



Coca Cola Hellenic Bottling Company AG

B.SC. INTERNATIONAL BUSINESS
CORPORATE GOVERNANCE (BINBO 1427E) - HOME ASSIGNMENT (EC)

Executive summary

Russia is, together with Nigeria, our biggest market. The emerging markets alone account for almost half of our revenue. Russia accounts for 27% of the volume on those markets (Coca Cola HBC, 2022b). The shareholders seem to have lost faith in our value, as can be seen from the development in stock prices around the date of the invasion, where the price fell 38% in two and a half weeks (Appendix 1) (Coca Cola HBC, 2022c). This would initially be thought of as a reaction to uncertainty of our operations in Russia and Ukraine and therefore our profitability. It seems as though this plays only a small part, and the reaction of the market was because investors didn't want stocks in companies operating in Russia. This along with a general shift in the reasons for investing points to investors gaining increasing utility from ESG and CSR efforts. This means that our shareholder value is not only measured on our profits, but also our perceived ESG risk and CSR efforts. With this in mind we should weigh our stakeholders highly.

When stakeholders have conflicting interests we should consider the interests of the stakeholders, that would increase our shareholders' perception of our efforts in the best way. This conflict seems to not be restricted to only Russian vs Ukrainian stakeholders, but Russian vs all other stakeholders. The perception of our ESG could be damaged by staying in Russia, while boycotts from other consumers could see us losing financially as well from not withdrawing from Russia. Along with The Coca Cola Company's suspension of Russian activities making it hard for us to operate in Russia the best decision would be to follow their line and suspend or withdraw our Russian operations.

Shareholder value

Assuming that all our shareholders are 'Homo Economicus' and will therefore always want to maximize their own utility, we will conventionally think that shareholders would prefer us staying in Russia to keep our profits from that market to maximize our profits in general. However, our stock price did go up immediately after The Coca Cola Company announced the suspension of all their operations in Russia on the 8th of March (Coca Cola HBC, 2022c) (The Coca Cola Company, 2022) implying that shareholder value will increase from leaving Russia. The trends in the stock market have in fact shown a clear correlation between the development in market capitalization and level of withdrawal from Russia. In the first weeks scoring low on level of withdrawal meant

huge losses, which we also experienced, while scoring high meant smaller losses, which is now switched to positive returns (Sonnenfeld et al., 2022). This points to Homo Economicus not applying to investors.

Looking at the trends of investments from both institutional and private investors, it is clear that consideration of external stakeholders is an increasingly important factor. As Boffo and Patalano (2020) writes in a new report for OECD “Forms of sustainable finance have grown rapidly in recent years, as a growing number of institutional investors and funds incorporate various Environmental, Social and Governance (ESG) investing approaches.” These new investing approaches called ESG or social impact investing is described as it “(...)seeks a blend of social return and financial return – but the prioritisation of social or financial returns depends on the extent to which the investors are willing to compromise one for the other in alignment with their overall objectives.” (Boffo & Patalano, 2020). In other words, individuals who exercise ‘social impact investing’ will prioritise between social and financial returns according to the utility they gain from it. The increase in these kinds of investments shows an increase in investor’s utility from the social impact. On that background we can still assume that Homo Economicus applies, but that the utility has shifted towards a bigger social focus. We would with that in mind maximize our shareholder value by balancing the financial and social impact of our actions. The type III agency problem is therefore to a large degree minimizing as a result of owners obtaining utility from actions gaining the stakeholders. The real type III agency problem is in that regard the diverging interests of different stakeholders. We will only have a type III problem with the stakeholders whose interests we choose not to aid in order to aid those of another stakeholder.

This conflicts with Stephen Bainbridge’s (2015) idea of wealth maximisation, as these converging interests among stakeholders can cause managerial misuse, as decisions personally benefitting the manager always can be explained with consideration to one or the other stakeholder. The risk of this problem is very low in our firm as we have block holders in The Coca Cola Company and Kar-Tess (Appendix 2), that can better monitor our managers through the board, and we can therefore take more of a stakeholder view.

