

SIN NO. 2: TOO FAR

*“The universe as we know it is a joint product of the observer
and the observed.*

(Pierre Teilhard de Chardin)

*“There are two lasting bequests we can give our children:
one is roots, the other is wings.”*

(Hodding Carter, American journalist)

VIRTUE: THERE ONCE WAS A VISION

Think global, act local.¹

1 While sometimes attributed to a number of marketing authors or globalization advocates, the expression seems to have been coined by David Brower, the Californian founder of the environmentalist Friends of the Earth. The term “Globalization” would have been used first by Harvard professor Theodore Levitt (in 1983?).

THE FLAWS

Leuven (Flanders), Anno 1366: the Artois brewery is founded. Leuven (Flanders), year 2009: two months after its merger, the renamed Anheuser-Busch InBev releases a string of news in the first weeks of January. These go from a third price increase for lager beers in one year in its country of origin (i.e. Belgium, for the many who have already forgotten this) to job-cutting plans (needed (sic) *“to conserve cash and repay debt”*) to debt repayment to the opening of an office in New York, where some managers from its Belgian base will be moved *“to implement cost cuts following the \$52 billion merger that formed the company.”* As a first step, the CEO and CFO *“will split their time between New York and... Leuven”* (apparently, a brewer now cares more about “responsible drinking” than about its carbon footprint). A company spokesperson adds that the company *“remains fully committed to its other offices and breweries in Belgium.”*¹

In between. For the six hundred and twenty years between 1366 and 1986 Artois remained a shy and hard-working local brewer from which drinkers enjoyed (or not) a pint (or more) of Stella, about which outsiders would have named it parochial, to which insiders wouldn't have replied anything. In 1987, the Flemish Artois and the Walloon Piedboeuf joined together to form a truly Belgian Interbrew. In 1995, the group acquired Toronto-based and Canadian second brewer Labatt. In 2000, Interbrew bought the British brewer Bass, established in 1777. That, added to other purchases, almost doubled volume figures. The 2001 annual report displayed 100-plus brands with operations in 20 countries. The annual report for 2003 -which boasted about a portfolio of 200 brands- yet paradoxically stressing *“organic growth”* in its *“Letter to Shareholders”*, announced the “combination” with the Brazilian Ambev,

1 Quotes in italics come from Andrew Cleary on www.bloomberg.com (January 15, 2009) and from company press releases. Information and comments from the Financial Times, the Herald Tribune, De Tijd, BusinessWeek, Reuters, and company annual reports (when and where data were available).

naming it InterbrewAmbev, and then (re)branding it InBev in the 2004 annuals. In 2006, InBev announced the move of its white-beer brewery from Hoegaarden to the Piedboeuf location. In 2007, volume brewed was 6.5 bigger (in hl) than ten years before; and the year report highlighted a few premium and local brands distributed in 80 countries. In 2008, InBev bought the U.S. producer of Budweiser Anheuser-Busch in an all-cash agreement of \$52 billion, and sold off Labatt (bought before, see above). In 2009, the combined group was again renamed Anheuser-Busch InBev and became the world's largest brewer (with its own Stella, Bud, Beck's and Leffe, as well as large interests in the makers of Corona and Tsingtao), with 150 to 200 brands (estimates varied) in 30 countries.

Is it because more beer is consumed than condiments –and often needed to wash them down? Actually, among many other (hi)stories, we could as well have picked the example of Dijon's mustard, whose famous brands Amora and Maille date back to 1919 and 1747, were bought by Unilever in 2000, and have been moved from their place of origin by a decision taken at HQ level in November 2008.¹ We could also have pointed to London-based smoothie maker Innocent losing its independence by selling a stake to Coca-Cola in April 2009.² No wonder some economists may ask: "*How national is a company today?*"³

What's the point with those historical recaps -one long, two shorter- from an eat others' lunch list that could also include more small beer and big blue chips? Isn't the first another success story of an enterprise going from local rags to global riches, after all? And the second just another example of the "natural" consequences of globalization? Some investors and analysts might have marked "buy" for the first and "sell" for the second. These examples

1 "Amora va fermer son usine de Dijon" (Le Monde, November 20, 2008).

