



Advancing Carlsberg's post-crisis CSR Strategy

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Current CSR assessment

Proposed CSR strategy

Damage mitigation plans

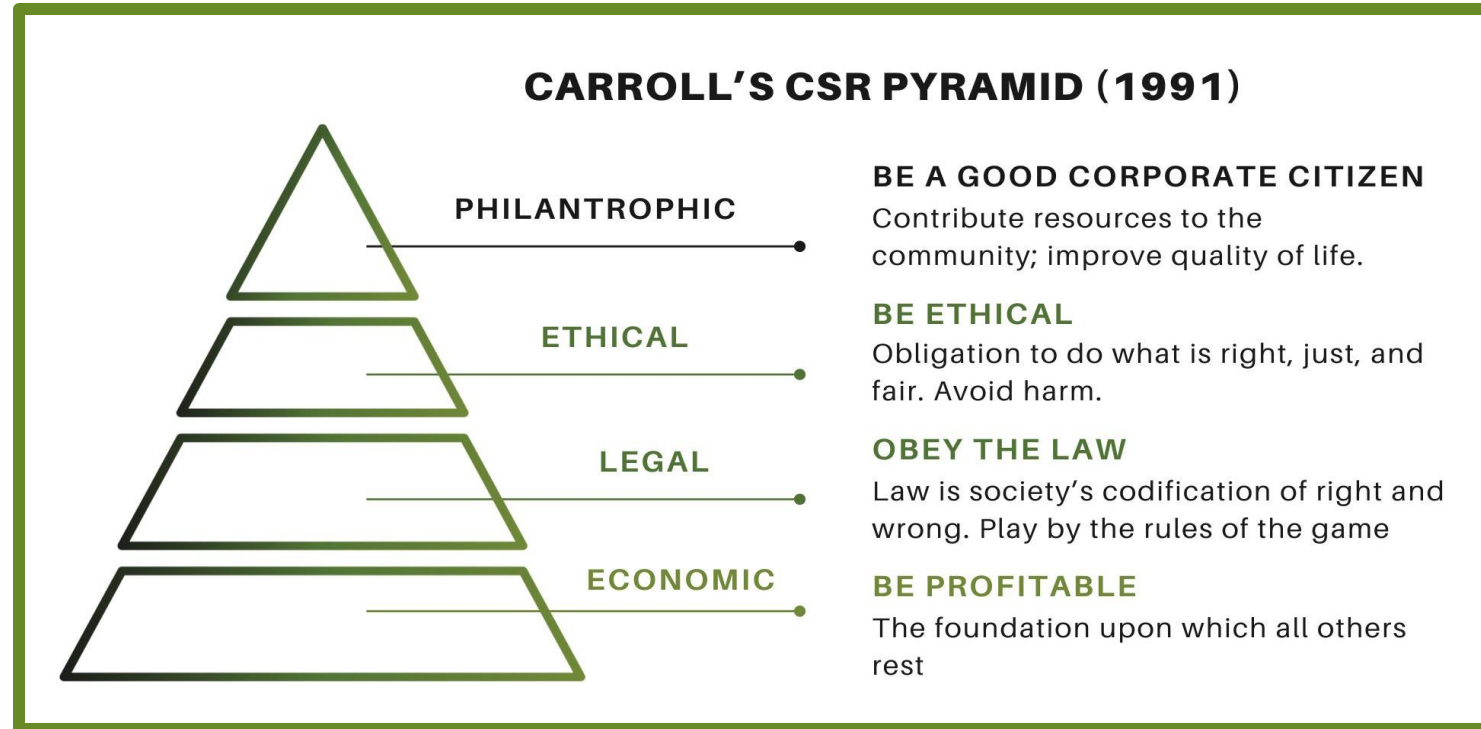
Future implications

Appendix



An ever-evolving multifaceted concept covering various dimensions

Corporate Social Responsibility and Framework



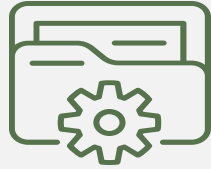
Corporate Social Responsibility (CSR) is vital for Carlsberg to demonstrate its commitment to sustainable and ethical operations, enhancing trust and loyalty among consumers, investors, and the wider community. In a landscape where businesses are expected to lead with integrity, Carlsberg's CSR initiatives can significantly influence its global reputation and long-term success.

