Case study: coca cola in india

Business

In the business context, this article studies the proposition that corporate social responsibility (CARS) can avert the tragedy of the commons by examining one case study in depth: Coca-Cola’s bottling operations in Roasting, India.

In spite of choosing a context favorable to the proposition, the results indicate that CARS does not avert the tragedy of the commons. To address the major environmental challenges, it is essential to develop regulatory regimes with appropriate incentives and ability to enforce sanctions. In one AT ten most cite silently articles ever written, Garrett Harlan outline t tragedy of the commons,’ a powerful metaphor that the users of a commons are caught in an inevitable process that leads to the destruction of the very resource on which they depend. 1 It is now a central concept in human ecology and the study of he environment, and can be used to view a variety of commons related problems, such as population growth, environmental pollution, groundwater basins, forest management, climate change, fishing, wildlife habitats, and traffic congestion.

The prediction of the inevitable tragedy assumes that all individuals are inherently selfish.

The tragedy of the commons, of course, can be averted if individuals behave altruistically, and voluntarily act in the interests of others in the wider community. Translating this to the business context, the tragedy of the commons can be averted f companies have a corporate social responsibility (CARS) to go beyond making profits and achieve some positive social goals.

This article studies the proposition that CARS can avert the tragedy of the commons by examining a case study in depth.

I choose a case study Coca-Cola’s bottling operations in Roasting, India that is favorable to the proposition. The company Coca-Cola, both globally and in India, vociferously proclaims to be socially responsible. Since water is the critical input to Coca-Cola’s operations, it is not surprising that the company emphasizes its water stewardship efforts, especially in he desert location of Roasting.

In spite of choosing a context favorable to the proposition, the results indicate that CARS does not avert the tragedy of the commons. Following Harden’s famous article, there is a vast literature on managing the commons. I provide a very brief overview of the critical concepts for solving the commons problem, and translate these ideas to the business context. There is also a vast literature on CARS, and the next section provides a brief overview of this concept, and links together these two fields. The rest of the paper describes the case study ND draws conclusions about the effectiveness of CARS for averting the tragedy of the commons.

The Tragedy of the Commons Hardin explained the tragedy of the commons using the fable of a pasture open to all.

Each herdsman ‘ rationally’ adds more sheep because his expected benefits are greater than expected costs, since he selfishly ignores the costs imposed on the others. Thus, individual decisions cumulate to tragic overuse and the potential destruction of the commons. Subsequent research has argued that

it is necessary to distinguish between the intrinsic nature of the resource and the property regime under which it is held.

Commonly resources (CPRM) are characterized by 1) difficulty of excluding beneficiaries through physical and institutional means, and 2) substitutability, that is use by an individual reduces resources available to others. The literature identifies four types of property rights: open access (that is, no property rights), individual property, group property and government property. Harlan NAS Eden craterlike Tort contouring ten Intrinsic nature AT ten resource Ana the regime under which it is held.

As Hardin later acknowledged, his argument applies to an open access CPRM, or an " unregulated commons. 3 In the absence of ales for managing 4 the CPRM, the fundamental problem is free riding along two dimensions: overuse without concern for the adverse effect on others, and a lack of contributions to maintain and improve the CPRM. Solving CPRM problems involves two distinct elements: restricting access, and creating incentives for users to invest in the CPRM. Altruism A critical assumption underlying Harden's reasoning is that individuals are inherently selfish, " locked into a system that compels" them to pursue their own best interest.

It is ineffective for society to appeal to an " individual exploiting a commons to restrain myself for the general good by means of his conscience. " Using Darwinian logic, Hardin argued that " such an appeal is to set up a selective system that works towards the elimination of the conscience from the race.

" The tragedy of the commons, of course, can be averted if individuals voluntarily act in the interests of others in the wider community. 4 Many

scholars have argued that this seems to the normal mode of human behavior.

Human beings are prone to altruism, or concern for others. According to the US Department of Labor, about 65 million people volunteered at least once in 2011, at the median rate of 51 hours per ear. Most, if not all, of the world's religions promote altruism as a very important moral value.

