

## Changing transnational affections. Orkla, Elkem and Norwegian big business 1960-2004<sup>1</sup>

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Knut Sogner, *professor of economic history, Norwegian School of Management, 0442 Oslo, Norway (knut.sogner@bi.no)*

#### Draft

When Orkla purchased Elkem in 2005, one of Norway's five largest companies bought one of Norway's twenty largest.<sup>2</sup> Behind the national façade, however, a Norwegian company with a strong footing in Sweden bought another Norwegian company with an equally strong Swedish footing, but there the similarity ends. Orkla, a conglomerate with strong sales in food and branded consumer-goods that prides itself as being "a moderately diversified company", bought an outright metallurgical company and thus became even more diversified itself. The purchase was welcomed by the otherwise conglomerate-skeptical stockmarket, something that acknowledged the competence of Orkla's management, the cash-richness of Orkla, the quality and possibilities of Elkem, as well as ending the long fight between Orkla and American Alcoa about who should own Elkem.

The two companies' Swedish connection seemingly did not matter the least. There was no connection between the companies' contact with Sweden, as Orkla had a huge foodstuff business in Sweden while Elkem was in control of the Swedish aluminium-processing company Sapa. Little or nothing was to be expected to be gained from rationalisation, except the uncertain claim that something was to be gained by merging Elkem with Orkla's chemistry business. Neither did the companies' common Swedish ancestry seem to matter. Both companies had been established in Stockholm in 1904, but that was partly because they both needed a lot of capital and the Swedish connection was reasonable because of the union between Norway and Sweden at the time.

Non-Scandinavians may not be surprised that Norwegian companies have internationalised by purchasing Swedish companies. Norway and Sweden are geographical neighbours and were in a political union between 1814 and 1905. The languages are also similar, so people can understand each other. Swedish financial interests have a long history

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<sup>1</sup> This paper is based on two recent monographs: Knut Sogner, *Skaperkraft. Elkem gjennom 100 år 1904-2004*, Oslo: Messel forlag 2003 and Trond Bergh, Harald Espeli and Knut Sogner, *Brytningstider. Storselskapet Orkla 1654-2004*, Oslo: Orion forlag 2004. In the second book I wrote about the period up to 1974, and I am thus indebted to my colleagues Trond Bergh and Harald Espeli for their work on the latter part of Orkla's history

<sup>2</sup> See Bergh et al 2004 op.cit. and Sogner 2003 op.cit.

of taking positions in Norwegian companies (i.e. Orkla and Elkem), and there are important examples of the reverse.<sup>3</sup> Yet historically large Swedish-Norwegian *companies* are rare, and Scandinavian Airline Systems used to be the shining exception. Companies from both countries have not been occupied by making Scandinavian operations, but have rather been nationally based export-oriented and geared towards the larger markets in Europe, America and Asia. In the period prior to the inter-war-crisis some Scandinavian companies may have been operating as part of semi-official owner-steered clubs, especially in the paper and pulp-business.<sup>4</sup> But after World War II national companies emerged and developed, to a large degree inspired by American models of multidivisional enterprises.

The 1990s have seen a plethora of new Scandinavian and Nordic entities, however. Orkla went Nordic from the mid-1990s, while Elkem waited until after 2000. In banking (Nordea), insurance (If), pharmaceuticals (Nycomed), shipping (Wallenius-Wilhelmsen) there are important examples of what may seem a trend, and while the proposed huge merger between the main telecommunications operators Telia (Sweden) and Telenor (Norway) failed, both companies have extended their Nordic business extensively afterwards. Similar developments seem to be the rule in financial services. Do we have a process of some sort of “Europeanisation” going on? Are new regional, trans-national entities based on amalgamations of companies from small countries a viable answer to new opportunities and challenges in the European and global competitive arenas? The short answer seems to be “yes”. The new competitive climate facilitates such developments, and there are a number of examples how loss of national control of industrial flagships like Swedish Volvo and Saab have showed the new challenges to be real.

In the following I aim to show that there also have been deeper, cultural processes at work in Orkla and Elkem that help explain their Swedish expansion. While the general process of a new European political arena through the EU has facilitated developments, and the European *and* global competitive challenges have played their part in changing the environment, the expansion into Sweden must also be seen as a result of deeper organisational changes within both companies, changes that have affected the human relations and interactions within – the daily life in the company, so to speak. In the extreme, one could say

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<sup>3</sup> Olle Gasslander, *Bank och industriellt genombrott. Stockholms Enskilda Bank kring sekelskiftet 1900*, I–II, Stockholm: Centraltryckeriet/Esselte Aktiebolag 1956-59; Francis Sejersted, *Demokratisk kapitalisme*, Oslo: Universitetsforlaget 1993

<sup>4</sup> See Knut Sogner (with contribution from Sverre A. Christensen): *Plankeadel. Kiær- og Solberg-familien under den 2. industrielle revolusjon*, Oslo: Andresen & Butenschøn/Handelshøyskolen BI 2001

that America-inspired company cultures have become Scandinavian in the sense that cultural attitudes we associate with Scandinavia seem to be the basis for renewed company cultures.

### **Strong and weak Americanisation**

It should go without saying that when, in an article like this, sweeping terms like “European”, “American”, “Scandinavian”, “Norwegian” and “Swedish” are thrown about, their meaning must be sought in the phenomena they seek to understand. In this article Norwegian companies (under the law) are studied in their interaction with several streams of (foreign) influences, most notably of an organisational-cultural and political-legal nature.

