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## Corporate Social Responsibility: A Case Study on Carlsberg

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CORPORATE SOCIAL RESPONSIBILITY: A CASE STUDY ON CARLSBERG

A Capstone Experience/Thesis Project

Presented in Partial Fulfillment of the Requirements for

the Degree Bachelor of Science with

Honors College Graduate Distinction at Western Kentucky University

By

Anne Sofie Brusendorff

\* \* \* \* \*

Western Kentucky University  
2014

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2014

## ABSTRACT

In today's business environment corporate social responsibility (CSR) and sustainability are extremely influential in a firm's competitiveness. A literature review will provide an analysis of past cases illustrating the importance of CSR, considering both positive and negative impacts CSR strategy can have on business success. Furthermore, important definitions and terminology critical to understanding CSR will be highlighted. This paper explores the evolution of CSR and provides a general overview of the effects CSR can have on a company's reputation. The way a company can effectively utilize a CSR-strategy as a competitive advantage is also examined, along with scholarly views both supporting and opposing CSR.

Finally, this paper includes an in-depth analysis on a Danish brewery, Carlsberg, and answers the following question: "How does Carlsberg market its CSR strategy to consumers, and does the CSR strategy contribute to the company's success as well as provide long-term competitive advantages for Carlsberg?" The findings of this paper suggest that CSR can be a competitive advantage and contribute to a business' overall success.

**Keywords:** Corporate social responsibility, Sustainability, Carlsberg, International Business, Marketing, Strategy

To my family and friends

## ACKNOWLEDGEMENTS

This project would not have been possible without the encouragement, help and a kind push from countless people. First and foremost I would like to thank my CE/T advisor Dr. Todd for helping, encouraging and always being there for me. Without you I could not have completed this project. I would also like to thank the additional members on my committee, Dr. Spiller and Dr. Wilson for taking the time to help me complete this project.

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Last, but not least, I would like to thank my family for always supporting me and for being there for me even though you are halfway across the world.

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## FOREWORD

As a business student, Corporate Social Responsibility (CSR) and sustainability have been topics that I find especially interesting. Not only do I believe them to be vital to a business's survival and long-term profitability, but also that they showcase an individual or entity's interest in working towards a 'greater good,' which I find very inspiring.

As an undergraduate student, I have been fortunate enough to study in the United States, as well as twice in Europe. These experiences have allowed me to develop various viewpoints and perspectives on sustainability and CSR within different cultures. While studying in Copenhagen, Denmark, I completed a project on the Danish brewery Carlsberg. During the completion of this project, I found a particular interest in the company's CSR strategy. I was highly impressed with the strong emphasis the company placed on their breweries effectiveness and efficiency, not only to reduce cost, but also to help reduce the company's CO<sub>2</sub> emissions and water usage. A statement included in the company's CSR report left a rather strong impression on me as well. Leading me to write my thesis on CSR, Sustainability, and Carlsberg, in order to gain a better understanding on this topic and to further understand the extent of the efforts made by the company.

## Part I

“WATER IS ESSENTIAL TO OUR PRODUCT. NO WATER MEANS NO BEER.”<sup>1</sup>

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<sup>1</sup> Carlsberg 2013

CHAPTER 1  
INTRODUCTION

*Literature review of Corporate Social Responsibility*

In 2006, Coca Cola was scrutinized for “causing extreme water shortages in developing countries where supplies [were] scarce.”<sup>2</sup> In 2004, Coca Cola, the largest beverage company in the world, used 283 billion liters of water; for every 1 liter of product, 2.7 liters of water were used.<sup>3</sup> While the Coca Cola Company sponsored the World Water Forum, a forum where professionals and companies met to discuss how to improve water conditions for the 1.1 billion people in the world who lack access to safe water, Coca Cola itself was polluting and causing a lack of water.

Another scandal, occurring in April of 2010, was the BP Deepwater Horizon oilrig that exploded in the Gulf of Mexico, killing eleven people and injuring numerous others.<sup>4</sup> In addition to direct injuries and fatalities, the accident had severe effects on the livelihood of inhabitants around the Gulf of Mexico.<sup>5</sup> The financial and environmental consequences of the sunken oilrig were devastating. According to the BP 2012 Sustainability report, the company has spent over \$14

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<sup>2</sup> Mathiason, N.

<sup>3</sup> Ibid.

<sup>4</sup> BP

<sup>5</sup> BP

billion dollars so far, and the company is still continuously working to improve its environmental record.<sup>6</sup>

Last, in 2007, the Tianshui Benma Brewery Company was charged by the Chinese government of dumping “untreated wastewater into rivers in Gansu province since at least the mid 1990’s.”<sup>7</sup> The Tianshui Benma Brewery Company is an affiliate of the Danish brewery Carlsberg, a company that takes immense pride in their sustainability practices and corporate social responsibility.<sup>8</sup> . The fact that Carlsberg only entered as a 30% shareholder of the Chinese brewery in late 2004, many years after the dumping had started, was never mentioned in news reports.<sup>9</sup>

While these are just a few examples out of innumerable incidents that have happened over the past years, each illustrate the importance of CSR. In Coca Cola’s case, critics were unhappy because, while the company marketed itself as a responsible corporate citizen, in reality, its actions were proving entirely different. The BP Deepwater Horizon oilrig exemplifies how costly an accident can be to the environment, and, lastly, the Tianshui Benma brewery in China shows the importance of a company’s consistent awareness of what goes at every point in their supply chain. This also illustrates that the press and consumers criticize companies who are in any way associated with a scandal, regardless if the company is acting as a majority shareholder. At this point, an effective CSR strategy comes into play.

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<sup>6</sup> BP

<sup>7</sup> Horn, P.

<sup>8</sup> Carlsberg 2014

<sup>9</sup> Ravn, S.

Corporate social responsibility has been a dynamic topic in business in recent years, and several definitions of CSR have developed as a result. The United Nations Industrial Development Organization (UNIDO) defines CSR as the following:

*Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (“Triple-Bottom-Line- Approach”), while at the same time addressing the expectations of shareholders and stakeholders.<sup>10</sup>*

To summarize, CSR is the action a company takes beyond legal requirements to better society. In other words, CSR is “the responsibility of enterprises for their impacts on society”<sup>11</sup> or “the voluntary integration of social and environmental concerns in to business operations and in to their interaction with stakeholders.”<sup>12</sup> In the current business environment, CSR is a critical factor in developing into a successful company.

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<sup>10</sup> UNIDO

<sup>11</sup> European Commission. 2011.

<sup>12</sup> Vilanova, Lozano & Arenas, 2009

## CHAPTER 2

### PROBLEM STATEMENT

The following problem statement will be answered: *“How does Carlsberg market its CSR strategy, and does the CSR strategy contribute to the company’s success as well as provide long term competitive advantages for Carlsberg?”*

In order to form a deeper understanding of the problem statement and further answer it, the following supporting questions will be answered:

- *How does the company’s strategic position in today’s market affect their CSR strategy?*
- *What does the future, in terms of CSR and sustainability, entail for Carlsberg?*
- *Is the CSR strategy helping Carlsberg get ahead of its competition?*
- *What are the long-term competitive advantages of a CSR strategy, and how profitable will these prove to be for Carlsberg?*

## CHAPTER 3

### METHODOLOGY & LIMITATIONS

#### Methodology

Research for this thesis project will be carried out in several ways. First, research will be accumulated by reviewing past research on CSR, including scholarly articles, journal articles and other findings on CSR. Articles concerned with CSR's effect on a company's reputation and competitiveness, and views both in favor and in opposition of CSR will be used. Research on industry standards, minimum governmental requirements, and local and international requirements will also be considered. Second, company reports and websites from Carlsberg will be used to conduct a case study on Carlsberg's CSR strategy, which will encourage an accurate understanding of the company's approach to CSR. Third, a survey will be carried out to be applied to Abell's market definition. This is included to gain an understanding of Carlsberg's positioning in consumer's views.

Finally, a variety of business models including Carroll's pyramid of CSR, Carroll's revised pyramid of CSR, Porter's four generic strategies framework, financial analysis ratios, benchmarking, a SWOT, and ultimately, a TOWS to combine the SWOT into future recommendations will be implemented in analysis.

## Limitations

Today, Carlsberg operates in 150 markets<sup>13</sup> throughout three regions: Western Europe, Eastern Europe, and Asia.<sup>14</sup> This case study will focus mainly on the Danish and Western European market, in order to give a more detailed analysis of Carlsberg's CSR strategy.

The limitations of the findings in this case study are the following: in terms of research, all research was carried out through a literature review. The findings are therefore based on secondary sources and to a certain extent, rely on the accuracy of these sources.

In terms of the Carlsberg case study, all findings are based on information retrieved from the company's website and annual reports. No interviews were conducted with Carlsberg employees and the case study is based on information published by the company as a result.

The limitations to the survey results that were applied to Abell's market definition are the sample representation, size and length of the questionnaire. Also, as only 50 people completed the survey, it does not provide an accurate representation of the entire market; rather, it gives an idea of how consumers perceive Carlsberg in Denmark, and the results are therefore not generalizable.

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<sup>13</sup> Carlsberg Danmark

<sup>14</sup> Annual Report 2012, p. 4

## CHAPTER 4

### CARROLL'S PYRAMID OF CORPORATE SOCIAL RESPONSIBILITY

Archie Carroll's pyramid of corporate social responsibility consists of four types of business responsibilities. The first responsibility is being economically profitable, followed by the second responsibility of following the law. The third responsibility, being ethical, means doing what is deemed as right, even though the business is not compelled to do so by law. The fourth, and final, responsibility is philanthropic responsibilities. When talking about CSR today, Carroll's pyramid of CSR is an excellent model to use because "the basis of what we consider to be the modern definition of CSR is rooted in Archie Carroll's Pyramid of Corporate Social Responsibility."<sup>15</sup>

#### 4.1 Economic

An organization is expected to be economically profitable to operate. Without any inflow of income, the business would not be profitable, and, hence, would not function. Stockholder theory states that a corporation's main goal is to make money, and that the only people managers must answer to are the stockholders, who own the company.<sup>16</sup> The theory claims that it is in the business's best interest to focus

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<sup>15</sup> Greater Horizons, 2010.