A stream of research on reciprocal altruism is based on the theory of repeated games, and shows that " cooperation based on reciprocity can get started in a predominantly uncooperative world, can thrive in a variegated environment, and can defend itself once fully established. 5 Contemporary discussions of altruism are often based on evolutionary 5 theories such as reciprocal altruism and kin selection. 6 Some evolutionary biologists go so far as to argue that " morality is grounded in our biology. 7 However, the rational actor model that posits strict self-interest dominates the field of economics, and is also influential in other fields including political science, sociology, ecology, and psychology. As Adam Smith said " we are not ready to suspect any person of being defective in selfishness. 8 This rational actor model explains why market institutions facilitate an efficient allocation of private goods, and is supported by much empirical research.

It is not surprising that the bulk of research, especially in economics and political science, on solving CPRM problems eschews altruism and Touches on property regimes. Property Regimes When a CPRM is left to an open-access regime, that is, there are no enforced property rights, it results in degradation and destruction of the resource.

In individual property regimes, resource rights are held by individuals who can exclude others; an example might be private ownership of grazing land bounded by a fence. For most CPRM, individual prevarication is not a feasible option in practice; as an extreme example, it would be impossible to privatized the earth’s ozone layer. Accordingly, most research on CPRM problems does not consider this a viable solution. In group property regimes, resource rights are held by a group of users who can exclude others, and manage the CPRM using various mechanisms such as communication, trust, reciprocity, reputation, sanctions, and binding commitments.

Liner Storm, Nobel Prize economist, has studied 6 a large number of commons problems in fisheries, grazing, forests, and irrigation systems, and shows how groups of users have developed local (as opposed to governmental) institutional arrangements to successfully manage CPRM. 9 User groups characterized by the presence of a community, small and stable populations, thick social network, and social norms promoting conservation do better at establishing effective group rights schemes.

In government property regimes, resource rights are held by a government (central or a lower level) that can regulate the CPRM, and enforce incentives such as taxes and subsidies. For example, the government in Singapore imposes a toll on traffic in the central business district to control congestion. Empirical research has demonstrated that no property regime works well for all CPRM, and problems continue to exist in all property regimes. Liner Storm has identified design principles associated with institutions that have successfully managed CPRM, with a special focus on group property regimes.

0 The world’s fisheries are in serious trouble due to overexploitation. In an open access regime, each fisherman has an incentive to ‘ race to fish’ to outcome the other fishermen, leading to eventual collapse of the fishery the tragedy of the commons. In a widely cited study, Worm et al estimated that about 27% of the world’s fisheries were collapsed in 2003, and extrapolated the trend to predict that 100% of the oral’s fisheries could be collapsed by 2048. 1 The best way to protect the fisheries is to give the fishermen well-defined, long-term property rights to a share of the fish. In government regulated fisheries, as in Iceland and New Zealand, this has taken the form of a treatable share of a fishing quota.

12 In other countries, especially developing countries, some 7 fisheries are governed by a group property regime that gives rights over an expanse AT coastal waters to a cooperative or Telling community, wanly teen gives can licensed fisherman a fraction of the catch.

Costello et al studied 11, 135 commercial sherries around the world between 1950 and 2003, and found that the collapse rate was cut in half among the fisheries managed by government or group property regime compared to open access fisheries. 13 This supports the view that altruism does not effectively help avert the tragedy of the commons, whereas group and government property regimes are effective. Although the global rate of adoption of rights-based approach has increased since 1970, unfortunately the spread of such schemes has been very slow.

The study identified only 121 fisheries (out of 1 1, 135) managed using a share of the catch schemes in 2003.

Business Context Neither Hardin nor most of the subsequent literature on managing CPRM explicitly analyze the situation when the users are modern corporations owned by shareholders and run by professional mangers. Corporations are even less inclined to act altruistically to preserve the CPRM in open access regimes. According to inalienable economic perspective, company managers have a fiduciary responsibility to their shareholders to maximize profits while conforming to the laws and norms of society. 4 The modern business corporation is “ the one important actor in our racket economy that does match Harden’s depiction of the implacably rational, self-interested economic agent. “ 1 5 So, it would seem that Harden’s dire prediction of the tragedy of the commons applies even more in an economic landscape populated by publicly traded companies.

