Mergers, Alliances and Acquisitions in the Nordic Agro and Food industry

- present situation and future development

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Nordic Co-operation in Agriculture and Forestry

Agriculture and forestry in the Nordic countries are based on similar natural pre-requisites, and often face common challenges. This has resulted in a long-established tradition of Nordic co-operation in agriculture and forestry. Within the framework of the Plan of Action 1996-2000, the Nordic Council of Ministers (ministers of agriculture and forestry) has given priority to co-operation on quality agricultural production emphasising environmental aspects, the management of genetic resources, the development of regions depending on agriculture and forestry and sustainable forestry.

The Nordic Council of Ministers

was established in 1971. It submits proposals on co-operation between the governments of the five Nordic countries to the Nordic Council, implements the Council's recommendations and reports on results, while directing the work carried out in the targeted areas. The Prime Ministers of the five Nordic countries assume overall responsibility for the co-operation measures, which are co-ordinated by the ministers for co-operation and the Nordic Co-operation committee. The composition of the Council of Ministers varies, depending on the nature of the issue to be treated.

The Nordic Council

was formed in 1952 to promote co-operation between the parliaments and governments of Denmark, Iceland, Norway and Sweden. Finland joined in 1955. At the sessions held by the Council, representatives from the Faroe Islands and Greenland form part of the Danish delegation, while Åland is represented on the Finnish delegation. The Council consists of 87 elected members - all of whom are members of parliament. The Nordic Council takes initiatives, acts in a consultative capacity and monitors co-operation measures. The Council operates via its institutions: the Plenary Assembly, the Presidium and standing committees.

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Preface

This report is the result of the project “Mergers, Alliances and Acquisitions in Nordic Agro and Food Industry – present situation and future development” and has been partly financed by The Nordic Council of Ministers. The report is also available on www.nordic-agrofood.com, including power point presentations of the project.

The objective of the project is to contribute to the competitiveness in Nordic agro and food industry through survey and analyses of present co-operations and future possibilities. The report contains an analysis of the Nordic agro and food industry, and the food market in the Nordic region. The incentives and motives for co-operation, and cultural barriers for co-operation in the Nordic region are analysed. The co-operations have been mapped and twenty cases of co-operation within industry are described and analysed, a/o through interviews with the enterprises. Finally, the report highlights future prospects for and gives recommendations as to how competitiveness in the Nordic agro and food industry could be enhanced.

A Nordic project group has guided the project: Torbjörn Sandberg (Lantbrukarnas Riksförbund, Sweden), Per-Erik Lindstrøm (Pellervo, Finland), Bjørn Strøm (Norsk Landbrukssamvirke, Norway) and Torben Bo Toft Christensen (Landbrugsraadet, Denmark). The members of the project group have acted as ambassadors for the project, and certainly paved the way for high level interviews with representatives from 20 Nordic enterprises, whom we would also like to thank for their contributions to the report.

The conclusions and recommendations are approved by the Nordic project group, but it must be underlined that the participating enterprises cannot be taken into account for analyses, statements and recommendations presented in the report. Professional editing was finished 31 January 2004.

On behalf of the project team of the Danish Agricultural Council.

Henning Otte Hansen, Karl Christian Møller og Flemming Holmgaard Kristensen
April 2004

Project commission

A strong agro and food industry is the best guarantee for a healthy economy in the agricultural industry and thereby also a valuable foundation for the development in the rural districts. The purpose of the report is to contribute to the competitive level in the Nordic agro and food industry through the mapping out and analysis of the co-operation and possibilities for co-operation in the agro and food industry in the Nordic region.

The project should give the Nordic agricultural sector, including the agro and food industry, new knowledge that can contribute to increasing the co-operation and creating more and better alliances, investments and mergers in the Nordic countries. At the same time, the project will expand and cement the common Nordic networks in the agricultural sector by spreading the information and experiences from the project.

Executive summary

The background for the project

A strong agro and food industry is one of the best means for securing a healthy and stable financial development in the agricultural industry. As the concentration of enterprises in the retail industry and the agro and food industry has increased in the past years, enterprises have begun looking beyond the national borders for new business partners. The extent of cross-border co-operation in the Nordic region has also increased significantly in a relatively short period of time. Because the agro and food industry varies from country to country in the Nordic region, this development involves both advantages and disadvantages as to which business areas can advantageously be chosen with a view to co-operation. In some areas the enterprises can supplement each other, but in other sectors the variations between the Nordic countries limit the possibilities of co-operation. However, all the cross-border co-operation in the Nordic agro and food industry is presumably started with an expectation of positive synergetic effects and a better common financial performance. Despite that an evaluation of the experiences has not been conducted. In addition to this, a common forum that can support and stimulate a positive development of co-operation in the Nordic agro and food industry is missing. On this background the aim of the project is the following.

The aim of the project

The aim of the project is to enhance the competitiveness of the Nordic agro and food industry. This will happen through the mapping out and analysis of the existing co-operation and the potential for new co-operation in the Nordic agro and food industry. Consequently, the project will establish new knowledge that can be the foundation for increased co-operation among the enterprises in the Nordic agro and food industry. At the same time the project will try to expand and cement the common Nordic networks in the agricultural sector by spreading the information and experiences from the project.

The content of the project

In order to meet the aim of the project presented above the report has the following structure. On an overall level the report is divided into four main sections. Firstly, the analysis looks into the agricultural industry and the agro and food industry. This happens through a description and comparison of the two sectors in the five Nordic countries. The second part of the first section analyses the market for food in the Nordic region. Secondly, the report looks at incentives and motives for co-operation in the Nordic region and in the same context evaluates the advantages and disadvantages of different types of co-operation and integration. To support this part of the analysis cultural barriers for co-operation in the Nordic area are also analysed. This is done in chapters four, five and six. Thirdly, in chapters seven, eight and nine, examples of co-operation in the Nordic agro and food industry are analysed. This is done through the

mapping out of the existing co-operation in the industry. After that thorough research is carried out of twenty cases of co-operation in the industry. Here a number of advantages and disadvantages of co-operating in the Nordic agro and food industry are uncovered. At the same time barriers to co-operation in the region are analysed, and moreover experiences regarding the same issue are gathered. Finally, the third section looks at the future prospects for the Nordic agro and food industry. It tries to point out where the most important challenges for the enterprises in the region are with a view to finding ways to survive in the increasing international competition. Fourthly, the final section presents the conclusions of the report and in addition to this gives recommendations on how competitiveness in the Nordic agro and food industry can be enhanced.

The conclusions of the report

On an overall level the analysis of co-operation in the Nordic agro and food industry reveals that there is a potential for even stronger co-operation among the enterprises in the industry than the co-operation that already exists. Despite national differences and variations in the Nordic agro and food industry much co-operation has taken place across national borders in the region. Mostly with positive results. However, in order to enhance the competitiveness in the Nordic agro and food industry many challenges must still be dealt with. In many areas enterprises face severe challenges when they seek cross-border co-operation. If the consumers, the five Nordic societies, and of course the enterprises are to benefit from the co-operation, it is necessary that something is done about these barriers at the political level. Otherwise it will be difficult for enterprises in the Nordic agro and food industry to survive in the international competition. Moreover, the analysis has shown that there exists a wish for an exchange of experiences on co-operation in the Nordic agro and food industry. In regard to fulfilling this wish, a common Nordic forum for the enterprises in the Nordic agro and food industry - within the framework of the Nordic Council of Ministers - would be interesting.

Sammendrag

Baggrunden for projektet

En stærk agro- og fødevarerindustri er den bedste garanti for en sund og stabil økonomisk udvikling i landbrugssektoren. Da koncentrationen blandt virksomhederne i både detailhandlen, samt agro- og fødevarerindustrien er steget i de seneste år, er virksomhederne begyndt at kigge ud over de nationale grænser efter nye samarbejdspartnere. Antallet af samarbejder over landegrænser i den nordiske region er øget betragteligt inden for en relativ kort tidsperiode. Da agro- og fødevarerindustrien varierer mellem forskellige lande i Norden, er dette en udvikling, som har både fordele og ulemper, når virksomhederne skal finde de forretningsområder, der potentielt indeholder mulighederne for et fordelagtigt økonomisk samarbejde over landegrænser. På nogle forretningsområder kan virksomhederne supplere hinanden positivt, mens samarbejdsmulighederne i andre sektorer begrænses af forskellene mellem landenes agro- og fødevarerindustri. Imidlertid er alle samarbejderne startet ud fra en forventning om positive synergieffekter og en forbedret økonomisk vækst. Baggrunden for projektet har været at evaluere, hvordan erfaringerne har været med disse samarbejder. Herudover savnedes også et fælles nordisk forum, som kan støtte og stimulere en positiv udvikling af samarbejder over nationale grænser i den nordiske agro- og fødevarerindustri. Derfor er projektets formål følgende.

Projektets formål

Det overordnede mål med projektet er at bidrage til konkurrenceevnen i den nordiske agro- og fødevarerindustri. Det vil ske gennem en kortlægning og analyse af samarbejdet og samarbejdsmulighederne i agro- og fødevarerindustrien i Norden. Hermed vil projektet bibringe ny viden, der kan bidrage til at skabe et bedre grundlag for et øget samarbejde mellem virksomhederne i den nordiske agro- og fødevarerindustri. Herudover vil projektet forsøge at udvide og cementere de fælles nordiske netværk i jordbrugssektoren med henblik på at sprede informationer og erfaringer fra projektet.

Projektets indhold

For at opfylde ovenstående målsætning er rapporten opdelt i fire hovedafsnit. Det første afsnit beskæftiger sig med landbrugssektoren, samt agro- og fødevarerindustrien gennem en analyse og sammenligning af de to sektorer i de fem nordiske lande. Som det andet er fødevarermarkederne i den nordiske region analyseret i det første afsnit.

Herefter omhandler afsnit to incitamenterne og motiverne for at samarbejde i den nordiske region, herunder fordele og ulemper ved forskellige samarbejdsformer. Til at understøtte disse pointer er de kulturelle barrierer ved samarbejde i Norden også afdækket. Dette sker i kapitel fire, fem og seks.

I det tredje afsnit analyseres konkrete eksempler på samarbejde i den nordiske agro- og fødevareindustri, hvilket sker i kapitel syv, otte og ni. Som det første er eksisterende samarbejder i industrien opregnet. Efter det er tyve cases beskrevet og analyseret. Her er en række fordele og ulemper ved samarbejde i den nordiske agro- og fødevareindustri påvist. Barrierer for samarbejde i regionen er identificeret, mens virksomhedernes erfaringer er indsamlet og beskrevet. Som det sidste omfatter analysen de fremtidige udsigter for agro- og fødevareindustrien i Norden. De største udfordringer for virksomhederne i regionen med hensyn til at overleve i den internationale konkurrence udpeges.

Afslutningsvis præsenteres rapportens konklusioner, og der gives anbefalinger til hvordan konkurrenceevnen i den nordiske agro- og fødevareindustri kan forbedres og forstærkes, hvilket sker i kapitel ti og elleve.

Rapportens konklusioner

På et generelt niveau konkluderes det på baggrund af analysen, at der eksisterer et potentiale for et endnu stærkere samarbejde mellem virksomhederne i den nordiske agro- og fødevareindustri, end det som allerede er etableret. Til trods for nationale forskelle mellem virksomhederne i industrien foregår der allerede meget samarbejde over de nordiske landegrænser, overvejende med et positivt resultat. Alligevel er det fortsat nødvendigt at håndtere mange udfordringer, hvis konkurrenceevnen i den nordiske agro- og fødevareindustri skal forstærkes. På adskillige områder møder virksomhederne fortsat store barrierer, når de søger samarbejde over de nordiske landegrænser. Hvis forbrugerne, de fem nordiske samfund, og selvfølgelig virksomhederne skal drage nytte af et øget samarbejde, er det nødvendigt at disse udfordringer håndteres på det politiske niveau. Sker det ikke, bliver det svært at overleve i den internationale konkurrence for agro- og fødevarevirksomhederne i Norden. Herudover viser analysen, at virksomhederne har et ønske om at udveksle erfaringer vedrørende samarbejde i Norden. For at opfylde dette vil det være ønskeligt, om der kunne skabes et fælles nordisk forum for virksomhederne i den nordiske agro- og fødevareindustri inden for rammerne af Nordisk Ministerråd.

1 Description, comparison and analysis of the agricultural industry, and the agro and food industry

1.1 The agricultural industry

1.1.1 Structure

The structure and size of agriculture are an expression of the competitive position of agriculture as specialisation and economies of scale can result in comparative advantages.

The size of the agricultural area reflects in part the potential of agricultural production even though the quality of the soil is also an important factor. As can be seen from figure 1, approximately equal portions of agricultural soil are available to farmers in Denmark, Sweden, Iceland and Finland, while farmers in Norway have considerably less soil.

There is thus a relatively small area with actual agricultural soil in Iceland, Norway and Finland. It is only a small part of the overall area that can be cultivated and even the agricultural soil that is rotated may be of limited quality.

The farms in Denmark are larger than those in the other Nordic countries. In terms of area of agricultural soil that is being rotated, there are in particular small farms in Iceland and Norway. An average farm in Norway has 11.8 ha, while in Denmark the average farm has 45.7 ha.

Figure 1 Area with agricultural soil (2002)

Source: FAO

The rural population is largest in Finland, and also seen in relation to the size of the total population Finland takes up the top position with approximately 6 per cent. In the other countries the share is around 3-5 per cent.

1.1.2 Productivity

An important measure of the competitiveness of agriculture is productivity. Productivity is calculated as output in relation to input – that is to say a measure of what can be produced as compared with the quantity of resources used.

In practice it is often impossible to calculate all inputs that are used in a given production. Therefore sub-measures of productivity are analysed instead, such as for instance production per hectare or per animal.

As appears from table 1 productivity is generally highest in Denmark. However the milk yield is higher in Sweden.

Table 1. The structure of agriculture and its productivity, support and position in the national economy

	Year	Denmark	Finland	Iceland	Norway	Sweden	EU
Structure							
Ha/farm	2000	45.7	27.3	-	11.8	37.3	18.7
Dairy cows/farm	1999	57,4	14,9	-	13,8	32,1	28,2
Cattle/farm	1999	78	34	-	32.1	50.4	52
Pigs/farm	1999	775.1	298.6	-	27.2	352.5	123.3
Productivity							
Yield, hkg/ha:							
- Wheat	2000-2002	73.4	34.3	-	42.6	60.3	57.3
- Oat	2000-2002	50.5	33.2	-	39.7	38.7	33.6
- Potatoes	2000-2002	411.7	250.2	143.5	242.6	290.9	361.5
- Carrots	2000-2002	410.7	373.3	159	281.4	507	478.1
- Milk/dairy litres/year	cow, 2000-2002	7.356	6.896	4.002	5.817	7.769	6.022
Support							
- Wheat	2001	-	-	-	68	-	44
- Sugar	2001	-	-	-	-	-	46
- Milk	2001	-	-	71	74	-	40
- Beef	2001	-	-	53	77	-	91

- Pork	2001	-	-	18	27	-	20
- Poultry	2001	-	-	81	63	-	46
- Other products	2002	-	-	63	71	-	36

Position in the national economy

Agriculture's share of

- GNP	2.7	3.6	9	1.8	2	-
- Employment	3.6	6.1	8.6	4.2	2.5	-
- Exports	2.5	6.3	0.9	0.7	1	-

The food sector's share of

- Exports	19.7	1.6	65.2	6.4	2.5	-
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1.1.3 Position in the economy

Also the size and composition of production are of importance when evaluating the position of agriculture. Even though the agricultural area in each of the Nordic countries is more or less of the same size, there are major differences in the size of agricultural production. For one thing lower efficiency results in lower production, for another the animal populations in the various Nordic countries differ considerably.

As can be seen from figure 2, the production of grain is largest in Denmark, second largest in Sweden and in Iceland there is no production of grain. The animal population is largest in Denmark as far as pigs, cattle and poultry are concerned, cf. figures 3, 4 and 5.

Figure 2. Production of grain (2002)

Source: FAO (2003)

Figure 3. Pig population (2002)

Source: FAO (2003)

Figure 4. Cattle population (2002)

Source: FAO (2003)

Figure 5. Chicken population (2002)

Source: (FAO (2003))

As can be seen from the figures, there are in particular differences as regards the size of the pig sector. But also the chicken population is clearly largest in Denmark.

As regards the population of sheep Norway has by far the largest population of sheep with 2.4 million sheep. Iceland has the second largest population with 470,000 sheep. In this context, the population of sheep is very small in Finland and Denmark.

Trade in agricultural products is also a reflection of the potential and international competitiveness of the individual countries. In spite of almost the same use of resources as regards agricultural land and labour the agricultural production is far larger in Denmark than in the other Nordic countries. While Danish agriculture exports 2/3rds of its production, agriculture in the other countries is to a very great extent home market oriented.

Therefore, Denmark has a large net export of food products, while the other Nordic countries are all net importers.

Furthermore, it is a characteristic of the agricultural import of several of the Nordic countries that it consists especially of tropical or subtropical products that the countries cannot produce themselves. On the other hand, the countries are almost 100 per cent self-sufficient when it comes to products that they can produce themselves.

A very essential factor in the evaluation of the actual competition is the scope of agricultural support. In Sweden, Finland and Denmark the level of support is the same owing to the fact that these countries are members of the EU. In Norway and Iceland agriculture receives much support. In Norway, for instance, the agricultural support is twice as large as in the EU.

Agricultural support varies considerably from product to product both in the EU, Norway and Iceland. The support figures are shown in table 1 – the figures are the share of support out of the production value.

1.2 The agro and food industry.

The Nordic countries have often served as a platform for mergers, acquisitions, alliances and joint ventures in the Danish food industry. The Nordic countries thereby

play a major role in the on-going structural development and further concentration of business.

The starting point and objectives for the food industry within the other Nordic countries differ in many ways considerably from the Danish business environment.

1.2.1 Internationalisation

A considerable difference is that the Danish agro and food industry focuses to a great extent on export markets, whereas the focus is much more on home market sales in Norway, Sweden and Finland, cf. figure 6.

Figure 6. Share of exports within the food industry 1980-2001 (value)

Note: Data for Iceland not available.

Source: Own estimates based on OECD data (2003)

The figure shows that the Danish food industry is 3 to 6 times as dependent on exports as the food supply industry in Norway, Sweden and Finland. Estimates indicate, however, an increase in the share of export markets in all the Nordic countries.

The fishing industry is somewhat different from the rest of the food industry. Fish constitute a very large part of the Norwegian and Icelandic food industry while their significance is relatively lower in Denmark. Therefore the share of fish exports is low in Denmark but very high in e.g. Sweden, cf. figure 7.

Figure 7. Share of fish exports. Average for 1997-99. (quantity)

Source: Own estimates based on FAO data (2003).

The very high export figures for Sweden must be seen in the light that Sweden is a net importer of fish, and the bar therefore shows both large exports and large imports.

The dependence on exports has changed considerably over time – especially owing to changes in production.

1.2.2 Composition

Not only their dependence on exports, but also the composition of production is different within the Nordic countries. The meat industry – which constitutes a considerable share of the food industry – is to a great extent based on pork (almost 75 per cent) in Denmark while pork constitutes a share of 10-15 per cent of the meat industry in Norway and Iceland, cf. table 2.

Table 2. Composition of meat production in the Nordic countries and worldwide (percentage of the country's production in terms of quantities). 2001

	Fish	Pork	Beef	Poultry	Mutton and lamb
Worldwide	2	39	25	30	5
Denmark	12	72	6	9	0
Finland	1	50	25	24	0
Iceland	62	10	7	6	16
Norway	65	15	12	5	3
Sweden	34	35	18	13	0

Source: Own estimates based on FAO data. (2003).

Together with fish, mutton and lamb hold a share of nearly 80 per cent of the raw materials of the Icelandic meat industry.

Likewise, Iceland is responsible for 22 per cent of the Nordic production of mutton and lamb, and Norway is responsible for 43 per cent of the Nordic fish and 22 per cent of the mutton and lamb production, cf. table 3.

Table 3. The Nordic countries' share of total Nordic meat production (percentage of national production in terms of quantities) 2001

	Fish	Pork	Beef	Poultry	Mutton and lamb
Denmark	28	75	32	50	4
Finland	0	8	18	19	2
Iceland	3	0	1	1	22
Norway	43	5	18	7	62
Sweden	26	12	31	23	10

Source: Own estimates based on FAO data. (2003).

The food industry plays a very fluctuating role within the Nordic countries. In particular Iceland has a very dominant food industry, but also Denmark and to some extent Norway have a considerable food industry, cf. table 4

Table 4. The food industry's share of the total industry.

	DK	FIN	ISL	N	S
Value added	16.0	6.3	45.7*	14.5	7.7*
Earnings	15.4	1.5	-	-	-
Import	10.2	5.0	-	5.2	6.1
Export	21.6	1.8	-	11.6	2.6
Production	23.0	8.7	-	21.7	9.0
Employment	16.6	9.0	-	17.5	-
Capital	-	9.0	-	18.1	10.5

*) Food industry including tobacco.

Note: 2001 – or later data if available.

Source: Own estimates based on data from the OECD (2003), the World Bank (2002) etc.

The importance of the food exports and imports also illustrates the varying role of the food industry in the Nordic countries. Whilst Denmark is a large net exporter of food, the other Nordic countries are net importers, cf. figure 8.

Figure 8. Net export of food supply (2001)

Note: Net export is export minus import

Source: Own estimates based on FAO data. (2003).

The figures for total net export of food also indicate considerable differences. Fish products differ considerably since not only Norway, but also Iceland and Denmark have significant net exports, cf. figure 9.

Figure 9. Net export of fish products (1999).

Source: Own estimates based on FAO data. (2003).

The Icelandic net export of approximately 70 million US\$ has to be viewed in light of both the small population and the high domestic consumption of fish.

The general picture for the Nordic countries, apart from Denmark, has for many years been a self-sufficiency level of close to 100 per cent. The goal of agricultural policy has

more or less been that the countries should be self-sufficient with regard to the domestic agricultural products they could produce themselves. In order to reach this goal they have to a wide extent imposed e.g. custom regulations and duties for import-regulating purposes.

With Sweden and Finland's entry into the EU this national self-sufficiency goal has obviously been eliminated. Furthermore the latest WTO agreements have to a certain degree more or less limited the possibilities of countries of taking national self-sufficiency measures for agricultural products.

If you look at the most essential agricultural products such as meat and dairy, the self-sufficiency level of the Nordic countries, apart from Denmark, is close to 100. The participation in the international division of labour is therefore relatively limited.

In some areas there are significant variations in the self-sufficiency level indicating a considerable competitive power. For example Sweden has a very high self-sufficiency level for alcoholic beverages. Also the self-sufficiency levels for fish products for Norway and Iceland are high.

A detailed account of the self-sufficiency levels for agricultural and food products in the Nordic countries and EU is illustrated in table 5

Table 5. Self-sufficiency level for selected agricultural and food products (2000)

Product	Denmark	Finland	Iceland	Norway	Sweden	EU-15
Wheat	109	70		52	126	120
Barley	126	122		91	112	125
Rye	158	87		24	108	152
Oats	129	126		108	145	112
Other cereals	94	104			101	99
Potatoes	90	68	62	88	81	101
Sugar beets	94	100			100	99
Other sweets	58	65	95	34	3	99
Peas	113	91			97	79
Other protein crops	23					79
Rape and mustard seeds	85	47		67	48	92
Other oil seeds	14				14	37
Rape and mustard oil	162	164		41	97	125
Oil from other oil seeds	31	18	5	34	16	64
Tomatoes	21	42	37	17	10	115
Onions	78	77			63	105
Other vegetables	55	67	23	55	42	98
Apples	19	12		20	13	86
Other fruits	19	19	0	18	8	91

Beer	126	105	38	95	90	104
Alcoholic beverages	83	117		29	351	159
Alcohol, non-food	46			87	71	106
Beef	116	98	99	97	86	103
Mutton and goat	23	40	116	97	53	83
Pork	431	99	100	100	87	106
Poultry	210	97	96	100	91	111
Other meat	97	60	120	88	93	74
Animal fat	102	152	49	76	160	102
Butter	158	278	118	130	148	99
Cream	122	102	99	100	107	107
Honey		44		82	37	44
Fish, fresh water	307	90	281	1.017	45	57
Fish, demersal	638	9	596	158	87	62
Fish, salt water	192	60	13.911	542	391	58
Fish, other	100		100	100	1	16
Bate, other	217		2.408	35	6	91
Sugar and sweets	161	73		3	104	120
Pulses	108	90			94	75
Oil crops	53	26		2	37	56
Vegetable oils	44	150	1	82	94	85
Vegetables	52	62	24	46	36	103
Fruits – excl. wine	9	7		6	4	84
Beverages, alcoholic	99	95	28	77	82	109
Meat	323	98	107	98	87	104
Offal		195	106	108	221	126
Animal fat	145	154	1.844	46	134	101
Milk, excl. butter	202	118	100	111	100	109
Eggs	87	112	111	102	93	102

The self-sufficiency levels are calculated as production/consumption. The figures are not directly comparable with e.g. the food industry's share of export markets, since some foods are subject to very little industrial processing prior to export.

1.2.3 Position in the economy

It is estimated that in line with the economic development, further globalisation and liberalisation the share of agricultural products and foods out of the total national imports and exports will decrease. It is a clear picture internationally that the production of and international trade in agricultural products of a country rise in line with the economic development, but the increase is more obvious when the total production and trade considered as a whole.

In general the same trend can be seen as for the Nordic countries.

The food industry's share of the total industrial production is – as indicated earlier – substantial, and largest in Denmark, while its significance is less in Sweden and Finland. In general its importance is declining, however; cf. figure 10.

Figure 10. Food industry's share of total industrial production.

Source: Own estimate based on OECD data. (2003).

The share of agricultural products and foods of total exports is also decreasing over time.

Figure 11. Export of foods as a percentage of total exports.

Source: Own estimates based on OECD data. (2003).

The development can to a large extent be explained by the relative low growth rate in the consumption of food. This tendency is therefore apparent in almost all industrialised countries.

Furthermore the import of foods constitutes a diminishing share of the total imports. This trend is not as distinctive as it is for agricultural exports, cf. figure 12.

Figure 12. Import of foods as a percentage of total imports

Source: Own estimates based on OECD data. (2003).

This development must also be seen in the light of the global consumption pattern and the fact that there is an increasing demand for foods that cannot – or can only with difficulty – be produced under the Nordic climatic conditions.

1.2.4 Shares of the world market

The share of the world market of a country – or a trade or a sector – can be used as a yardstick of its international competitiveness. Large shares of the world market are thus an expression of – or rather a result of good international competitiveness. The competitive strengths and comparative advantages are thus uncovered by looking at world market shares.

A country may by nature be suited for large-scale agricultural production and in this way strong international competitiveness may be established and thus large shares of the world market. On the other hand there may be few or no important raw materials in the ground and when that is the case for instance the heavy industry will often be a relatively small sector without much export.

The various industrial sectors will thus have different world market shares and the competitiveness among the trades is revealed in this way.

Conditions relating to business economics and business policy may also to a certain extent affect and thus blur the international competitiveness. The shares of the world market must therefore be used with this reservation.

As far as the Nordic countries are concerned, Denmark has relatively large shares of the world market for agricultural products as compared with other products, whereas the opposite applies in the other Nordic countries, cf. figure 13.

Figure 13. World market share for agricultural products compared with other products (2001).

Source: Own estimates based on FAO data (2003).

If the world market shares for agricultural products and non-agricultural products are equal, the index equals 100. If the index is e.g. 200, the world market shares for agricultural products are twice the size of non-agricultural products.

The figure thus shows that Denmark has relatively large shares of the world market for agricultural products – and this indicates a considerable relative international competitiveness within this field.

There are, however, also in this field, considerable differences between the individual product groups and this indicates that the international competitiveness varies from product to product. Finland has considerable world market shares for mink furs, Norway has considerable shares of the world market for fish, and Sweden has relatively large shares of the bread market. Iceland has – in consideration of the country's size – considerable shares of the world market for fish, mink furs and mutton while Denmark has a large share of the world market for, for instance, pork and cheese.

The world market shares are not stable over time. In particular Iceland and Norway differ from the other countries and they have halved their shares of the world market during the past 40 years. The development in Denmark and Sweden has been more stable, while for Finland the trend has been rising – although the rise has been unstable.

The development in world market shares for agricultural products based on the level in 1961 is shown in figure 14.

Figure 14. Development in world market shares for agricultural products. Index: 1961 = 100.

Source: Own estimates based on FAO data (2003)

Data show that there are large differences in the shares of the world market of the Nordic countries. Also within the individual countries there are large differences. Thus there is no country in which all agricultural products and foods have small shares of the world market.

This indicates that there are major comparative and competitive differences in the Nordic countries and that these differences are utilised for the common good through increased cooperation and trade between these countries.

The fact that several countries have a self-sufficiency percentage of very close to 100 in major product areas is therefore to a greater extent a result of a decision based on agricultural and/or consumer policy. From a purely economic point of view the Nordic trade and specialisation should be greater than it is in practice.

Therefore considerable welfare gains can be made and synergy possibilities can be exploited via more Nordic cooperation in the field of agricultural products and foods. Competency may be transferred among enterprises and among countries and further economies of scale may be achieved.

1.2.5 Forms of ownership

Co-operative ownership is widespread in several places in the Nordic agro and food industry. Seen in relation to the rest of Europe the market shares of co-operatives within the sector are very high, cf. table 6.

Table 6. Market shares of co-operatives in the agro and food industry in the Nordic countries and in the EU.

	DNK	FIN	ISL	NOR	SWE	EU
Dairy products	95	96	-	-	95	63
Meat	-	69	-	-	40	-
Pork	91	68	-	-	78	39
Poultry	0	81	-	-		28
Eggs	50	50	-	-	20	21
Sugar	0	10	*	*	0	52
Grain	60	46	*	-		48
Vegetables	75	-	-	*	50	27

* No major industry

- No data

1.3 Conclusion

The agro and food industry varies in the Nordic region with regard to internationalisation, composition and ranking in the economy. Overall Denmark tend to be different due to a relative high dependency on the agro and food industry. An industry, very internationalised and at the same time with a relative high competitive level at the international markets. Norway and in particular Iceland have a large industry related to fish, which also makes up for a large part of the two countries entire food industry. An important common feature of the Nordic agro and food industry is the type of ownership, which to a large extend is based on co-operative societies. All in all it appears that significant comparative advantages could be achieved by further promoting cross-border co-operation within the Nordic region.

2 Food markets in the Nordic region

2.1 Internal and external trade in agricultural products and food products

The potential for further Nordic cooperation and trade is illustrated by an analysis of the present agricultural trade between the Nordic countries, cf. figure 15.

Figure 15. Agricultural export share of total exports (2001).

Source: Own estimates based on World Trade Atlas (2003)

For instance, agricultural products constitute approximately 13 % of the total Danish exports to all countries. However agricultural products constitute only 7 % of the Danish exports to the Nordic countries.

In Sweden and Finland the export of agricultural products generally plays a less important role in the total exports. It is a characteristic, however, that the Nordic countries play a relatively important role in the agricultural exports of Sweden and Finland. Agricultural products are thus relatively important in the exports of the two countries to the Nordic countries – seen in relation to the exports of the two countries to other countries.

Figure 16. The importance of the Nordic countries with regard to exports of agricultural products and other exports (percentage of total, 2001).

Source: Own estimates based on World Trade Atlas (2003)

For instance approximately 19 per cent of the total Danish export is exported to the Nordic countries, but only 10 per cent of the Danish export of agricultural products is exported to the Nordic countries.

In Sweden and Finland 19 per cent and 12 per cent, respectively, of the export of agricultural products is exported to the Nordic countries, while the corresponding figures for their total exports are 13 per cent and 11 per cent, respectively.

It is thus a characteristic that the Nordic countries play a relatively minor role in relation to the Danish export of agricultural products – seen in relation to the total Danish exports and seen in relation to the exports of other Nordic countries.

The Danish export of agricultural products to the other Nordic countries has been considerably smaller than it is today, however. After Denmark's entry into the EU in 1973 the importance of the Nordic countries to Danish agriculture decreased significantly. The low level remained until the middle of the 1990s. After the entry of Sweden and Finland into the EU Danish exports to these countries increased once again significantly, which means that the importance of the Nordic countries to Danish exports of agricultural products is now greater than before 1973, cf. figure 17.

Figure 17. Danish export of agricultural products to the Nordic countries. Percentage of total agricultural exports.

Source: Own estimates based on data from the Agricultural Council of Denmark (for several years)

Open borders have thus played a decisive role for the Danish export of agricultural products to the Nordic countries.

The importance of the Nordic countries in relation to the rest of Danish exports – which have not been affected so much by the EU membership – has therefore developed in a significantly different way. Today approximately 23 per cent of Danish exports are exported to the Nordic countries. Back in 1970 around 35 per cent were exported to the same countries. In other words regarding the rest of the Danish export to the Nordic countries, it has decreased.

As far as imports of agricultural products are concerned, the picture is almost the same: Here the Nordic countries play a relatively large role for the Swedish and Finnish imports of agricultural goods – seen in relation to the total imports of these countries. On the other hand, the Nordic countries are of relatively little importance to the Danish imports of agricultural products – seen in relation to the corresponding imports of Finland and Sweden and seen in relation to the other imports of Denmark, cf. figure 18.

Figure 18. The importance of the Nordic countries for imports of agricultural products and other imports (percentage of total, 2001).

Source: Own estimates based on World Trade Atlas (2003)

Thus the figure shows that 35 per cent of Sweden's imports of agricultural products came from the Nordic countries while “only” 20 per cent of Sweden's other imports came from the Nordic countries.

In Denmark 16 per cent of the imports of agricultural products came from the Nordic countries as compared with 22 per cent as far as other products were concerned.

2.2 The composition of the consumption of food

There is a clear tendency that the consumption of meat per person continues to increase. Denmark is the country among the Nordic countries where most meat is eaten annually. Each Dane ate 141 kg of meat (including fish) in 2001. In Iceland they eat almost as much meat with an annual consumption of 136 kg per person. In Norway, Sweden and Finland the annual consumption is only around 100 kg.

There are indications that there is a clear connection between traditions and the present composition of consumption. In countries where the domestic production is high consumption is also high. This may be illustrated by the fact that the consumption of pork is considerably higher in Denmark than in the other countries and that the consumption of fish is very high in Iceland and Norway where they have a long tradition of eating fish.

Figure 19. Consumption of selected products annually per person

Source: FAO

2.3 The importance of the consumption of food.

The total consumption of foods in the individual households in the Nordic countries continues to increase. That means that more money is spent on food today as compared with 20-30 years ago. However, the share of each krone spent on consumption that is spent on food is decreasing in all the Nordic countries. Only between DKK 13-19 is spent on food for each DKK 100 spent on consumption.

Table 7. Share spent on food.

	Per cent
Denmark	14.02
Finland	14.67
Iceland	18.90
Norway	15.98
Sweden	13.26

Source: USDA 2003

This tendency will continue during the coming years. In the USA just under 10 per cent of the income is spent on food. The falling share of food out of the total consumption is due to the increasing incomes seen in the context that the food prices do not increase as much as the general prices in society.

