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Shareholder-first Ideology vs. Stakeholder Model: A Comparative Financial Analysis of Heineken and its Rivals, 2002-2018

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Abstract

There is currently a major debate occurring over which corporate-governance ideology is best for businesses to follow. Since the 1970s, listed firms have largely adhered to the shareholder-first ideology of Milton Friedman, which states that the main purpose of a corporation is to maximise shareholder value. However, in 2019 the Business Roundtable officially ended its support for the Friedman doctrine and instead embraced the stakeholder model, according to which a corporation must create value for all its stakeholders. This decision reinvigorated the decades-long debate over which of the two ideologies is better and is also the inspiration for my thesis. My research focus is: how effective is the stakeholder model compared to the shareholder-first ideology? Is the stakeholder model's long-term approach better than the short-term focus to maximise shareholder value? To answer these questions and contribute to the debate, my thesis examines the unique stakeholder model of Heineken. More specifically, I have conducted a comparative financial analysis of the Dutch brewer and its main rivals, Anheuser-Busch Inbev and Carlsberg, in the period 2002-2018. The key performance indicators used – earnings before interest, tax, depreciation, and amortisation (EBITDA), operating profit, and growth of share prices – demonstrate that Heineken's global-growth strategy (acquisitions in key developing markets) has produced sizeable economic returns over the 16-year period that Charlene Heineken has been owner. My financial analysis demonstrates that between 2004 and 2018, Heineken's EBITDA has grown by 150%. During the period 2002-2018, the Dutch brewer's operating profit has increased by 202% and its share price has more than doubled (109% increase). This strong financial growth - resulting from Heineken's global strategy - is evidence that the stakeholder model can enable a family firm to choose independence amid industry consolidation and competitively create significant shareholder value over the long term. This thesis also demonstrates that during the period 2002-2018, the Heineken corporation has successfully synthesised family control with professional management in order to maximise the effectiveness of its strategy. The Dutch brewer can thus be viewed as "mixed firm" rather than a traditional "family firm".

Introduction

Since the 1970s, the business world has been dominated by the ideology that the main purpose of a corporation is to maximise shareholder value during every financial quarter. This shareholder-first model runs counter to the principles of the stakeholder model, which states that a company must be managed with the long-term vision of benefiting all stakeholders: employees, business partners, and investors. Until quite recently, the shareholder-first ideology was officially recognised as the leading business-management strategy. However, in 2019 the Business Roundtable scrapped the shareholder-first ideology in favour of the more-inclusive stakeholder model after it was determined that shareholder capitalism has done more harm than good over the past 40 years, especially in terms of undermining the ability of corporations to retain earnings for long-term investments.

With my thesis I seek to contribute to this debate over corporate governance by presenting a case-study analysis of the global brewing industry's top players. More specifically, I will analyse the financial results of Heineken's tailored stakeholder model, based on a unique blend of family ownership and professional management, during the period 2002-2018. I have done this by comparing the operational profitability and share-price growth of the Dutch brewer to that of Belgian rival Anheuser-Busch Inbev and Denmark's Carlsberg Group.

The structure of my thesis goes as follows. Chapter I presents the theoretical framework and relevance of two ongoing academic debates within the field of Business History to which I wish to contribute. The first debate is the shareholder-first ideology versus the stakeholder model, and the second one focuses on family firms versus companies employing professional management. The first debate is hugely relevant today due to the 2019 decision of the Business Roundtable to end its support for the shareholder-first ideology of corporate governance. The second debate, concerning the effectiveness of family business ownership and the reliance on professional salaried managers, has been getting growing attention since the work of business historian Alfred D. Chandler Jr. in the 1970s. However, it is still a relatively young and growing branch of Business History to which I wish to contribute by specifically examining the unique ownership structure of Heineken: family ownership assisted by professional management. Chapter II covers Heineken's strategy for long-term growth in the following developing markets: Russia, Latin America (mainly Mexico and Brazil), Nigeria, and India. These beer markets are some of the most important in the world and they have been the main driver of Heineken's growth in operating profit and share price during the period 2002-2018. While this topic has been covered in Chapter 7 of "Brewery, Brand, and Family: 150 Years of Heineken" (2014) by Sluyterman and Bram Bouwens, their research only examines the period 2002-2012. My thesis is an original contribution to the topic of Heineken's global expansion as my research covers the period 2002-2018 and is based on primary sources such as press releases, annual reports, and interviews which have not been included in the history book. Furthermore, my research on Heineken's growth in developing markets is more detailed and quantitative and thus adds a financial-analytical component. Therefore, this thesis should be viewed as an original academic contribution to the corporate history of Heineken.

Finally, Chapter III includes the comparative financial analysis of Heineken and its rivals, AB Inbev and Carlsberg, in the period 2002-2018. I have used three different key financial-performance indicators (KPIs) to conduct this comparative analysis focused on growth in operational profit and share price. The chapter reveals that Heineken's unique stakeholder model and commitment to its existing ownership structure (a mixture of family ownership and professional management) have produced strong financial results to the benefit of long-term shareholders.

Chapter I – Theoretical Framework & Academic Relevance

Since the 1970s, the business world has largely adhered to the shareholder-first ideology (aka shareholder capitalism). This corporate-governance ideology is also referred to as the Friedman doctrine as it was pioneered by the economist Milton Friedman. In his New York Times article "The Social Responsibility of Business is to Increase its Profits" (1970), Friedman argues that publicly owned corporations have the sole social responsibility of fully serving the interests of shareholders by maximising profits and stock dividends. He believes a corporation must fully devote all of its resources to achieving this goal within legal means.[1] Online finance-education platform Investopedia defines "shareholder value" as the value created for the equity owners of a corporation by management's ability to increase sales, earnings, and free cash flow, which in turn raises the dividends and capital gains for the shareholders.[2] The corporation does not have a "social conscience" and must not pursue goals outside of maximising shareholder value, according to Friedman.[3]

The Friedman doctrine is hugely popular yet also hotly debated as shareholder primacy does not necessarily produce sufficient value for the other stakeholders. Ultimately, corporate executives and financial managers are not bound by law to maximise returns for investors ahead of other corporate objectives. The shareholder-first ideology is therefore a strategic choice and not a legal obligation.[4] Nonetheless, it was adopted and promoted as the leading corporate-governance ideology by the Business Roundtable (BRT), an association comprising the chief executive officers (CEOs) of some of America's biggest corporations. Since 1997, the BRT has fully endorsed Friedman's principles of shareholder primacy. In its 1997 statement on corporate governance, the BRT explained:

> "the principal objective of a business enterprise is to generate economic returns to its owners. ... the paramount duty of management and of boards of directors is to the corporation's stockholders... The notion that the board must somehow balance the interests of stockholders against the interests of other stakeholders fundamentally misconstrues the role of directors."[5]

After two decades of promoting the Friedman doctrine, the Business Roundtable has recently made a complete reversal on its position. In 2019, the BRT officially announced it is scrapping the shareholder-first ideology in favour of the seemingly more balanced stakeholder model. The organisation said its new "Statement on the Purpose of a Corporation" supersedes all previous statements and outlines a new standard for corporate responsibility. The 181 chief executives who signed the document

[1] Friedman, "The Social Responsibility of Business".
[2] Investopedia, "Shareholder Value".
[3] Friedman, "The Social Responsibility of Business".
[4] Investopedia, "Shareholder Value".
[5] Business Roundtable, "Statement on Corporate Governance" (1997), 1-3.

committed to delivering value to all stakeholders by dealing ethically with suppliers, embracing sustainable business practices to protect the environment, and generating long-term value for shareholders.[6] What explains this complete change of heart?

