Organizational Response to Institutional Change: EU Membership and the Finnish Dairy Sector

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Abstract: Changes in the institutional and market environments can present new challenges for organizations. The ability to properly and adequately change and adapt to these new conditions can be crucial for organizations’ competitiveness and their long-term survival. The article offers a qualitative case study analysis on the transformation process of the biggest Finnish dairy organization, Valio, in the light of the country’s accession to the EU. The analysis is based on thirteen personal in-depth semi-structured interviews with management employees, executives, past directors and industry insiders. The examination covers several aspects of the organization’s efforts to adapt with a particular focus on processes, strategies, and transition stages, and thus provides invaluable insight that allows the better understanding of a successful transformation.

Keywords: Organizational Change, Institutional Adaptation, Qualitative Case Study, Dairy Sector, European Union, Valio, Finland

INTRODUCTION

Changes in the institutional and market environments can present new challenges for organizations. The ability to properly and adequately change and adapt to these new conditions can be crucial for organizations in keeping their position in the market and remaining competitive. Examining cases of successful adaptation to such challenges can provide invaluable insight and allow the better understanding of a successful transformation. Even though organizational change has been extensively studied, the published estimates show that success can be as low as 10% (Beer et al. 1990; Beer and Nohria 2000; Cope 2003), thus keeping the studies in organizational change high in the research agenda.

This article focuses on Finland and the restructuring of its dairy sector in the light of the country’s accession to the EU in 1995. The EU accession brought dramatic changes in both the institutional and the economic environment. Especially with respect to the dairy sector the EU membership introduced a new kind of operating environment with increasing competition and stringent consumer demands. The free product movement within the EU and the elimination of export subsidies and import charges altered the nature of competition and introduced new challenges for the Finnish firms.

The analysis examines Valio, the largest Finnish dairy product cooperative that dominated the sector. Valio responded to the emerging EU challenges by a series of strategies that targeted both structure and operations. In a massive restructuring program that lasted more than a decade the company completed a substantial project of downsizing and streamlining that included the closure of dairy plants and significant personnel reductions; in the production side, Valio focused on the production of value-added dairy products as opposed to the bulk dairy stuff. After years of restructuring and changing in its business model, Valio remains a major player in Finland and one of the most well-known brands in the region.
The methodological approach of this paper is based on the comprehensive qualitative case study methodology (Yin 1994) following a descriptive and partly explorative approach. This approach involves several in-depth interviews with key stakeholders, executives and industry insiders. The analysis will attempt to explore the main aspects of the restructuring process with a particular focus on change dynamics (processes, strategies) and transition stages (Hannan and Freeman 1984; Gibbons 2003; Bolton and Dewatripont 2010). This in-depth analysis on Valio’s transformation will provide a detailed insight of a massive restructuring process that helped an organization to successfully adapt to its new operating environment. This last element will be particularly useful not only for researchers but policy makers and company executives alike. In that respect the analysis has to offer not only a contribution to the relevant literature on organizational change (Van de Ven and Poole 1995) but it will also provide learning outcome and assessment process.

**Change in Organizations**

Organizational change is a complex phenomenon (Robertson et al. 1993) that in many cases is associated with conflict and uncertainty in the workplace (Williams 1996). Typically, organizational change may arise as a response to changes in the political, environmental, technological and socio-cultural factors (Senior 2002). When an organization responds to such changes, it thus increases its chances of survival; on the contrary, when an organization does not respond, then it is more likely to eventually perish (Robbins 1998). Even though several factors are behind a successful organization change, adaptation has long been identified as one of the most important factors to successful adjustment to organizational change (Campbell 1999; Hesketh and Neal 1999).

The relevant literature on change is diverse and extends from the general change models and theories on organizational change (Weick and Quinn 1999) to change management theory and strategy literature (Whittington 1991; Ackerman 1997). The organizational change literature offers a distinction between episodic and continuous change (Weick and Quinn 1999). The episodic change is deliberate, sporadic, formal change, sometimes radical that typically involves slower processes and takes more time to complete. Continuous change, by contrast, is incremental, ever-evolving and reflects ongoing learning processes (Cameron 2008). In a similar fashion Burke (2002, chapter 4) distinguishes between revolutionary vs. evolutionary change—the former involves a significant shift that affects the organization as a whole, while the latter involves improvements, incremental steps to fix a specific problem or change a component in the organization.

