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**“The Local Taste Champion” - Rieber & Søn ASA**

**by**

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## **“The Local Taste Champion” - Rieber & Søn ASA**

### **Introduction**

Rieber & Søn ASA is a Norwegian multinational food company that currently has fully-owned production units in seven European countries and sales and market offices in a further six countries. In all, the group owns 28 brands in 12 countries. Its workforce comprises nearly 4,000 employees of whom 1,000 are located in Norway. Like so many other multinational enterprises (MNEs) Rieber & Søn is for the most part achieving significantly lower profitability from its operations abroad than from those based in Norway (cf. *Templeton*, 2000; 2001). Again, like so many other MNEs it also confronts two interrelated issues, how much integration of its operations is strategically advantageous, and how much is organizationally possible to achieve.

Rieber & Søn can trace its history back to 1839 when Paul Gottlieb Rieber (1809-1898) established not only a trading company but also a vinegar factory in Bergen, Norway. He was part of a family of German emigrants that had arrived in Bergen in 1817 in unfortunate circumstances. While en route to the USA the emigrant ship that was carrying Paul Gottlieb Rieber, his parents and his eight siblings ran aground at Herdla, near Bergen. As well as his parents, three of his siblings lost their lives in the ship-wreck that, according to the story as it is told in Rieber & Søn today, was caused not so much by heavy seas as by the ship's skipper's lack of attention to his charts. As an orphan what awaited him were harsh conditions, both for “body and soul” that undoubtedly left their mark on him.<sup>1</sup>

Although he was to be educated and to live permanently in Bergen, Paul Gottlieb Rieber maintained extensive contact with Germany throughout his life (Mikki, 2006). In the context of Bergen, an outward-looking, cosmopolitan seaport that had been a Hanseatic city from 1350 to 1750, this was by no means unusual.

Paul Gottlieb Rieber effectively founded a family dynasty. Rieber & Søn was headed by a family member until the early 1980s and remained a privately, family-owned company until 1987, when it listed on the Oslo stock exchange. Even today the Rieber family maintains a substantial minority shareholding of Rieber & Søn through its holding company, Atlantis Vest. In addition various family members have smaller share holdings. The sum effect of this is that the Rieber & Søn share price is highly stable.

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<sup>1</sup> <http://www.alnaes.no/gcrieber/main.nsf/PrinterPages/26D50B7D5369C727C1257091005BA998>

The current, eight member board is headed by Helge Midttun who was a Rieber & Søn employee from 1990-96. The board's deputy leader is a family member, Fritz T. Rieber. Three of the board members are employee representatives elected to the board by their peers. All eight board members are Scandinavians.

Until 2000 Rieber & Søn was a conglomerate when it was decided that Rieber & Søn was to concentrate exclusively on foods which had become the dominant part of its operations. Arguably the rise of foods as the key component of Rieber & Søn's activities started in 1946 when Rieber & Søn introduced a bouillon or stock cube to the Norwegian market using the Toro brand for the first time. It should be noted that bouillon cubes were not a Rieber & Søn innovation as such, but had existed commercially in Europe for some 30 years.

Toro was to quickly establish itself as Norway's leading producer of dehydrated foods including the launching in 1964 of a fish soup that proved particularly popular with Norwegian consumers.

In 1992 and 1996 respectively Rieber & Søn acquired the foods companies of Vitana of Czechoslovakia and Delecta of Poland thereby becoming a multinational foods company. Further foreign acquisitions were made in the Czech Republic and Poland (Big Fish) in 1997 and 1998 respectively and in subsequent years in Russia, Denmark, the Netherlands, Sweden and Germany. To date Rieber & Søn's most significant acquisitions remain Vitana, Delecta and Big Fish (subsumed under King Oscar). Although, from 2000 Rieber & Søn ceased to be a conglomerate in the sense that it spanned various industries, the conglomerate model of devolving responsibility to business units remains a pronounced feature of Rieber & Søn.

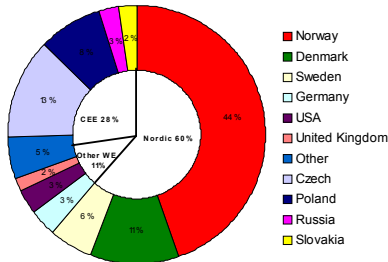
# Rieber & Søn Overview

## RIEBER & SØN OVERVIEW

Established 1839

Sales 2006; 4,3 bNOK

43 % Norway, 20% Nordic  
28 % CEE



EBITDA: 537mNOK/ 12,6 %

PBT: 353mNOK/ 8,3 %

30 brands incl. product-brands

Strong no 1 positions in a number of categories

3 800 employees, 70% outside Norway

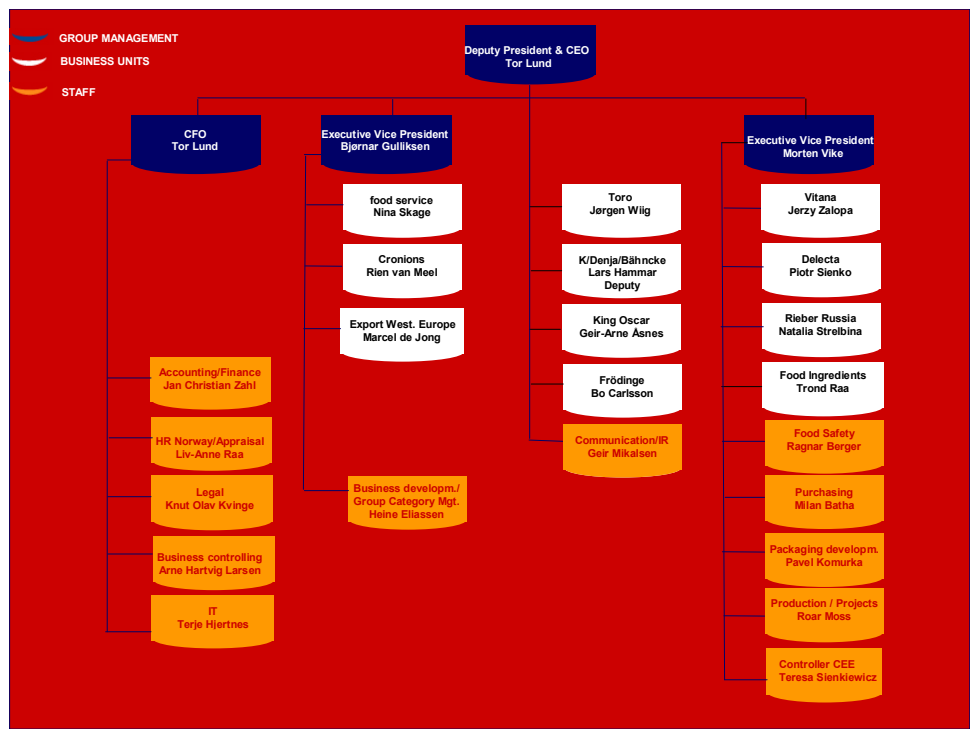
Geographical overview:

Sales forces in 12 countries

20 production units in 7 countries



## Organization Chart January 2008



## **Power and culture**

Structural theorists of organizations have adopted a rational or functionalist view of organizations in which organizational goals are clear, cause-effect relations are well understood, technologies are strong, and conflict is minimal and easily resolvable on the basis of unambiguous facts. Moreover, there is a stable legitimate authority that can readily develop a clear structure appropriate to task and environment.

There are a number of critical reactions to the structural approach (Bolman and Deal, 1991). One of these is the symbolic or cultural approach to organizations. For example Edgar Schein (1989) identifies three distinct levels in organizational cultures; artifacts and behaviors, espoused values and, at the third and deepest level, tacit assumptions. Tacit assumptions are the elements of culture that are unseen and not cognitively identified in everyday interactions between organizational members. They evolve at the very earliest stages of an organization's development and thereafter continue to drive and shape behavior through the socialization of new members. The double function of organizational culture, according to Schein, is to ensure adaptation and survival in relation to the external environment and to defend against anxiety internally. Elements of organizational culture may survive their original usefulness, and may cause paradoxical organizational behaviors. For instance at one level an organization may claim that its expansion is a result of pursuing rational business goals but at another, deeper level, expansion may imply something completely different. Or at one level an organization has decided to seek the closer integration of its units, while at a deeper level there is underlying resistance to instituting the desired change.

A second critical perspective of the structural approach is that of the political perspective. In this perspective organizations are viewed as coalitions of actors with conflicting goals and different perceptions of reality which are negotiating and competing for scarce resources resulting in differences among coalition members in terms of power and influence. Even knowledge management may be viewed as highly political involving "turf wars" between different organizational groups attempting to define what types of knowledge are "legitimate" (Hislop, 2005).

We suggest that both of these perspectives, the cultural and the political, are important to bear in mind when examining the case of Rieber & Søn, in that not only does it have 180 years of history behind it, but it was also, until recently, a conglomerate comprising a variety of very independent, stand-alone enterprises that competed for the goodwill of a small, distant conglomerate top management. We further suggest, that elements of the personal convictions

of the company's founder, Paul Gottlieb Rieber, about how to conduct business may have survived as underlying, tacit assumptions. Given his traumatic experiences as a child these might include "paying attention to the charts", "not putting all one's eggs (i.e. family members) into the same basket" and "standing on one's own feet". In our interviews we certainly noted the importance of a focus on financial control, "doing one's homework", "having more than one leg to stand on" and business unit accountability. If we are correct, these tacit assumptions will form a significant part of any explanation of Rieber & Søn's development.

