

Business for Social Responsibility

# Drinking It In: The Evolution of a Global Water Stewardship Program at The Coca-Cola Company

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## About This Report

This report explores the role of the private sector in responsible management of global water resources by providing an overview of the development and implementation of The Coca-Cola Company's (TCCC) global water stewardship program. By summarizing the journey of TCCC over five years, this report aims to demonstrate how companies can be proactively involved in water management along their supply chains and within the walls of their own facilities. This report profiles one company's experience in advancing an integrated water strategy throughout its global operations and across the many networks in which it participates. It provides a brief review of the parameters of TCCC's commitments and highlights the complexity of true water stewardship.

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## About Business for Social Responsibility

Since 1992, Business for Social Responsibility (BSR) has been providing socially responsible business solutions to many of the world's leading corporations. Headquartered in San Francisco and with offices in New York, Europe, China and Hong Kong, BSR is a nonprofit business association that serves its 250 member companies and other Global 1000 enterprises. Through advisory services, convenings and research, BSR works with corporations and concerned stakeholders of all types to create a more just and sustainable global economy. As a non-profit organization, BSR is uniquely positioned to promote cross-sector collaboration in ways that contribute to the advancement of corporate social responsibility and business success. For more information, visit [www.bsr.org](http://www.bsr.org).

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# 1. Introduction

Now more than ever, effective and integrated water resources management is needed to address the increasing demand on water resources across all sectors and geographies. Water challenges are escalating and they have potential to impact the natural environment, global health, and economic and industrial growth (see BSR's report "[At the Crest of a Wave: A Proactive Approach to Corporate Water Stewardship](#)"). While industrial water withdrawals account for less than one-quarter of global water consumption, there are significant regional differences in industrial water consumption. In high-income countries, water withdrawals for industry represent 59 percent of total water use; the same figure for low-income countries is 8 percent of total water use.<sup>1</sup> These regional differences coupled with the varying effects of global warming on specific regions mean that the ability to predict the quality and quantity of water resources will remain difficult.

This report explores the role of the private sector in responsible management of global water resources so that readers can understand how their own companies can become catalysts for positive change. By summarizing the journey of The Coca-Cola Company (TCCC) over five years, this report aims to demonstrate how companies can be proactively involved in water management along their supply chains and within the walls of their own facilities. From improving plant performance to building a transformational platform that integrates its water stewardship goals with corporate reputation and company brand strategies, TCCC is one company that has taken on the challenges of setting water goals and integrating those goals across a global system. It has embraced the ambitious goal of becoming a "water neutral" company.

In five years, growth has been significant: from a major reputation crisis in 2002 involving communities and government authorities in southern India to a 2007 call for corporate "water neutrality," TCCC has developed and continues to evolve one of the more sophisticated water stewardship programs in the private sector. As of March 2008, no other organization in the world has publicly pledged to achieve "water neutrality" across global operations that span more than 100 basins and sub-basins around the world.

However, true sustainability as it relates to water will involve more than "neutralizing" the volume of water that TCCC uses. This is because fluctuations in the amount and quality of water available to a given community or ecosystem play an important role in sustaining the diversity and proper functioning of river ecosystems and watersheds.

The executives managing the water stewardship program at TCCC tell us that they recognize the challenge in a goal as complex as "water neutrality" and have asked for extensive external input as to how it might be defined. The company has initiated an international dialogue with other companies, non-governmental organizations and universities to understand how the concept might be applied to businesses. At the very least, it has thrown its weight behind the notion that water should and can be managed with the same rigor and attention assigned to other indicators of business success and environmental protection.

This case study profiling TCCC's experience over the past five years provides a glimpse into the company's commitments and an appreciation of the complexity of true water stewardship. TCCC refers to the past few years as part of an "evolution" of its strategy, implying forward progress but also a never-ending learning process.