2.4 The structure in the retail trade

2.4.1 General trends in the structure of the retail trade at the European level – including also the Nordic countries

At the European and Nordic level the retail trade goes through a significant development these years, where considerable changes in the direction of larger concentration and increasing internationalization are taking place. This means that there is fewer grocery chains in the individual countries, and these chain have become larger and thereby also more dominant players in the market. At the same time it means that an increasing share of the market will be covered by various forms of large associations within the retail trade. This development takes place primarily at the cost of specialty shops and small family-owned shops.

The development can also be observed by looking at the number of foreign acquisitions in the European and Nordic retail trade. At the end of the nineties the foreign mergers and acquisitions were thus considerably larger than the corresponding domestic mergers and acquisitions. At the same time almost half of the growth in the retail trade came from activities outside the home market. Years ago this figure was considerably lower as the growth in the retail trade was generated almost exclusively in the home market.

In a comparative perspective the concentration in the Nordic retail trade is among those that are clearly highest in Europe. In fact it is only other small countries like Austria and Holland that are on the same level. In particular in Denmark, Finland, Norway and Sweden the retail trade is very concentrated. In those four countries the three largest

chains have over 80 % of the market for retail trade. In a Nordic context, Iceland is a special case as the degree of concentration in the retail trade in Iceland appears to be somewhat smaller. It is under 50 % for the three largest chains. The figure is however, very uncertain as it is old (from 1994). At the same time the figure is based on an incomplete statement that tends to underestimate the concentration in the Icelandic retail trade.

2.4.2 Analysis of the structure of the retail trade in the five countries

The analysis of the structure of the retail trade in the five countries will start by uncovering some central characteristics of this structure based on the same parameters for each individual country. This will subsequently make it easier to compare major differences and similarities among the countries. The analysis will use the following parameters as central parameters for the structure in the retail trade: 1) Degree of concentration. 2) Degree of internationalisation. 3) The structure in the market for retail trade – including types of shops as well as composition of the market¹.

Denmark

1: In Denmark the three largest players in the market for retail trade have a share that constitutes up to 85 % of the total market. This means that the Danish retail trade must be characterised as very concentrated. The three players are Coop Denmark, Dansk Supermarked and Supergros. Coop Denmark alone has a market share of 38 %. The dominance of the three actors has been achieved primarily at the cost of the sales of small and medium-sized shops.

2: As compared with the other Nordic countries Denmark's retail trade is the most internationalised. The internationalisation started already in the seventies when the Danish retail trade established its first shops inspired by the European market. In the first instance, the shops were Bilka discount markets which belong to Dansk Supermarked. Thereafter the German ALDI established its first discount shops in Denmark. Later came Edeka and Metro. In general the players in the Danish retail trade were more oriented towards European norms than towards Nordic norms. Later Rema 1000 set up in business in Denmark. The chain is a subsidiary of the Norwegian chain Reitan. Besides, the Swedish/Dutch-owned ICA/Ahold has purchased 50 % of the Danish ISO. Finally the German Lidl has plans of establishing its discount shops nationwide in 2004 in order to manifest itself in the Danish market. In the first instance via eight large discount shops that are up to three times as large as the traditional Danish shops selling goods at a discount price.

3: The market for retail trade in Denmark is dominated by supermarkets and discount shops. The very area of discount trade has experienced growth throughout a large number of years where an ever increasing share of the market has been conquered. The expectation is that this development will continue and have the effect that the share of the market for retail trade of discount shops will exceed 25 % in 2006. The composition of shops in Denmark is characterised by an overweight of supermarkets as compared with the other Nordic countries.

¹ The figures of the analysis are primarily from 2000.

In Denmark the supermarkets constitute 44.5 % of the total number of shops.² Besides, Denmark also has more of the so-called 'Hypermarkets' than do Norway and Sweden. By way of comparison, Finland has one and a half times more of this type of shop than Denmark. The share of 'Hypermarkets' is 2.8 % in Denmark.

Finland

1: The Finnish retail trade belongs among the most concentrated in Europe. The two largest of the players in the market for trade in groceries – (the) SOK + Tradeka/Elanto (cooperation) and Kesko (private retailers) – hold approximately 80 % of the retail trade. In 1996 Kesko was in the process of taking over the remaining part of the private retailers in Finland. If the takeover had been carried through, it would have meant that Kesko would have 60 % of the market for retail trade. This was stopped, however, by the EU competition legislation that does not allow a single player to possess a market share of more than 50 %. The relative strengths between the two large players have within the past fifteen years changed considerably, and this has led to the cooperation having doubled its market share through the nineties. At the same time Kesko's share of the market has fallen from 40 % to 36.5%. That means that at the present time the Finnish cooperation appears to be the most successful in the Nordic countries. Finally it is worth noting with regard to the concentration in the Finnish retail trade, that there are by and large no specialty shops. In other words, the Finnish consumer makes by far the majority of his/her purchases in the local grocery shop.

2: With regard to the internationalisation of the Finnish retail trade it is characteristic that it did not take place until at a very late time (1999) and it is still not very extensive. It should be mentioned, however, that Kesko has for a large number of years cooperated with the Swedish ICA with regard to purchases. This cooperation has recently been cancelled owing to the changes that are taking place at ICA - now ICA/Ahold. Part of the explanation of the relatively low level of internationalisation in the Finnish retail trade is to be found in the very concentrated market for trade in groceries and the barrier that the difficult Finnish language constitutes. The German Lidl – that is a player in the market for discount – has, however, set up in business in Finland in recent years and has opened its first 30 shops.

3: The structure in the market for retail trade in Finland is characterised by many 'Hypermarkets' as compared with the other Nordic countries. Out of the total number of shops this form constitutes 4.4% in Finland, which is clearly the highest figure in the Nordic countries. In addition, the most important type of shop in Finland – in terms of share of total turnover – is the supermarket. The supermarkets are responsible for just under 52 % of the total turnover in the Finnish retail trade. Until Lidl entered the Finnish market, chains that focus exclusively on discount were an almost unknown phenomenon in Finland. The market share of discount shops in Finland is around 10%, which is considerably lower than in the other Nordic countries. The expectation is, however, that the market for discount will grow during the coming years and thus bring Finland on a level with Sweden, where the market for discount has a share of approximately 20 % out of the total retail trade. In general the Finnish retail trade must be characterised as innovative and dynamic – in spite of the low degree of internationalisation. In particular in areas such as the lay-out and design of shops, the Finnish retail trade is far ahead. Furthermore the concept of discount was also

² 'Hypermarkets': > 2,500 m², supermarkets: 400 – 2,500 m², 'Superettes': < 400 m².

introduced in Finland – strongly inspired by ALDI – before it was known in Sweden and Norway. This was so even though the market share for discount is still lower in Finland than in the other two countries.

Iceland

1: Compared with the other four Nordic countries the concentration in the Icelandic retail trade appears to be considerably lower. It must be presumed that this still applies also when making allowance for the uncertainty pertaining to the figures from Iceland, both as regard how old the figures are and the lack of a complete statement. (The figures from Iceland are from 1993 and almost 40 % of the market has not been included in the statement). The three largest chains in Iceland have at this time a share of the market for retail trade that constitutes approximately 51 %. Compared with the other Nordic countries that all have a degree of concentration of more than 80 %, this figure is quite low. The largest of the three major players in Iceland is Hagkaup (23 %) and Bonus (10 %). The reason why they are seen as one player is that it is the same company that is behind the two chains, viz. Hof Holdings. Thus the largest player in the Icelandic market for trade in groceries holds a share of approximately 33 %. The second largest player is the co-operation that has a market share of 12 % in Iceland. The cooperation is arranged differently in Iceland than in the other Nordic countries as it includes all sectors within one and the same unit. In other words the central cooperation – Samband – in Iceland covers both dairy, fisheries, meat and consumer interests. After the cooperation went into liquidation in 1992 it now consists of twenty associations who are together in charge of approximately 50 shops in Iceland. Noatun has 9 shops and 6 % of the market for retail trade and is thereby the largest chain in Iceland within the grocery trade.

2: In the material available there is no indication that the Icelandic retail trade is internationalised. It appears that no foreign chains have an interest in setting up in business on the Icelandic market for groceries. At the same time the Icelandic retail trade chains do not appear to have sufficient strength or motivation to manifest themselves internationally. As opposed to what is the case for the four other Nordic countries, there is no information to the effect that Icelandic grocery shops are involved in cooperation with other Nordic retail trade chains.

3: As opposed to what is the case for the four other Nordic countries, the number of shops in the Icelandic grocery trade has been stable – at least until the middle of the nineties. The level was around 300 shops in 1995. In comparison, Denmark – as the country with the fewest shops apart from Iceland – had 4186 grocery shops while Sweden had 6800. During the ten-year period the measurement lasted the level of shops in the retail trade in Iceland has fallen by 9 %, whereas in Finland the level has fallen by almost 40 %. Apart from these merely qualitative data, there is no relevant information in the material on the composition of the structure in the Icelandic market for retail trade.

Norway

1: The degree of concentration in the Norwegian retail trade is quite significant as the four largest grocery chains in Norway hold almost 99 % of the total market. These four are Norges-Gruppen, Hakon (ICA N), Coop Norge and Reitan-Narvesen. The largest of

the four players in the Nordic retail trade is NorgesGruppen that has a market share of 36 %.

2: Even though the trade in groceries in Norway is not particularly characterised by international trends it is not because the Norwegian retail trade lives separate from the remaining markets in Europe. However, the interest in Norway has – as in Finland – not arisen until at a relatively late time. Before 1997 only the Swedish ICA had a share in the Norwegian retail trade. At that time ICA owned 45 % of the shares of Hakon. The next year ICA took over the Norwegian chain completely. Besides, the German Lidl has declared that the chain wishes to manifest itself in the Norwegian market for groceries. In addition Obs under Coop Norge is involved in a joint venture with the Danish FDB and the Swedish KF. Finally it is worth mentioning in connection with the degree of internationalisation of the Norwegian retail trade that both Reitan-Narvesen and Hakon are involved in businesses outside the borders of Norway.

3: The retail trade in Norway is to a great extent characterised by discount shops. In Norway they have approximately 45 % of the market for groceries. It is in particular Reitan and Hagen (the families behind Hakon and Reitan-Narvesen) who have manifested themselves in the development of a typical discount market. Furthermore the Norwegian market is characterised by 'integrated trade' which is to say that the same enterprise has both wholesale and ordinary retail sale. An example of this could be Hakon that also has a department for wholesale to the businesses that are associated with the enterprise in addition to the ordinary sale of groceries. As regards the type of shop dominating the market for retail trade, the primary part of the turnover (65.8 %) is generated in the supermarkets in Norway. In addition it can be seen that the 'Hypermarkets' have a weak position in Norway with only 0.6 % of the total number of shops. At the same time the discount chains hold such a strong position that they are often the only alternative if one is outside the major population areas in Norway. Partly as an effect of the strong position of the discount chains in Norway the market is also relatively conservative, and the development of new concepts and products is slow. As compared with the rest of the Nordic countries Norway has a relatively low standard in its grocery shops. Just at the moment there are no indications that the structure of the Norwegian retail trade will change markedly in the near future – apart from perhaps the coming competition from Lidl.

Sweden

1: The Swedish retail trade is very concentrated and the three largest grocery retailers hold approximately 85 % of the Swedish market. In addition to this, the market is characterised by a strong cooperative structure where KF has approximately 500 shops and holds 19 % of the market in Sweden. The strongest player is however far and away ICA/Ahold that via 2000 shops holds approximately 38 % of the Swedish market. The third largest player in the Swedish retail trade is Axfood that has a 20 % share of the market.

2: As was the case in Finland and Norway the Swedish market for groceries was not to any major extent internationalised until the end of the nineties. Thereafter the internationalisation of the Swedish retail trade took place relatively quickly. The three large players in the Swedish market all have partners in the Nordic countries with whom they cooperate in order to make the entire Nordic region a home market in the long term. ICA – which is partly owned by the Dutch Ahold – has 50 % of the shares in the

Danish ISO. Axfood has focused on Finland, where the chain has acquired the majority of the shares in SPAR. Finally KF cooperates with FDB from Denmark and NKL from Norway in Coop Nordic. As in the three other Scandinavian countries Lidl is making an attempt at setting up in business in the Swedish market. Seen as a whole, the Swedish retail trade is more international than ever before. It also appears to be focused on the future growth that is to be created outside the borders of Sweden.

3: The Swedish market for retail trade is not so oriented towards discount as for instance the Danish and Norwegian markets. In Sweden the market share is approximately 15 % of the retail trade and that figure is expected to increase. This trend is supported by the fact that ICA/Ahold has together with Dansk Supermarked established Netto shops in for instance Sweden. Based on the share of the total turnover, the supermarket is clearly the most important type of shop in Sweden. 66 % of the total turnover within the retail trade comes from supermarkets. The 'Hypermarkets' take up less space in Sweden (2.2 % of the total number of shops) than they do in Denmark; however, the Swedish level is still far above the level in Norway.

2.4.4 Comparison of the characteristics of the structure in the Nordic markets for retail trade as well as a final perspective

Seen in relation to the Nordic retail trade it is conspicuous that Denmark, Finland, Norway and Sweden all have a high degree of concentration in the sector. What applies to the four countries is that the three strongest players possess over 80 % of the market for trade in groceries. In addition the countries also have another thing in common: namely that in the strong concentration the chains of the cooperation are very well positioned. This trend is seen among other things in Finland where the cooperation has doubled its market share and has caught up with the private grocers. In Iceland the cooperation also holds a relatively strong position and is the second largest player among the three most important players within the retail trade. Iceland differs from the other countries in that the concentration in the retail trade is quite low as compared with the other four Nordic countries. It is around 50 %.

As regards the degree of internationalisation in the five Nordic markets it has been relatively varied but as a result of developments during the past few years the retail trade has become more uniform. Denmark has in this field been ahead of the other Scandinavian countries as already at the end of the seventies the German ALDI set up in business within the retail trade. Finland was also inspired by international trends before both Norway and Sweden both with regard to the lay-out of shops and with regard to the introduction of the concept of discount. Besides, Kesko was one of the first retail trade enterprises in Northern Europe that established cooperation with a corresponding enterprise in another country. Norway and Sweden started their internationalisation later. In fact both markets were almost 'closed country' for internationalisation as such until 1998. After this time the development gathered momentum. In particular the retail trade in Sweden has followed with regard to the degree of internationalisation. Cooperation has been established in the retail trade field with both Danish, Finnish, Dutch, Norwegian and German grocers. Finally the Swedish Axfood also operates in the Baltic countries. Finally, it must be noted with regard to Iceland that this country is once again different from the other four countries. Iceland clearly has the lowest level of internationalisation as no foreign chains have set up in business on the island. At the

same time there is nobody from the Icelandic retail trade that has had the strength to become an international chain.

The market structure of the retail trade in the four countries (there is no information on Iceland) is characterised by the supermarkets having by far the majority of the total turnover in the trade in groceries. In Denmark, Norway and Sweden the share is over 60 %. In Finland it is around 50 %. Norway differs somewhat with regard to the 'hypermarkets' that have in Norway only just under 4.5 % of the total turnover. In the other three countries the share of the sales within the retail trade in these shops is over 15 % and in Finland even up to no less than 27.9 %. The field for discount also varies between countries although the trend is the same in all countries in the direction of an increased market share for this part of the retail trade. The market for groceries in Norway can be characterised as a discount market as the market share constitutes 45 %. The level for discount in Sweden is around 15 %, while in Denmark it is approximately 25 %. Finland differs a little here as the share for discount in the retail trade is only 11%. This is a figure that is rapidly approaching the Swedish level, however.

To sum up it may be noted with regard to the 'Nordic market' for retail trade that it totally amounts to approximately 550 billion Danish kroner and is dominated by large and strong players who hold considerable parts of the overall market. The market is dominated by supermarket chains and discount shops both of which are strong player groups within the retail trade. This appears to be a trend that will continue. Apart from in Denmark internationalisation has been relatively slow to show an impact in the Nordic countries, but especially within the past five-six years the Nordic retail trade has got well into the picture. In fact to such an extent that the Scandinavian trade in groceries becomes more and more oriented towards the European market.

The immediate perspectives for the Nordic retail trade appear to point in the direction of continued growth in the market for discount – this can be seen, among other things, in the advance of Lidl – and an ever increasing focus on the whole of Scandinavia as the potential home market for the ever larger grocery chains. Grocery chains that will to an increasing extent use Scandinavian co-operators and the 'Nordic home market' as the basis for growth abroad. It may even mean a further concentration of the already very concentrated Nordic retail trade.

2.5 Conclusion

The Nordic region has a different role as a market for import and export depending on which country and industry are being analysed. For Norway, Sweden and Finland the Nordic region is an important area for trade in products from the agricultural and food industry, whereas the region plays a relatively minor role for Denmark. The enlargements of first the EC and later the EU have had a significant impact on the Danish agricultural export to the Nordic region. Regarding food consumption there is a tendency towards increased consumption of meat. Moreover there appears to be a connection between traditions and the composition of food consumption. In Denmark the consumption of pork is high, and in Norway and Iceland fish play a relatively important role in the consumption of food. On an overall level the total consumption of foods is still increasing. Looking at the retail industry a common characteristic is the high degree of concentration in the industry. This is a development that will most likely continue. In Denmark, Finland, Norway and Sweden the four important players possess more than 80% of the retail market. The retail market in the Nordic region is dominated

by supermarket chains and discount shops. Concerning the internationalisation of the retail industry it is – after a fairly slow beginning – becoming more and more oriented towards the European market.

3 Incentives and motives for mergers – with the focus on the Nordic agro and food industry

The shift towards further M&A, fewer and larger enterprises, growth and concentration of business does not come out of the blue but is the result of a series of incentives and managerial urges. The incentive may come from within the enterprises themselves or through external influences. It is important that incentives and motives are determined in every single case as a basis for decisions to be made and goals to be determined before e.g. a merger.

M&A and structural developments are as previously mentioned not a goal in itself. M&A and structural developments are instead an instrument for achieving financial benefits – and thereby boost income – in the short and the long term.

A series of conditions, direct or indirect, exist that will help boost M&A and structural developments. Three examples below illustrate this:

Firstly, a strong concentration of business within the retail business, resulting in limitation of the market and negotiation forces within the food industries. The consequences could therefore be that the food industry might have to go through a similar M&A situation.

Secondly, many enterprises fear that their competitors may quickly catch up with them at their technological level – if, for instance, the technology is easily copied. To take full advantage of a technological level it is imperative to accelerate and intensify promotions and sales as much as possible. M&A could be a

means for boosting production and promotion, etc.

Thirdly, large-scale operations supporting the shift towards larger and thereby fewer enterprises. In order to exploit the large-scale advantages to their most – and thereby generating the best possible earnings for the owners – it is necessary to expand by M&A, investments, etc.

All three factors - concentration of the retail business, fast implementation of technology and exploitation of economies of scale – generate a need for an increased growth ratio to optimise earnings.

The structural developments within e.g. the Danish food industry have been significant in recent decades, and in many ways more vigorous than has been the case for their competitors. Several foreign “experts” estimate that this is one explanation of the success of the industry. Structural development should result in efficient production, exploitation of economies of scale and a stronger market position.

3.1 Superior motive Improved earnings capacity

The superior motive for M&A is in almost all cases a wish for larger profits for the owners of the enterprise. A merger is not a goal in itself but a means for generating larger earnings in the long or short term.

M&A and structural developments can directly or indirectly generate larger profits. The direct effect is seen through profits generated by increased volume with constant marginal return. The indirect effect is seen through e.g. acquisition of an enterprise, thereby boosting efficiency, enhancing market position, etc., which will consequently result in larger earnings.

3.2 Motives

There are a number of explanations for mergers and structural developments that include important motives and causes for choosing a strategy based on increased growth, concentration and perhaps

internationalisation. In all cases, the single enterprise must estimate whether benefits derived are advantageous, also in relation to the increased risks involved.

It is essential to uncover beforehand the most important urges for M&A and structural developments to be able to evaluate the possibilities or limitations they involve.

The basic motive is often an urge to use the resources in a way that in the short or long term creates an increase in earnings. It is often a question of investments or additional costs that will only after a number of years yield a return.

Basically there are four different types of motives or explanations for M&A and structural developments:

It may be internal affairs in the enterprises or external affairs that explain growth ratios and structural developments. At the same time it may be the question of a proactive drive that determines where an enterprise chooses to seek new possibilities, or it may be the question of a more passive and defensive objective that induces the enterprise to seek to limit risks and threats.

The different factors of growth and structural developments are illustrated in table 8.

Below is a more detailed description.

Motives for growth in food industries

	Internal	External
Proactive	<ul style="list-style-type: none"> • Economies of scale • High productivity • Growth ambitions • Managerial urge • Utilize know-how and tech. • Marketing control • Diversification • Specialisation 	<ul style="list-style-type: none"> • Access to cheap resources • Being close to market • Market share and dominance • Access to know-how • Liberalisation of capital markets • Position on emerging markets (first mover) • Favorable options • Economic growth
Passive	<ul style="list-style-type: none"> • Risk diversion • Protection of know-how • Excess capacity 	<ul style="list-style-type: none"> • Low market growth • Matching of customers • Larger assortment • Eliminate competitors • Secure supply of raw materials • Entry barriers • Legislative policies on competition

Growth and structural developments show that enterprises become increasingly larger through M&A, organic growth, national or foreign investments, strategic alliances, etc.

3.2.1 Economies of scale

The term 'economies of scale' describes the situation where an enterprise achieves lower cost per unit produced by increasing production. Benefits derived from the size of an enterprise and economies of scale will result in enterprises becoming larger.

There are several reasons for the production costs per unit becoming lower with a higher level of production. Firstly, you can spread the fixed costs on a larger number of units. It is often possible to make better use of existing production facilities by e.g. an expanded level of production without in a similar way increasing the work force and machinery. Since the variable cost per unit is unchanged or perhaps lower, a reduced total cost per unit is achieved.

3.2.2 Increase in production

The increase in production in the food industry is relatively large – compared with other industrial sectors and with developments in demands.

The development in productivity will enhance the structural development within the sector. A high factor of development in productivity together with relatively specific and thus fixed capacity costs will influence the ability of enterprises to increase turnover stimulating optimal adjustments. Since at the same time the development in market demands is limited, growth cannot take place organically, but must take place through M&A.

3.2.3 Growth as a key issue

Many enterprises have growth as their key objective. Since possibilities of further expansion in the national domain may be limited, it could be necessary to increase growth by international sales or production activities.

The ambitions of growth can be seen in the strategic plans of many enterprises. It is significant that growth is considered a mark of success by itself. Enterprise goals are emphasised when overall visions and strategies for future developments are presented. Furthermore, it is characteristic for a number of food industries that they seek especially to achieve growth by international expansion.

3.2.4 Managerial urges

Corporate management may have both financial and personal urges for continued expansion of their business. It could be associated with a great deal of managerial prestige to be in charge of a large, expanding, and perhaps international enterprise. At the same time, the management could have personal financial incentives for their corporate growth ambitions.

3.2.5 Exploitation of know-how and technology

In a small country, an enterprise may have developed a technology that necessitates large sales to be a paying proposition. The enterprise must depreciate its technology assets in other fields in order for it to be in front. Joint ventures, licences or production abroad may be options for capitalisation of its know-how. There are several cases in the Nordic food industry where enterprises have wanted to depreciate

their technology assets through foreign investments.

3.2.6 Control of market mechanisms

At times, it may be important for an enterprise to control the entire process from production to sales to customers. If you wish e.g. to maintain a strong image of good service, quality, brands, and life style, it will require a major marketing effort. It may therefore be necessary for enterprises to control all facets of the marketing process to support the image profile they want to attain.

3.2.7 Quest for diversification

An enterprise may have a strategic target of diversification of activities to several different markets and products. The purpose may be to exploit all competencies within the enterprise, or a question of equilibrating the strategic portfolios of the enterprise.

4.2.8 Quest for specialisation

In recent years there has been a tendency towards increased specialisation, focus on core business, etc. The secondary business areas have been sold off, while the core areas have been extended through organic growth or direct M&A. Market shares and the size of enterprises in core areas have thereby increased.

In recent years, the development of Danisco is an example of a company that has focused on core areas and realised more secondary businesses.

Hydro has also indicated that they want to focus on core activities.

3.2.9 Dispersing risks

Economic market conditions never follow the same pattern in all production areas or in all countries. By spreading business to several products and/or markets the enterprises are able to reduce their sensitivity to market fluctuations. Dispersion of risks will often result in growth and investments in new activities, e.g. by M&A.

3.2.10 Protection of know-how and technology

This motive has a defensive angle and has its roots in a fear of competitors' ability to catch up with the technological advances of an enterprise. It is necessary for enterprises to gain a foothold on the large international markets to eliminate the incentive of competitors, especially if the product is easily copied. Large market expansions will also necessitate growth.

3.2.11 Excess capacity

Often the incentive to use excess capacity makes the enterprise consider possibilities of organic growth. Instead of selling the excessive production capacity and thereby risk the emergence of competitors – you can use the excess capacity for other purposes. If, at the same time, a synergy effect is established through existing activities and the enterprise has an excess capacity for earning a profit, it may be the obvious step that will result in additional growth.

3.2.12 Access to cheap raw material and resources

Apart from raw materials it may also comprise workforce, capital and soil. The price of these production factors varies very much from one country to

another. Often you will allocate work force and technology-intensive production measures to countries with low wage levels.

3.2.13 Close to market

This factor is also important to the food industries. If an enterprise gets an advantage by offering fresh milk or meat, it could be profitable to place the production facilities close to the retail outlets for transport accessibility reasons. Close to market production provides consumers with better service, and strengthens their trust in brands of the enterprise.

3.2.14 Market shares and dominance

There is often a connection between earnings and market share. In practical terms this means that earnings and profitability rise with increased market shares – up to a point. If the market share is large, enterprises can be in a more or less dominant position in relation to competitors, suppliers and buyers. Generated growth and market shares have a direct influence on earnings.

The fair business legislation – both national and international – will however in many ways prevent an enterprise from abusing a dominant market position.

The creation of SweDane Fertilizer A/S, SweDane Crop Protection A/S, (DLG and Svenska Lantmännen) are examples of how as a purchaser you get more trading power by pooling activities, and thereby increase earnings.

3.2.15 Access to know-how

Especially for very technology-intensive industries it may prove

beneficial to build up an international position close to research and development centres. Knowledge within biotechnology, functional foods, processing techniques and consumer trends could be important know-how, which the food industries may acquire through new investments.

Danisco's acquisition of Cultor is an example of how access to know-how can be an important incentive.

Arla's merger with MD Foods could also partly be based on accessibility to know-how. Access to MD Foods' considerable knowledge of exporting was in fact mentioned several times by the Swedish counterpart as a motive for merging.

3.2.16 Liberalisation of capital markets

The international capital markets are becoming increasingly liberalised, and it has a considerable effect on M&A activity worldwide. In most industrialised countries capital may be transferred to an unlimited extent across borders and the same development is seen in many developing countries.

3.2.17 Positioning in a growth market

In countries with a growth market enterprises can establish themselves in order to meet the future competition. The purpose is to expand while there is strong growth in the market and at the same time to collect local know-how and experience, and obtain knowledge of customers and dependency.

3.2.18 Favourable M&A

M&A can emerge if an enterprise is interested in acquiring another enterprise or if an enterprise is

interested in being acquired by another. In the food industry there are several cases where ailing enterprises have been interested in M&A

The acquiring enterprise most probably has the competencies that the ailing enterprise does not have. And at the same time the acquirer obtains the possibility of increasing growth and market shares relatively quickly. The more ailing an enterprise, the more favourable for the buyer to acquire the enterprise.

3.2.19 Economic growth

The economic market conditions strongly affect the interest in mergers and investments. In a booming economy, the acceptance of risk is high too, which will affect the urge for expansion and investments positively.

There is often a clear connection between economic growth and the number of mergers within the food industry.

3.2.20 Low market growth

The market growth in the agro and food industry is generally low compared with other industries. The consumption of food does not increase much over time - even with increasing income and consumption. This is of great importance to the growth potential of enterprises.

When the market growth is low, it will only be possible to expand significantly by taking market shares from other enterprises. Growth through organic growth therefore depends on other enterprises giving up market shares, which may involve some difficulty.

For that reason it will often be more profitable to achieve growth through M&A. Low market growth will

therefore encourage a structure based on M&A.

3.2.21 Matching of customers

A market and consumer-oriented enterprise must adapt to the structure of demands and requirements. During recent years retail businesses, which are often customers of the food industry, have been characterised by intensive concentration and internationalisation.

3.2.22 Larger assortment

The retail sector demands that the suppliers are fewer and larger, and able to offer a wide assortment within the various product lines. The demand for a larger assortment may often require an expansion of production on the part of production enterprises.

3.2.23 Elimination of competitors

Competitors can be eliminated through M&A, and thus the selling prices can be raised. There may also be other advantages in the form of e.g. rationalisation etc.

The objective of removing a competitor in order to reduce competition will very often for obvious reasons not be an official argument.

M &A within the dairy industry, the feed supply industry, and the brewing industry do however show examples of the elimination of a competitor as a significant motive.

3.2.24 Securing access to raw material

Stable access to raw materials through backward vertical integration can also necessitate investments and acquisitions. This is a defensive initiative in order to secure the existing

deliveries of raw materials. Within the food industry there are also cases where the motive has been to secure the delivery of raw materials through investments and acquisitions. These cases mostly appear in countries with only a few or no co-operatives.

3.2.25 Entry barriers

Entry barriers - access barriers - mean that other/new enterprises will have difficulties setting up in business in a certain field. An enterprise has a natural interest in keeping other enterprises away from the market and this can happen in several ways. Acquisition of enterprises that would otherwise be sold to competitors and acquisition of suppliers and buyers can keep new players away from the field.

At the same time increased concentration and development of large competitive enterprises may make other enterprises lose interest in moving into the market.

3.2.26 Competition legislation

Competition legislation can both facilitate and limit M&A in the food industry.

On the one hand there are cases where national or international competition legislation has prohibited or prevented a merger or an acquisition. For example, the European Commission has prohibited 13 mergers from 1990 to 2000, which, however, only amounts to 1 per cent of the announced mergers. Furthermore, there are approvals of a total of 121 that are preconditioned.

The Danish Competition Authority (2001). There is now merger control in more than 60 countries.

It is a general assumption that weak competition legislation creates a favourable basis for mergers.

3.3 Motives behind previous mergers etc.

As previously illustrated, many M&A have occurred in the agro industry within the past 10 years. Without a doubt there are many purposes and motives behind these, although there seems to be a general pattern.

Below a number of Nordic M&A and their purpose are listed. The purpose can either be formulated directly by the merging partners or by other players on the market.

Danisco – Sockerbolaget (1992)

- Rationalisations (has not been stated as the reason for the acquisition, but has been the actual consequence)

Source: The Danish daily paper
Børsen: 14.02.01

Carlsberg – ORKLA (2000)

- The synergy effect at about 300 million DKK annually after a transitional period of 3-4 years
- Achieve increased growth through additional expansion – explicit ambition to be among the world's five largest breweries
- Consolidation of the brewery in order to maintain market positions

Source: The Danish daily paper
Berlingske Tidende: 01.06.00 and
<http://www.orkla.no>

MD Foods – Arla (2000)

- Eliminate possibilities for a destructive competition on prices
- Provide a basis for continuous sale on the international market through consolidation of the home market
- Support the marketing and product development with renewed energy
- Offer possibility of matching the large retail chains' demand for e.g. large assortments in full series

Source:

<http://www.mejeri.dk/navigation/nav4.asp>
here UgeNyt No. 14, 6 April 2000 and
UgeNyt No. 10, 9 October 1999

DLG – SweDaNo (2001)

- Financial gain by large joint purchases
- Efficiency savings through a more effective and co-ordinated distribution of specialty goods to the agricultural sector

Source:

http://www.dlg.dk/dk/dlg_koncern/om_dlg/pressemeddelelser/2001

4 Forms of co-operation and integration: Advantages, disadvantages and area of use

4.1 Phase of integration and internationalisation

There are various steps in the internationalisation process. Often it is seen that enterprises experience a gradual development in their international activities. As enterprises become more international, the way in which they use the foreign markets changes. With increased internationalisation, the control, commitment and risk of the enterprises increase but at the same time there are also more prospects available to them.

The internationalisation process may be divided into seven steps:

Figure 20. Steps in the internationalisation process

The figure shows only some of the most important phases in the internationalisation process. There are various other solutions, for instance licence production and joint venture. The contents of the individual steps is outlined below:

4.2 Domestic sale

Most enterprises start with home market oriented sale. The fact that the home market is still of great importance can be seen from the fact that in the USA 96 per cent of the total turnover of the food industry and 87 per cent of the turnover of the entire industry

comes from the home market. The home market will typically be important for the large countries.

4.3 Sporadic export

This export may be indirect and ad hoc export in which the enterprises are not very much involved. Indirect export is a form of export where the enterprise does no fieldwork in connection with its trade with the foreign market in question. Expressed simply the indirect export is brought about by the importer who through his orders starts the export. This form of export is characterised by coincidences and will often vary in size. Indirect export makes no major demands on the exporting enterprise that does not invest much capital or commitment in providing service to the export market. Where indirect export exists the exporter is excluded from having any influence on marketing and thereby has no direct influence on the pricing in relation to the final consumer.

4.4 Agent

Here the export is more formalised even though it is still relatively indirect. If it is a question of a commercial agent, the producer does have more influence on sales, however, and there is direct contact with the customer.

4.5 Sales subsidiary

Export marketing is now more active. Investments have been made in a foreign sales subsidiary that secures more direct control of marketing. With this kind of internationalisation the enterprise is involved in more fieldwork in the market and enters into agreements with importers and distributors. Such agreements lay down the specific details with regard to the nature of the export, but may also contain far-reaching agreements with regard to the marketing of the products and price policies to be applied in the market in question.

4.6 Investment and production abroad

Now production takes place in companies that the enterprise owns abroad. Often the purpose of the foreign production is to supplement the dominant production in the home country.

By producing abroad the enterprise can avoid the limitations that are caused by trade policy measures, and local production will in many instances make it easier to carry through exact market adaptation measures and radical marketing. In addition to this there may be other considerations in relation to production technology that would be in favour of placing production abroad. Such factors may be access to inexpensive production facilities or special raw materials or easier transport.

When production has been established abroad, the demands made on the commitment of the enterprise will rise and in many cases so will the scope of its investments. Production may take place, however, on a licence with foreign enterprises where technology and know-how is transferred to the foreign enterprise that can also be in

charge of marketing. Production under a licence limits the need for capital but at the same time the enterprise is deprived of some of its means of control.

When production takes place abroad it will be natural to be in charge of distribution and marketing, which will give the enterprise a perfect possibility of controlling what measures are taken in the market and of independently carrying out all elements in its marketing strategy.

4.7 Multinational

A fully multinational company will not be based on a home market as such. Production and sales are determined by where raw materials and labour are best and least expensive and where the goods can be sold optimally.