Stakeholders

The employees and Russian society

With 10 plants producing soft drinks and juices in Russia (TASS, 2022), a lot of employees would be affected by a complete withdrawal from Russia. With a lot of other Western firms suspending or withdrawing from Russia, the employees would hardly be able to find a new job and would likely end in poverty. The loss of production would lower the GDP, while taxes from both company and workers will also disappear and give the government less income which would result in even lower welfare for the Russian citizen. All in all, the measures taken to hurt the Russian government would hurt the Russian citizens as a result of that. The Russian citizen is in that regard a stakeholder, that would want the company to stay in operation in Russia.

The Ukrainian people

On the other side we have the people and government of Ukraine. By staying in Russia, we would indirectly through taxes support their warfare in Ukraine killing and injuring both military and civilians. Human rights are broken, war crimes are being committed and there is also massive destruction on properties and buildings as well (BBC News, 2022). The war obviously hurts the Ukrainians very directly, and their lost production from lack of workers and destruction of production facilities along with refugees fleeing from the country is diminishing the consumption in the country which will cause poverty like it does in Russia. The consequences of our decision look way worse for this stakeholder, but they are also way more indirect and aiding their interests is more of a symbolical gesture compared to the actual good it does for the Russian civilians.

Consumers in other markets

Because of the amplitude of this conflict other consumers are following our decisions closely as well. There is a clear bias towards not supporting Russia. This from the viewpoint that Russia is the aggressor along with ideological differences. Both Ecco's and Nestlé's attempt to justify their presence in Russia with the consideration of their Russian stakeholders were heavily criticized and called a "Bad excuse" (Rasmussen, 2022). A lot of people on social media encouraged a boycott of brands still present in Russia, with charts showing all brands with relations to Nestlé shared on social media to help enforce this (Appendix 3). They have way greater sympathy for one stakeholder than the other causing them to find the decision between them easy to make and

equalling staying in Russia with corporations trading morals for profits (Hetzner, 2022). This points to a continued presence in Russia reducing our sales in other markets, which could end up making it unprofitable to stay there. It is thus not only the consideration of our stakeholders, but also our finances, that could be hit by staying in Russia.

ESG Ratings

We are and have for many years been greatly ranked in several ESG rankings like the Dow Jones Sustainability indexes while we have been AAA rated on the MSCI ESG ratings (Coca Cola HBC, 2022a). Continuing to assume that investors gain utility from sustainability and social efforts, and everything related to ESG, it is important for our shareholder value to continue our efforts to stay highly ranked. How we manage this situation will have an impact on these ratings, and the clear perception in the western world has shown to be in favour of the Ukrainian stakeholders. The developments of the stock markets have shown that the ESG risk by staying in Russia has outweighed the loss of withdrawing, as described in an article from The Washington Post “And even for the multinational companies that previously drew significant revenue from Russia, investors are clearly much more concerned with the far more important reputational risk of funding the Putin regime and with the potential for large-scale corporate boycotts around the world.” (Sonnenfeld et al., 2022). To maintain our high ESG rating, it seems we should withdraw from Russia.

Concluding on stakeholders

We have a conflict of interest between the Russian and Ukrainian stakeholders. Derived from this there is a conflict between our Russian stakeholders and other consumers and our ESG rankings. Looking broadly, we will clearly benefit more stakeholders’ view by suspending or totally withdrawing our operations from Russia and by that actually increasing the utility gained for our investors and thereby our shareholder value.

The Coca Cola Company

The Coca Cola company stated on the 8th of March a complete suspension of their operations in Russia (The Coca Cola Company, 2022). As we exclusively sell their products (Coca Cola HBC, 2022e), it will be very hard for us to justify our continued operations in Russia with their brand and products. Moreover, they are a block holder and would likely not condone us not following their

line regardless of the interests of minority shareholders. It seems our shareholder value would increase from leaving Russia which is aligned with the interests of the majority shareholder thus discontinuing thoughts of a potential conflict on this matter. The best solution for all parts seems to be towing the line of our partner and majority owner.

