

# The Transformation Of Valio: A Case Study


Lampros Lamprinakos, Norwegian Agricultural Economics Research Institute (NILF), Norway

## ABSTRACT

*Valio, a well-established “national institution” in Finland, had a rich background based on cooperative tradition and extensive regional spread. In the late 1980s and early 1990s, the company had to undergo a process of change and re-organization in order to address the challenges arising from the EU accession. 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 purpose of this case study is to stimulate a critical evaluation of the processes Valio undertook in order to address the coming challenges. The case is especially suited as a starting point for a broader discussion on organizational change and adaptation. Teaching notes are provided with proposals and questions.*

**Keywords:** Valio; Organizational Change; Adaptation; Finland

## INTRODUCTION

 Organizational change and adaptation is an extensively studied topic with diverse literature that 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). Even though organizational change has been extensively studied, the published estimates show that success rates can be as low as 10% (Beer and Nohria, 2000; Cope, 2003).

Firms typically engage in organizational change activities when they face changes in their institutional and market environments (Senior, 2002). Such changes can give rise to new challenges but also present new opportunities for the firm (Meyer et al., 1990). The firm's ability to timely and adequately change and adapt to the new conditions becomes a crucial factor for its economic performance and long term survival (Robbins, 1998).

This case study is about the organizational changes in Valio in light of Finland's accession to the EU in 1995. Readers are asked to critically evaluate the described process and use this case as a starting point for a broader discussion on the issues surrounding organizational change and adaptation.

## BACKGROUND INFORMATION

This section provides a brief overview of Valio and the changes that were initiated in the light of Finland's accession to the EU.

### About Valio

Valio was founded in 1905 by 17 member dairies in Finland. Initially an export cooperative for Finnish butter, Valio gradually grew and started to manufacture its own cheese as well as selling milk to consumers. Its growth remained strong in the coming years and the company was gradually established as the de facto dominant player in the Finnish dairy sector (Perko, 2005). In 1992, the company became incorporated as Valio Ltd., owned by 18 dairy cooperatives. Over a period extending 100 years, Valio managed to grow, but most importantly, successfully adapted itself to various situations and operating environments.

## **About The Change**

In the early 1990s, there was a lot of discussion in Finland regarding the potential of an EU membership. Valio management, at the time, perceived such a development as a particularly critical environmental change that could have profound effects on all aspects of their business. Joining the EU would ultimately imply the abandonment of the protectionist policies and expose the company to tough competition from companies located in other EU member states. A series of processes were then internally initiated with the aim to prepare the company for such an event. The accession of Finland in the EU in 1995 found Valio in the middle of a substantial reorganization project that eventually changed its business model (Lamprinakis, 2012).

## **The Organizational Change And Adaptation Processes**

Early in the 1990s, Valio entered into a period of change and restructuring that lasted more than a decade. The company completed a substantial project of downsizing and streamlining while at the same time continued investing in R&D and aggressively seeking and developing new markets. 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.

Finland joined the EU in 1995 and that development also brought the opening of the borders to competitive products and the disengagement of the state. Particularly troublesome for the company was the cost disadvantage that translated to relatively higher prices for Valio products. In addition, the organization was characterized by a “heavy structure”; i.e., structural inefficiencies, particularly in terms of production and distribution. In its attempt to adapt, the company took a series of actions that targeted both the internal and the external environment of the firm.

### *Response Strategies Directed Towards The Internal Environment*

Internally-directed actions aimed at areas within the organization. In the case of Valio’s restructuring, these actions involved investments in R&D and quality improvements. A critical element was the development of value-added products that targeted specific foreign markets. At the same time, Valio prioritized securing cost efficiencies by focusing on the rationalization and streamlining of several stages of its production and operations. In practical terms, this last element involved the downsizing of several of its plants and the closure of others.

### *Response Strategies Directed Towards The External Environment*

Externally directed actions aimed towards the market and included the exploration and development of new markets, increasing marketing efforts and brand strengthening. By identifying and further developing its “natural markets”, the company managed to secure market access and strengthen its revenue sources.

### *Ambidexterity*

Overall, the company exhibited ambidextrous properties – engaged in mixed strategies that combined both proactive (investment) and retrenchment (streamlining) strategies. In most cases, such an approach is preferred since it combines cautious reduction of operational costs along with investments in innovation and market development (He and Wong, 2004; Raisch and Birkinshaw, 2008).