## II. The Unique Challenges of Corporate Water Stewardship

### A. Water Is a Local, Time-Specific Resource

Cultural notions, histories, economies, environmental conditions and power relations within and between communities all play a role in establishing different relationships to, and uses for, water resources. Water and land are at the heart of many conflicts around the world. The traditional use of land by communities and farmers on a diverse scale of production becomes much more difficult when water sources are at risk. The territorial dependency of communities and the great social risks relate to both volume of water available and its quality. As a result, contradictions between economic and/or corporate growth and community health strategies can sometimes lead to social unrest and conflict, and can increase a company's risk of losing its license to operate in specific regions.

Because the consequences of water scarcity are experienced most acutely at the local level, efforts to address shortages are most effective when they emphasize the essential role of local officials and the local community. The challenge in developing a successful corporate water management program lies with tailoring the program to fit local situations; the vulnerability of a particular water system depends on the number and types of water sources in the region, the types and uses for those water sources, availability of alternative sources in times of shortage, and other factors.

### B. TCCC's Historical Challenges

The Coca-Cola System consists of TCCC and about 300 bottling partners across more than 200 countries (the "system"). As a beverage company, water has been vital to the success and growth of TCCC over its 122-year history. Today, the pressures on global water quality, availability and access pose considerable challenges for the company. Indeed, the past five years have been a seminal period in the evolution of TCCC's global water strategy. Three issues together compelled TCCC to take a closer look at its global use of water and develop a more holistic view beyond standards and performance on water quality, efficiency and wastewater treatment:

- 1) In the late 1990s, TCCC began acquiring natural water brands such as mineral water and spring water, highlighting the need to better understand social dimensions and technical watershed issues.
- 2) In April 2002, local communities in Plachimada, Kerala (India), began a two-year struggle against the Hindustan Coca-Cola Beverages Pvt. Ltd bottling plant in protest of both appropriation and pollution of groundwater resources, claiming that depleted water in nearby wells was affecting crops grown by the local population.
- 3) In 2003, TCCC began reporting water quality and quantity as a material risk to its business in its U.S. Securities and Exchange Commission Form 10-K for investors.

Before 2003, TCCC's business had been grounded in standards and performance on water quality, efficiency and wastewater treatment. In response to these emergent issues, however, a cross-functional, system-wide team led by Jeff Seabright, Vice President Environment & Water Resources, and Dan Vermeer, Director of Global Water Initiative, was assembled to better understand water issues and implement plans.

In 2004, in the atmosphere of growing debate within the company's system and the world as a whole on water, the team began the process of educating itself on how the global water crisis impacted TCCC's business. The team formed relationships with several thought and opinion leaders and began to evaluate water risks to TCCC's system. This work culminated, in part, in a qualitative risk assessment at the business unit level, which verified these issues were real and growing.

### III. TCCC's Experiences with Integration

Although it may be clear for most plant managers that they should be working toward water conservation and decreasing water-use ratios, quantitative water-use goals and objectives can be difficult to define because many companies face challenges in basic water inventory. The amount of water that is moving through a given system — how much is being used, where it is drawn from — and for what purpose are difficult statistics to capture. Ideally, water inventory data would be rolled up with local water realities around a particular plant, including local uses of water, local perceptions of water quality and quantity, and any watershed stress.

#### A. Integrating Water Initiatives Across a Global Beverage System

Building on the engagement with TCCC's system in understanding these issues, the team developed a plant-level, comprehensive water risk assessment to quantify water risks and to inform strategic responses. This bottom-up approach was married to the top-down commitment made on water through TCCC's Manifesto for Growth.<sup>2</sup> Significant efforts were made to develop the internal structure and alignment necessary as well as to build strategic partnerships with several universities and organizations like USAID and World Wildlife Fund (WWF) to meet the company's water stewardship objectives.