There is an open question what kind of “nationalities” can be said to have constituted Norwegian large companies in the beginning of the 1960s and the day and age when the multitude of American influences were clearly felt.<sup>5</sup> A case could be argued for such companies prior to the 1960s to have been very much “European” in kind: Most of them – and certainly Orkla and Elkem – had been started as export-enterprises at the turn-of-the-century. They had strong ties to their Norwegian and Swedish owners, who prior to World War II again were tied to European financial networks. In Orkla the Swedish banking family Wallenberg was present at the board of directors from 1905 to 1977, and this implied inter-war deals with the Rothschilds, with IG Farben, as well as Orkla’s management being tied through business deals and the inter-war international cartels with European (and American) enterprises. Most Norwegian companies – like Orkla and Elkem – were at best only partly vertically integrated, something that emphasized the importance of the foreign interconnections. The important Norwegian exception was Norsk Hydro, the vertically integrated producer of synthetic fertilizer that also had the Swedish Wallenberg-family in a steering position for many decades.<sup>6</sup> Elkem, selling smelting technology to producers of metals, was thoroughly internationalised prior to World War II, with both European and American connections.

In a very real way both Elkem and Orkla was European in the inter-war-period. Elkem, originally started in 1904 as a venture company for electrochemical and

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<sup>5</sup> For introduction of the divisional model in three large Norwegian companies, see Hallgeir Gammelsæter, *Organisasjonsendring gjennom generasjoner av ledere*, Molde: Møreforskning 1991

<sup>6</sup> The history of Norsk Hydro has recently been published in three volumes, Ketil Gjølme Andersen, *Flaggskip i fremmed eie. Hydro 1905-1945*; Finn E. Johannessen, Asle Rønning and Pål T. Sandvik, *Nasjonal kontroll og industriell fornyelse. Hydro 1945-1977*; Einar Lie, *Oljerikdommer og internasjonal ekspansjon. Hydro 1977-2005*, Oslo: Pax 2005

electrometallurgical processes with its first task of making the technology that was in 1905 to become the basis of Norsk Hydro workable, had been thoroughly reorganised and scaled down in 1921 after the post-World War I crisis. It then became specialised as a knowledge-selling company, building a business around the sale of the right to use the Söderberg-principle of electric smelting-processes and production of aluminium, a principle developed by Elkem in 1918 as one of several in-house research-projects. With strong interconnections with European companies and a clever patent and licensing system, Elkem was able to place itself at the centre of several international technological interchanges. The most important of these was the development of the Söderberg-system for smelting of aluminium, owned and sold by Elkem, but developed by Elkem with crucial input in the 1920s and 1930s from France (Camargue) and Switzerland (AIAG).

Orkla, originally started to exploit a huge pyrite mine, also developed important production processes and most of these were related to the exploitation of the mine. Most important, however, was its patented industrial Orkla-process to make pure sulphite out of the pyrite, a process that was licenced to the pyrite giant Rio Tinto and other companies and became an important tool with which Orkla forged business relations.<sup>7</sup> Orkla was positioned as a supplier of strategically important minerals within a European political economy plagued by two world wars and developed strong connections to both Germany (the IG Farben-sphere) and Great Britain (Rio Tinto especially), a balancing act not altogether easy.

Orkla and Elkem had remarkably similar approaches to the Norwegian challenge: How to be an international company from a small country when the trade climate changed for the benefit of home suppliers in the interwar period. Both countries “shared” their superior technology with European competitors, and thus forged important business relations with the important international players. Orkla played a role both in the pyrite and sulphite cartels, using the Orkla-process as a tool to further its position in the discussions that formally were about quotas. Elkem became – for all intents and purposes – a technology-provider to the Alcoa-dominated international aluminium-cartel, and when Norwegian investors in 1935 bought the shares Alcoa had owned in Elkem since 1924, Elkem had to agree to limit its sales of the Söderberg-production system of aluminium to parties approved by the cartel. Both Norwegian companies used their technical expertise for what it was worth, as an important card with companies who were larger and had larger home-markets that were better protected.

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<sup>7</sup> See Charles Harvey, *The Rio Tinto Company. An economic history of a leading international mining concern 1873-1954*, Cornwall: Alison Hodge 1981 about Rio Tinto and the Orkla-process. See Bergh, Espeli and Sogner 2004 op.cit. for more extended information

After World War II both companies entered a national or Norwegian phase. While Elkem became a national producer of metals and grew as an exporter after 1945, Orkla invested as an owner in Norwegian export-oriented companies. Thus both companies were intrinsically linked to the state-involved national effort of Norway at the time, production growth by utilising national resources, based on electricity, and with the helping hand of the Government through tax-concessions and an active attitude to the building of new power-stations, many of them for the purpose of creating the power-hungry production craved by many chemical and metallurgical processes.<sup>8</sup> Elkem's task of starting production was also related to the changing international circumstances making international technological collaboration more difficult than before, not least the implications of the American government's successful anti-trust suit against Alcoa.<sup>9</sup> Elkem was around 1950 deemed to have a knowledge monopoly and had to change its contracts in ways that lessened its grip on the ownership of production technology.

Elkem became a producer of some importance. Due to huge royalty income (based on a percentage of production) from the war-effort in aluminium during World War II utilising Elkem's Söderberg-system, Elkem had the financial footing to become a producer of ferroalloys and aluminium, not least in the new and favourable climate created by the Labour-party-Government to facilitate industrial expansion. While over 50 percent of the global smelting capacity in aluminium in the mid-1950s was built by Elkem's patented Söderberg-technique, none of the important companies were in Norway, and Elkem did not own any capacity itself. From the mid-1950s Elkem became a producer of aluminium in Norway, first in collaboration with AIAG (Alusuisse) and from 1962 Alcoa replaced AIAG as Elkem's partner. Elkem also expanded through the establishment of an Engineering division, a furthering of the sale of knowledge from the interwar years. Prior to World War II Elkem had sold knowledge and production rights, after the war Elkem started selling ovens and even whole factories for various purposes of electric smelting.

