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## **Caught in the middle: buying from markets and selling to networks**

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# Caught in the middle: Buying from markets and selling to networks

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## ***Abstract***

What happens when the “market” meets the “network”? The purpose of this paper is to look at how relationships between buyers and sellers are affected when on the supply side the most important resource is available only through a trading system created from a market perspective, whereas on the customer side the interaction resembles a network where relationships are long-term and complex. The empirical setting of the study is the pelagic industry, where this particular situation represents a challenge for the Norwegian herring exporters as they try to link or bridge these two types of interactions. In this industry, the purchasing of the herring is subject to a blind auction by Norwegian law. At the same time, the Norwegian exporters have customers in large European seafood markets characterised by long-term relationships and close cooperation between importers, processors, producers and retailers. To analyse this situation, the study applies a qualitative research design including in-depth personal interviews with selected respondents in Norway and the three largest Norwegian herring export markets: Germany, Poland and Russia. The authors find that the interaction in these particular supplier-customer relationships is not extended to its full potential. It rather seems that the market-type transactions creates “spillover-effects” to the other relationships, meaning that it is difficult to create and maintain high-involvement relationships when interaction in connected relationships is limited.

## ***Keywords***

Market transactions, networks, business relationships, interaction, seafood, herring, Norway, exports

# 1 Introduction

How are relationships between buyers and sellers affected when on the supply side the most important resource is available only through a system created from a market perspective, whereas on the customer side the interaction resembles a network where relationships are long-term and complex? What happens when the “market” meets the “network”? Since its early theoretical foundations in the 1970s, research in the IMP tradition has analysed the role and impact of business interaction and networks, and contrasted this perspective to more transaction based, or market related views building on micro-economic theory. But rarely have these two types of interactions been studied within a single case. The marketing of Norwegian herring provides such an opportunity. On the supply side a particular auction system gives a “market” situation - the trading of the herring is subject to a blind auction by Norwegian law. This system prohibits the establishment of long-term relationships between sellers (Norwegian fishermen) and buyers (Norwegian exporters) and is created to secure a balance between supply and demand as herring has natural variations in populations and quotas. At the same time, on the customer-side large European retailers have long-term relationships and close cooperation with various seafood producers where herring is used as basis for extensive product ranges and varieties. This represents a challenge for the Norwegian exporters, as they try to link or bridge these two types of interactions.

In this paper, we briefly present the “market transactions” and “network relationships” as two distinct ways to interact and discuss some of the underlying theoretical assumptions. Then we introduce the case. First, we describe and analyse the supply-side relationships between Norwegian exporters and the herring auction system. We then describe the customer-side relationships and look at interaction between importers of Norwegian herring in Germany, Poland and Russia and their industrial buyers in domestic markets. Finally, we take a detailed look at the focal relationships in this study - how the Norwegian exporters and their European customers interact. To structure our analysis we introduce three broad categories: *Well-developed interaction*, *partially developed interaction* and *limited interaction*. Moving over to a theoretical discussion of the key characteristics of interaction identified by our empirical data, we look at the way in which the relationships between the Norwegian exporters and their customers are affected by this particular industrial structure and how the actors seek to resolve this situation.

This discussion is relevant for companies seeking to manage their customer- and supplier relationships when interaction in connected relationships is restricted, and for policy makers who want to understand the effects of their intentions to organise market transactions.

## **2 Market transactions or business relationships: Two types of interaction between companies**

### **2.1 Market transactions**

Market transactions and their characteristics has a long history and is closely connected to the development of market thinking in terms of market features and functions. In economic theory it started with Adam Smith that argued that a free market (with no transaction costs) will provide a natural balance between supply and demand. A century later, neo-classical economists such as Leon Walras and Alfred Marshall arrived at similar conclusions, arguing that price and quantity are determined at an optimal level - an *equilibrium* where there is a perfect match between supply and demand. One precondition for this equilibrium is a perfect competition in the marketplace (i.e. friction free transactions). This equilibrium is created through an antagonistic behaviour in a zero-sum game. (Håkansson et al 2009). Polanyi (1944) described this as a market populated by autonomous actors fighting for the survival of the fittest. This “jungle metaphor” indicates that transactions are the result of the acts of antagonistic actors, zero-sum games, where what one wins always means a loss for the other. The actors thereby need to be free and independent in order to always choose the partner that gives the best conditions. Further, all actors – both buyers and sellers - can be played out against each other as there are no costs associated with the transaction. This also implies that there is no knowledge added by the transaction process. Through this way of conceptualizing transactions, they can be assumed to work as a market mechanism, i.e. transactions give room for the market forces.

An important exception from these very clean transactions was made when Coase (1937) initiated a discussion suggesting that market transactions could be costly given certain market imperfections (market failures). This picture was further developed by transaction cost researchers (Williamson 1981; 1975) and Heide (1994). In transaction cost theory, a company will choose transaction forms dependent on how costly they are. The main issue is to identify which governance mechanism in customer-supplier relationships that will minimize the transactions costs. At one end of the continuum there is a total integration or “hierarchy”, where ownership gives a certain prerogative and control. At the other end there is a free market where

transactions are governed by the market forces (Webster 1992). Each form of governance mechanism has its own costs and the important issue is to choose a system that gives the lowest costs in each case.

## **2.2 Business relationships**

Extensive IMP-research has suggested that the transaction cost theory should be taken one step further toward an analysis that includes interaction as being a part of a process over time where there exist learning and adaptations (Håkansson 1982). This gives reasons to see business actors as interdependent actors in a wider network of interconnected relationships (Håkansson and Snehota 1995; Håkansson and Snehota 1989). This perspective challenges the idea of autonomous companies with complete knowledge interacting through market transactions. In contrast, the network approach sees both the seller and the customer as being actors needing broad and extensive interaction in order to use their resources and perform their activities. Consequently, the actors need interaction processes which include learning and adaptations. These relationships will always function both as restrictions (difficult and costly to change) and possibilities (to find new solutions). The possibilities for a single actor to develop its relationships depend both on its own abilities as well as on how the relationship is embedded into the wider network structure. The resource development takes place both within and between companies. One important consequence is that efficiency is dependent on external relationships; it is not just an internal matter. Moreover, relationships are in themselves a resource that can be combined with a number of other resources including other business relationships. As such, substantial interaction will create other effects compared to the earlier described market transactions, and therefore needs to be handled by the companies in a quite another way (Ford et al 2013).

## **2.3 The research question**

As a brief summary, we may argue that we have two theoretical points of view concerning how markets are organised: the market transactions is the result of or the necessary conditions for a situation that can be characterized as a “perfect market” where autonomous actors are trying to optimize each single transaction. Business relationships on the other hand is the way companies interact when they want to transfer knowledge (learn) and adapt activities and resources over time. In any industry, we can expect to find both these types of interaction types due to how different actors interpret the situation. Some actors will favor arms-length relationships and

avoid dependency on their counterparts, whereas other actors may seek to establish long-term relationships with a limited set of partners. But, what if the actors are forced to interact in a particular way? This is the feature of the Norwegian pelagic industry. Here, the actors are required to use one of these interaction types in one direction, while they are free to do what they want in another direction. However, interaction in this other direction is conditioned by the expectations of other actors. Subsequently, these actors are somewhat caught “in the crossfire” between two types of interaction systems and have to handle situations which are both transaction-based on the one hand, and network-based on the other hand.

