

**PRIN.L.N.WELINGKAR INSTITUTE OF MANAGEMENT
DEVELOPMENT & RESEARCH**

Coca Cola (Pesticide Incident)

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Introduction:

This case study is about the challenges faced by Coca Cola company due to CSE allegations in 2003; the leadership & marketing strategies adopted by Sanjiv Gupta, President and CEO of Coca-Cola India, which helped to regain the trust of consumers, the media, and the government.

About Coca-Cola Company:

The Coca-Cola Company (NYSE: KO) is the world's largest beverage company, largest manufacturer, distributor and marketer of non-alcoholic beverage concentrates and syrups in the world and is one of the largest corporations in the United States. The company is best known for its flagship product Coca-Cola, invented by pharmacist John Stith Pemberton in 1886. The Coca-Cola formula and brand was bought in 1889 by Asa Candler who incorporated The Coca-Cola Company in 1892. Besides its namesake Coca-Cola beverage, Coca-Cola currently offers nearly 400 brands in over 200 countries or territories and serves 1.5 billion servings each day.

Coca-Cola India:

Coca-Cola was the leading soft drink brand in India until 1977 when it left rather than reveal its formula to the government and reduce its equity stake as required under the Foreign Exchange Regulation Act. With the acquisition of 5 major brands in 1993, Coca-Cola cemented its presence which gave an ownership of the nation's top soft-drink brands and bottling network. Sanjiv Gupta joined Coke in 1997. With a clear mission, vision & his marketing competency being critical to growth of company he was instrumental to the company's success in developing a brand relevant to the Indian consumer and vast rural market potential. Interbrand's Global Brand Scorecard for 2003 ranked Coca-Cola the No. 1 Brand in the World and estimated its brand value at \$70.45 billion. With an investment of more than US\$1 billion in India from 1993 to 2003, Coca-Cola India announced plans to double its capacity at an investment of \$125 million between September 2002 and March 2003 which was encouraged by its performance in 2002, thus making it one of the country's top international investors.

CSE (Centre for Science and Environment) Allegations:

History reveals that companies with the strongest brands, most proactive policies of social responsibility, and deepest relationships with their consumers are the most attractive targets for NGO attacks.

CSE issued a press release in August 2003 stating: "12 major cold drink brands sold in and around Delhi contain a deadly cocktail of pesticide residues".

The CSE used European norms for maximum permissible limits for pesticides in packaged water "because the standards set for pesticide residues by the Bureau of Indian Standards (BIS) are vague and undefined." Actual Standard set by European Economic Commission (EEC) is 0.5 ppb total pesticides 0.1 ppb individual pesticides, but the tests conducted by PML(Pollution Monitoring Laboratory) of CSE revealed that the pesticide residue level was well above the global standard level by 30-36 times. The pesticides found were known to cause cancer, damage to the nervous and reproductive systems, birth defects, and severe disruption of the immune system.

Coca Cola Response:

Coca-Cola & Pepsi challenged the very authenticity of the CSE report. The companies attacked the credibility of the CSE and their lab results but promised to provide this data to the public, threatened legal action against the CSE while seeking a gag order, and contacted the United States Embassy in India for assistance.

In a statement published by Sanjiv Gupta, he mentioned that the allegations made by CSE were misleading & unaccredited data is used to discredit trusted and world-class brands. He assured that their soft drinks in India are produced to the same level of purity, regarding pesticides, as the EU criteria for bottled water.

In order to regain trust of public, they carried out test individually & published full data to them by means of advertisement & corporate websites.

Coca Cola key to success:

The CSE's allegations of pesticide-contaminated Coke and Coca-Cola India's response provide an important example of the world's most important brand under attack and the steps taken in the aftermath.

Coke India CEO Sanjiv Gupta and his team had to decide how to rebuild public trust and had to weigh a larger policy decision at the same time taking on a leadership role and help create higher standards for food and beverage safety. Following are the key decision implemented:

1. Communicate openly with key constituents, including the public, media, employees, franchisees, the trade/channel, state and national government, CSE and suppliers with a spirit of partnership and a willingness to resolve the issue in a way that benefits the Indian consumer.
2. Attempt to collaborate with the CSE, acknowledging that your goals may be closer together than you initially imagine. Take the time to discover their true motivation, ultimate goal, and ideal outcome. Recognize the enormous reputational benefits that could come from such a partnership, or even a willingness to partner.
3. Choose to differentiate as a socially responsible company. Take advantage of an opportunity to demonstrate leadership in a sphere that is critically important to your key constituents.
4. Recognize the upside for reputational risk on a corporate level if the situation can be turned into a positive.
5. Launched Coca-Cola eKO Management System to educate the public, the government, and the media about environmental stewardship activities, about the framework implemented by Coca-Cola India to transform the principle of operating in ways that Protect, Preserve and Enhance the Environment in actions.

Take-away from the Case Study:

Sanjiv Gupta depicted following transformational leadership qualities pre-CSE attack contributing to make Coca-Cola No.1 Brand in market :

1. Develop a challenging and attractive vision, together with the employees.
2. Tie the vision to a strategy for its achievement.
3. Develop the vision, specify and translate it to actions.
4. Express confidence, decisiveness and optimism about the vision and its implementation.
5. Realize the vision through small planned steps and small successes in the path for its full implementation.

Post-CSE allegations & how Sanjiv Gupta's proactive thinking, marketing & communication strategies depicted situational leadership qualities. Situational leaders consider three contextual factors before deciding on the best people-task mix to any situation.

1. Leader positional power - the degree of positional authority the leader has over staff in relation to the specific task at hand.
2. Task structure - how prescribed and systematized is the action the leader wants the staff to take.
3. Leader-member relations - these can be either good or poor.

The model has been shown to work best when situations are classified into one of three categories:

1. Favorable
2. Moderately favorable
3. Unfavorable

When the situation is moderately favorable,(i.e. good leader-member relations, with low task structure and a low level of positional authority; or when leader-member relations are poor, the task structure is high, and positional authority is high) a task-orientated approach has been shown to be more effective. In all other situations a relationship-orientated approach works best.

Knowing that Indian public had a short attention span, it wouldn't be long before the CSE's report faded, just as the Kinley water issue; Gupta took this as an opportunity to display higher standards of corporate social responsibility.

This example highlights the importance of a strong reputation, a willingness to collaborate, and a strategic response to successfully weathering the crisis.