CASE 15

PepsiCo's Journey Toward an Ethical and Socially Responsible Culture*

COMPANY OVERVIEW

PepsiCo is one of the largest food and beverage companies in the world. It manufactures and sells 22 brands of beverages and snack foods that generate over $1 billion in retail sales. PepsiCo encompasses the Pepsi Cola, Frito-Lay, Tropicana, Quaker, and Gatorade brands and products in over 200 countries. The company's headquarters are in New York and employs nearly 300,000 people. In 2006 Indra K. Nooyi became the CEO of PepsiCo. PepsiCo has received many awards and recognitions over the years, including being ranked in the top 25 of the best global brands and earning the Green Award by the Environmental Protection Agency.

COMPANY AND MARKETING HISTORY

The Pepsi recipe was developed by pharmacist Caleb Bradham in the 1890s. Originally marketed under the unassuming name "Brad's Drink," Bradham's creation was renamed Pepsi-Cola in 1898 because of the pepsin and kola nut ingredients used. Awareness of Bradham's new creation spread quickly, and in 1902 he decided to create the Pepsi-Cola Company so people everywhere could enjoy the drink. In 1903 the patent became official, and by 1910 Pepsi-Cola had franchises in 24 states and sold over 100,000 gallons of the syrup annually. However, the Pepsi brand encountered several rocky situations before becoming the success it is today. World War I proved to be an especially turbulent time for Pepsi-Cola. Severe fluctuations in sugar prices caused the company to lose money, and in 1923 Bradham sold the trademark to Craven's Holding Corp., who shortly after sold it to a New York stockbroker named Roy C. Megargel. Megargel fought to revitalize the company but failed. In 1931 the Pepsi-Cola Company underwent its second bankruptcy. Candy manufacturer Charles Guth, president of Loft, Inc., saw Pepsi-Cola as a great investment and decided to purchase the company. Within two years the company was earning over a million dollars and was on its way to making history.

*This material was developed by Danielle Jolley and Jennifer Sawayda under the direction of O.C. Ferrell and Linda Ferrell. It is based on a previous case developed by Kendra Berch and Kimberly Montoya. This case is intended for classroom discussion rather than to illustrate effective or ineffective handling of administrative, ethical, or legal decisions by management. All sources used for this case were obtained through publicly available material © 2015.

Building a Brand

Guth had many challenges to overcome in order to save the struggling brand. Through the Great Depression, Pepsi carefully positioned itself as a low-cost leader and made advertising history when it released the nation's first jingle "nickel, nickel." With financially strapped customers reluctant to pay a nickel for a drink, Guth began offering twice the amount of Pepsi for the same price, a tactic that met with resounding success. World War II continued to test Pepsi-Cola's strength with introduced sugar rationing, but Pepsi's marketing campaigns and brand design helped Pepsi make it through the difficult period. For instance, Pepsi changed the colors on the label to be red, white, and blue to show patriotism. Pepsi's success allowed it to begin marketing internationally in 1945.

As more people began earning more disposable income, Pepsi-Cola recognized the marketplace was changing. To maintain a strong brand, its marketing campaigns had to change too. Pepsi therefore said goodbye to the long-running "nickel, nickel" slogan and introduced a more lively "More Bounce to the Ounce" slogan to the after-war population. During the 1950s Pepsi evolved from the low-cost price leader to a more lifestyle drink approach. For example, as Americans became more health conscious, Pepsi introduced slogans such as "The Light Refreshment" and "Refreshing without Filling."

It was this younger target market and the post-war baby boom generation that set the stage for Pepsi's long-lasting brand image. It all started with Pepsi advertiser Alan Pottasch, who recognized the different nature of the newest generation of consumers. Whereas consumers before the war were more cautious and price-conscious, the post-war baby boomer generation was carefree and hopeful. Pepsi once again capitalized on the changing environment, and under Pottasch launched the "Pepsi Generation" campaign in 1963. The campaign was an advertising breakthrough as it helped set a new standard for advertising in America. The ads portrayed happy Americans living the American dream—with their Pepsis, of course. By associating its brand with youth and excitement, Pepsi-Cola became the forerunner of lifestyle marketing. Future campaigns continued to promote this brand image, with slogans such as "You've Got a Lot to Live. Pepsi's Got a Lot to Give" and "Come Alive. You're in the Pepsi Generation!"

Pepsi successfully adapted its practices and product positioning to the times through its marketing campaigns. The company also pursued a major acquisition strategy as well as an expansion of its product line. In 1964 Pepsi introduced Diet Pepsi in response to the nation's noticeable lifestyle change toward health, along with the Mountain Dew brand. PepsiCo broke into the bottled water industry with its rollout of Aquafina bottled water in 1997. However, the biggest milestone was Pepsi's monumental merger with Frito-Lay, Inc., to become PepsiCo, Inc., the company it is known as today. Pepsi also profited through corporate partnerships, such as a partnership with Starbucks in 1994 to develop coffee drinks.

Celebrity Endorsements

In more recent years, Pepsi used celebrity branding to build upon the Pepsi brand. The 1980s brought in celebrity endorsers like Tina Turner, Michael J. Fox, Gloria Estefan, and David Bowie. By far its biggest celebrity endorser in this time period was Michael Jackson. The singer and PepsiCo struck a $5 million partnership that linked the two together for the rest of the 1980s. With Jackson as its prime celebrity endorser, PepsiCo was able to set itself up as the hip, trendy drink for the new generation. Pepsi's celebrity partnerships enabled the company to gain market share even as Coca-Cola's market share was dropping. In 2012

PepsiCo celebrated its 25th anniversary of its Michael Jackson partnership by using Jackson's image on special-edition Pepsi cans and featuring his music in advertisements after reaching an agreement with Jackson's estate.

Another notable achievement in marketing history was the inroads Pepsi made into the Soviet market. Perhaps the biggest (indirect) Soviet endorser of the product was the Soviet Premier Nikita Kruschev, who was caught on camera drinking a Pepsi at the 1959 American National Exhibition in Moscow. A favorable relationship developed between the Soviet Union and the company, leading to a trade agreement in 1972 where Pepsi became the first foreign consumer product sold in the Soviet Union. In 1988 Pepsi became the first advertiser to buy time on Soviet television. A Pepsi advertisement aired later that year incorporated Soviet teenage actors to appeal to the younger generation. The Pepsi Generation remained popular in Russia after the Soviet Union's dissolution.