### **Global integration versus local adaptation**

Like any multinational company Rieber & Søn has had to decide on a balance between global integration and local adaptation. Aharoni's (1988) has hypothesized that standardized global products are only possible for commodities (oil, electronic components, copper) or for goods and services intended for the upper end of the market (Gucci, Dior). In between firms must adjust to local tastes, customs, rules and regulations. Arguably, foods aimed at the broad mass of consumers, is very much an "in-between" industry because tastes in everyday food vary enormously from country to country. One indication of this is that at Nestlé in 2000 only 750 of its 8,000 brands were registered in more than one country.

As Peter Brabeck, Nestlé's former CEO remarked: "The emotional link to the local customer is extremely important in our business. That is why it remains a fragmented industry and that is why we try to stay as close as possible to local consumers" (*Financial Times*, 2000). Mirroring this thinking Rieber & Søn's current strategy is that wherever it operates it should be the "local-taste champion".

At a general level therefore the foods industry does not appear to offer any great potential for scale economies and therefore local adaptation has to be the preferred strategy. However, while the foods industry can never become as integrated as say the consumer electronics industry, it does not necessarily have to be as fragmented as it has been. Thus Nestlé is actively seeking economies of scale which effectively involves Nestlé "asserting the power of HQ over a notoriously diversified empire" (*Financial Times*, 2007). Increasingly it is seeking to develop a common research and development platform, generic products, centralized purchasing and common marketing approaches.

The application of the power of headquarters over local fiefdoms is one important aspect to achieving closer integration. However, another involves establishing inter-business

unit linkages or networks characterized by a common understanding or vision, a common language and mutual trust across operations. In short “social capital” has to be developed if synergies are to be achieved. Both of these aspects must be borne in mind when considering the future development of Rieber & Søn’s “local taste champion” strategy.

### **Hot Spots**

One of the motivations for mergers and acquisitions is the prospect of innovative global products occurring through synergies across the merged entities. Gratton (2007) refers to such occurrences as “Hot Spots” and argues that the number of Hot Spots is a measure of the success of a merger or acquisition.

Hot Spots are not necessarily formal work groups but are communities that span boundaries and whose members are willing and able to work skilfully and cooperatively within and across the boundaries of the company. They are spots where innovative ideas flourish because intellectual capital and insight are combined with that combination made possible by social capital. Social capital is a set of “weak ties” that have the potential to become hot spots at any given point in time. In other words social capital has both a structural dimension (“ties”) and a cognitive or relational dimension (e.g. “shared vision” and “mutual trust”).

As figure 1 illustrates, as innovations depend on novel combinations of ideas and knowledge, innovations first and foremost occurs outside the immediate work group in the MNE rather than inside it. In other words it is in the top right-hand quadrant hot spots are primarily to be found.



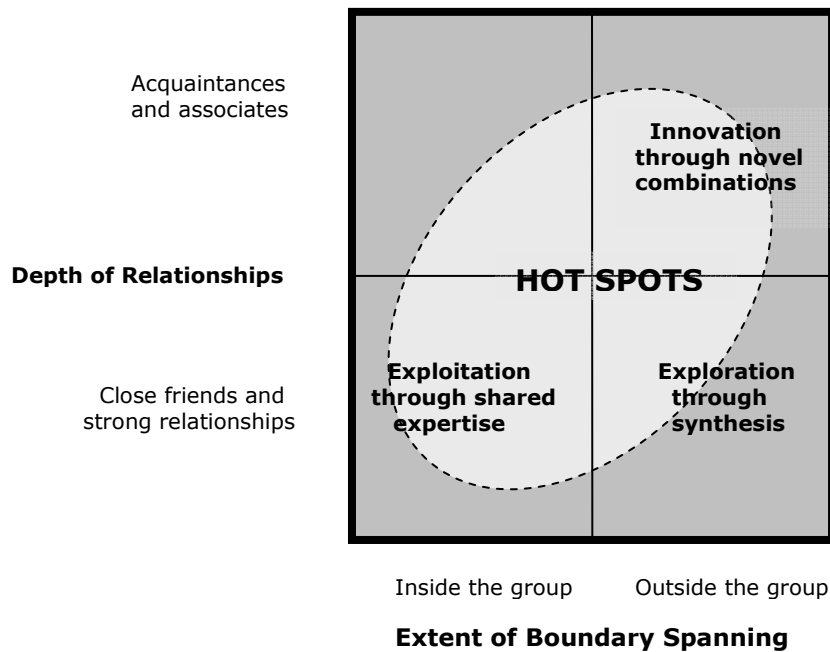


Figure 1. Hot Spots (Source: Gratton, 2007).

Within work groups where there are strong ties there is usually considerable productive exploitation of expertise in the form of line-extensions, that is new variants of well-established products . However, because everything is known there is relatively little opportunity to generate genuine innovations. This lack of innovation is also the case for close friends cooperating with other close friends outside the group: the most that can be achieved is synthesis of established ideas or practices.

Although Hot Spots are emergent – that is to say they cannot be directed or controlled - Gratton argues that it is possible to actively design for their emergence. She identifies four elements that make their occurrence more likely in the sense that social capital, structural, cognitive and relational, is developed. The first is ensuring that there is a *cooperative mindset* across the company. The presence of such a mindset depends in part on avoiding recruiting uncooperative individuals, but more importantly on the deeper underlying assumptions of the company. These may or may not be reflected in the rhetoric or value statements of the company. One way to identify underlying assumptions is to examine the rewards systems and performance measures. For example are rewards systems designed on the assumption that

employees are motivated to maximize their self-interest? Do performance analyses generate a strong identification with one's work group so that "screwing the competition" actually means out-doing other teams within company is the norm? Cooperative mindsets of themselves can be harmful in the sense they can lead to a "country club" mentality. To avoid this there also has to be a mindset of moral and intellectual excellence.

Another stage setter for Hot Spots are the presence of *boundary spanning* individuals, that is individuals who are adept at working cooperatively across boundaries in order to build networks with people very different from themselves. They are introducers and connectors of people some of whom may never actually meet face-to-face. Crucial as both a cooperative mindset and boundary spanning are they do not actually ignite Hot Spots. This requires, argues Gratton, an *igniting purpose* for the company that has to be defined and consistently communicated across the company. Finally, if Hot Spots are to be productive as well as innovative the people in them have to engage in *productive practices* such as appreciating one another's talents, making explicit commitments and engaging in conflict resolution.

When reflecting on the Rieber & Søn it will be worth considering how prevalent Hot Spots are and to what extent the conditions are in place for their emergence.

#### **Paternalism and risk dilution: 1970-1984**

Rieber & Søn has an extensive history. For many years it was a family-owned and led conglomerate run akin to a holding company driven by the belief that diversification served to spread, and therefore, dilute risk. Financial management systems that swiftly picked up on any deviations from earnings projections were well-developed and identifying any deviation from the agreed course appears to have been a core element of the Rieber & Søn conglomerate culture. The first changes to Rieber & Søn's strategy of maintaining a highly diversified portfolio can be traced to the early 1970s when it entered a period of consolidation and divestment that resulted in Rieber & Søn in 1984 comprising three main business areas, building materials, packaging and foods (i.e. Toro). In 1984 there existed in Rieber & Søn a strong awareness that of these three areas Toro was by far the most profitable and that Toro was therefore the natural candidate for further investment. At the same time though this assessment was tempered by an acute awareness that Toro was constructed on a bed-rock of product concepts that had been imported from beyond Norway, and that these concepts had served Toro well at least in part because of tariff restrictions. In other words beyond Norway there lurked, powerful, very much larger competitors, in the shape of Nestlé, Unilever and

Knorr, kept at bay by tariffs. Moreover, it was also believed that Toro in relation to the Norwegian market of only 4.2 million inhabitants had reached its upper limit – any further expansion in Norway was hard to envisage. Expansion could only be achieved by moving beyond Norway but the knowledge that Western Europe was already dominated by well-established multinationals made that an unfeasible prospect.

Voices within the Rieber & Søn leadership argued in 1984 that given the tenuousness of tariff protection and the impossibility of international expansion it would make sense to retreat altogether from industrial ownership and simply deploy Rieber & Søn's capital as an equity fund, buying and selling companies. However, that kind of business logic ran against the grain of more than a century's paternalistic philosophy which held that Rieber & Søn had a duty or mission to create and sustain secure jobs. Concentrating solely on Toro was also rejected because it was felt that it was better to have "several legs on which to stand". The conclusion was therefore that it was better to continue as a conglomerate. It was to be another 16 years before Rieber & Søn took the decision to fully concentrate on foods and by then it had long been palpably clear that neither building materials, nor packaging offered any tangible prospects. Moreover, by then political Europe had been dramatically transformed and Rieber & Søn's foods activities were established beyond Norway.

A conglomerate of the type Rieber & Søn had been for a century and a half ingrains an attitude in the organization that each and every division has an autonomous responsibility for its own development. As we suggested earlier this may also have been a core element in Rieber & Søn's original culture. Thus it is an organization of fiefdoms. As long as the fiefdoms deliver the results they are free to develop their own strategies. Failure to do so – and in the case of Rieber & Søn this would be swiftly registered by a prudent management who were specialists in scrutinizing the financial numbers – would result in that freedom being reconsidered. Fiefdoms have certain advantages, not least that they devolve responsibility to the front-line and set a premium on knowing your business inside out. They can also generate loyalty to the business unit witnessed at Toro in a low turn-over of personnel and an active retirees' association. On the other hand fiefdoms are not conducive to cooperation across divisions: cooperation is voluntary and depends on a mutuality of interest. As a consequence there is only limited interest in identifying potential synergies. This will inevitably limit the emergence of "hot spots" and limit Toro's to line extensions rather than genuine innovations.

