

## Brief Integrative Case 2.1

### Coca-Cola in India

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Coca-Cola is a brand name known throughout the entire world. It covers 60 percent of the \$1.6 billion soft drink market. In 2006–2007, Coca-Cola faced some difficult challenges in the region of Kerala, India. The company was accused of using water that contained pesticides in its bottling plants in Kerala. An environmental group, the Center for Science and Environment (CSE), found 57 bottles of Coke and Pepsi products from 12 Indian states that contained unsafe levels of pesticides.<sup>1</sup>

The Kerala minister of health, Karnataka R. Ashok, imposed a ban on the manufacture and sale of Coca-Cola products in the region. Coca-Cola then arranged to have its drinks tested in a British lab, and the report found that the amount of pesticides found in Pepsi and Coca-Cola drinks was harmless to the body.<sup>2</sup> Coca-Cola then ran numerous ads to regain consumers' confidence in its products and brand. However, these efforts did not satisfy the environmental groups or the minister of health.

#### India's Changing Marketplace

During the 1960s and 1970s, India's economy faced many challenges, growing only an average of 3–3.5 percent per year. Numerous obstacles hindered foreign companies from investing in India, and many restrictions on economic activity caused huge difficulties for Indian firms and a lack of interest among foreign investors. For many years the government had problems with implementing reform and overcoming bureaucratic and political divisions. Business activity has traditionally been undervalued in India; leisure is typically given more value than work. Stemming from India's colonial legacy, Indians are highly suspicious of foreign investors. Indeed, there have been a few well-publicized disputes between the Indian government and foreign investors.<sup>3</sup>

More recently, however, many Western companies are finding an easier time doing business in India.<sup>4</sup> In 1991, political conditions had changed, many restrictions were eased, and economic reforms came into force. With more than 1 billion consumers, India has become an increasingly attractive market.<sup>5</sup> From 2003–2006, foreign investment doubled to \$6 billion. Imported goods have become a status symbol for the burgeoning middle class.<sup>6</sup>

In 2008/09 FDI in India stood at \$27.31 billion.<sup>7</sup> In 2009, India was the third highest recipient of FDI and was likely to continue to remain among the top five attractive destinations for international investors during the following two years, according to a United Nations Conference on

Trade and Development (UNCTAD) report.<sup>8</sup> The 2009 survey of the Japan Bank for International Cooperation conducted among Japanese investors continued to rank India as the second most promising country for overseas business operations, after China. According to the Minister of Commerce and Industry, Mr. Anand Sharma, FDI equity inflows as a percentage of GDP have grown from 0.75 percent in 2005–2006 to nearly 2.49 percent in 2008–2009.<sup>9</sup>

India's GDP has grown at the impressive average annual rate of 8.5 percent during the six years spanning 2003/04–2008/09. Even the global financial crisis, which began in September 2008, has cut the rate of growth by only 2–3 percentage points, and the economy continued to grow at the annual rate of 6 percent during the three quarters following the crisis.<sup>10</sup> But the country needs more investment in manufacturing if it hopes to improve the lives of the 350 million people living in poverty.<sup>11</sup>

#### Coca-Cola and Other Soft Drink Investment in India

Coca-Cola had experienced previous confrontations with the Indian government. In 1977, Coke had pulled out of India when the government demanded its secret formula.<sup>12</sup>

Circumstances have dramatically improved over the years for soft drink providers of India. Coke and Pepsi have invested nearly \$2 billion in India over the years. They employ about 12,500 people directly and support 200,000 indirectly through their purchases of sugar, packaging material, and shipping services. Coke is India's number one consumer of mango pulp for its local soft drink offerings.<sup>13</sup> Coca-Cola in India is also the largest domestic buyer of sugar and green coffee beans.<sup>14</sup> From 1994 to 2003, Coca-Cola sales in India more than doubled.