Change management theory builds on an evolutionary perspective on change that distinguishes between transitional, transformational and developmental (Ackerman 1997). Transitional change is the most common and involves incremental and typically gradual changes in processes, policies, personnel or procedures (Want 2003). When these changes involve fundamental shifts and result in radically different solutions then the organization engages in a transformational change that drastically transforms itself (Kuhn 1970; Schneider 1987). Denning (2005) argues that transformational change is a prerequisite for increased competitiveness and organizational long-term survival, even though implementing successful transformational change is considered a rather challenging task (Beer and Nohria 2000; Cope 2003; IBM 2008). Developmental change occurs when an organization attempts improvements on its current processes, methods or performance standards and therefore developmental change is continuous, dynamic but yet manageable and bounded (Abrahamson 2000). Organizations engaging in developmental change constantly access their internal and external environments for opportunities that increase innovation and development while at the same time avoid disruptive large-scale changes (Gilley and Maybunich 2000).
Perhaps the most cited model of change comes from Lewin’s (1951) theory of change. In his seminal work, Lewin (1951) identified three distinct phases of planned change: “unfreeze”, “transition” and “refreeze” (Armenakis and Bedeian 1999). Change effort starts when the organization enters into the “unfreeze” stage where it is established that change is necessary and inevitable for long-term organizational survival (Burnes 2004). The stage is typically associated with learning anxiety and adjusting expectations. Then, the organization moves into a “transition” stage that involves the actual process of change. It is the stage where the new modules, processes and routines are gradually implemented and the organization moves towards its new equilibrium state. Finally, once the change processes have been completed the organization enters a “refreeze” stage where necessary stability is established and the new routines and processes become fully operational. Several other models on change built upon Lewin’s (1951) model—e.g., Lippitt et al. (1958) extend the model by allowing for a seven-step process, while Weick and Quinn (1999) turned Lewin’s (1951) three-stage change model in an equilibrium-seeking cycle (freeze-rebalance-unfreeze-freeze) that develops as the change process progresses. The analysis that follows is structured around the three main phases of change (“unfreeze”, “transition” and “refreeze”) and examines their characteristics and functions with respect to the overall change process.

Data Collection and Methodology

The research methodology relies on document analysis and semi-structured interviews with several managers of the organization and industry insiders. Document collection and analysis was utilized first to set out the background and identify some key potential issues and responders. This first phase of analysis provided the necessary knowledge base that allowed the design of a semi-structured questionnaire that was used during the interviews. The rest of the analysis is predominantly descriptive with a particular focus on the change dynamics (processes, strategies) and the characteristics of the transition stages as revealed by the collected data (publications, internal documents, artifacts and interviews).

Document Collection and Analysis

First, background information for the organization was collected (e.g., annual reports, press releases). The collection of the information and the desk research were gradually expanded to include both the organization as well as the environment in which it operated (industry, country-specific). This information was combined with other data sources that are publicly available, consisting primarily of MTT publications1, the magazine published by Valio (Maito ja me) and other relevant literature (e.g., industry reports, Valio presentations and interim reports). Three books have been published over the years focusing on the history of the company (Simonen 1955; Hokkanen 1980; Perko 2005a). The first two books are available only in Finnish, while for the last one a condensed English version is also available (Perko 2005b) with several references concerning the period around the EU accession. These multiple sources provided support to the analysis focusing on the interview responses.

