



CARLSBERG'S STRATEGIC RESPONSE TO THE RUSSIAN CRISIS



A case report for:

CEMS Global Strategy - Fall 2023 - Aleksi Nittymies

A case report made by:

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DISCLAIMER



Report timeframe:

The strategic decisions taken in this case report are based on the company's situation **before** they were forced to **leave the Russian market**. We therefore considered their situation when they were **still operating** in Russia.

EXECUTIVE SUMMARY

CARLSBERG GROUP

Carlsberg group is a **Danish brewing group** developed in **Central Europe, Eastern Europe and Asia**, producing and selling **alcoholic and non-alcoholic beverages** mainly beers and ciders. The group possesses a large stake in **Baltika Breweries** which enabled them to reach **28%** and **31%** market share in **Ukraine and Russia** respectively. Carlsberg's group suffered from declining revenue from Eastern and Central Europe.

INTERNAL ENVIRONMENT

The company has a **strong hierarchically structured system** with **centralized functions** at the **regional level** enabling the firm to gain in **efficiency** when communicating with its subsidiaries. Moving from a local to a global player enabled the firm to develop different expansion strategies and gaining a good understanding of the international environment before turning its international expansion strategy towards **joint ventures and wholly owned subsidiaries**. The risk management strategy of the group is also **regionalized**, and responsibilities are spread among **diverse committees** which assess the risk.

EXTERNAL ENVIRONMENT

The invasion of Ukraine by Russia **frightened** the business environment in Eastern Europe. All the components of the PESTEL analysis shifted toward the **deterioration** of the environment. The economy worsened as the European Union imposed drastic **sanctions** related to trade in Russia. Therefore, multinational companies had to take drastic actions to comply with the sanctions imposed by the institutions such as the European Union. They had to rethink **the procurement** of key raw materials and react quickly to the changing environment to **ensure the pursuit of their operations**. The legal environment also worsened as the Russian government created **new alcohol policies**.

HOW TO DEAL WITH THE CRISIS - OPPORTUNITY AND CHALLENGES

The war has frightened **the growth opportunity** that the Russian Market represented for the group, challenging the **supply chain** of the Eastern European Region of Carlsberg group. As staying in the country would **destroy the group's reputation** in its Central European market, we would recommend the group to quit Russia by **liquidating its assets** in the country. We also invite the firm to **assess the potential risk** that **other markets** could represent related to the events between Ukraine and Russia. We would advise the group to keep an eye on the evolution of the situation and the potential to continue its operation in Ukraine. However, for now we would recommend the group to conduct **CSR actions in Ukraine** such as providing the war refugees with job opportunities in their host countries. Further, the group should invest in **R&D related to the procurement** of key raw materials.

Presentation Slides

AGENDA

- 1 Company Overview
- 2 Basis of Analysis
- 3 Internal Analysis
- 4 External Analysis
- 5 Multi-Level Approach
- 6 The Way Forward

CARLSBERG BUSINESS OVERVIEW - RUSSIA AND UKRAINE



Founded in 1847 by J.C. Jacobsen in Copenhagen, Denmark



Global brewer with a significant presence in more than 150 markets worldwide



The world's third-largest brewer, following Anheuser-Busch InBev and Heineken



Product range varies from lower-end core beers to premium ones

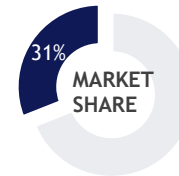


The company is committed towards sustainability through their "Together Towards ZERO and Beyond" initiative

Ukraine



Three breweries in Kyiv, Lviv and Zaporzhzhia with 1350 employees

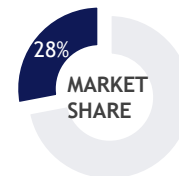


One of the largest producers with a market share 28%

Russia



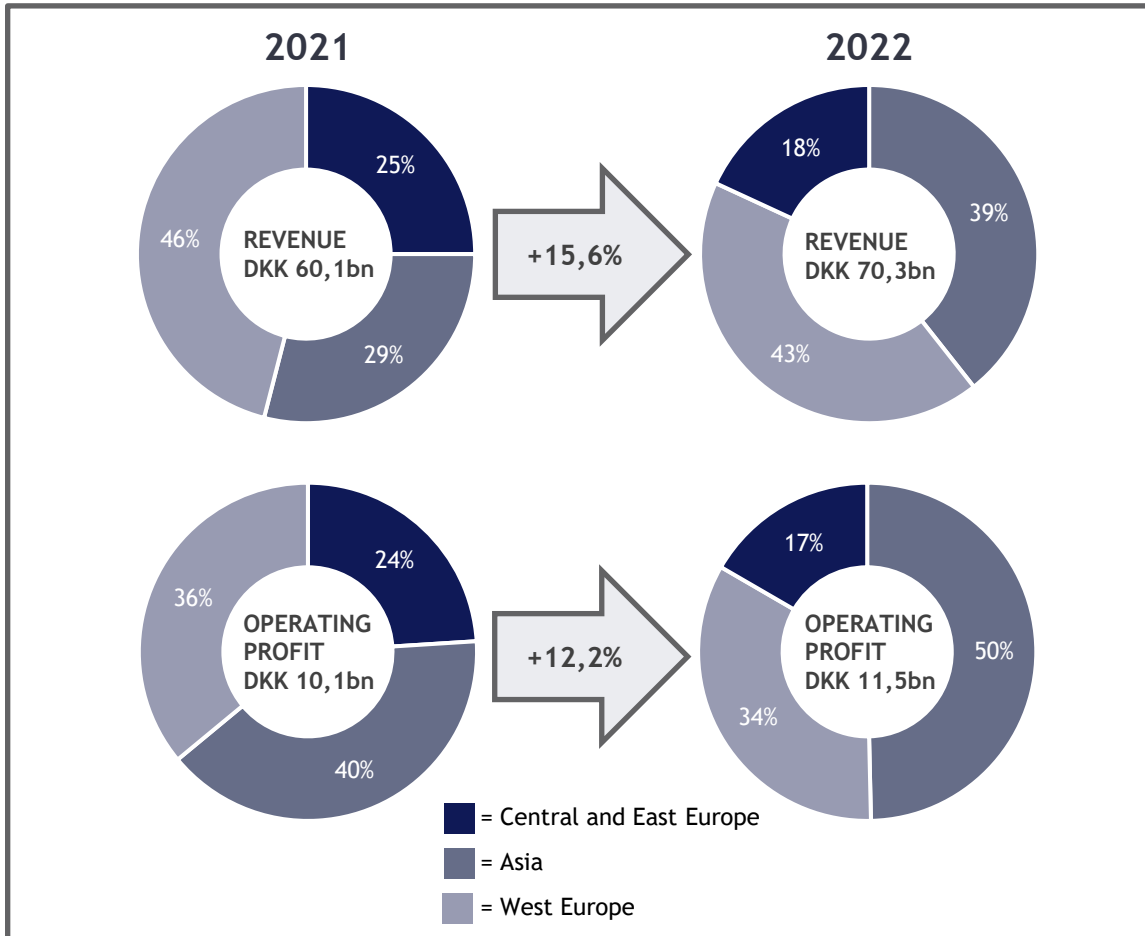
Ownership of Baltika Breweries with 8400 employees and eight breweries in Russia



Second largest producer with a market share of 31% in 2019

FINANCIAL EFFECT OF THE WAR ON CARLSBERG

The revenue share of the Central and East European market reduced by over a fifth from 2021 to 2022



The war in Ukraine has had a great effect on Carlsberg

01

Major shifts in the importance of markets based on revenue

Asia's importance as a market grew significantly from 2021 to 2022. In one year, it became almost as big of a market for Carlsberg as WE.