## **DISCUSSION QUESTIONS**

1. Why successful organizational change remains relatively scarce even though the topic has been extensively studied?
2. What are the practical difficulties that can arise during organization change, especially in the setting of a large corporation?
3. After examining the case of Valio, do you think it would be possible for the company to continue with its old business model?
4. Valio was active in a market characterized by relatively undifferentiated goods. How do you think it affected its strategies?

5. What role did the EU accession play in the reorganization of the company? In a hypothetical scenario where the accession process was abandoned, should the company proceed with the changes in its business model?
6. What could be the practical difficulties in implementing ambidextrous strategies?

#### **ACKNOWLEDGMENTS**

The author gratefully acknowledges funding support from the Research Council of Norway.

#### **AUTHOR INFORMATION**

**Lampros Lamprinakis** is a researcher for the Norwegian Agricultural Economics Research Institute (NILF). In 2008 he received his Ph.D. from the University of Saskatchewan in Canada and worked for a year as a Post-Doctoral fellow at the University of British Columbia (Vancouver, Canada). His research interests include industrial organization, game theory, economic psychology, event analysis and economic policy. Lampros Lamprinakis has also worked as a lecturer in several Universities in Canada and Greece. E-mail: [Lampros.Lamprinakis@nilf.no](mailto:Lampros.Lamprinakis@nilf.no)

#### **REFERENCES**

1. Ackerman, L. (1997). Development, transition or transformation: the question of change in organizations. In *Organization Development Classics*, edited by Van Eynde, D., Hoy, J. and Van Eynde, D. San Francisco: Jossey Bass.
2. Beer, M. and Nohria, N. (eds) (2000). *Breaking the Code of Change*. Boston, MA: Harvard Business School Press.
3. Cope, M. (2003). *The Seven C's of Consulting: The Definitive Guide to the Consulting Process*. London: Financial times/Prentice Hall.
4. He, Z. L. and Wong, P. K. (2004). Exploration Vs. Exploitation: An Empirical Test of the Ambidexterity Hypothesis. *Organization Science*, 15(4), 481-494.
5. Lamprinakis, L. (2012). Organizational Innovation in the Face of Institutional Change: The Case of the Finnish Dairy Sector. *Proceedings In Food System Dynamics*, 0(0). Retrieved December 12, 2012, from <http://centmapress.ilb.uni-bonn.de/ojs/index.php/proceedings/article/view/229>.
6. Meyer, A., Brooks, G. and Goes, J. (1990). Environmental Jolts and Industry Revolutions: Organizational Responses to Discontinuous Change. *Strategic Management Journal*, 11(5), 93-110.
7. Perko, T. (2005). *The Valio Story: From butter exports to international business*. Keuruu: Kustannusosakeyhtiö Otava.
8. Raisch, S. and Birkinshaw, J. (2008). Organisational Ambidexterity: Antecedents, Outcomes, and Moderators. *Journal of Management*, 34(3), 375-409.
9. Robbins, S. P. (1998). *Organizational behavior* (8th edition). New Jersey: Prentice Hall.
10. Senior, B. (2002). *Organizational change*. Great Britain: Prentice Hall.
11. Sternad, D. (2011). Adaptive Strategies in Response to Economic Crisis: A Cross-Cultural Study in Two European Nations. isma Discussion Paper Series 02-2011.
12. Weick, K. E. and Quinn, R. E. (1999). Organizational change and development. *Annual Review of Psychology*, 50, 361-386.
13. Whittington, R. (1991). Recession strategies and top management change. *Journal of General Management*, 16(3), 11-28.

**TEACHING NOTES**

After distributing the case study and ensuring that participants had time to thoroughly read it, the facilitator could supplement the brief introduction with other popular examples on organizational change. These examples can come from various industries and, in some cases, may involve companies that the audience is most familiar with. Such a short introduction will help set the stage for discussing the specific case study.

For discussion of the specific organizational change, half the number of participants can focus on the internal environment of the firm while the other half on the external environment. The two teams can brainstorm on the various alternative strategies and compare their proposals with the ones presented here. It would be useful to try to uncover practical difficulties that can emerge –e.g., different groups in the organization can prioritize things differently, the role of internal politics, resistance to change, etc.

In a similar fashion, the audience can be later divided in two groups – one focusing on the proactive strategies and the other on retrenchment strategies.

The facilitator can also employ the analytical framework of Sternad (2011) to better illustrate the case (Table 1).

**Table 1: Application Of Sternad’s Framework (2011) To The Valio Case**

	<b>Investment Strategies</b>	<b>Retrenchment Strategies</b>
Internal environment	R&D Quality improvements	Personnel Administration Production Logistics
External environment	Marketing Brand strengthening New market development	Domestic network Sales network