With the passing of the formal conglomerate model strategy is now a top management undertaking rather than a business unit task. In principle this means that top management at

Rieber & Søn now has an overview of the various business units and can identify potential opportunities for synergies. However, the question remains whether the old conglomerate mode of operating still survives informally. Indeed as a long-serving Rieber & Søn insider remarked, the old conglomerate attitudes live on in the minds of many employees, with two in particular persisting. First there is the fiefdom mentality not least at Toro where for years the attitude was “Long live Toro, and damn the rest!” Second there is the financial cautiousness which manifests itself in the monitoring of short-term results in order to expose deviations in performance, not least in terms of costs. In short in the Norwegian operations there is a residual culture of clan loyalty, financial prudence and transparency. As one insider observed in 2007 on the basis of fifteen years experience in different parts of Rieber & Søn, “It’s always been a case of, if your business unit delivers in terms of the bottom-line, it’s left alone”.

The result is that the informal core elements of the organization are, in terms of the formal elements, leading to paradoxical behaviour. Synergies are needed and wanted but are not pursued; and as a consequence the emergent strategy of Rieber & Søn may be to continue as a food conglomerate even though the formal strategy is to seek more integration. This informal-formal mismatch emerges in a hesitant style of management, something that was acknowledged by a number of our interviewees. Overcoming this tendency to hesitate will constitute a major challenge in Rieber & Søn’s efforts towards integration. Given that it so deeply rooted in the organizational culture of Rieber & Søn it is by no means certain that it can be addressed by purely rational means.

### **Opportunism and internationalization**

From its inception Rieber & Søn had been a trading company based in a city that for centuries had looked outwards to continental Europe, Britain and beyond both for ideas and trading opportunities. In the 1960s and 1970s Rieber & Søn had exports to Sweden, an alliance with General Foods involving Finland and Denmark, and a private-label contract with Marks & Spencer’s of the UK. Most extraordinary though in this period of early internationalization, considering the political climate, was the fish-soup factory in Moscow. In the early 1970s Fredrik Schæffer, Rieber & Søn’s erstwhile CEO, had become acquainted by chance with a Soviet Union minister of state, who facilitated the construction by Rieber & Søn of a fish soup factory in Moscow. Although it was to be run by locals, raw materials and parts were to be supplied by Rieber & Søn. Given the then deep distrust between Norway, a Nato-member state, and the Soviet Union, it was hardly surprising that the Norwegian

counter-espionage service found the notion of Russian, purportedly merchant, vessels sailing in Norwegian territorial waters on a fortnightly basis between Murmansk and Bergen to collect supplies and parts for the factory, highly suspicious. Pressure was swiftly brought to bear on Rieber & Søn to put an end to this passage and as soon as it did so the Soviets lost interest in the whole project.

However, this was not the end of Rieber & Søn's involvement in building overseas turn-key factories. During the early 1980s they constructed facilities, largely funded by the Norwegian development agency, NORAD, in a range of countries including Costa Rica, Thailand, Egypt and China.

When the Berlin wall fell in 1989, Rieber & Søn immediately began to investigate Czechoslovakia and Poland for openings as their states divested themselves of the ownership of their enterprises. The thinking was that while entry into markets in Western Europe were blocked by dominant multinationals the post communist states of Central and Eastern Europe were not and therefore represented unique opportunities. Drawing on the services of the Norwegian embassies in these countries they were able to obtain direct access to the relevant ministers. Part of the message was that Rieber & Søn should be regarded as representing a different culture to that of the large multinationals such as Unilever. It was pointed out that Rieber & Søn was from Norway, a country that not only was untainted by any colonial past but also a country with a pronounced social democratic political culture that consistently promoted humanitarian values. This message was well-received by Vitana employees who recommended that Rieber & Søn be the purchaser instead of the other interested parties such as Unilever and Nestlé. Negotiations with the Czech state finally resulted in the opportunity to purchase Vitana in 1992 at what was considered by Rieber & Søn, as well as its competitors, as a bargain-basement price.

Vitana had around 1,000 employees and production facilities at Bysice and Kralupy (near Prague) and Prostejov (in Moravia). Its production of 26,000 tons of foods, primarily soups, bouillons, and flour-mixes, was roughly twice that of Toro's. As part of the agreement Rieber & Søn had to commit itself to a five year investment plan of NOK 100 million, rather more than it had paid for Vitana. This plan included new production facilities which were built at Bysice. Furthermore it had to commit itself to maintaining jobs at Vitana for two years and to ensure that competencies would be transferred from Toro to Vitana. In 1997 Vitana acquired two other Czech foods companies, Emarko and Bask.

Not least Nestlé was quick to register this new interloper. It was determined to prevent Rieber & Søn from repeating this triumph elsewhere. When Rieber & Søn attempted to make

a similar acquisition in Poland in 1994-5, Nestlé made it clear that whatever Rieber & Søn was prepared to offer for Winiary, it would better this by a substantial margin. Times and sensibilities were changing rapidly and no amount of Norwegian reputational capital was sufficient to counter Nestlé's blocking move. Nor was Rieber & Søn prepared to get involved in a high-stakes bidding-war. So in short it backed down and Nestlé made the acquisition. This was a story that was to repeat itself in other central and eastern European countries such as Hungary. The interloper from Norway was to be kept at bay.

When Rieber & Søn finally did succeed in making an acquisition in Poland in 1996-7, it acquired Delecta based in Wloclawek, 150 kilometers from Warsaw. Delecta was a very much smaller company than Winiary and a company whose products, desserts, cake mixes and puddings, were rather peripheral to those of Toro and Vitana. The Delecta brand was first established in 1993 on the back of a much older company that had been state-owned during the communist-era. Given its short history the Delecta brand was not widely recognized in Poland. Nevertheless, the days of knock-down prices were gone as post-communist central Europe learned the value of its enterprises. In the case of Delecta its 750 employees had bought out the company from the Polish state, thereafter acquiring the services of Arthur Little to value and sell the company on their behalves, resulting in a considerable profit for themselves as a result. Rieber & Søn paid NOK 150 mill. for Delecta, nearly twice what it had paid for Vitana a company that had twice the output of Delecta. Furthermore, it agreed to allow the pre-acquisition to remain in position for three years.

Nevertheless, entering 1997 Rieber & Søn of Norway was established as an, albeit relatively small, multinational company alongside the foods giants of Unilever and Nestlé. Moreover, as Svein Steen Thomassen, the then CEO, recalled, the feeling in Rieber & Søn was that these two acquisitions represented more than enough of a challenge without worrying about the acquisitions that got away. The acquisitions that Rieber & Søn did make post-1996 were relatively modest and either individually or taken together did not represent any direct challenge to the large established foods multinationals.

## **Acquisitions and other significant developments since 1984**

- 1984 Svein Steen Thomassen is appointed CEO (steps down in 1999)
- 1985 Rieber & Søn acquires Denja which has a 50 year history of salad dressings production in Norway.
- 1987 Rieber & Søn merges with the building materials firm, Jacob Neumann, and Nodest Industrier.  
After the merger Rieber & Søn is listed on the Oslo stock exchange.
- 1991 Denja acquires the Swedish firm Salladsmästaren thereby gaining access to the Swedish market.
- 1992 Rieber & Søn acquires Vitana, a foods company, in what in 1993 became the Czech Republic.
- 1996 Rieber & Søn acquires Delecta, a foods company, in Poland. In Norway it acquires Norway Foods. Part of this acquisition included King Oscar, a canning company specializing in sardines.
- 1997 Denja acquires the Danish salad and onion producer Dacapo.  
In the Czech Republic Rieber & Søn acquires Bask and Emarko which are merged with Vitana.
- 1998 King Oscar acquires the Polish company Big Fish thereby acquiring a factory at Gniewino.
- 1999 Ulf Jespersen is appointed CEO (steps down in 2002).
- 2000 Rieber & Søn ceases to be a conglomerate opting to concentrate solely on its foods businesses. Chaka of Russia, a producer of snacks and peanuts, is acquired.
- 2002 January. Asbjørn Reinkind is appointed CEO.
- 2002 An onion factory in the Netherlands is acquired and branded as Cronions.
- 2003 Food Service and Food Ingredients are established as separate business areas.  
Food Service supplies non-households, i.e. restaurants, cafés etc. and has sales in Norway, Sweden, Denmark, the Czech Republic and Slovakia.  
Food Ingredients produces ingredients for other producers of foods. In addition to the Toro factory in Norway it has a new production facility in Bysice in the Czech Republic.
- 2004 Mr Cheng's, a leading Swedish Asian food brand, is acquired.
- 2005 Two Danish salad producers, K-Salat og Bähncke, are acquired and together with Denja form the business area, DKB.

- 2006 Frödinge, a Swedish producer of chilled and frozen cakes with extensive exports to the UK, Finland and Germany is acquired. Frödinge will also supply cakes to Toro and Rieber & Søn food service.
- Cronions acquires another Dutch onion factory and becomes Europe's largest producer of crispy-fried onions.
- Through the acquisition of the German distribution company, Puttkammer & Walke, Rieber & Søn Germany is established.
- 2006-8 King Oscar's production in Norway is moved to Poland. By the end of 2007 the Gnieuwino factory had 400 employees and the Norwegian factory at Davanger, outside Bergen, 59 employees. These last 59 jobs were eliminated April 2008.
- 2007 October 1<sup>st</sup> Asbjørn Reinkind steps down as CEO.
- Tor Lund, the Chief Financial Officer, is appointed interim CEO.
- 2008 March. The Board appoints Patrik Andersson (44) to the position of CEO of Rieber & Søn. Andersson, who has extensive experience from the food industry including twelve years at Unilever, commits to commencing in this position by October 1<sup>st</sup> 2008.

