



Carlsberg Case

Post-crisis CSR strategy

42E00101 - CEMS Global Strategy

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Definition of Corporate Social Responsibility (CSR)

"The term [social responsibility] is a brilliant one: it means something but not always the same thing to everybody."

- Votaw (1973), quoted in Carroll (1999, p. 280)

Definition:

CSR encompasses a diverse range of meanings and interpretations. It includes legal responsibility, ethical behavior, accountability for certain outcomes, charitable contributions, social consciousness, and legitimacy in a business context. It can also be seen as a fiduciary duty that demands higher standards of behavior from businesspeople compared to ordinary citizens.

Key Approaches to CSR:

- **Beyond Legal Compliance:** CSR is often viewed as activities that advance social causes beyond just adhering to the law. This includes voluntary initiatives and efforts that surpass legal obligations.
- **Holistic Management Approach:** CSR involves managing a firm in a way that balances economic profitability with legal compliance, ethical conduct, and social support. This approach considers the broader impact of business operations on society and the environment.

Challenges in International Contexts:

- Multinational corporations face unique challenges in implementing CSR due to diverse legal, cultural, and social norms across different countries. This includes varying levels of law enforcement and differing societal expectations.
- The concept of CSR is dynamic and evolves with changes in legal frameworks, including the introduction of CSR-specific laws in some jurisdictions.

Pressure on Multinationals:

Large and visible multinational companies, particularly those operating in countries with different norms and standards than their home country, face growing pressure to address social, environmental, and ethical issues in their various locations of operation.



Carlsberg's Current CSR Performance in Politics and ESG

Political Challenges in Russia:

Carlsberg, through its subsidiary Baltic Beverages Holding, faced significant challenges in Russia due to political tensions, especially after the Russian invasion of Crimea in 2014 and subsequent military actions in Ukraine in 2022. These events led to ethical dilemmas for Carlsberg, forcing them to balance their economic interests with reputational and social responsibilities.

The company's response to the invasion of Ukraine highlighted the ethical complexities they faced. Carlsberg had to consider the welfare of its employees in the region and the broader social and political implications of their actions during the conflict.

CSR Initiatives:

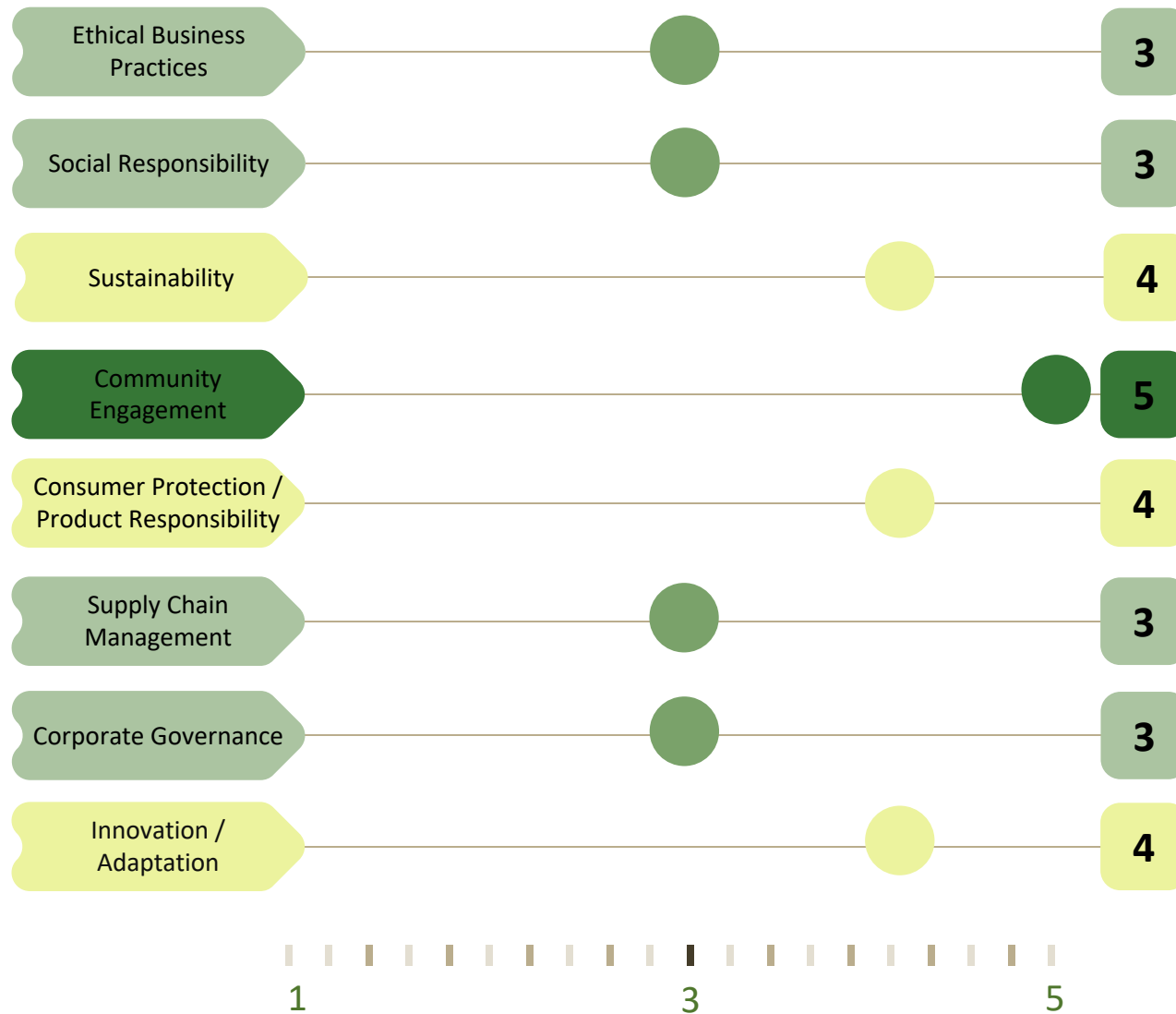
Carlsberg Group's CSR initiatives, part of their "Together Towards ZERO and Beyond" programme, demonstrate a strong commitment to addressing key environmental, social, and governance (ESG) challenges. Key achievements include:

- Significant water conservation through innovative recycling systems.
- Sourcing green electricity to reduce carbon footprint.
- Development of sustainable packaging solutions like the 100% bio-based beer bottle.
- Promotion of responsible drinking through alcohol-free brew options.

Overall, Carlsberg's CSR performance underlines the complex interplay between maintaining ethical business practices and navigating challenging political landscapes in global operations.



Comprehensive CSR Performance Assessment



Conclusion:

Overall, Carlsberg's CSR efforts reflect a commitment to adapt and innovate in response to global challenges, while navigating complex ethical and social responsibilities in diverse markets.



CSR strategy

CSR STRATEGY

CSR strategies in general aim to make operations more sustainable with minimal economic compromises



Focus points

Enhancing social well being

- Community Engagement
- Health and education programs
- Employee volunteerism

Promoting environmental sustainability

- Carbon footprint reduction
- Waste management
- Biodiversity preserving

Ensuring ethical practices

- Supply chain integrity
- Positive operational footprint
- Anti-corruption, honest market practices and transparency

Responsible value for all stakeholders

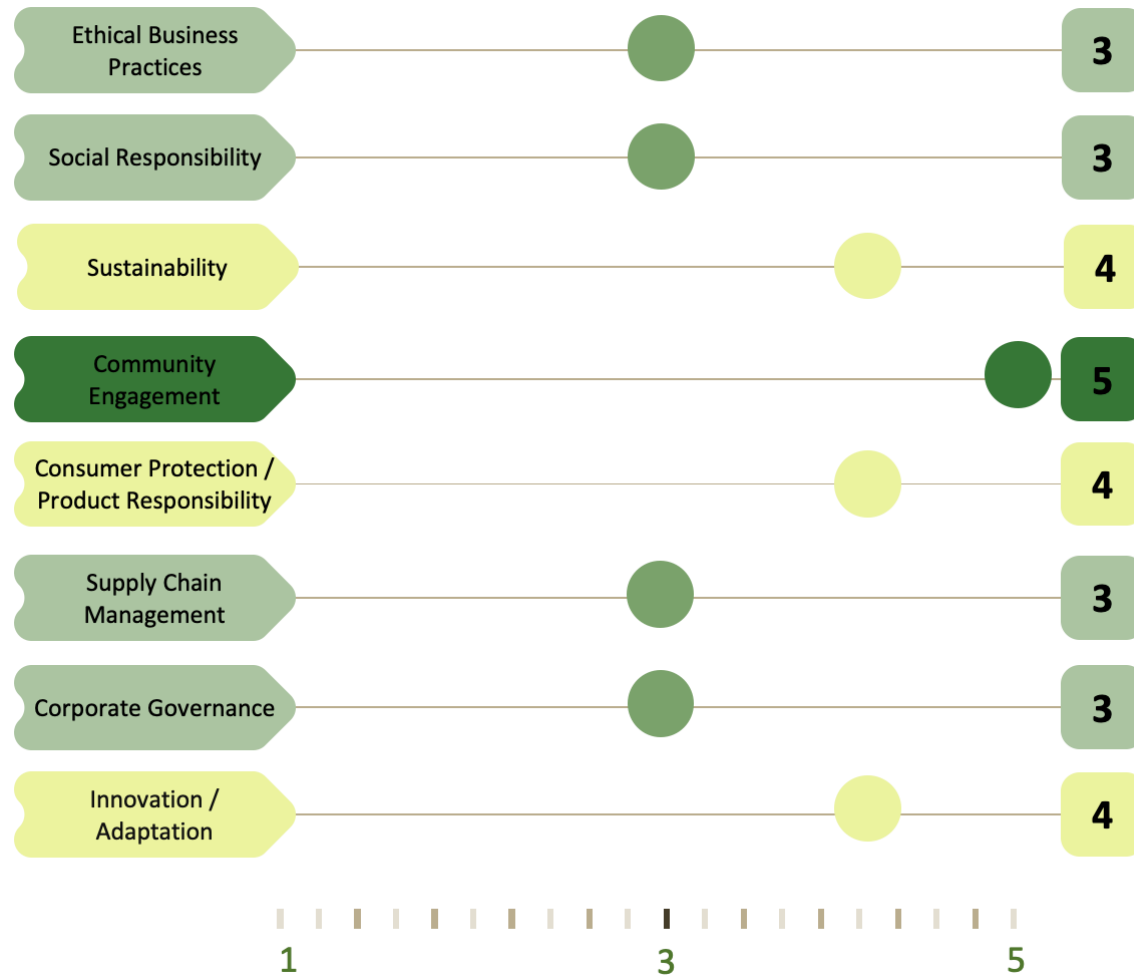
- Customer satisfaction
- Employee safety and satisfaction
- Negative impact