Orkla, on the other hand, had by the early 1960s stagnated. Its pyrite mine – huge by international standards and very important in the inter-war period and during the World Wars – was still exploited, but since the early 1950s the deposits could no longer give rise to the production-levels of the past. Rather than continue reinvesting all its earnings in the mine, or

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<sup>8</sup> This is a theme elaborated upon in the histories of Orkla and Elkem, and for a broad exposition of macro-trends in the after-war industrial policy see Tore J. Hanisch and Even Lange, *Veien til velstand. Industriens utvikling i Norge gjennom 50 år*, Oslo, Bergen, Stavanger, Tromsø: Universitetsforlaget 1986

<sup>9</sup> George David Smith, *From Monopoly to Competition. The transformation of Alcoa, 1888–1986*, Cambridge: Cambridge University Press 1988. See also Sogner 2003 op.cit. for more about this situation

in new ventures, or pay them out as dividend, Orkla in the 1940s started to build a portfolio of shares in other Norwegian companies. Elkem, Norsk Hydro and other significant companies all had Orkla as a fairly important shareholder (3-10 percent). Orkla's main owners – the Wallenberg and the Norwegian Astrup/Fearnley family dominated Orkla – were also main owners in companies that Orkla bought shares in. Orkla thus became important in systems of ownership-control, being in a position to guide the development of Norwegian large-scale-industry.

Both Elkem and Orkla looked to America for inspiration during the 1960s. As Elkem grew in size, it also applied the divisional model of big business.<sup>10</sup> The 1960s meant the coming of economists in top management in what until then had been an engineer's company. Elkem's growth meant the integration of several new plants, and the company needed new organisational techniques to oversee the growing entity. It would be fair to describe Elkem's CEO as a modern manager of the times, and his actions must also be seen as enlightened and groomed for the occasion: The divisional model – and even more so the internal programs about “leadership” – equipped what had been a small company to function as a bigger one, and it helped young engineers and economists coming from “small” backgrounds into finding roles as leaders, sometimes of workers who themselves came from a farming background in rural Norway and were unaccustomed of hierarchies and industrial work. Americanisation, understood in this way, really was a tool with which to build the large organisation of a Norwegian company.

Orkla, to a lesser extent, because it was a smaller company in terms of people and actual production-capital, also was “Americanised” if the term is stretched. Orkla diversified and formed a business-partnership with an American enterprise that marketed ferroalloys, a product Orkla had started to produce in 1962 order to keep its old sulphite-plant going.<sup>11</sup> Orkla, whose owners also were important owners of Elkem, seemed interested in keeping in touch with American business. Both companies, it has to be added, had had important American connections since the interwar years, but the 1960s meant renewed activity. Because of Orkla's role as an owner of shares in Norwegian stock-listed companies, it also had a role to play in the Norwegian merger-movement and the building of larger and diversified and divisionalised companies up to 1973. This also involved Elkem, who in 1972 merged with equally large steel- and ferroalloy-producer Christiania Spigerverk (where Orkla

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<sup>10</sup> The influence from America was strong, and the CEO from 1959 had spent the whole of World War II in USA, selling Elkem's technology. He had personal relations with the leadership of production-partner Alcoa. See Sogner 2003 op.cit.

<sup>11</sup> The sulphite production became uneconomical as the production of the mine diminished.

also owned shares) to become what at the time possibly was Norway's largest company in terms of number of employees – around 9000.

Both Elkem and Orkla continued throughout the 1970s as thoroughly Norwegian in the sense that their production was based here and that they were exporters (and in Orkla's case an important owner of Norwegian shares). The Americanisation-process really meant structuring smaller Norwegian enterprises into bigger Norwegian enterprises, with emphasis on scale-production and the functionality of organisations. Americanisation thus meant a deepening of the nationalisation-process that had followed the Europeanisation of the interwar years. In terms of internal life, Orkla hardly had any American traits. Elkem, on the other hand, had a headquarters with jargon and interrelationships that was influenced from America. This reflected managerial schooling as well as strong connections to Alcoa. Yet the company was strongly rooted in Norway and Norwegian society.

The story of Orkla and Elkem between 1945 and 1980 – somewhat interconnected – differed in other respects. Elkem grew a lot, benefiting from the application of its own metals-producing knowledge and the favourable surroundings for production expansion created by the Norwegian government. Orkla, who owned part of Elkem and whose influential owners also owned part of Elkem, had stagnated as a company. The new ferroalloy-business was hardly a success, and certainly not so as the international steel crisis mounted in the 1970s. What had been a success up until the values of its stocks fell in the mid-1970s crisis was Orkla's large investment-portfolio.

So while both companies clearly were deeply affected by the turbulent 1970s, Orkla had a very uncertain future. Elkem, who came remarkably unaffected away from the metals-crises in the 1970s, had to face that it was placed with two feet (ferroalloys and steel) in a sector with an uncertain future. So when the 1970s closed, both companies looked for new openings, and they did so at a time when the growth-minded industrial policy of an active government turned into hands-off steering-afraid governmental policy also favouring environmental policies. Gone were the glory days for power-hungry Norwegian industrial enterprises.

### **Strategic implementations**

Although it is tempting to ascribe both companies' strategic will to change to the general economic crisis of the time, very different and internal reasons also applied for both

companies. Elkem saw a real need for expansion outside Norway, while Orkla needed a new footing if the company was to survive after the mine was emptied.