### **The Vision and Mission During the Reinkind Years (2002-2007)**

Although the concept of Rieber & Søn as the "Local Taste Champion" was in place some months before Asbjørn Reinkind began as CEO in January 2002, it was adopted by Reinkind as his vision and remained his vision throughout his tenure.



## VISION AND MISSION

**Vision:** We shall be the local taste champion and leading brand builder, and will develop attractive food based on consumer needs



### Local Taste Champion

- Local taste preferences
- Set national taste
- Fast national adoption of international concepts
- Drive category
- Systematically update to consumer needs



**Mission:** We inspire people to prepare and enjoy exciting and tasty food in an easier way.

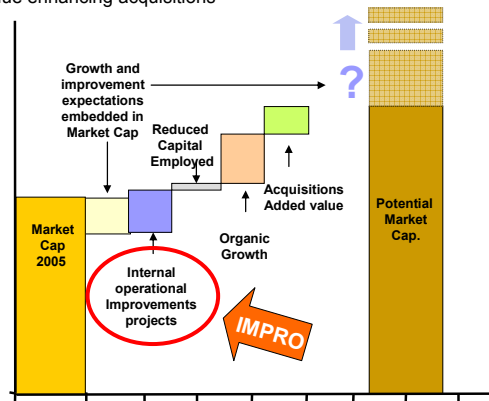
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## STRATEGY; CREATING SHAREHOLDER VALUE THROUGH CONSUMER SATISFACTION AND OPERATIONAL EFFICIENCY



### Rieber & Søn's strategy is built on 4 pillars/value drivers:

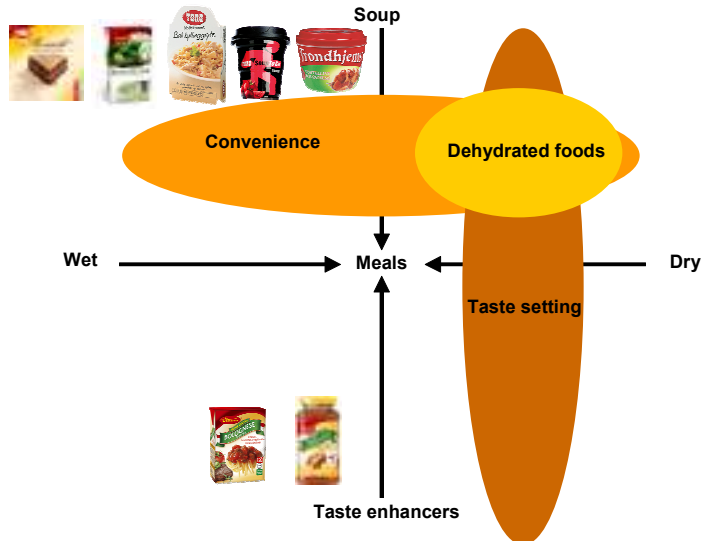
- Organic growth > 2,5%
- Internal operational improvements
- Reduced capital employed
- Value enhancing acquisitions



10

## Strategic Direction

**STRATEGIC DIRECTION:  
FROM DRY TO VARIOUS NEW TECHNOLOGIES**

14

**4 MEGATRENDS ARE DRIVING NEW OPPORTUNITIES**



TREND	CONSUMER BENEFITS: FUNCTIONAL AND EMOTIONAL
CONVENIENCE	<ul style="list-style-type: none"> <li>• Saving time</li> <li>• Releases time for Leisure and Relaxation</li> </ul>
INSPIRATION	<ul style="list-style-type: none"> <li>• Variation, Adventure, Beeing a Chef</li> <li>• Sophistication, Status and Success</li> <li>• Socializing with family and friends</li> </ul>
WELLNESS	<ul style="list-style-type: none"> <li>• Taking Care of myself</li> <li>• Taking Care of my family</li> </ul>
INDULGENCE	<ul style="list-style-type: none"> <li>• Rewarding myself</li> <li>• Supreme taste experiences</li> <li>• Socializing with family and friends</li> </ul>

**New concepts can be supported by more than 1 megatrend**

50

## Current Situation

In 2007 Rieber & Søn had 3,800 employees, half the number it had as a conglomerate. About 1,000 of these are located in Norway.

Table 1: Key financial figures for Rieber & Søn – MNOK

	<u>2006</u>	<u>2007</u>
Total group revenue	4263	4603
EBITDA	537	487
<u>Pre-tax profit</u>	<u>253</u>	<u>233</u>

Toro, based in Bergen, Norway, is by far the most significant part of Rieber & Søn in terms of current profitability, delivering a substantial part of total group profit.

Because of a rise in the cost of raw materials the price paid by consumers for Toro's products has risen by 8-10 percent in the twelve month period, 1 February 2007 to 1 February 2008.

Because of the good job market employee turnover at Toro has increased as have labor costs. Increased employee turnover means not only higher training costs but also lower productivity.

Toros's margins are under pressure as market power in Norway is moving from the producers to the "big four" Norwegian retail chains which can are attempting to dictate terms.

In 2004 SAP was introduced as an Enterprise Resource Planning (ERP) system to King Oscar and then Delecta later that year. In 2005 it was introduced to Vitana and finally to Toro in 2006.

### **Case Focus**

The four ERP-linked business units have come to be regarded as having the potential to become a more integrated whole. This is particularly the case for Toro, Vitana and Delecta all of which specialize in dry foods. These three business units are often referred to by Rieber & Søn headquartered managers as constituting a "triangle of business units". King Oscar, a seafood company, is regarded as being linked to this triangle. Our focus in this case will therefore be on Toro, Vitana, Delecta and King Oscar.

## **The “Triangle” - Toro, Vitana and Delecta**

As remarked in Rieber & Søn the current view is that Toro, Vitana and Delecta potentially constitute an integrated or least a more interrelated entity. This thinking is often expressed in terms of a triangle. As we will observe though, this view is relatively recent.

### ***Toro***

Toro is the Norwegian market leader within soups, sauces, cake mixes and a range of other foods. Over and above its state-of-the-art production facilities its actual core capabilities lie within product development and marketing that has enabled it to create new niche products within ethnic foods and micro-wave ready dishes powered by savvy marketing campaigns. In particular the marketing department is characterized by a drive for excellence and optimism. A Toro marketing manager reflects that although strict financial controls are in place there is ample recognition that innovation may mean mistakes are made from time to time and that that is a price that is more than worth paying for innovation. Coupled to a substantial degree of creativity he feels there is a pervasive “work-is-fun” mentality. Not only do the marketing people in Toro regularly go down-town together for dinner but they are also more than willing to show up on Sundays if that is what a project requires for completion. In this high-trust environment there is little in the way of hierarchy and communication with other Toro departments is fast-paced, informal and efficient. Because of Toro’s high earnings marketing budgets are generous so that they can travel to wherever there are trends they believe are worth scrutinizing. Additionally they have the latitude to seek out and buy the services they may need as part of a marketing offensive such as the very best packaging-designers from global design centres such as London.

### ***Vitana***

The thinking behind the Vitana acquisition was that the Czech Republic in 1992 was set to rapidly pass through the same stages as Toro had done since the 1960s. Spending power would increase and time for home cooking would decrease. Just as Toro had succeeded in Norway in responding to these developments so could Vitana, deploying Toro’s competencies, succeed in the Czech Republic. Indeed some viewed Vitana as a Toro mark 2 saying “Let’s do Toro again!” However, there were voices of caution within the Rieber & Søn top management group including that of CEO Svein Steen Thomassen who thought Vitana after 45 years of communist state ownership looked like a “basket-case”. Added to that was its size – it was much larger in its terms of output than Toro – and its complete lack of any

sales apparatus or culture. After considerable internal debate Rieber & Søn, with the board's backing, took the leap and acquired Vitana for "next-to-nothing".

At the point of acquisition Vitana had a 60 per cent share of the Czech market. While it was expected that this would decline as competition within the Czech market increased equally it was expected that with Rieber & Søn's know-how in marketing and production Vitana would be a dominant player in a market of 11 million inhabitants, i.e. nearly three times the market size of Norway.

Even though Vitana was to have in the immediate post-acquisition period access to Toro's key knowledge bearers it was made clear to Vitana at the outset that like any other part of the Rieber & Søn conglomerate it would after the initial period have to justify its existence as one more part of Rieber & Søn. The notion was that the Toro way of doing things would be transferred in one-off approach and then Vitana would be left alone. In other words it would not only retain the Vitana name but it would be a distinct, stand-alone operation like any other division of Rieber & Søn. In terms of Birkinshaw and Morrison's (1995) typology of subsidiaries Vitana was to be a "local implementer" performing most of the activities in its value chain with a focus on adapting products to local markets. The only constraint on its autonomy would be to have to deliver financial reports to the top management group in Bergen. This multi-domestic mode of operation, reminiscent of Rieber & Søn's traditional conglomerate mode of operation, not only meant that Vitana was free to develop its own human resource management systems, but that there was little concerted attempt to coordinate or integrate Vitana's operations with Toro's.

