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Sustainability Practices of Multinational Enterprises in Developing Countries: A Comparative Analysis of Coca-Cola and PepsiCo

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Abstract

Recent scholarly discussions on corporate social responsibility have focused extensively on sustainability but existing studies provide limited insights on sustainability practices of competing global corporations in developing countries. This article compares the sustainability practices of Coca-Cola Company and PepsiCo Inc. in developing countries. It uses text analysis and examines corporate sustainability reports to identify common themes and priorities in the sustainability practices of the two global enterprises. The article outlines a simple unified framework of best practice that can guide policy discussions on corporate sustainability across multiple industries in developing countries.

Sustainability: The New Phase of Corporate Social Responsibility

Corporate social responsibility (CSR) posits that companies have obligations to society beyond their commitments to owners, stockholders, and the law of contract (Dubrin, 2012). It emphasizes context-specific initiatives that take into account stakeholders' expectations as well as economic, social, and environmental performance (Aguinis & Glavas, 2012). CSR creates opportunities for multinational enterprises to integrate strategic decisions on socioeconomic development and environmental protection into business models to lessen the adverse impacts of profit-making activities in local contexts.

Over the years, CSR has received both support and skepticism among scholars. Supporters argue that CSR balances corporate power with responsibility, corrects social problems caused by business, improves the public image and reputation of corporations, and promotes long-run profits. Eberstadt (1977) lamented the negative impacts of corporate activities on society if businesses “enjoyed so much power with so little responsibility" (page 22) and Davis (1973) highlighted the principle of legitimacy, which considers businesses to be social institutions and prohibits them from abusing corporate power within society. Additionally, Frederick (1986) viewed CSR as an obligation of businesses towards social betterment, extending beyond economic, technical, and legal requirements of the corporation. Further, scholars have described CSR as a vehicle for businesses to generate trust and goodwill in society (Hollensbe, Wookey, Loughlin, George, & Nichols, 2014) and enhance the dignity and public image of the corporation (Hirsch, 1986; Campbell, 2007). Also, advocates of CSR have noted that it could enhance long-run profits through a combination of institutional, economic, and agency variables. Beliveau, Cottrill, and O'Neill (1994) noted that high levels of market concentration among corporations, when combined with industry norms that support CSR and powerful managers that have a strong social orientation, could expand both CSR activities and long-run profits. Blomgren (2011) showed that the positive impact of CSR on a corporation’s long-run profits, though not excessive, aligns favorably with the industry average.

On the other hand, skeptics point out that CSR gives corporations too much power beyond the realms of business, requires special social skills which business lacks, imposes unequal costs among competitors, and lowers economic efficiency and profits. Saleem, Kumar, and Shahid (2016), citing shareholder theory, noted that the primary responsibility of corporations is to maximize shareholder wealth; therefore, expanding corporate responsibility beyond the realms of business might be “unnecessary and unwise” since corporates, unlike governments and nonprofit organizations, lack essential social skills for solving societal problems (page 949). Fernandez-Kranz and Santalo (2010) showed that CSR varies considerably as market competition intensifies among corporations: some businesses maintain or increase social performance whereas others reduce social engagement, and together these outcomes reflect how CSR imposes additional and unequal costs among competing corporations. Finally, Kim, Li, and Li (2014) showed that CSR could have a negative impact on profitability (measured as stock price crash risk) if managers pursue CSR as a strategy to conceal bad corporate news and divert attention of shareholders.

More recent studies of CSR have emphasized a new theory of responsibility namely sustainability (Montiel & Delgado-Ceballos, 2014; Wang, Tong, Takeuchi, & George, 2016). Corporate sustainability (CS) is the adoption of business strategies that meet the needs of the corporation and its stakeholders and, at the same time, serve as a steward to protect, sustain, and enhance human and natural resources the corporation will need in the future (Hollensbe, Wookey, Loughlin, George, & Nichols, 2014). Sustainability requires that businesses approach their activities in ways that consider the economic, environmental and social implications of their actions on current and future generations (Bansal, 2005). In developing countries, especially, where critical resource and development gaps persist, CS posits that multinational enterprises cannot thrive for long in local environments where people are suffering and desperately poor.

