

Casestudy:
BURMESE DICTATOR BEER

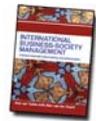
**XminusY and Burma Centrum Netherlands
 versus
 Heineken**

In March 1994, Asia Pacific Breweries (APB), a subsidiary of Heineken, signed an agreement with Union of Myanmar Holding Ltd (UMEHL) to build a brewery in Burma. According to Burma Centrum Nederland (BCN) and Solidarity fund, XminusY, Heineken's partner was owned by the ruling dictatorial regime owned. In 1996, societal organisations, including XminusY and BCN and A SEED EUROPE, campaigned for Heineken to withdraw from the dictatorial country.

Societal Interface Management Challenges

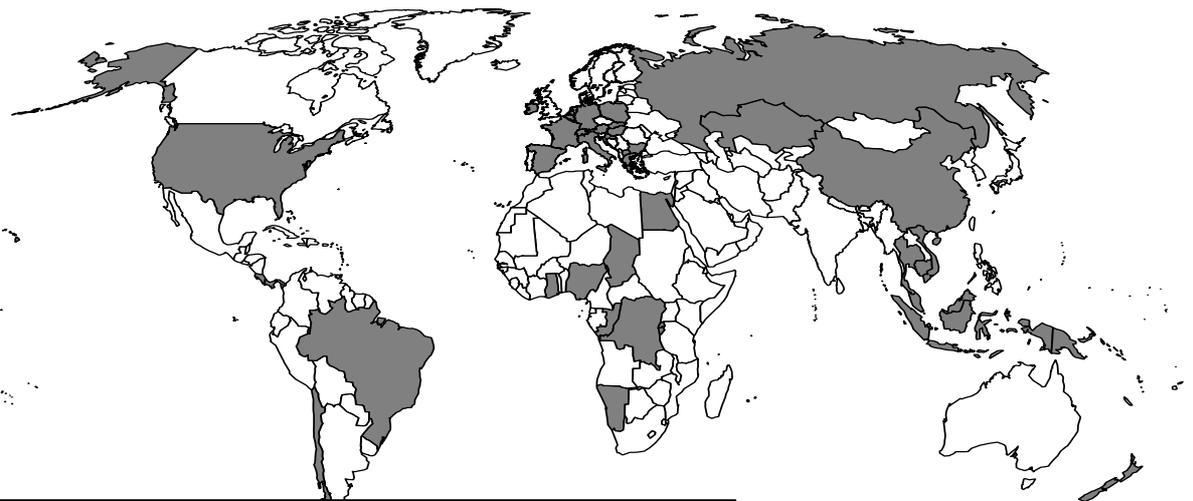
PUBLIC ✶ PRIVATE	PROFIT - ✶ NON-PROFIT	EFFICIENCY ✶ ETHICS/EQUITY	
Dictatorial regime: a government matter?	Withdrawal creates problems for local employees	Large Asian consumer market	Human rights
Acceptable given potential influence on government from within	Relationship with consumers	Low production costs	Withdraw because others have done so?
Disagrees with Singaporean business partner	Relationship with shareholders	Brand-oriented for higher profit margins	Ethical relativism or ethical imperialism?
Dealing with different international norms	Business community involvement	Internationalisation strategy of Heineken requires local partner for local market	
Code of conduct?	Relationship with trade unions		

This case has been written by Alex van der Zwart with Rob van Tulder (RSM Erasmus University). This case applies the methods and theories as used in the book "International business-society management: linking corporate responsibility and globalization" (2006, Routledge), www.ib-sm.org. The Dutch newspaper articles in this case have mostly been translated into English.



Heineken: a short profile

Heineken Holding NV is a Dutch brewery which was founded in 1864. Heineken is an international company which brews, distributes and sells beer in more than 170 countries. In the Netherlands, the company is represented by five operating companies. The brands Heineken sells include Heineken, Amstel and Murphy. In addition, the company is involved in the production and distribution of liquor, wine and cold drinks (via Vrumona). In 2000, beer sales represented 80 percent of the Heineken's turnover. In 2001, its turnover amounted to more than 8 billion euro and earnings amounted to 600 million euro. In terms of income from beer exports, Heineken is the largest brewery in the world. In terms of hectolitres beer, Heineken takes second place after its Belgian competitor Interbrew. Heineken's stock exchange listings include the Euronext and AEX Index in Amsterdam. The internationalisation strategy of Heineken is aimed at 1) partnerships with local companies to cater for the lower end of the market and distribution 2) importing its own brand as 'premium' imported beer for the higher end of the market.



