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**Globalfocusing:
From Danish Conglomerate to Global Specialist**

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Globalfocusing: From Danish Conglomerate to Global Specialist

Abstract

Over the past decade, European businesses have accelerated internationalization, expanding within and beyond Europe. I argue that a major driving force behind this push towards global presence is the restructuring of corporate diversification strategies, which in turn is a result of gradual changes in industry structure and the institutional environment in home markets as well as global markets.

The strategic change converts diversified conglomerates to global specialists in narrower niche markets. It brings them in direct confrontation with a small number of key competitors operating worldwide. On this stage, key competitive advantages are gained by making best use of resources across the world, and by effective global integration of operations. Hence *de-diversification* and *internationalization* are opposite sides of the same coin: *globalfocusing*.

The argument is developed based on inductive case research of the restructuring in two Danish manufacturing enterprises, and a review of overall trends in Danish businesses. On this basis, I analyze the economic and institutional forces driving this process, and suggest propositions for empirical testing. The paper points to consequences of liberalization, and is thus of high relevance for managers and policy makers in countries that are not yet as open as Denmark.

1. Introduction

Over the past decade, European businesses have accelerated their internationalization, expanding not only within traditional markets of Western Europe, but to emerging markets in Eastern Europe, Asia and Latin America. At the same time, ‘focus’ has become a buzzword in corporate boardrooms, as firms pursue core competencies and divest peripheral activities in terms of their product portfolio. The literature treats diversification and internationalization as largely distinct phenomena. However, the two strategies are opposite sides of the same coin, as firms engage in “globalfocusing”.

Research addressing simultaneously internationalization and diversification analyzes the impact of alternative strategic postures on performance using cross section data of US firms (Tallman and Li 1996, Hitt, Hoskisson and Kim 1997), and Japanese firms (Delios and Beamish 1999, Geringer, Tallman and Olsen 2000). This research finds linear and non-linear effects as well as interaction between international and diversification profile, yet these effects vary across studies such that the results are generally considered inconclusive. Moreover, cross-sectional studies do not address how and why strategies change over time. Thus Hitt *et al.* (1997: 793) conclude that there is “a need to understand the combined evolutionary path of

international and product diversification” and that “the link between international diversification and business-level strategies should be explored”. Similarly, other studies on diversification and internationalization conclude with a call for “specific analysis of changes over time to reveal the dynamics of strategic change” (Geringer et al. 2000: 76, also see Tallmann and Li 1996). If the process of change from one type of strategy to another was better understood, the insights of cross-section comparative studies could be transformed into more specific advice to managers. This study aims to address both strategies and associated change processes by employing a longitudinal research design.

The paper moreover incorporates “the effects of changing environmental conditions on strategy”, another need identified by Geringer et al (2000:76). In this, it contributes to the theoretical literature analyzing the impact of institutions on strategic management (Murtha and Lenway 1994, Olivier 1997, Peng 2001). Institutional perspectives have recently been applied to both diversification strategies (Khanna and Palepu 2000, Kock and Guillén 2000, Wan and Hoskisson 2003) and international business, where scholars analyzed institutional influences on foreign direct investment strategies (Henisz 2000, Delios and Henisz 2000, Meyer 2001, Mudambi and Navarra 2002). This paper focuses on the institutions in the home environment and their impact on internationalization strategies.

This paper aims to build theory from cases studies (Eisenhardt 1989). Based on two longitudinal case studies, I document how firms pursue a strategy of ‘globalfocusing’, that is simultaneous de-diversification and internationalization. Both case firms have expanded their core business to establish worldwide market presence and integrated global operations. Yet this accelerated internationalization of the firm was related to a sharp reduction of their product portfolios. Thus acquisitions in the core business and divestments in non-core businesses are causally related (Capron 1999, Capron et al. 2001), as firms implement a globalfocusing strategy. The direction of change is also found in a broader set of large Danish firms, notably for those serving business-to-business (B2B) markets, and for those owned by outside financial investors. I argue that the two changes in corporate strategy are part of the same reconfiguration process, and induced by changes in the domestic and global institutional environment and industry structure. Globalization and increased competitiveness of key markets gives the competitive edge to industry specialists that can leverage industry-specific resources across their global operations.

Section 2 introduces the theoretical perspectives on internationalization and diversification strategies, with special attention to moderating effects arising from the institutional environment. In section 3, I use a case-based inductive approach to reassess theoretical priors and to refine theoretical models. I analyze the patterns of internationalization and diversification for the largest Danish businesses from 1990 to 2000, with a focus on two longitudinal company-case studies, *Danisco* and *GN Great Nordic*. Section 4 interprets the evidence in light of the aforementioned theories, and suggests testable propositions concerning external and internal factors influencing globalfocusing. Section 5 concludes by outlining the implications of the strategic changes for management practice and for theory development.

2. Theoretical Perspectives

2.1. Internationalization strategies

The expansion of firm's international business over time is most commonly analyzed with the internationalization process model (Johansen and Vahlne 1977, 1990). The model explains the pattern of gradual expansion of international business as a result of an interactive process of incrementally increasing commitments to foreign markets and building capabilities. Managers take decisions over possible business abroad based on the information and resources available to them at the time. The decision leads to a commitment of resources to the foreign country, which in turn leads to learning processes, and thus enhanced capabilities valuable in international business. Hence foreign entry is an incremental process driven by resource accumulation.

The logic developed to explain the process of building resources, that in turn drive business strategies, resembles that of the resource-based view (Wernerfeld 1984, Barney 1991) that has attained a pivotal position in recent strategic management and international business research. In fact both lines of research have derived key arguments from Penrose's (1959) *Theory of the Growth of the Firm* and Cyert and March's (1963) *Behavioral Theory of the Firm*.

The internationalization process model explains the typical patterns observed by Johansen and Vahlne (1977), i.e. the start of international business in nearby countries with gradual expansion to more

distant markets, and the start with export and non-equity modes of business, with gradual expansion to contractual and share-equity modes, and eventually wholly owned subsidiaries. Yet, the essential contribution of the Swedish scholars is the theoretical description of the underlying processes that lead to these typical patterns (Benito and Welch 1994).

However, this model provides only a partial explanation of the growth of international business. Scholars have observed that firms increasingly jump stages of the typical pattern, i.e. progressing rapidly from exports, to contractual cooperation, and to wholly-owned foreign affiliates, and enter distant emerging markets already at an early stage of their international business. Moreover, studies showed that other influences such as competition are important moderating variables that have to be included in the analysis (e.g. Sölvell 1987, Nordström 1991).

The model focuses on the *internal* development of resources such as knowledge pertaining to international business. Acquisitions accelerate firms' resource accumulation process. Yet although acquisitions are the dominant method of international expansion by the end of the 20th century (UN 2000), they have rarely been integrated in IP-theorizing. An international acquisition provides the firm with many resources, that it might otherwise build internally. Yet why do firms desire to build or acquire these resources? What drives firms to pursue international growth, notably in emerging markets, rather than domestic growth as they might have two or three decades ago? I argue that *external* competitive pressures in both financial and output markets as well as the interdependence between internationalization and diversification provide an important complementary explanation. To develop the argument, I first review the literature on diversification.

2.2. Diversification strategies

The word 'diversified firm' often has a negative connotation when used by today's financial market analysts. As everyone strives to establish 'core competences' (Prahalad and Hamel 1990) and to pursue 'focused' business strategies, it is easily forgotten that diversification has been en vogue worldwide only three decades ago (Ravenscraft and Scherer 1987, Shleifer and Vishny 1991). From the 1950s to the 1970s, firms pursued growth through diversification: for example among the Fortune 500 list of largest US companies, the

proportion of single business companies fell from 42% in 1949 to 14.4% in 1974, while the proportion of related diversified firms rose to from 25.7% to 42.3%, and unrelated diversified firms from 4.1% to 20.7% (Rumelt 1982). Diversification allows firms to pursue growth and risk diversification, and they may be able to internalize markets such as capital or managerial labor.

Growth is arguably more important to managers than to shareholders, as managers' own salary and prestige is often more coupled with the size and power of their firm than with profitability. If owners do not have appropriate means to ensure that managers act in their interest, then principal-agents conflicts may evolve that allow managers to pursue their own objectives. Already Morris (1964) argued that managers' growth ambitions encourage the firm to invest at a higher rate than would be consistent with profit maximization. Such 'empire building' may moreover help managers' personal objectives by permitting managerial entrenchment because diversification increases the need for the type of skills that top managers provide (Shleifer and Vishny 1991).

A second advantage of a diversified firm, from the perspective of managers and employees, is that financial risks are spread across industries, which provides for more stable profits and lower bankruptcy risk. Financial investors can spread risk by holding a diversified portfolio of securities. However, diversification lowers only *unsystematic risk* but not *systematic risk*, and no better than investors can do themselves in efficient capital markets. Hence, risk reduction through diversification does not create shareholder value (Ross and Westerfeld 1988),¹ and it is more in the interest of managers than of shareholders. Hence a substantive literature applying agency theory considers high degrees of diversification as indication of ineffective corporate governance (Shleifer and Vishny 1991), and associates changes in governance with changes in diversification (Hoskisson and Turk 1990, Hoskisson and Hitt 1994, Chatterjee *et al.* 2003).