##### **Ethnography of Water**

To lay the groundwork for setting goals for water, in 2004/2005 TCCC developed a water risk assessment process to obtain plant-level information across its global operations. Through the use of a survey for its bottlers, engagements with thought leaders in academia and NGOs, participation in water-focused conferences, and multiple focus groups with bottlers and internal operating groups, TCCC developed a 360-degree view of water, from qualitative and quantitative

Composed of 300 questions in multiple languages to hundreds of bottling plants, the survey captured information across six main categories:

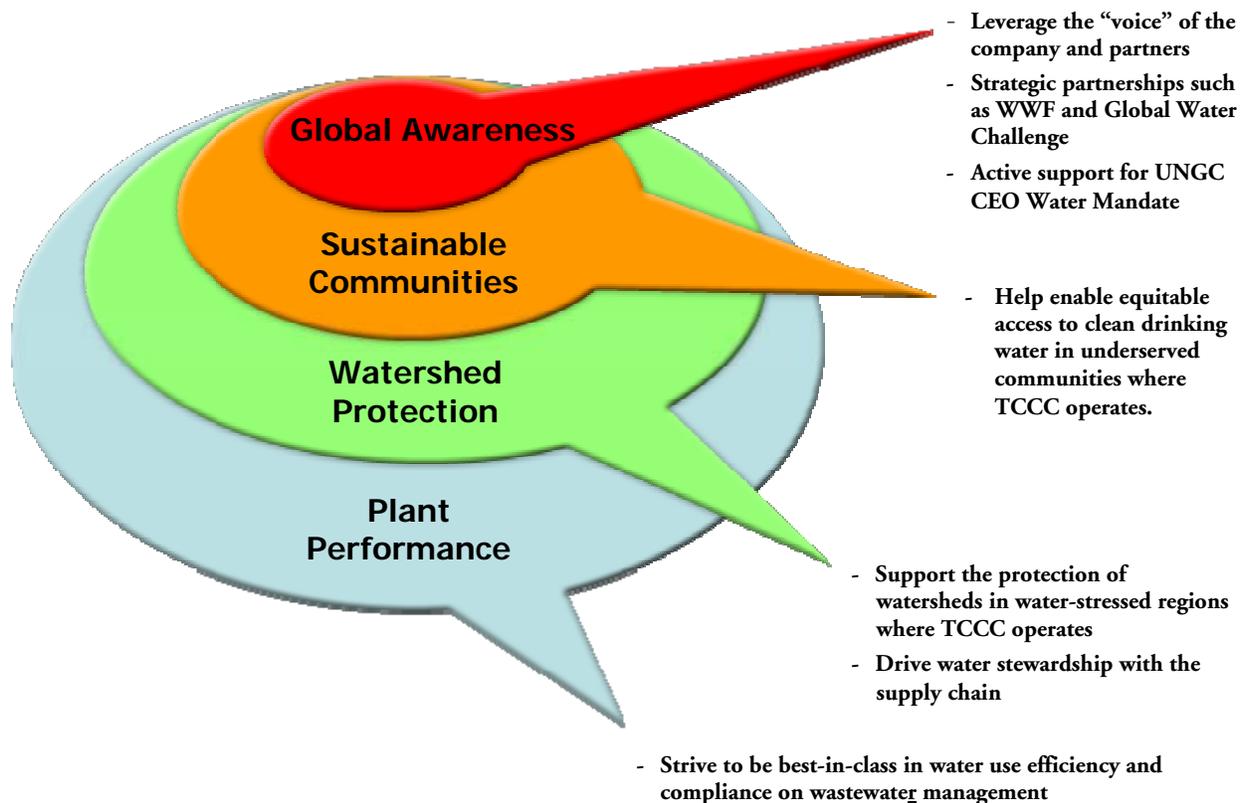
- Efficiency
- Compliance
- Watershed
- Supply reliability
- Social and competitive context
- Supply economics

The information was fed into an internal risk model and the data was shared at a two-day workshop with the 23 geographies that constitute the TCCC system.

risk assessments of internal manufacturing processes and across its supply chains, to community access, to potable water in areas where its bottlers are located. In particular, the survey tool was a key instrument that allowed TCCC to develop a comprehensive level of understanding of water across its global operations from the ground up.

By 2007, TCCC had developed an integrated water strategy that was being activated across its global operations. Figure 1 below details the company’s integrated water strategy.

Figure 1. TCCC’s Integrated Strategy



Source: The Coca-Cola Company. 2007.