Thoughts and recommendations

By staying in Russia, we would benefit our Russian stakeholders and keep at least some of the profits gained there. By not doing anything we can argue that we take no political stance and are keeping our operations to not throw our Russian employees into poverty. However, this is by consumers in other markets perceived as corporate greed and an active support of Putin's regime. It could lead to boycotts in other markets and be perceived as bad corporate governance creating high ESG risk. We would therefore lose profits in other markets, which could end up damaging our profits even more than a withdrawal from Russia. Staying in Russia would in that sense end up hurting our shareholder value substantially by both decreasing the financial benefits as well as the perceived social benefits thus considerably diminishing the utility gained from our investors. Furthermore, a majority owner, and strategic partner, The Coca Cola Company is making it hard for us to operate in Russia anyway, and although a lot of investments would be lost as sunk costs, it would hurt more to stay in operation. A complete suspension or withdrawal of operations in Russia is the best solution for us in order to maximize shareholder value both financially and in total and will also be in line with our strategic partner's actions.

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1 Coca Cola HBC Stock price development (Athex)

14 JUNE 2021 - 10 JUNE 2022



Figure 1. Source: Coca Cola HBC 2022c

2 Coca Cola HBC shareholder structure

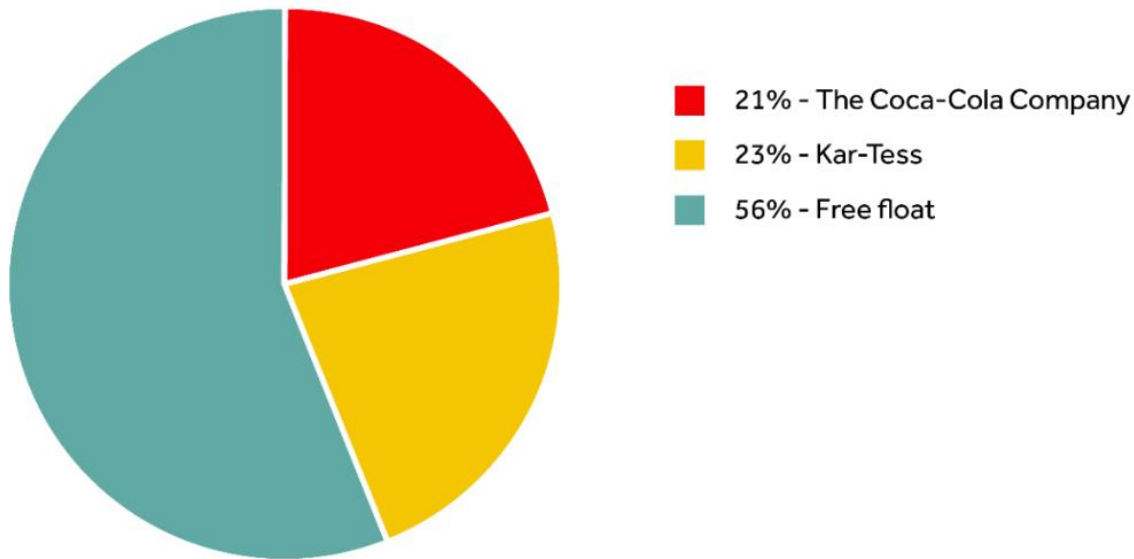


Figure 2. Source: Coca Cola HBC, 2022d

3 Social media response to Nestlé



Travis Akers
@travisakers



CEO of @Nestle Mark Schneider says the company will not exit Russian markets or suspend business with the Putin regime.

These are the companies and products produced under the Nestle umbrella.



2:12 PM · Mar 17, 2022



20.1K Reply Share

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Figure 3. Source: Hetzner, 2022

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