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Making the Transition from a Multi-domestic to a Glocal Strategy

The Initial Phase of Rieber & Søn's Purchasing Transformation Project

by

Paul Gooderham
Rune Rønning

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Abstract

The immediate purpose of this paper is to assess the progress Rieber & Søn had made with the initial phase[1] of a project aimed at significantly integrating its international puchasing operations. This purchasing project is part of broader project of transformation at Rieber & Søn, “Program Future“, that commenced in the autumn of 2008 and that is set to run until March 2011. The focus is on the project’s expert “category” teams who are charged with the task of developing the knowledge base for the realization of an integrated but locally sensitive purchasing strategy. In addition this paper has an additional, broader purpose, namely to treat Rieber & Søn as an example of a loosely integrated, locally responsive MNE that is attempting to become considerably more integrated while not losing its ability to respond to localized needs. One key finding is that while the category teams, despite resource-deficiencies, had made substantial progress in identifying potential savings, integrating these in the wider organization remained a challenge.

[1] Referred to by Rieber & Søn as “Wave Zero”

1. INTRODUCTION

Background

Rieber & Søn is a medium-sized Norwegian multinational enterprise (MNE) specializing in food products headquartered in Bergen, Norway. Its roots go as far back as 1839. In 2008-2009 it had fully-owned production units in seven European countries and sales and market offices in a further six countries. In all, the group owned 28 brands in 12 countries. Its workforce comprised nearly 4,000 employees of whom 1,000 were located in Norway.

> "Rieber & Søn is intent on achieving greater synergies and thereby higher profitability. The composition of the new Group Management (from August 2008) reflects the Group`s strategy for the future, targeting on close integration between geographical areas and businesses, a need to extract greater benefits throughout the entire value chain, and a stronger focus on the development of employees and the organization.
>
> For some time Rieber & Søn has been engaged in the process of identifying the potential offered by optimal utilization of the company`s supply chain. In order to achieve this, a program called 'Future' has been established for this specific purpose.
>
> The program has the highest priority and is one of the cornerstones of the work being done to achieve major structural and operational cost savings. 'Future' is targeted mainly on purchasing and production, but projects have also been started in the area of sales and marketing.
>
> In the third quarter (of 2008) the purchasing project entered its operational phase. Six category teams with employees from different departments and geographical areas will be establishing new procedures in their respective areas, in order to ensure that the most cost-efficient purchasing practices are used."
>
> *Dagens Næringsliv,* October 28, 2008

Purpose

The immediate purpose of this paper is to assess the progress Rieber & Søn had made with the initial phase[2] of a project aimed at significantly integrating its international puchasing operations. This purchasing project is part of broader project of transformation at Rieber & Søn, “Program Future“, that commenced in the autumn of 2008 and that is set to run until March 2011. Our research spanned the period up to the end of March 2009. As such it must be empashized that in terms of Program Future this paper is very much an interim report about work-in-progress.

The overall aim of Program Future is two-fold. First it aims to integrate Rieber & Søn’s back-end operations, which includes production as well as purchasing. Second, using the savings achieved by integrating these operations, it aims to release more resources for front-end activities such as brand development, marketing and product development. [3] The purchasing transformation part of Program Future comprises expert “category” teams charged with the task of developing the knowledge base for the realization of an integrated but locally sensitive purchasing strategy. The functioning of these teams is the focus of this paper. It should be stressed that our research was completed prior to the completion of the work by these initial category teams.

Equally though it should be emphasized that this paper has an additional, broader purpose, namely to treat Rieber & Søn as an example of a loosely integrated, locally responsive MNE that is attempting to become considerably more integrated while not losing its ability to respond to localized needs. To achieve this aim will involve the extensive sharing of knowledge across previously discrete business units. Thus in terms of the integration of purchasing there is a need for the development of a body of knowledge that enables Rieber & Søn to achieve scale economies while also being sensitive to variations in national taste. Social capital theory argues that to achieve this, networks infused with “good-will” (Adler and Kwon, 2002) will have to be developed across the various business units. This requires resources not least because the formation of networks across MNEs through for example the creation of teams that are able to regularly meet is costly. Thus one may expect a degree of tension stemming from business units resisting diverting resources away from their immediate

[2] Referred to by Rieber & Søn as “Wave Zero”

[3] In the context of Program Future this latter activity is referred to by Rieber & Søn as “Price and Promotion”.

needs. Addressing this tension is critical not only in the context of the purchasing project, but also for the successful implementation of post-project purchasing organization.

Structure

In the next chapter we review theory on the challenges faced by loosely integrated, locally responsive MNEs as they seek to become more integrated in their purchasing activities while retaining the ability to deliver locally adapted products. A number of research questions are identified. After presenting our methodology these research questions are then explored using the case of Rieber & Søn's purchasing transformation project. In the final chapter a number of tentative conclusions are drawn.

2. THEORY AND RESEARCH QUESTIONS

Global, multi-domestic and glocal MNE strategies

Porter (1986) and Prahalad and Doz (1987) delineated two generic strategies pursued by companies operating in global industries, the global and multi-domestic strategies. A multi-domestic strategy emphasizes the need to be responsive to each local environment in order to achieve local competitive advantage (Yip, 1989). In contrast, a global strategy views competitive advantage as being based on capturing global scale or scope economies through the integration of the activities of the business and focusing on customer demands that are standardized across markets (Roth, 1992). At the product level, global scale economies are achieved through identifying homogenous market segments worldwide and offering a "standardized core product that requires minimal local adaptation" (Yip, 1989: 31). In contrast, multinational enterprises (MNEs) pursuing a multi-domestic strategy attempt to compete within each country independently. Products are designed country-specific in order to tailor products to local needs.

The global and multi-domestic strategies are featured in figure 1.

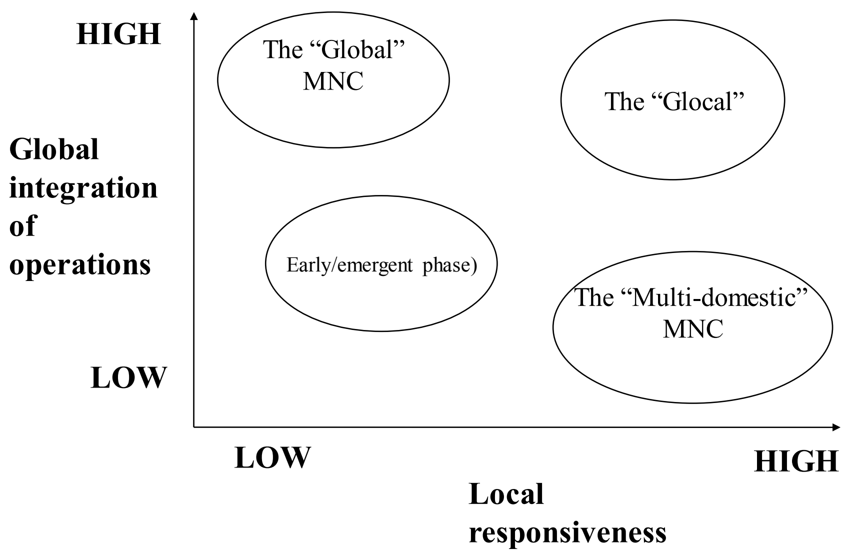

Figure 1: Generic MNE strategies

The global and multi-domestic strategies result in a number of key operational differences. One such difference is in the overall degree of product standardization: MNEs pursuing a global strategy focus on the efficient production of a narrow range of products, whereas MNEs pursuing a multi- domestic strategy view product diversity as necessary to support a locally-based competitive advantage (Yip, 1989). Another is the degree of integration of activities across locations: whereas MNEs pursuing a global strategy are seeking to exploit cross-national sources of advantage through a high level of intra-firm resources, those pursuing a multi-domestic strategy allow business units to be largely autonomous and to depend more on locally-sourced resources as opposed to inputs from affiliated business units (Prahalad & Doz, 1987). A third key difference is in the degree of localization-centralization of the value-adding process (R&D, manufacturing, and distribution/marketing): while the global strategy is based on achieving the centralization of the value-adding process, the multi-domestic strategy necessitates that it is local in order to ensure responsiveness to purely local tastes (Roth, 1992). Finally, there are differences in inter-unit communication: whereas the global strategy necessitates close inter-unit communication this is markedly less necessary for MNEs pursuing a multi-domestic strategy (Roth, 1992).

In governance terms whereas corporate headquarters of companies pursuing the global strategy monitor and reward product-based divisions, in companies pursuing a multi-domestic strategy corporate headquarters monitor and reward "relatively independent national units" (Verbeke and Kenworthy, 2008, 941). Together the operational and governance differences between global and multi-domestic MNEs constitute profound differences.

The issues we explore in this paper can be broadly conceived as revolving around the organizational and managerial challenges involved when multi-domestic MNEs resolve that they have to pursue the benefits from scale advantages of the standardization and integration of their purchasing activities, yet continue to offer goods and services that suit the local customer. In short this means that while the "back-end" of the business will be integrated, the "front-end" will remain locally responsive. Essentially, multi-domestic MNEs attempting to capture synergy in their purchasing activities across locations based on differences in input markets are seeking to capture efficiencies based on factor endowment costs. Exploiting these sources of competitive advantage necessitates increased resource flows among the subunits of the MNE. However, if the aim is also to ensure that the purchased inputs enable a significant degree of local responsiveness in terms of outputs then there is the need to develop a strategy that is neither purely global nor purely multi-domestic. We will refer to this strategy as "glocal" (Buckley and Carter, 2002), and in terms of figure 1 it is situated in the upper right quadrant.

In broad terms top managers of multi-domestic MNEs aiming at a glocal strategy, i.e. the integration of inputs while maintaining local responsiveness of outputs, have two broad options. The one, the transnational approach, is to achieve integration through the development and infusion of voluntary horizontal networks in the MNE (Bartlett, 1986). The other is to introduce formalized, hierarchical elements structured around product divisions which supplement the national business units, i.e. a matrix. The one does not necessarily preclude the other. On the one hand formalized coordination is a necessary condition for integrating value activities such as purchasing across geographic locations (Porter, 1985). On the other hand Bartlett & Ghoshal (1989) argue that global coordination within matrix organizations is benefited when instituted in conjunction with developing and maintaining a "common organizational psychology", a notion that Nahapiet and Ghoshal (1998) incorporated into the concept of "social capital". Thus in terms of purchasing, social capital across the MNE facilitates the synthesis of knowledge of local market requirements with the centrally-held knowledge of global purchasing options.

The role of social capital in knowledge transfer and sharing

While theorization on the determinants of knowledge transfer and sharing in MNEs does encompass the MNE's external environment, there is significantly more emphasis on the internal environment (Gooderham, 2007). In terms of the latter, building on existing knowledge-based theories of the firm, Nahapiet and Ghoshal (1998) argue that social capital theory provides a sound basis for identifying the capabilities organizations are potentially uniquely equipped to develop for the sharing of knowledge. Social capital, they contend, increases the efficiency of knowledge transfer because it encourages cooperative behaviour. They propose that differences between firms in terms of knowledge transfer may represent differences in their ability to create and exploit social capital. They distinguish three dimensions of social capital: the relational, the cognitive and the structural.

The relational dimension of social capital refers to such facets of personal relationships as trust, obligations, respect and even friendship which together increase the motivation to engage in knowledge exchange and teamwork. The cognitive dimension refers to shared interpretations and systems of meaning, and shared language and codes that provide the foundation for communication. Tsai and Ghoshal (1998) found empirical support for that the role of the cognitive dimension of social capital lies in effectuating the development of the relational dimension of social capital rather than directly on knowledge transfer. In other words sharing "a view of the world" is a necessary prerequisite for sufficient levels of trust to be developed that in turn stimulates knowledge exchange.

Nahapiet and Ghoshal's (1998) concept of social capital contains a third dimension, that of structural capital. The structural dimension of social capital refers to the presence or absence of specific network or social interaction ties between units of the MNE and the overall configuration of these ties. As such it is not directly associated with the transfer of knowledge. Instead its significance for the transfer of knowledge is through the ways in which it "influences the development of the relational and cognitive dimensions of social capital" (1998:251-252). Network ties facilitate social interaction which in turn stimulates the development of the cognitive and relational dimensions of social capital. Thus a precondition for the development and maintenance of relational and cognitive dimensions of social capital is that of sustained social interaction. Moreover, particularly rich patterns of interaction are important when the knowledge to be transferred is not codified. It should however be noted that while Tsai and Ghoshal (1998) found support for the influence of social interaction ties on the relational dimension of social capital, their study failed to find support for its influence on the cognitive dimension of social capital.

These relationships are summarized in figure 1.

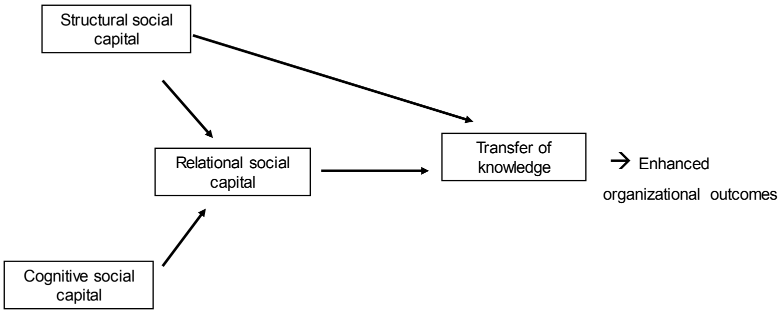

Figure 2: The components of social capital and their impact on knowledge transfer and organizational outcomes.

Figure 2 also contains an organizational outcomes effect. Successful transfer and sharing of knowledge will result in a new organizational facility – one that combines integration with local responsiveness.