However, diversification can also be seen as an outcome of an emergent growth strategy. Firms continuously develop new resources, and then seek new applications for them (Penrose 1959). Resources are often indivisible and, especially in the case of knowledge based assets, difficult to transfer using market

¹ Empirical research has shown that diversified firms trade at a discount on US stock markets (e.g. Lang & Stulz 1994, Berger and Ofek 1995), but this pattern could not be confirmed for smaller countries like Germany where at least diversified firms that are also internationally active are traded at a premium (Lins and Servaes 1999, Dastitar 2002). Moreover, empirical evidence for the US shows that refocusing improves corporate performance (Markides 1995).

mechanisms. Hence firms deploying resources to new applications may grow organically into new industries, thus gradually expanding their product diversification. Eventually, firms would, according to Penrose, exceed their optimal size and spin-off business units into new independent firms. The resource-based view (RBV) of the firm (Wernerfeld 1984, Barney 1991) has taken up the ideas of Penrose and explains the growth and diversification of firms by these internal processes of resource accumulation and redeployment.

Resources include physical assets and human and organizational capabilities that are at the same time valuable, rare, difficult to imitate, not easily substitutable and relatively indivisible (Wernerfeld 1984, Barney 1991). They are unique to each firm, and enable it to gain competitive advantages over competitors. Firms accumulate resources in a dynamic way, through internal growth, e.g. organizational learning, as well as by acquisition of external resources (Penrose 1959, Teece *et al.* 1997). However, resources come in bundles that are indivisible and often tacit such they cannot be sold to other businesses. Hence, some resources are ‘slack’ in that they are not necessary for current operations, but can be used to grow internally (Teece 1982). These tacit properties apply especially to organizational meta-capabilities, also known as ‘dynamic capabilities’, that allow firms to develop and apply new capabilities (Teece *et al.* 1997, Eisenhardt and Martin 2000). This internally driven growth can lead to diversification, especially if resources are not specific to one product. However, at some stage, the firm may exceed its optimal size, and thus spin-off peripheral businesses (Penrose 1959).

However, most applications for existing resources are in related areas, and organizational learning leads to path-dependent patterns of growth (Diericks and Cool, 1989). This is reinforced by competitive pressures to be efficient, and thus to optimize the use of organizational and technological capabilities. Firms pursuing internal growth can better realize synergies by diversifying into products that are related to their existing capabilities (Teece *et al.* 1997). Hence, firms would diversify into related industries based on organizational and technological capabilities, and exploit economies of scope. This prediction is supported by empirical evidence that *related* diversification leads to better performance than *unrelated* diversification. Rumelt (1982) in his much-cited study established positive effects of related diversification on performance, and this result has been replicated in several studies (reviewed in Montgomery 1994).

2.3. An institutional perspective on diversification

A different motivation for diversification is the internalization of markets that are subject to high transaction costs. These costs arise in institutional arrangements that fail to ensure efficiency of the market mechanism. In some countries, such failure has been observed for capital and top-end human capital markets, and induced unrelated diversification to internalize these markets (Peng 2001, Cuervo-Cazurra and Toulan 2002). Internal markets would overcome failures of external markets, such that the degree of firm's diversification has been described as a function of institutional development (Khanna and Palepu 2000).

Market failures affect for instance financial markets that lack adequate disclosure rules or accounting and auditing standards. Intermediaries such as investment bankers, venture capitalists and financial analysts may not exist. This increases transaction costs of the local capital market as investors would have to invest more heavily in securing information, or face higher risk of debtor default. Large conglomerates can bypass such costly capital markets by setting up internal capital markets. Similarly, they can create internal labor markets for highly qualified personnel where external recruitment is difficult or costly. Diversified firms can thus reduce transaction costs by internalization (Khanna and Palepu 2000).

The institutional environment moreover shapes the selection mechanisms by which competition selects which firms perform best, and survive. Less transparent or instable institutional environments require more 'adaptability' than the relatively stable mature market economies. In societies where personal relationships are important, 'contact capabilities' may be valuable resource that can be shared across businesses. Hence, diversified business groups may be the most suitable form to grow, especially if access by outsiders is obstructed by protectionism (Kock and Guillén 2000). At the same time, large conglomerates may have a stronger bargaining position vis-à-vis state bureaucracies and political agents.

Moreover, extensive government intervention in the economy can lead to multiple distortions in markets, raising transaction costs of external markets, while at the same time creating barriers to entry for both potential domestic and foreign competitors. If government intervention directly or indirectly protects a monopolist or monopsonist, then this firm may aim to extend its market power through backward or forward integration. This can be done through foreclosing access to critical resources (Hart and Tirole 1990) or by price discrimination (Philips 1983). Similarly, firms may be able to transfer their market power by horizontal

expansion in related industries, for example by leveraging bargaining power with common customers across industries. In consequence diversified firms are more common in less open and less market-oriented economies (Khanna and Palepu 2000, Peng 2001, Cuervo-Cazurra and Toulan 2002, Wan and Hoskisson 2003).

If high levels of government involvement encourage diversification, then alterations in policy may reverse this effect. Institutional change leads to re-evaluation of resource investments by changing the competitive environments in factor and product markets, and thus the availability of external resources, and the relative value of firms' internal resources. Most notably, more sophisticated market supporting institutions reduce the need to internalize capital or managerial labor markets, as shown for instance by Toulan (2002) for Argentina.

In consequence, liberalization of input, output and financial markets can be expected to lead to a process of industrial restructuring as firms reduce horizontal diversification in unrelated industries, and strengthen their core businesses (Cuervo-Cazurra and Toulan 2002). Transaction costs decline as institutions become more effective in regulating markets, providing information on potential partner firms and employees, and reducing the scope for corruption (Khanna and Palepu 2000). Moreover, *context-specific capabilities for dealing with a highly regulated and instable market*, such as contact capabilities (Kock and Guillén 2000), *decline in importance relative to technological and organizational capabilities*. Hence, the rationale for internalizing markets diminishes with institutional development. Capital and skilled labor are more readily available at competitive prices, and intermediate products will be exchanged based on appropriately designed contracts (Khanna and Palepu 1997, 2000). At the same time, industry-specific technological and organizational capabilities become more important, such that the rationale for internalizing markets for capital, labor and country-specific capabilities diminishes.

To sum up, the institutional perspective shows that institutions influence transaction costs and the development of resources and capabilities. Firms use diversification to internalize inefficient markets, and to share capabilities that are context-specific rather than industry-specific. In consequence, changes in the institutional framework can affect the rationale for diversification, and thus the structure of industry.

2.4. Issues for Analysis

The two key issues of global strategy, internationalization and diversification are analyzed by largely separate literatures. Yet there also exists some evidence, that the two strategies are interrelated (Tallman and Li 1996, Hitt *et al.* 1997, Delios and Beamish 1999, Geringer *et al.* 2000, Doukas and Lang 2003). In this research, I use a qualitative approach to take a fresh look at the issue, and explore if and how they are related. Hence, the interdependence of growth in the international and the product range dimensions is analyzed with a focus on the following specific questions:

- How are internationalization and diversification empirically and causally related?
- What induces firms to engage in globalfocusing, that is simultaneously to de-diversify and internationalize?

3. Case Study Research in Denmark

Denmark is an appropriate setting for studying internationalization and corporate restructuring because the country is a small open economy, where international competition has in many industries become the norm. In this way, Denmark may be a lead economy exhibiting trends and features that other countries may develop when they reach similar degrees of openness. The relatively small size of the economy makes it moreover feasible to study an entire population of medium and large companies, looking beyond those that are stock market traded. The institutions supporting the market economy have been comparatively sophisticated for many years, and markets have been fairly efficient. The forces of globalization, in particular the liberalization associated with the EU internal market created in 1992 has gradually increased competition and financial market-based governance. In the last decade of the 20th century, Danish businesses rapidly increased their international profile (Benito *et al.* 2002).

The analysis begins with two in-depth longitudinal case studies, which are then extended to the largest Danish manufacturing firms to see if the patterns and processes identified in the case firms are representative for the period 1990 to 2000. Both case studies were started with an investigation into the firms' latest steps of internationalisation, based on interviews of managers in Hong Kong and Shanghai respectively, and

archival sources obtained locally and in Denmark. To investigate the link between recent entries and corporate strategy, further interviews were conducted with members of the corporate boards in Copenhagen. In total 8 managers have been interviewed, some twice, for between 30 and 90 minutes. In the case study research process, theoretical priors were continuously reassessed (Eisenhardt 1989, Yin 1994). Initially, the internationalisation process model (Johansen and Vahlne 1977, 1990) was used as primary point of reference, but it emerged from the empirical data that this model is not well suited to explain the interesting dynamics in the case firm. This led to the new dynamic conceptualisation of ‘globalfocusing’. The facts reported below are largely based on archival sources such as annual reports and articles in the Danish press and have been discussed extensively with company and industry insiders.

GN Great Northern and *Danisco* are major Danish companies traded on the Copenhagen stock exchange that in recent years expanded in Asia. In the following summaries, I review the evolution of corporate strategy before focusing on the strategy of one major business unit, respectively *Danisco Ingredients* and *GN Netcom*.

Table 1a to 1c approximately here

3.1. *Danisco*: From food conglomerate to ingredients specialist

Danisco A/S was created in 1989 through the merger of three food processing companies with overlapping business interests: *AS Danisco*, *Danish Distillers* and *Danish Sugar*. All three companies had a long tradition dating back to the 19th century. From the 1960’s through to the 1980’s, they commanded high market shares in the domestic markets for spirits and sugar, and had reinvested profits to diversify into other businesses.