4.8 Global/trans-national

As was the case in the previous steps it is primarily a question of an extra dimension to the strategic and visionary planning of the enterprise.

In the global or trans-national internationalisation an attempt is made to optimise both sales and investments/assets. The entire portfolio of the enterprise will be composed and placed where the greatest advantage can be obtained in the individual countries.

4.9 Factors affecting the type of co-operation

As already mentioned, there are several types of internationalisation and the choice of co-operation strategy will in each case depend on many different factors. Factors related to the product, the enterprise, the market and matters relating to trade policy are decisive in this context.

As for market conditions, the following matters may be of importance for the form of co-operation:

- Scope and distribution of customers
- The needs, wishes and preferences of customers
- The financial level and development of the market.

If goods are sold to a few very large customers direct contact with the target group is necessary. If, on the other hand, goods are sold to a large and varied group of customers who make frequent purchases of small quantities, it will be more advantageous to sell the goods through an agent or wholesaler.

Some markets may be so little developed that no satisfactory distribution system is available. In that case it may be an advantage to invest in a sales subsidiary in order to secure the desired penetration of the market. A schematic survey of the most important elements that are of importance for three types of co-operation is provided in table 9.

Table 9. Factors affecting types of co-operation

	Indirect export	Sales subsidiary	Investment production	in
<i>External matters</i> <i>(the export market)</i>				
Large sales potential		+	+	
Small sales potential	+			
Good infrastructure	+			
Bad infrastructure		+	+	
High production costs			+	
Low production costs	+	+		
Large import restrictions			+	
Small import restrictions	+	+		
Fall in exchange rate			+	
Rise in exchange rate	+	+		
Low political risk		+	+	
High political risk	+			
<i>Other matters</i>				
Preservation of technology and know-how	+	+		
Large transport costs			+	
Large demands on service and marketing		+	+	

Note: + means that the form of co-operation in question is optimal

4.10 Mergers

A merger is a form of integration that is relatively far-reaching as compared with co-operation in the form of trade, etc. The term merger covers actual acquisitions, amalgamation, hostile take-overs, etc.

4.11 Global strategic alliances

A global strategic alliance is co-operation between enterprises from different countries with a view to reaching a common goal. Therefore a definition of a global strategic alliance could be as follows:

Long-lasting contractual co-operation between enterprises in different countries where resources (labour, capital, technology, know-how) are made available mutually so that the goal defined may be reached more efficiently.

The basic purpose of participating in a strategic alliance is the wish to improve the competitiveness of the participating enterprises in the long term. Thus it is presupposed that all partners in the co-operation has something valuable to offer, for instance technology, market access, etc.

The next step in the development of global strategic alliances may be relationship enterprises. Relationship enterprises are groups of companies from different industrial fields and from different countries that via a common goal act as one independent – and very large – unit. Thus, it is a question of super alliances consisting of already large enterprises.

5 Cultural barriers in the co-operation among enterprises in the Nordic agro and food industry - a liability or an asset?

5.1 Introduction

For many years the literature on mergers, acquisitions, joint ventures and other sorts of co-operation between enterprises has spent a great deal of time on cultural barriers. The puzzle has been to explain why in many instances co-operation does not succeed.

Apparently a gap exists between the synergies, strategies for growth, financial benefits from rationalisations on the one hand and the financial reality many enterprises face on the other hand. These problems arise whenever two enterprises make arrangements concerning a future partnership.

As a result, the obstacles regarding cultural barriers also exist when enterprises from the Nordic agro and food industry wish to engage in co-operation. Theory anticipates and experience shows that the fact that enterprises have a Scandinavian background does not mean that business is conducted in the same manner. On the contrary, what is often the case is that two enterprises with a relatively similar cultural background tend to underestimate the obstacles inherent in cultural barriers. Therefore, the financial consequences of not dealing with cultural barriers are sometimes experienced in Nordic enterprises engaging in co-operation. This can happen if the managers do not handle the cultural barriers involved in co-operation between two enterprises, as they anticipate perhaps that Nordic countries are similar when conducting business. Consequently, it is important to focus on cultural barriers also in co-operation between enterprises from the Nordic agro and food industry. The problems with the cultural barriers remain the same. Is it possible to make two different cultures – Nordic countries do have different cultures - work together, or should the objectives be different altogether?

As far back as in the early eighties cultural barriers were an issue that responsible managers would regard as an important topic when dealing with other enterprises. The paradox is, however, that the problems regarding the issue apparently still exist twenty years later. Here at the beginning of the twenty-first century it is often claimed that managers neglect dealing with cultural barriers properly. Experience both in Europe and in the USA shows that this can be a very expensive and shortsighted strategy. Too much focus on the financial aspect of co-operation may give bad results because the foundation for a solid firm – the employees - is forgotten.

This section of the report will try to deal with some of the problems concerning cultural barriers that have been presented above. The aim is not to present any single 'ready for use' solution after having looked at some of the theoretical and empirical discussions involving cultural barriers in the co-operation between two enterprises. The picture is far too complex for such a task. The aim is instead to uncover some of the most

common problems with cultural barriers in a Nordic perspective. What are the barriers, and how should they be treated? Which lessons can be learnt from the literature on cultural barriers that has dealt with these questions for almost twenty years?

As a result of the considerations presented the outline of the chapter is the following. Firstly, the definitions will be presented. They will be the basis for the further analysis. Secondly, the analysis will try to seek out the necessity of addressing cultural barriers - what is the purpose of co-operation? Thirdly, some of the experiences with co-operation between different cultures are presented. Fourthly, a theoretical discussion will be presented as to where the cultural barriers mainly exist, and what they consist of. Fifthly, a theoretical model for addressing the cultural barriers will be presented. Finally, in the last section a conclusion will be made.

5.2 Definitions

This paragraph will present the reflections that have been made on how to analyse the problems in connection with cultural barriers and co-operation between enterprises in the Nordic agro and food industry.

The first problem is how to define cultural barriers. In this paper the definition is broad in order to grasp all the different dimensions that could be relevant, when the notion 'culture' is used. The definition of 'culture' is taken from Barsoux and Schneider: *'...the definition of culture as shared solutions to problems of external adaptation and internal integration'*. The definition is usable, because it focuses on the key elements in co-operation - external adaptation and internal integration. In our context external adaptation refers to how enterprises must adapt to the economic and political developments. This focus is different from that of Barsoux and Schneider. It is useful, however, because it accentuates the fact that enterprises are constantly under different kinds of pressure from the political and the economic sphere. Often this pressure works as a catalyst for different kinds of co-operation among enterprises. Looking at internal integration the most important part here centres on questions involving 'the amalgamate' of the culture of different enterprises. Making two enterprises work together is making people work together, people who have different approaches to and strategies as regards how to meet the goals of the enterprise. This will always involve a clash between different styles of management and ways of conducting business. The important question is whether these issues are handled properly or not.

Usually, much of the literature makes a distinction between cultural differences between enterprises in different countries on the one hand, and cultural differences between enterprises in the same country on the other. In this paper, such a distinction is not made, because culture can vary even between enterprises in the same country where the cultural heritage is supposed to be the same. This is highly relevant when looking at enterprises in the Nordic agro and food industry. Consequently, it is necessary to look at cultural barriers every time two enterprises decide to engage in co-operation.

Furthermore, it is more fruitful to handle cultural barriers as one phenomenon, because even if the barriers are a result of different customs in two countries, they should not be handled differently than problems related to management of cultures in two enterprises from the same country. Knowing a country's customs is of course important and indispensable as a tool for understanding how a future business partner 'thinks' and operates. This should not be underestimated, when the project is to make enterprises from different countries work together successfully. However, the task is still to make

people work together and ensure that the co-operation is successful. Whether the cultural barriers come from within the enterprise or as result of the customs of the country in question, once they are identified, is less important than the actual 'treatment'.

Another important issue is to consider and define what is meant by '*co-operation between enterprises*'. For our purpose 'co-operation' is treated as a general category that includes all sorts of business partnerships. For instance joint ventures, strategic alliances, mergers and acquisitions. The reasons for this are the following. Firstly, it is not crucial which type of co-operation is analysed when looking at the implications of cultural barriers. Secondly, it is not possible or necessary in this context to analyse all these forms of co-operation in detail. This does not mean, that there cannot be any variations between mergers and joint ventures as to how cultural barriers affect such co-operation. However, the point is that cultural barriers must be taken seriously and dealt with, no matter what kind of business arrangement is analysed. Furthermore, several of the challenges faced by enterprises that seek some sort of partnership with other enterprises are shared, regardless of the content of the partnerships. Finally, the same argumentation is valid when looking at the term 'enterprise'. The term is also used without any distinction between the many kinds of activities that can hide behind this phrase. It is not important to the analysis whether the subject is a factory, a firm, a business etc. The purpose is still to overcome the cultural barriers in order to make the partnership successful.

5.3 The purpose of co-operation

Having presented the methodical reflections, the analysis now turns to the reasoning behind co-operation between enterprises and its implications for dealing with cultural barriers. In this context, the focus is to present the connection between the reasons, which are often of a financial nature, for co-operation between two enterprises, and the reality the enterprises might face if they do not deal with cultural barriers. In other words, cultural barriers are a serious threat to the financial benefits that the enterprises anticipate will be the result of their co-operation. Too much focus on the financial side of the co-operation on the part of managers can paradoxically result in bad financial performance. Part of the explanation lies in the obstacles that are related to cultural barriers.

For several years enterprises have faced increased competition in an increasingly international market. In such an environment it has become more attractive and necessary for many enterprises to look for business opportunities in co-operation with enterprises abroad. The motives for such co-operation are almost exclusively of a financial nature. For a more detailed analysis of motives for co-operation between enterprises, see chapter four of this report. The point in this context is that financial reasons for co-operation are also prevalent in a Scandinavian context. For instance, Carlsberg's co-operation with Orkla is an example where financial motives have been an important part of the reason behind their joint efforts. Other examples could be the merger between MD Foods and Arla in 2000, or the co-operation between DLG and SweDaNo. In both cases, the objectives were - among others - to fulfil financial ambitions.

Also in a Nordic context, financial returns appear to be an important motive for different enterprises to seek co-operation in one form or another. Therefore, it is not

surprising that financial considerations are the main object for the enterprises when they plan how the co-operation should be effected. However, the next part of the analysis will show that too much focus on the financial part of the co-operation may involve heavy costs, if no attention is paid to the staff. In the end, it is the employees who must make all the financial benefits from what has been agreed 'on paper' materialise into returns for the enterprises. The financial goals of co-operation are met properly only if cultural barriers between co-operating enterprises are not neglected. One could say that the condition for making 'a new' enterprise successful in terms of 'hard cash' is paying attention to the 'soft' (cultural barriers) aspect of co-operation. As mentioned in the beginning of this section, if cultural barriers are not addressed and dealt with, as the focus is on the financial aspect of the co-operation, the result is most likely that the new enterprise will perform poorly in financial terms. This paradox regarding cultural barriers in co-operation between enterprises and its implications for the financial performance will now be analysed more thoroughly.

5.4 Co-operation between enterprises – what are the experiences?

The next section presents some of the experiences gained from co-operation between enterprises, both across borders and within the same country. The aim is to show that at a general level, the financial ambitions of many enterprises that engage in co-operation are not met. This was evident almost twenty years ago, and is still a fact that many enterprises must handle.

Clearly, this analysis cannot describe all empirical research that has been made on this topic. This has never been the ambition. Instead, the ambition is to underline some central insights with regard to co-operation across different kinds of cultures. Especially, that there are always cultural barriers between enterprises that wish to co-operate. In order for the co-operation to become a financial success, these barriers must be addressed. This is also the conclusion of much of the empirical research. Moreover, it is what many business managers turn to, when they have to explain why their co-operation did not succeed financially.

Obstacles to co-operation when two different company cultures come together are not a new phenomenon. In a Danish context, these problems were addressed already at the beginning of the eighties. At that time, it was concluded that around fifty per cent of the co-operation among Danish enterprises resulted in financial failure. One of the main obstacles was that the managers tended to underestimate the importance of dealing with the issue of involving the employees in such co-operation. It is important to acknowledge that the employees become insecure about their own future as well as the future of the enterprise. This affects the performance of the enterprise. Furthermore, the managers also failed to address the cultural barriers that existed even between the Danish enterprises analysed. This accentuates the importance of dealing with cultural barriers in a Nordic context. Even in the same country cultural barriers exist and influence the financial performance of enterprises.

Studies from the beginning of the nineties made in the USA support the conclusions from the Danish context ten years earlier – see for instance Marks or Borghese & Borghese. In these studies, it was concluded that thirty per cent of the co-operation between enterprises is cancelled in the end, as the financial goals are not met. The same

studies also conclude that one half of the co-operation ends as failures in financial terms. Furthermore other studies from an American context for the same period are even more pessimistic. According to these studies no less than eighty per cent of all co-operation projects will within a period of five years be regarded as financial failures. Also in the American context cultural barriers are part of the explanation when reasons are to be found for the lack of financial success.

Moving forward in time and returning to a Danish reality, the results have not changed significantly. Apparently, many problems are still present when enterprises wish to co-operate – see for instance ‘BerlingskeTidende – Business’ from 2003. Co-operation between two enterprises has perhaps not become an attractive alternative for enterprises looking for ways to improve their financial performance, partly because of cultural barriers. The studies claim that co-operation between enterprises is a questionable enterprise in terms of financial parameters. Apparently, there has not been much progress on how to deal with cultural barriers since the first studies on co-operation between enterprises were conducted in Denmark twenty years ago.

To sum up, the empirical studies presented from different cultural contexts and over a long period of time show that in over half of the cases co-operation between enterprises proves to be a questionable idea as far as the financial aspects are concerned. In fact, when judged by the experiences from a wide range of enterprises, it seems as if the financial benefit from co-operation between two enterprises may be absent. These studies indicate that the enterprises engaging in co-operation have problems in ensuring the desired financial results. As suggested in the studies presented above, cultural barriers between the employees involved in the co-operation are one of the main reasons for the enterprises failing to meet their financial goals. In the following section, the cultural barriers will be explored in detail.

5.5 Cultural barriers – myth or reality?

Having established the fact that in many instances co-operation between enterprises does not succeed financially, the analysis now returns to the question why this is still the case twenty years after the first studies pointed this out. Therefore, this section will firstly present the suggestions according to theory as to what cultural barriers consist of and then afterwards illustrate how they can be addressed in relation to co-operation between enterprises. Secondly, the theoretical thesis will be compared with the empirical examples presented in paragraph 6.4. The following analysis is mainly based on: ‘Managing across cultures’ by Barsoux and Schneider from 1997. Their insights will be supplemented and elaborated on by points from ‘Fusioner i Danmark’ (Mergers in Denmark) by Molin and Strangaard Pedersen (1996).

When dealing with cultural barriers it is important to ‘kill’ two persistent myths, in order to deal with these in a proper manner according to Barsoux and Schneider. First of all, it is often claimed that ‘the world is getting smaller’, often presented as if cultural barriers are vanishing. This is to some extent a myth, because many experiences show that even though many enterprises work together across borders, this has not removed cultural barriers - on the contrary. The second myth is that ‘management is management’. It seems as if there is some sort of ‘universal way’ of conducting business on account of the increasing internationalisation of management and trade. The point is in Barsoux’s and Schneider’s words: *‘In every cross-border alliance there are seeds of potential cultural conflict and misunderstanding’*.

Far too often the cultural barriers are neglected, which can lead to serious consequences for the ability of new enterprises to perform in the market and consequently survive financially in the long run. Consequently, the task is to acknowledge the cultural barriers and deal with them openly. Exploring the culture of the other enterprise before engaging in any co-operation is crucial. By doing so, many issues regarding cultural barriers can be dealt with before they turn into problems. The idea is that a 'financial fit' alone is not enough to create a successful deal. Again, it should be emphasised that the synergies and rationalisations that look financially attractive to enterprises on paper are no guarantee for financial success. However, getting an early start on the 'cultural clashes' that are potentially involved in the co-operation can be an effective way of turning these into advantages and at least avoid major problems with cultural barriers.

In the same context, it is of great importance not to underestimate the different spheres of existing cultures. Particularly, it is crucial to acknowledge that culture consists of more than different national characteristics. Therefore, assuming that for instance a Danish enterprise and a Swedish enterprise have many things in common can be dangerous. Of course there is some cultural heritage that is the same in the Nordic region. Furthermore, there are also conditions that are similar in the areas of taxes, state intervention, demands made on the work environment, etc. However, this does not mean that enterprises from two Nordic countries have the same culture when it comes to conducting business. Often there are significant differences in leadership, influence on work situations, ways of communication, delegation of responsibility etc. These dimensions will be explored in more detail later in this section. Here, the main argument is that it is vital to get these cultural differences 'out in open'. It is not enough simply to assume that enterprises from two Nordic countries will be able to work together without 'cultural clashes'. In fact, it is certain that there will to some extent be cultural differences. Whether or not these are addressed is therefore the crucial question.

Another important issue that the theory on cultural barriers points to in relation to making co-operation across borders work is how the employees are treated in the process of changing the structure of the enterprise. At least two issues are important to keep in mind when co-operation is established. Firstly, it has to be recognised that the employees of the two enterprises are a fundamental 'raw material' for the enterprises irrespective of the business that is conducted. In other words, it is the employees who must every day deliver 'the product' in a satisfactory manner so that the product meets the demands of the market. Accomplishing this every day is the only way an enterprise can survive in the long run in financial terms. This fact is therefore of great importance to the enterprises seeking to join forces in order to 'survive' in the market. However, the employees are often forgotten in the planning of co-operation, because the managers tend to focus on synergies, rationalisation and financial performance. They might simply forget that satisfied, skilled and hardworking employees are the primary condition for this to unfold.

Having recognised, that the employees of the enterprise are the primary raw material for past, present and future financial performance some of the theoretical literature underlines that the managers must realise that new co-operation puts the employees of the enterprise in a difficult situation. It will be a situation where insecurity is most likely prevalent among employees. Insecurity about the future of the enterprise, insecurity about the prospects for their own jobs, insecurity about the possibilities regarding a future career in the new enterprise, etc. The managers must address all these issues involving insecurity. Only by doing that can the managers ensure that the new

enterprise has a possibility coping with the co-operation in a smooth manner. When dealing with employees it is perhaps possible to avoid that a large number of them seek opportunities elsewhere as a result of the unclear prospects for the future. Secondly, the managers' acknowledgement of the situation of the employees might contribute to a steady level of production. If the employees are informed of and involved in the process of change from the beginning, it can give them the security that enables them to remain productive. Finally, by including the employees in the process of establishing a new enterprise, by giving them an influence on their own job situation, it will most likely become easier to overcome some of the cultural barriers. Participation in the process of transformation will presumably include a meeting with 'the culture' of the new colleagues. This will not remove the cultural barriers, but make them visible, which is the first step in the process of dealing with such barriers.

This paragraph will now elaborate on some of the different dimensions that are included in cultural barriers according to theory. Having established that cultural barriers are always present in the case of co-operation between two enterprises, and that they are of great importance, when managers wish to secure a stable and positive financial development, we must define what else they consist of. Therefore, the following will focus on four dimensions that are central in co-operation between two enterprises. Central in the sense that the dimensions present areas where managers often face the greatest obstacles in trying to make two different cultures work together. The four dimensions are according to Barsoux and Schneider: 1) Policies and procedures 2) Systems and control 3) Information and communication 4) Decision-making. The ambition is not to present every possible cultural barrier in detail, because it will be more confusing than informative. Instead four superior dimensions in connection with cultural barriers will be presented. Hopefully, this can function as an analytical framework by showing 'what to look for' in dealing with cultural barriers. Then it might be possible to avoid some of the most serious consequences (financially speaking) of not having paid attention to them in time. Perhaps it is even possible to turn some of the cultural barriers into advantages in the long run when working across national borders?

1) Policies and procedures: To what extent is the individual employee's job described in detail? In relation to this it is important to keep in mind that there can be quite large differences between enterprises when it comes to written policies and procedures. In some enterprises there is a very strict and formal reporting system. A system that does not leave much opportunity for the individual employee to determine his own working day. The tasks primarily come from the headquarters and then the employee carries out these tasks. On the one hand this minimises the chances of mistakes within the enterprise. On the other hand it does not leave much room for the individual employee to have an influence on his situation at work. The job descriptions are standardised, formal and very explicit to ensure that anyone can perform the tasks if necessary.

In contrast to this, there are enterprises where the policies and procedures relating to the job situation are much more informal. In this case, the individual employee knows what to accomplish and when, but how this is done is open to interpretation. This leaves the employee with a more flexible job situation and the possibility of planning his own 'schedule for the day'. Furthermore, it makes it possible to create more individual solutions, whatever the tasks are; solutions that might be more

original and profitable than the ones coming from the headquarters. However, there is also the possibility that the opposite will be the case, which will in general create more uncertainty for the enterprise as a whole in so far as it is difficult to run an enterprise efficiently if managers are not certain which 'product', the employees will deliver.

- 2) Systems and control:** In this context, a distinction is often made between two main types of leadership. These two different ways of running an enterprise are often based on how powerful the hierarchy is between managers and employees. Consequently, it is often the case that the managers of the enterprises, in which the hierarchy is very distinct, tend to rely on strict control and systems. It enables them to keep the enterprise 'on track' and minimise the uncertainty that is involved in any production. The manager will therefore use his power to show that he is in fact the person who runs the business. This will happen primarily by using the tight hierarchy to manifest his control over the enterprise. Furthermore, enterprises with a very comprehensive control system often have it as a specific target to reduce the uncertainty regarding the production of the enterprise. As a result of the reduction of uncertainty, their planning is more 'on the short term' and focused on the operational side, instead of being concerned with the long-term strategic sides of the performance of the enterprise. Also, it does not involve many people from the ranks of the enterprise. The manager and a few other executives surrounding him know what is best for the enterprise.

The other kind of leadership is based more on persuasion and negotiation. The manager does not see himself as all-powerful and is therefore often inclined to involve his colleagues in the development and day-to-day operation of the enterprise. The hierarchy is almost 'not there', and the employees are seen as capable and able to do things themselves. As a result, it is not necessary to rely on a tight control system to supervise the employees. Regarding the planning of the future production of the enterprise, it tends to be more strategic and long-term.

- 3) Information and communication:** Also these issues are helpful to distinguish between two ways of conducting business. Moreover, it is necessary to recognise that the flow of information in an enterprise is of great importance for the ability of the enterprise to run an effective production. Information is central to enterprises when making decisions, communicating policies, co-ordinating between various units within the enterprise, etc. However, this does not mean that there is in any way consensus on how this is done. The 'first school' stresses the importance of keeping information as a tool of power. This means keeping the flow of information to a very limited group of people through personal connections in a clearly structured hierarchy. Information is primarily for the managers who make the decisions. Therefore, information that is 'spread out' is useless to the management. This also means that there is very little 'face-to-face interaction' between the employees of the enterprise and the managers when it comes to sharing information. Employees often have to seek their information through informal channels or by rumours.

In opposition to this, 'the second school' pays much less attention to formal structures with regard to information. They regard transparency and the open sharing of information as an asset. In this type of organisation, information is shared

with those who have an interest in it. By doing this, it is possible to have feedback from employees and encourage them to participate in the development of the enterprise. However, it increases the level of uncertainty for the managers. It can partly be explained by the degree of trust managers show their employees and whether they believe in the capability of their employees or not.

- 4) **Decision-making:** Looking at this final dimension, it becomes clear that to some extent the four different dimensions are related and mutually dependent. Having a very strict and tight hierarchic structure for the production with only 'one-way' communication often results in a decision-making process that is centralised and closed. It is the top managers who are making the decisions. They seek consensus only among themselves, and therefore decision-making is regarded as a tool of power. As a result, these types of enterprises often have a high capability for making decisions. However, having made the decision in perhaps a quite 'elitist way', it can be difficult to implement it at the same pace. Employees who experience that their managers decide on perhaps difficult and sensitive issues in a very formal and closed environment, are perhaps more reluctant to implement the very same decision. When alienated from the process of decision-making, employees often do not feel any responsibility for the decisions made.

This kind of 'resistance' is one of the basic presumptions behind a second way of making decisions in enterprises. In such enterprises the most crucial parameters regarding decision-making are time and people. Taking the last parameter first, these enterprises are seeking consensus, also with the employees, when making decisions. In the process of doing so, it is important to have an open and 'democratic' environment where also employees can contribute to and participate in the decision-making. This does not mean that it is not the managers who make the final and conclusive decision. But it does mean that the employees have been deeply involved in the process of reaching the decisions. As a result, the process tends to be time-consuming. The costs 'in time' can be relatively high, especially compared with the way of making decisions presented earlier. However, it can turn out to be 'money well spent' in the long run, as the process of implementing the decisions is often without any serious obstacles from the employees. Employees have much greater difficulties in opposing a decision they themselves have had a significant influence on. Furthermore, by involving the employees in the decision-making process and allowing them to influence their own work situation, it is also likely that they will become more satisfied with their situation at work. This 'satisfaction' could in return lead to better financial results for the enterprise.

Having presented these four dimensions where managers will often meet cultural barriers, it is important to emphasise that it is not a way of determining which way is 'the right way' to run an enterprise. This depends on the situation, cultural context, type of production, educational level of employees, etc. The point is that the four dimensions presented above are some of those where managers often – in theory at least - meet severe cultural barriers when trying to make two enterprises co-operate. It is important to recognise cultural differences between enterprises in advance, since it enables managers to address some of these before engaging in co-operation. By doing so, it

might be possible for two enterprises seeking co-operation to avoid the negative financial implications of ‘the clashes between cultures’.

Moreover, it is also important to realise that these four dimensions are not the only possible ones where managers can meet cultural barriers. Especially a lot of cultural barriers regarding customs when meeting people, which languages to use, how to conduct meetings etc. are not presented here. This is not because they are not important, but because they are the ones that are most obvious for managers working across borders and between cultures to address. They are more explicit than the four barriers presented above, because managers will inevitably be confronted with them when they seek co-operation. However, these more widely known cultural barriers should also be ‘dealt with’ when two enterprises wish to co-operate. Otherwise the result of co-operation will most likely be financial failure.

Finally, it must be acknowledged that the eight ‘schools’ presented on the four dimensions are all ideal types. It is obvious that in ‘real life’ it is not often that one can find enterprises that are as one-dimensional in their way of conducting business. Often managers will mix their strategies and planning of production much more than is taken into account in the above presentation. This only accentuates the importance for managers and employees from different enterprises of analysing and acknowledging the cultural barriers before seeking co-operation. The way of conducting business of different enterprises is rarely as clear-cut as it might seem at first glance. However, if the dimensions presented are analysed in advance, an important step is taken in the direction of overcoming cultural barriers.

To sum up, this theoretical paragraph has presented some of the most important dimensions regarding cultural barriers and by doing so stressed the importance of addressing these. Furthermore, the four dimensions reflect some of the most central elements in running an enterprise. The dimensions are crucial to financial success both in the long and in the short term. Nevertheless, cultural barriers are always there and will to some extent result in challenges for two enterprises seeking co-operation across borders. As discussed earlier in paragraph 6.4, the empirical evidence shows that in general not enough is done to deal with cultural barriers. Managers tend to underestimate the importance of cultural barriers focusing more on the financial benefits that ‘look good on paper’. They forget that one of the most important conditions for financial benefits to become reality is an enterprise in which skilled employees are satisfied with their work situation and in return work hard to make the enterprise successful. This does not happen if cultural barriers act as an obstacle to the performance of the enterprise. A ‘worst-case scenario’ would be financial failure resulting in compulsory liquidation of the enterprises involved.

5.6 Model for addressing cultural barriers

The big question still remains. How can managers avoid the scenario just outlined? Is it possible for managers of today to learn from the experiences collected from almost twenty years of both empirical and theoretical research? A significant part of the answer lies in the analysis carried out until now. The first step will be to acknowledge that IT IS necessary for two enterprises engaging in co-operation to accept the fact that cultural barriers WILL exist to a certain extent. These cultural barriers MUST be addressed and brought out in the open, to make co-operation between enterprises and across cultures financially successful. When this has been said, it is clear that dealing with the cultural

barriers in itself is no guarantee for financial growth and returns to the shareholders. However, not addressing the cultural barriers is almost certain to result in bad performance financially. Therefore, the managers should deal with cultural barriers prior to co-operation between two enterprises. The next question is then, how this should be done effectively.

To answer the question unambiguously and without any doubt would be unwise, knowing that twenty years of research has presented the problems with cultural barriers without this resulting in any clear-cut successful solutions that may be used by managements. Therefore, it is also evident that the theoretical model presented below does not contain all issues that need to be addressed when co-operating across borders. Nevertheless, the model will be presented, because it can hopefully provide inspiration for managers engaging in co-operation. This can be regarded as the second step in dealing with cultural barriers. After - as the initial step – having put the cultural barriers ‘out in the open’. The model provides six topics of importance that must be handled, when dealing with cultural barriers. The model is a result of looking at the literature used so far in this chapter:

- 1) It must be decided precisely what the specific goals of the co-operation are. The two enterprises must find common targets to meet in the end, but also during the process there must be intermediate goals. These common goals can provide a basis for a continuous evaluation of the co-operation, which is necessary to keep the co-operation ‘on track’ with regard to financial performance.
- 2) There should be a common structure of the working process. This means that everybody must know what to do, when to do it and who makes the decisions.
- 3) It must be decided which kind of communication and which languages should be used. It is especially important that the cultural differences are acknowledged in order to secure that everybody will be heard throughout the process. Information should be provided to the employees, so that they are informed about the progress of the co-operation.
- 4) How should conflicts be solved? Knowing that co-operation between two different cultures cannot be conducted without some obstacles on account of cultural barriers, it is a good idea to decide in advance how to deal with conflicts. Where should they be discussed? By whom? And finally, how are conflicts solved?
- 5) The co-operation should be continuously evaluated in order to make sure that the cultural barriers are dealt with in a proper manner. Moreover, this evaluation must ensure that the co-operation is on ‘the right track’ when it comes to dealing with cultural barriers in a productive and progressive way so that the enterprise can benefit from them instead of being limited by them.
- 6) To the extent possible managers should try ‘to mix’ the employees from the two enterprises. The aim is to benefit from the capabilities possessed by the different

employees of the two enterprises, and moreover, by making people work together across 'old' cultures, create a climate for positive co-operation, which overcomes the cultural barriers by creating a new common culture.

The main point of the model is to acknowledge the cultural differences instead of ignoring them. Furthermore, the aim is to try to utilise the cultural barriers instead of minimising their significance. By means of the model it is possible to establish face-to-face relationships between managers and employees from the two enterprises. This enables the new enterprise to establish common values and goals that are shared by everyone. At the same time, the cultural differences should be respected by allowing 'room' for local interpretation. This can perhaps in return create a more flexible enterprise in which comparative advantages prevail. Such advantages are gained because managers openly address the issue of cultural barriers. These can in the long term create the foundation for a financially successful enterprise.

On the whole this chapter of the report has presented the different types of cultural barriers that can be expected and has described what they consist of. It has analysed the most common obstacles to two enterprises engaging in co-operation across national borders. It has shown ways for managers to acknowledge the cultural differences and how to deal with them. Finally, it has on a general level evaluated the experiences gained in the past on the significance of dealing with cultural barriers in connection with co-operation between enterprises. Especially, the analysis has shown that it can have serious financial consequences if managers do not deal with the cultural barriers in relation to employees. The employees are the 'raw material' that ensures the financial future of the enterprise. Even between people from a similar Nordic background the cultural barriers will exist, and managers must deal with them if the co-operation is to become a financial success. Remembering the heading of paragraph 6.5, the conclusion must be that cultural barriers are indeed a reality, and a reality that must be addressed and acted upon.

5.7 Conclusion

The chapter ends up with two main results. Firstly, it is evident that the analysis has supported one main point. Cultural barriers will always exist in the co-operation between two enterprises, and they must be addressed by the management in order to make the co-operation successful in financial terms. This point has been supported by the anticipations taken from the theoretical literature in paragraph 6.5. Most importantly, it has also been supported on a general level by many different empirical studies that have been carried out during the past twenty years both in the USA and in Europe as presented in paragraph 6.4. Secondly, the analysis has presented some of the most important cultural barriers for co-operation between enterprises. It showed four dimensions where cultural barriers often exist and moreover presented a model for addressing them.

To sum up, the final conclusion must be: 'In order to survive in an increasingly competitive economic environment it is attractive for enterprises to seek co-operation across national borders. This is done to secure the ability of enterprises to carry on business in a way that is financially satisfactory. However, many of the financial advantages from the co-operation, which on paper look extremely attractive and

obtainable, turn out to be ‘just letters on paper’. This happens primarily because many managers tend to underestimate the often serious financial consequences of not dealing with cultural barriers, especially between employees, when two enterprises engage in co-operation.’ In other words: *Cultural barriers are always present and should never be underestimated when co-operating across national borders in the Nordic agro and food industry.*

Remembering the question raised in the title of this chapter, the answer is: ‘*Look at cultural barriers as a liability. When enterprises want to establish co-operation it must be realised that cultural barriers exist because in doing so cultural barriers can be turned into a valuable asset.*’ We will elaborate on these insights in our case research and in the following chapters as we analyse twenty instances of co-operation in the Nordic agro and food industry, among others things as regards the experience gained with respect to cultural barriers and the challenges encountered.

6 Mapping out of the mergers of recent years – a survey³

There is a tendency that enterprises that wish increased co-operation or expansion will in the first instance choose to look at the enterprises of neighbouring countries. This is also the case in the Nordic countries where many enterprises in the agro and food industry have purchased enterprises or increased co-operation.

The table below gives a survey of mergers, alliances, joint ventures and co-operation in the agro and food industry between the Nordic countries. In the list we have recorded 60 different instances of co-operation.

There are some general characteristics of mergers and co-operation across the Nordic borders:

- There is a large majority of mergers between enterprises in Denmark and Sweden. This is not surprising, however, as these two countries have traditionally been strongest in the agro and food industry.
- Denmark is often the country where the enterprise has its registered office after the merger and Denmark is strongly represented within all branches of trade.
- Sweden participates in more than 80 % of the co-operation in the Nordic countries and is thereby also present in all branches of trade. Swedish enterprises hold a strong position in the seed and bread industries.
- Norway participates in approximately half of the co-operation taking place among enterprises in the Nordic countries. Norway is involved in all the co-operation in the fishing industry.
- Finland takes part in just over a third of the co-operation in the Nordic countries. Finland is in a relatively strong position in the dairy industry.
- Iceland is represented in the Nordic cross-border co-operation only in a very few instances but is after all a participant in a number of important mergers.
- All sectors in the agro and food industry are represented. It varies whether the enterprises are production enterprises or trade enterprises.
- Only two enterprises have been established on the basis of mergers or co-operation in all the Nordic countries. The enterprises in question are Brøste A/S and Orkla.

³ It should be emphasised that the above list is dynamic. In other words there may be instances of co-operation that are not included in the list because mergers, alliances, etc. are arranged all the time. Instances of co-operation that are not included in our list.