Potential outcomes of a glocal initiative in multi- domestic MNEs

Kostova et al. (2008, 997) emphasize that MNEs are substantially different from domestic firms: MNEs have "complex internal environments, with spatial, cultural, and organizational distance; language barriers; interunit power struggles; and possible inconsistencies and conflict among the interests, values, practices, and routines used in the various parts of the organization". All of these elements must be confronted by MNEs that have been operating on the basis of a multi-domestic strategy for a substantial period of time but which have developed a glocal ambition, i.e. to achieve a locally sensitive global integration of previously purely local activities such as purchasing. Thus, even if there is a rational case for introducing such an innovation in purchasing, with rational innovation understood as innovation intended to further the financial goals of the organization (Birkinshaw et al., 2008), one should not necessarily expect acquiescence or active cooperation. Indeed one should expect that such a process of organizational innovation will be risky as managers of hitherto locally embedded subsidiaries attempt to make sense of the glocal strategy initiative that challenges them to maintain local responsiveness while conceding immediate control over production inputs.

Lozeau et al. (2002) delineate four generic organizational outcomes in relation to planned change initiatives. These vary according to whether modifications to the functioning of the organization occur and whether the change initiative in the sense of novel tools and techniques undergoes modifications. This is depicted in figure 3.

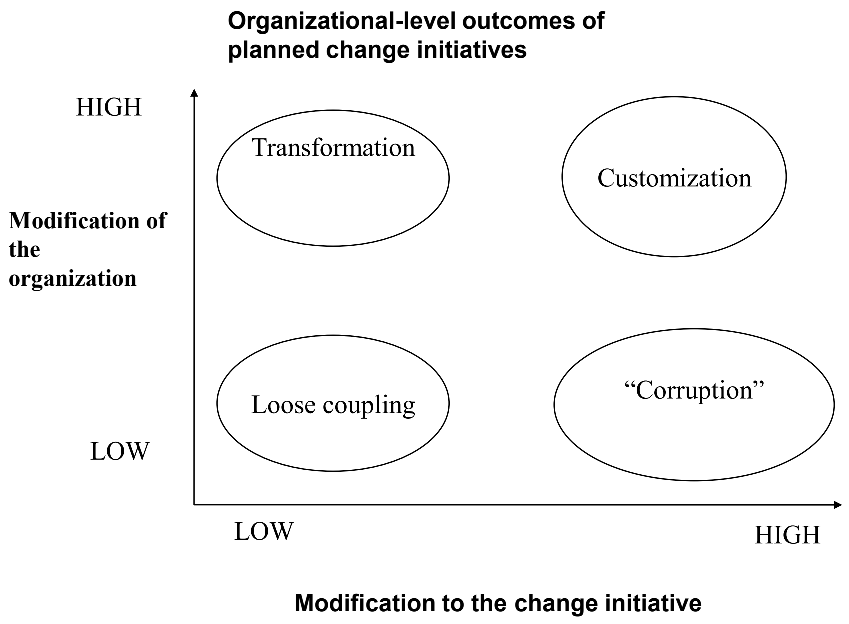

Figure 3: Organizational-level outcomes of planned change initiatives.

Transformation means that the change initiative transforms the organization as intended. Customization refers to an outcome in which the change initiative has been significantly modified in order to achieve the planned outcome possibly in order to cope with cultural and institutional distance between parent and host country (Kostova and Roth, 1999; 2002; Taylor et al., 1996). Loose coupling is an outcome characterized by only a superficial realization of the planned outcome. Finally, corruption refers to an outcome in which the change initiative been modified in order to avoid changing the organization.

Stensaker and Falkenberg (2007) observe that the organizational-level outcomes depicted in figure 1 are associated with specific interpretative responses at the individual–level. Thus transformation is a product of *convergent responses* at the individual level, i.e. "individuals generate accounts of change that are in line with corporate intentions and they act accordingly" (2007:167). Customization is a product of *creative responses* meaning that individuals have identified with the aim of the planned change but in order to achieve it have modified the tools and techniques that were originally supposed to be the means by which the aim would be realized. Loose-coupling is a product of inaction by individuals. This inaction may be a product of *unresolved sensemaking* – i.e. the genuine failure by individuals to understand the rationale behind the changes or the linkage between the proposed outcome and the tools and techniques that have been made available. It may also be a product of *non-compliance* – i.e. managers disagree with the proposed changes. Finally, corruption is a product of *divergent responses,* i.e. deliberate misinterpretations of corporate intentions which are then undermined by denaturing the available tools and techniques.

Like Stensaker and Falkenberg (2007) we seek to explain organizational level developments by applying a micro-perspective or an agency perspective (Oliver, 1999). That is we view organizational-level development as a result of managers' responses to change initiatives not least those that have consequences for the formation of social capital. Without the formation of social capital either transformation or customization will be problematic to achieve because of the lack of a sufficient knowledge base. At the individual level the development of social capital involves changes in the cognitive schemata managers apply. These schemata are arrived at through a process of sensemaking as managers confront change and interact with other managers "to make sense of what is going on around them and to determine how they should respond" (Balogun and Johnson, 2004). In short, they may maintain their "old" schemata, or they may develop new schemata. As Balogun and Johnson (2004:525) remark "scholars know more about the ways that schemata are maintained than about how they change." In other words schemata that have become institutionalized are resistant to change (cf. Meyer and Rowan, 1977; Selznick, 1957).

Governance mechanism explanations of resistance to the development of social capital

If the realization of the glocal strategy is dependent on the development of social capital, and this will inevitably have been underdeveloped in the context of the multi-domestic strategy, it is important to consider the sources of resistance to its development. As the work of Stensaker and Falkenberg indicates this resistance to change may not be a product of non-compliance or divergent responses. It may involve on the part of subsidiary managers actual failure to reconcile conflicting rationales. O'Donnell (2000) points to two possible governance mechanism explanations for this. The first may involve misaligned incentives, i.e. subsidiary managers continue to be primarily compensated on the basis of the performance of their own business units rather than the MNE as a whole. In other words the design of the incentive compensation may be more suited to a multi-domestic strategy rather than inter-dependent glocal strategy. Coupled to this may be the question of who should bear the resource costs involved in the glocalization of for example purchasing. The second explanation emphasizes a lack of "social control", i.e. the incomplete internalization of the new glocal values and the new goals of the MNE as a whole. O'Donnell argues that internalization depends on extensive personal interaction between headquarters executives and subsidiary managers. In the case of MNEs that have pursued multi-domestic strategies over an extended period of time these interactions will have been limited. Thus to realize a glocal strategy will involve regular personal interaction over time.

From a social capital perspective one means for achieving the sharing and synthesis of knowledge that underpins a glocal strategy for purchasing is to form teams of experts drawn from the various subsidiaries or business units across the MNE. Inter-unit expert teams are the basis for developing MNE-wide networks or structural social capital which is a necessary condition for transferring and sharing the knowledge that will underpin locally responsive integrated purchasing. However, the formation of expert teams that are able to meet regularly is costly not least because its members are diverted away from their regular tasks. Thus unless there is an appropriate alignment of incentives between headquarters and the business units, including agreement on the distribution of the costs involved in funding the expert teams, and a comprehensive internalization of the new glocal values one may expect a degree of tension stemming from business units resisting diverting resources away from their perceived needs. This tension may be experienced by business unit leaders in that they are at one and the same time committed to supporting expert teams as a means to achieving locally responsive integration of purchasing but are equally concerned with immediate business unit issues. Thus the degree to which expert teams will enhance knowledge sharing will depend on the MNE being able to manage this latent tension.

Research questions:

- To what degree are incentives for business unit managers aligned with the glocal strategy?
- To what degree has social integration of business unit managers taken place in relation to the overall MNE glocal strategy?
    - To what degree is there tension between the immediate interests of the business unit and the MNE as it seeks to achieve locally responsive integration of purchasing?
        - To what extent are expert team members drawn from different business units?
        - To what extent do expert teams comprise the "best people"?
        - To what extent are team members able to devote themselves to their team tasks?
        - To what extent do the teams have access to the support required for achieving their goals?

The development and maintenance of social capital within and beyond expert teams

While expert teams are a means of developing the structural social capital or ties necessary for the knowledge sharing a glocal strategy is aiming at, this is not sufficient in itself. If expert teams are to share knowledge and create new intellectual capital, it is necessary to ensure the development of cognitive social capital, in the sense of shared understanding of purpose, among team members. Furthermore, mechanisms must be in place to ensure that this cognitive social capital is maintained. Equally it is critical for the MNE to recognize that while relational social capital in the sense of high-trust relationships may develop within expert teams these teams may become so homogenous in their views that they are effectively closed in relation to the rest of the organization. In other words "bonding" may occur within the teams but at the expense of "bridging" or connectedness with the rest of the MNE (cf. Putnam, 2000).

Research questions:

- To what extent do expert team members understand the overall purpose of their team?
- What mechanisms ensure that this sense of purpose is maintained?
- To what extent are the expert teams able to communicate with stake-holders beyond their teams?

3. METHODOLOGY

We explore the research questions outlined above in the context of an in-depth case study of a Norwegian headquartered MNE, Rieber &Søn. As we will describe in detail below, Rieber & Søn has since the autumn of 2008 been actively attempting to move from a multi-domestic strategy to a glocal strategy. This is particularly evident in regard to its attempt to reorganize its back-end activities, not least purchasing. The case study method is well suited to the exploration of complex ongoing processes with uncertain outcomes and that therefore do not lend themselves to being studied using more theoretically pre-structured approaches (Yin, 1994). In particular we felt the case study approach to be well suited to an exploration of the micro-processes involved (over time) in rolling out the back-end innovation. A case study method also allows the use of multiple research methods and the use of different sources of information placed at the researchers' disposal by the organization (Eisenhardt, 1989; Miles and Huberman, 1994).

Our primary source of data has been interviews with managers involved in the purchasing transformation project which forms part of Program Future at Rieber & Søn. Our first interviews took place some months before the actual start of Program Future and continued until late March 2009. It should be noted that no part of the purchasing transformation project had been completed at the point in time of our last interviews. It should be further noted that it was decided to concentrate on the two main parts of the initial, seven part “Wave Zero”, phase of the purchasing transformation project, “Flexible Foils” and “Traded Goods”. In terms of Wave Zero these two parts were set the highest of all of the annual savings targets, NOK 8 million and NOK 24 million respectively. While the Flexible Foils part, like most of the other parts of the purchasing transformation project was set to last for between three to six months, the work on Traded Goods was set to last for a year.

In addition to managers from corporate headquarters and the main business units we also interviewed the chair of the board of directors. A complete listing of our interviewees is featured in the appendix. It will be noted that some key managers were interviewed at more than one point in time. In general interviews lasted about one hour and although they revolved around the research questions we have listed above, their structure was relatively loose in the sense that we did not employ a written interview guide. Nearly all of the interviews were conducted by both researchers and in addition to detailed note taking, most of the interviews were recorded. Immediately after the interviews had been conducted summaries of the interviews were written up by one of the researchers and then later read by the other.

A second important source of data has been documentation relating to Program Future supplied to us by Rieber & Søn. Those parts that we have deemed of particular relevance have been reproduced with permission from Rieber & Søn in this paper.

Finally, one of the researchers was provided with the opportunity to attend a purchasing transformation “kick-off” seminar in September 2008 and a meeting of the General Management Team in March 2009.

4. THE ORIGINS OF THE PURCHASING TRANSFORMATION PROJECT

Background

Above we have stated that Rieber & Søn is a Norwegian multinational food company headquartered in Bergen, Norway with its roots going back to 1839. In 2008 it had 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 a significant proportion of other 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.

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 September 2007 all of Rieber & Søn's CEOs had been Norwegians including Asbjørn Reinkind who was CEO from 2002. After a head-hunting process that lasted for nearly seven months, a new CEO, Patrik Andersson, was appointed at the end of March 2008 joining the company September 2008. Patrik Andersson, a Swede, has 12 years experience from Unilever, three years as CEO of the Swedish crisp bread manufacturer Wasabröd and from October 2007 a short period as President North Europe Division of Swedish Match. In the 12 month interregnum prior to Mr Andersson's , actual accession Tor Lund, a Norwegian and long-serving Director of Finance, functioned as temporary CEO.

Until 2000 Rieber & Søn was a conglomerate spanning a range of unrelated industries. At that point 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. Toro was to quickly establish itself as Norway's leading producer of dehydrated foods and remains a highly profitable performer.

In 1992 and 1996 respectively Rieber & Søn acquired the foods companies of Vitana of Czechoslavakia 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 two most significant foreign acquisitions remain Vitana, and Delecta, neither of which, in contrast to Toro, have ever been particularly profitable (Gooderham and Rønning, 2008). Of the other acquisitions arguably the most significant is that of DKB in Denmark, which again has had relatively weak profitability. Since at least 2002 the view of Rieber & Søn has been that, in product terms, Toro, Vitana and Delecta, and to a lesser extent DKB, have substantial commonalities. The other foreign acquisitions have been regarded as significantly more peripheral.

In line with its conglomerate heritage Rieber & Søn has operated as a multi-domestic MNE in the sense that there has been little cross-border integration of activities with local adaptation being considered important. Indeed this latter aspect of its multi-domestic strategy was encapsulated by the notion that each business unit should be its respective country's "local taste champion". Parallel with this emphasis on adaptation to local taste there was a pronounced emphasis on monitoring the results of each business unit separately and compensating accordingly. In other words Rieber & Søn as late as mid-2008 was run along the same conglomerate lines that had been the case throughout its long history. As a consequence of this conglomerate style of operating, purchasing was managed on the business-unit level with only voluntary cooperation across units.

