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Racing to the bottom: The negative consequences of organizational speed

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In February 2004, Coca-Cola Co. entered the U.K. water market by launching Dasani Water. Given the rapid growth of the U.K. bottled water market and their success in the U.S. market, the company assumed it would be successful in the U.K. However, Coca-Cola was prematurely optimistic. Two weeks after the launch, newspaper headlines reported troubles. A March 2004 *New York Times* headline read "Coke Recalls Bottled Water Newly Introduced to Britain."

Two things went wrong. First, Coca-Cola was producing Dasani water by filtering ordinary municipal tap water for chlorine and other mineral particles. The company then added a mineral mix for perceived fresh taste. Whereas this process seemed acceptable in the U.S., Europeans typically drank mineral and spring waters and felt duped by Coca-Cola's claims that Dasani was "pure." Second, the water exhibited excessive levels of bromate, which poses a cancer risk over the long term. Even though Coca-Cola tested its water regularly and was the first to notice that the U.K. legal standards had been exceeded, the water had already been placed on store shelves.

Although for Coca-Cola, the U.K. represented less than five per cent of its global market, the Dasani mishap had important corporate-wide consequences. The company estimated £25 million lost through the cancellation of productions contracts and advertising deals. Some analysts estimated the damage to the company's reputation to be 20 times that figure. Furthermore, the company decided to delay its launch of Dasani in Europe because of the negative publicity surrounding its failed launch of Dasani in the U.K. The corporation also appeared to be socially irresponsible, potentially putting its customers at risk.

The Dasani mishap led *The Guardian* newspaper to argue that Coca-Cola is "a giant that is so desperate for growth that it appears things are being overlooked." As well, Coca-Cola was lauded in 2007 for the speed with which it acts, when Coca-Cola India was ranked second by *Businessworld* for the Most Respected Fast Moving Consumer Goods Companies. We argue that Coca-Cola's pursuit of rapid growth may have, ironically, undermined its long-term value potential, because it keeps making mistakes. In other words, there are real costs to companies from moving too fast.

Fast food, fast cars, and even speed dating are the trend. Microwaves are often preferred to electric cook-tops and texting messages are often preferred to penning letters. The popular press and scholarly research is rife with examples of the need for companies to become more agile and move more quickly in response to hyper-competition and turbulent markets. Corporations rush to adopt new technologies, launch new products, and enter new markets faster than their competitors. The received wisdom is that organizations must change quickly in order to grab first mover advantages.

There is, however, a dark side to speed. Corporations that move too fast are likely to experience a larger number of organizational mishaps, contributing to corporate social irresponsibility and ultimately lower long-term value.

To explore the connection between organizational speed and mishaps, we analyzed archival data related to two very similar companies: Coca-Cola and PepsiCo. We dived deep

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into indicators of organizational speed, including mergers and acquisitions, strategic alliances, and CEO (chief executive officer) and equity turnover. We also analyzed the reported mishaps of both companies. We found significant evidence that Coca-Cola experienced more change, which Coca-Cola experienced substantially more mishaps, and that Coca-Cola is seen as more socially irresponsible and has lower accumulated market capitalization than its closer rival, PepsiCo. We argue that these issues are related.

ORGANIZATIONAL SPEED AND ADVERSE ORGANIZATIONAL OUTCOMES

Organizational speed refers to *the frequency of different activities in a unit of social time*. Research on the consequences of organizational speed has assumed that organizational speed is beneficial to companies. That is why researchers have primarily focused on the positive impact of decision speed, innovation speed, and the speed of strategic responses on firm's performance.

A few contemporary studies, however, have challenged this perspective, illustrating the dark side of speed. For example, Perlow, Okhuysen and Repenning showed how Notes.com, an Internet start-up, became caught in a "speed trap"—a pathology created by the firm's past focus on speed. Managers' speed in decision making helped the organization reach its initial market goals. But as managers' aspirations and expectations increased, so did their commitments under time and attention constraints, and their inability to achieve goals. Speed became self-fulfilling or endogenous, so that more speed contributed to bad decisions, which encouraged the firm to seek greater speed to compensate for the mistakes. Eventually, the company became bankrupt.