Many studies on sustainability tend to focus on intrinsic and extrinsic motivations for sustainability initiatives (e.g., Shah & Arjoon, 2015), ways to integrate sustainability initiatives into business strategies and activities (e.g., Abreu, 2009; Hales, 2016), the scope of sustainability practices and reporting in specific industries and countries (e.g., Hahn & Scheermesser, 2006; Bai, Sarkis, & Dou, 2015), and measurement of sustainability performance (e.g., Lee & Saen, 2012; Hansen & Schaltegger, 2016).

As yet, no study to our knowledge has investigated the sustainability practices of competing global enterprises in developing countries. Despite competing in the same industries for market space, multinational enterprises (MNEs) often share the common goal of promoting sustainable development in environments where they operate. Comparing corporate sustainability framework and outcomes among similar global brands in developing countries is beneficial for understanding both the shared and divergent priorities of similar MNEs.

This article compares the sustainability practices of Coca-Cola Company and PepsiCo Inc. in developing countries to identify commonalities and contrasts in core sustainability themes and priorities. In the next sections, the article discusses the global business operations of Coca-Cola and PepsiCo, uses text analysis of sustainability reports to compare their core sustainability themes and priorities, and outlines a unified framework of best practice that should guide policy discussions on CS across multiple industries in developing countries.

Coca-Cola and PepsiCo: Global Leaders in the Beverage Industry

In many ways, Coca-Cola Company and PepsiCo Inc. are very similar. Both companies have strong presence worldwide and serve a wide variety of brands in the bottled and canned soft drinks, carbonated water, and purified water category of the food and beverage industry. Table 1 compares the companies in terms of their operational reach worldwide, branded products, and recent financial performance. The two companies are present in more than 200 countries worldwide and compete in consumer markets using at least 20 brands each. Coca-Cola accounts for 3.3 percent of the industry share whereas PepsiCo represents 2.6 percent of the share, and each company sells more than 1.5 billion servings of products each day. Also, the companies have strong financial positions, with each showing gross profit margins exceeding 50 percent in 2015.

A Text-Based Analysis of Sustainability Emphases

Sustainability is a major aspect of the global operations of Coca-Cola Company and PepsiCo Inc. Annual sustainability reports reveal the companies' strong efforts in local community development, environmental protection, and human development, especially in developing countries. We compare core themes in corporate sustainability practices using the most recent (FY 2014-15) sustainability report on each company as the foundation for textual analysis.

Table 1: The Global Business of Coca-Cola Company and PepsiCo Inc.

	Coca Cola Company	PepsiCo
Year Founded	1886	1890*
Countries with a presence	200+	200+
Number of Brands	20	22
Servings sold per day (billion)	1.9	1.5
Industry share (percent)	3.3	2.6
Employees worldwide	123,200	263,000
U.S employees	60,900	110,000
Financial Data (2015 figures)		
Gross Profit ($US million)	26,812	10,205
Gross Profit Margin (percent)	60.5	54.9
Total Assets ($US million)	90,093	69, 667
Long-term debt ($US million)	28, 407	29, 213

* PepsiCo was incorporated in 1965. It originated from Pepsi-Cola, which was founded in 1890.

Source: Compiled from annual financial reports (Coca-Cola Company, 2016a; PepsiCo, 2016a).

Text-based analysis is an emergent method for studying corporate sustainability reports (Asif, Searcy, Santos, & Kensah, 2013). The method comprises pre-analysis, analysis, and interpretation (Richardson, 1999) and is useful for identifying patterns and themes in textual data (Zhang & Wildemuth, 2012) to make inferences. The text-based method in this article derives from three main steps. In the first step, or pre-analysis stage, we identify key words and phrases in the corporate reports that portray emphases on sustainability. To that end, we draw from existing studies (e.g., Linnenluecke, Russell, & Griffiths, 2009) that identify economic, ecological, and social sustainability as main themes in CS analyses. We also tap into existing studies (e.g., Delai & Takahashi, 2013) that identify key terms in CS analysis, including: air, water, biodiversity, education, training and development, health and safety, job creation, and community welfare. Consequently, we identify key words and phrases that define three main emphases in sustainability practices of Coca-Cola and PepsiCo: community, environment, and human development. The second step, or analysis stage, codes the key words and phrases based on total occurrence (or counts) and lists the count for each category of sustainability emphasis. In the third step, or interpretation stage, we assess the frequency of occurrence of themes at the category-level and across all categories to make inferences about sustainability emphases.