Many of the enterprises do not have activities only in the Nordic countries, however, but have also merged with enterprises from countries from other places in the world. Most of the enterprises also have subsidiaries, including sales subsidiaries, etc. around the world. The enterprises must be regarded as having been internationalised and they have strategies for further growth also outside the Nordic countries.

[illegible]

7 Research on twenty cases of co-operation in the Nordic agro and food industry

7.1 Introduction – methodological reflections

This chapter contains the research on the twenty cases chosen. These are all examples of co-operation in the Nordic agro and food industry. The methodological reflections will be presented as the take-off for the more thorough examination of the twenty different cases as presented individually in paragraph 8.2.

The research on the twenty cases was conducted as a two-step process. Firstly, the different enterprises that were taken up for further examination were analysed through thorough reading and a thorough analysis based on their homepages, newspaper articles, press releases, and annual reports (desk research). Here it was important to find factual statements concerning the co-operation in question and if possible try to look closely at the overall strategies, visions and values of the enterprises. Moreover, the focus was to uncover some of the motives for seeking co-operation in the Nordic region, and examine the experiences gained from such co-operation. As the second part of the research, interviews⁴ were conducted with key persons in the different enterprises (field research). The aim here was to uncover some of the issues not covered by the desk research, and moreover to elaborate on the issues from the first step of the research process more intensively. Especially in regard to the experiences gained from co-operation in the Nordic region the interviews have proven necessary and valuable. In addition to this, they have also been beneficial in regard to gaining insights into cultural barriers and prospects for the future seen from the perspective of the enterprises in the Nordic agro and food industry.

After these two initial steps had been carried out, one final summary has been written on the individual case of co-operation based on information and statements derived

⁴ Firstly, it is important to establish that in seven of the cases the interviews were conducted 'face to face': Carlsberg, Danisco, Dat-schaub, DLG, Scanagri, SweDano and the V&S group. In the remaining twelve cases – the V&S Group interview was conducted 'face to face', but also by telephone – the interviews were conducted by telephone. In regard to the quality of the interviews and consequently their value as empirical material, it is not our experience that there have been any important differences between the interviews conducted by telephone, and the 'face to face' interviews.

Secondly, it is necessary to mention that in only two of the twenty cases an interview has not been conducted – Orkla and SIF. In those two cases the research and later analysis is based only on the initial desk research. Divided on countries the cases are the following: Eight Danish, four Finnish, two Icelandic, two Norwegian and four Swedish. This gives a satisfactory coverage of the Nordic region as a whole.

from both the desk research and the field research. This is the most effective way of analysing the different cases of co-operation, as it has made it possible to uncover central issues involved in co-operation in the Nordic agro and food industry. Furthermore, it has – as mentioned above – also made it possible to look into the future, and perhaps anticipate or even forecast some of the developments that enterprises in the Nordic agro and food industry will undergo in the future. In other words, we have attempted to reveal where some of the major challenges might be in the future. Put together this gives a solid basis for summing up the experiences gained from co-operation in the Nordic agro and food industry. Moreover, it makes it possible to pass on some of the lessons learned from enterprises that have been through the process of co-operating in the Nordic region. This will be done in the next chapter.

7.1.1 The merger between ARLA and MD Foods in 2000

- A merger that shows the difficulties in convincing the board of directors and the co-operative society of the prospects of a merger – that is the reason why financial reasoning is important.

Facts:

- In 2002 ARLA Foods had a turnover of 39.441 million Danish kroner and approximately 17,800 employees.
- In the same year ARLA Foods' profit was 1,159 billion Danish kroner of which 575 million were returned to the co-operative society.
- ARLA Foods is in the dairy industry and its main products are butter, cheese and milk.

The merger between ARLA and MD Foods in 2000

1.0 Facts about the enterprises involved in the co-operation:

The two dairy enterprises that merged were both very strong 'players' in the European dairy market. Before the merger ARLA had a turnover of approximately 13 billion Swedish kroner. The co-operative society was made up of 8432 people. The enterprise had 5612 employees and its production was made up of 2,144 million kg of milk. MD Foods was significantly larger. It had a production that was made up of 4,898 kg of milk, and at the time of the merger 13,702 people were employed in the enterprise. In the co-operative society there was 9,540 persons and the turnover was estimated at 25 billion Danish kroner.

After the merger between the two enterprises, the new enterprise – ARLA Foods - in 2002 had 17,800 employees and the turnover had reached a level of 39.4 billion Danish kroner. Around half of the turnover came from the two main markets in Denmark and Sweden. The profit was 1,159 billion, and 575 million were returned to the co-operative society that in 2002 had roughly 13,650 members.

2.0 The chronology of the co-operation:

The initiative to engage in increased co-operation and finally the merger between the two Nordic dairy enterprises, the Swedish ARLA and the Danish MD Foods, began already in 1994. At that time, preliminary discussions between the enterprises took place in order to find out whether the co-operation between them should be increased, or whether they should instead seek their targets as independent enterprises. The aim was to establish a 'common ground' for co-operation, which could prove financially beneficial to both enterprises in the long run. The discussions ended with a positive attitude to closer co-operation. Both enterprises had an interest in closer co-operation. On the Swedish side ARLA had to be prepared for a totally new competitive environment as Sweden was entering the EU. On the Danish side MD Foods had a substantial export to Sweden that it was interested in expanding if possible. Throughout the following five years this co-operation developed slowly and at a steady pace. However, the co-operation became closer and at the same time, the mutual knowledge that the two enterprises had of each other was expanded.

On 3 May 1999 Jens Bigum, the managing director of MD Foods, for the first time directly addressed the board of directors of the Danish enterprise. His goal was to take up the discussion of a merger between ARLA and MD Foods, but first he had to get permission from his own board of directors. At first they took up an unsympathetic attitude to the proposal. Only a few months earlier they had participated in a merger with another large Danish dairy enterprise 'Kløver Mælk' and as a result the board of directors was not at this stage ready for yet another large merger. Meanwhile, Jens Bigum insisted on the merger and two months later the board of directors gave him 'the green light' to present the merger proposal to the members of the co-operative society. This happened in June, and as with the board of directors, the members of the co-operative society were not quite ready to make up their mind about the prospects of a merger with ARLA.

Two months later the members of the co-operative society decided – at an extraordinary general meeting on 14 August 1999 – to allow Jens Bigum to continue his preparation for a possible merger with ARLA. In October, the board of directors from the two enterprises decided to recommend a merger to their co-operative society members. Furthermore, the two boards of directors had reached an agreement on how the new top management could be divided between ARLA and MD Foods. Finally, the members of the co-operative society of the two parties voted for the merger with a substantial majority. In April 2000, after the competition authority had approved the merger between MD Foods and ARLA, the new enterprise ARLA Foods was a reality.

3.0 Motives for the co-operation:

Prior to the merger between ARLA and MD Foods many motives were presented as the reasoning behind this co-operation:

- 1) It was anticipated that the merger would secure the future for the Danish and Swedish producers of milk.
- 2) It was anticipated that the merger would defend a competitive milk price also in the future.
- 3) It was anticipated that the merger would create a more powerful enterprise in the increasing competition on the markets for dairy products.
- 4) The merger was to ensure that the new enterprise would be able to compete with the increased concentration in the international retail trade and in the dairy industry. When the customers are getting larger and financially more powerful players in the market, it is necessary to follow this development in order to secure one's shares of the market.
- 5) The demands of customers become increasingly larger with regard to quality, price and products, which in return makes it profitable for the two enterprises to join forces.
- 6) The increasing concentration in the dairy industry also means that the competition from the other dairy enterprises is getting stronger. Therefore, it was regarded as a wise decision to merge, as it enables the new enterprise to participate in this competition.
- 7) The intention of the merger was that it should secure – through rationalisation and synergies – that the milk prices are kept at an acceptable level. A level that makes it possible for farmers in both Denmark and Sweden to survive financially also in the future.
- 8) Finally, it was important for both enterprises to find new markets for financial growth, in order to secure a future profit for the members of the co-operative societies.

4.0 Problems during the co-operation process:

Generally, the co-operation between ARLA and MD Foods evolved gradually and it ended successfully in a merger in April 2000. However, this does not mean that the process prior to the merger was without any obstacles. As mentioned earlier, the management of MD Foods on several occasions faced obstacles in its attempt to convince the board of directors and the members of the co-operative society that the merger was the right solution. Managing director Jens Bigum had to convince the board of directors of MD Foods about the positive prospects in a merger with ARLA. The board of directors was at first very sceptical and did not feel the timing of the merger was right. They were still in the process of overcoming the barriers they were facing after having merged with 'Kløver Mælk' just a few months earlier. Consequently, they were reluctant to follow the management's advice with regard to yet another large and demanding merger. However, they allowed the discussion to continue among the members of the co-operative society. The members of the co-operative society were also rather sceptical at first, but after having heard the motives and the reasoning behind the merger from Jens Bigum they became more open towards the co-operation.

On a more concrete level there has also been obstacles in the process of co-operating across national borders. The enterprises have discovered that a co-operative society in Denmark and a co-operative society in Sweden do not necessarily follow the same rules. Therefore, there has been a period during which the parties have adapted two different set of rules to each other. Moreover, there has also been a language barrier. Even though the two languages are quite similar, the co-operation between the two enterprises is conducted with translations when the members of the council meet.

In addition, the enterprises discovered that the business culture was different in the two enterprises. The Danish enterprise has a hierarchic and relatively short process prior to decisions. Sometimes this process can be too fast, resulting in adjustments afterwards. On the Swedish side the management works with a high level of consensus and puts much effort into explaining decisions to the entire enterprise. It has not been easy to unite these two styles, but both parties have learned from each other. Today, the most prevalent attitude in the merged enterprise is that an optimum management style lies somewhere in between the two different cultures. Moreover, the enterprise continuously tries to formulate new common values and norms based on both cultures.

5.0 Support for co-operation:

Having established that the merger between MD Foods and ARLA was without obstacles, attention will now be given to the question of how the support for the merger was established. As already mentioned, the two boards of directors were initially sceptical when confronted with the prospects of a merger between the two enterprises. However, much of the resistance primarily on the Danish side to the merger was based on the fact that MD Foods had only just completed a merger with 'Kløver Mælk'. In other words, the Danish board of directors needed time to consider the consequences and prospects of a merger with ARLA. In the beginning they supported that the prospects of the merger were discussed thoroughly among the members of the co-operative society. The discussion should include the financial aspects of a merger, but also the more principal issue of MD Foods' future position in an increasingly international market. Finally, it was necessary to address the question of how to

maintain the democratic values within an international co-operative society. The two boards of directors were given more time, and in October 1999 they gave their full support to a merger between the two enterprises. The two boards of directors based their support on what they regarded as positive financial consequences of the merger, primarily with respect to matching the increasing concentration in the international retail trade. Secondly, the two boards of directors regarded the common cultural background of the two Scandinavian countries as decisive, as this was a condition for making a cross-border merger work successfully.

As described in the paragraph above, at first the members of the co-operative society were to some extent reluctant to accept a merger between the two enterprises. As the discussion regarding the topic evolved, they gradually changed their sceptical view on the merger into complete support of the project. Their view was confirmed in December 1999 when a vast majority of the members of the two co-operative societies voted for the merger between MD Foods and ARLA.

Looking at the employees it becomes clear that in general they supported the merger. Among the Danish employees the experience was that a merger would create more jobs. Furthermore, the merger was experienced as necessary in order to 'survive' in the future competition. The Swedish employees also supported the merger. They were more sceptical regarding the possibilities of more jobs being created immediately after the merger. However, they supported the merger because rationalisation was unavoidable in ARLA anyway. Consequently, the merger was attractive because it was seen as the foundation for creating new jobs in the future.

To sum up, support for the merger was prevalent among the three groups presented above. The board of directors and the members of the co-operative society, however, were initially – primarily in Denmark - somewhat reluctant to accept the merger between MD Foods and ARLA. This can be explained by the fact that the Danes were still recovering from a merger with 'Kløver Mælk'. A few months later 'these wounds' were healed, and the two groups also fully supported the merger that became a reality in April 2000.

6.0 Lessons and recommendations:

- It is beneficial for the management to make room for thorough discussions among the board of directors, members of the co-operative society, and especially the employees prior to a merger. The preparation for the merger between ARLA and MD Foods started years before it actually took place.
- The management must be precise regarding the financial reasons for the merger and persistent in its efforts to convince the three groups above of the prospects of the merger.
- The management must be aware of the timing – the right economic conditions must prevail, a merger should not – if possible - be the 'only solution'.
- To the extent that it is possible an open dialogue with the employees is preferable. Especially information from the management to the employees regarding the process of the merger is crucial. In the same context feedback from the employees is of great importance.

- The cultural differences between the employees from two countries should be addressed by the management and if possible be considered whenever decisions are made in the new enterprise.
- A good idea could be to seek inspiration and knowledge from enterprises that have already been through a process of entering into co-operation across national borders. This will not eliminate all problems with regard to co-operation, but it could perhaps improve the mutual understanding between the two enterprises.
- With regard to strengthening the Nordic agro and food industry it would be preferable with a more common Nordic 'profile' when important questions are debated in the EU.

7.1.2 Atria's acquisition of Lithells AB in 1997 and Samfood in 2002

- An example of acquisitions used as a strategic 'tool' to continuously develop the company in order to match the increasingly stronger retail chains.

Facts:

- In the first quarter of 2003 the Atria Group plc had a turnover of EUR 173.8 million.
- At the same time the Atria Group plc had around 3,650 employees.
- The two main business areas for the Atria Group plc are meat products and convenience food.

The Finnish company Atria's acquisition of the Swedish companies 'Lithells AB' in 1997 and 'Samfood' in 2002

1.0 Facts about the companies involved in the co-operation:

Looking at the three companies involved in the co-operation, it is obvious that Atria is the 'largest player'. Atria is the largest company in the meat industry in Finland with around 3,650 (total for the Atria Group) employees and a turnover in 2002 of roughly 607 million Euros. Over one third of this turnover is earned in Sweden. The turnover generated an operating profit of 26 million Euros Atria Group plc – including Lithells AB and Samfood - is constructed as a corporation with a board of directors and a group of shareholders that meet once a year at the annual general meeting. Atria has three main business areas:

- 1) Meat Industries Division: This division includes slaughtering and meat cutting, the freezing of meat and by-products and semi-prepared meat products.
- 2) Meat Product Industries: A division that engages in further processing of the company's meat raw materials. Products are for instance manufactured sausages, frankfurters, cold cuts, etc.
- 3) Convenience Foods: Here pre-made meals are manufactured. Meals ready for use in microwaves, but also a whole range of other products are manufactured. For instance pancakes, salads, pizzas, bakery products, etc.

Lithells AB's core business areas are the production of different meat products (see above), convenience food, and distribution of 'fast-food' for industrial kitchens. In 2002 the company had a turnover of roughly 2.2 billion Swedish kroner, which resulted in an operating profit of 39 million Swedish kroner.

Samfood is in this context a 'minor player' on the Swedish market. In 2002 Samfood had a turnover of approximately EUR 140 million and was at the time of the acquisition by Atria a loss-making company with 600 employees. The business areas in Samfood were concentrated around meat products, packed meat, and convenience food.

2.0 The chronology of the co-operation:

In the beginning of the nineties three co-operative societies joined forces in a private company, Atria that was introduced on the stock market. As a result of this Atria started to look around for opportunities for expanding the company in markets outside Finland in order to be ready for the future competition and not be dependent on only one market. In addition to this development and perhaps even more importantly, Finland joined the EU in 1995 and consequently Finnish companies were experiencing more intense and challenging competition than earlier. Atria operations became part of a global market with competitors from all over the world. Therefore, the company began to engage in a process of internationalisation. In order to meet the new demands of an open Finnish market for meat and become a leading player in the Swedish meat market, Atria acquired the Swedish company Lithells AB in 1997. Secondly, enquiries concerning the possibility of co-operation between the Finnish company Atria and the Swedish

Samfood were made in April 2002. The point of departure was to find new opportunities for a rearrangement of the meat industry in Sweden. In order to do so, the Swedish agricultural producers' organisation, LRF, had begun discussions with Atria. LRF owned Samfood at that time and wanted to influence the structural development of the Swedish meat industry.

In May the discussions were continued, and at that stage concrete negotiations were conducted between LRF and Atria. The fact that the negotiations were in progress between the two companies was not kept secret. In fact, Atria made it public knowledge through a press release. It was, however, not mentioned specifically which companies were involved. It was only established that negotiations were in progress between LRF and Atria, and they were expected to be concluded in June. On 26 June it was announced that Atria had purchased Samfood through an acquisition from LRF. The acquisition involved the 'Fosie-site' and the food business 'Hamnen' both situated near Malmö. Furthermore, Samfood's business in Årsta near Stockholm was also included in the acquisition. More precisely, the acquisition included the 'Fosie-site', the machinery, equipment and current assets in the companies mentioned above.

On 15 August 2002 the Swedish competition authority gave its approval of Atria's acquisition of Samfood from LRF. Hereby, it was possible for Atria to realise the acquisition that they had agreed on with LRF in June. The final transfer of business activities took place on 1 September 2002. In practice, it was the Atria's subsidiary Lithells Production AB that purchased the business activities mentioned above from Samfood. As a result, Atria's acquisition of Samfood was a reality after only five months of discussions and negotiations.

3.0 Motives for the co-operation:

The reasoning behind Atria's acquisition of Lithells AB and Samfood was based on several strategic considerations from the management regarding the future development of Atria. Judging from the considerations shared with the public, the management of Atria wished to strengthen its market position in Sweden by purchasing Lithells AB and Samfood. Throughout this manoeuvre, it was possible for Atria to meet the needs of the increasingly international retail chains. This was the main purpose of the acquisition. Other motives for engaging in the co-operation are listed below:

- A) Wishes to create commercial synergies.
- B) Makes it possible to introduce new product groups and continue the development of new products required by customers – primarily the large retail chains.
- C) Reorganise the different operations of the company in a way that enables Atria to become more efficient and consequently make more money.
- D) The reorganisation of the company was to increase its competitiveness and consolidate Atria's position as a 'major player' in the Swedish meat market.
- E) Making rationalisations in the company, which will be cost saving. Among other things, it is possible to place the different company-divisions in those parts of the production, where they are most efficient and consequently will be most profitable.

- F) Makes 'room' for continuing financial growth beyond the borders of Finland, which is crucial for 'survival' for Atria in the long term.
- G) Prior to the co-operation with the two companies, Atria exported products to the Swedish market and therefore knew the conditions very well in this market. Consequently Sweden was a safer and more interesting market than the other options, which were the Baltic States and Russia.

4.0 Problems during the co-operation-process:

In seeking co-operation with the Swedish companies Atria has discovered that even though both countries are part of the Nordic region there are quite large cultural differences. These are prevalent as regards styles of management in the companies, but also in connection with the preferences of customers in the market. These differences were larger than Atria had first anticipated.

With regard to management it has been important to explore the strengths of the style of each country. The Finnish style is characterised by a top-down decision process where the most central aim is to be ready for changes in the market conditions. The Swedish decision-making process tends to take more time and seek more consensus. In relation to these differences, the Finnish management has tried to implement the Finnish style in the company, because they see it as crucial in order to be ready for the changes in the markets. This has been done in positive co-operation with the Swedish management, as they could see the advantages in doing so.

Looking at the preferences of customers in the market, it has become clear that they are very local and consequently vary from country to country. As a result, Atria have been through a process of continuously adapting its products to the Swedish market. This process has been longer and more difficult than Atria thought it would be.

5.0 Support for co-operation:

Atria saw opportunities for the continuing development of their company. Lithells AB and Samfood, on the other hand, did not have any real alternative other than letting Atria 'take over' in order to stay in business and have some influence on the future development in the Swedish meat industry. To some extent this meant that the companies had a mutual interest in co-operation, which was probably also why they looked for co-operation.

6.0 Lessons and recommendations:

- Keep open the possibility of acquisition as an important ‘tool’, as the strategic analysis for the future development of the company is made.
- The primary benefits that can be achieved from an acquisition are possibilities for growth and the possibility of matching increasingly stronger retail chains.
- Acquisition is also an important ‘tool’ if a company wishes to improve and make production more efficient by purchasing companies whose production advantages can be acquired and incorporated in the parent company.
- Even though it is easier to adapt to companies from the Nordic region, it is very important to anticipate that there will be differences in culture both with regard to management styles, but also in the market conditions.
- It would be beneficial if the countries in the Nordic region tried to harmonise their legislation especially on taxes and the rules on the marketing of products. Even though both countries are members of the EU, some barriers still exist in those areas.
- If the Nordic food industry wishes to maintain a relatively strong position in the international markets it is important that it continuously develops new and more refined products, as it is the only way to compete with enterprises in countries where production costs are much lower.

7.1.3 Carlsberg's and Orkla's establishment of Carlsberg Breweries in 2000

- Co-operation between two companies that saw mutual advantages in the creation of a new company – how co-operation can consolidate market positions for both companies involved.

Facts:

- The net sales of Carlsberg Breweries were 35.5 billion Danish kroner in 2002 and the revenues were 1.39 billion Danish kroner.
- The same year the new company had 28,316 employees and the sale of beer was 78.6 million hl.
- Carlsberg Breweries has its focus on the beer industry, which is supplemented by substantial sales of other commercial beverages where this supports the beer business, including mineral water and soft drinks – in 2002 20.9 million hl.

Carlsberg's and Orkla's establishment of Carlsberg Breweries in 2000

1.0 Facts about the companies involved in the co-operation:

In May 2000 two companies both involved in the European brewery industry decided to join forces. It was the Norwegian Orkla Group and the Danish Beer Company Carlsberg that decided to create a new company in the beer industry. In fact, the new company – Carlsberg Breweries - became one of the largest breweries in the world. Orkla transferred Pripps Ringnes to the new company, which also included Carlsberg's beer and other commercial beverage activities. The transfer of Pripps Ringnes from Orkla was rewarded with 40 % of the shares in Carlsberg Breweries. The last 60 % of the shares of the corporation was owned by Carlsberg A/S. Carlsberg Breweries had in 2002 a turnover of 35.5 billion Danish kroner and produced 78.6 million hl of beer. The company employed 28,316 people and had after tax revenues of 1.39 billion Danish kroner.

At the time when the new company was created, Pripps Ringnes had 13,000 employees and a turnover of 6.8 billion Swedish kroner. In 2000, the company had revenues of around 700 million Swedish kroner. The company was part of the Norwegian Orkla Group, which is the largest supplier of branded consumer goods in the Nordic region. In 2002 the Orkla Group had 32,000 employees and its revenues amounted to nearly 43 billion Norwegian kroner. The Danish Beer Company Carlsberg had revenues at a level of nearly 1.2 billion Danish kroner. The turnover was 16.6 billion Danish kroner, and the company employed 14,200 people at the time when it engaged in the new co-operation with Pripps Ringnes in Carlsberg Breweries.

2.0 The chronology of the co-operation:

In this context it is necessary to mention that prior to the establishment of Carlsberg Breweries A/S Carlsberg had made significant acquisitions in the Nordic market for beer and beverages. In 1997 Carlsberg took over additional shares in the Finnish brewery Oy Sinebrychoff Ab. Hereby, Carlsberg became the dominant shareholder in the company with 60% of the shares. In 1999, Carlsberg acquired the remaining 40% of the shares in the Finnish company and consequently also became the sole owner of Falcon Holding AB, which is a Swedish brewery that prior to the acquisition was owned by Oy Sinebrychoff Ab. After the establishment of Carlsberg Breweries A/S in 2000, the two Swedish breweries Pripps and Falcon Breweries were merged into Carlsberg Sverige AB at the beginning of 2001.

Both joint venture partners had for some time been looking for possibilities for expanding and developing their companies. On the Norwegian side Orkla had a leading position in the Norwegian, Swedish and Russian markets for beers. On the Danish side Carlsberg was the leading player in the Danish and Finnish beer markets. Therefore, both companies saw mutual advantages in joining forces. The new company would be the market leader in the Nordic region and furthermore be ready for increasing competition in the international market for beers and beverages.

Prior to this the two companies had been competing quite fiercely on one hand, and on the other they had also been looking for opportunities for finding a suitable partner in the Nordic region. When both companies acknowledged each other as the 'perfect

match', they decided to engage in a joint venture. After a series of relatively rapid negotiations between Orkla and Carlsberg A/S, Carlsberg Breweries A/S, was as mentioned earlier established in 2000. The final competition clearance was not obtained until early in 2001.

3.0 Motives for the co-operation:

It is possible to divide the motives - as the Orkla Group and Carlsberg A/S see them - into six categories:

- 1) It is possible to expand the base for the Carlsberg brand into the market positions held by Pripps Ringnes.
- 2) It is the ambition of Carlsberg Breweries to become a global player in the international market of beers, to obtain benefits from economies of scale as well as to balance geography and growth exposures. The ambition is to have strong national/regional volume brands supplemented by a leading international premium beer brand: Carlsberg.
- 3) Furthermore the ambition is to create a 'platform' for continuing growth in the global beer industry and moreover make sure that the owners have enough financial resources to ensure further expansion. Especially, the new company had access to Eastern Europe and Asian growth markets – most importantly Russia.
- 4) With the co-operation it is possible to expand the variety of innovation products in the assortment both in the beer category and in other categories of commercial beverages. This is also done to comply with the demands from the customers and consumers.
- 5) The creation of the new company is expected to result in substantial synergies, primarily within the supply chain. Moreover, the new company is expected to make additional synergies on increased profit created by the expanded possibilities of growth.
- 6) Finally, it is expected that the new company will be ready for the increased competition from other breweries in the world and will be professionally equipped for meeting the demands of an increasingly stronger retail industry where enterprises are getting stronger and more concentrated 'players' in the market. In order to maintain a sustainable position in this competition in the years to come, it is necessary to be efficient and share best practices in larger international brewery groups.

4.0 Problems during the co-operation process:

In the process of making Carlsberg Breweries A/S work as one unit in all markets there have been no material shareholder issues, but it has proven quite challenging to implement the rationalisations necessary to unite the two Swedish companies Pripps and Falcon. In this context it was not the co-operation across national borders that created difficulties, but rather the co-operation between two companies from the same country that had fiercely competed against each other until the very date of the merger. Here it is important to remember that brewery business is a very local thing that involves a lot of history and traditions, where very strong local leadership and very solid consolidation plans need to be in place from a very early stage.

A second thing that caused some difficulties in the co-operation process was the fact that Carlsberg Breweries A/S – in order to merge Pripps and Falcon – had to give up some of its production in Sweden. This was a demand from the local competition authorities, which resulted in a significant sale of market share that Carlsberg Sverige AB has had difficulties in regaining. Finally, Carlsberg Breweries A/S has underestimated the fact that the players in the Swedish retail industry still want to have more than just one supplier. This has created competition that Carlsberg Breweries A/S had not taken fully into consideration in the beginning.

5.0 Support for the co-operation:

As the analysis has shown so far, the co-operation between Carlsberg A/S and the Orkla Group has predominantly been characterised by mutual advantages being achieved in Carlsberg Breweries. It is possible to talk of ‘interdependency’ between the Orkla Group and Carlsberg A/S in regard to continuously developing the two companies. Therefore, the support for the co-operation has been very strong on both sides. Both companies saw the possibility of fulfilling their company aims by creating a common company in the brewery industry. Carlsberg could still be one of the leading ‘players’ in the beer industry, and at the same time the Orkla Group could consolidate its position as ‘a major player’ when it comes to delivering branded consumer goods to the retail market. In addition to this, both companies make use of co-operation in various forms in order to consolidate their positions in their respective markets and core business operations. In other words, the two companies try to develop their business activities by creating opportunities for continuing growth and access to markets that may be financially interesting. To pursue this strategy it is necessary to look for potential business partners, with whom co-operation can be entered into. Co-operation can be established through a merger, an acquisition, a local partnership or joint ventures.

6.0 Lessons and recommendations:

- It is beneficial for companies looking for co-operation opportunities in order to develop and consolidate their company to try to find partners with whom it is possible to create ‘mutual advantages’.
- It has been profitable for both companies to seek an alliance, as it has enabled the companies to learn from each other and especially take advantage of the complementary strengths of the two companies.
- Before establishing co-operation both partners must be very precise as to what the aims are and moreover how the co-operation should be ended, when that day comes. Moreover, it is of crucial significance that the possible business advantages are the catalyst for co-operation and nothing else.
- As the countries in the Nordic region are in many ways relatively similar, there is an obvious potential for seeking co-operation in this area. However, enterprises in the Nordic region must realise that in order to maintain a strong position in the increasingly fiercer international or even global competition it is necessary to minimise costs and increase productivity. Here joint ventures can be part of a solution.

- To some extent the different tax systems in the Nordic countries still make it difficult to implement rationalisations as the costs are simply too high. The mobility in the Nordic region is also constrained by this.

7.1.4 The acquisition of the Danish company Schulstad Gruppen A/S by the Swedish company Cerealia in 2003

- An example of how enterprises pursue deliberate strategies of growth through various forms of co-operation – acquisitions, alliances and joint ventures – as it enables the enterprises to expand their business into new markets and secure future growth.

Facts:

- The Cerealia Bakeries employ 4,700 people out of 6,000 employees in the entire Cerealia Group. The company is owned by 'Svenska lantmännen' a co-operative society with approximately 50,000 Swedish farmers as members.
- In 2002 the company had a turnover of 6.1 billion Swedish kroner and this generated an operating profit of 244 million.
- Schulstad Gruppen A/S is the largest producer of bread and cereals in Denmark with 50% of the market for wheat and rye bread. The company has 2,200 employees and a turnover of 2.6 billion Danish kroner.

The Swedish company 'Cerealia AB's' acquisition of the Danish company 'Schulstad Gruppen A/S' in 2003

1.0 Facts about the companies involved in the co-operation:

In 2003 - after the acquisition of Schulstad Gruppen A/S – Cerealia AB employed 6,000 people in the whole Group. Out of these 6,000 people, Cerealia Bakeries has 4,700 employees. In 2002 the company had a turnover of 6.1 billion Swedish kroner and this generated a profit of 244 million Swedish kroner. Cerealia AB is owned by Swedish Farmers Supply and Marketing Co-operative (Svenska Lantmännen), which is an organisation that consists of roughly 50,000 Swedish farmers. Cerealia AB operates more than 50 facilities located in 13 different countries, mainly in the area around the Baltic Sea. Cerealia AB's headquarters is located in Stockholm, and the company is the largest company in the industry in the Nordic region.

Cerealia AB is one of the larger food groups in the Nordic region. It conducts its businesses in the area of manufacturing and marketing of various cereal-based food products. The group is divided into three divisions, each specialised in its own products, namely Cerealia Mills (flour, breakfast cereals, pasta), Cerealia Foods (product development, marketing) and Cerealia Bakeries (bakery).

In the recent past Cerealia AB has fulfilled a growth strategy by various acquisitions in Germany, the Baltic States and Denmark and large investments in production plants within Sweden. Since 1988 - culminating with the acquisition of Schulstad in 2003 - Cerealia AB has invested heavily in Denmark through acquisitions and joint ventures. A short chronology of the many acquisitions in Denmark is: a) 1988 Paaskebrød, b) 1989 Vejle mølle; Karup Brød, c) 1990 Dana Food, d) 1991 Havnemøllerne, e) 1995 Hatting Bageri, f) 1999 Drabæks Mølle; Unibake; Jacobs Pita g) 2003 Schulstad. One of the implications of the many acquisitions by Cerealia in Denmark is that the Danish cereal/bakery industry is highly concentrated with Cerealia as the key player.

Schulstad Gruppen A/S is the largest producer of bread and cereals in Denmark with a turnover of roughly 2.6 billion Danish kroner and the company has 2,200 employees. Schulstad Gruppen A/S has a market share of over 50% of the market for wheat and rye bread.

2.0 The chronology of the co-operation.

In January 2002 it was - by a public announcement from Schulstad Gruppen A/S - made clear that the company was preparing to be sold. The management was scrutinising the industry to find the best possible prospective buyer. Cerealia AB was found to be a candidate buyer. In the period from August to December the same year negotiations between Cerealia AB and Schouw & Co. were conducted. The aim was to find an acquisition offer on Schulstad Gruppen A/S. In January 2003 Cerealia AB reached an agreement with the two owners of Schulstad Gruppen A/S - Schouw & Co. and Lønmodtagernes Dyrtingsfond (LD Pensions) - about the conditions for the acquisition of the Danish company. Finally, in April 2003 after receiving acceptance from the proper authorities, the acquisition of Schulstad Gruppen A/S was accomplished. Cerealia AB paid an acquisition price for Schulstad Gruppen A/S of 1.5 billion Danish kroner.

3.0 Motives for the co-operation.

Looking at motives for the co-operation between the two companies, the following is the most important:

- 1) Accepting the acquisition offer from Cerealia AB can be interpreted as a defensive tactic. In recent years Schulstad Gruppen A/S had experienced considerable losses on the Swedish market and by spinning off Schulstad Gruppen A/S the owners - Schouw & Co. – hoped to be able to focus on its core business areas and consequently minimise the future losses.
- 2) Developing and maturing businesses within different industries and marketing them for sale is a key strategy for Schouw & Co. In this context, selling Schulstad Gruppen A/S - in addition to the loss minimising tactic - can be considered an attempt to increase the profitability of Schouw & Co.
- 3) Expected synergies were the main reason for the acquisition of Schulstad Gruppen A/S. This would presumably better enable Cerealia AB to maintain growth and expand into new markets in the future. Examination of the two companies found many profit opportunities, as products and markets were complementary.
- 4) By acquiring Schulstad Gruppen A/S, Cerealia AB added a portfolio of strong consumer brands to its business. The CEO of Cerealia AB, Håkan Ahlqvist, stated about the acquisition and its motives: *"This is industrially a logical acquisition with far-reaching synergies and possibilities. Cerealia Bakeries and Schulstad are two companies that complement each other well, in terms of both products and markets"*.
- 5) Both parties knew each other from former co-operation arrangements and saw the possibilities in becoming a Nordic player, instead of competing with each other. A mutual interest was present.

4.0 Problems during the co-operation process.

Looking at the co-operation process it is striking that it took more than a year for the two companies to reach an agreement. However, this does not necessarily mean that the process was problematic. What it is possible to conclude from the existing material is that the two companies had some intense and relatively long discussions, before it was possible to find the right price and the right conditions for Cerealia AB's acquisition of Schulstad Gruppen A/S.

However on an overall level the co-operation has been working in a very satisfactory manner. Especially it has become easier to adjust the costs in the company more rapidly and thereby adapt more effectively to the changing conditions in the market. On the more problematic side, it has been difficult suddenly to compete with companies that were partners of the company prior to the co-operation.

5.0 Support for the co-operation.

As both companies saw potential financial advantages in the co-operation – from two different perspectives – both organisations supported the co-operation.

6.0 Lessons and recommendations.

- As two competing companies in the same industry with complementary products pursue different business strategies – an offensive strategy and a defensive strategy – the potential for them to engage in mutual advantageous co-operation is relatively large.
- It is an advantage for a company engaging in co-operation to be present in the local market, as it makes it possible to continuously adjust the business to market demands and moreover deal with the difficulties that new co-operation will meet. Often it is beneficial to keep a national management, as they know the market and the conditions for acting on it.
- If the Nordic region is also in future to be prepared for coping with increasing international competition, it is necessary to realise that developments point to a common Nordic market in which a strong consolidation of companies will take place.

