



## **Business Ethics: The Coca-Cola Company**

Alex Le, Jason Jiang, Mike Sandor, Mitchell Stashick, Liza Zhang

This paper uses Coca-Cola, multinational enterprise (MNE), as an example to demonstrate the importance of business ethics, and using Chinese Confucianism as a benchmark to measure the company's business ethics. The paper looks at Coca-Cola business ethics through perspectives such as business practices, corporate responsibility policy, legal agreements, financial records, human rights, labor rights, local laws, and U.S. laws. After murders of union leaders took place in Coca-Cola Colombia bottling plants, the world was outraged by how indifferent Coca-Cola is when looking after its workers and dealing with issues that have arisen at Coca-Cola's bottling plants in Colombia. Coca-Cola's business ethics were questioned, and labor activists have been actively seeking to pressure Coca-Cola U.S.A. by creating customer awareness using Coca-Cola financial records and agreements that Coca-Cola has signed as well as the public responses that Coca-Cola took when dealing with the incidents that took place at bottling plants in Colombia to against the Coca-Cola parent company. By looking into each perspective, we hope to find out whether Coca-Cola has performed ethically or living up to their promises. Our research concludes that for most of the perspectives, Coca-Cola has not behaved ethically based on Confucianism.

**Keywords: Colombia, Coca-Cola, Confucianism, labor, Business Ethics**

### **Introduction**

When a company solely focuses on its business interests and financial numbers, it risks being denounced by the public about its business ethics. Running a successful business requires more than just knowing how to bargain, maximize profit, utilize business strategies, and compete on numbers. As a lot of attention has recently gone to environmental and human rights, a company also needs to look at non-economic values which may be contrary to the company's interest. As a company grows and becomes more profitable, more focus will be put on the ethics of its business practices. For example, Coca-Cola, one of the largest multinational soft drink organizations in the world, has a marketing strategy that is successful as the brand is well known throughout the world. However, as Coca-Cola started to receive more attention, criticisms arose, with concerns related to health effects, environmental issues, and business practices of the Coca-Cola Company.

This paper uses Coca-Cola as an example to demonstrate the importance of business ethics, using Chinese Confucianism as a benchmark. Coca-Cola's ethical business practices have been questioned by its workers, shareholders, and the public: on April 13, 2003, labor activist Ray Rogers began the Killer Coke campaign, which denounced Coca-Cola's involvement with the murders of union leaders in Colombia. The incident revealed more than just murders, the union was intimidated and workers' wages were forced down. In response to these claims, Coca-Cola claims it was not responsible for these actions because, even though it was warned by the union, the events occurred at an independent supplier bottler in Colombia. Coca-Cola's questionable business practices have resulted in ongoing public relation problems due to the Killer Coke website that seeks to pressure Coca-Cola by creating customer awareness. If Coca-Cola refuses to deal with the issues that have arisen in Colombia, their business will continue to be negatively affected by the activities that are carried out by the Killer Coke campaign. With allegations that have been presented, Coca-Cola must now decide on a course of action to uphold their responsibilities. As a MNE, Coca-Cola is liable to respond ethically to many different parties: on the one hand, Coca-Cola must stay true to their corporate policies, and on the other they must fulfill their responsibilities to their workers, shareholders, society and the environment, as well as abide by relevant laws.

### **Ancient Chinese Philosophy of Confucianism**

When using Chinese Confucianism as a benchmark to measure ethical practices, Coca-Cola has not behaved ethically. Confucian philosophy has certain expectations of how people should behave. "Confucians expect leaders to protect workers' interests, and workers should offer their full allegiance in return."<sup>1</sup> Unfortunately, Coca-Cola U.S.A. did not meet this standard as the company has failed to look after its employees.

### **Coca-Cola's Responsibilities to Stakeholders**

#### *Corporate Policy*

In 2006, the responsibilities of the company lay within what was written in their corporate responsibility policy.<sup>2</sup> As stated in the policy, the company has the responsibility for the health of their consumers, including the latter's communities and environment. To adhere to their

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<sup>1</sup> Robert T. Moran, Neil R. Abramson, and Moran, Sarah V. (Sarah Virgilia), "Managing cultural differences," 9th ed. (Abingdon, Oxon: Routledge, 2014), 416.