Results in Table 2 show that Coca-Cola Company emphasized *sustainability* at almost the same rate (*M*=2.1) as PepsiCo Inc. (*M*=2.4). In terms of the ranking of core themes, both enterprises emphasized local community engagement and development more than any of the other core themes. However, while Coca-Cola Company lay more emphasis on human development than environmental protection, PepsiCo Inc. emphasized environmental protection more than human development. In interpreting the text-based outputs, we assume that the frequency of a particular theme in a company's annual sustainability report mirrors the company's emphasis on sustainability practices around that theme. In practice, however, this assumption is limited since the text-based statistics may not accurately reflect actual corporate commitments of financial and human resources to sustainability goals. Nevertheless, the results provide insights on the emphasis on sustainability in the global business operations of two competing enterprises in the food and beverage industry.

Table 2: Textual Analysis of Major Themes in Annual Sustainability Reports

	Coca-Cola Company	PepsiCo Inc.
Sustainability		
Total occurrence	*144*	*59*
Average occurrence per page (M)	*2.1*	*2.4*
Community		
Total occurrence	396	58
Rank among other themes	1	1
Environment		
Total occurrence	119	40
Rank among other themes	3	2
Human Development		
Total occurrence	136	34
Rank among other themes	2	3

Source: Compiled from recent (FY 2014-2015) annual sustainability reports (Coca-Cola Company, 2016b; PepsiCo Inc., 2016b). Textual analysis is derived from assessments of major themes in sustainability (e.g., community, environment, human development), as well as related themes (e.g., engagement, greenhouse, empowerment).

A Comparison of Sustainability Practices

Table 3 compares the sustainability practices of Coca-Cola Company and PepsiCo Inc. to provide more context to the text-based analysis, and to give a sense of the quality and depth of commitment to major sustainability themes. We align our comparison of sustainability practices with key priorities identified in the corporate reports, namely local community engagement and development, environmental protection and conservation, and human development and empowerment. Data is from annual (FY 2014-2015) sustainability reports, and other corporate reports and periodicals that describe actual project outcomes. Findings show that Coca-Cola and PepsiCo use a diverse range of programs and initiatives to advance community engagement, environmental protection, and human development in developing countries.

Both companies pursue local community engagement and development to address emergent community needs. Coca Cola's *Golden Triangle Initiative* (GTI) is an umbrella initiative that relies on partnerships between business, civil society, and government, and covers multiple programs and projects in communities across the world. NetsforLife, a program under the GTI, builds community support for malaria control in developing countries. Since its inception in 2006, the program has trained 74,000 malaria control agents, distributed 8.5 million mosquito nets, and saved the lives of 100,000 children in Africa (Coca-Cola Company, 2016c). Project Last Mile is another program under the GTI. The project focuses on extending critical medicines to the remotest communities in developing countries, and relies on Coca Cola's supply chain and other community networks. Project commitments amounted to $21 million in 2014, and since then the project has extended to 10 African countries, including Ghana, Mozambique, and Tanzania (Coca-Cola Company, 2016d). Early results from the project show significant impacts. In Tanzania, for example, the program has increased availability of critical medicine by 30 percent, as partnerships with local communities have helped to identify the most cost-effective and efficient delivery routes from warehouses to clinics in remote regions.