The companies followed very different paths. While Orkla bought into several different kinds of activities, most of these were later sold. Only in 1986, by merging with Borregaard, a paper and pulp *and* branded consumer goods conglomerate, did Orkla find a new and firm – and profitable – footing for its future existence.<sup>12</sup> Borregaard was traditionally one of Norway's largest enterprises, and had vied with Elkem and Norsk Hydro in 1972 for the title of Norway's largest company in terms of number of employees. But the 1970s were problematic, which was why Orkla came into position to merge with this larger company. The Orkla-Borregaard-merger was built upon when Orkla in 1991 merged with Nora, a specialist supplier of branded foods sold mainly to the Norwegian market. Elkem, on the other hand, had in the meantime sought to become the major global player in ferroalloys. Its 1981 purchase of Union Carbide's ferroalloy business was followed in 1986 by purchasing Orkla's ferroalloy plant. The overall strategy proved to be a near disaster, however, and Elkem was only saved because of the refinancing made possible by its owners in 1992 and 1993.

None of the companies Europeanised – whatever one means by the term. Orkla transformed, but continued as a Norwegian company. A company with a mine, a ferroalloy plant and a valuable share-portfolio, was transformed into a huge conglomerate that came at the beginning of the 1990s to be focussed on branded foodstuffs and consumer goods, but also with newspapers and chemicals significant holdings in other companies. The two large mergers (1986 and 1991) were partly responsible for this considerable growth, but well-timed transactions based on Orkla's old assets were important reasons behind this success, as was organic growth based on the renewed base of the company. And the large portfolio of shares still owned by Orkla, made it a powerful company both in terms of production-size and its role as owner. With 14500 employees at the end of 1991, Orkla had become one of Norway's biggest companies.

Elkem's Union Carbide-purchase meant expansion in North America as well as in Norway, and Elkem also made a couple of investments in Brazil and one in Iceland. Unlike Orkla, Elkem was very much recognizable as a company – as a producer of metals. Unlike Orkla, Elkem had had very deliberate plans behind its expansion already in the 1970s, and the goal was to secure a leading price-influencing role in the global ferroalloy business. In most respects Elkem in the early 1990s still was a very (Americanised, divisionalised) Norwegian

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<sup>12</sup> Technically bigger Borregaard took over Orkla, but the process was directed by Orkla.

company, although it operated plants in USA, Canada, Iceland and Brazil. Why Elkem suffered during the 1980s may not be hard to explain. Its problems were related to the international steel-crisis, as ferroalloys mostly were sold to the steel industry. Twice (1988 and 1992) Elkem had to sell head-offices as well as other assets, concentrating on the troubled ferroalloy-business as well as the more successful aluminium-business it operated in Norway. Elkem had over 13 000 employees in 1981, but ten years later this number was reduced to 6000 – most of this reduction came from selling off the steel business that had entered the company in the 1972-merger.

On one level the changing fortunes of Orkla and Elkem during the 1980s is one of experiencing different cycles in different businesses. The times were not good for producers of primary metals, period. Orkla, with more and more sales in branded consumer goods in a fairly protected national market, reaping benefits from mergers of previously competing firms, had an easier task. On another level, two very different business ventures were played out. Well-established Elkem sought to exploit what it perceived as its superior technical and market knowledge by building a multinational operation. The growth-effort in the dwindling ferroalloy-business had been based on a strategic premise that when Elkem became the world's largest supplier (which it did), it would also be able to manage prices. That did not materialise, or it did not happen in a way that benefited Elkem enough.

The ten years after 1986 saw two different destinies. While Elkem fought for its life, Orkla blossomed and grew into “a European company”. Although Orkla was affected by the general economic cyclical downturn following the Gulf War, Orkla came through this period as strengthened compared to several other companies.<sup>13</sup> When Swedish car-manufacturer – and conglomerate – Volvo wanted to sell its huge food and drinks operation, Orkla bought it in two transactions (1995 and 1997). This vastly expanded Orkla's foodstuffs-operation, in both volume and geographic space, and especially the merged beer-business came a formidable force, with strong market-positions in both Sweden and Norway as well as a very good position in Russia and part of the former Eastern Europe. This again led to a beer-business merger with Danish Carlsberg, and eventually Carlsberg took over this huge beer-operation, leaving Orkla with a lot of cash, something that was partly spent on purchasing Elkem in 2005.

Since 1986 Orkla has consciously built on the competence and traditions about branded consumer goods taken from the Norwegian arm of Unilever (that came with the 1986

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<sup>13</sup> The following is based on Harald Espeli's extended analysis of the major changes in Orkla these years. Bergh, Espeli, Sogner 2004 op.cit.

Borregaard-merger), and as of today Orkla is a very successful operator in the Nordic area of “branded consumer goods” in general and foodstuff in particular. Production of food is done mainly in Norway and Sweden, but the direction of the operation is characterised by gradual growth, also including take-overs. Orkla has clearly been able to foresee the consolidation of food retailing, a business characterised by the building of huge and powerful chains, often with their own products to sell in competition with branded goods.

In many respects Orkla could be termed a “European firm” in the sense that its operations are firmly rooted in more than one country, and that the process of European integration and global changes in agricultural policies have been an important factor in shaping opportunities and threats. Also in the sense that regionalisation, literally cross-border expansion, Orkla is a European firm. Taking the short crossing above the Swedish-Norwegian border is a classic first step for Norwegian and Swedish company set to grow as exporters, but the building of a Norwegian-Swedish big business enterprise rooted in the two countries like Orkla has done is a new phenomenon. Orkla may also be a European firm in the sense that its organisational traditions to a very large degree are Norwegian and Swedish, and that will be dealt with below.

