# The coca-cola company struggles with ethical crises

“ Coca-Cola has the most valuable brand name in the world and, as one of the most visible companies worldwide, has a tremendous opportunity to excel in all dimensions of business performance” (Ferrell, Fraedrich, & Ferrell, 2008). However, as proven in this case study, Coke has a lot on their plate as the biggest brand name in the world. Ethical issues throughout different aspects of the company, and with multiple leadership changes in the last ten years, Coke has some catching up to do. The company has been involved in racial discrimination, misrepresenting market tests, manipulating earning and disrupting long-term contractual arrangements with distributors. Neville Isdell, the new president of Coke is currently working to improve their reputation cause by some of the problems presented next.

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## Coca-Cola History

Coca-Cola is the world’s largest beverage company that operates the largest distribution system in the world. This allows Coca-Cola companies to serve more than 1 billion of its products to customers each day. The marketing strategy for Coca-Cola promotes products from four out of the five top selling soft drinks to earn sales such as Coke, Diet Coke, Fanta and Sprite. This process builds strong customer relationships, which gives the opportunity for these businesses to be identified and satisfied. With that being said, customers will be more willing to help Coca-Cola produce and grow.

“ Pepsi and Coca-Cola, between them, hold the dominant share of the world market” (soft drink market 2008). Even though Coca-Cola produces and sells big across the United States, in order for the company to expand and grow, they had to build their global soft drink market by selling to customers internationally. For example, both companies continued to target international markets focusing on traditional soft drinks, new-age drinks and expanding into the snack-food businesses. With these new changes, Pepsi has 60% of the U. S. Snack-food market while Coca-Cola contributes 85% of its sales outside of the United States. According to the late Roberto Goizueta, “ 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” (Ferrell, 2008).

Increasing market share is one of the most vital goals for a business such as Coca-Cola and Pepsi. Competitions between other soft drink companies, false market share reports and other business conducts can cause certain obstacles if the top selling companies allow them too. However, Coca Cola’s strategy, from the early and late 1800s, of achieving goals such as the international mergers, big market shares, snack food production and overall performance allowed them to strive then and continue to succeed today. Today, most of coke sales are spread throughout the world in the 2004 Annual Report, “ Coca Cola had gallon sales distributed as follows: 28% in the United States, 26% in Mexico, Brazil, Japan and China and 46% in spread throughout the world” (Coca cola, 2007). This means that Coca Cola makes 70% of its profits from other countries. Coca-Cola must remain vigilant to keep their brand untarnished and their ethical issues to a minimum; their brand is their main key to success.

# Discussion

## Coca-Cola's Reputation

Coca-Cola is admired and known for its strength of brand. It is the most well recognized logo and brand across the world. Coca-Cola retains a commitment and plan to attract, satisfy, and keep customers for the long run. The company has a reputation of having the most loyal customers of the industry. It is this reason that has made Coca-Cola the market leader in the beverage industry year after year.

Coca-Cola is extremely active in all aspects of society and environmental issues. Coca-Cola has made numerous steps to prevent harm to the environment in its production of products. Some of these steps include eco friendly facilities and equipment. Coke has been a leader when it comes to environmental issues throughout the years with a major goal of being water neutral, which means every drop of water used by the company will be replenished by 2020. Coca Cola also has a commitment to helping the local aspect by collaborating with different groups and organizations to help with many local and health issues. An example of this would be Coca Cola's collaborating with UNAIDS to help with the HIV/Aids epidemic throughout the world. Coca Cola has also had a vast impact on improving education. They have had many programs over the years, which include a scholarship program that has given out over 22 million dollars in grants.

Coca-Colas strong emphasis on reputation they have created loyalty, trust among their customers, and the strongest brand recognition of all time. Coca-Cola continues to earn numerous awards including Responsible CEO of the year (2010), most socially responsible company (2008), Worlds most accountable companies (2007), and top 50 most admired companies (2010). Coca-Cola has sought not only to be the world's largest beverage company but also to improve the quality of life of the communities they serve.