Ongoing research into the effectiveness of investor capitalism has revealed that fully committing to the shareholder-first ideology has had various harmful consequences. According to a 2017 report by the New Economics Foundation, the ceaseless drive to maximise short-term shareholder returns has actively undermined the ability of listed corporations to reinvest their own profits for long-term growth. Corporate governance based on this model has transformed the stock market into a vehicle for extracting value from companies and shares are seen as paper assets for short-term trading rather than long-term business investments.[7] Regarding the undermining of long-term productive investments in order to maximise shareholder value in the short term via dividend payments and share buybacks, there is evidence that the shareholder model is guilty of this. Research led by John Graham has revealed that 78% of 400 corporate executives interviewed on their business strategies admitted to consciously sacrificing long-term value due to pressure from financial analysts and investors to deliver smooth short-term shareholder earnings. Also, the surveyed managers admitted that safeguarding their own careers in the corporate world is also a motivating factor to meet investor expectations for the upcoming financial quarter.[8]

The second academic debate relating to my thesis is the one regarding family firms and managerial companies. This Business History debate emerged in 1977 when Chandler's "The Visible Hand" put forth the notion that, in essence, modern business enterprises containing several distinct operating units managed by a hierarchy of salaried professional executives are superior to traditional family firms in terms of organisational efficiency and operational profitability.[9] The research of Bloom, Sadun, and Reenen (2011) has identified three main problems which can arise in family firms due to family succession.[10] Firstly, narrowing the CEO selection exclusively to family members greatly restricts the talent pool of potential business managers as it is an unlikely coincidence that the most qualified person for the job is a family member. Secondly, it is possible for family members who already know they are guaranteed to inherit the firm to lose the motivation to acquire the best possible education and skills to perform the managerial role. This directly relates to the third problem: guaranteed family

[6] Business Roundtable, "Statement on the Purpose of a Corporation" (2019).
[7] New Economics Foundation, "Shareholder Capitalism", iii-iv.
[8] Graham, "The economic implications of corporate financial reporting", 5-6.
[9] Chandler, "The Visible Hand", 1-3.
[10] Bloom et al., "Family Firms Need Professional Management".

inheritance and a lack of meritocratic hierarchy in the firm can also demotivate talented managers (who are not family members) from working to their highest potential as the top positions are already reserved for the owner's children. These business historians argue that family firms can avoid these problems and improve their business performance by at least considering the employment of outside professional managers instead of simply relying on primogeniture (the right of succession automatically belonging to the firstborn child).[11]

Of course, not all business historians believe that family firms are inferior by default. In his book on "family capitalism", James (2006) argues that family business ownership has the advantage of being visible and identifiable, in contrast to the anonymous financial capitalism which is comprised of listed corporations owned by numerous faceless investors.[12] Furthermore, family ownership has the potential of providing various stakeholders with a guarantee of continuity and higher levels of commitment to the business. This in turn can motivate the performances of stakeholders such as managers and workers more than the constant uncertainty which necessarily exists when faceless investors are owners and can quit the business whenever they want. Indeed, there is evidence that family businesses have adapted to the demands of financial capitalism by developing "professional ownership" where family members develop their business abilities in order to exercise more effective control. Therefore, professional family ownership, characterized by the potential for long-term vision and responsible conduct, can be viewed as an alternative to the shareholder-first model which became popular in the 1990s and led to the "Americanisation" of business governance.[13]

Colli and Rose (2009) also argue against the Chandlerian position that family firms have traditionally proven to be inferior to companies employing professional management.[14] According to them, historical evidence does not support Chandler's notion that the managerial corporation is more efficient than the family corporation. Family firms, especially European ones, have proven themselves to be far more resilient and capable than originally proposed. In fact, historical research reveals that family firms have played an important part in modern economies and continue to do so.[15] This debate within the field of Business History has reached a synthesis, which acknowledges that family firms are an enduring historical factor but the most successful ones have incorporated elements of professional management as well. The research of Caspar, Dias, and Elstrodt (2010) reveals that family businesses which have experienced enduring success possess five dimensions: (1) harmonious relations within the

[11] Ibid.
[12] James, "Family Capitalism", 5.
[13] Ibid., 6.
[14] Colli and Rose, "Family Business".
[15] Colli and Rose, "Family Business", 201-202.

family and a clear understanding of how it should be involved with the business, (2) an ownership structure that allows the family to attract sufficient capital for growth while still controlling key parts of the business, (3) strong corporate governance, (4) professional management of the family's wealth, and (5) charitable efforts to promote family values across generations.[16]

Chapter II – Heineken's global strategy for long-term growth: 2002-2018

In 2002, Heineken opened a new chapter in its corporate history with the death of Freddy Heineken and the decision of his daughter Charlene Heineken to take over the family business without any prior management experience. This generational transfer of ownership coincided with the massive consolidation of the global brewing industry, which has also been referred to as the "dance of the elephants" due to the vast number of mergers and acquisitions carried out by the top players.[17] As I have already pointed out in the introduction, this chapter has slight overlap with Chapter 7 of Sluyterman and Bouwens's Heineken book. However, my research is more quantitative, focuses only on key developing markets, and covers a wider period (2002-2018). The primary sources I have selected (press releases, interviews, and annual reports), combined with the market data and new acquisitions I have analysed, all provide greater insight into some of Heineken's main beer markets: Russia, Latin America (Brazil and Mexico), Nigeria, and India. Therefore, my thesis should be read as a contribution and continuation to the efforts of fellow business historians Sluyterman and Bouwen.

Before I turn to Heineken's ownership structure and global-growth strategy, I want to present the Dutch brewer's main rival. Anheuser-Busch Inbev, driven by the desire to expand its global market share and maximise profitability, has pursued the biggest deals of the consolidation wave which has swept the brewing industry over the past two decades. In 2004, Belgium's Interbrew acquired Brazilian rival Ambev to create the global leader Inbev. Then in 2008 the mega-merger between America's largest brewer Anheuser-Busch and Inbev created AB Inbev, a brewing giant holding around 26% of the global beer market. Eight years later, the two biggest brewers in the world, AB Inbev and SABMiller, merged in a record-breaking deal worth over USD 100 billion to create the current market leader Anheuser-Busch InBev SA/NV. This brewing behemoth held over 27% of the global beer market in 2016 through a portfolio including brands such as Budweiser, Corona, and Stella Artois. This series of mega-mergers is a quintessential example of Trautwein's monopoly theory, which states that a corporation

[16] Caspar, Dias, and Elstrodt, "The five attributes of enduring family businesses".
[17] Sluyterman, "Brewery, brand, and family", 452.

plans and executes mergers and acquisitions to achieve market power. The acquirer aims to maximise the value it can generate from the markets in which it operates while simultaneously limiting competition by deterring potential new entrants.[18] In a 2016 press release, AB Inbev's management explained they pursued the SABMiller merger in order to boost gross sales and increase shareholder value by creating a stronger presence in key emerging regions with attractive growth prospects, such as Africa and Latin America.[19] This is the exact same strategy Charlene Heineken and her management team adopted at the start of the twenty-first century: the main difference is that the Heineken family has pursued and structured acquisitions in such a way as to always retain control over the Dutch brewing group.

