Acquisitions and risk-taking in the global brewery industry: A comparative institutionalist study

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Abstract

This paper deals with the role institutional differences play in managerial choices when engaging in international acquisitions. We assume that MNCs have different interests and capabilities when dealing with international acquisition, which are, in our view, significantly shaped by specific home country institutional influences. Our study is especially concerned with the question of how different forms of ownership –concentrated (e.g. family and bank based) and dispersed forms of ownership (stock market based) – influence risk taking and managerial decision making in large international acquisitions. Comparing large acquisitions of four leading MNCs in the global brewery industry, the paper shows that stock market pressures lead to more risky and less sustainable acquisition profiles by breweries originating from liberal market economies.

Key words:

Multinational Corporations, Brewery Industry, Mergers and acquisition, Risk taking, Country-of-origin effect, Home market size, Family ownership, Stock market ownership

1. Introduction

Internationalization has a long history within the beer industry, with Heineken and Carlsberg being pioneers. Yet for many other firms business activities were mainly local and internationally fragmented until the 1960s with most focusing upon expansion within their domestic markets. In 1980s however, the industry entered a 'transitional period' as firms learned to deal with more diverse economic, political, institutional, and cultural environments. It was only in the 1990s that the industry became 'very concentrated and truly global' (Lopes 2007). In the early and transitional stages of the internationalization process breweries concentrated on less risky export strategies and often liaised with local agents and distributors. International joint ventures with local breweries also played a significant role from the 'transitional period' onwards. In the last decade international acquisitions of large wholly owned subsidiaries (WOS) (and mergers) have increased significantly across the industrial sector (ibid: 232-237). However, given the larger commitment and the amount of resources involved, the establishment of a WOS through acquisition is seen as both finically and politically more risky than other entry modes (see e.g. Barkema and Vermeulen 1998).

Recent research on international acquisitions has argued that both 'pace', meaning 'how many foreign expansions a firm undertakes in a certain period of time' and 'irregularity', referring to whether a firm expands in 'an irregular, ad hoc fashion' (Vermeulen and Barkema 2002), will effect the performance of multinational companies (MNCs). Our research is designed to complement such economic studies by examining the role institutional differences play in managerial choices when engaging in international acquisitions. We assume that MNCs have different interests and capabilities when dealing with international acquisition, which are, in our view, significantly shaped by specific home country institutional influences. Our study is especially concerned with the question of how different forms of ownership – viz. concentrated (e.g. family and bank based) and dispersed forms of ownership (stock market based) – influence risk taking and managerial decisions about international acquisitions of four breweries.

Second, given that all of the 'big' global players in the brewing industry originate from small countries (*Carlsberg* from Denmark, *Heineken* from the Netherlands, *Inbev* from Belgium and *SABMiller* from South-Africa), our paper also sheds some light on the role of home country size in shaping the acquisition strategies of breweries[2]. In other words what is the link between the existence of a large domestic market versus the need of MNCs of small countries to seek additional markets to that of their home location?

Our paper unfolds as follows. First, we will introduce the main conceptual ideas the paper draws on, referring to both mainstream IB and institutionalist approaches. After developing the main proposition of the paper, we follow with the presentation and discussion of our comparative case studies. Finally the paper provides some concluding comments.

2. Main stream and alternative perspectives

Internationalization strategies of MNCs

In mainstream international business (IB) research internationalization is defined as the process whereby actual firms (MNCs) replace cross-border markets (exports and imports) by internalising hitherto external market transactions. The literature distinguishes between four basic levels of internationalization or 'entry modes' (Peng 2009: 239): 1. exporting of goods and services, 2. contractual agreements (such as licensing or co-marketing), 3. joint ventures and partly owned subsidiaries and 4. wholly owned subsidiaries (WOS). The advantages of internationalization are mainly in the area of lowered transaction costs; assuming that outward investments in terms of buying overseas assets (brownfield investments) and organic expansions of setting up new companies (greenfield) investments are more efficient processes in comparison to purely market or contract based internationalization activities (e.g. Dunning 2001). However, acquiring or setting up companies abroad is also seen as more risky because of the financial and political risks involved and post-acquisition risks of investments (e.g. Barkema and Vermeulen 1998).

From a historical perspective, all four entry modes can be found in the brewery industry. However, WOS entry modes in this industry, predominantly acquisitions of overseas firms, only became popular in the 1990s (Lopes 2007). This development indicates that the industry had moved into its 'truly' global stage whereby international acquisitions are also seen as key drivers for increased

2 Since the brewery industry entered into its 'truly global' stage, there is no significant multinational brewery company originating from countries with large domestic home markets for beer left. Germany never developed a successful global player. What is more, and relevant for our paper, is that large liberal market economies, the US and the UK, obviously did not provide 'fertile grounds' for home country based breweries to become independent global players. Recently both *Anheuser-Busch* and the *Scottish and Newcastle* were taken over by its competitors. Comparisons of these two with Heineken and Carlsberg, presented in this paper, will provide some insights of these developments.

international harmonisation of technology, corporate strategies and organisation structures across the industry (see e.g. Bartlett and Ghoshal 1989; Mueller 1994).

Mainstream IB debates on internationalisation are narrowly focused on the firm level, particularly finding transaction cost efficiencies for organizing foreign expansions. The influence of the wider society on these decisions, such as home country institutional differences and how they effect acquisition decisions and approaches of integrating of overseas WOS, are often neglected. Similar limitations can be found in IB research on CG, as we will see next.

Corporate governance

Mainstream debates on CG and its influence on internationalization and managerial behaviour are mainly informed by agency theory. A basic presumption is that the separation of ownership and control is the prerequisite for economic growth and success of the firm (Berle and Means 1932). As a result, analysis focuses on conflicts that arise from principal/agent problems, especially those that follow the delegation of authority to top managers. Agency costs include: the *principals' cost* of monitoring and controlling agents and the *agents' cost* of bonding, signalling that they are trustworthy (Peng 2009: 420). In short, it is presumed that principals are interested in maximizing returns and therefore need to control 'shirking' of agents, interested only in maximizing their own power, income and prestige. Another concern of agency informed CG discussions, and quite relevant for this paper, is debate about the protection of shareholder rights or so-called principal-principal conflicts. Here the issue is when the concentration of shareholders, so called 'blockholders' (e.g. founders and families) which are holding controlling shares, needs to be reduced to ensure 'fair' competition.

These puzzles, however, provide a good example how far agency theory based concepts of CG are biased towards the Anglo-Saxon model of capitalism. First of all, the fact that the vast majority of firms of stock-market listed firms now have dispersed ownership, 90% in the UK and 80% in the USA, (see Peng 2009: 219), is rather unusual and an exception in the rest of the world. By contrast, leading economies in Europe, Asia and Latin America have concentrated forms of ownership, which sometimes includes both state or family ownership. Secondly, the narrow focus on shareholder value, shareholder rights and control of top management teams hardly reflects the diversity of influences shaping CG models. The interests of other stakeholders, lower level managers (e.g. subsidiary management), employees, trade unions, governmental bodies etc., are totally neglected in mainstream CG models (see e.g. Aguilera and Jackson 2003; Jackson and Deeg 2008; Peng 2009). This inevitably raises doubts about how far these ideas can be applied universally and if they are suitable at all to studying CG across countries.

Critics such as Aguilera and Jackson stress that mainstream views on CG are 'undersocialized' and 'thin': because (a) other important types of shareholders such as banks, families and institutional investors are not considered properly, and (b) the interdependence among and the interactions between multiple stakeholders are neglected (2003: 449-450). An alternative approach for international comparative studies on CG is suggested, conceptualising it in terms of social embeddedness and stressing that economic action is also social action and is constrained by non-economic social ties (ibid). Our paper draws on these ideas and especially focuses on a key aspect of CG: how the diversity of ownership types (families and banks) and country of origin specific financial systems (liberal vs. coordinated market economies) influence the international acquisition approaches of MNCs.

The role of family ownership

The arguments about the role of family ownership for the internationalization of businesses mirror to a large extent the mainstream debate about CG. In agency theory focused research, family ownership is treated as a 'form of European exceptionalism, or a political and institutional reluctance to follow the U.S. path of "modern capitalism"' (James 2008: 1), despite the fact that family firms are far more common around the world, including in the UK and US and especially in certain sectors, e.g. the brewery industry.

