Globalization and strategies in the Norwegian fish-processing industry – coping or proactive restructuring?

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Abstract. Globalization may affect companies in the fish-processing industry in many ways. For some, globalization poses new threats, for others it represents new opportunities. Some companies see their benefit of being located close to the resources vanish, as resources are brought out of the region, processed in low-wage countries, and distributed back into core markets. For others, the restructuring of retail markets, revolutionized communication, improved logistics and the development of new products combine to represent possibilities for capturing shares of world seafood markets, by being in the lead in restructuring the entire distribution systems for seafood. This paper explores the impact of globalization on the competitive environment of the fish-processing industry, and discusses different perceptions, possibility sets and strategic responses to a changing environment, all of which seem to be dependent both on strategies currently pursued, company characteristics like size and product portfolio, and geographic location.

Keywords: Globalization, strategy.

1 INTRODUCTION
In this paper I will focus on how firms, confronted with different aspects of globalization, perceive and act upon threats and opportunities related to their competitiveness.

Globalization is a prominent and much discussed feature of today’s economic world. In some way, it affects everyone of us, and close to every business. For some industries, changes may seem to influence many aspects of the competitive environment. A relevant example would be the seafood industry, experiencing internationalization or globalization in both input and output markets.

It can be argued that the economy is shifting from an international to a global economy, with an increasing interconnectedness of all parts of the world (Dicken 1992), a shift that can be summarized in four points (Amin and Thrift 1992):
1) Industries function on a world scale. MNCs control investments, employment and trade.
2) The power of MNCs increase; oligopolies and cartels increase in importance.
3) Global companies have in some ways become more decentralized (hollowed out). Subcontracting, joint ventures and strategic alliances lead to a spread in production, but not necessarily a spread of strategic decision-making.
4) There is an unstable balance between nations and firms. Cross-national issue-coalitions emerge.

As for the seafood industry, globalization is materialized in several ways. The above outline of a global shift would not have been true for the seafood industry ten years ago, but to some extent it is today. And it seems to becoming truer every day. In addition to these more general traits, there are also traits more specific to the seafood industry.

In a not so distant past, most fish were landed by coastal vessels, processed by local industry and then exported. As more vessels have on-board freezing facilities, and thus make it feasible to transport fish over large distances, the advantage of being located close to the fishing ground is severely reduced. With improved logistics and cheaper transportation, fish can be sourced anywhere, processed in low-wage countries, and then brought back to core markets. This is one aspect of globalization. Another important trait is the restructuring of supply chains and retail markets. With large chains “oligopolizing” the market, producers of fish may need to be larger to be able to serve these customers. Mergers and acquisitions have lead to larger and fewer actors, more integrated and more international actors. This kind of restructuring has come quite far in fish farming, while national regulations are halting this development for the whitefish and pelagic sectors.

As will be shown, these are only a few examples of developments affecting the competitive environment of the seafood industry.
The main research problem for this paper consists of two parts:
1) How do managers perceive globalization to change their competitive environment, and 2) what strategic responses to globalization do firms find necessary or advantageous?

2 THEORETICAL BACKGROUND

Changes and variations in the firm’s competitive environment, be it a result of globalization or anything else, has to be dealt with; information must be collected and analysed, decisions made and actions taken. The perceived environmental uncertainty may thus exert a considerable influence on organizational structures and processes (Huber and Daft 1987).

Several types of environmental uncertainty exist. For general, recent reviews see (Sutcliffe and Zaheer 1998; Miller and Shamsie 1999). Regarding uncertainty of supply in the seafood industry, see (Ottesen and Grønhaug 2001), and for vertical integration towards different sources of raw material see (Isaksen et al, 2001).

The competitive environment, may based on the same information be perceived quite differently by different actors (a result of leaders’ different mental models, see for instance Johnson-Laird, 1983), thus leading to identification of totally different sets of strategic options. One piece of information may for one person convey a threat, while another see possibilities arise. The result is a wide variety of strategies.

To understand these different kinds of strategies, both literature focusing on product market positioning and the resource-based view of the firm has been reviewed.