Optimizing economic targets

- Sustainable business growth
- Positive impact on local economy
- Maintaining profitability



Current CSR position of Carlsberg generally



Strengths



Sustainability



Community engagement



Consumer protection



Innovation and adaption

Weaknesses



Ethical business practices



Social responsibility



Supply chain management



Corporate governance

Source: Company reports



Carlsberg's ESG/CSR strategy and potential improvements

Together towards zero and beyond

	ZERO Carbon Footprint	2040 > Net ZERO value chain 2030 > ZERO carbon emissions at our breweries > 30% reduction in value chain carbon emissions > All renewable electricity must come from new assets (e.g. via power purchase agreements)
	ZERO Farming Footprint	2040 > 100% of our raw materials are from regenerative agricultural practices and are sustainably sourced 2030 > 30% of our raw materials are from regenerative agricultural practices and are sustainably sourced
	ZERO Packaging Waste	2030 > 100% recyclable, reusable or renewable packaging > 90% collection and recycling rate for bottles and cans > 50% reduction in virgin fossil-based plastic > 50% recycled content in bottles and cans
	ZERO Water Waste	2030 > Water usage efficiency of 2.0 hl/hl globally and 1.7 hl/hl at breweries in high-risk areas > 100% replenishment of water consumption at breweries in high-risk areas
	ZERO Irresponsible Drinking	2030 > 100% responsible drinking messaging through packaging and brand activations > 100% of our markets run partnerships to support responsible consumption > 100% availability of alcohol-free brews > 35% of our brews globally are low-alcohol or alcohol-free
	ZERO Accidents Culture	2030 > ZERO lost-time accidents
	Diversity, Equity & Inclusion	In these areas, we focus on the continuous enhancement and implementation of policies, partnerships and other initiatives that address the additional ESG topics having material impacts on our employees and operations, as well as on our value chain and wider society.
	Living By Our Compass	
	Human Rights	While we have an established ambition and ongoing actions to promote Diversity, Equity and Inclusion (DE&I), in 2022 we introduced additional DE&I targets that are quantitative and shorter-term: 30% women in senior leadership positions by 2024, ramping up to 35% by 2027 and a minimum of 40% over time.
	Responsible Sourcing	We continuously strive to Live By Our Compass and maintain a high-integrity culture through a robust compliance programme, and we have long-standing ambitions to source responsibly, respect human rights along the value chain, and engage communities responsibly.
	Community Engagement	

Source: Company reports

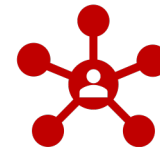
Potential improvements



The current ESG strategy is very comprehensive regarding environmental sustainability, but slightly lacking regarding other areas of CSR



The current goals are set for 2030 and 2024, which are far away and require limited action today



The strategy could be more comprehensive in taking into account more shareholders



However, Carlsbergs ESG reporting is relatively comprehensive and shows that the company is taking CSR matters seriously



Carlsberg's situation in Russia is closely related to CSR

Carlsberg in Russia had many CSR implications

Enhancing social well being

- Employing almost 10,000 people

Promoting environmental sustainability

- Case can be linked to environmental sustainability, but it is not a central focus point

Ensuring ethical practices

- Funding the Russian government by operating in their area
- Causing unemployment for almost 10,000 people
- Exiting to Russians or their allies who are linked to the Russian government

Responsible value for all stakeholders

- Employee safety and satisfaction
- Promises to shareholders of ethical operating

Optimizing economic targets

- Ethical dilemma worse than losses from writing down the assets and shutting the operations?
- Boycott risk from other countries if no exit and prolonged media pressure

Strategic choices to prevent similar situations in the future



Minimize exposure to countries with political risk



Develop a business model with less CAPEX requirements to make operating in different regions more agile



Promote innovation and build better dynamic capabilities to have a smoother pivot if risks materialize



Damage Mitigation

DAMAGE MITIGATION



We identified an integrated 5-step action plan to mitigate damages from Carlsberg's exposure to Russia

I

Risk assessment

II

Detect affected stakeholder

III

Identify relevant interaction issues

IV

Formulate strategy to resolve these issues

V

Communicate with stakeholders

DAMAGE MITIGATION



Due to their exposure to Russia, Carlsberg is faced with four major risks that affect a variety of different stakeholders