Recent Years

PepsiCo has continued to use celebrity marketing throughout the 1990s and early 2000s, including Ray Charles, Cindy Crawford, and Britney Spears. To appeal to sports fans, PepsiCo tapped into the celebrity status of Shaquille O'Neal and racecar driver Jeff Gordon. In 2006 PepsiCo got a new CEO, Indra Nooyi, who began reorganizing PepsiCo to focus on several initiatives. Under her leadership, PepsiCo's goals included focusing more on countries outside the United States, developing healthier snacks, having a net-zero impact on the environment, and creating a better working environment. PepsiCo began investing heavily in the countries where it does business. For example, PepsiCo created a strategic alliance with Chinese food and beverage company Tingyi Holding Corp. as a way of expanding into the Chinese market. In 2015 PepsiCo became an official marketing partner of the National Basketball Association (NBA), and Tingyi's leading beverage brand Master Kong became the lead brand of the partnership. As basketball is China's favorite sport, partnering with the NBA is a good way for PepsiCo to increase its credibility in China. The worldwide success of PepsiCo reflects the company's dynamic and adaptable strategy throughout the company's history, leading to its current revenues of over $66.6 billion.

PEPSICO DIVISIONS AND BRANDS

PepsiCo consists of six divisions: Frito-Lay North America; Quaker Foods North America; Latin America Foods; PepsiCo Americas Beverages; PepsiCo Europe; and PepsiCo Middle East, Asia, and Africa. These divisions are further split up into different businesses, including Tropicana and Gatorade. The following are some of PepsiCo's most well-known and profitable businesses.

Pepsi-Cola Brands

Over the years, Pepsi-Cola has gone above and beyond the original Pepsi beverage to incorporate a wide variety of brands. In the United States, some of the most well-known brands include Mountain Dew, Sierra Mist, SoBe, IZZE, and Aquafina. International brands include Mirinda, Walkers, and Kurkure.

However, in the last decade, the growth of soft drinks has lowered due to a new wave of health consciousness sweeping the nation. This is troublesome news for PepsiCo's most popular brand, the Pepsi soft drink. Sales have been declining, and some activist investors are calling on PepsiCo to split off its North America beverages business. It requires PepsiCo to innovate in order to create or acquire healthier brands that appeal to the more health-conscious consumer. Some of these drinks include SoBe, Naked Juice, Quaker, and Tropicana. However, PepsiCo began a restructuring of its Beverages division to create better integration between its units. PepsiCo's Americas Beverages merged its two largest bottling companies, the Pepsi Bottling Group and Pepsi Americas, to give it control over 80 percent of its bottling network. PepsiCo's Americas Beverages includes the brands Pepsi-Cola, Gatorade, Mountain Dew, Naked Juice, and Tropicana. It also has partnerships with Starbucks and Lipton Tea to market and sell ready-to-drink coffee and ice tea drinks.

Frito-Lay

Even before the historic merger between Frito-Lay and Pepsi-Cola, Frito-Lay had a successful business history. It started in 1932 with entrepreneurs C.E. Doolin and Herman W. Lay. During that year, C.E. Doolin sampled corn chips in a Texas café and saw an opportunity for the small chip's future. He purchased the corn chip manufacturing company. Doolin then began selling bags of FRITO corn chips from his Model T Ford.

Also in 1932 a man named Herman W. Lay started selling potato chips. He purchased a manufacturing company and called it the H.W. Lay & Company. In 1961 the two companies joined together to form the Frito-Lay Company. Four years later, it merged with Pepsi-Cola to become the PepsiCo Company. Today, Frito-Lay owns over 50 percent of the snack food industry in America and includes such well-known brands as Lay's Potato Chips, Frito's Corn Chips, Doritos, Cheetos, Grandma's Cookies, SunChips, and Cracker Jack popcorn. It also partnered with the Strauss Group to manufacture and market Sabra refrigerated dips. The division contributes $14.5 billion to PepsiCo.

Frito-Lay has many accomplishments to be proud of that go beyond its products. One of its great prides is its Supplier Diversity Program, first launched in 1983. According to the company, PepsiCo spends about $1.3 billion annually in association with minority- and women-owned businesses. Additionally, Frito-Lay made strides in sustainability. Among its many initiatives, Frito-Lay converted its sales cars to hybrid vehicles and constructed a solar field and renewable energy generator at its plant in Arizona.

As with all big companies, Frito-Lay experienced its share of controversies. In 1967 Frito-Lay introduced a cartoon character named Frito Bandito, a Mexican bandit with a sombrero who stole other people's corn chips by gunpoint. The Mexican-American population launched a series of protests. They felt the cartoon character was a negative and highly offensive stereotype of Mexicans and Mexican-Americans. Due to the wide popularity of the character, Frito-Lay refused to pull Frito-Bandito, prompting the National Mexican-American Anti-Defamation Committee and other groups to file a $670 million lawsuit against the company. Finally, the cartoon character was removed from the scene in the early 1970s. The controversy emphasized the importance of cultural sensitivity and stakeholder analysis when launching any campaign that might alienate company stakeholders.

Gatorade

Gatorade, the official sports drink of the NBA and major league baseball, dates back to 1965. The formula was developed by a group of scientists after a study revealed players at the University of Florida were losing electrolytes and carbohydrates during games. Gatorade (named after the Florida Gators team) was meant as a solution to that problem by containing a balanced amount of electrolytes and carbohydrates to rejuvenate players.

Gatorade was a huge success among sports teams, leading to future innovation with products like the Gatorade Nutrition Shake and the Gatorade Bar. In 1983 Quaker Oats Co. acquired Gatorade, which in turn was acquired by PepsiCo in 2001 when PepsiCo bought the Quaker Oats Co. Gatorade is one of the most popular selling drinks under PepsiCo (after Pepsi and Mountain Dew).

Despite Gatorade's success, the brand has seen declining sales and added competition for the sports drink market. One of the problems Gatorade faces is the lack of appeal for the younger generation, who see the beverage as something their parents drank. As a result, PepsiCo created the Gatorade campaign and lineup called the "G Series." The G Series has two major purposes in revitalizing the Gatorade brand: demonstrate that Gatorade can be used for more than hydration and nutrient replacement and target a younger demographic. Consequently, the line has different types of Gatorade products meant to be used in a three-step process. The first step is called "Energy" and includes Prime Energy Chews and the Prime Sports Fuel Drink. These products are filled with carbohydrates and are meant to be used before a game. The second step, "Hydration," includes Thirst Quencher, Low-Calorie G2, Thirst Quencher Powder, and Low-Calorie G2 Powder. These products are meant to be used during the game. The final, "Recovery," involves protein-rich products for after the game and include Protein Shake, Post-Game Recovery Beverage, and Whey Protein Bar. With this new system of Gatorade drinks, PepsiCo targets every aspect of the athlete's game time. Gatorade also introduced G Endurance for endurance athletes that need extra energy.