<sup>2</sup> David Weasley, "Killer Coke: The Campaign against Coca-Cola", In BUS-340 International Business Strategy, compiled by Neil Abramson., (Richard Ivey School of Business, 2007), 108.

responsibilities, Coca-Cola should work closely with their business and bottling partners, and members of consumers including their critics with the intention of solving existing and emerging social, environmental issues, and creating viable solutions.<sup>3</sup>

### *UN Global Compact*

When Coca-Cola (as well as some of its bottling partners) signed the United Nations Global Compact in 2006, they became responsible for preserving the principles within the compact such as human rights, labor, the environment, and anti-corruption.<sup>4</sup> Coca-Cola is responsible to protect the rights of workers that work for them and their bottling partners, supporting labor practices that are not exceeding harmful (such as using child labor), responding to environmental challenges and pursue environmental friendly initiatives, and lastly, they must work against corruption in all forms.

### **Coca-Cola's Responsibilities to Society**

However, according to Chinese Confucianism, Coca-Cola has so far failed to protect its Colombian bottlers, Bebidas y Alimentos de Uraba (Bebidas) and Panamerica Beverages Inc., and the rights of the workers at the bottling plants. In addition, as a signatory of the UN Global Compact, Coca-Cola has also failed to commit itself to the advancement of Human Rights, Labor, and Anti-Corruption. Coca-Cola has been focusing on its profit at the expense of its reputation. Society often looks for I/Thou relationships,<sup>5</sup> altruistic relationships, with corporate entities in general. As a result, Coca-Cola U.S.A. has been blamed for their inaction and for turning their eyes away from the murdered and tortured leaders of Sinaltrainal, the union representing the workers at the bottlers' facilities.

Being a MNE, Coca-Cola is increasingly being held accountable by Colombian and United States' society for everything that occurs all the way through their supply chain. These societies try to get Coca-Cola to protect the lives and human rights of the workers at the worldwide bottling facilities, especially in Colombia. The workers and their families were never compensated for the damages suffered such as torture, kidnappings, unlawfully detention, and death threats or the deliberate and arbitrary killings.<sup>6</sup> In fact, some workers reported suffering from post-traumatic

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<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Moran, et al. 63.

<sup>6</sup> Weasley, 98.

stress disorder incurred from their experience in prison or unlawfully detention.<sup>7</sup> As a result, many employees fled their homes and chose to live in hiding.

On the other side of the story, Bebidas (Coca-Cola Colombia's bottler) bottling plant owner Kirby denied the accusation that Bebidas has replaced many of its full-time employees with cheaper part-time and temporary workers and said that he was also a victim. Kirby went on to explain that he had no control over paramilitaries' action. As a matter of fact, paramilitaries kidnapped his wife's sister, burned his trucks, and tried to coerce him into selling his plant to them for cheap.<sup>8</sup> Coca-Cola officials argued that the deaths were by-products of Colombia's four-decade-long civil war among leftist guerrillas, government forces, and paramilitaries.<sup>9</sup>

According to Chinese Confucianism, Coca-Cola, as a leader, is expected to look after its stakeholders and their benefits.<sup>10</sup> Coca-Cola should take responsibility and investigate the accusations that are used against Coca-Cola Colombia. If the accusations are true, Coca-Cola should step in and help fix the issues (and the company needs to be clear that they support their bottlers and not the accusations). Coca-Cola should also promote human rights protection, denounce anti-union violence, and compensate victims in Colombia. To prevent violence from happening again in the future, an independent human rights commission should be hired to evaluate all allegations and plant conditions to determine credible threats and identify potential means to protect both workers' rights and verify Coca-Cola's standing as a good global citizen. The commission should be made up of equal participating partners from Coca-Cola, Sinaltrainal, other relevant labor representatives, and internationally recognized human rights experts.<sup>11</sup> Coca-Cola should only cut their bottlers off if the latter cannot conform to the company's policies; otherwise, Coca-Cola's business practices will still be considered unethical and against Confucian Philosophy.

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<sup>7</sup> Saint Joseph's University Students for Workers' Rights. "Evidence of The Coca Cola Company's Human Rights Abuses and Environmental Violations." October 18, 2006, Accessed July 25, 2016, <http://studylib.net/doc/8406915/evidence-of-the-coca-cola-company-s-human-rights-abuses-and>.