One can only be impressed with the performance of Orkla in the fifteen years after 1986, yet there is insight to be gained by studying Orkla’s failures.<sup>14</sup> Orkla hardly failed more than it did with its large purchase of shares in Elkem in 1989. That year Orkla increased its position in Elkem up from the traditional 8 % to 30 %, a purchase that was to be dramatically reduced in value over the next couple of years. With Orkla’s special insight into Elkem (major shareholder since 1948) and involved up to 1986 in one of Elkem’s main areas of business (the alloy ferrosilicon), one can ask how it was possible to make such a big mistake. Clearly Orkla did not foresee Elkem’s problems, nor really understood the depth of Elkem’s late 1980s challenges. Elkem was involved in a different form of competitive business than was Orkla, producing bulk metals for the global market and with new competition from China and eventually Russia. Orkla misjudged Elkem.

Orkla’s solution to Elkem’s problems also gives insight into Orkla’s way of conducting its own business. As the major owner in Elkem, Orkla in 1992 took control of the handling of Elkem’s crisis. Orkla’s second-in-command became chairman of Elkem’s board, and consequently hired a new CEO. All through 1993 Elkem fought for its continued existence, which would not have been secured without the strong financial commitment from

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<sup>14</sup> See Sogner 2003 op.cit. as well as Espeli’s account of Orkla in Bergh, Espeli, Sogner 2004 op.cit.

Orkla. Orkla's contribution to the running of Elkem's business in these years was to emphasize continued cutting of cost, and Elkem changed from being a stylish, image-conscious "big business"-operation with a beautiful fully owned headquarter into a no-nonsense cheaply-run company with rented office space. Elkem, who had been a major facilitator of American consultancy in Norway during the 1960s, and a stronghold of managerial talent and expertise for other companies, not only had failed, but Orkla had no miracle cure – which was what to expect of this Norwegian-based company taking over "global Elkem".

The new CEO of Elkem, Ole Enger, represented a very different attitude to his predecessors. Son of a farmer, with agricultural education, his ideals were down-to-earth and represented a shift in organisational ideals. Enger led Elkem back into profitability in the mid-1990s, much through the cost-cutting spirit installed in Elkem by Orkla's top management. But Elkem hardly was the success Orkla had hoped for, nor were there apparent brilliant strategies present for getting this competitive business back into long-term profitability. Ferroalloys were not a lucrative business, not even for "an expert-company" like Elkem.

The years after 1980 turned out eventful for both companies, yet with very different fortunes. Orkla was a huge success while Elkem was a kind of failure. In overall terms these differences must be understood on the basis of the different businesses the companies were involved in. Yet Elkem had been an expert in its business, and Orkla was a start-up in its lines of production, and this calls for further investigation of other and different causes behind the very different development.

### **A new geographic footing – and the tools with which to exploit it**

In retrospect Orkla seems to have been much more conscious of the organisational challenges following its growth than Elkem. Elkem, the expert metallurgist, operating an Americanised, divisionalised and decentralised company, turned out to have very little constructive to do about its problems, while Orkla developed an organisational policy based on both decentralisation and centralisation.

Superficially, Elkem would be expected to be the superior producer of the two. Competing on a worldwide scale at least since 1981, in a business in trouble, Elkem needed low costs. But as mentioned above, its costs were too high in what at the time was a very difficult bulk-producing business to be involved in. Orkla, on the other hand, with production

of branded foods and goods selling to a Norwegian market, and increasingly to a Scandinavian one after the 1991 Nora merger, operated much more as a traditional pre-American management-style company, focussing on cost-cutting and structural rationalisation and the furthering of market-penetration. Orkla seems to have combined decentralisation and divisionalisation with a certain central authority, and top management intervened in daily practices if they deemed it necessary. Moreover, all Orkla's restructuring involved the complex handling of several businesses: batch-produced foodstuff and consumergoods, processing of timber for a variety of purposes, production of chemicals, publishing of newspapers etc. Cost-control – over numerous production units – was of the utmost importance, and the production-units were benchmarked against each other.<sup>15</sup> Orkla became a specialist, a company with a large portfolio of either branded goods, fine chemicals (away from pulp and paper) and newspapers. Orkla did not go into bulk, which was the normal way Scandinavian paper and pulp-companies.

Orkla was a conglomerate involved in markets that were not competitive in the same sense as Elkem's, and Orkla's success clearly was related to how it managed to squeeze profits through cost-control, rationalisation (often through continued automation) and new market penetration. While Elkem's development up until 2000 had little to do with what happened to the European Union, Orkla's new role as a large Nordic player in branded goods and foodstuff had the liberalisation of agricultural products through GATT and the EU as a backdrop. The threat of large European grocery-chains and their increased bargaining power vis a vis food suppliers was a strong motivation behind the mergers and acquisitions of the 1990s.<sup>16</sup> Orkla's ambitious actions must be seen as a conscious move to play an active role in the restructuring of, especially, branded foods. Orkla consequently changed as a company.

As companies, Orkla and Elkem not have been more different. Elkem was "Americanised" and up until 1992 set for continued growth. Orkla was up until the 1990s a Norwegian company both in terms of where its main businesses were located, but also in terms of management style.<sup>17</sup> The roots in the mining industry showed up via paternalistic attitudes and a sense of direct – not decentralised responsibility. The changes of the 1970s, when Orkla strove for new lines of production, involved the establishment of an Oslo-office. It was this Oslo-office that became the new headquarters. And precisely because Orkla until 1986 became involved in purchasing and selling companies, as well as running the old and

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<sup>15</sup> Jebsen

<sup>16</sup> Bergh, Espeli, Sogner 2004 op.cit., p. 321

<sup>17</sup> Although some of the words and terms are mine, the following is based on Trond Bergh's extended analysis of the major changes in Orkla these years. See Bergh, Espeli, Sogner 2004 op.cit.

new parts of Orkla, it functioned more like a (British) holding company than a large American and divisionalised company. So Orkla until 1986 may well be described as a “paternalistic holding-company”. The merger with Borregaard in 1986 made the company bigger, and in many respects the increased size was met with normal divisionalising principles, Orkla’s leaders made sure to bring their own ideas and past practices to the merged company.