7.1.5 The Finnish company Chips Abp's acquisitions of different Nordic subsidiaries in the period from 1989 to 2003

- How companies with strong brands and leading market positions in neighbouring countries are acquired as part of a deliberate strategy of creating a solid foundation for the future development and expansion of one's own company.

Facts:

- Chips Abp's home market is the Nordic countries and the Baltic States where the company is one of the leading companies in the area of food and snacks.
- In 2002 Chips Abp had an operating profit of 29 million Euros out of a turnover of 268 million. The company has roughly 1,000 employees.
- In Denmark, Finland and Sweden the company is the market leader in its core business area of snacks.

The Finnish company Chips Abp's acquisition of different Nordic subsidiaries in the period from 1989 to 2003

1.0 Facts about the companies involved in the co-operation:

Chips Abp was founded in 1969 on one of the Åland islands where enterprising business people wanted to establish a land-based industry. The ambition was to prevent people from leaving the islands. They succeeded with their project and thirty years later the company is a leading company in the area of food and snacks. Chips Abp's home market is the Nordic countries and the Baltic States, and the main products are chips and snacks. Besides these products, the company also delivers deep-frozen potato products and ready-made meals and vegetables to a market that in its present state includes roughly 31 million inhabitants. Chips Abp employs approximately 1,000 people and in 2002 had a turnover of 268 million Euros. This generated an operating profit of 29 million Euros. An amount of 196 million of the turnover was made in the area of snacks. In Denmark, Finland and Sweden the company is the market leader in its most important business area, snacks. In Norway Chips Abp holds a strong position in the market with over 30% of the market shares.

In 1998 the Swedish snack company OLW was acquired by Chips Abp. The first 50% of the shares in OLW were already acquired back in 1989 and the remaining 50% nine years later. The company is the largest distributor of snacks to the Swedish retail industry and has a total market share of approximately 36%. One of the company's brands is Cheez Doodles that is the single most sold snack product in the Nordic region. The company's turnover is roughly 560 million Swedish kroner and the operating profit is approximately 80 million Swedish kroner. The company has 220 employees.

In 2002 Chips Abp acquired 100% of the share capital in the Swedish company Topp Livsmedelsprodukter AB. The company produces products with frozen vegetables and pre-made food products such as meals to be prepared in a wok. The company primarily sells its products in the home market but 25% of the total production is exported. Topp Livsmedelsprodukter AB has a market share of 10% in Sweden. The turnover of the company was 148 million Swedish kroner, and it has 90 employees. Later the same year Chips Abp acquired the company KIMs that has production plants in Denmark and Norway. The companies employ a total of approximately 370 people and had a turnover of more than 400 million Finnish mark. In Denmark KIMs has roughly 50% of the markets for snack products. In Norway the same figure is 26%.

In 2003 Chips Abp acquired Parrots that is the leading company in the Nordic region in the market for natural snacks. The products are based on different varieties of nuts and dried fruits. The company is the market leader in Finland and Sweden in the market for those products and has a turnover of approximately 13 million Euros.

2.0 The chronology of the co-operation:

As presented in the previous section Chips Abp has since the end of the eighties pursued a systematic strategy of acquisition of subsidiaries in the Nordic countries. The companies are conducting business in the same markets as Chips Abp. Therefore they are interesting for the organisation as a whole, as they can expand the range of the

product assortment and at the same time provide Chips Abp with strong brands in the national markets.

3.0 Motives for the co-operation:

The motives behind the acquisition strategy pursued by Chips Abp during the past fourteen years may be divided into six major categories:

- 1) Chips Abp wants to acquire strong national brands in its neighbouring countries, as it enables the company to deliver a product that is of a high quality and recognisable.
- 2) It is important for the company to have a strong local presence in the national markets, as it enables the company to maintain and extend its position as the market leader in the Nordic region.
- 3) By acquiring companies in different countries in the Nordic region Chips Abp can create a strong basis for future expansion and consequently continuous growth.
- 4) The process of acquiring companies in Chips Abp's core business areas makes it possible for the company to extend its range of products and at the same time improve the quality of the products already contained in the product assortment.
- 5) Through the acquisition of snack companies Chips Abp wants to obtain synergetic effects by rationalisations both in production and distribution.
- 6) Finally, Chips Abp also wishes to create a strong company in the snack industry with a broad Nordic base as it makes it possible for the company to meet the ever more intense competition from the increasingly stronger concentration in the retail industry.

4.0 Problems during the co-operation-processes:

At the beginning of the co-operation process with companies in the Nordic region, Chips Abp pursued a strategy where it was important to make the different companies similar with regard to marketing and products. However, it became clear early in this process that this was not an optimum strategy because the national markets in the Nordic countries are simply too different. Consequently, Chips Abp adjusted its strategy so that it paid special attention to the local demands and customs among the consumers.

5.0 Support for the co-operation:

As the development in Chips Abp has through acquisitions in the Nordic snack industry been a deliberate strategy pursued by the company since 1989, it is obvious to anticipate that there has been support for these different instances of co-operation within the company. Whether the companies acquired by Chips Abp have felt the same way cannot be analysed on the basis of the material available for this research.

6.0 Lessons and recommendations:

- In order to create a solid foundation for future development and expansion of a company, it might be beneficial to pursue a strategy of acquisition in neighbouring countries of companies in the same industry with strong brands and leading market positions.
- When seeking a business partner it is important that the two companies ‘match’ with regard to product portfolio but also the basic attitude to strategies for marketing and competition needs to be the same, if the co-operation is to be successful.
- The Nordic food industry should not underestimate the importance of continuously developing new products, as it is one of the best assets for the industry in order for it to compete in the international markets.

7.1.6 The Danish company Danisco's acquisition of the Finnish company Cultor Corporation in 1999

- An acquisition carried out as the acquiring company wished to establish a position as one of the world's leading suppliers of ingredients to the global food industry with a production base in the Nordic region.

Facts:

- The focus of Danisco A/S's production is ingredients – including sugar and sweeteners – for the global food and beverage industry.
- In 2002 the company generated an operating profit of 1.9 billion Danish kroner out of a turnover of 16.6 billion. Danisco A/S employs approximately 3,300 people in 40 countries.
- Cultor Corporation has 3,400 employees and in 1998 the net sales of the company were 8.5 billion Finnish marks. This resulted in an operating profit of 240 million Finnish marks.

The Danish company Danisco's acquisition of the Finnish company 'Cultor Corporation' in 1999⁵

1.0 Facts about the companies involved in the co-operation:

Danisco A/S is a company with a business history that goes back more than 100 a hundred years. In 1872 and 1881, 'Danish Sugar' and 'Danish Distillers', respectively, was established. Later in 1934 Danisco A/S was founded as a conglomerate engaged in activities in various industries. In 1989 the three companies merged and up until 1999, Danisco was a conglomerate. Today, the focus for Danisco A/S is the production of ingredients – including sugar and sweeteners – for the food and beverage industry. The company also produces ingredients for animal nutrition. Besides the supply of ingredients for the food industry, Danisco A/S sells sugar directly to the consumers under the brand 'Dansukker'.

In 2002 Danisco A/S reported net sales of 16.6 billion Danish kroner, and this generated an operating profit for the company of 1.9 billion Danish kroner. The company had approximately 8,356 employees represented in 40 countries all over the world. More than 75% of the net sale of Danisco A/S is generated outside Denmark.

In 1999 Danisco A/S acquired Cultor Corporation⁶. The company is one of the leading companies in the world in the field of nutrition products with focus on food and feed ingredients. The Cultor Corporation employs some 3,400 people and has production facilities in more than 14 countries. 65% of the employees work outside Finland. In 1998 the net sales of the company amounted to 8.5 billion Finnish marks and the operating profit was 240 million Finnish marks.

2.0 The chronology of the co-operation:

The co-operation between the two companies evolved because they knew each other as they both worked in the area of sugar. Both companies were located in the Nordic region and were concerned with the production and sale of sugar and ingredients. Moreover, both companies were facing significant challenges, as they were too small as compared with their competitors. Being two competitors in the Nordic region also meant that the companies knew each other's main strategies, attitudes towards the market and key persons in the management. Therefore, they started an examination of the opportunities for co-operation.

On 30 March 1999 Danisco A/S made an official offer to buy all the shares in Cultor Corporation Oyj. This offer had to be approved by the relevant governmental authorities – among others the EU Commission - and therefore the offer was made 45 days before the formal offer would be presented. This happened in order to satisfy the requirements of the Finnish Securities Markets Act. On 14 May 1999 Danisco A/S in a press release

⁵ Back in 1992 Danisco A/S acquired the Swedish company 'Sockerbolaget', but this is not the focus of this paper, as the acquisition of Cultor Corporation is the most recent event in the consolidation of Danisco A/S in Scandinavia. Moreover it should in this context be mentioned that in return for 'Sockerbolaget' in 1992, Danisco in 1999 sold 'Danish Distillers' to the Swedish company 'Vin&Sprit'.

⁶ Officially this happened through a merger, but in reality Danisco A/S made a cash offer for Cultor Corporation and thereby acquired the company.

informed the public that the acquisition of Cultor Corporation was in place. 91.1% of the holders of voting rights in Cultor Corporation had agreed to follow the recommendation from the unanimous board of directors and accept the offer made by Danisco A/S. This satisfied the demand for acceptance from more than 90 % of the holders of voting rights in Cultor Corporation.

3.0 Motives for the co-operation:

The vision behind Danisco A/S's acquisition of Cultor Corporation was to establish a world-leading supplier to the global food industry with a production base placed in the Nordic region. The three core business areas that the new group wished to cover were ingredients, sweeteners and flexible packaging. After the establishment of the co-operation the business areas have been further concentrated and are now only focused on ingredients. The co-operation between the two companies was a necessary step in that direction. Hence, the motives for the co-operation were the following:

- A) In order to become a strong player in the global market and be the world's leading producer in the three main business areas, it is necessary continuously to strengthen the company through both organic growth and acquisitions. By doing this, it is also possible to achieve a critical mass.
- B) Danisco A/S wishes to achieve a significant acceleration of growth in operating profit.
- C) The ambition is to obtain substantial synergetic effects by combining the skills, resources, and technologies of the two companies.
- D) In order to be a global player it is also necessary to improve market positions in the core business areas by being able to meet the demands of the customers in a flexible manner primarily by offering a wide range of complementary products in one's portfolio.

4.0 Problems during the co-operation process:

In relation to obstacles in the co-operation process it is very important to underline that there are cultural barriers between the Nordic countries. It is of very great importance that these barriers are taken seriously by the management; otherwise there is a risk that the co-operation will fail financially. The management must acknowledge and deal with the cultural barriers openly and with a high degree of respect for national differences. In this process - which is very time-consuming and may take several years - the management should seek unity concerning the core values and goals of the new common company. Then in time it is possible to make the company operate as one unit.

It is important to state that the different Nordic management cultures all have strengths and weaknesses. In Sweden consensus is very important in the decision-making process. In Finland 'the boss is the boss' and the management style tends to be more top-down. Finally, in Denmark it is important to be the 'first mover', which means that the Danes in some aspects of their business act quite rapidly – adjusting afterwards. These styles all have their strengths and weaknesses as mentioned above, but when seeking unity in co-operation it is necessary to respect them all, and find the 'common ground' on which

to co-operate. This common ground will also include some room for national differences, which means that the new management is not to and cannot just dictate a new culture in a common enterprise, but by making cultural differences visible and being open about them it will be possible in time to overcome them.

5.0 Support for the co-operation:

In connection with the acquisition of Cultor Corporation, Danisco A/S appeared to have received support from both organisations. At the beginning of the co-operation process both companies agreed to sign a memorandum of understanding as regards the combination of their businesses. The CEO in Cultor Corporation – Björn Mattsson – talked about how the co-operation would benefit both companies. This was followed up by the board of directors in Cultor Corporation that unanimously recommended the sale of the company to Danisco A/S. Later on this support for the co-operation was confirmed by 91.1% of the holders of voting rights among the shareholders in Cultor Corporation. Finally, the board of directors in Danisco A/S also gave its support to the co-operation.

6.0 Lessons and recommendations:

- In order to become a world-leading player in ones core business areas it can be advantageous to acquire another large company – potentially a competitor – and thereby secure a wide range of complementary products that can meet the demands of customers. Moreover, this may release potential synergetic effects and make it possible for the company to continue growth beyond the boundaries of the national border.
- It is of crucial importance to enterprises in the Nordic agro and food industry that the political systems acknowledge the importance of being a ‘major player’. This means, that the tendency to look at the national or Nordic market when judging whether a company has become too large (monopoly) or not is outdated, as the market has become European or even global. If the enterprises in the Nordic agro and food industry are to stand a chance against increasing international competition, it is necessary that they are allowed to reach a certain size; otherwise they will be overtaken by foreign competition.
- The enterprises in the Nordic agro and food industry must acknowledge that the Nordic region is one home market. Compared with for instance Germany the 30 million consumers in the Nordic countries constitute a very small proportion. Therefore, the Nordic region must try to become even more efficient than it already is. One of the ways to do this is to seek co-operation across the national borders in the region.
- As regards obtaining a greater influence on the political process in the EU, it would be beneficial if the Nordic countries could act as one unit more often than it happens now. Especially, after the enlargement of the EU it is necessary, if the Nordic countries are to be able to serve their interests more effectively.

7.1.7 The merger between DANÆG from Denmark and the Swedish 'Kronägg' in 2002

- A merger between two enterprises where the aim of the co-operation is to secure the position of the enterprises in the international markets in which they compete. A strategy often pursued by enterprises in the Nordic region, as they have to meet high standard of environmental protection, high wages, and high security standards in the food industry.

Facts:

- DANÆG is a co-operative society that in 2002 had a turnover of 442 million Danish kroner, which in return generated an operating profit of 12.1 million.
- The enterprise produces approximately 34,000 tons of eggs annually and possesses 60% of the Danish market for egg products.
- Kronägg possesses 15% of the Swedish market and has a yearly production of approximately 30,000 tons of eggs.
- The home market of the new enterprise will have 14 million consumers.

The merger between the Danish 'DANÆG's' and the Swedish 'Kronägg' in 2002

1.0 Facts about the enterprises involved in the co-operation:

DANÆG is a co-operative society that was established more than one hundred years ago – more precisely in 1895. The number of members reached a peak during the period 1960-1962, where roughly 85,000 egg producers were members of the co-operative society. Today only 70 members are left. Later DANÆG became the DANÆG Group, which includes a packing department in Christianfeld and a production plant for egg production in Roskilde. In 2002 the DANÆG Group had a turnover of 442 million Danish kroner and this generated an operating profit of 12.1 million Danish kroner. The enterprise is the largest producer of eggs in Denmark with 60% of the market and the yearly production of eggs is roughly 34,000 tons. The production includes both egg products and fresh eggs. The fresh eggs are mainly exported to the American military forces stationed in Europe.

The DANÆG Group entered into a co-operation-agreement with Kronägg in 2002 that will when it has been fully implemented result in a merger between the two enterprises. Firstly, DANÆG will become a member of Kronägg and take over the management of the Swedish enterprise. Secondly, within a time frame of two years the enterprises will be merged. Kronägg possesses 15% of the Swedish market for eggs, and with subsidiaries produces roughly 30,000 tons of egg a year. In addition to this, DANÆG has with the acquisition of Kronägg secured the majority of shares in the Swedish company Källbergs Industri AB. At the present time DANÆG has 66.7% of the shares. Källbergs Industri AB is the largest producer of egg products in Scandinavia and is now a subsidiary of DANÆG. The company has a yearly turnover of roughly 270 million Danish kroner.

2.0 The chronology of the co-operation:

The potential merger with Kronägg comes as a result of a development that has made it necessary for the DANÆG Group to pursue a strategy, where the main target is to defend DANÆG's position in the international market. The DANÆG Group is under pressure from competitors in the international market for eggs, and the competition is especially tough for enterprises in the Nordic region. Enterprises that have their places of production in this area must meet high standards of environmental protection, animal welfare and security regarding food products. In return this raises the cost of production. In order to counter this development the DANÆG Group has in the recent past been looking for opportunities to co-operate with other enterprises in the Nordic egg industry.

In 1991 DANÆG Products A/S was established as an independent company. The same year the company engaged in co-operation with Kronägg, 'Munakunta'(Finland), and 'Norske Eggsentraler' (Norway) with the aim of improving processing. The most recent example of Nordic co-operation in the egg industry is the merger that has been arranged between DANÆG and Kronägg, and also DANÆG's acquisition of Källbergs Industri AB. Other indications of the strategy pursued by enterprises that co-operate with other enterprises in the Nordic region can be seen in the DANÆG Group that is in the process of examining the possibilities of co-operation with enterprises in Norway and Finland for the development of an enterprises with the new Baltic markets as target area.

3.0 Motives for the co-operation:

Looking at motives for the co-operation between DANÆG, Kronägg and Källbergs Industri AB in the Nordic egg industry, the following reasons may be mentioned:

- 1) As the egg industry is a relatively small industry compared with other business areas DANÆG pursues a strategy that could in the long run hopefully result in a common Nordic enterprise where egg producers in Denmark, Finland, Norway and Sweden join forces. The aim is to make the necessary rationalisations that make it possible to be competitive in the international market.
- 2) The co-operation should secure a larger home market, going from 5 million potential consumers to 14 million. Moreover, the co-operation also makes the production more competitive as more egg producers are delivering eggs to the production facilities.
- 3) The aim is to establish the enterprise as a player in the Swedish market for eggs, which in return should secure increased financial growth, mainly owing to joint marketing of a joint portfolio.

4.0 Problems during the co-operation process.

All in all the co-operation has been successful. However, the process has not been without difficulties, mainly owing to the fact that it has been necessary to make quite radical rationalisations in Kronägg. These have been made and in this process the Swedish management has been very constructive and prepared for integration. In regard to Kronägg it has in reality been a total acquisition. Looking at Källbergs Industri AB, the co-operation between the two independent enterprises has been successful, yet DANÆG has discovered that the Swedish company has a different management style than in Denmark. The decision-making process takes more time and the aim is to a larger extent to obtain consensus. However, a combination of the two different styles is beneficial to both companies.

5.0 Support for the co-operation.

Both enterprises have supported the co-operation, as it was seen as one of the only ways to survive in the competition in the egg industry. Furthermore, both enterprises anticipated benefitting financially from the co-operation.

6.0 Lessons and recommendations.

- In order to survive financially in the still more intense and increasing competition in the global market and with relatively high production costs, it can be advantageous for Nordic enterprises to co-operate.
- It is not easy for co-operative societies to merge, and it is therefore crucial that both enterprises are prepared for a relatively long and at times difficult process, before especially the two sets of rules of the co-operative societies are 'merged'.
- It is of great importance that both enterprises take the necessary time to get to know each other's cultural background. Knowing what cultural background a future partner has is crucial, as it makes it possible to understand the motives behind the partner's decisions.
- In seeking co-operation in the Nordic region it is important to underline that it must be the need and possibility for new business opportunities that is the catalyst for seeking co-operation and nothing else.
- Given the conditions that the Nordic agro and food industry is working under – especially with relatively high costs of labour, environmental protection etc. - it is important that countries in the Nordic region join forces also at a political level in order to stand stronger in the international competition. 'One voice in the EU' would be beneficial for all the Nordic countries.

7.1.8 The Dat-Schaub Group's acquisition of Swedish Meat and Lihan Vienti in 2002

- How an acquisition can be used as an offensive strategy with the aim of securing future financial growth by establishing one's enterprise as a leading player in the core markets.

Facts:

- In 2001 the Dat-Schaub Group had a turnover of roughly 1.7 billion Danish kroner, which generated a result before tax of 54.4 billion Danish kroner.
- Swedish Meat is among the largest food groups in Sweden and had at the time of the acquisition 4,500 employees. The Finnish Lihan Vienti Oy had as a standard of reference only 22 employees.
- The Dat-Schaub Group produces and markets products that are primarily derived from livestock, mainly pork products. The Dat-Schaub Group produces casings primarily from pigs and exports its products to markets all over the world.

The Danish Dat-Schaub Group's acquisition of the Swedish 'Swedish Meat' and the Finnish 'Lihan Vienti' in 2002

1.0 Facts about the enterprises involved in the co-operation:

The Dat-Schaub Group provides markets all over the world with a wide range of products derived from the Danish livestock – primarily pork and beef products. The company is one of the largest producers and exporters of casings in the world. The Dat-Schaub Group has divisions in – among many other countries - Denmark, Sweden, Finland and Norway. The Danish Dat-Schaub Group had 2,100 employees in 2002 and sold 19 million sets of casings all over the world. The production is focused on casings from pigs. Moreover the company also sells artificial casings and ingredients.

In January 2002 Dat-Schaub a.m.b.a. bought the production of casings in Sweden from 'Swedish Meat'. This enterprise is one of Sweden's largest food groups. Totally, the enterprise employs 4,500 people and has a turnover of approximately 9.2 billion Swedish kroner. The casing production at the slaughterhouses of Swedish Meat in 2001 was 2 million sets of casings. 100 employees are involved in the production that takes place at 7 factories at different locations in Sweden. The headquarters was located in Stockholm and as the acquisition became a reality Dat-Schaub a.m.b.a. opened an office in Malmö.

Also in 2002 Dat-Schaub a.m.b.a. made an acquisition in Finland. Dat-Schaub O.Y. bought the Finnish company 'Lihan Vienti Oy' which after this changed its name to Dat-Schaub Finland. After the acquisition Dat-Schaub Finland employed 22 workers in 2001 and had a turnover of 82 million Danish kroner. The result before tax was a negative amount of 2 million Danish kroner.

As a final remark, it should also be mentioned that the Dat-Schaub Group in 1995 acquired the Norwegian company 'Arne B. Corneliussen AS', which is a leading supplier to the Norwegian food industry. The company supplies a wide range of products to the Norwegian market for instance both natural and artificial casings. The company employs 26 people and in 2001 had a turnover of 122 million Danish kroner.

2.0 The chronology of the co-operation:

In the spring of 2002 the owners of the Dat-Schaub Group, the two Danish slaughterhouses 'Danish Crown' (94%) and 'Tican' (6%), reached an agreement the main focus of which was to concentrate on the production of casings in the Dat-Schaub Group, which was the original focus of production. Moreover, the Dat-Schaub Group was split up, so 'Danish Crown' would own exclusively the production that did not include casings. This was done so that Dat-Schaub a.m.b.a. could concentrate only on the production of casings. 'Tican' kept its shares in Dat-Schaub a.m.b.a.

As a result of the increased focus and specialisation of the production, Dat-Schaub has increased its activities in Sweden and Finland. In January 2002 the production of casings in 'Swedish Meat' was taken over by the Dat-Schaub Group and in Finland the local Dat-Schaub has acquired the enterprise 'Lihan Vienti' that also owns an enterprise in Estonia.

3.0 Motives for the co-operation:

Looking at the motives for the Dat-Schaub Group's acquisition of the production of casings at 'Swedish Meat', it is possible to list a range of different ones. They are centred round the company's main strategy of growth in a wide range of markets throughout the world, but also caused by the developments in 2002 in the Dat-Schaub Group and the more specific focus on the production of casings in Dat-Schaub a.m.b.a.

- 1) The overall strategy of Dat-Schaub a.m.b.a. is to create substantial growth through expansion each year in the relevant markets. By the two acquisitions the ambition was to contribute to financial growth. The aim of financial growth is to create value and capital for the members of the enterprise – the farmers.
- 2) By the acquisition of 'Lihan Veinti' an opportunity was created for further expansion of the production of the enterprise in the Baltic area by including the Estonian market, which could be reached by the Estonian production plant.
- 3) The Dat-Schaub Group has through the acquisitions reached a 'critical size' where it is possible to meet the increasing demands of customers and at the same time the group has a volume of sales that makes it possible to act as an important player in the market for casing products.
- 4) The acquisition was also part of the Dat-Schaub Group's renewed focus and concentration of efforts on the production of casings. In other words, the total production of casings was increased by the acquisition of the production plants in Sweden.
- 5) Finally, the overall strategy for the enterprise – apart from growth – has been to 'get closer to the customers'. By the new acquisitions in Sweden and Finland and the earlier ones brought about in Norway the Danish enterprise has pursued this strategy consistently in the Nordic area – even with opportunities for a further expansion in the Baltic area.

4.0 Problems during the co-operation-process:

Acting on three Nordic markets the Dat-Schaub Group has discovered significant differences in business culture. However, as one of the overall strategies of the enterprise is to be present in the local area, not just in the different national markets, but also in the management, it has not been too difficult to adjust to the different management styles. This does not mean, that the co-operation process has been without obstacles. It has been a central theme for the management in the Dat-Schaub Group to get to know the different cultures, because it is a necessary step in overcoming the cultural barriers. An important thing in this process has been the fact that the Dat-Schaub Group has co-operated with the different enterprises before they acquired them. In other words, the Dat-Schaub Group finds that it is important to know the key persons in the enterprise and the business strategies of the enterprise before seeking any co-operation. Moreover, the Dat-Schaub Group has also experienced – despite different business cultures – that there is a special 'Nordic understanding', which has been helpful in the process of making the co-operation work.

5.0 Support for the co-operation:

On a superior level there has been support in the enterprises with which the Dat-Schaub Group has co-operated, mainly owing to the fact that both parties have seen positive financial perspectives in co-operation. In other words, the interest in the co-operation has been mutual, as both parties have seen financial advantages. Especially, the Dat-Schaub Group has seen the acquisitions as positive and necessary steps in regard to developing and consolidating the enterprise as one of the most important players in the world market as far as casing products are concerned. Again, the most important goal pursued with this strategy is continuously to create more financial value for the producers of casings – the farmers.

6.0 Lessons and recommendations:

- It can be beneficial and necessary to pursue an offensive strategy by acquisitions in one's core markets, if it is the ambition to consolidate oneself as an important player in the market thereby securing the foundation for further growth and positive financial performance.
- Keep the co-ordination of the subsidiaries of the enterprise on an overall level. It makes it easier to benefit from the strengths of the local national enterprises than if a strategy with a centralised management is pursued. In popular – but not outdated – terms: *'In acting global one should stay local'*.
- Before entering into co-operation it is important to have made a serious 'risk evaluation' where the acquiring enterprise evaluates the potential costs they are ready to cover before leaving the co-operation.
- The food industry must acknowledge that its competition is global, and in the continuous process of adapting to this development the Nordic area must be considered one home market. Consequently, it is also important to try to remove the obstacles for further co-operation in the Nordic region. Especially, as regards tax systems and the mobility of the labour force improvements could be obtained.

7.1.9 The acquisition of Svenska Foder AB by the Danish enterprise DLG in 2002

- A case that shows how an acquisition in another national market - of a company with similar products - creates access to a new market and at the same time complements the product portfolio of the acquiring enterprise. Moreover such an acquisition makes it possible to fulfil synergetic effects for the acquiring enterprise.

Facts:

- **DLG is a co-operative society in Denmark with 32,000 farmers as members.**
- **In 2002 DLG had approximately 2200 employees divided on 21 retail departments in Denmark. The turnover of the enterprise in 2003 is estimated at roughly 13.5 billion Danish kroner.**
- **In 2002 Svenska Foder AB had a result before tax of 4.6 million Swedish kroner out of a turnover of 1.8 billion.**

The Danish enterprise 'DLG's acquisition of the Swedish company 'Svenska Foder AB' in 2002

1.0 Facts about the enterprises involved in the co-operation:

DLG: 'Dansk Landbrugs Grovvarereselskab' (Danish Co-operative Farm Supply) is the largest supplier of grain and feeding stuff in Denmark, and it has roughly 32,000 Danish farmers as members as the enterprise is a co-operative society. The enterprise supplies the Danish farmers among others with feeding stuff, fertilisers, crop protection products and seeds. At the same time DLG is the largest enterprise in Denmark buying and exporting grain. Besides these areas of business the DLG Group is also engaged in 'Services and Energy' activities such as the sale of oil, telecommunication and insurance. Finally, the DLG Group is involved in the processing and distribution of consumption products through its Agrova Food. In 2003 DLG had an estimated turnover of roughly 13.5 billion Danish kroner and had around 2,200 employees. The enterprise has 21 retail departments and consequently a very wide distribution network in Denmark.

Svenska Foder AB delivers feed and fertilisers to the farmers in Sweden. The main task of the company is to be a distributor and producer of those products to the middle and southern parts of Sweden. The head office is in Lidköping and the company employs approximately 260 people. In 2002 the company had a turnover of 1.8 billion Swedish kroner, which resulted in a result before taxes of 4.6 million Swedish kroner. Prior to DLG's acquisition the company was owned by KFK 'Korn- og Foderstofkompagniet'. After the acquisition DLG owns 51% of the shares and 'Svenska Lantmännen' owns the remaining 49%.

2.0 The chronology of the co-operation:

The acquisition of Svenska Foder AB in 2002 was the result of thorough considerations on the part of DLG. The point of departure was the acquisition of KFK, and Svenska Foder AB was a subsidiary of KFK. In this deal it became clear that KFK also aimed for a solution that included Svenska Foder AB. DLG accepted those conditions also because DLG saw possibilities in the Swedish company. Moreover, it was a primary concern to find a co-investor that would at the same time accept having no significant influence on the operation of the company. In October 2002 the announcement was made that DLG would acquire the majority of the shares in Svenska Foder AB and in January 2003 the acquisition was a reality, after the proper authorities had approved this.

3.0 Motives for the co-operation:

It is possible to identify three core motives for DLG's acquisition of Svenska Foder AB:

- A) Owing to the fact that Svenska Foder AB is a financially profitable company, among other things because it operates successfully in the areas of compound feeds, sale of seeds and fertilizer and export of grain, DLG anticipates that it will be possible to make a market expansion in those areas.
- B) The product base of DLG is quite broad, and the acquisition of Svenska Foder AB makes it possible to maintain and furthermore complement the variety of products in DLG's portfolio.
- C) DLG sees an opportunity to become more integrated in the international markets that are geographically close to Denmark – Germany, Poland, the Baltic States and also Sweden. In this connection Svenska Foder AB was interesting, primarily because of its location almost as an extension of the Danish market. In this context the acquisition of Svenska Foder AB was a natural part of the continuous internationalisation of DLG.

4.0 Problems during the co-operation process:

In the process of establishing the co-operation with Svenska Foder AB, it has been very important to DLG to explain to the Swedish market that DLG is responsible for the operation of Svenska Foder AB. It has been an important task for DLG to emphasise this point in the Swedish market, and the task has been more extensive than was first anticipated. Secondly, it is common knowledge that in regard to the decision-making process there tend to be differences between Sweden and Denmark. In Sweden it is an aim to obtain consensus before a decision is made, and consequently the process tends to be more time-consuming than in Denmark. In Denmark the main rule is that the decision is made without too long a decision-making process, and then afterwards any necessary adjustments may be made.

These two ways of conducting business must be taken into consideration in the co-operation, a fact that it is necessary to develop an attitude on. The important point is to learn from each other instead of 'pointing fingers' as both styles have strengths and weaknesses. Even though both 'management styles' tend to be a little too caricatured, the differences between Sweden and Denmark with regard to the decision-making process have been a challenge that also DLG has been facing on a general level in its co-operation with Svenska Foder AB. However, it has not been a critical obstacle to the co-operation that has worked satisfactorily.

5.0 Support for the co-operation:

At the time of the acquisition, both enterprises saw a potential in the co-operation, even though the co-operation has to a large extent been a 'forced marriage' for Svenska Foder AB. However, the company saw a potential in the development of new products in the co-operation with DLG. On the other hand DLG saw an opportunity of meeting financial targets that were part of the co-operative's strategy for more active development in the international markets in the neighbouring countries. In addition to

this Svenska Foder AB is a company with a much similar way of thinking, which has made it relatively easy to integrate the company into DLG. Many of the core values and visions are the same in the two enterprises. Moreover, Svenska Foder AB also wished to have a consolidated owner, which can secure a stable development of the company. DLG could provide this.

6.0 Lessons and recommendations:

- Acquisitions of enterprises close to one's own core products can be used to supplement one's portfolio and at the same time make it possible to obtain synergetic effects mainly from rationalisation of production.
- Even though there are differences especially in regard to the decision-making process in different enterprises, advantages are prevalent in the Nordic region, as cultural and geographical 'closeness' makes it easier to integrate enterprises. In other words the similarities are greater than the differences, and constitute a solid foundation for co-operation across borders.
- The increasing internationalisation and integration of local, European and global markets will continue and will create even fiercer competition than at present. Therefore, the external pressure caused by these development tendencies creates a situation where enterprises like DLG must adapt to this pressure. Co-operation across national borders is one way of adapting to these developments.

7.1.10 The Norwegian company Hydro Agri's establishment of subsidiaries in Denmark and Sweden

- How subsidiaries make the parent company more flexible and adaptable to quick responses to business opportunities that can consolidate the parent company's position in its core markets.

— Hydro Agri —

A global plant nutrition company supporting sustainable food production to the world

A niche player in gas and chemicals where we have competitive advantages

Facts:

- **Hydro Agri has sales and market organisations in 60 countries all over the world and has 7,300 employees.**
- **In 2002 the company generated an operating income of 2.2 billion Norwegian kroner out of a turnover of roughly 33 billion.**
- **The Swedish subsidiary has 245 employees and a turnover of 1.3 billion Swedish kroner. In Denmark the subsidiary has 106 employees.**
- **Hydro Agri is the world's leading supplier of mineral fertilisers.**

The Norwegian company 'Hydro Agri's' establishment of subsidiaries in Sweden and Denmark

1.0 Facts about the companies involved in the co-operation:

Hydro Agri is part of the parent company 'Norsk Hydro', which is the leading energy and material company in Norway. The headquarters is placed in Oslo, and the company has roughly 50.000 employees in 60 countries worldwide, which in 2002 generated operating revenues of 163 billion Norwegian kroner. 'Norsk Hydro' has three main areas of business: 1) Oil and energy 2) Aluminium 3) Agri. It is the last of the three business areas that this desk research will pay attention to.

Hydro Agri is the world's leading supplier of mineral fertilisers, a product that nearly half of the world's food production today is dependent on. The company has 6 per cent of the global market shares in this business area and a strong presence in every part of the world. Hydro Agri has sales and marketing organisations in 60 countries. Moreover, the company is made up of 12 market-oriented business units that are rooted in and have the responsibility for their own region. In 2002 Hydro Agri had 7,300 employees and a turnover of 33 billion Norwegian kroner. This generated an operating income of 2.2 billion Norwegian kroner.

Hydro Agri has subsidiaries in Sweden and Denmark. In Sweden the company is 'Hydro Agri AB' and its head office is in Landskrona. The company has a turnover of 1.3 billion Swedish kroner and has 245 employees. 'Hydro Agri Danmark A/S' has two locations in Denmark. One office is placed in Copenhagen and the other one is in Randers. Totally, the company has 106 employees.

