oikos Foundation
for Economy and Ecology

Global Case Writing Competition 2011
Corporate Sustainability Track

1st Place

Coke in the Cross Hairs: Water, India, and the University of Michigan

Andrew Hoffman (University of Michigan, USA), Sarah Howie (University of Michigan, USA) and Grace Augustine (University of Oxford, UK)

This is an abbreviated version of the case study. The full version is eleven pages total with eight exhibits that provide in-depth background regarding the Coca-Cola Corporation (financials, water usage, product consumption), activist campaign information, and correspondence between the University of Michigan and the Coca-Cola Corporation. For the full case and teaching note, please go to: http://globalens.com/casedetail.aspx?cid=1429098

ERB INSTITUTE
UNIVERSITY OF MICHIGAN

WDI
William Davidson Institute
AT THE UNIVERSITY OF MICHIGAN

case 1-429-098
July 25, 2010

Coke in the Cross Hairs: Water, India, and the University of Michigan

This is an abbreviated version of the case study. The full version is eleven pages total with eight exhibits that provide in-depth background regarding the Coca-Cola Corporation (financials, water usage, product consumption), activist campaign information, and correspondence between the University of Michigan and the Coca-Cola Corporation.
For the full case and teaching note, please go to: http://globalens.com/casedetail.aspx?cid=1429098

Introduction: One Story, Four Perspectives

In mid-April 2006, University of Michigan CFO Timothy Slottow walked across the central campus Diag, the historic, grassy student life nerve center surrounded by many of the university's largest departments, where "Killer Coke" banners had hung days before. Students were holed away studying for finals, the demonstrations were over and Coke was once again flowing from machines at the Michigan Union. That morning, Slottow's office had announced that the Coca-Cola Company had agreed to an independent inquiry into its manufacturing processes in India by The Energy and Research Institute (TERI). The resulting report would be released without prior review from Coke.

Amit Srivastava shook his head as he read Michigan's announcement from the screen of the single laptop that was the India Resource Center and hub of his multinational anti-Coke protests. It was now a matter of waiting to see if the inquiry would uncover evidence of the kind of deplorable practices against which he had rallied college students across the United States and Europe. He could feel the headline of his next press release coming to his fingertips: "University of Michigan Reinstates Coca-Cola Contract Prematurely, Allows Coca-Cola Funded Group to Design Investigation." For now, however, Coke plants across India continued to produce cola made from millions of liters of precious groundwater. The plants of local soft drink producers forced out by Coke remained silent and empty.

Amy Landau, leader of Students Organizing for Labor and Economic Equality (SOLE) at the University of Michigan, read the announcement of the independent inquiry with mixed emotions.[1] True, SOLE had brought to light what it believed to be unjust corporate practices with the help of public student rallies, media coverage, and university administrative proceedings, but Coke was back on campus – if only until the results of the inquiry were in. Despite all efforts, Landau felt a sense of failure.

GlobaLens℠

Published by GlobaLens, a division of The William Davidson Institute at the University of Michigan.

Coca-Cola executive Jeff Seabright was a nervous man. After acting as the corporate lead in the efforts to debunk multiple anti-Coke campaigns and liaison to the University of Michigan throughout the past tense months of negotiations, he now had to sit back and wait. A team of TERI investigators would be beginning work in India shortly to look into alleged ecological harm done by Coke's local independent bottler in the Kerala region. Seabright had put himself and his future at Coke on the line with the decision to agree to the inquiry, and especially to the no-review terms of its results' release. He was depending on the accurate due diligence of teams on the ground in India and that there would be no more embarrassing snafus. So far, Seabright's bold tactics had earned Coke a tentative place back in Ann Arbor, with hopes to once again solidify relations with this high-profile university customer. It was a gamble he hoped would pay off. The sparkle of the multi-billion-dollar Coca-Cola brand depended on it.