2.1 Sustained competitive advantage

The fundamental goal for any long-term strategic planning would be to make the firm perform better, that is to yield sufficient (for those that are concerned about survival) or above-average returns (for those that focus more on maximizing returns). Two strands of research has dominated the field of strategy for the last 20 years, with one focussing on product market position (Porter 1979; Porter 1980; Porter 1985; De Man 1994) and the other focussing on resources (Wernerfeldt 1984; Barney 1991; Peteraf 1993; Teece, Pisano et al. 1997). How these two strands of literature explain one goal, superior performance, by analyzing different concepts, is illustrated in the figure below.

![Figure 1 Globalization in three spheres.](image)

Competitive advantage, leading to sustained superior performance, is central in both literatures.
2.2 Porter and the positioning school

The literature on positioning is rooted in a Bain-type analysis of industrial organization (Bain 1959). Concepts and models from this perspective gained prominence in the 1980ies, both among scholars and practitioners. The main focus is on a firm’s external environment, thus ”the essence of strategy formulation is coping with competition” (Porter 1979). Or put differently, the essence of formulating a strategy is relating a company to its environment (Porter 1980). Industry profitability is considered depending on the five competitive forces affecting the industry (Porter 1979): Rivalry among existing competitors, threat of new entrants, threat of substitute products, bargaining power of suppliers and bargaining power of customers. The model suggests that firms can earn above-average returns by manufacturing standardized goods at lower costs (cost-leadership strategy) or differentiated products for which consumers are willing to pay a price premium (differentiation strategy) (Porter 1980; Hitt, Ireland et al. 2001). That profitability is determined on an industry level is much debated; some research show that much variation in profitability is explained by the industry, while others find that ”by far the most important sources of rents … are due to resources or market positions that are specific to particular business-units rather than to corporate resources or to membership to an industry (Rumelt 1991). This argument is partly met by some who argue that profitability could better be explained if one looked a subgroups within industries, strategic groups, in which companies are more similar than is the case of all the companies of an industry (McGee and Thomas 1986; Reger and Huff 1993).

For the discussion in this paper, one of the five forces will be of particular importance, namely the threat of new entrants, and the corresponding response: the creation of barriers to entry. As will be shown later, many of the strategic responses to globalization may be well understood within this perspective.

2.3 The resource-based view of the firm

In the 90s the field of strategic management underwent a major shift in focus regarding the sources of sustainable competitive advantage: from industry to firm-specific effects. While in Porter’s competitive strategy framework the firm is viewed as a bundle of activities, in the resource-based view of the firm (RBV), it is view as a bundle of unique resources. While the focus in Porter’s framework is on adapting to the industry environment by seeking an attractive position, the RBV postulates that performance is ultimately a return to unique assets owned and controlled by the firm.

The RBV partly came into existence as a response to what was seen as an implicit adoption of two simplifying, and fundamentally flawed, assumptions in the positioning-literature. Firstly, it is assumed that firms within an industry are identical in terms of the strategically relevant resources they control and the strategies they pursue. Secondly, it is assumed that should resource heterogeneity develop, this will be short-lived as resources are highly mobile (i.e. can bought and sold in factor markets). The RBV, on the other hand, posits that firms are heterogeneous regarding their resource endowments, and that this heterogeneity may be long lasting. Resources are assets that are either owned or controlled by by a firm, whereas capabilities refer to its ability to exploit and combine resources, through organizational routines in order to accomplish its targets (Amit and Shoemaker 1993). For resources to be a source of sustainable competitive advantage they must be valuable, rare costly to imitate and non-substitutable.

The two theories outlined above, the positioning school and the RBV, also differs regarding the role and the scope of manager’s action. Williamson (1991) put two general headings on these two perspectives: strategizing and economizing. The focus of managers will be drawn between market manoeuvring and capabilities building (Spanos and Lioukas 2001).