The new merged company operated in five business areas: food and beverages (38% of turnover), food ingredients (15%), packaging (16%), machinery and technology (19%), and other (13%) (Table 1b). From the outset, *Danisco* pursued a strategy of related diversification within the broadly defined food industry. The stated strategy was that “*the company wishes to be a first-class supplier to the international food industry on the global market and be a supplier of high quality foods and branded goods on selected European markets*” (Danisco annual report 1989/1990, p. 5).

The notions of ‘focus’ and investment in ‘related’ industries are already present in the inaugural annual report 1989/1990. Yet over time they shifted their meaning as Danisco went through two waves of restructuring. In the early 1990s *Danisco* sold its businesses in the machinery and ‘other’ area while strengthening the first three business areas. At the time, packaging for the food industry was seen as related to food ingredients as both serve the same customers, the processed food industry. *Danisco*’s first international acquisition was *Box Corrugated* in the UK packing industry in 1990, followed by several others (Table 1a). From 1989 to 1995 foreign sales in Western Europe mainly in the Scandinavian region and in the UK increased from 43% to 60% of turnover, while non-European sales declined from 20% to 8%.

The focus was sharpened in 1999, following the appointment of a new CEO in 1997 and a period of unsatisfactory share price performance in 1998. *Danisco* announced a new strategy focusing on food ingredients, and sold businesses in branded foods and food packaging, including *Danish Distillers* with national-icon liquor brands like Aalborg. The packaging business had been expanded with acquisitions in the 1990’s but was sold in 2000 to 2002. Acquisitions strengthened the core areas. The most strategically important acquisition was Finnish ingredients manufacturer *Cultor OY* in 1999, which gave the company a strong worldwide market position in the food ingredients business.

By 2002 Western Europe accounted for 60% of sales, and outside Europe for 31%. Sales in Denmark continuously declined from 37% in 1989, to 31% in 1995, and to 12.5% in 2002. Over time, the industrial focus was defined narrower, and food ingredients – originally one of five areas – became the core of *Danisco* by 2001 (Table 1c). The size of the firm in terms of sales and employment increased during this process, but declined sharply with the sale of the packaging business in 2001/02, such that the number of employees in 2002 was actually lower than in 1990. *Danisco* also actively sought to diversify its ownership structure, from ca 5% non-Danish in 1989, to 15% in 1996 (Cortzen 1997, p 346), and 40% to 50% in 2003. In consequence, *Danisco* is more closely observed by financial analysts and institutional investors internationally.

Following this restructuring, *Danisco* presents itself as developer and producer of food ingredients, sweeteners and sugar (annual report 2001/02). *Danisco Ingredients* is developing, manufacturing and distributing emulsifiers, stabilizers, flavors and enzymes based on natural raw materials. Worldwide, the

most important customer industries are bakeries (19% of sales), dairies and related industries (22%) and confectionary, condiments etc (9%) (annual report 2001/02). The products vary across countries and regions as consumer tastes are culturally bound. For example, in the USA, coffee flavors have become an important market, yet the thought of adding Vanilla or Hazelnut to their coffee would send cold shivers down the throat of traditional Italian or French consumers. Thus, while the food industry is becoming global, consumers require adaptation to local tastes, which *Danisco* provides with customized product developments.

Danisco cooperates with customers to select and develop ingredients for new products, and to adapt them for different countries. It serves global customers with substantial market shares across major markets worldwide, such as *Unilever*, *Kraft*, *Danone* and *Nestlé*. To some degree, *Danisco*'s expansion is driven by the desire to serve global customers in all their key markets. However, regional and local firms also account for a major share of sales.

Production is located in seven West European countries, in the USA, Australia and New Zealand, as well as in seven emerging markets. Emerging markets also account for a major part of the sales growth, with over 30% of ingredients sales earned outside Europe and North America. The expansion in Europe, North America and Australia has been mainly through acquisitions. In contrast, expansion in emerging markets is to a larger extent through organic growth. For instance, *Danisco* achieved 20% growth (before currency adjustment) in 2001/02 in North America, of which 17% were attributed to acquisitions, and 3% to organic growth. In contrast, growth in the Asia-Pacific region was 16%, of which 8% were due to acquisitions and 8% by organic growth (annual report 2001/02). The difference of modes of growth is partly due to faster market growth in EM and partly due to the lack of local firms with attractive technological or marketing assets that would make them takeover targets.

In contrast, *Danisco Sugar* is a regional player in an industry closely linked to local suppliers, sugar-beet farmers, and to the highly regulated EU agricultural policy. Quotas on sugar refining under this policy are a highly valued asset, and prominently reported in *Danisco*'s 2000/01 annual report (p.12). *Danisco Sugar* expanded by acquisition of refineries in Sweden, Finland, (former) East Germany and Lithuania.

To sum up, *Danisco* has over the 1990s sharply focused its product portfolio by selling businesses in Denmark and acquiring businesses worldwide in its new core area. In consequence, by 2002 *Danisco*

Ingredients has become a global player in a niche market with substantive positions in all major markets worldwide.

Table 2a to 2c approximately here

3.2. *GN Great Nordic*: From telegraph company to telecom equipment specialist

GN Great Nordic A/S has a long and prestigious history dating back to 1867. The company constructed and operated international telegraph-networks, including the telegraph line through Russia to the Far East. It thus provided an essential communication infrastructure in the early ages of information technology, which was maintained through decades of political conflicts and war in Europe and Asia (Jacobsen 1997, Baark 1997). After World War II, GN transformed itself into an industrial conglomerate producing a wide range of products broadly related to communication technology (Iversen 2001). Most production was located in Denmark, while 60% of sales were in foreign markets, mainly Western Europe (Table 2b).

In the 1990s, *GN Great Nordic* restructured its operations from a Danish conglomerate to a telecommunication equipment manufacturer operating in related global niche markets. Restructuring was initiated in 1987 after several years of unsatisfactory financial performance closure of business units, and sale of *GN Laur. Knudsen* and *GN Batteriers*. Hence turnover fell in that year by more than 30%, and the share of sales in Denmark fell from 44% at the peak of 1987 to 8% in 1993. From then on, GN pursued a strategy of acquiring complementary businesses, while selling non-core units (Table 2a).

In 1991, GN participated in a joint venture operating Denmark's first private mobile phone service, *Sonofon*, which grew to 29% of turnover and was sold in 1999 at a considerable profit. The revenues of this and other sales were reinvested in acquisitions strengthening the global market position in the core business areas. The total of enterprises bought and sold from 1998 to 2001 adds to DKK 16 billion, which exceeds the total value of assets in 2001 of DKK 15 billion (annual report 2001).

The international pattern changed with each sale or acquisition. Eastern Europe is no more a focal region, despite the traditional business relations with Russia build since the 1870's. After 1990, GN entered several new business activities in telecommunication related services, including equity stakes of up to 50%

in four joint ventures in Russia and in a GSM operator in Moldova. Reportedly, these businesses were running well, but they contributed only a small fraction to global turnover, while offering few synergies with the other business units. Hence, these businesses have been divested in the late 1990's as part of GN's drive for focus. In this way, GN discontinued operations that had grown beyond the scope of the refocused corporate strategy. In contrast, the almost equally long-standing contacts to China have been instrumental in establishing new production operations of *GN Danavox* (later *GN ReSound*) in 1987, and *GN Netcom* in 2001.

By the turn of the millennium GN had downscoped its operations to three businesses (Table 2c): *GN Resound* (hearing aids), *GN Netcom* (phone headsets) and *NetTest* (network testing equipment). Within these remaining business units, GN aggressively acquired complementary companies to build market share and to access distribution networks. The global nature of these businesses is underlined by the internationalization of the top management teams of the three businesses: Only 19 of 34 individuals are Danes, with citizens of the USA accounting for most of the remainder. Even one of the group headquarters, that of *GN ReSound*, was temporarily based in California during the integration of the acquired *ReSound* Corporation.

The change of corporate strategy co-evolved with fundamental changes of business unit strategy. For instance, *GN Netcom* has rapidly expanded through several acquisitions since the mid 1990's to reach new markets and to increase its market share in key markets, notably in North America. The rapid expansion broadened the product portfolio and fragmented organizational structures as each acquired firm contributed brand names, production sites, and R&D operations. In the necessary reorganization and integration of the operations, *GN Netcom* took a global perspective, and created an integrated structure utilizing locational advantages at different sites around the world. In 2001, a new production facility was established in cooperation with *GN Resound* in Xiamen, China, and most of the production was relocated from England and the US to China.

To deliver products around the world timely and reliably, *GN Netcom* created a new integrated global supply chain. Freight forwarding and warehousing functions in Asia-Pacific were contracted out to a supply chain management business providing 'total logistic solutions'. It ships the headsets from production sites in China to warehouses in Hong Kong and elsewhere in Asia, and from there to customers throughout

the Asia-Pacific region. Denmark hosts research and development and the corporate headquarters, while logistics are managed from Hong Kong. Of *ca.* 1000 employees in *GN Netcom* at the end of 2001, about half were in the US, *ca.* 150 in China (mainly production), *ca.* 80 in Denmark (mainly R&D), 114 in the UK and the remainder in sales operations around the world. Thus different activities are located where the relevant locational advantages are most conducive, and integrated by a global supply chain.