CRITICISMS

PepsiCo's success has not come without major challenges or ethical dilemmas. One of the biggest difficulties for any multinational organization is how to successfully enter into other countries, particularly when laws vary from country to country. Although PepsiCo places high emphasis upon researching potential markets, the company encountered several problems that caused tensions with different cultures, in both the United States and abroad. Additionally, PepsiCo still faces heavy criticism for products viewed as largely unhealthy and whose packaging contributes to a large amount of waste. PepsiCo faces the same challenge as other major players in the soda industry: the decline of soda consumption in the United States. This problem is exacerbated by regulatory actions such as Mexico's tax on sugary drinks.

India

PepsiCo first entered the Indian market in 1989, and since then the company has become one of the largest food and beverage companies in the country. Unfortunately for the company, some of the largest and longest running allegations of PepsiCo's wrongdoing are also based in India. The company and other competitors in the industry have been heavily criticized about the quality and the quantity of the water used in their beverages. In 2003 the Centre for Science and Environment (CSE) claimed that the water which PepsiCo and other beverage companies in India were using contained toxins. These toxins included pesticides that contribute to cancer and the overall breakdown of the immune system. According to the CSE, Pepsi soft drinks had 36 times the level of pesticide residues permitted under European Union regulations. However, no such law bans the presence of pesticides in India.

Although there is not yet a law in place, PepsiCo found it could still face considerable repercussions for what its stakeholders perceive to be unethical activities. When pesticides were once again reported in the soft drinks a few years later, the Indian state of Kerala temporarily banned the sale of Pepsi and Coca-Cola. Five other Indian states also instituted partial bans. These extreme actions on the part of the local governments highlight the care multinational organizations must take to go above and beyond the national law in social responsibility.

Another major concern in India cited by farmers is that the Pepsi manufacturing plants are polluting the land, making it less fertile for growing crops. A study conducted in 1992 found that PepsiCo India and similar companies created 10,000 metric tons of plastic through their manufacturing and importation processes. About 60–70 percent of this plastic was recyclable, creating a large amount of unnecessary plastic waste. Similar allegations of waste and pollution arose again in 2006, concerning both farmers and government officials alike. The farmers complained that the PepsiCo plant takes the groundwater to run its operations, making it, once again, harder to effectively grow crops.

PepsiCo is attempting to repair its reputation in India. In 2009 it announced that it had replenished more water in India than it removed. PepsiCo also partnered with a number of organizations committed to water conservation, including the Safe Water Network, Water.org, and the Nature Conservancy. Additionally, PepsiCo made water a priority; it improved its water efficiency by 20 percent per unit of production by 2015, using 2006 as a baseline. Through partnerships with other organizations PepsiCo also helped provide three million people with access to clean water. A thorough stakeholder orientation is needed to discover ethical courses of action and avoid negative repercussions. In solving these ethical dilemmas, PepsiCo must continue to take different levels of government into account, as well as concerns of NGOs and individual Indians.

Health

The nature of the products manufactured and sold by PepsiCo caused problems for the company regarding health. Although PepsiCo now has numerous products geared toward health, its most popular product is still its signature Pepsi-Cola. At the same time, America is becoming more health conscious and desires low-calorie, low-fat, and natural items instead of processed sugary and salty foods. Some of the health concerns of drinking soda include the increased caloric intake as well as the possibility of tooth decay due to soda's acidity, caffeine dependence, and weaker bones. Pepsi fought back by creating sodas that have low calorie and sugar content. It recently substituted aspartame in its Diet Pepsi products with sucralose. Although sucralose is also an artificial sweetener, there is less controversy surrounding it than with aspartame. Diet Pepsi products can now be labeled "aspartame-free." Pepsi hopes this will renew interest in its Diet Pepsi products, but it is a risky move because it might change the taste of Diet Pepsi and alienate loyal customers.

Unfortunately, this only helps with the weight risk. The acidic nature of the product can still damage the teeth, and the artificial sweeteners used have their own set of health risks. However, PepsiCo has one advantage. Because it diversified into so many different product lines, PepsiCo can rely on sales in other categories to offset reduced sales in the soft drink area.

PepsiCo has also faced battles from the regulatory area. Some states adopted laws banning the sale of soda in schools. Former New York City Mayor Martin Bloomberg attempted to institute a tax in New York on sugary drinks in cup sizes of more than 16 ounces. Companies including PepsiCo fought back, and the proposed ban was defeated.

However, San Francisco and Berkeley, California, are seriously considering enforcing a soda tax in their cities. The fight is also continuing on a national scale. A U.S. panel has called for a tax to be placed on sugary foods and beverages to combat obesity and diabetes. One-third of adults and 17 percent of children in the United States suffer from obesity. Their recommendations will be considered by the Agriculture and Health and Human Services departments. Immediately after the report was released, stock from several food and beverage companies—including PepsiCo, Coca-Cola, and Hershey—fell. Whether the United States will eventually choose to institute a tax on sugary food products remains to be seen, but industry leaders like PepsiCo are prepared to push back.

On the other hand, PepsiCo has had to deal with backlash against its products in Mexico. Approximately three-fourths of consumers are obese in Mexico, prompting the Mexican government to institute a tax of one peso (eight U.S. cents) for every liter of sugary beverages. A tax was also placed on junk foods. The taxes have reduced snack food sales for PepsiCo in Mexico by 3 percent. The company will have to find ways to adapt to both the tax and the changing tastes of Mexican consumers.

PepsiCo's traditional snack items have met with similar criticism from health care professionals. Most of the products are processed and contain a high amount of sodium and sugar as well as being highly caloric and fatty. Frito-Lay Company tried to combat the issue by offering Baked Lays, Baked Cheetos, SunChips, and other healthier alternatives. These alternatives are claimed to be healthier all around. The health issue is going to be an ongoing battle for the company due to the nature of the industry it is in. Continual research and product development to offer healthier products is important for PepsiCo's future profitability.

