




**Casestudy:**  
***‘THE CHOICE OF A NEW GENOCIDE’?***  
**Free Burma Coalition**  
**Versus**  
**PepsiCo**

Softdrinks manufacturer PepsiCo came under fire from societal groups in 1993 due to its presence in Burma via a share in PepsiCo-Myanmar (PPM). That was the year the PepsiCo controversy erupted at Carleton University in Ottawa, Canada. Via the Internet, a flood of information started circulating about forced labour and human rights violations in Burma and PepsiCo's presence in that country. The Free Burma Coalition (FBC) put PepsiCo in the moral spotlight with the aim of forcing it to withdraw from Burma.

**Societal Interface Management Challenges**

<b>PUBLIC</b>  <b>PRIVATE</b>	<b>PROFIT</b> -  <b>NON-PROFIT</b>	<b>EFFICIENCY</b> 	<b>ETHICS/EQUITY</b>
<p>PepsiCo and Coca-Cola have good political connections</p> <p>Doing business with a repressive regime is an issue for governments (difference between federal and State governments in the US)</p> <p>Retreat or not, due to pressure of international organizations or civil servants?</p>	<p>More critical consumers at Universities (and schools) than in society?</p> <p>Universities in different countries</p> <p>Relationship with shareholders (small – large);</p> <p>Spread of information through the internet</p> <p>Relationship with single-issue NGO's like FBC</p>	<p>Distribution strategy:</p> <ol style="list-style-type: none"> <li>1. captive markets at Universities;</li> <li>2. (own) chain</li> </ol> <p>Oligopolistic competition with Coca-Cola</p> <p>Internationalization through minority stakes</p> <p>Advertising: image of freedom and youth (choice of a new generation)</p>	<p>Ethical relativism or hypernorms in de case of human rights</p> <p>Democracy Pressure on regime from the inside or outside (constructive engagement)</p> <p>Ideal of freedom through the marketing of softdrinks</p>

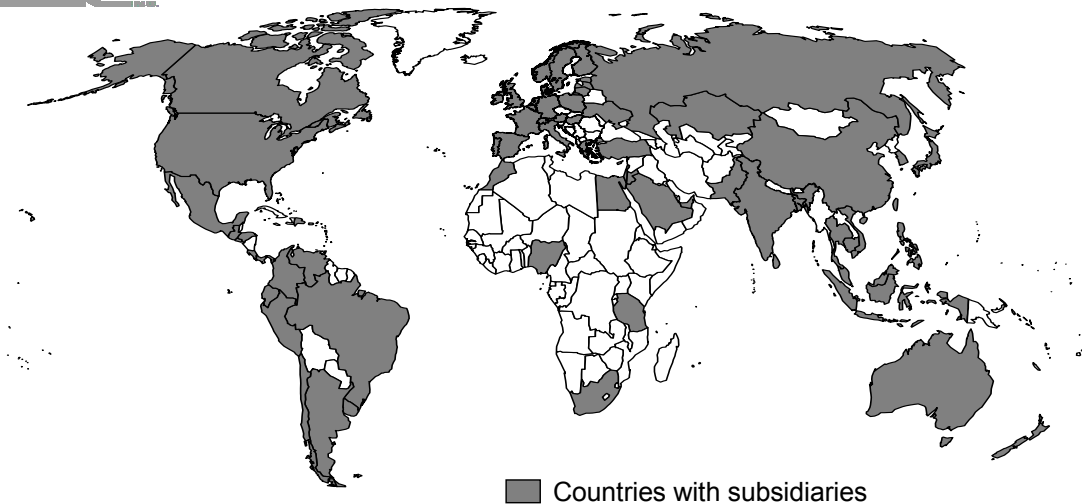
This case has been written by Alex van der Zwart with Rob van Tulder (RSM Erasmus University). This case applies the methods and theories as used in the book "International business-society management: linking corporate responsibility and globalization" (2006, Routledge), [www.ib-sm.org](http://www.ib-sm.org). The Dutch newspaper articles in this case have mostly been translated into English.