Interviews

A key source of evidence came through thirteen personal in-depth semi-structured interviews with management employees, executives, past directors and industry insiders. Having topics of discussion rather than a fixed set of questions allowed for a more flexible approach to interviewing (Yin 1994; Boeije 2006). The discussion topics and the agenda were introduced at the

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1 MTT Agrifood Research Finland is the largest research institute in the field of agricultural and food research and agricultural environment research, operating under the Ministry of Agriculture and Forestry of Finland.
beginning of each meeting and covered several aspects of the organization’s effort to adapt in
the light of the EU accession. The interviewees were encouraged to let their responses go beyond
the limited scope of each specific topic and provide anecdotes they felt were important to un-
derstanding the processes we examined (Hingley et al. 2011).

Participants were interviewed privately by the principal researcher and all necessary measures
were taken to ensure confidentiality and data integrity. The interviews conducted over a period
of six days and lasted from 60 to 90 minutes. A standard interview guide was developed and
applied to all interviews, which were audiotaped and later transcribed and anonymized. The
data were thus predominantly qualitative in nature, and the RDQA library (an R package for
Qualitative Data Analysis) was used for handling the data (Huang 2011). During the interviews
the responders could withdraw at any time, decline to answer any particular question(s) and
had the right to shut off the tape recorder at any time if they chose to do so. After the interviews
were concluded responders could also withdraw from the study for any reason, at any time up
to the point where data had been anonymized. After that, it was not possible to identify and
remove individual data and, consequently, delete them. The interviews generated one hundred
and fifty four pages of transcripts that were analyzed along with a number of artifacts that the
respondents produced during the interviews (sketches, organizational charts, presentation print-
outs).

Findings–Phases of Change

Responders described an episodic revolutionary change that transformed their organization–this
change started sometime in the late 1980s and continued until after the EU accession. The three
main phases of change (“unfreeze”, “transition” and “refreeze”) where specifically examined
in the interviews. Therefore the current section attempts to answer how the decision-makers,
organization leaders, key stakeholders and industry insiders understood each of these phases.
Table 1 highlights the main characteristics for each phase of change.

Table 1: An Overview of the Characteristics for Each Phase of the Change Process

<table>
<thead>
<tr>
<th>Unfreeze</th>
<th>Transition</th>
<th>Refreeze</th>
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<tbody>
<tr>
<td>• High production costs</td>
<td>• Investments in R&amp;D</td>
<td>• Better cost structure</td>
</tr>
<tr>
<td>• Inefficiencies along the</td>
<td>• Quality improvements</td>
<td>• Well targeted and value-added products</td>
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<tr>
<td>business channels (collection,</td>
<td>• Product and market development</td>
<td>• Better supply and distribution systems</td>
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<td>production and distribution)</td>
<td>• Focus on customer satisfaction</td>
<td>• Efficient network allocation</td>
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<tr>
<td>• Outdated business model</td>
<td>• Downsizing on personnel</td>
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<td></td>
<td>• Closure of units</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Optimization of supply and distribution systems</td>
<td></td>
</tr>
<tr>
<td>• Establishing the need for</td>
<td>• Gradually implementing strategic combinations for</td>
<td>• New equilibrium is established–a new business</td>
</tr>
<tr>
<td>change</td>
<td>change</td>
<td>model</td>
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Unfreeze

Starting in the late 1980s there were discussions on high levels of the management where different
scenarios were examined for the future development of the organization. Among others, the
leaders at the time discussed the possibility of merging the various cooperative units that owned the company and establishing one common limited company. The idea was that through merging and consolidation the organization could achieve critical economies of scale and other synergies within its departments and thus increase its competitiveness. These discussions became more rigorous in the later years when it became clear that Finland would enter the EU. The expected increased competition from other EU member-states presented a unique challenge for the organization and the initial prospects were not promising.

“...the prices for dairy products were higher in Finland than they were in most other EU countries. So people were scared 'what will happen'... 'how can we compete'... 'the country will be flooded by imports'... and so on...”

“I would say that two adjectives could describe [what was the feeling in the organization]... apprehension on 'what will come' and suspicion on 'how will we survive...'...a defensive position... 'what on earth is going to happen to us?'...”