To sum up, *GN Great Nordic* underwent fundamental changes of both corporate and business unit strategies. At a corporate level, *GN* restructured its portfolio to focus on related high technology sectors, and provided these core businesses with financial resources to strengthen their worldwide presence. At the business unit level, strategy aims not only at building strong market positions in all major regional markets, but at creating global operations that enhance competitiveness worldwide.

3.3. Communalities and differences between the cases

The two firms operate in very different industries, yet their change of corporate strategy shows remarkable similarities. This process of ‘globalfocusing’ is also the origin of accelerated expansion in emerging markets. The similarities of the two cases can be summarized as follows:

- Both firms engaged in long-term global restructuring from conglomerate to focused strategy in closely related business areas over a period of more than 10 years. The restructuring involved shedding non-core business units, while acquiring businesses around the world in the core business area. In both cases, it has been a continuous process rather than a radical restructuring. Thus, the cases illustrate why Capron *et al.* (2001) found a link between acquisitions and asset divestiture; yet contrary to Capron *et al.*, the divestiture may precede the acquisitions as when *GN* sold *Sonofon* and reinvested receipts in the (newly defined) core businesses.
- Second, the focusing is in both cases related to rapid internationalization. While this did not lead to a lasting exit from any country, some countries have a substantially lower profile in the global operations in 2002 than they had a decade earlier, notably Russia in the case of *GN*, and the UK in the case of *Danisco*.

- Third, internationalization is primarily an outcome of business unit strategies (*GN Netcom*, *Danisco Ingredients*) rather than corporate strategy (*GN*, *Danisco*), albeit major decisions, such as entry in China, would be discussed at corporate level.

Despite these similarities of global restructuring, a closer look at operations in specific markets reveals substantive differences. For instance, the Chinese operations fulfill a very different role in the two corporations. Both companies have established a major production facility in China within the past 5 years, yet with different objectives. *GN Netcom* pursues a vertical disintegration by relocating major parts of their production to China, and reorganizing global logistics such as to serve markets around the world from China. *Danisco* in contrast is pursuing local markets, and has established its operations mainly in view of the long-term potential of the Chinese market.

These differences can be explained by structural differences in the industries in which the two firms operate, although both operate mainly in business-to-business (B2B) markets. *GN Netcom* is producing a product that can to a high degree be standardized and does not require customer-specific adaptation or integration in the customer's supply chain. At the same time, demand in China is still relatively modest, because the key customer industries are yet very small. *Danisco*, on the other hand, needs local production and direct interaction with customers to develop and supply many of its ingredients. Demand in China is expected to pick up soon, and *Danisco* is positioning itself to exploit first-mover advantages.

3.4. The broader picture

To what extent are these two cases typical for Danish businesses, or is it a coincidence that the two firms selected as case studies show such similarities of corporate strategies? To investigate this question, I analyze the pattern of growth and scope of the largest Danish manufacturing firms over the past decade on the basis of archival data.

Who is Danish big business? It is common practice to focus on the largest firms according to a recent ranking, and then explain their development. However this creates the methodological problem of a survivor bias, i.e. the focus is on those firms that have been fast growing in recent time. To avoid this, I

select the sample based on the turnover in 1990 and in 2000. I include the 25 largest Danish firms in 1990 *plus* the 25 largest firms in 2000, which adds to a set of 32 companies that form the basis for this analysis. This approach captures both declining firms and fast growing firms. Table 3 ranks these companies by their turnover in 1990, and records their rank in 2000.

Table 3 approximately here

The ranking of firms has changed considerably over the decade, as some firms grew rapidly, while others grew slower or even declined in terms of turnover. The fastest growing firms have been involved in major mergers and acquisitions over the decade (*Danish Crown, Group4Falck, Novo Nordisk*), while firms that grew organically are ranked lower in 2000 than in 1990 (*Rockwool, Danfoss, Bang & Olufsen*). In terms of markets served, there was an about equal division between firms serving business or consumer markets in 1990, yet over the decade B2B have gained in relative importance, while food producers merged and thus account for fewer of the top firms.

As illustrated by our two case firms, sales volumes grow and decline rapidly as a result of M&A activity (or better “A&S” – acquisition and sales), such that relative positions also change fast. If we had chosen 2002 as final year, *Danisco* would for example rank lower as result of the sale of the packaging operations. By global standards, even the largest Danish firms are moderate in size. The second largest firm, Danish Crown had a turnover of DKK 40 bn in 2000, approximately US\$ 5 bn. Moreover, internationalization is high, with over 90% of sales abroad being common (Benito *et al.* 2002).

Table 3 also indicates the patterns and changes of internationalization and diversification for each firm, with considerable diversity of trends for individual firms, which vary with industries and ownership. Figure 1 summarizes the patterns, classifying firms by ownership and markets served. Globalfocusing is more pronounced among firms serving B2B markets, though in most firms the change has been less radical than in the two case firms. Few consumer goods manufacturers have gone through a (re-)focusing process as that described in the two cases. They rely to a larger extent on location-specific assets that can be exploited in related business lines, such as brand names, distribution networks, knowledge of consumer behavior and

marketing, and familiarity with institutional environment. In contrast, B2B customers would be more concerned with industry-specific technological capabilities of their suppliers, which are less location-bound.

Figure 1: Strategies of the top Danish firms

	<i>Privately held</i>	<i>Publicly traded</i>
<i>Business to business</i>	<p><i>Growing: 4</i></p> <p><i>Globalfocusing: 2</i></p>	<p><i>Growing: 2</i></p> <p><i>Globalfocusing: 11</i></p> <p><i>Shrinking: 1</i></p>
<i>Consumer goods producer</i>	<p><i>Growing: 6</i></p> <p><i>Globalfocusing: none</i></p> <p><i>Taken over: 4</i></p>	<p><i>Growing: none</i></p> <p><i>Globalfocusing: 1</i></p> <p><i>Shrinking: 1</i></p>

Notes: Growing = increase of diversification and internationalization, Globalfocusing = decrease of diversification, increase in internationalization, Shrinking = reduction of both diversification and internationalization, Taken over = taken over by another domestic or foreign firm.

However, there are exceptions from the general patterns: brewer *Carlsberg* has divested for instance its stake in the *Tivoli*-entertainment park, which was picked up by another company in our set, tobacco manufacturer *Scandinavian Holding*. Instead, *Carlsberg* aims to establish a worldwide presence for what is probably the best brand from Denmark. Among B2B manufacturers, privately held *Danfoss* and *Grundfos*, pursue broader applications of their core technological competences in thermostats and pumps respectively, which led to some increase of product scope. In two cases (*EAC*, *Lauritzen*,) the restructuring occurred under duress and also reduced the international profile in response to a severe financial crisis.

The tendency to pursue globalfocusing appears more common among firms that are, like *GN* and *Danisco*, traded on the stock exchange. Of the 11 globalfocusing firms in the top-right quadrant, 7 have a controlling shareholder, such as a foundation, as it is common in Denmark. This however does not appear to affect the preference for focus. In most cases restructuring has been part of a long-term strategy that is implemented step-by-step as opportunities to divest or to acquire emerge.

Despite the obvious opportunities arising on their doorsteps in Eastern Europe, large Danish firms have strengthened their emerging markets presence globally, also in Asia and Latin America. Eastern Europe

is the focus of expansion only for few firms, including *Scandinavian Holding*, *Rockwool* and *Icopal*. Hence, proximity is important to some, but not for the majority of firms. For firms that are global, or at least Europe-wide, psychic distance is of diminishing relevance.

In conclusion, many Danish firms have rapidly expanded their international presence, and often but not always the internationalization is related to changes of product scope. The analysis of the two cases and of the broader set of large Danish firms illuminates features that internationalization theories ought to explain. The driving forces of this accelerated growth appear to arise from changes in domestic and global industry structure, globalization of markets, and changes in the financial markets.

Corporate restructuring has been one of the change processes that accelerated internationalization, notably if the restructuring led to a focus on a core business area within a global industry. This applies in particular to companies under stock market governance and for companies serving B2B markets like *GN Great Nordic* and *Danisco*. However, not all firms follow this fashion. Some firms pursue continuous growth with more or less stable industry focus and diversification strategies. Fewer large firms grow through domestic mergers and regional market dominance, notably in the food processing industry.

4. Drivers of globalfocusing

The analysis shows firms aiming to establish themselves as global players in selected industries, while exiting those industries where they cannot achieve this objective. Globalization and increased competitiveness of key markets gives the competitive edge to industry specialists that can leverage industry-specific resources across their global operations. On this global stage, key competitive advantages are gained by leveraging resources across the world, and by effective global integration of operations.

Yet how is this process of globalfocusing influenced by changes in the firms' internal and external environment? Explanations of the pattern have to consider multiple influences, including internal processes industrial dynamics, and institutional factors. Based on this exploratory study and the theoretical literature, I suggest propositions to guide future empirical research.

4.1. Triggers of globalization: Managerial Innovation

Penrose (1959) and scholars building on her work (e.g. Teece et al. 1997) describe an ongoing process of firm growth into related businesses, and divestment if businesses that grow beyond the firm's scope. Managers would thus continuously reassess their core competences, and adjust their profile to strengthen the core, or to divest business units that are becoming peripheral. Moreover, managerial initiatives may also be discontinuous, and initiate a process of globalfocusing, as firms develop innovative ways of leveraging resources across borders, or to transfer superior firm-specific resources to other markets² Such organizational or managerial innovations may be stimulated by challenges encountered when globalfocusing, and they may initiate, facilitate or even accelerate the process.