There has been extensive debate as to whether family owned or stock market listed firms are more efficient and better business models. One stream of research provides evidence for the inefficiency and even criminal energy generated in family firms. The other stream emphasizes that family businesses are better equipped for developing more long-term and entrepreneurial business models than short-term and mainly profit oriented stock market listed firms.

The former position argues that the dominance of the family leads to agency problems, such as poor management and inefficient internationalization approaches. For example Fernández and Nieto (2006) measured the impact of ownership on the international involvement of Spanish SMEs and found a negative relationship between family ownership and export intensity. They concluded that the negative aspects of family control cancelled the advantages, largely because of the problem of satisfying both family and business interests simultaneously. Because separation of principals (owners) and agents is missing, managers (whether directly related to the family or not) serve the family interests first, leading to inefficiency and actions detrimental to the firm. Other studies stress that agency conflicts breed corruption at the firm and even national level. In the case of developing countries family businesses are dismissed as ‘crony capitalism’ because of their influential position in the political and economic system of the state (James 2008).

The latter position, however, challenges agency theory by showing that that the managers of family firms are better equipped than managers of stock market listed firms to develop successful internationalization strategies and more sustainable and entrepreneurial management concepts. The study by Zahra (2003) on international expansion of U.S. manufacturing family businesses shows that managers in family firms are very good in doing both, protecting their firm’s future as well as building an enduring legacy for their offspring. Owner families were also willing to share the risks associated with internationalization and contributed in a meaningful way to the firm’s internationalization decisions. The study of Lopes (2007) is consistent with this argument, stressing that family firms in the alcoholic beverage industry (spirits, wine and beer) are adept at balancing entrepreneurship with professional management and thus better equipped to successfully internationalize than their stock market listed counterparts.

To sum up, the discussion about the pro and cons of efficiency of family businesses provides us not just with insights in the specific readings of agency theorists, measuring the ‘success’ or ‘failure’ of concentrated forms of ownership in internationalization processes. It also reveals the institutional logic of financial systems of liberal market economies. This is, however, quite different in other capitalist societies, such as coordinated market economies, as we will discuss below.

Country-of-origin effects and the role of country size

The focus of mainstream IB studies is on why firms set up or acquire foreign value adding activities. Increasing interest has also been on the analysis of the role of location for the selection of host countries when ‘seeking’ markets, resources and efficiency (Dunning 2009). Home country specific influences on the internationalization strategies of firms has been discussed but in a rather limited manner so far. Mainly it is in reference to the structure and size of the domestic market (see below) and their influence on internationalization approaches of firms as well as the role of national industrial policies for the internationalisation of R&D activities (Narula 2000).

The role of home country national institutions has only recently been considered in international management research as being critical to the analysis of internationalization strategies (Noorderhaven ad Harzing 2003), forms of control (Harzing and Sorge 2003), HR practices (Ferner 1997) and work system designs (Geppert et al. 2003) of MNCs[3]. A main distinction made is between liberal and coordinated market economies, based on either Hall and Soskice's or Whitley's seminal works. The key question here is how differences between societal institutions, e.g. the political, financial, educational and industrial relations systems, influence internationalization strategies of MNCs. It is assumed that national specific cultural and institutional characteristics are reflected in strategic managerial decision processes of the MNC, because of these actors' socialisation and social embeddedness within their home country society.

Most of the research on the role of country-of-origin effects is concerned with its influence on HR practices and the organisation structures of MNCs (see for example Noorderhaven and Harzing 2003 for an overview). In comparison, our paper focuses on an issue which has not been systematically explored so far, the comparison of strategic decisions about large international acquisitions and the role of managerial risk taking. In order to understand and assess differences in managerial risk taking, we refer to national specific differences in CG and compare how features of home country specific financial systems influence risk profiles and risk taking within MNCs. We compare four MNCs that are in the same industrial sector, two originating from liberal market economies with large domestic markets for beer and two originating from coordinated market economies with a small home market.

In comparison to large capitalist economies *small countries* are often seen as pioneers of internationalization because limited domestic market size forces their companies to seek markets abroad (demand side). It is also emphasized that from the supply side 'smallness' involves having

[3] Historically, cross-national international comparisons, conducted by institutional scholars, have predominantly focused on local or domestic companies.

limited resources, e.g. in terms of natural, capital and human resources, and therefore firms tend to specialise in niche markets where they can become price setters (Narula 2000: 2-3)[4].

Alternative comparative insitutionalist based studies, however, make us aware of the role of the coordinated nature of small country market economies. Thus, the welfare state is understood to be a 'logical complement to the process of internationalisation and an input to the sustained viability and competitiveness of the economy' (Van Tulder 1998). Referring to the examples of the Netherlands (ibid) and Denmark (e.g. Iversen and Arnold 2008) it has been stressed that internationalization strategies of home country MNCs cannot be fully understood without considering the significant role of the nation state and corporatist nature of the national business system. In turn this is interpreted as 'as logical consequence to the openness of the economy and the higher concentration of employment in production within a few large (multinational) companies' (1998: 283).

To sum up, we believe that family influence, country size and country of origin effects cannot be separated but must be understood as interconnected institutional influences on the internationalization approaches of MNCs and the way the managers make risky strategic decisions, e.g. about large acquisitions in a globalizing industrial sector, such as the brewery industry.

3. The role of country of origin effects and strategic choice in international acquisitions: Towards an analysis of risk profiles and managerial risk-taking within the brewery industry

Using a comparative institutionalist perspective we distinguish between two significantly different systems: bank-based and market-based financial systems (Aguilera/Jackson 2003). Bank-based financial systems are typical for coordinated market economies. In contrast to liberal market economies, capital markets are less developed, and concentrated forms of ownership are institutionally supported. Financial systems in coordinated market economies are characterised as more deeply socially embedded in the national business system (Whitley 1999). Whereas companies have arm lengths relations with banks in liberal market economies, so-called relationship banking is a common practice in coordinated economies. Thus, businesses for example in Germany hold close relations with house banks, a remaining pattern even when shareholder value oriented forms of corporate financing gained some ground (Geppert and Martens 2008). By contrast, in

4 The degree of internationalization differs between small countries, according to their openness towards 'international liberalisation' (e.g. Katzenstein 2003).

market-based financial systems capital markets are highly developed and dispersed forms of ownership are the dominant template.

These differences are mirrored in the beer industry as seen in Table 3 (appendix 1). One can see that the British brewery increased its stock market based investments to finance its acquisitions investments abroad. In the US furthermore, the MNC has the highest degree of stock market reliance. In comparison, the influence of bank based corporate financing of the two MNCs from coordinated market economies is significantly higher.

Aguilera and Jackson (2003) argue that corporate financing can be compared along three dimensions: 1) whether capital pursues financial or strategic interests, 2) the degree of commitment or liquidity of capital stakes and 3) the exercise of control through debt or equity. Banks are assumed to use ownership stakes to pursue the *strategic interests* of their clients (firms), compared to shareholders who mainly follow *financial interests* in order to increase the market value of shares. The strategic approach of the latter is understood to be narrowly focused on financial control of assets; the approach of the latter, however, is much more broadly focused on the company's long-term growth. Here *liquidity* comes in, referring to the short-termist approach of shareholders, reflecting the dispersed ownership patterns and profit-maximizing interests of owner. In comparison banks are more long-term oriented and *committed* to developing specific capabilities, including tacit knowledge, managerial expertise, etc. (ibid). Finally, it has been shown that market-based systems are more likely to encourage *equity* finance through active capital markets. Shareholders invest to increase their returns on investment and reward managers accordingly. In comparison, firms in coordinated market systems are more highly dependent on *debt*. Relationship banking means that banks are strongly involved in lending, supporting long-term commitment which involves having 'softer' measures in place for firms that under-perform or have short-term financial problems (see also Geppert and Martens 2009).