In 2008–2009 Coca-Cola announced its plans to invest more than \$250 million in India over the next three years. The money would be used for everything from expanding bottling capacity to buying delivery trucks and refrigerators for small retailers. The new money will mean around a 20 percent increase in the total Coca-Cola has invested in India.<sup>15</sup> Coca-Cola's sales in India climbed 31 percent in the three months ended March 31, 2009, compared to a year earlier. That's the highest volume growth of any of Coke's markets.<sup>16</sup>

Royal Crown Cola (RC Cola) is the world's third largest brand of soft drinks. The brand was purchased in 2000 by Cadbury Schweppes and entered the Indian market in 2003. For production in India, the company hired three

licensing and franchising bottlers. In order to ensure that it was not associated with the pesticide accusations against Pepsi and Coke, RC Cola immediately had its groundwater tested by the testing institute SGS India Pvt Ltd.<sup>17</sup>

### **The Charges against Coke**

The pesticide issue began in 2002, in Plachimada, India. Villagers thought that water levels had sunk and the drinking water was contaminated by Coke's plant. They launched a vigil at the plant, and two years later, Coke's license was canceled. Coca-Cola's most recent pesticide issue began at a bottling plant in Mehdiganj. The plant was accused of exploiting the groundwater and polluting it with toxic metals.<sup>18</sup> Karnataka R. Ashok, the health minister of Kerala, India, banned the sale of all Coca-Cola and PepsiCo products, claiming that the drinks contained unsafe levels of pesticides.

The alleged contamination of the water launched a debate on everything from pesticide-polluted water to the Indian middle-class's addiction to unhealthy, processed foods. "It's wonderful," said Sunita Narin, director of CSE. "Pepsi and Coke are doing our work for us. Now the whole nation knows that there is a pesticide problem."<sup>19</sup>

Coca-Cola fought back against the accusations. "No Indian soft drink makers have been tested for similar violations even though pesticides could be in their products such as milk and bottled teas. If pesticides are in the groundwater, why isn't anyone else being tested? We are continuously being challenged because of who we are," said Atul Singh, CEO of Coca-Cola India.<sup>20</sup>

Some believe that Coca-Cola was targeted to bring the subject of pesticides in consumer products to light. "If you target multinational corporations, you get more publicity," adds Arvind Kumar, a researcher at the watchdog group Toxic Links. "Pesticides are in everything in India."<sup>21</sup>

### **India's Response to the Allegations**

After CSE's discovery of the unsafe levels of pesticides,<sup>22</sup> some suggested the high levels of pesticides came from sugar, which is 10 percent of the soft drink content. However laboratories found the sugar samples to be pesticide free.<sup>23</sup>

Kerala is run by a communist government and a chief minister who still claims to have a revolutionary objection to the evils of capitalism.<sup>24</sup> Defenders of Coca-Cola claim that this is a large reason for the pesticide findings in Coca-Cola products. After the ban was placed on all Coca-Cola and PepsiCo products in the region of Kerala, Coca-Cola took its case to the state court to defend its products and name. The court said that the state government had no jurisdiction to impose a ban on the manufacture and sale of products.<sup>25</sup> Kerala then lifted the state-wide ban on Coke products.<sup>26</sup>

In March 2010, after several years of tense battles, the Indian unit of Coca-Cola Company was asked to pay \$47 million in compensation for causing environmental damage

at its bottling plant in the southern Indian state of Kerala. A state government panel said Coca-Cola's subsidiary, Hindustan Coca-Cola Beverages Pvt Ltd (HCBPL), was responsible for depleting groundwater and dumping toxic waste around its Palakkad plant between 1999 and 2004. Protests by farmers, complaining about the alleged pollution, forced Coca-Cola to close down the plant in 2005. Coca-Cola responded that HCBPL was not responsible for pollution in Palakkad, but the final decision on the compensation will be taken by the state government.<sup>27</sup>

### **Pepsi's Experience in India**

PepsiCo has had an equally noticeable presence in India; and it is not surprising that the company has weathered the same storms as its rival Coca-Cola. In addition to claims of excessive water use, a CSE pesticide study, performed in August 2006, accused Pepsi of having 30 times the "unofficial" pesticide limit in its beverages (Coke was claimed to be 27 times the limit in this study).<sup>28</sup> These findings, coupled with the original 2003 CSE study that first tarnished the cola companies' image, have prompted numerous consumers to stop their cola consumption. Some have even taken to the streets, burning pictures of Pepsi bottles in protest.