The Coca-Cola Company

Coca-Cola began its journey from local cola producer to global beverage icon in Atlanta, Georgia, USA, in 1886, selling just nine beverages a day. After years of growth in the US cola market, the company began its international expansion in the 1920s, entering the Caribbean and Canadian markets. In the following decades Coca-Cola expanded into Asia, South America, and the former Soviet Union. By the end of the 20th century Coke products could be found on shelves in almost every country in the world. The Coca-Cola Company was operating in more countries than the United Nations and being consumed at a rate exceeding one billion servings per day.

Coke and Water

In water management, as in all matters related to the company, Coca-Cola stressed the fact that the company neither owned nor managed most of its bottling companies. Under this arrangement it did not have the "legal right to control their environmental practices or to require them to report on such practices." Instead the company could only "positively influence environmental activities and policies throughout our system."[5]

In 2003, Coke announced an Environment & Water Resources Department and appointed Seabright as a vice president to head the department. Prior to this role, Seabright had served as executive director of the White House Task Force on Climate Change and as director for the United States Agency for International Development (USAID). Upon his appointment, Seabright identified water management as the "greatest challenge" to Coca-Cola's environmental stewardship.

In 2002, in an effort to move toward more sustainable operations management, the company published its first environmental report. In that first report, the company stated that it took an average of 3.12 liters of water to produce 1 liter of Coke product.[6] This average became a baseline ratio against which Coke measured its progress, as shown in **Exhibit 2a**.

Estimated system-wide water usage was also tracked, as shown in **Exhibit 2b**. In 2002, the company estimated that it used 307 billion liters of water. Despite overall volume growth, this estimate was reduced to 278 billion liters by 2005.

Water was used in plants as an ingredient, as well as in operations for processes such as purification, washing and rinsing of packaging, cleaning of product mixing tanks and piping, steam production, and cooling.[7] In addition to consuming water, the plants also produced effluent, or wastewater, as a byproduct of production. Per local law, this effluent was to be cleaned to local standards before being discharged. However, by the end of 2003, an estimated 22% of company facilities did not meet these standards. Coke set a 2010

target for bringing these plants up to standard.[8] By 2005, 19% were still not in compliance. One place where Coke had not been able to effectively manage the water issue was India, a country with over one billion people and a market that constituted one of the most rapidly emerging consumer opportunities in the world.

Meanwhile, Seabright, in his short tenure, had been working to improve Coca-Cola's internal operations and defend its external image. As he told *The Economist* in October 2005, "Water is to Coca-Cola as clean energy is to BP.... We need to manage this issue or it will manage us."[9]

Coke in India

Coca-Cola had long faced challenges in India. From its entrance into the Indian market in the early 1970s, Coke had been India's leading soft drink. It enjoyed high sales and had numerous facilities on the ground. However, when the Indian government went through a significant regime change in the mid-1970s, the new leaders pressured Coke to give the government or local investors a stake in its operations and also attempted to get the details of Coke's "secret formula." In 1977, Coca-Cola left India due primarily to these pressures. It did not return until 1993, when a new government began to aggressively promote foreign investment.

Upon Coke's return to the Indian market, it regained its dominant market position through its own brand and by buying up popular local brands, including Thums Up soda. In 2003, India accounted for a modest 1.6% of Coke's worldwide sales volume.[10] By 2005, its beverages were produced in 76 bottling plants in India and the country was Coke's fastest growing market, expanding at 23% annually.[11] **Exhibit 3**, from 2004, shows the importance of the Asian market to Coke's growth, as indicated by the relatively low market saturation in terms of Coke product consumption.[12]

Amit Srivastava

At age 37, Srivastava was a veteran activist and founder of Global Resistance, a nonprofit group with a mission to "strengthen the movement against corporate globalization by supporting and linking local, grassroots struggles against globalization around the world." Within Global Resistance, Srivastava had created the India Resource Center (http://www.indiaresource.org/) to "support movements against corporate globalization in India."[13]

The University of Michigan and Coca-Cola

In 2004 Coca-Cola products could be found in vending machines, residence halls, cafeterias, campus restaurants, and athletic venues across the University of Michigan. The $1.4 million[18] in total contracts with Coke made it one of the university's major vendors, both on the books and in public image. In the past decade the university had worked to bring such prominent vendors in line with the goals and standards of the prominent academic institution, its students, faculty, staff, and alumni.