Carlsberg's 2021 CSR Award bolstered its stellar reputation

Carlsberg's Pre-War CSR Reputation



- Carlsberg has long been profitable globally
- 600%+ increase in share price since 2009 till the peak before war



- Promoting measures to prevent underage drinking
- Raising awareness of responsible and moderate alcohol consumption



- Committed to reduce environmental impact
- Lowering water and energy consumption
- Lowering carbon footprint



- Engaging with local communities through projects and partnerships
- Supported initiatives related to education, health, and local development

Serving stakeholders in all dimensions, Carlsberg was a good corporate citizen pre-war

ECONOMIC

LEGAL

ETHICAL

PHILANTHROPIC



Economic and legal factors closely impact stakeholders' finances

How War Affects Each CSR Dimension and stakeholder 1-2

CSR

01

ECONOMIC

- Market share in Russia has declined along with systematic decline in Russian beer market
- Massive fall in stock price due to speculation on war



Stakeholder

01

- Profitability of Carlsberg from Russia can affect shareholders, lenders, and employees' wallet
- Selling and exiting from Russia may help getting rid of risks for shareholders but employees would suffer due to restructuring

02

LEGAL

- War-led sanctions are impacting political and legal environment
- Compliance with EU and other international regulation to avoid repercussions



02

- Staying in Russia increases the legal exposure of shareholders to further sanctions and takeover by Russian government in worst case scenario that violates Carlsberg's right
- Legal concerns are closely tied to economic concerns

Ethical and philanthropic considerations are key to its reputation

How War Affects Each CSR Dimension and stakeholder 2-2

CSR

03

ETHICAL

- Significant ethical dilemma, especially over 8,400 employees in Russia
- Ukraine market already shattered by the war and difficult to help



Stakeholder

03

- Staying in Russia is best for Russian employees but may undermine Ukrainian employees who suffered
- Staying and operating an underperforming and illiquid business may pose a further threat to shareholder's wealth

04

PHILANTHROPIC

- Despite previous efforts, Carlsberg's reputation was under pressure
- Global pressure to engage in peace-building initiatives, campaigns, donations, etc.



04

- Ensuring the safety, well-being, and fair treatment of all stakeholders was crucial amid war
- Wrong philanthropic and ethical measures (inactivity) can lead to negative publicity and consumer boycott, affecting all employees

A strong CSR policy for ethical credibility and reputation is needed

Carlsberg's Involvement in the Russia-Ukraine Conflict

Contributions

Implications

01



Possibility to indirectly contribute to Russian regime through tax revenue



- Carlsberg has been contributing to Russian government through tax.
- Approximately €20 million in 2021
- Operating in Russia can continue the subtle contribution (inadvertently)

02



Donated €10 million to Ukraine



- Donation was done on top of ensuring 1,300 employees in Ukraine (per Carlsberg).
- The amount of €10 million was criticized for being too small compared to their investment in Russia.

03



Stopped new investment in Russia



- Also stopping export from other Carlsberg group to Baltika Breweries in Russia
- This move was done to respect applicable sanctions being put on Russia
- This may show Carlsberg's effort to comply with international order and support Ukraine

04



Suspended few operations in Russia



- This may appear as Carlsberg showing solidarity with Ukraine and EU
- But Carlsberg also simply needed to re-assess their operation to comply with current and further sanction as well as compromised supply chain

05



Carlsberg now has to make a real measure to CSR risks...