Although the battle may be a long one, PepsiCo is making strides to address these concerns. For example, the Frito-Lay website has a special area devoted to health that describes the ingredients of Frito-Lay snacks and encourages consumers to practice moderation in snack food consumption. One of the goals of PepsiCo CEO Indra Nooyi is to invest more in healthier food. PepsiCo is a supporter of the Healthy Weight Commitment Foundation (HWCF) consisting of over 225 food and beverage manufacturers, retailers, sporting goods firms, insurance companies, and restaurants to fight against the obesity epidemic through awareness and other activities. One study found that the 16 food and beverage companies that support HWCF were together responsible for reducing 6.4 trillion calories from the marketplace.

In response to continuous customer concern, in early 2013 PepsiCo announced it would remove the controversial additive, brominated vegetable oil (BVO), used in citrus-flavored Gatorade. This comes after an online petition started by a Mississippi teenager brought attention to the chemical. The chemical possesses the ingredient bromine, which is used in some flame retardants. PepsiCo took customer complaints seriously and began formulating an alternative ingredient to replace BVO. The company settled upon sucrose acetate isobutyrate to take the place of BVO, which is aligned with countries outside of the United States, specifically within the European Union and Japan that have banned BVO. Over time Gatorade has aligned its brand with healthy activities such as athletic individuals and sports events and has evolved many "game day" product extensions. The need to keep this product as healthy as possible is essential for PepsiCo, which is ultimately why the company took necessary precautions by changing ingredients.

Interestingly, while PepsiCo's CEO Indra Nooyi is ready and willing to expand into healthier food products and make major changes when required, she has faced criticism in recent years from a major stakeholder: investors. In 2012 return on capital decreased to about 11.1 percent, the lowest in five years. Even new advertisements did not keep PepsiCo sales from slipping. It is not unusual for a company to suffer financially in the short-term in the midst of major changes. Yet investors are worried PepsiCo would continue to plunge, and some believe the firm should reduce its size by separating the underperforming beverage business from the snack food business (PepsiCo has so far refused).

While such a conflict seems to be more financial in nature, it has a strong ethical component. Ethical leaders must attempt to balance stakeholder interests, including those of society—who have concerns over the growing issue of obesity and diabetes—and investors who care about profitability and the financial viability of the company. In this case, it is easy to put blame on investors, who have more of a short-term perspective on this issue. While Indra Nooyi describes PepsiCo's changes as "the right thing" to do, investors at first appear to be placing profits over the good of society. However, business ethics is rarely so straightforward. A business's first role is to be economically viable; without succeeding financially, a business will fail, and not only drain society of precious resources but also lead to job losses. Hence, investors have a right, and even an ethical duty, to be concerned about the financial performance of a company. This requires PepsiCo to carefully balance the conflicting demands of multiple stakeholders.

Labeling and Packaging Issues

The public's attention was on Aquafina bottled water in 2007 when the watchdog group Corporate Accountability International claimed the company used tap water to fill the water bottles being sold. The water was not regular tap water but came from a public water supply before processing. Aquafina was accused of not being transparent in its business practices. It was not publicly known that the company's procedures included a rigorous seven-step process that removes unwanted substances and is then branded as purified drinking water. Additionally, the label on the Aquafina bottle had snow-capped mountains on it, which seemed to suggest that the water was purified spring water. PepsiCo is now required to put the words "Public Water Source" on the label.

This scenario brings up an ethical situation common in today's marketplace. Many corporations use idyllic scenes on their packages that do not reflect reality. A giant agribusiness, for example, might have a picture of a traditional farm on its package. Some consumers find this to be misleading. Additionally, many consumers do not realize that labeling laws are not as strict in the United States as in other countries. For example, U.S. manufacturers do not have to label when a food product contains genetically modified ingredients. In these cases, it is often the informed consumer or watchdog group that calls for action, as PepsiCo inevitably discovered.

On top of the tap water dilemma, water bottle companies are dealing with criticisms for the amount of plastic these bottles contribute to landfills. There are movements around the country like the "Think outside the Bottle" campaign to challenge people to go back to drinking tap water again in order to stop the amount of waste produced by the bottles. However, the increasing popularity of bottled water does not appear to be diminishing anytime soon. PepsiCo is in the process of developing bottles that use less amounts of plastic per bottle to help the waste issue. Today, the Aquafina bottle weighs 10.9 grams, compared with the 18.5 grams in 2001.This keeps millions of tons of plastic out of landfills.

PepsiCo also paid $9 million to settle a lawsuit alleging that claims about its Naked juices were not truthful. More specifically, Pepsi maintained that its Naked juices were all natural. However, according to the lawsuit, Naked juices contain synthetic vitamins developed by Archer Daniels Midland. This would seem to contradict Pepsi's claim that its Naked juices were all natural. On the other hand, because the term "natural" is ambiguous and not clearly defined, it is questionable whether Pepsi did anything misleading or unethical. The lawsuit also alleged that Naked juices contain genetically modified ingredients, which Pepsi vehemently denied. Pepsi agreed to lose the "natural" label and pay $9 million to settle the lawsuit.

SOCIAL RESPONSIBILITY AND SUSTAINABILITY

Despite the many criticisms it has encountered throughout its long history, PepsiCo has recognized the importance of social responsibility to its reputation. As such, PepsiCo continually emphasizes its commitment to sustainable growth and its focus on generating healthy financial returns, while giving back to those communities it serves.

PepsiCo's commitment to its community and toward sustainable growth is outlined in something it calls "Performance with Purpose." PepsiCo gives back to its communities and stakeholders while maintaining high standards, establishing and meeting goals, and producing attainable outcomes. CEO Indra Nooyi claims "Performance with Purpose" consists of three parts: products, the environment, and employees. These areas must be addressed for PepsiCo to be a socially responsible company.

Part of PepsiCo's commitment to this goal includes meeting consumer needs for a spectrum of convenient foods and beverages. PepsiCo has been scrutinized for its unhealthy products and criticized for contributing to obesity. Although PepsiCo made many changes to its product line, incorporating healthier options and reducing fat, sugars, and other unhealthy ingredients, it recognizes consumers' desires for easy and accessible snack foods and beverages. These food products may not be the healthiest option, but they meet the consumers' needs for easy access. The trick for PepsiCo is to balance the need for convenience with the need for healthier food offerings. Acting in the interests of the consumers, PepsiCo engages in research to develop healthier products and reduce unnecessary editions.