<sup>8</sup> Foust, Dean and Geri Smith, with Elizabeth Woyke. "'Killer Coke' Or Innocent Abroad? Controversy over anti-union violence in Colombia has colleges banning Coca-Cola." BloombergBusinessweek. Jan 22, 2016, Accessed July 25, 2016, <http://www.bloomberg.com/news/articles/2006-01-22/killer-coke-or-innocent-abroad>.

<sup>9</sup> Ibid.

<sup>10</sup> Moran, et al. 63.

<sup>11</sup> Saint Joseph's University Students for Workers' Rights.

Coca-Cola can only protect its self-interest by meeting others' interests first, helping Coca-Cola Colombia deal with this matter could also help Colombia attract business as it is viewed as a dangerous place to do business. This will eventually help Coca-Cola's business in the long run.

### **Coca-Cola's Responsibilities to Workers**

As a world-wide corporation, Coca-Cola Company's Corporate Social Responsibility (CSR) is essential as a guideline for company's executions and operations. It can be analyzed using two perspectives.

#### *Working Environment*

As a leader, the Coca-Cola Company has so far failed to provide a safe work environment for its workers in Colombia as the Killer Coke case indicates that "trade unionists were frequently victims of paramilitary death squads."<sup>12</sup> The mention of kidnappings, assassinations and drug trades shows a clear sign of danger to workers, especially union workers. To protect its workers, Coca-Cola Colombia should comply with its responsibility to ensure the directives from U.S. headquarters are carried out and ensure a legitimate selection and monitoring system to screen out or fix non-qualified corporations like Bebidas, and plant managers like Aristo Milan Mosquera who allowed paramilitary terrorists access to the plant.<sup>13</sup>

Coca-Cola Colombia should also have a system of accountability specifically for selecting plants and manufacturing corporations, including background research, plant, inspection, and strict recruitment system. More importantly, paramilitaries should not be allowed to participate in any kind of plant-related situations except for safety reasons (as association with paramilitaries forces in Colombia's corporations can hurt employees' interests and sabotage the relationship between workers and managers). In addition, Coca-Cola needs a comprehensive system which includes weekly inspection evaluation reports from each plant and one monthly inspection by Coca-Cola Colombia's supervision team. Once a problem in any perspectives is reported to Coca-Cola Colombia, action should be immediately taken to remedy the situation.

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<sup>12</sup> Weasley, 96.

<sup>13</sup> Ibid., 99.

### *Ethical Labor Practices*

Besides creating a safe work environment, it is important for Coca-Cola to build a fair and ethical relationship between employers and employees. This will improve workers' satisfaction and the corporate image, and it can also highlight the concerns of workers. This is especially true when operating in international locations with labor laws that differ from those in the U.S. – like Colombia. For instance, Coca-Cola Colombia should strictly follow the Alien Tort Claim Act (ATCA) and Torture Victims Protection Act (TVPA).<sup>14</sup> As, workers are sensitive about possibilities of excessive force, and paramilitary activities including assassinations, and blackmailing. Therefore, Coca-Cola U.S. headquarters and Coca-Cola Colombia should work together to protect workers' rights including their bargaining powers. Union should also be treated fairly and zero violence should be tolerated.

When the union workers in the Carepa plant sent the warning letter prior to the violence, contemporaneously to Coca-Cola Colombia as well as Panamco Colombia<sup>15</sup>, responses and effective solutions should have taken place before Isidro Segundo Gil, an employee of the Carepa plant and member of Sinaltrainal local union, was assassinated.<sup>16</sup> After Gil was shot by paramilitaries, Coca-Cola should have accused Mosquera, the manager of the Bebidas plant, and Richard Kirby and Richard Kielland, the owners of Bebidas, for using paramilitaries to kill workers, break the union, and force unionized workers to resign. However, instead of addressing the problem, Coca-Cola chose to deny their responsibilities and started a public relations website exonerating Coca-Cola's actions,<sup>17</sup> which did not help to repair the company reputation. The Killer Coke NGO and the public's biggest concern was that Coca-Cola was not telling the truth and the legitimacy of the Cal-Safety workplace assessment was questioned. Cal-Safety was an independent auditing agency employed by Coca-Cola that found that its Colombian bottlers were not responsible.<sup>18</sup> If Coca-Cola could investigate the issue and give effective public speeches in universities about Colombia's background and tell the real work environment, it would have helped to reduce public's resentment and censure.<sup>19</sup>

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<sup>14</sup> Ibid., 109-10.

