

Coke joins battle for the brand

By Andrew Ward

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When Neville Isdell graduated from the University of Cape Town 40 years ago, he seemed an unlikely candidate to become chief executive of **Coca-Cola**.

His degree was in social sciences and he qualified to become a social worker. But instead of joining the public sector, he took a job with Coke's local bottler in Zambia, where he grew up.

"I remember going back to my university and one of my professors asked me what I was doing," Mr Isdell recalls. "He was horrified to hear I was in business. I said: 'You know, I actually believe I can create more value and help more people by working for the **Coca-Cola** Company than I would be able to do individually as a social worker.'"

To Coke's many critics, his rosy view of the company must seem absurd. For several years, it has faced a growing drumbeat of criticism over alleged mistreatment of workers in Colombia, use of water in drought-stricken parts of India and its role in the childhood obesity epidemic sweeping the developed world.

With Coke boycotts on university campuses throughout North America and parts of Europe, the company appears to have succeeded Nike, Nestlé and McDonald's as chief corporate villain for the anti-globalisation movement.

While student boycotts have made little impact on sales, the barrage of negative headlines threatens to tarnish Coke's most valuable asset: its brand.

"**Coca-Cola** has always been seen as a force for good," says Tom Pirko, president of Bevmark, a beverage industry consultancy. "The danger is that the brand starts being seen as something bad."

Until recently, Coke had a reputation for obstinacy in the face of criticism. Examples included the Belgian contamination fiasco in 1999, when the company took a week to accept responsibility for a wave of sickness. Another

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came at Coke's 2004 annual meeting, when a shareholder activist was wrestled to the ground by security guards and evicted.

But in the two years since Mr Isdell was appointed chief executive, Coke's approach has begun to change. Shortly after taking the helm, he gathered together the company's 150 top managers to set strategic priorities. Out of the meeting emerged a list of five goals considered crucial to long-term growth. One was to make Coke the "recognised global leader in corporate social responsibility".

To cynics, the target sounded like airy rhetoric designed to fit the fashion for "sustainable business". But, for Coke, it represented an important acknowledgement that the company must deal seriously with the range of social and environmental issues casting a cloud over its brand.

"[Social responsibility] was seen as something that was part of our history and something that was still there, but not to the degree that it needed to be," says Mr Isdell in an interview at Coke's headquarters in Atlanta.

"It needed to be a key plank – one of the five main planks – of the company going forward."

Coke's most urgent task was to bring greater transparency to its global operations, which span more than 200 countries, so it could identify and tackle social and environmental risks before they became problems.

Most of Coke's bottling and distribution operations are outsourced to independent companies. But, just as Nike was held accountable for labour abuses in overseas sweatshops, Coke has learned that it cannot escape responsibility for far-flung business partners.

In the 1990s, several union members at independent Coke bottlers in Colombia were killed amid the country's rampant political and criminal violence. Critics believe the victims were murdered by anti-union paramilitaries and accuse Coke of turning a blind eye. The company has denied wrongdoing but activists have kept the allegations alive for more than a decade.

"Colombia showed that even when we are not legally liable, if critics are going to consider us liable then, by God, we better handle things in a way that minimises the risks," says **Ed Potter**, Coke's director of labour relations.

Mr Potter has launched an audit of labour practices throughout the Coke supply chain, stretching as far as the makers of Coke-branded soccer balls in China. All suppliers are required to adhere to Coke's own workplace rights policy.

An audit of water usage has been completed at nearly 1,000 Coke bottling plants round the world, including an assessment of each facility's impact on local water supplies.

In addition to increasing transparency, Coke has sought a more constructive relationship with critics. The company opened dialogue with student groups and forged partnerships with non-governmental organisations.

"One of the ways you get a company not to be seen as an inanimate object is to talk to folks," says Mr Potter. "You might not agree. You might not even talk about matters of substance. But you develop a relationship."

After years of resisting pressure for an independent investigation of events in Colombia, Coke has invited the International Labour Organisation, a UN agency, to inspect its operations in the country. It has also set up an international forum bringing together businesses and NGOs to study the problem of anti-union violence there.

A similar strategy is being pursued by Jeff Seabright, a former adviser to President Bill Clinton on climate change and now head of environmental and water affairs at Coke. He has won the backing of Greenpeace for an initiative to make vending machines more environmentally friendly, provided funding for freshwater conservation projects led by the World Wildlife Fund and co-founded the Global Water Challenge, an alliance of companies and NGOs committed to widening access to safe drinking water and sanitation in the developing world.

"Our brand has made us a target for critics to attract attention to their causes," says Mr Seabright. "But NGOs are starting to understand they can achieve more with us than against us because our brand and global presence makes us a powerful partner."

While labour rights and water usage are the focus of Coke's fiercest critics, the issue causing arguably the greatest concern among ordinary consumers is childhood obesity. The company insists it is unfair to blame soft drinks for a problem with multiple causes. But here too it has softened its stance, embracing industry guidelines restricting the sale of sugary drinks in schools and supporting initiatives to encourage physical exercise among children.

"Taking a leadership position on the school vending machine issue is something that Coke would not have done in the past," says Robert Davies, chief executive of the International Business Leaders Forum, which promotes sustainable business and counts Coke among its donors. "They have realised they have to respond to perceptions in the marketplace rather than to what they believe to be the facts."

Ray Rogers, head of the Campaign Against Killer Coke, the company's fiercest foe, rejects the notion that Coke has changed. "They still deal with these issues as a public relations problem," he says. "Anything they have done to clean up their act is in response to political and economic pressure rather than because it is the right thing to do."

Tim Smith, senior vice-president of socially responsible investing for Walden Asset Management, believes that activists such as Mr Rogers play an important role in scrutinising corporate behaviour. "Without people like him, Nike and Gap might never have been forced to address the terrible working conditions in sweatshops."

Mr Isdell takes a less sympathetic view, accusing the most vocal critics of spreading misinformation and manipulating well-intentioned people to advance their political cause: anti-globalisation. Coke's aim, he says, is to prevent those arguments gaining wider acceptance.

"You are going to have a small percentage of people – it's about 3 or 4 per cent – who you are never going to convince to drink **Coca-Cola** and who you are never going to convince about the good intentions of the **Coca-Cola** Company," he says. "The question is whether they can influence the others."

How Coke is tackling reputation risk

- **Allegation:** turned a blind eye to anti-union violence in Colombia.
- **Action:** recruited a United Nations agency to inspect its Colombian operations and set up a business forum to solve the underlying problem.
- **Allegation:** worsened water shortages around bottling plants in drought-stricken parts of India.
- **Action:** audited water usage at all its plants around the world to assess environmental and social impact.

- **Allegation:** contributes to childhood obesity.
- **Action:** agreed voluntary restrictions on sales in schools.
- **Allegation:** prefers to shut down criticism rather than address issues.
- **Action:** engaged with NGOs and hired respected figures from labour and environmental fields to improve CSR.

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