Some ways PepsiCo is trying to increase its responsibility to consumers is partnering with organizations to promote nutrition and avoid certain marketing practices. For instance, PepsiCo partnered with the International Food & Beverage Alliance to develop responsible marketing practices for children under the age of 12. PepsiCo made a commitment that by the end of 2013 it would no longer purchase advertising in programs with an audience consisting of more than 35 percent of children.

PepsiCo also demonstrates social responsibility and dedication to sustainability through several social responsibility efforts like the PepsiCo Guiding Principles, sustainability, commitment to employees, the PepsiCo Foundation, and the Dream Machine. These efforts are described in further detail below.

PepsiCo Guiding Principles

In order to maintain its commitment to its communities and assorted stakeholders, PepsiCo has high standards for quality. By adhering to processes and ensuring proper governance, the company tries to uphold its responsibilities and earn the confidence of stakeholders. To measure its progress and make certain it remains focused, PepsiCo developed the following six guiding principles used to sustain its commitment.

TABLE 1 PepsiCo Guiding Principles

We must always strive to:
Care for customers, consumers, and the world we live in.
Sell only products we can be proud of.
Speak with truth and candor.
Balance short term and long term.
Win with diversity and inclusion.
Respect others and succeed together.

Source: PepsiCo, "PepsiCo Values and Principles," http://www.pepsico.com/annual10/corporate/values-and-principles.html (accessed May 15, 2015).

These guiding principles encompass PepsiCo's overall commitment to its community. Like all companies, PepsiCo's success depends on its stakeholders, so PepsiCo strives to understand consumers' needs and wants. In order to meet stakeholder expectations, product quality, integrity, and honesty are essential to PepsiCo's goals. This requires that the company be transparent and foster communication. By having clear goals and focusing on attainable solutions, PepsiCo is able to grow in a relevant direction and analyze both short- and long-term consequences. Table 1 describes PepsiCo's Guiding Principles.

Sustainability

PepsiCo views its goal of decreasing its environmental impact not only as socially responsible but also in the best interest of its stakeholders. For PepsiCo, a large part of its sustainability efforts involves reducing the negative effects resulting from the production and consumption of its products. This includes "going green" (for example, through water conservation and the reduction of waste products) and reducing its carbon footprint. PepsiCo reduces its impact on the environment through various water, energy, and packaging initiatives. Because PepsiCo develops products using water, and actually sells bottled water, it is actively implementing programs to reduce waste and conserve resources. This involves water recycling and treatment efforts, where recycled water is treated thoroughly and reused within its products. PepsiCo also invests in clean energy sources, such as investing in alternatives to carbon-based fuel. In China PepsiCo developed a green plant in Chongqing that is LEED-certified, incorporates 35 water-and-energy-saving designs, and has the ability to reduce carbon emissions by 3,100 tons.

Water conservation has become important to PepsiCo. The company partnered with the Nature Conservancy to embark on a study for sustainable water use and water availability. This study helps PepsiCo understand how the company uses water, ways its use impacts the environment, and strategies for decreasing water usage. For example, in its report on water use, the company studied how several of its facilities throughout the world use water in their operations. It then brainstormed on ideas to restore the watershed. PepsiCo identified the fact that its facilities operate under different conditions in different parts of the world, so its water restoration strategies must be adapted to take advantage of each location's unique characteristics.

In addition to reducing the plastic in its Aquafina bottles, PepsiCo launched other environmental initiatives to reduce the harmful byproducts of its business. In 2010 the company conducted a study termed Abacus II that tracked its 2009 packaging footprint throughout the entire company to pinpoint areas of improvement. This was followed by a web-based tool PackTrackPlus to track its packaging footprint based on weight, carbon dioxide emissions, and materials. Understanding the environmental impact of these materials allows PepsiCo to identify ways it can make changes to increase its responsibility to its environmental stakeholders.

PepsiCo adopted a 5R system for improving its environmental impact—Reduce, Recycle, use Renewable resources, Remove environmentally sensitive materials, and promote the Reuse of packaging throughout its operations. PepsiCo has reduced its impact by adopting lighter-weight bottles for Aquafina, Propel, and Gatorade products and developing new lighter-weight package designs. The company sells its starch, a waste product from potatoes used in snack foods, for use in paper products, food manufacturing, and more. PepsiCo started using more post-consumer recycled materials in its products. In 2009 its Naked juice began using 100 percent post-consumer recycled plastic. The company is investigating ways to use more renewable materials and began to substitute less eco-friendly materials with renewable resources. Finally, PepsiCo is attempting to increase its reuse of materials. For instance, it began to reuse its shipping cartons, saving approximately 150,000 tons of paperboard each year.

Employee Commitment

Another aspect of PepsiCo's commitment to social responsibility is reflected in its support of and commitment to employees. It is PepsiCo's goal to encourage a diverse corporate culture along with employee engagement in the workplace and community. This is valuable to PepsiCo because the company sees this as an opportunity to benefit from new perspectives and encourage creativity within the workplace. The company understands employees are a key to success. According to the company's philosophy, it is important for PepsiCo to maintain mutual respect, integrity, and safety in the workplace. Because it inspires a collaborative culture, PepsiCo aims to recruit and retain world-class talent through employee satisfaction—what PepsiCo terms "Talent Sustainability." For instance, to encourage employees (associates) to speak out, PepsiCo provides them with a biennial Organizational Health Survey to get their opinions on the organization and the workplace. Additionally, PepsiCo values the talents of its employees and offers management courses at its institution Pepsi University to provide employees with the leadership skills necessary to take on managerial roles within the company.

PepsiCo has also developed a Code of Conduct that addresses various business ethics issues such as bribery and conflicts of interest. The company expects workers to be familiar with its Code of Conduct and employs a chief compliance officer to enforce the Code. PepsiCo provides annual ethics training programs for employees. Training sessions are available online or through workshops. PepsiCo's compliance programs are frequently reviewed by independent third parties to pinpoint key risks. More specific aspects of PepsiCo's compliance program, such as its environmental activities, are audited externally. Finally, the company has what it calls an "Internal Audit methodology" and maintains a 24-hour anonymous ethics hotline where employees can report concerns or ethical violations.