Orkla developed an organisation policy called “Goals and values”, a “constitution” for the company based on common sense-considerations about company behaviour.<sup>18</sup> Orkla’s top management worked very hard through organisational training to install a company culture with clearly formulated ideals, and ideals that were tested against performance. Attitudes were important. Orkla’s CEO from 1979 to 2001, Jens P. Heyerdahl d.y., liked to show how he drank tea he made himself from tea-bags, and the most important lesson was that he used the same tea-bag twice.<sup>19</sup> He liked to say he stood in the old mineworker’s tradition of dealing with scarcity. Be that as it may. The goals set for the organisational development were directed at creating and facilitating individual responsibility. Top management should be examples for the rest of the organisation. Whether or not they succeeded in “decentralising self-control” to the individual worker might be hard to both prove and believe, yet there is much to be said for the combination of applying decentralisation, formulating values at the same time as top management took a very active part in cost management.

Orkla was organisationally ready for international expansion in the 1990s and have been well able to absorb the large Swedish organisations bought in 1995 and 1997, as well as subsequent purchases elsewhere. While decentralisation coupled with cost-control might be instrumental in the success, rationalisation of old businesses is also part of the explanation. Rationalising Norwegian small businesses were the formulae of the 1980s and 1990s, and the subsequent development has been characterised by rationalisation in a wider international sphere. Thus Orkla has also been a player in the new global economy emerging gradually since World War II of exposing more and more businesses to international competition. One could hardly claim, I believe, that Orkla is a pioneer in any specific task, but that the success-story is a combination of the application of a number of task added to good timing. A pessimistic reading of Orkla’s fortunes could be that they may eventually run into the same situation as Elkem, of being involved in very competitive markets with little or no way out.

It would be fair to say that Elkem’s problems were related to its mature business, although its aluminium smelters faired better than the ferroalloys (or the steel that came with

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<sup>18</sup> See the above note.

<sup>19</sup> I have experienced this myself

the 1972 merger). Ferroalloys is certainly an old business, and even though Elkem itself has pushed production technology further in the 1960s by building large ovens sold to the ferroalloy industry, the ensuing steel crisis of the 1970s led to stop of investment. The fall of the “iron curtain” after 1990 pushed China and former states from the Soviet Union onto the world market with their ferroalloys as their home producers of steel were less active than before, making the most of old plants built for another day and age – and some of them built with the help of Elkem. Elkem had through its engineering business helped create its own competitive environment, yet for all its vain attempts of getting its business in shape through strategic and structural operations, the change in management focus in the early 1990s proved to have long-lasting effects.

Starting gradually in the early 1990s, and building momentum from 1997 onward, two strongly interrelated processes have changed Elkem profoundly. First, Elkem started an effort to improved production efficiency, especially in its ferroalloy business (its Norwegian aluminium smelters were co-owned with Alcoa and very well run). Although Elkem was the leading expert in the construction of the ovens used for most ferroalloy ovens, Elkem had neglected streamlining the production-process. The expansion in ferroalloy-production, through new plants, expansion of old plants, acquisitions that started in the 1960s, and gained tremendous momentum with the purchase of Union Carbides old plants in 1981, had amassed over ten different plants, all of them with their own production culture and with their own technical hierarchies that ran production. Gradually, not least by building upon Elkem’s own research-results from the 1960s and after that had not been used to improve overall productivity, Elkem was able to run the ovens more efficiently and with fewer stops than before. Elkem has also expanded research, re-establishing and improving its old links with the Norwegian University of Science and Technology. Elkem, who have had a scientific approach to metallurgy since the 1910s, with its ups and downs, has reemphasised the role of science since the mid-1990s.

The other new development was something that has been termed Elkem Business System, and which is a Norwegian application of Toyota’s production system.<sup>20</sup> Through its association with Alcoa, Elkem learned about Alcoa Business System, Alcoa’s application of Toyota’s production ideals. To gain decentralisation of responsibility by placing the production worker at centre stage, Alcoa had changed its production principle building the

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<sup>20</sup> Womack, James P., Daniel T. Jones & Daniel Roos, *The Machine that Changed the World*, New York etc.: Rawson Associates etc. 1990; Spear, Steven and H. Kent Bowen, Decoding the DNA of the Toyota Production System, *Harvard Business Review*, September–October 1999

company from below. Since 1997 – starting in aluminium and extending it to ferroalloys – Elkem has done the same thing, trying to cut storage-time, make do with simpler operations and rotate work, while all the time increasing the worker's responsibility. Gradually, this has given results, and increasingly the production-worker has taken on new responsibilities, also by applying statistics for the interpretation of what happens in the ovens and more and more being in charge of the factories for long periods of the day. The number of man-hours employed is reduced, not least because the number of managers has been drastically reduced – both in the factory and in the company as such. Cost of production has been reduced, and the technical efficiency of production has improved a lot (less use of energy, fewer stops, better use of raw materials). Elkem earned money again, even in the most competitive niches of the ferroalloy business. More or less, most of the factories were old, and these improvements were made by making old ovens function better than before.

