The Real Thing

Coca-Cola learns a tough lesson about corporate sustainability

By Andrew J. Hoffman

05 Sep 2006

In January 2006, the University of Michigan suspended the purchase of Coca-Cola products on its campus. Corporate decision-makers should pay heed: this event is notable on several dimensions.

Coke learns that CSR is the real thing.
Photo: iStockphoto

First, this decision was not due to any problems with product or pricing. Instead, the university cut the contract because of concerns over environmental issues in India and labor issues in Colombia. Second, and more amazingly, the decision was prompted by one man and the small nonprofit he runs out of his home in Southern California. Amit Srivastava and his India Resource Center have mobilized students on the Ann Arbor campus and elsewhere to petition their administrations to ban Coke from their campuses, and they are succeeding. Third and finally, this unusual form of pressure is leading the company to do something it would never have previously agreed to: open its overseas facilities to independent, transparent, third-party environmental and labor audits.

While the contract has been temporarily reinstated, the future of Coke's relationship with the university rests on the results of those audits. All eyes are on the outcome of this process, as it sets a precedent for other vendors with the university -- and other universities across the country.

The story of Coke and the University of Michigan holds clues to the emerging face of corporate sustainability, one facet of the business environment in the 21st century. And it is not a scenario unique to Coca-Cola. Many other companies, particularly large-branded, multinational ones, are finding themselves in the crosshairs. While many debate the meaning behind the concept of corporate sustainability, this is where the true definition of the issue will be played out -- in the marketplace.

The Weight of the Word

What does sustainability mean? While we see the term everywhere, everyone -- whether corporations, governments, foundations, individuals, or NGOs -- uses it differently. For some, the definition lies in the Brundtland Commission call "to satisfy the needs of present generations without sacrificing the ability of future generations to satisfy their needs." For others, the definition lies in the triple bottom line: the three E's of environment, equity, and economics, or the 3 P's of people, planet, and profits. But these definitions remain cloudy, and have problems in practice.

For instance, what kind of metrics will be used for each of the three legs? The Global Reporting Initiative is one attempt to standardize metrics, but other organizations are developing their own. And how will the three legs be prioritized? For many, the triple bottom line becomes economics with a capital E and environment and equity with small e's. Finally, how will these three E's combine to inform a go/no-go decision on strategic investments? Companies live and die on singular metrics like net present value and internal rate of return, but no similar metric for sustainability carries equal weight.

In short, a precise definition of sustainability remains elusive, the term being seen by some as merely an aspiration with limited practical value. Some even suggest it be thrown out, as it seems to mean everything to everyone and therefore nothing at all.

But for Coca-Cola, sustainability is real -- and it lies beyond the theoretical discussion just described. It goes to the core of business in the 21st century. Sustainability boils down, in its essence, to business strategy with a long view.

This is not an easy concept to grasp, and one that many quickly dismiss without full understanding. For example, *The Economist* published a cover story in January 2005 that derided corporate social responsibility (CSR) as a misguided concept driven by people with little knowledge or a downright fear of capitalism. But the article made serious errors in defining the focus of study. Presenting a two-by-two matrix considering social and economic benefits, the article was quick to separate the upper-left quadrant -- good for society and good for profits -- as "good management." The other three boxes (good for society, bad for profits; bad for society, good for profits; bad for both society and profits) were labeled as CSR -- and therefore, by definition, ill-informed and ill-advised.

This was a gross misrepresentation that missed some important points of corporate strategy. Good management that creates both social and economic benefits is not easy -- but the lines between quadrants are also blurry and shifting. Ten years ago, restricting greenhouse gases was not widely considered good for society. Today it is. Last year, the actions of a tiny nonprofit mobilizing college students over foreign environmental and labor issues was not considered relevant to the bottom line of Coca-Cola. Today, the decision of the University of Michigan (and more recent decisions by some Indian states to close Coke plants and ban both Coke and Pepsi products) has moved the issue squarely into the good-management quadrant. As Coke is learning, the skills and strategies for operating within this quadrant are new, undefined, and difficult.