8 The contrary, and more optimistic, view is that companies have a corporate social responsibility (CARS) and “ decide voluntarily to contribute to a better society and a cleaner environment. 16 Thus, CARS is the corporate counterpart of altruism at the individual level, and will help avert the tragedy of the commons in a business context. 7 There is a vast literature on CARS, and simultaneously much controversy surrounding the concept. 18 Corporate Social Responsibility For CARS to move beyond empty platitudes, it is necessary to clearly distinguish between socially desirable activities that are profitable and those that are unprofitable for the firm involved. 19 Much of the contemporary literature on CARS emphasizes its positive links to profitability. 0 The business case for CARS states that as companies behave more responsibly, they also become more profitable.

One such recent article in theHarvardBusiness Review states “ executives behave as though hey have to choose between the largely social benefits of developing sustainable products or processes and the financial costs of doing so. But that’s simply not true. “ 21 Another article in the Harvard Business Review proposes “ a new way to look at the relationship between business and society that does not treat corporate success and social welfare as a zero-sum game. 22 Much of the popular business literature generator Tells to De socially responsible Is In tens vein Ana assumes, at least implicitly, that all socially desirable behavior is perfectly consistent with the firms’ self-interest. This, of course, is contrary to the very concept of a CPRM, which is characterized by a free-rider problem.

The essence of a CPRM problem is that in an open access regime the interests of one user are not congruent with the collective 9 interests of society.

Many contemporary societal problems clearly involve a CPRM, and this view of CARS will not avert the tragedy of the commons. For CARS to help avert the tragedy of the commons, it is necessary to define CARS as a company’s responsibility to voluntarily undertake socially desirable behavior that decreases the firm’s profits. 23 Only then does CARS become the business equivalent f altruism at the individual level, and help avert the tragedy of the commons. It is an empirical question whether firms in fact do practice (and not Just proclaim) CARS and help avert the tragedy of the commons.

The case study described below examines this proposition in the context of Coca-Cola Indian’s bottling operations in Roasting, India. The alternative to

CARS for averting the tragedy of the commons is a property regime to manage the CPRM (see Table 1). Due to the very nature of a CPRM (especially a large, complex CPRM), it is rarely feasible to assign property rights to firms individually. Moreover, private ownership by large corporations of a CPRM, which are often perceived as public goods, would be politically difficult in most democratic countries.

Most examples of successful group property schemes have been in the context of very local communities, such as villages in Switzerland and Nepal. 24 People live in the same village for generations and intend to live there for generations to come.

The use of community sanctions and social pressure was an important element of the group property regime, as were communication, trust, reputation, and anticipation of future interactions. All these elements are difficult to establish in the business context, making group property rights a less viable solution.

Storm et al acknowledge that the “ humanity now faces new 10 challenges to establish global institutions to manage biodiversity, climate change, and other ecosystem services,” and that these challenges will be particularly difficult because of the scale of the problem, cultural diversity, complexity of interlinked CPRM, accelerating rates of change, and need for unanimity. Thus, developing group property regimes in a business context with modern corporations will be rather official. It is not surprising that the success record of self-regulation by industries has been mixed at best. 5 Government

property regime is in a sense the ultimate solution, because the government has the legitimate power of coercion to enforce the rules.

Hardin referred to this as “ mutual coercion, mutually agreed upon by the majority AT ten people affected. ” It Is ten role Ana ten responsibility government in a democratic society to manage the CPRM; a necessary condition for this to succeed, of course, is a competent government. Table 1 . Solving the CPRM Problem Regime Open access Private property Group property Context of individuals Altruism. Very few examples of success.

Individual(s) own the CPRM (e. G. Grazing land). Necessary condition: technologically feasible to easily exclude others. Many successful examples, almost all at level of local communities.

Necessary condition: thick community capable of fostering trust, making binding commitments and enforcing sanctions. Business context CARS. More research needed. Firm(s) own the CPRM. Unlikely to be technically feasible.

More importantly, unlikely to be politically feasible. Self-regulation. Unlikely to be successful thou enforcement mechanisms, particularly for large, complex CPRM.

Difficult to develop a thank communal firms. 11 TTY among Government property Many successful examples.