Geographical Segmentation 2003 (euros millions)

Countries with significant participating interests

Countries in which Heineken has participating interests of significance for the true and fair view required by law

Note: in some countries a minority share may be held

Source: Heineken Holding N.V. Annual Report 2003 p43

	Net turnover	Operating Profit	Personnel
Western Europe	62	48	38
Centr./East.Europe	11	7	26
The Americas	14	29	9
Africa/Middle East	8	12	19
Asia/Pacific	4%	4%	8

Source: Heineken NV 2003 Annual Report p23, 72/73

TNI Data based on sales and employment 1994 = 79%, scope database



Conflict

Myanmar (formerly Burma) has been ruled by a military regime since 1989. Human rights organisations reported frequent violations of human rights. In 1994, Heineken intended to set up a brewery in Burma to serve the Asian market. In March 1994, Asia Pacific Breweries (APB), a subsidiary of Heineken, signed a contract with Union of Myanmar Holding Ltd (UMEHL) to build a brewery in the area of the capital Rangoon as part of a joint venture. APB would hold 60 percent of the shares and UMEHL would hold 40 percent. Through beer exports to Burma Heineken had acquired about 35 to 40 percent of the market share in one year.¹ According to the plans, the brewery in Burma would be fully operational by the end of 1996. The brewery was to be named Myanmar Brewery Ltd and brew the 'Tiger' beer brand. In the course of 1995, the Dutch media publicised the news.

In that year, Heineken received numerous letters of protest from concerned pressure groups. According to Burma Centrum Nederland (BCN) and XminusY, Heineken's business partner was owned by the ruling military regime. According to BCN, doing business in Burma was not possible without providing direct or indirect financial support to the dictatorial regime, by means of which the military regime remained in power. Human rights organisations demanded Heineken's withdrawal from Burma which would be in keeping with the international call for an economic boycott against the Burmese junta.

XminusY and Burma Centrum Nederland

XminusY Solidarity Fund forms part of a worldwide movement which is dedicated to structural economic, political and social change. XminusY fulfils this mission by providing financial support to small scale initiatives of grassroots organisations throughout the world that are dedicated to political self-determination and social justice. Moreover, XminusY stimulates political debate in the Netherlands and supports the campaigns of third parties which are in the interest of the politically, socially and economically marginalised. XminusY has eight salaried employees and approximately fifty volunteers who are involved in campaigns in any of its five divisions (Africa, Asia, Latin America, Eastern Europe and Western Europe).

Burma Centrum Nederland also actively engaged in the campaigns against Heineken. The objective of Burma Centrum Nederland is to inform Dutch society about developments in Burma. BCN also initiates and coordinates activities to promote democratisation and sustainable development in Burma. In this way, the centre strives to contribute to a constructive dialogue between the respective parties in Burma.

Pressing on for progress

On 2 February 1996, the management of Heineken announced that its intention to invest in Burma would proceed as planned. They stated that the company was as concerned about the human rights situation as the pressure groups campaigning against it. Heineken strongly condemned the violations of human rights. It was through investment, however, that it hoped to make a contribution to improving the situation (principle of constructive engagement). At the time, the management of Heineken held the view that it had more to offer the Burmese people by staying. The brewer pointed out that Amnesty International also did not support Heineken's withdrawal from Burma. Heineken argued that even though the regime would pocket part of the profits, the local population would also benefit from its operations. Years ago, Shell was entangled in a similar conflict with human rights organisations in connection with its presence in South Africa. After the fall of the apartheid regime, Shell was asked to stay in South Africa to contribute to the country's economic development. Given the brewery's attitude, BCN and XminusY continued their campaigns in 1996.

¹ 'Heineken versus Burma', FD (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 10 August 1996.



