizations to help Muslim entrepreneurs through investments and/or contributions of technology and equipment. PNB also vowed to increase access to finance, education, and other areas of business for Muslim entrepreneurs. According to CEO Muhtar Kent, Coca-Cola’s participation in this initiative will help to “build a strong bridge of understanding and respect between the U.S. and the Muslim world.”

Coca-Cola also offers grants to various colleges and universities, both nationally and internationally. In addition to grants, Coca-Cola provides scholarships to hundreds of colleges, including thirty tribal colleges belonging to the American Indian College Fund. Such initiatives help enhance the Coca-Cola name, and ultimately benefit shareholders. Through the Coca-Cola Scholars Foundation, 250 new Coca-Cola Scholars are named each year and brought to Atlanta for interviews. Fifty students are then designated National Scholars, receiving awards of \$20,000 for college; the remaining 200 are designated Regional Scholars, receiving \$10,000 awards.

Like many other companies, Coca-Cola is addressing the issues of recycling and climate change. In 2007 Coca-Cola signed the UN Global Compact's "Caring for Climate: The Business Leadership Platform." In doing so, the company pledged to increase energy efficiency and reduce emissions. In 2009 Coca-Cola released the PlantBottle™. This new bottle, made from 30 percent plant-based material, is fully recyclable and reduces use of nonrenewable resources and production of carbon emissions. Coca-Cola has partnered with the Heinz Co. to extend Coke's PlantBottle packaging to Heinz ketchup bottles. Coca-Cola also used the PlantBottle when it sponsored the 2010 Olympics in Vancouver. In fact, Coca-Cola vowed to produce zero waste during the games, one of the first times such a major marketer has embarked on this initiative. Some of the other ways that Coca-Cola went "green" during the Olympics included its use of diesel-electric hybrid delivery trucks, staff uniforms made out of recycled bottles, and carbon offsets for air travel.

Coca-Cola has also taken steps to accelerate the empowerment of women entrepreneurs that are part of its supply chain. The company's 5by20 program impacted nearly 300,000 women by 2012 and includes skills training, financing, networking, and other types of support. For example, the company hosted a women's business workshop in South Africa and partnered with TechnoServe to provide local farmers with information about pest and disease control. The company hopes to reach 5 million women entrepreneurs and be active in 100 countries by 2020.

In addition, Coca-Cola has taken action to improve communities, both nationally and on a global scale. For instance, Coca-Cola's Sprite business partnered with Miami Heat forward LeBron James on the Sprite Spark Parks Project. Sprite announced plans to contribute \$2 million into the building or restoration of over 150 basketball courts, athletic fields, community spaces, and playgrounds in a minimum of 40 cities. In terms of its global responsibilities, the company remains proactive on issues such as the HIV/AIDS epidemic in Africa. Coca-Cola has partnered with UNAIDS and other NGOs to put in place important initiatives and programs to help combat the threat of HIV/AIDS.

Because consumers generally respect Coca-Cola, trust its products, and have strong attachments through brand recognition and product loyalty, Coca-Cola's actions foster relationship marketing. Because of this sense of relationship with the Coca-Cola brand, problems at the company can stir the emotions of stakeholders.

## THE CURRENT SITUATION AT COCA-COLA

In the early part of the twenty-first century, Coca-Cola's financial performance was positive, with the company maintaining a sound balance sheet. However, earnings across the soft drink industry have been on a slow decline because of decreased consumption, increased competition, and the 2008–2009 global recession. Nevertheless, Coca-Cola is confident of its

long-term viability and remains strong in the belief that the company is well-positioned to succeed.

In an attempt to regain growth, Coca-Cola is expanding globally. With Coke reaching market saturation in developed countries, the company is looking to gain a foothold in emerging economies. In 2010 the company announced plans to undergo a major expansion in Africa, with plans to invest \$12 billion into the continent within the next 10 years. Such a plan has both positive and negative aspects. On the negative side, organizations like the World Health Organization are criticizing such an expansion as they believe it is unethical to introduce a product with no nutritional benefits into impoverished countries. On the other hand, Coke employs approximately 65,000 Africans and encourages entrepreneurship. Beyond its investment in Africa, Coca-Cola committed \$30 billion toward growth in emerging markets such as China, Mexico, Brazil, Russia, and the Middle East. Success in emerging economies may be the push that Coca-Cola needs to jumpstart growth.

## CONCLUSION

For more than a decade Coca-Cola has been fighting allegations of a lack of health and safety of its products, unlawful competitive practices, racial discrimination and employee intimidation, channel stuffing, unfair distributor treatment, and the pollution and pillaging of natural resources, but under Neville Isdell and Muhtar Kent's leadership, the company appears to have rebounded and has begun to take strides toward improving its image. The company is focusing more on environmental stewardship, for example. However, the company's critics say that Coca-Cola is not doing enough—that its efforts are merely window dressing to hide its corruption. Case in point: Although the company claims to have addressed all its issues in India and says it is making an effort to aid the country's population, both the government and the citizens of Kerala maintain that the company has decreased the area's groundwater. Shareholder reactions have altered many times over the company's history, but the company has retained a large loyal base. The company hopes that its current leadership is strong enough to move Coca-Cola past this focus on ethics and into a profitable start to the twenty-first century.

## QUESTIONS

1. What role does corporate reputation play within organizational performance and social responsibility? Develop a list of factors or characteristics that different stakeholders may use in assessing corporate reputation. Are these factors consistent across stakeholders? Why or why not?
2. Assume you have just become CEO at Coca-Cola. Outline the strategic steps you would take to remedy the concerns emanating from the company's board of directors, consumers, employees, business partners, governments, and the media. What

elements of social responsibility would you draw from in responding to these stakeholder issues?

3. What do you think of Coca-Cola's environmental initiatives? Are they just window dressing, or does the company seem to be sincere in its efforts?

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