	Description	Main stakeholders	Impact
Reputational risk	Risk of reputational damage	Shareholders, Customers, Media	
Operational risk	Operational disruption due to invasion	Management, Shareholders	
Employee morale	Loss of morale due to uncertain future outlook	Employees	
Legal & Compliance	Risk of changing legal and compliance regulations	Management, Shareholders	

Risks can lead to serious damage if not mitigated accordingly



Stakeholder communication is key for damage mitigation

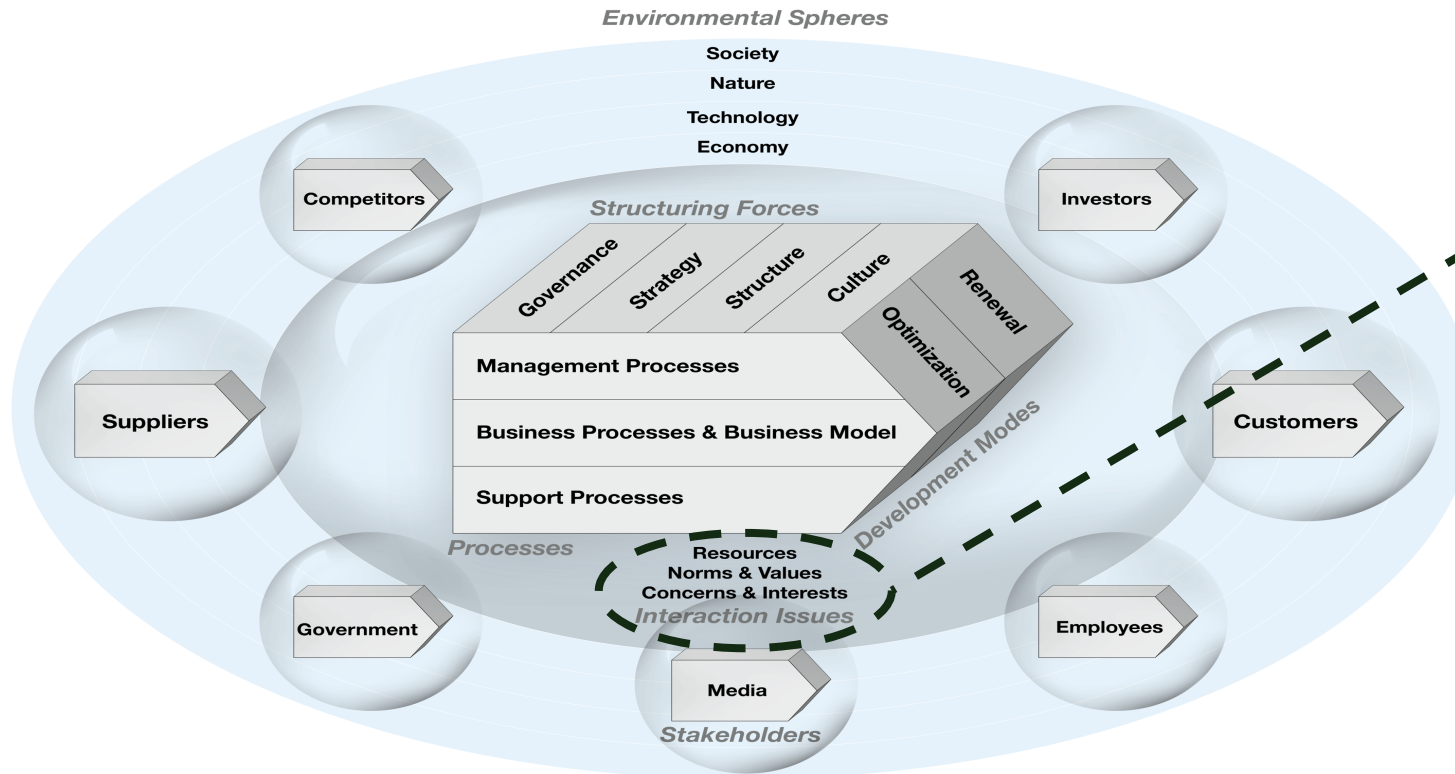
St. Galler Management Model

Damage Mitigation

- Risk assessment
- Detect affected stakeholders
- Identify relevant interaction issues
- Resolve issue
- Communicate with relevant stakeholders