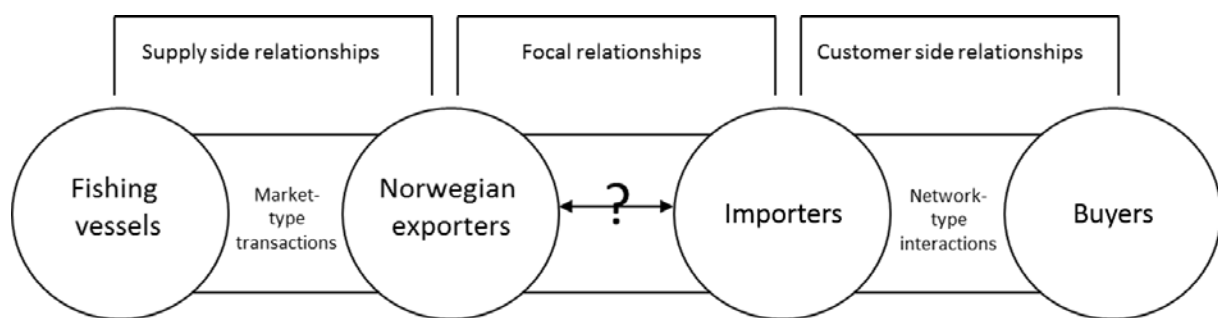


Fig. 1: Interaction types between companies in the study

We may illustrate this situation as in Figure 1. On the supply side there is an auction system designed in a way that it should create market transactions, and on the demand side, the Norwegian companies have customers (importers) who in turn have customers (industrial buyers) demanding close business relationships. Our research question consequently focus on how the Norwegian exporters handle this situation: How will the interaction to their main customers develop given the features of interaction in connected relationships?

### 3 Methodology

This is a case study (Eisenhardt 1989; Yin 2003) of a particular industry where we look at some relationships in more depth. The research design is qualitative and explorative (Robson 2002), as we gradually have gained more knowledge about the industry and the actors involved. We have also used secondary sources. We have selected this particular industry because it has a particular feature - the enforced auction system. At the same time, this industry is serving markets where there is increasing concentration and cooperation between retailers and producers (Metrogroup 2010). To get a better understanding of how the Norwegian herring is caught, traded and exported we interviewed Norwegian exporters and their customers in

Germany, Poland and Russia, Norway’s main herring markets (Norwegian Seafood Export Council 2013). We adopted a qualitative method design, primarily personal in-depth interviews with selected respondents. These respondents were identified by discussions with key people in the industry in addition to secondary sources. Industrial markets are traditionally characterised by a few dominant actors and by interviewing representatives from the largest companies, we hopefully get a fairly representative picture of the industry. Company names have not been altered, but the respondents are quoted only by functions (e.g. “a German importer”). As seen from Table 1, the companies in our sample represent a large share of their respective markets, even though some respondents were reluctant in giving this type of information:

Table 1: Sample in the study

Norway			
Company name	Company type	Annual production (tons)	
Brødrene Sperre	Exporter	22.000 herring	
Nils Sperre A/S	Exporter	25.000 herring	
Nergård	Exporter	110- 115.000 herring	
Egersund Seafood	Exporter	Not stated (around 15 % market share)	
Norway Pelagic	Exporter	Not stated	
Germany			
Company	Company type	Annual total herring imports	Imports from Norway
Fokken & Müller	Agent/trader	Not stated	3,000
Friedrichs	Producer/Processor	250-200.000	Not stated
Friesenkrone	Producer	6.000	3.500
Hawesta	Producer	Not stated	16.000
Homan	Producer/Processor	Not stated	25.000 – 30.000
Lübbert	Agent/Trader	Not stated	Not stated
Poland			
Company	Company type	Annual total herring imports	Market share
Graal Gruppen	Producer/exporter	6.000	20 %
Seko	Producer/processor	5.000	20 %
Contimax	Producer	4.000 – 6.000	15-20 %
Wilbo	Producer/trader	Not stated	Not stated
Russia			
Company	Company type	Annual total herring imports	Market share
ROK	Trader/producer	3.000 – 4.000 tons	Not stated
DEFA Group	Importer/trader	Not stated	12 – 14 %
Russian Sea	Importer/trader/processor	Not stated	Not stated
Atlant Pacific	Importer/trader	Not stated	9 %
Total no of interviews: 19			

To gain information about key relationships with suppliers and customers, we developed an interview guide (see Appendix A). Particularly, we wanted to address the following issues:

- a. Identification of the actors' most important supply-side relationships and how these are managed
- b. Identification of the actors' most important customer-side relationships and how these are managed
- c. Identification of the actors' indirect relationships (their networks).

Using this interview guide, we managed to pair the majority of the interviews, i.e. we were able to look at both the supplier and customer side of the relationships. The interviews lasted between one and two hours and the respondents were interviewed once. We interviewed one representative from each company (with the exception of one German and one Russian company where two representatives participated). Respondents were primarily marketing and sales managers (representing the Norwegian exporters) and purchasing managers (representing the domestic importers, agents and traders). Due to time and financial constraints, we only have one interview with representatives from the auction system and no interviews with the fisheries/fishing vessels. Our account of this system is therefore based on how the buyers perceive it, but we have used some descriptions of the rationale behind this system from secondary sources.

The interviews were taped (the respondents gave permission in advance). Respondents also gave permission to use their quotes, but these are unnamed in the text for confidential purposes. Three experienced researchers familiar with the IMP framework conducted the interviews: One in Russia, one in Poland, and one in Norway and Germany. To ensure consistency, all interviewers used the same interview guide. The interviews in Norway were conducted in Norwegian, transcribed in Norwegian, and later translated into English. Interviews in Germany were conducted in English. The interviews in Poland were conducted in Polish and later transcribed and translated into English. The interviews in Russia were carried out partly in Russian and partly in English, and were then transcribed into English. Eventually, the English transcripts were compared and compiled by the project manager to enable a single language fit for analysis. In some cases, the wording and sentence construction due to the different language skills of respondents have been altered, but to our knowledge this has not affected the content of the quotes.



The transcripts were subsequently coded and categorised using templates (King 2004). NVivo was then used to aid the final analysis of the data. The categories were mainly constructed on basis of the empirical data, such as country (Norway, Germany, Poland, Russia), respondent type (exporter, importer, etc.) before narrowing in on relationships characteristics and nature of interaction.