2 "Innocent loses its innocence as Coca-Cola buys a stake" (The Guardian, April 7, 2009).

3 "L'entreprise a-t-elle encore une nationalité?", by Patrick Artus and the French Cercle des économistes, in "*La guerre des capitalismes aura lieu*" (Perrin, 2008).

show much about how far capitalism is spanning, how far it has moved from grass-roots economies, and how faraway decisions are difficult to manage.

Let us get back to the first, to add that the brew might turn less potent than it smells –and tastes. Branding is an issue addressed later in this essay (as a venial sin, at least when improperly chosen and implemented). However, semantics and semiotics may here come in handy. Three (and a half?) changes of corporate brand in ten years reflect... the lack of a clear sense of direction. The latest formula -we wouldn't swear it will be the last- doesn't do the best job. The website homepage in January 2009 describes the new identity as "*designed to represent drive, authenticity and friendship. It is also meant as a source of pride*" (the bald eagle flying above, we suppose). "Ah bon!", as they would put it in the Flemish-French lingo still spoken at Brouwerijplein. Three names placed next to each other are déjà vu, and this ID is so complicated that it must abbreviated (fine, but how, with or without a dash and which letters in caps?) to be remembered –or pronounced. That means something...

Moving from soft branding issues to hard financials? That would show size as one of the only main decisive advantages for the Belgo-American-Brazilian player against its close and often more focused rivals, such as Asahi, Carlsberg and Heineken. Provided that comparisons would be possible (and both the number of acquisitions and divestments and the poor quality of InBev financial reports do not help) many significant indicators -we don't talk volume here but performance- such as ROE (return on equity), ROA (return on assets, more important than the size of assets, except maybe for some bankers), gross and operating margin ratios, SG&A margin (margin on selling, general and administrative expenses), or debt-to-equity wouldn't outshine most competitors' ones. Far from that

Not tipsy yet after bottom-line matters? Then get back to the top line. Like (too) many, A-B Inbev is moving from a product-based company to a financial

portfolio management group. Many beer drinkers find the group's special beers less... special (some specialists say they're becoming interchangeable), when these are still available in bars, where one-taste-fits-all draft is often becoming the "choice". Pessimists even consider that after taste-killing beer-brand killing will follow. Had smaller breweries survived independently to produce local beers closer to customer taste, and Hoegaarden would probably have kept its locally-brewed "Witte" and Jumet its own brew (or "Cuvée"), markets and distribution channels permitting.¹ More diversity means more tastes.

Many contemporary corporations stand too far. From their origins. From their core business. From their products—and processes. From their markets—and consumers. From their employees. And from their shareowners. Adam Smith already noted in the 18th century: "*The greater part of proprietors seldom pretend to understand anything of the business of the company...*"² A recent book argues that shareholders' attitudes have not changed much since, and in an FT column, Michael Skapinker points to one of the developments that "*have made matters worse (in the financial crisis): the growing distance of shareholders from the business they invest in*".³ Some may still have in mind that the ABN Amro (failed) acquisition originally came from the tough demands of one of its small key but remote stockholders, a London-based hedge fund that didn't care about the blend of strong Dutch roots and a long-lasting international presence. From that viewpoint, the listing and takeover of stock exchanges (see e.g. Euronext controlled by NYSE, or the Nordic OMX

1 Another beer-gulping story: "Cuvée de l'Ermitage" was created and brewed in Jumet (a section of Charleroi, Belgium, near the place where I was brought up) by the then privately owned Brasserie de l'Union, then acquired by Alken-Maes, then acquired by Scottish and Newcastle (McEwan's maker), then jointly acquired by Carlsberg and Heineken in April 2008.

2 Adam Smith: "*The Wealth of Nations*" (1776, republished e.g. in Bantam Classics, 2003).

3 "*Corporate Ownership and Control. British Business Transformed*", by Cambridge Professor Brian R. Cheffins (Oxford University Press, 2008); Financial Times (November 18, 2008). Note that sovereign funds are more a problem than an answer from this perspective, even though some point out that, being invested with a long-term view, they might sometimes have a stabilizing effect (perhaps due to the fact that they belong to a place?).

acquired through a strange Dubai-Nasdaq montage) are certainly not one of the most positive things that have happened these last years –and not a good trend for raising local equity, for sure (there is certainly a relation here with the contraction of the midcap markets, another bad news for growing SMEs).