<sup>15</sup> Ibid., 99.

<sup>16</sup> Ibid., 94.

<sup>17</sup> Ibid., 103.

<sup>18</sup> Ibid., 104.

<sup>19</sup> Ibid., 101.

## **Responsibility to Shareholders**

When Non-Governmental Organizations (NGOs) accuse a company of improper ethics, they intend to harm or wound a company's reputation through intending to make shareholders question the company they have invested in as well as to discourage new potential investors, and to hope to pressure a company by persuading customers to boycott the company's products. When assessing a company's ethical practice, important aspects to look at are their financial objectives and what they are doing to adhere to the responsibilities they have to their shareholders as it is important for a company to uphold its responsibilities to its shareholders and disclose the information they are entitled to.

## **Shareholder Entitlement**

It is the responsibility of Coca-Cola to provide its shareholders with the correct information about the company and allow them to have a true and fair assessment, enabling them to decide about further investments. Shareholders should be kept fully informed about the working and operations of the company as well as demonstrating the growth of the business. As well, Coca-Cola is responsible for providing a fair return on the investments made by shareholders. Coca-Cola's dividend has increased from 0.80 per share in 2002 to 1.24 per share in 2006.<sup>20</sup> This demonstrates the company's competence and ability for growth to its shareholders.

With Coca-Cola being the largest bottling and beverage company in the world, there are many guidelines and corporate policies that have been put in place to ensure shareholder responsibilities are met and adhere to. Corporate responsibility is managed through the Public Policy and Corporate Reputation Council, a cross-functional group of senior managers from within the company and bottling partners.<sup>21</sup> This council identifies risks and opportunities faced by the business and communities and recommends strategies to address these challenges. This Council also strengthens the share prices by its growth, innovation and diversification.

## **Financial Objectives**

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<sup>20</sup> Ibid., 106.

<sup>21</sup> The Coca-Cola Company, "Governance & Ethics", Coca-Cola Journey, Accessed July 25, 2016, <http://www.coca-colacompany.com/our-company/workplace-overview/governance-ethics/governance-and-ethics>.

During the time of this case study, the Coca-Cola Company was striving towards even more product growth, sustainability in production, and further positive brand recognition. The company's Financial and Operational from 2002-2006 shows that during this time, Coca-Cola saw a 27% increase in net earnings, totaling just over \$1.1 billion in profit growth, with the largest increase coming in 2004 where it saw an increase of 12%.<sup>22</sup>

Looking at the Financials, the supporting of the company's bottlers do meet the financial objectives of the company. In 2003, Coca-Cola acquired Panamerican Beverages Inc., creating the second largest Coca-Cola bottler in the world, which led to accounting for almost 10% of Coca-Cola's global sales.<sup>23</sup> It also aided in a new record of net earnings seen by Coca-Cola's shareholders. This correlations of the expansion in bottling, and the increase in net income and earnings per share, demonstrates how supporting the company's bottlers supports the financial objectives of the company. The support of the company's bottlers' results in support from the bottlers for Coca-Cola, and meets the Chinese Philosophy of Confucianism expectation that workers are to be absolutely loyal to their employers.<sup>24</sup>

### **Maintaining Investor Appeal**

As noted above, when NGOs denounce a company's ethical practices publicly, it is important for a company to respond ethically as well as strategically to maintain its attractiveness to investors. From an investor's point of view, the issue with the Killer Coke campaign does not truly damage its potential or prevent it from being a smart investment as Coca-Cola is too large to take down in this manner. The influence of the NGOs and the Killer Coke campaign produced no real financial damage to the company. These allegations caused public concerns leading to a sharp decrease in the market price of the company from 2003-2005.<sup>25</sup> From 2003 to 2004, Coca-Cola's share price fell 18% (from \$50.75 to \$41.64) and another 2.6% the following year.<sup>26</sup> This aggregate share price decreased from \$50.74 to \$40.31, presenting an opportunity for investors. The declining share price makes investments cheaper for new investors. However, the financial statements show an increase at the same time in net earnings and dividend yield. This combination would attract new investors at the new lower share price as an opportunity to profit from their investment as the underlying

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<sup>22</sup> Weasley, 106.