2.4 Issues of globalization and localization

Some of the reasoning about producing in different countries may be well understood within theories of innovation systems. As innovation systems are constituted sectorally - and, at least potentially, globally – rather than nationally (Metcalfe 1996), adds to the relevance for studying internationalization and globalization in the seafood industry. An argument for global presence is that globalizing companies may develop organizational forms that may enable them to repatriate the varied results of different localized learning experiences and integrate them within a collective body of knowledge to serve strategic corporate interests (Amin and Cohendet 1997). Firms may gain from locating units in strong industrial milieux, while still being part of a corporate network. Such milieux are by Amin and Thrift termed Neo-Marshallian nodes in global networks, and described
as “an industrial atmosphere and infrastructure which firms, small and large, isolated or interconnected, can dip into as and when required” (Amin and Thrift 1992).

One question of interest may be to what extent learning and knowledge acquisition is an argument for international or global presence. Companies may be influenced by, or learn from, the environment in which they operate (Dicken, Forsgren et al. 1994). How much they learn, or how much they influence the environment, depends on to what degree they are embedded into the local milieu.

Bridging the literature on capabilities and clustering, is the literature on higher-order industrial capabilities and competitive advantage. Higher-order industrial capabilities may be defined as the "shared capabilities that may develop from repeated interactions among geographically bounded firms” (Foss 1996).

3 RESEARCH METHODOLOGY

This section reports the research methodology behind this study. Firstly, I describe and argue for the choice of design, setting and data sources, then proceed to describe data collection and analysis.

3.1 Research design and setting

This paper is based on an exploratory approach, oriented towards discovery of factors influencing strategies under globalization.

The context of this study is that of the Norwegian seafood industry. This industry consists of more than 600 companies involved in (mostly) primary and secondary processing. Companies studied produce white fish (mostly cod, haddock and saithe), pelagic species (herring, mackerel and capelin) or salmon (or a combination of these).

3.2 Data collection and analysis

10 firms were selected for in-depth studies. To secure variability (Campbell 1975), firms were chosen that differed in size, product assortment, activity involvement (in the value chain), market scope and profitability. Most of these are large and medium-sized (by Norwegian standards, that is. Internationally, even the largest would still be considered medium-sized).

For this study I have chosen a modest number of firms. As it has an exploratory purpose, a detailed insight is necessary to achieve a deeper understanding of the thinking underlying each firm’s strategy.

Further, I have chosen to focus on managers. Many, if not most, medium-sized firms in the Norwegian seafood industry have owners as managers. This is even the case in many of the largest companies, even though the managers share in most of these cases has been diluted through mergers.

For capturing information about perceptions of a firm’s business environment, and about the management’s strategic reasoning, collecting primary data through interviews was considered the most appropriate approach. 11 interviews with 9 managers were conducted (2 were interviewed twice). The interviews were lengthy and semi-structured. Structured enough that all aspects of interest was touched upon, but loose enough that respondents could enlighten me on issues of particular interest or importance to them. This way a lot of interesting points that this author had not thought of in advance was brought forward.

Interviews were taped, transcribed and content analysed. Excerpts of these interviews will be reported to illustrate the research questions discussed.

4 FINDINGS

In this section I will report my findings regarding 1) how managers perceive globalization to change their competitive environment, and 2) what strategic responses to globalization companies find necessary or advantageous.

All managers were concerned with the possible consequences of globalization. Some expressed deep concerns, while others focused on new opportunities arising.
4.1 Perceptions of globalization and the firms’s strategic situation

Globalization has many facets, and affect firms in diverse ways. This is obviously reflected in the way that different managers perceive their competitive environment to be affected by globalization.

Globalization means that you choose the world as your arena. And if there is any industry in this country with a tradition for being global, it is the seafood industry. But tradition is limited to selling our products, while today we invest and we produce abroad.

One main aspect of globalization is that communication and transportation is becoming steadily easier or cheaper. But at the same time as this is important, it is not at all new. It is a process that has been going on for thousands of year, but it does seem to have accelerated the last decade or two.

What has happened is that transportation costs have become much smaller than they used to be. That makes for an international division of labour, where fish is caught by one country, processed in a second and consumed in a third. That is of course not entirely new, but it happens to a much larger degree.

Proximity to the resources was the most important factor for building these firms. Now resources may be transported anywhere for processing.