Cross-border holdings are indeed one of the key features of that distance factor. For the worse, too. What was once called the “Icelandic Model”¹ melted down in a few weeks in the last quarter of 2008. From that moment on, “Icelandization” will probably stand in economic textbooks as a trademark for the mix of financialization, disconnection, delocalization, dematerialization and destabilization. A number of sins, that is, which all fall under the “too far” heading –in addition to the much related short-termism, irresponsibility and greed. A few numbers sum it up: banking sector (visible) debts were six times higher than the country’s GDP; major debts were short-term ones; half a million foreigners had deposits in Icelandic banks²; in a few weeks the stock exchange market value dropped by 90%; and the minimum total cost of the crisis was estimated early in 2009 at 75% of GDP. Parallel to, or, more precisely, as a result of microeconomic disorders, the great Iceland financial disaster illustrates how far today’s capitalist financial virtuality is from economic realities.

Though it might be the biggest in proportion, it is not the only one, as the flow of news coming simultaneously has been telling us for weeks and months. The fact that London City’s financial revenues account for an estimated 30% of UK’s GDP, i.e. much more than the financial center in any developed

1 The “*2nd Conference on Gross National Happiness*” (sic) organized at a Canadian university was referring to Iceland as a model in “Local Pathways to Global Wellbeing”. That was in June 2005 (available from www.gpiatlantic.org/conference/reports).

2 The reasons why some institutions and individuals made deposits while having so little information is puzzling: see e.g. “*Councils were negligent in making Icelandic deposits, rules watchdog*” (The Guardian, March 26, 2009).

economy (except Luxembourg¹ but Zurich included), of which significant flows going to and coming from far away (one third of listed companies' equity is in the hands of foreigners), is naturally an explanation to the heavy toll taken on the British economy. The excessive weight -and influence- of a far-flung banking sector does the rest, if we can say so, turning Britain's financial comparative advantage² in good times into a bigger weakness in bad days.³ Why are London's financial sector more fragile and the surrounding British economy more exposed than, say, New York and the U.S., Tokyo and Japan, Frankfurt and Germany, Paris and France? The economic answer is quite simple. The manufacturing, industrial and technological "hinterland" of those four countries still weighs enough to make up and pick up. At least when the worst is over. UK's manufacturing output went down from over 30% of total gross value added in the early seventies to less than 15% in the first years of the twenty-first century, while manufacturing employment fell from 30% to about 10% over the same period.⁴ Sure the trend has been the same in all industrialized countries. It has just been worse in Britain. A symbol lies in the car-manufacturing industry, where the country, except for a few garages, has lost all its famous producers in the last decades. A City trader buying a Bentley or an Aston Martin doesn't care that the former is now created in Deutschland (and powered by Volkswagen) and the latter is controlled from Kuwait? He should. The magnitude of RBS (Royal Bank of Scotland)'s problems... and year 2008 losses came after a string of other falls and rescues: Northern Rock,

1 Luxembourg is home to 1,300 investment funds and about 200 banks and 14,000 domiciled holding companies. Still, only 10 to 15% of the workforce is employed in the financial sector.

2 To use the words of the London-born economist David Ricardo, whose "*On the Principles of Political Economy and Taxation*" laid out the theory of comparative advantage (1817, republished in 2004 by Dover Publications).

3 Let us not forget to travel northbound for getting the full picture. Ten years ago Edinburgh and Scotland could boast about being home for two of the major UK banks. Except, up to a point, for HQs, these moved further away from their roots, and were knocked down in the 2008 turmoil. What's up for the broader Scottish projects now? The question should be asked to Sean Connery as much as to David Ricardo, having in mind that, ironically, a Scottish Prime Minister (Gordon Brown) had to come to the rescue from London.