Interaction issues

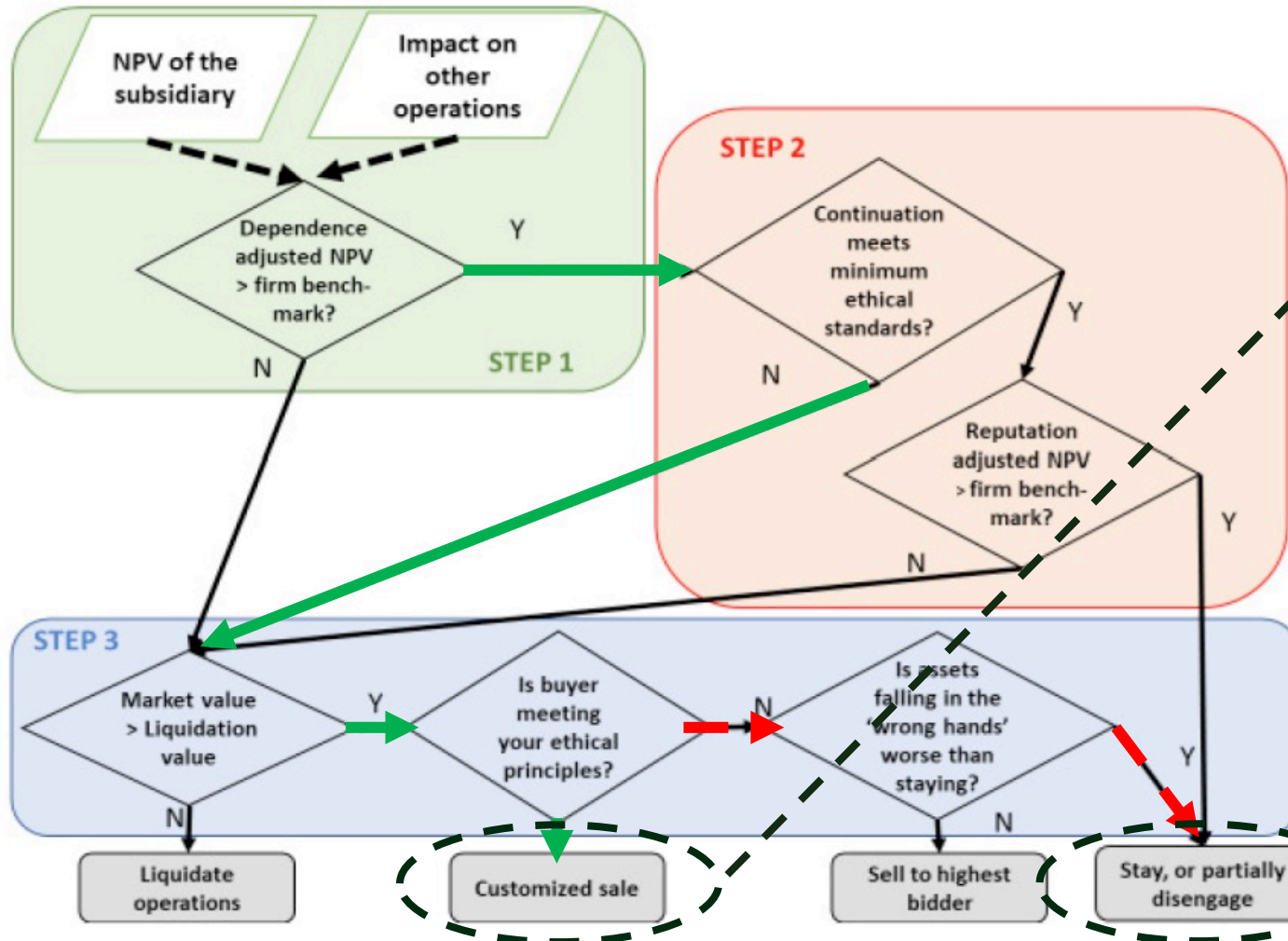
- Potential exit strategy
- Ethical values
- Risk assessment
-



DAMAGE MITIGATION



Carlsberg identified sale to non-Russian buyer as preferred strategy



Preferred strategy

- Find **non-Russian buyer** that meets ethical principle

Alternative strategy

- **Slowly disengage** as sale to a Russian oligarch would not be feasible



DAMAGE MITIGATION

Carlsberg's asset recently have been seized by the Russian government



Carlsberg cuts ties with 'stolen' Russian business



GETTY IMAGES

Michael Race
Business reporter, BBC News



DAMAGE MITIGATION

Faster and more decisive actions in combination with pre-emptive actions might have led to a more successful outcome

Pre-emptive actions

- Risk **analysis**
 - Geopolitical risk assessment
 - Risk diversification
- **Pro-active** crisis management
 - Contingency planning
- **Ethical** positioning
- Regular **stakeholder engagement**

Level of Analysis	Factors	Levels of Risk				
		Very Low	Low	Moderate	High	Very High
		0-20	21-40	41-60	61-80	81-100
Supranational Level	1. Ability of supranational organizations to mediate and resolve political tensions between countries					95
International Level	2. Political relations between countries					95
	3. Dependence between countries on natural resources, food supplies, technologies, and others			45		
National Level	4. Development by countries of technologies, weapons, or others that can redefine their power and influence				75	
	5. Political orientations and agendas of governments				80	
	6. Business-government relations					100
Industry Level	7. Effects throughout the value chain				75	
	8. Stakeholders				80	
Firm Level	9. Types of operations				65	
	10. Political capabilities				70	

Post-crisis actions

- Build upon the **pre-emptive actions**
- Implement **5-steps action plan**
 - Risk assessment
 - Detect affected stakeholders
 - Identify relevant interaction issues
 - Resolve issue
 - Communicate with relevant stakeholders

