

## **Focused Acquisition as Strategy in Community Restructuring: What are the Success Criteria?<sup>1</sup>**

**(Work in progress. Do not cite without permission. Comments are welcome.)**

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### **ABSTRACT**

*The purpose of this paper is to examine how two traditional “company towns”, experiencing a decline in workforce and population, were able to acquire the necessary resources to establish new and adequate companies for the future. Both municipalities have been engaged in community restructuring to reduce or avoid the negative effects of the heavy downsizing politics of the Cornerstone Company. So far, their endeavors seem quite successful.*

*The paper is based on a qualitative case study involving 18 possible new start-ups in the two communities, and the analysis model consists of five elements: Initial problem, actors, resources, solutions, and outcomes. The problem is the loss of working places, and the actors are players who try to solve this problem by acquiring and using resources to find and implement solutions. To the involved actors, several different strategies are available. Here, I confine the discussion to focused acquisition, defined as attempts to attract new companies from the outside world to the local community. A successful outcome is the actual establishment of a new up-and-going company in one of the two communities. If this doesn't happen, I define the project as a failure (even though it might be a success some other place). In between, there are undecided cases, which are possible successes (or failures). Of the 18 cases of focused acquisition I have selected for further analysis, six are successes, six are failures, and six are undecided. Information on the cases is primarily collected through interviews with central actors, but I have also used public registers, newspapers and the Internet as sources.*

*My research question is: How is successful focused acquisition possible; what are the success criteria? I found the answer in active players and their ability to mobilize and use resources in the form of economic, cultural and social capital. Initially, the two municipalities lacked the necessary resources for restructuring. Political networks were used to raise economic capital. By the help of Cornerstone and different consultants, business networks became the main source of good projects. Heterogeneous cultural capital was used to evaluate, select, develop, and implement projects.*

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<sup>1</sup> Paper presented at the Regional Studies Association's International Conference in Prague, 27<sup>th</sup> – 29<sup>th</sup> May 2008

## INTRODUCTION

### **The Municipalities: From scary scenarios to hope and even possible success**

In 2000, the Norwegian Pollution Control Authority introduced new and more restrictive pollution guidelines for the aluminum industry. As a result, a special technology called Søderberg electrolytic cells, that could not fulfill the new emission standards, had to be phased out. The companies using production lines based on the Søderberg technology therefore had to make a strategic choice between modernization and final closure of these plants. The cases in this paper are from two municipalities (here called A and B), where the aluminum company (here named Cornerstone Co) chose *not* to modernize. The closure of the Søderberg cells would escalate the already ongoing negative population trend in these communities. A socio-economic analysis made by Skattum et al (2003) showed that A, with a population of 5600 people, was facing a loss of 600 working places and 500-900 inhabitants in a few years time. B, which is a bit smaller than A, could loose 250-700 working places and 600 people. These numbers include the indirect effects, but not the effects in public sector. The direct effect was loss of about 135 working places in A, and 100 in B.

Both municipalities had a local organization for helping smaller entrepreneurs with their start-ups, but these organizations did not have the muscles needed to cope with a bigger restructuring of the kind we are talking about here. With no local capitalists in sight, the only actors with significant resources were Cornerstone and the State. But were these actors willing to use enough money to solve the problems? That was not obvious. On the positive side for our two communities, Cornerstone has a good reputation, which it tries to maintain, and promised to give some help in the restructuring process. For strategic reasons, Cornerstone was very careful to state how much, and would not guarantee any number of working places. Furthermore, Cornerstone is 40 % owned by the State, and wants to keep this owner at arm length distance from its businesses. And the State accepts this distance, as long as the company earns good money *and* is nice to the communities where the factories are localized ... On the other hand, the State would not necessarily use resources for creating new working places to replace the lost ones. At least one of the parties in the centre-right Government coalition in power at that time would say that closures and foundings are natural parts of business development, and should be left to the market forces and not to the visible hand of the State.

But these two small communities did not want to “die”. They managed to get surprisingly big amounts of money, both from Cornerstone and the State. So, especially since 2004, both municipalities have been heavily engaged in community restructuring to avoid the negative implications mentioned above. Their main goal has been to establish at least as many new working places as they lost. Furthermore, they had ambitions on creating more attractive communities, in order to tempt people from other places to move in and settle down. The situation per 2008 in A and B is that the Søderberg cells are closed down, and the worst scenarios from Skattum et al (2003) are avoided. Nearly all of the people who lost their jobs have got new work. In B it was growth in existing companies that solved the immediate problem, while in A it was two new enterprises that created about 130 or more new working places. The companies in A now in fact need more labor, and are eagerly recruiting people from the outside world, also from other countries. For the first time in 10 years, the population is growing. Accordingly, the restructuring of municipality A can be considered a success.

On the other hand, the population in B is still being reduced. But two new and two well-established enterprises are growing fast. And B has two new companies under planning, with

a possible start-up in 2009-2010, which will need about 150 employees. By establishing these two new companies, the situation in B will also be changed from surplus to lack of manpower. This is; however, under the condition that two other endangered organizations with 450 working places survive. The restructuring of municipality B is therefore not yet over the edge, but there is new hope and a probable success.

The aim of this article is to make an analysis of how the two communities managed to change their situation from scary scenarios to hope and even possible success. How did A and B accomplish this? What are the success criteria? I seek the answer in a combination of three elements: Actors, resources and solutions. Actors are using resources in strategic actions to find, evaluate, select and implement solutions. As will be shown in detail later, certain actors managed to increase the amount of available resources for restructuring considerably, and more resources of course give bigger muscles in the search for good solutions.

### Strategies in regional or local development

What strategies are available in community restructuring? The Norwegian regional development politics after World War II can be classified along two dimensions: Scope of the politics and source of resources for change (Isaksen 1995a). To simplify, I make a distinction between broad or narrow scope, and use of local or external resources (see table 1 and 2).