Indra Nooyi, CEO of PepsiCo Inc. and a native of India, is all too familiar with the issues of water contamination and water shortages. Yet, in light of the recent claims made against Pepsi, she has expressed frustration with the exaggerated CSE findings (local tea and coffee have thousands of times the alleged pesticide level found in Pepsi products) and the disproportionate reaction to Pepsi's water-use practices (pointing out that soft drinks and bottled water account for less than 0.04 percent of industrial water usage in India).<sup>29</sup>

In order to reaffirm the safety and popularity of its products, Pepsi has taken on a celebrity-studded ad campaign across India, as well as continued its legacy of corporate social responsibility (CSR). Some of Pepsi's CSR efforts have involved digging village wells, "harvesting" rainwater, and teaching better techniques for growing rice and tomatoes.<sup>30</sup> Pepsi has also initiated efforts to reduce water waste at its Indian facilities.

Although Pepsi sales are back on the rise, Nooyi realizes that she should have acted sooner to counteract CSE's claims about Pepsi products. From here on out, the company must be more attentive to its water-use practices; but Nooyi also notes, "We have to invest, too, in educating communities in how to farm better, collect water, and then work with industry to retrofit plants and recycle."<sup>31</sup>

### **Coke's Social Responsibility Commitments**

Coca-Cola has recently employed The Energy and Resources Institute (TERI) to assess its operations in India. The investigations have been conducted because of claims that Coca-Cola has engaged in unethical production practices in India.

These alleged practices include causing severe water shortages, locating water-extracting plants in “drought prone” areas, further limiting water access by contaminating the surrounding land and groundwater, and irresponsibly disposing of toxic waste. Colleges and universities throughout the United States, U.K., and Canada have joined in holding the company accountable for its overseas business practices by banning Coca-Cola products on their campuses until more positive results are reported. However, critics have argued that TERI’s assessment would undoubtedly be biased since the organization has been largely funded by the Coca-Cola Company.<sup>32</sup>

Coca-Cola stands behind the safety of its products. “Multinational corporations provide an easy target,” says Amulya Ganguli, a political analyst in New Delhi. “These corporations are believed to be greedy, devoted solely to profit, and uncaring about the health of the consumers.” There is also a deeply rooted distrust of big business, and particularly foreign big business, in India.<sup>33</sup> This is a reminder that there will continue to be obstacles, as there were in the past, to foreign investments in India.

In order to reaffirm their presence in India, Coke and Pepsi have run separate ads insisting that their drinks are safe. Coke’s ad said, “Is there anything safer for you to drink?” and invited Indians to visit its plants to see how the beverage is made.<sup>34</sup> Nevertheless, in July 2006, Coke reported a 12 percent decline in sales.<sup>35</sup>

Coca-Cola has undertaken various initiatives to improve the drinking water conditions around the world. It has formally pledged support for the United Nations Global Compact and co-founded the Global Water Challenge, which improves water access and sanitation in countries in critical need. It is improving energy effi-

ciency through the use of hydrofluorocarbon-free insulation for 98 percent of new refrigerator sales and marketing equipment. Specifically, in India, Coke has stated, “More than one-third of the total water that is used in operations is renewed and returned to groundwater systems.”<sup>36</sup> Among its first water renewal projects was installation of 270 rainwater catching devices.<sup>37</sup> Later, Coca-Cola expanded the number of rainwater harvesting projects by partnering with the Central Ground Water Authority (CGWA), State Ground Water Boards, schools, colleges, NGOs, and local communities to combat water scarcity. According to Coca-Cola India’s 2007–2008 Environment Report, the company was actively engaged in 400 rainwater harvesting projects running across 17 states. These efforts were contributing to the company’s eventual target of being a “net zero” user of groundwater by the end of 2009.<sup>38</sup>