Previous attempts at achieving integration

At least since 2002 corporate headquarters at Rieber & Søn has been conscious of the lack of synergies between the main business units, Toro, Vitana, Delecta and DKB. Indeed given strong price growth in agricultural commodities world-wide the integration of purchasing was an issue that could not be ignored. During 2004-2007 a number of activities, under the so-called "Harmonization Project", were implemented in order to take out purchasing synergies across business units including:

- Harmonization of raw material specification across business units
- Establishment of lead-buyers and lead product developers –primarily located at Toro - with responsibility for specification and sourcing across business units
- Started a process to systemize packaging material specifications as enabler for material and format harmonization.

In addition, in 2004 the position of Group Purchasing Director was established whose task was to coordinate between the purchasing departments in the respective business units.

In the view of Vitana's Purchasing Director, Michel Mrázek, the Harmonization Project was a "great idea" but by 2008 he thought that old habits had largely reasserted themselves, a view that was confirmed not only by other Vitana managers but also by Helge Midttun, the Chair of the Rieber & Søn board. A feature of the Harmonization Project was that no business unit was to be obliged to go against its business judgment and use the central lead buyers. In other words it remained up to each business unit whether they availed themselves of the services of the lead buyers. This meant that in practice as Sona Stehliková, a product development engineer at Vitana, pointed out, it was generally the case that she and others at Vitana would consider it more efficient to use the local buyer rather than the lead buyer. This was because despite the inception of lead product developers most product development continued to be done locally. Thus while lead buyers would be informed the actual purchasing was done by buyers within the business unit because they would have a better understanding of the requirements of the local product developer. An additional motive for Vitana to prefer its local buyers was, according to Monika Jakubínská, a senior buyer at Vitana, that a local buyer would be significantly more cost conscious than a buyer based at Toro in affluent Norway and therefore drive a harder bargain with suppliers.

This lack of trust on the part of Vitana managers in the central lead buyers based in Norway was experienced in reverse by Michal Mrázek, lead buyer for spice, and one of the few lead buyers located outside of Toro. His perception was that the view of managers at Toro's Eleverum plant was that anything that originates from the Czech Republic was by definition sub-standard. Rather than consulting with him he felt that they would simply go out and buy what they wanted behind his back. This lack of respect or trust on the part of the Norwegian operations was also experienced by Milan Batha who was appointed Group Purchasing Director in 2004. Initially, he felt, the attitude was that his position would eventually “evaporate”. When it became clear that the position was permanent his Norwegian colleagues simply “pretended” to cooperate. It was significantly easier for him to gain respect in the Czech and Polish operations. In terms of figure 3 it would be reasonable to conclude that the overall fate of the Harmonization Project was one of “loose coupling”, perhaps with elements of “corruption”.

If we look beyond purchasing, and consider the inter-unit integration of production the achievements during 2004-2007 were also relatively sparse. By 2007 Vitana had increased its inter-unit production as a proportion of its total production from 0 per cent to 7 per cent, while Delecta had achieved 4 per cent. In other words after a flurry of activities Rieber & Søn remained very much a multi-domestic company with not only locally evolved products but also local purchasing and production.

The genesis of Program Future

After Mr Reinkind’s departure as CEO in 2007 the Rieber & Søn board initiated a purchasing and supply management (PSM) analysis conducted by external consultants from McKinsey. This PSM benchmarked Rieber & Søn`s PSM performance against other companies in the packaged goods industry. The analysis, summarized in figure 4, concluded that on a scale ranging from 0-5 Rieber & Søn’s overall PSM performance of 2.3 was below the industry average of 3.0. In particular the analysis indicated three PSM areas in which Rieber & Søn was significantly under-performing: “Mindset and aspirations”, “Talent management” and “Strategic alignment”.

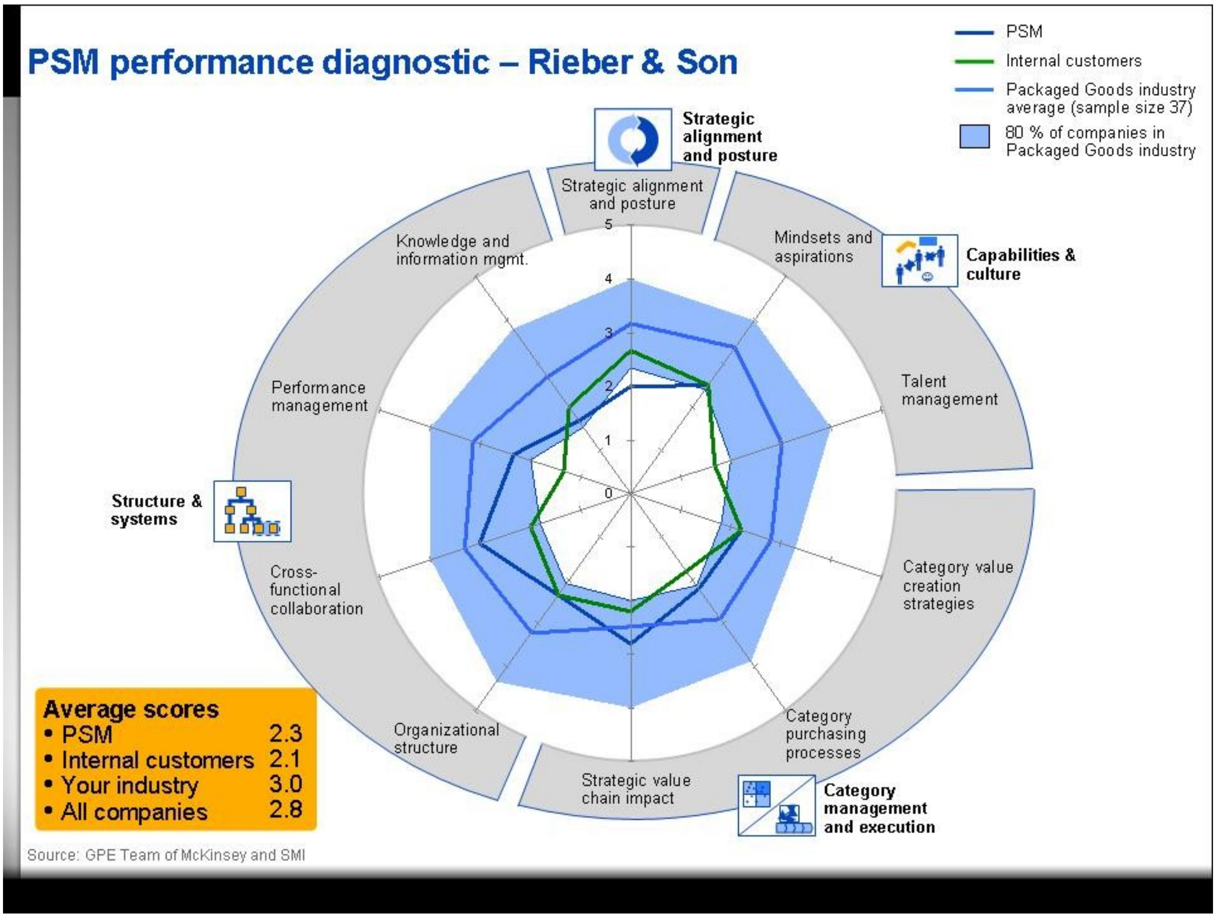

Figure 4: The McKinsey PSM analysis of Rieber & Søn

In sum the analysis indentified that procurement represents an unexploited annual cost reduction potential of NOK 300 million divided equally between raw materials, packaging materials and indirect purchasing/operating costs.

The view from the board-room

In an interview mid-June 2008 Mr Midttun, the Chair of the Rieber & Søn board, reflected on the mind-set that had governed Rieber & Søn's dealings with its foreign acquisitions since the mid-1990s. His insights reflected not only his experience from the Rieber & Søn board, he became a board member in 2004 and was appointed Chair in 2006, but also his experience as a Rieber & Søn senior manager from 1990 to 1992 and from 1992 to 1996 as Managing Director of Vitana. His insights were also a reflection of the McKinsey PSM analysis. Mr. Midttun observed that even in recent years the thinking of Rieber & Søn's corporate management has been very much a product of the company's long history as a conglomerate whereby business units stand-alone. The consequence has been that there has been only limited knowledge sharing across international operations and therefore few, if any, noteworthy synergies. This, he argued, has undermined earnings potential.

The thinking of the board was that Rieber & Søn's overall activities could be divided into a "back-end" (procurement and production) and a "front-end" (brand development, marketing and product development). Traditionally the focus of the company had been on front-end activities and these represented a substantial strength. There had been considerably less focus on back-end activities most of which had led "a sheltered existence". The view of the board was that there was now an acute need to upgrade and rationalize the back-end activities of the international businesses while ensuring that the vitality of the front-end activities is not affected. Hence, the board had taken the decision to launch "Program Future" in the autumn of 2008. Not least this was to comprise a purchasing transformation project that was ultimately intended to address Rieber & Søn's highly decentralized structure.

The pre-Program Future Rieber & Søn structure is illustrated in Figure 5. It may be noted that Toro, Vitana, DKB and Delecta were just four of eight highly decentralized business units served by a total of 12 lead buyers, but also by many local buyers. First and foremost, these local buyers responded to the needs of local product developers – for example in the case of Vitana there were 13 employees, including seven product engineers, dedicated to product development.

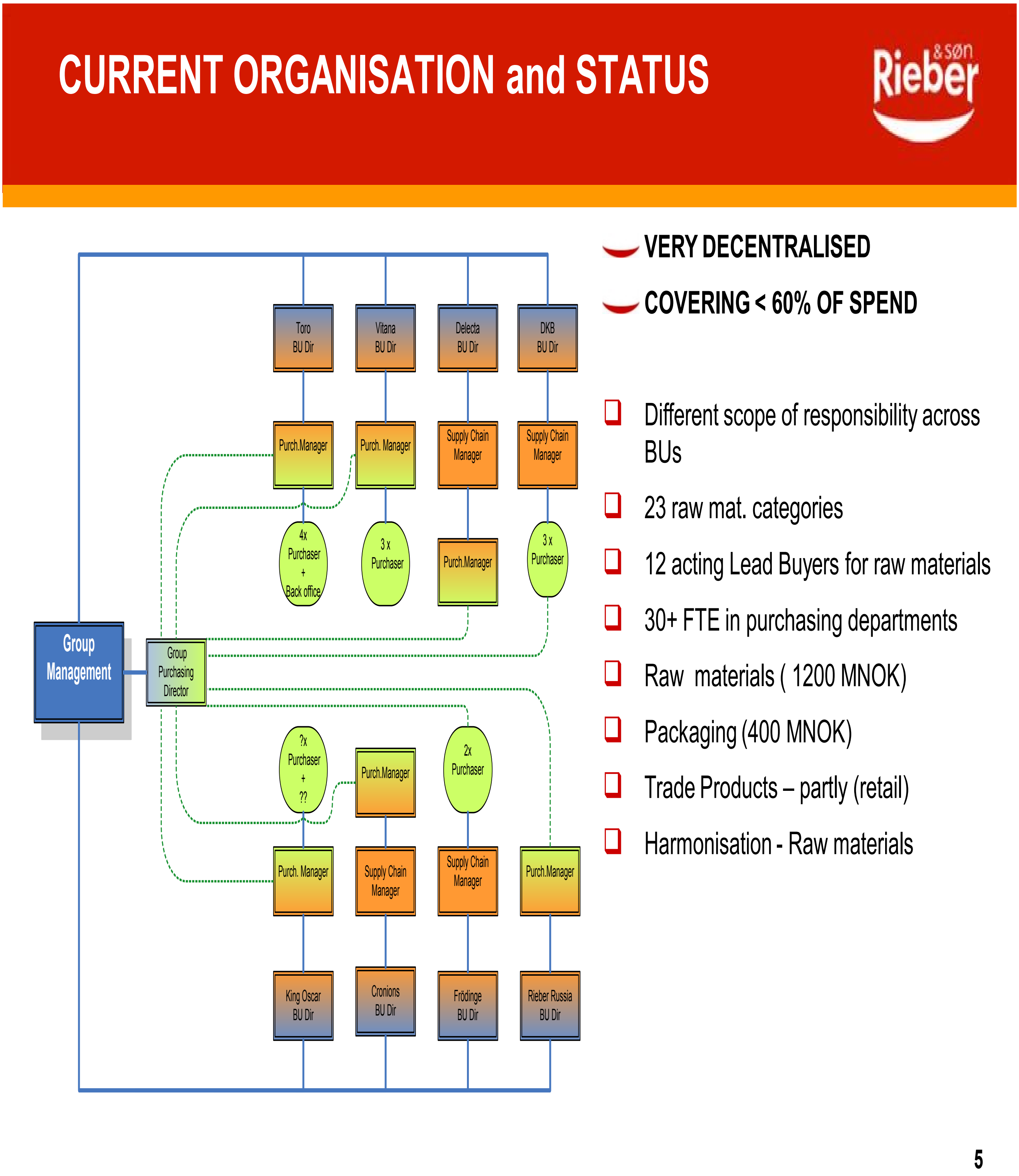

Figure 5: The structure of Rieber & Søn prior to Program Future

In particular, Mr. Midttun regarded the coordination of Toro and Vitana's purchasing as imperative. He was conscious that the process leading to coordination would have to confront fiefdom-mentality attitudes of the type "the quality 'over there' just isn't good enough". Equally he recognized that underlying that attitude was the awareness that in the longer term the centralized coordination of purchasing would lead to a centralization of production and therefore the possible loss of Norwegian jobs at Toro which in 2008 was only running at 60 percent of capacity.

For Mr Midttun the key challenge for the purchasing integration project was to ensure that the Managing Directors of the various business units developed what he referred to as "a shared language". Coupled to this was the need for the development of a new structure that would enable the various parties to interact. Without this it would be difficult, if not impossible, for the to-be-created function of Director of Purchasing to function on behalf of the various business units.