**Table 1. Four strategies in community restructuring**

<b>Restructuring scope:</b>	<b>Sources for restructuring:</b>	
	<b>External</b>	<b>Endogenous/ local</b>
<b>Broad</b>	Broad acquisition	Broad endogenous development
<b>Narrow</b>	Focused acquisition	Focused endogenous development

**Table 2. Examples of strategies in community restructuring**

<b>Restructuring scope:</b>	<b>Sources for restructuring:</b>	
	<b>External</b>	<b>Exogenous/ local</b>
<b>Broad</b>	Build external alliances, lobbying, marketing of community	Mobilizing of many ideas in different industries, also small scale services
<b>Narrow</b>	Attract heavy industrial actors from the outside world	Concentrate on selected local projects, local specialties

A broad scope means that many different types of projects and industries are being considered, while a narrow scope indicates that certain industries are given priority. Development based on local resources implies that the community itself must make most of the efforts, while use of external resources occurs where a community gets help from the outside. If we combine the mentioned dimensions, we can identify four possible strategies: Broad acquisition, focused (narrow) acquisition, broad endogenous development, and focused endogenous development. Endogenous development has been political correct in Norway the last 20-30

years, while development based on external resources, or acquisition, has been regarded as the politics of the 1960's or 70's. The same tendency has been observed other places, e.g. in Canada (Polèse 1999). But in the later years, a differentiation of strategies has been observed in Norway (Bukve 2001). This means that different municipalities have followed different strategies, and one trend is that acquisition has had some revival in central municipalities. Isaksen (1995b) mentions that acquisition also has been used as strategy in USA in order to attract hi-tech companies into certain areas. This diversity of strategies was observed also in communities A and B. They really tried "everything", and had, among other things, good results with a program for development of existing SMEs.

In practice, entrepreneurship and intrapreneurship will be central parts of the strategies shown in tables 1 and 2. Entrepreneurship is the creation of new enterprises (Low and MacMillan 1988), while intrapreneurship is innovation within an existing company. Development of existing companies probably involves intrapreneurship. We may think of acquisitions as entrepreneurship, but that is not necessarily so, it is e.g. possible to move a company from one place to another.

### **Resources**

According to Pierre Bourdieu (1986), resources may be classified as economic, cultural and social capital. Economic capital is money, or property directly convertible into money. Cultural capital is in one way the same as competence or human capital, but Bourdieu (1986) disliked the last concept. He makes a distinction between three types of cultural capital:

- The embodied state, or incorporated cultural capital: The long-lasting result in mind and body of a learning process. This is experience build up over time, maybe through several generations, and will be difficult to copy in the short run.
- The objectified state: Material and symbolic cultural products (art, books, machines, instruments, etc)
- The institutionalized state: Title, officially certified competence, license

Bourdieu (1986:48-249) defines social capital in this way:

Social capital is the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition – or in other words, to membership in a group – which provides each of its members with the backing of the collectivity-owned capital, a "credential" which entitles them to credit, in various senses of the word (Bourdieu 1986: 248-249).

Coleman (1988) presented similar definition, even though he did not know Bourdieu's work at that time. Social capital has gained its popularity in social science after Coleman's article (1988), but the concept may be traced back to Lyda Judson Hanifan (1916) and Jane Jacobs (1961), who used social capital to describe dense rural (Hanifan) or urban (Jacobs) networks. Putnam (1992) follows this tradition in his use of the concept. The advantage of dense networks is security and trust. These are mainly good qualities, but not sufficient when we are talking about entrepreneurship. Creative or innovative networks are open, not closed and dense, and contain weak ties (Granovetter 1973, 1974, 1985, 1992) or structural holes (Burt 1992, 1998, 2000). An actor surrounded by many structural holes, is in a favorable position to build bridges between different groups, and thereby gaining strategic information and control (Burt 1992). Aldrich (2006:69) therefore underlines that diversity in network ties are crucial to nascent entrepreneurs.

## **Research question**

In this paper, I will concentrate on focused acquisition of new companies as strategy. The reason for my interest in this strategy in particular, is the success the two communities have had so far with a strategy that many would find political incorrect. An important point in my analysis will be how capital, as defined by Bourdieu (1986), has been raised and used in the two communities. By economic capital I mean financial capital available for investment in new enterprises and new infrastructure, and the existing infrastructure that may be used by the new enterprises. It is cultural capital in its embodied state that is most relevant here. Cultural capital is all the knowledge and competence that can be used to facilitate the founding of new companies. This includes workforce capabilities, new business ideas, and ability to evaluate and develop business plans for new enterprises. Social capital I define, in accordance with Bourdieu (1986) and Coleman (1988), as complementary resources, useful for the start-up of a new company, which can be mobilized through social networks.

On this background, I have put forward this main research question:

*What are, in the light of different forms of capital, the success criteria in focused acquisition as community restructuring strategy?*

I concentrate my analysis on these three sub-questions:

- *How was it possible to increase the available economic resources substantially?*
- *Where did the good projects come from?*
- *Why are some projects chosen, and other rejected?*

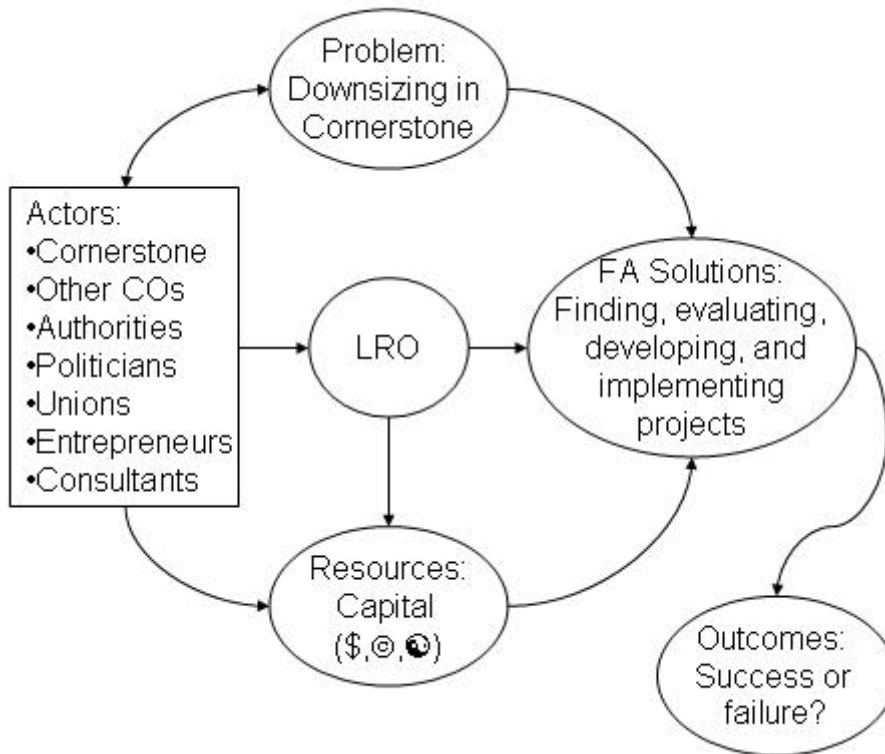
Initially, my hypothesis was that social capital would be the most important success factor in the restructuring of A and B. This hypothesis was not taken completely out of the air, it was based on the knowledge I have gained on these two municipalities through previous research (Bukve et. al. 2007). Economic and cultural capital is of course necessary for establishing a new company, but I had a clear opinion that the restructuring process would not be possible without a certain amount of social capital to start with. However, I will not use a hypothesis testing approach here. What I will do is to discuss the above questions in the light of economic, cultural, and social capital, but with a special eye on the impact of social capital.