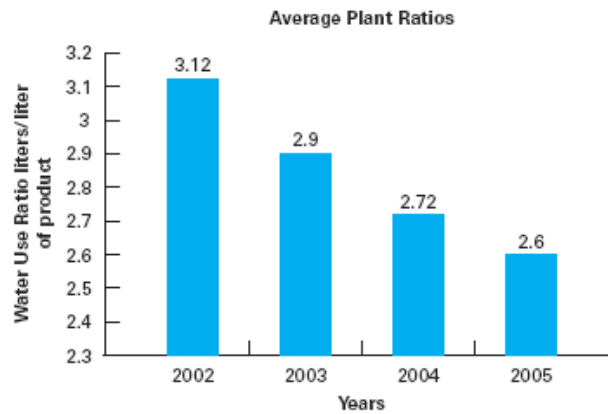
Having inspected its own water-use habits, Coca-Cola has vowed to reduce the amount of water it uses in its bottling operations. As of June 2007, Coca-Cola had reduced the amount of water needed to make one liter of Coke to 2.54 liters (compared with 3.14 liters five years earlier).<sup>39</sup>

At the June 2007 annual meeting of the World Wildlife Fund (WWF) in Beijing, Coca-Cola announced its multi-year partnership with the organization “to conserve and protect freshwater resources.” E. Neville Isdell, chairman and CEO of the Coca-Cola Company, said, “Our goal is to replace every drop of water we use in our beverages and their production. For us that means reducing the amount of water used to produce our beverages, recycling water used for manufacturing processes so it can be returned safely to the environment, and replenishing water in communities

**Table 1 A Timeline of Coca-Cola in Kerala, India**

1977:	Coca-Cola pulls out of India when the government demands its secret formula.
1991:	Restrictions are eased in India for easier international business development.
1999:	A report is published by the All-Indian Coordinated Research Program stating that 20% of all Indian food commodities exceed the maximum pesticide residue level and 43% of milk exceeds the maximum residue levels of DDT.
2002:	Villagers in Plachimada, India, make the accusation that Coke’s bottling plant is contaminating their drinking water.
2003:	The Center for Science and Environment produces a study that finds unsafe levels of pesticides in Coca-Cola products in India.
January 2004:	Parliament in India forms a Joint Parliamentary Committee to investigate the charges by the CSE.
March 2004:	A Coca-Cola bottling facility is shut down in Plachimada, India.
2004:	Indian government announces new regulations for carbonated soft drinks based on European Union standards.
2005:	Coca-Cola co-founds the Global Water Challenge, develops the Global Community-Watershed Partnership, and establishes the Ethics and Compliance Committee.
August 2006:	The CSE produces another report finding 57 Coke and Pepsi products from 12 Indian states that contain unsafe pesticide levels.
September 2006:	India’s high court overturns the ban on the sale of Coke products in Kerala.
March 2010:	Indian unit of Coca-Cola Co asked by state government to pay \$47 million compensation for causing environmental damage at its bottling plant in Kerala.





