

# Re-Distribution of Value Chain Activities Following Acquisition in the Brewery Sector

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*Document Version*  
Final published version

*Publication date:*  
2016

*License*  
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*Citation for published version (APA):*  
Gammelgaard, J., & Hobdari, B. (2016). *Re-Distribution of Value Chain Activities Following Acquisition in the Brewery Sector*. Paper presented at The 42nd EIBA Annual Conference 2016. European International Business Academy, Wien, Austria.

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Download date: 22. Feb. 2024



# **Re-distribution of value chain activities following acquisition in the brewery sector**

## **Abstract**

In this paper, we investigate post-acquisition integration of acquired firms and subsequent developments in new subsidiary strategic responsibilities in value-chain activities. Using comparative case study methodology, we illustrate the forms, degrees and evolution of strategic responsibilities using in-depth analysis of six acquisitions from the Danish brewery, Carlsberg. The analysis reveals that the initial mandates at the time of acquisition were designed based on new subsidiaries' core competencies and resources, and Carlsberg's acquisition motives. Yet, the mandates did not remain static. Over time, some subsidiaries gained new value chain mandates or they substantially increased their scale in terms of production capacities or the markets in which they operated. From the practical point of view, this implies managers of the acquiring firm must pay close attention to the form and extent of integration if the acquisition is fulfill its potential.

## **Introduction**

Mergers and acquisitions (M&A) constitute an important part of multinational corporations' growth. Research in M&A has attracted attention of scholars from a variety of disciplines and perspectives, notably financial economics (Stahl and Voigt, 2008; Aktas, de Bodt and Cosuin, 2007; Dixon, Wilcox, Chang and Grover, 2001), strategic management (Chatterjee, 2009; Cartwright, 2006), organizational behavior (Haleblian, Kim and Rajagopalan, 2006; Birkinshaw, Bresman and Håkanson, 2000) and international business (Morosini, Shane and Sing, 1998; Verbeke, 2010). The vast extant literature covers a broad range of topics such as corporate partnerships, diversification and corporate strategy, CEOs and top management teams, learning and knowledge, restructuring, integration issues, entry modes and international strategy, corporate governance, culture, organizational structure, technology and innovation, etc.

Research on post-merger or acquisition integration focuses on the process design as the key to the ultimate success or failure of the merger or acquisition. This literature has analyzed different challenges to the post-merger of acquisition process, such as motives, speed and degree of integration, the level of autonomy to be granted to the newly acquired unit, organizational fit, employee and top management turnover, and knowledge transfer. Integration issues have found a prominent place in international business research, with scholars focusing on common processes that allow for greater coordination within multinational corporations (MNC) and the role of integrating mechanisms. One element of integration considerations, and related strategies, is the functions and stages of value-chain activities to be integrated (Schweizer, 2008). Griffith et al. (2008) performed a study of the drivers of research agenda in international business and the emerging themes to dominate the agenda in future work. Not surprisingly, the configuration of value-adding activities by MNCs is identified as one of the primary research themes in future international business research. Meyer et al., (2010), and Vahlne and Ivarsson (2014) emphasize the dynamic and context-dependent challenge of reconfiguration and coordination of such activities in the process of building competitive advantage and coping with institutional contexts.

Among the most important aspects of these activities are the strategic responsibilities allocated to subsidiaries. In this paper we investigate the allocation and reallocation of strategic responsibilities to MNC subsidiaries in the brewery sector by taking a longitudinal view of some of the foreign breweries acquired by the Danish MNC brewer Carlsberg over time. In particular, we focus on changes in the

subsidiaries' charters in terms of the value-chain activities delegated to them. "Strategic responsibilities" are defined as subsidiaries' mandates detailing the value-chain activities delegated to the unit and the resources the subsidiary can use for those activities.

Surveys of the roles played by subsidiaries in MNCs highlight significant variability in terms of the value-chain activities they handle (White and Poynter 1984; Birkinshaw and Morrison 1995). For example, some subsidiaries handle all value-chain activities on a small scale, whereas others, such as sales or manufacturing units, specialize in only a few value-chain activities but on a larger scale (White and Poynter 1984). Furthermore, some subsidiaries operate only within the host country, while others achieve global mandates (Birkinshaw and Morrison 1995). Although the evidence implies substantial heterogeneity, the extant literature seems to lack a framework for analyzing how subsidiary mandates are formed at the time of their acquisition or establishment, and how those mandates evolve over time. The literature on M&A integration is rich in relation to the development of target firms that turn into subsidiaries once acquired by an MNC (Ahammad and Glaister, 2011; Weber, Tarba and Reichel, 2011). Yet, the level of integration and its evolution across time and space are seldom discussed as an outcome of value chain integration. Instead, other parameters have been used, such as the degree of centralization of decision making rights (Ahammad and Glaister, 2011). In this study, our research question is what drives MNCs' integration of acquired firms' value chain activities and how an MNC integrates newly acquired firms in the brewery industry.