## METHODS

### Analysis Model

My model consists of five elements: Problem, actors, resources, solutions, and outcomes (figure 1).

**Figure 1. Analysis model**



The initial problem and the preliminary outcomes are given as empirical facts, so the main elements in the analysis will be actors, resources, and solutions (projects). As mentioned earlier, I limit solutions to cases of focused acquisition. I will describe and discuss what led community A and B from a negative scenario in 2003 to a positive outcome – optimism and possibly success – in 2008. The outcome is the result of each project. If a new company is established in the municipality, and if this company has started production, have got customers and orders, I regard the project as a success. On the other hand, when it is clear that the project will not result in such a company in one of the two places, it is a failure. In several cases of such failure, the project was moved to another place, and might be a success there. But it is still a failure for the two municipalities I study here. Success demands a “Yes” from both the Project Owner and the LRO. To make a failure, a “No” from one of the parties is enough. Projects under work are undecided, but if they have come far, I see them as possible successes.

I regard outcome as the dependant variable, and the actors’ strategic actions in order to find and implement solutions, and resources available for the actors, as the independent variables. The model is dynamic in the sense that the resources are not given, but may be increased by the actors’ actions.

## Actors

The main actors are shown in table 3.

**Table 3. The main actors**

Actor	Description
Authorities	The State, the County Municipality, the Municipalities
Cornerstone	Producer of primary aluminum
Other companies	Local companies, contributing to an industrial culture
Innovation Norway (IN)	A state owned consultant agency which promotes nationwide industrial development
Consultants	Private consultants with experience from restructuring
Local restructuring organization	Owned by Cornerstone and the municipality, the board serves as meeting place for central actors
Project owners	Nascent entrepreneurs (persons or groups of persons), introducing new business ideas to the communities
Unions	The local industrial workers' union and the national union
Political parties and politicians	As organizations and individuals, at all three administrative levels, different views
SIVA	The Industrial Development Corporation, state owned enterprise aiming to develop strong industrial clusters

The main arena for meetings between the actors is the local restructuring organization (LRO), through which all new company projects are handled. Both A and B has their own LRO. Active players in the LRO are the municipality's mayor and administrative leader, the CEO of the LRO (both places a local person with close connections to the municipality leaders), trade union representatives, public (IN) and private consultants, representatives of the County Municipality, and representatives of Cornerstone. During the restructuring period, the LROs had frequent meetings – at least every 14th day.

## The cases

I have picked 18 cases of focused acquisition for further analysis (table 4). In all of the cases except one, the purpose is to establish a manufacturing firm. The exception is case 13, where the plan is to start a sales organization for kitchen worktops. I had thought of seven cases when I started the work with this paper, but after talking to the leaders of the LRO in A and B in April 2008, I could increase this number to 18.

**Table 4. The studied cases (projects)**

Case	Place	Business idea
1	A	Production of mono crystalline silicon wafers
2	A	Production of classified doors

3	B	Recycling of industrial waste with high zinc content
4	B	Chemical cleaning of corroded surfaces
5	B	A patented tape that can mask both edges of a tiled corner at once
6	B	A wireless and LED-based warning system for use in motor and alpine sport
7	B	Production of (bio)diesel based fuel cell power generators
8	B	Production of nano-particulates of carbon black from natural gas
9	A	Online monitoring of hydraulic and lube oils in machinery and process equipment
10	A	Drilling of long tunnels
11	A&B	Recycling of spent slurry from silicon wafer production
12	B	Products and services related to onshore production and distribution of liquefied and compressed gas
13	B	Sales organization for kitchen worktops
14	B	Production of tunnel drilling rigs with replaceable crowns
15	B	Production of a patented telescope davit
16	A	Production of multi crystalline silicon wafers
17	A	A new type of battery for heavy vehicles
18	A	Production of artificial reefs

### Data collection

First of all, I want to mention that I know many of the actors in A and B from an earlier project, where I interviewed several companies in A and B (Nesse 2004). So to my current project. As part of a formative evaluation research project, data concerning the restructuring process in both municipalities have been collected by a group of researchers, including myself, over several years (2005-2008). The project is financed by Cornerstone and the County Municipality. The data have been collected through several depth interviews with the central actors and through official and public material in newspapers and the Internet. Most of the interviews I have made myself, alone or together with colleagues from evaluation project.

In municipality A, the mayor, the administrative leader and the CEO of the LRO were interviewed in 2005 and in 2006. In 2007, we had a group interview with the mayor and the CEO, and in 2008 I had an interview with the CEO.

In municipality B, the administrative leader and the CEO of the LRO was interviewed in 2005 and in 2006. In 2007 we had a group interview with the mayor, the administrative leader and the CEO, and in 2008 I had an interview with the CEO. During this period I also had close contact with both municipalities through e-mails and occasional meetings.

A private consultant who was deeply involved in the work for the LRO in both places was interviewed in 2007. He is a former Cornerstone employee and is now engaged in two of the studied cases (no 7 and 8), in one as owner and CEO, and in the other as member of the board.