In theoretical terms, we may note that these two prerequisites for achieving purchasing integration, shared language and a structure that is conducive to inter-unit interaction, correspond to cognitive and structural social capital. An outgoing, senior Rieber & Søn manager, Morten Vike, added a third, the need to establish sufficient trust between business units. He argued that this would be vital as business units lost their autonomy to buy directly from the sources they have confidence in. This need for trust corresponds to the third basic element in social capital, that of relational social capital.

5. PREPARING FOR THE PURCHASING TRANSFORAMTION PROJECT

Procurement or purchasing at Rieber & Søn can be divided into three areas:

i) indirect purchasing/operating costs
ii) packaging materials
iii) raw materials.

In 2007 total purchasing amounted to NOK 3.1 billion of which indirect purchasing/operating costs accounted for NOK 1.1 billion, raw materials for roughly the same and packaging materials somewhat less. Toro, the largest business unit, accounted for 20 per cent of this overall sum.

Just for Toro raw materials were supplied by 268 different suppliers, 39 of whom accounted for 70 per cent of raw materials by value. For packaging for Toro the figures were 132 suppliers, of which 28 covered 95 per cent of packaging needs. For indirect purchasing Toro used as many as 2,210 suppliers.

The puchasing transformation project had three main aims:

1. Centralise purchasing responsibility,
2. Make the centralized purchasing fucntion responsible for direct, trading goods, and indirect investments,
3. Initiate projects for the realization of savings potential.

In order to prepare for the project a working group was founded comprising:

Milan Batha (Leader of the Purchasing Transformation project)

Terje Nordanger (Toro purchasing manager)

Erik Fantoft[4] (Rieber & Søn Corporate)

The purchasing project was envisaged as comprising four waves, starting with "Wave Zero" with each wave accounting for 25 per cent of the total savings. The plan was that the project was to be completed by the end of 2010, but Mr Batha conceded at the outset that the

[4] Morten Vike of Rieber & Søn Corporate was also a member of the working group before he left the company in June 2008.

working group thought it might take longer. Indeed by March 2009 it had been decided that the purchasing project would run until March 2011.

The working group proposed that purchasing should be divided into a number of categories, eventually arriving at the total of 50 purchasing catgories. The purchasing categories were then grouped together to form phases or waves, with Wave Zero comprising Flexible Foils, Traded Goods, Plastic Packaging, Inter-company Logistics, HQ Furnishing, Phones & Data Communication, Energy Savings and China. For each category a team would be formed consisting of about five catgory experts who would be charged with challenging the specifications of current purchasing. At the outset of the project Mr Batha remarked that for him the biggest potential bottleneck would be getting `the right people` into the category teams. In the other words the quality of the new purchasing knowledge emanating from the various category teams would depend on the quality of the team members. It would also depend on the team members having local knowledge that reflected the particular needs of the business units.

Other potential pitfalls identified by the working group were summarized in the two following documents featured in Figure 6:

MEASURES TO AVOID TRANSFORMATION PITFALLS

Rieber & søn

Risk	Impact	Likeliness	Measures	
Local Ownership Loss			❑Communication ❑KPI	❑Management support
Products Quality or Food Safety Downgrade			❑Project management ❑Clear agreement with stakeholders (PD, FS, product managers)	❑Specifications management ❑Vendors management ❑Purchasing Strategies in place ❑Category Teams include PD and FS
Other Quality Downgrade (services…)			❑Communication ❑Purchasing Strategies in place	❑Category Teams
Loss of market flexibility			❑Purchasing Board ❑Category Teams	
Speed to the market decrease			❑Category Teams ❑KPI set	❑Purchasing Board
Competence loss (people)			❑Change management	❑HR policy / carrier pathes
Lack of team / one board spirit			❑Change management ❑Motivation	❑Incentivness
Local Control of Important Spend Area Loss			❑KPI set ❑Purchasing Board	❑Management

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RISK ELEMENTS

Rieber & søn

Barrier	Impact	Likeliness	Measures	
Overall resistence accross BU			❑BU man. Support / Ownership ❑Cross functional teams	❑Communication plan ❑Early wins
Top Team Not available			❑Steering Committee	
Lack of Openess, Mutual Trust, Respect			❑Education program ❑Change management	
Different Quality understanding				
Lack of competence on purchasing side (no experience with in-direct)			❑Education program ❑On job training	❑New Recruitment ❑Consultancy
Low Contract Compliance Discipline			❑Management commitment ❑Category teams	❑KPI ❑Tools
Weak Processes, Procedures and Compliance to them			❑ Project Management ❑External Consultant	
Demotivation				

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Figure 6: Potential pitfalls and risks for the purchasing transformation project

Above all these two documents indicate the awareness that the purchasing transformation project might end as the Harmonization Project, that is in terms of figure 3, in loose-coupling or even corruption. In particular the uppermost of the two documents in figure 3, dealing with risk, features two issues, product quality and loss of market flexibility that were a particular concern. In late June 2008 the view of Terje Nordanger, the purchasing manager at Toro and a member of the purchasing transformation project working group, was that purchasing raw materials on behalf of the whole of the Rieber-group was significantly more demanding than the current decentralized purchasing practice. This was because orders have to reflect the precise needs of Toro and the timing of orders is frequently crucial not only for obtaining a competitive price but also for ensuring the particular quality the Toro brand depends on. Thus Mr Nordanger argued that building relations to suppliers who understand Toro's precise quality requirements would be critical. Even integrating packaging materials, such as aluminum foil where timing is less of an issue, and long-term contracts with suppliers may be drawn up he regarded as potentially problematic. This is because establishing the necessary understanding with a supplier is an extended process that can take as much as two years. It is that understanding that explains business units' preference for maintaining their own suppliers. Therefore, it was his opinion that indirect purchasing/operating costs that would grant the greatest opportunities for savings.

This notion that the process of integrating the purchasing process might be hazardous for local business operations was far from unique in the run-up to the initiation of the purchasing project. We have already noted that this view existed in Vitana. It was also voiced by Harald Gjerding in the Norwegian section of the Food Service business unit. His fear was that centralized purchasing might undermine his unit's ability to meet the idiosyncratic taste demands of local markets. He was, moreover, sure that his Czech counterpart felt the same way.

Another significant feature to the purchasing transformation project as it headed to its launch was that there was no clear notion of what the future puchasing organization would actually look like except that while it would be a "virtual" or geographically distributed organization it would not be a decentralized organization. Two concepts, centralized and centre-led were discussed (see figure 7), but there was no decision as to which of these would be the dominant principle for organizaing the future purchasing function. The decision was to be left to Frank Mohn who would be joining Rieber & Søn in the newly created position of

Supply Chain Director in January 2009, four months after the inception of the purcahsing project.

ATTRIBUTES OF CENTRALISED AND DECENTRALISED MODELS OF PURCHASING

Rieber & Søn

	Decentralised	Centralised	Center - Led
Organisation	▪Sourcing decisions and purchasing activities executed at BU level ▪Synergies rarely across BU ▪Purchasing reports to BU	▪ Sourcing decisions and purchasing activities executed under central command and control center ▪Synergies leveraged centrally ▪Purchasing reports to senior supply chain executive.	▪Sourcing decisions coordinated across BU´s ▪Synergies leveraged across business units ▪Purchasing reports to senior supply chain or C-level executive.
Process	▪No or limited process standardisation ▪Process efficiency and effectiveness varies by BU. ▪Limited sharing of resources or best practices	▪Standardized processes and policies, centrally executed ▪Process compliance, efficiency and effectiveness varies by BU. ▪Resources and best practices controlled centrally	▪Standardized processes and policies, centrally tailored for local execution. ▪Process compliance, efficiency and effectiveness consistent ▪Resources and best practices shared across the BU.
Knowledge	▪Skills and category expertise vary by business unit. ▪Limited spending, compliance and performance visibility.	▪Skills and category expertise controlled centrally. ▪Spending, compliance and performance visibility at aggregated level. ▪Limited understanding of these at local level.	▪Skills and category expertise coordinated centrally and across business units. ▪Visibility into spending, compliance and performance at aggregated and local levels.
Technology	▪Technology decisions and usage vary by business units.	▪Technology decisions and deployment made at corporate level. ▪Technology usage vary based on schedule and budget.	▪Technology decisions and deployment coordinated across business units.
Performance	▪Metrics vary by BU. ▪Cost and performance vary greatly across the enterprise.	▪Standard metrics used at corporate level. ▪Metrics, costs and performance compliance varies across the organisation	▪Standard metrics used at corporate level, supported by local variances. ▪Metrics and incentives shared by purchasing and business units. ▪Costs, compliance and performance consistent across the organization

Source: IBX 32

Figure 7: Possible future organizational models for the organization of purchasing

Kick-off

On September 23, 2008 some ten of Toro's senior managers from both its Arna and Eleverum plants gathered in Rieber & Søn's corporate headquarters in Bergen for the launch of Program Future. This was to be a session repeated separately at Vitana and Delecta for their senior managers. Despite background noise caused by building work Milan Batha was listened to attentively as he introduced the project. He presented the main findings of the

McKinsey report pointing out that the EBITDA margins of Rieber & Søn had been declining since 2003 whereas Nestle, that had been working on the integration of its back-end, had improved its. He stated that the immediate aim of the purchasing transformation project was to achieve annual procurement savings of NOK 300 million in order to be able to invest more in front-end activities. Beyond that Mr Batha explained that the long-term task of Program Future was to centralize purchasing and that this would involve not only a reorganization of purchasing but also an upgrading of its status. Thus Program Future would result in a new, virtual purchasing organization which would be headed by the Supply Chain Director, Frank Mohn who would join Rieber & Søn, January 2009. As figure 8 indicates the thinking was that the Supply Chain Director would be assisted by a Group Purchasing Director (GPD) who in turn would be assisted by Group Category Managers assisted by Category Leaders. The model envisaged that some local buyers would be retained for purely local purchasing in conjunction with for example local plant maintenance. However, this model was inevitably tentative and lacking in detail.

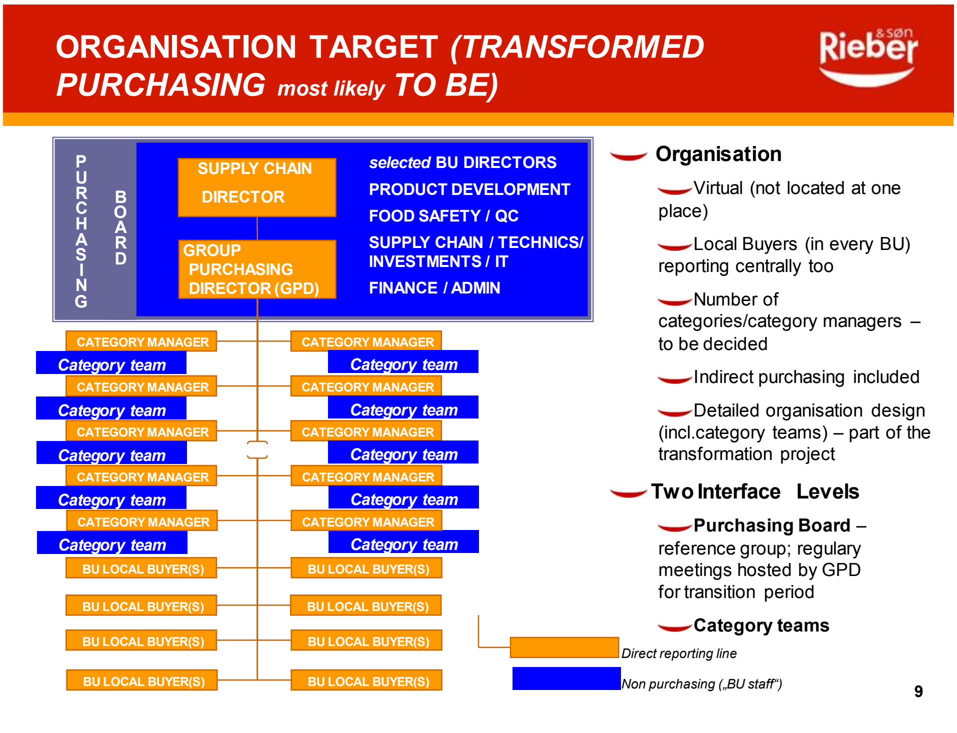

Figure 8: The resultant new purchasing transformation organization

Mr Batha outlined that the purchasing project was to run through four phases, including a pilot phase (Wave Zero), and would end in December 2009 (see figure 9). A feature of the scenario was that Wave Zero, would result in some "quick wins", i.e. significant savings, by December 2008.