TCCC’s water stewardship strategy focuses on the following areas:

- Plant performance (water use efficiency, water quality, wastewater treatment)
- Watershed protection (source protection, disaster response)
- Sustainable communities (helping enable access to clean drinking water)
- Global awareness and action (helping mobilize the international community to drive global awareness and action to address water challenges)

## Development and Dissemination of Water Stewardship Tools

In 2006 and 2007 TCCC developed a suite of training modules and tools to help operations and bottlers improve their businesses by learning how to manage their water risks. These tools help guide system-wide actions in the following areas:

- Water use efficiency
- Wastewater treatment
- Water risk management
- Community water partnership
- Stakeholder engagement
- Source water protection

### **iLMP: Web-based Facilitated or Self-based GIS Tool for Plant-level Applications**

**I Learn** - Information on watersheds for beginners to advanced levels, from what they are to how to perform a traceability study on watershed management programs.

**I Manage** - How to determine the watersheds in which plants are located, the vulnerability of those watersheds and how to protect them.

**I Protect** - How to engage other users within the same watershed to collectively conserve and manage the watershed.

One source protection tool is called iLMP, “I Learn I Manage I Protect,” which allows the user to see various levels of watershed issues based on geographic location and manage accordingly. Another tool allows bottlers to log into a centralized online database that catalogs best management practices in facilities around the world. Bottlers can benchmark their operations against other bottlers and find ways that comparable facilities are handling their water resource management practices. In addition to the suite of training modules, TCCC top management has installed regular “Top to Top” meetings with top bottling partners responsible for producing the most volume of TCCC products to confirm system-wide alignment on critical issues and share best practices.

To be sure, TCCC’s success in weaving its water stewardship strategy throughout its global system is based on a regular exchange of information between bottlers and TCCC. The company realized after 2002 that planning for water risks and sustainable management practices is an ongoing process that should be focused on continuously identifying, preparing and developing individuals and processes to take ownership of key responsibilities for water management. By moving water initiatives to the forefront of the corporate agenda and supporting franchisee initiatives and corporate objectives simultaneously, TCCC laid the foundation for a smooth integration of water stewardship into corporate strategy and brand reputation. Greg Koch, who leads the Water Stewardship team at TCCC, notes:

*All of this has been achieved without setting a standard or edict on our operations. We could have said “Thou shall do this.” We didn’t make any of these commitments without considerable commitments from our bottlers. We sat down with each of our top bottlers, all of our operating groups, and really walked through all aspects of water and really understood where they were coming from and reached consensus through a very deliberate process. But it’s not a requirement of ours; we wanted people to see the environmental and business gains — and they signed on.*

*“... we lay this all out and have at it. The alignment is something that we work pretty hard at and this gives us the ability to shoot with real bullets so we’re not just pontificating from the headquarters in Atlanta. So we’ve created literally thousands of people within the system who know how to talk about water, know how to measure it, and can discuss it with others at the plant level.”*

- Jeff Seabright

### **Taking On Global Water Challenges Beyond the Fence Line**

TCCC works in partnership with international and local organizations to bring safe water and/or sanitation to communities in need through nearly 120 programs in 49 countries. Working with organizations such as UN-HABITAT, UN Foundation and International Water Association, TCCC is supporting community-based water and sanitation reconstruction efforts, improving water management in urban slums and contributing to international disaster relief efforts around the world.

In addition, TCCC helped launch the CEO Water Mandate and the Global Water Challenge, both designed to help companies better manage water use in their direct operations and throughout their supply chains. On the policy front, TCCC lobbied for funding for Water for the Poor Act of 2005, a bill that would make access to safe water and sanitation for developing countries a specific policy objective of the U.S. foreign assistance programs.

For TCCC, the work accomplished between 2003 and 2007 helped build system capability, affirm strategic directions and partnerships, and establish goals and metrics to track its progress in the years to come. TCCC worked with its system to develop an integrated strategy on water including plant performance, watershed protection, sustainable communities and global leadership. It also worked with business units and top bottlers to begin establishing biannual goals in support of its ultimate destination. This work was critical factor enabling TCCC to set broader goals for its system in water stewardship.