2.0 The chronology of the co-operation:

Nothing in the present material reveals the chronology of the establishment of the subsidiaries in Sweden and Denmark. However, it is relevant to mention that Hydro Agri is in the process of being separated from the parent company 'Norsk hydro'. The process began in June 2003 and it is expected that it will be implemented in the first half of 2004 with the listing of Hydro Agri on the Oslo Stock Exchange. 'Norsk Hydro' will in future focus on its two core business areas, oil and energy and aluminium.

3.0 Motives behind the co-operation:

Looking at Hydro Agri's establishment of subsidiaries in Sweden and Denmark, it becomes clear that the motives for this development can be divided into four main categories:

- 1) The company wishes to build a position as a global leader in the selected segments of the industry in which it operates. This also makes it possible to maintain and develop strong market positions.
- 2) Hydro Agri wants to continue its productivity improvements through rationalisations and synergetic effects. This is the basis for continuous financial growth, which is part of the company's overall strategy.
- 3) By establishing subsidiaries in other national markets it is possible for the parent company to remain alert to opportunities for industrial consolidation and thereby flexibility of timing for attractive strategic options.
- 4) By its presence in local markets Hydro Agri can continuously meet the changing demands of the consumers, as the company remains updated on the customers' requirements.

4.0 Problems during the co-operation process:

There is no indication in the existing material of any problems in the co-operation process.

5.0 Support for the co-operation:

The present material does not elaborate on the support for the co-operation.

6.0 Lessons and recommendations:

- Through subsidiaries it is possible to establish a basis for a flexible and adaptable parent company, as it becomes thereby ready for quick responses to business opportunities in the market, which can consolidate the position of the parent company.

7.1.11 The Finnish company Kemira's establishment of subsidiaries in Denmark, Norway and Sweden

- An example of how the establishment of subsidiaries all over the world can be pursued as an overall strategy by the parent company in order to become a globalised market player in its core business areas.

Facts:

- In 2002 the total net sales of the Kemira Group reached a level of 2.6 billion Euros and generated an operating income of 46 million Euros.
- Kemira has three core business areas: Chemicals, Paints and Coatings, Agro Products. The company has approximately 10,300 employees in more than 30 countries all over the world.
- Totally, Kemira has 29 subsidiaries in three Scandinavian countries: Denmark (4), Norway (2), Sweden (23).

The Finnish company 'Kemira's establishment of subsidiaries in Denmark (4), Norway (2) and Sweden (23)

1.0 Facts about the companies involved in the co-operation:

The company was established in 1920 and has since then been going through a significant development. At that time the company had only a little under 200 employees and all the productions plants were placed inside Finland. The two products were sulphuric acid and phosphate. In 2003 Kerima had roughly 10,300 employees divided on more than 30 countries all over the world. More than half of the employees are working outside Finland, and only 18% of the net sales take place inside the country.

Today Kemira is an international chemical industry group that offers services to customers in three main areas of business: chemicals, paints and coatings, and finally agro products. For the Kemira Group as a whole the net sales in 2002 reached a level of 2.6 billion Euros. This generated a total operating income as high as 46 million Euros. Looking at the three business areas, the figures were the following:

- a) *Chemicals*: The net sales were 1,05 billion Euros, which generated an operating income of 75 million Euros. On average 4,254 workers were employed in this sector.
- b) *Paints and Coatings*: The net sales were 450 million Euros, which generated an operating income of 25 million Euros. On average 2,505 workers were employed in this sector.
- c) *Agro products*: The net sales were 1.17 billion Euros, which generated a negative operating income of 34 million Euros. On average 3,041 people were employed in this sector.

As it is beyond the scope of this paper to elaborate on all the subsidiaries that Kemira has established, acquired or merged with since the beginning of the eighties in the Nordic region, only the quantitative facts about the companies in the Nordic countries will be presented here. Totally, Kemira has 29 subsidiaries in the three Scandinavian countries: Denmark, Norway and Sweden. They are distributed as follows:

- a) Four subsidiaries in Denmark, where the first company that was acquired was 'Superfors Gødning A/S' in 1987.
- b) Two subsidiaries in Norway: 'Kemira Chemicals AS' and 'Alcro-Beckers Norge A/S'.
- c) Twenty-three subsidiaries in Sweden, where the first company that was acquired was 'Boliden Kemi AB' in 1989.

2.0 The chronology of the co-operation:

As indicated in the previous section, it has been a deliberate strategy from Kemira to become a globalised market player in new areas through acquisitions of subsidiaries all over the world. Therefore, it was not surprising that in 1987 Kemira began to make its entry on the Scandinavian markets. It was part of a general strategy for an expansion of the company that began already in the sixties. Before moving into Denmark, Norway and Sweden, Kemira had already begun with acquisitions outside Finland in the United Kingdom, the USA, the Netherlands and Belgium. Hence, the acquisitions of subsidiaries in the Nordic region were a natural continuation of this development. The rest of this case will focus on the experiences that Kemira has had in co-operating with the four co-operative societies in Denmark (Dansk Landbrugs Grovvarerelskab), Finland (Hankkija Maatalous Oy), Norway (Felleskjøpet) and Sweden (Svenska Lantmännen).

3.0 Motives for the co-operation:

The motives behind the strategy of continuous expansion of Kemira primarily through acquisitions of subsidiaries in foreign countries can be traced back to the targets of Kemira's business strategy. There are three main points in this strategy:

- a) Kemira wishes to consolidate and strengthen its core businesses through organic growth and acquisitions. The target for the company is to achieve a level of growth per year of 10%. In 2002 the company reached a level of 6%. This target can also be pursued, as the company reaches a considerable size – through for instance acquisitions – where it is possible to improve the research and development of the company.
- b) Kemira wants through continuous development and rationalisation of the entire organisation to improve the productivity of the company. This also happens through acquisitions, where it is possible to create strong synergetic effects. Moreover it can be realised through a change of the organisation for instance – as it happened in 2002 – through the establishment of a joint administration centre.
- c) Kemira also wishes to strengthen its presence in the local markets because it ensures that the company can make its services available to customers. Moreover, it makes it possible for the company to adjust to the demands customers in a quick and flexible manner.

4.0 Problems during the co-operation-process:

In the process of co-operation with the four co-operative societies in the Nordic region, Kemira has experienced significant differences in business culture, between itself and the four important players. Owing to their long history and tradition as co-operative societies the enterprises tend to be somewhat conservative in relation to Kemira and the market altogether. The enterprises are – mainly because of the ownership structure – somewhat reluctant to changes in business concepts and products. It is important to underline that Kemira experiences them as very professional and reliable business partners, something that gives Kemira a very strong partnership, but in regard to innovation of new business concepts Kemira would wish that the partnership were even

stronger. The underlying assumption is that an even more extensive partnership between Kemira and the four co-operative societies could create better products and more value for the owners of the co-operatives – the farmers.

5.0 Support for the co-operation:

The strategy of consolidation and growth through acquisition of subsidiaries in among many other places the Nordic region, has been pursued by Kemira since the early sixties. In most cases support for the many types of co-operation has been present.

6.0 Lessons and recommendations:

- It is possible, if a continuous strategy - based on acquisitions of subsidiaries in other countries – is pursued, to develop and create a global company, which generates growth.
- The co-operative societies should – besides running healthy businesses – try to look more offensively at the possibilities of working more closely together in the Nordic region, as it will be the best way of securing a stabile development in the future.
- It should be emphasised – especially in the agricultural industry and in working with farmers – that the enterprises should *‘act global but stay local’*. An old phrase but with a high level of relevance when the target group is farmers who in their way of acting and thinking are naturally focusing on the local and national level.
- The co-operative societies should try to move beyond their conservative strategy in seeking co-operation and think a bit wider than just creating ‘larger purchasing coalitions’, which is the traditional way to develop. The co-operative societies in the Nordic region have the possibility of becoming ‘first mover’ by looking at the region as one home market. The perspective could be to create better and cheaper deals for the members in the long term.
- Whenever possible the Nordic region should act as ‘one player’ in the EU as it is the most effective way to influence the political system. EU is the political platform from where co-operation must take place.

7.1.12 The acquisition of the Danish company Carnitech A/S by the Icelandic company Marel in 1997

- A case that shows how subsidiaries are often acquired because they can complement the parent company's products and furthermore play an important part in the distribution of the very same products in the company's core markets.

Facts:

- Marel is a relatively young company founded in 1983 in Iceland and is one of the world's leading producers and manufacturers of high-tech processing equipment for the food industry.
- In 2002 Marel employed roughly 792 persons and generated an operating revenue of 104 million Euros.
- The Carnitech Group has an annual turnover of approximately 370 million Danish kroner and has roughly 250 employees.

The Icelandic company 'Marel's acquisitions of a Danish company 'Carnitech A/S' in 1997

1.0 Facts about the companies involved in the co-operation:

Marel was founded in Iceland in 1983. It is a company that is one of world's leading producers and manufacturers of high-tech processing equipment for the food industry. The focus is to serve three industrial sectors: fish, meat and poultry. Marel offers a wide range of weighing units, monitoring equipment, intelligent portioning and grading modules as well as integrated systems that can be used in all major sectors of the food industry. A central target here is to improve the productivity of customers.

In 2002 the operating revenue of Marel reached a level of 104 million Euros, which was an increase of 7% as compared with the year before. However, the operating income resulted in a net profit of only 50,000 Euros. This was a significant decrease from the previous year's net profit of 2,1 million Euros. A large part of the explanation lies in the recession and general uncertainty that have characterised the global economy in the preceding year. Marel employed an average of 792 persons in 2002, and roughly 500 of these were employed in the company's subsidiaries.

In 1997 Marel bought the Danish company Carnitech A/S and turned it into a subsidiary in the Marel Group. The company is a leading supplier of processing equipment for the food industry, primarily within the areas of seafood and meat processing technology. The company has roughly 250 employees and is placed in Støvring in the northern part of Denmark. The company has subsidiaries in Norway and the USA and more than 70% of its turnover comes from exports. The Carnitech Group has an annual turnover of approximately 370 million Danish kroner.

2.0 The chronology of the co-operation:

The chronology of the co-operation between Marel and Carnitech is not described in detail in the material available for the desk research. In spite of that, it is possible to conclude from the presentation of Marel's history that the company has in its relatively brief lifetime seen the acquisition and establishment of subsidiaries as a necessary and natural part of its development. It has been important to Marel to be present in its core markets.

3.0 Motives for the co-operation:

There are four parts of Marel's overall strategy – when looking at the company's development and financial success - that can be used to explain the reasoning behind the acquisition of Carnitech A/S. They are the following:

- A) Marel wishes to be able to continuously and systematically develop new products and improve these by innovations made in the parent company or in the subsidiaries. In addition to this, it was possible to complement the company's production with the area of meat (beside poultry and fish) that was to be found in the Danish company
- B) For a company like Marel with markets all over the world it is of great importance to have a wide and stable distribution system that can guarantee deliveries in the core markets. At the same time this presence in the core markets also secures a nearby and continuous service as far as it is necessary.
- C) Marel wants to have strong position in all the main fishing and processing markets, because it enables the company to meet the demands from the food processing industry through flexible adaptation.
- D) It is important to Marel – besides developing new products – to have a wide range of products that meet the demands of customers. This can be secured by subsidiaries – such as Carnitech A/S – that can complement the products of the parent company, rather than overlapping them.
- E) By acquiring Carnitech A/S, Marel had an opportunity to expand on the manufacturing side outside Iceland where the manufacturing capabilities are not particularly good. This also creates opportunities for taking on larger projects than earlier.

4.0 Problems during the co-operation-process:

Owing to the very different backgrounds and histories of the companies, it has proven to be more difficult to co-operate than first anticipated. On an overall level the co-operation is a success, but the cultural differences between the two companies often become visible when they are working together on common projects. As the two companies operate as separate units in the day-to-day business, their co-operation is mainly focused on projects and development of projects. When working together it is clear that Marel is a company with a background in the university world, whereas Carnitech A/S is a much more traditional company 'built from the ground'. This gives some difficulties in dealing with common projects, but on the other hand it is also an advantage in some areas, as it is possible for the two companies to complement each other on competence. It is possible for the companies to learn from each other, but it is necessary to acknowledge that the different backgrounds will result in 'clashes' when working together on common projects. Having realised and accepted the different cultural backgrounds – which will take time – it is still possible to achieve synergetic effects in the co-operation.

5.0 Support for the co-operation:

As Marel has regarded local presence in core markets as an important part of the company's strategy since the beginning twenty years ago, the acquisition of Carnitech A/S was a natural step in Marel's development. Being an important player in its core markets and continuously developing new products is crucial for Marel's financial performance. Therefore, the co-operation with Carnitech A/S was supported in Marel's organisation and has also proven to be a success.

6.0 Lessons and recommendations:

- Subsidiaries can be a way of complementing the range of products available in the parent company, and they can play an important part in the distribution of and services provided for the products in the company's core markets.
- It is beneficial if the acquired company is well established, because it makes it much easier to achieve positive financial results both in the short and the long term. Moreover, it is in the same context very important that the management of the acquired company is ready for the co-operation, as they are necessary in the process of dealing with the changes that will occur.
- In order to be able to compete in a still more international and open market, companies in the Nordic region must realise that it is necessary to make the production even more effective. Otherwise the production will be moved to other countries where the costs of labour are much lower.
- In the area of research and development it would be very beneficial to look beyond national borders as it can be very difficult to raise the necessary capital for projects if it is only possible to seek national funds. Therefore, an important area to look into is the area of how to get common Nordic projects financed with capital coming perhaps from more than just one national fund.

7.1.13 Acquisitions of Scandinavian companies during the period 1992 to 2000
by the Norwegian company Orkla.

- Acquisitions that show how companies can aim to fulfil their vision of continuous growth by acquiring companies in other countries with very strong brands in their national markets, as this enables them to develop their business activities in the core areas of the companies.

Facts:

- Orkla's core businesses are branded consumer goods, chemicals and financial investments. The company has 32,000 employees.
- In 2002 Orkla had a turnover of 43 billion Norwegian kroner, which generated an operating profit of 3.7 billion.
- During the last ten years Orkla has produced an average yield of 13.7% for the company's shareholders.

The Norwegian company 'Orkla's acquisition of Scandinavian companies in the period from 1992 until 2000⁷

1.0 Facts about the companies involved in the co-operation:

The 'modern' Orkla with the Nordic region as its home market and an incipient globalisation strategy can be traced back to the beginning of the nineties. Here Orkla started to consolidate its position in the Nordic region as one of the largest companies in Norway. Orkla's core businesses are branded consumer goods, chemicals and financial investments. Orkla is the leading supplier of branded consumer goods to the Nordic grocery markets.

In 2002 the turnover was 43 billion Norwegian kroner and this generated an operating profit of 3.7 billion Norwegian kroner. 29% of the turnover was produced in Norway, 34% in the rest of Scandinavian and the remaining 37% in the rest of the world. The same year Orkla employed 32,000 people. For the shareholders Orkla has been able to produce an average of 13,7% yield in the last ten years during which period the company has established itself in the Nordic region and has started to establish itself in the world market through the co-operation with Carlsberg.

- A) In 1992 Orkla acquired an interest in 'Göteborgs Kex'. This acquisition took place in 1994, when Orkla bought the rest of 'Göteborgs Kex' and thereby also 'Kantalon' in Finland. The company employs 600 people and plays a leading role in the Nordic market for biscuits. In Sweden the company has 50% of the market. As 'Göteborgs Kex' became a part of the Orkla Group the company took over the production from the Finnish company 'Kantalon' and the Norwegian company 'Saetre'. 'Göteborgs Kex' produces roughly 110 tons of biscuits a day.
- B) In 1995 Orkla took over the Swedish company 'Procordia Food AB' and with this also 'Abba Seafood'. 'Procordia Food AB' is one of the leading producers and marketers of food products in Sweden. The company's turnover is 3.3 billion Swedish kroner and it has 1,800 employees. 'Abba Seafood' had in 2001 a turnover of 1.9 billion Norwegian kroner and employed roughly 1,900 people.
- C) In 1997 the Swedish company 'Pripps Ringnes' was acquired by Orkla and became a subsidiary of the Orkla Group. The company is the market leader for beer, mineral water and carbonated soft drinks in Sweden and Norway. In 1996 'Pripps Ringnes' had operating revenues of 7.5 billion Swedish kroner, which generated an operating profit of 711 million Swedish kroner.
- D) In 2000 Orkla acquired 'Det Berlingske Officin' in Denmark, which is the largest newspaper house in Denmark. Its main activities are in the field of printed media and the Internet. In 1999 'Det Berlingske Officin' had a turnover of 2.9 billion Danish kroner and an operating profit of 95 million Danish kroner. The company had roughly 3,700 employees.

⁷ Orkla's co-operation with Carlsberg A/S concerning the establishment of Carlsberg Breweries in 2000 is not included here as it is treated as a separate case elsewhere in the report.

The same year Orkla also joined forces with the Finnish 'Group Chips Abp' and created one of the largest snacks companies in the Nordic region. Orkla's share in this company is 40%. The new company – Scandinavian Snack Company – consists of 'KiMs Danmark', 'KiMs Norge' and 'OLW Snacks' from Sweden. It is expected that it will have a turnover of approximately 1.1 billion Swedish kroner and an operating profit of approximately 150 million Swedish kroner. The new company will have 550 employees – this co-operation will be explored more thoroughly in a separate desk research (Chips Koncernen).

2.0 The chronology of the co-operation:

In 1986 Orkla merged with 'Borregaard' and this resulted in the three core business areas: branded consumer goods, chemicals and financial investments. Here the transformation of Orkla into a modern industrial company began, and Orkla's business structure - which still exists today – was established. This development continued in the nineties - as described in the previous section – where Orkla established and consolidated its leading role in the Nordic market. The Nordic region became Orkla's home-market. Then – as described in another desk research (Carlsberg Breweries) – in the year 2000 it began its journey into the global markets with a brand that is known worldwide.

3.0 Motives for the co-operation:

On an overall level Orkla has a vision that basically focuses on continuous growth, which in return should create financial benefits for the shareholders and the employees and economic benefits for the societies in which Orkla operates. In other words Orkla has to grow faster and be more profitable than its competitors. The consolidation of the company throughout the nineties in the Nordic region is part of the process of realising the vision. The main motives for the long list of acquisitions can be boiled down to six categories that should all contribute to fulfilling Orkla's vision:

- 1) Orkla wishes to bring about substantial growth on a year-to-year basis. The basis for this development is created through 'organic growth' and acquisitions.
- 2) Orkla wants to maintain a positive financial development in its core market areas and in order to do this it is necessary to obtain brands that are specialised and differentiated. The idea is that these products will get the customers loyalty and preference in the long run.
- 3) Orkla wishes to be an international company with known brands in all of its core markets. In order to meet this target it was necessary first to establish the company as a leading player in the Nordic markets.
- 4) By establishing Orkla as a major player in the Nordic region, the company has created positions in different national markets, which later can be the basis for obtaining further business possibilities in those markets. In other words, local presence is of great importance.
- 5) By continuously maintaining and developing Orkla's many different products in their core markets it is possible for the company to have a broad base of products,

which in return generates a basis for further growth. It is possible to direct capital to the areas that prove most profitable at a given point in time.

- 6) Finally, with the deliberate strategy of expansion, it is possible for Orkla to generate synergetic effects in the areas, where the company's products are traditionally strong brands.

4.0 Problems during the co-operation processes:

Nothing in the present material indicates problems in the co-operation processes.

5.0 Support for the co-operation:

Orkla has financial growth as its main vision. Therefore, the acquisitions in the nineties can be seen as a natural fulfilment of this strategy and, it must be expected that the Orkla organisation supported the strategy.

6.0 Lessons and recommendations:

- In order to maintain substantial financial growth it can be advantageous to spread one's acquisitions on a number of different core markets and on products that from the beginning are positioned as 'strong brands' in their national markets.
- It may be suitable for a company aiming to become a leading market player to pursue a business concept that focuses on a wide range of products. This secures a potential for growth with regard to different products and makes it possible continuously to place the company's capital, where it is financially most advantageous.

7.1.14 The splitting up of the common Nordic organisation 'Sagafurs of Scandinavia'

- An example that shows why a co-operative society can be split up as one of the members finds that the co-operation involves too many constraints and organisational barriers, which consequently makes it too difficult for the organisation to develop its business – 'when it is no longer possible to increase the financial value for the members'.

Facts:

- The co-operative society has an earning before tax of 617,665 Danish kroner and employs 17 people.
- Sagafurs of Scandinavia is a joint marketing organisation with the aim of branding Saga Mink and Saga Fox skins for the Nordic auction houses.
- The four Nordic fur breeders associations in Denmark, Finland, Norway and Sweden own the co-operative society.

The splitting up of the common Nordic organisation 'Sagafurs of Scandinavia'

1.0 Facts about the enterprises involved in the separation:

In 1954 the Nordic breeders of fur decided to form a common sales and marketing platform, which resulted in the establishment of three Nordic auction houses in Copenhagen, Oslo and Helsinki.

Consequently, Sagafurs of Scandinavia was established as a co-operative society owned by the four Nordic fur farmers associations in Denmark, Norway, Sweden and Finland. The co-operative society had an EBIT (Earnings-before-interest-and-taxes) of 617,665 Danish kroner and employed 17 people. Sagafurs of Scandinavia is a joint marketing organisation responsible for the PR and branding of SAGA Mink and SAGA Fox skins sold at these auctions houses. The two brands SAGA Mink and SAGA Fox have a worldwide market share of 66% for farmed mink and 80% for fox.

2.0 The chronology of the separation:

Since the establishment in 1954 Sagafurs has not accomplished any acquisitions. The latest development in the history of Sagafurs is the planned separation of the Danish Fur Breeders Association from the organisation by 2005.

3.0 Motives for the separation:

The reasoning behind the wish to opt out of the co-operative society is - according to members of the board directors of the Danish Fur Breeders Association - that the rules for marketing of the joint SAGA brand involves too many constraints. This creates barriers for the further development of their business for instance in relation to the creation of new products and new initiatives in marketing. Moreover, the organisational structure is outdated. They argue that by a spin off, the Danish Fur Breeders Association will be better enabled to develop and realise new business ideas in a more modern way than within the joint marketing organisation of Sagafurs. This is necessary in order to fulfil the most important job for the Danish Fur Breeders Association, which is continuously to create profit and generate financial growth for its members. In brief, what has happened is that the four partners that in the beginning were equal financially now have 'grown apart'. As the markets have developed in the last fifty years the Danish Fur Breeders Association has become by far the largest player in the market for furs in the Nordic region and in the world. Therefore the association will not accept business-constraints imposed by an agreement that was last updated twenty years ago, and by players that are much smaller than their Danish partner.

The Danish Fur Breeders Association acknowledges that Sagafurs of Scandinavia generally performs well and has contributed to developing the international fur industry especially in relation to marketing and promotion of furs from the four Nordic countries. Especially, the common design centre in Vedbæk (Denmark) has been a success, where it has been possible to promote Nordic furs in the whole world. Moreover, the initial aim of 'matching' the American fur market has also been accomplished. Nevertheless, the association believes that the time has come for a modernisation of the business processes and marketing. Such a modernisation cannot be undertaken within the present framework of Sagafurs as a joint marketing organisation.

Negotiations have been conducted concerning a potential modernisation of Sagafurs but without an agreement having been reached among the participating Nordic fur breeders associations. As the Danish Fur Breeders Association has become the 'strongest' player in the market for furs and consequently perhaps has a more open and offensive view of the business strategy that should be pursued in Sagafurs of Scandinavia than its partners, the present framework is too constraining. Different business sizes and 'views on the market' among the four associations are the main reasons for this development. The point is, that there is not necessarily a 'right' or 'wrong' business strategy, but different strategies for different companies. Consequently, an agreement made when the four partners were equal must be changed in order to adapt to the present situation in the market for furs.

4.0 Problems during the separation-process:

Owing to covenants stating a two-year period of transition in the case of termination of the contract the spin-off of The Danish Fur Breeders Association will not be completed until 2005. The Board of directors has committed their loyalty to Sagafurs within this period of transition. Whether the loyalty to the work of Sagafurs will be maintained or dwindle due to problems of incentive during the transition period is unknown.

5.0 Support for the separation:

The split-up is taking place because of disagreements between the Nordic Fur Breeders Associations and the Danish fur industry that suggests a fundamental reform of the Sagafurs organisation. Especially the Finnish fur industry disagreed with the Danish proposals for a reform, but neither the Swedish industry nor the Norwegian industry would accept all of the proposed restructuring. On this basis, the split-up appeared to be inevitable.

6.0 Lessons and recommendations:

- When working together in a co-operative it can be difficult to maintain the necessary growth and progress in the continuous development of the organisation, as different and contrasting interests must find a basis for common solutions. If the partners are no longer even, it is difficult to maintain successful co-operation.
- In seeking co-operation across borders it is very important that the partners in the different co-operatives societies have the same perception of the goals and aims of the co-operation, as this common 'perception of the world' is necessary if the co-operation is to become a success.
- In order to have successful co-operation across national borders it is necessary to acknowledge that there can be only one catalyst for this, and that must be the demands from the market and nothing else.
- There are cultural differences between the four Nordic co-operative societies and it is very important to acknowledge this before seeking any cross-border co-operation. This does not eliminate the possibility of being international, but the internationalisation process should be of such a nature that the ownership of co-operative societies remains national.

7.1.15 The merger between Danagro A/S and SwedeAgri AB in 2001

- A merger between companies that saw mutual advantages in working together, as the pooling of financial resources would make the new company more competitive and secure a more effective use of these.

Facts:

- The Scanagri Group A/S had a turnover in 2002 of 17. 3 million Euros and had 60 employees.
- The company's primary business area is development consulting in the agricultural industry and 98% of the production is exported.
- There are three enterprises behind the Scanagri Group A/S: Agroinvest A/S, Lantbrukarnas Rigsförbund (LRF) and Svenska lantmännen (SLR).

The merger between Danagro A/S and SwedeAgri AB in 2001 – the creation of the Scanagri Group A/S

1.0 Facts about the companies involved in the co-operation:

In 2001 the Danish company Danagro A/S and the Swedish company Swedeagri AB decided to merge and thereby establish the new company: The Scanagri Group A/S. Both companies work in the area of development consulting in the agricultural and provisions industry. Their main purpose is to develop and implement projects in the two areas just mentioned and furthermore to provide support as consultants for projects financed by public means in the developing countries primarily in Asia and Africa, but also in Eastern Europe and South America. The Scanagri Group A/S has specialised in professional support in areas such as rural livelihood, the environment, food production and natural resources. First and foremost the clients have been development agencies, but in the recent years the private sector has become still more important. Among some of the clients are 'The European Commission', 'The World Bank', but also foreign ministries in different countries.

In 2002 the turnover of The Scanagri Group A/S reached a level of approximately 17.3 million Euros including the production from the external consultants and the company employed 60 persons. Almost all of the production of The Scanagri Group A/S is exported. In 2002 the export amounted to 98 % of the production and the markets were mainly located in Asia, Africa and Eastern Europe. The headquarters of The Scanagri Group A/S is located in Denmark, but other units of the company work as legally independent units in their three respective countries. These units are SwedeAgri AB in Sweden, Scanagri Finland OY in Finland and ABC Poland in Poland.

2.0 The chronology of the co-operation:

Prior to the merger the company was owned by two Danish companies, each of which possessed 50% of the shares. The companies involved were Agroinvest A/S and Carl Bro A/S. In 2000 Carl Bro A/S wished to leave this particular area of business and therefore sold its share to two Swedish agricultural organisations – the LRF (Lantbrukarnas Riksförbund) and the SLR (Svenska Lantmännen). With the merger a parent company – that works as a holding company - (the Scanagri Group A/S) was established in 2001 in Denmark with subsidiaries in Denmark, Finland, Poland and Sweden (see above). Three enterprises own the Scanagri Group A/S; Agroinvest A/S has 50%, LRF has 25% and SLR has 25%.

3.0 Motives for the co-operation:

Four 'core motives' for the establishment of the Scanagri Group A/S can be identified:

- 1) The ambition and strategic aim with the merger and consequently the creation of The Scanagri Group A/S was to improve the financial performance by a more effective use of resources across national borders. More specifically the idea was to take resources from a Danish context and use them on Swedish sponsors.
- 2) The new company wished to become more competitive in the market by a pooling of financial resources. In other words be able to present a more competitive product to a wider range of customers.
- 3) The idea was also to create a foundation for Nordic co-operation where the national and geographical boundaries were eliminated. This should result in a more effective company, which instead should be structured and divided according to business areas.
- 4) Finally, it was also the aim of the new company to create a joint administration, which in return could prove to be more efficient in financial terms. In other words, make rationalisations on the administrative side of the company.

4.0 Problems during the co-operation-process:

In this context it is important to underline that the co-operation is working well, but there have been obstacles throughout the co-operation process. Firstly, the process has been longer than anticipated from the beginning. The four independent companies have been through a process of learning to look at the projects at a more general level, taking the interests of all companies into consideration. Secondly, it has proved difficult not to establish the structures before the project has been consolidated, which means that it should be the market that determines which sort of co-operation is needed on the specific project. It must not be the other way around, as it increases the costs too much. As a third thing the co-operation process has revealed that the styles of management differ in Denmark, Finland and Sweden. One should not underestimate the significance of these differences.

5.0 Support for the co-operation:

Both the Danish company and the Swedish company saw mutual advantages in a common Nordic company with a Nordic profile and with strong partners and a high level credibility. The merger was seen as an opportunity to become a more competitive 'player' in the market. In other words, the 'joining of forces' across the national borders was seen as the natural and wisest step from a business point of view in order to secure a solid financial performance in the future.

6.0 Lessons and recommendations:

- In order to create a financially successful company, it can be beneficial to establish a pooling of financial resources in order to be a more competitive player in the market and moreover secure more effective use of capital.
- Moreover, the joint forces also mean that it is possible to benefit more from the employees as they can use their core qualifications across borders on different projects.
- It is important to recognise that it is the market that must be the 'catalyst' for the co-operation and nothing else. The business foundation has to be established, before it is possible to establish solid and financially successful co-operation.
- If it were possible to strike the golden mean between the Swedish, the Danish and Finnish way of conducting business a lot would be accomplished. Each company has the perfect style, but if they could be 'merged' by combining best practice, it would be a strong style of management.
- There is a potential for a strong Nordic player in the area for development consulting, if the companies understand to explore each other's key competencies, where for instance the Swedish integrated 'Agro-Industrial' project concept is combined with the Danish equipment suppliers perhaps in one integrated 'project deal'. If it is possible to establish some sort of proper forum where these complementary qualifications could 'meet' it would be beneficial.
- Finally, more active support from the political system, especially with regard to raising the necessary capital is desirable on concrete projects, as the competition is getting tougher.

7.1.16 The establishment of Christiansen Partner A/S in Norway as a subsidiary of the Icelandic SIF Group in 1996

- The establishment of a subsidiary with the purpose of strengthening the parent company's core business and moreover securing the basis for continuous growth and development in the entire organisation.

Facts:

- The SIF Group is one of the leading companies in Iceland when it comes to the sale and marketing of seafood products on an international level.
- The operating revenue of the company in 2002 was 714 million Euros, which generated a net income of approximately 4.6 million Euros.
- Christiansen Partner AS operates from Norway buying and selling fish – primarily salmon and trout. The company has only four employees, and its main markets are the EU, Asia Canada, South America and the Caribbean.

The Icelandic 'SIF Group's establishment of a Norwegian subsidiary 'Christiansen Partner AS' in 1996

1.0 Facts about the companies involved in the co-operation:

The SIF Group is a leading Icelandic company in the sale and marketing of seafood internationally. The company purchases seafood for resale and further production in processing plants located in different countries. In these production plants seafood products are produced for sale in the retail industry, to restaurants and to catering services. The company has four core market areas besides Iceland, viz. France, Spain, Great Britain and the United States. The SIF Group employs around 1,600 people and had in 2002 operating revenues of 714 million Euros. This generated a net income for the year of roughly 4.6 million Euros.

In 1996 the SIF Group established a subsidiary in Norway. The company is called 'Christiansen Partner AS'. The company has four employees, and is buying and selling fish, primarily salmon and trout. Its main markets are the EU, Asia, Canada, South America and the Caribbean.

2.0 The chronology of the co-operation:

In the existing material there is no description of the chronology of the establishment of Christiansen Partner AS except that the setting up of the company took place in 1996.

3.0 Motives for the co-operation:

There are three main reasons for the creation of the subsidiary Christiansen Partner AS in 1996, when the SIF Group's overall strategy is analysed:

- 1) The company wishes to secure sufficient financial strength, which makes it possible for the company to establish a basis for growth and development.
- 2) By investing in local markets in different countries, it is possible for the SIF Group to strengthen its core business and generate sale and marketing in these markets.
- 3) By building up a strong market position in different markets it is possible for the SIF Group to make viable deals with for instance the retail industry and at the same time meet the demands made on the company by key markets.

4.0 Problems during the co-operation-process:

On the homepage of the SIF Group, the President and CEO of the company, Gunnar Örn Kristjánsson, finds it necessary and beneficial to highlight and review the strategy and vision of the SIF Group. The background is that the SIF Group has grown substantially during the past few years. This has implied many changes for the company as a whole. Consequently, the CEO finds it necessary to repeat the company's policies in order to ensure that the management and employees are kept in step regarding the future development of the company. Moreover, what is intended with the repetition is to secure the development of a corporate culture that can meet the challenges that the

future will bring. He emphasises the necessity of doing this as a team in the whole SIF Group.

This indicates that the SIF group has experienced growth, which has given the company a number of problems. The SIF group has reached a size where it can be difficult to ensure that all of the company's divisions are aiming for a common target. The subsidiaries have different products and markets, and in addition this, they are all to some extent based on different corporate cultures. The CEO's emphasis on the development of a common corporate culture could indicate that there have been problems in the process of establishing subsidiaries in different countries.

5.0 Support for the co-operation:

Nothing in the existing material deals with this question. However, as the SIF group has decided to set up subsidiaries all over the world without any external interference it seems logical to assume that these measures have been supported by the SIF Group.

6.0 Lessons and recommendations:

- When a company experiences substantial growth created, among other things, by the establishment of subsidiaries, it is necessary for the management to ensure throughout the entire process that the corporate culture is 'in step'. This makes it possible to meet the same targets and objectives in the entire company, which is crucial for the company's financial performance.

7.1.17 The acquisition of the Danish company Danpo A/S by the Swedish company Spira AB in 1995

- An illustration of how the acquisition of companies with strong brands in other national markets than one's home market is used to adjust the acquiring company to significant changes in its economic environment.

Facts:

- Spira AB is one of the largest companies in Scandinavia to supply stores, catering services and fast-food outlets with poultry and delicatessen meat.
- In 2000 the Spira Group had a turnover of 4.2 billion Swedish kroner and had approximately 3,000 employees.
- Danpo A/S is a chicken slaughterhouse in Denmark with five production plants, 1,000 employees and a turnover of 1.5 billion Danish kroner.