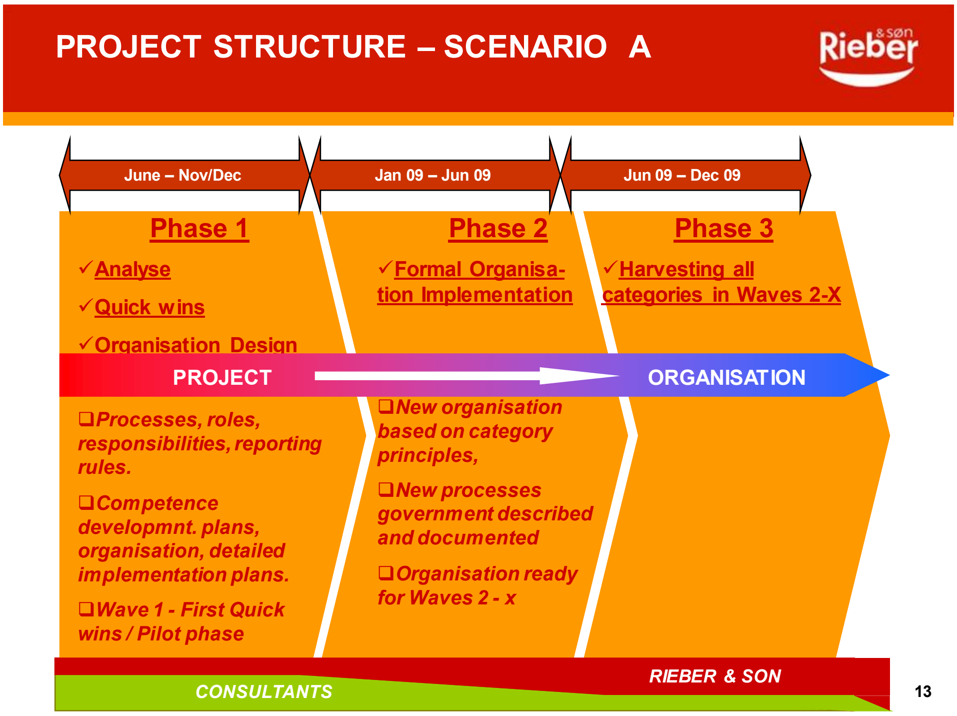

Figure 9: The structure of the purchasing transformation project

Mr Batha also outlined the organization of the project. It was to comprise a steering committee comprising himself, Jerzy Zalopa (Vitana), Joergen Wiig (Toro), Kasper Lenbroch (DKB), and Atle Sundøy, a consultant from Input AS, a Norwegian consultancy that specializes in purchasing. Reporting to this committee was the project group headed by Mr Batha which he explained would normally meet on a weekly basis. Also included in the project group were Mr Nordanger and Mr Fantoft both of whom had been members of the project working group.

Mr Batha further explained that in Wave Zero of the project seven cross-functional category teams covering Flexible Foils, Traded Goods, Plastic Packaging, Inter-company Logistics, HQ Furnishing, Phones & Data Communication, Energy Savings and China would be established. These teams, he explained, were to provide an interface with the business units and were to comprise around five experts from across the various functions, for example marketing, food safety and product development. The notion was that these team members were to represent both their business unit and their professional specialism. The project organization is depicted in Figure 10 and the team composition in Figure 11.

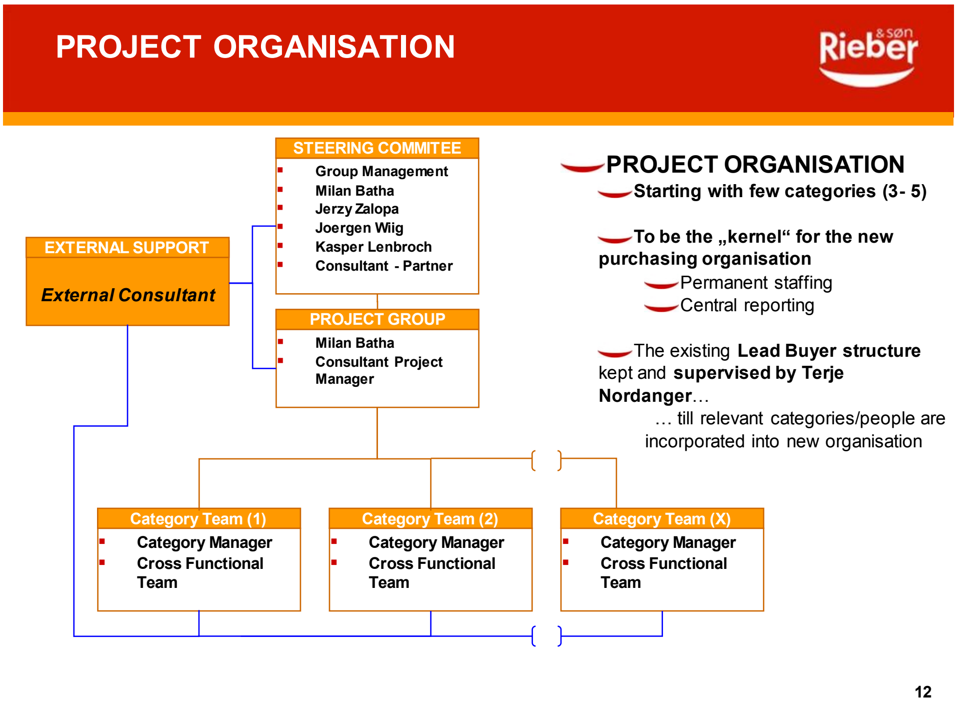

Figure 10: The purchasing transformation project organization.

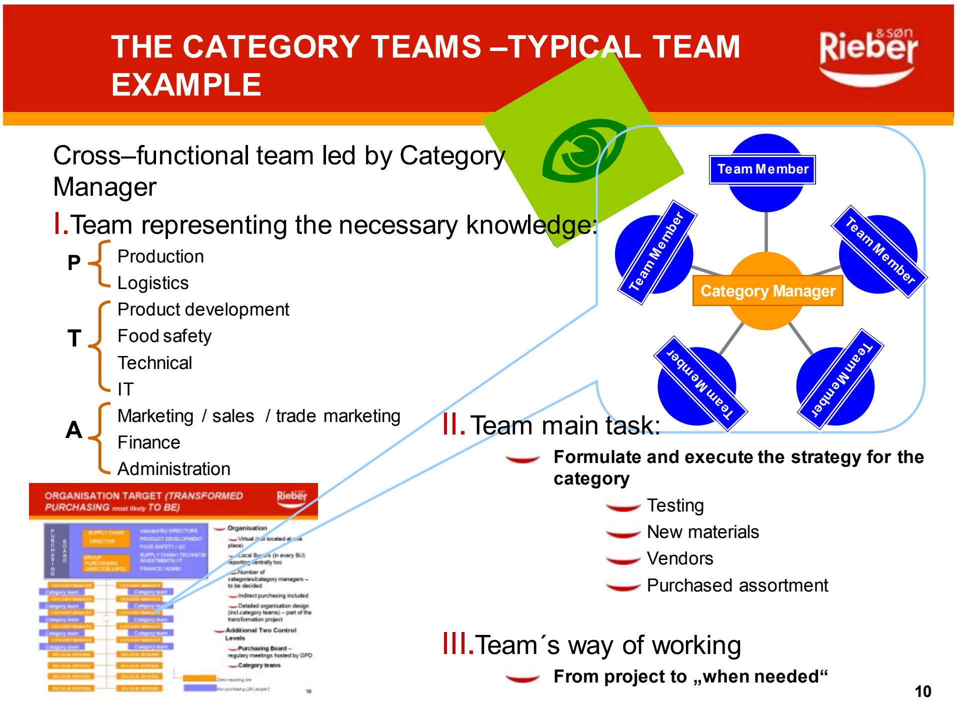

Figure 11: The composition of the category teams.

Mr Batha announced that the team leaders were to be involved in category team work on a full-time basis while the team members were to spend an average of 60 per cent of their working week on team-related activities. Each team was to produce a weekly report for the project team detailing progress.

Mr Batha described the main task of the category teams as that of defining the group-wide needs within each category and then to sign new contracts with new suppliers. While it was accepted from the outset that the teams would have to take into account country to country differences in expectations and price levels, at the same time the teams were to be mindful that simply focusing on this would adversely affect volume and cost reduction. The teams were charged with ensuring that all of the stakeholders, i.e. the various business units, were to be kept informed. These project teams were to be temporary. Once the project was completed they would disband but be reassembled when needed. While team leaders were to become part of the new central organization, the other members would return to their line organizations.

Mr Batha made it clear that the progress of the category teams would be monitored through weekly reports to the project group. A controller was to check the savings achieved but loyalty to the project would also be tracked. Thus, as indicated in figure 12, both "hard" and "soft" progress was of significance.

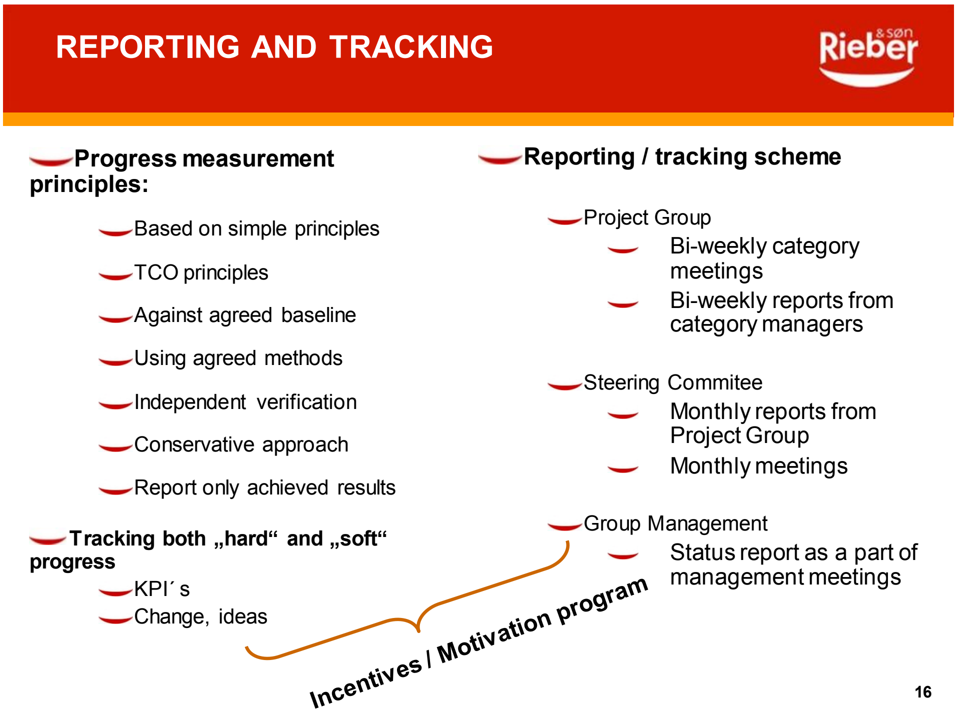

Figure 12: Plans for monitoring the progress of the category teams.

After Mr Batha's presentation Marius Næss of the Bergen-based Norwegian consultancy, Input AS, began his presentation in English. However, almost immediately he is requested by Toro managers to switch to Norwegian as Mr Batha is the only non-Norwegian speaker present and he is familiar with the presentation. Mr Næss's presentation initially focuses on the figures for purchasing, that in 2007 amounted to NOK 3.1 billion of which indirect purchasing/operating costs accounted for NOK 1.1 billion. He then took his audience through the other basic numbers for the number of suppliers for traded goods, raw materials, packaging and indirect purchasing. In total purchasing is the equivalent of 67 per cent of total sales. As such, he argues, choosing the best suppliers is vital and that Input AS will have its focus on this issue.

Mr Næss's colleague, Atle Sundøy, then argued that as companies increasingly choose to focus on their core business and beyond that use out-sourcing the strategic importance of purchasing has increased. In essence the monitoring of markets is critical in order to be able to identify the best qualified suppliers

Mr Næss then focused on purchasing strategy arguing that (early) Needs Analysis, and Specification definition is more critical than (late) Negotiations. Every aspect of a purchase, he emphasized, must be challenged “early”. It is at this point a key concern of Toro’s managers surfaces. Jon Stang Volden points to the national differences in quality. He is concerned that Toro’s quality could be jeopardized by a common purchasing policy and that apparent savings might blind the company to qualitative differences. Mr Næss responded by arguing that those who will man the various Category Teams must have common incentives that promote a focus on needs analysis and the identification of superior suppliers.

Mr Sundøy then argued for the importance of developing a general purchasing strategy that distinguishes purchases in terms of two dimensions. This is illustrated in figure 13.

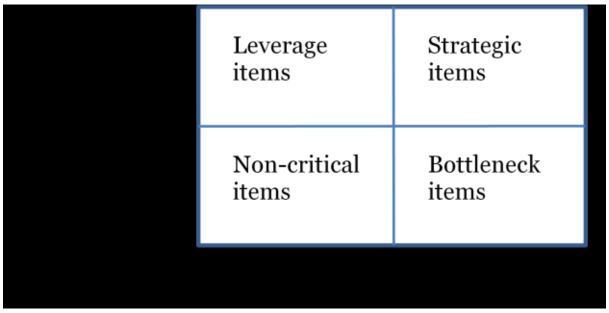

Figure 13: A modified Kraljic purchasing portfolio model (cf. Kraljic, 1983, p. 111)

Input AS’s analysis of Rieber & Søn indicated that far too much energy was devoted to routine, non-critical items and far too little on how to remove bottle-necks and, in particular, strategic relationships into leveraged relationships characterized by many, competing suppliers and standardized quality.

A purchasing strategy should involve, according to Mr. Næss, acquiring an overview of potential suppliers and then controlling one’s communication with these by keeping one’s bids and preferences quiet. This means that one single person, the Category Team leader, will exclusively control communication with suppliers. It is also this individual’s task to debrief non-successful suppliers in order to build relationships that can be useful in the future in order to maximize supplier competition. When new challenges arise the Category Team leader could, if deemed necessary, recall the various team members.

Overall the approaches outlined by Input AS two consultants were greeted positively. Not least, Jørgen Wiig, the Toro Managing Director, is enthusiastic and when Mr Batha declared that “we need your resources” Mr Wiig expressed concern that the ”right people” were going to be attending the following week’s basic training.

Review

At “Kick-off” we may observe the following:

Project Future is a top-down initiative that has not developed by way of an active integrating dialogue across the business units. Even the project “kick-off” meetings have been organized at the business unit level.

No attention has been paid to adjusting the conglomerate style incentive system that encourages business unit leaders to focus on their respective interests. There has been no explicit discussion about how to distribute the costs of contributing personnel to the category teams.

There is no certainty that the business units will cooperate by delegating their “best people” to the category teams.

The ultimate goal, i.e. the future organization of purchasing has not been clearly defined.

The project has been designed before the new CEO and Supply Chain Director have been installed.