Before we present a detailed analysis of the case, a brief overview of the herring industry network may provide useful (Fig. 2):

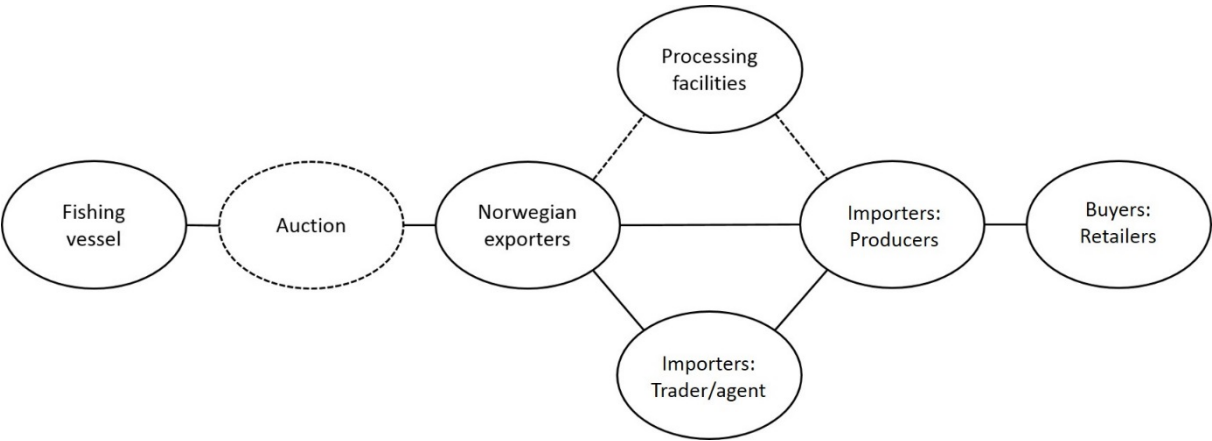


Fig. 2: The herring industry network

As we can see from this figure, the herring is caught by Norwegian fishing vessels in the North Sea and then bought by Norwegian producers through an auction system. The Norwegian exporters perform simple processing activities such as sorting, filleting and freezing. The herring is then sold to European customers, mainly large producers of a wide range of herring products. Some producers buy via a trader or an agent. The majority of producers have their own processing facilities, but some use external processing. Large European retailers finally buy the herring.

#### 4 Supply-side relationships

There are two input factors which affects the availability of herring. The first one is annual quotas and natural variations in populations. The other one is the auction system for pelagic fish.

## 4.1 Resource availability

What is known as Norwegian herring is really two species of herring: Norwegian spring-spawning herring (NVG herring) and North Sea herring. 85 % of all herring caught and exported in Norway is NVG herring (Myrland et al. 2012). Norway has 61 % of the global quota for NVG herring. This was equivalent to 900.000 tons in 2010. In comparison, Iceland has 15,51 %, Russia has 12,82 %, EU has 6,51% and the Faroe Islands have 5,16%. For simplicity, we will refer to both NVG herring and North Sea Herring as “herring” in this paper.

The population of Norwegian herring is stable at a high level after a time in the 1970s and 80s when the herring population was extremely low. The rapid technological development of catching equipment in the 1960s contributed greatly to this situation. The herring’s migration patterns between spawning grounds and feeding areas in North Sea changed, and the herring stayed off the Norwegian coast for long periods. Since 1990 the herring has started to return to the North Sea (Institute of Marine Research 2012), but the quotas are still relatively low and were down to 377.590 tons in 2013 (Kystmagasinet 2013). The population would actually tolerate a higher catch, but the authorities are still reluctant to increase the quotas. This means that the fishing vessels are catching less fish, which in turn drives prices. Several of the producers along the Norwegian coast base their activities on large volumes and require a steady supply of raw materials. Changes in quotas from year to year are frustrating for the industry and leave little room for long-term planning. As one Norwegian exporter says: *"In 2009 Norway had a herring quota of 1.500.000 tons. Next year, the total herring quota was 800,000 tons of which Norway’s part amounted to 500,000 tons. The quota has thus been halved in only two or three years."* Looking ahead the producers believe that the quotas will be further reduced, resulting in production overcapacity and price pressure. As one respondent says: *"This is a big problem and it will get even worse in the future. We compete all the time for the raw material which is out there. We need strong financial reserves."*

## 4.2 Fishing vessels and Norwegian herring exporters

On the supply side, the fishing boats in Norway are owned by large ship-owners and smaller shipping companies operating two to three fishing boats. There is an increasing concentration on this side of the industry. One respondent explains that *"...when you think of a fisherman, you imagine some old guy with boots and raingear going to sea in the morning in a small fishing boat. But it is not like that at all. Fishing boats are owned by major shipping companies and its big business."* The 30 largest ship owners represented 34.5 % of the total catch value for

Norwegian fishing boats in 2012, worth a total of 4.9 billion NOK. Of these shipping companies 16 companies are involved in herring catch (Norsk Fiskerinæring 2013). Norwegian legislation prevents the production side (the exporters) from integrating vertically with the catch side (the fishing vessels), and Norwegian producers are prohibited from owning more than 49 % of a fishing vessel company.

On the customer side, the pelagic industry in Norway has been characterized by recent mergers and restructuring. Several production facilities have closed down. Today five actors/groups dominate the market, as can be seen in Table 1 (Note that after the data were collected, Egersund Seafood and Norway Pelagic merged, further increasing the industry concentration). These companies receive, sort, process, freeze and sell the fish to their customers in the main export markets. In this paper the terms “exporter” and “producer” and “receiving facility” are used interchangeably. Several of our respondents predict that the number of participants will be further reduced. As one major actor states: *"In essence, there is a huge overcapacity. It means that the fishermen get well paid. This is even more apparent now as quotas are down. We may even see bankruptcies in the industry."* Overcapacity and reduced quotas means that exporters have a strong focus on getting enough herring: *"When there is considerable excess capacity on land, there is a struggle for raw materials. Our production facility is closed two thirds of the year. These are expensive machines, large investments. We should have better margins during the catch season, but we have a problem here."* Excess capacity means that there are many buyers at the auctions, which increase the price. Reduced quotas means further price increases: *"This is about supply and demand. When supply falls sharply, as it does now, prices will go up"*, one exporter explains.

#### **4.3 The herring auction system**

In Norway, all pelagic fish caught by Norwegian vessels must be sold through the Norwegian Fishermen's Sales organisation for pelagic fish (“Norges Sildesalgslag” or NSS). Dating back to 1927, it is today *“the world's largest marketplace for pelagic fish”* according to their web-page. The NSS is a cooperative, owned and operated by the catch-side, i.e. the fishermen. At the same time it is a political construction aimed at securing the interests of the fishermen and to present a “united front” towards the buyers. It is nationwide, self-financed, and also acts as a public body by Norwegian legislation regarding marketing of raw fish and wild marine resources. The trade is managed through a closed auction, five auctions are conducted daily. The auctions take place by fishing boats reporting their catches to the auction, giving details of

vessel position, species, quantities, sizes and catching areas. The buyers then place their bids on these catches. The prices are made public at the end of the auction.

The NSS gives several arguments in favour of the fish auction; it represents a cost-effective marketplace open all year round, it creates a “fair price”, it represents security for the fishermen as it handles payment and determines a minimum price and it manages quotas and stock for the government (Norges Sildesalgslag 2013). It argues that the auction conducts “...sales at current market value, it provides the fishermen sales and the buyers raw material, it minimises total sales expenses, it attracts all players to one trading centre efficiently, inexpensively and effectively, it gathers all information and sales data to be made available quickly, simultaneously and equally” (Norges Sildesalgslag 2014). This perspective is also highlighted in an interview with a key representative at NSS: “*This is a very rational system. It is a gigantic marketplace, where sellers and buyers meet. Buyers will get their herring if they are willing to pay for it, and the auction reflects the market price... This system is actually created to protect the fishermen in their dealings with the large industrial buyers. The fishermen are of course interested in getting the highest price as possible. But no-one is interested in buying the fish if it is too expensive. This means that the system is self-regulatory.*” The chairman of NSS gives a similar rationale in a recent magazine interview: “*The auction system’s main aim is to ensure that the fish is sold to buyers which have a rightful place in the market, and which are able to pay competitive prices*” (Norsk Fiskerinæring 2014).