Since the passing of Freddy Heineken in 2002, his daughter Charlene de Carvalho-Heineken ("Charlene Heineken") has been managing the Heineken group after inheriting her father's 25% controlling interest. Charlene Heineken runs the brewing giant alongside her husband Michel de Carvalho, who is currently a member of the corporation's supervisory board. In essence, the Heineken family retains a controlling interest in the Dutch brewing giant via a tiered holding structure. Charlene Heineken and her husband own 88.86% of investment vehicle L'Arche Green NV, which in turn holds 52.599% of Heineken Holding NV. That holding company controls a 50.005% stake in the Amsterdam-based brewer Heineken NV and as the main shareholder has the purpose of supervising corporate management. The Heineken family thus currently holds roughly a 23% controlling economic interest in the Heineken group (Heineken NV and Heineken Holding) and has ultimate decision-making power.[20] During the period 2002-2018, Charlene Heineken and her management team have been following a global-growth strategy based on acquisitions in key developing markets with the goal of generating long-term value. A non-negotiable component of this strategy has been Charlene Heineken's desire to retain family ownership over the Heineken group throughout this corporate. Expansion.

As part of this strategy, Heineken identified Russia as a key market due to its large population and strong culture of alcohol consumption. The Dutch multinational already had a brewery in St. Petersburg but needed to expand its presence in order to capture maximum value from the yearly increases in beer consumption that were predicted for the Russian market. To achieve this goal, Heineken used its cash reserves to fund the acquisition of two breweries in the Ural region in 2004: the Shikhan Brewery in Sterlitamak and the Volga Brewery in Nizhny Novgorod. According to a 2004 press

[18] Trautwein, "Merger motives", 285-286.
[19] AB Inbev, "Anheuser-Busch InBev Announces Completion of Combination with SABMiller".
[20] Heineken, "Ownership Structure".

release, the takeover was justified as "value enhancing" on a net-present value (NPV) basis, meaning that future cash flows from this investment would cover the costs and turn a profit over time. This was due to the fact that the acquisition transformed Heineken into the third largest beer player in Russia holding over 7% of the market. At the time, Russia was the fifth largest beer market in the world and Heineken's management expected it to grow sizeably over time.[21] In the 2004 press release, Jean-Francois van Boxmeer (at the time a member of Heineken's executive board) further explained the strategic rationale of the deal:

> "These acquisitions extend our presence and participation in one of the world's largest and rapidly growing beer markets. I firmly believe… we will drive significant growth and value from both these businesses and the Russian market in the coming years."[22]

The acquisition of the two breweries was quickly followed up by the takeover of Patra brewery in Russia in 2005. Heineken again used its cash reserves to buy this new brewery also located in the fast-growing Ural region, which at the time accounted for 17% of Russia's beer market. The acquisition increased Heineken's total market share to 8.3% from 7% and consolidated the Dutch brewer's number three position in Russia. In the 2005 annual report, newly appointed CEO van Boxmeer further elaborated on the importance of the Russian beer market for Heineken's future growth:

> "Global consolidation and investing to meet the challenges with which we are faced require us to make choices. This is why our… priority is to focus on those markets where we believe we can win. We have clearly signalled our intent in Russia… [which] is now our single biggest market by volume… and we are in a strong number 3 position. Russia remains a reliable growth platform and is one of the most promising beer markets in the world."[23]

In order to keep pace with the industry consolidation led by AB Inbev, Heineken deemed it crucially important to also focus on expanding its market presence in Latin America. The continent was considered a priority beer market which would enable the Dutch brewing group to compensate for the slowing growth it was experiencing on the other side of the Atlantic Ocean: the large and wealthy European market had a strong beer-drinking culture but was shifting demographically due to falling birth-rates and an ageing population. Just like the strategic acquisition of breweries in Russia, Heineken wanted to pursue a takeover which would allow it to tap into immediate growth in Latin America and place the Dutch multinational in a position to be a dominant player in this fast-expanding beer market.

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[21] Heineken NV, "Heineken Acquires Shikhan and Volga Breweries in Russia".
[22] Ibid.
[23] Heineken NV, *Annual Report 2005*, 12.

Furthermore, the acquisition of South American beer brands would also boost sales in the United States, where they are widely consumed as a significant portion of the population are of Latino ethnicity.

Driven by this long-term vision, in 2010 Heineken acquired the beer business of Mexico's Formento Economico Mexicano SAB (FEMSA) in an all-stock deal with a total enterprise value of EUR 5.25 billion. As part of the deal, FEMSA became the second largest shareholder in the Heineken group with a 20% total economic interest.[24] Although this diluted the controlling interest held by the Heineken family, it did not alter the overall ownership structure of the Dutch brewing group (a non-negotiable requirement of the family's global-growth strategy).

The FEMSA deal strengthened Heineken's position in several key developing markets. The beer business of FEMSA was at the time Mexico's second-biggest brewer and also had a well-established presence in Brazil and a growing position in the United States.[25] This one acquisition thus granted Heineken greater access to three of the world's four largest beer profit pools and would serve as a platform to drive value growth over time in the three markets that collectively represented 35% of global beer profits in 2008 (USA held 18%, Brazil 11%, and Mexico represented 6%).[26] In Latin America, the FEMSA deal enabled Heineken to become a leading player in Brazil (10% market share), Mexico (43% market share), Argentina (22% market share), and Chile (90% market share). These markets were a priority for the Dutch brewer as it expected them to provide the bulk of future sales growth for the whole group: in total, these four countries represented 70% of Latin America's beer market in 2009 and would drive 68% of the entire predicted future market growth for the continent up to 2015.[27]

As a follow-up to the FEMSA deal, in 2017 Heineken acquired Brasil Kirin, one of the largest producers of beer and soft drinks in Brazil. The Dutch multinational aimed to further bolster its scale of operations in the growing Latin American market. Brazil is one of the largest countries in the world, with a population of over 200 million people, and in 2015 was the third largest beer market globally with a total volume of 139 million hectolitres.[28] Brasil Kirin held around 9% of the Brazilian beer market in 2015. Its product portfolio included the established Schin and Devassa beer brands, which further bolstered Heineken's global product portfolio.[29] The graph presented below (Fig. 1), which I have

[24] Heineken NV. *Transforming our future in the Americas*, 6.
[25] Ibid., 8.
[26] Ibid., 9.
[27] Ibid., 10.
[28] Heineken NV, "Brasil Kirin".
[29] Ibid.

created by putting financial data from digital market-data platform Statista into Microsoft Excel, clearly shows the sizeable growth of the Brazilian beer market from 2010 to 2018.[30] Over this eight-year period, total beer sales in the developing economy grew from USD 32.1 billion to USD 50.15 billion (equalling a 56.2% increase). With such rapid growth, it is evident why Heineken has prioritised this market under its global strategy and has focused on building a competitive platform for long-term value creation in Latin America: the 2010 acquisition of FEMSA's beer business and the 2017 purchase of Brasil Kirin has transformed Heineken into the second biggest brewer in Brazil behind main rival AB Inbev.

Fig. 1 – Source: *Statista*.

