

## **Critical Panel Evaluation of Coca-Cola Enterprises' 2009 Corporate Responsibility and Sustainability Report**

### **Background and Methodology**

We were asked to review the Coca-Cola Enterprises (CCE) 2009 Corporate Responsibility and Sustainability (CRS) Report and produce a Critical Panel Evaluation. CCE committed to publish our results, unedited, on its CRS website.

Our Panel consisted of 15 MBA candidates and a faculty supervisor. Each CCE focus area was critically analyzed by separate groups of students, each of which included one member with previous experience in sustainability reporting. Professor Ed Soule served as the faculty supervisor. Dr. Soule has managed similar engagements, including two previous projects with CCE. His qualifications include corporate experience in public accounting and senior financial management, coupled with over a decade of research and teaching in the fields of managerial ethics and corporate social responsibility.

This report details our findings. We begin by sharing our understanding of “corporate responsibility and sustainability” and the management imperative it entails. Then we explain our approach to assessing the CCE Report. Our findings follow those explanatory remarks, and we conclude with a brief comment. Importantly, in evaluating the Report, we did not test, confirm, or otherwise verify the veracity of any information contained in it.

Our understanding of corporate responsibility and sustainability is based on two simple assertions. First, companies have impacts on people and on their natural environment; and secondly, firms that carefully manage their impacts are more likely to endure than those that do not. Based on that understanding, corporate leaders are responsible for maintaining and increasing desirable impacts on people and places; while eliminating or minimizing the unwelcomed consequences of doing business. Accountability for discharging this duty is aptly described in the AccountAbility Principles Standards as, “acknowledging, assuming responsibility for and being transparent about the impacts of [corporate] policies, decisions, actions, products and associated performance” (AA1000, 2008).

The CCE 2009 CRS Report is an exercise in accountability. Human and environmental impacts are documented, as are Company commitments with regard to managing them. To judge the substance and adequacy of these representations, we posed these questions:

Have all material impacts been identified and characterized properly?

Is it possible to judge whether the firm’s impacts are being managed carefully?

Following are our conclusions, observations, and recommendations.

***1. Have all material impacts been identified and characterized properly?***

The human and environmental impacts of producing and distributing beverages on a massive scale are more or less obvious. The 2009 CCE CRS Report categorizes them within five “strategic CRS focus areas.” Taken as a whole, they represent a comprehensive account of the impacts on two stakeholder groups, employees and customers, and on the environment. Although other stakeholders are not included in these focus areas (e.g., shareholders), impacts upon them are addressed adequately elsewhere (e.g., in financial reports). Thus, we believe that management has identified and characterized properly the impacts for which it is responsible.

***2. Is it possible to judge whether the firm’s impacts are being managed carefully?***

In answering this question, we drew upon the factors that distinguish serious management efforts from wishful thinking and “greenwash.” Most basically, significant corporate accomplishments require unambiguous objectives, specified in terms of clear performance metrics. Additional credibility is gained by way of plausible strategies, the provision of sufficient human and financial resources, and the appropriate incentives. Following are our findings with regard to each of the five strategic CRS focus areas.

Energy Conservation/Climate Change

Goal: “We will reduce the overall carbon footprint of our business operations by 15 percent by 2020, as compared to our 2007 baseline.”

This is an ambitious objective insofar as the organization is likely to be producing and distributing considerably more product in 2020—almost 50% more if production increases 4% annually. Although an objective for energy conservation is not specified, the Company’s carbon footprint serves as a proxy for the consumption of electricity, natural gas, and transportation fuels. Thus, we believe that the goal for this category of impacts is explicit and an appropriate performance metric is in place.

With regard to that metric, measuring the carbon footprint of a large multinational production and distribution company is no small task. CCE engaged a reputable third party to assist in making a rigorous calculation of its carbon emissions. In light of this methodology, the Company is beginning from a credible starting point.

Although CCE has not formulated a comprehensive strategy for reducing its carbon footprint, several initiatives have been completed, others are being executed, and others yet are in the planning stage. Additionally, it is noteworthy that the Company subjects these projects to a capital budgeting protocol in which environmental and reputational considerations are taken into account. This policy and the wide range and number of conservation projects and plans suggest that management is serious about reducing the environmental impact of carbon-based energy sources.