The fact is, sustainable development is rooted in business strategy. Even Milton Friedman, the oft-cited defender of self-interested capitalism, wrote much more than the overused argument that "the social responsibility of business is to increase its profits." He also wrote, "There is one and only one social responsibility of business: to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game." Sustainability is merely another way of saying that the rules of the game are changing.

In Good Company

It is time to look beyond sustainability, CSR, and the tired debate over shareholder versus stakeholder value in favor of a more broad-based and emerging understanding of what constitutes good management. To neglect the natural environment or the welfare of your local citizenry is bad management. To neglect your customers, local community, employees, government, or NGOs in today's world is bad management. In the 21st century, these groups can impose tremendous pressure to affect your company's reputation, markets, and operations.

Consider the list of companies dealing with this new reality. Construction and mining-equipment giant Caterpillar is being drawn into the Israel/Palestinian conflict as activists hold the company accountable for the Israeli military's use of Caterpillar bulldozers to demolish Palestinian homes. An Israeli general even announced that one of his army's best weapons was the Caterpillar D9. More than a PR nightmare, this became a lightning rod for activists trying to force the company to stop selling bulldozers to Israel.

Shell experienced perhaps the most prominent activist pressure of this sort with the Nigerian government's 1995 crackdown and execution of nine Ogoni Indian activists in defense of the company's oil fields. To avoid a similar catastrophe, ExxonMobil and other oil companies forged an unusual agreement with the government of Chad to contribute revenues from a major pipeline operation into an account managed by the World Bank, to be put toward schools, clinics, roads, and other basic human needs. While the deal was renegotiated in July after the government reneged, the precedent creates powerful pressure for others to follow.

The list goes on. The mining company Anglo American is establishing clinics around its African operations to treat employees and community members infected with HIV. In a recent issue of *The Lancet*, the CEO of Heineken argued that companies are not doing enough to stem the tide of HIV/AIDS.

Even in the U.S., calls for sustainability can be heard. In the weeks following Hurricane Katrina, companies found themselves under scrutiny for how they treated their workers and the community. CVS, the country's largest pharmacy chain, ignored the economic incentives to close its devastated shops and leave. Instead, according to *The Boston Globe*, it "set up mobile pharmacies; gave away thousands of medications to people without prescriptions or even identification; flew in employees from Florida, Michigan, and Illinois; kept stores open 24 hours a day to meet demand; and set up a hotline to locate and help evacuated employees."

So as some work out the definition of sustainable development, these companies are dealing with its reality. They are striving for sustainability, even if they don't call it that.

The reality is that the business environment is changing. New types of pressures and demands are leading to new types of business practices. And this change will only increase. We live in a shrinking world where global sourcing brings corporate interests into ever-increasing contact with peoples and issues around the world. This contact makes vivid the disparities between rich and poor, between developed and developing countries.

Information technology makes it impossible for business activities to remain hidden by geography or contractual arrangements. It also makes it possible for activists to gain the power necessary to mobilize a response to those activities. Raging issues of child labor, forced labor, hazardous work conditions, environmental contamination, public health, access to clean water, and corrupt and oppressive regimes are being forced onto the business radar screen. As companies respond to the pressure to address these issues, they are being forced to define sustainability in practical terms. Issues like transparency, social equity, and environmental protection are joining economic growth in corporate discussions.

But the real question for these corporate strategists is not whether this is happening -- it is -- but rather, what will be demanded of companies next year, in 10 years, in 50 years, and how to get ahead of it. Real sustainability requires a long view. It requires conscious attention to where the business environment is going, and what is taking it there. Sustainability is not a value projection, it is not CSR, and it is not an aspiration. It is real market pressure. And responding to that pressure means success and good management in the 21st century.

- - - - - - - - - -

Andrew Hoffman is the Holcim Professor of Sustainable Enterprise at the University of Michigan.