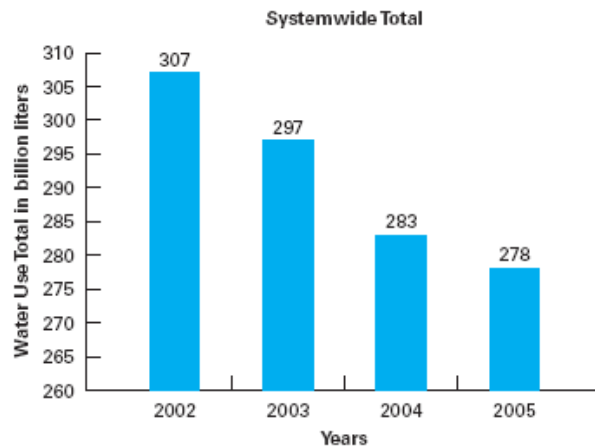
**Figure 1**  
Coca-Cola's Water Use:  
Average Plant Ratios

Source: The Coca-Cola Company, 2005 Environmental Report, [www.thecocacola.com/citizenship/environmental\\_report2005.pdf](http://www.thecocacola.com/citizenship/environmental_report2005.pdf).

and nature through locally relevant projects.” Coca-Cola hopes to spread these practices to other members of its supply chain, particularly the sugar cane industry. The Coca-Cola-WWF partnership is also focused on climate protection and protection of seven of the world’s “most critical freshwater basins,” including the Yangtze in China. Although Coca-Cola’s corporate social responsibility efforts have included other projects with the WWF in the past, it hopes that this official partnership will help achieve larger-scale results.<sup>40</sup> Figures 1 and 2 show Coca-Cola’s declining water use on a per-plant and systemwide basis.

Coca-Cola has also established EthicsLine, which is a global Web and telephone information and reporting service that allows anyone to report confidential information to a third party. Service is toll free—24 hours a day—and translators are available. Coca-Cola is currently focusing on

improving standards through the global water challenge and enhancing global packaging to make it more environmentally friendly. It is also working on promoting nutrition and physical education by launching programs throughout the world. For example, in January 2009, Coca-Cola India announced a partnership with the Bharat Integrated Social Welfare Agency (BISWA) to build awareness regarding micro-nutrient malnutrition (or “Hidden Hunger”) in the “bottom of the socio-economic pyramid” population in India. The two partners will work together to establish a successful income-generation model for communities through Self-Help Groups in Sambalpur in Orissa and also provide them with affordable alternatives to alleviate “Hidden Hunger.” The first product developed by Coca-Cola India to address the issue of “hidden hunger” is Vitingo, a tasty, affordable and refreshing orange-flavored beverage fortified with micro-nutrients.



**Figure 2**  
Coca-Cola's Water Use:  
Systemwide Total

Source: The Coca-Cola Company, 2005 Environmental Report, [www.thecocacola.com/citizenship/environmental\\_report2005.pdf](http://www.thecocacola.com/citizenship/environmental_report2005.pdf).

During the past decade, the Coca-Cola Company has invested more than US\$1 billion in India, making it one of India's top international investors. Almost all the goods and services required to produce and market Coca-Cola are made in India. The Coca-Cola Company directly employs approximately 5,500 local people in India; and indirectly, its business in India creates employment for more than 150,000 people.<sup>41</sup> Hindustan Coca-Cola Beverages Pvt Ltd operates 22 bottling plants, some of which are located in economically underdeveloped areas of the country. The Coca-Cola system also includes 23 franchise operated plants, and has one facility that manufactures concentrates or beverage bases.<sup>42</sup>

### Lessons Learned

Yet Coca-Cola was caught off guard by its experience in India. Coke did not fully appreciate how quickly local politicians would attack Coke in light of the test results, nor did it respond quickly enough to the anxieties of its consumers. The company failed to realize how fast news travels in modern India. India represents only about 1 percent of Coca-Cola's global volume, but it is central to the company's long-term growth strategy. The company needed to take action fast.<sup>43</sup>

In what Coke thought to be a respectful and immediate time frame, it formed committees in India and the United States. The committees worked on rebuttals and had their own labs commission the tests, and then they commented in detail. Coke also directed reporters to Internet blogs full of entries that were pro-Coke. Critics say that Coke focused too much on the charges instead of winning back the support of its customers. "Here people interpret silence as guilt," said Mr. Seth, Coke's Indian public relations expert.