- Carlsberg has only made reactionary choices so far
- The financial strategic choices whether to stay or leave Russia will significantly affect Carlsberg's reputation and its stakeholders

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Proposed strategy to fully disengage via quick sale of operations

Proposed CSR strategy

Quick exit through **sale of operation**, preferably to **non-Russian investors**, embedded with **CSR-relating clauses**



1. Continuing operations means supporting war with tax revenue



2. Not in an essential industry that make exiting unethical such as healthcare



3. Cease of operations entirely leaves local employees' unemployed



4. Prolonged stay increases risks of assets being seized by Russian government

Exiting has minimum ethical consequences compared to staying

Proposed CSR strategy

Continuing operations means supporting war via tax



- Besides corporate taxes, income tax, VAT on sales feed into the state's budget
- US \$3.5 billion in taxes on profits paid to Russia from Western countries in 2022
- Taxes undermines the efficacy of international sanction

Cease of operations leaves local employees' unemployed



- 8,400 local employees' jobs will be protected under the new ownership
- CSR standards are upheld based on specific clauses in the transactions

Not in an essential industry



- Carlsberg is a brewery group, exiting implies minimal ethical consequences compared to other essential industry such as healthcare and consumer goods

Prolonged stay increases risks of asset seizures



- Assets worth \$1.39 billion could be seized by Russian government to finance the war
- The Kremlin has made it clear that foreign companies ran the risk of nationalization – since the launch of western sanctions

CSR-relating clauses to be embedded in the deal contract

Proposed CSR strategy

Employee Welfare



- Include a clause that encourages the acquiring party to retain existing employees for a specified period
- Ensure the continuity of employee benefits, such as healthcare, retirement plans, and other perks

Ethical Business practices



- Maintain environmentally responsible practices, minimize the ecological impact of operations, and address any existing environmental issues

Reporting Standards



- Mandate regular reporting on CSR activities and employee well-being to ensure transparency
- Include mechanisms for the ongoing disclosure of information related to the treatment of employees

Human Aid and Philanthropy











- Collaborate with NGOs to provide human aid for civilians affected by the war
- Contribute to emergency response funds that can be quickly mobilized to address immediate needs in the affected regions

Potential buyers are limited, thus need to be managed closely

Proposed CSR strategy

--- Recommended buyers based on ethical consideration

Types of potential buyers	Example companies	Level of interests	Ethical implications
Investment groups or private equity firms with a high-risk appetite	  	Low	- No direct connection to Russian government
Companies from neutral countries		Low	- No direct connection to Russian government
Local management team	 	Intermediate	- Some potential connection to Russian government. Employees' welfare more assured
Russian companies & Russian-based investors	 	High	- Unethical option with direct connection to Russian government
Russian government		High	- Assets transferred to the wrong hand

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Scenario planning from legal obligations to employee well-being

Damage mitigation plans for Russian operations



Laws & regulations

Damage: Quick exit can contradict with the Russian laws and regulations, especially because new laws and regulations can come as Russia tries to prevent exiting

Mitigation: Engage with legal advisors to ensure legal and regulatory compliance throughout the process. Assess the financial implications (taxes, fees, penalties) associated with exit. Develop contingency plans to address disruptions

CSR implication: commitment to legal and regulatory environment



Buyer

Damage: Carlsberg cannot control that the ethical standards and clauses embedded into the selling contract are followed. There is little to nothing Carlsberg can do after selling the operations even if specific clauses are included in the contract

Mitigation: Make sure that the buyer is committed to the CSR clauses by negotiating favorable terms and monitoring the contracts during the transition

CSR implication: long-term commitment to the future of the operations even when Carlsberg is not managing them



Suppliers

Damage: Carlsberg's exit also means that suppliers lose them as a client if the new buyer does not continue cooperation with the same suppliers and other businesses. Exit strategy can also raise negative reactions in all other supply chain members

Mitigation: Carlsberg needs to create a communications strategy to ensure transparent communication throughout the process of selling the operations. They can also help their suppliers to find alternative clients

CSR implication: shows commitment to their entire supply chain



Employees & Community

Damage: If the operations in Russia are sold, employees might lose their jobs depending on the new buyer. It could also have a negative impact on the whole community

Mitigation: Carlsberg can support employees through severance packages, assistance to get a new job, and retraining. They can also negotiate with the buyers about the future of the employees. Carlsberg can offer financial support to local initiatives

CSR implication: shows long-term commitment to employee and community support and well-being

Further risks relate to operations, finances and political unrest

Damage mitigation plans for Russian operations

Operational risk

- Utilisation of communication strategy for all its stakeholders including employees, suppliers, distributors and customers to avoid backlash
- Providing transparency and timely updates about the exit process, reasons for it, and the plans to mitigate disruptions is essential
- Aim of the communications strategy is also to minimize negative reactions from stakeholders