02

Significant impact on revenue side from only the two markets

While the rest of the markets grew the growth in Central and East Europe grinded to a halt

03

Expected write-off of \$1,4billion due to selling or loss of Russian operations

The company signed a deal selling its operations to a undisclosed partner in June 2023

04

Quick action benefitted the reputation and stock price

Due to the quick action on deciding to exit the Russian market the company received a positive reaction from the market

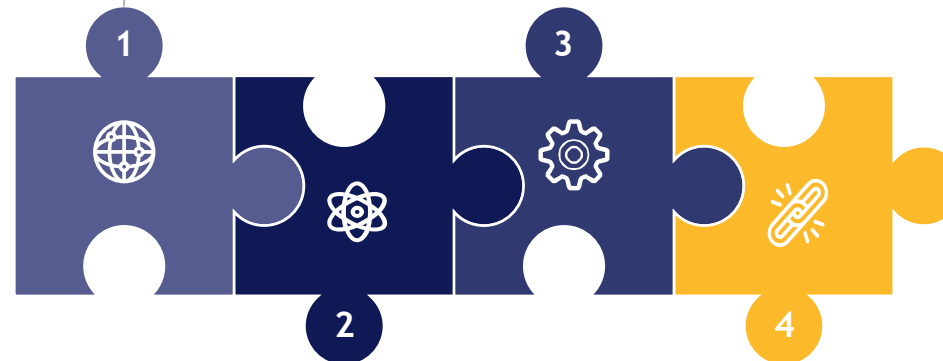
A REGIONALIZED COMPANY STRUCTURE

GLOBAL EXPANSION STRATEGY

From a **local** to a **global** player:
Export, Green Field, Joint Venture
and Wholly Owned subsidiary

VALUE CHAIN MANAGEMENT

Centralized and Glocal functions
allowing efficiency but reducing
resilience



GROUP'S STRUCTURE

Regionalization of management with
centralized function applying to all
subsidiaries

RISK MANAGEMENT

A centralized responsibility spread
at different hierarchical levels

ANALYTICAL TOOLS

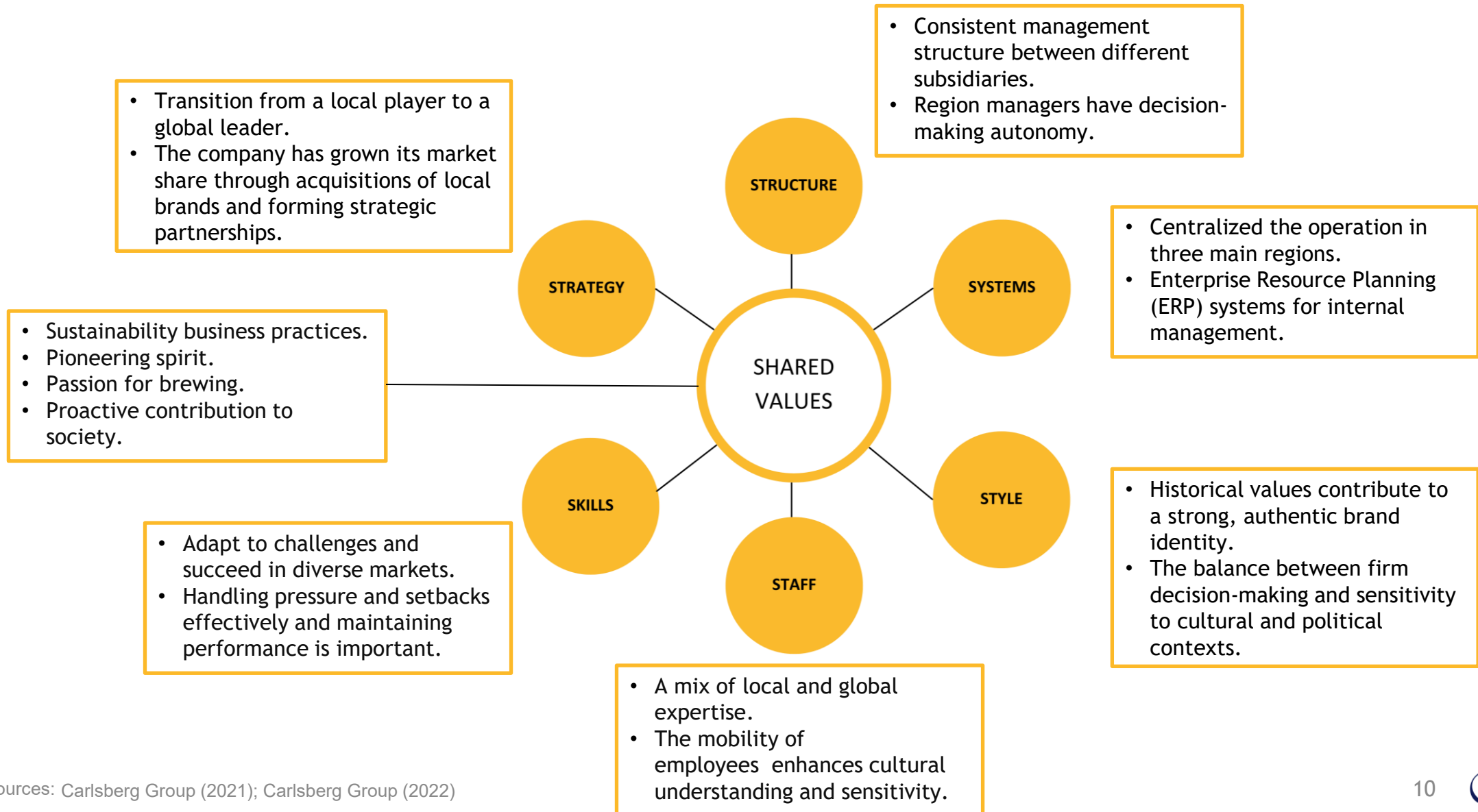
INTERNAL - McKinsey 7S Framework

- ✓ Used to understand **internal efficiency**
- ✓ Addresses **coordination, not structure** in Carlsberg efficiency
Oftentimes utilized to understand change management, which Carlsberg is now facing through the geopolitical disruption
- ✓ Helps understand **the correct strategic response to take**
Can be used to give an overview on any disruption faced on the market

EXTERNAL - PESTLE Framework

- ✓ Showcasing the external environment **through multiple different elements**
Analysis of the elements company is facing is oftentimes utilized to study the impact of change in the business environment
- ✓ Chosen for an overall **macro view on the Russian market**
Shows the macro environment faced by any company, when it comes to major scale disruptions
- ✓ May help the company establish **opportunities**

INTERNAL ANALYSIS - McKinsey 7S Framework

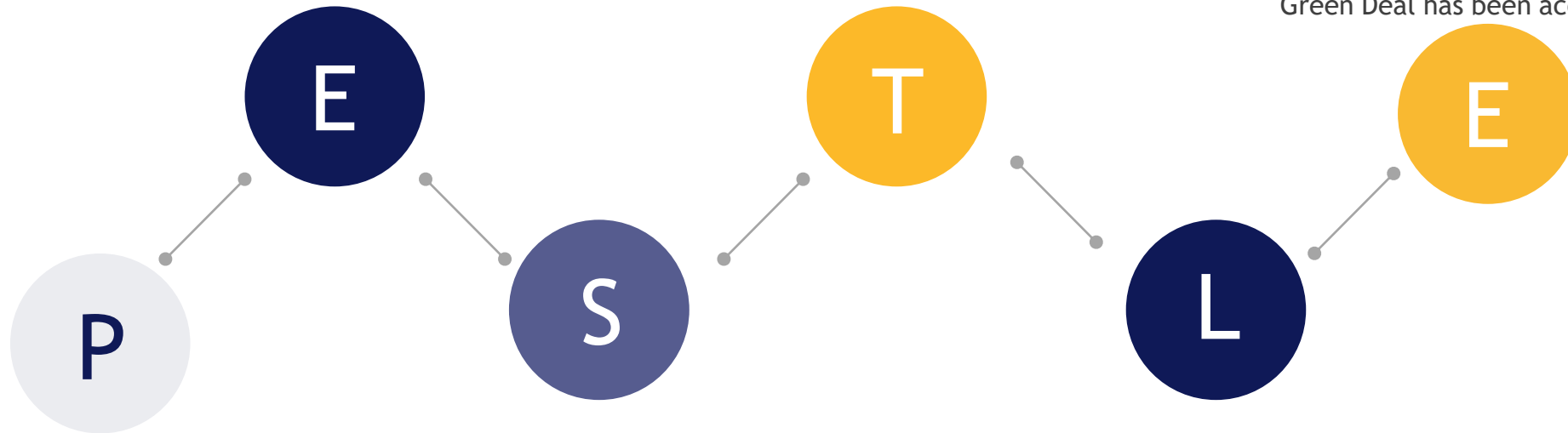


EXTERNAL ANALYSIS - PESTLE Framework

Due to sanctions, the Russian GDP has **plummeted**, and the ruble faced devaluation, **protectionist measures are challenging Western MNE's**

Russia has **tripled its military spending** now representing a **cyber threat to Western countries and MNE's**, making IP production crucial

Many MNEs are dependent on **Russian raw materials** and much of **infrastructure has been destroyed**, but sustainable initiatives, e.g. the **Green Deal has been accelerated**



After the conservative turn taken in 2012 and the annexation of Ukraine, the **flows of FDI to Russia have significantly declined** making it a **very risky market**

The **freedom of press has significantly declined**, and all anti-war manifestations are tamed, while **Russia has annexed multiple Western MNE's assets**

Since 2012, **new regulation implemented** decreasing alcohol consumption still making the **institutional environment very unstable**

ASSESSING THE GEOPOLITICAL RISK ON MULTIPLE LEVELS

Why?