Top management teams guide the corporate restructuring process, and their characteristics are crucial for the outcome of restructuring strategies (e.g. Uhlenbruck *et al.* 2003). Changes in the top management may bring new ideas and new mental models of the firm's own core competences and the dynamics of the industry competition and thus lead to dramatic strategic and organizational changes as also observed in the USA, but not in Japan (Sakano and Lewin 1999). Top managers trained in an international environment, such as an international business school, would be more likely to contribute new ideas than those trained solely in a domestic context.

In the case companies, major changes in the global strategy were associated with changes in the top management team. Alf Duch Pedersen took over as CEO of *Danisco* in 1997, and was a driving force in the changes implemented starting 1998/99. In *GN*, major changes were associated with Thomas Duer taking over in 1987, and Jørgen Lindegaard in 1997. Also, changes of business unit strategy may be associated with

² It might also be that internationalization is driven by managers' own growth ambitions (Geringer *et al.* 2000: 76), especially where stock markets trade diversified firms at a discount. International growths may generate different types of 'perks' than domestic growth in form of international travel and recognition instead of domestic political power. Thirdly, both diversification and internationalization reduce the risk profile of a firm. They complement each other, as business cycles in different industries and different countries are normally less than perfectly positively correlated. But they may also substitute each other as both reduce the risk compared to the single business domestic firm. As argued above, managers may be more concerned about growth and risk diversification than shareholders. As shareholders may monitor diversification more closely based on past excesses, managers might pursue their personal objectives by means of internationalization.

This argument implies that there is at least the potential for over-internationalization. Despite globalization of many industries, internationalization is not always better (Baden-Fuller and Stopford 1994), and Contractor *et al.* (2003) show that very high degrees of internationalization in fact negatively affect corporate performance for knowledge intensive service industries. We did not find evidence of over-internationalization in our cases, to the contrary, the logic for the current focus on global niche markets has been well presented by the managers I talked to, and by the companies' own publications.

particular individuals, such as INSEAD-trained Niels Christensen who took over *GN Netcom* in 2000. Under his leadership global operations were reorganized with production in China and a new global demand-driven supply chain management. Hence, the first proposition focuses on the top management team:

Proposition 1: Managerial and organizational innovations can induce or accelerate a process of globalfocusing. Such innovations may be triggered by changes in the top management.

4.2. Globalization as self-reinforcing process

Globalization of markets, notably B2B markets, increases competitive pressures for any business in an open economy. In many industries, global participation is necessary to achieve minimum efficient scales. On the global stage, firms face competitive pressures to both rationalize their vertical chain of activities through internalization or selective outsourcing, and at the same time to differentiate themselves from other major players. If a competitor finds new ways of gaining competitive advantage through better global integration, this creates pressures on competitors to either follow suit, or exit.

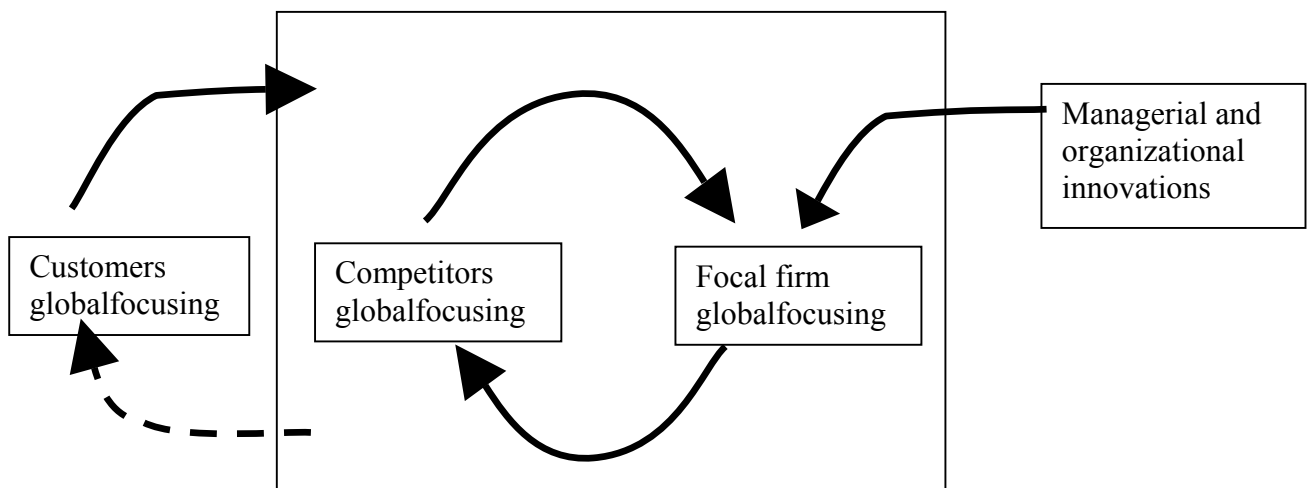
Hence, changes in the structure of the industry are a determinant of business strategy (Porter 1980). Geographic expansion becomes a necessity once markets transcend national boundaries, and competitors become global players. International expansion may be a survival strategy, when the only alternative would be to become a regional niche player with a small market share, which rarely permits a satisfactory return on equity. Such a process could for instance be observed in the hearing aid industry, where *GN ReSound* participated in a global consolidation of the industry.

Global B2B customers seeking supplies at different production sites around the world can also drive globalization of markets. The automobile industry has been innovating new approaches to global purchasing and supplier relationships, as suppliers follow global manufacturers and in consequence internationalize (e.g. Dyer, 1997, Meyer, 2000). Among the case firms, *Danisco* is serving global manufacturers of processed food, and is positioning itself as global supplier with local operations near customers' production sites at a time when the food industry is moving toward global sourcing. At the same time, *Danisco* is establishing production sites worldwide wherever specific ingredient can be found.

For many businesses serving B2B markets, the markets are themselves internationalizing as firms procure worldwide, and even establish global relationships with suppliers serving them in many different countries. Hence globalization of an industry is a self-reinforcing process (Figure 2):

Proposition 2: The globalization of competitors and business partners in input and output markets creates competitive pressure that induces firms to pursue a globalfocusing strategy.

Figure 2: Global focusing as self-reinforcing process



This proposition can be subdivided in several by focusing on different players in the input and output markets that the firm is operating in. Hence, globalization of 2a) competitors, 2b) customers, and 2c) suppliers may induce the firm to convert from a diversified but geographically limited strategy towards a global position in a narrower defined industry.

4.3. Financial markets reinforce the process

The institution most frequently referred to by managers and industry experts interviewed for this research are financial markets. Expectations and analytical perspectives of financial analysts were said to influence the design of corporate strategy, or at least its presentation to the public. The corporate governance literature also points to the importance of financial market institutions and ownership patterns as determinants of corporate

strategy (Shleifer and Vishny 1997, Thomsen and Pedersen 2000, Ramaswamy *et al.* 2002). Excessive diversification is often seen as an indication of weak governance, and improvements in governance may induce downscoping, i.e. a reduction of the product scope of the firm (Hoskisson and Hitt 1984). How does thus the financial market sphere interact with the real sphere of corporate strategy?

Decision makers in investment funds and other (potential) shareholders rely on financial analysts who draw on their industry expertise, and a range of techniques of financial analysis to determine expected future earnings and share-prices, and thus their decisions over buying, holding or selling shares. Observing the difficulties that diversified firms have in open economies, they trade such firms at a 'conglomerate discount'. Observing a globalization trend in an industry, and drawing on expertise in other comparable industries, they assess a firm's potential in terms of the competition in the global market, rather than in its established domestic market. In these ways, developments in the real economy, affect financial analysts' evaluation of a firm.