Through this study we make several contributions to the M&A and international business literatures. First, we provide a framework for understanding the heterogeneity of subsidiary mandates even within one MNC. Our analysis suggests that one-size-fits-all approach, where one kind of mandate applies to all subsidiaries of an MNC, does not capture the complexity and uniqueness of a given acquisition. Secondly, we provide evidence of the factors that determine the evolution of mandates over time. By moving from a static towards a longitudinal view of subsidiary mandates, we show the role played by environmental dynamism in the evolution of subsidiaries' strategic responsibilities. Lastly, we contribute by investigating how value chain activities are re-distributed following a takeover in a particular context, namely the brewery industry. Focusing on one industry allows us to avoid lumping together phenomena underlined by different motives and resource requirements. The brewery industry is an important

context for examining integration processes. The main features that make it worthy of a detailed analysis are that all participants have adopted similar technologies globally, they offer homogenous product, the industry is dominated by a few large MNCs actively engaged in M&As, and it is highly internationalized (Gammelgaard and Dorrenbacher, 2013). Further, the industry is also characterized by significant cross-country institutional, regulatory and cultural differences that make it fertile ground to investigate organizational and strategic issues.

The rest of the paper proceeds as follows. In the next section, we review the arguments on subsidiary roles and M&A integration. Our theoretical propositions are then illustrated through a detailed look at the Danish brewer Carlsberg, its internationalization process and its overall strategy in terms of its acquired companies. This is based on a close examination of Carlsberg's strategy for six of its takeover targets becoming subsidiaries. These subsidiaries have been carefully selected because they reflect the diversity of mandates within a single multinational. In the concluding section, we summarize and discuss our findings.

## **Literature Review**

Following the acquisition of a target firm, the acquiring firm may choose to delegate strategic responsibilities in the form of value-chain mandates to its subsidiaries (Galunic and Eisenhardt 1996; Dörrenbächer and Gammelgaard 2010). That is, headquarters may choose to allocate or reallocate value-chain activities to the MNC's divisions or subsidiaries. The drivers of this process and the instruments available to headquarters have been widely discussed in the literature. For instance, Yamin and Ghauri (2010) suggest that MNC structures revolve around the disintegration of the value chain. In many cases, subsidiaries are likely to perform narrowly specialized value-chain functions. The development of ICT technologies has, to a large extent, supported this trend towards subsidiary specialization. As a result, some subsidiaries provide goods and/or services for all parts of the MNC or, at least, for large parts of it. Alternatively, subsidiaries can provide goods/services to specific parts of the MNC's global markets (Holm and Pedersen 2000). Consequently, an MNC can be seen as an organic organization, and upgrades or downgrades of subsidiary strategic responsibilities in relation to the value chain occur regularly.

One view of the MNC presents it as an internal market in which subsidiaries compete for headquarters' attention and resources (Cerrato 2006). The resulting

mandates are outcome of the on-going bargaining between headquarters and subsidiaries. In this process, subsidiaries benefit from their possession of specialized resources (Mahoney and Pandian 1992). In fact, subsidiaries are likely to lose mandates when they lack such resources (Egelhoff et al. 1998). Possessing of resources is likely to create situations of resource dependency, which increase the bargaining power of the subsidiary, when advocating for new strategic responsibilities in relation to the value chain (Bouquet and Birkinshaw 2008). The outcome of this bargaining process will also depend on the acquisition motives of the MNC, especially those related to value chain. The M&A literature has discussed such motives to some extent. For instance, several studies have surveyed how corporations like Intel, General Electric and Nestlé all initiated technology-driven acquisitions during the 1990s as a vehicle to develop capabilities (Bower, 2001; Mitchell & Capron, 2002; Ranft & Lord, 2000). Yet, as Gammelgaard (2004) points out, early surveys of M&A motives were restricted to include only resource exploitation strategies, focusing on investigating the direct effect, such as increased market shares, cost reductions and risk minimization through diversification. Other studies though have emphasized other factors, such as access to the sales functions and related market access, as drivers of acquisitions (Newbould, 1970; Baker et al, 1981; Lindgren, 1982; Hunt et al, 1987; Suverkrup & Hauschildt, 1990; Davis et al, 1993; Norburn & Schoenberg, 1994).