At the annual general meeting of Heineken on 15 March 1996, demonstrators blocked the entrance to headquarters in Amsterdam. At the press conference afterwards, top managers were bombarded with questions about Heineken's plans and activities in Burma. In the meantime, American pressure groups were brooding on a call for a boycott of Heineken beer. The American market generates a lot of money for Heineken. At the time, American exports were growing by 10 percent per annum. Heineken enjoyed an exclusive status in student circles. And it was precisely in these circles where fierce demonstrations against Heineken's presence in Burma were held. In the past, it was also students who fiercely and successfully campaigned against PepsiCo's presence in Burma. The call to boycott Heineken in the US was initiated by the Franklin Research and Development Corporation. This organisation was also the brain behind the boycott against PepsiCo which was particularly successful on American campuses.² In March 1996, pressure groups in the Netherlands were not yet ready to side with the intended American boycott. There simply was not support for it in the Netherlands. In the meantime, the construction of the factory was delayed and scheduled to become operational in January 1997.

Almost simultaneous to the demonstrations against Heineken, Danish competitor Carlsberg was also confronted with protests against its intention to build a brewery in Burma. By then, the demonstrations against PepsiCo in the US had erupted in full force. In April the Board of the Cola company agreed to partly withdraw from Burma. At that moment, Heineken was not ready yet.

Giving in (eventually)

The imminent boycott on the American market troubled the management of Heineken. On 6 July 1996 it was signalled that the company might 'eventually' yield to the threatening boycott on the American market.³ The company pondered the matter. Eventually, on 10 July 1996, the brewer yielded to the threat of a worldwide boycott. A day earlier, on 9 July, the Danish competitor Carlsberg also announced its withdrawal from Burma.

According to Heineken, its decision had nothing to do with Carlsberg. The choice between commercial and societal interests was so conflicting that commercial interests threatened to come off worst. *Het Financieele Dagblad* of 11 July 1996 reported that the directors had already taken the decision on 30 June 1996, although it was announced publicly only a week and a half later. The reaction to the news that Heineken would withdraw from Burma was largely positive: 'Decision Heineken attests to decisiveness'. The decision made clear that the world's most internationally oriented beer magnate realised that it cannot always do as it pleases and that it cannot simply ignore signals from society without sustaining damage. A brand that is largely based on its image proved to be exceptionally vulnerable.⁴

Heineken withdrew from building the brewery in Burma when the risk of a boycott in several countries proved too great. The management of Heineken stated that after the company entered the Burmese market in 1994 for commercial reasons, public opinion changed so much that staying there would have had a negative effect on the Heineken brand

² 'Protest against presence Heineken in Birma', *FD* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 16 March 1996.

³ 'Heineken contemplates risks of boycott American market', *FD* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 6 July 1996.

⁴ Smits, P. (1996), 'Decision Heineken proves enlarged effectiveness', *FD* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 12 July 1996.



as well as the reputation of the company.⁵ Traditionally, Heineken has a high regard for its social responsibility in the countless (international) markets in which it operates. The company reassessed the situation on the basis of changing circumstances and concluded that it was longer able to realise its social responsibility.

The relationship with Myanmar Brewery Ltd was severed later that year. By that time, Heineken had already invested 50 million Dutch guilders in the project via its subsidiary BPN.⁶

On 13 July, Heineken announced that it would stop all exports to Burma.⁷ In reaction to the divestment of Heineken, and almost simultaneous to it, that of Carlsberg, the Burmese government banned the import of both beer brands to Burma.⁸ PepsiCo resisted the pressure for another eighteen months. Eventually, in January 1997, PepsiCo also chose to count its losses and left Burma.

Heineken did not want to put its reputation in the balance any longer even though the company explicitly regarded it as part of its social responsibility to remain in Burma. Apart from commercial gain, the company also advanced a principled argument for wanting to stay: to exert influence on the repressive regime. Heineken's withdrawal, incidentally, did not result in the end of the brewery in Burma. The Singaporean partner in the project, Fraser and Neave, took over the share of the Dutch company and proceeded with construction.

Demonstrable indicators of reputational damage

Consumer market

Despite threats of boycotts in the Netherlands as well as in Denmark and the US - each one of them large consumer markets for Heineken - and letters of protests from these countries, the affair had no effect on sales.⁹ Both at the time of the conflict and in the following years, sales and earnings increased. Given the commotion in both the US and Denmark, it is plausible that the reputation of Heineken sustained damage on consumer markets abroad.

Capital market

In assessing the reactions on the capital market two periods were selected during which Heineken was brought in connection with its presence in Burma in the media. The reaction on the Amsterdam (AEX Index) stock exchange was analysed.

26 January 1996 – 6 February 1996. On 2 February, the management of Heineken decided to proceed with its business plans in Burma. On the day of the news, the response was lukewarm: the share price declined by 0,1 percent. After the weekend, however, the share price further decreased by more than one percent on 5 February 1996. The share price recovered the following week. The figure below depicts the price movements of the Heineken share during this period.