<sup>23</sup> Ibid.

<sup>24</sup> Moran et. al. 403.

<sup>25</sup> Weasley, 106.

<sup>26</sup> Ibid.



performance has risen. These potential profits are realized the following year in 2006, the share price regained its strength, increasing almost 20% from the previous year, creating nearly an \$8 profit per share.<sup>27</sup> Overall, the influence of the NGOs give the appearance of a wounded company with a declining share price, but with the strengths of Coca-Cola as a company, they are able to deal with the problem in a strategic manner and remain strong financially and continue their ability to grow.

Looking at the history of the company and its financial highlights, over the time period of this case, Coca-Cola seems to be unharmed financially by the situation. Both of their net income and dividends steadily increased and showed no effect from the Killer Coke campaign. However, even though financially they remain strong and have continued to grow, it is the responsibility of Coca-Cola to fully disclose the events that are occurring within their operation to their shareholders.

### **Legal Issues**

When Coca-Cola subsidiaries operate abroad, they must comply with each country's designated laws and policies. The laws relevant to Coca-Cola in the case given would include Human Rights and Labor or Worker Rights. In Colombia, this includes Section 7: Workers Rights of Colombian Law as well as Policies monitored by the United Nations Human Rights Committee under the International Covenant on Civil & Political Rights (ICCPR) and the conventions adopted by the International Labor Organization (ILO).<sup>28</sup> Colombia is a signatory of the latter governing systems. Therefore, it is required for Coca-Cola to adhere to these policies when functioning as an entity in Colombia.

Coca-Cola should also acknowledge that although the U.S. parent company cannot always be directly sourced for incidents abroad, they must act appropriately under the ATCA and the TVPA since deferring these acts can lead to criminal prosecution.<sup>29</sup> For these reasons, it is important that Coca-Cola as a whole operates under local law and applicable U.S. law everywhere in the world.

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<sup>27</sup> Ibid., 106.

<sup>28</sup> Ibid., 109-12.

<sup>29</sup> Neil Abramson, "Business Ethics", Business 340: International Business Strategy, Class lecture at Simon Fraser University, Burnaby, BC, June 16, 2016, Lecture.

Even though compliance with both sets of policy is legally adequate, it is within the company's interest to behave similarly in all countries to portray exemplary production for Coca-Cola's brand recognition. When trying to solve the issues flooding Colombia, Coca-Cola must go beyond legal requirements to meet the ethical expectations of American customers and protect its brand. When considering the issue from an employee rights perspective, it can easily be observed that ethical behavior is necessary to entice hard working employees who want to associate themselves with a brand they are proud to work hard for. Laborers prefer benefits and safety, especially in a war torn country that has very little of that to provide. Good ethical behavior can also prevent future issues with the law and can provide benefits from a business perspective. Customers react unfavorably to corporations that act unethically, specifically, unethical actions can create negative feedback for the demand of a company's product or service. By being a large public company it is important to satisfy shareholders by gaining larger profits, dividends and keeping the company in an overall stable/undamaged condition, but it should not be at the expense of its workers.

Coca-Cola holds responsibility to its shareholders, employees, and the foreign countries it operates in, as well as the U.S. home of its parent company. Coca-Cola must act with the satisfaction of its shareholders and customers as the company's primary objective, while respecting the rights of its employees under proper legislature established by each specified foreign country, withholding applicable U.S. law, and appealing the United Nations Human Rights Committee. This is necessary for various reasons pertaining to legal, ethical and commercial advisability.

## **Conclusion**

In responding to the Killer Coke NGO, Coca-Cola should demonstrate its responsibilities to its stakeholders within its corporate policies and by adherence to the UN global compact. According to Chinese Confucianism, as a leader, Coca-Cola should protect the interests of their workers' to show society that Coca-Cola is not solely focused on its own self-interest. Their responsibilities to workers are to maintain a safe environment and support ethical labor practices. For shareholders, Coca-Cola should maintain a transparent image and disclose information relevant to shareholders because they deserve to know the relevant information to make the best investing decisions possible. Internationally, Coca-Cola is required to comply the laws and policies of each country that

they operate in. Furthermore, they should act accordingly with U.S. laws in their international operations. By behaving ethically, Coca-Cola can appeal to their consumers and build a positive reputable image to their stakeholders in a long run.

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