The Cornerstone representative in the LRO, who also was the first board leader of this organization in both places, was interviewed in 2006. The IN representative in the LRO was interviewed in 2005 and in 2006. I have also interviewed the leader group in Case 4 twice, in 2003 and 2007. In 2003 I also interviewed the first entrepreneur who tried to establish this company, and who went bankrupt in 2002.

Other sources have been documents from the LRO and the municipalities, data from The Brønnøysund Register Centre (register containing information on all companies in Norway; all the 18 cases were registered as companies in this register), Newspapers, the Internet (most of the cases had their own home pages; the home pages of IN and SIVA also had some relevant information), a Parliament hearing<sup>2</sup> regarding one of the cases (Case 2), and Power Point presentations of six of the cases, presented by the POs or their representatives (Case 1, 4, 6, 7, 8, 16). Of the last mentioned presentations, I attended myself no 6, 7, 8, and 16. Presentation of case 1 I found in the Internet, and the presentation of Case 4 was sent to me by the CEO of that company.

## RESULTS

### **The money**

The two municipalities got 100 millions NOK from the State in 2004, and nearly 200 millions NOK from Cornerstone in 2006. To get money from the State, political networks were the most important factor. The money from Cornerstone has a more complex explanation, but it was a combination of lobbying and media pressure on one side, on the other side there had been a leadership change in the aluminum division of Cornerstone, and the new leader was more receptive to the local demands, since he in fact was from, and lived in A

In addition to the initial money from the state and Cornerstone, there have been investments from other sources in the restructuring period:

- SIVA has invested in factory buildings both places
- Cornerstone has invested in upgrading of its research center in place A
- Cornerstone thought Case 1 was so interesting that it joined in as one of the biggest owners
- Cornerstone paid Cases 1, 2, 3, and 4 an amount of about NOK 400.000 for each surplus worker from Cornerstone they gave employment to
- Cornerstone also paid for the management of the LROs
- The County Municipality gave a small yearly support from 2004-2008
- The municipalities A and B had some smaller amounts of money to bring in
- Local investors (small amounts)
- The POs had to show that they believed in their own ideas by investing
- Other private investments: The local private investments are not very big, because of lack of capitalists. But the fact that these places were under restructuring and got some media attention, and that they had industrial infrastructure and culture, and that they

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<sup>2</sup> Case 2 was accused of competition distortion because of the financial support, and a Parliament hearing was arranged to elucidate this. The hearing did not reveal any illegalities, but had the positive side effect that I got easy access to information about this case.

had this initial capital mentioned above, attracted external private investors to join the party.

According to the leaders of the LROs, NOK 2,2 billions are invested in the restructuring process in these two places (1,7 in A and 0,5 in B). The mayor in A said: “Without this money, the restructuring would not be possible”.

### **The cases**

The origin and the preliminary destiny of the cases are shown in table 5. Six of the projects were successful, six are undecided, and six were failures (table 5). The six successes are all up-and-going, and seem to have good prospects. Cases 1 and 2 have full order books, and Cases 3 and 4 are growing fast. Cases 5 and 6 are smaller, but have excellent, innovative and patented products and promising markets.

Of the six undecided cases, four are probable successes according to the leader of the LRO in B. It is of course his duty to be optimistic, but I have accepted his evaluation. Case 7 is closest to implementation, since the ground work has started on the site where the factory is planned. Case 8 has also come far, the results from the test production (not located to B) are positive. Cases 14 and 15 are delayed for different reasons, and are question marks in my opinion. But we will just have to wait and see. The ideas are good, and one possibility is to attract a bigger partner into the projects. The two last undecided cases are in an early phase and not near any implementation yet.

Even if the project is a failure as I have defined it here, it does not mean that it is no good. All the six “failures” were continued other places, and could end up as successes there. Case 16 is already a success, and 11 and 12 are probable successes. The PO of Case 11 first went to A and was fast rejected there. Then he went to B and got a better reception there, but after a couple of months the project was rejected also in B. Behind case 17 are bona fide players in the business, but the project needs more time. I have more doubts about the last two (13 and 18), but they have not given up.

To be a success, financial attractiveness is not enough. As we see from table 5, local suitability is necessary to turn a promising project into a success. Size does not seem to have any impact on the outcome, but municipality A so far has implemented bigger projects than B. This will, however, change if Cases 7 and 8 turn into successes.

The right column in table 5 and table 6 in more detail, show how the first contact between the POs and the LROs was established. In both communities, the use of consultants in addition to Cornerstone’s networks in identifying good projects was successful. But while A used expensive business consultants, B chose to bring in a non-profit consulting organization.

Another important difference between the two communities is that B welcomed early-phase entrepreneurs, while A consequently said “no” to early-phase projects. In A, they feared the big risk in such projects, and preferred safer projects. So if we take factors like risk and innovation in account, the cases from B are generally more entrepreneurial than the cases from A. But in all cases, the plan was to create a new company in either A or B, so we could say that all cases are within Low and Macmillan’s (1988) definition. Anyway, the least entrepreneurial are Cases 1 and 2. They have modern factories with the best technology available, but the POs behind are experienced players in their businesses, and know exactly what they are doing.

**Table 5. Origin and preliminary destiny of the cases**

Case no	Place	Out-come	Financial attractiveness	Local suitability	Size	First mover in establishing contact, direction
1	A	S	Good	Good	Big	Consultant out to international player, Cornerstone out to Norwegian partner
2	A	S	Good	Good	Big	Consultant in to Cornerstone, consultant worked for both Cornerstone and Case 2
3	B	S	Good	Good	Medium	Project owner (PO) in to LRO
4	B	S	Good	Good	Medium	PO in to LRO (PO was creditor in a bankruptcy and had ideas for a restart)
5	B	S	Good	Good	Small	PO in to LRO via non-profit consulting firm (involved in cases 5, 12, and14)
6	B	S	Good	Good	Small	PO in to LRO
7	B	U+	Good	Good	Big	Cornerstone out to POs, agent in to LRO and out to German top competence in the field
8	B	U+	Good	Good	Big	PO in to LRO twice, second time supported by serious player in the business
14	B	U+	Good	Medium	Medium	Cornerstone out towards PO, via non-profit consultant (involved in cases 5, 12, and14)
15	B	U+	Good	Medium	Small	Project owner in to LRO
9	A	U	Good	Good	Medium	Consultant out towards PO
10	A	U	Unknown	Good	Small	Consultant out to PO, an international investor from A's region also played a role
18	A	F+	Bad	Bad	Medium	Cornerstone out to PO
11	A&B	F+	Good	Bad	Medium	PO in to LRO
16	A	F+	Good	Good	Big	Cornerstone out to PO
12	B	F+	Good	Medium	Small	PO in to LRO via non-profit consultant (involved in cases 5, 12, and14)
13	B	F+	Good	Medium	Small	PO in to LRO
17	A	F+	Medium	Medium	Big	Consultant out to PO, came back through Cornerstone