## Social Responsibility Focus

Many companies do not realize the importance of having a connection with the community and to be seen in their eyes as a very strong ethical company. Coca-Cola has taken up a few different social projects that have given them a good amount of support from the public. For example, they have done a philanthropy known as " Education On Wheels," in which children are placed into a classroom that history is brought to life, giving them a very rich learning environment. They do different activities that really get the children thinking and force them to develop critical thinking methods. This is a huge thing for Coca-Cola and in our opinion for companies as a whole. The first thing that you must engage in a customer is their emotions, the strongest buying point that people act on. If people start recognizing that a company is doing community based activities for children, they are going to be very prone and likely to want to support and buy the products from the company.

The second thing that Coca-Cola has done is setup multiple scholarship funds available for high-school seniors as they make their way into college and the real world. " In addition to grants, Coca-Cola provides scholarships to more than 170 colleges, and this number is expected to grow to 287 over the next four years" (Ricci, 2010). Coca-Cola was very smart when they went about setting up these different funds for students. There is a huge market with kids graduating high school and those who are currently in college, appealing to these kids will grow a strong interest in their company and will build up their brand image more than ever. It states in the book that it is beneficial to the shareholders by doing this. This is so true with every company because shareholders and people who are invested in the company want to make sure that they are involved in a company that is making ethical decisions and who are giving back to the community in some way, shape or form.

As long as Coca-Cola keeps being persistent with how they give back into the community and monitor what they are doing on an ethical standpoint, they will keep their customers and stakeholders happy.

## Crisis Situations

Coca-Cola has not always been a squeaky-clean company that never had problems. The stock price of the company is the same price as it was 10 years ago, and this is due to the ethical and legal issues that were associated with the company. A small problem occurred in Belgium in 1999 when a few children fell ill after drinking a product with the Coca-Cola brand on it. They had a recall on the product there in Belgium, but soon after, every item Coca-Cola made was pulled off the shelves in every store. This caused a loss of reputation, which, in turn, made people lose respect for the company and investors started selling their stocks in Coca-Cola. Neighboring countries, such as Luxembourg and the Netherlands, soon followed suit and recalled all products throughout both countries.

After Coca-Cola found the root of the problem, that being a bad batch of carbon dioxide, they made an announcement regarding the situation. Being a few days after all this happened was a little too slow for the media, and they ate up the story making Coca-Cola look worse than what was said about them. However, this was not the only occurrence. France supposedly had about one hundred people become sick due to mold in the products they consumed. Every single product was banned throughout France until the problem was resolved, but Coca-Cola had yet another slow response to the problem and their reputation was further diminished.

During this crisis, Coca-Cola started to run into different problems with their marketing in European countries with anti-trust laws. They wanted to create a merger with themselves and Orangina, a French company, but their overaggressive style turned off the other companies in the deal, which became a problem. Their strong-arm tactics proved to be too much for the foreign countries, and creating a competitive advantage seemed to cross the line of the anti-trust laws in which they were sued for the by the country of Italy. Italy won the court-case, which caused investigations of the company’s competitive practices, which is never a good thing for business.

## Racial Discrimination Allegations

Coca-Cola faced a lawsuit in the spring of 1999. Fifteen hundred African American employees sued Coca-Cola for racial discrimination. Later, the number grew to 2, 000 current and former employees. The company was being charged because they put African Americans at the bottom of the pay scale. An African American could have the same job as a Caucasian, but the African American would make $26, 000 less each year. This is a huge difference in pay especially if it is only based on the color of a person’s skin. In the lawsuit, it states that the top management of Coca-Cola knew about the discrimination for four years and did nothing to stop it. The company denied the accusations, but the public had strong reactions to the case. To rebuild their image, Coca-Cola created a diversity council and paid $193 million to settle the racial discrimination lawsuit.