6. INITIAL REACTIONS FROM THE PROJECT GROUP LEADER AND BUSINESS UNITS

The Purchasing Transformation Project Group Leader

Towards the end of October 2008 we interviewed the purchasing transformation project group leader Mr Batha about the immediate progress of the purchasing transformation project. Mr Batha had a number of concerns. First his impression was that the managing directors of the business unit viewed Program Future as a top-down operation driven by a McKinsey analysis that was not sufficiently anchored in the realities of their businesses and that "things are moving too fast". As a consequence there was a lack of common vision and trust in the project.

In Mr Batha's opinion this lack of identification with Program Future explained why business unit directors had resisted releasing their most qualified personnel to serve in the category teams. Instead of being composed of the best people for the job, Mr Batha characterized their members as no more than "above average". Mr Batha referred to one business unit managing director as saying "My best sales people should sell" and to another who has labeled the travel costs of the single Delecta employee thus far involved in Program Future as a "punishment".

Mr Batha also recognized that the category team members themselves had their concerns. He observed that they were anxious that while they were involved in Program Future their deputies either might harm the day-to-day business or might even replace them on a permanent basis. To allay concerns regarding the latter Mr Andersson had issued assurances that they had a "bright future" with the company, but Mr Batha felt they did not necessarily believe that to be the case.

Finally, Mr Batha had no illusions about his own standing remarking that "Some don't see Milan as a sufficiently strong guarantor. If he's fired – well, life goes on."

We then interviewed the managing directors of the main business units involved in the project, DKB, Tor, Vitana and Delecta.

DKB

DKB comprises four businesses all of which are based around food dressings including chilled salads and mustards. The two main businesses (K-Salat and Bähncke) are based in Denmark and were both separately acquired by Rieber & Søn in the latter part of 2005. A third business, purely a sales operation, is based in Sweden and a fourth (Denja) is based in Larvik, and Voss, Norway. Of the two Danish based businesses, the larger, K-Salat, comprises a modern chilled salads factory based in Havnsjø which is where Kasper Lenbroch, DKB's Managing Director, is located.

When Mr Lenbroch joined DKB on June 1st 2008 as Managing Director, after a career in the foodstuffs industry spanning three different companies, his primary task was to turn-around the K-Salat business. While the three other businesses were more or less in "working-order", K-Salat was, three years after its acquisition, functioning poorly. One blatant indication of this was that during 2006 and 2007 some 75 per cent of K-Salat's managers had left the company together with a similar proportion of its production workers. In the wake of this K-Salat's delivery reliability, product development and running costs had been adversely affected.

Mr Lenbroch's initial reaction to Program Future comprised conflicting views. On the one hand he thought the analysis underlying Program Future was fundamentally correct but he did question whether McKinsey had taken into consideration what effectuating integration would actually cost Rieber & Søn. "Where are the resources (for Project Future) going to come from? (Given that) we are middle-sized company that can never be a Nestlé with a set of purely local brands". In regard to DKB's own involvement in Program Future he was concerned about the resources DKB was being asked to commit given DKB's difficulties and given that he himself would be judged purely on the basis of DKB's results. In particular he was concerned about having to commit his best people to the category teams with all of the accompanying travel costs. He commented "My resources are very limited and I feel that there is a lack of respect being shown for DKB's very poor situation." DKB's situation, he reflected, was not just poor in terms of its absolute performance, but also in relation to Toro. He drew an analogy with the Danish school system with Toro ranking as tenth-grader in terms of the overall quality of its operations and its competitive position with DKB and Rieber's other non-Norwegian operations as being no more than third-graders. Finally, he failed to see any link between Program Future and the overall “Local Taste Champion” strategy of Rieber & Søn.

Toro

We then interviewed the Managing Director of Toro, Jørgen Wiig. Unlike Mr Lenbroch, Mr Wiig, a Norwegian, had considerable experience of Rieber & Søn having joined Toro in 1996. He has been Toro Managing Director since 2003. Another distinction between Mr Lenbroch and Mr Wiig concerns the performance of the business units they lead. Thus, as Mr Wiig pointed out, while Toro generates some 90 percent of Rieber & Søn’s total profits making it far and away the most important part of Rieber & Søn, DKB in 2008 was actually a loss-maker. A further difference is in the organizational cultures of DKB and Toro. Whereas DKB had experienced high employee turnover at Toro there is pronounced employee identification. Mr Wiig recounted that at Toro’s 2008 Christmas party for its Bergen employees, everyone, managers and shop floor employees alike, joined together in a rousing rendition of “It’s a beautiful day” in order to celebrate their pride in Toro. And finally, unlike DKB Toro has historically been regarded as a source of superior competencies that should be transferred to Rieber & Søn’s activities in Poland (Delecta) and the Czech Republic (Vitana).

As the interview developed Mr Wiig reflected on past experiences with attempts to transfer production to Delecta and Vitana. He reflected that “Our attitude to the issue of quality is a different to that of Eastern Europe.” Nearly 70 percent of Norwegian customer complaints Toro receives involve products emanating from Vitana, although Vitana accounts for no more than 10 per cent of the products Toro delivers to the Norwegian market. Likewise, attempts to get Delecta to produce cake mixes on behalf of Toro have constantly had to cope with quality problems whose causes were impossible to determine. “Therefore” Mr Wiig commented, “we are skeptical as to ‘their’ ability to deliver quality over time.” Equally, given Toro’s long-term quality criticisms “‘they’ are browned-off with us.”

Mr Wiig speculated that the quality problem stems from the “shop-floor”, that is insufficiently motivated production employees who feared sanctions if mistakes were exposed, rather than any lack of good-will from top management at Vitana and Delecta. However, regardless of the cause of variable quality, he emphasized that common standards had to apply across Rieber & Søn if any further production was to be transferred from Toro to Vitana or Delecta. Apparent savings because of cheaper labor was simply insufficient.

Given his general lack of trust in the ability of Vitana and Delecta to deliver sufficiently reliable quality and his belief that Toro could operate very successfully as a stand-alone operation serving the Norwegian market it may therefore seem almost paradoxical that Mr Wiig was a firm believer in Project Future. In part he accounted for this belief as being a product of having interacted with senior managers from Delecta and Vitana over a number of years. He felt that he had witnessed a genuine change in mentality at this level. Secondly, with the McKinsey numbers having been internally verified to his satisfaction Mr Wiig regarded the McKinsey report, the basis for Program Future, as being fundamentally sound. In particular the potential for cutting costs was important to Toro. Third, he had confidence in the consultancy Input AS that was assisting in the purchasing part of Project Future. Furthermore, Mr Wiig also believed that his commitment was shared by others. "Toro", Mr Wiig said, "will play its part" which he conceived as "pushing the others."

At the point of conducting our interview Mr Wiig was conscious that Patrick Andersson had recently explicitly demanded commitment to Program Future from all business unit managing directors. This will be further discussed in the next chapter. Nevertheless, Mr Wiig still had some reservation in regards to Program Future believing that the purchasing part would be significantly easier to achieve than the production part. As for the sales/marketing part he characterized it as resting on a considerable amount of "wishful thinking".

Delecta and Vitana

Unlike our interviews with Messrs Lenbroch and Wiig which were conducted relatively early after the "Kick-off" meetings, our interviews with the managing directors of Delecta and Vitana were held five months after these meetings. In that sense there is a more substantial possibility of retrospective rationalization on their part.

Piotr Sienko and Jerzy Zalopa the respective Managing Directors of the two largest business units outside of Norway, Rieber & Søn Poland (Delecta) and Rieber & Søn Czech Republic & Slovakia (Vitana) have similar professional backgrounds in that they both have technical degrees from Polish universities and both have worked for Best Food and Unilever. However, whereas Mr Sienko joined Rieber & Søn in 2003, Mr Zalopa joined late 2007.

Mr Sienko recalled that in the course of his six years as Managing Director of Delecta he had seen a number of company-wide projects aimed at greater integration. However, few of these had been successful in the sense that they had delivered lasting, tangible, results. Although he regarded the "Harmonization" project as relatively successful his overall sense in regard to corporate-wide integration initiatives had been that they have been characterized by a lack of consistency and continuity. Although Mr Sienko had always committed Delecta to the various projects he acknowledged that when Project Future was announced part of his reaction was that this might prove to be "just another time-consuming project". However, another part of his reaction was though that Program Future might be positive for Rieber & Søn in that it could potentially contribute to a substantially more integrated company that ultimately would draw more fully on Delecta's production capacity.

Unlike, Mr Sienko, Mr Zalopa is a member of the purchasing transformation project's steering committee and had therefore been involved in monitoring developments in the project on behalf of the whole Rieber & Søn group when we interviewed him. Nevertheless his recollection of his initial reaction to Program Future was similarly skeptical. It was "yet another 'improvement'" and one that could threaten Vitana's limited resources in a period in which he had overseen substantial improvement through improved cost control and increased product focus. In short Project Future from a Vitana perspective could be sub-optimal in that it would distract critical personnel from their immediate Vitana agendas. Mr Zalopa viewed the hazard posed by the demands inherent in Project Future as much greater for Vitana than Toro because the latter has significantly more "slack". In other words potential sub-optimality is not evenly distributed across Rieber & Søn.

7. THE IMPACT OF THE NEW CEO

When Rieber & Søns' new CEO, Patrik Andersson joined the company in September 2008 he was acutely aware that the implementation of Program Future, including the purchasing transformation project, was his key responsibility. In the longer term this was a responsibility he was to share with Frank Mohn, the appointee to the newly created position of Supply Chain Director. However, Mr Mohn was not set to join Rieber & Søn until January 2009 and until then Mr Andersson would effectively be alone. One of his first moves was to establish for the first time in Rieber & Søn's history the position of Director of Human Resources. This is a position Mr Andersson regarded as representing his "right arm" within Rieber & Søn. His choice for this position was a longstanding Rieber & Søn manager, Nina Skage, who had headed a relatively small business unit, that of Food Services. "Your job" he said to her on appointment "is to tell me when I'm wrong."

Reflecting on the significance of Program Future at the start of his tenure Mr Andersson's view was that it was a highly critical "journey" for Rieber & Søn's future success. For him the challenge was develop in managers a "dualistic" view of their roles. On the one hand they were to have a focus on the needs of their local markets, while on the other hand they were to have an equally strong commitment to the need for the integration of Rieber & Søn's procurement. His vision was reminiscent of another Swede, the charismatic Percy Barnevik. As the first CEO of ABB, Barnevik famously declared that ABB was to be "both local and global". Arguably ABB failed to achieve this balance because of internal tensions. As we described above, Rieber & Søn's pre-Program Future analysis was clear that while moving from decentralized to centralized procurement could confer benefits on Rieber & Søn it also ran the risk of losing local cooperation in the value chain.

Mr Andersson's first action in this "journey" was during early October 2008, to conduct one-to-one meetings with each of the managing directors of the five main business units. Mr Andersson explicitly charged each of them to act on behalf of the whole business rather than their own business units. According to Nina Skage, Mr Andersson made it clear that while he wanted "open and tough meetings, once a decision has been taken we are all responsible for it being effectuated".

On October 22 2008 Mr Andersson presented to business unit managing directors a two-page memo, "From a food conglomerate to an integrated food company" outlining a radical shift in the structure of Rieber & Søn. In it he stated that the history of Rieber & Søn had been that of a conglomerate in which the performance of business units had been discretely measured with cooperation between business units "…relatively voluntary. In 2009 we must take the step from a food conglomerate to an integrated food company to improve the performance and efficiency." However, this memo was more than a vision. It was a signal for dramatic changes in regard to the integration of the business units and the alignment of incentives.

For the first time in the history of Rieber & Søn Mr Andersson announced that five of the eleven business unit managing directors would be members of a new general management team. Thus in addition to Mr Andersson and his Communication Director, Geir Mikalsen and Group Coordinator, Bente Chr. Kolbjørnsen, the Group Management Team comprised:

Piotr Sienko (Poland) Jørgen Wiig (Norway)

Kasper Lenbroch (Denmark) Jerzy Zalopa (Czech / Slovak)

Birthe Dragset (Food Service)

These five business units constituted the core units both in terms of sales (83 per cent of total sales) and profits (96 per cent of profits).

In particular, the memo of October 22 made it unequivocally clear that the immediate issue was to ensure the success of Program Future which "has the highest priority with crucial importance for achieving increased profitability".

Additional members of the Group Management Team were:

Tor Lund -Director of Finance Frank Mohn – Director of Supply Chain

Nina Skage – Director of HR Bjørnar Gulliksen – Director of Front End

The Group Management Team was to have monthly meetings in different locations supplemented with a telephone conference half way through each month. Its first full meeting took place on December 1 2008 and, according to Jørgen Wiig, this meeting was about getting acquainted and defining the expectations directed to the team members so that the team speaks with one voice. Mr Wiig thought it a "lively meeting with a lot of good discussion". Perhaps somewhat strangely Program Future was not a significant topic of discussion.

In historical terms the composition of the new general management represented a significant development. Not only had Rieber & Søn appointed its first non-Norwegian to the position of CEO, but an additional three foreign nationals were now to be part of the general management team.

Coupled to the new general management team initiative was a new compensation system. From now on business unit managing directors would be rewarded to a significantly greater extent on the basis of overall group performance. There would still be an element that reflected business unit performance, but group performance as a metric was the first time in Rieber & Søn's history a more significant metric.

Review

For the first time in Rieber & Søn's history as an MNE a forum has been created for active integrating dialogue across the main business units. However, it is reasonable to suppose that it will take some period of time before social integration of the General Management Team members will have occurred.

The conglomerate style incentive system that encouraged business unit leaders to focus on their respective interests has been modified.

There has been no explicit discussion about how to distribute the costs of contributing personnel to the category teams.

The ultimate goal, i.e. the future organization of purchasing has still not been clearly defined.