## **B. Recent Commitments**

On June 5, 2007, TCCC announced its multi-year partnership with WWF and an independent, system-wide goal to return the water used in TCCC's beverages and their production back to nature. TCCC's goals for water use can be summarized in short order: Reduce, Recycle and Replenish.

In 2008 TCCC plans to announce operational water efficiency targets for water use for its global operations. On the "Reduce" platform, TCCC will establish global goals to become the most efficient global company in terms of water use in the beverage industry. For "Recycle," the goal is to be fully aligned with its global wastewater treatment and reuse standards by the end of 2010. "Replenish" means that the company will support projects and/or investments associated with rainwater collection, reforestation, efficient agricultural use of water, and protecting water sources and community access to those resources.

The pledge to return the water TCCC uses through Reduce, Recycle and Replenish puts the company on a path toward "water neutrality" across its global operations.

## IV. Water Neutrality in the Beverage Industry

### A. Contradiction in Terms?

Perhaps the biggest challenge in TCCC's water stewardship program is its stated goal of becoming a "water neutral" company. The concept of water neutrality is relatively new. In November 2006 the United Kingdom's Secretary of State for Communities and Local Government and the Department for Environment and Rural Affairs studied the feasibility of making housing developments in the Thames Gateway "water neutral" by 2016.<sup>3</sup> For new housing to be approved in a given watershed, the projected water use had to be offset by the installation of highly water-efficient appliances in older homes, making new developments much more water-efficient, and expanding and introducing tariffs for water use to encourage households to use water more efficiently. Related programs include water quality trading in the United States, water quantity balancing and trading in Australia, and watershed and river basin balancing in the EU.<sup>4</sup>

Never before, however, has the concept of water neutrality been applied at a corporate level. In 2007 six organizations – Twente University, WWF, TCCC, World Business Council for Sustainable Development, Water Neutral/Emvelo Group and UNESCO-IHE – came together to investigate the benefits of water neutrality as a meaningful milestone.<sup>5</sup> This group put forth the following three criteria for legitimate use of the term:

1. Defining, measuring and reporting one's "water footprint";
2. Taking all action that is "reasonably possible" to reduce the existing operational water footprint;
3. Reconciling the residual water footprint (amount remaining after a company does as much as possible to reduce footprint) by making a "reasonable investment" in establishing or supporting projects that focus on the sustainable and equitable use of water.<sup>6</sup>

*"We understand that all water is local and that you can't harvest a hurricane to offset a drought."*

- Jeff Seabright

Many issues need further research and debate including: 1) ambiguity around the determination of what is "reasonable"; 2) equating a remedy in one location for an impact in a different location; and 3) accounting for lost and replaced value of water resources.

#### **1. Determining What Is "Reasonable"**

The term "reasonable" is subjective and prone to various interpretations. In the context of reducing a water footprint, how many water efficiency, conservation, reuse and recycle programs are enough? Who is responsible for making this decision?

#### **2. Equating the Remedy with the Impact**

Given the differences in water prevalence and quality across regions, one cannot necessarily assume that a reconciliation effort is appropriate to the company's impact. For example, drawing down water supplies in a water-scarce region has a more significant impact than the same size footprint in a water-abundant region and so could require a larger reconciliation activity — but how much larger? Which metrics should be used to compare? Perhaps more important, can a reconciliation effort take place in a different watershed from which the impact occurred?

### 3. Accounting for the Value of Water Resources

Accounting for the value of water resources is perhaps one of the more difficult challenges related to meeting the goal of water neutrality. For example, when a company works with a community to protect a wetland from development, how much is attributed to the company and for how long and at what value? At the very least, this requires measurement, verification and an understanding of the physical systems where water conservation measures are being implemented. At the most, the social and cultural value of the various uses of water resources would be accounted for and incorporated into the larger measure of “value” stemming from a particular water resource.