The link between acquisition motive and post-acquisition integration can be established via the resource-based view of the firm. Penrose's (1959) growth theory predicts that current acquisitive growth is an outcome of previous organic and acquisitive growth. Companies are, or should be, constrained by their past investments, which are likely to lead to path dependencies in future strategic action (Teece et al., 1997). Brouthers and Dikova (2010) point out that the degree of integration is an outcome of how 'strategic flexible' an acquiring company can be. Further, Lockett et al. (2011) emphasize that growth constraints are due to adjustment cost, which includes the time and efforts used in integrating new managers and operations in expanding the activities of the firm. This is especially important where resources need to be transferred from the acquiring to the acquired firm, in order to integrate and create synergy effects (Nooteboom, 1999).<sup>1</sup>

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<sup>1</sup> An aspect omitted from our analysis is the cultural distances between the acquiring and acquired firms. Even though cultural mis-match has been associated with high failure rates of M&A (Larsson and Finkelstein, 1999), cultural distance has also proven to enhance performance, as acquisitions provide access to valuable pools of critical embedded resources and practices otherwise not available to the

Synergy effects are consequently tightly related to the integration of the target firm. Integration strategies have often been associated with the framework developed by Haspeslagh and Jemison (1991). The right integration strategy depends on the need for autonomy on the one hand, and the strategic interdependence on the other hand. In the case of the acquisition of a small company with no strategic important resources beyond access to markets, or the possibility of gaining synergy through rationalizations, Haspeslagh and Jemison (1991) suggest an absorption strategy. In other cases, high levels of autonomy would be preferred, especially if the target firm owns important strategic resources likely to be destroyed if integrated too rapidly. The outcome could be that key resources leave the firm (Paruchuri, Nerkar & Hambrick, 2006). In such a case, Haspeslagh and Jemison (1991) suggest adaptation of a preservation strategy (high autonomy/low integration), which over time develops to a symbiosis strategy. The need for integration is created by the fact that acquired resources only unfold their value when being redeployed in a resource reconfiguration process with the acquiring firm's resources (Hitt et al. 2001; Capron et al., 2001). Further, Wicklund and Shepherd (2009) argue that firms that have been engaged more often and more intensely in resource combination activities develop a stronger capability to discover and leverage synergies. On the other hand, autonomy combined with integration is preferable as a lack of integration effort and employee resistance is seen as basic reason for the failure of acquisitions to realize synergies (King et al., 2004).

The Haspeslagh and Jemison' (1991) framework serves as the starting point of Schweizer' (2005) study of the integration of biotech firms into pharmaceutical companies. Building upon the Haspeslagh and Jemison' (1991) framework, Schweizer proposes a hybrid strategy based on the value chain model. Instead of a 'one size fits all' strategy, where the target firm is either 'preserved' or 'absorbed', he suggests an independent strategy for each value chain activity of the target firm. In such case, marketing activities could be absorbed and R&D activities could be preserved. He even suggests the hybrid strategy for each value chain. For instance, in case of R&D, tests of new drugs could be preserved, and patenting procedures could be absorbed.

We investigate our research question using Schweizer' framework augmented with insights from the subsidiary role literature. Although Schweizer' framework was developed for the pharmaceutical industry, it is general enough to be applicable in other

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acquiring firm (Morosoni et al., 1998. In general, new research points at mixed finding in relation to how culture affects integration (Ahammad and Glaister, 2011; Weber, Tarba and Reichel, 2011).

settings. However, as Schweizer himself acknowledged, the strength and nature of the relationships in the framework are likely to be context dependent, with the results influenced by industry and M&A characteristics. The brewery industry displays significantly different attributes than the pharmaceuticals industry, making it a perfect setting to test the importance of context to applicability of the hybrid integration approach. Our starting assumption is that the target firms will be given some value chain charters, with some seeing an increase whereas others a decrease in responsibilities. Further, the acquirer can adopt different entrance strategies and intervene in numerous ways, while the target firms can hold varying levels and qualities of resources. We therefore expect some subsidiaries to develop strategic responsibility in relation to the value chain, while others likely to lose such strategic responsibility. However, we aim at adding some nuance to this notion by investigating whether these two lines of development occur simultaneously, so that subsidiaries win and lose mandates at the same time.

## **Methodology**

The investigation of our research question is done through comparative case study research methodology (Yin, 2003). Given the amount of detailed information required to analyze the issues surrounding M&A integration, the application of qualitative design is called for as it allows deep understanding, local contextualization and causal inference (Miles and Huberman, 1994). The M&A literature has long relied on similar approaches (Schweizer, 2005; Bower, 2004; Javidan et al., 2004). The choice of the brewery industry as context of our study is driven by several features that make it worthy of a detailed analysis, such as the domination of the industry by a few large MNCs actively engaged in M&As and its highly international nature, with most M&As taking place across borders, bringing significant cross-country institutional, regulatory and cultural differences that are expected to impact integration strategies.

The choice of the cases, both the acquirer and the acquired companies, is crucial as it will influence the depth of the analysis and significance of the results. In terms of the acquirer we have chosen one company, the Danish brewer Carlsberg. The rationale behind the choice of a single acquirer is to be able to capture differences in integration strategies brought about by different entry strategies and motives. The integration strategies of the acquirer are then analyzed using a sample of acquisitions made over time. The choice of these acquisitions was based on the following several criteria: a) the



similar size of investment (with the conjecture that larger investments increase the likelihood of autonomy and strategic autonomy), b) the location of the new subsidiaries (with all of the analyzed acquisitions made in Europe, including Russia, a condition included to reduce the effect of cultural diversity), and c) each acquisition represented the first experience of Carlsberg with the respective country. From all the acquisitions made by Carlsberg only six passed the criteria and as such are used in the study. All the acquisitions were made during the 1990s and 2000s, with the earliest one made in 1996 and the latest in 2008. The data we use in the analysis are obtained from archival sources, company reports and articles in the financial press. The data are used to flesh out the arguments made in academic sources, and provide interesting nuanced accounts of events within the company and the personalities involved.

