A Study of Cultural Dissimilarity:

How Will Carlsberg’s Acquisition of Chongqing Brewery Influence the Chinese Stakeholders’ Value Perception?

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Abstract

What intrigued the authors to write about stakeholder value perception in respect to cultural dissimilarity in cross-border M&As is the apparent lack of attention that the field has received. Previous studies have primarily focused on cultural influences on shareholders value perception and thereby, according to Freeman (1984), left out an extremely important factor to the success of organizations. In order to narrow the scope of the thesis the authors focused on Carlsberg's acquisition of Chongqing Brewery and the impact it will have on the Chinese stakeholders’ value perception by exploring the cultural dissimilarities between the two. To further narrow the reach of the study, the number of stakeholders was reduced to only incorporate one external and one internal and as a result the thesis will take departure from customers and employees. Consequently, the findings will shed light on the important role of stakeholders for the success of cross-border M&As.

To establish the grounds for the study it was important to assess previous empirical findings that have studied the influence of national culture on the integration process and how it affects financial measures and socio-cultural outcomes. This was in order to gain an overview of what the empirical material states on the matter, and what gaps exist in research. Furthermore, the methodological considerations gave way for the procedures necessary to investigate cultural dissimilarity. In order to answer the research question an exploratory qualitative case study was undertaken, which the authors conducted from the aspect of critical realism that guided the grounded theory analysis.

The project puts forth that cultural differences at the national level influence those at the organizational level and therefore are bound to affect both the external and internal stakeholders. Moreover, these national cultural differences can influence the market environment of Carlsberg and Chongqing Brewery at both the macro- and micro-level. The interrelation between culture and the business environment provides a holistic view of the influences on the Chinese stakeholders’ value perception. Throughout the thesis it was important to continually evaluate according to Carlsberg's complete cultural assimilation integration approach and consequently it was important to analyze Carlsberg's entire process from due diligence to post-integration.
The findings facilitated the understanding that during a cross-border M&A, stakeholders can be impacted both negatively and positively. The most important positive factor is relationship building. Other possible positive factors can be the Chinese high power distance and collectivist culture, but they are contingent on the organization being able to understand and work through the cultural differences. The most influential negative factor is the insecurity and disruption that complete cultural assimilation can create. Additional factors that can pose problems are the Chinese masculine and long-term oriented culture, but those primarily influence the post-integration stage of the acquisition. Previous lack of research on the topic can facilitate the findings being utilized by corporations looking to expand globally by providing them with a framework that displays the importance of stakeholders. The findings can be used as the basis for further research on the subject, especially with regard to how the rest of the external and internal stakeholders may influence M&A and its chances of success and whether or not they are mutually influencing.

**Keywords:** stakeholder value perception, cultural dissimilarity, cross-border M&A, cultural assimilation integration, Carlsberg, Chongqing Brewery
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Introduction

Globalization is an important historical phenomenon and has become a household term that signals increased global interdependence, which can be viewed as the driving force for the creation of wealth and prosperity (Solimano, 2001). In today's society M&A activity is continuously increasing in every sector of the economy and has become an important strategy for companies in order to acquire a competitive edge on the international stage (Hammond, 2014). This imposes the necessity to understand the different market environments as well as the difference in cultural values and practices around the world. These global influences present opportunities but also intricate challenges (Solimano, 2001), which has consequently lead to a proliferation in research concerning the matter. Specifically, there has been an increase in studies regarding cultural dissimilarity in international M&A and how it affects the success rate of these acquisitions. However, the topic of how it affects stakeholder value in the target's home country is relatively unexplored. Earlier on the main focus has been on shareholder value perspective, which emphasizes profitability over responsibility. On the other hand, the paradigm of stakeholder value perspective emphasizes responsibility over profitability and perceives organizations as mechanisms that deliver value to all parties involved (Value Based Management, 2014).

Many multinational corporations have used M&A to establish their presence in the world's second-largest economy, China (Yang et al., 2015). Inbound transactions represented $75 billion in volume, which is double the level seen in the previous ten years. However, prospective multinational acquirers have been discouraged by the misconception that successful value-generating acquisitions are nearly impossible to carry out in China due to the inability to bridge cultural differences (Yang et al., 2015). Performing a successful M&A in China is undoubtedly difficult and every step of the process counts, starting with the due diligence process and continuing through the post-merger integration stages (Yang et al., 2015).

The notion of culture and what it embraces can be investigated at both a national and organizational level and encompasses values, beliefs, behaviors, symbols, and practices (Holden, 2002). Its influence on the market environment, both external and internal, is in fact quite extensive and as a result it is important for Carlsberg to
comprehend both due to their integration approach. Carlsberg has gone against the norm by fully assimilating Chongqing’s culture to their own in comparison to synergizing cultural differences (Yang et al., 2015). The aim of this thesis is therefore to understand the market environment and the cultural differences between Denmark and China, and respectively depict the influence that Carlsberg’s acquisition will have on the Chinese stakeholders’ value perception.

**Problem Statement**

Corporations operating within an international business context are continuously exposed to interaction with foreign cultures and as a result cultural conflicts are expected occurrences. These conflicts are the result of cultural dissimilarities and can influence cross-border M&As extensively, but have primarily been researched with regard to the possible impact on shareholder value (Freeman, 1984). The apparent problem therefore lies in the lack of attention given to the possible impact that these cultural differences have on stakeholder value perception. Consequently, by not comprehending the impact of possible loss of stakeholder value, acquiring companies face explicit challenges that may ruin the success of their acquisition.

This lack of attention and differences in findings intrigue the authors, which gives rise to the foundation for a study regarding the fundamental cultural dissimilarities between Denmark and China. Furthermore, understanding the business market, and whether or not these differences impact the Chinese stakeholders’ value perception throughout Carlsberg’s acquisition of Chongqing Brewery is of interest. Thus the research question will be as follows:

*How will Carlsberg’s acquisition of Chongqing Brewery impact the Chinese stakeholders’ value perception?*

**Delimitation**

The constituents and methodology of the thesis are restrained, as there are several limitations that influence the work. The inability of Carlsberg to contribute with first-hand inside knowledge poses the first limitation and thus the analysis is based solely on secondary data. The authors are well aware that this constitutes a decreased
level of reliability. Nevertheless, Carlsberg’s acquisition of Chongqing was chosen due to being a recent event and as a result all information collected is applicable as well as up-to-date. The limited amount of available data on Chongqing Brewery presents a second limitation. It has therefore been necessary to define it according to the Chinese market environment and the cultural aspects discovered during the analysis.

The field of culture is exceptionally broad and consists of several factors of which may influence the Chinese stakeholders’ value perception of Chongqing after the acquisition. Due to the scope of the project, factors such as language barriers, religion and body language (Aon Hewitt, 2011) have been excluded and it is therefore unknown whether they would have been mutually influencing. A similar method of exclusion was conducted in order to limit the number of stakeholders of interest to two, which results in a deeper analysis of the employees and customers. As a result, the investigation of the topic is limited and in no way all-inclusive, however it is necessary in order to prevent the thesis from becoming ambiguous.

When conducting an extensive study on a certain aspect the theoretical material collected through books, research articles, etc. must be evaluated according to the time of its release. The limitation that this brings forth is that not all knowledge and materials utilized will be of a timely manner as all occurrences change over time. To mention a few, both the findings for Hofstede’s Cultural Dimensions Theory (1980) and Schein’s (1984) perception of culture were conducted several decades ago. To elaborate, the notion of culture is dynamic and can change throughout time (Cultural Intelligence for Leaders, 2012). They assume culture to be homogenous, both at the national and organizational level, which is an assumption that the authors comply with as both Hofstede’s and Schein’s paradigms are widely recognized in modern literature. The authors are aware of the various cultural models that exist, both for national and organizational culture, as well as market analysis tools, and acknowledge that many of them could have been applied in this study. Nonetheless, it was chosen to stick to a few, well-known frameworks in order to obtain a clearer picture of the analysis. Lastly, there are time and length constraints forced upon the authors and as a result it is crucial to understand and accept the imposed limitations in order to narrow the scope and provide in-depth analysis and present compelling findings.
Research Design

Paradigm

Thomas Kuhn is the founder of the concept of paradigms and according to Ritzer (1975) he saw science at any given point in time as controlled by a specific paradigm. In order to understand the concept of paradigms it can be defined as “the concrete puzzle solutions which when employed as models or examples, can replace explicit rules as a basis for the solution of the remaining puzzles of normal science” (Kuhn, 1970, p. 175). What this emphasizes is that a paradigm provides significant guidance in which methods to use and how the data should be perceived and as a result shapes the fundamental image of the subject matter (Guba & Lincoln, 1994).

The fundamental paradigm that surrounds this thesis is constructed from critical realism, which distinctively denies that we can have any objective or certain knowledge of the world and consequently must accept the possibility that there exist alternative valid accounts of any phenomenon (Maxwell, 2012). This understanding corresponds with the research conducted throughout the thesis, as the topic is fairly unexplored and as a result other alternative valid accounts may exist or be proposed regarding the phenomenon. Moreover, Putnam (1999) elaborates by proposing that critical realists hold mental states and attributes, otherwise referred to as meanings and intentions, although not being directly observable are part of the real world and can accordingly be conceptualized and analyzed according to theoretical frameworks. In relation to the thesis, this proposal evidently fits, as cultural aspects can be difficult to directly observe, however they are still part of the world and can thus be used for theoretical analysis. Maxwell (2012) expands this by suggesting that critical realists endorse the concept of cause in both the natural and social sciences. In this case, Carlsberg’s acquisition is the cause that influences the less observable attributes of culture and stakeholders, and thereby paths the way for our research.

The critical realism paradigm legitimates the ontological concept about the phenomena being studied (Lawson, 2003; Tilly, 2008). Ontology, according to Guba (1990), questions what the nature of reality is and it was therefore a necessity, as stated in the previous paragraph, to describe what the researchers’ world constitutes of. However, the world is inevitably a construction of the authors’ perspectives and it is therefore clear that there is no single correct understanding of the world, otherwise
referred to as ‘God’s eye view’ by Putnam (1999). The ontological concepts can be classified as premises that justify doing a qualitative research (Maxwell, 2012).

**Methodology**

In order to investigate cultural dissimilarity in respect to Carlsberg’s acquisition of Chongqing Brewery and whether or not it will impact the Chinese stakeholders’ value perception a qualitative research method was applied. The qualitative method provides tools that enable the study of complex phenomena and when properly applied becomes a valuable method for understanding the utilized theoretical frameworks in the analysis (Baxter & Jack, 2008). The research question deals with cultural dissimilarity in respect to M&A, which can be linked to the social world and human behavior, and as a result the qualitative approach will provide an understanding of the phenomena and thereby allow the authors to gain a deeper insight. According to Denzin and Lincoln (2000) the purpose of such an approach is to gain in-depth valuable data and not to linger in the generalizability of the data. The qualitative approach according to Boeije (2009) is flexible in comparison to the quantitative approach and can therefore be tailored to our research area, as cultural dissimilarity and its effect on stakeholders has not been properly researched in the past.

The research method can be further specified as a qualitative case study as the research design in which the authors maneuver within is critical realism. A case study approach should be utilized according to Yin (2003) when: i) you want to cover contextual conditions because it is believed they are relevant to the phenomenon being studied, or ii) the boundaries are not clear between the phenomenon and context. A case can be defined as “a phenomenon of some sort occurring in a bound context” (Miles & Huberman, 1994, p. 25), where the case is “in effect the author’s analysis” (Miles & Huberman, 1994, p. 25). This thesis seeks to study the effects of cultural dissimilarities on stakeholder value, however without considering the context, Carlsberg’s acquisition of Chongqing Brewery, the case could not be considered. To ensure that the scope of the thesis is not too broad, which is a common mistake by many researchers, the implementation of boundaries is necessary. The case in question can be bound by i) time and place, ii) time and activity, and iii) definition and context (Creswell, 1998; Stake, 1995; Miles & Huberman, 1994). In respect to the research question of the thesis it is vital to provide a clear definition of culture, define the context according to the two
organizations and countries in question, present the reader with the circumstances, in this case the acquisition, and lastly that the case is of a timely manner.

Having established that the research question is best analyzed and discussed by applying a qualitative case study one must consider the type of case study. The intention behind selecting a specific type of case study is that it will support the entire thesis (Baxter & Jack, 2008). This thesis takes an exploratory approach, which in general terms indicate, a study with no clear single set of outcomes (Yin, 2003). With reference to the problem statement and Freeman (1984) it is evident that the influence of cultural dissimilarity in relation to cross-border M&A and the possible impact that this will have on stakeholder value perception is relatively unexplored and as a result the analysis will have no apparent single set of outcomes. Furthermore, the thesis is represented as a single case study as the research question indicates one scenario – the acquisition of Chongqing Brewery by Carlsberg. The study is thus considered to be an exploratory qualitative case study of a single case that will be guided by collected secondary data and supported by theoretical frameworks.

The exploratory qualitative case study will take a holistic standpoint in which the investigators seek to obtain a clear picture of the research question and the analysis thereof. According to MacQuarrie (2010) the holistic perspective is comprised of disparate elements, in this case the theoretical framework for the market analysis and the national and organizational cultures, and consequently it is the researchers challenge to synthesize these components in a trustworthy nature.