<sup>16</sup> Smith, H.

solely on the business it is in.<sup>17</sup> Stockholder theory also assumes that managers are not educated or adequately trained/equipped to do other forms of business and, therefore, would not do a good job. Ultimately, stockholder theory “follows that managers have neither the obligation nor right to spend the stockholders’ money in ways that have not been sanctioned by the owners, no matter what social benefits may occur by doing so.”<sup>18</sup>

## 4.2 Legal

While being economically profitable is expected of a company, there are also several laws in place ensuring companies, at the very least, follow minimal requirements. While no law requires a company to implement a CSR strategy, various countries have laws with different requirements in terms of how sustainable they require companies to be, and society expects businesses to adhere to these laws. By “recognizing the importance of sustainable energy, state and federal policymakers have employed aggressive tax incentive programs to stimulate unprecedented growth in wind energy, solar energy, biomass, green building, and related industries in recent years.”<sup>19</sup> Consumers are slowly demanding more sustainability from companies, and governments (as well as the international community) have also realized that natural resources are scarce and that national economies are better off with sustainable businesses.<sup>20</sup> Hence, tax and other incentives are created in hopes of encouraging companies to think and act

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<sup>17</sup> Ibid.

<sup>18</sup> Younkins, E.

<sup>19</sup> Hulston Hall, J. K.

<sup>20</sup> Ibid.

sustainably, and laws are implemented to make sure at least some minimal requirements are met.<sup>21</sup>

European Union (EU) laws on sustainability date back to 1997, when “sustainable development became a fundamental objective of the EU,” as it was included in the Treaty of Amsterdam.<sup>22</sup> Shortly after, in 2001, the first EU Sustainable Development Strategy was launched, based on a proposal from the European Commission.<sup>23</sup> The strategy was amended in 2005 and “is complemented inter alia by the principle of integrating environmental concerns with European policies which impact on the environment.”<sup>24</sup> In July 2009, the European Commission adopted the 2009 Review of the EU SDS.<sup>25</sup> This review “underlines that in recent years the EU has mainstreamed sustainable development into a broad range of its policies.”<sup>26</sup> For example, the EU has taken a leading role in the fight against climate change and the promotion of a low carbon energy.<sup>27</sup> Today, some of the heaviest challenges EU countries face are energy challenges. The EU has set a goal of 20-20-20. This entails reducing EU greenhouse gases by 20%, having 20% of the energy consumed in the EU from renewable sources, and improving the EU’s energy efficiency by 20% by 2020.<sup>28</sup>

Another pressing issue in the EU is that of waste, and according to the EU:

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<sup>21</sup> Ibid.

<sup>22</sup> European Commission

<sup>23</sup> Ibid.

<sup>24</sup> Europa

<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

<sup>27</sup> *ibid.*

<sup>28</sup> Ibid.

*“As European society has grown wealthier it has created more and more rubbish. Each year in the European Union alone we throw away 3 billion tonnes of waste - some 90 million tonnes of it hazardous... By 2020, the OECD estimates, we could be generating 45% more waste than we did in 1995”<sup>29</sup>*

The EU’s approach to waste management consists of three principles: waste prevention, recycling and reuse, and improving final disposal. Recently the European Union also added the 2030 framework, as well as the 2050<sup>30</sup> roadmap. According to the EU, the 2030 policy framework for climate and energy proposed by the European Commission aims to make the EU’s economic and energy systems more competitive, secure, and sustainable.<sup>31</sup> The 2050 roadmap goes further than the “short-term objectives and sets out a cost-effective pathway for achieving much deeper emission cuts by the middle of the century.”<sup>32</sup> The EU has taken great strides of action in regards to reducing greenhouse gasses and CO<sub>2</sub> emissions.

On an international level, the United Nations has also taken proactive steps towards making the world more sustainable. An example of this is the Kyoto Protocol, which “is an international agreement linked to the United Nations Framework Convention on Climate Change. The agreement commits its Parties by setting internationally binding emission reduction targets.”<sup>33</sup> The protocol gives a higher responsibility to developed countries as they have already experienced 150

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<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

<sup>32</sup> Ibid.

<sup>33</sup> United Nations Framework Convention on Climate Change

years of industrialization and, hence, are more capable to respond to concerns of climate change. The EU signed and ratified the Kyoto Protocol.

### 4.3 Ethical

Many consumers today expect companies to act ethically. There are numerous aspects to being ethical including “not causing damage to the environment, exploiting workforce by paying low wages, using child labour, or producing products which are harmful or dangerous.”<sup>34</sup> Enlightened self-interest is a view stating “it is in a company’s self-interest in the long term to provide true value to its customers, to help its employees to grow, and to behave responsibly as a global corporate citizen.”<sup>35</sup> In other words, a company benefits from being a good corporate citizen. Educating employees reduces the chance for accidents and increases efficiency, which not only betters the environment, but also lowers production costs.<sup>36</sup>

Individuals often worry about the amount of influence corporations have on a society.<sup>37</sup> Corporate power “refers to the capability of corporations to influence government, the economy, and society, based on their organizational resources.”<sup>38</sup> The extent of a corporation’s power is highly dependent on its size, primarily the amount of people it employs and the resources it possesses. The size of the company determines its scope of influence on buying behavior through marketing efforts, the

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<sup>34</sup> The Guardian Money – What is an ethical company?

<sup>35</sup> Lawrence & Webber

<sup>36</sup> Porter, M.

<sup>37</sup> Lawrence & Webber

<sup>38</sup> Ibid.

jobs that are available in society, how much tax is being paid, etc.<sup>39</sup> The following statement made by David Korten puts the idea of corporate power into perspective:

*Business has become... the most powerful institution on the planet. The dominant institution in any society needs to take responsibility for the whole... Every decision that is made, every action that is taken, must be viewed in the light of that kind of responsibility.*<sup>40</sup>

Corporate power can have influence on both environmental and social aspects of society. Because of this massive amount of power, stakeholders expect corporations to take responsibility and work towards improving both of those aspects.

In comparison, the stewardship principle is quite similar to corporate power.<sup>41</sup> This principle stresses that corporate managers have been allotted such an amount of power to influence society that they have more than just a responsibility to shareholders – they have a responsibility to society and the environment in which they operate. This responsibility designates making decisions that will benefit and improve society while simultaneously avoiding harm.

#### 4.4 Philanthropic

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<sup>39</sup> Ibid

<sup>40</sup> Ibid

<sup>41</sup> Ibid.

Philanthropic companies are desired by society.<sup>42</sup> The notion of companies and their founders giving back to society is of great importance to many consumers. The charity principle is a notion that the wealthiest people in society should give to those who are less fortunate.<sup>43</sup> Bill and Melinda Gates, as well as Warren Buffet, are all notable examples of this principle. The Bill and Melinda Gates Foundation “aspires to help all people lead healthy, productive lives... [is] dedicated to discovering and disseminating innovative approaches to addressing extreme poverty and poor health in developing countries and improving the U.S. education system.”<sup>44</sup> While this does not depict the corporation itself giving back to society, these people involved are strongly associated with the brand in consumers’ minds, and it, therefore, has a positive effect on the business, as well.

Understanding Carroll’s Pyramid of Corporate Social Responsibility is essential to appropriately understanding corporations and their CSR strategies. While all the components of the pyramid are important for corporations, the economic and legal elements are crucial for a firm’s survival. Over recent years, however, firms have realized focusing solely on profitability and obeying laws are not enough.<sup>45</sup> The following sections will look at how going beyond ethical and legal requirements can benefit a business.

While Carroll’s pyramid of CSR is widely known and used, an more novel approach to CSR is proposed by Schwartz and Carroll: “A three domain approach ... in which the three core domains of economic, legal, and ethical responsibilities are

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<sup>42</sup> Carroll, A.

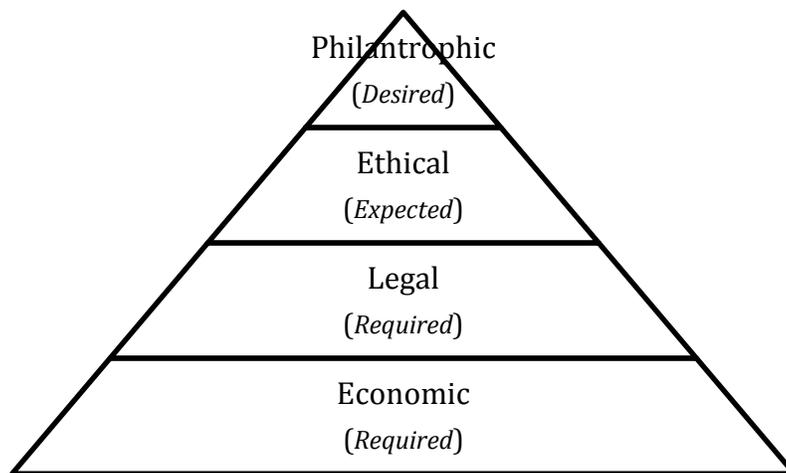
<sup>43</sup> Ibid.

<sup>44</sup> Gatesfoundation.org

<sup>45</sup> Carroll, 1991. p. 1

depicted in a Venn model framework. The Venn framework yields seven CSR categories resulting from the overlap of the three core domains.”<sup>46</sup> This three-domain-model was introduced as an improvement and alternative approach to Carroll’s pyramid of CSR.<sup>47</sup> The most important outcome of this new approach is that the Venn diagram suggest that all three aspects of CSR (economic, ethical, and legal) are equally important to the creation of a successful CSR strategy.<sup>48</sup> The first diagram below display Carroll’s pyramid of CSR while the second diagram shows the new and improved approach to CSR, the three-domain-model.

**FIGURE 1. Carroll’s Pyramid of CSR**



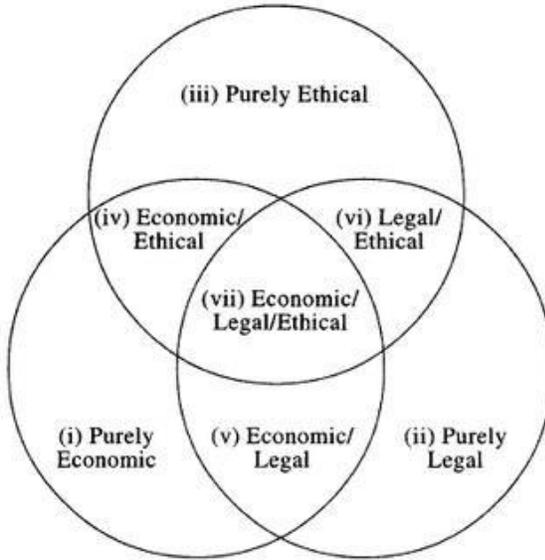
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<sup>46</sup> Schwartz & Carroll

<sup>47</sup> Ibid.