S = Success, U+ = Undecided, probable success, U = Undecided, F+ = Failure in A/B, continued other place, F = Failure

Size: Big 50-100 working places or more, medium 20-50, small less than 20 working places

**Table 6. How the projects were connected to the LRO**

Case	How was the first contact between LRO and PO established?
1	After the failure with case 16, the LRO still worked on solar energy as an interesting area. A big international player who wanted to build a factory was found through a consulting firm (this firm was involved in cases 1, 9, 10, and 17), and a local Norwegian partner came up through Cornerstone's networks.
2	Indirectly a result of Cornerstone's networks. A consulting agency that worked for both the PO and Cornerstone was the link.
3	This was a result of community B's own network. The POs had worked as brokers of energy, and knew the administrative leader in B as former leader of the organization for municipalities producing hydroelectric power. The POs contacted the administrative leader, and asked for a meeting to present their idea.
4	A local entrepreneur started this business, but had just one customer, and had to close down. One of the creditors had delivered the chemical solutions, and asked for a meeting with the LRO. He believed in the idea, thought he knew what had been done wrong, and wanted to give it a second chance with himself as entrepreneur.
5	The POs had read about the restructuring of municipality B in the newspapers, and took contact via a non-profit consulting firm (involved in cases 5, 12, and 14) to present their idea.
6	The POs had read about the restructuring of municipality B in the newspapers, and took contact to present their idea.
7	Came up through Cornerstone's network, and an active agent. It was two failures in this project before the right technology was found in Germany, through the agent. The site for the factory is decided, and the work to make the site ready for building the factory has started. Near an S.
8	The POs took contact both with A and B, and got no positive response in the first place. Via a leading developer and producer of composites using advanced technology, who supported the project, the POs were reintroduced to B, and this time the LRO found it interesting. A pilot production is started, but not in B. A full scale factory is scheduled to be built about 2010. This project has a link to case 3, as the technology is based on the same principle.
9	A consulting firm (this firm was involved in cases 1, 9, 10, and 17) linked this PO to the LRO
10	Came up through a consulting firm (this firm was involved in cases 1, 9, 10, and 17). In addition, an international investor, from the neighboring municipality, and part of the network of the CEO of the LRO, also played an important role here.
11	The POs had read about the restructuring process in newspapers, and contacted both communities to present the idea. Was first in A, then in B. B used more time on this project than A, but both said "no". The project was then moved to a third municipality, before it ended in China, where the most important customers are.
12	The POs had read about the restructuring of municipality B in the newspapers, and took contact via a non-profit consulting firm (involved in cases 5, 12, and 14) to present their idea. In 2008, the POs took the project to another municipality. They did this without losing the friendship with B. A probable success in the new place.
13	The PO had read about the restructuring of municipality B in the newspapers, and took contact to present his idea. The project was first refused by B's LRO, but when the PO came back with local owners the project was accepted, and was nearly a success. Disagreement between the PO and the local owners destroyed the project.
14	This project came up via Cornerstone's networks and personal knowledge between the PO and Cornerstone's people in the LRO. The contact was made through a non-profit organization which helps early-phase entrepreneurs (involved in cases 5, 12, and 14).
15	The PO had read about the restructuring of municipality B in the newspapers, and took contact to present his idea.
16	This was a product of Cornerstone's networks. It was nearly a success. Everything was ready, the site was picked and the financing was clear, but in the last minute the PO stopped the project in A, and moved it to another place where it became a success.
17	A consulting firm (this firm was involved in cases 1, 9, 10, and 17) made the initial link. But Cornerstone's networks was also involved, via a common board member with the PO
18	Came up via Cornerstone's networks

## DISCUSSION

### ***Q1: How was it possible to increase the available economic resources substantially?***

Initially, in 2003, the two communities had too little economic capital available for restructuring. Cornerstone had promised to help, but for strategic reasons it did not want to say exactly how much money or how many new working places they would guarantee for. Municipality B had some money from a sale of shares in a company producing hydroelectric power, but a great deal of this was used to save another local factory in trouble. And company towns of this type don't have capitalists or very rich people who can contribute with money. But both communities had manufacturing infrastructure, a manufacturing culture and plenty of electricity to offer, and good political influence through the labor movement. So this was their initial capital:

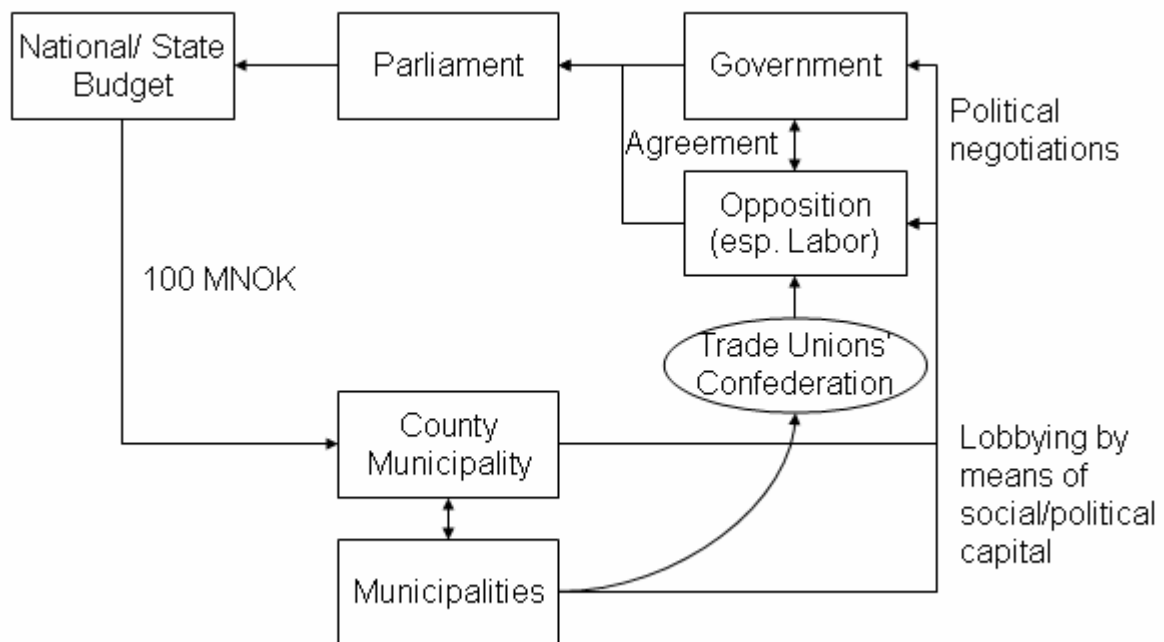
- Economic capital: Little venture capital, but good manufacturing infrastructure and plenty of electric power available
- Cultural capital: Manufacturing tradition, possible partners and subcontractors for new firms, competent workers
- Social capital: Political influence through the labor movement, some personal acquaintances

So some initial financial capital could bring in the missing element and start some positive processes. The obvious Money Bin was the State and Cornerstone. The financial capital A and B got from these two sources can be illustrated by two money-generating circles (see figure 2 and 3), one towards the State, and one towards Cornerstone.

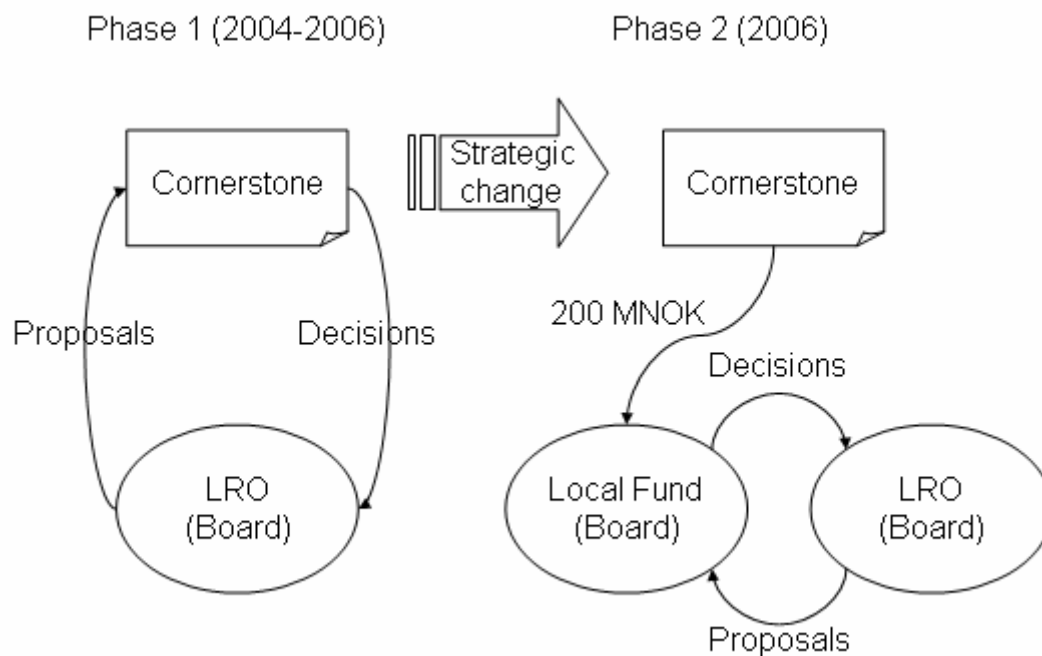
To get money from the State, work through political networks was necessary. But this seemed like an impossible mission: The Government Coalition, and the majority in the Parliament, would be negative to spending money for restructuring purposes. Especially the parties at the conservative end of the scale would say that the market decides who lives and who dies. Labor and the left wing parties would of course disagree, but they were in opposition in 2004. Anyway, the two communities themselves, the labor unions, and the County Municipality did a great effort to put pressure on central authorities and political parties to support the restructuring of A and B with more than words. They managed to have a constructive dialog with all parties except the populist and right wing Progress Party. The Progress Party was not part of the Government coalition, but served as a supporting party to the Government. Without this support, the Government would not have the majority in the Parliament. During the summer of 2004, the Government was revising the 2004 National Budget, and was trying to get an agreement with the Progress Party. But the parties failed to make such an agreement, and the Government Parties then took contact with the Labor Party, in the hope of making a deal with them. Labor was willing to do so, but put forward the nonnegotiable condition that 100 millions NOK should be granted for the restructuring of A and B. And this became the result.

Main point: Through political networks, and with a little luck and the unintentional help from the Progress Party, the two communities managed to convert their social capital into financial capital.

**Figure 2. Getting money from the State**



**Figure 3. System for getting money from Cornerstone**



The other money-generating circle was towards Cornerstone. It was quite clear that Cornerstone wanted to use a great deal of money on restructuring. But in the beginning of the restructuring period, Cornerstone wanted to have full control of the money stream, and constructed a system that created a lot of frustration in A and B. Resolutions in the board of the LROs concerning what projects they wanted to support, had in this early phase (2004-2006) to be passed on higher up in Cornerstone for approval. In a way, this was a system where the LROs sent applications for support of projects to Cornerstone. This meant in practice that if the Cornerstone representative in the LRO lost a vote, he could get a play-off and have the resolution changed. The local representatives in the LRO disliked this system very much, and it resulted in a lot of quarrelling in the board of the LROs. Both the fact that decisions could be changed, and the closed decision process in Cornerstone, had the consequence that the local representative could not understand Cornerstone's position in many cases, and also to a feeling that Cornerstone did not trust the local representative's ability to take decisions.