To give an idea of the volume traded at the NSS auctions, around 2 million tons of pelagic fish (herring, mackerel, blue whiting and capelin) were traded in 2013, worth between 750 – 1000 million EUR (Norges Sildesalgslag 2013). Around 664.000 tons was herring, of which 654.000 tons were caught by Norwegian fishing vessels (Pelagisk Forening 2011). This difference in volume indicates that a small number of foreign vessels also sell their catch in Norway.

In the eyes of the customers, the auction system drives prices because buyers do not see bids from other buyers. It is therefore tempting to “add a little extra” to secure volume for their production facility and customers, in the words of one exporter: “*We aim to pay as little as possible. But it's a bad feeling when it turns out that you paid one million kroner more than you need when the bids are made public at the end of the day, knowing that if you bid less you would have got the same volume of fish. Then you turn off the computer and go to bed. You don't always fall asleep right away, trust me!*” The auction system has some transparency, because prices become public after the auctions. The actors spend a lot of time studying and interpreting

price movements based on the different types of fish traded. The auction price is also available to export customers, meaning that these customers always have an overview of what the receiving facility has paid for the fish. The exporters are thereby losing a strong bargaining position in their point of view.

The system favours short-term transactions. This means that it is difficult for Norwegian producers to plan. According to one exporter: *"The monopolistic system we have is unfortunate; we need to be able to make more long-term agreements with the catch side and become more integrated. This is a system that fights the market forces, and that can't work in the long run. The economic forces must be allowed to work. The way the system is now, it maximises the value of the supply side. The fishermen must of course have the right to a certain quota, but they do not own the fish in the sea!"*

The system further favours arms-length relationships. One obvious reason is that access to herring is unstable and seasonal. This means that it is difficult to enter into long-term agreements for the exporters: *"The fishing industry is the only industry in the world where access to raw materials varies so much from day to day due to quotas and weather. And then we have the special situation of the auction system."* This means that there is hectic activity in the production facilities at the time where the herring is caught, but there may also be quiet periods.

#### **4.4 Interaction: Market-type transactions**

The auction system has several features. On one hand, it is designed to facilitate free exchange of resources in a "marketplace" because the actors are prohibited by law to create ties beyond the mere exchange. As such, it has features resembling a "free market" in neo-classical terms. At the same time, Norwegian law requires all fish landings to be traded through this system and this is a feature associated with a "monopoly" (This paradox is also noted by some of the respondents). Moreover it is a rigged system, clearly developed to protect the supply-side (the fishermen). It thereby has characteristics of an "imperfect market", where seller concentrations, barriers to entry, product differentiation and lack of information are key facets (Scherer 1970), or what Johan Arndt (1979) refers to as "domesticated markets", where *"...under the doctrine of "Neo-Mercantilism", government has intervened in the marketplace by introducing selective supports, subsidies or privileges to special regions, industries, or companies.."* (p. 70). It also has features of "constructed" or "institutionalised markets" (Araujo 2007) where *"Law makes an important contribution in terms of providing the regulatory framework under which property*

*rights, contracts and so on, can be exchanged and third party enforcement of rules sustained. Accounting provides the calculating agencies that allow market actors to use money as a medium of exchange, determine costs and prices, undertake investments and so on” (Araujo 2007, p. 223). Indeed, when addressing the features of this particular market system, markets are indeed multiple and many-faceted, as argued by Kjellberg and Helgesson (2006), “...constituted by practices involving multiple, even contradicting, performativities... That is, when several (groups of) actors engage in different market practices that contribute to shape the market.” (Kjellberg and Helgesson, 2006, p. 849).*

For our purpose, we term this particular auctions system as “market-type transactions”, because the actors are deferred further interaction beyond the mere exchange. This resembles what Andersen et al (1994) refer to as “arm length relationships” or “low-involvement relationships” (Ford et al. 2011) where each purchase is viewed in isolation and the price is the main determinant, and where “...no specific product or service adaptations are made, thus minimising the resource ties. Activity links are weak owing to standardised processing and shipments, ... interaction between individuals are restricted in the two companies are restricted to sales and purchasing administration, implying few and limited actor bonds” (Ford et al., 2011, p. 79). All these facets are good characteristics of what we find in these particular relationships. Ford and Håkansson (2014) use the term “duel” as another example of this type of interaction. In duels, there are winners and losers, and there is a limited contact interface; the exchange is transaction-based, and there is conflict over goals; there is strong competition over economic rewards; resources and activities are given and not created by interaction. The interactions found in the auction system have imprints of all these characteristics to a greater or lesser extent.

Table 2 summarises the characteristics of the interaction process:

Table 2: Supply-side relationships

<b>Supply side relationships: Market-type transactions</b>
<p><b>Relationship between actors:</b>            Catch side/auction – Norwegian exporters</p>

**Characteristics of the interaction process**

- Routine-based transactions
- No cooperation apart from the exchange
- Resources subject to seasonal variety and quotas
- Activity links limited to information exchange
- Few resource ties created
- Conflicts about nature of the exchange and the role of the auction system

Looking at this table, we find that the supply-side relationships between Norwegian exporters and the catch side/herring auction take form of routine-based transactions and limited cooperation between the actors outside the mere exchange process. The herring as a resource is subject to seasonal variations and quotas, activity links are limited to information exchange and there are conflicts about the nature of the exchange and role of the auction system.

We will now turn our attention to the customer-side relationships, and looking at the interaction characteristics between domestic importers and domestic buyers in each market.

## **5 Customer-side relationships**

European industrial customers prefer frozen fish which they process and develop into a wide range of specialised products. Processing activities in Norway beyond sorting, filleting and freezing of fish is impractical and expensive due to the Norwegian customs barriers. Norwegian herring entering the EU is subject to a 20 % customs duty when processed fish (i.e. adding salt or vinegar). Herring needs to be processed in order to be used for consumption, because the herring fillets have a high number of small bones. When the herring is marinated, the bones become soft and the herring becomes edible. History and cultural traditions have led to different herring product preferences in different markets. Northern countries prefer salted products and sauces because of a historically good access to salt, whereas Southern European countries use vinegar due to long winemaking traditions.

### **5.1 Germany**

Germany is in many ways the most developed and the most established market for Norwegian exporters. It has long been a fillet market, and many German producers have made great innovations in product development and processing of herring. Herring has many applications - it is marinated, used in salads and eaten as traditional raw "matjes". There is a large variety of processed products such as herring in brine, herring salads, canned herring and vacuum-packed herring available in German supermarkets.