We have already referred to the 'undersozialized' conceptualisation of agency theory that has informed CG research. Specifically the issue is one of a narrow focussing on how to control managerial decision-making in order to guarantee shareholder rights and increase return of stock market investments and rights of minority shareholders against 'blockholders'. Intitutionalist approaches, however, suffer from the problem of 'oversocialized' agency, leaving no room for strategic choice (Child, 1972). Dealing with this problem, Aguilera and Jackson's (2003) propose an 'actor centred' institutionalist framework for the study of CG, capturing both the interconnectedness of managerial strategies and societal constraints. Accordingly, it is assumed that societal institutions of liberal market economies encourage 'autonomy' 'to "make tough decisions" or to impose hierarchical control in the firm' (p. 457). Managers in coordinated market economies, however, are seen as more 'committed' because they are dependent on 'firm specific relationships' (ibid: 458) to owners, which includes banks and families, and other important stakeholders such as employees and trade unions. However, the research of Vermeulen and Barkema has shown that MNCs differ regarding their pace and rhythm of international acquisitions. Their research shows that risky acquisitions have negative effects on the performance (profitability) of MNCs. Accordingly, it is assumed that managerial risk taking is high, first, when the *acquisition speed* is high which means that MNC undertakes a high number of acquisitions in a certain period of time. Secondly, managerial risk taking is seen as more risky when international acquisitions take place irregularly. Both speed and irregularity are viewed as negatively related to capability of the MNC to 'absorb' or learn from its foreign expansions (ibid: pp. 641-644).

Capturing this interconnectedness between institutional influences (country-of-origin effects) and agency (risk taking), *our paper proposes* the following: (1) MNCs originating from coordinated market economies tend to have lower risk profiles and managerial risk taking approach when it comes to large international acquisitions and post-acquisition strategies. More strongly concentrated ownership forms based on closer social relationships between controlling shareholders, such as banks and families, institutionally support the development of a more moderate risk profile. In comparison, managerial risk taking is higher in MNCs originating from liberal market economies because the major way to raise capital to finance international acquisitions requires a short-termist focus on high returns on investment. (2) Country size has moderating effects. Encouraged by corporatist national institutions and early internationalization experiences, MNCs from smaller countries undertake 'smarter' acquisition strategies (van Tulder 1998).

4. Case selection and research design

The following section investigates the risk profile in the internationalization process of Heineken, Carlsberg, Anheuser-Busch (A-B) and Scottish & Newcastle (S&N). Three large foreign acquisitions that took place between the early 1990s and 2006 were selected for each company. While the early 1990s are seen as a phase in which the internationalization of brewery companies started to intensify (Benson-Armer et al. 1999; Lopes 2007), the year 2006 is taken as an end to allow an assessment of post acquisition integration. In all cases the three acquisitions considered together represent a large part of the increase in internationalization that these companies have undergone between 1990 and 2006.[5]

Because of missing data it was difficult to properly identify the three largest acquisitions per company. However, it was possible to separate large from small acquisitions with the former generally bearing higher risks, due to the fact that integration and synergy is more difficult to achieve and the financial exposition is higher. The final decision on what large acquisitions were selected was determined by data availability. Overall, the identification of large acquisitions was essentially based on two information sources: First, the 2008 Thomson Financial Extel Company reports, listing the largest acquisitions a company has undertaken from 1990 till 2006 with information on deal date, deal value, shares bought and shares held. Second, this information was cross checked and substantiated by information given on large acquisitions in the 'History section' of the corresponding 2008 company profiles of Datamonitor. Inconsistencies between the two sources were clarified by an intensive search through diverse business newspapers and magazines using Lexis-Nexis press retrieval services. Moreover information from company resources (mostly annual reports) as well as from selected secondary sources (Elshof 2004, Ebneth and Theuvsen 2007, Dörrenbächer et al. 2009) was used both in the selection of acquisitions (see also Table 1) as well as in the analysis of the acquisitions below.

As posited above we expect that the mutually reinforcing influences of country of origin (coordinated vs. liberal market economies), market size (small vs. large countries) and corporate governance (family ownership vs. stock market ownership) lead to different risk profiles with regard to acquisitions. Thus, we expect Heineken and Carlsberg, as two family owned breweries from small coordinated market economies that have been pioneers in internationalizing, to operate with a much lower risk profile than A-B and S&N, two stock market listed companies from large liberal market economies that have tried to catch up in internationalization acquisitions.

Table 1 about here

5 In the case of Anheuser-Busch and Scottish & Newcastle we estimate that the three acquisitions considered cover more then 80% of the increase in internationalization (measured as increase in foreign sales). In the case of Heineken and Carlsberg we estimate a coverage of at least 50%.

Looking at the financial data given in Table 1, this assumption can be supported. On a comparative basis A-B and S&N paid significantly more for their large acquisitions then Heineken and Carlsberg. Heineken paid on average 1.99 times the multiple of sales (based on data for 3 large acquisitions), whereas Carlsberg only paid 1.30 times the multiple of sales (based on data for 2 large acquisitions). This compares to an average of 2.64 times the sales paid in large deals by S&N and 2.60 by A-B (based on data of each 3 large acquisitions). A similar but somewhat less striking difference between the two groups of companies can be found by looking at the relationship between the deal value and the EBITA (or net profit).

To analyze the risk profile the companies operate with and to evaluate whether the comparatively larger financial exposure taken by A-B and S&N might be compensated (e.g. by an ease in the integration of the target, by specific strategic assets of the target or by specific synergies to be gained through the deal), we compare each of the three large deals of the four companies in more depth. The analyses proceed as follows:

- First, the strategic importance of the acquisition for the buyer is assessed by indicating the main driving forces for the acquisition.
- Second, and related to the first step, the value creation possibilities opened by the acquisition are studied and then evaluated in relation to the price paid for the acquisition. Here data provided by our comparative study (see table 1) as well as assessments by the business press are used.
- Third, the overall success and failure of the acquisition in relation to the financial and managerial efforts devoted to the acquisition and its integration are discussed.

Heineken

Heineken has a long tradition of internationalization, starting with exports and greenfield investments shortly after its foundation in 1863. Its more contemporary internationalization strategy, however, is focused on the take-over of a larger number of small and medium sized breweries (exceptions are the large take-overs of S&N in 2008 and of BBAG in 2003 cf. Elshof 2005:10,12; Dieng et al. 2009). The selection of a greater number of smaller take-over targets is not by a lack of chances or missed opportunities, but purposely spurred by a low risk approach. For instance, Heineken did not engage in the take-over battle for SAB in the end of the 1990s due to the political risks involved. Karl Vuursteen, then CEO of Heineken, explained: “More than two-thirds of SAB’s profits und assets are in South Africa, with all its political and economic uncertainties (…) I have to ask myself whether I would as an individual invest 20-30 per cent of my savings in that company. I can imagine safer investments in safer areas” (Vuursteen cited in Willman and Cramb 1999). Also financial risks sometimes hamper investments abroad. A typical example here is the ‘wait and see approach’ Heineken took with regard to the Chinese market, reflecting the overall policy of Heinken to “…not so much look at the volume but at profit” (CEO Jean van Boxmeer in Börsen Zeitung 22.6.2002) According to Boxmeer “acquisitions are not done at any price“, but need to quickly contribute to profit and shareholder value.

There are two underlying reasons that support such a conservative acquisition strategy. For one Heineken has been one of the pioneers of internationalization in the brewery industry and had already reached a high level of internationalization by the 1990s (Dörrenbächer et al. 2009). This also has led to internally well developed policies and standards for acquisitions (Elshof 2005: 12). Second, the rather cautious acquisition strategy is also underpinned by the ownership structure, which gives the Heineken family a 50.005 per cent voting edge. Family control - now in its fourth generation - is executed by Charlene de Carvalho-Heineken who unmistakably made clear that for the family “Heineken is a not an investment, but a heritage” (CFO René Hooft Graafland citing Charlene de Carvalho-Heineken in Finanz und Wirtschaft 28.2.2004). Thus the family dislikes large acquisitions that might have negative repercussions on the corporate culture. This is also expressed in the 2007 annual report of Heineken, where family control is considered as “a safeguard to continuity, independence and stability’ as well as an essential to the “controlled steady growth of the activities of the Heineken group” (Heineken annual report 2007). This even allows for drawbacks. Following the current CEO of Heineken, Jean Boxmeer, Heinkens “long-term strategy does not change because of a few less successful years” (Financial Times 8.5.2006).

The rather cautious but decidedly long-term approach of Heineken and its ruling family to international growth is apparent when examining the three large acquisitions below.