After the initial period of 1992-96 the knowledge that was originally supposed to flow between Toro and Vitana was thereafter only sporadically transferred at least in part because Toro regarded assisting Vitana as an impediment in relation to its own performance. Toro wanted its own experts in Bergen not in the Czech Republic. Indeed so difficult was it to find marketing experts within Toro who could devote time to Vitana that, even in the initial years, non-Rieber & Søn Norwegian marketing experts had to be recruited to Vitana in order to develop Vitana's marketing capabilities.

Additionally there was a network issue in the sense of who the Vitana CEO knew within Rieber & Søn and not least in Toro. The first CEO of Vitana was Helge Midttun, a Norwegian, who had joined Rieber & Søn in 1990 but who had no direct experience from Toro itself. Helge Midttun was accompanied by a technical director, Ole Johan Nesmoen, who had been head of manufacturing at Toro in the late 1990s and who had a substantial part of his career in Rieber & Søn. Another Toro person was the research and development

specialist, Odd Drageseth. Under Helge Midttun a sales department was quickly set up and Vitana's sales increased rapidly although market share did not increase. When he left not only Vitana but Rieber & Søn altogether in 1996 he not only took with him his experience and his networks but he left no natural successor. Additionally Ole Johan Nesmoen returned to Rieber & Søn in Bergen. It was the end of an era in which a Toro team had led Vitana.

As it proved impossible to find a suitable, or willing, replacement for Helge Midttun within the ranks of Rieber & Søn his successor, while being a Norwegian, was a non-Rieber & Søn person who acted as CEO until he stepped down in 2001. During these years, 1996-2001, Toro and Vitana rapidly drifted apart. Furthermore, sales growth stagnated because of a down-turn in the economy. However, market share also declined markedly as Nestlé made inroads from its base in Slovakia. This relative decline was only halted in 2005. Today Vitana has a 50 per cent share of the Czech market and Nestlé 30 per cent.

On the face of it a 50 per cent market share is nevertheless substantial. However, it should be borne in mind that since about 2001 the consolidation of retailers in the Czech Republic has greatly strengthened their bargaining position in relation to producers such as Vitana. In other words Vitana's margins are under increasing pressure, just as they are for the whole of Rieber & Søn.

The drifting apart of Vitana from Toro that started in 1996 was only fully acknowledged after Ulf Jespersen who had headed Toro since 1992 took over as CEO after Svein Steen Thomassen in 1999. In 2000 it was decided to abandon the conglomerate model in order to concentrate on foods. At the same time there was recognition that it had been a mistake to let Vitana in particular operate as independently as it done. Thus in 2001 the CEO of Vitana was replaced by Morten Vike a Norwegian who had joined Rieber & Søn in 1994 straight out of NHH (The Norwegian School of Economics & Business Administration). Morten Vike remained at Vitana until 2004 but returned again in 2006-2007 in order act as a stop-gap after his replacement left Vitana. He is currently a vice-president of Rieber & Søn. Additionally Ole Johan Nesmoen returned to Vitana in 2006-7 as a technical adviser.

### ***Delecta***

With the exception of the pre-acquisition Delecta CEO remaining post-acquisition until 2001 and there always being a Polish CEO, Delecta's post-acquisition development has followed a similar trajectory to that of Vitana. The notion was that it would receive input from Toro and develop as a result. However, Toro as a separate division was not only under no formal pressure to deliver assistance it was actually against its interests to deploy resources

for any other purposes than its own gain. Added to that rational element there were also other factors at work. First there was a clash in terms of management styles: while Toro had a typically Norwegian consensus style clan culture based on sharing ideas informally, Delecta had a decidedly more formal and hierarchical style whereby ideas and decisions came from above. Second there was a “clash of egos”: Toro was the star performer of Rieber & Søn and had little patience with the Delecta attitude that it too had ideas that were worthy of serious consideration. The result was that cooperation was confined to small, limited projects.

Although there was some inpatriation of Delecta production personnel in Toro shortly after it was acquired by Rieber & Søn, a concerted attempt to bring Delecta more into line with Rieber & Søn was not attempted until 2001 when the old-guard leadership stood down and was replaced by a temporary “management for hire”. This drive for efficiency and integration further increased under Asbjørn Reinkind who took over as CEO in January 2002. In 2003 Reinkind dispatched a thirty-some Norwegian to Delecta for two years. He had five years of experience, partly from Toro and more latterly from corporate headquarters. He spoke no Polish but did, although he found it heavy-going, attempt to learn the language. He had two mandates both of which were clearly communicated by Reinkind to Delecta: the first was to establish a corporate centre of excellence for sweet products, and the second to transfer to Delecta Toro’s best practices in marketing and product development. However, in order not to offend local sensibilities he was instructed to avoid acting as headquarters’ emissary. Instead he was to act as an enabler, “making local heroes”. As he reflected, “Particularly initially this was a tricky balancing-act”. When he arrived at Delecta the communist-era old guard management was still in charge. What he observed was a hierarchical style of management, with little sharing of information between managers and a pronounced tendency to sweep problems under the carpet. Flawed products regularly left Delecta for the shops because to have re-called them would have involved a search for scapegoats, blame and painful consequences. The tacit agreement was for everyone to keep quiet. Despite having been cautioned to keep a low-profile, the Norwegian could not resist prodding the system by asking what were clearly regarded as painful questions. The response was to marginalize him by “forgetting” to invite him to meetings until he insisted on his being re-admitted to them.

Reporting back to Reinkind, the Norwegian communicated a mixed picture. Although he reported some progress he also noted inefficiencies, a lack of focus on product and brand development and a risk-averse culture. This report served to confirm the validity of other similar reports on the situation at Delecta. Reinkind reacted by bringing in a new CEO, a Pole, Piotr Sienko, who arrived from Unilever in 2003. Sienko was confronted by an uphill task. He

had inherited departmental managers with the “old” mindset and a purchasing department where no one spoke English. After six months Sienko concluded that the head of marketing should depart and he appointed the Norwegian to the job. He also set to work by bringing in Poles with a “western” mind-set. By 2004 the regular loss had been turned into a small profit which was improved on in both 2005 and 2006. However, in 2007 Sienko attempted a root and branch reform of the Delecta sales force that resulted in substantial losses.

The Norwegian in his new role as head of marketing at Delecta set about encouraging his colleagues to consider international trends in food stuffs. He suggested that they visit Vienna to observe cakes. However, his colleagues argued that this was an impossibly expensive undertaking. Although he suggested doing this as cheaply as possible by driving there in a mini-bus and staying in budget accommodation there was still resistance. In one sense this was a reflection of an insular, provincial heritage and the notion of travel as an envy-triggering perk; in another it was a response to the limited budgets that Delecta, a low-performing business unit, can make available for marketing and product development.

Another initiative of his was the introduction for the first time in Delecta’s history regular meetings involving both the purchasing and production departments. He established the concept of project planning with clear responsibilities and clear time-flow plans. This was standard practice in Toro but previously unapplied in Delecta. However, despite transferring a number of marketing best-practices from Toro to Delecta, he did not succeed in implementing the synergies projects between Vitana, Delecta and Toro whereby marketing and product development would be shared. The critical barrier to this lay not so much with any reluctance on the part of Delecta to learn so much as the lack of incentives for Toro, as well as Vitana and Delecta, to engage with this process. After all in Rieber & Søn business units are measured by on the basis of their own financial performance and anything that distracts from that performance is relegated to the outer margins of “things-to-do”. Nor did this Norwegian manager succeed in developing a centre-of-excellence for sweet products: there was simply not the level of competence in Delecta for this to be viable.

In 2004 he returned to Norway. As there was no Pole with the necessary qualifications to replace him he was succeeded by a Toro-based Norwegian product manager, who communicates with Delecta primarily on the basis of telephone meetings.

The geographical position of Delecta, a three hour drive from Warsaw, not only makes travel from Bergen a somewhat arduous undertaking, it also means that recruitment to key positions within marketing and product development is problematic. Warsaw-based



professionals are loath to leave the capital for a town that lies beyond commuting distance and with a population of only 120,000.

Ulf Jespersen argues today that Rieber & Søn should at the outset have been more like Nestlé and pursued integration in a much more resolute way. However, integration involves resources and for a conglomerate that means that resources have to be taken from well-performing business areas, in breach of the conglomerate idea that rewards winners. In addition, integration of foreign acquisitions involves capabilities that invariably take time to develop. Some of those capabilities involve having a cadre of career expatriate managers who both know the company culture, have a long-term commitment to it and who are capable of communicating it. Rieber & Søn was new to a game Nestlé had been playing for many years. However, even today Rieber & Søn have resisted establishing a corporate human resources function that could manage the practicalities involved in both expatriation and inpatriation.

When erstwhile head of Toro, Asbjørn Reinkind, took over as CEO in 2002 the integration of Toro, Vitana and Delecta in the pursuit of synergies had commenced. In place were:

- An in-house branding school conducted in English drawing on expertise from London Business School and HEC.
- A management traing program, Rieber & Søn MTP, which was initiated among top managers in 2000
- Annual marketing integration meetings attended by forty to fifty marketing executives from across the Rieber & Søn group of companies.

Both of these initiatives were adopted by Reinkind who, adopting the newly coined “Local taste champion” concept added the following integrative mechanisms:

- The completion of the introduction of SAP as an Enterprise Resource Planning (ERP) system first in King Oscar and then Delecta (2004), then in Vitana (2005) and Toro in 2006.
- Despite resistance from the business units, the introduction of group purchasing directors who could be located in any of the business units.
- The integration of the food safety function.