**PepsiCo: short profile**

PepsiCo operates world wide in the softdrinks/fruit juice and food market. The company manufactures, sells and distributes drinks such as Pepsi-Cola, Gatorade, 7-UP (under licence) and Tropicana Pure Premium. It produces products such as Lay's, Doritos and Quaker Oats for the food market. In addition, PepsiCo owns several fastfood chains including Taco Bell, Kentucky Fried Chicken and Pizza Hut. PepsiCo is listed on the NYSE. PepsiCo is the market leader in fastfood chains and number two in the softdrinks market.

In 2001, it had a turnover of about 27 billion dollars. It has been commercially active in Burma since 1991. In 1995, the year of the conflict, PepsiCo's turnover in Burma was 8 million dollars. Its largest and 'eternal' competitor is The Coca Cola Company. Both groups have been involved in a kind of oligopolistic competition since time immemorial. Both groups gain consumers by creating *captive markets* at universities and other public events; where Coca-Cola machines are placed, Pepsi machines are necessarily absent, and *vice versa*. The rivalry between the companies has clear political consequences; not only have the inputs (sugars, aspartame) been the subject of trade conflicts; successive American presidents have even negotiated with entire countries to gain access to markets for this icon of the 'American way of life' (cola), but always on behalf of only one of the rivals. In this way, Coca-Cola gained exclusive access to China while Pepsi had exclusive access to the USSR.



Geographical segmentation 2003 (\$mlns)

	Net Revenue		Long-Lived Assets	
United States	17377	64%	9907	61%
Mexico	2642	10%	869	5%
United Kingdom	1510	6%	1724	11%
Canada	1147	4%	508	3%
All other countries	4295	16%	3123	19%
	<u>26971</u>		<u>16131</u>	

Source: PepsiCo 2003 Form 10K p53

Based on SCOPE database TNI 1993 = 30%

Note: Countries with subsidiaries of PepsiCo as of 12/27/2003  
Source: PepsiCo 2003 Form 10K Exhibit 21, p123



## The Burma issue

Burma became independent in 1948 after a period of colonisation by Great Britain. In 1962, the Burmese Socialist Program Party seized power through a military coup. Free elections and freedom of speech were abolished under this dictatorial regime. Reports of human rights violations, corruption and forced labour were frequently reported. After repeated and violent protests by Burmese citizens, free elections were held in 1990. The National League for Democracy (NLD) won over eighty percent of the votes. The military junta, however, negated the election results. Political opponents were put in prison, tortured or even murdered. Aung San Suu Kyi, the NLD's leader and winner of the Nobel Peace Prize, was placed under political house arrest for her non-violent opposition to the junta. Aung San Suu Kyi, as well as international organisations such as the UN and the ILO, appealed to the international business community to cease investment in Burma so long as the junta was in power. According to societal organisations, it is impossible to do business in Burma without supporting a dictatorial regime. Only a complete boycott would bring the regime to its knees.

### Free Burma Coalition (FBC)

The Free Burma Coalition (FBC) campaigns against the military dictatorship in Burma and the presence of Western multi-national businesses in Burma. The regime in Burma is accused of constantly violating human rights and it came to power illegitimately. The FBC is a coalition of more than 100 NGOs that focus on this issue. They plead for an international economic boycott of Burma by asking businesses to leave the country. The various factions meet via the Internet.



## Conflict

The controversy surrounding PepsiCo started in 1993 at Carleton University in Ottawa, Canada. PepsiCo had been trading in Burma since 1991 through a forty percent share in Pepsi-Cola Myanmar (PPM).<sup>1</sup> A flood of information about forced labour and human rights violations in Burma and PepsiCo's presence in that country started circulating on the Internet. This was the first true *cyber* campaign that took place via the new medium of the Internet. The number of secondary schools and institutions of higher education (colleges and universities) in Canada supporting the movement quickly grew to about 150. According to the students, PepsiCo had to leave Burma. However, the Board of Directors still held onto free trade, because they considered it as promoter of the free society. In this way, the company would eventually be able to help improve the situation and place the regime under pressure (the *constructive engagement* argument). In 1995, educational institutions in the US became involved in the protest and the controversy gained momentum.

## Student protests

Numerous campaigns were launched to make it clear to PepsiCo that trade in Burma was unacceptable. In March 1996, the protests spread to secondary schools and universities in the US.<sup>2</sup> Not only students, but shareholders also emerged as discontented stakeholders.