This commitment is reinforced by the inclusion of Scope 3 emissions in the calculation of the Company’s carbon footprint. Doing so produces a more complete picture of the firm’s environmental impact because emissions associated with over 2 million units of customer operated sales and marketing equipment are attributed to CCE. This source of greenhouse gasses exceeds all others, combined. Furthermore, CCE does not have the typical incentive to increase

the efficiency of these units: although it bears the cost of energy saving technology, customers enjoy the savings. Nonetheless, such technology is being employed on a limited basis. The fact that it has proven to reduce energy usage by as much as 35% is evidence that the goal of reducing the Company's carbon footprint by 15% is realistic.

One boundary issue warrants mention. Based on its 2009 Form 10-K, CCE has interests in purchasing and manufacturing cooperatives, including one that produces PET bottles. During 2009, CCE purchases from this entity represented approximately 70% of its sales. As such, consideration should be given to including a like percentage of its emissions in the calculation of CCE's carbon footprint.

### Water Stewardship

Goal: "By 2020, we will establish a water sustainable operation in which we minimize our water use and replenish the amount of water equivalent to what we use in all of our beverages to the local communities in which we operate." Water sustainability is defined as a water use ratio of 1.3 or, that is, .3 liters of waste water for each liter of finished beverage. And CCE has committed to treat its waste water such that it can be returned to local utilities and processed in the normal fashion.

This goal is clear and the systems are in place to monitor progress toward achieving it.

CCE reported a water use ratio of 1.67 for 2009, an improvement of approximately 3.5% from the 2008 level of 1.73. Continued performance at that rate would be more than sufficient to achieve the goal of 1.3 by 2020. As evidence that the goal is realistic, some facilities have already achieved it; and others could with the installation of proven water-saving and -recycling technology.

If the goal of water sustainability were attained, CCE usage would not impinge on local resources. That is, all water drawn from local utilities would either be consumed in the form of finished beverages or returned to the utility in a form that is suitable for normal processing. Over and above this objective, the Company has made efforts to preserve and protect watersheds where it does business. These initiatives include the installation of rain barrels and the construction of rain gardens.

Readers of the 2009 CCE CRS Report will not be left with the impression that the bottling process is a complete account of the Company's impact on water resources. Rather, they will be alerted to a preliminary finding that 35.41 liters of water are required to produce a 500mL bottle of Coca-Cola Classic. Of that total, approximately 7 liters (20%) are used to produce the packaging and 28 liters (79%) are needed to produce the ingredients. Thus, while the impact on local water resources is negligible, considerable effort will be required before the same can be said of the entire supply chain. The Company plans to work with its suppliers to develop conservation strategies. This degree of transparency with regard to such an unflattering finding lends credibility to other disclosures in the Report.

There is a risk to such transparency: readers may lack the technical background to fairly evaluate any given disclosure. The Report anticipates that possibility with regard to water stewardship by

providing usage information on other products. For instance, the ratio of 35.41 liters of water to produce a 500mL bottle of Coke is contrasted with the 500 liters that are required to produce a half-liter of milk. The result is some much needed perspective.

#### Sustainable Packaging/Recycling

Goal: “By 2020 we will reduce the impact of our packaging; maximize our use of renewable, reusable, and recyclable resources; and recover the equivalent of 100 percent of our packaging.”

The overarching solid waste goal of recovering the equivalent of all packaging materials by 2020 is explicit. With regard to the other objective (to maximize the use of renewable, reusable, and recyclable resources), consideration should be given to a more precise formulation. As currently expressed, it is not clear how progress will be measured and whether the goal has been achieved.

CCE has made great strides at the front end of the solid waste cycle. Bottles and cans have been lightweighted and virtually all (>95%) packaging materials are recyclable. And significant investments have been made in creating recycling infrastructures in North American and Europe. Thus, although the objective of 100% recovery is aggressive, it appears to be realistic. The reasons it might not be achieved are to a great extent beyond the control of CCE. For instance, market conditions can make it cost prohibitive to recycle or repurpose PET bottles. Additionally, the Company’s recycling effort is dependent upon the willingness of consumers and businesses to deliver recyclable materials to pickup points.