### **Case Discussions and Findings**

This section presents the main findings from case analysis, highlighting the differences and commonalities in integration of acquired firms.

### **Carlsberg's Acquisition Motives and General Integration Strategy**

In the early stages of the internationalization, current players dominating the brewery industry, such as Anheuser Busch InBev, Heineken, SABMiller and Carlsberg, relied on less risky export strategies or licensing agreements. In a typical staged internationalization process, these entry modes were followed by international joint ventures with local breweries and then, especially over the past decade, with international mergers and acquisitions (Madsen et al., 2011; Ebneith and Theuvsen, 2007). These mergers and acquisitions offered the acquiring firms quick access to new markets and the related brands of the target firms. The acquiring firms could thereby distribute their own international brands in new markets utilizing the distribution systems of the target firm or introduce the acquired brands to new markets, as these brands often corresponded to speciality type of beers. Often, the acquirers' branded beers, such as Heineken, Budweiser, Stella Artois and Carlsberg, were also produced locally, at the expense of locally branded beers (Dieng et al. 2009). Further synergies were achieved through cost reductions via rationalizations and resource redistribution, often manifested by technology transfers from the acquiring to the acquired firm.

Carlsberg is a large Danish brewery founded in 1847 by Carl Jacobsen. Today, Carlsberg is one of the world's leading breweries with activities in more than 150

countries in which it markets more than 500 brands. Carlsberg's global reach has resulted in a high degree of internationalization, as expressed by the fact that foreign sales account for 92.6 per cent of total sales (Carlsberg 2011). Many minor markets are reached through export and licensing agreements (Carlsberg 2010), with only 29 subsidiaries listed in its annual report as having significant operations. These subsidiaries though employ most of the Carlsberg's 41000 employees. The Carlsberg Group produces 10895 million liters of beer annually and had net revenue of USD 10695 million in 2010 (Datamonitor, 2011). Carlsberg's most important brand is Carlsberg, which is also its most recognized and fastest-growing beer brand on a global basis (Carlsberg, 2008). Other well-known brands on an international scale are Tuborg, Baltika and Kronenbourg 1664. The company has a strong market presence in Denmark, Norway, Finland, France, Russia, the UK, Laos, Nepal, Cambodia, Malaysia and Vietnam. It has a weaker presence in the Americas (Datamonitor 2011).

Although Carlsberg started to export to the British market in the nineteenth century, its internationalization adventure did not really take off until after World War II. At that time, Carlsberg and its associated brewer Tuborg intensified their marketing campaigns abroad that led to a tripling of exports between 1958 and 1972. Around this period, the two companies also started to establish breweries around Europe and in Asia through mergers and/or acquisitions. In terms of international acquisitions Carlsberg has made major investments in the German market. For instance, in 1988, Carlsberg acquired 83 per cent of Hannen Brauerei GmbH in a follow-up to a 1977 licensee agreement with German Reemtsa group, which included Hannen Brauerei. When the licensee agreement came to an end, Carlsberg took over Hannen. One reason for doing so was the brewery's location near the Belgian border, which opened up sales opportunities in that market. Carlsberg also acquired Holsten-Brauerei in 2004 and Göttsche Getränke in 2006.

Other than Germany, Carlsberg has been actively investing in the European markets. For instance, its investments include the 1991 acquisition of a controlling interest in Unicer, the largest brewer in Portugal (Carlsberg 2001). Subsequently, Carlsberg sold its stake in Spanish Union Cervecera, which had been experiencing losses for several years. In 1970, Carlsberg entered into a partnership with the British beer maker Watney to build a larger brewery in Northampton. Later, due to restructuring within the industry, the Danish brewery obtained 100 per cent control of this business (Business Insights Essentials 2012). Furthermore, Carlsberg formed a

strategic alliance with Allied-Lyons in Britain. The new firm, a 50/50 joint venture known as Carlsberg-Tetley P.L.C., built an 18 per cent market share. In Italy, Carlsberg acquired Poretti in 1982. It also acquired 50 per cent of the shares in the Finnish brewing operation Oy Sinebrychoff AB in 1988 and the remainder in 2000. That same year, Carlsberg acquired Feldschlösschen Getränke in Switzerland. In 1996, Carlsberg acquired 31.6 per cent of Polish Okocim and it took full ownership in 2004. In 2002, Carlsberg gained 11 per cent of the Croatian market by acquiring an 80 per cent stake in Panonska Pivovara, which manages three leading brands: Pan, Tuborg and Kaj (Niederhut-Bollmann and Theuvsen 2008). More recently, Carlsberg has expanded in China through acquisition of local breweries. Its first move in eastern China failed due to harsh price competition and high target prices. As a result, Carlsberg focused on breweries in western China. It now holds a controlling interest in Xinjiang Wusu Beer and Dali Beer, and a minority interest in several other breweries (Carlsberg Information til Aktionærer 2006).

