

NAVIGATING SHOCKS IN FOREIGN MARKETS - HOW GUINNESS MANAGED REGULATIVE SHOCK IN AUSTRALIA IN 1924

In the midst of the Roaring Twenties, a period marked by rapid industrial growth, and global expansion, the world's economies were reshaping trade dynamics in response to post-war realities. Amidst this flux, the famous Guinness Brewery – the largest brewery in the world before the war – was balancing with the evolving trade regulations that threatened to disturb its global market presence. At the heart of their struggles lay the shifting sands of geopolitical boundaries, particularly the unique position of the Irish Free State (IFS) and its ambiguous status in relation to the UK and the British dominions, like Australia. This case dives into three critical periods between 1924 and 1925, shedding light on how Guinness maneuvered through regulatory changes and uncertainties.

Period 1 (August 1924–November 1924): Shock and Initial Reaction

On 7 October, 1924, under pressure from protectionist Australian manufacturers and media, the Australian Tariff Board—under the leadership of politically active and protectionist Comptroller-General Major Oakley—recommended a radical increase in the required percentage of UK labor and/or goods to qualify for preferential tariff treatment, specifically from 25% to 75%. The cause was strongly supported by the Minister of Trade and Customs, Mr. Pratten, who was “an ‘out and out’ protectionist and in the course of his remarks gave the Manufacturers his assurance that in exercising his discretionary powers under the customs act he will certainly protect the local Manufacturer to the utmost” (Correspondence, Mr. Ralph to Read Brothers, 12 March 1925, Guinness archives).

This change posed a challenge for Guinness because the company was no longer part of the UK after the IFS declared its independence from the UK in 1922 and struggled to define its subsequent relationship with the UK. Guinness’s product did not fulfill the 75% requirement without using a higher proportion of UK malt or UK labor (Correspondence, Newbold, Guinness’s Managing Director, to the head brewer, 5 December 1925), yet the company needed the preferential tariff treatment based on its former UK origin status. Fortunately, however, the IFS was still considered to

be part of the United Kingdom by Australian Customs, although this was subject to change at any time, thereby jeopardizing the future of Guinness exports to Australia.

Guinness was deeply concerned by this for failure to qualify for preferential tariff treatment would have doubled their import duties, thereby driving them out of the Australian market (Correspondence, Major Goddard to Mr. Green, Esq., Guinness HQ, 8 November 1924, Guinness archives). The fears of Guinness's management were further aggravated by their most trusted and competent bottler's—of the Messrs. Read Brothers' company—opinion, which was shared in Guinness's internal communications (Guinness internal correspondence, 3 January 1925, Guinness archives): “Messrs. Read fears that if Australia excludes the Irish Free State, and goods from that country are not given preferential treatment, that other Colonies, such as New Zealand and South Africa, would possibly follow suit, which would make the position regarding the sale of our Manufacture abroad much more serious.” Mr. Blackmar, the energetic director of Read Brothers who was held in high esteem by Guinness's management (e.g., Dennison & MacDonagh, 1998), also sent a direct warning to Guinness about the seriousness of the Australian government's protectionist ambitions (Correspondence, Mr. Blackmar to Guinness HQ, 3 January 1925, Guinness archives): “Their actual intention is to make it as difficult as possible for any British goods to get into their country without paying duty the same as goods from any foreign country, especially where similar goods of British origin are manufactured in Australia. [...] We may be crying ‘wolf’ too soon, but the situation in our opinion is a very serious one.”

To address this threat and allay their fears, Guinness and their two key bottlers (Porter and Read Brothers) began to prepare strategic responses. In the interest of pursuing solutions to the unfolding, perplexing, and volatile situation, information was actively acquired by Read Brothers' director Mr. Blackmar, and especially foreign agent Mr. Ralph, a long-term confidante of Guinness who was considered to be a particularly well-informed man and was “doing more than any of the others to get our stout to the consumer more cheaply” (Correspondence, Major Goddard to Mr. Green, Esq., Guinness HQ, 8 November 1924, Guinness archives). Guinness's bottom line was to ensure preferential tariff treatment, at any cost necessary. Their attitude is well indicated in the letter from

Read Brothers' Mr. Blackmar to their foreign agent, Mr. Ralph (Correspondence, Mr. Blackmar to Mr. Ralph, 26 March 1925, Guinness archives): "You may depend upon Messrs. Guinness to do everything possible in connection with the whole matter, also to do everything they possibly can towards securing a reduction in the duty. We know they are keenly interested in this matter and using all their influence."