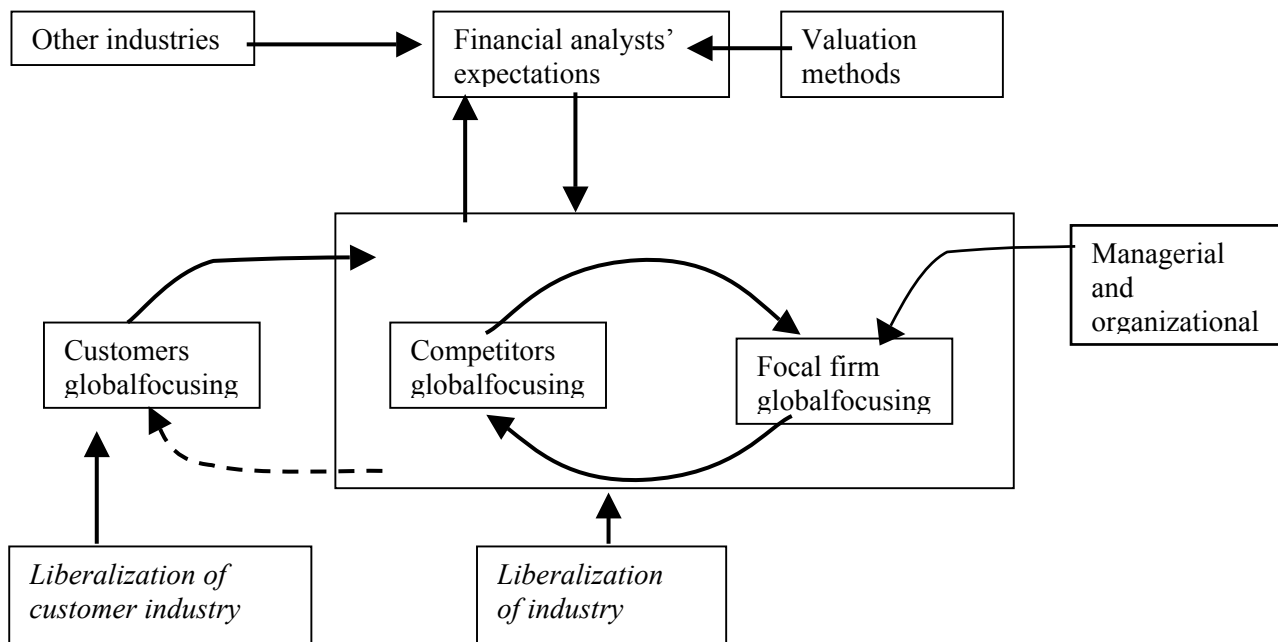
As managers are serving shareholders' interests, and may be incentivized to do so by holding shares or share options, the expectations of financial analysts concern managers. If financial markets are efficient,³ i.e. using all available information, then financial market expectations reflect the recognized changes in the industry. They thus reinforce changes in corporate strategies, thus guiding managers towards decisions they would have taken anyway in the interest of shareholders. Yet, this mechanism does not exist in firms that are not traded on stock exchanges, such as firms owned by families or foundations. Arguably, firms with a large proportion of international shareholders are subject to more such pressures. Both case companies increased non-Danish ownership over the past decade, and they actively communicate with the financial markets, e.g. through investor presentations and through their website. In these communications, they acknowledge financial market expectations, and emphasize the focus-aspects of their corporate strategy. Hence, financial markets have a reinforcing effect of the competitive pressures:

³ If markets are not efficient, but create bubbles in the financial sector, then the logic of the above argument would suggest that these bubbles may translate into bubbles in the real sector, and could lead to excessive focusing.

Proposition 3: Financial market expectations create pressures by trading diversified firms at a “conglomerate discount”. Hence, firms that are traded on stock markets are more likely follow a globalfocusing strategy than firms that are privately held.

This effect is partly endogeneous, i.e. reinforcing development under way in the industry, as expectations are formed by drawing on information from within the industry and related industries. However, the effect is also partly exogeneous as expectations are formed by drawing on information from outside the industry, and using valuation methods that may evolve over time as a result of new analytical techniques or scholarly opinion (Figure 3).

Figure 4: Liberalization and global focusing



4.4. Triggers of globalization: Liberalization

Several authors recently suggested a systematic link between institutional development, economic liberalization, and firms’ optimal degree of diversification (Khanna and Palepu 2000, Kock and Guillén 2001, Cazorro-Cuervo and Toulan 2002). This literature directs attention to institutional changes creating

competitive pressures that eventually lead to de-diversification. They may alter the competitive environments in factor and product markets, and thus change the availability of external resources, and the relative value of firms' internal resources. It tends to be a gradual, path-dependent process (North 1991), and the radical changes recently observed and analyzed in some emerging markets are the exception, not the rule. Yet gradual change too affects corporate strategies. Even small changes in institutions governing input, output and financial markets can induce a process of industrial restructuring.

Moreover, deregulation alters the competitive dynamics in the pertinent industries by allowing prices to float more freely, by reducing costs of import competitors, and by allowing domestic and foreign entry. These enhanced competitive pressures limit firms' ability to enter into unrelated industries, as the "liability of foreignness" declines relative to what we might call "liability the industry outsider", who may know the local contexts, but understands little of the technologies and the competitive strategies employed in unrelated industries.

Hence, the pertinent question is, how did institutional changes trigger or accelerate the process of globalfocusing in Denmark? The European Community, and later the European Union, has gone through a gradual process of liberalizing markets, notably when preparing 'project 1992'. The liberalization initially led to a concentration process in a number of industries, including the merger that created *Danisco* in 1989. Also, the subsequent streamlining of the corporate profile, sale of the machinery businesses, and acquisitions of food and packaging related businesses, can be seen as an outcome the corporate and industrial restructuring induced by 'project 1992' (Cortzen 1997).

The cases point moreover to de-regulation of specific customer industries as trigger for changes in competitive dynamics. Liberalization of telecommunications increased international procurement by that industry, which opened new markets and increased competition for equipment suppliers, such as *GN NetTest*. Changes in the public health care system opened for more international entry of suppliers of hearing aids, such as *GN ReSound*. These changes led to gradual changes in competitive behavior in the industry, which contrasts with the literature that focuses on radical changes such as liberalization and privatization in Latin America (Khanna and Palepu 2000, Kock and Guillén 2001).

In conclusion, liberalization and other policy changes can induce globalfocusing strategies. This effect may be gradual, and have considerable time lags. Moreover, the crucial institutional changes may occur in related industries or in other countries, but create opportunities for those firms who may aim to supply the liberalized industry (Figure 3). Hence the next proposition is:

Proposition 4: Liberalization can trigger a process of globalfocusing, possibly with time lags after the change in the legal framework.

4.4. No risk, no fun

I have in this paper taken a positive-analytical perspective to analyze which strategies firms pursue, and why. Yet what are the financial performance implications of globalfocusing? Interviewees consistently believed that globalfocusing would be suitable for the pertinent firms. A systematic analysis of this belief is beyond the scope of this study, as it would require a larger sample of firms that could be analyzed with multivariate analysis (as in Markides 1995). However, both theoretical considerations and case evidence suggest that a strategy of globalfocusing implies certain performance risks:

Firstly, a firm focusing on a single industry is exposed to the business cycles in that industry, while a moderately diversified firm can shift some of its resources between industries to adjust for cyclical demand. Financial investors may not be very concerned about this risk, as they can diversify risk (though not risk of bankruptcy, which creates extra costs that cannot be diversified). However, stakeholders with high firm-specific investments, notably rank-and-file employees and small supplier firms cannot protect themselves against the higher risk of their firm.

Secondly, the *process* of focusing a conglomerate through acquisitions and sales of businesses is inherently risky because acquisitions often fail to meet the acquirer's expectations (e.g. Ravenscraft and Scherer 1987, Jensen 1988). Failure arises from a variety of sources such as poor diligence and poor management of the integration process. Firms acquiring multiple firms can learn how to manage acquisition processes and thus reduce the possibility of failure. Yet, even so, any acquisition is a risky strategic decision.

Managers are naturally reluctant to discuss failures of acquisitions, except in cases that are widely discussed in the press. *GN's* acquisition of the French company *Phonetics* illustrates both sources of risk: the *NetTest* division suffered from both the collapse of demand in the network testing equipment industry, and from problems associated with integrating *Phonetics*. Eventually the division was sold for a symbolical 1 DKK in December 2002. Hence, both theoretical considerations and the case evidence point to the risks associated with global focusing:

Proposition 5: Firms pursuing a globalfocusing strategy have to take high-risk decisions, and thus have higher variance of performance.

5. Conclusion

This longitudinal study explored two key issues of global strategy, diversification and internationalization, and has shown that the two strategies are empirically related. In extending Capron et al.'s (2001) argument that acquisitions and divestments are related, I argue that international acquisitions and domestic divestments are part of the same process of globalfocusing. This process is driven not only by internal managerial and organization innovations, but is complemented by the evolution of the industry as well liberalization of the institutional environment and financial markets.

To explain the timing, however, institutional change appears often crucial. Institutional change is not necessarily associated with a single event that changes domestic competition. In the European Union, it is the outcome of cumulative changes in both the regulatory institutional framework and in the industrial structure. In consequence, corporate ambitions for growth, which up to the 1970s may have led to branching out in related or unrelated industries within a domestic market, may now be pursued by internationalization. The more open markets for goods, services and capital, the more firms pursue focused strategies, and consequently global or at least Europe-wide strategies (Rugman and Verbeke 2003). This trend can be observed in particular in B2B businesses, which rely to a larger extent on mobile firm-specific advantages, it applies less to consumer goods MNEs that rely to a larger extent on location-bound firm-specific advantages, such as marketing assets.

The globalfocusing has dramatic implications for management. *Two decades ago, companies had a choice between being a big fish in a small pond, and being a small fish in a big pond. They no longer have that choice*, at least not in Europe. Globalization has created one big ocean, where everyone competes with everyone else who happens to make similar products. As Simon (1996) has pointed out, many medium size German “Hidden Champions” have been very successful by becoming a global market leader in a specific market niche. The Danish case firms in this research have transformed themselves towards the Simon’s model of the global specialist, as a domestic conglomerate strategy did no longer yield satisfactory returns.

In response to environmental change, companies develop new business models that utilize comparative advantages at different locations worldwide, disaggregate the supply chain geographically, yet integrate the operative structures globally. This suggests major implications for firms in markets opening to global competition: *they have to develop new organizational structures, new management profiles, and adapt capabilities throughout the organization such that interaction across borders becomes a way of live* for everyone in sales, management or R&D functions. For example, cross-cultural communication and language skills are needed throughout the organization to communicate across borders.