The Swedish company 'Spira AB's acquisition of the Danish company 'Danpo A/S' in 1995⁸

1.0 Facts about the companies involved in the co-operation:

Spira AB is a Swedish food company that is one of the largest suppliers of poultry meat, delicatessen meats and convenience foods to stores, catering services and fast food outlets in Scandinavia. Some of the company's most important brands are Kronfågel, Danpo and Chicky World. Kronfågel is the market leader for chicken products in Sweden. Spira AB accounts for 38 million slaughtered chickens in Sweden each year and 70 chicken farmers supply the company with chickens. The owners of Spira AB are the federation of Swedish farmers (LRF) with 69% of the shares. The Swedish farmers' supply and crop marketing association (Svenska Lantmännen) owns 10% of the shares and Nordico invest possesses the last 21% of the shares.

In 2000 the Spira Group had a turnover of 4.2 billion Swedish kroner and had roughly 3,000 employees. Out of the turnover roughly 55% come from the sale of poultry meat. A relatively small part of the company's sales are generated outside Scandinavia. In 2000 it reached a level of roughly 12%. 73% of the sales were made in Sweden, and in Denmark the sales were 15%. The remaining part – less than 1% - of Spira AB's sales were made in Finland.

Danpo A/S was established in 1971. The company slaughters 62 million chickens a year of which 51% is exported. There are 135 chicken farmers that supply chickens to the company. The company's turnover is 1.5 billion Danish kroner and the company employs 1,000 workers. Danpo A/S has five production sites in Denmark.

2.0 The chronology of the co-operation:

Before the acquisition of Danpo A/S, Spira AB had experienced some changes, which led up to the 'take over' of the Danish company in 1995. The changes occurred in two main areas. Firstly, Sweden joined the EU in 1995, which meant that the competition increased significantly in the market for food in Sweden. This meant that the Swedish food market became more 'crowded', as a result of an increasing import and new foreign companies competing in the Swedish market. Secondly, the European market for meat and poultry is subject to rapid change. The most prominent change is that the consumption of meat is decreasing and the demand for poultry meat and different fresh, cold and refined cuts of chicken has been increasing. Both these developments in the middle of the nineties contributed to Spira AB's acquisition of Danpo A/S in 1995.

⁸ In 1995 it was the Swedish company Scandinavian Poultry AB that bought Danpo A/S. However, as at the time of the acquisition Scandinavian Poultry AB was owned by Spira AB, it makes sense to focus on Spira AB's acquisition of Danpo A/S. Moreover, the name Scandinavian Poultry was in 1999 omitted and abolished. Spira AB became the actual owner of Danpo A/S. Also because of this the headline is Spira AB's acquisition of Danpo A/S.

3.0 The motives for the co-operation:

The motive for Spira to engage in an acquisition of Danpo A/S can be divided into five main categories:

- A) Spira AB wishes to be a complete supplier of poultry meat in order to maintain a strong position in the Scandinavian market.
- B) Spira AB wants to be present in the local market in order to be able to adapt quickly to consumers' consumption patterns.
- C) Spira AB has the ambition to have a market-leading position in the market for cold ready-made food and cold chicken, as it is an important base for future financial growth. This can be obtained by acquiring strong national brands.
- D) Danpo A/S was an interesting co-operator for Spira AB, because the Danish company had for many years been competing in an international market, mainly through export. Consequently, the company could make it easier for Spira AB to make the transition from being a national company operating in a protected home market into being an international player.
- E) In regard to developing new products and market them Spira AB also saw possibilities of joint investments with Danpo A/S, thereby creating synergetic effects.

4.0 Problems during the co-operation-process:

On an overall level the co-operation process went off well and the two companies have undergone a positive development. Particularly the companies' capabilities of reacting to market demands have increased. Furthermore especially Spira AB has learned from the Danish experiences in the markets for export. However this does not mean that the co-operation between Spira AB and Danpo A/S is without obstacles. In the annual rapport from 2000 the board of directors of Spira AB acknowledges that the changes the company has undergone in the previous years have not been without problems. Many employees have experienced that the work they have put effort into has been obstructed by the structural changes that Spira AB has been forced to implement.

Besides difficulties in implementing structural changes, it has also been important to adjust the production of chicken of the two countries to each other as the Danish farmers can produce their chickens at a lower price than in Sweden. Consequently, it has been difficult for Spira AB – as the company has been exposed to serious competition from other Danish chicken companies on the Swedish market – to accept that products from Danpo A/S are imported to the Swedish market.

Finally, the two companies have discovered that the two countries have different management styles. Neither of the two systems is superior, but they are different. It is important to deal with this fact in the day-to-day operations in order to co-operate successfully. The Swedish management is seeking consensus before a decision is made, in order to make the implementation easier. In Denmark the decision making process is much more top-down than in Sweden. This provides a higher level of adaptability to the market conditions, but also increases the risk of having to make adjustments afterwards.

In Spira AB and Danpo A/S the management has realised these differences and is continuously trying to make adaptations by trying to 'merge' the two cultures.

5.0 Support for the co-operation:

As implied in the previous section the support for the co-operation was not unambiguous, but in spite of this Spira AB made the necessary adjustments. Moreover, the company saw a great potential in the Danish company in regard to being able to act as a player in an open and competitive market. Danpo A/S supported the co-operation as the Danish company's CEO had great expectations as regards the Swedish company's expertise in fighting salmonella.

6.0 Lessons and recommendations:

- In order for a company to adjust to significant changes in the economic environment in its core markets, it may be beneficial to acquire strong brands and companies in other national markets.
- It is very important to acknowledge that there are large differences between the Nordic countries and they are often more profound than companies anticipate prior to establishing co-operation. These differences need to be taken into consideration if the co-operation is to become a financial success. Companies need to understand each other's culture and respect it as this is very important for being able to understand the reasoning behind decisions made in different companies.
- Bearing in mind that the Nordic countries are characterised by different cultures, it is also important to underline that the Nordic region has many similarities and compared with co-operating with the rest of Europe it is perhaps easier among the Nordic countries. In other words, the Nordic region could serve as a strong basis for competing in the international market.

7.1.18 The establishment of the trading co-operation SweDaNo Trade A/S in 2001

- A case that shows the possibility of seeking trading alliances across national borders in order to become a strong player that can match the concentration on the producers' side. The aim of this is to achieve the best quality possible at the most competitive price.

Facts:

- The trading alliance consists of enterprises from three Nordic countries, which look after the interests of roughly 137,000 farmers in Denmark, Norway and Sweden.
- SweDaNo is a trading alliance with the task of getting the best quality at the best price, when it comes to products for agricultural purposes.

The establishment of the trading co-operation SweDaNo Trade A/S in 2001

1.0 Facts about the enterprises involved in the co-operation:

Four Nordic enterprises participate in the setting up of SweDaNo. They come from three different countries in Scandinavia. The countries are Denmark, Norway and Sweden and the four enterprises are:

- 1) The Danish DLG: 'Dansk Landbrugs Grovvarereselskab' (Danish Co-operative Farm Supply), which has 32,000 Danish farmers as members. The most important task for DLG is to provide the Danish farmers with the necessary materials for the daily production for instance feed, seed corn and fertiliser. The enterprise has approximately 2,000 employees, and the turnover was in 2001 approximately 16.5 billion Danish kroner. DLG possesses 28 % of the shares in the company.
- 2) Agro Denmark is another Danish enterprise involved in the co-operation. It owns 8 % of the shares and is only just established as a trading enterprise for enterprises selling seeds and fertilisers.
- 3) The Swedish SvL: 'Svenska Lantmännen', which is among Sweden's largest enterprises in the agricultural industry with 48,000 farmers and a turnover of approximately 25 billion Swedish kroner. One of the main tasks is to provide the farmers with seed corn and fertilisers for the grain production.
- 4) The Norwegian NFK: 'Norske Felleskjøp' that provides the same services to the Norwegian farmers as those mentioned above under the similar Danish and Swedish enterprises. NFK had a turnover in 2002 of approximately 7 billion Norwegian kroner and provided services to roughly 57,000 members.

The co-operation was created as a trading group that would buy materials relevant for farmers' production – for instance foil and plastic for agricultural purposes.

The co-operation consists of a trading group whose main activities are placed in Copenhagen. In the trading group there are two Swedish members, two members from Norway and one from Denmark. The main task of the trading group is to examine the market possibilities in regard to secondary products used in the agricultural production when the trading group has received information on the demands for different products from its members. The most important aim of the group is to obtain the best products at the lowest possible price.

2.0 The chronology of the co-operation:

The basis for the co-operation was created already back in 1996 when the agricultural organisations from Sweden and Denmark created SweDane Fertilizer. In 1997 another company SweDane Crop Protection was established. Both of these companies were trading companies and the experiences gained from the co-operation in these companies were very positive. Consequently, the agricultural organisations in Sweden and Denmark wished to extend their co-operation, as they experienced that joint forces in the market for agricultural product created financial benefits for both enterprises and most importantly for the members – the farmers. Therefore, SweDane Trade was established in 2000. One year later in 2001, the Norwegian agricultural organisation

joined the co-operation, because it wished to be part of a successful trading company already established in the Nordic region. SweDaNo Trade A/S was a reality. This trading company has a wider product focus than the first companies established in 1996 and 1997. Basically, the company trades in all secondary products used in the agricultural production and not just fertilizers or crop protection products. Secondly, the company has also expanded its possibilities in the market for agricultural products, as the membership base has become much larger with members in Sweden, Norway and Denmark. This gives the new trading company more 'power' when operating in the market for agricultural products.

3.0 Motives for the co-operation:

There are three main reasons for the enterprises to engage in the co-operation:

- a) It is an objective to be able to co-ordinate the purchase of materials relevant for the enterprises and thereby secure that the best deals are reached, which in return should prove beneficial for the farmers primarily by securing a better quality at a lower price.
- b) By pooling the demands from farmers in three countries it is possible to reach a much higher quantity of the specific product which in return makes it easier to secure a more competitive price – again in the end an advantage for the farmers. SweDaNo Trade A/S is simply a much more powerful agent in the market for agricultural products than if the three countries operated on their own.
- c) When working together it is possible to make rationalisations on the administrative side of the co-operation, as some functions – previously performed in three separate units – are now only required in one common company.

4.0 Problems during the co-operation-process:

In regard to joining forces across national borders in three different countries, there have been some significant challenges that SweDaNo Trade A/S has had to overcome. Primarily, it has been important to have an open process of co-operation, as it is necessary in order to understand the reasoning behind the different ways of conducting business in the three countries. It is not given that this openness leads to a combination of the different business styles. However, understanding the background for an opinion is the only way to find, in time, some sort of compromise. This is a continuous process when co-operating across national borders, where openness towards each other is fundamental in order to make the co-operation financially successful.

Secondly, it became clear when establishing SweDaNo Trade A/S that primarily in regard to the decision-making process there were significant differences between the enterprises involved. In Norwegian and Danish enterprises the process of decision-making tends to be relatively short and does not involve many people. In Swedish enterprises the same process is longer and involves more people. Consequently, the decision-making process in Sweden is more 'complex' prior to the decision. This means that the process takes more time, but it also means that once a decision is made, it has perhaps been more thoroughly examined and therefore tends to be 'safer' as the support for the decision is secured among the members.

In Norway and Denmark enterprises are somewhat more open to changes and fast decisions, which makes them perhaps more adaptable to an open and changing market. However, this also means that Norwegian and Danish enterprises often have to make adjustments afterwards in the process of implementing the decision. The most important point is that none of the two ways of conducting business is 'the right way', but in seeking co-operation between enterprises the differences must be dealt with openly. In regard to other aspects of the co-operation the three enterprises have proven to be quite similar and have not met any significant barriers in regard to making the co-operation work.

5.0 Support for the co-operation:

As the four enterprises involved had an interest in the co-operation they supported the decision to enter into co-operation. Basically, they were all expecting financial advantages to be gained from the new trading company, which would be beneficial for their members – the farmers. These expectations have to a large extent been met.

6.0 Lessons and recommendations:

- In order to become a stronger player in the market – in which one has to act – it can be an advantage to seek alliances with other enterprises in other countries that need to purchase the same products. Primarily, the purpose is to obtain a better quality at a better price. In order to be a competitive player in the European and global markets, this is a necessary development. The aim is to use the Nordic region as a home market and as a basis for competing in the international markets.
- It must be acknowledged that there will be different ways of conducting business when three enterprises with different cultural backgrounds seek co-operation. Here openness and communication are the key words, as openness and communication make it possible to overcome the problems encountered when 'merging' different styles of business. It is important that the enterprises understand each other's motives for seeking co-operation and what they wish to gain from this. This is a process that takes time, but it is also a necessary process if the co-operation is to be successful.
- It could be interesting to create some sort of 'common Nordic forum' for enterprises in the agro and food industry where experiences could be exchanged among different business areas with regard to trading and co-operation in the Nordic region. It could be a 'yearly event' where enterprises met in order to:
 - 1) Discuss the opportunities for development of the Nordic region in the agro and food industry – how can the Nordic region become more visible in an international market? Are there opportunities for increased co-operation in certain business areas?
 - 2) Exchange experiences – both positive and negative – on co-operation in the Nordic region – what are the others doing and what can we learn from it?

7.1.19 The establishment of Valio Sverige AB as a subsidiary of the Finnish parent company Valio Ltd in 1994

- An example of a subsidiary that was established as a reaction to significant changes in the international business-environment and consequently the markets in which the parent company operates – ‘when Valio Ltd joined the EU’.

Facts:

- In 2002 Valio Ltd had a net turnover of 1.6 billion Euros and an average of 3,900 employees.
- Valio Ltd is the largest food business in Finland in terms of net turnover and roughly one third of this is generated in the company's international operations.
- Valio Ltd has produced dairy products for almost a hundred years and the core products are milk, cheeses and butter.

The Finnish company 'Valio Ltd's establishment of a Swedish subsidiary 'Valio Sverige AB' in 1994

1.0 Facts about the companies involved in the co-operation:

Valio Ltd has been an exporter of dairy products from Finland to the international market for almost one hundred years. The company's core products are butter, milk and cheeses, but in recent years the company has developed a whole range of products in the area of functional foods and industrial powders. It is the largest food business in Finland in terms of net turnover, and Valio Ltd processes roughly around 80% of the milk produced in the country. In 2002 one third of the company's income came from its international operations. The same year Valio Ltd had a net turnover of 1.6 billion Euros and had an average of 3,900 employees.

In 1994 – the year before Finland and Sweden both joined the EU – Valio Ltd established a subsidiary, 'Valio Sverige AB', in Sweden. The intention was that the company should compete in the Swedish market for dairy products. This was to be accomplished by introducing a wide variety of brands primarily from the functional food industry to the Swedish customers. In addition to this Valio Ltd also wished to sell its traditional products in the Swedish market – primarily cheeses and butter. In 2002 Valio Sverige AB had a net turnover of nearly 23 million Euros and employed an average of 36 persons.

2.0 The chronology of the co-operation:

As already suggested in the section above the background for Valio Ltd. setting up a subsidiary in Sweden was the enlargement of the EU in 1995. This meant a significant change in 'the environment' in which Valio Ltd. had to compete. The fact, that Finland joined the EU resulted in products moving freely in and out of Finland without border protection, import charges or governmental subsidies. Valio Ltd had to adjust to this change in the conditions for trade. One of the adjustments made by Valio Ltd was to establish the company as an important player in the key markets for exports. Consequently, Valio Ltd set up Valio Sverige AB in 1994 in order to secure a position on the Swedish market for dairy products.

3.0 Motives for the co-operation:

Besides being a preparation for the Finnish EU-membership, Valio Sverige AB was also created as part of an overall company strategy. Being an exporting company, Valio Ltd continuously has to adapt to the changing business environment that the company encounters. Therefore, the company had several other motives for establishing Valio Sverige AB:

- A) Throughout the 1990s it has been an important task to become more customer-oriented. In order to secure this, it is necessary to co-operate more closely with retailers and suppliers in the local markets. This makes it possible to meet the customers' needs.
- B) Local presence in the most significant export markets is important because it enables Valio Ltd continuously to evaluate its own performance and adjust its production to the local demands.
- C) Valio Ltd wishes to progress from being an exporter of traditional dairy products to being an international marketer that can provide the customer with a more diversified range of products including high quality items sold under a variety of brands. This can happen, for instance, by joint ventures and the establishment of subsidiaries.
- D) In order to secure the continuation of the dairy farmers' work it is necessary, that Valio Ltd target growth each year as part of their company-strategy. In this context, it is crucial to expand market-opportunities by looking at nearby markets in other countries.
- E) Finally, it is important for a company like Valio Ltd to develop its production in order to meet the increasing demands from the retail industry. Here research and development on the product side is of great importance – also by acquiring for instance Swedish brands - as it enables Valio Ltd to meet demands from customers beyond the domestic market. Here presence in the local national market can also be a decisive strategy.

4.0 Problems during the co-operation-process:

There have been no problems as such, but the company has encountered some difficulties that it has had to overcome in order to set up the new subsidiary. In the beginning Valio Ltd. had to realise that even though the Finnish and the Swedish markets are often considered to be similar markets - this is not the case. Therefore, it has taken some time to get to know the average Swedish consumer's preferences in the market for dairy products. Secondly, Valio Ltd also had to become familiar with the Swedish food authorities and their legislation on food. Both things have proven to differ more from the Finnish legislation in the area of dairy products than was first anticipated. Finally, Valio Ltd has had to acknowledge that the Finnish way of running a company is to some extent more 'top-down' than in a Swedish company. This means that in the Swedish company the co-operation process takes more time, involves more people at all levels and is consequently also easier to implement. Facing these differences Valio Ltd.

chose to maintain the 'Swedish culture' in its subsidiary, and also to have Swedish people in leading positions.

5.0 Support for the co-operation:

Being part of an overall company strategy and a decision made exclusively by Valio Ltd the creation of Valio Sverige AB was supported in the company.

6.0 Lessons and recommendations:

- An exporting company – such as Valio Ltd - has to be able to foresee and predict the developments in the market and make the necessary adjustments to the business environment in which it acts. Here subsidiaries can be a financially wise investment as the setting up of subsidiaries enables the company to preserve growth and sale for the parent company.
- Subsidiaries may act as 'shield' that makes it possible for the parent company to meet the increasing demands from the local customers and match the growing retail industry.
- When looking for business opportunities in the Nordic region it may be beneficial to look for already established and consolidated companies, as it makes the process of co-operation much easier as compared with beginning from 'scratch'.
- In order to maintain strength in the increased international competition in the dairy-industry it is necessary for the dairy companies to look beyond national borders. However, co-operation across national borders is often prohibited by relatively strict competition legislation. The main problem is that the competition legislation is created with reference first of all to the national market. Perhaps this is too narrow a perspective if the aim is to keep the competitive power in the Nordic dairy industry. With regard to competitions legislation, perhaps it would make more sense to look at the whole Nordic region as one market.

7.1.20 The Swedish company V&S Vin & Sprit AB's acquisition of De Danske Spritfabrikker in 1999

- This is an example that shows how an acquisition may be used to adapt to the changing conditions for competition in an industry where the competitors are becoming still fewer, larger and financially stronger. A development reinforced by the enlargement of the EU in 1995.

Facts:

- V&S Vin & Sprit AB has subsidiaries in eleven countries and in 2002 the company generated a net result before taxes of 1.9 billion Swedish kroner out of a turnover of 9.1 billion.
- De Danske Spritfabrikker A/S employs 548 people and had in 2002 a turnover of 918 million Danish kroner.
- The company produces a wide range of alcoholic beverages in the areas of wine and spirits.

The Swedish company 'V&S Vin & Sprit AB's' acquisition of the Danish company 'De Danske Spritfabrikker A/S' in 1999

1.0 Facts about the companies involved in the co-operation:

V&S Vin & Sprit AB was established in Sweden in 1917 and has its head office in Stockholm. The owner is the Swedish State. The company offers a wide range of alcoholic beverages in the areas of wine and spirits. Three-quarters of the company's sale are spirits and the rest is primarily wine. From being a national company with a monopoly on the sale of wine and spirits in Sweden, V&S Vin & Sprit AB now only sell 18% of its production in its home country and is one of the ten largest companies in the international alcohol industry. The single largest market outside Sweden is the United States, which accounts for 50% of the total sale.

Besides Sweden, V&S Vin & Sprit AB has subsidiaries in eleven other countries including the Nordic countries, Denmark, Finland and Norway. In 2002 the company had 2000 employees and a net sale of 9.1 billion Swedish kroner. The net result before taxes was 1.9 billion Swedish kroner. The total sales volume was 19.3 million 9-litre cases (spirits 11.4 million and wine 7.9 million).

In 1999 V&S Vin & Sprit AB acquired De Danske Spritfabrikker A/S, which produces akvavit and bitters primarily for the Nordic markets and the northern parts of Germany. De Danske Spritfabrikker A/S is by far the largest producer and exporter of akvavit on a global scale and among the world's leading companies in the spirits and wine area. The export goes to roughly 140 different markets all over the world. The Danish company employs 548 people and had in 2002 a turnover of 918 million Danish kroner. In the Danish market for spirits De Danske Spritfabrikker A/S stands for almost half of the sale (44%).

2.0 The chronology of the co-operation:

Throughout the nineties V&S Vin & Sprit AB had a strategy the pivot of which has been continuously to adapt to the turbulent changes in the alcohol industry. The development goes in the direction of the players in the relatively stable market becoming fewer, larger and financially stronger. This leaves limited room for growth. Furthermore the tougher competition has put greater demands on the companies' capabilities of innovation – both the development of products and the promotion of these products. However, the largest change that V&S Vin & Sprit AB had to face was the opening of the Swedish market to alcoholic beverages as Sweden joined the EU in 1995. Consequently, the monopoly that V&S Vin & Sprit AB possessed in Sweden disappeared at several levels including the import and export of alcohol, but also in regard to the production and distribution of these products. In other words V&S Vin & Sprit AB had to face a competition without the advantages they earlier benefited from through their monopoly status in Sweden. By acquiring a company in Denmark it was possible to acquire much of the knowledge and the experience of this company especially with regard to competing and exporting in a free market.

As a result of these changes, V&S Vin & Sprit AB have in the late nineties expanded their shares of the market in a number of countries. However, the Nordic region has always been a priority for the company. In 1999 V&S Vin & Sprit AB acquired De

Danske Spritfabrikker A/S. Two years later they acquired one third of the Finnish company 'Oy Nordic wine Group AB'. The same year V&S Vin & Sprit AB also bought half of the shares in the Norwegian wine company 'Amundsen AS'. In 2002 V&S Vin & Sprit AB acquired the rest of the Finnish 'Oy Nordic wine Group AB', which furthermore added two new subsidiaries to the company: The Danish 'Vingaarden A/S' and 'Scanfrentz AB' in Finland.

3.0 Motives for the co-operation:

The overall vision for V&S Vin & Sprit AB is to be a profitable, world-class alcoholic beverage company. In order to fulfil this vision and at the same time adapt to the changing conditions for competition in the market for alcoholic beverages, V&S Vin & Sprit AB has pursued a deliberate strategy of acquisitions in the Nordic region, among other things the acquisition of De Danske Spritfabrikker A/S. The motives behind this acquisition were the following:

- 1) The company wishes to maintain a strong base in the northern region and be the leading supplier of wines and spirits in the Nordic countries. Basically, have a much larger home market for distributing and selling alcohol.
- 2) The company wants to extend its success with the vodka product 'Absolut' by developing the brand and increase its market shares in both new and existing markets.
- 3) V&S Vin & Sprit AB wishes to acquire and develop brands with high international potential such as for instance the Danish akvavit and thereby expand the product portfolio.
- 4) By acquiring subsidiaries in for instance Denmark V&S Vin & Sprit AB wants to play an active and central role in the ongoing consolidation process within the alcohol industry.
- 5) By acquiring companies such as De Danske Spritfabrikker A/S it is possible for V&S Vin & Sprit AB to achieve the synergetic benefits that being a large-scale organisation involves and moreover reach a 'critical mass' in production.
- 6) In order to be able to meet the demands from the customers and adjust to their special needs, it is of great importance to be present in the local market. Moreover, this increases the opportunities for substantial growth.
- 7) Finally, by the acquisitions made in the late nineties it is possible for V&S Vin & Sprit AB to ensure sufficient efficiency in the distribution of alcoholic beverages. This is a crucial part of the production chain when the product is alcohol.

4.0 Problems during the co-operation-process:

Looking at the co-operation process it has to a large extent been very successful, mostly because both partners in the co-operation had a mutual interest in it from the beginning. It was important for both companies to create a success, and consequently they put an effort in the process of making the co-operation work. For instance a vice-president

from Sweden worked nine months in Denmark, in order to become familiar with the Danish business culture and moreover maintain a productive pace in the co-operation process. To some extent V&S Vin & Sprit AB introduced common values in the new company, but only to a level that left room for De Danske Spritfabrikker A/S to maintain their national characteristics and strengths.

Besides these positive elements in the co-operation-process, there have also been some obstacles that had to be overcome. Firstly, the two companies had to acknowledge that there are large cultural differences in the management procedures of the two companies. In the Danish company the management is more top-down, where decisions are made quickly without consulting the company as a whole. Moreover – perhaps because of the rapid decision-making – the management is flexible in regard to making the necessary adjustments afterwards. In V&S Vin & Sprit AB the management traditionally works with a much longer perspective in their business strategy, and seeks consensus before decisions are made. However, the experience in the co-operation between V&S Vin & Sprit AB and De Danske Spritfabrikker A/S has been that by merging the two cultures, it can create really positive and productive results. In other words the aim must be to take the strengths from both management styles and create a new one based on these. In this context it is very important for the companies to remain open towards each other's culture and seek pluralism in management as this is one of the ways to overcome these cultural barriers. Secondly, it became clear that the two companies had different attitudes to the marketing of alcohol. Traditionally, Sweden is somewhat more reluctant than Denmark to promote products with alcohol in an offensive manner. Consequently, it has been necessary to adjust the marketing of products according to the guidelines applicable in the national market.

5.0 Support for the co-operation:

In regard to support for the co-operation both companies supported it as they had a mutual interest in establishing co-operation. V&S Vin & Sprit AB mainly saw an opportunity for acquiring a company with experience in operating in a free market and with a product portfolio that could expand the companies' own range of products. From De Danske Spritfabrikker A/S's point of view the co-operation with V&S Vin & Sprit AB was an opportunity to further develop the company in order to prepare it for increasing international competition.

6.0 Lessons and recommendations:

- In pursuing a vision of becoming a powerful player in the international market for alcoholic beverages and at the same adjusting the company to a still more competitive environment, it may be strategically wise to acquire subsidiaries in the markets where one wishes to hold a strong position.
- Instead of developing and consequently spending a lot of time and capital on research and development of new products and brands, it may be financially beneficial to simply acquire the strongest brand in the market, in order to become an important player.
- There are potential synergetic effects in becoming a large-scale organisation particularly in the area of distribution.
- It is important to show respect for the business culture that exists in a future partner's company in words but most importantly also in actions, come to terms with one's own culture and learn from each other. It is also important to acknowledge that changes will occur, and it will cause problems in one way or another in regard to cultural differences. Here the companies must stay humble to the task of overcoming the cultural barriers between them. Only by not underestimating these barriers can they be overcome.
- A common Nordic background exists – a common 'Nordic understanding' - which makes it easier to co-operate in the Nordic region as compared with other parts of the world. In order to further strengthening the possibilities of co-operation in the Nordic region, it would be preferable if a further harmonisation of legislation could be effected, mostly, in the area of taxes and duties. Moreover, it is necessary to look into the mobility of labour that is very low at moment owing to legislative barriers.
- The Nordic agro and food industry is on an overall level ready for the increasing competition in the international markets, but because the competitors are getting larger and more powerful players it is necessary to adapt to this development. Only by doing so the Nordic region can remain a relatively strong player in the market – harmonisation and common Nordic solutions are keywords in this context.

8 Case analysis

8.1 Main structure and patterns from the case research

Looking at the case analyses, we can sum up some overall and predominant patterns that have prevailed in all of the desk and field research. In this context five areas are especially interesting as they are the ones that according to the case research are central for discussing the experiences, challenges and perspectives in co-operation in the Nordic agro and food industry. The five areas are: 1) Legislation 2) Cultural barriers 3) The Nordic region in the international competition 4) 'The market as a catalyst' 5) 'External economic pressures'.

8.1.1 Legislation

It is prevalent across the different lines of businesses that the enterprises experience obstacles to even closer co-operation in the Nordic Region. The obstacles primarily exist at two different levels. Firstly, there are obstacles with regard to the mobility of labour across borders. Secondly, there are obstacles in relation to the legislation on especially the market for food products.

It is a general experience that even though three countries in the Nordic region are members of the European Union, and all five countries are relatively closely connected from a geographical and cultural point of the view, obstacles still remain in regard to the mobility of labour between the countries. The main problem, as it is experienced in the enterprises, is that the tax systems and general rules on the labour markets still remain to be harmonised in a satisfactory manner. Especially the tax system constitutes a barrier when enterprises wish to move workers from one country to another. Consequently, the financial costs are often too high when seeking to establish closer co-operation across borders in the region. Moreover, it is from a financial point of view also still too expensive for the individual workers to commute between countries. Consequently, it does not happen as frequently as could be desired.

Secondly, it is difficult for enterprises to operate in more than one market in the Nordic region. They often experience that the legislation especially in regard to the labelling and marketing of food products in the five Nordic countries is very different in the individual countries. Consequently, it is quite difficult – primarily in the beginning – to operate in more than one market. Here, it would be beneficial - in order to make co-operation between the Nordic countries more attractive – to harmonise legislation more rapidly, because the enterprises experience this as a barrier to stronger and closer co-operation in the Nordic agro and food industry.

8.1.2 Cultural barriers

In regard to co-operation in the Nordic region it is a very important point that there are cultural barriers between the five countries. Even though the historical and cultural backgrounds are in many areas very closely connected and very similar, differences still

remain in the Nordic region as to how enterprises deal with business questions. Almost all enterprises emphasise the importance of not underestimating the cultural barriers between management styles in Nordic enterprises. Cultural differences exist and will to some extent cause problems when enterprises work together across national borders. To which extent they are allowed to create barriers for successful co-operation very much depends on how serious the enterprises find that these cultural challenges are when seeking partnerships across borders. If the cultural barriers are not taken seriously, they will presumably lead to financial costs for the enterprises involved in cross-border co-operation. This said, it is also important to mention that many of the enterprises regard the common cultural background in the Nordic area as an advantage. The cultural similarities, which are also prevalent in the Nordic region, often make it easier for Nordic enterprises to work together than to co-operate with enterprises from other parts of the world.

More specifically the cultural barriers primarily exist in regard to the decision-making process in enterprises from the Nordic region. Practically all enterprises – the Swedish ones included – point to the Swedish decision-making process as being somewhat different. Swedish enterprises often have a decision-making process that seeks consensus on all levels in the enterprise before a decision can be made. Consequently, the decision-making process tends to be longer than in the other countries. Moreover, Swedish enterprises often have a much longer horizon concerning the strategic aims of their decisions. Owing to the consensus, the decisions are also often easier to implement in Swedish co-operation as compared with the other Nordic countries. In the other Nordic countries the decision-making process might be more ‘top-down’, which means that decisions are often made relatively quickly by the top-management. The strategic goal is to adapt to changing market conditions more rapidly. Both styles have strengths and weaknesses, and it is important to underline that many enterprises see ‘a merger’ between the Swedish model and the other countries’ model as the most optimum. If the often more open and democratic Swedish consensus-seeking management style were supplemented with a higher degree of ability to make rapid decisions and adapt to changing market conditions, it might be an almost perfect combination. However, the most important point in regard to cultural barriers is still that they exist and have to be taken seriously by the management in order to establish successful co-operation between enterprises in the Nordic agro and food industry.

8.1.3 The Nordic region in the international competition

Asked how they experience the Nordic region’s ability to participate in the international competition, the Nordic enterprises point to two interesting conclusions.

Firstly, many of the enterprises are concerned with the fact that the Nordic region has a relatively high level of production costs. This means that it is very important that the enterprises in the Nordic agro and food industry continuously develop their businesses and products, as it is one of the ways in which they can maintain a high competitive level. Therefore, research and development in the Nordic agro and food industry as a whole, but also more specifically in the individual enterprise in the Nordic region, should be given special attention. It is perhaps not possible to compete on wages and the level of general costs in the Nordic region, but by adding still more knowledge to the products, the enterprises are able to compete in the international markets for agro and food products.

Secondly, the enterprises underline the importance of looking at the Nordic region as one home market. In other words, when compared with the international markets and the competition in these markets the Nordic region is a relatively small market. Therefore, it is important to think of this market as mainly one home market, which can be the foundation for competing in the international arena. In thinking of the Nordic market as one home market it is also implied that there is a potential in even closer co-operation in the Nordic region. Perhaps instead of competing with each other in the relatively small Nordic region, there is a much larger competitive potential in looking for co-operation opportunities. Compared with the rest of the world, the Nordic region is so small that the potential for co-operation is mainly to be found in the Nordic region functioning as a home market for enterprises in the Nordic agro and food industry. Enterprises are confronted with increasing international competition. It is in this competition the big challenges lie for the Nordic agro and food industry. Hence, it is important that not too many resources are spent on internal Nordic competition, as the resources are needed much more in the external competition with the rest of Europe and the rest of the world.

8.1.4 The market as catalyst

In seeking co-operation in the Nordic agro and food industry, it is a very central point that the enterprises only seek opportunities where it is relevant from a business perspective and where it is financially beneficial. In other words, it must be the demands of the market – and nothing else – that determines the potential co-operation between enterprises. If the financial foundation and potential are present, then it may be beneficial to engage in co-operation. It must be the market that acts as the catalyst for co-operation in the Nordic agro and food industry. By underlining this in one sense obvious point it is stressed that the Nordic agro and food industry – including the co-operative societies – must acknowledge that enterprises are operating under increasingly competitive market conditions. If the Nordic region wants to be ready for this increasing competition, there is no room for co-operation that is dictated by anything but the developments in the market.

8.1.5 External economic pressures

Almost all enterprises included in the case research make it clear that the Nordic agro and food industry must acknowledge that it is an industry operating in a competitive environment, where two main tendencies prevail.

Firstly, the competition from the retail industry is getting still stronger. The players in the retail industry are getting financially larger and stronger. In return this creates pressure on the enterprises in the Nordic agro and food industry, as they must match the players in the retail industry. This means wider product portfolios and products at a better price (less expensive products). If the enterprises in the Nordic agro and food industry are to be able to meet these demands, they must realise that joining forces and consequently becoming larger is an almost inevitable development. Being confronted in an offensive manner can perhaps even be a positive development, because larger enterprises in the Nordic agro and food industry can then secure a stable financial development in the long term. Not just for the benefit of enterprises in the Nordic agro and food industry, but also for the benefit of the suppliers of the industry – the farmers.

Secondly, the enterprises in the Nordic agro and food industry must come to terms with the fact that many of their competitors are in a process where financial growth through different kinds of co-operation arrangements is the main strategy. Consequently, the competition is becoming fiercer and more intense. In order to ‘survive’ in this competition, the enterprises in the Nordic agro and food industry can benefit from closer co-operation, as matching the size of the competitors is important. Therefore, also the near future might be characterised by further consolidation in the Nordic agro and food industry, as it can become necessary in order to survive in the international competition.