The German market is characterised by a small number of large and dominant producers, and Homan is considered one of the largest. In addition to supermarkets, the German producers sell HORECA (the hotels, retailing and catering market). Sales are direct or through wholesalers. Fokken & Müller and Friesenkronen sell exclusively to wholesalers due to lack of capacity to work directly. Friesenkronen, Hawesta and Homan have close ties to their customers such as large German supermarket chains. A lot of product development work, private labelling, promotional activities, packaging, etc. is done in close cooperation with these customers. Contracts are often long-term, but prices are open to annual negotiations. There is high competition between the various producers over the retail customers, but also cooperation in terms of industry standards and technological development. They also have informal contacts at industry meetings and trade fairs.

The German producers have relationships to a number of additional input factors such as packaging (tin cans, glass, plastic and paper) and they buy ingredients such as creams and sauces from suppliers. In addition, relationships to carriers (car and boat) and external storage capacity is required. Another special feature of the German market is that several producers outsource their processing to Poland.

## **5.2 Poland**

Herring has been an important part of Polish food culture since the medieval times. Traditionally a market for whole frozen herring, Poland is now becoming more of a fillet market. The market is not as developed as Germany in terms of flavours, spices and preservatives, but there is a growing innovation. There are a large number of herring producers in Poland, but most of them are small family-run companies producing for local markets with locally customised product. There are only a few factories producing herring products on a large scale such as canned products, herring fillets in sauce and brine and herring salads. These large companies fall into two categories: One type is publicly listed companies on the Warsaw Stock Exchange, the second type is foreign owned companies which mainly re-export to foreign markets, primarily to Germany.

Customer groups of these producers are large Polish retail chains and smaller domestic fish shops. Some herring is also re-exported to Germany. For instance, Graal sells 78 % of its production directly to supermarkets and hypermarkets, and 16 % of the production goes to



smaller fish shops. Seko sells 44 % of its production to supermarkets and retail chains in Poland but also Germany (Lidl and Kaufland). 33 % of SEKO's production goes to smaller wholesalers.

The Polish market is characterised by a growing concentration on the production level. The retailers increasingly want to deal with fewer and larger suppliers, and smaller companies cannot invest in modern production facilities. Several actors are therefore struggling financially, according to one respondent: *"Last year there were many discussions about mergers and takeovers. Then the market took a downturn, and the big companies now sit and wait to pick shares of the small companies cheaply. In a few years, the number of actors will have been halved."* Another respondent agrees: *"There is currently strong consolidation among large capital companies with ambitions to take a stronger position, and that want to increase the profitability of the segment in their industry."* In addition, increased herring prices and reduced quotas have caused several industrial customers to struggle in their long-term contracts with Polish retailers. Some retailers have taken these agreements to court, but have been less successful and lost money.

We also find examples of connected relationships in Poland. For instance, Superfish of the Graal Group was previously owned by Orkla in Norway. Orkla had developed processing technology for pickles and other herring products for Abba Seafood, one of their subsidiaries. Then this technology became available to Superfish, using it in their dealings with other suppliers. Hence, indirect effects of technology were created, benefiting other industry actors. Additionally, several factories in Poland have worked closely with and received support from various institutions within the EU system to upgrade old production facilities. This development will gradually benefit the industry as a whole. At the same time, increased efficiency will speed up mergers and restructuring in the industry.

### **5.3 Russia**

Russia has long been an important market for Norwegian herring, and exports of Norwegian seafood to Russia have increased heavily since the dissolution of the Soviet Union in 1991. Russia has traditionally been a market for frozen whole fish. Previously, there used to be many small actors in Russia, but this market is now characterised by concentration and today there are only 5-6 large producers. Interestingly, 80 % of fish consumed in Russia comes from domestic catch, and only 20 % is imported. Much of the processing has traditionally taken place on board Russian fishing vessels (70 % in 2005). The trend is however moving towards land-based processing.

Customers of Russian industrial customers include processors, wholesalers and retailers, but several of the customers also acts as importers or traders for smaller companies. As such, the Russian market is different compared to Germany and Poland where the majority of customers buy herring for their own production. As an example, Atlantic Pacific sells 80% of their volumes to producers and processors and 20 % of sales are to wholesalers. They have more than 1,000 smaller customers throughout Russia. DEFA mainly supplies producers and processors. ROK on the other hand sell most of its production directly to supermarket chains and have five major retail chains as customers. They also sell to wholesalers and smaller shops, but this volume is small. ROK is in close dialogue with retail chains in terms of product development, quality, sizes, etc. to find new ways to meet their requirements Russian Seas, another large importer, is a vertically integrated company consisting of an import division, a production unit and an aquaculture division. The company also has its own fishing fleet.

Russian customers frequently have to change their practices to meet the quality requirements of the Russian market. Their domestic customers are very quality conscious and have a good overview of where the fish comes from and how it is treated. One importer says that: “...*the Russian producers require high quality and good sizes. They often ask us to deliver particular fish based on their requirements.*”

#### **5.4 Interaction: Network-type relationships**

There is a difference between these three markets: Germany is the most developed market, followed by Poland and Russia. Thereby, the relationships between German buyers and their domestic customers are more integrated and developed. Here we find resource ties in terms of information exchange, product development, packaging, private labels, etc. We also find activity links in terms of promotional activities. However, this account also show evidence of mutual adaptations and learning in relationships between importers and customers in Poland and Russia. An interesting observation is the increasing concentration on the production and retail level. Here Germany appears to be ahead in their development towards increasing industry concentration. But this account also indicates that there is a growing concentration in the Polish and Russian markets. Growing concentration and a limited number of actors means that the actors needs to find ways to relate to each other. When a network becomes dominated by a few actors, the more important the interaction between the actors become.

Here we see more of what Ford et al (2011) characterises as high-involvement relationships. According to Ford et al (2011) the parties rely on the resources from their suppliers, their

activities have to be coordinated, and the parties are interdependent. Suppliers are not easily switched. This is to a large extent characteristic of the relationships between the exporters and importers in our study as many domestic importers have gone to great lengths in order to accommodate the specifications from their domestic retail customers. Contracts are long-term, but are negotiated annually. There are extensive resource ties in terms of product development and branding, and activity links in terms of information exchange systems, storage and transport.

Table 3 summarises the characteristics of the interaction process:

Table 3: Customer-side relationships:

<b>Customer-side relationships: Network-type interactions</b>
<p><b>Relationship between actors:</b> Domestic importer – domestic customer</p>
<p><b>Characteristics of the interaction process</b></p> <ul style="list-style-type: none"> <li>• Long-term relationships</li> <li>• Mutual interdependence and adaptations</li> <li>• Annual negotiations on price, quality and quantity</li> <li>• Extensive resource ties such as product development and branding</li> <li>• Activity links in terms of information exchange, storage systems, etc.</li> </ul>

We will now turn to the focal relationships in our study, the interaction between Norwegian exporters buying from the herring auction on the one hand, and selling to European customers on the other hand.