- As a follow up to the management training programme a series of in-house seminars on national culture were held as a means to aiding mutual comprehension.
- A web-based company newspaper with translations into Polish and Czech is introduced to all facilities including the factory sites.
- Inpatriate trainee schemes.
- The adoption of English for all company slides.
- The outline of a policy that expatriation is integral to career development within Rieber & Søn.
- Delecta is renamed Rieber Polska.
- A set of nine common leadership principles were developed in 2005, and later adapted to The Rieber & Søn Appraisal System and 360 managerial assessment, resulting in the following eight principles:
  - Consumer and customer driven
  - Result orientation
  - We do what we say, and we say what we mean
  - We listen and we learn
  - We strive for improvement
  - We enjoy making our colleagues succeed
  - We promote creativity
  - Enthusiasm and a positive attitude
- A company wide appraisal system based on the eight leadership principles
- A company-wide process related to sharing and implementing best practice in the sales area including pay for performance and key accounting.
- Annual two day strategy meetings for BU directors held at different locations.

Of the many initiatives listed above, the three lattermost initiatives were considered to be of particular significance for the integration of Toro, Vitana and Delecta and have since been the subject of a research and development project conducted with researchers from NHH.

## Impro 07 – Rieber’s internal improvement programme Deliveries minimum on target 2007 – Further potential



### Impro 07:

- Internal improvement programme
- Launched July 2005
- Target: 150 mln. NOK (2007)

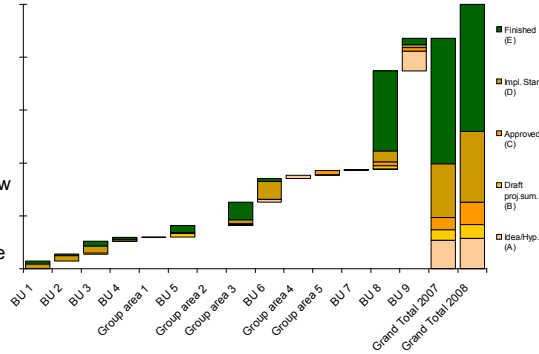
### Almost 250 improvement projects

### BU specific + cross-BU projects

### 4 Main projects:

- Pay for Performance (Trade)
- Purchasing / Harmonization of raw materials
- Production efficiency
- Admin/over-heads – Best practice

### Close progress monitoring and follow up.



### Current initiatives > 150 mln. NOK (2007) – Further potential

### Bring from project to ongoing focus on continuous improvements

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## Adapting organization to harmonized raw materials and cross-BU sourcing



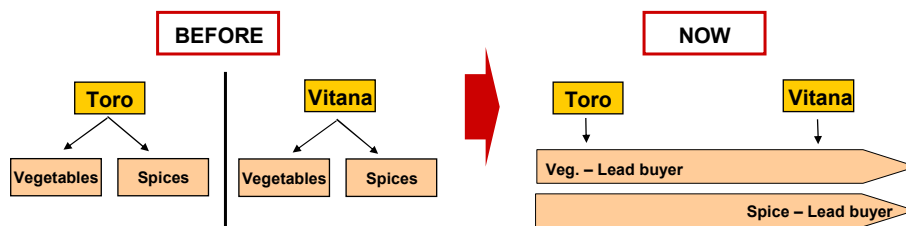
### Cross functional project group:

- Purchasing
- Product development
- Food safety/quality control

### Purchasing and specification management on Group level

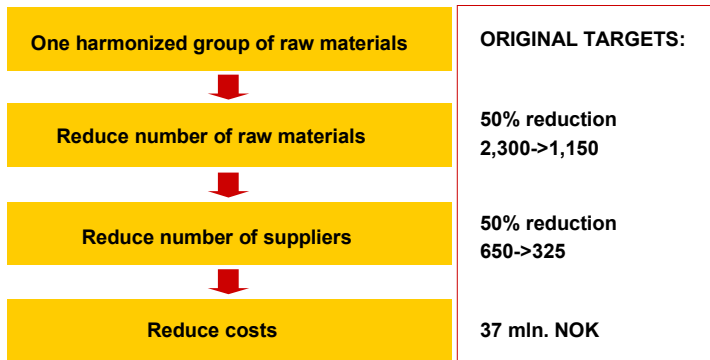


### From BU-purchasing to Group lead buyer model:



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**Example:  
Raw material harmonization - cross business units**



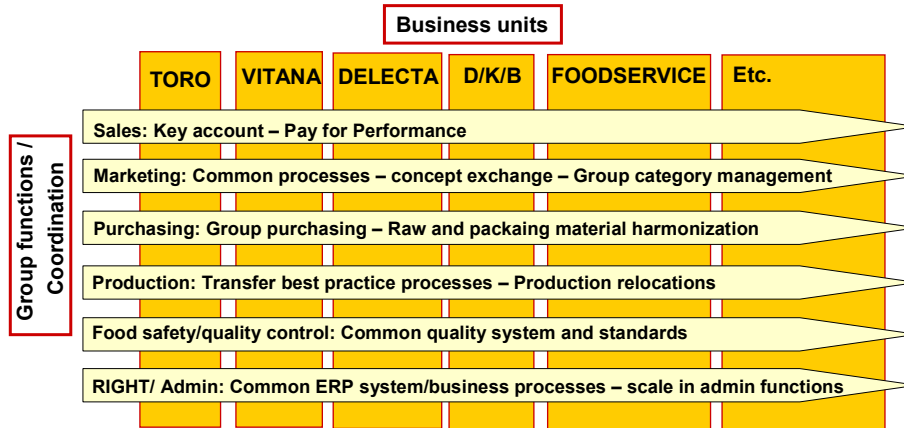
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By the time of Asbjørn Reinkind's departure from Rieber & Søn in the fall of 2007 the triangle of Toro, Vitana and Delecta were significantly more integrated than had previously been the case. Thus although product development continued to be carried out at the local level, product concepts were increasingly being centrally developed. Likewise a marketing network had been developed that has resulted in Vitana being able to check on trends in the more internationally-oriented Norwegian consumer market. One example of this was Vitana successfully borrowing a TV commercial concept from Toro. However, the networks have no decision-making power as such: all decisions are made at business unit level. Finally, there is integration of ingredients purchasing – about 30 per cent in terms of value - with the group purchasing director located at Vitana.

**From a conglomerate to a focused food company:  
Working cross Business units to capture synergies**



Working in an integrated 'Local taste champion' food company:



Balancing local business approach with capturing internal synergies

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Although mutual respect is developing across the triangle of Toro, Vitana and Delecta, this is, perhaps inevitably, constrained by the fact that Toro is by far and away the most profitable part. One should also note that Rieber & Søn still does not have in place a cadre of expatriate senior managers who could function as coaches and knowledge transferors or as CEOs for that matter. For example there was no replacement for Morten Vike as CEO at Vitana within the ranks of Rieber & Søn. His initial, short-lived, replacement was a German-Czech and his latter replacement a Pole. Neither of them had any previous Rieber & Søn history. Equally though Rieber & Søn does not have any non-Norwegians in its top management group.

Asbjørn Reinkind argues though that there are limits to the degree to which integration ought to be pursued in a company like Rieber & Søn characterized by profound imbalances between the business units. Not only is Toro much the most successful, not only is its production and marketing capabilities superior, but it also operates in a market that is characterized by much wealthier consumers who are prepared to buy very much sophisticated products than is the case in either Poland or the Czech Republic. For example the Norwegian consumer is moving away from dehydrated products to full-fledged meals that are prepared in micro-wave ovens. This highly profitable development for Toro would make no sense in either the Polish or Czech markets. These ready meals are simply beyond the pockets of consumers in these markets. In other words in retrospect the original notion of replicating Toro's success elsewhere appears very flawed because not only have neither the Polish nor

the Czech markets developed at the pace anticipated, but the Norwegian market is evolving in ways that were unanticipated. In short there are necessary substantial differences in the product portfolios of Toro, Vitana and Delecta which limits the potential for synergies. One might ask whether the concept of Rieber & Søn as the “local taste champion” is a product of strategic choice or environmental determinism (Hrebiniak and Joyce, 1985). It is certainly in accordance with the old conglomerate mode of operating.

Another imbalance between Toro and Vitana and Delecta is that Toro, unlike its siblings, operates in a market which not only, through tariffs, hinders the import of raw materials from outside of Norway but, more significantly, protects it from foreign-based competition. This latter factor has been an important factor in enabling Toro to successfully pursue a strategy of differentiation (Porter, 1985). That is Toro has acquired a competitive advantage on the basis of an approach characterized by savvy marketing and product design rather than cost leadership. Affluent Norwegian consumers view its products as superior and hence worth a premium price. Operating under such very different conditions to that of Vitana and Delecta raises the question of how much strategically useful knowledge Toro really has to impart. Furthermore, more substantial integration at the level of supply-chains is hampered because the Toro ingredients supply-chain is, because of Norwegian tariffs, largely necessarily Norwegian and therefore uncompetitive in EU countries such as the Czech Republic and Poland.

This is reflected in the following inter-business unit customer production figures for 2007, which while indicating growth, also reveal the constraints of achieving integrated production:

Vitana: 7 per cent of production volume for inter-business unit customers (0 per cent in 2002)

Delecta: 4 per cent of production volume for inter-business unit customers (0 per cent in 2002).

Nevertheless the change in production for inter-business unit customers does indicate for Vitana and Delecta mandates going beyond their local implementer role.

### **The View from Vitana**

Whereas much of the case is constructed on the basis of views and information gathered from Rieber & Søn’s former or current headquartered employees, we have also sought to develop a subsidiary perspective based on interviews with senior Vitana employees.