<sup>1</sup> --- (1996), "Furtively in Myanmar", *The Economist*, Vol. 325, No. 7783, p. 31-32.

<sup>2</sup> --- (1996), "Student Critics of Burma Trying to Put Pepsi on Ice", *The Washington Post*, 4 April 1996.



Pressure built up so much that, at the end of April 1996, PepsiCo announced that it would partially withdraw from Burma by selling its 40 percent share in PPM.<sup>3</sup> On 24 April, PepsiCo's management informed large investors that it was considering complete withdrawal.<sup>4,5</sup> To the annoyance of the FBC, PepsiCo decided to continue providing syrup concentrate to PPM and to leave the licence to PPM intact.<sup>6</sup> The FBC stepped up the pressure in collaboration with shareholders and students. The intensity of protest campaigns in schools increased, orchestrated by FBC and the Franklin Research & Development bureau. The campaigners agreed that Burma was becoming the 'South Africa of the 1990s'.<sup>7</sup> In various US cities and states resolutions were adopted that prohibited the sale of products from dictatorial countries. Outside Canada and the US, campaigns took place in countries like Great Britain and Switzerland. The American President Clinton and Congress received thousands of letters petitioning legislative regulations. In total, eleven cities and two states in the US passed laws regarding investment in dictatorial countries.

On 7 October 1996, students from Penn State University in Pennsylvania<sup>8</sup>, the American University in Washington DC, Stanford University and Santa Monica College in California went on a hunger strike. In addition, fast food chains were picketed including PepsiCo's Taco Bell, which caused the company to suffer a loss of about 800,000 dollars.

### Complete withdrawal

By buying shares in the company, the factions were able to pose questions at PepsiCo's shareholder meeting. The ILO and the US and European Commission governments had already called for a ban on trading in Burma. Franklin Research & Development researched shareholder opinion and concluded that PepsiCo's shareholders viewed trading in Burma as immoral. In the end, it was PepsiCo's principal shareholders who made the company change its mind and forced the company to withdraw completely. The shareholders were convinced that the losses sustained as a result of the consumer boycott would be many times greater than total sales in Burma in the years to come.



*Boycott sticker introduced  
by the Free Burma Coalition in 1996*

In 1997, PepsiCo finally changed tack and withdrew completely from Burma.<sup>9</sup> 'Based on our assessment of the spirit of current US government foreign policy, we are completing our total disengagement from the Burmese market. Accordingly, we have severed all relationships with our former franchise bottler, effective January 15, 1997.'<sup>10</sup>

<sup>3</sup> --- (1996), "PepsiCo sells stake", *The Washington Post*, 18 April 1996.

<sup>4</sup> --- (1996), *The New York Times*, 26 April 1996.

<sup>5</sup> --- (1996), *Fort Worth Star*, 2 May 1996.

<sup>6</sup> [www.freeburmacoalition.org](http://www.freeburmacoalition.org), consulted on 16 September 2001.

<sup>7</sup> Tutu, D. (1993), "Burma as South Africa," *Far Eastern Economic Review*, 16 September 1993.

<sup>8</sup> <http://perc.ca/PEN/1992-12-01/auer.html>, consulted on 10 November 2001.

<sup>9</sup> *Het Financieele Dagblad*, 29 January 1997, also *Chicago Times* (U.S.), *Washington Post* (U.S.), *Wall Street Journal* (U.S.), *Financial Times* (UK) and *Toronto Star* (CAN).

<sup>10</sup> <http://www.ibiblio.org/freeburma/boycott/pepsico/pepsico.html>, consulted on 10 November 2001.



In an explanation, PepsiCo's directors stated that by taking this measure, they were following the American government's foreign policy that had now imposed a ban on investments in Burma. A large-scale campaign to boost the company's image started a week later at the *Super Bowl*, a huge American Football event.