Financial risk

- Financial risks that can be associated with exit strategy are taxes, fees, penalties and other potential fees
- Thorough evaluation of financial implications with financial and legal experts to minimize liabilities and allocate resources for the expenses from the exit
- Staying informed about regulatory changes, conduct due diligence and seek legal advice where needed

Political risk

- Possible difficulties to exit quickly because Russian government tries to stop the assets, thus getting an approval for the sale can be delayed or rejected
- Continuous threat that Russian government seizes the operations
- Possibility to establish/maintain open communication with government officials but due to political unrest, positive relations with Russian government can hurt the brand image globally

Carlsberg should show compassion for Ukraine in the war crisis

Damage mitigation plans for Ukrainian operations

Reputation management

Protect and manage Carlsberg's reputation through proactive public relations strategy, and transparent communications strategy.

Supply chain diversification

Mitigate disruptions in the supply chain by diversifying sourcing to reduce dependency on one location, as well as identifying alternative supply chain routes.



Humanitarian aid

Contributing to humanitarian efforts in Ukraine by collaborating with local and international organizations.

Employee safety & evacuation

Ensure employees can safely evacuate the high-risk areas, and provide support services for affected people, for example, counseling and relocation assistance.

Carlsberg's CSR reputation

Proposed strategy

Damage mitigation plan

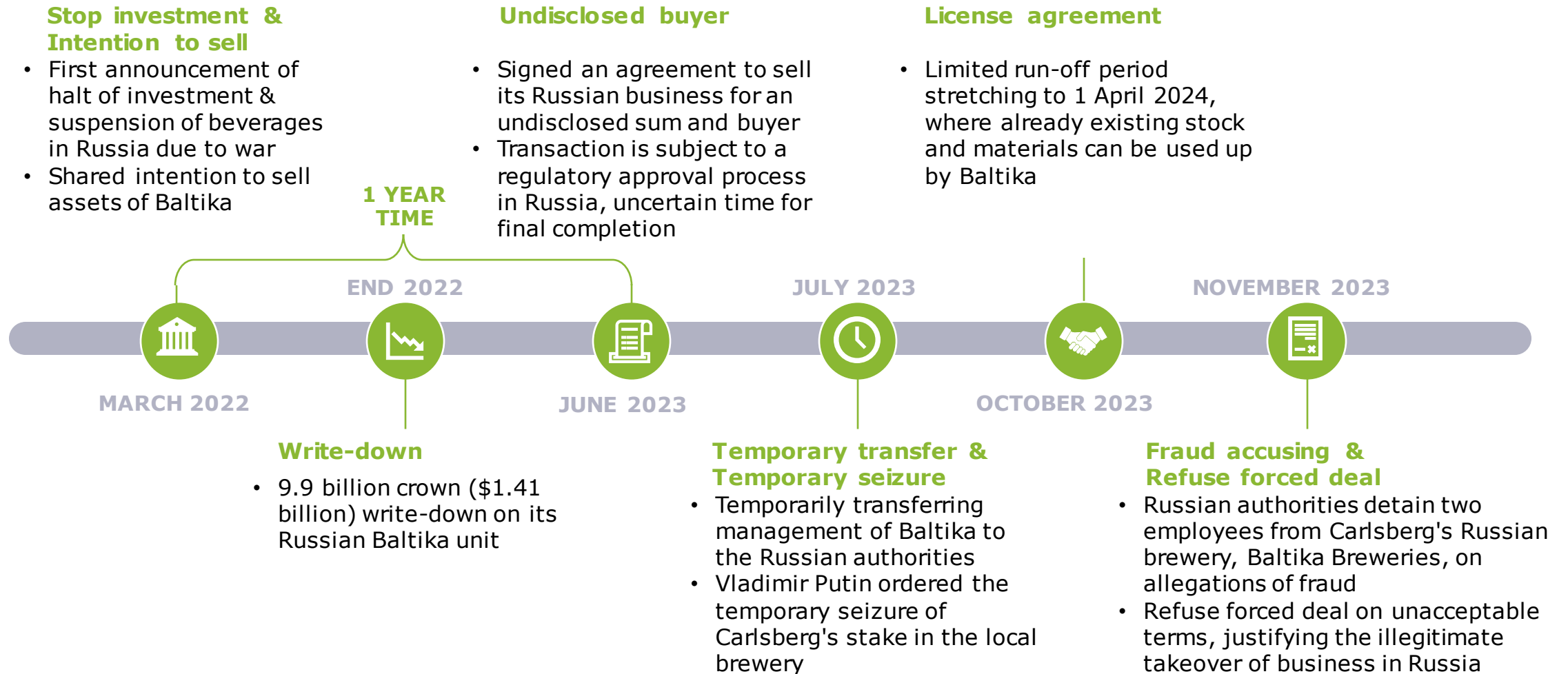
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Carlsberg's Baltika asset sale took over a year to finalize