This study is hoped to stimulate further research. I analyze the ‘mature’ issue of internationalization by going back to basic principles, and employing an exploratory and qualitative research approach. This approach allows to explore interdependencies that are neglected by the dominant paradigms in the field. Yet this exploratory method has limitations. I have addressed the main problem of case research, generalizability, by reviewing key data in the population of Danish firms. Future research may formally test the propositions in Denmark and other countries.

The study suggests that scholars studying international strategy and internationalization processes ought to pay more explicit attention to the institutions of the home environment of the firm. Internationalization is (also) a function of changes in institutions and industrial structure in its domestic markets, including the financial markets. More generally, this study shows that issues of domestic and international strategy are interdependent. In consequence, the divide in academic writings between strategic and international management should be overcome.

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Table 1a: Building and Restructuring of Danisco, 1989-2002

Year	Business Units Sold	Businesses acquired
1989	Merger of Danish Distillers, Danish Sugar and AS Danisco	
1989	De Forende Papirfabrikker (75%); DDS Filtration	Raackmann Fabriker, Nykøbing Sugar Factory, Mette Munk
1990	I Kruger AS; Havnemøllerne (50%)	Frigodan AS; Bux Corrugated Containers Ltd (UK); Kirk Frozen Foods AS; Irma Vin AS; Svendborg Fabrikker; Peter F. Heering AS; Skelmersdale Packaging Lts (UK)
1991	Dansk Estrella; Farma Food AS	<u>Zuckerfabrik Stralsund</u> ((East-) Germany); Bæhnkes Delikatessefabrikker AS; Colon Embalage (outstanding 50%); Nyborg Lynfrost AS; Vegejardin (Spain)
1992		Socketbolaget AB (Sweden); Trinity Paper Packaging Ltd (UK)
1993	Novenco; Niro AS	Chesterfield Packaging Ltd (UK); Dansk Carna Consum AS; Otto Nielsen Emballage AS
1994		Vinhuset Norden; Pektin Smirice (Czech Rep); Howard D Webb (UK)
1995		Unibag AS (increase to 100%); Clyde Corrugated (UK); Calder Corrugated (UK); Herning Aeskeindustri AS; Hamburger Wellpappenfabrik (Germany)
1996		Crown Packaging Group Ltd (UK); Crown Corrugated Ltd (UK); Celtic Packaging UK); Amadeus Packaging (UK); Westward Packaging; CMB Flexible; IL Recycling (UK); Woodcocks; Beacon Ltd; Groko Foods (NL); Monoplast AS (Norway)
1997		Schupbach AG (Switzerland); Fri-d'Or BV (Netherlands); Borthwicks plc (UK); Langfern Packaging Ltd (UK)
1998	Better Brands I.D. Nordic	Esterchem Sdn Bhd (Malaysia); Sugar Lithuania; Becks Flavours; RolDan Spzoo (Poland); Wisby (Germany/Denmark)
1999	Danisco Pack Denmark Danisco Paper Ewos Pesquera Pacific Protein Danisco Distillers	March Packaging Group (UK) Sidlaw PLC (UK) Cultor OY (Finland)
2000	Danisco Foods' vegetable business Danisco Foods' Dutch frozen food business	
2001	Danisco Flexible (packaging) Danisco Pack UK Danisco Foods, remaining parts	Germantown (Australia); Florida Flavours (USA)
2002		Perlarom (Belgium)

Source: Danisco annual report, various years.

Table 1b: Danisco 1989/1990

Line of Business	Company / main products	Sales* m DKK	Empl.	Den- mark	West Europe	North America	Other
Food and beverages	Danish Sugar			yes	UK, N, D	-	-
	Havnemøllerne (50%)			yes	-	-	-
	Danish Distillers	6021	3134	yes	-	-	-
	Frozen Foods			yes	-	-	-
	Taffel foods-snacks			yes	S, N, NL, D	-	-
Food Ingredients	Grindsted products			yes	D, UK, F, E, CH, NL, B	USA	Japan, <u>Malaysia</u> , <u>Mexico</u> , <u>Brazil</u>
	Maribo Seeds	2345	2204	yes	F, I, E, UK	USA	-
	Biochemical Laboratory			yes	-	-	-
Packaging	Raackmann Fabriker			yes	N, S, UK, D, NL	-	-
	Colon Embalage (50%)	2582	1313	yes	-	-	-
	Bux Corrugated Containers			-	UK	-	-
	Grenaa Papfabrik			yes	-	-	-
Technology and Machinery	Niro-Atomizer	Ca 2349	2111	yes	F, E, CH, I, B, UK, NL, D	USA	Japan, <u>Mal</u> , <u>Singapore</u> , <u>Mexico</u> , <u>Argentina</u> , <u>Brazil</u> , AUS, NZ
	Møller & Jochumsen	Ca 677		yes	-	-	-
Other Activities (to be sold)	NOVENCO- ventilation	Ca 1155	2598	yes	N, D, NL, I, UK	CAN, USA	Japan, <u>Korea</u> , <u>Singapore</u>
	Farma Food	Ca 876		yes	-	-	-
	I. Krüger (engineering)			yes	-	-	-
Total Sales		16005		36.7%	37.0%	8.3%	11.6%
Total Employment			11360				

Note: Due to the merger the accounting year 1989/1990 had 16 months (January 1989 to April 1990). Regional breakdown of sales refer to 1990/1991 as now such data were reported for 1989/1990.

Table 1c: Danisco 2001/2002

Line of Business	Company / main products	Sales* m DKK	Empl.	Den- mark	West Europe	East Europe	North Am	Latin Am	Asia-Pacific	Other
Ingredients and Sweeteners	Danisco Ingredients / Danisco Cultor	8529	n.a.	yes	FIN, UK, D, F, NL, B, E, I, N, S, CH, A,	<u>Russia</u> , <u>Poland</u> , <u>Czech R.</u>	CAN, USA,	<u>Argentina</u> , <u>Brazil</u> , <u>Chile</u> , <u>Columbia</u> , <u>Mexico</u> .	<u>China</u> , Japan, <u>Malaysia</u> , <u>Singapore</u> , <u>S. Korea</u> , AUS, NZ	<u>India</u>
	Sweeteners		n.a.	-	A, CH, FIN, UK	-	-	-	-	-
Sugar and Seeds	Danisco Sugar	8345	n.a.	yes	S, FIN, N, D, ISL,	<u>Lithuania</u> , <u>Poland</u>	-	-	-	-
	Seeds			yes	A, D, I, F, UK, E	<u>Poland</u> , <u>Romania</u>	-	-	-	-
Other	Foods, etc.	1049		yes	FIN, D, NL	-	-	-	-	-
Total Sales	Ingredients & Sw.			2%	35%	4%	28%	9%	18%	4%
	Sugar			22%	60%	11%		7%		
	Total	17705		12.5%	48.0%	7.6%	13.7%	4.8%	8.1%	4.5%
Total Employment			9105	32%	33%	12%	9%	8%	5%	1%

Source: Danisco Annual Report 2002 (financial year May 2001 to April 2002), countries listed are those where Danisco has a subsidiary company listed in the annual report.

Table 2a: The Restructuring of GN Great Nordic 1990-2002

Year	Business Units Sold	Businesses acquired
1990	GN Laur. Knudsen (isolation materials)	Navtel, Canada (NT) Madsen Electronics (GNR)
1991	---	Danish Polish Batteries (partial)
1992	GN Batteries International	GN Rawthorn, UK Comtext International (increase to 100%) GN Con Tec Teledate, SpA (increase to 100%)
1994	GN Communications GN FileTech	Danatronics, Switzerland Laser Precision Corp, USA
1995	---	Audiologic, USA Talkline Nordic
1996	---	Azure technologies, USA Mark Group, USA Unex, USA (GNN) Sonofon (further 17.5% to 53.5%)
1997	GN Rawthorn, UK	Italiana Audioprotesi, 90% (GNR) Bimcom, UK Siemens OTE, USA (NT)
1998	---	Online Resource Center, Russia, 48.7% (TS) ACS Wireless; USA (GNN) Fastware, France (NT) Faxnet, 22% (GNC)
1999	Faxnet, sale of partial ownership (GNC)	ReSound, USA (for US\$ 182m; GNR) PK Technology (for US\$ 45m, NT) RTC Page (TS) Danplex (for DKK 15m) GNR) EAC-GN Communications (NT) GN Resound China, increase of equity to 100%
2000	GN Comtext's network business Sonofon (53.5% equity stake) York Sensors (for US\$ 3m, NT)	AB Transistors, Sweden (GNN) Beltone (for DKK 3.1bn, GNR) Voxtel, 20% stake (TS) JABRA, USA (for US\$ 62m, GNN) Hortmann, Germany (GNR) GM Iris (NT) Hello Direct, USA (for US\$ 95m, GNN) Phonetics, France (for DKK 9.1bn, NT) Optran (NT) ICS Medical, USA (for US\$ 10.6m, GNR)
2001	<u>Denerco & ZAO, St. Petersburg</u> (TS) GN Comtext	Sensortech (GNN) Auditdata, increase of equity to 100% (GNR) Dana Japan (GNR) Ultravox Holdings (GNR)
2002	Last sale of residential real estate NetTest (NT)	Claria Headsets, Australia (GNN)

Source: GN Great Nordic, annual report, various years.