PepsiCo's *PepsiCorp* is a broad-reaching initiative that organizes small groups of employees to engage with local communities and complete projects that enhance access to safe water, enrich food sources, and promote eco-tourism. Volunteer teams have completed community projects in Brazil, China, Ghana, India, Philippines, and South Africa, and generated positive outcomes in rainwater harvesting, healthy eating habits, and sustainable agriculture (PepsiCo Inc., 2016c). Under *PepsiCorp's* Mother Water Cellar Project, volunteers worked with 180 primary school students in rural China to construct a water purification tower to benefit more than 700 students and teachers. Also, the Food for Good Possibilities program under *PepsiCorp* combines synergies between PepsiCo, communities, and governments to make nutritious foods more accessible to inner city children, especially during vacation months when children do not have access to government subsidized meals. Since the program's creation in 2009, it has delivered 40 million servings of food worldwide (PepsiCo Inc., 2016c).

Table 3: Overview of Corporate Sustainability Practices of Coca-Cola and PepsiCo.

Coca-Cola Company	PepsiCo Inc.
Local Community Engagement and Development	
Golden Triangle Initiative (GTI) - Seeks to build long-term partnerships between business, civil society, and government. - Focuses on providing disaster relief, delivering critical, medicines, and addressing emergent community needs in developing countries.	*PepsiCorp* - Organizes small groups of PepsiCo employees to engage with local communities. - Undertakes pro bono projects that enhance long-term access to safe water and promote eco-tourism in developing countries.
Environmental Protection and Conservation	
Water Stewardship Program - Aims to return to nature and communities amount of water used in beverage production. *EKOCYCLE Initiative* - Encourages recycling through use of recycled materials, such as plastic bottles and aluminum cans, to create needed consumer products.	*Liter of Light Program* - Retrieves plastic bottles from waste streams and recycles them to produce eco-friendly natural light for homes in communities that lack lighting. - Uses common materials such as water, chlorine, and corrugated sheet metal.
Human Development and Empowerment	
3.2.1 Move! Program - Helps to inspire the youth to embrace active and healthy lifestyles.	*Sustained Program to Improve Nutrition* - Seeks to simultaneously prevent undernutrition and reduce the risk of obesity in babies living in poor areas in developing countries.
5by20 Initiative - Seeks to support and empower women's entrepreneurial potential by providing small business development grants in developing countries.	*Centers of Excellence for Business Skills Development (CEBSD)* - Aim to improve employment prospects for youth through training in business skills in developing countries.

Source: Compiled from recent (FY 2014-2015) annual sustainability reports of Coca-Cola Company and PepsiCo Inc. Also includes information from corporate reports and periodicals that highlight actual project outcomes.

Coca-Cola and PepsiCo also engage in programs that promote environmental protection and conservation, and human development and empowerment. Both companies demonstrated water stewardship by extending safe water access and replenishment projects, as well as critical wetland habitat protection, to many developing countries, including Brazil, China, Colombia, and India. Also, women empowerment and youth development are at the core of corporate sustainability initiatives such as the *5by20 Initiative* and *Centers of Excellence for Business Skills Development*, which have yielded impressive results in developing countries. The Coca-Cola Company's *5by20 Initiative* actively provided small business development grants to women in developing countries. Between 2010 and 2015, the initiative extended skills training and business loans to 1.2 million female entrepreneurs, most of them in Africa and Asia Pacific, became operative in eight new countries (Argentina, Bangladesh, Bhutan, Canada, France, Greece, Somalia and Vietnam) in 2015, and currently operates in 60 countries (CocaCola Company, 2016e). Similarly, PepsiCo's *Centers of Excellence for Business Skills Development* actively worked to enhance the business development skills of learning groups in Myanmar and Colombia.