In 1992 communication between Vitana and Toro was limited by several self-evident factors. First, communication was difficult and necessitated the extensive use of interpreters because of the lack of English language skills among Vitana employees. Second, geographical distance was, pre-internet, an obstacle. Third, the mind-set of Vitana employees still reflected a planned/command economy era when there was no link between the production costs of goods and their sales price.

All three of these factors have become significantly less important although English is still only mastered at the upper levels of Vitana and actual visits from Bergen are usually no more often than every six weeks. However, the interviews with Vitana personnel indicate that there remain other less explicit factors that impact on the relationship between Vitana and Toro.

First there is the employee-company relationship. In general today's Vitana employees, particularly production workers, are still concerned with their own job security rather than the overall performance of the company. Thus the commitment and sense of a common goal that employees of Toro have for Toro is lacking.

Second, there is the need for hierarchy and unambiguousness. Vitana's employees prefer well-defined structures and clear briefs rather than the consensus-oriented approach to decision-making that characterizes Toro and the previously mentioned tendency to hesitancy that seems to be characteristic of the Norwegian part of the company. Vitana employees are frustrated at what they see as a tendency of Norwegians to evade making clear-cut and unambiguous decisions. By way of a footnote the Norwegians acknowledge this difference in style generally ascribing it to national cultural differences. However, trying to explain these differences in terms of national culture may obscure the much deeper and more tacit assumptions operating in Rieber & Søn.

Third there seem to be differences in the notions of how meetings should be conducted. Czechs, and Vitana is a typically Czech company, usually go to meetings with a well-prepared agenda that they want formally and unambiguously approved, whereas they view the Norwegians in Rieber & Søn as seeing meetings as arenas for open-ended discussions, lacking formalities and closure in terms of decisions. Again, by way of footnote, the Norwegians view Vitana personnel as being unwilling to freely express their opinions so that the informal interaction across layers that is typical of Toro is absent at Vitana.

Beyond these cultural issues though there is also the issue of how the three business units comprising the Toro-Vitana-Delecta triangle are measured. Each business unit is measured at the business-unit level meaning that none has an immediate interest in seeking

savings at the level of the multinational operation particularly if it has any potential negative effect at the business-unit level. As we have pointed out earlier, this may reflect deep-seated taken-for-granted elements of organizational culture.

To the extent there have been knowledge-flows, and this has increased over the last five years, this has been largely one way, emanating from Toro. This has caused a certain amount of resentment at Vitana, because although while it is appreciated that Toro is more knowledge-rich than either Vitana or Delecta there is a feeling that there is a lack of willingness on the part of Toro to acknowledge good ideas or practices emanating from Vitana. For example, in the wake of a reorganization of the Vitana sales function, including new motivation systems and job descriptions, the Vitana sales function was evaluated by Boston Consulting as constituting the overall best sales function practice across the whole of Rieber & Søn. This recognition was greeted with scepticism by Toro counterparts who opined that the metrics used by Boston Consulting had to be faulty.

Toro is also viewed as being both geographically and politically very much better positioned to get its ideas accepted by Rieber & Søn. Indeed Toro of Norway is viewed as more or less as an extension of Rieber & Søn a company that appears to be for ever destined to be manned at the upper levels by Norwegians. This is reflected in management being located in the same building as Toro management.

Although the efforts of the last five years to achieve greater integration, including the implementation of SAP and the delegation of the lead-buyer function to Vitana, have resulted in a decline in political game-playing, the concept of integration is of course relative. There is no central branding, no common templates, no multi-national sales teams, no systematic approach to knowledge sharing and no common norms in regard to for example the sales function. Thus the development of the sales function is a purely local matter. One area of Vitana's activity that is most certainly not decentralized is that of investment decisions. As Vitana's profitability has dropped major investment has been difficult to argue for. This has served to underline the differences in the market and strategic situations of Toro and Vitana.

Vitana itself is by no means a homogenous, integrated entity. Marketing and sales are located in affluent and modish Prague and the main production facility in the down-to-earth provincial town of Bysice. While the communication between the marketing and sales functions is not particularly good mainly because of the high turnover of marketing people who leave Vitana for more stylish companies, the communication between the marketing function and production is decidedly poorer with elements of prejudice on both sides. Indeed the production employees at Bysice feel a greater affinity with their production counterparts at



Toro than Vitana's "hip" marketing executives. To counter this gulf as well as the traffic between Prague and Bysice the plan is to construct a common site close on the outskirts of Prague.

### **The View from Delecta**

One of the core views emanating from Delecta is how fundamentally different the Polish market is to the Norwegian market. One basic factor confronting Delecta is the market structure of Poland. Although retail chains are growing, in essence the Polish market comprises relatively small, independent retailers struggling to survive in a price-conscious market. A second basic factor is the strength of the competition from other multinational foods companies such as Heinz, Unilever and Knorr. A source of frustration is that under the conglomerate-style model Rieber & Søn employs current earnings within this market context determine the resources Delecta can deploy for marketing and product development. Delecta's meta-categories, baking mixes, desserts, meals and drinks, comprise very many different sub-categories with no single sub-category having any critical mass.

Although each of the meta-categories exists in Toro none is of any significance in the context of the Norwegian market. Nevertheless, since the old-guard management from the communist era stepped down in 2001, Delecta management acknowledges that it has become significantly more integrated with Rieber & Søn. There are elements of common purchasing of raw materials through the harmonization of ingredients and common production with Delecta producing for both Toro and Vitana. In addition there are common management training programmes and the marketing network.

However, the Delecta management view is that a unified group mentality across Rieber & Søn remains underdeveloped and that the process of integration has barely begun. For example as well as considerably more use of their spare capacity and relatively cheap labour for centralized production, and more knowledge-flow across the group, Delecta would like to see Rieber & Søn adopting a more global approach to major customers such as Lidl<sup>2</sup> and Tesco. Delecta management emphasizes that this requires a better resourced global management team than currently exists including a cadre of global managers who have the cross-cultural experience to enable them to operate effectively across the group. In specific terms this would mean managers capable of bridging the very different management styles of for example Poles who require firm, well-defined decisions and the Norwegians of Rieber &

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<sup>2</sup> This was before Lidl announced its decision to withdraw from Norway.

Søn who – according to the Poles - have a preference for open-ended discussion, which they refer to as “talk, talk, talk”.

Furthermore, Delecta managers can envisage a move away from the conglomerate model of independent business units that are encouraged but not mandated to cooperate to a globally integrated structure, similar to that of for example Unilever. In other words, while taking the need to adapt products to local tastes and spending power geographical locations would be awarded centralized production mandates. This view is tempered by the keen awareness that certain foods are idiosyncratic to particular markets with the Polish market being particularly traditional in its tastes. Equally there is a consciousness that well-established dominant market positions in Poland by multinationals such as Unilever in certain key Toro product areas, not least soups, effectively precludes significant entry even by a globally integrated Rieber & Søn.

### **King Oscar**

In 1996 Rieber & Søn acquired Norway Foods which included King Oscar, a canned seafood brand originally established in Norway in 1902. In 1955 in King Oscar was a major employer in Norway with 134 canneries. By 1975 this had been reduced to 26 and by 2008 there was none.

More or less from the outset King Oscar had been an export-led company with for example exports to New Zealand as far back as 1903. In 1979 it had 42 different brands in the US. In 2000 exports to Japan totalled one million tins. Indeed so strong has this export orientation been that King Oscar ceased to exist within the Norwegian market. It was only after the Rieber & Søn acquisition that King Oscar was re-launched in the Norwegian market swiftly acquiring an 80 per cent market share.

Due to increasing health consciousness the seafood industry globally is increasing: in 2006 the industry grew by nine per cent in value and six per cent in volume. In Norway itself the market for King Oscar's products has increased by thirty percent since 1998. As a brand King Oscar was a product of differentiation strategy, that is to say its premium brand reputation is based on it being a superior product. In 2007 it is Rieber & Søn's fourth largest brand in terms of sales volume and comprises approximately 20 per cent of Rieber & Søn's global sales.

Canned seafood is a labour-intensive industry. A brisling production line requires packers who manually place the dried brisling sardines into aluminium cans. High production costs in Norway quickly stimulated King Oscar after its acquisition by Rieber & Søn to seek

low-cost production facilities abroad. As Rieber & Søn was already present in Poland, through its Delecta acquisition of 1996, that was a factor in identifying Big Fish of Poland. An analysis indicated that Big Fish was well-recognized in its home market and had a favourably located production facility in Gniewino in the north of Poland, approximately 30 km from the Baltic coast. Operating in a low-wage market Big Fish, unlike King Oscar, had traditionally pursued a cost leader strategy. That difference in traditional strategic orientations contributed to making knowledge transfer from King Oscar to Big Fish a considerable challenge.

In 1998 it was resolved to acquire 100 per cent of Big Fish with the official takeover taking place on January 1<sup>st</sup> 1999. Initially little effort was put into integrating Big Fish with King Oscar and they remained two separate organizations. However, that changed with the introduction in 2003 of SAP and by April 2008 all production had been moved from Norway to Poland. Only one Big Fish product aimed at the local market has been retained. The rest of the production is for export under the King Oscar brand.

Unlike the national organizations of Toro, Delecta and Vitana, King Oscar is integrated across several national sites. Together with production, logistics and sourcing is located in Poland. Marketing and sales are located in Bergen with additional sales offices in the Czech Republic, Belgium, Poland and the US. King Oscar is also very much more inter-linked with other parts of Rieber & Søn in that 50 per cent of its sales go in-house to Toro, Delecta and Vitana.