### Indicators of Reputational damage

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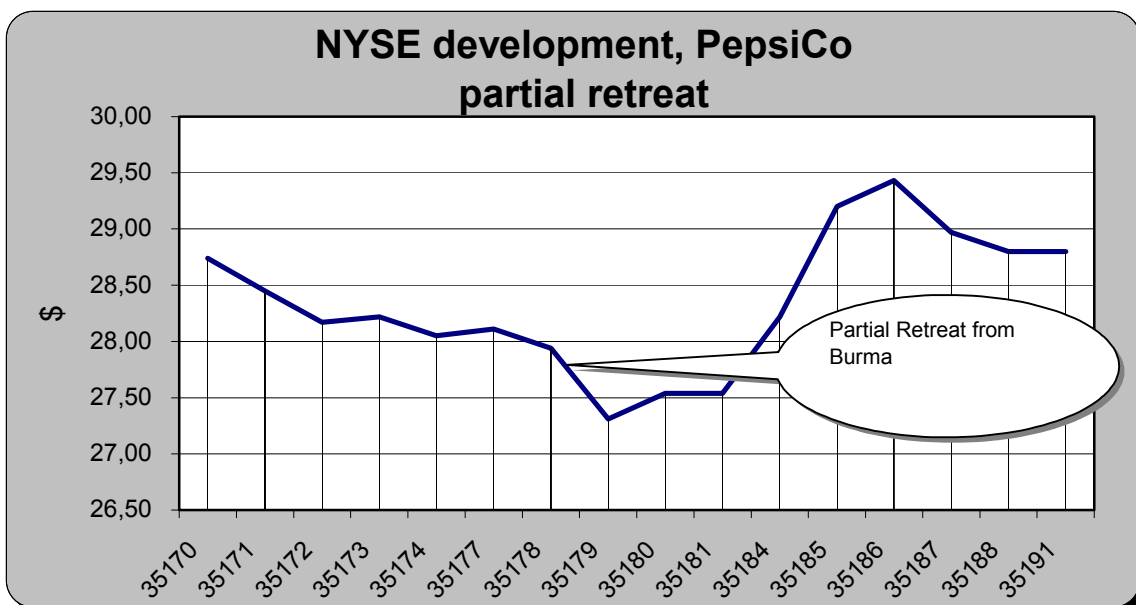
#### Consumer market

In 1995, the year in which the conflict between PepsiCo and societal groups culminates, the company experiences a decline of 32.7 percent in its turnover. Profit declines by 8.3 percent. The profile of leading consumers of PepsiCo resembles that of its major critics: young people, especially students. Early 1996, PepsiCo loses a big fastfood contract with Stanford University. In April, Harvard University retreats a softdrink contract of around one million dollars, after which Coca-Cola is approached. A month later Colgate University – a major outlet for PepsiCo – decides to swap Pepsi-Cola with Coca-Cola machines on its premises and canteens. The final quarter of 1996, PepsiCo's turnover lowers by 85 percent due to disappointing international sales and lower sales in its fastfood restaurant chains. The whole year witnesses a profit decline of 28.5 percent. Early January 1997, PepsiCo announces to retreat from Burma. At the end of the year, net profits increase by 86.4 percent.

#### Capital market

PepsiCo has a quotation at the New York Stock Exchange (NYSE), which enables to check the reaction of investors during the crises.