Our market is becoming more of a world market. … What is special about seafood, compared to much other food, is that production takes place in coastal areas, often in the periphery, usually far away from consumers. This means that the seafood industry is an international business, and that logistics and distribution is crucial.

Farmed seafood, and then salmon is just one of many species, is becoming more important for world supplies. And this changes distribution. An important global trend is that more fish is distributed fresh; farmed fish can be harvested by market demand. New, more “industrialized” channels for seafood can be built. And these can also be used for wild-caught fish, if only we can control the supply of f.

4.2 Competition from low-wage countries

White fish. With fish being frozen aboard, and with low costs of transportation, both relative to what it used to be and relative to the value of the product, processing in low-wage countries has become an option for several actors. Norwegian producers now meet the competition from white fish processed in for instance Poland and the Baltic countries, or even in China. For a commodity like blocks of frozen fillet, this makes for head on competition. Lowest price wins. This is a threat perceived by all actors in the white fish industry:

For those that do their processing in Norway, and for some of our activities that regards us too, we have to approach this by asking: How can we defend our role in the value chain, if we are no longer competitive in processing fish in Norway?

The answer to this threat, and strategic responses made by different companies, will be treated below. Strategic responses to competition may be of several types. The main difference is between those responses aimed at lowering costs by increasing efficiency and those who seek to increase margins by charging a price premium.

4.2.1 Lowering costs: Increasing efficiency or larger volumes

Some firms focus a lot on reducing costs and increasing efficiency. Wages are high, and in addition, supplies of labour may sometimes be scarce. For the most repetitive work operations, such as for instance the manual fine trimming of whitefish fillet, turnover is extremely high.

I think we will see a technological development that will bring our labour costs down; and we are totally dependent on it.

Facing such problems with competitiveness, some would consider to reorganize their business, or to refocus their activities, while others would not.

We have never really considered renting or buying production capacity abroad. That would be our last resort. We will try to be ahead regarding efficiency and technological development. As a corporate firm, we would see it as a defeat to supply goods produced in China. […] We would like to distance ourselves from the sales of Chinese goods, and maintain that only Norwegian is Norwegian.
4.2.2 Obtaining a price premium: Branded goods and regionalized markets

To charge a price premium, differentiated goods must be offered. One way to do this is to build a brand, or to base a product’s profile on its origin.

We are changing our strategy from being a producer of commodities to becoming a producer of specialized products. [...] And then we have to, one way or the other, to regionalize the market, to make a regionalized market within the global, where someone is willing to pay a premium because we have produced the fish. [...] We have been round to our major customers, asking them what would make them buy cod from us when they, eventually, would be offered a cheaper product from China. Based on the response, we have shifted our strategy towards profiling the fish as Norwegian, "fish from the arctic” and so on.

For some products, physical proximity to the market may still be an advantage. By shifting production from frozen to fresh products, your competitive position may become more favourable.

The other thing we do is that we produce more fresh fish. The market for fresh fish is a regional market. With fresh fish we consider Scandinavia/Europe our home market, with no competition from China.

To supply customers like supermarket chains with fresh fish, though, means that supplies must be regular. Something which may be difficult with the disintegrated structure of the Norwegian seafood industry.

For pelagic species, like herring and mackerel, the picture is a bit different. With a relatively low value per kilo, it is not an option to ship it around the world for processing. Most primary processing, landing, packaging and freezing, thus takes place around the North Sea basin. Most secondary processing though, takes place closer to the market.

Seafood from pelagic species are very traditional products. What you do to mackerel in Japan are entirely different from what you do to it in Germany or Russia.

With no typically international product that can be produced in large volumes for global marketing it has meant that secondary processing of pelagic species has never been considered a fruitful option.

4.2.3 Organization of production – global distribution systems

The different perceptions of the competitive environment lead to very different responses regarding organization of production. Some firms focus on getting more efficient, while others are very explicit about their goals on restructuring:

We shall actively contribute to structural change and rationalisation of the seafood industry, to secure an efficient and safe value chain.

The strategy in doing this is to focus on areas in which the company is already relatively large, then grow via mergers and acquisitions and finally to form strategic alliances.