Data Collection

The nature of the research question and the exploratory qualitative case study method imply that the context of the phenomenon in focus as well as its analysis should be developed on the basis of a diverse portfolio of data sources (Baxter & Jack, 2008). According to Baxter and Jack (2008), viewing the research question through a variety of ‘lenses’ allows for multiple facets of the phenomenon to be unveiled and thereby interpreted upon. The data utilized throughout the thesis is solely secondary data primarily obtained through published articles, websites, journals, books, reports, and video interviews. The video interviews are considered secondary data as the CEO of Carlsberg produced them prior to the project. They are available online and therefore do not need to be transcribed or coded. An anticipated problem was Carlsberg's
uncooperative nature in supplying primary data, however the secondary data proved sufficient. With reference to Baxter and Jack (2008) each data source can be interpreted as a piece of the ‘puzzle’ in the process of providing the researchers with an adequate understanding of the phenomenon and consequently providing a holistic perspective of the case in question.

The secondary data sources were primarily retrieved from central databases and to list a few: AU Library, Business Source Complete (BSC), ABI Inform Global, LexisNexis, Factiva, Infomedia, Emerald, and lastly Bibliotek.dk. The search focused around the keywords of ‘cross-border M&A’, ‘mergers and acquisitions’, ‘stakeholders’, ‘cultural differences’, ‘integration’, ‘Carlsberg’, ‘Chongqing Brewery’ and ‘China’. Furthermore the search was extended with searches on ‘shareholders’, ‘customers M&A’, and ‘international success’. The benefit of utilizing databases is that they effectively organize data as well as provide raw data for independent evaluation (Baxter & Jack, 2008).

Data Analysis

Analysis can be defined as the process that researchers must utilize in order to reduce data to interpretation (LeCompte and Schensul, 1999), thus consequently aiming to simplify data and make sense of it. Patton (1987) specifies the process of conducting analysis on the basis of three premises, i) organization of data, ii) reduction of data, and iii) identification of patterns and themes that link the data. The entirety of the data for this thesis was collected and organized according to how it should be applied and then reduced in order to provide the most relevant data for the analysis. Lastly the collected data was interpreted and patterns were found. These patterns were continually expressed throughout the theoretical frameworks and then analyzed in accordance to the research question.

The analytical method utilized throughout the thesis can be described as grounded theory. Grounded theory is a qualitative approach originally developed by Glaser and Strauss (1967) and according to Bernard (2000) can be described as a set of techniques that, i) identify categories and concepts that emerge from data and ii) link these concepts substantively to formal theories. In the commencement of the thesis the research gave rise to generic guiding questions that later contributed to the specific research question that the thesis is based upon. At this stage the collection of data can
be linked to core theoretical concepts that can then be put into perspective in accordance to theoretical frameworks. The data has now been confined within theoretical frameworks, which gives way for the analysis of findings. As the topic of the thesis is relatively unexplored these findings may provide the basis and the guidance for further research within this field of study.

Grounded theory follows an inductive approach as the authors moved from the observations to the confinement of the data according to the theoretical frameworks. The nature of the inductive reasoning according to Trochim (2006) is open-minded and exploratory as described above, but it may however be argued that the majority of research is comprised of elements of both inductive and deductive reasoning. Trochim (2006) further emphasizes that the combination of the two can be portrayed as a cycle that progresses from theory to observation and then returns to theory.

In order to properly capture the audience the authors felt that it was necessary to continuously reflect back upon the research question throughout the thesis. This type of structure provides the reader with both theory and analysis throughout in an attempt to confine the reader’s attention and provide a progressive link through the entirety of the thesis. The authors refer to this style of structure as continuous analysis.
The Carlsberg Case – The Acquisition of Chongqing Brewery

For the premises of the research it is necessary to introduce The Carlsberg\(^1\) Case as it situates the context that the thesis builds upon. The Carlsberg Case encompasses the acquisition of Chongqing Brewery\(^2\) that took place from 2008 until end of 2013 under the guidance of Jørgen Buhl Rasmussen, the CEO of Carlsberg since 2007.

Due to fierce competition and a stagnating European market, Carlsberg has been looking for expansion possibilities elsewhere. Consequently in 2008 they purchased 17.5% shareholding in Chongqing Brewery, making them the second largest shareholder (Carlsberg Group – China, 2015). Rasmussen has stated that China is: “Definitely a strategic growth market for Carlsberg and therefore important for me to be out there and building relationships because in China to build relationships is extremely important” (Carlsberg Group CEO, Jørgen Buhl Rasmussen on China, 2014). This underlines Carlsberg’s acknowledgement of the extensive process that due diligence is and its importance, especially with regard to the cultural differences between the countries and the regulatory system for foreign investment in China. According to Yang et al. (2015), securing regulatory approval in China is a complex process that can take an immense amount of time, but if properly executed can be managed. In order to manage the process Rasmussen has stated: “I had a meeting with the mayor... who is very involved in the whole Chongqing process from day one, so since 2008 I have been meeting with the mayor many times” (Carlsberg Group CEO, Jørgen Buhl Rasmussen on China, 2014). In 2010 Carlsberg increased their stake in Chongqing Brewery to 29.71% and in the beginning of 2013 to 60%. At the end of 2013 these partial-takeovers lead to the full acquisition of Chongqing Brewery. As Rasmussen has emphasized: “Carlsberg is one big group with diversity, but core processes and how we produce and treat people needs to be similar if not identical across Carlsberg” (Carlsberg Group CEO, Jørgen Buhl Rasmussen on China, 2014). This underlines that Carlsberg will be operating Chongqing Brewery in accordance to Danish practices.

\(^1\) For practical reasons, Carlsberg will be used to refer to Carlsberg Group A/S
\(^2\) For practical reasons, Chongqing Brewery will be used to refer to Chongqing Brewery Co., Ltd.
The Concept of Stakeholder Theory

Freeman et al. (2010) have stressed the notion that in the modern globalized world, previously recognized business and management theories are under attack. Their static nature and inability to capture the dynamics of today’s business environment makes it necessary for new theories to evolve in order to make sense of this world. The stakeholder theory is a perfect example of a fruit bearing from this development, as its main constituent is to change the attitude of solely focusing on pleasing owners and shareholders to include concerns regarding other stakeholders in the organization in order to become successful. Thus stakeholders are any kind of group that has a stake in the activities of the organization, and are often interrelated (Freeman et al., 2010). The groups can be categorized into internal and external stakeholders, whereas internal stakeholders are those who are directly affected by the actions of the organization or can directly affect it, like employees, managers, and owners. The external stakeholders like customers, suppliers and governments will be indirectly affected or can have indirect effects on the business (CTB, 2014).

The stakeholder theory of organizational management and business ethics was first introduced by Freeman (1984) and is in principle about how businesses work at their best and how they could work. It is about value creation and trade, and that in order to be an efficient and successful organization, stakeholder relationships need to be nurtured. The benefits of maintaining these relationships are often shown in the organization’s success, as profitable businesses have in many cases purpose and values beyond profit maximization (Collins & Porras, 1997). This emphasizes the importance of practicing good business ethics for a sustainable competitive advantage (Freeman et al., 2010). It should be noted though, that although all stakeholders are important for the organization, they are not equally important at all points in time (Freeman et al., 2010). Furthermore it should be kept in mind that stakeholder interests are also collective, rather than only being divergent as many like to view it (Freeman et al., 2010).

For the purpose of this research it was decided to only focus on employees and customers, as they are two major stakeholder groups. The reasons behind this choice are the vast effects they can have on the success chances of organizations, not to mention those who are indulging in cross-border M&A. This is due to the fact that cross-border acquisitions are to a large degree a way for firms to reach new customers (Kelly
et al., 2003). What firms need to be aware of though, is that customers react to acquisitions and thus they cannot simply assume that after acquiring a foreign organization, the customers of the acquired firm will automatically become theirs (Öberg, 2014). The acquired organization’s employees will then often become essential in the process of retaining the customers, and can be a source of invaluable insights on cultural differences, e.g. when and where it is appropriate to act locally instead of globally (Atanasova & Senn, 2011). The need to pay special attention to the employees in the integration process thus also becomes crucial, as without them adjusting comfortably within the premises of the new firm, the success of the acquisition can be at risk.
Literature Review

The underlying focus of the research is to analyze the impact of the target company’s national culture on international M&A through both employees and customers. This is in order to see if the nation’s values, beliefs, and attitudes can actually hamper or enhance the possibility of a successful M&A. Up to now, research on the impact of cross-border M&A on internal stakeholders has been dominating the literature at the expense of the effects it can have on external stakeholders (Kato & Schoenberg, 2013), which stresses the importance of this study. Empirical research on the impact of cultural differences in cross-border M&A has yielded that when conducting an international M&A, the national cultural differences prevail over the organizational cultural differences (Stahl & Voigt, 2004). This leads to managers being more aware of the significance of cultural factors in the integration process, and thus possibly results in a more culturally sensitive integration management (Larsson & Risberg, 1998; Schweiger & Goulet, 2000; Teerikangas & Very, 2003).

The literature review will therefore firstly be concerned with empirical findings on how national culture affects the integration process (Stahl & Voigt, 2008), and how those can be grouped depending on different perspectives on cultural dynamics (e.g. Stahl & Voigt, 2004). Then it will review studies on how cultural differences affect organizational performance, and the impact of integration approaches thereto (e.g. Datta, 1991; Teerikangas & Very, 2003). Lastly, it will cover empirical evidence on how customers can be affected by M&A (e.g. Öberg, 2014) and how integration actions can influence critical customer relationship variables (Kato & Schoenberg, 2013).

Perspectives of Cultural Differences and Integration Level

Most literature concerning M&A identifies two independent variables as critical factors in successful mergers and acquisitions, namely cultural differences and integration level (Stahl & Voigt, 2008; Shimizu et al., 2004). Yet the exact influence of the interrelationship between national culture and integration approach on the success of cross-border M&A is unclear (e.g. Stahl et al., 2005). To further complicate matters, empirical findings on the subject are often contradictory (Schoenberg, 2006; Teerikangas & Very, 2003). Stahl & Voigt (2004) have noted that empirical research on the role of culture in cross-border M&A can be grouped in three categories based on different perspectives on how cultural differences affect the post-merger integration
process. Models and theories have thus been grouped into the cultural fit perspective, the acculturation perspective, and the socio-constructivist perspective based on how the organizations involved address the cultural differences that arise in the M&A process. In the following section some of these conflicting empirical findings will be reviewed with regard to the cultural perspective undertaken in the research versus the level of integration needed.

The cultural fit perspective models are quite static as they focus predominantly on the relationship between pre-merger cultural differences and post-merger integration outcomes (Stahl & Voigt, 2004). The cultural compatibility between the merging companies thus becomes a focal point in the M&A process, and is viewed as a critical determinant of the integration approach taken (Cartwright & Cooper, 1996; Javidan & House, 2002). The model on cultural compatibility by Cartwright and Cooper (1993; 1996) is well known within the field of M&A. It places organizational cultures on a four-step continuum depending on their autonomy given to the individuals, whereas the amount of probable integration problems due to cultural differences that will arise in the M&A process can be read from the distance between where the acquiring and acquired organization score on the continuum. According to Cartwright and Cooper (1993; 1996), organizations with balanced cultures can thrive by creating a coherent common culture, but organizations with distant cultures are likely to experience major integration problems as both would have tendencies to preserve their own culture. The model assumes that organizational cultures are stable over time, and thus recommends mergers between similar organizational cultures, without considering how dynamic and flexible cultures can prove to be.

The acculturation perspective is less static than the cultural fit perspective as it focuses on the acculturation process and is thus better fitted to capture the dynamics of the integration process (Elsass & Veiga, 1994; Larsson & Lubatkin, 2001). Furthermore according to Larsson and Lubatkin (2001), when considerable integration is needed, acculturation can be seen as essential to successful cross-border M&A. They explained it in the sense that a joint ‘third culture’ should be created in the new firm from the two previously independent organizations – that is, acculturation would be attained through integrating beliefs, assumptions and values into a common organizational language, mutual consideration, and values promoting shared interests. This view by Larsson and Lubatkin (2001) on acculturation describes it as a very cooperative process where both
the acquiring and acquired organization jointly decide and smoothly transform into the new merged culture. On the other hand, it has been proposed that acculturation outcomes can actually be positive or negative (Elsass & Veiga, 1994; Nahavandi & Malekzadeh, 1988). Nahavandi and Malekzadeh (1988) studied the amount of stress and conflict in relation to the acculturation process in international M&As and found that the ideal acculturation mode will depend on how much the target firm wants to protect its own cultural identity and how much tolerance for diversity the acquiring firm has. This leads to the conclusion that when high levels of integration are needed, acculturative stress will rise as the employees strive to preserve their distinctiveness and the new company will be left with uncooperative culture units.

The social constructivist perspective is the most dynamic one, as it views culture as a construction of shared patterns of interpretation which are produced, reproduced, and continuously changed by the people identifying with them (Kleppestø, 1998; Vaara, 2002). It stresses symbolization and communication processes and that culture is continuously created through its interaction with other cultures (Gertsen et al., 1998). The social constructivist perspective thus varies greatly from Hofstede's (1980) view of culture being deeply enrooted in people and difficult to alter. This can be seen in relation to the social identity theory where people seek to identify themselves within a group and thus look at newcomers/outiders as belonging to the outer-group in order to seek self-identity (e.g. Tajfel, 1982). Therefore the integration process will have great impact on how strongly employees will identify themselves with those groups in order to make sense of the M&A – as ‘we’ cannot find our identity without labeling ‘our’ uniqueness and ‘their’ otherness (Kleppestø, 1998, 2005).