Timeline development of Carlsberg after case study time



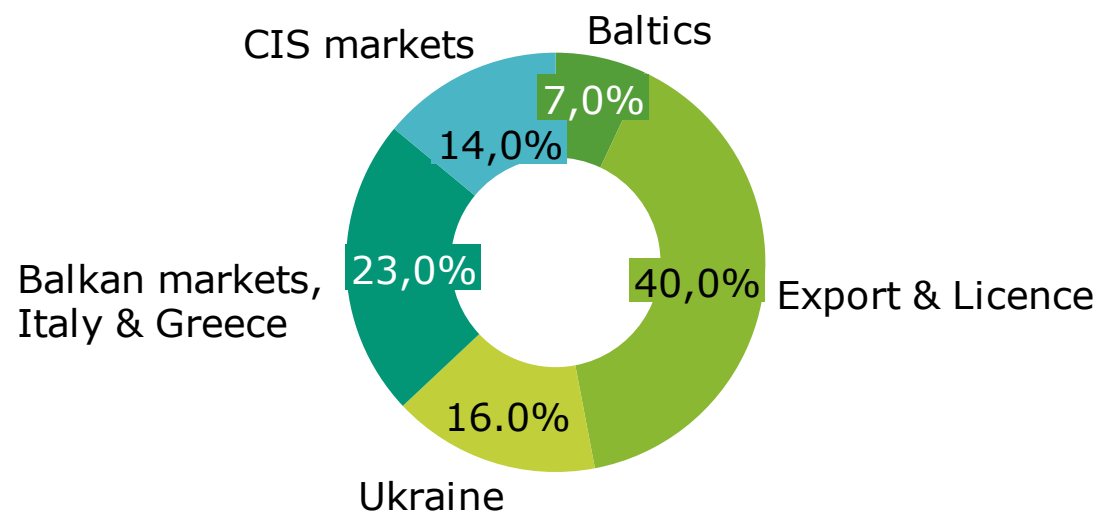
Growth in other markets offset Carlsberg's CEE downturn

Financial Outlook of Carlsberg

Share of regions in 2022



Volume by market in 2022



Continued volume growth, driven by Asia and the premium portfolio in 2023...

Regions	Organic volume growth
Western Europe	-2.1%
Asia	+4.8%
Central & Eastern Europe	-1.9%



Future development in 2023

- 1 Strong revenue growth in all regions** are recorded in 2023 achieving an total organic revenue growth of 11.2% of which the growth was 16.3% in Central & Eastern Europe
- 2 Solid organic operating profit** growth of 5.2% reflecting strong revenue growth, partly offset by cost inflation and higher sales and marketing investments
- 3 Optimistic future outlook** due to expected earnings (+4% to +7% growth) reflects Carlsberg's confidence in its strategic direction and future performance, despite existing market challenges



Delayed Russian exit underscores the need for quick strategy.

Evaluation of Strategy and Mitigation Plan and Its Feasibility

Missed opportunity in timely asset disposal



Delayed disposal decision

Carlsberg announced its intention to exit the Russian market in early 2022 but only signed the sale agreement in June 2023.



Impact of delay

This one-year gap potentially led to missed opportunities to mitigate risks and optimize the results of the asset sale.



Government intervention

Russian government intervened by temporarily seizing Carlsberg's stake in Baltika Breweries, complicating situation and affecting the sale's terms and valuation.