The Supply Chain Director is still not installed.

8. FIVE PERSPECTIVES ON THE PROCESS OF IMPLEMENTING THE PURCHASING TRANSFORMATION

The Leader of the Traded Goods Category Team

Towards the end of November 2008 we interviewed Sarka Søderstrøm the leader of the Traded Goods category team. Traded goods are ready-for-market finished products sourced from external foods manufacturers according to Rieber & Søn specifications. Within Rieber & Søn the most important purchasers of these goods are the Toro and Food Services business units and therefore members of the category team were drawn from these two business units. As we have stated Milan Batha regarded this team as the most important team for the realization of the purchasing part of Program Futurewith the goal being the achievement of annual savings of NOK 24 million.

Ms Søderstøm headed a team comprising four others, Rolf Jacob Moe (a Toro product development engineer), Ole Johan Solberg (a Toro product manager with a marketing expertise), Harald Gjerding (Food Service, Norway) and Jiri Fabian (Food Service, Czech Republic). In addition the team was assisted by Marius Næss of Input AS. While she was acquainted with all of the team members she had not actually worked directly with any of them previously. The choice of team members was one Ms Søderstrøm was not involved in and she admitted that she would have chosen differently if she could have. Unlike Ms Søderstrøm, who joined the company in 2006 after having completed her master degree in business economics, Messrs Moe, Solberg, Gjerding had long company histories. Ms Søderstrøm commented that although she felt she had the necessary competence to be the team leader – she had worked both in Food Service and Toro - “it is difficult to be the leader of such an experienced team.”

At the point of our interview the team had still not fully engaged with Program Future in the sense that Ms Søderstrøm had still not started working full-time as category team leader and none of the others were spending 60 percent of their working weeks on category team work. She observed that it would be interesting to see whether the others would ever be able to devote 60 percent of their time to the category team particularly Mr Solberg who had also been recruited as a team member for Project Future’s second most critical category team, the team for "Flexible Foils". Her overall assessment of the team was that while they may not be the foremost expertise in relation to Traded Goods they were all highly competent.

Since October 2008 the team had started meeting regularly once or twice a week for meetings that could last from three hours to a whole day with Mr Fabian usually having to participate by phone and therefore missing out on the pre-meeting “small talk”. Ms Søderstrøm felt that the mandate for the team had been insufficiently defined. As a result it became quickly apparent that there were different interpretations of the mandate within the team with interpretations usually distributed along business unit lines, so that there was a Toro interpretation and a Food Service interpretation. Consequently, although Ms Søderstrøm attempted to set an agenda for each meeting, the meetings had a tendency to veer from issue to issue. She regarded Mr Næss as “a very great help” in helping to provide structure and in helping them to find ways out of their conflicts.

Despite their differences the team had been able to draw three initial conclusions. The first of these was to question the potential annual savings figure of NOK 24 million. The team had decided to request that the figure should be verified because it was unclear to them how it had been computed, particularly because it had been revealed to them that the McKinsey report did not actually span Traded Goods. Ms Søderstrøm commented that the figure had created “a rather strange mood” in the team and that the team was confident that the new computation would arrive at a lower figure. The second conclusion was that it was necessary to narrow the focus to three product types, pasta, fish and noodles, which together account for 40 per cent of traded goods. Third, it was concluded there was a need to obtain an overview of the contracts involving these products and their suppliers as well as an overview of possible alternative suppliers in order to assess the potential for negotiating on price.

The Project Group Manager

In late January 2009 we interviewed Mr Batha again. On the whole he viewed the six category teams of Wave Zero as running well with most people still enthusiastic. Indeed it was deemed successful enough to warrant the launching, as planned, of Wave One thereby adding another eight category teams to the project. This took the number of employees involved in the purchasing transformation project to 50. However, Mr Batha had concerns in regard to Wave One that he had communicated to the Group Management Team and, in particular, Frank Mohn, the Director of Supply Chain, about the quality of the participants accepted for the category teams. His worry is that they have compromised in terms of ensuring that the “best people” are involved and that this quality problem is a symptom of varying attitudes among the business units to Program Future. Whereas Delecta is "doing their best" and whereas it was possible for him to request a reconsideration of nominations from DKB, Mr Batha found it difficult at Toro to identify who was actually in charge of nominations. The task had been delegated by Mr Wiig to Jon Stang Volden but the latter seemed to be uninformed. At Vitana, he experienced significantly less cooperation. Indeed Mr Batha's impression is that senior managers at Vitana had been questioning the relevance and validity of Program Future, and that their nominations have been not only ill-considered but are unworkable in that three persons from a department of four have been nominated for category teams. Thus the one of the three nominees who is to be a team leader initially admitted to Mr Batha that he would not be able to devote more than two days a week to his Category Team responsibilities instead of the required five, and later that even two days would be excessive.

Mr Batha speculated that his own standing with Vitana may be part of the explanation for what he experienced as high-handed treatment: "They have known me for ten years. Perhaps they just don't see me as 'clever' person." Equally though he speculated that Vitana had achieved a historically good result for 2008 in part by cutting staff and that there was objectively simply no slack to draw on in relation to contributing to the category teams. Mr Batha explained that the issue of Vitana's lack of cooperation is one that Frank Mohn would address head-on and was an issue that could potentially result in a conflict that could pit the Director of Supply Chain against the Managing Director of Vitana.

The Director of Human Resources

Early February 2009 we conducted an interview with Nina Skage, Director of Human Resources, in order to acquire an insight into her view of the status of Program Future. According to Ms Skage Rieber & Søn is determined to become an integrated food company that is going to be top of its league. The integration of back-end activities that Program Future is designed to achieve is regarded as the foremost means to realizing the savings that will enable resources to be deployed to improve front-end activities. Mr Andersson was recruited to ensure the success of Program Future and in her view he remained committed to achieving this goal. At each and every general management team meeting Mr Batha now reports on the progress of Program Future and is required to discuss personnel issues that have arisen in the wake of manning the category teams. Likewise board meetings had a focus on Program Future.

Ms Skage delineated two specific changes to human resource management at Rieber & Søn that were a consequence of the ambition to become an integrated company. One is that bonuses would be significantly more a product of achievements on behalf of the whole group rather than the individual's own business unit. Underpinning this would be an appraisal system that would be specific in relation to performance and not least to under-performance – an issue that previously had never been dealt with explicitly.

One issue that concerned Ms Skage was the lack of a clear notion of what the future purchasing organization would look like. One aspect to this was the scope the new centralized purchasing organization would have to draw on the services of those who have served in the category teams if their services are required again. Given that these employees would effectively have two managers representing two interests Ms Skage acknowledged that there would be a potential for conflicts. This was to be addressed by communicating the purpose of Program Future through for example a leadership forum at the end of February 2009 which would be attended by 90 middle managers from the various business units.

The Supply Chain Director

Mid-February 2009 we interviewed Frank Mohn who had joined Rieber & Søn at the beginning of 2009. As Rieber & Søn's first Supply Chain Director Mr Mohn had been given overall responsibility for the back-end parts of Project Future, i.e. Purchasing and Production. Mr Mohn viewed Rieber & Søn's trajectory as one involving a move from being a conglomerate, loosely-coupled company to that of an integrated multi-national. However, effectuating this move will be dependent on developing formalized company-wide systems coupled to developing social capital in the sense of mutual trust, openness and stronger collegial networks. It would also involve insisting that English is the company's lingua franca. He remarked that English language skills varied significantly across the company.

Mr Mohn viewed the purchasing part of Project Future as involving two challenges. First, was the need to develop heterogeneous competencies that correspond to the varied nature of the purchasing function. For example while maintenance is highly fragmented involving a large range of different suppliers, items and services, foils is more concentrated but also more specialized. The second challenge was to ensure the institutionalization of the competencies derived from Project Future so that they are integrated in the daily "way of doing things".

The Managing Directors of Delecta and Vitana

At the end of February 2009 Mr Sienko, the Managing Director of Delecta, viewed the various business units of Rieber & Søn as insufficiently integrated. In relation to the purchasing project Mr Sienko felt that he had been cooperative in the assignment of Delecta personnel to category teams. Delecta had contributed six persons to the category teams, none of whom were category team leaders. However, he indicated that this contribution had put significant pressure on Delecta and had necessitated the restructuring of departments that had contributed personnel. As Project Future develops and more personnel become involved Mr Sienko argued that there would be an increased need for substantially greater flexibility in the way the category teams operate. He suggested that team meetings should be located to Copenhagen which travel-wise is very much more convenient than Bergen. Likewise he argued for the use of video-conferencing as a means to saving on travel-time and costs.

In Mr Sienko's view the success of the purchasing project would depend on three factors. The first was that the business units had to assign highly competent personnel to the category teams – he is not entirely convinced that all business units had been as diligent in this regard as Delecta. The second was that there should be a continuous flow of information about Project Future – he pointed out that Rieber & Søn's web newspaper is commonly read by Delecta employees and thus could be a useful channel for disseminating information about Project Future. The third was that Program Future would have to be able to generate tangible results at an early date, preferably no later than in the second quarter of 2009. This third factor – the need to visibly demonstrate success – was he reasoned critical particularly in light of those previous corporate-wide projects whose lack of substantial achievement had had a disillusioning effect on the organization

Mr Zalopa, the Managing Director of Vitana, informed us that in all Vitana had contributed seven persons to the category teams including one team leader, Michal Mrázek, who would be leading the spices category team. Conscious of the prioritization of Program Future Mr Zalopa characterized his contributions of personnel to the category teams as one of "leading by example" in the sense that he believed that the business units comprising Rieber & Søn needed to engage in a mental shift from prioritizing the interests of the business unit to that of the group as a whole even if that meant making sacrifices. Nevertheless Mr Zalopa pointed out that the risk in committing personnel to the category teams was significantly greater for Vitana than for Toro because the latter had much greater resources upon which to draw. This explained why Mr Zalopa had argued vigorously for a relaxation to the time demands placed on category team members. As a consequence he had succeeded in having accepted that team leaders need no longer be dedicated to their category teams on a 100 per cent basis with a similar concession applying to other team members.

Like Mr Sienko, Mr Zalopa was also concerned that the purchasing project should deliver tangible results at an early date in order to preserve motivation. However, he also had a second concern that he felt was creating significant uncertainty. This was centered on the lack of any agreed idea as to what form the purchasing organization would have. In specific terms, he wondered whether the category team leader Vitana had seconded to the purchasing project would return to Vitana or whether he would join a centralized function that served the whole of Rieber & Søn. Inevitably this raised the issue of what kind of organizational structure Rieber & Søn would opt for in the future. Mr Zalopa himself did not subscribe to the notion of a centralized structure, but would prefer a matrix style organization with the business units supplemented by some centralized functions in for example purchasing. However, he accepted that matrix systems if they are to work depend on peopling them with managers who can get things done through persuasion rather orders. One may speculate that this will involve widespread good English language skills something that Mr Zalopa, like Mr Mohn, regarded as a problem particularly at lower managerial levels. One may further speculate that a lack of individuals who are able to successfully practice persuasion will mean that Rieber & Søn's traditional conglomerate-style structure would simply reassert itself and that Program Future would be one more in a line of "yet another" project.

9. THREE PERSPECTIVES ON THE ACHIEVEMENTS OF THE PURCHASING TRANSFORMATION

The Heads of the Foils and Traded Goods Category Teams

In the second half of March 2009 we interviewed Vidar Lilletvedt the head of the foils category team and re-interviewed Sarka Søderstrøm, the head of traded goods category team.

Vidar Lilletvedt joined Toro as a buyer in 2005 with packaging rather than foils as his specialism. He recalled that when in late August 2008 he, rather than Toro's foils expert, was offered the opportunity to head up the foils category team he regarded the role as a significant learning opportunity and therefore personally very motivating. In terms of Rieber & Søn he viewed it as a significant development that purchasing, which he felt had never been regarded as more than a "necessary evil", was now the focus of attention. Furthermore, whereas the Harmonization project had only resulted in superficial agreement, leaving Toro, Vitana and Delecta essentially unconnected, he found himself believing in Program Future. He declared "We're trying to remove national borders."

The members of the category team were chosen by the project group headed by Mr Batha. In addition to Mr Lilletvedt the team comprised of three other members. The first of these was a Toro technical specifications expert whose competence has been importance in relation to the complex issue posed by foils specifications. The second was a Toro marketing expert with special responsibility for image resolution and print quality on packaging, a critical issue given significant variations in quality specifications across Toro, Vitana and Delecta. The third was a Delecta foils expert with good English language skills and a good network of contacts across Delecta. Initially the team contained an additional member, a Czech foils expert based in the Republic as part of Rieber Food Services rather than Vitana. However, his lack of engagement with the team led to his being removed from the team. Vitana was unable to offer a replacement and Mr Lilletvedt was concerned that the lack of Vitana involvement might mean that Vitana would not accept the conclusions of the foils category team because these would inevitably mean a change of supplier for Vitana. According to Mr Lilletvedt the project group had been unable to resolve the lack of Vitana involvement and he wondered how it would cope with the many new teams that were to be started.

One immediate problem Mr Lilletvedt confronted when he started his work as category team leader was the issue of how much time he should devote to it. At the outset Mr Batha announced that he was to devote a full working week to it, but Mr Lilletvedt found that he could not simply abandon his regular duties. This conflict of demands gradually eased but Mr Lilletvedt jokingly confessed that he tried to avoid the staff canteen because when he went there he would be inundated with requests for assistance from non-category team colleagues. Time had also been a challenge for the other team members, particularly the Delecta member who in the last months had participated in team meetings by telephone.

The reporting relationship of the category team to the project group has changed significantly since it started. It was concluded that reporting once a week was unnecessary and it was agreed that once a month would be sufficient. However, even this had on one occasion been deviated from.