PepsiCo Foundation

The PepsiCo Foundation was established in 1962 and provides philanthropic contributions to a variety of nonprofits. Some of the ways the Foundation gives back to the community is through grants, employee programs, and disaster response and relief efforts. PepsiCo's focus is to improve the quality of life for those in the greatest need. Its approach consists of awarding grants to those programs and organizations with proven track records and strives to make an impact expanding beyond its own communities. Since 2006 the PepsiCo Foundation and its divisions have donated $600 million in cash, goods, and services to philanthropic organizations.

PepsiCo encourages employees to engage in its communities through its Matching Gifts Program, where the company matches employee contributions to nonprofit organizations considered eligible. By doing so, PepsiCo creates an ethical and philanthropic climate for its workers. PepsiCo supports the United Way Campaign as well as post-secondary education for employees' children through its ExCEL awards. Additionally, the PepsiCo Foundation contributes to disaster relief through financial assistance, product donations, and human resources. The PepsiCo Foundation contributed to disaster relief for the 2011 Japanese earthquake and tsunami with contributions of $1.5 million and for the China Sichuan province earthquake with a $1 million donation. PepsiCo also partners with water.org and the Safe Water Network to improve access to clean, affordable water in communities worldwide and committed $5 million to Save the Children for improving the lives of children in India and Bangladesh.

Dream Machine

On April 22, 2010 (Earth Day), PepsiCo announced its multiyear partnership with Waste Management, Inc., in support of the Dream Machine recycling initiative. The Dream Machine initiative recognizes that many plastic cans and bottles are needlessly thrown away each year, particularly by busy consumers on the go. The two partners want to see the U.S. beverage container recycling rate increase from a mere 34 percent to 50 percent by 2018. This is encouraged with PepsiCo's Dream Machine kiosks that act like reverse vending machines. The Dream Machine kiosks are computerized receptacles that give consumers points when they recycle their bottles. The process involves only a few steps. First, the consumer registers on the kiosk. Then he or she scans the can or bottle's barcode and puts it in the appropriate chute. The kiosk then issues the user a receipt that contains reward points redeemable for such things as movie tickets, coupons, or other goods. The Dream Machine kiosks have collected 15 million containers since their inception. In 2014 PepsiCo held a College Recycling Challenge to encourage recycling on campus. More than 65 colleges and universities have these kiosks on their campuses.

Consumers also have another incentive to recycle: the more recycling done, the more PepsiCo will help disabled veterans. PepsiCo has partnered with Entrepreneurship Bootcamp for Veterans with Disabilities (EBV) to offer training in business management to disabled veterans. Thanks to its work promoting careers for veterans, PepsiCo was nominated in 2013 as a Top 100 Military Friendly Employer. The Dream Machines are a way to meet the clear need for greater public access to recycling bins as well as to promote PepsiCo's sustainability efforts.

CONCLUSION

PepsiCo is the classic business success story, starting with one man's invention to becoming a multimillion dollar enterprise with operations across the globe. With success comes controversy, which ultimately the company could not avoid. PepsiCo is moving toward a more balanced stakeholder orientation by identifying stakeholders relevant to the firm and trying to understand and respond to their concerns and needs. The current leadership at PepsiCo understands the importance of stakeholders and the need to develop effective dialogues and other communication to help PepsiCo resolve conflicts. Issues such as nutritional concerns over soft drinks and snack foods create a serious dilemma in balancing the concerns of special interest groups and the desires of consumers for good tasting food.

While some of the company's past challenges were likely inevitable, some were caused by misunderstanding stakeholder needs or ethical lapses on the part of the company. From a lack of cultural sensitivity to health concerns to environmental degradation, PepsiCo faced its share of ethical dilemmas. However, it has also become a major leader in the sustainability and social responsibility movement. Although it has a long way to go before its snacks can be considered healthy or manufacturing processes truly sustainable, PepsiCo has demonstrated a willingness to invest in innovative solutions for these problems. If PepsiCo can continue to learn from its mistakes, it can make progress in solidifying a reputation as a socially responsible company. The future of PepsiCo depends on continuing to develop an ethical corporate culture built on values that help employees relate to the needs and desires of all stakeholders.

QUESTIONS FOR DISCUSSION

1. How does PepsiCo balance those stakeholders such as consumers and shareholders interested in good tasting products and financial performance with special interest groups and regulators that are more concerned about nutrition?
2. How effective do you think PepsiCo has been in responding to stakeholder concerns about nutrition and sustainability?
3. Do you think it is logical for PepsiCo to partner with nutrition and water conservation nonprofit groups since it received heavy criticism for unhealthy products and wasteful water practices?

SOURCES

Valerie Bauerlein, "Gatorade, before and after," *The Wall Street Journal*, April 23, 2010, B8; Valerie Bauerlein, "PepsiCo in Recycling Push," *The Wall Street Journal*, April 22, 2010, B5; Manjyot Bhan, "Environmental Management of Multinational Corporations in India: The Case of PepsiCo," *The Sustainability Review*, March 7, 2010, https://thesustainabilityreview.org/environmental-management-of-multinational-corporations-in-india-the-case-of-pepsico/ (accessed May 15, 2015); Alan Bjerga and Doni Bloomfield, "Tax on Sugary Foods Proposed by U.S. Panel to Fight Obesity," *Bloomberg Businessweek*, February 19, 2015, http://www.bloomberg.com/news/articles/2015-02-19/tax-on-sugary-foods-proposed-by-u-s-panel-to-help-fight-obesity (accessed May 15, 2015); Diane Brady, "Pepsi: Repairing a Poisoned Reputation in India," *Bloomberg*, June 10, 2007, http://www.bloomberg.com/bw/stories/2007-06-10/pepsi-repairing-a-poisoned-reputation-in-india (accessed May 15, 2015); Nanette Byrnes, "Pepsi Brings in the Health Police," *Bloomberg BusinessWeek*, January 14, 2010, http://www.businessweek.com/magazine/content/10_04/b4164050511214.htm (accessed May 15, 2015); Siddharth Cavale, "PepsiCo says won't spin off North America beverages," *Reuters*, February 13, 2014, http://www.reuters.com/article/2014/02/13/us-pepsico-results-idUSBREA1C0R520140213 (accessed May 15, 2015); Candice Choi, "Gatorade to Remove Brominated Vegetable Oil after Consumer Complaints," *The Huffington Post*, January 25, 2013, http://www.huffingtonpost.com/2013/01/25/gatorade-brominated-vegetable-oil_n_2551533.html (accessed May 15, 2015); Candice Choi, "Mexico's junk food taxes hitting Pepsi, Coke," *Washington Times*, October 9, 2014, http://