Based on the situational understanding attained by Mr. Ralph and Guinness's own highly regarded foreign agent Major Goddard, once new regulatory pressures came to bear Guinness initially formed a consensus that the effects of the regulatory update could possibly be avoided entirely if the IFS's status as part of the UK were preserved in Australian customs regulations. In this way the company's manufacturing would be considered as wholly British, hence bypassing the 75% UK labor and/or material requirement. This approach was considered to be the most suitable first option due to its low costs, minimal required changes, and lower risk in comparison to other strategies—namely, manipulation and compromise. The company created ambiguity by declaring their products as "Manufactured in Great Britain and Ireland", subsequently changing to the term "United Kingdom" to avoid drawing attention to the IFS (Correspondence, Major Goddard to Mr. Green, Esq., Guinness HQ, 11 April 1925, Guinness archives). While Guinness and their bottlers were aware of the risks, they remained optimistic that "when this question [of the preferential tariff issue] comes up for consideration in the Federal Parliament this Spring, it is quite possible that the distinction between the Irish Free State and the United Kingdom may not arise" (Correspondence, Guinness HQ to Read Brothers, 22 January 1925, Guinness archives). In sum, the initial strategic response was aimed at maintaining the firm's current trajectory in order to avoid significant modifications to its existing business model or operations.

Period 2 (December 1924–March 1925): Consideration of Complementary Responses

As the event progressed, Guinness came to realize that avoidance might be impossible and began to consider alternative strategic solutions. Their next consideration revolved around compromise, that is, adapting to the requirements of the new regulations, although this was deemed as 'the last resort' for the company. Mr. Blackmar advised Guinness (Guinness internal correspondence, 3 January 1925,

Guinness archives) to “use every endeavour at the present time, in the interest of our Bottlers and ourselves to stop the Irish Free State being excluded, as nothing will be left undone by all the Brewers in Australia to restrict the import of English Beers, but only as a last resort we might bring forward the question that our Manufacture was 75% British.” Mr. Blackmar’s advice was motivated by the expensive reorganization that adaptation to the new regulations would have entailed, which was a costly and disruptive shift that all hoped to avoid. These costs and major changes required by the adaptation provided a bottom line, and Guinness was motivated first to pursue other strategic trajectories.

Accordingly, Guinness and its key bottlers started to promote aspirations to avoid the influence of the regulations by engaging in subtle forms of influence and negotiation with both regulatory bodies and connected individuals so as to ensure that Guinness was not excluded from the UK in the updated regulations. In particular the foreign agents Mr. Ralph and Major Goddard played critical roles in such efforts due to their situational knowledge and capacity to engage with host government representatives. As Guinness’s foreign agent Major Goddard indicated in his letter to Read Brothers, “I shall be seeing Major Oakley on my return to Melbourne again in April and shall not lose sight of any opportunity to press for more favourable treatment” (Correspondence, Major Goddard to Read Brothers, 27 January 1925, Guinness archives). Major Goddard’s efforts are notable as Major Oakley was Australia’s Comptroller-General and one of the driving forces behind the protectionist updates to its regulations. Similar efforts were pursued by Read Brothers’ foreign agent Mr. Ralph, who wrote to Major Goddard (Correspondence, Mr. Ralph to Major Goddard, 5 March 1925, Guinness archives): “I believe that the local opposition (with which I was to some extent associated indirectly) was largely responsible for the change in the ministerial attitude and the present apparently satisfactory position. It is deplorable that businessmen have to spend time in political wire pulling but as long as the tariff can be drastically altered by Departmental Regulation instead of being definitely fixed by Legislative enactment this state of affairs must continue if importers are adequately protected.”