- ➔ Assess geopolitical risk
- ➔ Consider different levels of analysis
- ➔ Identify strategies




How?

- ✓ Gathering information on the company's global environment
- ✓ Gathering information on the company's internal competencies
- ✓ Assessing the risk level of each factor
- ✓ Identify for each factor the challenges and opportunities it poses
- ✓ Elaborating strategies to tackle each factor




	Risk	Challenge/Opportunities	Strategies
Supranational			
International			
National			
Industry			
Firm			

CHALLENGES AND OPPORTUNITIES IDENTIFIED

Opportunities

-  The potential addition of new members, such as Ukraine, into the EU reduce the barriers of doing business.
-  Opportunity to reconsider the materials employed in packaging through focused research and development efforts.
-  The reconsideration of keeping operations as they are in countries not against the war could help leverage positive public relation.

Challenges

-  Dependency on Russian raw materials despite local and global operations.
-  The division of the world into two blocks leads to a strategic dilemma of having to choose a side.
-  Shareholder concern of financial performance and external communication towards stakeholders.

LEAVING RUSSIA AND STRENGTHENING THE RELATION WITH UKRAINE

Short-term

-  Increasing CSR activities in Ukraine
...
-  Exiting the Russian market through liquidation of assets
...
-  Make additional investments into protecting Eastern European Intellectual Property
...
-  Diversify sources of raw materials (e.g. aluminum, energy, grains)
...
-  Transparent two-way stakeholder engagement
...

Long-term

-  Reassessing the risk of other markets and evaluating exposure in them
...
-  Increase exposure to the Ukrainian market to ensure strong foothold
...
-  Invest in R&D processes to discover novel sources of materials
...
-  Long-term reputation management through positive initiatives
...
-  Focusing on further developing the Asian operations
...

In-depth Analysis

This section of the slide deck consists of the in-depth analysis conducted on the case

TEAM MEMBERS



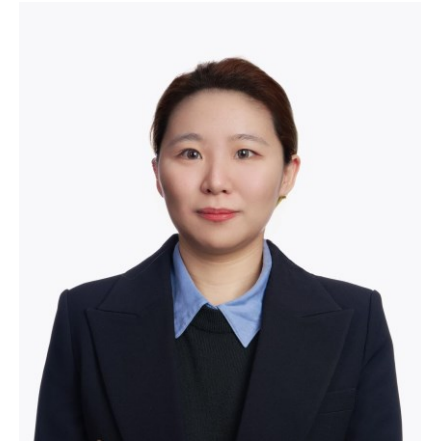
ELISABETH STEEN



SOFI LAAKSO



PHILIP RENTTO



JOCELYN LIU

01

Carlsberg Business Overview

CARLSBERG BUSINESS OVERVIEW - RUSSIA AND UKRAINE



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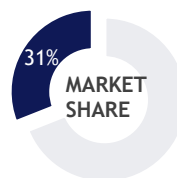


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Ukraine



Three breweries in Kyiv, Lviv and Zaporzhzhia with 1350 employees

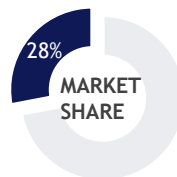


One of the largest producers with a market share 28%

Russia



Significant stake in Baltika Breweries with 8400 employees and eight breweries in Russia



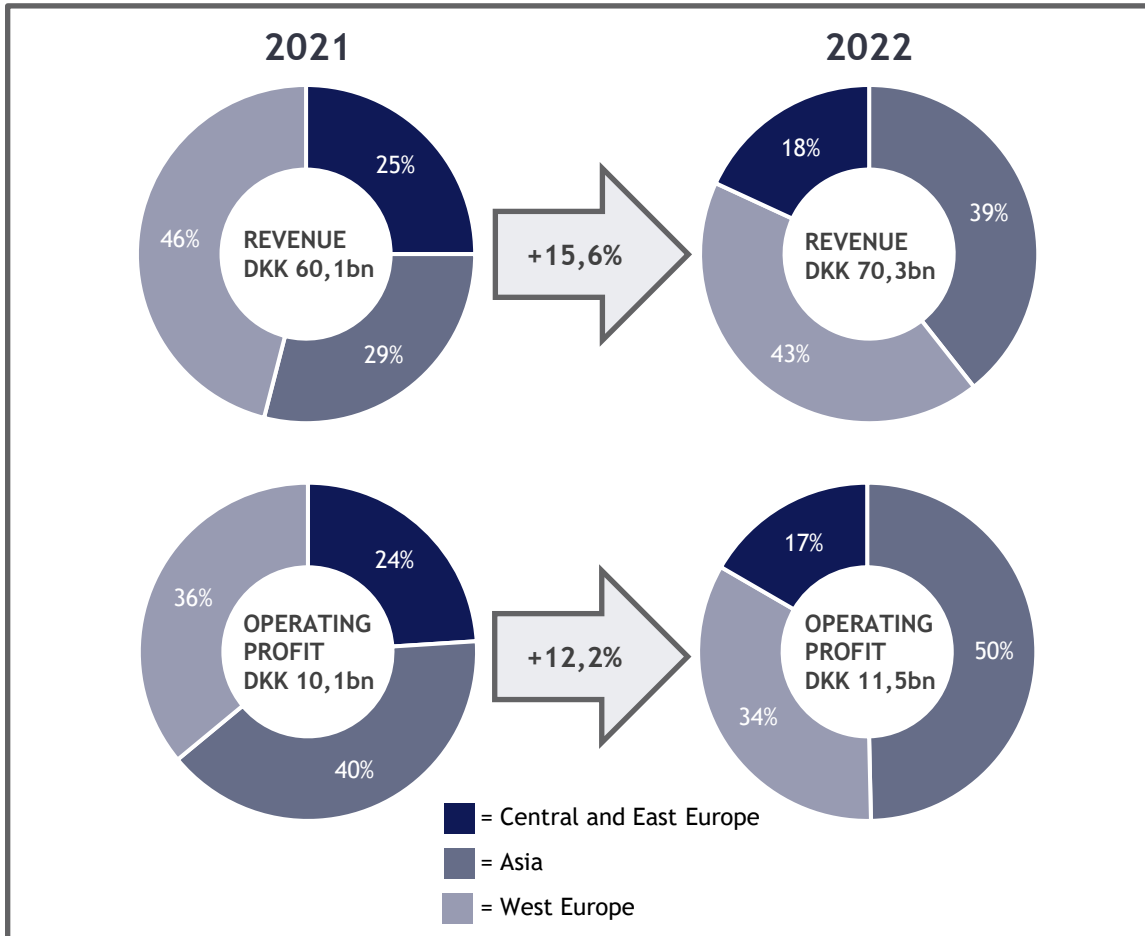
Second largest producer with a market share of 31% in 2019

02

Financial Overview

FINANCIAL EFFECT OF THE WAR ON CARLSBERG

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- 01 **Major shifts in the importance of markets based on revenue**
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- 02 **Significant impact on revenue side from only the two markets**
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- 03 **Expected write-off of \$1,4billion due to selling or loss of Russian operations**
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- 04 **Quick action benefitted the reputation and stock price**
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03

Strategic Overview

Global Expansion Strategy

Overall Value Chain Management Strategy

Risk Management Strategy

CARLSBERG'S GLOBAL EXPANSION STRATEGY



From a local player to a global player

Over the years Carlsberg Global Expansion strategy evolved. The firm is nowadays still using **export** to introduce their products to new markets with having for end goal to conclude **joint venture** or **acquisition of local firms**

Green Field Strategy

The green field strategy is applied through the **building of production and distribution facilities** from scratch. This strategy being investment intensive, doesn't enable the firm to have prior knowledge of the market.

Carlsberg used it between 1968 and 1981 by opening breweries in Malaysia, the UK and Hong Kong.

1950

1960

1968

1981

Export

The export strategy is defined as the selling of **domestic products** on a **new market**.