The African continent is another key beer market for Heineken and its rivals. More specifically, the Dutch brewer has been especially focused on establishing and maintaining a strong position in Nigeria, the biggest economy in Africa. In 2011, Heineken used its cash reserves to acquire five new breweries in Nigeria in order to bolster its existing operations in the developing country. Paying for acquisitions in cash whenever possible is an organic-growth strategy: instead of constantly giving away cash to investors with dividends and share buybacks, the corporation retains some earnings in order to make investments for long-term growth (as Heineken has done in Russia and Nigeria). In 2009, the

[30] Statista, "Brazilian beer market". URL: https://www.statista.com/outlook/10010000/115/beer/brazil#market-revenue

Nigerian beer market was the second largest in Africa and in the 10-year period of 2000-2009 had a 9% compound annual growth rate. Nigeria is also the most populated country on the African continent with a 2009 population of over 150 million people. Commenting on the acquisition of five new breweries in 2011, Tom de Man (president of Heineken's operations in Africa and the Middle East) said the deal was part of Heineken's strategy to create a strong platform for long-term growth in Nigeria, which is "one of the world's most exciting beer markets and one of the most important countries for Heineken".[31] To further expand its dominant 70% market share in Nigeria, Heineken acquired local rival Consolidated Breweries plc and in the period 2014-2015 merged it with its existing brewing operations in the African country. The merger enabled Heineken to create shareholder value due to increased economies of scale and operational synergies.[32]

A fourth developing market deemed essential for Heineken's global strategy is India. Since the 1990s, the South Asian country has been one of the fastest-growing market economies in the world and has also consistently experienced very strong population growth. Aiming to reinforce its position in the country and capture as much of the expanding beer market as possible, Heineken struck a deal to gain joint majority control over India's top brewer, United Breweries Limited (UBL), in 2009. As part of this agreement, UBL also agreed to brew and distribute the Heineken brand in India.[33] In the 2009 annual report, Heineken's management explained that the UBL partnership would enable the Dutch brewer to "benefit from the highly favourable demographics and strong economic fundamentals in the Indian market".[34] In 2009, the Indian brewer held 48% of the domestic beer market and sold the widely consumed Kingfisher brand.[35] To further bolster its position in India, Heineken raised its stake in UBL to 43% in 2016 from 37.5% in 2010.[36]

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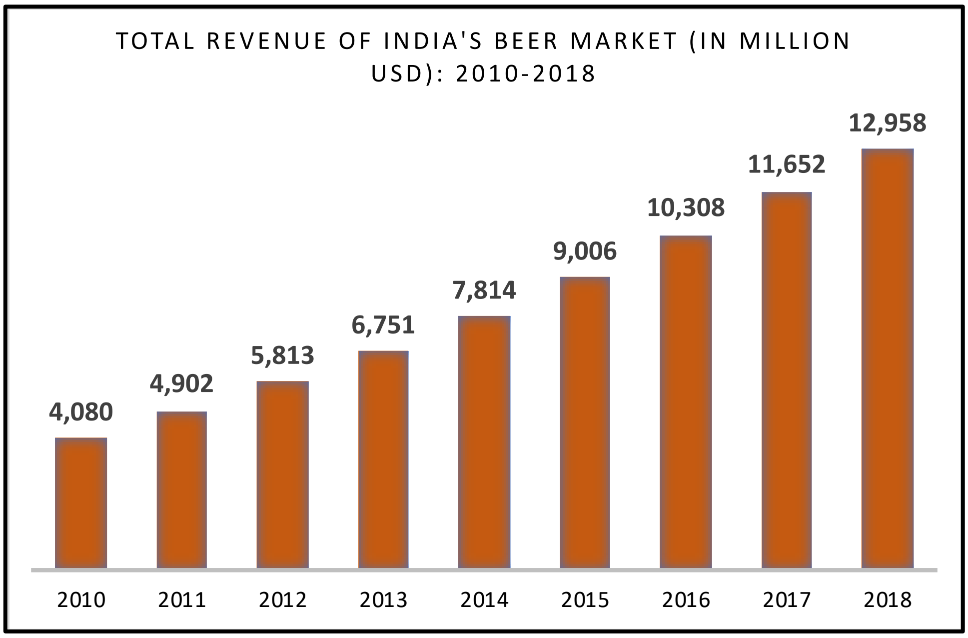
[31] Heineken NV, "Heineken acquires additional brewery capacity in Nigeria", 1.
[32] Heineken NV, "Heineken majority owned subsidiaries Nigerian Breweries plc and Consolidated Breweries to merge".
[33] Heineken NV, Annual Report 2009, 5.
[34] Ibid., 7.
[35] Ibid., 42.
[36] Reuters, "Heineken raises stake in India's United Breweries to 43 percent".

Fig. 2 – Source: *Statista*.



The move was undoubtedly motivated by the desire to enhance Heineken's profitability from the fast-expanding Indian beer market. The graph presented above (Fig. 2), which I have again created by putting financial data from Statista into Microsoft Excel, represents the exponential rise in the total revenue growth of India's beer market in the period 2010-2018.[37] Total sales of beer more than tripled in the short span of eight years: from USD 4.08 billion in 2010 to USD 12.96 billion in 2018 (an increase of 218%). With remarkable market growth such as this, it is clear to see why Heineken has sought to acquire a controlling stake in UBL, India's largest beer producer. The growth in operational profits that Heineken has reaped from this developing economy, and the others discussed in this part of my thesis, are analysed in detail in Part III.

In this chapter I have examined in detail what I believe to be the key acquisitions of Heineken's global strategy for creating value over the period 2002-2018. The Dutch brewer's execution of takeovers to create a dominant presence in some of the world's fastest-growing beer markets draws strong comparisons to what AB Inbev has done in order to maximise its market share and profitability. The main difference is that Charlene Heineken and her management team have pursued and structured the acquisitions in such a way as to build a platform for long-term growth and profitability without compromising family control over the brewing group. The economic benefits which Heineken has reaped from its expansion in key developing markets is presented in the following chapter.

[37] Statista, "Indian beer market". URL: https://www.statista.com/outlook/10010000/119/beer/india#market-revenue

Chapter III – Comparative financial analysis of Heineken and its rivals: 2002-2018

I now proceed to analysing the effectiveness of Heineken's strategy for generating long-term growth and shareholder value in the period 2002-2018. More specifically, I compare the key financial-performance indicators (KPIs) of the Dutch brewer to those of its main rivals: Belgium's Anheuser-Busch Inbev ("ABI") and Denmark's Carlsberg Group. As Table 1 (created by putting market data from JP Morgan into Microsoft Excel) demonstrates, these three corporations have largely taken over the global brewing industry. ABI is clearly the undisputed leader, but over the years Heineken has steadily held on to its position in second place mainly due to its global-growth strategy focused on developing markets. Carlsberg, on the other hand, has fallen further behind its rivals over time due to its decision to forego global expansion and only focus on its traditional markets (discussed further below).