The latest major investment was the takeover of Scottish & Newcastle, the former alliance partner in BBH. This was a joint acquisition with Heineken. At the time of the takeover, Scottish & Newcastle was considered to be a leading European brewery with operations in 15 countries. Its' assets were divided between Carlsberg and Heineken, so that Carlsberg gained 100 per cent ownership of BBH and Scottish & Newcastle's French (Kronenbourg), Greek (Mythos), Chinese and Vietnamese operations, whereas Heineken gained control Scottish & Newcastle's UK, Irish, Portuguese, Finnish, Belgian, US and Indian operations. The takeover gave Carlsberg leading positions in the East European, Russian, French and Greek markets, which were expected to counter the declining beer consumption in the mature west European markets. Through the full control of BBH, Carlsberg also controlled a range of subsidiaries.

The acquisitions of breweries and their immediate launch into new roles by redistributing value chain activities clearly illustrate Carlsberg's views on strategic development of its subsidiaries. One characteristic of Carlsberg is its emphasis on efficiency in its production and distribution processes as key to its success. In numerous cases, this overall motive has affected the acquired subsidiaries and their development. An example is the acquisition of Norwegian Ringness and Swedish Pripps, where old production plants were closed and production moved to new plants (Carlsberg 2001). Another case is the acquisition of Finnish Sinebrychoff, where production and

administration improved after Carlsberg took full ownership, for instance, through the introduction of new types of packaging (Carlsberg 2005). Similar developments were evident in the acquisition of Derbes in Kazakhstan, which was accompanied with major upgrades in production quality, national sales, distribution and management (Carlsberg, 2002). In fact, the upgrading of the Derbes' bottling line turned the brewery into one of the most modern in Europe. Another characteristic of Carlsberg is the tendency to restructure value-chain activities, often leading to a centralization of functions. This is illustrated in the cases of its Finnish subsidiary and Italian division (Carlsberg 2002). An inspection of Carlsberg's individual subsidiaries reveals that subsidiaries differ with respect to strategic responsibilities they are allocated. For example, central coordination of procurement is located in Switzerland, accounting in Poland and R&D in France (Datamonitor 2011). Therefore, Carlsberg appears confident that it can derive value by streamlining and centralizing across borders, while it still seems to recognize that substantial value is created locally in each individual market.

Overall, we can conclude that Carlsberg's acquisition of foreign breweries is driven by efficiency seeking motive, while its post-acquisition integration is to a large extent determined by value creation. A closer inspection of different acquisitions and post-acquisition integrations reveals significant heterogeneity of processes and upgrades. To explore this heterogeneity in more detail, we turn our attention now to the analysis of the six acquisitions in the European market.

### **Okocim**

In 1996, Carlsberg acquired a 31.8 per cent stake in the Polish brewery Okocimskie Zaklady Piwowarskie S. A. (Okocim). At the time, Poland was a major, growing beer market with 40 million inhabitants and a per capita annual demand of 40 liters. Furthermore, during the economic transition from the command to market based economy, Polish citizens were experiencing increases in their purchasing power and began to shift their consumption preferences from spirits to beer (Glamann 1997). Carlsberg revised its investment strategy and increased its ownership stake in the brewery first to 50.1 per cent in 2001 and then to 100 per cent in 2007 (Carlsberg 2007). Three minor breweries (Kaszelan, Bosman and Piast) were also acquired in 2001. In 2004, Okocim was delisted from the stock exchange and was renamed Carlsberg Polska (Carlsberg 2004).

At the time of the acquisition, Okocim was highly inefficient, so Carlsberg spent €70m to increase its efficiency, making major investments in production capacity and modernization, leading to a tripling of capacity (Carlsberg 2006; Reuters Finans 2009). Later, associated breweries in Krakow and Chociw were closed down (Poland Business News 2002) and production in Piast was reallocated to other plants (Børsen, 2004c). In total, the number of production sites was reduced from four to three, the number of packaging sites from twelve to seven and the number of warehouses from twelve to six (Koudal and Engel 2007). An example of strategic development was that the subsidiary gained an international market mandate– the Okocim brand was launched in the UK (The Grocer 11 March 2006), targeting the 600 000 Polish inhabitants in the country (Marketing Week 2007). The Okocim brand was also launched in India (Business Today 2007).

This example illustrates the subsidiary's loss of strategic responsibilities in the period immediately following the takeover, followed by the introduction of Carlsberg's best practices. However, over time the subsidiary developed a mandate and gained responsibility for international activities.