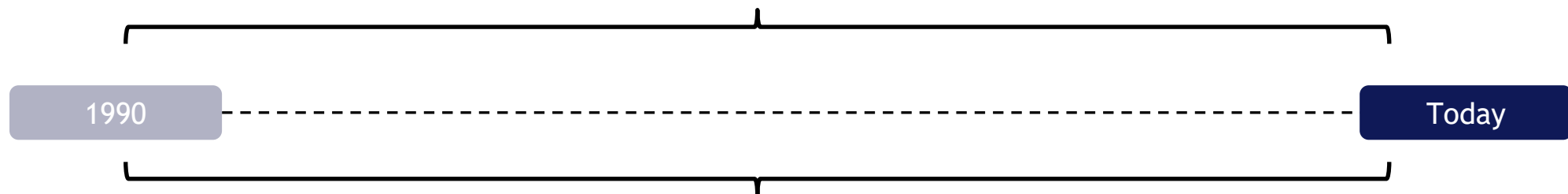
This strategy doesn't require any investment which enables **high flexibility** for the firm.

During the 50s and 60s Carlsberg global expansion was made through the export of product manufactured in Denmark. The group still uses this practice to enter new markets.

CARLSBERG'S GLOBAL EXPANSION STRATEGY

Joint Venture

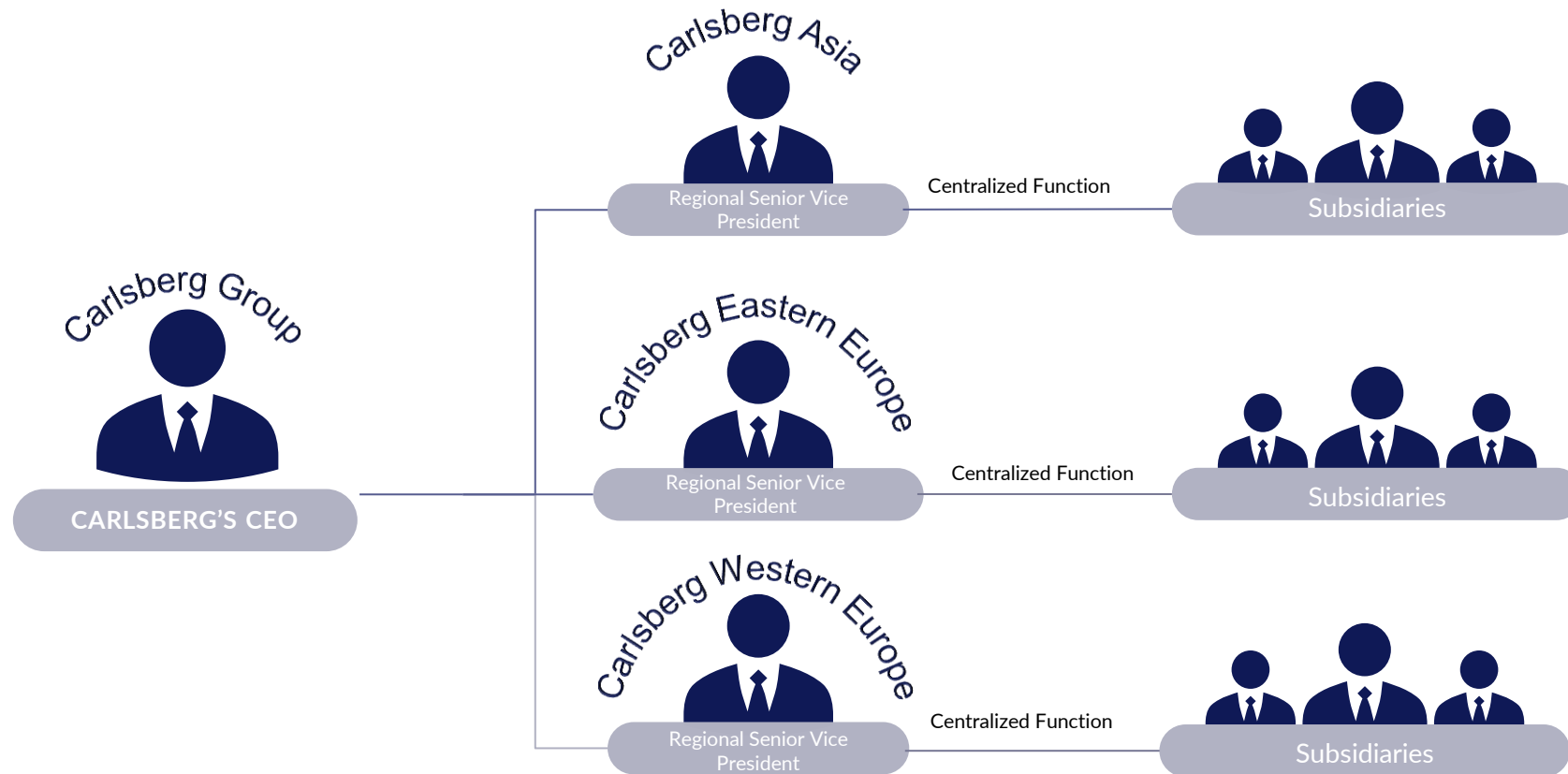
Joint ventures materialize as the undertaking of shared activities through the **split ownership** between multiple firms of a subsidiary in a new targeted market. This strategy has been used to expand in Poland, Vietnam, and Eastern Europe



Wholly owned subsidiary

The wholly owned subsidiary strategy consists of **acquiring an entire firm** or part of it. It enabled Carlsberg to expand its activities in Central and Eastern Europe and Asia.

CARLSBERG GROUP'S STRUCTURE AND MANAGEMENT STRATEGY



The management strategy of the group is to give **responsibility to each of the regions** to manage the following centralized functions for themselves: Sales, Marketing and Innovation, Human Resources, Communication and Corporate Social Responsibility and Supply Chain including, procurement, planning, production, logistics and quality. The subsidiaries therefore don't have the power to manage these functions and the centralized functions themselves need to report to the Regional Manager and agree with the Regional Manager on targets and KPIs.

VALUE CHAIN MANAGEMENT

While all the activities, despite of the administration, were regionalized, some of these activities were centralized and other glocalized. The centralization of activities regionally enabled the firm to increase its efficiency and effectiveness while pursuing the Growth Strategy of the group. This also enabled the firm to get rid of the difference of management between the subsidiaries making it a clear vision for everyone and ensuring communication, share of expertise, technology management and transparency.

	Administration	Procurement	Production	Logistics	Marketing	Sales
Carlsberg's strategy	Shared Service	Centralized	Centralized	Glocalized	Glocalized	Glocalized

Centralized

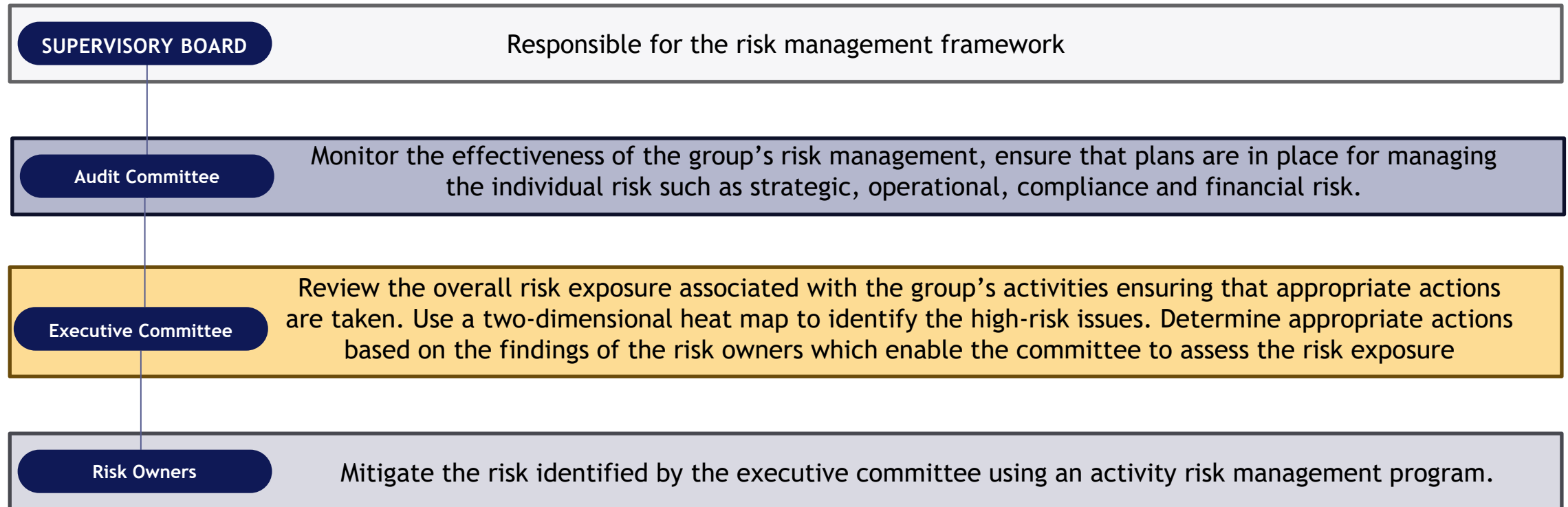
Centralized means that the activities are not taken care of at the subsidiary level but that these activities are **common to all the subsidiaries of a Region**. This enables a coherent management throughout the region.