In 2006, this detested system was changed. Cornerstone transferred the rest of the money it wanted to use for restructuring, nearly 200 millions NOK, to local funds in A and B. This made the restructuring work much easier, and put an end to the quarrelling in the local boards. What happened? Why this change in Cornerstone's strategy? Here we have several factors that pull in the same direction.

- New top leader in the primary aluminum division of Cornerstone (the new CEO is from A and lives in A). The new leader was more receptive to the local demands, and had no considerations of prestige in the old system
- Pressure towards Cornerstone from the two frustrated municipalities; A and B started negotiations with Cornerstone
- Pressure from A and B towards the new Government: A red-green coalition won the parliamentary election in 2005, and the new Prime Minister was from Labor, and kindly disposed towards A and B
- Media pressure: Municipality A managed through their networks into the Labor Press, to start a media storm against the Government and Cornerstone, with appeals of showing social responsibility. Since the State owns about 40 % of Cornerstone, the Government was urged to give tougher instructions to Cornerstone. This was not so easy for the Prime Minister, he wanted to keep his promises to A and B, but it is not good form to mix politics and business. Anyway, both the top leader in Cornerstone and the Prime Minister wanted the media noise to calm down, and would take actions to accomplish that
- Changed realities for Cornerstone
  - The Söderberg cells was closed in B in February 2006, and all who lost their work got new jobs, so in one way the restructuring process was over, and the local representatives could take more responsibility
  - In A, Cornerstone would have a big surplus of electric power after the closure of Söderberg. Cornerstone wanted to transport this surplus power out of A and use it other places. This led to a hard fight with the local authorities, because community A demanded that the power should be used in A, and said they had clear agreements on this point. A won the battle for the power, and the agreement says that Cornerstone is forced to use the power in A until 2051<sup>3</sup>. As a ra-

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<sup>3</sup> An interesting point is that A thought they could have got much more money from Cornerstone if they had given away the electric power, but for A it was unthinkable to let the "family silver" go.

tional player, Cornerstone then has to adjust to this reality, and the result may even be modernization of the aluminum plants!

Main point: A and B used social capital through political networks in combination with direct negotiations to get the financial capital they wanted from Cornerstone. On the other hand, Cornerstone had all the way made it clear that it wanted to show social responsibility and contribute to the restructuring. Especially after the leadership change in the primary aluminium division, it was receptive to the demands from A and B.

But the story does not end there. As mentioned before, about 2.2 billions NOK was invested in the two communities during the restructuring period 2004-2008. What we saw here was that money generated more money. The starting capital from the Money Bin, the State and Cornerstone, gave credibility and attracted private investments, and these private investments generated more economic capital from the MB. Cornerstone bought shares for 150 MNOK in Case 1 and State owned SIVA invested 500 MNOK in buildings for Cases 1 and 2, and will later probably invest in buildings for Cases 7 and 8.

### ***Q2: Where did the good projects come from?***

The right column in table 5 shows how the first contact between the LRO and the PO was established, and the direction of the contact (in to or out from the LRO). Table 6 gives a little more information about how the projects came to A or B. It is quite clear that social capital was crucial in the search for good projects. Five of six good, big projects came up through different consultants' and Cornerstone's networks.

Another important point is that the two communities had success with establishing alternatives to Cornerstone's networks. What they did in A was to use economic capital to buy a type of social capital they lacked. Municipality A hired expensive consultants known for their good networks to look for suitable projects, and one consultancy agency alone brought in four interesting projects to A (Cases 1, 9, 10, and 17). Municipality B, on the other hand, used a non-profit organization which helps early-phase entrepreneurs. This contact resulted in three good projects for B (Cases 5, 12, and 14). In addition to this, B had success with another "cheap" strategy: They attracted entrepreneurs via newspaper reports on the restructuring process. This was mostly small, but promising projects.

**Table 7. Who was the first mover?**

First mover:	S (A/B)	U (A/B)	F (A/B)
Cornerstone			2 (2/0)
Consulting firms/ agent	1(0/1)	2 (2/0)	1(0/1)
Cornerstone and consultant	2 (2/0)	2 (0/2)	1 (1/0)
Project Owner	3 (0/3)	2 (0/2)	2 (0/2)

If we look at table 7, this point regarding alternatives to Cornerstone becomes even clearer. Table 7 shows first mover in the success cases, the undecided cases, and the failures. Even Cornerstone could not bring in so many projects alone. But in combination with consultants, Cornerstone was very good. The two successes in A (Cases 1 and 2) were initiated by two different consulting agencies. In Case 1, the consulting agency had found an international player willing to invest in A, but did not want to do this without a serious Norwegian partner. Cornerstone had the right contacts for finding a Norwegian partner for the international PO. And in Case 2, the consultant who gave the hint to Cornerstone, had been working for both Cornerstone and Case 2. The four successes in B came up via the non-profit consultant (one case) and requests from POs who had read about the problems in B in the newspapers (three cases). The same pattern reveals itself for the undecided cases: Alternative networks to Cornerstone's, and indirect contacts, are indispensable in the search for good projects.

Main point: The LROs used Cornerstone's networks, consultants' networks, and media to build bridges to the POs. By building up alternatives to Cornerstone's networks, their networks became more entrepreneurial, containing more structural holes (Burt 1992), and thereby increasing the probability of finding good projects.

### ***Q3: Why are some projects chosen, and other rejected?***

It is not enough to identify promising projects. The next step is to evaluate, and to select the projects that are best suited for further development. If a project is positively selected, the LRO and the consultants will help to develop the business plan, and possible investors will be contacted. In the first evaluation, the charlatans and the luck-seekers are screened away. One of the consultants I talked to, had a three-step-test of project owners. The hopeful entrepreneurs had to answer three simple questions:

- Who are you?
- What have you done before?
- How much are you willing to invest yourself in your project?