## Problems with the Burger King Market Test

Just three years after the racial discrimination lawsuit, Coca-Cola found themselves in another allegation. Matthew Whitley, a mid-level Coca-Cola executive filed a whistle-blowing suit. Whitley revealed fraud in a market study that Coca-Cola did on behalf of Burger King. In 2002, Coca-Cola wanted to increase sales so they paired up with Burger King to launch a frozen Coke as a child’s snack. Before launching nationally, Burger King wanted to test the product out in the market. Burger King launched a three-week trial run in Richmond, Virginia to see if it was worth the investment. Customers received a coupon for a free frozen Coke when they purchased a Value Meal. When the test first started, sales of the frozen Coke were not looking good. Therefore, Coca-Cola decided to pay at least one individual $10, 000 to take hundreds of children to Burger King to purchase Value Meals including the frozen Coke. U. S. attorney general for the North District of Georgia discovered and investigated the fraud. Coca-Cola had to pay Burger King $21 million, the whistle-blower $540, 000, and a $9 million pretax write off had to be taken. Coca-Cola disputed the claim; however, it was extremely costly for the company. Not only did they lose millions of dollars, but also the case attracted a lot of negative publicity. In addition, it ruined any relationship that they had with Burger King.

## Inflated Earnings Related to Channel Stuffing

Along with the other ethical dilemmas Coca-Cola was faced with, the company was accused of practicing channel stuffing. According to the textbook, Business Ethics, channel stuffing is “ the practice of shipping extra inventory to wholesalers and retailers at an excessive rate, typically before the end of a quarter” (Ferrell, 2008). The use of channel stuffing is deceptive and a company utilizes it to inflate their sales and earnings figures. When a company ships out their product to a distributor, it is counted as a sale. However, when a company participates in channel stuffing, they count the sale and usually the product is returned or it remains in a warehouse. The company sends their retailers more than they can sell, falsely demonstrating that there is a high demand for the product. It can also be used to hide when the demand of a product declines.

The benefit the company would receive from channel stuffing is more earnings on their financial statements and misinforming their investors. In Coca Cola’s situation, they were accused of sending extra concentrate to Japanese bottlers from 1997 to 1999 to dishonestly inflate their profits. Even though Coca-Cola settled the accusation, the Securities and Exchange Commission concluded that channel stuffing did occur. The company then pressured bottlers into purchasing extra concentrate in return for extended credit.

Coca-Cola promised the SEC to avoid engaging in channel stuffing in the future. At this time, the company created an ethics and compliance office, who verifies each financial quarter that they have not altered the terms of payment or extended special credit. Coca-Cola agreed to try to reduce the amount of concentrate held by the international bottlers. Even though they settled the predicament with the SEC, Coca-Cola still faces a lawsuit with shareholders for channel stuffing in Japan, North America, Europe, and South Africa.

## Trouble with Distributors

Coca-Cola also faced serious issues with their distributors beginning in 2006. The company had deliveries of Powerade sent to Wal-Mart in a small Texas test area. When they tried to expand the delivery of Powerade directly to Wal-Mart warehouses all over the US, fifty-four of their bottlers filed lawsuits. The textbook says that Coca-Cola had an agreement regarding Powerade bottlers and that it was a breach of the agreement to provide warehouse delivery to Wal-Mart, even with the use of a subsidiary agent for warehouse delivery. The subsidiary agent, CCE, and Coca-Cola claim that they were trying to meet a request from Wal-Mart for warehouse delivery, just how PepsiCo distributes Gatorade. CCE proposed making payments to some other bottlers in return for taking over the distribution of Powerade. The bottlers were concerned that the proposed arrangement would violate antitrust laws. In addition, they believed that moving forward with their warehouse delivery would deteriorate the value of the bottlers’ businesses.