Table 1: *Market share of global beer volumes held by the world's leading brewers in the period 2008-2016*. Source: J.P. Morgan (2018).[38]

	2008	2009	2010	2011	2012	2013	2014	2015	2016
ABI	**26.2%**	**26.2%**	**26.5%**	**26.4%**	**26.2%**	**25.9%**	**26.2%**	**26.8%**	**27.3%**
HEINEKEN	**9.2%**	**8.9%**	**8.7%**	**8.8%**	**9.0%**	**9.0%**	**9.1%**	**9.4%**	**9.7%**
CARLSBERG	**6.7%**	**6.7%**	**6.4%**	**6.4%**	**6.4%**	**6.3%**	**6.1%**	**5.9%**	**5.9%**

The specific KPIs I use to conduct my financial analysis are earnings before interest, taxes, depreciation, and amortisation (EBITDA) to compare Heineken and ABI in the period 2004-2018 and earnings before interest and taxes (EBIT) (i.e. operating profit) to compare the development of the Dutch brewer to that of Carlsberg in the period 2002-2018. I have selected these KPIs based on the fact that EBITDA and EBIT are routinely used by investors to evaluate the financial performance of listed firms. Furthermore, each company has a preferred KPI for tracking its growth over time: for example, ABI focuses on EBITDA and Carlsberg uses operating profit. This is the justification behind my choice to use these two different KPIs for the comparative analysis. I also use the historical data of share prices as this is also an important metric in analysing the effectiveness of the two different corporate-governance models presented in Chapter I.

[38] J. P. Morgan, "What's on tap for the global beer market?".

Before I proceed with my comparative analysis, I will provide definitions of the KPIs and explain how they are generally used by managers and investors. In essence, EBITDA equals total sales revenue minus all expenses other than interest, taxes, depreciation (i.e. reduction in the value of assets over time), and amortization (the gradual decrease in the initial costs of assets). According to business-strategy adviser Bernard Marr, EBITDA is an important KPI for managers and investors as it measures a corporation's operational profitability over time without potentially distorting effects resulting from financing and accounting decisions.[39] while EBITDA is a good finance metric to evaluate profitability, it does not represent cash earnings (i.e. the net cash flow coming into the business).[40] Despite this limitation, EBITDA is a useful financial measure for my thesis as AB Inbev and Heineken are very large multinational corporations with significant assets. EBIT (i.e. "operating profit") is another popular KPI which enables investors to determine the general profitability of a business. The operating profit represents gross profit minus operating expenses and is a key number for business managers to track as it reflects the operational revenue and expenses that are within their control.[41] Some executives and investors prefer to use EBIT as their main KPI for evaluation of the business in a general manner as it includes all expenses except interest and taxes and therefore is more precise than EBITDA in reflecting the firm's overall profitability. Nonetheless, both EBITDA and operating profit are highly popular and widely used KPIs in the business world.

Before AB Inbev propelled itself to the top of the global beer industry in 2016, there was an opportunity for Heineken to claim that spot via a mega-merger. In late 2014, SABMiller approached Heineken's management about possibly launching a takeover bid for the Dutch brewer. In a public statement responding to the press speculation, the Heineken family decisively rejected the acquisition proposal by describing it as "non-actionable". The owners of the 150-year-old brewer further said they intend to:

> "...preserve the heritage and identity of Heineken as an independent company. The Heineken family and Heineken NV's management are confident that the company will continue to deliver growth and shareholder value."[42]

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[39] Marr, *Key Performance Indicators*, 81.
[40] Ibid., 85.
[41] Business Literacy Institute, "EBIT or Operating Profit".
[42] Heineken, "Heineken responds to recent press speculation".

This decisive statement indicated that the Heineken family had no interest in giving up control and was fully committed to sticking with its independent strategy for creating value over the long-term. Speaking about SABMiller's takeover proposal to Fortune magazine in 2017, Charlene Heineken explained why it was such a crucial moment for the future of Heineken:

> "We think we would have disappeared and lost in quite a short period of time what makes us special... Yes, we could have made a quick buck, but that was not what we were about."[43]

Regarding her role as controlling shareholder, the daughter of Freddy Heineken explained how she views herself as a "guardian" of the family legacy rather than as a corporate executive leader:

> "My leadership is not really a leadership as such; I feel a little bit as a guardian. I see this as an asset that I inherited; I don't quite see it as mine. I see it as my responsibility to keep it healthy and keep it growing, and pass it on to the next generation."[44]

Considering her transformational 16 years in charge of the Heineken brewing group (2002-2018), the main question is: has Charlene Heineken fulfilled her self-described responsibility as "guardian" by growing the family business and keeping it in a healthy financial condition? Has Heineken's long-term growth and commitment to family control also been sufficiently beneficial for external shareholders? These are the questions which I seek to answer with my comparative financial analysis.

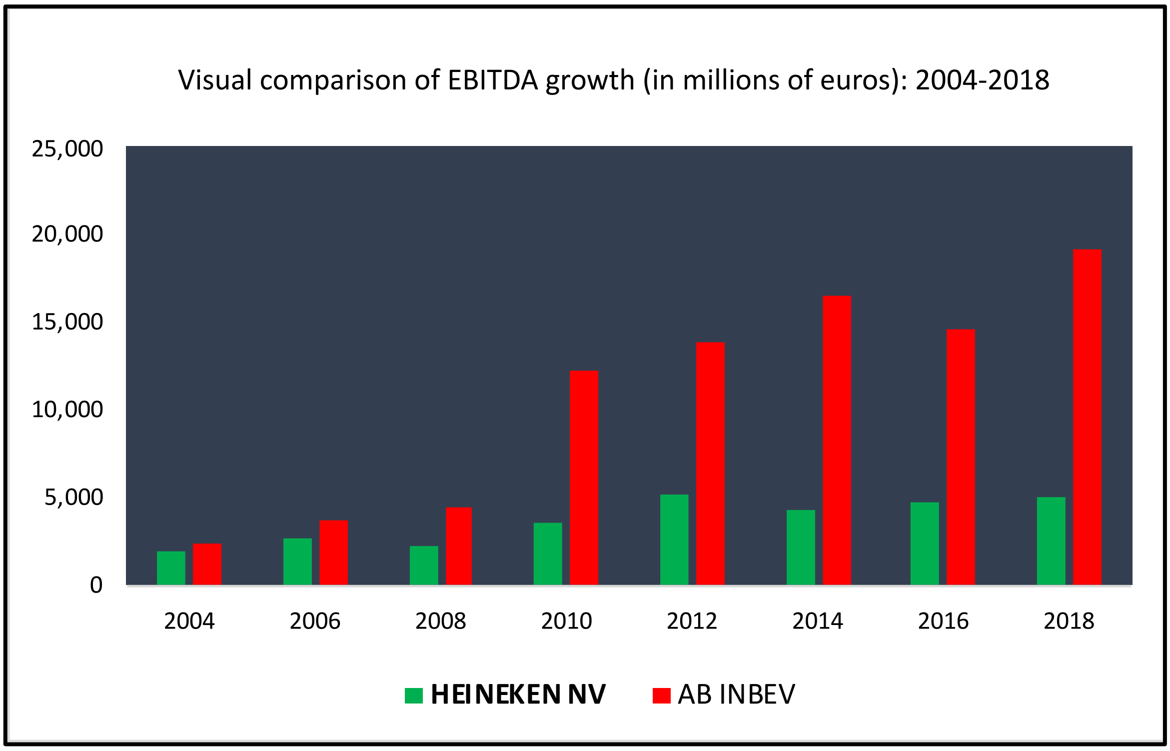
Firstly, I begin with comparing the EBITDA growth in the period 2004-2018 of the world's top two brewers. As mentioned previously, I have chosen 2004 as a starting point as that was the year that Belgium's Interbrew acquired Brazil's Ambev to create Inbev. Also, I am using EBITDA as a KPI because this is the Belgian brewer's preferred financial metric for tracking its growth. Table 2 presented below, which I have created by compiling the EBITDA figures of both firms from their annual reports and organising them in Microsoft Excel, reveals the huge disparity which has developed between AB Inbev and Heineken in the period 2004-2018. Figure 3 presented below is a visual representation of the financial data, again created using Microsoft Excel. I have converted the EBITDA figures of AB Inbev from US dollars to euros using online currency platform XE in order to produce a more accurate comparison.