Cruzcampo, Spain (2000)

Heineken approached the Spanish market with a rather long term strategy. A first investment was made in 1984 when Heineken bought the Madrid based El Aquilia brewery (operating two plants with 1230 employees). It took 15 years before substantially enlarging its presence in Spain by acquiring a 88.2% stake of Cuzcampo S.A. (operating five plants with a total of 2200 employees) in an auction from Diageo (Guinness) in 1999. This deal, worth 770 m€, not only turned Heineken into the market leader of Spain (combined market shares of El Aquila and Cruzcampo account for approximately 40% of the Spanish beer market) but also opened up significant cost savings in areas such as marketing, distribution and production. Further efficiencies resulted from a one time relaxation of employment regulations associated with the restructuring the Spanish operations. Integration at Cruzcampo was rather far reaching. Thus Heineken strongly pushed its global brands ‘Heineken’ and ‘Amstel’ in Spain and in the meantime operates under the label of ‘Heineken Espania’. The risks associated with such a far reaching integration strategy however seem to be mastered well. Following the 2007 annual report of Heineken (p. 23) “Spain enjoys a long term growth in terms of volume and profitability”. Moreover, a new very efficient brewery was build in Seville, being the first Greenfield investment of Heineken in Western Europe in 25 years.

BBAG/Brau Union, Austria (2002)

The acquisition of the Austrian based BBAG/Brau Union in 2003 was the largest acquisition in the history of Heineken until the S&N take-over in 2008. Heineken paid about 1.9 billion € (incl. 0.4 billion debts) for BBAG/Brau Union, which at that time ran 22 breweries of which 14 were located in Central and Eastern Europe. In 2002 BBAG/Brau Union employed 7,080 persons and produced 16.0 mhl beer and soft drinks.

With this move Heineken made an end to the cautious investment policy in Central and Eastern Europe it had followed since the fall of the Berlin wall (Süddeutsche Zeitung 6.4.1991). It turned Heineken into the leader of the growing Eastern European Market, with a presence in 13 and a pole position in 8 countries.

The acquisition of BBAG/Brau Union fit perfectly into the Heineken network of subsidiaries in Central and Eastern Europe: “…. where Heineken was weak, Brau Union was strong, and vice versa” (Elshof 2005: 12). Moreover, Heineken gained access to the highly valuable market knowledge of BBAG in Central and Eastern Europe: “BBAG are good brewers, and they know the region like nobody else” (CEO of Heineken Tony Ruys cited in Business week online, September 8, 2003). Last but not least BBAG was considered as a company with an extremely solid balance sheet and decent management. (Financial Times 3.5.2005) all of which added up to a large potential for value creation. Despite a few warnings that the price paid for BBAG might be slightly too high, a perfect strategic positioning by the takeover as well as large cost savings through synergies (in sourcing, marketing, distribution) were unanimously agreed upon analysts and other market observers (Financial Times Deutschland 5.5.2003).

Making an abrupt end to the cautious investment policy in Central and Eastern Europe however was accompanied by a careful integration policy that initially aimed at the preservation of the BBAG activities and their symbiotic use. Thus none of the Austrian production sites has been closed immediately and closures in Central and Eastern Europe both touched upon former BBAG and Heineken plants. For example, in Hungary Heineken’s site was closed down, whereas Brau Union’s two breweries maintained production. Vice versa, Brau Union closed all its production sites in Poland, where Heineken had been very strong before. Furthermore Heineken integrated its Central and Eastern European businesses (including Germany, Greece and Russia) into BBAG/Brau Union’s existing organizational structure and declared the head-office of Brau Union as the head-office of all Heineken activities in Central and Eastern Europe. The increased importance of BBAG is also reflected by the fact that in 2003 for the first time ever a foreign subsidiary manager (i.e. Karl Büche of BBAG/Brau Union) was appointed to the corporate Executive board at Heineken in Amsterdam.

However, a few years after the acquisition, Heineken was retaking control by replacing the retiring regional president of Central and Eastern Europe, Karl Büche, with Nico Nusmeier, a Dutch national who formerly had been CEO of Heineken’s Polish subsidiary Grupa Żywiec. Similar moves have been made in Central and Eastern European subsidiaries. Moreover, Heineken Headquarters in Amsterdam was building up separate ties to subsidiaries in Central and Eastern Europe.

Most observers consider the acquisition and the two-phased integration policy applied to BBAG as rather successful. Already one year after the takeover profit before tax surpassed interest expenses paid for the acquisition. Profit before tax reached 376 m€ in 2007, lifting Central and Eastern Europe to the second most important region for Heineken after Western Europe (Thomson 2008).

Bravo, Russia (2002)

The 2002 take-over of Bravo, St. Petersburg, marks the entrance of Heineken in the fast growing Russian Beer market. In 2002, Bravo, a foreign subsidiary of a Cyprus based company (owned by two business men from Iceland) employed 1600 people and produced 2.5 mhl of beer (and 0.4 mhl of soft drinks). The acquisition, worth about 400 m€, was preceded by a phase in which Heineken exported its global brands to Russia and subsequently searched for a Russian licence partner. Only when this search turned out to be unsuccessful, Heineken decided to directly invest in Russia.

A careful screening of breweries on sale occurred, with Heineken initially refraining from buying state owned breweries due to the corruption and legal insecurity associated with such a purchase. Taking over Bravo from its Cyprus based owners not only circumvented these concerns, but also provided Heineken with a well managed state of the art brewery that was built in 1993 as a soft drink plant and refurbished in 1999 for beer production. Moreover, Bravo had successfully placed a premium brand (Bochkarev). Given the many hardships and risks Heineken would suffer from building its own brewery in Russia (or buying a state-owned brewery) the price paid for Bravo is considered as fair by market analysts, especially in light of a shift in the Russian beer market towards a greater demand for premium beers where Heineken has a strong brand image.

Not going for the 'cheapest solution' provided Heineken with strong value creation opportunities that were carefully safeguarded, not only by insisting on a clause in the take-over agreement that the Cyprus based company and their owners are banned from building a new brewery in the S. Petersburg region (Elliassov 2002), but also by keeping the successful Russian management in Bravo and by continuously undertaking follow-up investments in Russia (after a two years learning phase Heineken bought more then 8 further breweries in Russia up until today). Bravo, as well as the subsequent acquisitions, turned out to be quite successful. Following the 2007 annual report Heineken's revenue is growing at double digit rates, EBIT is increasing , production capacity is being upgraded and expanded and headcount in the breweries continues to reduce (Heineken Annual Report 2007: 28).

Summary

Overall Heineken's large deals carry a rather low risk profile. A comparatively low to medium financial exposure (as expressed by the ratio of deal value to annual turnover of the target) is always underpinned by promising value creation opportunities. All deals are carefully prepared and usually part of a long term strategy on a specific national market, which can have a time horizon up to 20 years. Post acquisition integration is either conservative (in very large deals) or carefully managed (in cases where an absorptive integration strategy is followed).

Carlsberg

Similar to Heineken, Carlsberg of Denmark has quite a long history of internationalization. Marketing of beer abroad started in the 19^{th} century and intensified in the 1950s and 1960s. This was followed by Greenfield investments in many countries around the world over the next two decades. Finally, Carlsberg to a larger extent also took over stakes in small and medium sized foreign breweries. However, up until the second half of the 1990s, Carlsberg had a majority ownership in only eight of the 27 breweries (Iversen and Arnold 2008).

Spreading risks and trying to circumvent the liability of foreignness by teaming up with foreign partners reflect the strong risk aversion the majority owner of Carlsberg, the Carlsberg Foundation. This pattern remained almost until the year 2000. This risk aversion was due in part to the inaugural statement of Carlsberg's founder J.C. Jacobsen, that the Carlsberg foundation "for ever must owe a minimum of 51% of shares of Carlsberg A/S". (Berlingske Tidende 04.11.2000). Secondly, it was also due to the specific composition of Carlsberg's management board. Here the foundation designated an extraordinary large number of representatives from science and academia (Glamann 1997).

In the late 1990s, stock market analysts started to criticize Carlsberg's rather cautious internationalization strategy and attacked the management board as a board of 'aunts' (Jyllands Posten, 01.06.2000). Market analysts further claimed that too much liquidity in Carlsberg would be inactive (Børsen, 30.11.1998). Also the management of Carlsberg complained. In 1998 the CEO Flemming Lindeløv maintained that the ownership structure prevented a notification at international stock exchanges. Moreover, it turned out as impossible for Carlsberg management to acquire Kronenbourg in 2000 because Danone, the owner of Kronenburg, wanted a part-payment in shares which was blocked by the foundation (Iversen and Arnold 2008).