Competent government. Particularly difficult if the CPRM cuts across national boundaries. Case Study: Coca-Cola India Social activists have long leveled various accusations against Coca-Cola, such as human rights abuses in Colombia, waste-disposal practices in India, and groundwater depletion in

India. 26 This article examines in depth only one issue: groundwater use at one location, Caldera, in the state of Roasting in India.

According to the Wall Street Journal, “ numerous Mangos both inside and outside India accuse Coke, among other ‘ crimes,’ of sucking local Indian communities dry through excessive pumping” of groundwater. 27 There were protests against Coca-Cola in Appalachia, Kraal, starting in 2002.

There has been a long running legal dispute between the Kraal government and the company; the plant has been closed since 2004. There were similar protests that Coca-Cola bottling plants deplete the groundwater supply in Meandering (Attar Pradesh) and in Caldera (Roasting). India Resource Center, a small MONGO, has been a prominent critic of Cloacae India.

Students Organizing for Labor and Economic Equality at the University of Michigan picked up on several accusations by social activists against Coca-Cola, and in 2004 formally requested the University of Michigan to cease doing business with Cloacae. 28 After a short suspension in 2006, the University resumed doing business with Coca-Cola, after the company agreed to the University demand for an independent assessment, which was performed by The Energy and Resources Institute (TIER), a 12 prestigious Delhi-based, not-for-profit, policy research organization. The TIER report was a particularly useful source for this article.

The in-depth case research in this article is based primarily on personal interviews. I visited Delhi and Roasting for two weeks in 2011, and interviewed several Coca-Cola IANAL executives Don at ten country nonstarters InDellAna ten Tolling plant In Roasting, government officials at

both the federal and state levels, local farmers and village leaders in Caldera, and Mangos concerned about the water situation in India. All data and statements obtained from Coca-Cola India executives and used in this article were confirmed by the company in written emails, which are available from the author.

The Coca-Cola case was chosen precisely because the company vociferously proclaims its social responsibility.

Mutter Kent, Chairman and CEO, states, “ We support the United Nations Global Compact, and see our sustainability efforts first and foremost as the right thing to do the continuation of responsible corporate citizenship that began in our earliest days as a company. “ 30 It should be noted that Mutter Kent does not make a ‘ business case for CARS,’ and instead defines CARS along the lines of this article. Cloacae Indian’s website claims that “ The Coca-Cola Company has always placed high value on good citizenship.

Coca-Cola India provides extensive support for community programs across the country, with a focus on education, health and water conservation. ” 31 Several Coca-Cola India executives I met had business cards with some CARS slogan printed on the reverse side; here is one example: “ Live Positively is our commitment to 13 making a positive difference in the world so that sustainability is part of everything we do. Forever.

” Given the nature of the company’s products, it has appropriately focused its sustainability efforts on water resources. Mutter Kent states, “ At The Coca-Cola

Company, we are transforming the way we think and act about water stewardship. It is in the long-term interest of both our business and the communities where we operate to be good stewards of our most critical shared resource, water. “ 32 The company claims that water stewardship “ is now clearly embedded in both our business strategy and our vision for sustainable business growth. ” Water Crisis The world faces a water crisis. According to the United Nations Environmental Program, 200 scientists in 50 countries identified water shortage as one of the two most worrying problems for this millennium (the other was global warming).

The World Water Council believes that by 2020 we shall need 17% more water than available to feed the world. Today, one person in seven in the world does not have access to safe drinking water, and one in three lacks safe sanitation. 34 Compared to many other countries, India faces a more imminent water crisis. “ China’s 1. 33 billion people each have 2, 117 cubic meters of water available per year, compared with 1, 614 cubic meters in India and as much as 9, 943 cubic meters in the U. S.

, according to the Food and Agriculture Organization of the United Nations. The 1. Billion people n India, where farmers use 80 percent of available water, will exhaust their Translates supplies y 2050 at 14 ten current rate, the World Bank estimates. “ 35 The water crisis is predictably worse in the desert state of Roasting, where surface water is meager and the entire state is principally dependent on subterranean groundwater. Roasting has semi-arid to arid climate, and experiences frequent droughts (46 times during 1901-2002).

36 The village of Caldera (where the Coca-Cola plant is located), in the Jasper district of Roasting, sits atop groundwater aquifers, which support many neighboring towns and villages.