Placing production workers at centre stage added to a scientific approach to developing production-principles seem to be functioning in a mutually reinforcing way. Elkem *is* looking to apply best practice and to lean on what the centrally located engineers demand. That is a top-down approach all by itself. The knowledge about best practice has been changing, however, because of the involvement of the production-workers and their knowledge about what happens in the ovens, creating a new role for the workers of increased responsibility and a part to play in processes of innovation. Through the sales of the ferromanganese business (which was nearly the size of its ferrosilicon business) and the increased earnings, Elkem came into a much more favourable position around 2000.

The sale of the ferromanganese business in 1999 and the gradual purchase of the Swedish processor of aluminium, Sapa, reflected the profound change of Elkem. Gone were the days of the strategic planning for taking strong and smart positions in global niches, now what the time of looking for efficient and knowledge-based production. That said, the sale of the ferromanganese business reflected that some global positions were to be getting rid of, and Sapa – as a purchaser of aluminium – was a potential market for Elkem's aluminium (still jointly done with Alcoa). It was speculated in the business papers at the time that the purchase of Sapa also reflected Elkem's need to protect itself from Alcoa, who – after having been a partner with Elkem since 1962 – wanted to buy Elkem. Thus started the war between Orkla and Alcoa alluded to at the beginning. By owning Sapa, it was argued, Elkem had a shield against Alcoa, as it was highly likely that the EU authorities would not allow Alcoa to own Elkem-Sapa because of its strong position in the European aluminium-markets. Be that as it

may, Sapa no doubt reflected a welcome opportunity for Elkem to expand and change and invest its fortunes.

Sapa was a company the size of Elkem. Its purchase doubled Elkem's volume of sales, and the integration of Sapa is being done in the spirit of the Elkem Business System. Although Sapa is a Swedish company, it is located in all over Europe (and elsewhere) and integrated a number of production units. The idea behind Sapa is to be a flexible and very niche-market-oriented company. Whether or not the application of Elkem Business System succeeds with Sapa lies beyond this article, but by its inclusion in Elkem a new Scandinavian-European corporation seems to have been created.

Elkem has been able – in its Norwegian plants, and according to Elkem – to decentralise more responsibility to its workers than has Alcoa been.<sup>21</sup> In Elkem it is believed that the Norwegian – and Scandinavian – culture of local democracy, individualistic spirits and social equality is more suited to the kind of reorganisation – the “Japanisation” – that has been done than the old and Americanised manager-led production was. Management is replaced by attitudes. The Norwegian worker has taken particularly well to the new challenges and opportunities, and it could perhaps be said that the Japanisation has “freed” a “Norwegian spirit”. The top manager of Elkem in 2005 – for what it is worth – believed the same applies to the Swedes.

There are important similarities and differences between Elkem and Orkla. While both companies have decentralised responsibility and placed emphasis on self-control and self-motivation, Elkem seems to have gone further into this development with improving and formulating standard operation procedures developed in-house as a world technical leader in certain metallurgical processes. Decentralisation seems to be a tool with which both companies are approaching regional expansion and doing it in two phases. First, they both went to Sweden and created a larger company, and a company that was to function as a whole. Then they expand into Europe at large, on the basis of a transnational regional footing that is fairly new to them. These are not *national* companies going European, but interregional companies trying to become more European. Orkla did it exactly this way. Elkem gained its European footing directly by purchasing Sapa, but it must be added that Sapa's strategy of European expansion by acquisitions have been upheld and increased after Elkem took over.

The combined Nordic-European orientation is clearly related to the more competitive climate since the 1970s, though it was not a natural reaction to globalisation. Elkem countered

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<sup>21</sup> This is according to Elkem, who, it must be added, is on good terms with Alcoa.

the globalisation challenges by globalising itself through its foreign purchases of the 1980s, striving for building on its core knowledge and creating stronger market power than before. That was a typical strategy of the multinational company of its day, with strategy orientation taking market-analysis as its starting point.<sup>22</sup> The global restructuring of the metals business showed this to be problematic, and in the end deep cost-cutting and deep structural and organisational change was the only remedy for sustainability. The Nordic-European orientation was a thing of the 1990s, and it may well have been connected to the conscious building of a new European Union and the new Europe as an arena for development of new European enterprises. But more than that it was “an only way out” – because there was no alternative than internal change as there would have been few buyers for Elkem’s troubled business.

For Orkla, company growth based on the restructuring of the Nordic branded foods sector was very much a conscious decision, and a thought that apparently had lived in the Norwegian companies since the early 1970s and prior to Orkla’s involvement.<sup>23</sup> From 1986 Orkla – and even more after the 1991 merger with Nora – became the leading Norwegian supplier of branded foods. In many respects Orkla’s Nordic growth of the 1990s might be seen as a fulfilment of the European Union’s goal of creating a single European market, and it must be seen as a reaction to a “eat, or be eaten”-situation. Orkla’s media-business developed much on the lines of the branded foodstuff-business. A lot of newspapers were purchased and their production was rationalised. Orkla started by buying local newspapers in Norway, and then expanded into Denmark and Poland. Yet the paper and pulp-business of Orkla was developed differently, namely by looking for in-house development and innovation – and not growth by acquisitions. It was a clear-cut example of Orkla’s goal of building the company from below. Each product was to find its own profitability.

The decentralisation-movement of business around the world, inspired and fired by Japanese concepts,<sup>24</sup> has played an important part both in Orkla and in Elkem – and elsewhere. But the contradictory development of these two companies in the 1990s – that Japanisation could mean both decentralisation and international regionalisation in the direction of Europeanisation – has to be explained, and to do that the perspective of the interwar period is enlightening. The most striking similarity of the interwar period and the 1990s was the lack of strong national and governmental support, something that was particularly

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<sup>22</sup> Lorange;

<sup>23</sup> Leif Frode Onarheim

<sup>24</sup> See Lazonick

difficult for the export-oriented Norwegian minerals and metals industry and their dependence on the large foreign markets. In the interwar period that was somehow compensated by financial networks and technological cooperation, giving the companies positions they would not have achieved just by free competition. In the competitive climate of the 1990s, when European anti-trust law mirrored traditional negative American attitudes to most forms of collusion, and most large companies were listed at the stock exchange with the subsequent limitations to ownership power, the remedies of the interwar years were not viable. The solution to some extent was the internally integrated company.