## **6 “Caught in the middle”: Relationships between Norwegian pelagic exporters and their European customers**

In this section, we will describe the interaction between Norwegian exporters and their European customers by using three broad categories: *Well-developed interaction* (close relationships with large degree of adaptation between the parties), *partially developed interaction* (certain degree of cooperation and adaptation) and *limited interaction* (little or no adaptations, transaction-based exchange). These broad categories are derived mainly from our data, but also draw upon our previous theoretical discussion. For instance, in the *well-developed interaction* category we would expect to find interaction characteristics of business relationship

interaction as described in 2.2 in the theoretical section, and in the *limited interaction* category we expect to find interaction characteristic of market type transaction as described in 2.1. We will use these three interaction types to structure our description of interaction with customers in the three main export markets.

## **6.1 Germany**

### ***Well-developed interaction***

In relationships between Norwegian exporters and customers in Germany, we find several examples of well-developed interaction. One German producer has for instance chosen to trade with only one Norwegian supplier, and the supplier has adapted its production lines to the German customer. The parties have gained a close relationship, and this was a deliberate strategy by the German customer. After some trial and error, the parties have developed products of high quality. This is an example of sharing resources in terms of product knowledge, market information and mutual learning. Another German respondent tells of similar adaptations. They use several Norwegian suppliers, but the suppliers have adjusted their fillet production to meet the German quality requirements.

We also find similar interaction in the case where one of the German producers bases their business on one Norwegian supplier and one German agent. However, this case regards a relationship including relatively small volumes.

### ***Partially developed interaction***

We find several examples of interaction in the German case which is less developed compared to the examples above. Typical examples are when one or a few aspects have been focused in the interaction. One example is that several factories need large volumes and they think that they must have deliveries from several Norwegian suppliers. These relationships are not close but they are still characterised by long-term planning and adjustments or procedures. The companies have cooperated for a long time and know what they can expect of each other.

Another example is actors who need access to information about product quality during fishing in Norway. They are given information about sizes and qualities from their Norwegian suppliers and can opt out of portions of fish of lower quality.

A third example is a German importer who makes regular inspections at facilities in Norway. He discusses production and quality issues together with his customers, and the producers

anticipate volumes they can deliver during the season. The customer will then place his order. This cooperation is done in a routine manner, and it is the same vendors that supply every season. Thus, both the customers and the suppliers know what they can expect because of mutual learning.

### ***Limited interaction***

There are also some examples of relationships based on limited interaction, and some recurring explanations of this. Several respondents state that they want to avoid dependency on their Norwegian suppliers, and they need to have more suppliers to consider. In these cases dependency is seen as problematic. This is how one German customer explains his purchasing policy: *"I cannot depend on one producer, it's impossible. Things can change. You must compare prices, have more places to go... We have no adaptations to the Norwegian suppliers. The producers produce, and we buy... We gain nothing by working more closely."*

The extent of these attitudes vary. One respondent says that: *"we have to follow the market"*, where he points out that a market solution will give him the best possible conditions. Another importer says: *"We have no adaptations to the Norwegian suppliers. Only trade activities, no common projects. We have nothing to gain by becoming more integrated."* Others explain this from a resource perspective. One argument is that no Norwegian supplier is large enough to offer all fish that the larger German actors need. Closer ties are therefore problematic if this requires that they must deal with a supplier that may not be able to meet their needs in the future. As a consequence the German customers argue that they have to balance the suppliers against each other.

But there are also another explanation. That the problems is on the Norwegian side. This account from a German producer is a good illustration: *"Bigger sized herring gets higher prices. When the Norwegian fishermen have a chance to find it they catch it. For the fishermen it doesn't matter – they get rid of the catch anyhow. Big sized herring ends up in Russia, Poland or Nigeria, whoever wants to pay. This is a problem."* Another German customer adds: *"It is a perfect system for Norwegians. First, the Russian will get their fish, then the Poles, and then the Germans. Nobody thinks about us."*

## **6.2 Poland**

### ***Well-developed interaction***

Compared to the relationships between Norwegian suppliers and actors in the German market, the relationships in Poland appear less developed. We still find a few examples: Contimax says that they have a good relationship with their Norwegian suppliers. This was particularly important at a time when there was little herring to obtain and many smaller producers had problems with raw material supply. Contimax avoided this because they had good relations with Norwegian suppliers. Graal has collaborated with Norwegian suppliers of MSC labelling for their herring products. Suppliers and customers also collaborate on insurance, storage and transportation. But beyond this, there is little adaption between the parties.

### ***Partially developed interaction***

However, we find many examples of partially developed interaction. As for the German market, factories in Poland have large volumes and want to buy from multiple suppliers. This kind of relationship is characterised by long-term and routine adaptations. Several Polish factories have had relationships to their Norwegian suppliers for over 10 years and the parties have developed mutual trust and good knowledge of each other. They also have informal contact and meet regularly in Norway, in Poland and at various trade-fairs. We also find examples of information sharing during the catch season and during the production period. Nevertheless, there is no closer information sharing via IT systems or jointly developed solutions for this purpose.

### ***Limited interaction***

There are several relationships characterised by limited interaction. The Polish respondents say that they want to have more than one supplier to rely on. Although the relationships are long-term, they are referred to as "*standard*" or "*we have no common projects, only trade activities*", as one respondent describes. Another says that: "*orders as well as relations are administered according to their own established practices, which do not differ significantly from those used in Western European countries*". This indicates that the relationships are relatively standardised. However, it is clear from our interviews that the Polish factories are dependent on good relations and dialogue with their suppliers, but they do not cooperate more closely beyond this.

## **6.3 Russia**

In Russia, one respondent explains that although Norwegian herring is considered to be of high quality, increased prices and low quotas mean that he now considers the quality of herring from other importing countries just as attractive: "*A couple of years ago Norway had 99 % of the market. Now they have only 40 % with our company. The Norwegian quotas are down but*

*prices have increased. We had to look for alternatives.*" Another customer adds that the future for Norwegian herring in Russia is uncertain: *"If the prices for imports continue to grow, and the prices in the local markets continue to fall, there will be no future for imported Norwegian pelagic fish in Russia."*

### ***Well-developed interaction***

Some relationships between Russian customers and Norwegian suppliers are characterised by long durations. The Russian customers are concerned about trust and loyalty to the cooperation. We see examples of well-developed interaction in cases where Russian clients are present in Norway and provide input to the Norwegian production process with regard to settings of the sorting machines and filleting. Several customers mentioned that suppliers have adapted their production following their recommendations. This has further consequences for customers in the sense that these adjustments are adapted to the different food producers (customers of traders) and the retail chains (customers of the producers).

The way purchases take place is also an example of developed interaction. The actors have gradually found a cooperative pattern where buying, negotiation and delivery take place in an orderly and predictable system. It also seems that relationships are open and transparent. One respondent said that since the actors know each other well and have a long history, there is little room for opportunistic behaviour in the customer relationship.

However, it may seem that customers want more proactivity from the suppliers' side. Several respondents want to develop the relationship further, but feel that they themselves must take the initiative for it.

### ***Partially developed interaction***

Our data suggest that there are few people involved in relationships beyond those directly engaged in negotiations on each side. This indicates a low degree of interaction beyond what is required to handle purchases and deliveries. Several respondents further say that they want to rely on several suppliers. The reasons for this are that they need to deal with several companies to get adequate volume, but they also want to avoid becoming too dependent on one supplier. We see this attitude again on the supplier side. Thus, customers have several long-term relationships with customers that are being used to varying degrees depending on the available volume and negotiation basis.

