



# Food industry structure in Norway and Denmark since the 1990s Path dependency and institutional trajectories in Nordic food markets



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## ABSTRACT

Structural changes in Norwegian and Danish food industry since the 1990s is analysed as a path dependent response to the neo-liberal turn. Norway entered the 1990s as a protected market and Denmark as case of an export oriented industry. These developmental strategies are rooted in early 20th century industrialisation and influenced by institutional transformations in the 1990s, such as EU and WTO. Mergers and acquisitions (M&A) are studied in the context of changing political environments. Explaining two different trajectories, we combine path dependency theories and a Polanyi inspired 'varieties of capitalism' framework with corporate strategy theories on food industry M&As. We identify two different types of path dependent development, a self-reinforcing in Denmark and a transformative 'breaking point' in Norway.

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## 1. Introduction

This paper compares two cases of structural developments of the agri-food industries. Developments of Norway and Denmark are analysed as a path dependent process. We trace shifts in both countries since the EU Single European Act, implemented in 1992. The single market impacted on Denmark as a member (world market competition), and on Norway as a non-member (protectionist, high cost country), associated via the European Economic Area (EEA) agreement (1994). Structural development refers to the size and number of companies, to concentration, internationalisation or specialization and covers the whole agri-food chain. We study strategies of mergers and acquisitions (M&A), since M&As directly contribute to structural changes. We combine corporate strategy theories with an institutionalist political economy framework arguing that M&A driven structural developments correspond to institutional transformations. We perceive market institutions as a historical result of recurrent double movements (Polanyi, 1944) in capitalist history. Integrating the three analytical levels of firm strategy, sectoral market dynamics and historical institutional embeddedness, we shall show that structural devel-

opments in the two cases represent two different types of path dependent development.

While both countries are neighbors in the Nordic area, even unified as a single state for 300 years before 1814, agri-food policies differed through history. We consider both economies as coordinated Nordic models, historically marked by an ability to establish institutional frameworks based on negotiated agreements between various stakeholders. But presently, Norway has one of the most protected and subsidised agricultural systems among the developed economies and food production mainly focus on national supply. Denmark, on the other hand, early pursued export strategies and has become home country to transnational food companies. Both developmental paths have deep historical roots and the differences between them have persisted through policy adjustments through pre- and post WWII industrialisation. Interestingly, farmer cooperatives are the key to structural development in both countries, though with very different outcomes. In Norway, farmer cooperatives are crucial pillars of world market separation. In Denmark, they are the key to global expansion.

We start by discussing methodology and data (Section 2), thereafter developing our theoretical combination of corporate strategy concepts (Section 3.1) and the institutional approach (Section 3.2). We proceed by discussing the institutional and historical paths of both countries (Section 4). Empirically, we conduct a macro-qualitative study, enriched by interviews with top management in both industries (Section 5). In the conclusion (Section 6) we

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argue that future research on agri-food industries should pay attention to institutional contextualization rather than relying on formal theories of industrial organization.

## 2. Methodology and data set

This study applies qualitative methods. We do not rely on data set observations, but on what Brady et al. (2006) call “causal process observations”. We relate to local research frontiers concerning M&A driven structural change in agri-food chains, but apply contextualizing perspectives (Mjøset, 2009), especially by studying the institutional frameworks within which the structural changes occur. Our analysis shuttles between three levels: our interview data stem from firms, we study structural change at the sectorial level, and institutional frameworks both at the sectorial, national and international levels. At the international level or main focus is on regional integration institutions (EU). Institutional analysis builds on secondary sources. We treat our Norwegian and Danish cases as cases of structural change in agri-food chains under the influence of national/regional European institutional changes since the early 1990s. In line with grounded theory methodology (Glaser and Strauss, 1967; Mjøset, 2009:52), we compare the two cases with reference to the relevant properties, developed through institutional analysis. Our explanations are thus at the middle range (as specified in Pawson, 2000).