[43] Fortune Magazine, "Building a Legacy".
[44] Ibid.

Table 2 - Numerical comparison of EBITDA growth (in millions of euros): 2004-2018. Source: annual reports of Heineken NV and AB Inbev (2004-2018).[45]

Year	**HEINEKEN NV**	**AB INBEV**
2004	**2,021**	**2,325**
2006	**2,618**	**3,784**
2008	**2,286**	**4,416**
2010	**3,594**	**12,263**
2012	**5,220**	**13,871**
2014	**4,365**	**16,546**
2016	**4,722**	**14,661**
2018	**5,040**	**19,147**

Fig. 3 - Visual comparison of EBITDA growth (in millions of euros): 2004-2018. Source: annual reports of Heineken NV and AB Inbev (2004-2018).[46]



[45] The annual reports of both Heineken NV and AB Inbev which I have used are fully presented in the bibliography.
[46] The annual reports of both Heineken NV and AB Inbev which I have used are fully presented in the bibliography.

The EBITDA results reveal the wide gap which has emerged between the operational profitability of AB Inbev and Heineken during the period 2004-2018. The series of mega-mergers which have created the Belgian brewing behemoth and launched it to the top of the industry have been masterminded by Brazilian investor and major shareholder Jorge Paulo Lemann, who is a proponent of the shareholder-first ideology. His global investment firm 3G Capital, which also has major holdings in Kraft Heinz and Burger King, is known for implementing zero-based budgeting in its portfolio companies. This budgeting method, also implemented at AB Inbev, pushes managers to maximise cost-cutting by requiring them to justify all costs of the corporation during each budget period.[47] The goal is to eliminate wasteful spending and optimise the firm's profitability. This corporate mentality, alongside the strategic desire to acquire market share via mergers and acquisitions, has enabled AB Inbev to grow almost four times as large as Heineken in terms of EBITDA between 2004 and 2018. The gap begins to widen dramatically from 2010 onwards, which is mainly due to Inbev's 2008 acquisition of Anheuser-Busch (the largest brewer in the US at the time) and the 2016 takeover of SABMiller (the world's second biggest beermaker at the time). In a drive to also cut costs and enhance profitability, Heineken implemented its Total Cost Management program that resulted in cost savings of EUR 637 million from 2012 to 2014.[48] This cost-cutting program, alongside the strategic acquisitions in developing markets, demonstrate that Heineken is committed to expanding its market share and boosting profits, albeit not to the extent of the Belgian giant as Charlene Heineken has stuck to her goal of retaining family ownership.

While the EBITDA figures highlight ABI's meteoric growth, they also show Heineken's steady, profitable growth between 2004 and 2018. As Table 2 demonstrates, the EBITDA of Heineken NV has more than doubled over the 14-year period: from EUR 2.02 billion in 2004 to EUR 5.04 billion in 2018 (equaling a 150% increase). These results reveal that the Dutch brewer's global-growth strategy (discussed in Chapter II) has reaped decisive financial benefits. In her 2017 interview with Fortune, Charlene Heineken explained how her family firm has dealt with industry consolidation and competition, especially relating to AB Inbev's takeover of SABMiller:

> "We have to do things our way. We're not going to be able to compete head-to-head with someone who is four times larger. We are a different type of company. We are very global… We have great experience in being in countries… where other people might find it difficult to operate. I think we also have a culture which is very strong and special."[49]

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[47] Hirsch, "Kraft Heinz backer 3G Capital faces reality: Brutal cost-cutting isn't enough".
[48] Heineken NV, Annual Report 2014, 28.
[49] Fortune Magazine, "Building a legacy".

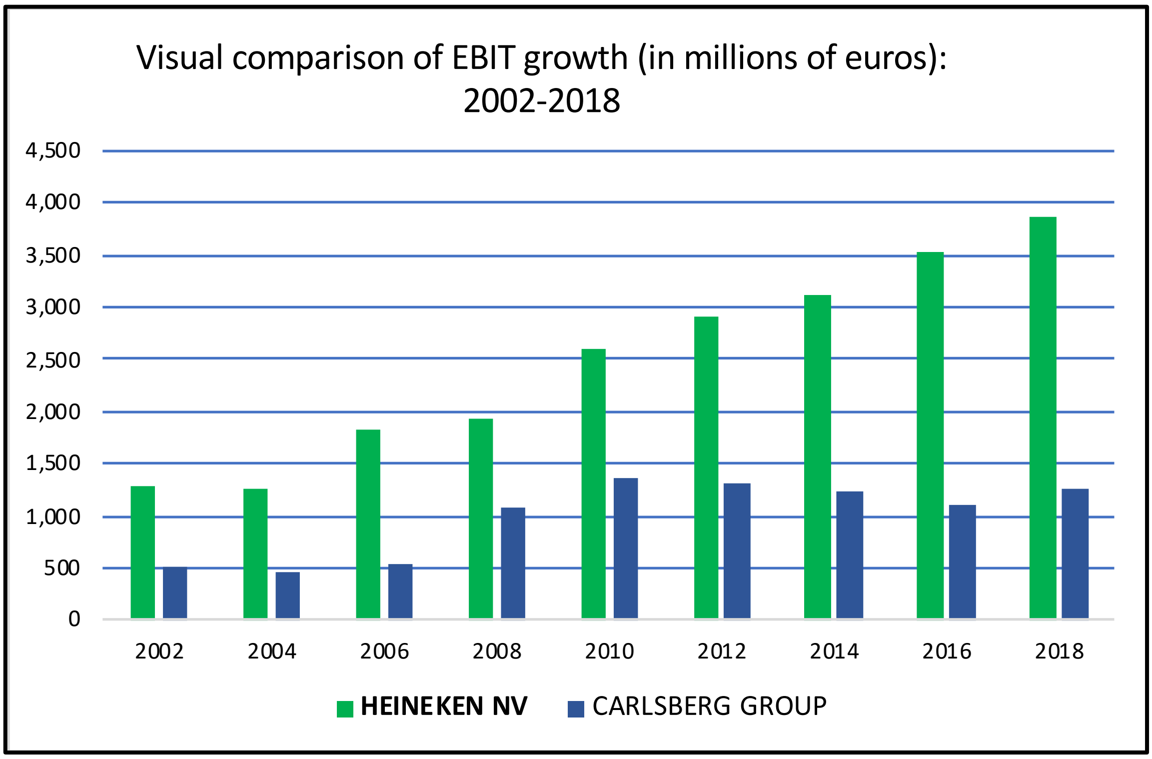
Under Charlene Heineken's management, the Heineken group has indeed been a "different type of company", following an independent growth strategy focused on careful acquisitions in developing markets to drive long-term growth. The interview reveals an acknowledgment that Heineken cannot play AB Inbev's game of profit maximization via mega-mergers and acquisitions without trading in the 155-year-old tradition of family ownership. Instead, Charlene Heineken and her team of professional managers have been solely focused on ensuring the Dutch brewer remains firmly in second place behind the Belgian behemoth in terms of global market share by assertively pursuing acquisitions in developing economies with continuous positive growth trends in beer consumption. This approach has enabled CEO Jean-Francois van Boxmeer to triple the size of the Heineken group since his appointment in 2005.[50]