Both Orkla and Elkem reflected strong traditions of internal collaboration with the trade unions. Since 1972 employees were represented at the steering board by law, and especially Elkem had long traditions of good relationships with its workers. Since 1979 and the appointment of Jens P. Heyerdahl as CEO of Orkla, Orkla became one of the most articulate companies in terms of employer-employee-relationships. Heyerdahl was also a member of the Labour party, something that may to some extent explain his attitudes and the way he redesigned his predecessors paternalistic attitudes to function in a more egalitarian way. But these developments were only facilitators, and the growing concern about how such companies from small countries could withstand international competition was the main cause of thorough change. Out of the competitive climate grew a new and closer relationship between top management and production workers, first seen maybe when Heyerdahl gained the trust of Borregaard's employees and sealed the 1986 merger.<sup>25</sup> It would be impossible for Orkla – or Elkem – to grow by acquisitions without some sort of solid organisational calm and foundation. When the state – during the 1970s and 1980s – gradually lost its grip on the development of the Norwegian export industry, a new rooting of the Orkla and Elkem emerged, namely that of the stronger relationship with their employees.

This process also explains why an internally integrated company could become "a European company". The internal cultural changes taking place, and which in many respects was a kind of Japanisation, more than anything created a new collaborative climate. The point of this Japanisation was not specific systems with tags such as "Total Quality Management", "Quality Circles" or "Just in time", but a new climate for communication. The most elaborate form of this in this article is "Elkem Business System", Elkem's adaptation of "Alcoa Business System", originally taken from Toyota. But rather than being the copying such name-tags imply, this was more than anything a program for real and consequential

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<sup>25</sup> See Bergh's account in Bergh, Espeli, Sogner 2004 op.cit., p. 264

collaboration, a way of establishing – through communication – new best-practices in production involving a number of employees. As such “Elkem Business System” will work differently within Elkem’s daughter-company Sapa, simply because Sapa is a very different company technology-wise from the old Elkem. What comes first, then, is not the way you do it, but the collaboration, the task of finding new ways of doing things, and as such these kinds of collaborative companies have organisational capacities to grow in several directions.

In many respects, Orkla and Elkem have constructed new systems of production, and the organisation have been built upon these new and transnational systems of production. This is a new way of doing business in Scandinavia; not just the old export-orientation, but also the creation of new systems of production that is created for rationality and cost-effectiveness, not only for market-considerations and market-operations. Such systems of production are European also in their logic, because they are created for wider implications than being part of Norwegian-based multinational companies. They are multinational in their “inception” so to speak, and they are directed at the old national goals of the past, namely exports.

## **Conclusion**

This paper has stressed how Orkla and Elkem have changed over the last 40 years, with particular emphasis on the profound changes since the late 1980s. The argument is that the influence labelled as American was preoccupied with certain kinds of business practices facilitating the growth of diversified big businesses, strongly based in Norway. The changes of the companies in the 1980s and 1990s, inspired by Japanese decentralisation has meant a Scandinavian footing gradually emerging, an adaptation of new practices into a cultural and geographic reality that opens up new possibilities for new kinds of transnational corporations. Scandinavian in this respect means new transnational corporations constructed within a region that has hitherto been concerned about creating national corporations, but that historically and culturally have much in common with each other.

The 1990s have seen deep changes, and decentralisation added to cutting management layers and establishing core capabilities at headquarter-level has transformed the way the companies worked. The 1990s have been characterised by growing in Scandinavia, and especially Sweden. Both companies have become really international by large purchases in Sweden. There is a relationship here between regional growth, decentralisation of power and a

changed role for the headquarters. The central emphasis is more on internal function and less on strategy, at least in relative terms.

This is partly a process of Europeanisation because the expansion is in that direction. The new political room created by the EU, and the ensuing new internal competitive climate created, has been instrumental in these changes. Both companies may have been inclined to expand into Sweden because Norway voted no to join EU in 1994 – the same time Sweden joined. But Norway is strongly attached to EU anyway through the formal collaboration through the European Economic Area, so in many respects Norway is part of the economic process of EU. And the economic process of EU must have influenced Orkla more than Elkem, influenced the food business more than metals. But the increasing competitive climate within the EU in the food business mirrored the earlier globalisation of the metals business, so in many respects both companies were faced with similar situations.

While political and economic factors have played their part, I will strongly emphasise the cultural factors. When the national and government-created room for development dwindled during the 1970s and 1980s, companies needed other footings. Faced with the need to grow internationally, and through a multitude of owners, and within a law-enforced competitive climate closing the possibilities for strategic alliances that had been so helpful in the interwar period,<sup>26</sup> the need to create stronger relationships with employees was almost a last straw. Not only did obstacles to cost problems belong in these relationships, but the solutions were here as well. The 1990s and 2000s was characterised by the need for deeper internal legitimacy for top management in Orkla and Elkem. So companies needed employee-relationships that involved the employees understanding both challenges and opportunities. That has solved problems and created opportunities for both Orkla and Elkem and been the basis for the creation of transnationally based Scandinavian and semi-European companies.

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<sup>26</sup> And, remember, strategic alliances were seen by many in the early 1990s as solutions. See for example Lorange...