Although the management group meets face-to-face twice a month developing a common understanding of the industry remains difficult. Geographical distance is part of the problem in the sense that had group members met on a daily basis a common understanding would be easier to develop. Nevertheless, in the minds of the Norwegians the issue of cultural distance looms larger particularly in the area of leadership where the perception is that the Poles want a boss who is all-knowing and all-mighty.

However, there is a third issue that is currently generating uncertainty and therefore undermining the development of a common understanding. In recent years King Oscar has had to contend with a number of problems not of its own making. The fall in the value of the dollar has made exporting to the US, one of its major markets, difficult. Added to that commodity prices have increased. Finally, severe labor shortages in Poland mean that the cost advantage of producing in Poland is declining. In short King Oscar's context is volatile and therefore achieving the targets set by Rieber & Søn is a struggle.

## **The View from King Oscar**

The Polish managers are conscious of cultural differences in that the management style King Oscar has introduced encourages managers to voice opinions rather than just receiving orders. While that is appreciated there is also a sense that the decision-making processes involved in consensus seeking are too slow and that the Norwegian management is too hesitant, too vague and not prepared to issue clear instructions. This is regarded as a drawback in a market setting characterized by “brutal” competition something it is believed the Norwegians fail to fully comprehend. Added to that is the perception that deeper integration routines are still not in place.

Cultural differences were only fully appreciated when it came to learning from King Oscar in order to be able to produce at the required standard. Frequently relations were tense, fraught and at times even acrimonious. Cultural stereotypes abounded. The Norwegians failed to appreciate just how much tacit knowledge King Oscar had accumulated over a century and the need to explain production processes in explicit terms preferably in the form of manuals. Furthermore, Norwegian employees at the Davanger cannery were suspicious of management’s motives and feared – rightly as it turned out – that by transferring their knowledge they were closing down their own operation. However, the Poles accept that their own national pride was a barrier to learning: their technical employees were reluctant to accept knowledge from Norwegians. Likewise their engrained habits of frugality which resulted in their not throwing away fish regardless of whether it was too large. Eventually production manuals were produced and relationships were formed, but even today Polish managers concede that there are elements of King Oscar’s more tacit knowledge, developed over the decades, that has not been fully absorbed.

However, cultural differences are not just a facet of the interaction between Poles and Norwegians. Although there are increasing sales to Vitana there is no perception of the Czechs as being easy to interact with. They are regarded as overly taciturn and reserved and therefore even more problematic to have dealings with than the Norwegians. At social occasions the Poles and the Czechs invariably divide into national groupings.

## **Future scenarios**

As Patrik Andersson takes over as the new Rieber & Søn CEO, August 2008, we argue – and here we are disregarding King Oscar - he has a range of choices in regard to the triangle of Toro, Vitana and Delecta. At the one extreme is substantially greater integration of

operations across the triangle, at the other divestment of parts of the triangle. We refer to these choices as scenarios, i.e. possible, but by no means necessary futures.

#### *Global Integration through Structural Change*

One future scenario for the triangle is that of an integrated food company where decisions are made centrally at the group level rather than at the business unit level. In effect this is the option that King Oscar has selected for its operations. Even if there is a business case for global production centres it would, however, mean having to engineer far-reaching changes to a well-entrenched organizational structure involving a centralization of purchasing functions and a central human resources department. For Rieber & Søn to abandon its long tradition of a conglomerate based multi-business unit strategy would involve serious challenges. Once a certain structure has been adopted, and functions, authority, and operations have been distributed among different units in different countries, any reorganization is both time-consuming and costly (Aharoni, 1996). Furthermore, the “conglomerate mentality” is probably deeply culturally embedded in Rieber & Søn. There is also the possibility of political resistance that such a restructuring would provoke in that the power of the fiefdoms would inevitably be challenged. As one Delecta senior manager remarked of Toro, that had Delecta been as profitable as Toro he would not voluntarily sacrifice anything for the greater good of the whole group. Of particular significance is also the fact that Rieber & Søn still has no central HR-function to act as support in facing these challenges.

#### *Global Integration through the Development of Social Capital*

A different route to bringing about global integration might involve developing the structural, cognitive and relational dimensions of social capital across business units. This would mean further embedding the strategy of common leadership principles as well as further developing common appraisals and marketing networks. It would also mean addressing the current business unit self-centeredness that is a product of there being disincentives to engage in knowledge-sharing. Another condition would be putting in place culturally adept, geographically mobile global managers who have the ability to act as boundary spanners across a group of locally embedded business units and who can act as ambassadors on behalf of a common “igniting purpose and as disseminators of productive practices. There is currently a dearth of such managers within Rieber & Søn and it is open to

question whether it could attract such individuals to such a Norwegian-centric top management group.

### *Outsourcing of manufacturing operations*

A very different scenario to that of greater integration is that of extensive outsourcing of manufacturing operations. This takes as its starting point the notion that the real strengths, or core competencies, of the triangle of Toro, Vitana and Delecta are centred at Toro and lie in Toro's dynamic marketing, product design and development. Manufacturing as such is not a core competency because it can be purchased externally to Rieber & Søn. Thus, while retaining, developing and adding to the brands, manufacturing for the whole group could be outsourced.

While we accept that this suggestion would meet with strong resistance not only at Toro but also at Vitana and Delecta all of which have well-established production facilities there is another counter-argument. This is that while Toro's core competencies exist they are only appropriate for the affluent Norwegian market served by Toro which permits a strategy of differentiation. They are far less relevant in the less affluent markets of the Czech Republic and Poland where a strategy of cost-leadership may be more appropriate. Furthermore, senior Rieber & Søn argue that in terms of Figure 1 Toro is locked into the bottom left quadrant. That is, Toro is a master of line-extensions rather than authentically innovative products. We argue that Toro needs to interact substantially more with Vitana and Delecta and the needs of their consumers in order to become genuinely innovative.

### *Divestment*

Finally, there is a scenario involving the divestment of Vitana and Delecta in order to concentrate on Toro. Vitana is exposed to ever increasing competition from Nestlé which has a much broader range of products than Vitana and Vitana is also exposed to price-cutting private labels. Delecta has a range of products that do not match those of Toro and is prevented from expanding its local range to match that of Toro by powerful competitors. By contrast, Toro, at least for the immediate future, is substantially protected from external competition and serves one of the most affluent markets in the world in a dynamic and manner. However, a divestment of Vitana and Delecta runs against the grain of the culturally entrenched Rieber & Søn view that stretches back to its founding father and his philosophy of the need to have "several legs to stand on" in order to dilute the risk of another "ship-wreck".

## Postscript

As we approached the finalization of this case we were informed that Rieber & Søn is searching for a group-level Human Resources director at group level and also an Executive Vice President Operations. The first position signals greater emphasis on – and possibly integration of - human resource management at the group level. The second position is related to a new integration effort spanning the procurement of all inputs (apart from human resources) soon to be launched by the company. These two developments suggest that the company has made a choice to go for what we above referred to as the “Global Integration through structural change” scenario.

The background to these developments, not least the Executive Vice President Operations, is that as most players in the food industry, Rieber and Søn finds itself in an increasingly squeezed position between demanding customers on the one side and rapidly increasing factor prices on the other. In particular there has been a very strong price growth for agricultural commodities world-wide. A benchmarking analysis carried out in cooperation with McKinsey has indicated that centralized procurement of raw materials represents a potential cost reduction of NOK 300 million. On this basis Rieber and Søn has decided to design, plan and implement what they refer to as Rieber’s procurement transformation programme, which will focus on:

- Establishing a centralized procurement organization encompassing purchasing process responsibility for raw materials, packaging materials, trading goods, indirect purchasing and investments across all BUs.
- Establishing category specific purchasing strategies.
- Establishing a performance measurement matrix (KPIs) and aligning incentive structures (based on ‘total cost of ownership’).
- Clarifying and specifying interfaces and responsibilities including product development, call-offs/logistics, supply chain/production etc.
- Introducing the necessary methods, tools and techniques within purchasing in order to achieve effective and efficient purchasing processes (e-procurement etc.).
- Establishing a competence development programme within purchasing.

Rieber and Søn considers the procurement transformation programme as primarily an organizational development programme. The stated aim is to achieve significant and lasting

bottom-line impact through improving and developing its purchasing processes, raising the importance and status of procurement across the group and achieving a lasting behavioral change and continuous-improvement culture within purchasing. Those involved in this project clearly see it as a highly important test case for Rieber & Søn's capacity to integrate its organization across business unit and national boundaries.

From our perspective this programme will challenge core elements of the Rieber and Søn culture, not least its hesitancy in regard to decision-making, as well as political interests across the company. The management of this change process will be supported by the new HR function, which would seem to be of major importance in that many roles will change significantly as a result of this programme. This alone may generate significant resistance and serious obstacles to the implementation of the programme.



**Sources**

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**Former and present CEOs:**

Svein Steen Thomassen  
Ulf Jespersen  
Asbjørn Reinkind  
Tor Lund

**CEE:**

Morten Vike  
Teresa Sienkiewicz

**Group (purchasing):**

Milan Batha

**Vitana:**

Ivana Marsakova  
Ole Joha n Nesmoen  
Leos Mrazek  
Jan Hanus  
V'ta Vlk

**Toro:**

Jon Stang Volden

**Delecta:**

Piotr Sienko  
Anette Bura  
Magda Pawlicka

**King Oscar:**

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Halina Worzywoda  
Marcin Bialobrszeski

**Business Unit - Food services**

Nina Skage

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