www.washingtontimes.com/news/2014/oct/9/mexicos-junk-food-taxes-hitting-pepsi-coke/?page=all (accessed May 15, 2015); Geoff Colvin, "Indra Nooyi's Challenge," *Fortune*, June 11, 2012, 148–156; Julie Deardorff, "Critics Pounce on Coke, Pepsi Health Initiatives," *Chicago Tribune*, February 5, 2012, http://articles.chicagotribune.com/2012-02-05/news/ct-met-coke-pepsi-health-20120205_1_coca-cola-north-america-health-groups-healthy-lifestyle-choices (accessed May 15, 2015); Ranjit Devraj, "Indian Coke, Pepsi Laced with Pesticide, Says NGO," *India Resource Center*, August, 5 2003, http://www.indiaresource.org/news/2003/4725.html (accessed May 15, 2015); Directors & Boards, "'Go There and Get the Business.' (interview with PepsiCo's Chairman of the Executive Committee Donald M. Kendall on business opp)," *The Free Library*, Winter 1991, http://www.thefreelibrary.com/%27Go+there+and+get+the+business.%27+%28interview+with+PepsiCo%27s+Chairman...-a010422697 (accessed May 15, 2015); Stuart Elliot, "For a New Brand, Pepsi Starts the Buzz Online," *The New York Times*, March 14, 2008, http://www.nytimes.com/2008/03/14/business/media/14adco.html (accessed May 15, 2015); Mike Esterl, "Is This the End of the Soft Drink Era?" *The Wall Street Journal*, January 19–20, 2013, B4; Mike Esterl, "PepsiCo Slips Despite New Ads," *The Wall Street Journal*, April 27, 2012, B5; Mike Esterl and Tripp Mickle, "PepsiCo to Drop Aspartame from Diet Pepsi," *The Wall Street Journal*, April 24, 2015, http://www.wsj.com/articles/pepsico-to-replace-aspartame-with-sucralose-in-diet-pepsi-in-u-s-1429885941 (accessed May 15, 2015); Mike Esterl and Suzanne Vranica, "Pepsi Brings Back the King of Pop," *The Wall Street Journal*, May 4, 2012, http://online.wsj.com/article/SB10001424052702304746604577381792902984470.html (accessed May 15, 2015); Frito-Lay "Company," http://www.fritolay.com/company (accessed May 15, 2015); Frito-Lay North America, Frito-Lay webpage, http://www.fritolay.com/ (accessed May 15, 2015); Frito-Lay, "Our Commitment to the Planet," http://www.fritolay.com/purpose/ (accessed May 15, 2015); Frito-Lay, "Our Commitment to You," http://www.fritolay.com/nutrition/ (accessed May 15, 2015); Frito-Lay, "Supplier Diversity," http://www.fritolay.com/company/supplier-diversity (accessed May 15, 2015); Gatorade, Inc., Gatorade webpage, http://www.pepsico.com/Company/Global-Brands (accessed May 15, 2015); Gatorade, Inc., "G-Series," http://www.gatorade.com/products/all-products (accessed May 15, 2015); Michael M. Grynbaum, "Judge Blocks New York City's Limits on Big Sugary Drinks," *The New York Times*, March 11, 2013, http://www.nytimes.com/2013/03/12/nyregion/judge-invalidates-bloombergs-soda-ban.html?pagewanted=all&_r=0 (accessed May 15, 2015); Amy Guthrie, "Survey Shows Mexicans Drinking Less Soda after Tax," *The Wall Street Journal*, October 13, 2014, http://www.wsj.com/articles/survey-shows-mexicans-drinking-less-soda-after-tax-1413226009 (accessed May 15, 2015); Monica Herrera, "How Michael Jackson, Pepsi Made Marketing History," *Ad Week*, July 6, 2009, http://www.adweek.com/news/advertising-branding/michael-jackson-pepsi-made-marketing-history-99789 (accessed May 15, 2015); Rahim Kanani, "Why PepsiCo Is a Global Leader in Water Stewardship and Sustainable Agriculture," *Forbes*, September 14, 2012, http://www.forbes.com/sites/rahimkanani/2012/09/14/why-pepsico-is-a-global-leader-in-water-stewardship-and-sustainable-agriculture/ (accessed May 15, 2015); Hercules Kataveli, "Pepsi announces $1B Russian investment," *Business 2.0 Press*, July 6, 2006, http://business2press.com/2009/07/06/pepsi-announces-1b-russian-investment/ (accessed May 15, 2015); Andrew Kaplan, "The Power of One," *Beverage World*, April 15, 2010, 20–24; Jason Kessler, "Groups: NYC soda ban unfair to small, minority-owned businesses," *CNN*, January 25, 2013, http://www.cnn.com/2013/01/23/health/new-york-large-drinks (accessed May 15, 2015); Flora Lewis, "FOREIGN AFFAIRS; Soviets Buy American," *The New York Times*, May 10, 1989, http://www.nytimes.com/1989/05/10/opinion/foreign-affairs-soviets-buy-american.html?pagewanted=1 (accessed May 15, 2015); N. Madison, "What Are the Health Effects of Drinking Soda," *WiseGEEK*, March 30, 2010, http://www.wisegeek.com/what-are-the-health-effects-of-drinking-soda.htm (accessed May 15, 2015); Sanjoy Majumder, "Indian State Bans Pepsi and Coke," *BBC News*, August 9, 2006, http://news.bbc.co.uk/2/hi/south_asia/4776623.stm (accessed May 15, 2015); Massachusetts Institute of Technology, "Robert Cade: Gatorade," Lemelson-MIT Program, http://lemelson.mit.edu/resources/robert-cade (accessed May 15, 2015); Betsey McKay, "Creative Father of the 'Pepsi Generation' Turned Lifestyle into a Selling Point," *The Wall Street Journal*, August 4, 2007, http://www.wsj.com/articles/SB118618836469587966 (accessed May 15, 2015); Betsey Morris, "The Pepsi challenge," *CNNMoney*, February 19, 2008, http://money.cnn.com/2008/02/18/news/companies/morris_nooyi.fortune/index.htm (accessed May 15, 2015); Chon A. Noriega, "There May Be a Frito Bandito in Your House," *San Diego Latina Film Festival 2005*, http://www.sdlatinofilm.com/trends12.html (accessed June 8, 2010); Anahad O'Connor, "Soda Bans in Schools Have Limited Impact," *The New York Times*, November 7, 2011, http://well.blogs.nytimes.com/2011/11/07/