The mandate of the group was by July 2009 to have achieved savings of about 10% of the annual group foils expenditure which amounted to about NOK 10 million. While Mr Lilletvedt was confident that this could be achieved through centralizing foils purchasing thereby being able to place larger single orders with Toro's current supplier there remained a logistics challenge. However, this cost-savings solution would not involve any significant integration of operations. Indeed one key learning outcome for Mr Lilletvedt was the recognition of the complexity of achieving integration of foils across Toro, Vitana and Delecta. For example the size of soup packets varied across the three business units. Unifying size would mean adjusting not only the size of the cardboard cartons which are used for their transport and display but also adjustments to the shelf height in local supermarkets. Changes in packet size would also mean adjustments to the images on the packet. Another possibility the team had considered was to experiment with new suppliers and with the foils specifications. However, integrative adjustments and experimentation, although they represented the possibility of savings of NOK 20 million, would take too long to effectuate within the team's stipulated time frame. Furthermore, they would also involve the participation of Vitana.

In all learning had been an important feature of the work of foils team for Mr Lilletvedt. First, there had been the training provided by Input AS in data systematization. Additionally, there had been substantial inter-disciplinary learning within the category team coupled to learning to deal with cross-border communication. Thus the lack of participation of Vitana and the additional cross-border learning opportunity it would have provided was regarded by Mr Lilletvedt as having been a shortcoming.

Mr Lilletvedt was uncertain as to what his role would be after the foils category team has completed its work. Likewise the lack of a clear plan for the future organization of purchasing was also a source of uncertainty. Indeed he would have preferred to have had such a plan in place before Program Future had commenced.

Although Ms Søderstrøm reported that she was generally satisfied with the progress of the traded goods category team and had come to terms with the aim of achieving savings of NOK 24 million she also pointed to sources of strain on the work of the category team. While she herself had been able to devote herself to the category team on more or less a full-time basis most of her team had been unable to devote more than 20 percent of their working week – as opposed to the aim of 60 percent - to the work of the team. As a consequence she had had to rely on purchasing support from Mr Næss of Input AS.

The original focus of the category team had expanded beyond pasta, fish and noodles to all traded goods and the work of the team comprised trying to achieve 15 per cent savings on each item. Although the aim was still to be complete the work of the traded goods team by the third quarter of 2009, Ms Søderstrøm had informed the project group that she did not believe this was realistic. Weekly reports to the project group had been abandoned by mutual agreement as both parties considered them too time-consuming.

The main stake holders for the traded goods team were Toro and Food Services. Both of these business units were represented in the team. However, Vitana was also a stake-holder but was not represented in the team. Ms Søderstrøm recounted that her dealings with Vitana had been problematic in the sense that local purchasers had been generally negative to her suggestions and to losing local control of purchasing. Additionally, she felt that local purchasers in Vitana were concerned about their own futures in the company. Ms Søderstrøm argued that these worries were not least a product of the absence of any clear notion of how purchasing was to be organized.

The view from stake-holders

In early March 2009 we visited Vitana's main plant at Bysice to interview Monika Jakubínská and Michal Mrázek both of whom we initially interviewed in August 2008. Ms Jakubínská is a senior buyer at Vitana and not a member of any of the category teams. She may be viewed as a stake-holder particularly in regard to the traded-goods category team. As a Vitana-based buyer with extensive responsibility for local purchasing, Ms Jakubínská was experiencing significant uncertainty at two levels, the organizational and the personal. At the organizational level, she was uncertain as to when responsibility for purchasing for Vitana would move from the local buyer to the category team. Further, she was uncertain as to the exact future structure of the new central purchasing function not least in regards to its relationship to local buyers. At a personal level, she was uncertain as to whether she would have a position in the company when the new purchasing organization was finally in place.

In terms of her relationship with the traded-goods category Ms Jakubínská had consulted with the traded goods team on the purchasing of noodles and pasta. For both products it had proved to be problematic to dispense with local suppliers. The thinking of the traded goods team was that all noodles purchases could be sourced from a supplier in Canada. However, delivery from Canada would involve 14 days as opposed to two days from Vitana's current supplier in Hungary. Because of Czech legal restrictions on life-shelf time the extra time involved in the Canadian option made this in Ms Jakubínská's opinion an unviable option. In regard to pasta Ms Jakubínská reported that the conclusion drawn by the traded goods team was that Toro would retain its supplier in Spain and Vitana its Czech supplier. According to Ms Jakubínská the reasoning behind this was that the traded goods team discovered that the additional cost of transport from Spain to the Czech Republic would outweigh any gains from common purchasing from the Spanish supplier. However, the responsibility for negotiating with the Czech supplier would pass from Ms Jakubínská to the traded goods team which would attempt to negotiate an improved contract with Vitana's current Czech supplier of pasta.

While Ms Jakubínská conceded that having a centralized purchasing function would mean having a complete overview of traded goods, she argued that her local knowledge of Czech suppliers in terms of their reliability would be lost. This local knowledge was, she argued, particularly significant in the case of dealing with small, mono-lingual, seasonal local suppliers of products such peas, milk and meat. It was also important, she argued, that purchasers understood the local palate. Ms Jakubínská further observed that while Input AS argued strongly that purchasers should not be allowed to conduct business with suppliers for more than two or three years because the purchaser-supplier relationship becomes overly intimate and therefore subject to manipulation by the supplier, her experience was that developing and maintaining knowledge of suppliers over a sustained period was actually advantageous.

Mr Mrázek, Vitana's purchasing director, was also the leader of the recently established spices category team. He too was uncertain as to whether he had a future with the company given that it has been announced by Mr Batha that he would not be part of the future central purchasing team. Furthermore, he was conscious that his subordinates were aware of this and felt that it was undermining his authority. Like Ms Jakubínská he disliked what he experienced as uncertainty, the lack of clear-cut decisions and a clear end-target. Nevertheless, he regarded Mr Andersson as having being very clear in signaling an expectation of commitment to Project Future.

In regard to his duties as category team leader Mr Mrázek's team had been charged with achieving with 15 percent savings from base amounting to NOK 7 million. Within Rieber & Søn the two main users of spices were Vitana and Toro accounting for 85 percent of the total. While Mr Mrázek regarded centralization of purchasing as feasible, integration was unrealistic because of the differences in local taste. Czech consumers prefer their spices fine, whereas Norwegian consumers prefer theirs granulated. His early experience as team leader had been that he was unable to devote anywhere near to 100 percent of his working-time to this role not least because of his on-going, full-time responsibilities as purchasing director. Likewise the other team members would be unable to devote 60 percent of their time to the category team as had been originally prescribed. His other early experience was the lack of IT-support in regard to getting the necessary data out of Rieber & Søn's SAP system. This constrained the efficiency of the team. Essentially, Mr Mrázek questioned whether Rieber & Søn had provided Project Future with sufficient "slack" - he argued that there were too many category teams and that Vitana lacked the personnel to contribute properly to these teams.

Perspectives from the Project Group

In the latter part of March 2009 we conducted interviews with two members of the project group, Mr Nordanger and Mr Batha, its leader, in order to get their views of the purchasing project six months after its inception. Mr Nordanger regarded the organizational changes that Mr Andersson had initiated as having made the purchasing project a viable project. In particular he pointed to the changes in the structure of the corporate leadership that had made the BU leaders accountable for progress with Program Future. However, he was concerned that there was no clarification of the future purchasing organization and that his own future role was unspecified. In particular he wanted dialogue around future roles.

Mr Batha also pointed to the uncertainty that a lack of clarity in regards to the future purchasing organization was creating. What was clear for him was that with as many as 50 purchasing categories only about half of category team leaders could expect to belong to the future purchasing organization. Equally what was clear to him was that the members of the new purchasing organization would have to be sensitive to the needs of local product developers, but that these would also have to have a group-wide perspective on their developmental activities. However, Mr Milan, pointed out, the design of the future purchasing organization was not his task, but that of Mr Mohn.

Mr Batha thought that in most cases the “best people” had not been recruited to the category teams but the “available people”. This made progress slower and there was a danger he thought of the teams slowing down even more. Although, he observed a change in the behavior of Vitana towards the project as a consequence of Mr Andersson’s influence, he considered Vitana as generally underrepresented in the various category teams. He thought that Delecta was also underrepresented. He accepted that a substantial part of the explanation for this was a lack of resources. For example Vitana had only a limited number of personnel with adequate English language skills to draw on. Delecta had a focus on integrating a new Polish acquisition, Gellwe.

Perhaps paradoxically DKB, relative to its size, had made a substantial contribution of personnel to the category teams, but Mr Batha surmised that this had been a considerable burden for DKB. Toro had been very positive to the purchasing project and had supplied additional resources when necessary.

10. CONCLUSIONS

In chapter 2 we outlined a number of research questions. Our conclusions are structured according to these questions.

1: Governance mechanism explanations of resistance to the development of social capital

- *To what degree are incentives for business unit managers aligned with the glocal strategy?*

We may observe that changes were made after Program Future commenced that increased the alignment of the incentives for business unit managers with the new glocal strategy. However, we note that resources remained unequally distributed across the business units and that no formula for manning the category teams had been evolved that took this into account.

- *To what degree has social integration of business unit managers taken place in relation to the overall MNE glocal strategy?*

The introduction of the general management team represented a significant move towards social integration of the business unit managers. However, this innovation occurred after the inception of Program Future and we assume that integration may involve a substantial period of time before the glocal strategy is internalized.

    - *To what degree is there tension between the immediate interests of the business unit and the MNE as it seeks to achieve locally responsive integration of purchasing?*
        - *To what extent are expert team members drawn from different business units?*
        - *To what extent do expert teams comprise the "best people"?*
        - *To what extent are team members able to devote themselves to their team tasks?*
        - *To what extent do the teams have access to the support required for achieving their goals?*

Due to limited resources at Vitana, Delecta and DKB there clearly was some tension between the immediate interests of the business units and that of Rieber & Søn as a group. Thus we note that category team members had only to a limited extent been drawn from the main business units and that members were not necessarily the "best people". Furthermore, we note that in most cases the team members had been unable to devote themselves in line with the original ambitions. In terms of support, Input AS had played a significant role in equipping the traded goods team with the necessary purchasing skills.

2: The development and maintenance of social capital within and beyond expert teams

- *To what extent do expert team members understand the overall purpose of their team?*
- *What mechanisms ensure that this sense of purpose is maintained?*
- *To what extent are the expert teams able to communicate with stake-holders beyond their teams?*

In terms of the short-term purpose of achieving cost-savings there clearly was a good understanding among team members who on the whole were working well together despite time constraints. Thus it would appear that the cost-savings the purchasing project was seeking to achieve would be attained. Although the weekly monitoring of the category teams had been abandoned in favor of monthly reports clearly the project group had generally succeeded in maintaining the momentum of the category teams. However, the category teams clearly were affected by the lack of longer term clarity of purpose in the sense that the future organization of purchasing had not been specified. This constituted a significant source of uncertainty that was affecting the relationship of the category teams in their dealings with stake holders in the business units. As such while social capital had been developed within the category teams, we could observe difficulties in creating bridging social capital between the category teams and stake holders.

In terms of figure 3 it would be premature to draw any conclusions. While incentives had been aligned, there remained resources disparities between the business units. While the general management team had been established, arguably it would need time to develop a common identity. Category teams had been manned by competent individuals, but in some cases these individuals had not been allotted sufficient time to fully participate. Finally, while the category teams had developed in-team social capital they had not developed out-team social capital.

Informants

Patrik Andersson, CEO, Rieber & Søn, October 10, 2008.

Milan Batha, Group Purchaser, September 4, 2008; October 22, 2008; January 27, 2009; March 24, 2009.

Harald Gjerding, Purchasing Manager, Food Service Division, June 26 2008.

Monika Jakubínská, Senior Buyer, Vitana, Bysice Plant, August 14, 2008; March 3, 2009

Kasper Lenbroch, Country/Managing Director, Rieber & Søn Denmark A/S (DKB), November 19, 2008.

Vidar Lilletvedt, Head of category team for "Foils". March 16, 2009.

Helge Midttun, Chair of Rieber & Søn's Board of Directors, June 17 2008.

Frank Mohn, Director Supply Chain, February 17, 2009.

Michal Mrázek, Purchasing Director, Vitana, Bysice Plant, August 14, 2008; March 3, 2009

Terje Nordanger, Purchasing Manager, Toro, May 8 2008, June 26 2008, March 16, 2009.

Piotr Sienko, Country/ManagingDirector, Rieber & Søn Poland (Delecta), February 25, 2009.

Nina Skage, Head of Food Services Business Unit, September 9, 2008.

Director of Human Resources, October 10, 2008; October 22, 2008;

November 7, 2008; February 9, 2009

Sona Stehliková, Product Development Engineer, Vitana, Bysice Plant, August 14, 2008.

Sarka Søderstrøm, Head of category team for traded Goods, November 26, 2008, March 20, 2009.

Morten Vike, outgoing senior manager, Rieber & Søn , May 8 2008.

Jørgen Wiig, Country/Managing Director of Rieber & Søn Norway (Toro), December 9, 2008.

Jerzy Zalopa, Country/Managing Director, Rieber & Søn, Czech Republic and Slovakia (Vitana), February 25, 2009.

Observation

September 23, 2008. Seminar for Toro top management held at Rieber & Søn headquarters, Bergen at which Milan Batha presented an overview of the implementation of the puchasing transformation project. This was supplemented by a presentation by two consultants, Atle Sundøy and Marius Næss, from the Bergen-based consultancy Input AS that has been selected to support the implementation process.

March 18, 2009. General Management Team meeting at Grand Hotel, Oslo at which issues of a strategic nature were discussed including Rieber & Søn's private label strategy and how to define a set of strategically based company values.

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