The leaders of the organization realized the value of effective communication and a lot of resources were put into establishing the proper communication channels with the organization members2. In that way members were mobilized and became active participants in the whole process. The critical message that was communicated to them was that the current structure of the organization would be no more viable and change is inevitable. The message was expected to be very unpopular among the members since it implied several cuts and cost saving initiatives along the organization. So the leader group made sure that all its outreach communication was supported with strong and credible evidence that was also presented to the members.

“...[our members] were very well informed... we made these studies and then we made also this proposal for the strategic and structural changes. So we called all the members from all the dairies... all the Boards from all dairies came and we presented to them. There were at least 200–300 people sitting in ...and everybody was listening...’what should we do?’ So I think that during this process the members were very well informed...”

The result of this communication effort was that the members understood the challenges and started discussing themselves about changing the organization; primarily the discussions were about the efforts to cut down the costs so that the company could remain competitive and relevant in the event of an EU accession. Such a process, however, took time since many members were reluctant to accept the changes even though they acknowledged their necessity for the future of their organization.

“...when I first presented this idea to them I think they all agreed...[because] I presented the facts that 'this is so how it is going to go'...so after a while after a few months... slowly... their opinions changed and ... finally [they] realized that this is the only course to take... of course at the same time the EU membership was becoming a reality for Finland and this accelerated the change of opinion.”

**Transition**

The organization responded with a series of actions that targeted both its external and its internal environment—actions directed to the external environment aimed primarily towards the market, while internally-driven actions aimed towards areas within the organization (Chatto-

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2 The change communication literature offers a comprehensive discussion on the importance of effective communication (Lewis 2000, 2006, 2007; Zorn et al. 2000; Timmerman 2003).
The organization’s response was based on strategic combinations of investment (R&D, quality improvements, new products) and rationalization (closing units, personnel reduction, streamlining of operations). In many cases this kind of combinations are considered more suitable since they combine cautious reduction of costs with investments and market development (He and Wong 2004; Raisch and Birkinshaw 2008).

The investment strategies targeted towards R&D, new product development, branding and the focusing of the marketing efforts on markets that were deemed promising for the firm.

“I would say that the reorganization process focused on the marketing, branding the products, putting more effort to R&D... I would say that those changes were the biggest compared to the earlier model...”

“...we concentrated on our natural markets and we concentrated on the consumer products not industrial products...and not in the bulk products...the consumer value-added stuff only...and also we did a lot of development in the markets in Russia and in Sweden...”

Particular emphasis was given towards the development of new premium products that would target carefully selected market niches as well as consumers in foreign markets. That was a dramatic shift in production strategy since for many years the company was producing bulk dairy products that were primarily exported to East European markets.

“... more premium or special products came... because we saw that if Finland would join the European Union the Valio’s competitiveness will be very low with the bulk products... so Valio was working with this different kind of products, products that have more value...value-added products ...that kind of products Valio have been developing in order to be more competitive ...”

At the same time the organization entered a period of downsizing were several units were closing alongside with drastic personnel reductions. The cuts were gradual and even though there was an initial consensus on their inevitability, it was still necessary to put a lot of effort on justifying to the personnel and to the members “what was happening and why”. Typically, the leader group would stress the importance of the downsizing program in allowing the firm to regain its competitiveness. One of the CEOs of this period reflects on that:

“...so the challenge that was given was to go through the downsizing process in this company in order to find out the competitiveness possibilities in the new environment... the Valio group and the dairy cooperatives had about 10 000 employees that was downsized to something like 4 000... so the company went through 7–8 years of quite a tough program of rationalization...”

Understandably the downsizing process was highly unpopular since it followed many years of state protectionism and tight regulation. In many cases it was difficult and time-consuming to reach an agreement on which units should be abandoned since “nobody wanted to be closed”. However the program was successfully completed and ultimately helped Valio to move towards its new business model that required a smaller number of bigger and more efficient production units alongside with an optimized and efficient logistical distribution network. The latter was achieved with several other programs that aimed to streamline and update its extensive and overstuffed sales organizations and domestic networks.
After the implementation of the various strategies a new equilibrium state gradually emerged—a new organization that was based on a fundamentally different business model. The company essentially reinvented itself and achieved better cost structure, improved its supply and distribution systems and streamlined various operations and procedures. Its production aimed towards value-added products and profitable niche markets while its distribution took advantage of the new and more efficient network allocation. This transformation marked the shift from a “production company” to a “marketing company” and was followed with the strengthening of the brand since “building the Valio brand was one of the most important things [at that time]”.