### **Tetley**

The acquisition of Tetley in 1997 was the largest foreign takeover by a Danish company from 1994 to 1998 (Gammelgaard 2002). Despite the fact that through the acquisition Carlsberg became the dominating brewer in the UK, it saw a need to refocus its strategy as it held only 13 per cent of the market (Børsen 2000). The company decided to implement a radical restructuring process. It divested or closed three of its five breweries in the UK, and was left only with its original brewery in Northampton and Tetley's headquarters in Leeds (Børsen 1998a). Carlsberg invested around £40m to increase capacity in these two breweries (Børsen 1998a; Carlsberg Press Release 1997). The restructuring also led to the layoff of 1500 of the 3700 employees in the UK (Børsen 1997; Jyllands Posten 1998) and the administration services in Birmingham relocated to Northampton. Despite these cutbacks, all brands were kept in the portfolio (Børsen 1997b). In the years that followed the implementation of the plan, Carlsberg's earnings fell (Børsen 1998b). However, the process continued with the renaming of Carlsberg Tetley to Carlsberg UK in 2004, although the Tetley brand was kept in the portfolio. In 2011, Carlsberg closed the original Tetley brewery in Leeds (Datamonitor 2008; Børsen 2011a) and relocated production of Tetley to Northampton. This move

was based on a review of the supply chain, which indicated that two major Carlsberg breweries in the UK were not sustainable (ICM 2008), and on the recession's impact on demand. (The Guardian, 2008).

This case illustrates a target firm dramatic loss of losing strategic responsibility. The Tetley acquisition was significant in size. Yet, events external to the firm – mainly increasing governmental regulations and competitive reactions – led to a set of changes. The case also illustrates that the specialized resource in this market was access to distributions channels, which the subsidiary lacked in the end.

### **Feldschlösschen**

Carlsberg acquired the Swiss brewer Feldschlösschen in 2000 (Carlsberg press release 2000) for a price of CHF 870 million. The target company had a 45 per cent market share in Switzerland and employed 2600 people. The company had also found a niche in export markets, selling 0.2 million hl of its non-alcoholic beer, Moussy, to the Middle East and North Africa. For the 1998/99 fiscal year, Feldschlösschen had CHF 1.02 billion in turnover and CHF 60 million in earnings. The company had seven production sites and 27 distribution centers. It was further diversified into beverage supplies for private customers, the wine business and soft drinks.

This acquisition introduced Carlsberg to the Swiss market, as Feldschlösschen did not have an international premium brand in its portfolio, even though this was a growing segment in the Swiss market. After the takeover, the sales, logistics and administrative functions were restructured and significant investments were undertaken to improve production efficiency (Carlsberg 2001). Some of the breweries were integrated– for example, Rheinfelden North was integrated into Rheinfelden South (Carlsberg 2002). In 2003, the soft drink establishment Eglisau Mineral Spring was spun off (Carlsberg 2003) and wine activities were later divested (Berlingske Tidende 2004). Over time, the number of employees was reduced from 2600 to 1600 (Business Insights Essentials 2012).

The result was an increase of market share of Feldschlösschen to 48 per cent in 2008. This growth was driven by cost-efficiency programs and market strategies for premium beers that had been adopted from Carlsberg. The company also initiated a new product– a beer labeled “EVE” – which targeted women and gave Feldschlösschen a first-mover advantage on the Swiss market (RB-Børsen 2008). This process was also

characterized by losses of value-chain activities. The plant in Fribourg was closed in 2011 due to overcapacity in the Swiss breweries. The production was moved to the French Obernai brewery, which was a Kronenbourg subsidiary (Ritzaus Bureau 2010). In addition, Feldschlösschen's subsidiary in Dresden was sold to the German brewery Frankfurter Brauhaus (RB-Børsen 2011a). On the other hand, Switzerland was often used a test market and as a producer of best practices, such as an IT-based business standardization program. In addition, the experience with the Fribourg brewery was to benefit the MNC in subsequent closures (Børsen Magasin 2011).

At the time of the takeover, Feldschlösschen possessed many strategic responsibilities and was a subsidiary with substantial size and market power. In contrast to many of its other acquisitions, Carlsberg chose to make a full acquisition. However, due to efficiency processes, many of the subsidiary's mandates were removed. This process continues today, some 12 years after the takeover. However, the subsidiary still has the mandate to develop and introduce new brands.

## **Holsten**

In 2004, Carlsberg acquired a majority shareholding in Holsten-Brauerei (Holsten), a brewery founded in 1879. Holsten had started exporting in 1952 and launched licensee production in the United Kingdom in 1976. At the time of the acquisition, the target firm was spread over four sites and had 1500 employees. Holsten was an international player with sales in 90 countries. The brewery had made a number of acquisitions in Germany, including Bavaria-St. Paulie-Brauerei in 1998 and König Pilsner in 2001 (Datamonitor 2004). Before the takeover, it held a market position as number two in northern Germany and number five in Germany as a whole.