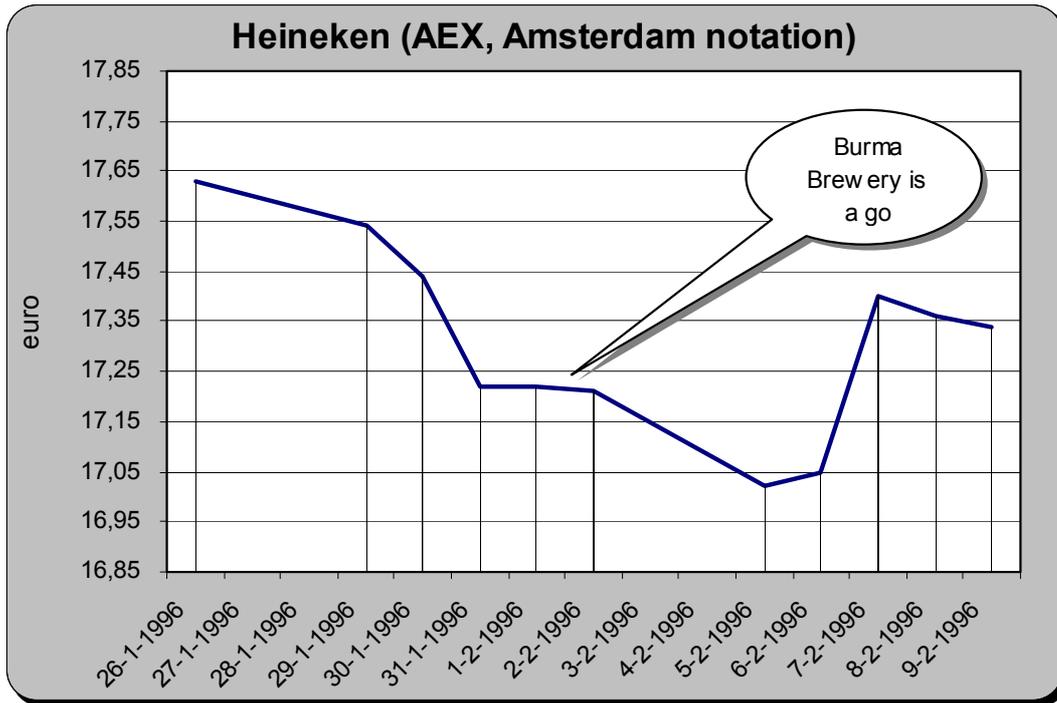
⁵ www.heineken.com/history, consulted on 26 February 2002.

⁶ 'Heineken yields under boycott threat', *FD* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 11 July 1996.

⁷ 'Heineken out of Burma', *FD* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 13 July 1996.

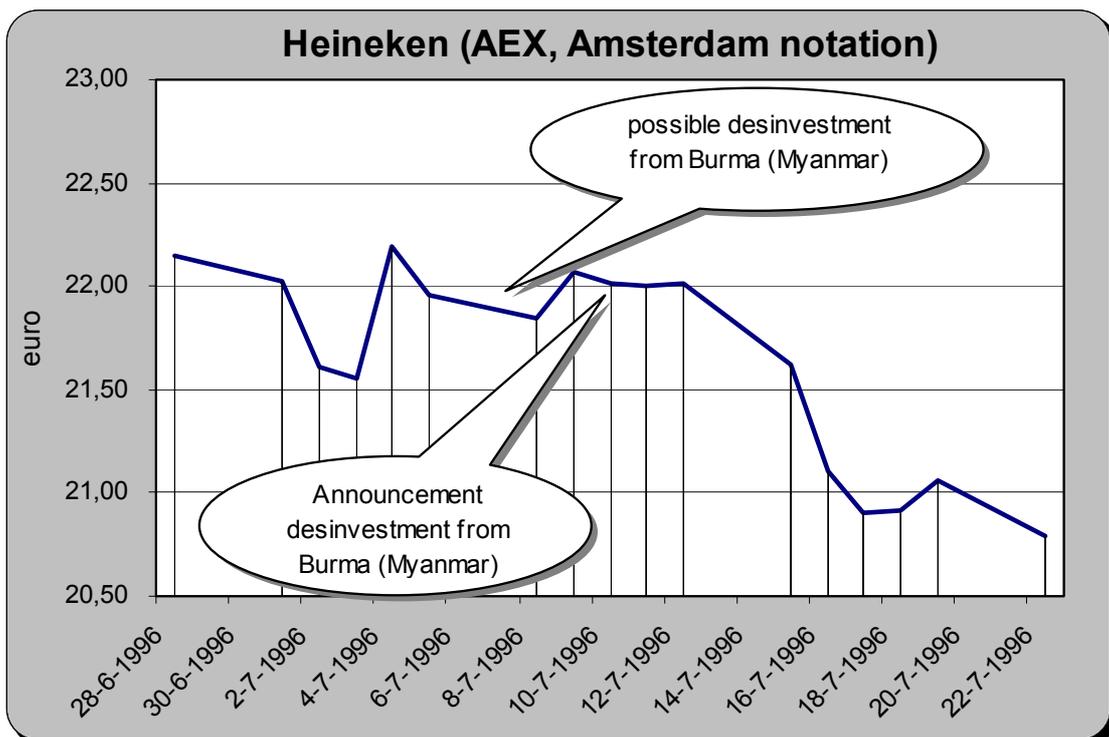
⁸ 'Birma bans import of two brands of beer', *The Nation*, 8 July 1996.