4 Source: Thomson Datastream, Financial Times (February 9, 2009).

HBOS, Lloyds, Bradford & Bingley, etc. Lest some wouldn't have noticed, RBS's 2008 astronomical £28 billion loss (the equivalent of Luxembourg's GDP!) was largely made up of write-downs for "goodwill impairments on past acquisitions", "*a legacy of RBS's seven-year acquisition spree*" embarked on by a chief executive dubbed a "*deal junkie*"¹... In other words, and in many meanings, the bank went too far.

Many (or most?) of the banks have moved far from their traditional core business (deposits and loans, remember?) and, simultaneously or subsequently, from their balance sheets. Many have gone too far from their natural shores. Fortunately, there are still a few exceptions. Yet naturally not totally immune -who can be these days?- the relative stability in the results and performance of Canadian and Swedish banks amid the turmoil may be explained by at least three factors: more conservative management, more effective regulatory systems, and, yes, more local operations.² According to New York University professor Nouriel Roubini, half of the \$3,600 billion losses on U.S.-generated assets estimated as a result of the financial crisis are going to be incurred... abroad!³ Imagine what could have been done locally or elsewhere with just a percentage of that amount...

When everything is too far and out of reach, one shouldn't be surprised to fall victim from faraway events. Apparently, analysts, economists, media and politicians have short memories: think back to the long Japan's depression, 1987's "Black Monday" (Dow Jones largest one-day fall), the Asian turmoil,

1 "*RBS counts £28bn cost of past ambition*", by Jane Croft, in the Financial Times (January 20, 2009).

2 A higher degree of disclosure and reporting transparency should be added as a plus point for Canadian banks: check the consistently sustained annual report rating and ranking of banks such as BMO, Scotiabank, CIBC, RBC, Toronto-Dominion in the "*Annual Report on Annual Reports*" on www.reportwatch.net.

3 Source: www.rgemonitor.com (February 2009). It can go both ways: end-February 2009, ING weighed up the possibility of applying for U.S. bailout funds because of the importance of operations in the country.

the burst of the “Internet Bubble”, Argentina’s crying, etc.¹ In most cases, the crises were made worse due to destabilizing and fleeing international capital flows. By the way, except Joseph Stiglitz, Naomi Klein and a few others, not that many commentators (and certainly not IMF’s ones) insist on the fact that some Asian economies, mainly Malaysia and Thailand, recovered more quickly also thanks to the role of public initiatives and the insulation of some parts of their economies. Hush this up! And practice it even less, or you are labeled a protectionist! What else than “protecting” national interests have most Western governments and Japan done since September 2008?

For all its limits -much there is about buying, swallowing and digesting- InBev (et al.) also stands as a showcase for company internationalization. Like others, and more than many, it has succeeded in transforming a local manufacturer into a global player –and market leader. Many other companies and their managers have showed great capabilities for simultaneously going far and staying -or getting- close. Far from home, and for long, like the impressive number of Swedish global firms who have grown abroad: Assa Abloy, Atlas Copco, Electrolux, Ericsson, H&M, IKEA, SCA, Volvo hold strong or leadership positions in their respective industries (from compressors to appliances to packaging to trucks and many other products), often explained by excellence at striking a good balance between a yellow-and-blue pride and high adaptability to any local environment where they operate in. Incidentally (and perhaps more than that), couldn’t an explanatory factor be found in the Swedish model of capital structure, based on a balanced mix of investment groups, local shareholders and foreign ones? Compare this with the inability of British companies to become really international? How many are able to drop their insular -or “Victorian” or “City-centric”- behavior and to recognize that they don’t “rule the waves”

1 The mix of country and corporate crises can be traced in CDS (credit default swaps): a top five of credit derivatives outstanding published in *De Tijd* (November 6, 2008) was showing Italy as riskiest, followed by Spain, Deutsche Bank, Brazil, and General Electric Capital.