8.2 Central statements from enterprises in the Nordic agro and food industry

This paragraph will present some of the most central statements made by enterprises in the Nordic agro and food industry during the interviews. The aim is to focus on the statements that are most interesting when looking at the experiences gained from working across national borders in the Nordic region. Where are the pitfalls, and which lessons have been learnt. The statements have been divided into subcategories according to the issue with which they are concerned. The five issues are in an arbitrary order: 1) The co-operative societies. 2) Financial challenges. 3) Common Nordic networks. 4) Harmonisation in the Nordic region. 5) Cultural challenges. It is important to underline that the statements presented here are not necessarily supported by all twenty enterprises from the case research. The goal has been to find the most interesting statements on experiences of Nordic co-operation in the agro and food industry, and not necessarily the most representative statements. Consequently, all enterprises in the research cannot be held responsible for the following statements.

8.2.1 The co-operative societies

- It will be beneficial if the co-operative societies in the Nordic region try to look more openly and offensively at the Nordic market in relation to the development of new business concepts and becoming the ‘first mover’ in the market. It will make them even stronger players in the Nordic region – besides being strong purchasing enterprises – and consequently make it possible for them to create more financial value for their members – the farmers.
- As the co-operative societies in the Nordic region experience a still more intense and tougher competition in the international and national markets, one of the solutions could be to seek closer common Nordic co-operation. If it is to be possible to compete with the other players in the different markets, this could be the most natural and beneficial development for the co-operative societies.
- In regard to making co-operative societies co-operate across national borders it is crucial to acknowledge that very different national rules exist in relation to co-operative societies. In other words, a co-operative society in Denmark is not the same as a co-operative society in Sweden. The management must deal with the different rules offensively if the co-operation is to succeed. At the same time the management must realise that some obstacles will restrain the co-operation process.

These obstacles will be time-consuming, but they provide necessary insights, if the co-operation is to become a success.

- If the members of the co-operative societies are to be convinced of the prospects in seeking co-operation in the Nordic agro and food industry, it is crucial that the management continuously tries to explain the background for seeking such co-operation. This process is relatively long and involves many obstacles. However, it is necessary to obtain consensus and support for the challenges that the Nordic agro and food industry is facing among the members of the co-operative societies, if the solutions are to be successful.

8.2.2 Financial challenges

- It is important for everybody in the Nordic agro and food industry to acknowledge that agriculture and trade in agricultural products is a very national and even local business for the producers – the farmers. Therefore the strategy – when conducting business in the Nordic agro and food industry – must be to act on the demands that must be met on account of the global market conditions on an overall level, but to stay local in relation to the producers. Make the necessary local adjustments for the producers, while continuously underlining that the competition is increasingly becoming more and more global.
- In order to continuously develop the Nordic agro and food industry and secure a stable and healthy financial development, it is crucial to look at the Nordic region as one home market. With a total population of roughly 30 million people in the region, it can only serve as a base – but a very important and necessary one - for surviving in the international competition. It may, however, be necessary to look beyond the region, when the enterprises are planning their strategies for the years to come.
- If the Nordic agro and food industry is to be able to maintain the possibility of competing in the international markets in the short and the long term, it is necessary continuously and purposefully to develop new products. Especially, the development of new products should be prioritised, as it is one of the best parameters for competition for the Nordic agro and food industry.
- Enterprises in the Nordic agro and food industry must realise and acknowledge that they are part of a much larger economic ‘reality’ that they must adapt to. Only by adapting to the demands and developments in the markets in which the Nordic agro and food industry operates will it be possible for it to survive in the competition.
- Before seeking co-operation in the Nordic agro and food industry, it is necessary to find a common basis for the aim and content of such co-operation. If there is a common understanding of these goals and the partners are equal – or both parties benefit from the co-operation – it is likely that the co-operation will be a success. Conversely, it is most likely that in time the co-operation will – depending on the type of co-operation, of course – come to a point where the partners no longer have common interests in the co-operation. At that stage it is important that the partners

can take the consequences and leave the co-operation – preferable in accordance with a set of rules already established before the partners engaged in co-operation.

- Looking at the international competition in the agro and food industry, it is very important that the enterprises in the Nordic agro and food industry continuously try to reduce their costs and increase their productivity. This might sound as common sense, however it is important to acknowledge because it will most likely result in a further consolidation of enterprises in the Nordic agro and food industry. This is a development that enterprises must be prepared for.
- Owing to the relatively high production costs in the Nordic countries, it is very important that enterprises in the Nordic agro and food industry continuously maintain a high level of research into and development (R&D) of new products. R&D is one of the most important parameters that must not be neglected, if the Nordic region is to be competitive in the international markets. Adding knowledge to food is in this context essential, as to a large extent it makes up for high wages and relatively high taxes imposed to make allowance for the environment in the Nordic agro and food industry.

8.2.3 Common Nordic networks

- It would be very interesting with some sort of common Nordic forum where enterprises from the Nordic agro and food industry could meet perhaps once or twice a year. This should be across different industries, and the aim should be to exchange experiences on trade and co-operation in the Nordic region. Moreover an aim could be to look into the opportunities for developing the Nordic agro and food industry and look at the future prospects for the region and the various industries.
- In some areas the enterprises in the Nordic agro and food industry possess complementary business strengths that put together in common projects could be interesting for the international markets. Here there is a business potential that should be explored more thoroughly than is being done at the moment. An ambition could be to find a common Nordic forum where the parties involved could meet.
- In regard to a continuously healthy development of research in the Nordic agro and food industry it would be beneficial if some sort of common Nordic fund could be established. A fund where enterprises from the region could seek capital for common Nordic projects. As the situation is right now, many research projects are stopped because it is not possible for the enterprise to raise the necessary capital in the individual Nordic country. Here a common Nordic fund could be a solution.
- In relation to companies and co-operative societies that have been through a co-operation process, it would be a great advantage for other enterprises seeking co-operation in the Nordic region if they could benefit from their experiences. Such an exchange of experiences will not remove the problems from the co-operation process, but perhaps it could ward off some of them and, perhaps even more importantly, make it easier to understand the reasoning behind the decisions of the parties involved.

8.2.4 Harmonisation in the Nordic region

In relation to integration of the Nordic market for labour, it is necessary continuously to harmonise the legislation in the area, as there are still barriers to a greater degree of mobility between the countries in the Nordic region. Especially, in relation to tax systems, but also regarding the costs of commuting a more thorough harmonisation should take place. This would make it easier for enterprises in the Nordic agro and food industry to co-operate.

- Even though three of the Nordic countries are members of the EU, there are still different sets of rules in the national markets for food products in the Nordic region. This legislation very often is a barrier to enterprises that wish to operate in other markets than their own. Therefore, it would be very beneficial for the Nordic agro and food industry and the region as a whole, if many of these rules were harmonised. Especially, in relation to the labelling and marketing of food products some differences remain even in the Nordic region.
- With the relatively high level of production costs in the Nordic agro and food industry, it is of crucial importance that the Nordic countries act with 'a common voice' at the political level in the EU. If the Nordic region is to be able to exert its influence in an enlarged EU, and make it easier to compete with the rest of Europe on the basis of common solutions in the EU, it is necessary that the Nordic countries join forces – 'one voice in Europe'. Not just in words but also in action. The Nordic region is far too small an economic area for the five Nordic countries to act as independent states in relations with an enlarged EU.
- It is necessary for the political system to give a much higher priority on competition, because many of the enterprises in the Nordic agro and food industry will not be able to survive if they are not allowed to expand. Compared with the competitors in the rest of Europe, enterprises in the Nordic countries have a home market within the individual country that is so small that they cannot be judged by the same standard as is used for their European competitors as far as questions of monopoly, etc. are concerned. The enterprises in the Nordic agro and food industry are part of much wider competition that makes it necessary to reach a relative large size – judged by Nordic standards. However, compared with the competitors that the enterprises in the Nordic agro and food industry are facing in the international markets, their size is relatively small in some respects.

8.2.5 Cultural challenges

- It is important to acknowledge across different lines of businesses that there are cultural barriers between the Nordic countries. These barriers must not be underestimated when seeking co-operation across borders in the Nordic region. If they are underestimated the co-operation would most likely fail or at least very high costs would be involved in the process of establishing new business. On an overall level, it is the Swedish management style that tends to be different from those of the other Nordic countries. The Swedish management style is generally more focused on consensus in the decision-making process than is the case in the four other

countries. Consequently, it takes more time to reach a decision in a Swedish enterprise as compared with the other Nordic countries. Here, the decision-making process is often much more rapid, and then later in the process of implementing the decision the necessary adjustments are made. If the management deals with the cultural differences openly and offensively such differences may be overcome if not totally avoided. Even more importantly, it must be recognised that the different kinds of management style in the five Nordic countries all have their strengths and weaknesses. These must be addressed openly and in time in order for enterprises to benefit from each other in the process of making co-operation work in the Nordic region.

- It is very important that enterprises realise that cultural barriers will always exist between two enterprises that wish to co-operate. These barriers must be taken very seriously, if the co-operation is to be a financial success. Especially with regard to language and the common understanding of each other it is very important not just to anticipate that we can understand each other because we are from a common Nordic region. This is a dangerous presumption because in reality it often becomes clear that the common understanding does not exist. Therefore, these questions should not be underestimated, and if there are even the smallest doubts as regards understanding or language, they should be addressed. It is one of the only ways to avoid that the financial consequences of not understanding each other become too serious.
- It should be mentioned that even though many differences and cultural barriers exist between enterprises in the Nordic agro and food industry, it is much easier to co-operate in this region when compared to the rest of world. In other words, despite their differences there are also many relatively large similarities in the 'Nordic way' of conducting business. This makes it easier to co-operate in the region as compared to doing business with enterprises from e.g. Italy, France or Spain. The internal differences in the Nordic region are much smaller than the external differences that prevail when the Nordic region is compared to the rest of the world. This is a result of their common historical and cultural background, and more so geographical closeness.

8.3 Prospects for and challenges in the future, seen from the perspective of enterprises in the Nordic agro and food industry

In relation to understanding which developments the Nordic agro and food industry is undergoing on a general level, it is important to look at some of the challenges the industry will be facing in the near future. By looking at the research carried out concerning the twenty enterprises in the Nordic agro and food industry, it is possible to deduce the following three main areas, where the industry as a whole anticipates that it will experience significant changes. Consequently the enterprises will have to take initiatives to face future challenges.

8.3.1 Further consolidation

At present the Nordic agro and food industry is undergoing significant changes with regard to consolidation in the different lines of business. There are no indications that this development will decrease. Some of the most important characteristics are that the players in the Nordic agro and food industry are becoming financially stronger. Moreover, their productions are still more effective. They often have a very broad product portfolio, and their production is often aiming for advantages derived from large-scale production units. This process of consolidation is mainly a result of external pressure from the competition in the market. This external pressure can be divided into two sub-categories.

Firstly, the external pressure comes from the continuously increasing competition from the competitors in the market. These competitors, mainly in the European market for agro and food products, are becoming still stronger financially. Moreover, they are characterised by very large production units in which it is possible to produce products at a relatively low price level. Furthermore, they are capable of delivering very competitive product portfolios for the retail industry.

Secondly, the enterprises in the Nordic agro and food industry are facing an increasingly stronger retail industry. A retail industry that in many ways is just as important a competitor as chains, which are becoming larger and larger and offer extensive product portfolios and concentrate on development of products and large-scale quantities.

The main point as far as these developments are concerned is that it is necessary for the enterprises in the Nordic agro and food industry to adjust to these external pressures. It is the only way to survive in the international competition. Moreover, it emphasises that the initiatives in the Nordic agro and food industry will in the near future continue in the direction of increasingly larger production units and consolidations of enterprises in regard to financial strength. In this context, more co-operation – and thereby further consolidation – in the Nordic region could be part of the solution in order to overcome the challenges the industry faces on account of increased international competition.

8.3.2 Efficiency and reduction of production costs

Traditionally, enterprises in the Nordic agro and food industry have relatively high production costs as compared with competitors in Europe and other parts of the world. This fact can to some extent be explained by high costs of labour. In addition to this, enterprises in the Nordic agro and food industry also often face relatively stringent legislation both with regard to environmental protection and concerning rules in the area for the production of food. These issues do not, of course, have entirely negative implications with regard to the competitiveness of the Nordic agro and food industry, because they secure a high quality level for the food products that are produced in the region. This is beneficial in international markets where an important parameter for competition is food security and high standards of quality for the individual product. However, as a whole legislation concerning food products and relatively high wages mean that the total production costs are perhaps higher in the Nordic agro and food industry than the costs competitors incur. As a consequence of these conditions for production, it is an almost inevitable development that enterprises in the Nordic agro and food industry will continuously try to take initiatives that can counter these

conditions. One of the ways to do this is making production more effective by for instance seeking synergetic effects in different types of co-operation. Moreover, production can also be made more effective if it is possible to benefit from the economies of large-scale production. Secondly, the enterprises in the Nordic agro and food industry can counter the development by reducing production costs. To a certain degree, this might be done through more intense co-operation between enterprises in the Nordic agro and food industry, as this will make it possible to undertake necessary rationalisations. However, it will also happen through a reduction of costs in the individual enterprise.

All in all the initiatives taken in the Nordic agro and food industry in order to make production more efficient and reduce production costs point to increased co-operation in the region. It is one of the ways to counter the competition that the enterprises in the Nordic agro and food industry are confronted with.

8.3.3 Research and development

Finally, it is advantageous when looking at future initiatives in the Nordic agro and food industry to emphasise the importance of the enterprises in the industry continuously developing new products. One of the most important competition parameters for the enterprises in the Nordic agro and food industry is to further strengthen the area of research into and development of new products. This makes it possible to counter the competition in the international markets. Therefore, it is likely that enterprises in the Nordic agro and food industry will try to further enhance developments in the area of research, which can lead to new and better products being developed. It is an area that the various enterprises in the Nordic agro and food industry already take very seriously.

Moreover, there are positive perspectives for the enterprises in looking beyond national borders especially when it comes to raising the necessary funds for a continuous strengthening of research and development. In addition to this, it might also be possible to take advantage of the strengths of the various national enterprises and perhaps combine them across national borders. This could in turn pave the way for more efficient use of financial resources among enterprises in the Nordic agro and food industry. Consequently, this would provide a basis for a strengthening of the area of research and development in the whole region. This development could be a possible solution - even though the development of new products is to a large extent an individual task - as it enables the enterprises in the Nordic agro and food industry to become even more competitive in the international markets.

To briefly sum up this paragraph, the analysis has shown that when looking at the future initiatives that will most likely be taken by enterprises in the Nordic agro and food industry, they are identified in the areas of efficiency and reduction of production costs, and also in the area of research and development. On an overall level, the Nordic agro and food industry is undergoing a continuous process of consolidation mainly brought about by external economic pressures that the enterprises are trying to adapt to. The two areas mentioned above are areas where future initiatives will most likely be taken as it is necessary if enterprises in the Nordic agro and food industry wish to survive in the international competition. The Nordic agro and food industry will try to adjust to this development by consolidating their businesses in the region. The industry might do this by looking across national borders for future possibilities of co-operation.

9 Conclusions

Below the report will present its conclusions on the different chapters. These are based on the research and analyses of the Nordic agro and food industry that have been conducted throughout the report so far. In the preceding chapters different areas, topics and issues regarding co-operation in the Nordic agro and food industry have been analysed. These chapters constitute the basis for the following conclusions, including a final conclusion on the entire report. Finally, the conclusions will lead on to chapter eleven where the recommendations of the report will be presented.

9.1 Conclusions Chapter 1: The agricultural industry and the agro and food industry

- The agricultural area is nearly the same in the five Nordic countries. However, Denmark has a higher yield and a larger production of cereals as compared with the other countries. The number of animals is also very different in the five countries. Especially Denmark has a larger number of pigs and a larger poultry population.
- There is a significant difference in productivity. Danish agriculture is more productive than agriculture in the other countries.
- In all the Nordic countries public support is given to agriculture. Sweden, Finland and Denmark are members of the EU and get support from there. The common agricultural policy in the EU supports on average 36 per cent of the production value (PSE). In Iceland the public support is 63 per cent and in Norway 71 per cent of the production value.

9.2 Conclusions Chapter 2: Market for food in the Nordic region

- Export of food and agricultural products plays a minor role in all Nordic countries except Denmark.
- The Nordic agricultural market is relatively important for all Nordic countries except Denmark, which is more focused on international markets.
- Danish agricultural exports to other Nordic countries decreased when Denmark joined the EU in 1973, while exports rose again when Sweden and Finland joined in 1996.
- Food consumption patterns differ among the Nordic countries. Meat consumption is very high in Denmark.

9.3 Conclusions Chapter 3: Incentives and motives for mergers - with the focus on the Nordic agro and food industry

- The shift towards further M&A, fewer and larger enterprises, growth and concentration of business does not come out of the blue but is the result of a series of incentives.
- Basically there are four different types of motives or explanations for M&A and structural developments: It may be internal affairs of the enterprises or external affairs that explain growth ratios and structural developments. At the same time it may be the question of a proactive drive that determines where an enterprise chooses to seek new possibilities, or it may be the question of a more passive and defensive objective that makes an enterprise seek limitation of risks and threats.
- The incentive may come from within the enterprises themselves or from outer influences. It is important that incentives and motives are determined in every single case as a basis for decisions to be made and goals to be determined before a merger.

9.4 Conclusions Chapter 4: Forms of co-operation and integration: Advantages, disadvantages and area of use

- There are a number of different forms of co-operation and integration, which have advantages and disadvantages, depending on the specific circumstances.
- The optimal form of co-operation and integration may depend on market or company parameters. Consequently, the optimal form of co-operation must be decided on the basis of the concrete characteristics in the individual case.

9.5 Conclusions Chapter 5: Cultural barriers in the co-operation among enterprises in the Nordic agro and food industry – a liability or an asset?

- Cultural barriers will always exist between enterprises that wish to co-operate across national borders. They will to some extent cause obstacles in the co-operation process between enterprises. In order to overcome them, time and attention is needed. If the cultural barriers are not taken seriously, both the theoretical literature and experience show that they will most likely have a substantial impact on the financial performance.
- In order to deal with the cultural barriers in a productive manner, it is necessary for the management to bring them 'out in the open'. This means that the co-operators must be open and honest about their way of conducting business. It is only by sharing these differences that common solutions regarding external adaptation and internal integration can be found in the new co-operation.

- Managers in the Nordic agro and food industry must acknowledge that the fact that they come from a common Nordic background will not result in a shared way of conducting business. In other words, even though it is tempting to expect that the business culture is more or less the same in the Nordic region, it is not advisable to take this view. There will be at least some differences in business culture that will result in problems in the co-operation. These cultural differences must be addressed properly and openly, as it is one of the only ways to avoid their negative implications.

9.6 Conclusions Chapter 6: Mapping out of the mergers of recent years - a survey

- Denmark takes part in most mergers, alliances, etc. in the Nordic countries. The tendency is that most mergers are between Danish and Swedish enterprises. The headquarters is often placed in Denmark.

9.7 Conclusions Chapter 7: Research on twenty cases of co-operation in the Nordic agro and food industry

- The research on twenty cases of co-operation in the Nordic agro and food industry has shown that there are a number of patterns regarding the experiences gained from co-operation across borders in the region. These patterns are experiences shared by a large majority of the enterprises, no matter which of the five Nordic countries is analysed.
- The research has shown that when we look at the future prospects for enterprises in the Nordic agro and food industry, there are certain business areas that the enterprises point to. In those areas the greatest challenges are to be found in the competitiveness in the region as a whole.
- The research has revealed that among enterprises in the Nordic agro and food industry there is to some extent a common interest in learning from each other regarding issues of co-operation in the Nordic region. This is also supported by the fact that eighteen out of twenty companies – divided on all five countries – participated in our project. Moreover, practically all of the enterprises have also shown an interest in continuing some sort of informal networking afterwards, where lessons from co-operating in the region can be shared.

9.8 Conclusions Chapter 8: Case analysis

- The case analysis has shown that enterprises in the Nordic agro and food industry are continuously exposed to increasingly fiercer competition in the international markets. This competition is the main condition that the enterprises in the Nordic agro and food industry must adapt to. In brief, the competition comes from two quarters: 1) The retail industry, and 2) The increasingly stronger foreign competitors in the international markets. In order to counter these external pressures the Nordic enterprises will most likely have to become more efficient and pay more attention to their production costs – which might lead to further consolidation in the industry. Moreover, it will be beneficial also to invest rather heavily in research and development, because it is one of the most important parameters for enterprises in the Nordic agro and food industry when they compete on the international markets.
- The case analysis has revealed that at least at three levels it will be beneficial for the Nordic agro and food industry if a more intense ‘harmonisation’ could take place in the Nordic region as this will improve the ability of Nordic enterprises to compete in the international markets:
 - (A) There should be a further harmonisation of the labour markets in the Nordic region, as it can increase the mobility of workers. Especially, in regard to tax systems and the general costs of commuting, improvements should be effected.
 - (B) In the market for food products it will be preferable if more common standards for, for instance, labelling and marketing can be adopted because this will encourage more co-operation among the Nordic countries.
 - (C) ‘Harmonisation’ should take place at the political level in the Nordic region on issues concerning the EU. A ‘common Nordic voice’ is necessary, if it is to be possible to obtain positive political results for the Nordic agro and food industry in the enlarged EU.
- The case analysis has shown that addressing cultural barriers and challenges is necessary for successful co-operation in the Nordic region. Even though enterprises in the Nordic agro and food industry share both a common past and present in regard to culture, rather large differences remain. The managements of enterprises must take these differences seriously. However, there is a tendency that as compared with co-operating with enterprises from other parts of the world, there are still some important advantages to be gained by co-operating in the Nordic region. The ‘external’ cultural barriers in relation to the rest of the world are perhaps larger than the barriers that exist ‘internally’ in the region between the five Nordic countries.

9.9 Final conclusion

Summing up, it should be stated that despite many differences in the agricultural focus of the five Nordic countries, there is a potential for co-operation between enterprises in the region. This is a potential that has to a certain degree already been used, but could be explored in an even more offensive manner. That is one of the options as the enterprises in the Nordic agro and food industry are adapting to the external economic pressures from the international markets. The experiences gained from cross-border co-operation have been quite positive and there have in fact been many instances of cross-border co-operation in the Nordic region. However, obstacles and challenges still exist in different areas. For instance in regard to cultural barriers, enterprises are facing challenges, but they can be overcome. Moreover, also in relation to the labour markets and the market for food, barriers remain for making the Nordic region work as one internal market. Finally, the area of research and development must continuously be developed, as it is one of the most important parameters for enterprises in the Nordic agro and food industry when they compete in the international markets. Despite these challenges the experience is that co-operating across borders in the Nordic region has been a necessary and positive development in the Nordic agro and food industry. Therefore, it will most likely be beneficial not only for the enterprises in the Nordic agro and food industry, but also for the consumers and the societies in the five Nordic countries if the companies seek cross-border co-operation in the region. This is to be done only when the necessary economic conditions are present. This can be part of an offensive strategy of enterprises in the Nordic agro and food industry, because the result of not acting will most likely be a passive and perhaps not financially attractive adaptation to the changing market conditions.

10 Recommendations – act offensively in order not to get into a defensive position

After having analysed some of the most important aspects of the Nordic agro and food industry and its development in detail throughout the report, we will in this final chapter present our recommendations. The aim of the recommendations is to point out areas with a great potential for further development of the industry. Moreover, the goal is to uncover some of the fundamental conditions to which the enterprises in the Nordic agro and food industry must adapt. How can these conditions be improved to the benefit of the enterprises in the industry, the consumers in the Nordic region and the societies in the five Nordic countries? The issues are central, remembering that one of the main objects in the project commission was to improve and establish a better foundation for enterprises in the Nordic agro and food industry. These improvements are crucial factors for a successful financial development in the Nordic agro and food industry, but also for the producers – the farmers.

The recommendations will be based on the analysis in the report of the Nordic agro and food industry as a whole. Consequently, no single enterprise can be made responsible for any of the statements. They are entirely our judgement of the potentials and ‘pitfalls’ for the industry.

The starting point is that the enterprises in the agro and food industry in all five countries are facing an increasingly competitive environment on a global scale. Competition that demands a continuous development of the Nordic agro and food industry if this industry is also in the future to be a valuable asset for the economic development and welfare of the five countries. However, we present the recommendations in the knowledge that on some parameters the Nordic agro and food industry is doing well. For one thing as regards financial performance, but the industry also enjoys a great deal of respect in the international markets as regards the quality of food products and food security. However, this must never be a pretext for doing nothing, as the demands from the markets will continuously develop and increase. Consequently, the enterprises in the Nordic agro and food industry must also continuously develop if they wish to survive in the international competition.

The considerations above are the basis for the following recommendations, which are mutually connected. The point of departure for the recommendations is that the Nordic agro and food industry is exposed to external economic pressures. These are pressures that the industry must continuously adapt to. Moreover, the recommendations will show that enterprises in the Nordic agro and food industry are in fact co-operating already, and there is a potential for exploring this area more thoroughly. However, there are also barriers that prevent effective co-operation in the Nordic region. An important example is when the Nordic countries act individually at the political level in the EU. Acting individually does not serve the interests of neither the consumer in the five countries nor the enterprises in the Nordic agro and food industry. Moreover the recommendations will point to the fact that many other obstacles and barriers must be overcome before the

Nordic region can be considered an internal market. The barriers are present in areas such as for instance the mobility of labour, regulations on food markets, but also in regard to cultural issues – how to conduct business. All of these issues involve problems that must be solved to achieve better co-operation in the Nordic agro and food industry. Finally, it will be recommended that research and development – adding knowledge to food – is seen as perhaps the most important theme if enterprises in the Nordic agro and food industry – with high production costs – are to be able to compete in the international markets also in the future. Consequently, our two final recommendations will present possible solutions that can perhaps serve as answers to the challenges in the Nordic agro and food industry.

Having elaborated on the reasoning behind the structuring of our recommendations and moreover remembering the project commission and the heading of this chapter, we will now present the recommendations.

10.1 External economic pressures - the condition of competition

The analysis has indicated that a development towards fewer and larger enterprises is inevitable, as the external economic pressures on the enterprises in the Nordic agro and food industry are getting still more intense. The pressure is brought about primarily by the fact that competitors in the different international markets in which the Nordic enterprises are operating are getting increasingly stronger. Moreover, the pressure comes from a still stronger retail industry in which the players are getting financially stronger. In addition to the external economic pressures, the enterprises in the Nordic region are exposed to difficult conditions of production owing to climatic conditions. This raises the costs of production, but also enables a production of special crops and consequently special food products. This has contributed to the characteristic Nordic food culture. These are the main conditions for the enterprises in the Nordic agro and food industry that wish to operate and compete in the international markets. Therefore, it is necessary for them to reach a competitive size. The competition demands that the enterprises reach such a size, otherwise they will not survive in the competition and the Nordic food culture would be exposed to a severe threat from multinational companies. Consequently, further rationalisations and more effective production with lower costs are most likely part of the future for enterprises in the Nordic agro and food industry. Reaching a competitive size and consequently obtaining a dominant position in the national market should of course not be exploited. Moreover, the market position of enterprises must not stand in the way for maintaining strong competition in the Nordic markets, as it is the basis for a continuous, healthy economic development in the whole region to the benefit of consumers, enterprises and the welfare in the five countries. However, it is also necessary for the Nordic agro and food industry as a whole that enterprises are large in economic terms as they act as a catalyst for a continuous, positive economic development in the region. As a result of these considerations our first recommendation is:

‘The external economic pressures constitute a condition for competition that the enterprises in the Nordic agro and food industry must adapt to. Therefore, they should be allowed to reach a competitive size – on the assumption that this will not be exploited. It is the only way they can maintain their ability to act in the international markets for the benefit of consumers and the societies in the Nordic region. “Locomotives” are necessary in the Nordic agro and food industry if the enterprises

within the industry are to be able to continuously contribute to the common Nordic economic welfare also in the future.'

10.2 'One voice in Europe'

The analysis has shown that there is a wish among enterprises in the Nordic agro and food industry for creating a common platform from which the Nordic region can operate as one unit in the EU. It is their experience that the region loses influence on important political decisions at the EU-level. This happens because of a lack of ability to establish a 'common Nordic attitude' to questions that have an impact on the Nordic agro and food industry. The 'coalition building' has become even more important after the enlargement of the EU with ten new member states. More than ever this accentuates the necessity of strong coalitions in the Nordic region when working within the framework of the EU. Especially in regard to being heard in the enlarged EU, but also as a basis for seeking new alliances with for instance the Baltic countries, coalitions must be established. Knowing that this topic is also high on the agenda in the Nordic Council of Ministers, we stress the importance of this Nordic coalition building in the areas where it is possible. It is one of the ways to secure a future central position within the EU for the Nordic region. However, it is also an issue where there seems to be a gap from words to actual political action. Therefore, our second recommendation is:

'The report points to the importance of the Nordic region – perhaps the Baltic area - acting with one voice in as many questions as possible in the enlarged EU. It is perhaps one of the only ways to secure better conditions for enterprises and consumers in the five Nordic countries, enterprises that contribute to the economic basis for the welfare in the Nordic region.'

10.3 The Nordic region as an internal market

As the enterprises in the Nordic agro and food industry seek different types of co-operation arrangements across the national borders in the region, it of great importance that moving labour is without too heavy financial costs. This is important, because such a barrier contributes to an inefficient distribution of resources in the Nordic region by making it difficult for the enterprises in the Nordic agro and food industry to seek cross border co-operation. This is harmful to the welfare in the five countries and to the consumers, because the five relatively small Nordic economies need to co-operate in order to maintain a competitive international level. By breaking down barriers, the Nordic region will have the advantage of being five individual countries, but at the same time enjoy the economic benefits from an efficient distribution of resources that characterises a large economy. An example of a harmful effect could be that rationalisations are perhaps not made, as it might be too expensive to move key employees from one country to another. In this area improvements should be made, as many obstacles still exist to the free movement of labour in the Nordic region. Especially, in the areas of taxes and costs of commuting improvements could be made. In this context the tax agreement between Denmark and Sweden serves as a good example of the type of co-operation that is needed. There is a need for concrete arrangements that contribute to turning the Nordic region into an internal market with free movement of labour and commodities. Moreover, it would also improve the conditions for a common Nordic home market if some of the legislation on the market

for food were harmonised. There should be the same standards in the different national markets, for instance, in relation to marketing and labelling of food products. Turning the Nordic region into an internal market would – as mentioned above - presumably have positive economic effects not only for the welfare in the five individual countries, but also for the consumers as it would involve a more efficient distribution of resources in the Nordic region. We know that the removal of barriers for co-operation in the Nordic region also has a high priority in the Nordic Council of Ministers. As a result of these considerations our third recommendation is the following:

‘The analysis has indicated that the competitive power in the Nordic agro and food industry could be improved if the region is turned into an internal market. Consequently, it would prove economically beneficial if the obstacles for the region being an internal market could be removed. Especially, political action is necessary on a common Nordic level in order to achieve further harmonisation of the legislation regarding taxes, costs of commuting, the labelling of food, and finally also the marketing of food products.’

10.4 Cultural challenges and similarities in the Nordic region

The report has made it probable that when working across the national borders in the Nordic region cultural barriers still constitute one of the most critical barriers. Even though many similarities exist within the Nordic region regarding ways of conducting business, many differences also still prevail. Perhaps because of geographical closeness, a common history, similar climate and environmental standards, managers in the Nordic agro and food industry tend to underestimate the cultural barriers. This can have severe financial consequences and will almost certainly cause problems in the co-operation-process. The most important issue in this context is to realise that cultural barriers do indeed exist between Nordic countries. When this has been acknowledged, it is possible to minimise the consequences. In brief, by addressing the cultural barriers openly and honestly in the very early stages of the co-operation process they can be minimised. Moreover, it is also important to emphasise that when two enterprises have entered into co-operation there is no right or wrong way of conducting business. Different ways of conducting business will have different strengths and weaknesses. The greatest task for the management is to identify the complementary strengths and if possible make use of these. In this process mutual respect and patience are key words that cannot be taken too seriously. Consequently, our fourth recommendation is:

‘When enterprises wish to co-operate in the Nordic region it is important to realise that in doing so cultural challenges will occur. They have to be taken very seriously, otherwise the co-operation will most likely turn into a financial failure. Having said this, it should also be underlined that the Nordic region has a potential for co-operation despite the cultural differences. It is often easier to co-operate in the Nordic region than co-operating with business partners from other parts of the world.’

10.5 Research and development - Nordic fund

The analysis of the Nordic agro and food industry has shown that the enterprises in the five Nordic countries almost by common assent see the area of research and development as one of the most important parameters for their competitive power in the international markets. In other words, if the Nordic agro and food industry is to survive

in the still more global competition, it is necessary for the industry to continuously develop new and better products through research in the area. In popular terms, putting knowledge into food is crucial in order to maintain a competitive international level, especially for the Nordic region where the general production costs are fairly high as compared with costs in the rest of the world. However, the experience of enterprises in the Nordic agro and food industry is that it can be difficult to raise the necessary funds for cross-border projects within the framework of the national legislation. As a result, projects in the area of research and development sometimes fail owing to lack of cash. Knowing that it can be difficult to keep step in the area of research and development because the enterprises often have substantial property interests in this area, we still recommend that the common Nordic funding through 'Nordisk Innovationscenter' should be strengthened. The Nordic agro and food industry should be able to seek financial support for research-based cross-border projects in the region, which in return will be beneficial for not just the industry, but also for the consumers in the region. Moreover, it would be preferable with more activity at the political level regarding research and development. The experience is that the national governments could support the Nordic agro and food industry more actively in economic terms. Breaking down some of the barriers between the private and public sectors so as to improve the area of research and development might prove beneficial to the societies in the Nordic region as a whole. Increased support for a common Nordic fund from the different national political levels could be a beginning. Therefore, our fifth recommendation is:

'Promote Nordic cross-border R&D projects through increased common Nordic funding of research-based projects in the Nordic agro and food industry.'

10.6 Nordic forum

During the process of preparing the report, and especially as we conducted the research on the twenty enterprises in the Nordic agro and food industry, it has become evident that there is an interest in establishing some sort of informal common Nordic forum. The main purpose of the forum should be to make it possible for managers from the Nordic agro and food industry to exchange their experiences concerning co-operation in the region. This exchange of 'lessons learned' would most likely improve the possibilities for establishing better co-operation in the Nordic agro and food industry. The project and report could perhaps act as a catalyst for starting this development. We find that the establishment of a common homepage, and the contacts we have with eighteen enterprises in the Nordic region could be a positive point of departure for the Nordic Council of Ministers. This could serve as the basis for the creation of a closer network in the Nordic agro and food industry within the framework of the Nordic Council of Ministers. The anticipation is that a potential lies here for enterprises already working across national borders in the region, but also for enterprises in the Nordic agro and food industry that are on the point of establishing co-operation across national borders. Hence, our sixth recommendation is:

'Establish a common informal Nordic forum within the framework of the Nordic Council of Ministers where enterprises from the Nordic agro and food industry could meet preferably on a regular basis to exchange experiences regarding co-operation across the national borders in the Nordic region.'

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