The above three paradigms rest on different ideologies on how cultural issues arise, their effect and how they should be tackled. In spite of those differences they all imply that the integration process is not solemnly affected by cultural differences, but other aspects such as the integration approach chosen and the level of autonomy retained in the targeted firm need to be taken into consideration as well (Stahl & Voigt, 2004).

**The Effects of Cultural Differences on Performance Measures**

Looking at literature regarding cultural differences and M&A performance, it is quickly apparent that there is a lack of consensus on the role of culture in international
M&As (Stahl & Voigt, 2004). Some studies have found negative relationships between the variables, which is commonly the anticipated result (e.g. Datta, 1991; Larsson & Risberg, 1998; Van Oudenhoven & van der Zwee, 2002), whilst others have found a positive relationship or that culture has no effect at all on the M&A performance (e.g. Schoenberg, 2000; Teerikangas & Very, 2003). Depending on the performance outcome variable of interest, research on how cultural differences affect the M&As chance of success can be categorized (Stahl & Voigt, 2004). For this research, the authors have chosen to focus on studies using accounting-based measures and socio-cultural integration outcomes.

Studies using accounting-based measures (ROA, ROE, and sales growth) evidently show the long-term performance of the M&A and can thus be a good indicator of whether the integration process was successful or not (Stahl & Voigt, 2004). Several cultural studies have been conducted with accounting-based performance measures, but the findings are quite sparse (Stahl & Voigt, 2004). Some of them confirmed Hofstede’s (1980) cultural hypothesis – growing cultural differences increase difficulties, risks, and costs between the two organizations – meaning that they found negative relationship between cultural differences and accounting-based performance outcomes after an international M&A (e.g. Datta, 1991; Weber & Pliskin, 1996). Several different influencers were documented, such as low autonomy given to the targeted firm both under conditions of high and low integration levels (Datta et al., 1991) and cultural incompatibility, especially when the targeted firm had been stripped of autonomy (Very et al., 1997). Contrary to Hofstede’s (1980) hypothesis, other studies found that cultural differences on a national level were rather an asset than a liability, as it granted the two organizations access to each other’s diverse set of routines and capabilities which enhanced the post-M&A performance (Morosini et al., 1998).

Studies on socio-cultural integration outcomes focus on how the employees and consequently the organization as a whole react to the integration process in the form of employee satisfaction, voluntary turnover and acculturative stress (Stahl & Voigt, 2004). Again, most of the empirical evidence is in conformance with Hofstede’s (1980) cultural hypothesis, yielding results of negative relationship between cultural differences and socio-cultural outcomes (Krug & Nigh, 1998; Krug & Hegarty, 2001). This indicates that after a cross-border M&A, employees suffer from increased strain and degree of conflict, which can be associated with high international M&A failure
The literature reviewed above reveals that cultural differences have greater effects on socio-cultural integration outcomes in the post-M&A stages than on accounting-based performance measures (Stahl & Voigt, 2004). It should be noted that those studies vary substantially in terms of methodology, geographic regions covered and dimensions of cultural differences etc. Consequently, the research on the impact of cultural differences on M&A is still fragmented with unaddressed gaps (Shimizu et al., 2004) and seems to be lacking a link to a comprehensive theory (Schweiger & Goulet, 2000). Therefore, as claimed by Weber et al. (2009), the conflicting findings on M&A performance may be the consequence of this lack of theory.

The Effects of Integration Actions on External Stakeholders

Cross-border M&As undoubtedly induce reactions from stakeholders (Öberg, 2014) and as previously mentioned, the impact on internal stakeholders such as employees and managers has been of particular focus (Cartwright & Schoenberg, 2006). However, some researchers have branched out and explored the effects on external stakeholders, in particular customers (Kato & Schoenberg, 2013). Those studies have mostly focused on business-to-business customer relationships of the acquired party, and generally yield that following a M&A the relationship established between the partners gets interrupted – either positively or negatively – and in the worst cases even gets terminated (Anderson et al., 2001; Öberg et al., 2007). M&As are thus seen as critical incidents within the business networks, and can often have unanticipated effects (Havila & Salmi, 2000). Interestingly, many of those studies have suggested that
integration efforts undertaken in the post-merger stage can have significant impact on external stakeholders following a M&A (Boconcelli et al. 2006). Hence a review on the reaction of customers following a M&A will be made (Anderson et al., 2001), as well as how they react to post-M&A integration efforts (Kato & Schoenberg, 2013).

Anderson et al. (2001) found that customers had different expectations towards the organization following its acquisition, as some anticipated simpler procedures and broader product selection, whilst others worried about possible price increases, restricted supply choice and reduced commitment towards them. Generally, the study revealed the likelihood of erosion of customer confidence towards the organization after the M&A. Öberg et al. (2007) detected that following a M&A, both customers and the organization itself started doubting their long held perception regarding their relationship, and thus stressed the importance of post-merger communication and symbolic activity.

Kato and Schoenberg (2013) concluded that integration actions were critical to a customer’s perception of the merged business. This was concluded through identification of several actions that all, either directly or indirectly, impacted the external stakeholders. The integration approach undertaken in that case can be classified as “absorption” integration (Hesperl & Jemison, 1991), in which the overall purpose is to deliver cost savings in the newly merged firm. The organizational restructuring instead resulted in an overall uncertain environment as multiple integration efforts were undertaken at once. This led to a deterioration in the customers’ perceptions of the firm, resulting in them switching to other suppliers, some temporarily but others permanently. Thus Kato and Schoenberg (2013) put weight on the importance of the stakeholder theory (Freeman, 1984) in businesses today, as if you only focus on cost-savings and internal stakeholders in the M&A integration process you might end up with frustrated and confused customers that will end their business relationship with you. Consequently, your expected growth and profits will decrease and the overall goal of the integration process will not be met (Kato & Schoenberg, 2013).

Critical limitation of the empirical evidence reviewed above is that these studies generally focused on small industrial acquisitions to better highlight the deteriorations that can occur in the relationship between the supplier and customer. Nonetheless, their findings lay the ground for further research into the relationship between internal
Theoretical Framework for Market Analysis

Macro-environment

Having established a prominent comprehension of stakeholder theory it is crucial to analyze the macro-environment, otherwise known as the external environment, of both Denmark and China in order to establish the fundamental and outermost boundaries of the analysis. By analyzing each market in comparison with one another according to their external environment it will be possible to manage the probable changes and behavior of the environment (Mullins, 2002), primarily the regulations and growth opportunities. Thus it is possible to consider the impact on the Chinese stakeholders’ value perception with reference to Carlsberg’s acquisition of Chongqing Brewery.

The PESTEL Framework

According to Johnson et al. (2008) the most common method of analysis for the macro-environment is the PESTEL framework, which provides imperative data useful for establishing and implementing a certain strategy (Rudolph, 2005), in this case the acquisition of Chongqing Brewery by Carlsberg. The PESTEL analysis separates the macro-environment into six separate categories in an attempt to cover all possible influences on a corporation. The six categories introduced are: political, economic, social, technological, environmental, and legal. Due to the similarity of the political and legal factors these will be analyzed jointly. The external analysis will not be all-inclusive and will only touch upon the areas specifically important to the beer industry.

The Danish and Chinese markets will be analyzed in order to establish the grounds for the acquisition of Chongqing Brewery. Consequently, focus will be on Denmark and the surrounding European market of which Carlsberg operates within. Additionally, the Chinese market will be analyzed in order to demonstrate the possible effects and influences that it has on Carlsberg’s acquisition. Through the conduction of an analysis of the macro-environment in correspondence to Carlsberg, vital information will be revealed (Aguilar, 1967; Auster & Choo, 1993) of which can be used for further cultural analysis and its influences on stakeholders.
**Political and Legal Factors**

The primary political factors consist of safety regulations, tax principles, and marketing regulations and will be interpreted in this specific order in conjunction with the legal factors concerning health and safety as well as consumer protection. According to Fahey and Narayanan (1986) the political and legal factors are the most dynamic and volatile in the external environment. In recent times the matter of public health has frequently been up for debate among politicians especially within the field of alcohol consumption and its impact on the general health of consumers. As a result governments have implemented restrictive alcohol policies.

In 2006, the European Union (EU) implemented a strategy in order to support the reduction of alcohol-related harm in member states. This was an attempt to protect the young, prevent alcohol related harm among adults as well as the negative impact of alcohol on the workplace, reducing alcohol-related driving accidents, and creating awareness about the harmful impact of alcohol consumption (WHO, 2012a). In spite of these actions, statistics collected by the World Health Organization in 2012 show that the EU is the region currently with the highest alcohol consumption and thus it was clear that further political intervention was a must. Recently, a new European Action Plan was introduced in order to further reduce the harmful use of alcohol and will run from 2012-2020 (WHO, 2012b).

In comparison, as a result of China’s weak alcohol policies the level of alcohol consumption in China has been increasing more swiftly than in any other part of the world (Tang et al., 2013). An example of how weak the alcohol policies are within China is the fact that China has no enforceable legal drinking age, nor do they regulate when or where alcohol products are sold (Tang et al., 2013). In China very few policies can be successful without the direct involvement and support of the central government and with the scant attention that policy-makers have given the subject of alcohol it will take long before this matter is subject to change (Zhang, 2007). Furthermore, according to Zhang (2007) the alcohol industry is an important driver behind China’s national economic growth and thus policies are likely to remain inadequate. This inadequacy in the Chinese political agenda presented opportunity for Carlsberg in comparison to the highly regulated EU market.

The taxation of alcohol is conducted primarily in the form of value added tax (VAT), which serves several purposes such as generating government revenue, acting as
a trade incentive or barrier, and as a lever for public health goals, such as the above mentioned and can be used as a general regulatory framework (ICAP, 2013). According to The Danish Brewery Association (2014), the level of VAT varies across Europe with Denmark topping the chart at 25% together with Norway, Sweden, Croatia, and Hungary. The predominant reason behind the high level of VAT in Denmark and its direct effect on the cost of alcohol complies with the above-mentioned policies in order to reduce the harmful influence of alcohol. In 2001, the Chinese government adopted new tax policies to increase revenues, however this resulted in the opposite effect and already in 2006 these policies were discontinued (Tang et al., 2013). The level of VAT in China is 17% (China Sales Tax Rate, 2015) and is thus significantly lower than Denmark. This considerably increases the attractiveness of the Chinese market when compared to the European market.

Lastly, it has been widely debated whether or not casual exposure to alcoholic marketing can be linked to an increase in consumption of alcohol. “The marketing of alcohol beverages is a multifaceted, strategic and long-term endeavor which starts with product development and innovation and uses commercial communications to extol the benefits of, and remove barriers to, consumption” (Hastings et al., 2010, p. 184). According to Saffer and Dave (2004), alcohol marketing can result in an increased likelihood of consumption and hence future health related problems. The Danish Brewery Association (2013) amplifies the necessity for specific regulations on alcohol marketing and emphasizes that the ‘enforcement committee’, established by the Ministry of Economic Affairs, has employed the current regulations in Denmark since year 2000. An example of these regulations include that marketing may never occur before children under the age of 18. Similarly, China has issued regulations controlling the marketing and advertising of alcohol, however its enforcement has been weak and violations occur regularly. An example thereof is commercials involving alcohol being premiered during prime time and presenting misleading information. (Zhang, 2012). Carlsberg is thus able to advertise and market their products more liberally without violating specific government policies. The political and legal factors clearly present challenges for Carlsberg within the European market and can therefore be recognized as one of the multiple reasons as to why Carlsberg is attracted to the Asian market.
**Economic Factors**

The economic factors consist of economic growth, exchange rate, and inflation. In the last few years the European brewing industry has been challenged by the financial crisis resulting in a reduction in the consumption of beer, as consumers are visiting restaurants and bars less frequently. This has primarily struck the traditional middle market that Carlsberg operates and functions within (Canadean, 2013). According to the CEO of Carlsberg, Jørgen Buhl Rasmussen (cited from Wei et al., 2012), the European market is not completely recession proof and the current environment should be approached with caution as it has been experiencing a stable declining trend. In relation to Denmark the level of alcohol consumption has been steadily decreasing over the past 20 years (The Danish Brewery Association, 2013). As a result, Carlsberg is looking towards boosting investment in emerging markets with high growth potential, in this case, through the acquisition of Chongqing Brewery (cited from Wei et al., 2012, from Jørgen Buhl Rasmussen) Furthermore, a steady declining gross domestic product (GDP) as well as an accelerating inflation rate within European operating markets has applied overall pressure to the brewing industry (Carlsberg Group Annual Report 2014). Consequently, this lead to Carlsberg’s full acquisition of Chongqing Brewery.

Lastly, currency rates have in recent years been highly volatile and in many European countries this has resulted in currency devaluation (Carlsberg Group Annual Report 2014). To elaborate, Carlsberg has announced a cost-effectiveness strategy as well as goals to increase further investment outside Europe specifically in Asia (Carlsberg Group Annual Report 2014). The economic factors display a clearly stagnating and maturing European market and an increasingly attractive Asian market offering prosperity and continuous future growth.