Impact of law & regulation mitigation

Due to compliance with laws and regulations on the exit from Russian, it was negatively affected by long extension of bureaucratic processes and decisions.



Buyer communication mitigation

Negotiations with potential buyers having additional clauses which are favorable for Carlsberg might overcomplicate and extend the deal closure.

Reasons for delayed asset sale...

1

Maximizing financial return

- Delay of selling in hopes of securing better market conditions or higher bids
- Evaluation of multiple offers and negotiation for optimal terms with potential buyers

2

Bureaucratic challenges & geopolitical uncertainties

- Complex Russian regulations and intern. legal matters has time-consuming internal decision-making processes and approvals
- Concerns about sanctions, legal implications, and reputation in a changing political environment

3

Ethical and employee considerations

- Concern for the future and welfare of local employees in a volatile geopolitical context
- Ethical implications of market exit ensuring a smooth transition for staff in a challenging geopolitical environment

4

Profitability vs. geopolitical risks

- Weighing the high profitability of the Russian market against geopolitical risks and ethical considerations
- Possible reluctance to leave a lucrative market, despite increasing political and regulatory challenges

Swift actions are at the core of navigating ethical complications

Key takeaways

From understanding **what went wrong**...

- 1 The advent of Russia-Ukraine war posed as a paradigm-shifting threat to the ethical stands of Carlsberg's prospect in Russia, although its internal CSR practice remained unchanged
- 2 Prolonging the sales of the Russian unit resulted in huge ethical consequences of assets worth \$1.39 billion being seized and potentially used to finance the war
- 3 CSR strategy was greatly disrupted and eventually phased out by the complication of balancing the ethical stands and financial considerations, coupled with the globally intertwined operations



...to formulating **best practices** for Carlsberg

- Carlsberg should have quickly pivoted their CSR strategy from partially disengage to fully disengage to enhance ethical standard in relation to external changes
- Carlsberg should have better anticipated comprehensively the high geopolitical risks and their implications (including the possibility of assets being seized) and made swift actions to disengage.
- Carlsberg should have prepared well-thought-out mitigation plans to ensure an ethical exit, taking into account different risks and stakeholder management



The latest fashion is to say, 'oh, it's very difficult to leave.' Well, of course it's difficult to leave because the longer you wait, the more aggressive Putin becomes, the fewer buyers there are ... and the prices that you could get for a company go falling through the floor. So it's a self-fulfilling prophecy.

- Mark Dixon, Founder of the Moral Rating Agency (2023)

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Russia is a volatile market for Carlsberg given the political tension

Geopolitical risk assessment

Levels of risk	Very low 0-20	Low 21-40	Moderate 41-60	High 61-80	Very high 81-100
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Level of analysis	Factors	Level of risk	Challenges / opportunities	Strategies
Supra-national	Ability to mediate and resolve political tensions between countries	90	Political instability, sanctions and trade restrictions, market growth	Adaptive business plan that allows adapting to changes, diversified supply chains
Inter-national	Political relations between countries	95	Trade agreements, disruptions in supply chain	Assessing the impact of trade agreements, diversify supply chains
	Dependence between countries on natural resources, food supplies, technologies, etc.	50	Russia is a major energy exporter, disruptions in supply of tech, food, & other resources	Build resilient supply chains, diversifying sources of resources
National	Development by countries of technologies, weapons, or others	75	Military and cybersecurity risks	Contingency plans for disruptions, maintain relationships with locals
	Political orientations and agendas of governments	80	Regulatory changes, instability, nationalization	Adaptive business strategy, engaging with relevant officials
	Business-government relations	100	Little to no say for businesses to impact government decisions	Damage mitigation, communication strategy
Industry	Effects throughout the value chain	65	Supply chain and logistics disruptions	Diversify, optimize, risk management, monitoring
	Stakeholders	40	Legal compliance, competitiveness	Innovation, competitive advantages, collaboration
Firm	Types of operations	70	Market access, volatile currencies,	Market entry assessments, stay up-to date in any environmental changes
	Political capabilities	85	Lobbying and advocacy	Political risk analysis, crisis management, capability building



Embedding CSR clauses to sales contract

Decision tree for disengagement strategies