Main problem

- **Slow decision process** (16-month)
- **Frequent change** of strategy
- Little stakeholder **engagement**



Fast and decisive actions



Appendix



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APPENDIX

Carlsberg faces major geopolitical risk, especially when it comes to business-government relation



Level of Analysis	Factors	Levels of Risk				
		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					95
International Level	2. Political relations between countries					95
	3. Dependence between countries on natural resources, food supplies, technologies, and others			45		
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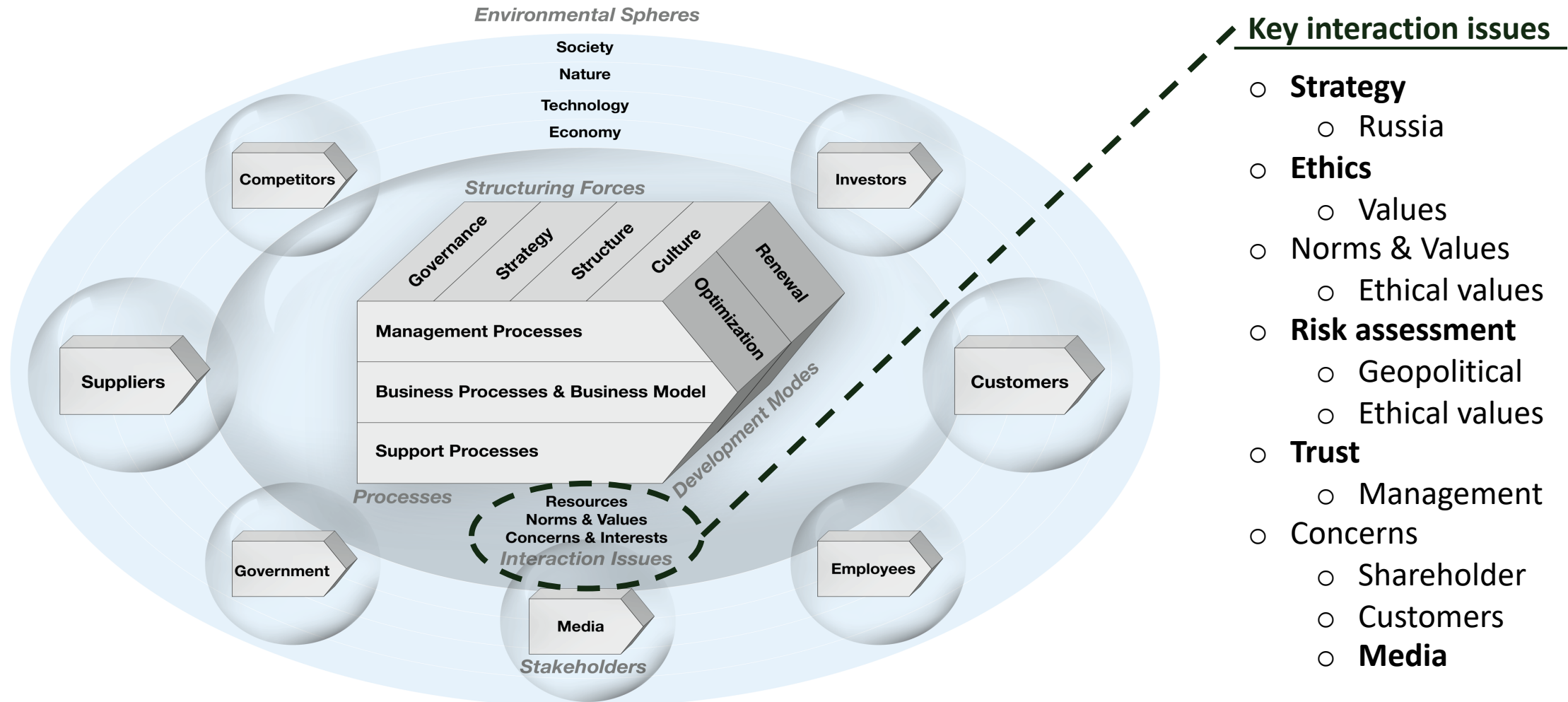
Various stakeholders are directly affected by Carlsberg's exposure to Russia



Stakeholder	Description
SHAREHOLDERS	They are concerned about both the financial performance of Carlsberg and its international reputation, which are critical factors in their investment decisions.
EMPLOYEES	This includes employees in Russia who face an uncertain future depending on Carlsberg's decision, as well as global employees who might be affected by the company's actions and the overall situation.
CUSTOMERS	Their perception of the Carlsberg brand may change based on the company's decisions, which could influence their loyalty and purchasing behavior.
DANISH MEDIA	The media plays a key role in shaping public opinion and perception, thereby influencing Carlsberg's reputation and public image.
POTENTIAL BUYER OF CARLSBERG'S RUSSIAN OPERATIONS	This stakeholder could expect a favorable deal, but the ethical implications of selling to certain entities, like a Russian oligarch, are a significant consideration.