Students Organizing for Labor and Economic Equality (SOLE)

Among those invested parties at the University of Michigan was a group of students committed to bringing to light any departures from the standards of corporate behavior described in the Vendor Code of Conduct. As SOLE's mission statement conveys, "We advocate for social and labor justice through direct

action, education, and nationally coordinated campaigns. Our fight is for worker's rights and the struggle for an alternative to corporate domination, both locally and globally."[19]

The Public Hearing

On April 25, 2005, protests began outside the University of Michigan Student Union, where a public hearing of the issues was to take place. When the Dispute Review Board members entered through the crowds, they found students holding banners in the back of the hall and rows of Faygo soda bottles (a U.S.-based competitor of Coca-Cola) lined up around the board table.

Among these efforts was a "detailed assessment of the 'water risks'"[28] to the overall business as well as neighboring towns. Rather than continuing to apply "one-size-fits-all" approaches to water management, Coke aimed to create policies that reflected the water scarcity. While these approaches made ecological sense, independently owned Coca-Cola bottlers often resisted these changes, seeing them as an imposition from their corporate partner. Srivastava countered the announcement of this effort by asking, "What is a company that survives on so much water doing in a drought-prone area?"[29]

Coke used its own web presence to combat the charges by providing countering information on its India unit's site. The company disclosed that until 2003 it had given away sludge to local farmers, though it supported this action by providing information from subsequent safety reports. The website stated that "numerous reports since the commissioning of the plant, and as recently as December 2003, have confirmed that the levels of heavy metal traces are within the [Kerala state] Pollution Control Board norms for classification as non-hazardous."[30]

Despite these claims, the media assault continued on Coke's record and standards, culminating in a June 2005 article on the front page of *The Wall Street Journal* that suggested that the Kerala plants had not been following the company's own testing protocols. The article cited a request for testing documents and noted that the testing was only completed after the request had been made. One Coke water-resources official stated: "I will tell you right now that they were not following the company standards to the limit like they were supposed to." Fortuitously for Coke, the tests showed that the soil samples were below the locally-determined hazard levels.[31]

Coca-Cola also attempted to engage directly with Srivastava and the India Resource Center. Srivastava's response to this outreach was to inform Coke that "there's no space for dialog right now." No resolution between the two opposing sides was in sight. While Coke did its best to defend itself from what it saw as a clear case of "brandjacking," the India Resource Center and its student cohort continued to apply pressure from all sides. In the midst of this, the University of Michigan continued to request forward movement and adherence to the timeline laid out in the DRB recommendation.

Coke Misses the Deadline

In September 2005 Coca-Cola agreed to work with the university to identify third parties to investigate the claims made in both Colombia and India and that those choices would be finalized by December 31, 2005. On December 16, 2005, Coca-Cola officials informed the university that they would not be able to meet the December 31 deadline due to outstanding legal issues surrounding the Colombia human rights charges. On December 29, the university sent a letter to Coca-Cola, informing it that its contracts would be indefinitely suspended effective January 1, 2006. (see **Exhibit 7**)

The Associated Press and other major media outlets reported the announcement of the contract halt. "University of Michigan Becomes 10th College to Join Boycott of Coke" read *The New York Times.*[32] Procurement within the university began its shift immediately as it sought to continue providing services to the campus. Activists felt vindicated and were pleased with the university's response to what they saw as corporate hubris. The university continued to press Coca-Cola to move forward with the good will it had seen throughout much of the negotiations process up to this point.

Investigations Approved

After three months of quiet vending machines and continued unrest, Coca-Cola returned to the university on April 10, 2006, with an agreement.