<sup>48</sup> Ibid.

**FIGURE 2. Carroll's Three-Domain Model of CSR**



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<sup>49</sup> Ibid.

## CHAPTER 5

### CORPORATE SOCIAL RESPONSIBILITY-CSR

#### 5.1 Competitiveness

Competitiveness can be defined as “the strength of an organization in comparison with its competitors.”<sup>50</sup> Traditionally, many authors have considered productivity a sufficient indicator of competitiveness. Recently, however, there has been a push towards including intangible assets in competitiveness. This is illustrated by John Kay’s four factors of competitiveness: capacity to innovate, key internal and external relationships, reputation, and strategic assets.<sup>51</sup>

Author Marc Vilanova and co-authors claim “there seems to be a connection between CSR and competitiveness, but the nature of the relationship is unclear.”<sup>52</sup> The authors stress the important role CSR strategies play in the business environment today, but note there is also a lack of understanding about CSR’s impact on competitiveness. For the purpose of this paper, competitiveness will be described as “the strength of an organization in comparison with its competitors.”<sup>53</sup> The businesses ranked on Forbes 10 Companies with the Best CSR Reputations include Microsoft, Apple, Walt Disney and other well-known, successful global

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<sup>50</sup> Vilanova, Lozano & Arenas, 2009

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

<sup>53</sup> Ibid.

brands.<sup>54</sup> This ranking was measured by a private consulting firm, the Reputation Institute, which invited “47,000 consumers across 15 different markets to participate in a study that ranked the world’s 100 most reputable companies.”<sup>55</sup> The study ultimately found that 42% of people’s feelings about a company is based on the company’s CSR.<sup>56</sup>

A study involving 35 senior officers from relevant stakeholder groups in the European financial sector investigated the relationship between CSR and competitiveness.<sup>57</sup> This study found that there is a clear connection between CSR and competitiveness, and the results showed that “image and reputation are part of the framework linking CSR and competitiveness.”<sup>58</sup>

Research also indicates that a majority of consumers will “switch from one brand to another (price and quality being equal) if the other brand is associated with a good cause”.<sup>59</sup> Similarly, there are several other competitive advantages worth mentioning. For example:

*By being a good corporate citizen, a company can foster consumer loyalty and turn consumers into company/brand ambassadors and champions who engage in advocacy behaviors (e.g. positive word-of-mouth, willingness to pay a price premium, and resilience to negative company news...)*<sup>60</sup>

Another advantage a firm acquires through an effective CSR strategy is that it becomes an attractive place to work, encouraging more skilled employees to seek

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<sup>54</sup> Forbes

<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> Vilanova, Lozano & Arenas, 2009

<sup>58</sup> Ibid.

<sup>59</sup> Bhattacharya & Sen, 2010

<sup>60</sup> Ibid.

employment with the firm. In short, the firm then becomes an attractive investment. This is all a result of the fact that CSR builds and strengthens stakeholder relationships.<sup>61</sup>

## 5.2 Reputation

While there is a plenty of research supporting the positive effects of CSR on a company's reputation, a CSR strategy implemented at the wrong time or one implemented incorrectly can cause severe damage. Reputation can be defined as "the collective assessments of a corporation's past actions and the ability of the company to deliver improving business results to multiple stockholders over time."<sup>62</sup> A business's reputation can be measured on financial soundness, management, products and services offered, and markets competitiveness.<sup>63</sup> Essentially, the reputation of a business can be vital to its survival.<sup>64</sup> Some companies attempt to improve their reputation by green washing, which occurs when a company promotes environmental initiatives, but operates in a way that is damaging to the environment.<sup>65</sup> If a company is caught green washing, the detrimental effects on its reputation will be very severe. Gotis and Wilson defines corporate reputation as the following:

*"a stakeholder's overall evaluation of a company over time, this evaluation is made up from the stakeholder's experience of the visible behaviour of the*

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<sup>61</sup> Ibid.

<sup>62</sup> Businessdictionary.com

<sup>63</sup> Ibid.

<sup>64</sup> Bracey

<sup>65</sup> Green washing definition

*company, as well as the images based on the company's communication and in addition its symbolism in comparison with its major competitors.”<sup>66</sup>*

Implementing an effective CSR strategy can have several positive impacts on a company's reputation. In the MIT Sloan Management Review, 2,600 executives were asked what the greatest benefits were of their organization addressing sustainability. The most common answer, accounting for 40%, was improved brand reputation.<sup>67</sup> It is interesting to see that amongst all the benefits of implementing a CSR strategy, brand reputation was the top answer. Clearly, “the better a company does at protecting its reputation and building brand trust, the more successful it will be at gaining and maintaining competitive differentiation,”<sup>68</sup> and CSR is an effective way to encourage this. It has been argued that “CSR helps companies to become more resilient not just to climate change risks, but also to negative information about the company.”<sup>69</sup> Dylan Minor and John Morgan proposed a new rationale for CSR:

*We suggest a new rationale for CSR: It acts as a powerful form of reputation insurance when a firm suffers an adverse event. For firms whose reputation is a key source of competitive advantage, understanding the link between CSR and*

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<sup>66</sup> Gotsi & Wilson

<sup>67</sup> Kiron, Kruschwitz, Reeves & Goth

<sup>68</sup> Winston & Etsy

<sup>69</sup> Godelnik, R.

*reputation provides a solution to a “missing markets” problem—how to (partially) insure against reputation risk.<sup>70</sup>*

Based on the above, it is evident that implementing a CSR strategy has a substantial positive impact on reputation. As long as the CSR strategy is deeply integrated in the company, it is often successful. However, a problem that companies often run into is “that consumers are often not aware of a firm’s CSR activities, which limits the extent to which CSR reputation actually makes a difference in customer’s decisions.”<sup>71</sup> Furthermore, CSR does not always protect a company from consumers encountering negative information about the company.<sup>72</sup> If consumers perceive the CSR strategy as a scam, the strategy can potentially cause more damage than good.

### 5.3 Arguments for and against CSR

There are countless arguments both in favor and opposition of CSR. Some of the most common arguments supporting CSR include the balance between corporate power and responsibility, discouragement of government regulations, long-term business profits, improved business value and reputation, and the possibility for a business to correct any social problems they may have caused.<sup>73</sup> While the arguments for CSR are numerous and reasonable, there are also several arguments against CSR, which include the fact that CSR decreases economic efficiency and profits, imposes unequal costs among competitors, and passes on

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<sup>70</sup> Minor & Morgan

<sup>71</sup> Servaes & Tamayo

<sup>72</sup> Eisingerich & Bhardwaj

<sup>73</sup> Lawrence & Webber

hidden costs to stockholders. CSR also requires skills that the business may not possess and, lastly, places responsibility on the business rather than on the individuals.<sup>74</sup>

An advocate against CSR is Nobel-Prize winning economist Milton Freidman. In his article, *The Social Responsibility of Business is to Increase Its Profits*, Freidman argues that the sole purpose of a corporation is to maximize shareholder value, and by focusing on CSR the corporation is distracted from its sole purpose. Freidman views CSR as a tax on shareholders, a tax that they have no influence over. Apart from the shareholders whose money is spent, Freidman also argues that CSR negatively affects the consumer and the employers,

*“In each of these cases, the corporate executive would be spending someone else’s money for a general social interest. Insofar as his actions in accord with this ‘social responsibility’ reduce returns to stockholders, he is spending their money. Insofar his actions raise the price to customers; he is spending the customer’s money. Insofar his actions lower the wages of some employees, he is spending their money.”<sup>75</sup>*

Freidman’s views are critical to a complete understanding of CSR and the effects of its implantation into the business environment. It is nevertheless important to note that Milton Freidman does not promote for a company to act as a bad corporate citizen. He simply states, “that single-minded profit maximization (allied with an

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<sup>74</sup> Ibid.

<sup>75</sup> Freidman, M.

appropriate framework of law) would be more likely to produce social good than exhortations that firms be socially responsible.”<sup>76</sup>

Many scholars do, however, still disagree with Freidman’s views and point out several counterarguments in support of CSR. Robert Almeder, for example, writes in his paper, *Morality in the Marketplace: Reflections on the Freidman Doctrine*, “... The corporate practice of dumping known carcinogens into rivers. On Milton Freidman’s view, we should not regulate or prevent such companies from dumping their effluents into the environment. Rather we should, if we like, tax the company after the effluents are in the water and then have the tax money used to clean up the environment.”<sup>77</sup> Knowing that several people may die as a result of the pollution, Almeder points out the immorality of this and compares it to murdering an innocent human being for money.<sup>78</sup>

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<sup>76</sup> Coleman, T.

<sup>77</sup> Almeder, R.

<sup>78</sup> Ibid.

## PART II

“... WE APPRECIATE THE IMPORTANCE OF A HEALTHY, CLEAN ENVIRONMENT TO OUR PRODUCTION AND FUTURE GROWTH AND WE REMAIN DEDICATED TO REDUCING OUR IMPACT ON THE ENVIRONMENT AND THE CLIMATE.”<sup>79</sup>

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<sup>79</sup> Carlsberg, 2014. *Carlsberg groups csr report 2013*.

## CHAPTER 6

### THE DANISH BREWERY CARLSBERG

#### 6.1 Company Background

Carlsberg is the fourth largest brewery in the world, employing over 40,000 people.<sup>80</sup> The brewery operates in three markets: Western Europe, Eastern Europe, and Asia, where it enjoys strong market positions. The company is present in the rest of the world, primarily through licensing and export agreements. Currently, Carlsberg has an extensive product portfolio consisting of more than 500 beer brands. In addition to the flagship brand, Carlsberg, which is one of the most well known brands throughout the world, Baltika, Tuborg and Kronenbourg are some of the biggest brands in Europe, and these also belong to Carlsberg.<sup>81</sup>

#### 6.2 Company Objectives and Strategies

Carlsberg's long-term goal is to be the fastest growing global brewer, as this will increase the value of the business and benefit both shareholders and stakeholders.<sup>82</sup> In 2012, the group updated their strategy as a result of the ongoing changes in the world, to make it more focused and action oriented. According to

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<sup>80</sup> Carlsberg. *Carlsberg group - carlsberg at a glance*

<sup>81</sup> Ibid.