### *Limited interaction*

There are also several relationships with limited interaction, as customers want more suppliers available to avoid dependency. All respondents in Russia express this attitude to a greater or lesser degree.

Table 4 provides a summary of the interaction types:

Table 4: Interaction types between Norwegian exporters and foreign customers

	<b>Well-developed interaction</b>	<b>Partially developed interaction</b>	<b>Limited interaction</b>
<b>Germany</b>	<ul style="list-style-type: none"> <li>Several examples of customised production lines based on customer needs</li> </ul>	<ul style="list-style-type: none"> <li>Long-term and routine adaptations over time</li> <li>Large volumes mean purchases from several Norwegian suppliers</li> <li>Information sharing during the catch season</li> <li>Inspections at supplier plants</li> <li>Seasonal planning involving several actors</li> </ul>	<ul style="list-style-type: none"> <li>Actors want more suppliers to deal with to avoid dependency</li> <li>Dependency is seen as problematic</li> <li>Few links between Norwegian suppliers and German retailers</li> <li>Routine based transactions</li> </ul>
<b>Poland</b>	<ul style="list-style-type: none"> <li>Few examples of well-developed interaction</li> </ul>	<ul style="list-style-type: none"> <li>Relationships are characterised by longevity and routine adaptations</li> <li>Mutual trust and familiarity</li> <li>Information sharing during the catch season</li> <li>Informal contacts and meetings</li> </ul>	<ul style="list-style-type: none"> <li>Customers avoid dependency</li> <li>Few links between Norwegian suppliers and further actors in the Polish distribution network</li> <li>Few common projects</li> </ul>
<b>Russia</b>	<ul style="list-style-type: none"> <li>Some examples of adapted production lines</li> <li>Purchases are done in an established and predictable way</li> </ul>	<ul style="list-style-type: none"> <li>Relationships are characterised by longevity and routine adaptations</li> <li>Mutual trust and familiarity</li> </ul>	<ul style="list-style-type: none"> <li>Customers avoid dependency</li> <li>Few links between Norwegian suppliers and further actors in the Russian distribution network</li> </ul>

## **7 Discussion: Interaction in between markets and networks**

Our research question concerns how exporters handle a situation when faced with two alternative ways to interact, including market-type and relationship-type features as evident from the previous section. As our case suggests, the market type conditions on the supply-side are given, and the actors must seek different ways to adapt to this situation in their supply-side relationships. From our results, it seems that two distinct features characterise these interaction patterns: One is the need for stability in price and volume as the actors have resources that must



be utilised efficiently; the other is the need to handle different types of dependencies because the actors are dependent on both the auction system and their customer-relationships. We will discuss these in turn.

## **7.1 The need for stability**

In order to use a set of resources effectively actors need stability in their usage, and capacity utilization is a key factor (Håkansson and Waluszewski 2002). In our case, the parties have resources such as facilities, machines and logistic systems which creates a need for stability in several ways. One is stability in volumes. If a Norwegian producer fails to obtain sufficient volumes of raw material for his production facilities, he will acquire higher costs per unit and less total revenue. Further, the utilization of resources is accentuated by the short fishing season. Similarly, European importers and their buyers have large production facilities where resources must be fully utilized. All these actors need a stable and secure flow of inputs. A Norwegian exporter describes this problem in the following way: *“Our customers have difficulties delivering to the supermarket chains. These chains are keen to secure volume. Herring has long been an affordable product with high volume and low prices. As prices increase, customers in Eastern Europe, Germany and Poland with long-term agreements to supermarkets are facing a challenge. Their retail customers are few and strong and the contracts they have, which run for 3-6 months, are difficult to adjust.”* One way to solve this situation is to use several suppliers, favouring arms-length relationships or market-type transactions. At the same time, our case suggests that capacity utilisation is interactive – the raw material needs to fit the machines and systems that it meets. For instance, Norwegian exporters have made technical adaptations to their German customers and made investments that require intensive interaction and predictability of usage so that costs may be reduced over time. This situation favours long-term relationships.

In economic terms, there is a need for stability in prices because price fluctuations create problems for the whole production chain. Variation in prices, as seen in this case, becomes problematic when the raw material is used for high value added products and where the inputs are not easily substituted when prices change. Stability in volume can be created using market-type transactions by having several suppliers – but stability in price is difficult because of the particular auction system. This is a monopolized market system where the producers can only create stability by paying an additional premium. Market transactions is therefore a problematic and costly way to create stability. One alternative may be for actors to be large enough and

build all mechanisms within their own company, referred to as hierarchical organisation (Webster 1992). However, legislation currently prohibits vertical integration. Subsequently, the exporters must seek ways to cooperate with their customers to create efficiency and reduce costs jointly, favouring relationship-type interaction as we have seen examples of in the case. But this requires continued adaptation and mutual dependency between the actors, which brings us to the next issue.

## **7.2 Handling dependency**

On the supply side, the auction system constrains the supply of resources to the Norwegian exporters. Given the nature of these transactions, it is easy to understand that the exporters wish to sell to the highest bidder, which in turn makes them reluctant to enter into long-term agreements with their customers. Similarly, European customers want to have several suppliers in order to obtain the “best possible deal” and to have both flexibility and freedom to choose supplier. This favours arms-length relationships or market type transactions. Subsequently, some actors on both sides see short-term market transactions as a useful tool to avoid dependencies of specific counterparts.

However, another dependency is created which the respondents do not mention to the same extent. As the Norwegian producers are totally dependent on the auction system, indirectly this also applies to their customers. This dependency appears because both these types of actors are dependent on the supply of raw material to their facilities, and it is difficult and costly to change inputs. This forces the Norwegian producers to pay a little extra in order to secure volumes – especially as the production capacities are larger than the total supply and the production is dependent on the flow of raw material. Furthermore, this is worsened by the seasonal variations in fish stock, the annual government quotas and natural weather conditions. The buyers in their turn try to handle this general dependency by having several Norwegian suppliers available on their bidding list, but all these are indirectly dependent on the auction system.

This way to handle dependency leads to some problems mentioned in the empirical material: A first one is that it is difficult for Norwegian exporters to set long-term prices because of the fluctuation in prices due to the bidding process, which in turn creates problems for the importers who have buyers requiring fixed prices. Another problem is that information about product quality is of great importance, but it is difficult to assess quality when relying on several suppliers at arms-length relationships. This is normally solved by inspections, pictures taken during the sorting process and product samples, and normally the customers will rely on the

information given by the suppliers. Nevertheless, problems arise when some consignments seems to be of a lower quality when arriving at the customer, as reported in the study. Closer cooperation and adaptation of production processes may solve this to some extent as we have seen, but again it is difficult to invest heavily on such adaptations when the actors favour arms-length interaction. Further, the use of several parallel suppliers in itself leads to very limited adaptation between the parties; at it is difficult to have high-involvement relationships to several suppliers or customers at the same time.