These incidences finally triggered an attitude change at the Carlsberg foundation. Thus around the year 2000 the foundation opened up to some extent for a stronger and more risky international expansion by relinquishing the requirement that it holds a minimum of 51% of the Carlsberg. According to the new rule the foundation still needs to own 51% of Carlsberg, but the activities can be delegated to one or more subsidiaries, in which the foundation does not need to have a majority in voting rights (Berlingske Tidende 04.11.2000). Further, the number of representative from academia in the management board of Carlsberg was reduced to one member (Jyllands Posten, 01.06.2000).

These changes clearly led to some larger and more risky international investments including the three acquisitions discussed below as well as the 2008 mega-acquisition of S&N. However, as the discussion of the three acquisitions below reveals, there is still a strong risk awareness of Carlsberg reflected in a cautious partial acquisition strategy and a strong drive for efficiency in sourcing, production and distribution of newly acquired subsidiaries abroad. Last but not least, the impact of the Carlsberg foundation is still there. An eye-catching example of this is the fact that in 2002 Carlsberg did not buy Hartwall's share in BBH, of which Carlsberg already owned 50%. According to an anonymous source in Carlsberg this was due to concerns of the Carlsberg foundation who thought entry into the Russian market was considered as too risky (Børsen, 20.02.2004).

Okocim, Poland (1996/2000)

Following a less risky partial acquisition strategy, Carlsberg in 1996 first acquired a 31.8 per cent stake in the polish brewery Okocim (Okocimskie Zaklady – Piwowarskie S. A) and subsequently enlarged its stake to 50.1 % in 2001 and then to 100% in 2007 (different Annual Reports of Carlsberg). In 2001 an additional three minor breweries (Kaszelan, Bosman, Piast) were acquired.

Initially, the investments in Poland turned out to be problematic, and Carlsberg experienced a drop in market share from 8% to 5% mainly due to a limited product portfolio compared to the main competitors on the Polish market (Heineken, via Zwyviec and SAB via Piwowarska). Furthermore, production and distribution at Okocim was rather inefficient, and Carlsberg had to spent 70m€ to upgrade the company. This has taken place through large investments in capacity and modernization of production assets (Carlsberg Annual Report 2006). The breweries in Krakow and

Chociw were closed down (Poland Business News 12.8.02), and production in Piast was reallocated to other plants (Børsen, 18.8.04). Overall, the number of production sites had been reduced from four to three, packaging sites from 12 to seven, and warehouses from 12 to six (Koudal and Engel 2007).

The initial problems also led to a strong turnover of management personnel. For instance Okocim was not able to employ a sales manager for longer than a year (Berlingske Tidende 05.03.2004). However, the situation strongly improved when the expatriate management was replaced with a capable host country manager (Berlingske Tidende 05.03.2004), finally turning Okocim (renamed to Carlsberg Polska in 2004) into a talent pool for other subsidiaries such as Tetley in the UK. The rather successful integration of Okocim is also demonstrated by the fact that it has gained an international mandate despite initial plans of Carlsberg to replace the local brand with Carlsberg's international brands (Meyer and Tran 2006). Thus the Okocim brand has been launched in the UK (targeting the 600,000 Polish inhabitants in Britain (Grocer 11.3.06, Marketing Week, 28.6.07) and India (Business Today, 21.10.07).

Feldschlösschen, Switzerland (2000)

In the year 2000, Carlsberg acquired the Swiss brewer Feldschlösschen, a deal worth 574 m € (Carlsberg press release, 03/11/2000). The target company had a 45% market share in Switzerland and employed 2600 people. Further, it produced and marketed 2.4 m hl of beer at its four breweries, and 3.3 m hl soft drinks and mineral waters. In addition it sold wine. Regarding exporting, the company had a niche by selling 0.2 m hl non-alcoholic beer (Moussy) to the Middle East and North Africa. Overall Feldschlösschen had 7 production sites and 27 distribution centres in 2000.

Initially, the CEO of Carlsberg, Flemming Lindeløv, considered the acquisition of Feldschlösschen as a very favourable investment. As he argued in a press release: "The Swiss market is exclusive and centrally placed in Europe. This introduces Carlsberg in the Swiss market – as Feldschlösschen does not have an international premium brand in its portfolio, a growing segment in Swiss market" (Carlsberg Press release 03.11.2000). However, what seemed to be a profitable investment turned out to be problematic. First, integration processes were delayed (Børsen, 14.05.2001), and simultaneously the Swiss beer market was declining (Carlsberg Annual Report 2001). Over time and last but not least because of the strong restructuring efforts the Carlsberg management took (eg.

significant investments in production were made, the number of breweries was reduced, wine and mineral water businesses were divested) As early as 2004 Feldschlösschen met the profit standards of successful Carlsberg breweries elsewhere (Jyllands Posten, 04.08.2004).

Holsten Brauerei, Germany (2004)

In 2004 Carlsberg acquired a majority shareholding in Holsten-Brauerei (Hamburg) for a price of 437 m€. The target firm maintained 4 breweries and employed 1500 people. It ranked second in the Northern German beer market and fifth all over Germany (Carlsberg Home Page). At the time of the take-over Holsten already was an international player with sales in 90 countries.

Following Carlsberg the take over, Holsten was basically spurred by its solid position in regional markets in Northern Germany (21.2 % market share) and Saxony (11.7% markets share). Furthermore, Carlsberg saw potential benefits in exporting the Holsten brand to Russia and the UK. Third, synergies should be available by transferring Carlsberg best practices of production processes and procurement, combined with cross selling Carlsberg and Holsten brands. The most important reason for Carlsberg to acquire Holsten, though, was to utilize Holstens large distribution network of 20,000 on-trade points.

Despite these arguments, market analysts considered the take-over of Holsten as risky and less promising. First, the divesture of Holstens subsidiaries König Pilsner and Licher, meant Carlsberg was forced to sell a ‘back-to-back on sale agreement’ which weakened its premium brand profile. In fact, Carlsberg only kept the low-price brands where harsh competition was foreseeable. Second, the acquisition of Holsten substantially reduced the liquidity reserves of Carlsberg, preventing further investments in high growth markets like Eastern Europe and Asia. (Børsen, 22.1.2004, Børsen, 11.02.2004). However, due to strong reorganisation efforts such as spinning off the brewery in Mönchengladbach or starting to produce Holsten in the UK (Børsen, 23.01.2004, Carlsberg Press release 10.11.2005), cost efficiency has been reached over time.

Summary

Dominated by a risk averse majority owner (Carlsberg foundation), Carlsberg for a long time followed a low risk internationalisation strategy in which it basically tried to spread risks and to circumvent the liability of foreignness by teaming up with foreign partners. Larger acquisitions abroad that harbour a stronger financial exposure only took place after an attitude change at the Carlsberg foundation (around the year 2000) and were always accompanied by strong and enduring activities to rationalize, modernize and strongly integrate acquired objects. In many cases also less risky partial acquisition strategies were followed.

Anheuser Busch (A-B)

For the past 20 years A-B relentlessly pursued a strategy designed to increase its domestic market share, entering into joint ventures and strategic alliances with overseas companies more as a secondary activity. A-B had earlier (in the 1980s) embraced vertical integration (acquiring container manufacturing facilities) as well as investing in industries deemed complementary to beer (wine coolers and soft drinks, snacks and entertainment). The belief had been that such diversification would lead to synergies and the comprehensive marketing of the A-B brand enable economies of scale. However, the synergies never materialised and cost benefits proved elusive. An obsession with domestic market share was perhaps borne out of the sheer size of the US market and the fact that A-B had built up significant brand equity over the past 100 years. However, as price competition intensified and industry concentration in the US increased during the 1980s and early 1990s, A-B was forced to rethink its earlier complacency towards internationalisation.

Increased domestic fragmentation along age and income lines had forced brewers to develop niche products (premium light beers) as well as foreign brands that could appeal to a more discerning customer. An increase in “craft beers” in the 1990s had alerted A-B to the market potential of niche actors who occupied space not dominated by the generalist organisations (Caroll and Swaminathan, 2000). The growing popularity and sales of Heineken in the US at this time further illustrated how beer consumption habits were changing. Add to these trends the rise in wine and hard liquor sales then one can see that by focusing upon their traditional market A-B would be facing greater competition for fewer consumers. However, their ‘policy committee’, responsible for strategic direction, was cumbersome and appeared more likely to advocate actions that were either proven from past experiences (hence the obsession with market share which had been the holy grail for the company for decades) or to be avoided because of past failures (into which camp fits much earlier diversification). What foreign activities had been sanctioned were generally in the form of joint ventures.