anymore? Names wanted, also for the exceptions! Compare this with the traveling Dutch often rightly reckoned as born exporters, perhaps because their “*naam is klein*” and their land and home market too (but not their self-regard, as the ABN Amro-Fortis story has illustrated it).¹ Close to markets and customer needs is certainly an explanatory factor to the success of large Japanese corporations: the distance factor doesn’t seem to have been such a hindrance to Canon, Fujifilm, Honda, Nikon, Pioneer, Sharp, Sony, and of course Toyota, who watched more customer directions than the Detroit big wheels did (the net results driven in a street near you). Compare this with the “Buy it” (for customers) and “My way” (for management and staff) attitudes that have turned from real post-World War II plus points for hundreds of American companies and institutions (from Coca-Cola to McDonald’s, and the Harvard Business School)² into weaknesses in a more multilocal and less American-centered environment (from ... to ... and ...).

The thing is, to quote reputed specialists on global strategies, such as Warren Keegan, Gary Hamel and C.K. Prahalad, Michael Porter, or George Yip, to balance local demands with a global vision. Or, as Sony’s chairman once put it, to “glocalize”.³

1 When the Belgian, Dutch and Luxembourg governments jointly bailed out the virtually bankrupt bank and insurance group Fortis in September 2008, the Dutch government’s attitude attracted criticism from Belgium because it would have paid too much attention to their self-interest, also by drawing ABN Amro back to Holland. What’s the problem? Pride? Would it have been more appropriate to sell off to any other at a discounted price, the way the Belgian government did it in an awkward deal with BNP Paribas, letting another decision center drift away? Well, as a consolation, at least the two Belgian communities (the Flemings and the Walloons) could reunite against the old Northern enemy!

2 The author’s business, working and management background was much influenced by those ways and means –which come in handy on many occasions, but needs to be significantly and culturally supplemented.

3 Warren J. Keegan: “*Multinational Marketing Management*” (Prentice Hall, 1984), “*Global Marketing Management*” (7th Edition, Prentice Hall, 2001). Gary Hamel and C.K. Prahalad: “*Competing for the Future*” (Harvard Business School Press, 1996). Michael E. Porter (Editor): “*Competition in Global Industries*” (Harvard Business School Press, 1986). George Yip: “*Total Global Strategy: Managing for Worldwide Competitive Advantage*” (2nd Edition, Prentice Hall, 2002).

If necessary, and for the sake of clarity, the author does not in any case imply that growing international and thus moving far is bad as such¹. On the contrary. Whether you see the world as “flat”, you view it as “borderless”, or you want to “make globalization work”, “*Competing with Everyone from Everywhere for Everything*” is our common lot.² Moreover, it is much more recommended to have an international mindset than to go for any form of (not always that) “splendid isolation”³, or worse, for nationalistic jingoism, which have proved harmful more than once. “*Travel broadens the mind*”. David Ricardo may have been buried some time ago, his free-trade legacy remains⁴, as well as the message that trade contributes to exchanges between civilizations. “*Commerce with all nations, alliance with none, should be our motto*,” said Thomas Jefferson.

Why couldn't it be good just because it's far? One man's beer is another man's wine, after all. And don't forget the fruits, vegetables, etc. exchanged off season in the global marketplace...

Why should it be necessarily good because it's far? One woman's coffee is another woman's tea, after all. And don't forget the fruits, vegetables, etc. bought in season on the local market square...

1 In a previous life the author taught international management to young execs and advised companies on their globalization strategies. And has not regrets about that!

2 The words refer to the titles of inspiring books published these last years: “*The World Is Flat*”, by Thomas L. Friedman (Farrar, Straus and Giroux, 2005); “*The Borderless World*”, by Kenichi Ohmae (Fontana, HarperCollins, 1991); “*Making Globalization Work*”, by Joseph E. Stiglitz (W. W. Norton, 2007); “*Globality: Competing with Everyone from Everywhere for Everything*”, by Harold L. Sirkin, James W. Hemerling, and Arindam K. Bhattacharya (from the Boston Consulting Group) (Business Plus, 2008).

3 Used to name the British policy in the late 19th century, and title of a song by Warren Zevon (on “*Transverse City*”, Virgin, 1989).

4 See “*Opening the floodgates*” in The Economist (May 9, 2009), which, based on recent studies, states that “*Imports can be as useful to developing countries as exports are.*”