The questions challenged the POs to tell about their own and their partners' competence and networks, former accomplishments and results, and their willingness and ability to invest in their own project. Or in other words: They had to explain what cultural, social, and economic capital they brought with them. The backgrounds of the POs were also checked before the first meeting with the LRO, and the POs could if necessary be confronted with this information. All the 18 cases I study here passed this first evaluation, even if it could be raised doubt about the PO at least in two cases. Consequently, the LROs worked seriously for several months or even years to develop each of these projects in the period 2003-2008. Crucial in this work, is the cultural capital in LRO:

- Cornerstone's competence: The financial aspect
- Consultants (IN and private): Long experience in evaluating POs and projects
- Municipality's representatives: Local control and suitability

The representatives of different groups had complementary competence in evaluating and developing projects. That sounds like a big advantage, and in many cases it was, on the other hand it caused a lot of emotional discussions, particularly between Cornerstone and the locals. Especially in Phase 1 in Cornerstone's system for granting money, the local representatives

felt that their proposals were not taken seriously by the Cornerstone people, who were calculating and calculating, while the locals got irritated because they wanted more action. Sometimes they had the feeling that the POs had to be able to walk on the water before Cornerstone was satisfied. In the cases studied here, it was disagreement between Cornerstone and the local representatives in two cases, of which one became a success and one a failure. Cornerstone wanted to reject both projects, while the locals were positive. This shows that Cornerstone's critical review of projects was necessary, but their strict demands could in some cases stop projects that deserved better.

But apart from such disagreements, which are not unnatural, my impression is that the LROs had high competence in evaluating, selecting, developing and implementing projects. They had Cornerstone with its strict financial demands, highly qualified public and private consultants, and the local representatives with long experience in community development, and with particular local knowledge. The last is not the least important, since local suitability is a crucial success factor in addition to financial attractiveness of the project (see table 5). On the other hand, a common factor among the failures is medium or low local suitability.

Local suitability is a question of match between the POs' needs and what the municipalities have to offer. The money support to the project is of course important, but not enough in itself to attract companies to a local community. One of the POs in Case 1 mentions the following reasons for choosing A<sup>4</sup>:

- Attractive infrastructure
  - The factory site inside Cornerstone's area
  - Cheap electric power
  - Lots of cooling water
  - Subcontractors
- Local authorities willing and able to find solutions to any problem
- Local manufacturing competence
  - Cornerstone
  - Competent and motivated working power
- Financial support (local fund, IN, SIVA)

The first three factors were so important that Case 1 probably would have chosen A even without the financial support. To Case 2, the money was more important, but the PO also mentions the following factors<sup>5</sup>:

- The localization is logistically very good (even if the last piece is a bit awkward)
- Local manufacturing competence (competent workers, subcontractors)
- The wish from the owners to continue as a Norwegian company (the alternatives to A was Sweden or Finland)

Both these examples are from A, but B has the same advantages as A: Hydroelectric power, water, manufacturing man-power, manufacturing culture, infrastructure (factory sites, harbor, and airport within one hour's drive) and solution-oriented local authorities.

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<sup>4</sup> Source: Power Point presentation

<sup>5</sup> Source: Parliamentary hearing

From the local communities' point of view, it was important to find good projects that could make use of their advantages. They saw matches in financial attractive projects with high local suitability. In addition to the factors mentioned above, local suitability also includes timing, size and risk of the projects. Regarding these points, there were some differences between A and B. The timing of the projects should prevent time lags between a closedown and a startup. In A this was planned so that the timing of the close-down of Söderberg and the startups of Case 2 first and then Case 1 was nearly perfect. The LRO in A rejected Case 17 because of the bad timing. In the long run, this could be a good project, but in A they had no time to wait for this to happen. A was short of time, and needed projects that could be fast up-and-going. Their goal, which was attained, was to start two new companies with 130-150 working places within 2007, and accordingly they would more or less automatically reject projects involving early-phase entrepreneurs and smaller companies. Municipality A's success with Cases 1 and 2 was enough to prevent the negative effects of the out-phasing of Söderberg.

In B, things developed slightly different. Earlier than A, they understood that Cornerstone would not modernize the Söderberg cells. Sales of shares in a company producing hydroelectric power, had given them a nice amount of money to use for restructuring before the money from the State and Cornerstone came. Some of the money had to be used in to save another local company in trouble<sup>6</sup>. The rest was used to develop Cases 3 and 4 already from 2003. This gave them a good start, and they were comfortable with the situation until they were shocked by Cornerstone's decision to phase out Söderberg nearly one year earlier than expected. No new company could be established to hire 100 people at so short notice. But all people who lost their work in Söderberg, got new jobs in existing companies and in the North Sea, and not many moved from B. This happened in 2006, before Cornerstone put money in the local fund. So B got 65 MNOK for restructuring after the restructuring process really was over! "A bloody good deal," one informant told me.

But B needed the money. Two other working places with 450 employees were endangered. One of them was the company they had saved with the municipality's money once before. Therefore, they started two bigger projects (Cases 7 and 8) in addition to the many small ones they had been working with so far. Municipality B was in the period 2003-2007 open to approaches from early phase entrepreneurs, but now it is more important for them to develop the undecided cases into successes, especially the biggest ones, Cases 7 and 8. If they can manage that, the population can start to grow again also in B. But most of the undecided cases in B are in earlier phase than Cases 1 and 2, so the risk and uncertainty is higher in these cases, and the success is not obvious.

Main point: Heterogeneous cultural capital is necessary to evaluate, select, develop and implement business plans. Financial expertise and consultants with former experience regarding restructuring processes are necessary, but not sufficient. In addition, the local suitability must be secured by using the best available competence from the communities in question.

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<sup>6</sup> This company was originally a part of Cornerstone, but Cornerstone sold out this company in 1999

## CONCLUSION

I have discussed success criteria in focused acquisition. The principal findings can be summed up in three points:

1. Fund raising: Social capital was transformed into economic capital. But there was a receptive Money Bin in the other end. This economic capital was used for direct investment in projects, to attract even more economic capital, or converted further into cultural or social capital that was useful in point 2 and 3 beneath.
2. Project search: Projects were identified by building bridges between the LROs and the POs. The bridges were built by Cornerstone, by different consultant agencies, and by media exposure. To accomplish this, the players must be amply supplied with social capital, but also with cultural capital, to be able to pick out promising projects for further evaluation in the LROs.
3. Project selection: To evaluate, select, develop, and implement projects heterogeneous cultural capital in the LRO was necessary. Financial competence, restructuring competence, and local competence were all very important in the selection process. And to get a final match between the POs needs and the communities, the initial local economic and cultural capital became as decisive as the financial support.

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