Glocalized

Glocalized means that the subsidiaries are receiving guidelines from the upper level of the management to apply but they remain **free to adapt the guidelines to the specific market they operate in**. This enabling adaptation to the culture and habits of the region.

RISK MANAGEMENT

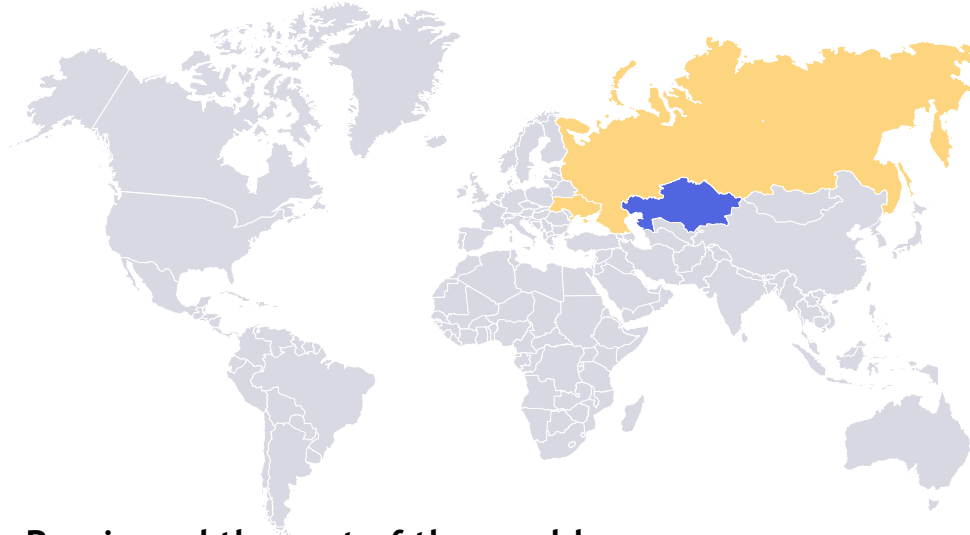
The Risk Management strategy is the same at the Group and Regional level. The responsibilities are spread among the hierarchy having many committees involved in the assessment and the mitigation of risks. The assessment of risk requires the input of various central function which makes it a complex system for the company.



04

Geopolitical Environment

GLOBAL GEOPOLITICAL LANDSCAPE



Current Russia - Ukraine Conflict:

On February 2022, Russia invaded Ukraine. The tension between Russia and Ukraine are decades long but the willingness of Ukraine to sign an agreement with the EU and to join NATO has risen the concern of the Russian government about Ukraine's power. After the annexation of Crimea, Russian nationalism and fascism arose and with it the call to annex more Ukrainian land. This leading to the biggest attack on a European country since World War II.

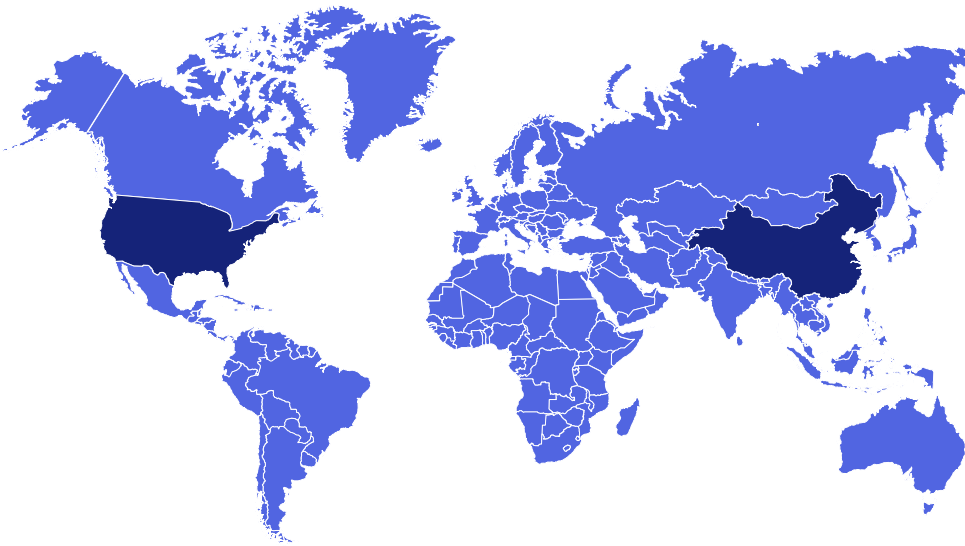
Russia and the rest of the world:

The Invasion of Ukraine by Russia led to the rise of a humanitarian crisis, a higher risk exposure of capital flows, trade and commodities worldwide. The European Union and other countries imposed economic sanctions on Russia by pushing companies to have their operations out of the country and stopping the trades with the country. The NATO member's financial and military support on Ukraine increased the tension between Russia and NATO alliance. NATO has stopped to consider Russia as a partner after the invasion of Ukraine. There is a high risk for accidental or intentional escalation of the war.

On its side, Russia developed in 2023 a new foreign policy declaring that the country sees the world today as a global competition for power and influence. The policy having for main purpose to outline the Russian repudiation of the leading role of the USA. The country proclaims playing an important role in balancing relations among great powers.

Russia is therefore willing to create a multipolar world by dividing and confronting the great power of today's geopolitical environment.

GLOBAL GEOPOLITICAL LANDSCAPE



US - China Competition:

Trade tension between China and the US became complex since the US imposed tariffs on Chinese imports. The US decision was based on its willingness to reduce the trade deficit with China and to maintain its top dog position in the global economy. The US also tries to avoid the access of China to key technologies and other countries in Europe and Asia are considering taking such measures. China responded with import bans on US products.

Deglobalization:

The growth of nationalism, protectionism and populist movements causes threat to the global trade environment. The disruption of the supply chain during the COVID-19 crisis, has impacted many companies which are now rethinking their global strategy and their supply chain by diversifying their source of import to reduce risk. Governments are also taking action regarding their trading partners to ensure social security. These relation changes are reshaping the trade environment and poses a threat to economic growth and international relations.

05

Analysis of the Internal and External Environment

ANALYTICAL TOOLS

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06

External Environment - PESTEL

PESTEL ANALYSIS - POLITICAL AND ECONOMIC FACTORS

POLITICAL

- ✓ **Significant decline in FDI**
Since the Annexation of Crimea in 2014, the flows of FDI to Russia significantly declined (The World Bank, 2023)
- ✓ **Conservative turn in 2012**
A conservative turn was taken in the start of Putin's third term in 2012, shown through the rising influence of the Orthodox Church and tightening regulatory environment
- ✓ **Challenging market entry**
Following the overall backlash of globalization faced and decreasing interdependence throughout the world (Witt et al., 2023), Russia became a politically very difficult market to enter, seen through its weakening institutional environment challenging MNE's with operations running.