**Social Factors**

Social factors reveal the consumption habits/cultural norms and the demographics of a country. The consumption habits/cultural norms influence alcohol on various aspects including where, how, and when it is suitable to consume (Ahern et al., 2008; Heath, 2000; Wild, 2002). Denmark and Europe in general have a high level of alcohol consumption and have a very liberal standpoint concerning this matter (World Advertising Research Center, 2005). The consumption habits of China have dramatically changed over the course of recent years. Initially alcohol was only consumed within
‘traditionally accepted’ surroundings, such as during major social events (Hao et al., 2005). Alcoholic beverages, especially beer, are now being consumed in relation to leisure activities to a much larger extent (Cochrane et al., 2003). These findings are well associated with the actuality that China is slowly yet surely adopting a more liberal standpoint in relation to alcohol (Bryden et al., 2012). Carlsberg is in the perfect position after acquiring Chongqing Brewery to exploit this increasing liberal standpoint as well as China’s growing market.

The demographics investigated primarily constitute of the global population aging as mortality and fertility levels are declining, also referred to as the demographic transition, (Population Division, n.d.) and a similar trend has been noticed concerning disposable income. The consequence that this imposes on Carlsberg is that the aging population in general consumes less beer (Older People and Alcohol Factsheet, 2013) and thus Carlsberg must look for alternative markets in order to increase market share. Furthermore, the economic boom in China has resulted in a rising middle class with an increase in income, which allows consumers to afford premium local beers as well as foreign-branded beer (Pingali, 2011). Carlsberg is in the perfect position to take advantage of this increasing trend through the acquisition of Chongqing Brewery, as they will be able to supply the Chinese middle class with premium local and foreign-branded beers and thus obtain a bite of the market share.

**Technological Factors**

The technological factors will take into account the level of research and development (R&D), the technological advancement and the degree of innovation present in both Denmark and China.

According to the Research and Innovation Indicators (2014), Denmark is among the highest ranked OECD countries with regard to research and development. The importance of R&D has been well explained by Nielsen (2014, para. 5) in the following quote: “Research is an important building block for future-proofing our society and Denmark is well positioned when compared internationally. This is good, but it is also important to the government that we continue to be even better at translating new knowledge to developing new solutions and products, while also maintaining a high level of research”. Carlsberg has a firm understanding that R&D as well as technological advancement is a necessity in order to operate internationally and thus in 2001
established a R&D department under the Carlsberg Research Center (Carlsberg Research Center, 2001). Similarly, China is well aware of the importance of technological R&D and as its economy continues to grow and prosper so does their R&D spending (Wu, 2015).

Furthermore, according to Carlsberg innovation is a key strategic priority and is a vital driver for success in the beer industry (Carlsberg Group Annual Report, 2014). The primary motive for this is that in order to satisfy customer needs and preferences, they must be introduced to new experiences and thus a broad brand portfolio is necessary (Carlsberg Group Annual Report, 2014). Subsequently, China is accompanying Europe and thus Carlsberg with similar visions regarding technological innovation. In 2011, scientific advances contributed to over half of China’s economic growth and they are expecting that this can render solutions to many challenges they may face including advancements within their industrial base (Wu, 2015). Lastly, it is important to mention that Carlsberg can utilize technological transfer, which is vital to expanding their global integration. To simplify, Carlsberg will be able to utilize and transfer their R&D as well as their innovative solutions to their newly acquired Chongqing Brewery in China.

**Environmental Factors**

The fundamental factors of the environmental segment are concerned with waste management and conducting ‘green’ practices. Throughout recent years there has been an increasing public awareness concerning the impact of organizations on the environment and the need for implementing ‘green’ practices in order to cope with this progressive challenge (The Danish Government, 2010). The Danish Government (2010) has also announced that when the opportunity arises to conduct green growth in order to protect the environment it must applied.

The Carlsberg Group has done well in conducting and developing ‘green’ practices in order to ensure the sustainability of the environment. According to The Board at Carlsberg they are engaging in the development of responsible as well as sustainable solutions in order to protect the environment as well as their long-term profitability (Carlsberg Group Annual Report, 2014). In 2011, Carlsberg introduced a three-year target plan aimed at reducing energy and water consumption at their various production sites (Carlsberg Group CSR Report, 2013). In addition, Carlsberg has been
implementing a circular economy approach in order to reduce CO2 emission through efficiently managing their packaging processes as well as collaborating with partners such as Water Benefit in order to develop new approaches to collectively manage water scarcity (Carlsberg CSR Report, 2014).

In 2014, Carlsberg’s primary focus was on improving their environmental and safety management operations at Chongqing Brewery. This was performed through an intensive implementation of acquired expertise and the deployment of internal experts from local companies in order to conduct environmental as well as health and safety audits to identify areas of improvement (Carlsberg Group Annual Report, 2014). These actions are especially important in today’s society in order to establish a firm ground for global expansion and especially considering Carlsberg’s operations within China. China is a forthcoming ‘green’ practicing and environment-friendly society. In 2010, an international green industry expo was held in China in order to open up for a new future as well as express the wish for foreign organizations to consider exploring their new upcoming environmentally green market (Xinhua, 2010).

**Summary and Critique of the Macro-Environment Analysis**

From the perspective of the PESTEL framework in relation to Carlsberg’s acquisition of Chongqing Brewery the macro-environment of both Denmark and China has been analyzed. There is a clear declining trend roaming the European market and a possible future full of challenges and thus it is clear that Carlsberg must look elsewhere in order to conduct business and remain competitive. China is a prosperous country with a sharp inclining future growth and through the acquisition of Chongqing Brewery Carlsberg has established a firm footprint within China. The macro-environment provides the outer boundaries for the analysis and is necessary to have established before conducting further analysis concerning possible influences on the Chinese stakeholders.

When developing and conducting a PESTEL analysis it is especially vital to consider the possible limitations and thereby critique it with an open mind. According to MacMillan and Tampoe (2000) the PESTEL framework is developed on the basis of historical data in order to predict the future environment and thus poses possible challenges to its applicability. Furthermore, the analyzed external factors according to Lynch (2006) can be nearly uncontrollable. These constant changes in the environment
can make it nearly impossible to predict which strategic choices to implement (Johnson et al., 2008). Despite of these possible limitations the PESTEL framework is still considered the preeminent choice in order to analyze the macro-environment. This is because it incorporates several factors that can influence Carlsberg’s decision to enter the Chinese market. Furthermore they can indirectly influence the Chinese stakeholders’ value perception. Thus the authors see the PESTEL analysis as an essential base before further looking into the environment and culture.

**Micro-environment**

Once the macro-environment has been analyzed it is crucial to obtain an understanding of the micro-environment, otherwise referred to as the internal environment, and its influences on the beer industry as well as Carlsberg’s functioning within it. In order to comprehend the micro-environment Porter’s five forces framework will be applied. Conducting such an analysis will reveal the competition within the beer industry as well as provide an understanding for Carlsberg’s business strategy with regard to its acquisition of Chongqing Brewery. The framework derives five forces that can be utilized to display the attractiveness of the market and possible new/future markets (Porter, 1980), such as the attractiveness of operating within the Chinese market.

**Porter’s Five Forces Framework**

The internal market environment analysis will take departure in the major global players competing within the beer industry, and thus leave out any possible influence from small domestic organizations. The five forces that shape the analysis are threat of entry, the power of suppliers, the power of buyers, the threat of substitutes, and the rivalry among existing competitors. Interpreting these forces efficiently will provide Carlsberg with a chance to establish themselves in a prominent market, such as the Chinese (Porter, 2008). This has provided Carlsberg with a first mover advantage in Western China (The Carlsberg Group, 2015).

**Threat of Entry**

New competitors attempting to enter the beer industry will wish to obtain market share, which evidently forces pressure on many aspects of already present organizations. This pressure can be in the form of price competition, increased costs,
new investments, and most importantly the need to expand globally in order to thrive. These new entrants thus impose a cap on the profit potential within the industry. The degree of threat significantly depends on the present scale of entry barriers as well as the anticipated reaction from the incumbents currently occupying the industry (Porter, 2008). According to Porter (2008), the fundamental barriers comprise of economies of scale, customer switching costs, capital requirements, incumbency advantages independent of size, as well as unequal access to distribution channels.

Already established companies such as Carlsberg can take advantage of economies of scale. The larger companies produce in larger quantities and consequently benefit from having lower costs per unit, which imposes pressure on the new entrants that must adhere to a cost disadvantage (Porter, 1980).

Customer switching costs are fixed costs that customers must endure when switching from one product to another. Within the brewing industry there are several variants of alcoholic drinks available. However, even when solely focusing on the beer industry there is intense diversity and thus many variants and brands to choose from resulting in low switching costs. In Carlsberg’s case, in order to live up to customers’ expectations and desires for a varying experience a strong brand portfolio was developed, specifically focusing on both their premium brands and the strong local power brands in order to adhere to varying cultures and tastes (Carlsberg Group Annual Report, 2014).

The requirement to invest large financial resources in order to compete within the beer industry discourages new entrants. Within the brewing industry there are only a handful of major players and thus it is extremely difficult for new entrants to enter as well as raise the capital requirements needed to become a renowned brand (Bon, 2014).

Incumbency advantages independent of size primarily consist of technological advances, favorable geographic locations, brand image, and cumulative experience (Porter, 2008). Companies that have existed within the brewing industry for decades have developed technology well suited for the brewing industry as well as having established their preferred geographic locations through possible M&A, such as Carlsberg. Furthermore, the major players within the industry have established well-known brands that can be incredibly hard to compete against and even worse, these companies will have obtained profound experience within the field making it difficult for new entrants to enter.
The last primary barrier that new entrants will face is unequal access to distribution channels. New entrants must obtain shelf space within supermarkets, which is a highly competitive factor influencing the possible distribution of products. According to Porter (1980), existing companies will already have established exclusive agreements with distributors in order to retain their position.

The threat of entry within the beer industry according to the above barriers is low and thus the competition will primarily be between the major players. Carlsberg's acquisition of Chongqing Brewery is thus a smart strategic move in order to obtain greater market share as well as a strong position globally.

**The Power of Suppliers**

The power of suppliers is comprised of several components, but predominantly the quality of the raw material delivered and the amount of suppliers available (Porter, 2008). The quality of the raw material is especially important, as quality is one of the major distinguishers between the major players. According to the Carlsberg Annual Report (2014), delivering top-quality products is a necessity in order to compete globally. If the raw materials received do not pass standards there are several other available suppliers, both domestically as well as globally, that Carlsberg can utilize and this thus does not pose a challenge. The volume of raw materials required by the larger companies furthermore strengthens their position regarding suppliers. The raw materials needed for brewing beer are neither particularly exclusive nor rare and thus the power of suppliers is low since switching costs for a major company would be low. Carlsberg’s acquisition of Chongqing Brewery thus strengthens their position on the world scene even further. Additionally it provides them with the ability to establish connections with new suppliers, as well as benefitting from Chongqing’s already established ones. This can result in Carlsberg being able to drive down raw material prices (Porter, 1980).

**The Power of Buyers**

The power of buyers in large involves two types of buyers, the retailers (B2B), otherwise referred to as the supermarkets, and the immediate buyers (B2C). Supermarket chains are able to exploit their buyer power due to their size (Porter, 1980; 2008), as it would be catastrophic for a company such as Carlsberg to be neglected sales rights within major supermarkets in China. Consequently, it is
important for Carlsberg to have good connections with several retailers domestically as well as globally, in order to avoid sudden drops within specific markets.

The immediate buyers are able to exploit their buying power in order to receive a higher quality product for a lower price. This is specifically due to the low switching costs between beers and providers must vary their brand portfolio accordingly. By operating in several regions and with a well-established strong brand portfolio Carlsberg has been able to compete efficiently (Carlsberg Annual Report, 2014).

**The Threat of Substitutes**

The general market for alcohol is composed of numerous alternative alcoholic beverages such as cider, wine, premium beer, and standard beer that all vary according to several measures that can range from quality to volume to price, etc. It is particularly important for organizations operating within the beer industry to differentiate themselves from substitutes through performance optimization, marketing, innovation, or other means to prevent loss of profit and growth. The threat of substitutes is primarily high when there is an attractive price performance trade off present and/or when the switching costs are considered low (Porter, 2008).

The alcoholic beverage market is known for its low switching costs due to the variety of products and therefore switching from one product to another involves minimal costs (Porter, 2008). This strongly influences the possible pricing cap on beer and as a result a differentiated and innovative brand portfolio is a must in order to retain customers. Furthermore, these caps can vary among markets and as a result being well positioned on several markets such as Carlsberg is, provides a competitive advantage compared to other global breweries (Porter, 2008). The threat of substitutes in the beer industry is high, yet Carlsberg has managed to diversify as well as innovatively brand their beer in several profitably and prosperous markets, especially within China (Carlsberg Annual Report, 2014)

**Rivalry Among Existing Competitors**

The rivalry among existing competitors will primarily be based on the larger competitors in comparison to including microbreweries as well. According to Porter (2008), an industry’s profit potential is contingent with the degree of rivalry among competitors and depends on the intensity and the basis of which they compete. The intensity is dependent on the amount and size of competitors, the growth within the
industry, and the commitment of rivals. Emphasizing on the larger competitors indicates that there are only few large global providers such as Anheuser-Busch InBev (20.6%), SABMiller (9.7%), Heineken (9.2%), Carlsberg (5.7%), and China Resources Enterprise (5.6%) that comprise over 50% of the market share in the brewing industry (Boroujerdi, 2014).