Our main empirical input is 19 information gathering interviews with top management in both industries, 13 in Norway and six in Denmark. The informants were chosen as main responsible decision maker in different companies or sector representatives which contributed with general expert knowledge. The interviews were conducted between April 2012 and May 2015. They were mainly focused on the strategic meaning of food industry M&As in the context of internationalisation since the 1990s. Additionally we supplement the study with other empirical data, such as sector specific statistics, export development and growth data covering the period since the 1990s. Our comparisons are developed around our core category of industry structure and structural development, thus accounting for market dynamics in both economies. Since grounded theory is always developed with reference to a specified context, we intend our findings to be valid for the specific macro-context, which is Norway and Denmark since the 1990s.

## 3. Theory: industry structure and institutional embeddedness

### 3.1. Corporate strategy on industry structure

Industry structure typically relates to the field of industrial organization. Here we rely on definitions that Hansen (2013:234) has developed in order to describe the structure of global agri-food industries. Note that we exclude fisheries from our analysis, thus choosing the term agri-food chain. We define food industry structure as the number and size of companies, including factors like competition, concentration, specialization, internationalisation and, particularly important, we focus on vertical integration, so that “structural development covers all links in the value chain from research and development, supply and agricultural production to processing, refining, distribution, marketing, retail, and consumption”. (Hansen, 2013:234) All these elements together, including the emergence of cluster and network style relationships along agri-food chains, represent the national or transnational agri-food complex. Two aspects of structural development are of particular importance to this study: forms of concentration and degrees of internationalisation. In both countries, market dynamics

since the early 1990s promoted structural development in these two categories, as specified in the analysis (Section 6).

M&A activity directly affects all the mentioned parameters of industry structure. Some studies analyse macro-economic determinants of food industry M&As (Muehlfeld et al., 2011; Herger et al., 2008), the impact of food industry M&As on employment and wage (Ollinger et al., 2005), and, above all, there is a number of studies of the US food industry (Connor and Geithmann, 1988; Padberg et al., 1989). Some studies apply a value chain perspective arguing that M&As differ between food processors, retailers and the food service sector (e.g. Adams et al., 1997). Connor and Geithmann (1988) sum up the following motives and effects of M&As: diversification, eliminating competitors, concentration, bargaining power, and company size. Adams, Love and Capps argue that “the food industry has many characteristics that differentiate it from other industries and may have unique factors motivating its merger activity” (Adams et al., 1997:1; see also Hansen, 2013 – The uniqueness of food markets). Through a literature review they identify the following motives for M&A activity in manufacturing industries: efficiency gains (scale economies, specialization, cost reduction, synergy), managerial motives (growth or revenue growth, foreign growth, reduce risk, managerial self-interests), monopolistic motives (dominance, less competition, increased market share gives increased profits, barrier to market entrants, vertical integration), speculative motives (periods of uncertainty, new arising technologies, speculations on prospective asset prices), and additional motives (antitrust laws) (Adams et al., 1997:4f). This brief discussion above shows that research in this field, qualitatively or quantitatively, largely converges with Hansen’s model, which we present here (Table 1). The main difference is that Hansen conducted qualitative research and saturated the model in several studies for post WWII Danish development.

We investigate the strategic situation of agri-food M&As because they directly contribute to structural development affecting all the parameters presented above. We treat M&A strategies as crystallizations of broader sectorial tendencies. The economic drivers behind M&A activity can arise from inside the company, or from the outside through market dynamics. Generally speaking, growth and economic performance are the drivers behind M&As, and these again serve to explain structural development. Following

**Table 1**  
35 drivers and motives for food industry M&As. Source: Hansen (2013)

	Internal	External
Active	Economies of scale Increase of productivity Synergies Growth goal Managerial ambitions Earnings and trade conditions Exploitation of know-how and technology Control of marketing Desire to diversify Desire to specialise Attract qualified employees	Access to cheap produce and resources Vertical integration Market closeness Market share and dominance Access to know-how Liberalisation of capital markets Positioning on an emerging market Favourable purchasing opportunities Economic growth Improved infrastructure
Passive	Risk spreading Protection of know-how and technology Excess capacity Seasonal levelling Merging is the last option to survive	Low growth Matching of customers Larger product range Removing competitors Guarantee produce supply Creation of entry barriers Competition law 'Eat or be eaten' Investors expect growth

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