Abbreviations: GNN = GN Netcom, GNR = GN ReSound (previously GN Danavox), NT = NetTest (previously GN Elmi), GNC = GN Comtext, TS = GN Store Nordiske Telegraf-Selskab.

Table 2b: GN Great Nordic in 1990

Company / main products	Sales mill.DKK	Empl.	Denmark	West Europe	East Europe	North Am	Asia	Other
GN Danvox (later GN ReSound)	292	708	yes	UK, N, D, NL, S	-	Canada, USA	<u>China</u>	<u>Brazil</u>
GN Elmi (later NetTest)	189	225	yes	A, D, UK, F	-	Canada USA	-	AUS
GN Netcom	187	327	yes	UK, D, F	-	Canada, USA	-	-
GN Batteries	93	146	yes	-	-	-	-	-
GN Communications	166	224	yes	-	-	-	-	-
GN DataCom	140	161	yes	D, UK, F	-	USA	Japan	-
GN FileTech	19	22	yes	-	-	-	-	-
GN Telegraph Co.	9	7	yes	-	<u>Russia*</u> , <u>Poland*</u>	-	Japan*	-
GN Ejendomme (real estate)	27	7	yes	UK	-	-	-	-
Other (incl. GN Citytel, Store Nord Energi)	274**	577**	yes	-	-	-	-	-
Total Sales	1396		40.0%		36.6%	7.4%	12.9%	3.1%
Total Employment		2404						

Source: GN Great Nordic, annual report 1990.

Notes: *ownership of telegraph cables and similar assets, not affiliates. ** calculated as difference between total and available divisional sales figures.

Table 2c: GN Great Nordic in 2001

Company / main products	Sales mill.DKK	Empl.	Denmark	West Europe	East Europe	America	Asia	Other
GN Netcom (headphones)	1930	944	yes	UK, D, F, E, S, I	-	USA, Canada	Japan, <u>HK</u> , <u>Singapore</u> , <u>China</u>	AUS
GN ReSound (hearing aids)	2906	3417	yes	D, NL, CH, F, E, I, UK, IRL, A, N, S	<u>HU</u>	USA, <u>Brazil</u> , Virgin I., <u>Mexico</u>	<u>China</u> , <u>HK</u>	AUS, NZ
NetTest (network testing equipment)	3327	1484	yes	D, UK, E, I, F; S	<u>CZ</u>	USA, Canada, <u>Brazil</u> , <u>Mexico</u>	<u>China</u> , <u>Singapore</u> , Japan	AUS
Other (incl. Telegraph Co, real estate)	160	?	yes	UK	<u>Russia</u> , <u>Moldova</u>	-	-	-
Total Sales	7319		3%		37%	47%	12%%	1%
Total Employment		6213*						

Source: GN Great Nordic, annual report 2001.

Notes: * total employment refers to year average whereas divisional employment figures refer to year-end.

Table 3: Internationalization, Emerging Market Entry and Diversification Strategies

Ranked by sales 1990

Firm	Rank 1990	Rank 2000	International profile 2000	Trend 1990-2000	Markets	Industry profile 2000	Trend 1990-2000
A.P. Møller Group	1	1	Worldwide > 100 countries	Global company	B	Shipping (core biz), oil and gas exploration, shipbuilding, air travel, industrial businesses, retail trade, IT services	Diversified conglomerate
EAC (ØK)	2	16	11 Asia, 4 LA, Germany, New Zealand, Nigeria,	Reorganization and focus on Asia and LA only	B/C	Related diversified conglomerate mainly in food and transport.	Major downscoping, exit from most European markets
MD Foods (Arla)	3	11	W. Europe, 2 NA, 4 CEE, Japan Argentina, Saudi Arabia	Rapid I especially by acquisition of Arla	C	Milk and closely related products	Transport division divested; else focus on growth in the same industry
Danisco	4	10	13 W Europe, 2 NA, 6 CEE, 5 LA, 5 Asia	Continued rapid I	B	Focus on food ingredients	Major downscoping
Lauritzen Group (Vesterhavet)	5	6	W Europe, 4 CEE, 6 LA, 2 Asia	Restructuring reduced international profile*)	B/C	Shipping and industrial conglomerate	Massive downsizing in 2001 divesting non-shipping interests
FLS Industries	6	7	W Europe, 3 NA, 3 CEE, 6 Asia, 6 LA, 2 Africa	Continued rapid I	B	Diversified, but with focus on cement	Considerable downscoping
Danish Crown	7	2	W Europe, AUS, 4 CEE, 5 Asia	Rapid I	C	slaughter-houses, branded meat and related products	Rapid growth in same industry, with some increase in diversification
Carlsberg Group	8	3	W Europe, USA, 4 CEE, 4 Asia, Turkey, Malawi	Rapid I	C	Focus on beer with interest in other drinks businesses	Divestment of peripheral business (Copenhagen Porcelain, Tivoli)
ISS +	9	4	W Europe, 6 CEE, 10 Asia, 2 LA, (no USA!)	Continued rapid I through acquisitions	B	Service conglomerate	Conglomerate with increasing diversification within services
Novo Nordisk	10	5	W Europe, 4 NA, 3 CEE, 2 LA, 10 Asia, Turkey, South Africa	Continued rapid I	B	Focus on health care products	Rapid growth in both industries, then share-split creating Novozymes
Danfoss	11	12	W Europe, 4 NA, 14 CEE, 8 LA, 9 Asia, 3 Africa	Continued rapid I	B/C	Related diversification	Minor increase in scope of diversification
Skandinavian Holding	12	9	W Europe, 2 NA, 6 CEE, Indonesia, Dominican Rep.	Rapid I	C	Tobacco products, minority stake in Tivoli	Continued growth in core business, with a new side interest.
Superfos	13	> 25	W Europe, USA, 2 CEE	Gradual I	B	Focus on Packing products	Major downscoping
Rockwool	14	17	W Europe, 2 NA, 11 CEE, Malaysia	Continued rapid I	B	Rock wool for construction related applications	Some di-vestment of non-construction related businesses
J Villadsens Fabrikker (Icopal)	15	21	W Europe, 2 NA, 5 CEE, Mexico	Continued rapid I	C	Roofing and closely related products	Some downscoping
Vestjyske Slagter	16	-	---	---	C	---	Integrated in Danish Crown
Steff Houlberg	17	20	France	Little I	C	Meat processing	Little change in profile
Grundfos (Due Jensen Fond)	18	13	W Europe, 4 NA, 4 CEE, 9 Asia, 3 LA, Turkey	Continued rapid I	B	Pumps for a growing variety of applications	Continuous growth in same industry, growing into new applications

Egmont Holding	19	14	W Europe, Japan, 9 CEE, 7 Asia, Turkey	Continued I	C	Publishing and new media entertainment	Diversification into new media
Bang & Olufsen	20	23	W Europe, USA, Japan	Gradual I, mainly export-based	C	Audio and video, with 20% other activities	Growth of non-core business
Lego Systems	21	-	*)	*)	C	Toys, theme parks and other activities	Diversification into electronic toys and theme parks
Royal Dane Quality	22	-	---	---	C	---	Integrated in Danish Crown
Kløver Mælk	23	>25	---	---	C	---	No change until 1997, then integrated in Arla Foods
Aarhus Oliefabrik	24	>25	UK, Norway, France, USA, Australia, Russia, Malaysia, Mexico, Sri Lanka, 3 Africa,	Continued I	C	Oils and fats, and related products	Continuous growth in same industry
Slagteriregion Syd	25	-	---	---	C	---	Integrated in Danish Crown
Falck (Group4Falck) +	26	8	W Europe, 3 NA, 14 CEE, 9 Middle East, 6 Asia, Turkey, South Africa	Rapid I, esp. by merger with Group4	B	Security, safety and other business services	Di-vestment of manufacturing and focus on related service sectors
Velux	-	15	4 W Europe, 2 CEE	Early stage of I	B/C	Windows and related products	Related diversification
GN Great Nordic	-	18	W Europe, 4 NA, 3 CEE, 7 Asia, 2 LA, South Africa	Continued rapid I	B	Closely related diversification in telecom equipment	Major downscoping while growing core businesses
Vestas Wind Systems	-	19	W Europe, USA, India	Gradual I	B	Wind Energy Turbine	Continued focus on wind energy technology
Lundbeck	-	22	W Europe, 3 NA, 9 CEE, Mexico, South Africa	Rapid I of sales	B	Drugs for CNS diseases	Continued focus on a segment of pharmaceuticals market
Novozymes	-	25	W Europe, 2 NA, 6 Asia, 2 LA, Turkey, South Africa	Gradual I	B	Enzymes	Focus on enzymes
Elsam	-	24	3 W Europe	Little I	B/C	Electricity and distant heating	Related diversification

Sources: Sales data: Danmarks Størreste Virksomheder, and data from recent company reports.

Notes: + Manufacturing accounted for a small share of turnover in 1990, by 2000 the firm has entirely focused on services.

Markets: B= selling mainly in B2B markets, C = selling mainly consumer goods, B/C = service both business and consumer markets.

International profile lists countries in which the firm has affiliates. Country group abbreviations: NA = North America and Australasia (USA, Canada, Australia and New Zealand), LA = Latin America, CEE = Central and Eastern Europe.

*) Data are not available from public sources.

--- Firm is not yet / no more in existence.