The growth within the industry is in large dependent on the market in focus. With reference to the macro-environment analysis it is evident that the European market is slowly stagnating, which results in fierce rivalry in order to withhold market share as can be seen by the targeting of the Asian market. Lastly, the commitment of the rivals involves going beyond economic measures. According to Carlsberg Groups Annual Report (2014), the market is under pressure and customers are demanding promotions and other favorable trade terms. Consequently it is a must for the larger breweries to involve themselves with the customers and their preferences in order to obtain market share globally.

The basis of which rivals compete and whether or not they coincide on these dimensions can influence the profitability of the industry. If competitors compete solely on price it can be catastrophic on the industry's profitability. However, this can often occur, as price is the easiest dimension to modify for an organization (Porter, 2008). When products are similar and customers have few switching costs price competition is likely to occur. Competition on other dimensions such as product features, delivery time, and product service is unlikely to occur within the brewing industry as it may support higher prices for the customers (Porter, 2008). In the brewing industry all competitors seek to meet similar goals and needs and thus zero-sum competition can occur (Porter, 2008). When zero-sum competition occurs one firm's loss is another firm’s gain, which inevitably enforces the wish to expand beyond domestic markets.

Summary and Critique of the Micro-Environment Analysis

On the basis of Porter’s five forces framework there is a clear indication of the fierce competitiveness of the beer industry and the need to operate globally. It is important to keep in mind that the primary focus is on the major players and not the microbreweries within the industry. The entry barriers for the beer industry are extremely high resulting in a low threat of entry and as a result competition is predominantly between the major players. The power of suppliers is low as well, which
strengthens the position of the major companies. However, the power of buyers is high which consequently is a result of their importance to the companies as a source of distribution, as well as due to the low switching costs for immediate customers. The threat of substitutes and the rivalry among competitors is exceptionally high due to the variety of alcoholic beverages and the similar goals in regard to intensity and basis for competition.

When utilizing Porter's five forces framework it is crucial to understand its limitations and consider it throughout the analysis. Porter's five forces framework is applied according to the assumption that the market structure is static, however in today's society the market structure can be exceedingly dynamic (Porter, 1980) due to several dimensions such as technology and innovation. Regardless of the limitations of the Porter's five forces framework it was determined that it was the best choice in order to conduct an analysis of the micro-environment. The reason for this is that it functions well in the presence of supporting frameworks such as the PESTEL analysis used to analyze the macro-environment in order to develop an efficient analysis.
Theoretical Framework for National Culture Analysis

The environment that Carlsberg operates within as well as the basis for the acquisition of Chongqing Brewery has now been firmly established resulting in a shift of focus towards the cultural aspects of the study in order to thoroughly answer the research question. In order to comprehend this section it is important to clarify the definition of culture applied: “Culture is a set of basic assumptions and values, orientations to life, beliefs, policies, procedures and behavioral conventions that are shared by a group of people, and that influence, but do not determine, each member’s behavior and his/her interpretations of the ‘meaning’ of other people’s behavior” (Spencer-Oatey, 2008). The cultural definition can be interpreted based on key traits: First there is a clear element of group distinction separating people of one group from another and secondly the definition suggests that the aspects of culture are not obtained by birth but through interaction. Lastly, it is the perceived bond of what behavior is acceptable that characterizes cultures (Ghemawat & Reiche, 2011).

Cultural differences in relation to M&A have been discussed and effectively studied by numerous researchers and can be linked to distrust between merging organizations, hostility and confusion among employees (Buono & Bowditch, 1989; Cartwright, 1997; Krug & Nigh, 2001). Furthermore, cultural differences can be a critical factor in the high level of failure rates of M&As (Datta et al., 1992). Consequently, it is clear that the perseverance of cultural differences is a crucial element to consider, especially for large multinational corporations that operate continuously within various national cultures. This situation directly relates to Carlsberg and its operations within China with regard to its newly acquired brewery and the complexity they will face in the attempt of transferring practices to a new cultural setting. The stakeholders, particularly the employees and customers, will be strongly influenced and it is therefore vital to examine and compare the national cultures of Denmark and China.

Many theorists (e.g. Kluckhohn and Strodtbeck, 1961; Hofstede, 1980; Hampden-Turner & Trompenaars, 1997; Hall, 1976) have systematically studied the concept of national culture and discussed whether or not it should be regarded as homogenous or heterogeneous. Nonetheless, most theorists throughout their analytical frameworks worked under the conceptualization that the national culture is homogenous and as a result will be considered accordingly for this analysis. This thesis will however, in respect to national culture, strictly concentrate on the most known theory of national
culture: Hofstede’s Cultural Dimensions Theory (Hofstede, 1980). Hofstede’s theory was chosen as the fundamental approach as it provides quantitative data well suited for comparison in order to interpret the national cultures. Other applicable theories, despite a similar interpretative approach, lack the quantitative support and the ability to properly measure the national cultural differences between Denmark and China.

**Hofstede’s Cultural Dimensions Theory**

Hofstede’s cultural dimensions primarily originate from his anthropological research conducted in the 1970s-80s (Tamas, 2007). The theory is established based on the relationship between employees at IBM and includes more than 70 countries and 40 cultures (Jensen, 2003). Hofstede collected the quantitative data through surveys where employees had to respond according to value scores (Hofstede, 1980). These results enabled him to determine scores for the national cultures along four cultural dimensions (Hofstede, 1980) or by the challenges that represent the differences among national cultures (Hofstede, 1997). In 1991, Michael Harris Bond with the support of Hofstede, extended the theory and added a fifth dimension in order to understand the Confucian way of thinking (Hofstede, 2001). In 2010, a sixth dimension was added regarding indulgence (The Hofstede Centre, 2012), but due to the little recognition it has gained the authors chose to exclude it in the analysis. Thus the five dimensions of Hofstede’s Cultural Dimensions Theory that will be utilized in this thesis are power distance index (PDI), individualism vs. collectivism (IDV), masculinity vs. femininity (MAS), uncertainty avoidance index (UAI), and long-term orientation vs. short-term orientation (LTO). According to Hofstede (1980) these cultural dimensions represent the distances between national cultures and can be used to predict potential challenges that will arise in cross-cultural contact. Thus it is well fitted to apply in a M&A context as the cultural distances can have an extensive impact concerning the ability to manage a foreign acquired company and thus the chance of success (Kogut & Singh, 1988). The five dimensions are measured according to a scale from zero to 100 in order to provide a standard measure for national cultural differences.
Figure 1: Hofstede’s Cultural Dimension - Comparing Denmark and China (The Hofstede Centre, 2012a)

**Power Distance Index (PDI)**

Power distance according to Hofstede (1994) constitutes the degree to which the lesser powerful members of a culture accept and expect that power be distributed unequally among members of the society. The research that Hofstede conducted among the employees of IBM primarily promoted questions regarding the type of leadership style preferred and the employees ability to express themselves under such leadership style (Hofstede, 1980).

According to *figure 1* it is clear that the cultures of Denmark and China according to the PDI are extremely different as Denmark scores a value of 18, while China scores 80. What this signals is that the Danish culture is portrayed with a low power distance, which indicates that power is more equally distributed and people are viewed as equals
with respect to individual rights. Furthermore the level of dependence is low throughout the community and already from an early age children are raised with a specific mindset that primarily supports the fact that authorities should be questioned (Hofstede, 1999). Within a low power distance culture managers practice the ‘open-door’ concept in which subordinates can freely approach their managers with concerns without the need for specific approval. The working environment is furthermore classified as egalitarian where power is decentralized and managers consult the subordinates with respect to influential changes within the environment (The Hofstede Centre, 2012a).

China which scores in the higher end of the spectrum has a fundamental attitude that expresses the notion that power differences are bound to occur and thus should not be resisted. Inequalities among managers and subordinates should be accepted within the work environment and employees as a result have no desire to fulfill additional responsibilities outside their position (The Hofstede Centre, 2012b). Within the Chinese culture the age of individuals is considered important, as age is a source of knowledge. However, this may hinder the upward communication within the organization as hierarchy is highly respected, resulting in employees expressing signs of intimidation. This type of human behavior in which individuals are defined according to the conformity of tradition as well as specified roles is a clear expression of China’s Confucian way of thinking (Berling, 1982).

In relation to the presented case concerning Carlsberg’s acquisition of Chongqing Brewery, conflicts are likely to occur between employees, specifically in regard to the relationship between subordinates and managers. The Danish and Chinese cultures vary greatly according to the value score and therefore Chinese stakeholders will be strongly influenced if the leadership style within Chongqing Brewery is to shift towards a low power distance. This is due to the reason that societies construct a preference for a distinct leadership style that is applicable depending on the ranking within the power distance dimension. In Denmark managers are usually younger than those in China, which can lead to challenges with respect to authority and delegation of tasks. Additionally, the structure and function of the acquired company will be influenced as Danes have their explicit portrayal of how the company should operate (Kessapidou & Varsakelis, 2002). Carlsberg must be highly considerate before making any major strategic decisions regarding the functioning, as it will have a direct effect on the
stakeholders. The internal stakeholders, employees, must be able to identify themselves with the company in order to commit to the objectives and consequently organizational commitment determines the willingness for employees to work in the future (Kinicki & Kreitner, 2003). The external stakeholders, customers, must also be considered in the process, as without them there would be no business. According to Ghemawat and Reiche (2011), generally businesses that sell to other businesses are more sensitive to cultural differences in comparison to businesses that sell directly to the actual consumer. Carlsberg will have to sell their products across Chinese local retailers and therefore must market their products appropriately to Chinese norms and cultural values. High power distance cultures correspond with consumers making purchasing decisions based on emotion rather than information provided and as a result Carlsberg will face implications regarding advertising as well as other aspects of marketing.

**Individualism vs. Collectivism (IDV)**

Individualism vs. collectivism is the second dimension introduced by Hofstede (1980) and addresses the degree to which a society practices interdependence among its members. According to The Hofstede Centre (2012a) the notion of individualism and collectivism can be portrayed as the perceived self-image in the terms of ‘I’ and ‘We’. What this indicates is that societies that follow the more individualistic view are primarily concerned with themselves and their immediate families, whereas societies following the collectivistic view emphasize belongingness to groups and the exchange of mutual care for loyalty.

Denmark, with a score of 74 can be classified as an individualistic culture that fundamentally follows a loosely knit societal framework (The Hofstede Centre, 2012a). The ramification of this implies that the Danish culture praises the ability to develop individually and thereby achieve individual fulfillment, which in an organizational context advocates the creative mind and the desire to take initiative. These factors are demonstrated in the attitude towards work that the employees portray and their will to indulge themselves in responsibility beyond their own standing.

In comparison, China scoring only 20 on the IDV dimension can therefore be classified as a collectivist culture. Each individual is expected to conform to society and as a result prioritize the common goal of the group over oneself. The Chinese already at an early age learn to distinguish between in- and out-group members and are taught to
respect the group of which they belong. According to Hofstede (1994) the strong need for loyalty within the collective culture originates from the assumption that they don’t expect to stand alone. This type of continuous relationship building can be referred to as guanxi, which in the literal sense means ‘relationships’ (Tian, 2007). Guanxi is seen as a must have in order to function within the Chinese collectivist culture and consequently if not quickly adapted to may ensure an excluded life within the boundaries of China (Seligman, 1999).

Differences in individualism and collectivism between Denmark and China are expected to influence the cross-cultural cooperation throughout the entire integrative process. The functioning of Chongqing Brewery post-integration and the culture within the company can become highly strained if the organizational culture does not complement the Chinese national culture. The implications that the Chinese collectivist culture poses must be acknowledged and furthermore somewhat adapted into Carlsberg’s cultural assimilation approach, as Western management styles will become less applicable (Wong, 2001). The concept of guanxi can be portrayed as one of the most prominent characteristics of Chinese culture and therefore Carlsberg must consider its importance (Tian, 2007). If the stakeholders, both the customers and the employees, obtain the perspective that Carlsberg is not adequately acculturating within the Chinese norms both their pre- and post-integrative tasks may have been in vain. The collectivist society emphasizes loyalty and Carlsberg being ‘new’ within China can imply risk. Carlsberg will have to become localized, as customers, including both retailers and consumers, are likely to support their local brands. This supports the necessity of performing both an external and internal environmental scanning upon entering a foreign market as has been conducted through the PESTEL and Porter’s five forces framework earlier (Tian, 2007).

**Masculinity vs. Femininity (MAS)**

The third dimension introduced by Hofstede is MAS and entails the level of competitiveness within the social norm in relation to the values of which one strives to achieve (The Hofstede Centre, 2012a). A masculine society can be characterized according to the saying that the members ‘live to work’ meaning that their lives center around their work and career, whereas a more feminine society can be classified according to the saying that the members ‘work to live’, which refers to the notion that
work is only a means to an end, not an end in itself (Kolakowski, 2015). The latter fits well with the nurturing and caring understanding of the feminine culture and the wish for a life with quality. A further distinction between a masculine and feminine culture involves the classification of gender roles. In a masculine society men are expected to be achievement oriented and assert a tough shell while the women are to express ‘softer’ values. In the feminine society gender role distinctions are much less clear and both men and women express ‘hard’ and ‘soft’ values (The Hofstede Centre, 2012a).