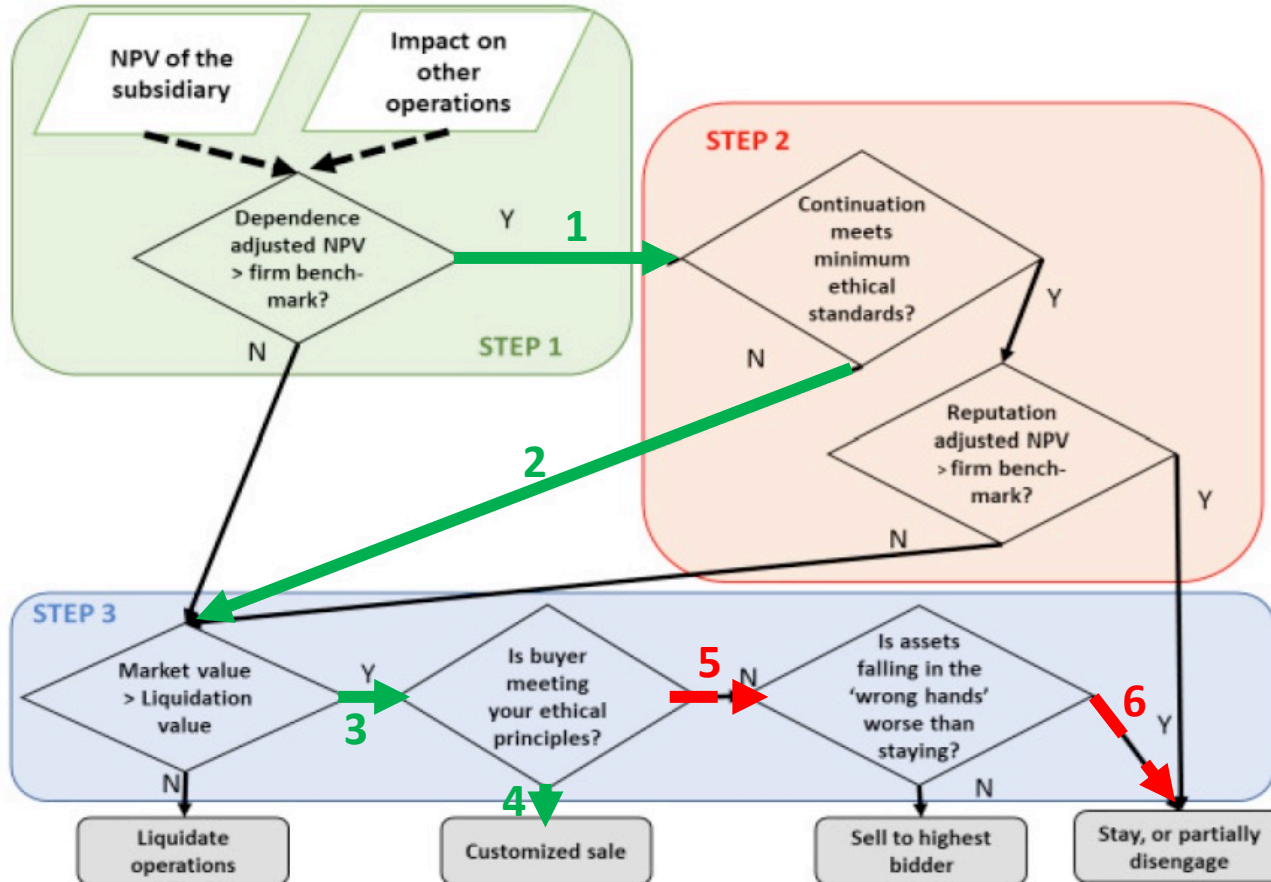
APPENDIX

Reputation as key interaction issue between stakeholders and companies



APPENDIX

Carlsberg identified sale to non-Russian buyer as preferred strategy



Strategic decisions

1. $NVP > \text{firm benchmark}$ (assumed based on high activity in Russia)
2. Minimum ethical standard not met (Invasion of Ukraine)
3. Continuation value $>$ Liquidation value (Reasonable assumption)
4. Buyer meets ethical principle (for non-Russian buyer)
5. EXCEPT Russian buyer (closeness to Putin)
6. Assets falling into wrong hand worse than staying (Russian buyer would be too close to Putin)

APPENDIX



According to three main ethical frameworks, remaining in Russia does not meet minimum ethical standards