> We are in active dialogue with TERI, a highly respected Delhi-based NGO with deep experience on sustainability issues to develop a transparent and impartial independent third party assessment of water resource management practices at Coca-Cola company facilities in India, including potential contamination due to agricultural practices. This assessment will involve respected independent environmental experts and the findings will be communicated jointly to the University of Michigan and The Coca-Cola Company.[33]

Coke Back on Campus -- For the Time Being

On April 11, 2006, the university informed Coca-Cola that it would be allowed to resume sales on campus conditionally, pending the outcome of the independent reviews. Many questions remained to be answered by these investigations. Coca-Cola's inconsistent track record left much to be desired for those within the company who had put their careers on the line when agreeing to release the upcoming results without review. The university and the DRB had played their part, but also knew that uncertainty lay ahead, and purchasing remained at the ready for possible future vendor changes.

As the closing lines of the university's April 11 letter (see **Exhibit 8**) to Coke expressed:

> We thank you for your diligent work in addressing the concerns raised by the DRB, and look forward to the outcome of these reviews.[34]

Amy Landau and Amit Srivastava looked forward to the results of the review as well. The decision to allow Coke back on campus in the meantime, however, was a less palatable outcome of the university's review process. Landau had taken the issue to the highest levels of the administration through established routes. While the Vendor Code of Conduct was something she supported, the result in this case felt mixed. Had the message gotten through if Coke was still being sold? Would other students pay attention without protests? If Coke is not thrown off campus, should she consider it a failure? She felt as much. Srivastava did as well. He had no doubt that vocal public protest was the only way to keep the issue in the forefront. Coke's presence on campus was just one more indicator of its powerful global presence. Until the report came in, he would have less ability to use the university and its students as a lever to escort Coke out of India.

Timothy Slottow believed this unprecedented agreement with the soft drink giant was an appropriate and impressive outcome that showed that the university could work with vendors to constructively address students' concerns. He only hoped that the issue would be completely resolved in time for the fall football season, a program representing more than $50 million in revenue in 2005, and concession stand pouring

rights. If not, the university would have to quickly adapt one of its most high-profile venues and the entirety of the campus to address this massive sourcing shift. The consequences of the Vendor Code of Conduct would not be simple to execute should the results of the TERI report be unfavorable to Coca-Cola. What was the balance between ethical campus leadership and the organizational and fiscal challenges sticking to those principles could cause?

In Atlanta, Jeff Seabright was wondering much the same. How would his company balance its image with the potential cost of living up to the sparkling brand it had worked so hard to build? Would Srivastava ever stop? Would the substantive changes Coke had made throughout the past months be enough to keep its image above the accusations coming from the India Resource Center and its supporters? Or, had Coke waited too long, let the accusations sink in too deeply with some of its most important public university customers? Time and the TERI report would tell much of the story.

Exhibits

This is an abbreviated version of the case study. The full version is eleven pages total with eight exhibits that provide in-depth background regarding the Coca-Cola Corporation (financials, water usage, product consumption), activist campaign information, and correspondence between the University of Michigan and the Coca-Cola Corporation.

For the full case and teaching note, please go to: http://globalens.com/casedetail.aspx?cid=1429098

William Davidson Institute
AT THE UNIVERSITY OF MICHIGAN

Business Knowledge for
Emerging Economies

The William Davidson Institute's (WDI) Research Associates collabrate with faculty from Michigan's Ross School of Business to produce teaching materials for top business schools. WDI is a nonprofit, independent, research and educational institute that creates, aggregates, and disseminates intellectual capital on global business and policy issues.

www.wdi.umich.edu

GlobaLens[SM]

GlobaLens[SM] is the online resource for business educators in need of material and teaching ideas on today's most relevant global issues, such as Social Impact, Social Enterprise, Base of the Pyramid, and Environmental Sustainability.

More than just a case repository, **GlobaLens**[SM] features in-depth background materials for instruction, a searchable library of syllabi for developing business courses, community, and publishing support, as well as case studies, exercises and other teaching materials.

www.globalens.com