Despite the likelihood of success for such a two-pronged approach, where avoidance was supported by subtle manipulation, Guinness recognized the limitations and risks involved and prepared

alternative strategic maneuvers for future contingencies, to be executed as needed. In other words, although the strategy of avoiding the influence of the new regulations would minimize immediate costs and expensive changes, this was understood as fickle and risky. The chance of a protectionism-driven political agenda that excluded the IFS from the UK in the regulatory sense still pertained, thus creating a persistent sense of uncertainty and vulnerability within the company. This state of mind is captured within Mr. Ralph's letters to Read Brothers (Correspondence, Letter from Mr. Ralph to Read Brothers, 3 March 1925, Guinness archives): "I am confident that Guinness stout will never be safe from the manipulations of those interested in local brewing until a definite bargain is made with the Imperial Government on the lines of my letter of 21st February for such a bargain could not be overruled by subsequent Departmental Regulations." Mr. Ralph believed that the only way to ensure the safety of the product in the Australian market was to shape the regulations specifically to include "British Empire material and/or labour" instead of just "U.K. material and/or labour" (Correspondence, Mr. Ralph to Read Brothers, 5 March 1925, Guinness archives).

Faced by such vulnerability, Guinness prepared to shape Australian customs regulations actively as a backup plan should all else fail. In pursuit of this strategy Guinness was informed by Mr. Blackmar and Major Goddard about the importance of influential figures in the Australian business environment, and the company was encouraged to acquire the help of Sir Mark Sheldon, a man of considerable power and connections who was head of a large trading company, chairman of the Australian Bank, and president of the Associated Chambers of Commerce in Australia, and who could thus "bear great weight on any question that arose" (Guinness internal correspondence, 7 January 1925, Guinness archives). Importantly, he was also a personal friend of the Porter family, who were central actors in the bottling and distribution of Guinness Stout in Australia (Guinness internal correspondence, 16 January 1925, Guinness archives). Sir Mark's influence on Australian government authorities was deemed invaluable for the company's cause because he was also connected to Mr. Pratten, the Australian Minister of Trade and Customs. It was believed that Sir Mark "had 'a pull' on this gentleman" (Guinness internal correspondence, 10 February 1925, Guinness archives), whom he had helped to appoint, and that he could sway Mr. Pratten to secure preferential treatment for

Guinness Stout in the Australian market. Guinness's internal reporting details how Sir Mark Sheldon had assured Guinness's representative that he "knew Mr. Pratten very well, (who is an Englishman by birth), Minister of Trade and Customs, and first introduced him to the Australian Senate, and [...] conveyed that he could influence him in our interests" (Guinness internal correspondence, 23 January 1925, Guinness archives).

Nevertheless, audacious schemes to shape a foreign country's regulations were seen as a double-edged sword: while regulatory development could be shaped more favorably, such visibility could disrupt the firm's efforts to avoid exclusion from the UK by drawing unwanted attention, thereby exposing the firm to potential protectionist scrutiny or retaliation. Both Mr. Ralph and Sir Mark Sheldon explicitly warned Guinness about drawing attention to the status of the IFS. Thus, Guinness hesitated to gather information openly on the subject because "possibly the fact of our making so many enquiries on this matter might come to the knowledge of the Government Authorities in Australia, and our showing such great interest in the question might cause them to give deeper thought to the matter than they might otherwise do, with possibly prejudicial effects to our interests" (Guinness internal correspondence, 3 January 1925, Guinness archives). A balance was sought between the two strategies of avoidance and manipulation; the plan to shape Australian regulations was held in reserve while the plan to avoid the new regulations was pursued through subtle negotiations and the wielding of indirect influence.

Period 3 (April 1925–August 1925): Strategic Decisions

Around April 1925, Australian government officials commenced distributing information that the IFS was to be considered as part of the UK for regulatory purposes. On 4 April, 1925, Major Goddard sent a telegram to Guinness HQ that the IFS was officially considered to be part of the UK in terms of Australian customs regulations (Correspondence, Goddard to Guinness HQ, 4 April 1925, Guinness archives), thus delivering the highly anticipated and positive news that Guinness no longer needed to rely on the 75% UK labor and/or material requirement. However, due to the complexity and uncertainty surrounding the situation, Guinness's internal correspondence shows that the management did not act on Major Goddard's information but instead decided to await further confirmation