ECONOMICAL

- ✓ **Major GDP decrease & devaluation**
Faced by a tremendous fall in its GDP in 2014 after the Annexation of Crimea, Russia went through a major devaluation of the Ruble
- ✓ **Sanctions for Russian goods**
Since 2014, the sanctions posed towards the trade of Russian goods of for example the United States as well as Europe have only increased Russia's economic challenges
- ✓ **Protectionist measures decreasing MNE market shares**
As a response to the sanctions, the Russian government followed a protectionist view towards all Western companies operating in the area challenging their operations which was clearly viewed also in Carlsberg's case as a major loss of market share

PESTEL ANALYSIS - SOCIAL AND TECHNOLOGICAL FACTORS

SOCIAL

- ✓ **Decreasing Freedom of Press**
The rising conservatism shown in Russia has been shown as tightening regulation towards foreign companies was taken a step further once Russia considerably limited its freedom of the press after the War in Ukraine broke out
- ✓ **Anti-war manifestations tamed**
Despite the lack of freedom of the press, manifestations against the war have taken place in Russia, however, they have been rapidly tamed and people have been arrested
- ✓ **Russia annexing MNE assets**
Having only opened to the market economy in 1991, the Russian government annexed the remaining Western companies' assets consequently leading to multiple people losing their jobs

TECHNOLOGICAL

- ✓ **Military spending tripled**
Russia's military expenditure has tripled compared to previous years, now amounting to over 160 billion USD
- ✓ **Increased cyber threat**
Due to the risen spending on military needs and war technologies, Russia has posed a significant cyber threat to multiple Western countries, which has multiplied compared to 15 years ago although it has posed an overall great cyberthreat
- ✓ **IP protection challenges MNEs**
A relevant concern for multiple Western companies that still had operations in Russia in the beginning of the Russo-Ukrainian war, has been protecting their intellectual property and information technology security

PESTEL ANALYSIS – LEGAL AND ENVIRONMENTAL FACTORS

LEGAL

- ✓ **Since 2012, new laws presented**
Following the beginning of Putin's third term, novel alcohol laws were presented, e.g. banning all advertising on the media or TV
- ✓ **Consumption of alcohol decreased**
Majority have suffered alteration in some form, by injected rumour, or randomized words that don't look even slightly believable.
- ✓ **Weak Institutional Environment**
Currently, Russia's institutional environment is extremely weak and sanctions and further legislation are forcing MNE's out of the country

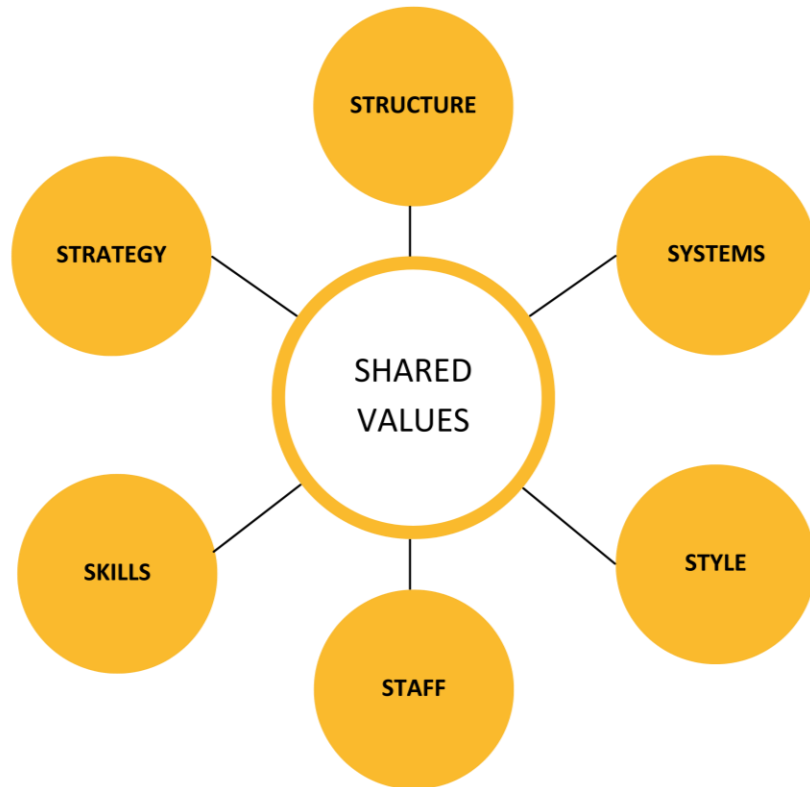
ENVIRONMENTAL

- ✓ **Dependencies on raw materials**
As multiple Western countries have been dependent on Russian materials and energy, they are rapidly forced to adopt other measures.
- ✓ **Green deal acceleration**
The Russo-Ukrainian war could be stated to have increased the speed of implementation of the Green Deal established by the EU in 2020, followed by the launch of the RePower EU project in 2022 to end Europe's dependence on Russian fuel
- ✓ **Infrastructure destroyed**
The war has significantly impacted the infrastructure, especially in Ukraine challenging the operations of some Western companies dependent on Ukrainian sources

07

Internal Environment - 7S

MCKINSEY 7S ANALYSIS



Strategy:

Carlsberg's strategy in Russia involved transforming from a diversified local player to a global leader, capturing market share in a growing market and leveraging local production through its full equity control over BBH.

However, geopolitical tensions and economic sanctions necessitated a reevaluation of their long-term strategy in the region, weighing market potential against escalating political risks.

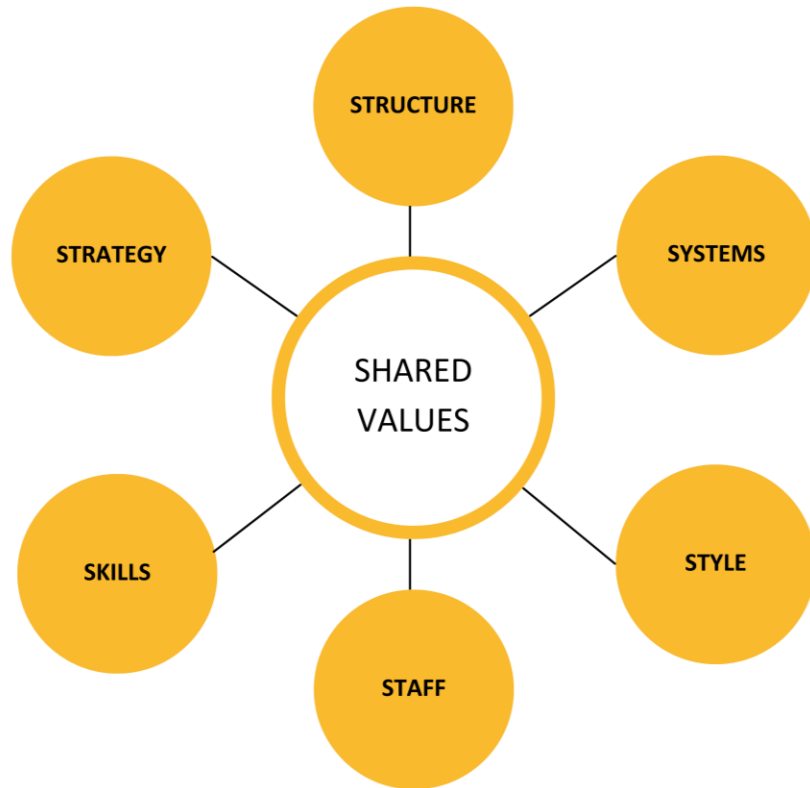
Structure:

Carlsberg's headquarters is located in Denmark with a presence spanning Western and Eastern & Central Europe and Asia. Carlsberg has adroitly expanded its market share by acquiring local brands and forming strategic partnerships, thereby gaining a robust foothold in the competitive beer market.

Carlsberg's geographical structure fosters customer-centric operations, empowering local managers with the autonomy to make decisions close to the market. This structure reduces operational delays and enhances efficiency, exemplified by the seamless support provided to customers within their own geographical area.

National managers report to continental executives, which in turn report to the CEO. This hierarchical yet flexible structure promotes swift decision-making processes, aligning with Carlsberg's strategic imperatives, especially in markets with varying degrees of maturity and growth potential.

MCKINSEY 7S ANALYSIS



Systems:

Carlsberg is now primed to bolster the company's portfolio choices and geographical spread, focusing on maintaining leadership positions across diverse markets.

The Group's Enterprise Resource Planning (ERP) systems are central to the internal management structure. They are assessed for impairment at the Cash Generating Unit (CGU) level, which is aligned with the allocation of goodwill, ensuring that the value of these systems is accurately reflected and maintained.