In Japan Budweiser had been distributed since 1981 and a joint venture between A-B and Japan's Kirin Brewery was formed in 1993 to control marketing, sales and distribution. In a similar vein, a licensing arrangement with Oriental Brewing company Ltd in Korea allowed Budweiser to establish a share in excess of 70 percent of the international beer brands in that country (Annual Report, 1993:16). Budweiser had been introduced into the UK in 1984 and continued to gain market share as one of the fastest growing premium lagers in that market. In 1990 Budweiser began being brewed in Ireland under licensing agreements with Guinness-Ireland and by 1996 achieved a sales growth of 52 percent.

Such moves were cautious and yielded positive revenue flows so in some respects it was surprising that A-B embarked upon a different international strategy when it acquired a stake in Mexico's leading brewer Grupo Modelo in 1993 and China's largest brewing company, Tsingtao, in that same year. In 2004 it added to this activity by mounting a hostile bid for Harbin, China's fourth largest brewery. These three acquisitions appeared to many in the financial press to be more of a reaction to other major foreign brewers' own international strategies than it was a carefully thought out plan by A-B. While Grupo Modelo made sense given the growth in consumption of its core beers (Corona and Corona Light) in the US and the existing marketing relationship between the two companies, the latter two acquisitions were expensive and contradictory (Harbin and Tsingtao were major competitors with each other) and in hyper competitive, cost driven (Heracleous, 2001).

Following many experts the rather late and contradictory internationalization strategy is also a testament to struggles for control within the firm, where member of the founding family have historically wielded more power than their shareholdings (approximately 4% of voting stock) would suggest and the short-term interests of the capital markets were satisfied for a rather long time from the earnings on the domestic market.

Grupo Modelo

As the dominant brewery in Mexico, Grupo Modelo was a family owned and family run firm. It had entered into an agreement with A-B in 1989 whereby it would distribute Budweiser in Mexico and A-B would do the same for the Corona brand in the United States. However, in 1993 A-B acquired a 17.7 percent interest in Grupo Modelo for $477m. In May 1997 A-B doubled that stake to 37 percent with an additional $550m investment and then two months later announced its intention to exercise the remaining option to increase ownership to 50.2 percent (altogether the price amounted to 1600m$). According to several Wall Street Journal articles this was motivated partly by a desire to reduce its reliance upon the mature beer market in the United States as well as to capitalise upon the growing success of Modelo's best selling brand, Corona. Chairman and President of Grupo Modelo, Antonino Ferndandez, joined the A-B board in 1993 and was then replaced by his son, Carlos Fernandez (CEO Grupo Modelo) in 1996. What influence these two had on other A-B overseas strategies is difficult to determine. Modelo continues to be controlled by a voting trust which in turn is controlled by now 91 year old Antonino Ferndandez. His reluctance to sell the remainder of Modelo to A-B in 2008 following In-Bev's interest in the American brewer, stymied A-B brief flirtation with becoming the principal owner of the Mexican brewer.

Tsingtao and Wuhan (1993/2002)

In 1993 A-B invested $16.4m for a 5 percent stake in Tsingtao and then increased that stake to 9.9 percent in 2002. The company did not report sales figures for China at that time but said that it had reached an operating profit there in 2001 (Wall Street Journal, 30 June, 2003). However whatever consensus existed between the two brewers began to fall apart following A-B's subsequent hostile winning bid for one of Tsingtao's principal competitors, Harbin Brewery. It confounded Tsingtao's chairman, Li Guiron who thought that it would undermine the strategic partnership that his company had with A-B as well as potentially breaching exclusivity agreements (Financial Times, 17.05.2004). This action led Tsingtao to reaffirm its own strategy of consolidation in the Chinese beer market which it had aggressively pursued between 1996 and 2003, acquiring 48 breweries that allowed it to raise sales from 2 percent to 12.8 percent. Such consolidation enabled it to impose its own operating efficiencies and economies of scale on what had been many money losing ventures, thus becoming a more formidable competitor in its own right.

In 1995 A-B acquired an 80 percent stake in Wuhan brewery but had to invest substantially ($170m by 2003) in equipment modifications to attain the requisite operational efficiency. Whether this was a failure in due diligence on A-B's part or simply part of their rush to enter the Chinese market is difficult to determine. However, it paled in significance compared to their next Chinese venture.

Harbin Brewery (2004)

Most of the financial press were shocked when A-B announced a hostile takeover bid for Harbin in 2004. A-B entered a bidding war with SABMiller because it wanted to counter the latter's expansion into China's fast growing beer market (Financial Times, 17 May 2004). But it wasn't clear what plans it had for the company and how it would fit with its existing relationship with Tsingtao (Financial Times, 29.06.2005). For many it appeared more of a reactive response by A-B than a proactive strategic move; almost as if it was deliberately trying to prevent SABMiller from increasing its presence in China rather than operationally consolidating A-B's own position in the country.

The winning bid of $720m was viewed by many as about $200m more than the company was worth with the Economist going so far as calling the bid "irrational" and "more about ego than common sense" (Economist, 4.6.2004). The bid represented 5 times Harbin's 2003 sales and about 35 times the EBITA. There were no apparent synergies, especially since A-B announced early on that it had no intention of combining the two operations with the result that margins would only get thinner.

The Chinese beer market is fiercely competitive, with 400 brewers and razor thin operating margins of about 0.5 percent. A-B's earlier attempts to market Budweiser to wealthy Chinese consumers would have little relevance to the Harbin acquisition since the market is different. Beer is essentially a commodity product in China and whereas foreign companies have the resources to market premium products, local Chinese customers do not have the incomes (or often even the desire) to pay for them (Heracleous, 2001). As Tsingtao's chairman had earlier noted, Western brewers brought the best equipment and the best technology and made a high quality product but then had to sell it at a high price to get high returns (See Lawrence, 2000). But since Chinese consumers show a propensity for local beers and are very price sensitive, the only way Harbin can be successful for A-B is if it can gain operating efficiencies to lower its production costs so that it will no longer be at a price disadvantage in this market. Yet to do this means A-B is in the same predicament that it faced in the cut throat US domestic market where price cutting was endemic.

Summary

As the dominant player in a mature US market, where competition is price based and cost driven and where consolidation apparently allowed major competitors such as SABMiller to realise economies of scale and drive down their own cost structures, A-B was in an almost frenzied state of rationalisation and internationalisation in the past 10-15 years. Its overseas ventures led to sales increase and growth of market share (the abiding A-B mantra) but did not always demonstrate fiscal wisdom, especially in China. It paid above market value for companies which led the business press to view the expansion strategies with scepticism; that it lacked a comprehensive plan to build a market presence in emerging markets.

While A-B remained an operationally efficient company, willing to continuously upgrade its manufacturing capabilities and squeeze greater scale efficiencies, relative to its competitors, it seemed adrift and wavering when it came to strategy. The board was conservative over initial overseas expansion, preferring joint ventures. Yet when its major competitors aggressively expanded into emerging markets, A-B followed suit, but without an operational coherence except that of building market share. Such actions were less motivated by shareholder value concerns than they were about an almost visceral response by the family dominated management structure in the St Louis headquarters. In this sense the company‘s actions were an immediate response to the behaviour of its competitors; a short term view that would have long term financial repercussions. For many in the business press the company’s actions were deemed irrational and fiscally imprudent, but also acknowledged to reflect the failure of August Busch III to invest significantly overseas when earlier opportunities arose. As one financial journalist wrote, “The Busch’s have done a lousy job of managing the company and shareholders have suffered” (Andrew Sorkin, Wall Street Journal, June 17, 2008).

A consequence of ill conceived expansion strategies, plus a flattened domestic market led to lacklustre stock price which made the company itself a takeover target. The board would only invoke its own view of fiscal imperatives in 2008 when against the will of the Busch family, it agreed to a takeover by InBev. At that point A-B’s presence in international markets was still a confused and often contradictory one precisely because of the lack of a coherent expansion strategy. At the end of the day, a family run company thus became victim to shareholder value concerns because it was incapable of finding an alternative scenario to postpone the inevitable.