This dilemma had a serious impact on the reputation of the company. When one firm in a channel structure suffers, all the firms in the supply chain suffer in some way as well. Coca-Cola adopted a new enterprise resource system that made their classified information available to a group of partners. Since there is a lack of integrity between Coca-Cola and their partners, the partners assume a greater risk when forming a partnership with the company. These problems with their distributors took a toll on their partner companies, their stakeholders, and finally, their bottom lines.

## Problems with Unions and Coke Trade Secrets

Amongst other international problems faced by Coca-Cola, they ran into trouble related to labor unions as well. The major cause of these problems occurred in Columbia where there were unfortunate deaths of Coca-Cola workers as well as forty-eight who went into hiding and another sixty-five who received death threats. The labor unions claimed that Coca-Cola chose to be involved with illegal dealings surrounding these deaths, death threats and disappearances. Coca-Cola denied any of the allegations and claimed that only one of the deaths was on the premises of the bottling plant that Coke worked with while the other ones were located off the premises where Coke had no involvement. Rather than take swift action Coca-Cola made itself look bad by not offering to help to any of the workers or their families. The further denial along with not providing any aid or action caused animosity with labor unions regarding the case and put another black mark on Coca-Cola’s currently sliding ethical reputation. Sure there may have been other circumstances behind the problems in Columbia but Coca-Cola did nothing to help anyone else or themselves in the situation.

Another problem Coca-Cola faced came a little closer to home. Coca-Cola had three employees get arrested in 2006 for fraudulently and unlawfully stealing and selling trade secrets from Coca-Cola. One of the people accused in the case contacted Pepsi and told them he was a high level employee with Coca-Cola. He then offered them very confidential and detailed information regarding the Coca-Cola Company. Coca-Cola then received a letter from Pepsi about the offer and contacted the FBI. The FBI found out the informant's name was Ibrahim Dimson from Bronx, NY. He provided the FBI with fourteen pages worth of confidential information marked classified as well as top secret products from the Coca-Cola company. Ibrahim got his information from Joya Williams who was an executive administrative assistant for Coca-Cola's global brand in Atlanta . She had access to all of the information given to the FBI by Dimson who is known in the case as " Dirk". This is a big problem for Coca-Cola because not only are the actions of employees a direct responsibility of the company but it also makes the company look bad if there is internal problems. Any company that has people who are willing to give trade secrets to the direct competition need to evaluate the people who are in charge and make a change if the employees feel that disloyal towards a company that is very well known and successful globally. The company should have a system in place to protect it's secrets because otherwise any person on the street can go take the syrup formula from Coke and give it to its competitors. This is another ethical situation where the right leadership and system in place could have resolved the issue before it started. Because of poor leadership now Coca-Cola's reputation is once again tarnished ethically and 3 company employees are being charged with serious crimes.

## Ethical Recovery?

Even after all of these problems presents, the customers in Europe said that they still feel like coke would behave correctly during these times of crises. Even after all of this they are still ranked third in a PricewaterhouseCoopers survey of the most respected companies in the world. Coke then donated $50 million to a foundation to support programs in minority programs, and hired an ombudsman who reports directly to the CEO in order to settle the racial discrimination lawsuit shown above. Coke is taking the initiative to fix their problems and the international community is seeing that. It seems that since they are taking these precautions to prevent further problems in the future, the European nations, in addition to the United States will be more trusting of Coke in their decisions in the future.

## Conclusion

Coca-Cola is one of the most successful and recognized brand in the world. These ethical problems that have been presented in this paper were not just minor problems for the company, but it seems that they have been able to keep the Coke name relatively untarnished. Coke today strives to reduce their ethical issues to a minimum in order to focus on reaching all around the world. The issues presented to us were all problems that could be fixed and while we gave examples of how they could have handled the problem differently, Coke seems to have handled it in the way that they see fit, and their name still stands as one of the top companies in the world. A company this big has to be very careful with what they do in the public eye, one fatal mistake can be the end of a very successful business.