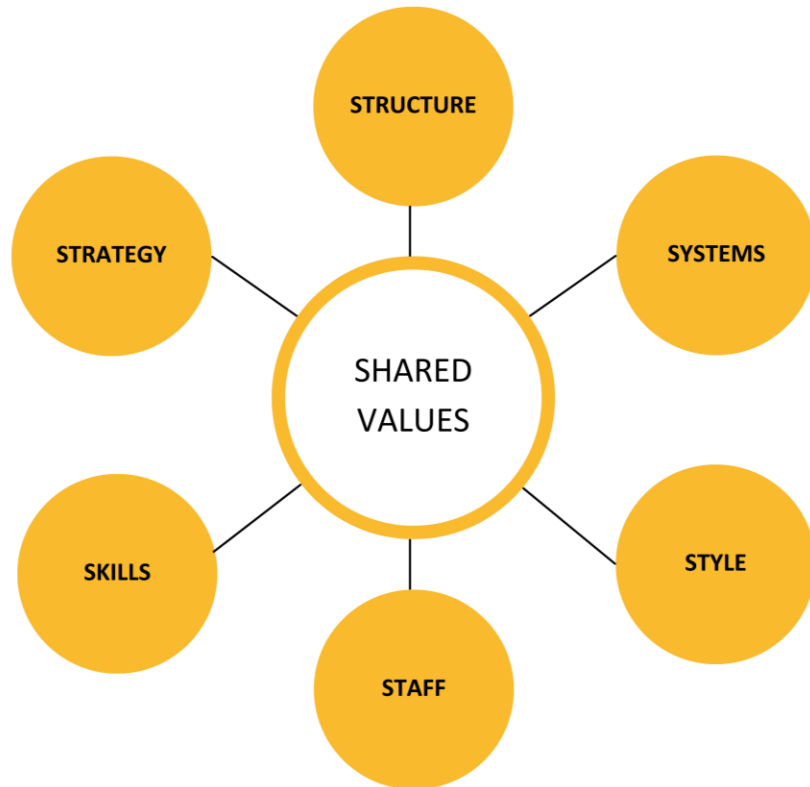
With the intent of systematizing its approach to compliance and reporting, Carlsberg has initiated a dedicated program for EU Taxonomy reporting. This program is in the process of developing comprehensive processes, procedures, internal controls, and systems that precisely measure the company's alignment with the taxonomy's objectives, ensuring rigorous environmental and social governance.

Shared Values:

Carlsberg's core values include a commitment to sustainability and responsible business practices. These values helped the company to build trust with local stakeholders and to mitigate reputational risks in a politically sensitive environment.

However, Carlsberg's rapid expansion, marked by entering new markets and acquiring companies, can pose challenges to maintaining a cohesive value system. Different corporate cultures and market practices can potentially conflict with the company's established values. To address this, the company can establish dedicated behavioural evaluations to ensure that its values remain intact, enabling the company to navigate growth and cultural integration effectively.

MCKINSEY 7S Analysis



Style:

The leadership style within Carlsberg would need to balance decisive action with sensitivity to the cultural and political environment. How leaders communicated and acted on the Russia situation would reflect the company's approach to crisis management and adherence to corporate values.

Staff:

Carlsberg currently has over 40,000 employees across Europe and Asia. Employee mobility initiative is instrumental in enriching cultural awareness and broadening business acumen, pivotal in cementing the seamless integration of the Carlsberg Group.

Carlsberg had to balance the need for local expertise with the need for global standards and best practices. The company recruited and trained local staff to help them navigate the complex political and regulatory environment in Russia, while also maintaining a global perspective on their operations.

Skills:

Carlsberg's employees had to navigate a complex and rapidly changing business environment. The company invested in training and development programs to help their employees adapt to these challenges and to build the skills needed to succeed in the diverse markets.

SUMMARIZING THE INTERNAL & EXTERNAL ENVIRONMENT

Internal



Shifted focus from a local player to a global leader in the beer market

...



Centralized the operation in three main regions

...



Globalized strategy and consistent management structure among the diverse subsidiaries

...



Challenges in maintaining a cohesive value system across different cultural practices

...



Over 40,000 employees across diverse regions

...

External

Sanctions and protectionist measures impact operations of all multinationals in Russia



FDI towards Russia has sharply decreased and its GDP plummeted followed by devaluating the ruble



Multinationals are very dependent on Russian raw materials



New, protectionist laws have been implemented in Russia following the sanctions



Russia has tripled its military spending and presents a cyberthreat to Western countries



06

Taking A Multi-level Approach

ASSESSING THE GEOPOLITICAL RISK ON MULTIPLE LEVELS

Why?

- ➔ Assess geopolitical risk
- ➔ Consider different levels of analysis
- ➔ Identify strategies

How?

- ✓ Gathering information on the company's global environment
- ✓ Gathering information on the company's internal competencies
- ✓ Assessing the risk level of each factor
- ✓ Identify for each factor the challenges and opportunities it poses
- ✓ Elaborating strategies to tackle each factor

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International			
National			
Industry			
Firm			

SUPRANATIONAL & INTERNATIONAL LEVEL

Category	Risk	Challenges/Opportunities	Strategies
Ability of Supranational Organizations to mediate and resolve political tensions between countries	High	<p>Although taken a clear stance to support Ukraine and the rapid ending of the war, supranationals have not been able to considerably shorten the duration of the war.</p> <p>Ukraine has made significant progress in its process to become part of the West by applying to join the EU, having gotten the "candidate country" staple.</p>	Due to high risk, Carlsberg should reduce operations in the Russian market, and consequently increase CSR to the Ukrainian market to condemn the war.
Political relations between countries	Very High	<p>After the Nordstream underwater gas line explosion the political relations between Russia and European countries have worsened and the uncertainty around the Baltic Sea has increased.</p> <p>Many countries in which Carlsberg operates in have imposed sanctions towards Russia leading to challenges in trade.</p>	Follow the sanctions set in place and take action to reduce the impact of the sanctions towards your operations
Dependance of countries on natural resources, food supplies, technologies, and others	Moderate	European and Asian countries are dependent on the Russian supply of Energy. Russia and Ukraine are big suppliers of grains for European countries.	Invest in diversifying the sources of raw materials and engage in R&D processes to discover more sustainable solutions

NATIONAL LEVEL

Category	Risk	Challenges/Opportunities	Strategies
Development by countries of technologies, weapons or others that can redefine their power and influence	Very high	The war in Ukraine has reignited the cold war era bifurcation of the world. Russia's history in Georgia and Chechnya conflicts indicates that the current war will not be resolved in the near future.	Revisit the strategic choices of which countries to operate in. Limit the exposure in risky countries identified (Belarus etc.)
Political orientations and agendas of government	Very high	<p>Russia's political orientation towards the creation of a multipolar world by challenging and dividing the hegemonies of today leading to disruption of power</p> <p>The change in political orientation in Ukraine from aiming to fight corruption and align their corporate values to be in line with the western world creates a chance to further capitalize the market</p>	Condemn the war to gain popularity among the most important markets of Europe and Asia. In addition, further increase exposure in Ukraine to secure important supply chains and regain their strong foothold on the area.
Business - government relations	High/Very high	Russian government has a strong presence in the economy, with major stakes in some of the largest companies. From the start of the war Russia has also been hostile towards western companies and there is a threat of potential hostile takeovers.	Due to a high level of institutional risk, Carlsberg should seek to reduce its exposure to the Russian market.

INDUSTRY LEVEL

Category	Risk	Challenges/Opportunities	Strategies
Effects throughout the value chain	High	<p>The Russia-Ukraine War led to disruption in the supply of essential materials like aluminum, grains and energy sources directly impacting production and distribution capabilities.</p> <p>Political tensions also led to closed borders, restricted transport routes, and logistical challenges, affecting the distribution of products both within and outside the affected regions.</p> <p>Although having its operations spanning on multiple different markets, Carlsberg's Western markets were dependent on Russian aluminum. (Meyer and Petersen, 2022)</p>	<p>Establish multiple regional center to minimize reliance on a specific country.</p> <p>Forge partnerships with multiple suppliers and logistics providers to enhance supply chain resilience.</p> <p>R&D processes to discover more sustainable ways of producing the cans could be explored.</p>
Stakeholders	Moderate	<p>Shareholders are concerned about how political tensions impact Carlsberg's financial performance, operation capability, and the company's global reputation which affect the long-term development of the company.</p> <p>Pressure from major western shareholders to limit the groups relations to Russia</p>	<p>Engage actively with stakeholders, including shareholders, employees, and customers, to understand their concerns.</p> <p>Conduct transparent and consistent communication about the company's actions in response to political tensions.</p>

FIRM LEVEL

Category	Risk	Challenges/Opportunities	Strategies
Types of operations	Moderate	<p>The supply chain of the group has been disrupted. The Group had to stop using supplies from Russia such as Energy and Aluminium as imposed by the European Union.</p> <p>However the political tension didn't affect the company, they were able to continue their operations.</p> <p>The war only affected their business in Eastern Europe as most of the functions related to production were centralized. The centralization of operations enables the pursuit of activities and the avoidance of risk regarding tariffs rise.</p>	<p>Diversify the supplier of key components necessary for smooth supply chain operations.</p> <p>Cluster even more the activities and operations to avoid that disruption affect an entire region.</p>
Political capabilities	High	<p>Carlsberg's leading position in the alcoholic beverage industry indicates its presence in lobbying. However, their political power remains limited. This can be seen from the failure to affect the Russia's tax raise on beers.</p>	<p>Increase their political power through increased CSR which would improve their public image and build goodwill among policymakers.</p>

OPPORTUNITIES AND CHALLENGES IDENTIFIED

Opportunities	Challenges
<p>The potential addition of new members, such as Ukraine, into the EU reduce the barriers of doing business. In addition, the alignment of political and corporate values with ethical practises reduces risk for Carlsberg</p>	<p>The ties between Russia and Eastern European nations hinder the European Union's alliance expansion, consequently restricting the establishment of secure markets for multinational enterprises to venture into</p>
<p>The potential risk associated with aluminum supply shortages presents an opportunity to reconsider the materials employed in packaging through focused research and development efforts.</p>	<p>Dependancy on Russian raw materials despite local and global operations</p>
<p>The reconsideration of keeping operations as they are in countries not against the war could help leverage positive public relation</p>	<p>The division of the world into two blocks leads to a strategic dilemma of having to choose a side. In addition, imposed sanctions increase the difficulty of international trade and disrupt supplychains</p>
	<p>Shareholder concern of financial performance and external communication towards stakeholders</p>
	<p>Russias hostile internal and external political orientation</p>
	<p>Influencing the political decisions through limited political power</p>

07

Actionable Steps

LEAVING RUSSIA AND STRENGTHENING THE RELATION WITH UKRAINE

These recommendations are based on the challenges and opportunities identified while using the De Villa Framework.