Ms. Bjorhus, the Coke communications director, said she could now see how the environmental group had picked Coca-Cola as a way of attracting attention to the broader problem of pesticide contamination in Indian food products. Coca-Cola stands behind its products as being pesticide free. It is now up to the Indian consumer to decide the success of Coca-Cola in future years.

Nevertheless, Coca-Cola has been optimistic about its future in India. While India was still among the countries with the lowest per capita consumption of Coke, in 2009 it was the second fastest growing region in terms of Coca-Cola unit case volume growth.<sup>44</sup> Coca-Cola recorded a 3 percent growth in sales in 2009 and most of it came from India and China, even as the company faced hard economic times elsewhere in the world.<sup>45</sup>

### The Global Water Challenge

In 2007, one out of every five people globally lacked access to clean drinking water.<sup>46</sup> In August 2006, an international conference was held in Stockholm, Sweden, to discuss global water issues. A UN study reported that

many large water corporations have decreased their investments in developing countries because of high political and financial risks. Even nations that have had abundant water supplies are experiencing significant reductions. These reductions are believed to be caused by two factors: the decline in rainfall and increased evaporation of water due to global warming and the loss of wetlands. Water is something that affects every person each and every day. The executive director of the Stockholm Water Institute, Anders Berntell, noted that water affects the areas of agriculture, energy, transportation, forestry, trade, financing, and social and political security. The Food and Agriculture Organization points out, "Agriculture is the world's largest water consumer. Any water crisis will therefore also create a food crisis."

There have been attempts to improve the water conditions around the world. The United Nations recently released the *World Water Development Report*. This report was compiled by 24 UN agencies and claimed that, in actuality, only 12 percent of the funds targeted for water and sanitation improvement reached those most in need. The United Nations stated that more than 1.1 billion people still lack access to improved water resources. Nearly two-thirds of the 1.1 billion live in Asia.<sup>47</sup> In China, nearly a quarter of the population is unable to access clean drinking water. Over half of China's major waterways are also polluted. The Institute of Public and Environmental Affairs reported that 34 foreign-owned or joint-venture companies, including Pepsi, have caused water pollution problems in China. Ma Jun, the institute's founder, said, "We're not talking about very high standards. These companies are known for their commitment to the environment."<sup>48</sup>

According to the 2009 UN World Water Development Report, the world's population is growing by about 80 million people a year, implying increased freshwater demand of about 64 billion cubic meters a year. An estimated 90 percent of the 3 billion people who are expected to be added to the population by 2050 will be in developing countries, many in regions where the current population does not have sustainable access to safe drinking water or adequate sanitation. The world will have substantially more people in vulnerable urban and coastal areas in the next 20 years.<sup>49</sup>

With businesses expanding globally every day, water is a crucial resource, and water issues will increasingly affect all industries. With water conditions improving at a slower rate than business development, businesses will have to take on the responsibility of not only finding an adequate supply of the diminishing resource but also making sure the water is safe for all to consume. This responsibility is going to be an additional cost to companies, but a necessary one that will prevent loss of sales in the future. Coca-Cola's specific situation in India is a reminder for all global corporations.

**Questions for Review**

1. What aspects of U.S. culture and of Indian culture may have been causes of Coke's difficulties in India?
2. How might Coca-Cola have responded differently when this situation first occurred, especially in terms of responding to negative perceptions among Indians of Coke and other MNCs?
3. If Coca-Cola wants to obtain more of India's soft drink market, what changes does it need to make?
4. How might companies like Coca-Cola and PepsiCo demonstrate their commitment to working with different countries and respecting the cultural and natural environments of those societies?

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*Source:* This case was prepared by Jaelyn Johns of Villanova University under the supervision of Professor Jonathan Doh as the basis for class discussion. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility. Research assistance was provided by Courtney Asher and Tetyana Azarova.