<sup>82</sup> *ibid.*

Carlsberg, this new strategy will help the company meet the new challenges and opportunities that it is presented with. The Carlsberg strategy is “illustrated as a wheel with five closely linked core areas that set the direction for the whole Group.”<sup>83</sup> Each of the areas represented are equally important, and none can be disregarded if the brewery is to achieve their long-term goal of becoming the fastest growing global beer company. The wheel consists of the following five areas: Consumers, Brands and Innovation, People, Effectiveness and Efficiency, Society and Reputation, and Customers, and is displayed below:

**FIGURE 3. Carlsberg’s Strategy Wheel**



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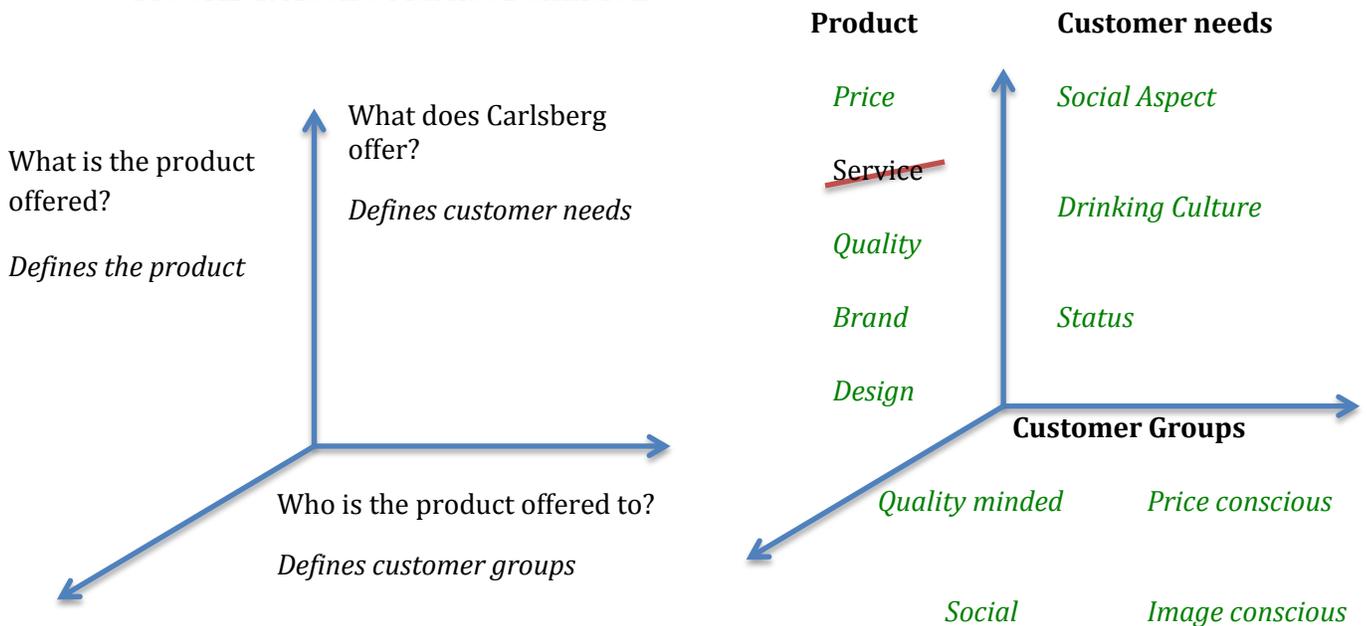
<sup>83</sup> Carlsberg. *Carlsberg group - strategy wheel*

<sup>84</sup> Ibid.

### 6.3 Market Definition and Strategic Positioning

To define the market in which Carlsberg operates, Abell's market definition will be used.<sup>85</sup> This market definition is a framework for analyzing the company's situation and its long-term strategic position. A survey was carried out to obtain a general idea of what consumers think about Carlsberg. The results were the following:

**FIGURE 4. Abell's Market Definition**



By use of the market definition, it can be seen that Carlsberg operates in a market where consumers are aware of quality, image, and price. The market is highly

<sup>85</sup> Moenaert, Robben & Gouw

associated with socialization, a drinking culture, and status.<sup>86</sup> The Carlsberg product is considered by consumers to have all aspects except for service. Furthermore, based on Porter's four generic strategies, Carlsberg is a premium product, perceived as a high value product by consumers who are often willing to pay a higher price for it.<sup>87</sup>

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<sup>86</sup> Euromonitor International, 2014

<sup>87</sup> Eilertsen, 2004

## CHAPTER 7

### CASE ANALYSIS OF CARLSBERG'S CORPORATE SOCIAL RESPONSIBILITY

#### *How Carlsberg carries out their corporate social responsibility*

Carlsberg focuses their sustainability initiatives across seven areas in their value chain. The areas are Environment, Responsible Drinking, Labor and Human Rights, Health and Safety, Business Ethics, Responsible Sourcing, and Community Engagement. The company deeply emphasizes Responsible Drinking, Sustainable Packaging, and Efficient Brewery.<sup>88</sup> The company also highlights how their approach to their CSR strategy has the benefit of “not only a reputational and risk-mitigating buffer but also a strategic driver for business opportunities and future value creation for the Carlsberg Group and society.”<sup>89</sup> The CSR areas that Carlsberg focuses on are displayed below in a diagram. The diagram illustrates that all areas of the CSR strategy are equally important if the company wants to have an overall successful strategy.

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<sup>88</sup> Carlsberg. Carlsberg group – csr at a glance

<sup>89</sup> Ibid.

**FIGURE 5. Carlsberg's CSR Strategy**



<sup>90</sup> Carlsberg, 2014. *Carlsberg groups csr report 2013*.

## 7.1 Components of Carlsberg's CSR

### 7.1.1 Environment

Carlsberg is continuously improving in regards to resource efficiency at production sites and general cost savings. The environmental area of the CSR-strategy consists of Energy and Emissions, Water, and Sustainable Packaging. The company developed a three-year target in 2011, which was met in terms of energy and CO<sub>2</sub> emissions; the water target, however, was not met. Nevertheless, the company continues to emphasize the importance of a clean environment stating:

*“The production of beer is dependent on a stable flow of raw materials sourced directly from nature. As such, we appreciate the importance of a healthy, clean environment to our production and future growth and we remain dedicated to reducing our impact on the environment and the climate.”<sup>91</sup>*

The company recently developed a new three-year target to continue its efforts towards being a sustainable brewer and three new programs have been implemented. First, the Efficient Brewery Program that will aid Carlsberg in achieving their 2016 targets consists of four initiatives: Utility Leadership, Technology Pioneer, Future Resources, and Waste to Energy<sup>92</sup>. Second, Carlsberg is entering into a partnership with UNIDO to carry out several projects. An example of such a project is the “field research station to study the impact of barley cultivation

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<sup>91</sup> Ibid. p. 9

<sup>92</sup> Ibid. p 19

and train farmers to reduce land cultivation.”<sup>93</sup> Third, the Sustainable Logistics Program, which consists of the following four initiatives: Fleet Performance, Logistics Excellence, Warehouse Infrastructure, and Collaboration and Partnerships, is in place to increase performance of Carlsberg’s fleet, build greener logistics and improve the environmental behavior of processes. These initiatives aim to create greener warehouses and to create opportunities for collaboration with customers and third parties to carry out environmental beneficiary projects.<sup>94</sup>

### 7.1.2 Responsible Sourcing

Carlsberg met its 2013 goals for responsible sourcing. The company is currently working on its 2014 commitment, the Responsible Supplier Initiative, which entails closing non-compliance incident reports that were found in 2013.<sup>95</sup> The initiatives comprise continuing to recruit suppliers in the responsible sourcing program and continuing to monitor and ensure that suppliers implement corrective actions when needed.<sup>96</sup> Carlsberg launched a new Responsible Sourcing Program, which will be completed in 2016. This program consists of three major initiatives: Responsible Supplier Initiative, Buying Better Barley, and Sustainable Packaging.<sup>97</sup>

### 7.1.3 Responsible Drinking

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<sup>93</sup> Ibid. p 15

<sup>94</sup> Ibid. 16

<sup>95</sup> Ibid. p. 19

<sup>96</sup> Ibid. p. 19

<sup>97</sup> Ibid. p. 19

By working together with private and public stakeholders, Carlsberg strives to “grow their business by promoting the responsible enjoyment of beer.”<sup>98</sup>

Carlsberg has used the following principles to promote responsible drinking: 1)

Encourage responsible consumption, 2) Prevent underage drinking, 3) Prevent

drinking and driving, 4) Discourage drinking during pregnancy, 5) Responsible

marketing. Carlsberg has taken several proactive steps towards their goal of

promoting responsible drinking. In 2012, the brewery, “together with seven other

wine, spirits, and beer producers... established Responsible Marketing Pact.”<sup>99</sup>

Carlsberg also launched the Drink with Respect campaign in July 2013 at the Danish

music festival, Roskilde Festival, where 135,000 people attended.<sup>100</sup> The Drink with

Respect tagline “reflects what responsible drinking is essentially about: having a

good time while respecting yourself, the people you are with, the moments you

share and the good memories you take with you.”<sup>101</sup> Some of the 2016 targets for

Carlsberg’s responsible drinking campaign include having all companies implement

at least one responsible drinking program, launch responsible retail guidelines, and

training 100% of relevant employees, through Carlsberg’s e-learning tool.<sup>102</sup>

#### 7.1.4 Health and Safety

Carlsberg has a benchmark for accidents at zero. Although the company strives to reduce and eliminate accidents, accidents are inevitable by nature. The main areas of focus of Carlsberg’s health and safety initiatives are the production

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<sup>98</sup> Ibid. p.21

<sup>99</sup> Ibid. p 22

<sup>100</sup> Ibid. p 24

<sup>101</sup> Ibid. p 22

<sup>102</sup> Ibid. p. 23

sites and logistics operations, as these account for 86% of accidents.<sup>103</sup> Carlsberg's lost-time accidents and days-lost rate has decreased by 29.3% over the past three years and all 2013 targets were reached.<sup>104</sup> The lost-time accidents and days-lost rate measures "occupational accidents resulting in employees taking a minimum of one day off work" and between 2010-2013 Carlsberg's lost-time accidents decreased from 233-145.<sup>105</sup><sup>106</sup> Carlsberg aims to be one of the best fast-moving consumer goods companies (FMGC) by 2020.<sup>107</sup> This is seen in their 2014 and 2016 goals. These goals aim to reduce accidents in Carlsberg by high percentages. Carlsberg employees will continue to be certified, a new three-year logistics plan will be implemented, and a strong safety culture is encouraged.