Finally, consideration should be given to reporting an additional performance metric: landfill shipments. Impressive recycling rates have been achieved in many CCE facilities. Perhaps the best way to maintain that progress and to encourage company-wide conformity is to track the weight of materials that are transferred from facilities to landfills.

#### Product Portfolio/Balanced and Active Lifestyle

Goal: Provide refreshing beverages for every lifestyle and occasion, while helping consumers make informed beverage choices

Satisfying a wide range of consumer demands for carbonated and still beverages is the core business of CCE; and the most wide-ranging impact it has on people. Although the above formulated goal is somewhat vague, it is understandable. Moreover, it is not difficult to determine if the Company is delivering on its commitment: CCE revenues and unit shipments are a direct reflection of consumer satisfaction. The second goal of helping consumers make informed beverage choices is more of an aspiration than an objective for which CCE could be held accountable. We say that because it is unclear what counts as achieving the goal.

The foregoing criticism is not intended to detract from the many efforts to inform consumers—low and calorie free beverages, smaller containers, easily accessible and understandable labels, and responsible marketing; to name just four. And we appreciate the motivation for expressing a goal with respect to the choices that consumers make. We recommend a performance metric for purposes of clarifying the Company’s responsibility and dispelling any doubts regarding its sincere intention to inform and empower consumers. For instance, CCE (in conjunction with The Coca-Cola Company) might target a certain level of consumer awareness regarding the

health consequences of its various beverages. Such an objective would clarify the limits of the Company's responsibility: to empower consumers through a combination of information and alternative beverage choices. Whether any given consumer puts that information to good use is beyond the control of CCE.

Similarly, the discussion of Active Lifestyles is not expressed as a commitment for which CCE could be held accountable. The Report documents a range of efforts to reverse the trend toward sedentary lifestyles in the U.S. But the objective of these initiatives is not stated. Thus, we are concerned that this portion of the report, and the admirable efforts they relate, will be interpreted as defensive posturing. As an alternative, CCE could consider addressing the criticism of its products more directly. An open-minded reader with a neutral attitude on the obesity controversy might welcome an explanation of the Company's stance, with references to the relevant literature.

#### Diverse and Inclusive Culture

Goals: "Create a culture where diversity is valued, every employee is a respected member of the team, and our workforce is a reflection of the communities in which we operate."

By formulating this goal on the basis of corporate culture, CCE has targeted a critical determinant of workplace experience. Although culture is the right objective, we recommend that it be reduced to an objective measure for which managers can be held accountable. In the realm of corporate culture, a possible performance metric would consist of responses to carefully worded questions on workforce surveys.

The goal of reflecting the demographic makeup of local communities is clear. And the Report provides considerable information with regard to the demographic breakdowns of the workforce. Thus, readers would benefit from a discussion that compares the data to the objective, and addresses major variances by relating them to remedial initiatives cited throughout the section. Doing so would reduce the possibility that readers will misinterpret as acceptable, a finding that falls short of the objective (e.g., that 26% of the CCE managerial workforce is female).

CCE has demonstrated its commitment to diversity and employee engagement through substantive actions. But perhaps none of them speak louder than the inclusion of diversity goals in the performance objectives of its senior leaders. In a domain in which actions speak louder than words, money may be the noisiest voice of all.

#### *Concluding Comment*

This engagement marks the third year that we have had the opportunity to critically analyze the CCE CRS Report. Over the course of those engagements we have observed continuous improvements in the breadth, clarity, and substance of the disclosures. Additionally, CCE management has been cooperative and supportive throughout the period. Our questions have been answered candidly and our constructive criticism has been well received. No attempt has been made to limit the scope of our work or modify the text of our reports. Perhaps there is no better testament to sincerity and transparency than a key term of this engagement: CCE committed voluntarily and in advance to publish this report without editing.

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