TCCC is interested in helping define and understand this concept but acknowledges it must be ultimately defined and accepted on a global scale by academia, NGOs, business, governments and civil society. Greg Koch says water neutrality is “the evolution of maturity of all things we’re doing with regard to water stewardship.” The company is beginning to develop an understanding of what achieving water neutrality might entail, but it is focused today on further quantifying its global water footprint so that it can develop a process toward becoming water neutral in its operations.

*“There are a lot of devils in the details, having to do with whether or not the actions they’re investing in to accomplish water neutrality goals are actually achieving a verifiable net reduction goal.”*

- Brian Richter

## V. Implications and Key Takeaways for Companies

### A. Implications for a Beverage Company

Water is the main ingredient in all of TCCC’s beverages and is essential to its manufacturing processes. Water also has broad implications for the company’s supply chain as a key component in the production of sugar, citrus, coffee and other ingredients. It is also vital to the sustainability of the communities that the company serves. Reducing water scarcity, enhancing water quality and addressing the water needs of local communities are direct and vital business concerns.

For the roughly 200 countries that the company operates in, TCCC’s biggest concern may be ensuring access to a clean, reliable supply of water both as a base for beverages themselves and as part of the process for making them. As the company moves into somewhat more water-intensive products such as coffee and tea (coffee and tea require more water than Coca-Cola in manufacturing), its water stewardship goals become even more challenging, and may come under greater scrutiny.

## B. Key Takeaways for Companies

- **Start with an actionable commitment to water stewardship.** Begin by recognizing and communicating internally and externally the value of safeguarding water resources, then take measurable steps to build and encourage a culture of innovation and adaptation around water stewardship.
- **Work directly with your plant and operations managers to gauge their water footprints, assess water risks and understand the potential impact of these risks. Know the extent to which your company uses water.** By accounting for and quantifying water-related risk, it becomes a business variable that can be managed against.
- **Identify and engage with organizations that will build internal knowledge and understanding of water issues.** Organizations that have a commitment to learning promote a readiness for change and innovation. As the global context of water continues to evolve, organizations that focus on building their knowledge of water issues will prove to be the most resilient in the long term.
- **Understand that the values and meanings associated with water change with each new context.** Individuals and communities are motivated by very different value systems and issues, and their responses to perceived water scarcity and quality will vary accordingly.
- **Seek opportunities to collaborate** across sectors and with various disciplines to address water challenges.
- **Recognize that community perceptions of water quality or quantity may be markedly different from scientific, hydro-geological mapping of water.** The increasing role of the public in water policy means that community perceptions of water issues may have considerable weight in driving changes to water-related governance that impacts a business' license to operate.
- **Get involved in water-related governance.** The private sector can move beyond the reactive mode of trying to respond to laws and regulations of given jurisdictions and instead begin to think about what kind of water governance it wants to put in place and how to help shape that governance structure.

## VI. References

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<sup>1</sup> UNESCO. “Water – A Shared Responsibility.” The United Nations World Water Development Report 2, 2006. Available at <http://www.unesco.org/water/wwap/>.

<sup>2</sup> For more information on TCCC’s Manifesto for Growth, go to [http://www.thecocacola.com/ourcompany/manifesto\\_for\\_growth.html](http://www.thecocacola.com/ourcompany/manifesto_for_growth.html).

<sup>3</sup> The Environment Agency Communities and Local Government and Department for Environment, Food and Rural Affairs. 2007. “Towards Water Neutrality in the Thames Gateway.” Available at <http://publications.environment-agency.gov.uk/pdf/SCHO1107BNMC-e-e.pdf?lang=e>.

<sup>4</sup> For more information, see Water Quality Trading at <http://www.epa.gov/owow/watershed/trading.htm>; “Status of Water Quality Trading Program Today” at [http://ecosystemmarketplace.com/pages/article.news.php?component\\_id=5335&component\\_version\\_id=7748&language\\_id=12](http://ecosystemmarketplace.com/pages/article.news.php?component_id=5335&component_version_id=7748&language_id=12).

<sup>5</sup> Email correspondence from Richard Holland, November 27, 2007.

<sup>6</sup> Gerbens-Leenes, W., et. al. 2007. “Water Neutrality: A Concept Paper.”