Scottish and Newcastle (S&N)

Originating from a large, protected beer market, it was not before the turn of the millennium that the UK based S&N seriously entered foreign markets. Initially only exporting beer to a limited number of countries, S&N's internationalization skyrocketed following a few large acquisitions taking place in the early 2000s (see below). As early as in 2006 sales abroad outweighed domestic sales with a ratio of foreign to domestic sales of 60:40 (S&N annual report 2006).

This late but 'big-bang' internationalization was basically driven by the strong say financial analysts had in the course of S&N. As a result of the many mergers that made up S&N over its 250 years history, S&N had rather dispersed ownership structure, with the five largest owners (Hartwall Capital Ltd and four institutional investors) accounting for less then 30% of the capital.

Throughout the 1990s financial analysts were strongly pushing S&N to focus and to internationalize its business activities which in the mid 1990s were equally made up by beer, leisure activities (Hotels, Center Parks) and restaurants and pub ownership. Analysts basically maintained that surviving in the highly competitive global beer market, would not allow the firm to take care of other business activities. In response to the constant pressure from analysts and shareholders, S&N management first divested its leisure business (2000) and subsequently sold its restaurant and pub business (2003). The financial leeway gained through these divestures was used to acquire three large brewery groups abroad in a very short period of time: Kronenbourg of France in 2000, Central de Cervejas (the second largest Portugese brewery) in 2000/2003 and Hartwall of Finland (owning large activities in Eastern Europe) in 2002 (for details see below). These moves not only displayed on average a higher financial risk than the financial risks taken by Heineken and Carlsberg (see table 1), but their integration and use of synergies in a very short period of time turned out as a tremendous management task. S&N management struggled, ultimately unsuccessfully, in an attempt to absorb these acquisitions.

Brasserie Kronenbourg; France (2000)

In 2000 S&N acquired Brasserie Kronenbourg, Danone's beer divisions in France and Belgium in a two-staged process.[6] With this move, worth 2.7 bn€, S&N became market leader in France and ranked second in Belgium. The price for the acquisition (deal value is only 1.8 times the multiple of annual sales, see table 1) was comparatively low; however the scope for synergies was seen as rather limited too in part because the Kronenbourg brand is hardly known outside France. Hence,

6 The procedure was necessary to give S&N time to dispose their non-beer divisions. For details of the complicated acquisition see Annual Report and Accounts 2000: 8.

analysts claimed the price as being too high (Financial Times 21.3.2000). The restructuring and integration of Kronenbourg up until 2003 was rather limited, but intensified in the years that followed (e.g. though plant closures, transfer of production, cost saving programs, and IT integration). However, improvements made were counterbalanced by a generally weak demand in France, by far the largest market of Kronenbourg (Financial Times 2.7. 2003, Financial Times 10.8.2005).

Central de Cervejas, Portugal (2000/2003)

Only one month after S&N finalized the Kronenbourg deal, it acquired a 49% minority stake in the second largest Portuguese brewery Central de Cervejas, producing 2.7 mhl beer in 2000. In 2003 the remaining 51% was acquired. The total deal was worth 828 m€, that is 3.3 times the annual sales volume. As some analysts noted, this rather high price however is partly justified by the potential of the well known Sagres brand. Integration of Central de Cervejas into S&N was rather low, due to an unfolding debate in Portugal on the sale of the biggest companies to foreigners. Thus, Central de Cervejas kept on to be managed by an independent management team in which Portuguese executives dominated (Financial Times 14.5.2003).

Hartwall Oyj, Finland (2002)

With the 2002 acquisition of Hartwell Oyj, S&N on the one hand enlarged its presence in mature markets (Finland). On the other hand, by taking over the 50 per cent share of Hartwall in the Baltic Brewery Holding (BBH), S&N also made a large step into the fast growing East European Market. In the year 2000 BBH controlled about 30% of the Russian beer market, and had a particular strong presence in the Ukraine and the Baltic states (Estonia, Latvia, Lithuania). It is this strong introduction into the growing East European markets that basically triggered broadly positive comments from analysts (Financial Times 16.2. 2002) despite a rather high price paid for Hartwall (2.8 times the annual sales volume; see table 1). Integration of Hartwall remained rather piecemeal, with Carlsberg, a fierce competitor, owning the other half of BBH. Hence, BBH continued to be managed from Helsinki.

Summary

Overall S&N's 'big-bang' internationalization strategy turned out to be very risky due to the combination of high financial exposure and struggles to simultaneously make use of synergies from three large acquisitions. In addition there were several other problematic issues. First, coupling internationalization to the successful divesture of other business lines runs the risk that internationalization looses momentum once divesture is not generating expected returns. This is exactly what happened when S&N was forced to sell its stakes in the holiday centre's business (Center Parcs) about 30% below initial price expectations (Frankfurter Allgemeine Zeitung 1.3.2000, Börsen Zeitung 22.11.2000). Second, while the acquisitions described above strongly boosted internationalization from the outset, they only partially eased the focus on saturated beer markets that still made up to about 50% of the volume sold of S&N in 2006. Moreover, the major part of the growing-market volumes was locked into a fragile joint venture with Carlsberg gained through the Hartwall take-over. Third and related to the previous points, the internationalization strategy of S&N was subject to short term profit expectations of analysts and shareholders. This further meant that at any time they had the option to sell S&N to a number of highly interested competitors. For S&N was one of the few remaining brewers with an open share register and no controlling shareholder in a consolidating sector (The Grocer 20.10.2007). The consequences thereof are known: In 2008 S&N was taken over in a joint hostile bid by Carlsberg and Heineken.

Cross case comparison

Table 2 provides an overview of our findings. As it turns out, our initial hypothesis that Heineken and Carlsberg display a lower risk in large acquisitions abroad than A-B and S&N is broadly confirmed. We also found some support for the underlying causal assumptions. In both cases being from small home countries made the companies internationalize from the outset; since further growth often was only possible abroad these firms developed a rather strong position outside their home country over decades. In both cases, the owning family (Heineken) or foundation (Carlsberg) directly vetoed acquisitions that seemed too risky and made certain that management followed a rather long-term approach, engaging in large take-overs only when they were financially and strategically sound. Moreover it can be assumed that Heineken and Carlsberg have developed considerable experience with due diligence abroad and with cross border management issues. Finally, they display a much lower reliance on capital markets in their financing than Anheuser Busch and Scottish and Newcastle (See appendix 1!) thus sheltering them from short term profit maximizing strategies of the capital markets.

Table 2 about here

However, it was only in the case of S&N that such an impact of the capital markets seems to have pushed the management to a rather high risk strategy with regard to large acquisitions. In the case of A-B, capital market actors were by and large satisfied with the rather stable profits from a large and efficiently served domestic market. Here the high risk internationalization is more the result of missing experience, strategic mistakes and internal struggles in the management that is still controlled by the founding family, despite the fact that they only control 4% of voting stock.

Analyzing the particular risks profiles of the companies, Heineken and Carlsberg show a strong concern for the financial exposure they incur with large acquisitions, carefully select targets aimed at a strategic fit and devote many managerial efforts to the rationalization, modernization and integration of the acquired firms. In comparison, A-B and S&N played catch-up in internationalization. The result is that they incurred rather high financial risks, missed an optimal strategic fit and overstrained their organizations with of a wealth of integration tasks, for which they lacked both experience and capacity.

To sum up, with an increase in the pace of consolidation in the global beer market after the turn of the millennium, including more and more large and very large acquisitions, companies with strong history of internationalization and a strong impact of family or foundation ownership seem to survive and prosper (Carlsberg and Heineken). In contrast companies with comparatively little international experience and a rather dispersed ownership (A-B, S&N) made less fiscally prudent acquisitions and ended up as take-over targets.

Conclusions

Our comparative analysis has shown that country-of-origin effects are important when understanding international acquisition strategies of MNCs, with the influence of home country financial systems and related corporate governance issues being the focus of our investigation. Our paper also sheds light on current debates about the future of ‘shareholder value capitalism’ and the problems firms face if they are highly dependent on the capital market. Comparing the internationalization of four major players in the brewery industry, we have shown that stock market pressures led to more risky acquisition profiles by MNCs originating from liberal market economies.