Denmark can be classified as a feminine culture with a value score of 16 compared to China’s value score of 66 putting them well towards a masculine culture. Within the work environment managers are supportive in respect to their subordinates and decisions are reached through involvement of all levels. This emphasizes that if conflict occurs it is quickly resolved by compromise and proper negotiation in order to reach consensus (The Hofstede Centre, 2012a). The employees respond highly to flexibility and equality as a method of measuring the quality of their work life.

On the other hand, China emphasizes the traits of a masculine culture and are therefore driven by long working hours in order to provide for their family. This indicates that employees deprioritize leisure time as well as family time, which expresses a success oriented and driven culture (The Hofstede Centre, 2012b). Furthermore, there is a clear distinction between men and women within the working environment due to the role of gender within the Chinese society. Men are seen as more driven while females are seen as the more nurturing half and as a result organizations emphasize the recruitment of men.

The masculine and feminine distinctions result in a variety of challenges for organizations looking to cross borders into China. Carlsberg will have to face the challenge of acquiring an organization that operates within a masculine society and as a result will impact the Chinese stakeholders’ value perception of the work environment. Carlsberg will have to consider the possible influence that implementing a feminine culture will have as Chinese stakeholders have adapted to the ‘do what you are told without questioning’ concept (Cartwright & Gale, 1995). By implementing a work environment that emphasizes involvement, employees will become insecure and feel that their surroundings are out of control. The differences in the cultural society concerning gender roles can furthermore influence the work environment and
consequently the Chinese stakeholders. According to a cross-cultural comparison conducted by Jones and Lin (2001), the attitudes of Chinese employees toward women as managers were negatively conceived. These results were strongly correlated to the strong cultural values that women should contribute to the overall well-being of the family and thereby express diligence. The Westernized perception of female managers is loose and accepted, and therefore Carlsberg will have to consider to which degree they will be deploying female managers to their newly acquired brewery. Moreover, the masculine culture of China differs greatly from the feminine culture of Denmark and as a result influences the customer behavior that Carlsberg is accustomed to. Customers belonging to masculine societies have a tendency to deploy relational market behaviors in regard to brands, products, and organizations (Arnold & Bianchi, 2001). To elaborate, it is generally the women in China that manage what is purchased in comparison to Denmark where it is to a large extent neutral. Consequently, this will influence the fundamentals of Carlsberg’s marketing, as they will have to construct relations more oriented towards the women. Women in general consume less beer than men and therefore may disregard any relations to the product as well as the organization. Findings by Chang (2006) support the argumentation by emphasizing that masculine cultures predominantly prefer marketing with a utilitarian appeal. A second factor that influences a customer’s perception is that the masculine society disregards leisure time, which is generally associated with alcohol consumption and will respectively influence Carlsberg’s strategy.

**Uncertainty Avoidance Index (UAI)**

The fourth dimension introduced by Hofstede (1980) is the UAI and involves the degree to which society can cope with the notion that the future can never be predicted. Different cultures have learnt different methods in how to deal with this portrayal of ambiguity and thereby deal with the anxiety that follows (The Hofstede Centre, 2012a). Cultures that exhibit a low degree of uncertainty avoidance are more tolerant toward rapid changes and are more adaptable to alterations within the organizational structure. On the other hand, cultures that show a high degree of uncertainty avoidance attempt to reduce possible influences by keeping their environment stable and controlled. Within such a society there is a need for strong regulations and law, which is generally anticipated within a rule-oriented culture.
With a score of 23 Denmark scores low on the UAI dimension. This demonstrates that the Danish culture can function without much need for either structure or predictability throughout life. In an organizational context objectives can change quickly, however this will have no major influence on the functioning of the everyday operations, as the employees view this as the norm and just merely adapt to the changes. The low uncertainty score goes hand in hand with the individualistic approach to life that Danes follow. The members of society are encouraged to think independently, innovatively, and creatively without the strain of ambiguity (The Hofstede Centre, 2012a). Furthermore, the low uncertainty score is reflected at the workplace among employees in that there are no stupid questions or doubts. This provides an open forum in which employees can raise possible concerns.

With a score of 30 China scores similarly to Denmark and can therefore be portrayed as a culture with low uncertainty. The low uncertainty partly stems from the idea that Chinese cultural norms have remained homogenous throughout time and as a result are deeply imbedded within the society. Members of the society are accordingly aware that the cultural norms are static which implies a certain degree of control and stability. The Hofstede Centre (2012b) elaborates by emphasizing that rules and laws are flexible according to the actual situation and that pragmatism is a natural part of life.

Denmark and China both score similarly according to their uncertainty avoidance and this thus creates a good fundament for Carlsberg since both cultures are accepting towards change. Carlsberg’s acquisition of Chongqing Brewery will definitely bring change to the operations and functioning and directly influence the perception of the Chinese stakeholders. Despite the Chinese society thriving on low uncertainty possible changes in the company structure will likely decrease stability and long-term job orientation and consequently negatively influence the Chinese employees by increasing ambiguity among them. Carlsberg being a foreign investor and consequently bringing in a foreign brand may not imply that big of a negative influence on the Chinese customers, as they have through recent times expressed an interest in foreign brands.

**Long-term Orientation vs. Short-term Orientation (LTO)**

Long-term orientation vs. short-term orientation is the fifth dimension according to Hofstede’s Cultural Dimensions Theory and has previously been referred to as
Confucian Dynamism. According to The Hofstede Centre (2012a) the fifth dimension describes how society must maintain some links with the past while continuously dealing with the challenges of the present and future. Cultures that are referred to as normative score low on the dimension as societal changes are viewed with suspicion. Additionally, traditions and norms are favored according to a more time-honoring perspective. Cultures scoring high take a more pragmatic procedure by preparing for the future.

The Danish culture is considered normative by scoring 35 on the dimension in comparison to China’s 87. Members of a normative culture respect standard traditions and are much less future-oriented. This indicates that the focus is to accomplish short-term goals by achieving quick results. Hofstede (2001) refers to the short-term oriented culture as past-oriented and as a result resembles a static society.

The Chinese culture is exceptionally long-term oriented and therefore emphasizes perseverance and the idea that the truth depends on the given situation. Members of the Chinese society highlight a tendency to save and invest for the future and therefore take on more pragmatic approach (The Hofstede Centre, 2012b). In an organizational context the element of Confucianism can be seen through the apparent work ethics in relation to the constant focus on long-term development and long-term strategic decisions.

There are a few aspects to be aware of in respect to Carlsberg and its future operations within a pragmatic culture. A positive characteristic regarding the long-term orientation of the Chinese is their future oriented perspective. In the organizational context this can provide an excellent foundation for long-term cooperation between all parts. The cultural differences may however also provide a basis for possible challenges. The Danish and Chinese cultures tackle tasks differently, primarily according to a time horizon, and can therefore disagree on core assignments. More importantly, the Chinese stakeholders may disagree with the direction of the company as they favor long-term development and not the typical short-term business decisions that Carlsberg is likely to implement. Additionally, depending on the type of approach, either the working speed or the details of assignments will be influenced. As the Danish culture’s normative approach is chosen as the predominant, it is ensured that details within the processes will not be lost as they are inspected frequently. In regard to customers Carlsberg will have to focus on the creation of relations in order to construct a long-
term position within China. Chinese customers emphasize the habit of sticking to cultural norms and as a result Carlsberg will have to integrate themselves into those surroundings and put forth a long-term oriented façade.

**Summary and Critique of Hofstede’s Cultural Dimensions Theory**

Hofstede’s Cultural Dimensions Theory has provided an understanding of the national culture of China in comparison to that of Denmark. The two cultures have been analyzed according to five dimensions: power distance index (PDI), individualism vs. collectivism (IDV), masculinity vs. femininity (MAS), uncertainty avoidance index (UAI), and long-term vs. short-term orientation (LTO). Denmark is a low PDI culture and follows an individualistic way of life. Furthermore, Denmark can be classified as a feminine culture with low uncertainty avoidance. Lastly, the Danish culture can be classified as a short-term oriented culture. The national cultures are significantly different on all aspects except uncertainty avoidance and therefore cultural clashes are bound to arise. Although Carlsberg employs full integration they will have to adapt their strategy to some extent, both internally and externally in respect to employees and customers in order to achieve a successful M&A.

Although Hofstede’s Cultural Dimensions Theory remains the most widely utilized approach in comparing and categorizing national cultures it is not without limitations. The most transparent weakness is the age of the data and as a result may not capture recent changes in the respective cultures. Moreover, when using Hofstede’s Cultural Dimensions Theory to understand and analyze national cultures one must acknowledge that the data has been collected from a single organization, which consequently provides a sense of bias towards the theory (Ghemawat & Reiche, 2011). Lastly, the idea that cultural distances are assumed homogeneous provides a limitation in that within the analysis intra-cultural variations are not accounted for.
Theoretical Framework for Organizational Culture Analysis

Although it was inferred in the literature review that national culture differences prevail over organizational culture differences in cross-border M&As, it is still necessary to familiarize oneself with the concept of organizational culture and its possible implications for Carlsberg. Research shows that once an organization has decided to go into an international M&A the top management becomes more aware of possible cultural differences and complications that can arise in the process than when conducting a domestic M&A. The main obstacle thus often becomes the national culture differences (e.g. Larsson & Risberg, 1998; Teerikangas & Very, 2003). This is due to national cultural traits being deeper enrooted in local stakeholders than the learned organizational cultural traits (Stahl & Voigt, 2004). As Hofstede (2001) has claimed, basic values are imprinted in one's mind by the age of 10 – values that are shaped by one's national culture – whilst organizational practices are learned through interactions when reaching adulthood and entering a workplace, at which point one already has most of his/her values in place. Accordingly, cultural differences on the national level are more vested in values, whereas cultural differences at the organizational level are vested in practices (Hofstede 2001). This can be elaborated on with Hatch’s (1993) observations about organizations being reflections of bigger cultural systems, and they need to be viewed as such in order to understand them. Thus to fully comprehend the dilemmas that can arise in cross-border M&As, the acquirer needs to be aware of both the national and organizational cultures that the acquired organization is affected by (Schein, 2004).

Definitions of culture vary widely between scholars (e.g. Hofstede, 1991; Schultz, 1995; Deal & Kennedy, 1999; Martin, 2002) without any being truer than the other, which shows perfectly how complex and loaded the term is, let alone when it is linked to another complex structure such as organizations (Bloisi et al., 2006). When stripped down to its simplest form, organizational culture is really just about how things tend to be done around the organization (Bower, 1966). In spite of this straightforward definition, pinpointing exact elements of the organizational culture within a firm can be a difficult task, as for older members of the organization these traits come automatically, whilst newcomers can have a tough time learning the routine and the do’s and don’ts (Deal & Kennedy, 1982). It is first when you compare the organizational culture with another organization’s culture that these specific traits become more
recognizable (Deal & Kennedy, 1982). This is in harmony with Hofstede's (2001) definition of cultural groups, which often has been applied to organizational culture, where he describes it as “The collective programming of the mind which distinguishes the members of one human group from another” (p. 9). It is important to note here, that although the core assumption of organizational culture seems to mostly refer to informal and formal surfaced traits and practices, there are deeper underlying assumptions that also contribute to the uniqueness of each organizational culture (Schein, 2004). This stresses the importance of the management recognizing and understanding the culture of the firm in order to become successful (Gabriel, 1999). However, culture is not static but a dynamic phenomenon, which implies that organizational culture can evolve with its members throughout time, or through the actions of its leadership (Schein, 2004). This notion is particularly important for when an organization goes through adaptive difficulties or environmental changes, like in Carlsberg's case an acquisition, the leadership's ability to recognize the limitations of its organizational culture and competences to improve it or create a new ‘reality’, can be crucial to the firm's success (Schein, 2004).

To shed light upon how to understand and interpret organizational culture, Schein’s (1984) three levels of organizational culture will be introduced. To build on top of that, Lewis's corporate culture perspective will be viewed with special attention on business and national influencers on corporate culture. This should give a clear holistic view of what type of organizational culture Carlsberg and Chongqing Brewery are comprised of. These two approaches were chosen due to their practical applicability, as the authors feel like they can capture the essence of Chongqing Brewery’s culture in a rational manner for Carlsberg to bear in mind during their integration process.

**Schein’s Three Levels of Organizational Culture**

The iceberg metaphor by Schein (1984) is a widely recognized organizational culture model used to capture both the visible and hidden cultural traits. Schein reasons that there are three layers of organizational culture, of which he portrays into an iceberg due to their resemblance to an iceberg’s structure – where one third is visible on the surface and the supporting two parts are hidden below the waterline. Schein (1984) calls the visual traits artifacts, and the two hidden ones values and basic assumptions, whereas the latter is the underlying root of the others and thus hardest to
observe. Putting the iceberg in context to Hofstede’s (2001) definition of organizational culture, artifacts and exposed values are what he calls practices, and thus are the areas where cultural differences are vested and observable. In addition to explaining the layers of the iceberg more profoundly, the theory will go into how understanding them correctly is the key to recognizing the organizational culture.