⁹ 'Protest against presence Heineken in Birma', *FD* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 16 March 1996.



The media reports brought about a temporary negative reaction. Apart from the decline of Heineken’s share price on 2 February, the price movements of the AEX Index was almost in synchrony with that of Heineken. On that day, the index registered a slightly upward trend.

28 June 1996 – 22 July 1996. On 6 July 1996, the management of Heineken announced that withdrawal from Burma was ‘not excluded’ due to the threat of a boycott. The share price barely reacted. The next figure below depicts the price movements of the Heineken share during this period.





On 10 July 1996, the day Heineken publicly announced the news of its withdrawal from Burma, the share price remained fixed, but in the two weeks thereafter, it slid back by about ten percent. The AEX Index declined at a slower rate, but exhibited the same trend. The price movements of the share is peculiar given that it seems that investors opposed the company's decision to withdraw.

Labour market

The Corporate Image Barometer published by de Telegraaf (cib, 1994: 21), shows that Heineken is regarded as a respectable employer in the Netherlands. Only Shell ranks higher on the top ten list. In the years before and after Heineken left Burma, no fluctuations could be identified to indicate that Heineken's position as employer had been affected. The popularity of Heineken as employer remained constant.

Demonstrable indicators of disciplining

The attitude of the management of Heineken at the outset of the affair can be described as one of buffering. The company later switched and adopted a bridging stance. The Board of Heineken has undertaken one disciplining initiative to manage the issue: complete withdrawal from Burma.

Outcome

Whose interests were met?

Heineken's withdrawal from Burma seems to indicate that the interests of XminY and the BCN were acceded to most.

Issue resolved?

The matter may be resolved for Heineken, but the Burma issue persists. On 6 May 2002, the Burmese opposition leader Aung San Suu Kyi was released by the military junta after having been under house arrest for 19 months. The winner of the Nobel Prize for Peace and her party the National Liga for Democracy (NLD) can even take part in politics again. In a press conference, she thanked the international community for its support in her peaceful struggle for a more just Burma.¹⁰ Perhaps the regime had been sensitive to the economical and political boycott? Does this offer Heineken greater scope now that the 'Burma' issue appears to be taking a turn - as was the case for Shell in South Africa?

The aftermath

Heineken has still not returned to Burma. The company is however working hard at building a sustainable image. For a few years now, the company has been publishing an environmental report. The Brundtland definition (1987) acts as guiding principle for the company: 'meeting

¹⁰ 'Birmese military let Aung San Suu Kyi go', *Volkskrant* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 7 May 2002.



the needs of the present without compromising the ability of future generations to meet their own needs'. Guidelines for conduct have been drawn up: The Values and Principles of Heineken. In the coming years, the Responsibility Management Programme will be employed to integrate these values and principles into business operations.¹¹ While Heineken does not publish a separate social annual report, it published a Health, Safety and Environmental report in 2002. That year, Heineken won the Dutch Reputation Award with the highest score on five of six pillars of reputation of the Reputation Quotient method.



¹¹ www.heinekencorp.com, consulted on 29 October 2002.