This alliance will stand out as a major actor in the European seafood industry, and shall be further developed to be a market leader. [...] An unstructured European processing industry, with the retail chains’ need for co-ordinated supplies, means that our alliance has a growth potential far out of the ordinary within food industries.

Distribution systems exist for fresh salmon that may serve clients all over the world with the right amount and quality of fish. Some companies see these distribution systems as a possible model for distribution of wild-caught fish, too.

As a large company, we may guarantee supplies – you need a certain size to do that – for supermarket chains or catering. With a size that allows you to take full trucks from different production areas to the market, you may have efficient and fast distribution. [...] We hope that we can also use this distribution channel for wild-caught products too. Then we can offer fishermen an efficient gateway to supermarkets and the restaurant/catering-market, too.

To serve large customers, as supermarket chains, you need to be relatively large to be able to supply them with what they need. And at the time they need it. For wild-caught fish, this represents an opportunity to simplify the value chain, and thus lowering chain distribution costs. But like with salmon, to do this requires stable supplies
of large volumes. In order to be able to supply a certain amount of fresh fish, and to supply the right fish at the right time, things must be organised in new ways.

We are building a sourcing system for fresh fish. But this is actually easier for us to do in Iceland than in Norway. In Iceland you can buy a quota and rent a boat to fish it. Thus it is us, as a processor, that decides when to fish what. In Norway fishermen has less of a culture for listening to the market.

But sometimes you will have to go for (something that at least looks like) the second-best solution……

As fresh fish is hard to get, we focus a bit on “refreshed” fish, fish that has been frozen and thawed for further processing or packaging. But for this to work, quality must be extremely good in freezing, thawing and storage etc.

For some firms producing in several parts of the world means serving customers from whatever region might be the most convenient/profitable. As markets are changing, goods may be sourced from elsewhere. As prices for salmon in the EU were below the minimum price Norwegians were allowed to sell for, the EU market could be served from Scotland, The Faroe Islands or Chile, while Norwegian salmon were directed elsewhere. For more on global sourcing, see (Murray 2001).

4.2.4 Markets and trade regulation

Market access is an issue as crucial as it has always been. Being outsiders to trading blocks like the EU or the NAFTA, means that tariffs will apply more so on processed products than on products that may constitute raw material for the processing industry of the EU. This difference in tariffs makes for more processing within a trade block. Several Norwegian firms have established or bought processing plants within the EU. Another important aspect of trade blocks is that of existing market countries becoming members of trade unions, like is the case with several eastern European countries. For some whitefish and pelagic species these countries are important and growing markets. As members of the EU, same tariffs will apply as to the rest of the EU. Norway will probably be offered tariff-free quotas, but further growth will still be hindered. WTO is seen as doing important work, but, as each round lasts for ages, it may be of little immediate relevance.

4.2.5 Local embeddedness in a globalized world

As regards the question of learning and knowledge acquisition possible from being embedded into production systems in different parts of the world (Amin and Thrift 1992), or learning through strategic alliances (see (Lane, Salk et al. 2001)), this seemed for several respondents to be a possible advantage (but only after slightly leading questions, though):

A lot of Norwegian know-how is applied abroad, but in addition you need local know-how. In Scotland, for instance, when "Norwegian thinking" led producers to try farming as intensively as in Norway, it led to problems. [...] And there are other areas where we [Norwegians] have limited knowledge about, like the risk for algae. This we experience in Canada every year, and our people there know how to deal with it. So Norwegians have a lot to learn. And with other species than salmon this is even truer.

In Norway there is a strong infrastructure for farming salmon, with equity markets, knowledgeable banks and insurance companies, producers of feed and farming equipment, and suppliers of various services like transportation, slaughtering veterinary services etc.

Such infrastructure is weaker in most other countries. Many things must be built from scratch, as some places we face very closed structures. But being localized in all major farming areas, we may benefit from their different advantages. In Scotland and the Faroe Islands you are within the EU, with no tariffs-disadvantage. From USA and Canada we can serve the US market with truck, which makes for a considerable cost advantage. Chile and Norway are produce at the lowest cost, but share the faith of being outsiders to trade blocks and being situated far from important markets. Investing more in Norway or Chile means for us a focus on more processed products, and to increase profitability in processed products.