Carlsberg saw potential benefits from exporting the Holsten brand to Russia and the UK. The company also believed synergies could be derived from transferring Carlsberg's best practices in production and procurement in the subsidiary, and from cross-selling the Carlsberg and Holsten brands. Most important, however, was the fact that the acquisition provided Carlsberg with access to Holsten's distribution network, which included 20000 points of sale. In Western European markets, control over distribution channels determines which brands will be offered in the shops. In many cases, these decisions are made by local distributors, who are not controlled by the breweries. Furthermore, it is time consuming and costly for breweries to build their distribution networks (Børsen 2004b). Some suggested that this distribution network

was more important than the Holsten brewery itself given the brewery's low profitability (Børsen 2004b).

Cost efficiencies were achieved over time by, for example, reallocating production through the spinoff of the brewery in Monchengladbach and the transfer of .5 million hl of beer to Holsten (Børsen 2004a). Carlsberg also began production of Holsten beer at its Northampton production unit, which eliminated transportation costs, reduced lead times and allowed for faster responses to competitor promotions and changing customer demands (Carlsberg Press release 2005). In 2012, Carlsberg took over the Holsten brand in Russia, which was previously held by SABMiller. Holsten was the fourth-largest brand in the Russian super-premium segment (Reuters Finans 2012). At the same time, the *Financial Times Deutschland* stated that Carlsberg's CEO, Jørgen Buhl Rasmussen, was considering a spin-off of Holsten due to decreasing sales in the mature German market, which had led to a market share of less than 5 per cent (RB-Børsen, 2011b).

Initially, Carlsberg's acquisition of Holsten held certain prospects, which could have led to a further strategic development of the subsidiary. However, the subsidiary lacked resources, which, when combined with the declining German market, meant that it lost mandates. These developments should be viewed in the light of a takeover of a weak player in the market, and where financial reorganizations had to be made. This, in combination with market pressure, initiated a negative spiral in terms of subsidiary development.

### **Kronenbourg**

Kronenbourg, a French brewery, was "indirectly" acquired by Carlsberg in 2008, when Carlsberg was involved in the Scottish and Newcastle acquisition. Carlsberg and Heineken agreed that Kronenbourg would be transferred to Carlsberg. The company was previously owned by Group Danone, but was taken over by Scottish and Newcastle in 2000. At the time of its takeover by Carlsberg, Kronenbourg held a dominant position in the French market. It also possessed strong brands, such as 1664, and controlled important distribution networks. In addition, it was recognized for its innovative abilities and sophisticated approach to brewing (Protz 2004). However, due to decreasing sales on the French market, the economic and financial crisis, and the increased regulation of the brewery sector, Carlsberg opted for a complete reorganization of the subsidiary. Consequently, 214 of the unit's 1400 employees were



laid off, a range of minor brands were downgraded and the subsidiary's CEO was replaced with the Swiss CEO from Feldschlösschen (Ritzaus Bureau 2008). After three years of restructuring, however, the company was still struggling, despite expensive marketing campaigns (Børsen 2011b). Nevertheless, the subsidiary gained a significant mandate, as the Carlsberg R&D center dedicated to beer and packaging – a EUR 17 million investment – located in the Obernai location. The Obernai plant already brewed and marketed several important brands, such as Kronenbourg 1664, Grimbergen, Kanterbrau and Carlsberg. Additional capacity was to be added through an investment of EUR 11 million. This brought a geographical relocation of production – for example, some of the Feldschlösschen production was to be transferred to the French site, turning this site into a European cluster (Just-drinks, 2012).

This case illustrates that a subsidiary can simultaneously win and lose mandates in different parts of the value chain. After the acquisition, the subsidiary controlled resources upon which both headquarters and other subsidiaries depended, such as R&D and capacity, which should also lead to future strategic developments.

### **Baltika Breweries**

The state-owned Baltika Brewery was founded in 1990 and focused on producing quality beer from the beginning. In 1999, a modern factory was completed in St. Petersburg, which was also the location of the company's headquarters. In 1992, Baltika became part of a joint venture with Orkla (named BBH– Baltic Beverages Holding), in which Carlsberg first held a 30 per cent stake and then a 50 per cent stake. In 2008, Carlsberg increased its share to 88.86 per cent as an outcome of the acquisition of Scottish and Newcastle. Today, Baltika is the largest brewing company in the Russian Federation and in Eastern Europe, with more than 9500 employees. Baltika is also the most well-known brand in these regions and is sold in 98 per cent of relevant stores in Russia (Børsen 2008). The brand was valued at USD 2.3 billion in 2010 (Interbrand 2010). Approximately 25% of Carlsberg's revenue is generated by Baltika (Carlsberg 2011).