SHORT-TERM ACTIONS - WHY?



Increasing CSR activities in Ukraine

...

Supporting the Ukrainian community through Corporate Social Responsibility actions for refugees and Ukrainians who stayed in the country would enable the firm to communicate on its stance in the crisis and reinforce its connection to the Ukrainian market.



Exiting the Russian market through liquidation of assets

...

Leaving the Russian market ensures the ability of the firm to securely pursue its operations on the Eastern and Central European market. Reducing the risk related to reputation deterioration and sanctions imposed by institutions on the group's operations. Ensuring stable future for the stakeholders.



Make additional investments into protecting Eastern European Intellectual Property

...

Investing in Intellectual Property protection would enable Carlsberg to secure its intangible assets and safeguard the leveraging of its innovative processes preserving the company's long-term viability and competitiveness.



Diversify sources of raw materials (e.g. aluminum, energy, grains)

...

Extending the supplier base geographically to reduce the reliance of the group on a specific country would enable the firm to secure its operations and ensures to meet the needs of the stakeholders even in time of crisis.



Transparent two-way stakeholder engagement

...

Engaging with stakeholders would enable the group to develop its resilience and gain insights into potential risk by understanding the perspective of various stakeholders allowing the firm to build trust and credibility and to address the concerns of its contributors. Ensuring accurate and up-to-date information exchange with all the parties.

LONG-TERM ACTIONS - WHY?

Reassessing the risk of other markets and evaluating exposure in them



...

As demonstrated by the current crisis Carlsberg is facing, the company failed to realize the risks involved in operating in the Russian market. The company should reassess their positions in other countries through this newly gained lens and reevaluate their strategic choices.

Increase exposure to the Ukrainian market to ensure strong foothold



...

Through doubling down their operations in the country, Carlsberg can gain a further significant foothold within the country. Through the combination of the potential EU membership and production of grain Ukraine is a country of great potential for Carlsberg.

Long-term reputation management through positive initiatives



...

The company's reputation took a hit from the poor management of the crisis. Through increased initiatives the company can be potentially able to regain their image.

Focusing on further developing the Asian operations



...

As the Asian market grows in importance due to issues in the European markets, the company should capture this growth and drive further focus to this greatly potential market.

Invest in R&D processes to discover novel sources of materials



...

Through investments into finding new potential uses of raw materials, Carlsberg can reduce their dependency on sourcing only from few countries. Thus, the company can be able to spread the risk of further supply-chain disruptions

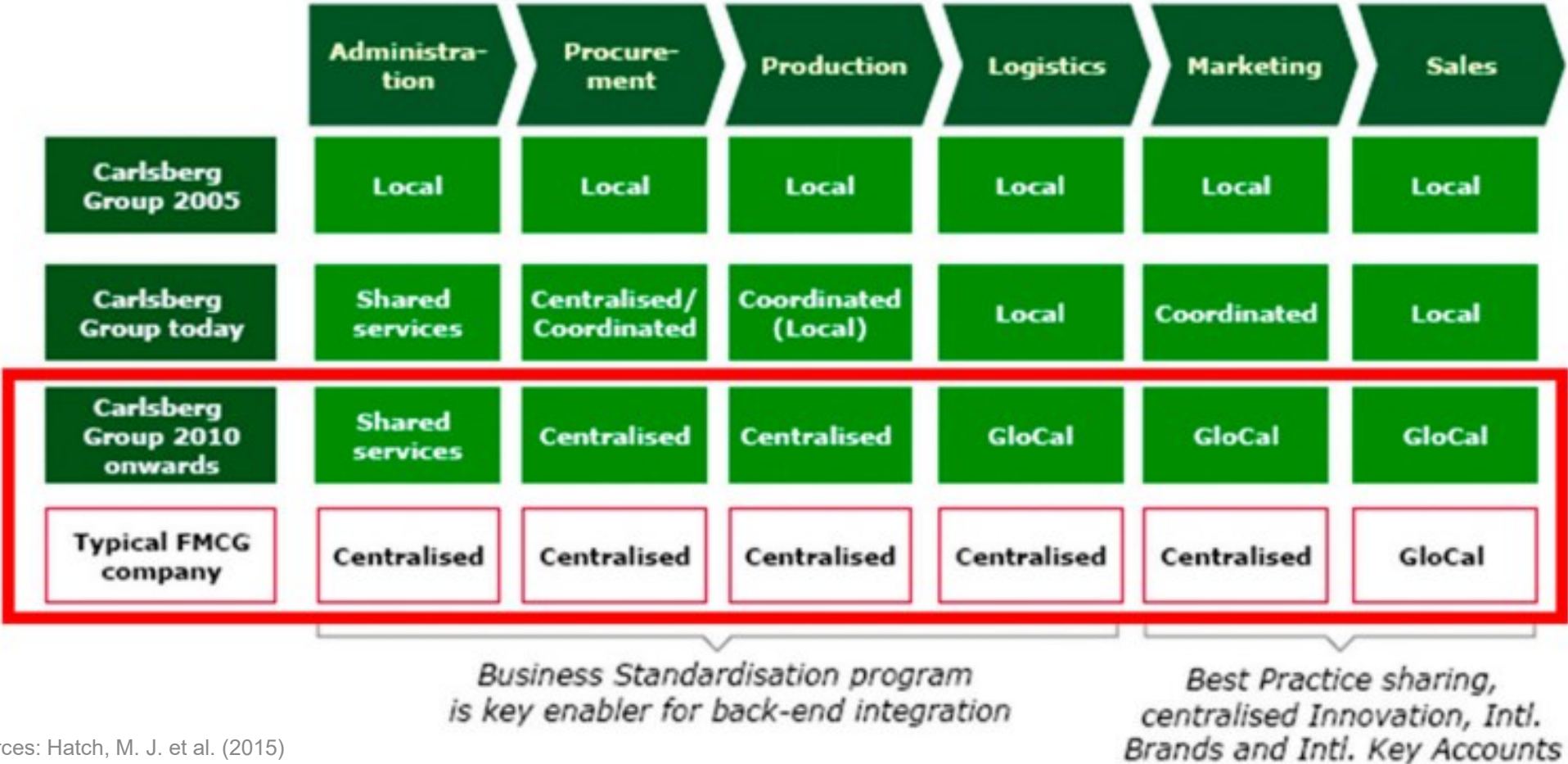
08

Appendix

FIGURE 1: CARLSBERG'S VALUE CHAIN TRANSFORMATION

FIGURE 1

Internal graphic used to explain the transformation of Carlsberg's value chain as envisioned by top management



Sources: Hatch, M. J. et al. (2015)

FIGURE 2: MULTI-LEVEL APPROACH ANALYSIS FOR GEOPOLITICAL RISK

Table 2. Assessment Sheet

Levels of Analysis	Factors	Levels of Risk					Challenges/ Opportunities	Strategies
		Very Low 0-20	Low 21-40	Moderate 41-60	High 61-80	Very High 81-100		
Supranational level	1. Ability of supranational organizations to mediate and resolve political tensions between countries							
International level	2. Political relations between countries							
	3. Dependence between countries on natural resources, food supplies, technologies, and others							
National level	4. Development by countries of technologies, weapons, or others that can redefine their power and influence							
	5. Political orientations and agendas of governments							
	6. Business-government relations							
Industry level	7. Effects throughout the value chain							
	8. Stakeholders							
Firm level	9. Types of operations							
	10. Political capabilities							

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