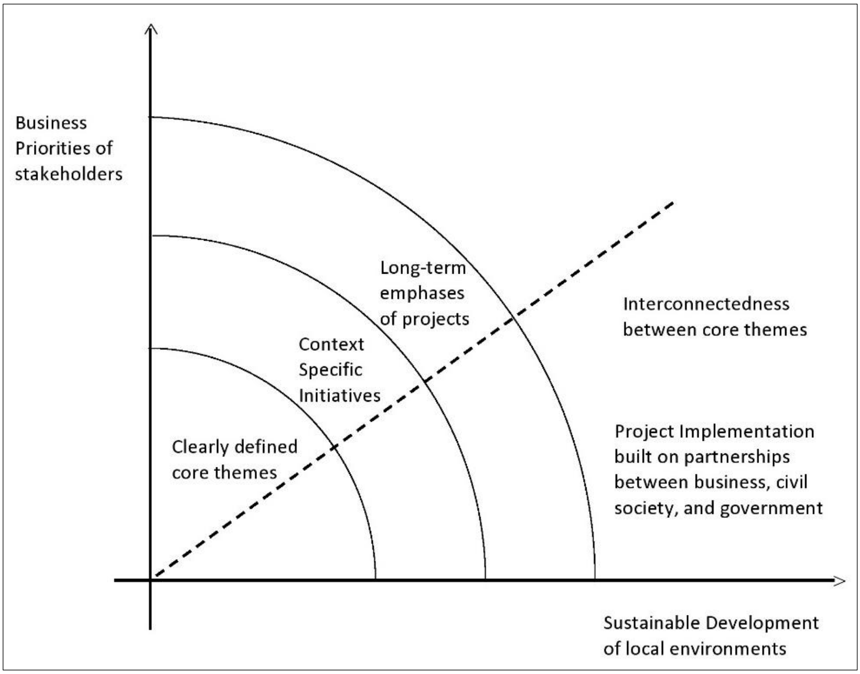
Whether it relates to local community engagement and development, environmental protection and conservation, or human development and empowerment, it appears that both Coca-Cola and PepsiCo have integrated sustainability practices into their core business operations and continue to be active in the developmental progress of developing countries where they operate. However, lack of structured data on the companies' sustainability initiatives and programs makes it difficult to undertake a more systematic assessment of corporate sustainability efforts to understand the specific amounts committed to programs and the welfare impacts in recipient communities in developing countries. Nevertheless, this article's exploratory findings on reach and impact of sustainability practices should provide the groundwork for a more detailed analysis of the subject in future studies.

A Unified Framework of Best Practices in Sustainability

Coca-Cola Company and PepsiCo Inc. demonstrate a strong commitment to sustainable development in their global business. A comparison of their sustainability practices shows many points of convergence that could inform standards of best practice across industries in developing countries. Figure 1 presents a simple outline of the unified framework. The framework highlights the value of identifying core themes in sustainability to inform corporate sustainability programs and initiatives. As noted earlier, the core themes in sustainability practices of Cola-Cola Company and PepsiCo Inc. are community engagement and development, environmental protection, and human development. The unified framework emphasizes the importance of clearly defining core themes within a common policy space that strikes a balance between business priorities and sustainable development needs.

Additionally, sustainability programs and initiatives should include inputs from business, civil society, and government while emphasizing project longevity. These are vital aspects of the unified framework described in this article that are not strongly emphasized in sustainability framework of MNEs in developing countries. According to Dartey-Baah, Amponsah-Tawiah, and Agbeibor (2015), MNEs tend to align their sustainability practices mainly with corporate outreach priorities and earlier national development targets of developing countries, resulting in a neglect of current and essential development needs of these countries. The authors underscored the need for MNEs to center sustainability projects on current development needs that span information and communication technology development, fraud detection and prevention, and corruption minimization in developing countries. Thus, the unified framework presented in this article defines an essential role for local and national governments in aligning sustainability practices with development needs.

Figure 1. A Unified Framework of Corporate Sustainability Best Practices



Conclusion

This article examined the sustainability practices of Coca-Cola Company and PepsiCo Inc. in developing countries. It used text analysis to identify core sustainability themes and priorities among the two competing businesses in the global beverage industry. Findings show remarkable similarities between the two companies in terms of core themes and priorities. Both companies emphasize local community engagement and development, environmental protection and conservation, and human development and empowerment, and among these three emphases, they prioritize local community engagement and development highest in their sustainability efforts. The analysis of sustainability practices assumes a connection between corporate emphasis (as portrayed in texts of annual sustainability reports) and actual commitments (both in terms of financial and human resources) to sustainability, which might not hold in practice. Still, a comparison of actual programs and initiatives reveal significant impacts of corporate sustainability practices on communities, the environment, and human capital development in developing countries. The findings also show that it is feasible to develop a simple unified framework of sustainable corporate practices that could serve as a guide in best practice standards across multiple industries in developing countries.

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