Artifacts

The only level above the surface is artifacts and contains everything that can be observed within an organization (Kitchin, 2010). This can include both formal and informal procedures, as well as physical evidence and behavior, e.g. how employees dress and greet each other, the appearance of their offices and how meetings are conducted (Schein, 1984). The artifacts and adopted beliefs and values represent the culture’s manifestation, but it does not expose the true meaning or deeper root of how those artifacts came to be. These are the things that outsiders would typically list up about the organization after a day’s visit, and would likely lead them to believe that they knew a great deal about the firm’s culture and could describe it to anyone who could be bothered to listen (Schein, 2004). His interpretations of what he had just witnessed would though never be accurate or even begin to comprehend the organization’s culture, as in order to make sense of the artifacts, one must first realize the pattern of the underlying basic assumptions, as they form the essence of the culture (Schein, 2004). Hence the relevance of the iceberg metaphor becomes clear, as understanding the fundamental traits that rest below the surface and hold up the entire iceberg are prerequisites in being able to make sense of the other more surfaced traits (Schein, 2004).

Values

The next layer of organizational culture is the values, which are placed right below the surface of the iceberg. This indicates how they are not clearly visible to the eyes of the observer, but still portrays their manifestation in artifacts (Schein, 1984). Values often emerge through interaction and socialization between the members of the organization (Schein, 2004). Although they are below the surface of the iceberg, they can become visible through observation of the social interaction between the organizational members or through interviews (Schein, 1984). This indicates that they have considerable effect on the norms and beliefs of the employees, e.g. how they
perceive the importance of trust and effort, and how they adjust their daily work routine accordingly (OpenLearn, 2015). It is through these expressed values, as well as through the underlying basic assumptions, that the artifacts should be understood and interpreted (Kitchen, 2010). To imposing values in an organization is not an easy task, due to people’s tendency to regard their personal values above organizational (Hyde & Williams, 2000). Thus it is here that the dilemma between national and organizational values starts to become clear. According to Hyde and Williamson (2000), individuals tend to want their personal values to go together with the values of their workplace, so when discrepancy occurs the individuals will either ignore the imposed values from the organization, or if the gap is too big, leave the firm. The same applies when individuals are seeking a new job, that is, they lean towards organizations that pride themselves of similar values to the ones of the individual.

**Basic Assumptions**

The underlying basic assumptions make up the bottom layer of the iceberg and are thus the most hidden, however they are also the most determinant cultural traits of organizational culture (Schein, 1984). As Schein (1984) describes it, these are generally unconscious actions of the members of the organization that stem from values that have gradually converted into basic assumptions about how the daily activities should be performed. In the process of becoming a standardized way of action, the members start to become unaware of the original value behind it. Hence, uncovering the underlying basic assumptions in an organization can be a difficult and complicated task, as the members themselves might not even recognize why they think the way they do (Schein, 1984). The difference between values and basic assumptions can best be seen from the assumptions nature of being non-negotiable (Schein, 2004). What this statement implies is that values can be discussed and although difficult, altered and renewed within an organization, whilst the assumptions are so deeply rooted in the members that they take them for granted and thus will not be willing or able to argue for them (Schein, 2004). This imposes several challenges for managers, as the underlying basic assumptions govern the member’s behavior without being explicitly observable (OpenLearn, 2015).
Lewis’s Model of Cultural Types

Having established a theoretical framework on how to understand and interpret national and organizational culture for analysis purposes, it is necessary to look at how these two concepts are in fact interconnected. The corporate culture dimension (see figure 2) (Hammerich & Lewis, 2013) will be explained step by step, which in turn will reveal its close connection to both Hofstede’s (1980) Cultural Dimensions Theory and Schein’s (1984) three levels of organizational culture.

The Corporate Culture Perspective

As seen in figure 2, business influencers and national influencers are the main factors that shape the embedded values and beliefs of an organization, which then become manifested through exposed values and artifacts (Hammerich & Lewis, 2013).

![Figure 2: The Corporate Cultural Dimension (Hammerich & Lewis, 2013, p. 33)](image)

One might have noticed that the corporate cultural dimension is practically a direct extension of Schein's iceberg model (1984), whereas the embedded values and beliefs represent the underlying basic assumptions, work practices are the equivalent of values and the observed behaviors and artifacts are equivalent to artifacts. The difference is that the corporate cultural dimension allows us to look beyond the basic assumptions to determine the influencers that shape them in the first place. Accordingly, it is critical to
keep in mind that there is a fundamental difference between the nature and origin of the business influencers and national influencers (Hammerich & Lewis, 2013).

**The Business Influencers**

Hammerich and Lewis (2013) identified the following five business influencers as having significant impact on an organization’s basic assumptions: The industry sector, competition, brand position, innovation, and trends. A key characteristic of business influencers is their short-term time perspective, that is, as organizational influenced values are acquired later in life than national cultural values, they can be more easily altered by management during times of transformation. These five business influencers on an organization’s basic assumptions will here be described in more detail and in respect to both the organizational cultures of Carlsberg and Chongqing Brewery.

The industry that the organization is operating within and the influence of its employees’ professional culture is one of those influencers. This is due to the fact that values and beliefs are often shared through a common professional culture regardless of geographical limitations, and can thus influence the whole industry. Additionally, individuals with the same educational background often share personality characteristics that are beneficial for their career in the profession (Hammerich & Lewis, 2013). The beer industry is highly competitive which will attract employees that are independent, result-oriented as well as individuals that can think outside of the box. With the recent growth in the internationalization of the big breweries, Carlsberg’s culture will entice employees with global oriented attitudes and strong cultural intelligence.

The competitive dynamics and lifecycle of an industry can also influence the corporate culture. The dynamics provide the requirements for work practices and organizational competences and are often conveyed through behaviors and cultural capabilities. The lifecycle stage of the industry will then determine which capabilities and traits affect the corporate culture, especially in regard to how they ensure their competitiveness (Hammerich & Lewis, 2013). The globalization of Carlsberg places them in the midst of both being present in a mature industry and growing industry. The beer industry in Europe is going through a mature period, focusing on commercialization and M&As. Although there is constant development in form of new flavors and styles, the underlying focus on process and planning is essential. This is due
to the high quality of the products demanded from customers, as well as government regulations to ensure that the products distributed to consumers are not an immediate threat to their health (as the handling of the raw materials requires delicate attention and treatment). On the other hand, the beer industry in Asia is growing, which entails focus on scale and efficiency and broadening of brands offered. Thus Carlsberg’s culture values precision and communication in order to interpret the dynamic business environment they are situated in.

The organization’s brand position in the market can also be a business influencer, but it differs between industries and national cultures how the market position will affect the corporate cultural landscape. The goods that the organization produces and sells can also influence the culture, as well as the employees themselves through their exposed values and work practices, as they strive to withhold the image of the brand (Hammerich & Lewis, 2013). Both Carlsberg and Chongqing Brewery are market challengers, as they respectively are the fourth biggest beer producer in the world (Boroujerdi, 2014) and second biggest producer in China (Chongqing Brewery, 2015). This entails corporate cultural traits such as short-term mind, execution- and action oriented as well as pragmatism. These characteristics are essential for quick response to customer requests.

The innovation rate in the industry is also of importance. It refers to whether the organization has disruptive innovation process or evolutionary, and how those processes affect the entire corporate environment (Hammerich & Lewis, 2013). Being in the brewer industry there are few major innovations, but more of continuous innovations and streamlining of processes. Thus the employees value efficiency and high quality standards of output.

External forces and trends refer to changes in the business environment that force changes upon the organization’s culture. Currently, going green and corporate social responsibility (CSR) are very strong influencers on organizations across all industries. They require changes in values and work processes from within the company to facilitate the overall enhancement of the organization. These internal cultural changes call for strong leadership to both set the example and to follow through with it (Hammerich & Lewis, 2013). Carlsberg follows extensive CSR policy throughout their entire corporation, which emphasizes values such as empathy, honesty and respectfulness.
Generally, corporate culture is not something that can be altered overnight or taught through information meetings. It is the result of strong leadership, interactions between individuals and repeated behavior that has generated success for the organization. The corporate culture appears at three levels simultaneously: in the leadership, the middle management and the front line. The key to a strong culture is coordination across these three levels, although in practice the front line can often lag behind the leadership in adopting new values and work practices (Hammerich & Lewis, 2013).

The National Influencers

It should be quite clear by now that the national culture is enrooted in people from a young age, which makes values originating from it extremely difficult to change in an organizational setting. Doing so requires leaders that understand the origin of these values and are willing to spend the time and effort to transform them if necessary for the greater good of the corporation (Hammerich & Lewis, 2013). The most significant national influencers on the corporate culture come from the history of the country, the national type and the values, beliefs and assumptions of the founders and key leaders of the organization. In the following theory and analysis special focus will be put on the national type, whilst influencers from the history of the country and from the organization's leaders will only be touched upon, as they can be viewed from Hofstede’s cultural dimension theory described above.

The Lewis model (Hammarich & Lewis, 2013) is based on national cultural traits and divides cultures into linear-active, multi-active and reactive dimensions, depending on which traits are likely to be influential on the organizational cultures within the nation. The fact that corporate cultures often pay homage to their national culture has many explanations, such as the era that the firm was established in, the climate, regional traits and religion, as all those factors weigh in and set their mark on the organizational culture from its very foundation. Hofstede’s dimensions of masculine/feminine cultures and individualistic/collectivistic have also been noted as significant national influencers on corporate cultures (Hammerich & Lewis, 2013). With Carlsberg being from Denmark it is safe to assume that they are influenced by the nations individualistic and feminine culture. Additionally, J.C. Jacobsen founded Carlsberg in 1847, an era in between the two industrial revolutions where great innovation, optimism and ambition characterized the
atmosphere. Jacobsen’s passion for the brewery shone through in his production, and is still transparent in the organization’s embedded values of excellence and high quality today. Organizations from cooler climates like in Denmark are renowned for their adaptation of linear skills such as punctuality, following schedules and respecting contracts (Hammerich & Lewis, 2013). These values are all observable at Carlsberg, as well as values such as equal rights for women and social justice. In the next section the Lewis model of national types will be described in greater detail, specifically with regard to the linear-active and reactive dimensions, as those are the ones that Carlsberg and Chongqing Brewery fall under respectively. Additionally, their implications for the acquisition will be analyzed.

Linear-active people are cool, task- and fact oriented, straightforward and like to complete their tasks in linear order. They do one thing at a time, adhere to logic rather than emotions, value privacy and use speech for information exchange. Linear-active people only account for around 600 million of the world’s population (Hammerich & Lewis, 2013). Multi-active people are emotional and impulsive, value family and people relationships, and store great compassion for others. They are multi-taskers, bad at following agendas, and handle silence badly. They are also disorganized conversationalists as everyone tries to speak and listen at the same time. Lewis estimates that there are around 3.3 billion multi-active people in the world (Hammerich & Lewis, 2013). Reactive people’s most important traits are courtesy, amiableness, accommodation, and being good compromisers and listeners. As the name of the group suggests – reactive - they are kind of the chameleons in the Lewis model, as they are exceptionally good at adapting to their counterparts dimensions within the framework of their reactions. They account for around 1.7 billion of the world’s population (Hammerich & Lewis, 2013).

Denmark scores mostly as linear-active, although it leans a bit towards multi-active (Hammerich & Lewis, 2013). What this implies with regard to Carlsberg is that there are numerous national influencers from the Lewis model that can be accounted for within the firm. One distinct trait from the linear-active perspective is how the organizations have faith in the law and count on rules and regulations to guide their behavior (Hammerich & Lewis, 2013). Furthermore, they honor written contracts and emphasize punctuality and reliable delivery dates. This clearly shows how process oriented they are. Additionally, it is evident how far religion is from being incorporated
in the organizations’ values, as they rather build on rationalism and science (Hammerich & Lewis, 2013).

On the other hand, China is categorized as a strongly reactive culture (Hammerich & Lewis, 2013) and thus several organizational traits can be reasoned to guide Chongqing Brewery. Most importantly, as described above, the Chinese are very good listeners and good at growing relationships (Hammerich & Lewis, 2013). They concentrate on hearing what the other person has to say and then take their time before responding, both to show respect to the speaker but also to find appropriate responds that will avoid dispute. When conducting business they invariably ask to hear the other partner’s’ side first in order to avoid collision and accordingly modify their counter-offer so it yields the least variation. They also rely on utterances and partial statements when communicating, which for their part signal their recognition of the listener’s knowledge (Hammerich & Lewis, 2013). Thus it can be seen that national influencers on Carlsberg’s and Chongqing’s embedded values and beliefs are quite different from one another. Even so, Lewis claims that their interaction will be satisfactory due to the nature of these differences (Hammerich & Lewis, 2013).

**Summary and Critique of the Organizational Culture Theories**

Schein’s model of three levels of culture (1984) describes the visible and invisible traits of organizational culture to the eye of the observer. Artifacts are the visible traits and can be seen through informal actions such as dress codes and physical evidence, and through more formal actions like meeting structures and behaviors. The manifestation of artifacts evolves from the organizational values, which in some parts are expressed, but other parts are embedded. The values then originate from the organizational underlying basic assumptions. Those are extremely hard for an observer to pinpoint, but have immense effect on the daily activities of an organization. The basic assumptions are the result of repeated behavior that has lead to the success of the organization. Lewis’s model of cultural types (2013) then describes how those assumptions are formed, both through business influencers and national influencers over time. The biggest influencers are the industry, product types, leaders and the national culture that the organization was established within, as it is in human nature to implement one’s own values to the business one founds. The fact that Denmark is a linear-active culture means that they follow schedules and are task-oriented, whilst the
Chinese are reactive. Being reactive induces good listener skills and high levels of respect shown to the other party, and according to Lewis (2013) communication between those two dimensions can be satisfactory. This ease of communication will be very important for the success of Carlsberg’s acquisition.