(Guinness internal correspondence, 9 April 1925, Guinness archives) due to the oscillating nature of the debate over whether or not the IFS would be included. Additional doubt was cast by Mr. Blackmar's warning to Guinness about the strength of the protectionist climate in Australia, and especially Minister Pratten's support thereof (Correspondence, Mr. Blackmar to Guinness HQ, 20 April 1925, Guinness archives). Mr. Blackmar also shared Mr. Ralph's recent letter, in which he urged the company to pursue a more permanent solution through more aggressive measures in order to shape regulatory development, as well as warning Guinness and the English bottlers not to be lulled into a false sense of complacency. Here, he argued that merely avoiding the new regulations would provide only temporary respite, which could be cancelled through new political decisions at any time.

Guinness at last received the clarity they needed when, on 19 June, 1925, Mr. Blackmar confirmed that the IFS would indeed be classified as part of the UK, as based on information provided to Read Brothers by the Australian Commonwealth High Commissioner in London (Correspondence, Mr. Blackmar to Guinness HQ, 19 June 1925, Guinness archives). Upon this confirmation Guinness rapidly converted the strategic considerations they had developed over the past months into the concrete decision to proceed with the avoidance strategy rather than pursue the contingent compromise or manipulation strategies. On 27 June, 1925, this decision materialized into action when Guinness issued a letter to all foreign bottlers with the instruction to start using the declaration "wholly manufactured in the United Kingdom", which freed them from the burden of fulfilling the UK labor and/or material requirements (Correspondence, Guinness to all foreign bottlers, 27 June 1925, Guinness archives). For now the case of the preferential tariff conflict was resolved, and Guinness could continue exporting its Foreign Extra Stout to Australia whilst enjoying preferential tariff treatment.

Case Task for Students:

As the turbulent events of the mid-1920s unfolded, Guinness found itself caught in a proverbial storm of geopolitical uncertainty and rapidly changing trade regulations. On the more macro-level side of things, the case highlighted the interrelationship between global politics, trade regulations, and corporate strategies. On the firm-level, it allows us to follow and analyze how the struggles

threatening Guinness' Australian market operations forced them to formulate strategies, adapt, and leverage their political networks under heavy uncertainty and pressure. We can observe the multiple strategies Guinness considered: from avoidance to compromise, and from subtle negotiations to direct influence. Their course of action was not merely shaped by internal considerations, but also by the maneuvers and opinions of key external figures like Major Goddard, Mr. Ralph, and even figures as influential as Sir Mark Sheldon – who served as intermediaries, informants, and influencers in a rapidly shifting landscape.

As students of international business strategy, this case serves as a reminder of the complex dance companies often engage in on the global stage. It allows us to consider the myriad of factors on multiple analytical levels that inform organizations' strategic decisions.

Things to think about:

1. What were the main challenges faced by Guinness in response to the changing Australian regulations?
2. What were the pros and cons of each strategy Guinness considered?
3. How did the geopolitical context influence business strategy?
4. How did various actors (like Sir Mark Sheldon, Major Goddard, Mr. Ralph, etc.) shape the strategy and outcome?
5. Guinness is considered very “Irish”, do you think turning it to “produced in the UK” would have had any implications for their brand or success?
6. If you were in the position of Guinness's management during this period, what strategy would you have chosen and why?
7. This is how it was done by managers in the “Roaring Twenties”, but how would you, as a modern manager, approach and address the regulatory shock?
8. What would have been the potential ramifications for Guinness if the IFS was definitively excluded from being part of the UK in Australian customs regulations? What could have Guinness done in this case?

9. How other breweries or beer producers might have responded to the same situation? Would they have followed Guinness's strategy, or might they have approached the problem differently?
10. Think/list out all the strategic tools and tactics employed by Guinness over the three periods. Which were the most effective? Which were the riskiest? Would any other tactics have been beneficial?
11. What about the ethical implications of attempting to influence or shape another country's regulations? Was Guinness acting ethically in its dealings with Australian officials?
12. Think about a modern-day situation where a company had to navigate complex international regulatory environments. How does it compare with the Guinness case?