Table 3 - Numerical comparison of EBIT growth (in millions of euros): 2002-2018. Source: annual reports of Heineken NV and Carlsberg Group.[51]

Year	**HEINEKEN NV**	**CARLSBERG GROUP**
2002	**1,282**	**506**
2004	**1,248**	**461**
2006	**1,832**	**541**
2008	**1,932**	**1,067**
2010	**2,608**	**1,371**
2012	**2,912**	**1,310**
2014	**3,129**	**1,235**
2016	**3,540**	**1,103**
2018	**3,868**	**1,248**

[50] Ibid.
[51] The annual reports of both firms are fully referenced in the bibliography. Each annual report by Carlsberg includes a five-year summary of key financial metrics, so I have only looked at certain reports (2006, 2012, 2018) to retrieve the EBIT figures. This approach is identical to looking at each annual report individually, only more time efficient.

Fig. 4 - Visual comparison of EBIT growth (in millions of euros): 2002-2018. Source: annual reports of Heineken NV and Carlsberg Group.[52]

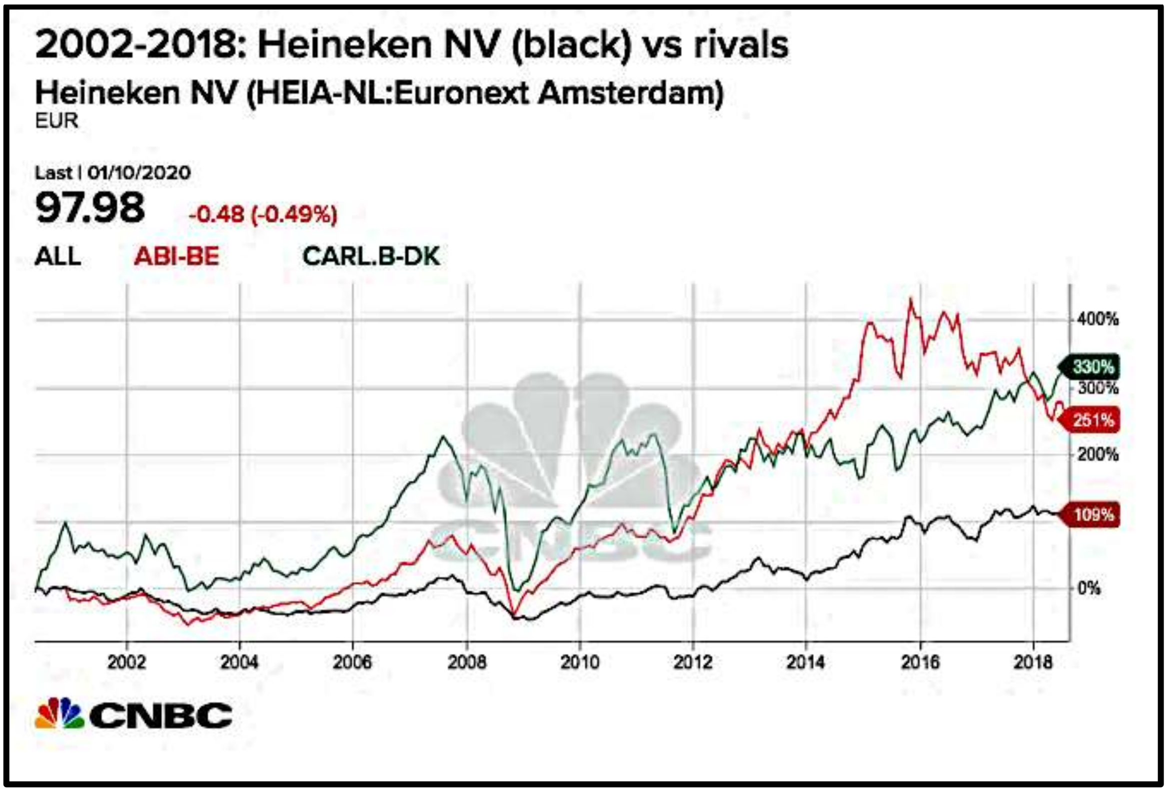


Heineken's global strategy has enabled it to compete with AB Inbev on its own terms and to consistently outperform Danish rival Carlsberg in terms of EBIT as Table 3 and Figure 4 (presented above) demonstrate. I have created this table and graph by taking the EBIT figures of both firms from their annual reports (2002-2018) and inserting them in Microsoft Excel. Carlsberg presents its financial results in Danish krone (DKK), so I have again used currency converter XE to present the EBIT in euros for a more accurate comparison. The start date is 2002, the year Charlene Heineken inherited control, as Carlsberg also existed at that time. Over the 16-year period to 2018, the Danish brewer's EBIT has grown from EUR 506 million in 2002 to EUR 1.25 billion in 2018 (a 147% increase). Heineken's operating profit, on the other hand, has increased by 202% over the same period: from EUR 1.28 billion in 2002 to 3.87 billion in 2018. However, a much more important conclusion from Table 3 is the fact that after 16 years of growth, the EBIT of Carlsberg reached EUR 1.25 billion in 2018. This is slightly less than the total operating profit of Heineken in 2002, as the table shows. On the other hand, during the 2002-2018 period Heineken's EBIT has more than tripled.

[52] The annual reports of both firms are fully referenced in the bibliography. Each annual report by Carlsberg includes a five-year summary of key financial metrics, so I have only looked at certain reports (2006, 2012, 2018) to retrieve the EBIT figures. This approach is identical to looking at each annual report individually, only more time efficient.

The prevailing reason why Heineken has been able to outperform its Danish rival in terms of operating profit is the fact that Carlsberg is the least global brewer out of the three discussed in this thesis. Unlike ABI and Heineken, Carlsberg does not have major market presence in Africa and Latin America, two of the most crucial developing markets for beer consumption (as discussed in Chapter II). Since 2002, Carlsberg has been focused on consolidating its position in its long-standing regions: the European continent, the US and Canada, as well as the major Asian markets (China, India, Vietnam, Malaysia, and Singapore). Heineken, on the other hand, has focused on expansion and significant presence in Africa and Latin America under the leadership of CEO van Boxmeer.

Fig. 5 – Share-price growth of Heineken NV, AB Inbev, and Carlsberg: 2002-2018. Source: CNBC.