#### 7.1.5 Business Ethics

In order to fight corruption and make employees aware of how to deal with other ethical concerns of business such as conflicts of interest, misuse of company assets, wrongful donation, and breach of confidentiality, Carlsberg has issued its Business Ethics Policy.<sup>108</sup> This policy contains guidelines, an e-learning program, live training, third party screening procedures, and various other tools to help employees deal with business ethics concerns. The Business Ethics Policy is also integrated into the Leadership Competencies Program at Carlsberg to assure that management remains engaged and that Carlsberg complies with ethical standards.

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<sup>103</sup> Ibid. p 25

<sup>104</sup> Ibid. p 25

<sup>105</sup> Ibid. p 25.

<sup>106</sup> Ibid. p 40

<sup>107</sup> Ibid. p 27

<sup>108</sup> Ibid. p. 29

Carlsberg will have a zero tolerance policy on facilitation payments starting in 2014 and has a whistleblower system that is managed by an independent third party.<sup>109</sup> The company's target for 2016 is to "firmly root the Carlsberg Group Business Ethics Policy in [its] culture and place it at the heart of all business decision making."<sup>110</sup> Carlsberg is making progress towards this target as it, in between 2010-2013, has held nearly 700 sessions on the Business Ethics Policy and more than 22,000 employees have been trained.<sup>111</sup>

#### 7.1.6 Labor and Human Rights

Carlsberg's Labor and Human Rights Policy "is based on international conventions such as the United Nations Universal Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work."<sup>112</sup> The Carlsberg Group achieved all their labor and human rights targets for 2013 and has now set new targets for both 2015 and 2016. The main target is to increase the number of females in management positions. While Carlsberg's numbers of female employees are in line with the rest of the industry, the company has set a goal of having 40% females on its Supervisory Board by 2015, a 19% increase from current figures.<sup>113</sup>

#### 7.1.7 Community Engagement

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<sup>109</sup> Ibid. p. 30

<sup>110</sup> Ibid. p 30

<sup>111</sup> Ibid. p. 41

<sup>112</sup> Ibid. p 32

<sup>113</sup> Ibid. p. 32

In 2013, employees from Carlsberg invested more than 23,000 hours on community activities, and over the past four years Carlsberg employees have spent more than 100,000 hours on community projects.<sup>114</sup><sup>115</sup> Carlsberg's 2013 community engagement commitments of 1) developing a community engagement guidebook and impact evaluation and 2) advance community activities together with global NGOs were both reached.<sup>116</sup> The company now has 2014 commitments within the following four areas: sustainable packaging, responsible drinking, employee engagement, and compliance and implementation.<sup>117</sup> The commitments, which are to be reached in 2014, are milestones that the company should be able to fulfill for their 2016 targets. Some of the 2016 targets include implementing sustainable packaging and recycling projects and reaching at least one million young people with local education programs on underage drinking.<sup>118</sup>

The graph below illustrates Carlsberg's commitment to the different areas of the community engagement aspect of the company's CSR strategy.

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<sup>114</sup> Ibid. p 41

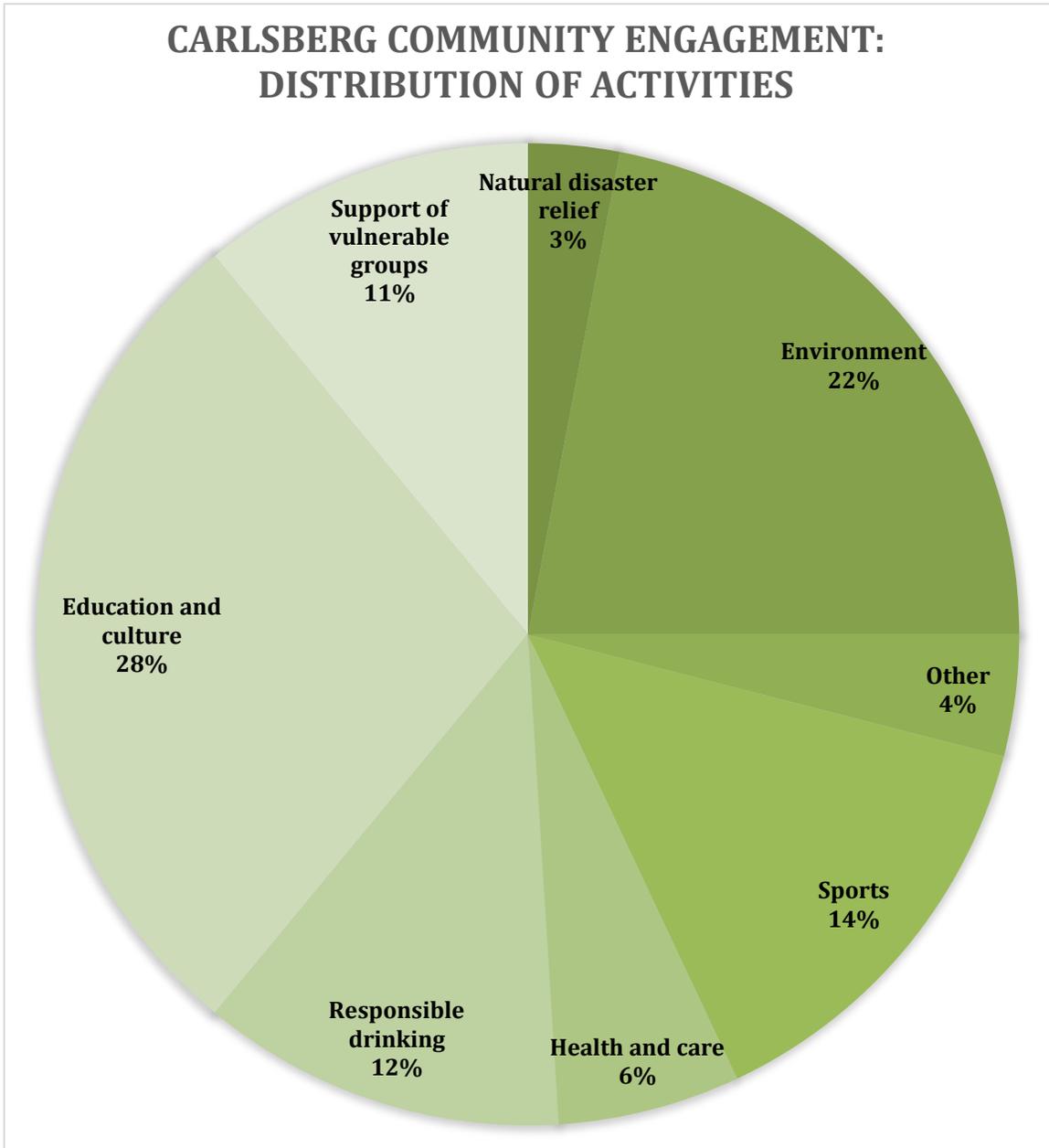
<sup>115</sup> Ibid. p. 35

<sup>116</sup> Ibid. p 35

<sup>117</sup> Ibid. p. 36

<sup>118</sup> Ibid. p 36

**FIGURE 6. Carlsberg's Community Engagement: Distribution of Activities**



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## 7.2 Social and legal conditions that affect Carlsberg's CSR

Carlsberg's CSR is affected by laws on a national, regional and international level. While some of the laws are required and easily enforceable, Carlsberg also

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<sup>119</sup> Ibid. p. 41

follows several supplemental recommendations and guidelines. Carlsberg takes into consideration the social condition within the markets it operates in. The Danish Health and Medicines Authority recommends that women drink less than 7 alcoholic beverages a week and men less than 10.<sup>120</sup> According to the Danish Health and Medicines Authority 20.6% of Danes drink more than the recommended drinks and 8.5% drink over 14 or 21, women and men respectively, a week.<sup>121</sup> The latest statistics on alcohol usage in Denmark show that every Dane over the age of 14 consumes on average 11.1 liters of 100% pure alcohol a year.<sup>122</sup> Carlsberg is addressing this through the responsible drinking area of the company's CSR strategy. Furthermore, the Danish government passed legislation to prevent excessive drinking and underage drinking.<sup>123</sup> While none of these laws directly affect Carlsberg, the responsible drinking aspects of their CSR strategy is a direct result of the circumstances.

The Danish Government recently established The Council on Corporate Social Responsibility. It is the Council's duty to recommend and advise the Danish government on priority CSR issues.<sup>124</sup> In 2009, the Council released a guide for Danish companies "reporting on corporate social responsibility – an introduction for supervisory and executive boards."<sup>125</sup> According to Mads Øvilsen, chairman of the Council on Corporate Social Responsibility, "the vision of the Danish Government's Action Plan on Corporate Social Responsibility is to make the Danish

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<sup>120</sup> Danish Health and Medicines Authority

<sup>121</sup> Danish Health and Medicines Authority, 2013

<sup>122</sup> Ibid.

<sup>123</sup> Danish Health and Medicines Authority, 2014

<sup>124</sup> Council on Corporate Social Responsibility, 2009. p. 3

<sup>125</sup> Ibid. p. 1

corporate sector internationally renowned for responsible growth.”<sup>126</sup> The Danish Government proposed requirements for CSR reporting under section 99a of the Danish Financial Statements Act. This legislative amendment affects 1,100 of the largest businesses in Denmark, which “must now give a report on their work on corporate social responsibility in their annual reports.”<sup>127</sup> The businesses must report on three items: 1) Policies on CSR, 2) Realization of policies into action and 3) Assessment of achievements resulting from the work.<sup>128</sup> This legislative amendment should not, however, be mistaken as a law that obligates companies to work on CSR. Rather it is in place to highlight Danish businesses’ achievements when it comes to CSR:

*It is important to point out that the act does not place businesses under an obligation to work on specific corporate social responsibility activities, let alone work on corporate social responsibility at all. The objective of the act is to ensure that Danish businesses become more open about their work on corporate social responsibility and better at communicating their efforts to ensure that they reap the optimum benefits from their work in the area.*<sup>129</sup>

The Danish government even provides businesses with various information and numerous tools for working and reporting on CSR. Some of these include CSRgov.dk,

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<sup>126</sup> Ibid. p. 3

<sup>127</sup> Ibid. p. 6

<sup>128</sup> Ibid. p. 6

<sup>129</sup> Ibid.