In another study in 2005, *Forbes* explored the implications of decision speed on organizational survival. With a sample of 98 small Internet startups in "Silicon Alley" (a community of Internet-related new ventures in the New York City metropolitan area), he found that bankruptcies were more common among companies with high decision speed. Specifically, companies that made faster decisions were likely to have shut down within four years.

Forbes pointed out that the average of decision speed in "Silicon Alley" was quite a bit shorter (4.6 months) than the decision speed in other academic studies undertaken in dynamic environments (e.g. the average speed was 7.7 months in Eisenhardt's study of microcomputers, and it was 18.7 months in Judge and Miller's study of biotechnology firms). Forbes suggested that the Internet firms in "Silicon Alley" pushed their decision-making practices to such a high speed that the potential positive performance effects of speed (e.g. the first to adopt a new technology) were suppressed because managers were not able to address issues such as technology implementation snags or irreconcilable alliance conflicts. Much as in Notes.com, the problems accumulated and aggravated one another. These studies show that there are limits to the value of making decisions too quickly regardless of how intense the environmental imperatives may be perceived.

Slawinski and Bansal's (2010) study of companies in Canada's oil sands found that organizational speed influenced firms' approach to complex issues such as climate change. Firms that moved too fast took a fragmented approach to climate change, rather than seeking holistic solutions. Such fragmented approaches exposed the company to reprimands by stakeholders.

Although the merits of speed are discussed widely, too little attention is paid to the costs. In this article, we argue that too much speed can increase the risk of organizational mishaps, which we define as *organizationally induced events that can threaten the viability of organizations*. Not only do mishaps cost the organization money, they can damage its reputation. They can also have wider implications on society, contributing to the firm's social irresponsibility as witnessed by the bromate in Coca-Cola bottles.

We were motivated to conduct this analysis and write this paper after reflecting on the many major mishaps that have occurred within firms that have experienced considerable CEO turnover, such as Merck, Hewlett-Packard, and Coca-Cola. These organizations were once heralded as bastions of corporate social responsibility with strong, visionary leadership. However, over time, the reputations of these corporations have eroded.

Such firms stand in stark contrast to others such as General Electric that supported their CEOs, in this case Jeffrey Immelt, even in the face of poor earnings. Prior research and managerial publications often tout the merits of CEO turnover, as it improves organizational responsiveness, prevents companies from organizational inertia and in turn, from experiencing organizational crises. We hope to balance this prior work by arguing that too much speed has its downside.

THE CONTRAST BETWEEN COCA-COLA AND PEPSICO

THE CORPORATE CONTEXT

Coca-Cola is the world's largest producer of soft drink concentrates and syrups and juice-related products. The company was founded in 1886 and is presently headquartered in Atlanta. PepsiCo is a leader in beverages and global snacks. The company was founded in 1898 and is headquartered in Purchase, New York. There are few companies that are more similar than are Coca-Cola and PepsiCo. Table 1 shows some firm-level data for comparison.

Recent changes in consumer preferences in the food and beverage industry offer an appropriate context in which to illustrate organizational speed. Consumers not only continue expecting products to taste good, but now they also expect some type of additional health characteristics, such as low-calorie, added vitamins and minerals, or energy providing. In

Table 1 Comparison of firm-level characteristics for 2010.

	Company name	
	Coca-Cola	PepsiCo
Number of employees (thousands)	139.6	294
Total assets (millions)	72,921	68,153
Total revenues (millions)	35,119	57,838
Pre-tax return on assets (%)	13.15	14.47
Total value of common shares outstanding (millions)	150,745	103,287
Debt/equity ratio	0.76	1.18

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