The most critical limitation of these organizational culture models is their generalization. They put all the individuals of the organization in one basket and form a kind of stereotype of each culture. Both Schein and Lewis have acknowledged though that subcultures do exist within the organization, but a necessary assumption for this paper was to review it as one big culture. On the other hand, stereotyping can be seen as a necessary contingent measure in order for people to make sense of new things.


**Discussion**

The analysis expressed the vast cultural differences between Denmark and China and primarily showed negative impacts on the Chinese’ stakeholder value perception, but also showed signs of positive impacts. The most important positive factor is Carlsberg’s relationship building with the mayor in the province of Chongqing. Other factors like the Chinese collectivism and power distance can also work in their favor if played right. The biggest negative factor is the insecurity and disruption that a complete integration approach often creates. A couple of Hofstede’s dimensions describing the Chinese with regard to their masculinity, uncertainty avoidance and long-term orientation can also be understood as posing problems in the post-acquisition stages. Important to note here is that cultural integration lags behind strategy implementation (Hammerich & Lewis, 2013). Thus, not all of these influences will become apparent immediately after the merger, but will come forth in time. With strong leadership and cooperation across all levels of the corporation it will be possible in the near future to change artifacts and exposed values across Chongqing Brewery, but the embedded values and basic assumptions can take years to change.

After conducting the analysis of Carlsberg’s acquisition, specifically on the market and cultural environment differences between Denmark and China, its conformance with the literature becomes evident. Stahl & Voigt (2008) found that cultural differences and integration level are critical determinants in cross-border M&A success, but its exact interrelation and how it affects the M&A has yielded conflicting results (e.g. Schoenberg, 2006). Focusing on stakeholders as the main constituents of whether the M&A becomes successful can explain why cultural differences are so influential, as both national and organizational cultural values shape the individual. This is in conformance with older empirical evidence as cultural differences have shown to be more influential on socio-cultural integration outcomes than accounting-based performance (Stahl & Voigt, 2004). This analysis then show the relationship between those two, as the socio-cultural outcomes can have effects on the accounting-based performance through time.
From Market to Culture

As part of Carlsberg’s due diligence process they performed thorough research on the market environment in China (Carlsberg Group CEO, Jørgen Buhl Rasmussen on China, 2014), which revealed that great business opportunities could be found there. The market is huge, with lots of individuals of drinking age (UN Data China, 2015). Analyzing the external market environment in China compared to the Danish one, clearly demonstrates a declining trend in the European market, whereas the Chinese market is unquestionably adhering to a positive trend. The regulations and government interventions surrounding it are still a hurdle (Zhang, 2007), but the cultural difficulties that the foreign organizations can be faced with can be even worse. It is a difficult task to completely separate those two sides though, as the regulations result from ancient traditions/values that have proven to yield the best results, and many basic assumptions of a national culture stem from what is legal, allowed and accepted within that culture. An especially important move from Carlsberg in order to clear their way into the Chinese market was to establish a relationship with the mayor of the province of Chongqing already in 2008. This action is valuable, as personal connections – guanxi - are one of the cornerstones of Chinese culture, and can be observed in the majority of Chinese organizations (Seligman, 1999). This helped pave the way for the acquisition, both with regard to political and legal factors as well as social. As a high ranked figure such as the mayor has accepted Carlsberg, it signals to the locals to acknowledge them positively as well. Regarding the internal environment analysis it is especially the power of buyers that poses a threat for Carlsberg’s operations in China. The integration process is likely to cause some disruptions in the daily activities of Chongqing Brewery, which can be in the form of technical difficulties, misunderstandings within the new organizational structure or communication problems. If these difficulties become apparent to the customers, their pragmatic instincts might make them doubt the functionality of the newly merged firm, and thus doubt the future of their relationship, as their faith in Chongqing Brewery will diminish. This may result in buyers switching to more stable suppliers that are better fitted to nurture their future relationship.

From Culture to Stakeholders

The enormous influence that national culture has on organizational culture is especially of interest. As noted above, a large part of the embedded values and beliefs of
an organization stems from its country of origin. These national culture influences shape the organization at all levels and in many different ways. Often the individuals are even unaware of this influence as they have been brought up around these values and thus have become an integral part of them. Accordingly, it can be assumed that since Carlsberg has decided to culturally assimilate Chongqing to their corporate culture, the Danish linear-active culture colored by their individualism, low power distance and femininity will be enforced. The literature suggests that this can impose severe problems. Assuming that Carlsberg follows the social constructivist perspective and believes that cultures are dynamic and continuously constructed through interaction with other cultures (Gertsen et al., 1998), they will need great leadership in China that can express and demonstrate through actions how Carlsberg’s organizational culture is.

Stripping Chongqing Brewery of autonomy can be a positive action though, as the Chinese value hierarchical structures and are comfortable with power distance. On the other hand, this will also mean that Carlsberg will expect employees to become more pro-active, be involved in decision making and coming forth with process improvement suggestions, which they are not so comfortable with. The leadership will have to be aware that this transition will not result in the creation of in- and out-groups, whereas the Chinese will strive to preserve their own identity and view the Danes as outsiders (Tajfel, 1982). As a counteraction to try to avoid this scenario, Carlsberg’s establishment of trust with the mayor can come in handy. As long as they uphold this trust and act in accordance to deep enrooted Confucian values, the stakeholders should respect them.

From Stakeholders to Market

It can be safe to say that the client base of a beer producer is extremely important for the success of the company. Carlsberg is already a global giant, but that does not mean that their entry into the Chinese market will be a walk in the park. The Chinese national culture is very different from the Western cultures that Carlsberg has had its main operations in, resulting in many problematic contrasts that can be understood from Hofstede’s cultural dimensions (Hofstede, 1980). One is the masculinity of the Chinese society, and the dominant trend that leisure is frowned upon, and beer drinking is associated with leisure. This can result in the forecasted growth of market share in China to be slower than Carlsberg expected. The new leadership may also challenge the low level of uncertainty avoidance within Chongqing Brewery as it
brings instability and can lower long-term job-orientation. In order not to lose face, employees will then likely resign, leading to loss of valuable talent and connections to Chongqing Brewery's customers. This can be linked with the long-term orientation mentioned above in market to culture. The changes in artifacts will quickly become apparent, like changes in physical environment, work procedures and formality within Chongqing Brewery, and both employees and customers are bound to react. If these disruptors happen too quickly or in a manner unacceptable to the Chinese, there is a high chance of them viewing the merger negatively. On the other hand, the Chinese collectivism can work in Carlsberg's favor. They are loyal, which means that they are unlikely to substitute their favorite Chongqing Brewery beer for a competitor's beer, at least in the short-term, or let short-term disruptions be the end of their business relationship.

The authors are aware of the limitations of these results. They were conducted without any primary data, and thus solely on theories and secondary data. This proposes limitations on the interpretation of the results, as they describe an ideal case rather than a real life. However it showcases the importance of including stakeholder interests during a M&A, as they can be very influential on its success. The decision to only focus on employees and customers was taken in order to capture the effects on both external and internal stakeholders. Additionally, those stakeholder groups can be seen as very influential on organizations, as without a business you have no customers, and without customers you have no business.

Further research on how culture affects stakeholders’ value perception in a M&A is definitely needed. This study solely focused on the reactions of stakeholders in the target country of a cross-border M&A, so further studies on whether or not the stakeholders in the home country are affected can be made, or if other stakeholders besides employees and customers will be mutually influenced. Quantitative research on the matter would also be beneficial in order to measure if their reactions are significant influencers on the M&A success. The exact connection between the effects of culture on the entire business environment, the level of integration and how stakeholders react to international mergers is still unclear, although there are indicators that the national culture of the target's country is a major factor.
Recommendations for Carlsberg

Summing up the findings from the discussion, the acquisition of Chongqing Brewery will most likely result in a loss of Chinese stakeholder value in the firm. This means that both employees and customers are likely to experience reduced trust and confidence in Chongqing Brewery. The negative factors are however not overwhelmingly stronger than the positive ones, and several of the negative ones can, with effective leadership, be turned into positives. The most important factor for Carlsberg will be to turn any possible conflict, hostility, and dispute into attraction and curiosity instead. The fact that communication between linear-active and reactive cultures is adequate is essential in this process. In order to portray Carlsberg’s path from due diligence to post-merger performance outcomes, the authors have created a framework (see figure 3) that in their opinion provides valuable input of how Carlsberg can minimize the loss of Chinese stakeholders’ value perception.

Carlsberg has already spent significant efforts on due diligence before the acquisition. They started years ago to establish guanxi with the Chinese, thereof most importantly with the mayor of Chongqing. This provided them with grounds for the acquisition, but during the integration stages it becomes less valuable unless constantly updated, as new information and knowledge arises. Thus in the integration process the actions of the leaders regarding the cultural assimilation become of biggest importance. Their behavior needs to mirror the values and beliefs of Carlsberg, and they need to
pro-actively express those to the stakeholders and encourage them to act in accordance to them as well. The timeline resembles that culture lags behind strategy. It shows that the artifacts will be the first and easiest to change, followed by expressed- and embedded values, and ending with the underlying basic assumptions, which will by far be the hardest and timeliest to modify. The national culture is shown to surround the three levels of organizational culture as a resemblance to how much it influences them. All of those cultural influences will then put their mark on Chongqing Brewery with time. It is in large up to the leadership to have shaped the atmosphere that both the employees and customers will sense from Chongqing Brewery. Building on guanxi, the Chinese’ need for power distance and their collectivist nature, Carlsberg can create a positive image and earn mutual respect. What they need to be aware of are the Chinese’ masculinity and long-term orientation, as well as the possible creation of distinct groups within Chongqing Brewery. By implementing Carlsberg’s culture with small alterations to accompany for those, e.g. by keeping hierarchical structure within Chongqing Brewery and showing respect to both the Chinese values of guanxi and keeping face, their cultural assimilation can result in positive value perceptions from the Chinese stakeholders. Succeeding in doing so will then lead to Carlsberg securing their market position in China and open up for great growth in future market share.

The framework presented above is not only suitable for Carlsberg’s integration process in Chongqing Brewery, but can be utilized by other organizations that plan to fully integrate their cross-border acquired corporation. It emphasizes the great importance of the leadership in the integration process and how it needs to be on top during the cultural integration, as enforcing a new corporate culture on a culturally distinct business is a challenging process. It also shows how time-consuming it is to fully implement a new organizational culture. Finally, it demonstrates the impacts on all stakeholders and how they can be critical determinants of the success of the M&A.
Conclusion

Findings indicate both positive and negative influences on Chinese stakeholders after Carlsberg’s acquisition of Chongqing Brewery. What this indicates is that no matter what, there will be a disruption in their relationship. Carlsberg has shown great cultural intelligence by utilizing guanxi in order to get a good start on the Chinese market. Nonetheless, there are also negative factors that Carlsberg will have to acknowledge with time. Their integration method of cultural assimilation is bound to result in conflict by creating uncertainty and in- and out-group formations amongst the Chinese stakeholders. Carlsberg will through strong leadership have to take control of these possible scenarios, even with power, as the Chinese react well to power distances.

This thesis aimed to express the immense influence that culture has on the entire business environment. Every aspect of an organization’s operations is either directly or indirectly affected by it, especially the national culture that the organization was founded in. These effects become apparent in both the external and internal business environment, as well as within the organization itself. This is applicable for all organizations, domestic and multinational, big and small. The globalization of the world has forced corporations to become aware of the dissimilarities between cultures, and how to deal with those. The high failure rates of M&As have been linked to organizations underestimating the importance of understanding the cultural differences that influence the process (Stahl & Voigt, 2004). This shows how national culture extends into organizational cultures, but is by no means the only determinant. Other effects, especially business influencers, also shape the organizational culture.

Before the writing of this thesis commenced, the authors were aware of the multiple cultural differences existing between Denmark and China. What they did not fully realize was how influential they in fact are when conducting business between those countries. After getting familiarized with Freeman’s Stakeholder Theory (1984) it became clear to them that understanding the effects of those dissimilarities on stakeholders’ value perception was an underexplored topic, but a needed one. The different groups of stakeholders can have enormous effects on an organization, though not equally at all times. Corporations engaging in a cross-border M&A thus must focus on the needs of its stakeholders in order to become successful. This is an extensive task, but nonetheless can be critical for the firm’s future. This does not reduce the importance of pleasing the shareholders of the organization, but it places the
shareholders in the same category as other stakeholders, and focusing on all thus brings the corporation a more sustainable advantage.
Reference List


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School of Business and Social Sciences is a broad business school and one of the four main academic areas at Aarhus University. With approx. 14,000 full-time students, several thousand part-time students, almost 225 PhD students and more than 500 academic staff members, School of Business and Social Sciences ranks among the largest business schools in Europe. Furthermore, it is the largest School of Business and Social Sciences unit in Denmark at university level with a broad academic base. The research-based study programmes offered by the school include highly recognised programmes such as M