The CSR Compass, The Climate Compass, and the People and profits projects.

Carlsberg is obliged to follow the Council's guide for Danish companies.

On a regional level, Carlsberg is affected by the European Union because Denmark, along with most other Western European markets that Carlsberg operates within, is a member of the European Union. According to the European Commission "alcohol related harm is a major public health concern in the EU accountable for over 7% of all ill health and early deaths."<sup>130</sup> While the EU's alcohol strategy is not harmonized legislation, it addresses policies that have been put in place by various member states. The EU alcohol strategy outlines five priority themes: 1) protect young people, children and the unborn children, 2) reduce injuries and deaths from alcohol-related road traffic accidents, 3) prevent alcohol related harm among adults and reduce the negative impact on the workplace 4) inform, educate and raise awareness on the impact of harmful and hazardous alcohol consumption, and on appropriate consumption patterns, and 5) develop, support and maintain a common evidence base.<sup>131</sup> It was acknowledged in the first progress report on the implementation of the EU alcohol strategy that Denmark has taken action based on the recommendations in the strategy, and thus affects Carlsberg, especially the EU legislation regarding regulation of "excise duty rates for alcoholic beverages."<sup>132</sup><sup>133</sup>

Finally, on an international level, the United Nations has issued several declarations that concern Carlsberg's operations, not only in terms of alcohol policies but also on how they treat their workers. First, the United Nations' ten

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<sup>130</sup> European Commission - Public Health

<sup>131</sup> European Commission, 2006. An EU strategy to support Member States in reducing alcohol related harm

<sup>132</sup> European Commission, 2004. Taxation

<sup>133</sup> European Commission, 2009. First Progress Report

principles are based on several other declarations and conventions issued by the United Nations. In short, “the UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labor standards, the environment and anti-corruption.”<sup>134</sup> Furthermore, the UN Declaration of Human Rights, the UN Guiding Principles on Business and Human Rights, the UN Convention Against Corruption and the Rio Declaration on Environment and Development all influence the way Carlsberg operates their business. Aside from the United Nations, the International Labor Organization’s Declaration on Fundamental Principles and Rights at Work influences how Carlsberg treats their workers.

### 7.3 Carlsberg’s Financial Performance

Carlsberg’s financial statements as well as analyst estimates have been included in a five-year range for analysis and forecasting. The company’s P/E ratio has also been compared to other industry P/E ratios to see how the company is doing in comparison.

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<sup>134</sup> United Nations Global Compact

**FIGURE 7. Financial Analysis**

<b>Nykredit Markets Analysis</b>					
<b>Carlsberg</b>					
<b>Recommendation</b>	Underperform				
<b>Risk valuation</b>	Medium				
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Estimates 2014</b>	<b>Estimates 2015</b>
<b>Market value (USD mil)</b>	11400	15597	16893	15371	15371
<b>P/E</b>	11.5	15.3	15.8	13.3	11.8
<b>EBIT (USD mil)</b>	1812	1807	1794	1897	2051
<b>Dividend Yield (%)</b>	1.40%	1.10%	1%	1.80%	2.20%
<b>EPS (USD per share)</b>	6.48	6.70	7.01	7.57	8.56
<b>Dividend (USD per share)</b>	1.01	1.11	1.11	1.85	2.21

<sup>135</sup> (All numbers used in the financial analysis have been converted from DKK to USD based on NASDAQ currency rates on March 31, 2014. 1USD = 5.42DKK)

The Carlsberg stock is predicted to underperform in the coming quarter. This implies that Carlsberg is expected to perform slightly worse than the average market return.

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<sup>135</sup> Rasmussen

A potential reason that Carlsberg is valued as having a medium risk is due to the company's investments in Eastern Europe, especially in Ukraine and Russia. As the political environments are unstable currently, this could easily influence the risk valuation. As the Western European and Danish markets were the main focus of this thesis, it can be assumed that risk valuation for Carlsberg is lower.

Carlsberg's market value was at an all-time high in 2013, but is predicted to decrease in 2014 and 2015. It is, however, worth noting that although the market value is expected to decrease, it will still be near the same levels as it was in 2011 and 2012.

**FIGURE 8. P/E Ratios**

<b>P/E Ratios in the brewing industry</b>	<b>Estimated 2014</b>
<b>Carlsberg A/S</b>	13.3
<b>Molson Coors Brewing Company</b>	14.2 <sup>136</sup>
<b>SABMiller PLC</b>	19.08 <sup>137</sup>
<b>Heineken NV</b>	15.82 <sup>138</sup>

The P/E for Carlsberg has been steadily increasing over the past three years; however, it is expected to decrease in 2014 and 2015. By comparing its P/E to other companies in the industry, Carlsberg is falling behind.

Carlsberg's earnings before interest and taxes have remained stable over the past three years but are now expected to increase, similar to the dividend yield. The

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<sup>136</sup> NASDAQ, 2014

<sup>137</sup> Bloomberg SABMiller, 2014

<sup>138</sup> Bloomberg Heineken, 2014

dividend has also remained stable, but is expected to double, which makes it quite an attractive investment. The earnings per share has also remained stable and is expected to increase in the coming two years.

Although Carlsberg's financial performance is not directly linked to the company's CSR strategy, having a well-established CSR strategy in place helps a company become a more attractive investment.<sup>139</sup> Furthermore, it has been proven that consumers are more likely to switch to a brand known for doing good.<sup>140</sup>

#### 7.4 Benchmarking Carlsberg's Corporate Social Responsibility

Carlsberg's corporate social responsibility has, for the purpose of this thesis, been benchmarked to other beverage manufacturers, the Danish companies' average and Carlsberg's close competitors in the beer brewing industry. The following four categories have been measured: Community, Employees, Environment, and Governance. Each category consists of three sub categories. Community consists of Community Development and Philanthropy, Product, and Human Rights & Supply Chain. Employees consists of Compensation and Benefits, Diversity & Labor Rights, and Training, Health & Safety. Environment consists of Energy & Climate Change, Policy & Reporting, and Resource Management. Lastly, the Governance category consists of Board, Leadership Ethics, and Transparency & Reporting. The four categories show how Carlsberg compares to other beverage manufacturers, which includes 74 companies such as Coca-Cola, PepsiCo, Inc.,

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<sup>139</sup> Bhattacharya, S., & Sen, S.

<sup>140</sup> Ibid.

Anheuser-Busch and many more.<sup>141</sup> The Danish companies include 50 of the largest companies in Denmark, such as NovoNordisk, Lego, Coop Danmark, etc.<sup>142</sup> and the last benchmarking shows three of Carlsberg's closest competitors: Anheuser-Busch, Molson Coors Brewing Company, and Heineken.

The data results have been found by dividing CSR into 12 subcategories, which then make up the four categories of CSR. Once a company's CSR strategy is mapped into the CSR schema with twelve categories, each category is assigned a numerical value on a scale from 0-100. The scores are then compared to scores from different sets of data to analyze the differences between the scores and eliminate biases.<sup>143</sup> The graphs below illustrate the CSR ratings in the different CSR areas:

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<sup>141</sup> CSRHUB

<sup>142</sup> Ibid.

<sup>143</sup> Ibid.

**FIGURE 9. Benchmarking CSR: Governance**



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<sup>144</sup> Ibid.

**FIGURE 10. Benchmarking CSR: Community**

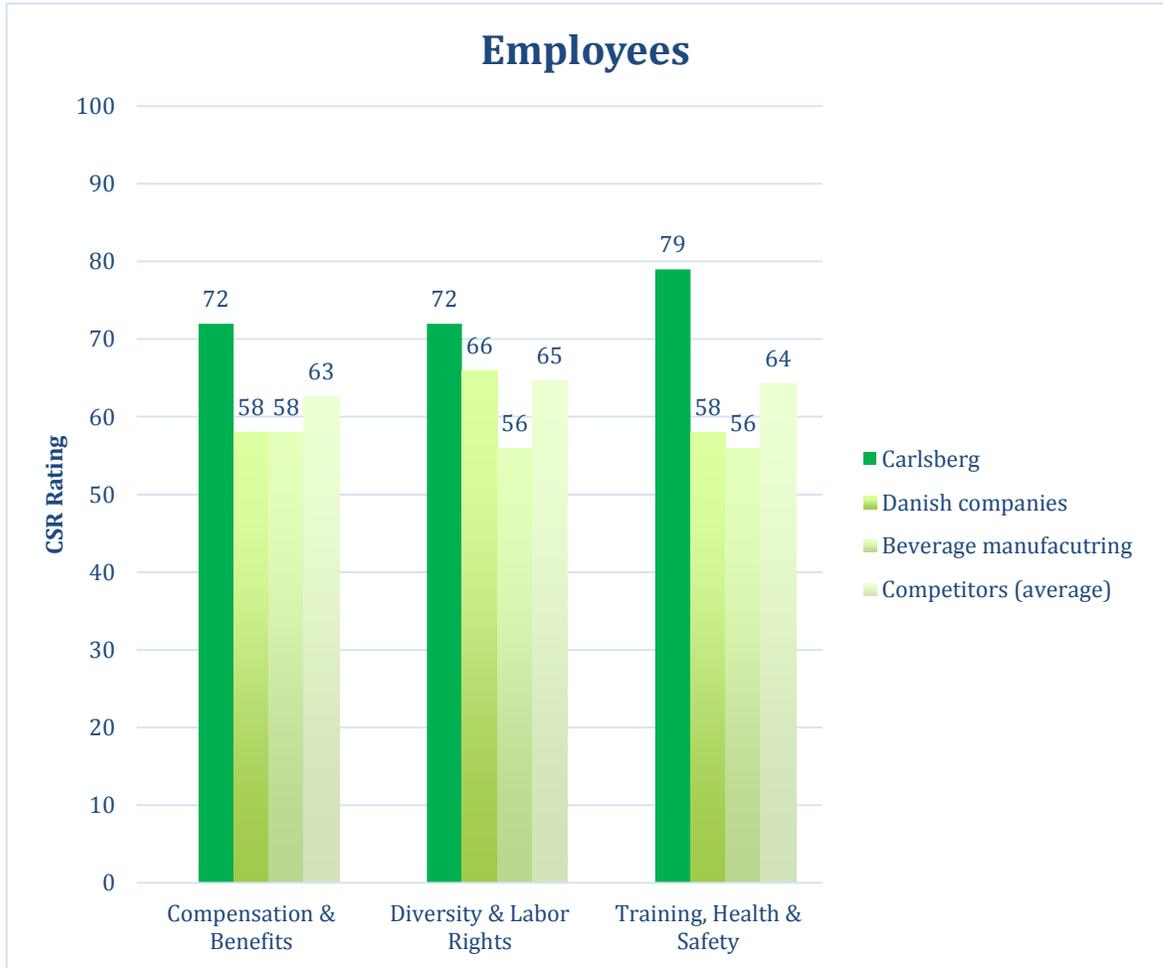


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<sup>145</sup> Ibid.