“...we have been able to change from a production company to a marketing company in the sense...that the key focus is to sell branded products to consumers and also to invest in R&D so that you can keep your production update... so that you remain competitive on the market.”

This new equilibrium state marked one more transformation for a company with a rich and successful history of growth and adaptation. The beginning of Valio can be traced back to 1905 when 17 cooperative dairies founded Voiventi-osuusliike Valio r.l. as a butter export cooperative for Finnish dairies. The company gained momentum and continued to grow over the years and after the 1940s it started to produce its own cheese as well as sell milk directly to consumers. In 1955 was the 50th anniversary and the cooperative changed its name to Valio Meijerien Keskusosuusliike, while with its latest reformations in 1992 the cooperative became an incorporated company, Valio Ltd., owned by 18 dairy cooperatives (Perko 2005a, 2005b). Throughout its history the organization managed not only to grow but also adapt itself to new situations and operating environments and today remains a major player in Finland and one of the most well-known brands in the region.

Summary and Conclusions

The article examines certain aspects of how an organization, confronted with an environmental change, engaged in organizational transformation and adapted accordingly. The focus of the analysis is Valio, the largest dairy company in Finland, and its reorganization and change strategies towards Finland’s accession to the EU in 1995. Combined with the abandonment of the protectionist policies of the Finnish Government, the accession radically changed the market and institutional environments and introduced new challenges for the firm.

The aim of this paper is not to explain the decision-making process developed by the governance and management body of Valio, but rather to highlight some main features of its overall restructuring process. In doing so the analysis is based on qualitative data (publications, internal documents, artifacts and in-depth interviews) and is predominately descriptive in nature. A particular focus is on the change dynamics and transition stages as revealed by the data.

The examined case stands out as an example of how a company dealing with non-differentiable consumer goods transforms itself and effectively adapts to a more competitive environment. The adaptation efforts aimed towards a series of actions and initiatives to reduce production and distribution costs and, to a certain extent, increase quality, along with investments in market and product development. The findings further illustrate how the organization initiated an organizational change process that progressed through three stages—“unfreeze”, “transition” and “refreeze”. In doing so the organization engaged itself in a strategic combination of investment and retrenchment strategies and fundamentally changed. After more than a decade of restructuring and changing its business model, Valio remains a major player in the dairy sector of Finland and one of the most well-known brands in the region.
The “unfreeze” stage started in the late 1980’s and established the necessity for change. Open and clear communication channels were established with the members and credible analysis was provided. After timely discussions and internal processes the message for change gained momentum and members appeared willing to help initiate the new strategies. In the next stage, “unfreeze” the new strategic initiatives were developed, prioritized and gradually applied. These initiatives comprised of investment and retrenchment strategies targeting processes, products and networks. The emphasis was on cost reductions and the overall streamlining of operations as well as investments in products and market development. Gradually the company managed to increase its production efficiencies, improve its cost structure and optimize its supply and distribution networks. Entering the “refreeze” stage the organization had emerged with a new business model and a fresh view of its position vis-à-vis the competition and the market.

The analysis offers a unique insight in a massive organizational change process and therefore serves as an applied case study of a three-stage adaptation process. However, caution should be used when generalizing these results to other cases and settings. Even though the findings provide insight and intuition regarding organizational change they are also bound to a particular case and further analysis is needed in order to understand and assess such processes. What remains is to expand this kind of research and combine with other cases in different industrial sectors so that a more complete picture can be drawn. Gaining insight in this venue of research would allow companies and organizations alike to be better prepared for such undertakings and successfully adapt and respond to ever-changing operating environments.

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