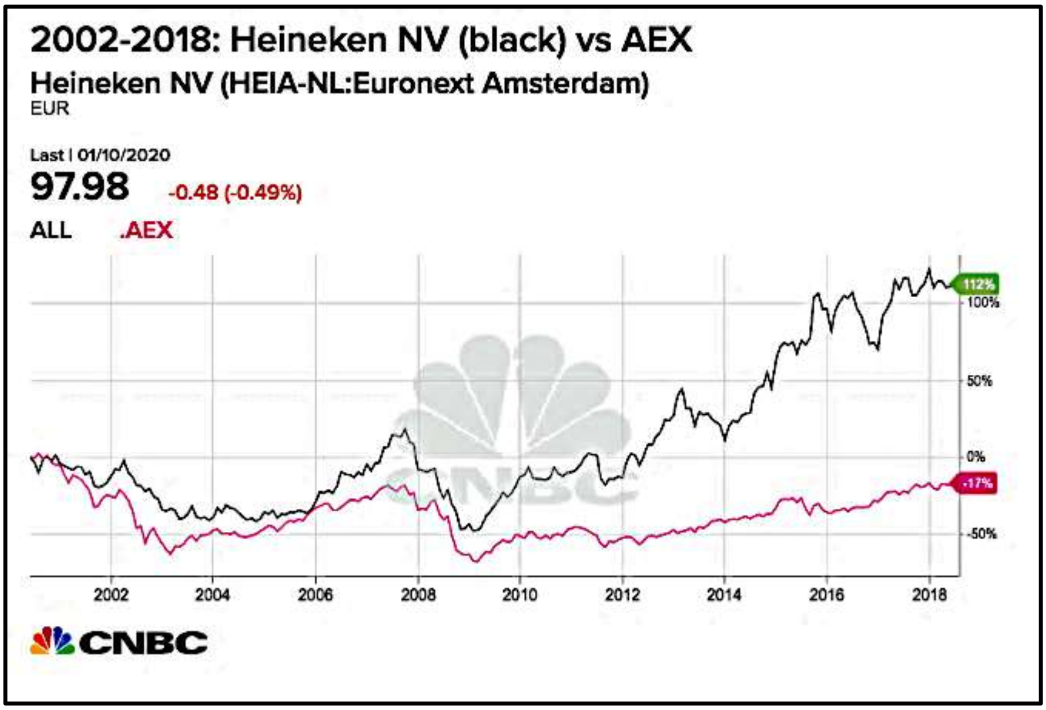


The third KPI for my comparative analysis is growth of share prices over time. In order to produce Figure 5 presented above, I have used the financial database and online stock-comparison tool of business-news agency CNBC (the graph is directly exported from the website).[53] The black line represents Heineken NV (listed on Euronext Amsterdam), while the red line is AB Inbev (listed on Euronext Brussels) and the green line is Carlsberg Group (listed on the Copenhagen Stock Exchange). The graph shows that during the period 2002-2018, ABI's mega-mergers have produced an exponential

[53] CNBC stock quotes: https://www.cnbc.com/quotes/?symbol=HEIA-NL&qsearchterm=Heineken%20NV

251% growth in its stock price and it is the most valuable brewer out of the three by a wide margin (an expected outcome given the Belgian brewer's commitment to relentless cost cutting and maximization of shareholder value). Much more surprising is the fact that Carlsberg's stock price has grown in such an impressive manner (330% total growth over the period). As of 31 December 2018, Carlsberg's largest shareholder was the Carlsberg Foundation with 30% of total share capital and 75% of the votes.[54] The Danish brewer is also a follower of the stakeholder model like Heineken; however, it is much more focused on maximizing shareholder value (as Figure 5 demonstrates). This is traditionally achieved through raising profitability, doing share buybacks, and paying high annual dividends. Despite its slower pace, the stock price of Heineken NV has more than doubled over 16 years; this 109% increase has been to the benefit of long-term shareholders. Figure 6 (presented below) is further testament to Heineken's effective global-growth strategy, which has prioritized key developing markets. The graph (again created with CNBC's stock-comparison tool) compares the stock price of Heineken NV with that of the AEX index, a market index comprising Dutch companies trading on Euronext Amsterdam. The black line represents the brewer and demonstrates how strongly Heineken NV has outperformed the index. The driver for this growth has been the brewer's global-growth strategy and its effective cost-cutting program.

Fig. 6 – Share-price growth comparison: Heineken NV vs. AEX index, 2002-2018. Source: CNBC.[55]



[54] Carlsberg Group, "Shareholders".

[55] The 112% growth shown in this graph is technically the same as the 109% increase in Figure 5. The slightly higher number is the result of a technical problem I experienced with CNBC's website and should be ignored. Heineken's share price has increased by 109% in the period 2002-2018.

In this chapter I have carried out a comparative financial analysis of Heineken and its main rivals, AB Inbev and Carslberg, during the period 2002-2018. The three implemented KPIs – EBITDA, EBIT, and growth of share prices – demonstrate that Heineken's growth strategy, based on acquisitions in key developing markets, has yielded impressive economic returns. Heineken has strongly outperformed Carlsberg and solidified its global number-two position behind the Belgian behemoth. However, it is important to acknowledge that Heineken could have been in that spot had it accepted SABMiller's takeover bid. In essence, Heineken has followed ABI's business strategy – expansion in key beer markets around the world and implementing cost-cutting to enhance profitability – with the only exception that Charlene Heineken has decided to preserve her controlling stake for her children. This combination of elements demonstrates that the Dutch brewer is not a traditional family firm. Rather, Heineken is a "mixed firm" which has committed to preserve the tradition of family control while also relying on professional management, led by CEO Jean-Francois van Boxmeer, to deliver long-term growth and profitability.

Conclusion

The focus of this thesis has been to determine how effectively the stakeholder model of corporate governance can compete with the shareholder-first model pioneered by Milton Friedman in terms of financial results. Since the 1970s, corporations have largely followed the Friedman doctrine and have prioritised the maximisation of shareholder value. However, in 2019 the Business Roundtable formally disassociated itself with this shareholder primacy in order to promote the stakeholder model, which focuses on producing value over the long term for all stakeholders. This significant shift in corporate-governance ideologies, explained in Chapter I, has been the inspiration for my thesis.

In order to compare the financial effectiveness of both management models, I have conducted a comparative financial analysis of Heineken and its main beer rivals, AB Inbev and Carlsberg, during the period 2002-2018. This covers the first 16 years of ownership by Charlene Heineken. Out of the three brewers studied in this thesis, only Heineken is still under the family control. Charlene Heineken and her professional management team have unwaveringly followed a unique stakeholder-model strategy for creating value over the long term. The goal has been to grow the size and profitability of the Dutch brewer through acquisitions in key developing markets (Russia, Latin America, Nigeria, and India) while also preserving family control (Chapter II). These fast-growing beer markets have driven Heineken's impressive financial performance and have enabled the Dutch brewer to consolidate its number-two position amid a massive wave of industry consolidation. The key performance indicators (KPIs) I have used in Chapter III to conduct my comparative financial analysis of the brewers - EBITDA, EBIT (i.e. operating profit), and growth of share prices - are also used in the corporate world by managers and investors. My research shows that between 2004 and 2018, Heineken's EBITDA has grown by 150%. During the period 2002-2018, the Dutch brewer's EBIT has increased by 202% and its share price has more than doubled (109% increase). This healthy financial growth is evidence that the stakeholder model can enable a family firm to choose independence amid industry consolidation and still remain competitive and create significant value over the long term for shareholders. My research also demonstrates that the Heineken corporation has successfully synthesised family control with professional management (discussed in Chapter I) in order to maximise the effectiveness of its strategy for independence and long-term growth. The findings of this thesis should therefore be viewed as an original contribution to: (1) the study of the stakeholder model of corporate governance, (2) the field of Business History concerned with family firms, and (3) the history of the Heineken corporation.

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