Knowledge of the local seems to be of even higher importance regarding market knowledge. Both actors with foreign sales offices, and smaller actors without, stressed the importance of being close to customers, understanding language and culture. As pointed out by several respondents, the Norwegian seafood industry has always been internationally oriented, as a major share of the production has been sold in export markets.
5 DISCUSSION

International strategies at the corporate level may be divided into three classes, multidomestic, global or transnational strategies. A multidomestic strategy is one in which strategic and operating decisions are decentralized to the strategic business unit in each country. This allows for tailoring of products to the local market. (Ghoshal, 1987). Contrary to this, a global strategy assumes more standardization of products across country markets. To achieve both global efficiency and local responsiveness, a transnational strategy might be pursued. The strategies of the largest Norwegian salmon producers have characteristics of both a global and a transnational strategy. They (mostly) produce highly standardized products, while at the same time serve markets from local (regional) sales offices.

Competitive positioning is the combination of choice of target market (where to compete) and competitive advantage (how the firm will compete). But what resources seem to be the most important for firms in the Norwegian seafood industry? For some companies, market-focused resources seem to be the basis for growth. These organizations seem to be well endowed with several/many of the market-focused resources identified by Hooley et al.: organizational culture, marketing assets and marketing capabilities (Hooley, Greenley et al. 2001).

The interviews indicate that among the five factors affecting profitability, one in particular stands out: the treat of new entrants. Keeping out new entrants is done through barriers of entry that exist, coupled with the reaction from existing competitors that the entrant may expect (Porter 1980). The threat of entrants is thus a threat that barriers of entry will be lowered, and a typical response from existing firms is to try to raise these barriers. There are several activities/strategies seen among Norwegian firms that can be characterized as the building of barriers to entry (as outlined by Porter (1980)):

- **Economies of scale.** If economies of scale exist, large investments are needed for potential entrants to match the productivity levels of established firms. The search for economies of scale is evident within the farmed salmon business. Economies of scale is probably more important in processing and marketing than in production. Economies of scale also seem evident in the primary processing of pelagic species.
- **Product differentiation.** To achieve a higher price, a price premium, your product must in some way be differentiated from the rest. A product could for instance be differentiated on the basis of its origin, a brand name or physical attributes of the product.
- **Cost disadvantages independent of scale.** Examples of this are quotas on fishing and licences in fish farming that were originally free, but that now are traded at fairly high prices. New entrants must now enter at a significant price.
- **Access to distribution channels.** Creating new distribution channels. Partnership with preferred customers means exclusive/restricted access.

The title of this paper suggests that firms may be categorized on the basis of their response to changes in their external environment. Some companies have more than enough with coping with their environment, while some managers seem to thrive in their new and larger playground, actively seeking to reshape entire distribution channels. Imagining a continuum between coping and proactive restructuring, I have illustrated a possible distinction between coping and restructuring firms in the figure below.

![Figure 2 Coping vs. Proactive restructuring](image-url)

**Figure 2** Coping vs. Proactive restructuring
As to what characterises companies on this continuum, this is a question for further discussion and exploration. Several hypotheses may be formulated in this regard, though, like for instance these:

Is it so that market-orientation may explain to what degree firms are focusing on coping or more pro-actively pursuing a strategy of restructuring? Are production-oriented firms copers? Do they fail to see opportunities seen by market-oriented firms (or perhaps more precisely: firms with contacts/activities in export markets)?

Ottesen (2001) identifies three coping-strategies (to uncertain supply of input): 1) to control input, 2) to adjust to changes and 3) reduce effects of supply uncertainty.

6 CONCLUDING REMARKS

It has been shown here that perceptions of the environment, and the strategic responses to such changes, vary widely among firms in the Norwegian seafood industry. Explanations for these variations have been hinted at, while the establishment of any causal relationships has not been attempted. This would be a natural path to follow from here, though.

7 LITERATURE