Baltika controls 10 subsidiaries and 12 production plants. An organization of this size is naturally well positioned in an MNC network, and Baltika collaborates with other Carlsberg subsidiaries to a high degree. For example, Baltika has an agreement to share marketing costs with the Finnish subsidiary Sinebrychoff Oy. It also has an agreement with Feldschlösschen, which the two subsidiaries buy consultancy services

from each other. Balticas' brand, production technologies and production capacity, and its close connections with the external environment place this subsidiary in a favorable position. Other organizational units depend on this subsidiary's resources. The subsidiary's strategic importance is evident in the transfer of its best practices to other Carlsberg subsidiaries. As the CEO says: "The rest of Carlsberg can learn from the drive that is in BBH and the rest of Eastern Europe" (Direkt 2007). Furthermore, the power the subsidiary gains from Carlsberg's investment in Baltika's 12 production plants increases the production capacity relative to other subsidiaries. In addition, the proportion of Carlsberg's total revenues derived from the Russian subsidiary has increased.

There have been several strategic developments. Since 2008, BBH has established licensee production in Japan, Uzbekistan, Australia, Kazakhstan, France, Italy and the Ukraine. Simultaneously, Baltika has launched exports to such countries as Lebanon, Vietnam, Norway, Chile, Malaysia, Guinea, Panama, Costa Rica, Congo, Syria, Mexico, Brazil, Bulgaria, Mali, Sierra Leone and Romania. In fact, the subsidiary has entered more than 60 markets since 2000. Product development has also taken place, including the introduction of new sizes of aluminum cans. However, the most significant development is a greenfield investment to establish a modern brewery in Novosibirsk.

## **Discussion and Conclusion**

In this study, we have analyzed the post-acquisition integration of acquired firms and subsequent developments in new subsidiary strategic responsibilities in value-chain activities. The extant international business literature emphasizes the importance of this dimension in headquarter-subsidiary relationships, but it is somehow neglected in the M&A literature. We have illustrated the forms, degrees and evolution of strategic responsibilities using in-depth analysis of six acquisitions from the Danish brewery, Carlsberg. Carlsberg, an experienced international player in the brewery sector, had developed a certain acquisition-integration strategy over the years, which influenced the strategic development of the acquired subsidiaries. The case analysis reveals that, typically, there has been transfer of best practices from Carlsberg to newly acquired firms, mainly in form of product and process technologies, and managerial skills. At the time of acquisitions plants were divested, some brands were spun off, and Carlsberg or Tuborg brand was added to the local product portfolio. The initial mandates at the time

of acquisition were designed based on new subsidiaries' core competencies and resources, and Carlsberg's acquisition motives. Yet, the mandates did not remain static. Over time, some subsidiaries gained new value chain mandates or they substantially increased their scale in terms of production capacities or the markets in which they operated.

The M&A literature has long reported evidence of unsuccessful acquisitions (Haleblian, Devers, McNamara, Carpenter and Davison, 2009). Our analysis confirms that not all acquisitions are successful, with Carlsberg displaying examples of both failure and success. Out of the six cases we analyzed, Tetley and Holsten are examples of unsuccessful acquisitions. Both breweries possessed significant market positions but suffered from negative market developments that they were unable to bypass. In both cases, this resulted in the removal of a range of strategic responsibilities. In contrast, in the case of Feldschlösschen, Okocim and Kronenbourg, the subsidiaries managed to overcome such problems. After a period of mandate losses, they appeared to be on positive development track. However, an important finding is that this is a parallel process, as these subsidiaries simultaneously lost mandates in some value chain activities, while gaining mandates in others. Finally, Baltika represents a special case. It successfully broadened its activities in a period characterized by market decline driven by the introduction of new regulations. The size of this subsidiary and the value of its brand put it in a central position, to the extent that headquarters depended on its resources in terms of revenue and capacity. The subsidiary could therefore gain greater strategic responsibilities in all areas.

Through our analysis, we contribute to on-going research on subsidiary strategic development by demonstrating that often subsidiaries undergo simultaneously negative and positive processes. Moreover, we confirm the findings of Schweizer (2005) that saw the use of a hybrid approach in the pharmaceutical industry. Apparently, such integration strategy is also used in a less technology-intensive industry as the brewery industry. Hence, this study contributes to the post-acquisition integration literature as well by emphasizing the dynamic nature of the development of subsidiary mandates and the continuous tradeoffs between autonomy and integration. The practical implication of this finding suggests that managers of the acquiring firm must pay close attention to the form and extent of integration if the acquisition is fulfill its potential.

The small size and scope of our sample do not allow for greater generalizability of results. Yet, the approach we follow opens up several opportunities for future

research. For instance, any replication study must expand upon our framework to include in investigation industry and geographical effects. The brewery sector in Western Europe is under intense pressure and, in some markets, subsidiaries are struggling to survive. At the same time, several subsidiaries seem to be able to gain new strategic responsibilities. To further examine the development path of subsidiary strategic responsibility, the research design must focus on managers to unearth their considerations and motivations regarding specific events in the subsidiary's history. Given our focus only on archival data, this paper only presents a limited view of the underlying processes.

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