soda-bans-in-schools-have-limited-benefit/ (accessed May 15, 2015); PepsiCo, *2009 Annual Report*, http://www.pepsico.com/annual09/talent_sustainability.html (accessed May 15, 2015); PepsiCo & the Nature Conservancy, *Striving for Positive Water Impact: Lessons from a Partnership Approach in Five Watersheds*, https://www.pepsico.com/docs/album/sustainability-reporting/water-agriculture-reports/pep_waterreport11_nar_mech13.pdf?sfvrsn=2 (accessed May 15, 2015); "PepsiCo and Waste Management Celebrate Earth Day with Announcement of Multi-year Partnership Designed to Improve On-the-Go Recycling," April 22, 2010, https://www.wm.com/about/press-room/2010/20100422-wm-and-pepsico-multi-year-partnership.jsp (accessed May 15, 2015); PepsiCo, "Brand Family," PepsiCo, (accessed May 15, 2015); PepsiCo, "Disaster Relief and Humanitarian Support," http://www.pepsico.com/Purpose/Global-Citizenship/Disaster-Relief-and-Humanitarian-Support (accessed May 15, 2015); PepsiCo, "Encouraging Healthy Lifestyles," http://www.pepsico.com/Purpose/Human-Sustainability/Promoting-Healthy-Lifestyle (accessed May 15, 2015); PepsiCo, "Global Brands," http://www.pepsico.com/Company/Global-Brands (accessed May 15, 2015); PepsiCo, "Global Citizenship," http://www.pepsico.com/Purpose/Global-Citizenship.html (accessed May 15, 2015); PepsiCo, "Global Divisions," http://www.pepsico.com/Company/Global-Divisions (accessed May 15, 2015); PepsiCo, "Our History," http://www.pepsico.com/Company/Our-History.html#block_1967 (accessed May 15, 2015); PepsiCo, "Packaging," http://www.pepsico.com/Purpose/Environmental-Sustainability/Packaging-and-Waste (accessed May 15, 2015); PepsiCo, *PepsiCo 50 Years and Growing: PepsiCo 2014 Annual Report*, http://www.pepsico.com/docs/album/default-document-library/pepsico-2014-annual-report_final.pdf (accessed May 15, 2015); PepsiCo, "PepsiCo and NBA Announce Landmark Marketing Partnership; PepsiCo Partner Tingyi's Master Kong Becomes League Beverage Partner in China," April 13, 2015, https://www.pepsico.com/live/pressrelease/pepsico-and-nba-announce-landmark-marketing-partnership-pepsico-partner-tingyis-04132015 (accessed May 15, 2015); PepsiCo, "PepsiCo Dream Machine Recycling Initiative Donates $500, 000 to the Entrepreneurship Bootcamp for Veterans with Disabilities for Third Consecutive Year," November 12, 2012, http://www.pepsico.com/PressRelease/PepsiCo-Dream-Machine-Recycling-Initiative-Donates-500000-to-the-Entrepreneurshi11122012.html (accessed May 15, 2015); PepsiCo, "PepsiCo Policy on Responsible Advertising to Children," https://www.pepsico.com/docs/album/responsible-marketing/pepsico_policy_responsible.pdf?sfvrsn=2 (accessed May 15, 2015); PepsiCo, "PepsiCo Recycling," https://www.pepsicorecycling.com/Programs/RecyclingOnCampus (accessed May 15, 2015); PepsiCo, "Performance with a Purpose," http://www.pepsico.com/Purpose/Performance-with-Purpose (accessed May 15, 2015); PepsiCo, *Performance with Purpose*, 2013, http://www.pepsico.com/docs/album/sustainability-reporting/pep_2013_sustainability_report.pdf (accessed May 15, 2015); PepsiCo, "Responsible Marketing," http://www.pepsico.com/Purpose/Human-Sustainability/Responsible-Marketing (accessed May 15, 2015); PepsiCo, "Tingyi and PepsiCo Open New Beverage Plant in China," October 25, 2012, http://www.pepsico.com/PressRelease/Tingyi-and-PepsiCo-Open-New-Beverage-Plant-in-China10252012.html (accessed May 15, 2015); PepsiCo, "Water," http://www.pepsico.com/Purpose/Environmental-Sustainability/Water (accessed May 15, 2015); PepsiCo India Region, "Company," http://www.pepsicoindia.co.in/company/about-pepsico.html (accessed May 15, 2015); The Pepsi Store, "History of the Birthplace," http://www.pepsistore.com/history.asp (accessed May 15, 2015); *The Pepsi-Cola Story*, 2005, http://pepsi.com/PepsiLegacy_Book.pdf (accessed May 15, 2015); Laura Petrecca, "Coke, Pepsi, others launch assault against NYC beverage ban," *USA Today*, July 18, 2012, http://usatoday30.usatoday.com/money/industries/food/story/2012-07-09/Coke-Pepsi-fight-soda-ban/56279302/1 (accessed May 15, 2015); Reuters, "Aquafina Labels to Spell Out Source-Tap Water," *CNN*, 2007. http://www.cnn.com/2007/HEALTH/07/27/pepsico.aquafina.reut/ (accessed May 15, 2015); Duane Stanford, "Gatorade Goes Back to the Lab," *Businessweek*, November 23, 2011, http://www.bloomberg.com/bw/magazine/gatorade-goes-back-to-the-lab-11232011.html (accessed May 15, 2015); Rachel Tepper, "Naked Juice Class Action Lawsuit Settlement over Health Claims Means $9 Million For Consumers," *The Huffington Post*, August 28, 2013, http://www.huffingtonpost.com/2013/08/28/naked-juice-class-action-lawsuit_n_3830437.html (accessed May 15, 2015); Suzanne Vranica, "Pepsi Benches Its Drinks—Beverages Will Snap Long Streak by Sitting Out Super Bowl," *The Wall Street Journal*, December 17, 2009, Eastern edition: Wall Street Journal, ProQuest, April 18, 2010; Yahoo! Finance, "PepsiCo, Inc. (PEP)," http://finance.yahoo.com/q/is?s=PEP+Income+Statement&annual (accessed May 15, 2015).