The S&N case provides the best example of how high risk taking by managers is linked with the home country financial system and country size. Originating from a liberal economy with a large home market, S&N began relatively late to catch up with major competitors, such as Heineken and Carlsberg. Compared to these two cases, S&N management was less committed to the future of the firm and more towards increasing returns in the stock market. In short, we found reinforcing influences of the short-termist capital market (home country influence) leading to high 'speed' and thus risky large acquisitions which made it difficult for the management to learn and develop the company into a sustainable and independent global player within the beer industry.

By contrast, the Heineken case is the best example of the other 'extreme', demonstrating the reinforcing influences of a) the country of origin's financial system, b) 'smartness' of small country governance and c) majority family ownership. This firm followed the most conservative approach of the four MNCs, strongly committed to the company's growth. This approach provided more opportunities for management to learn from former acquisitions and also to apply a well crafted post-acquisition strategy. In short, both cases ideal-typically confirm our proposition that MNCs originating from coordinated market economies tend to have lower risk profiles and managerial risk taking approach when it comes to large international acquisitions and post-acquisition strategies.

Carlsberg mirrors to a large extent the Heineken case and also supports our proposition. However, this case also indicates some interesting strategic responses towards the pressure of international capital markets on firms and nation states. In Table 3 (appendix 1) we see that Carlsberg's reliance on the capital markets is significantly higher than Heineken's. These developments clearly reflect current changes made by the Carlsberg Foundation in 1999 to significantly reduce the requirements of the Foundation to hold a minimum of 51% of the Carlsberg brewery. This decision was made after continued criticism of stock market analysts that this concentration of shares would hamper the company's ability to attract capital for foreign expansion (Iversen and Arnold 2008: 386). These changes of course put a question mark on whether and how Carlsberg will be able to balance the increased exposure of the firm to short-termist stock market pressure with its traditionally more committed and long-term grow oriented internationalization strategy?

The A-B case is a text book example if we just consider the capitalization of the company, which is the highest (98.6%) for all four cases. However, the firm's dominant position in the domestic market and its foray into internationalization largely structured around joint ventures left it somewhat unwilling to recognise the benefits of international acquisitions and then exposed its lack of experience when it finally did commit to such a strategy. Not surprisingly the ‘irregularity’ of this strategic approach is negatively related to performance as Vermeulen and Barkema (2002) have argued. However, the effects of the capital market on international acquisition strategies and risk taking are less clear cut in comparison to S&N. This indicates the moderating role of both the *size* of the home country market, which makes A-B a late comer[7] in terms of acquiring WOS internationally, and that of the founding *family*. A-B’s earlier behaviour where executives were responsive to dominant family members suggest what Roberts (2004:249) termed an affliction with hubris and an overestimation of their abilities to run the company. The recent rise of investor activism finally put paid to that modus operandi, with the debacles associated with A-B’s poorly conceived China strategy exposing the management ineptitude. Unlike family or foundation dominated firms in coordinated economies, A-B’s family grip on the company was no match for shareholders seeking to maximise their short term profits when an opportunity arose.

Finally, our study confirms earlier findings of Lopes (2007) that successful brewery companies, both domestically and internationally, applied a strategic approach that carefully combines entrepreneurship and professional management. However, based on the findings of this study we would like to add that this is not only an indicator of the importance of family ownership, but also of the role of home country specific forms of corporate financing and governance.

[7] Being a late comer can also be linked to irregularity in its consequences for risk taking.

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Table 1: Large acquisitions of Heineken, Carlsberg, Anheuser Busch and Scottish & Newcastle compared

	Year	Shares -bought -owned	Trans-action (T) Value (m)	Sales volume mhl	No. of Empl-oyees	T-value as multiple of Sales (1)	T-value as Multiple of EBITDA (1)	T Value as Multiple of hl (€/hl) (1)
Heineken (NL)								
Cruzcampo (ES) (3)	2000	88.2 88.2	650 m€	6	2200	1.81 (2)	n.a.	113(2)
BBAG /Brau Union (AU)	2002	100 100	1899 m€	16	7080	1.73	10.2	146
Bravo (RUS)	2002	100 100	395 m€	2.9	1600	2.43	9.7	137
Carlsberg (DK)								
Okocim (PL)	1996/ 2000	100 100	n.a.	n.a.	ca. 1300	n.a.	n.a.	n.a.
Brauerei Feldschloesschen (CH)	2000	100 100	574 m€	2,4	2600	1.60	8.6	99
Holsten (GER)	2004	100 100	437 m€	n.a.	1500	0.99	9.1	71
Anheuser-Busch (US)								
Grupo Modelo SA de CV (MEX) (5)	1993/ 1997	50.2 50.2	1600 m$	35.4	41149	1.6 (2)	11 (2)	86.9 (2)
Tsingtao Brewery Co. Ltd. (CHN)	2002	23.6 27	181.6 m$	25	n.a.	1.2 (2)	n.a.	n.a.
Harbin Brewery Grp Ltd. (CHN) (4)	2004	100 100	720 m$	n.a.	8000	5.0 (2)	34.2 (2)	n.a.
Scottish & Newcastle (UK)								
Kronenbourg/ Danone Beer (F)	2000	100 100	2700 m€	n.a	n.a	1.8	11.3	183
Central de Cervejas (P)	2002/ 2003	100 100	828 m€	2.7	n.a.	3.3	11.4	251
Hartwall Oyj (SF) / BBH	2002	100 100	2273 m€	na.	na.	2.81	10.1	142

Sources: Thomson Financial Extel Company reports 2008, Datamonitor Company profiles 2008, various articles from the business press
(1) Data taken from table 2 of Ebneth and Theuvsen 2007:382
(2) own calculation (adjusted for % of shares owned)
(3) sales 1999 =407 m€
(4) pre tax profit 2002 = 21 mUS-$, sales 2002 = 144 mUS-$
(5) Net profit 1997 293,5 mUS-$, Sales 1997= 1930 mUS-$

Table 2: Large acquisitions and risk-taking: Heineken, Carlsberg, Anheuser Busch and Scottish & Newcastle compared

	Ownership	**country of origin VoC**	**Size of the home market**	**Foreign presence before 1990**	**Risk assessment**	**Risk profile**
Heineken	Family owned (majority)	Coord. Market Economy	Small	Con-sider-able	Low	- Rather low financial exposition - Partial acquisition strategy - Well selected targets with high value creation potentials - Long term orientation - Strong focus on rationalization modernization and integration of acquired objects
Carlsberg	Foundation onwed (majority)	Coord. Market economy	Small	Con-sider-rable	Low	- Rather low financial exposition - Partial acquisition strategy - Well selected targets with high value creation potentials - Long term orientation - Strong focus on rationalization modernization and integration of acquired objects
Anheuser-Busch	Dispersed stock marked ownership with a strong management influence of the founding family	Liberal Market economy	Large	Little	High	- Extremely high financial exposition - Partial acquisition strategy - Partly uncareful selection of targets (Chinese investments) - Little emphasis on operational integration of acquired units
Scottish & Newcastle	Dispersed stock marked ownership with a strong impact of financial markets actors	Liberal Market economy	Large	Little	High	- Rather high financial exposition - Partly uncareful selection of targets (acquisitions in saturated markets - Integration overload due to a simultaneous acquisition of three large targets - Short time profit expectations and unclear revenues from divestures threaten the sustainability of the intern. strategy

Appendix 1[8]

Aggregation of Funding Types

5 Yr Averages	**A-B**	**S&N**	**Heineken**	**Carlsberg**
Loan Capital	**98.61%**	**57.89%**	**34.11%**	**45.75%**
Bank Loans	**0.60%**	**31.27%**	**42.39%**	**29.63%**
Finance leases				**0.35%**
Bills and notes	**0.31%**			
Bank Ins and Overdrafts				**3.16%**
Mortgages				**5.06%**
Other Loans	**0.49%**	**3.44%**	**7.75%**	**16.05%**
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Sources: Thomson Financial Extel Company reports 2008

In the Table it can be seen that Heineken and Carlsberg have a lower reliance on capital markets for their financing than A-B and Scottish and Newcastle. Indeed in the case of Scottish and Newcastle if a four year average is taken the loan capital raised rises to 63.11% and bank loans drop to 25.39% as during the four years from 2004-2007 they depended more on capital financing from the markets. The greater dependence on bank loans reflects the long term relationships with local banks by Heineken and Carlsberg typical for coordinated market economies as discussed in section 3.

[8] We are indebted to Kerry Sullivan (Univ. of Surrey) for his input.