Framework	Premise	Application
DEONTOLOGIE <i>(Immanuel Kant; late 18th century)</i>	Deontology emphasizes adherence to moral duties and rules. It states that actions are morally right if they are in accordance with certain rules and duties, regardless of the consequences. → focus on actions	Continuing operations in Russia could be seen as a violation of moral duties, especially considering the international stance against Russia's actions in Ukraine. From a deontological perspective, it would be unethical for Carlsberg to continue operations in Russia as it might be viewed as indirectly supporting or legitimizing the Russian government's actions.
UNIVERSALITY PRINCIPLE <i>(central concept in the deontological ethics philosophy)</i>	<i>"Act only according to that maxim whereby you can and at the same time will that it should become a universal law."</i> – <i>Categorical Imperative by Immanuel Kant (1785)</i>	If Carlsberg continues its operations in Russia, the universality principle would require accepting that all multinational corporations can operate in countries engaged in aggressive actions or human rights violations. This universalization could lead to a world where economic interests consistently override ethical considerations, which is contrary to a moral framework that prioritizes human rights and international laws.
VIRTUE ETHICS <i>(Aristotle; 4th century BCE)</i>	Virtue ethics focuses on the character and virtues of the individual or organization, rather than on specific actions and consequences. It emphasizes moral character and the cultivation of virtues. → focus on values and virtues	Remaining in Russia could impact Carlsberg's reputation and be perceived as lacking virtues like justice, integrity, and respect for human rights. Exiting Russia aligns with promoting a corporate character that values global ethical standards and human rights, thereby upholding its reputation as a responsible global organization.
UTILITARISM <i>(Jeremy Bentham and John Stuart Mill; late 18th - mid 19th century)</i>	Utilitarianism is based on the principle of the greatest happiness for the greatest number. Decisions are deemed ethical if they result in the maximum benefit for the most people. → focus on consequences	The utilitarian perspective would consider the broader consequences of Carlsberg's presence in Russia. The negative impact on global perception and potential support (even if indirect) to a government involved in conflict could lead to greater harm than benefits. Therefore, from a utilitarian view, leaving Russia could be seen as the more ethical choice, as it potentially reduces harm and supports global peace efforts.



Comprehensive CSR Performance Assessment

CSR Dimension	Assessment (1-5)	Remarks
Ethical Business Practices	3	Faced ethical challenges in Russia, indicating a complex balance between business operations and ethical considerations.
Social Responsibility	3	Demonstrated concern for employee welfare during conflicts, and commitment to responsible consumption.
Workplace Diversity	2	Limited information available from the case study and website.
Sustainability	5	Strong commitment to environmental sustainability through various "ZERO" initiatives.
Community Engagement and Development	3	While specific community initiatives are not detailed in the case, Carlsberg's general business practices suggest some level of community engagement.
Consumer Protection and Product Responsibility	4	Launch of new products like non-alcoholic beers indicates attention to consumer preferences and responsible product development.
Supply Chain Management	3	The complexity of operations in varied geopolitical contexts implies a challenging supply chain, though specific details are not provided.
Corporate Governance	3	Governance assessed based on general business conduct and ethical considerations in challenging markets.
Innovation and Adaptation	4	Introduction of new products and adaptation to market changes, especially during the COVID-19 crisis, demonstrates high innovation.



Carlsberg's strategic responses and the CSR framework

Strategic response	Description	Strategic response	Description
RETRENCHMENT	Refers to firms cutting back on activities and resources in a bid to conserve what's left. It's a defensive strategy, often associated with reducing costs, divestments, and narrowing down the scope of business operations.	COMPROMISE	Involves partially accommodating all essential demands. It can enhance legitimacy and potential sustainability but might also introduce detrimental organizational complexity and internal conflicts.
PERSEVERING	Firms choosing this approach stay the course despite the challenges. They maintain their current strategies, continue with the same business model, and hope that the external environment will improve or stabilize.	AVOIDANCE	Aims to eliminate the need for conformity through increased efficiency. Although it might lead to improved efficiency, it can also result in ethical conflict, decreased employee morale, and organizational rigidity.
INNOVATING	Firms pivot their strategy or operations in response to the crisis. This could involve venturing into new business models, introducing novel products or services, or adapting the current offerings to fit the changing circumstances.	DEFIANCE	Directly rejects at least one of the demands. This strategy can be effective when institutional reference points are weak, but it also runs the risk of losing legitimacy or facing organizational stigma.
EXIT	Indicates the discontinuation of a firm's business activities in response to a crisis. It can be due to the belief that other responses will not aid survival or can be a strategic choice from the outset. Exits can sometimes pave the way for strategic renewals or new ventures.	MANIPULATION	Actively changes the institutional demands. This response can enable positive changes both within the organization and in the larger institutional context. However, it can also make the organization vulnerable to political conflicts and potential instability.

Compromise and Global Reputation:

Carlsberg's negotiation of Russia's complex regulations through compromise aligns with ethical business practices within the CSR framework. This approach was vital for maintaining their global reputation and financial stability.

Avoidance and Protection:

The use of avoidance strategies to protect their standing resonates with the CSR focus on managing reputational risks and ethical challenges in politically sensitive markets.

Manipulation and Operational Adjustments:

Manipulating operations to adapt to Russia's changing landscape reflects Carlsberg's commitment to innovation and sustainability within the CSR framework.

Retrenchment and Crisis Management:

In crisis situations, Carlsberg's retrenchment strategy to lessen risks and preserve financial and reputational stability aligns with responsible management practices under CSR.

Innovation and Market Presence:

Focusing on developing new products and streamlining the supply chain demonstrates Carlsberg's commitment to innovation and adaptation, key components of the CSR framework.