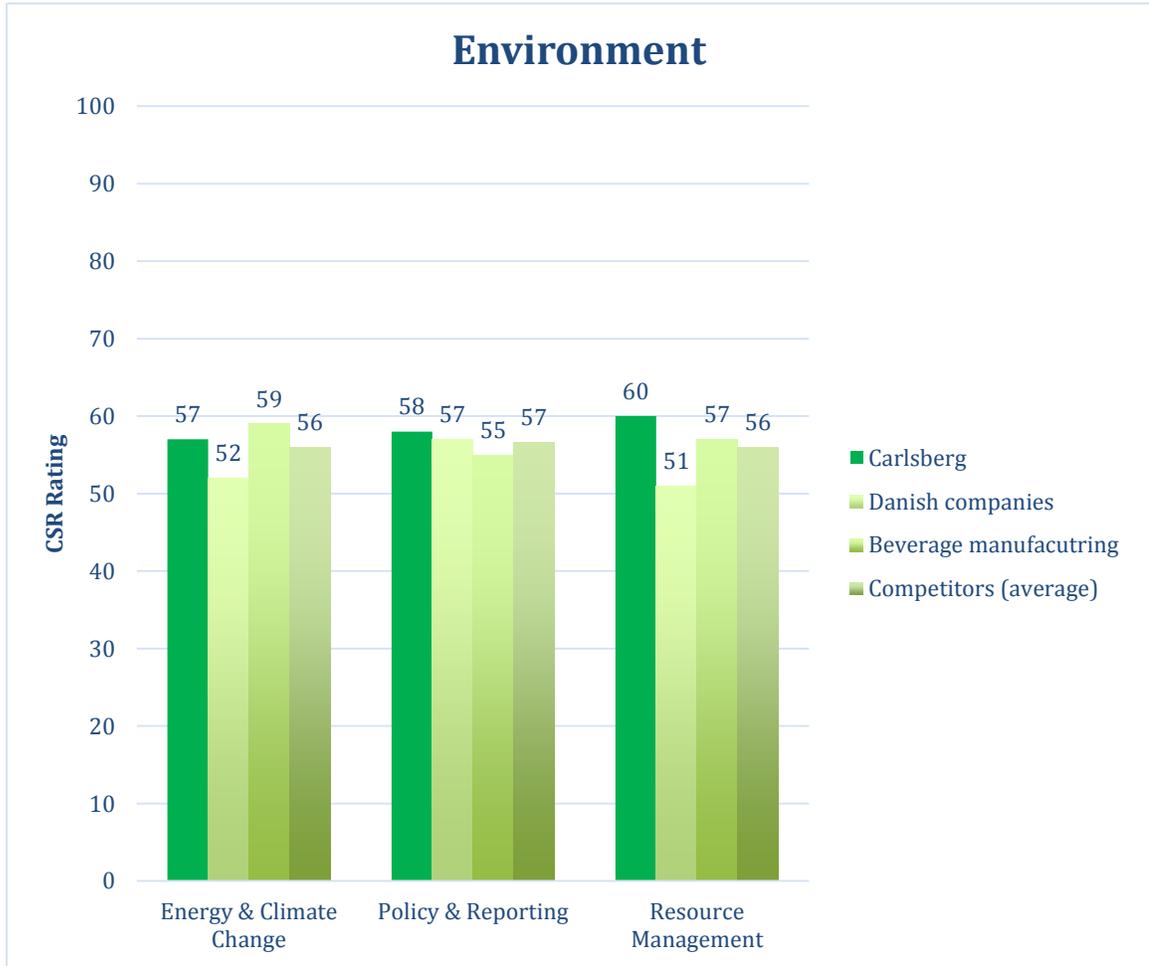
**FIGURE 11. Benchmarking CSR: Employees**



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<sup>146</sup> Ibid.

**FIGURE 12: Benchmarking CSR: Environment**



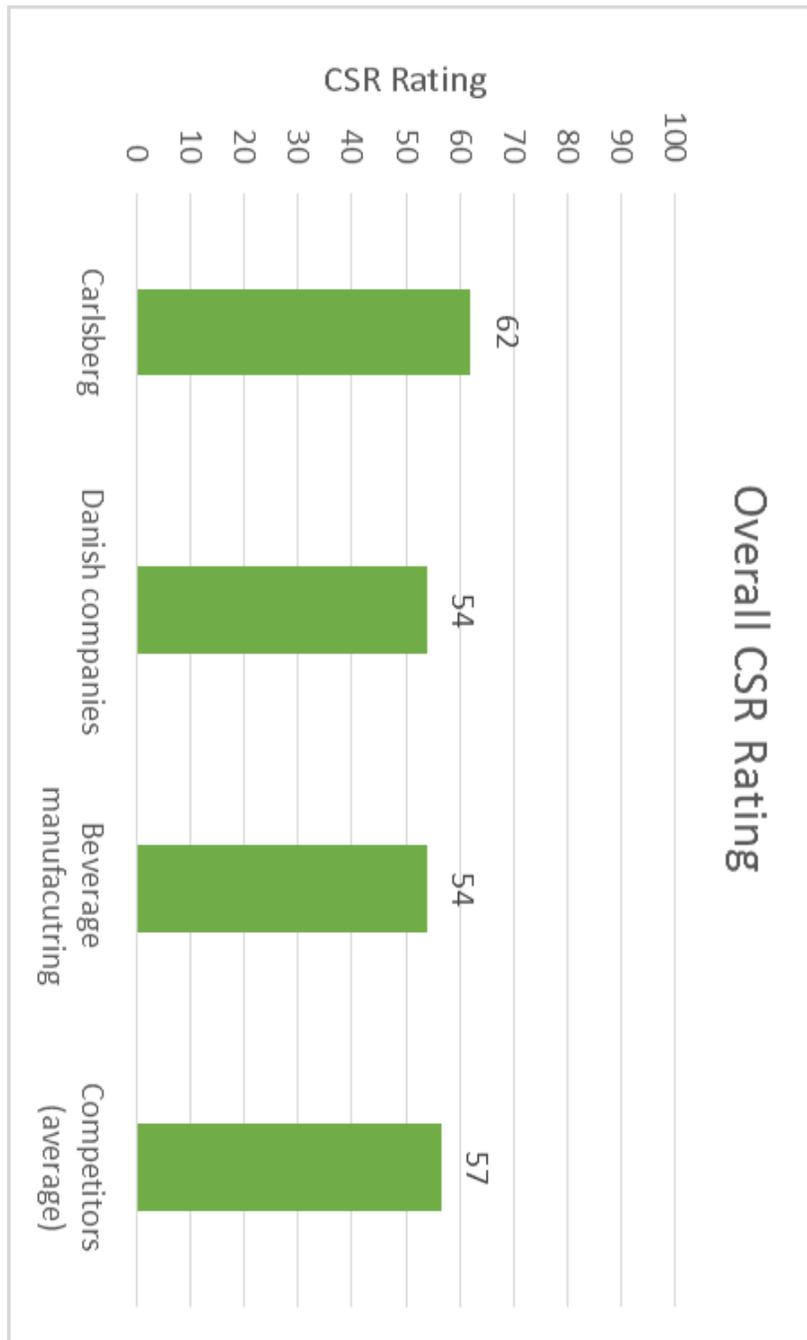
147

Based on this benchmark, Carlsberg is outperforming beverage companies, Danish companies and its three competitors in terms of CSR. A summary graph is displayed below:

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<sup>147</sup> Ibid.

**FIGURE 13: Overall CSR Ratings**



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<sup>148</sup> Ibid.

### PART III

“WE ARE COMMITTED TO IMPROVING OUR ENVIRONMENTAL AND SOCIAL FOOTPRINT... PROTECTING OUR REPUTATION AS A RESPONSIBLE BREWER WHILE INCREASING DEMAND FOR SUSTAINABLE SOURCING SOLUTIONS IN THE GLOBAL MARKETPLACE.”<sup>149</sup>

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<sup>149</sup> Carlsberg, 2014. *Carlsberg groups csr report 2013*.

## CHAPTER 8

### ANSWERING THE PROBLEM STATEMENT, ANALYSIS AND APPLICATION OF THE RESULTS

1. How does the company's strategic position in today's market affect their CSR strategy?

Carlsberg's long-term goal is to be the fastest growing global brewer in the world. In order to achieve this goal Carlsberg updated its strategy in 2012. The strategy now contains five closely linked areas that are, or can be, affected by its CSR strategy. Because Carlsberg is one of the largest breweries in the world, and one of the largest companies in Denmark, it is required by Danish law to submit a CSR report. The Danish law does not, however, require Carlsberg to pursue a CSR strategy. This choice to pursue a CSR strategy is the company's own decision.

Using Abell's market definition, it is apparent that consumers who drink Carlsberg beer are concerned with image, brand and status. By applying Porter's four generic strategies model to Carlsberg, it is evident that consumers perceive the company's beer as a premium product.

Carlsberg's CSR strategy consists of seven components. In terms of environmental initiative in their CSR strategy, Carlsberg is concerned with energy and emissions, water, and sustainable packaging. Carlsberg emphasizes the importance of a clean environment by noting that their production is heavily

reliable upon a stable flow of raw materials sourced directly from nature. Responsible sourcing is also important to Carlsberg. Recently, the company has increased its promotion of the responsible enjoyment of beer; it has established a responsible marketing pact and launched a Drink with Respect campaign. In terms of health and safety, Carlsberg has a benchmark at zero for accidents. In order to fight corruption and other business ethics concerns, Carlsberg has issued its Business Ethics Policy containing guidelines to help employees deal with business ethics concerns. The main goal of the labor and human rights components is to increase the number of females in management positions. Lastly, Carlsberg employees spent more than 23,000 hours on community activities in 2013.