Even though the actors seek independence, our analysis suggest that the actors are dependent on their customer- and supplier *network*, as purchases are done repeatedly from the same actors. This creates at least some kind of predictability and stability, as actors rely on each other for exchanging resources. The actors also seem to trust each other, despite conflicting views about the auction system. There is learning taking place too. For instance, the buyers at the fish auction have good knowledge about where different fishing vessels are positioned in terms of fishing grounds, fish species, time of season, way of catching etc. at any given time. This means that the Norwegian exporters to some extent can tailor their purchases to the needs of the customers based on other information than price alone. Likewise, European customers know from experience what kind of quality their various Norwegian suppliers can offer at any time, which helps long-term planning. Such repeated transactions creates reliance, and subsequently a different type of dependency. In a network with a limited number of actors, which this industry is an example of, the actors have to rely on each other for repeated purchases. This may indicate that the actors are more dependent on each other than they initially would argue, which would favour closer ties, but this is not evident to the actors. The stability and dependency issues are thus closely related, but the ability to handle these issues by market exchange or business relationships type interaction is highly dependent on how the total industrial structure is organized. In our case the auction system is an important feature of the industry. We will discuss this in more detail.

### **7.3 The auction system**

The auction system is perceived as rigged in the favour of the fishermen, as described by several respondents. But the design of this system is part of a political discussion concerning rural employment and development. It also has a particular historical background. In the first half of the 20<sup>th</sup> Century, Norwegian fishermen were numerous, operating small vessels and not very organised. Power was held by the buyers, large Norwegian wholesalers and exporters. By

organising the fishermen into sales organisations and creating a common marketplace, it was believed that the power would be more balanced (Johannessen and Misje 2002).

Today, the industry has changed and there is an increasing concentration on both the supply and the demand side. One may therefore question whether the use of the auction is the best way to handle the interaction between these two types of actors when there is a limited number of actors left. The market-type exchange implies that a large number of buyers and sellers present, all information is related to the price, and there are no ties beyond the mere transaction. However, with increasing concentration, mergers and integration in the seafood industry as seen in this study, a limited number of actors mean that relationships have to be coordinated differently. Recent studies in seafood distribution point to similar trends (Olsen 2012).

What is the alternative? In the salmon farming industry for instance, the actors are more vertically integrated (Abrahamsen et al. 2012). There is no common marketplace for salmon, and large Norwegian seafood companies like Marine Harvest control the entire supply chain, from farming in Norway to sales offices in main markets like Japan. Salmon is an industrial product, and it is easier to control sizes, volumes and quality. Herring on the other hand is a natural resource, and its supply is dependent on seasonal change and availability. Allowing for vertical integration to create a stable supply of resources, which some Norwegian exporters seems to favour from the above discussions, the actors still face natural variations in supply and have to interact with their customers accordingly. On Iceland, vertical integration has been allowed since 2001. Here, a small number of companies dominate the industry and drive the development. A study by Følgesvold and Prenekert (2009) found that the Icelandic system was better at adapting to changes in customer demands, but natural variations in supply was difficult because the buyers were “tied” to their suppliers. The Norwegian system was found to be “*more effective in absorbing the natural variation in quality and quantity*” (p. 533), but made customer adaptations difficult, as evident in the present study.

There appear to be conflicting views of the system: The NSS and the fishermen are clearly in favor of it, and the Norwegian exporters are not. The exporters want a tighter control of the resource and would favor more integrated operations. The system is under pressure to change, and a recent Government report suggests improvements in the way fish is traded, allowing for direct negotiations and contract between buyers and sellers (NOU: Official Norwegian Reports NOU 2014). Additionally, the management of the auctions is suggested moved from the fishermens sales organisations to a third party. This report has been much debated within in the

industry, but is yet to be Governmental policy. In the foreseeable future, the auction system will prevail and the sellers and buyers at the auction necessarily have to come to some kind of terms.

## **8 Conclusion**

Looking at relationships between the Norwegian exporters and their customers it appears that these relationships have characteristics of limited interaction and well-developed interaction simultaneously: On the one hand, actors seek to avoid dependency and the interaction is mainly related to the exchange process and concerns the resources and activities involved. At the same time the need for stability means that the interaction is directed to the same buyers over time, and the two sides have learned to know each other after many years of doing business together. These relationships have positive learning possibilities but are also subject to tension where some actors seek the highest bidder, in conflict with the needs from established partners. There are also conflicts over price margins. This situation seems to create several problems for the actors involved because they have to handle two different interaction modes or types at the same time – they are as first stated “caught in the middle”.

How do they resolve this situation? Which interaction type becomes the dominant? At one part of the network, large European retailers have high-involvement relationships and close cooperation with various domestic producers where herring is used as basis for extensive product ranges due to increased consumer requirements and developments in their domestic seafood markets. There is obviously a great potential for extending these interaction types to the relationships between the European customers and their Norwegian suppliers: These customers have close ties to and knowledge of the demands of large European retailers, and their Norwegian suppliers have access to the most important resource demanded. From the buyers point of view there is therefore a potential for these relationships to become both stable and long-term. However, the potential for extended interaction is restricted by the way the supply-side relationships are organised. The exporters get their resource from an auction system where price is the main determinant, and suppliers are thereby motivated to avoid dependency and sell their herring to the highest bidder. It thereby becomes difficult for the exporters and their buyers to develop high-involvement relationships. This further means that the European buyers have a problem fulfilling obligations to their retailer customers. As such, one may argue that the interaction as a result is not extended to its full potential. It rather seems that the market-type transactions creates “spillover-effects” to the other relationships, meaning that it is difficult

to create and maintain high-involvement relationships when interaction in connected relationships is limited.

The focal relationships between Norwegian exporters and their customers we have studied in this paper can be developed in two ways: On the one hand, the exporters can revert to short-term exchange episodes and market-type exchange, reflecting the low-involvement relationships they have to their fishing vessels. On the other hand, they can expand their relationships including increased interaction, mutual adaptations and interdependence, reflecting the high-involvement relationships much favoured by the importers and their domestic buyers. The first scenario is possible if there are a continuing large number of actors present. But with increasing concentration, mergers and integration in the seafood industry as seen in this study, interaction has to be organised differently.

From our discussion concerning dependency and stability, we see that both suppliers and customers seek independence, which is a facet of arms-length relationships or market transactions. But this case illustrates that the actors nevertheless are interdependent because the same actors are used for continued transactions. There is learning and adaptations taking place in the relationships, but not necessarily obvious to the single actor. The pelagic industry is a fixed industrial structure with a limited number of actors doing repeated purchases. As such, it has characteristics of a network where the actors are mutually embedded, more than a market where the actors have a freedom to choose.

#### **APPENDIX: Interview guide**

<b>General information about the company:</b>
Brief history of the company
Market share
Competition
Products
<b>About the company's relationships:</b>
What does your network look like?
Which suppliers do you buy from?
Which customers are you selling to?
What other actors do you have relationships with?
How long have these relationships existed?

What do you buy? How much? How often?

How are the relationships organised? Who does what?

Have you made special adaptations for your customers and suppliers?

What activities do you perform with your suppliers? Are these activities linked to relationships with your customers?

What resources have you developed together? How are these resources linked with the resources of other actors?

How is the nature of cooperation? (Cooperation and conflict, mutual adaptation, trust, power and dependency, formal or informal tone?)

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