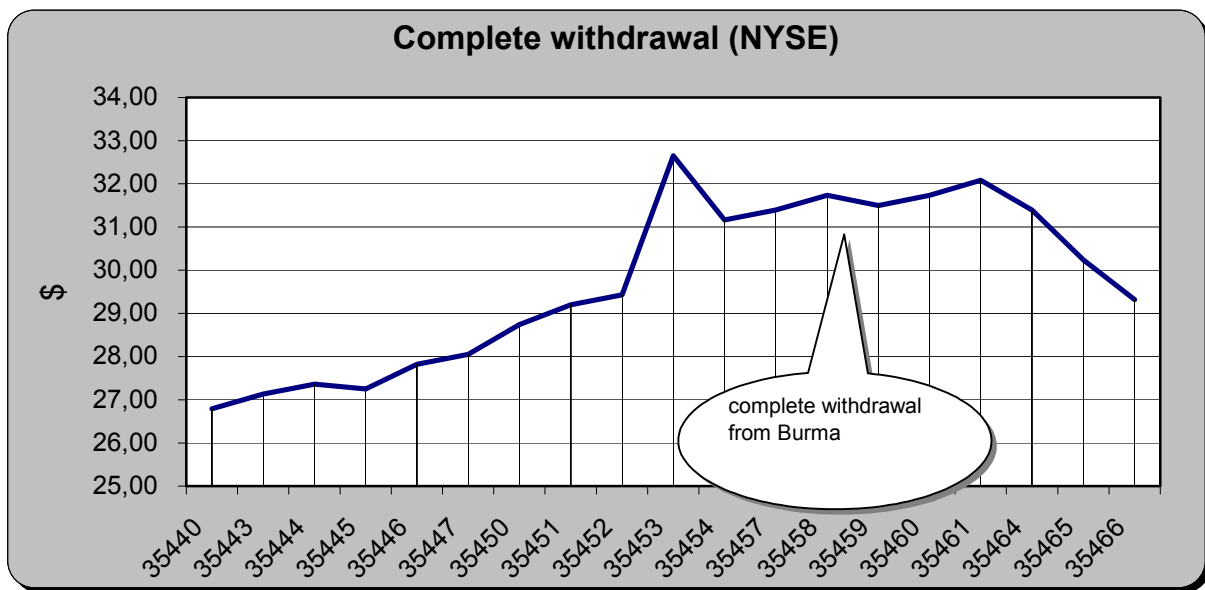
*15 April – 6 May 1996.* In this period speculations about a possible retreat of PepsiCo from Burma appear after which the decision is actually made. The figure below shows the value of the company's shares in this period. The share price drop 2.3 percent in value during the announcement of the (partial) retreat from Burma. A week later, shares increase, after extensive reports in the newspaper explaining the decisions. The stock quotations thus respond quite immediate.







10 January – 5 February 1997. The next figure below shows the course of PepsiCo’s stock during the announcement of its complete retreat from Burma, at 29 January 1997. This period shows a more volatile picture. Initially, the course increases with 10.9 percent. But this is largely related to the announcement on 23 January that PepsiCo will dissolve itself (per October) from its fastfood chain. PepsiCo starts a new massive image-campaign during the weekend Superbowl a week later. The official news of its complete withdrawal from Burma, does hardly trigger any immediate reaction. Early February, the course declines a couple of days in a row, but over the whole period, and during the years in which this case materialises PepsiCo’s shares steadily increased in value. By the end of January 1997 no noticeable reputational damage has been suffered in the capital markets.



**Labour market**

It was not possible to account for any noticeable consequences on PepsiCo’s position in the labour market. PepsiCo remained a potentially interesting employer to work for.

**Indicators of disciplining**

The initial attitude of PepsiCo regarding the issue of Burma can be characterised as ‘buffering’. The next statements support this: *"it is neither prudent nor appropriate for us to establish our own country-by-country foreign policy. By the standards used to judge Burma, he said, one could make the case that in the 1960s we shouldn't have been doing business in the United States. Free trade leads to free societies."*<sup>11</sup> By the end of the issue, PepsiCo’s management switches to a ‘bridging’ attitude.

PepsiCo has ultimately given in and completely retreated from Burma. This is an expression of noticeable disciplining.

<sup>11</sup> --- (1996), *Fort Worth Star*, 2 May.



## Outcome

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### **Whose interests were met?**

PepsiCo finally changed tack under pressure from students and shareholders led by the FBC. The FBC's interests were those that had been acceded to most of all.

### **Issue resolved, case closed?**

The Burma issue may have been solved for PepsiCo, but continues to exist as a societal issue. Laws have been passed in some states and cities in the US. The political situation in Burma has not changed appreciably in the years following PepsiCo's withdrawal, but societal campaigns throughout the world continue, in part due to the PepsiCo success, with greater strength. The wave of international pressure, where the PepsiCo case actively served as a very clear example, placed the Burmese regime under so much pressure that in May 2002, the imprisoned leader of the opposition was released. But even then the matter was far from resolved.

### **The aftermath**

PepsiCo has now been included in the Domini 400 Social Index (DSI400) because of its laudable policies from 1994 onwards in the areas of employee diversity, profit sharing (*SharePower Stock Option Plan*), recycling and re-use of packaging.