Carlsberg also takes into consideration the social conditions in markets in which it operates. According to the Danish Health and Medicines Authority, 22.1% of Danes drink more than recommended by the health authorities. Furthermore, according to the European Union, over 7% of health problems and deaths are caused by alcohol. As a result of these high numbers both the Danish government and the EU have taken actions towards reducing the use of alcohol.

While Carlsberg's CSR is affected by its position in the market and the social and legal environments in which it operates, the company does more than is required both legally and ethically while being economically profitable. As a result of this the company can be placed in the center of Carroll's three-domain model of CSR. While only looking at the company's CSR strategy shows that they have in place an effective CSR strategy, this can also be seen by the benchmark carried in chapter 7, where Carlsberg is ahead of the industry, Danish companies and major competitors.

*2. What does the future, in terms of CSR and sustainability, entail for Carlsberg?*

On a regional level, the European Union has set the 20-20-20 goal of reducing greenhouse gases, and energy consumed and improving energy efficiency all by 20%. The EU has also added the 2030 framework and the 2050 roadmap for waste prevention. All of this will affect Carlsberg's CSR strategy, especially the environmental component.

In terms of legal requirements, alcohol is facing stronger legislative amendments to prevent excessive, harmful, and underage drinking. This will affect Carlsberg's CSR strategy and the company will most likely continue to improve its responsible drinking component in its CSR strategy.

Finally, the company itself continues to set goals and make commitments to improve its operations and to help better the societies in which it operates. Goals and commitments have been made within all seven components of the company's CSR strategy, and as soon as they are met, new targets will be set.

*3. Is the CSR strategy helping Carlsberg get ahead of its competition?*

The CSR strategy is one of Carlsberg's greatest competitive advantages. This can be explained and has been showed in the previous chapters of this thesis.

First, research shows that a CSR strategy is linked to improved image and reputation. It has also been shown that consumers are more likely to switch to

products that are associated with a good cause. Furthermore, being a good corporate citizen encourages consumers to become brand ambassadors and engage in advocacy behavior, such as word-of-mouth marketing. Other advantages that Carlsberg may gain from its CSR strategy include becoming an attractive workplace and investment as a result of strengthened stakeholder relationships.

By implementing a CSR strategy the company is protecting its reputation and building brand trust, helping Carlsberg maintain a competitive advantage. Finally, the company is ahead of its competition in terms of communicating its CSR to its stakeholders as a result of the Danish government's legislative amendment, which encourages Danish companies to be more open about their CSR work.

4. *What are the long-term competitive advantages of a CSR strategy and how profitable will these prove to be for Carlsberg?*

The long term competitive advantages that Carlsberg attains from its CSR strategy are improved image and reputation, the potential to gain more customers, the potential of obtaining brand ambassadors, becoming an attractive work place, an attractive investment and improving and strengthening stakeholder relationships. While Carlsberg's competitors have CSR strategies as well, Carlsberg has continued to improve their CSR for years and therefore has a dependable CSR strategy.

5. *“How does Carlsberg market its CSR strategy, and does the CSR strategy contribute to the company’s success as well as provide long term competitive advantages for Carlsberg?”*

Carlsberg issues a CSR report as required by Danish legislation. The company is present at social events, including music festivals and sporting events, where they encourage responsible drinking. By having employees spend considerable time on numerous community projects the company also markets their CSR. As the CSR strategy is helping the company improve its competitive differentiation and advantage in the industry, it is therefore very likely that the CSR strategy is contributing to the company’s success. The current competitive advantage can be sustainable and lead to long-term competitive advantages for Carlsberg in terms of positive stakeholder relationships, future investors, consumers, and increased brand loyalty and brand ambassadors.

## CHAPTER 9

### MANAGERIAL IMPLICATIONS, CONCLUSION, AND RECOMMENDATIONS

#### 9.1 Managerial Implications

Based on the findings in the case study and by answering the problem statement and sub questions this paper recommends that managers think of CSR as a competitive advantage and an investment. More investors are interested in companies that not only meet their financial responsibilities but that are also concerned with the social aspects of the business. Furthermore, if implemented correctly, a CSR strategy can improve a corporation's reputation, competitiveness and relationship with stakeholders, which, in turn, makes the company an attractive investment.

It has also been illustrated that, quality and price being equal, consumers are likely to switch to brands that have in place a good CSR strategy. Additionally, the company's reputation improves as consumers become brand ambassadors and this further provides the company with opportunities for word-of-mouth marketing.

Finally, a company with a good CSR strategy is also regarded as a more attractive workplace and hence can improve its efficiency by regarding the CSR strategy as a competitive internal resource as well.

## 9.2 Conclusion

Carlsberg is required by Danish law to report on its CSR efforts. Furthering this, EU and UN guidelines and principles affect the company's operations. Carlsberg has, however, also taken steps to do more than what is expected and required of the company while being economically profitable, and hence it can be placed in the center of Carroll's three-domain approach to CSR. The company has implemented an effective CSR strategy, and continues to set new goals to further improve.

While the CSR strategy does not directly affect the company's financial performance, Carlsberg outperforms others in the industry, the Danish company average and its main three competitors in terms of CSR. This helps the company become more competitive, gain a better reputation, become a more attractive investment, employer and gain customers. It can therefore be said that the CSR strategy is one of Carlsberg's competitive advantages.

## 9.3 Recommendations

This paper will sum up its findings in a SWOT table, and then use this to perform a TOWS with recommendations for how the company can combine their strengths, weaknesses, opportunities and threats to become more competitive and gain a stronger competitive advantage. The recommendations are displayed in the table below:

**FIGURE 14. SWOT & TOWS**

	<p><i>Strengths</i></p> <p>CSR strategy is a competitive advantage</p> <p>Carlsberg is one of the best in terms of CSR<sup>150</sup></p> <p>CSR is making Carlsberg an attractive workplace</p> <p>CSR is making Carlsberg an attractive investment</p>	<p><i>Weaknesses</i></p> <p>Carlsberg is no longer the most efficient brewery in the world<sup>151</sup></p> <p>Strong competition in the industry.</p> <p>Lowest P/E in industry</p>
<p><i>Opportunities</i></p> <p>Market CSR strategy to consumers and potential investors</p> <p>Use CSR strategy to increase competitiveness</p> <p>As a premium products Carlsberg can sell its product to a higher paying market</p>	<p><i>Use CSR strategy as a competitive advantage, to gain consumers and potential investors in order to increase competitiveness.</i></p>	<p><i>Focus on marketing CSR strategy to consumers and investors.</i></p>
<p><i>Threats</i></p> <p>Companies are expected to have a CSR strategy - hard to differentiate based on a CSR strategy</p> <p>Increased legislation is being passed on alcohol</p> <p>Having a CSR strategy can be costly and result in negative ROI<sup>152</sup></p>	<p><i>Continue to improve CSR strategy and remain ahead of competition to maintain competitive advantage based on CSR</i></p>	<p><i>Strive to meet the goals set forth in CSR report, at the least make sure to be updated on legislation regarding alcohol and keep up with competition</i></p>

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<sup>150</sup> CSRHUB  
<sup>151</sup> SABMiller  
<sup>152</sup> Geuss

#### 9.4 Future Research

This study suggests that future research in the area of CSR should focus on finding a correlation between an effective CSR strategy and a company's financial performance. Furthermore, quantitative studies in terms of consumer preferences towards companies with CSR strategies would add the CSR research. Lastly, a horizontal study of Carlsberg would be useful to see the impact the company's CSR strategy has on the company over time.

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APENDIX

CARLSBERG QUESTIONNAIRE

*Please circle all answers that apply*

**WHAT GENDER ARE YOU?**

FEMALE

MALE

**WHICH AGE GROUP ARE YOU IN?**

20-30

31-40

41-50

51-60

61-70

71-80

**WHY DO YOU PURCHASE CARLSBERG?**

PRICE

SERVICE

QUALITY

BRAND

DESIGN

**WHAT MATTERS TO YOU WHEN YOU PURCHASE A BEER?**

SOCIAL ASPECT

CULTURE

STATUS

**WHICH ASPECTS BEST DESCRIBE YOU AS A CONSUMER OF BEER?**

QUALITY

PRICE

SOCIAL

IMAGE

**WHICH ASPECTS ARE IMPORTANT TO YOU WHEN PURCHASING BEER?**

PRICE

SERVICE

QUALITY

BRAND

DESIGN

**IS IT IMPORTANT TO YOU THAT CARLSBERG IS A DANISH BRAND?**

YES

NO

## Carlsberg response regarding water pollution in Gansu, China

13 April 2007

*Carlsberg sent the following statement to the Business & Human Rights Resource Centre in response to the report by Jongo News regarding water pollution by a brewery partially owned by Carlsberg in Gansu, China:*

*“Carlsberg beer factory pollutes water in Gansu”, 9 April 2007:  
<http://www.jongonews.com/articles/07/0409/11787/MTE3ODcRoc7eqL2.html>*

### A few comments to clarify the case:

- Carlsberg is a 30% shareholder in the brewery
- We entered as a shareholder in late 2004
- We raised the water pollution issue immediately and it was formally decided on Board level in 2005 to start an improvement project
- This in full cooperation with local authorities and discussions about funding and timing took place
- The actual construction of the waste water treatment plant started in 2006
- 2/3 is paid by the brewery/JV and 1/3 paid by local authorities/government (total amount around 4m RMB) – we were pleased with this support from local authorities
- **The waste water treatment plant starts operating next week!**

We are sorry about the timing in this case – we have actually tried and hoped to get the waste water treatment plant in place in 2006. On the other hand, we are very happy it opens next week.

Carlsberg is very concerned with environmental protection and do all our best to make improvements in this area. We are very committed to West China as a region where we are involved in 19 breweries and we do everything we can to be good corporate citizens as well as good business partners

Soren Ravn

Vice President - Greater China

Supply Chain, HR & Business Development

Carlsberg Brewery Hong Kong Limited