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EXPLAINING VARIANCE IN MARKET SHARES IN THE FINNISH GROCERY TRADE 1985-2005

Jukka I. Mattila

Aalto University

DOCTORAL DISSERTATIONS

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Abstract

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Abstract

Red Queen theory (Barnett and Hansen 1996; Barnett and Burgelman 1996; Barnett and McKendrick 2004; Barnett and Pontikes 2004 and 2008; Derfus et al. 2008) posits that firm rivalry is an evergoing progress, where reciprocal learning–development action dyads affect the whole industry. However, Red Queen theory has largely omitted the impact of the wider business environment and has left unanswered questions about the effects of contextual forces on Red Queen competition. Hence, in this study, a historical case study perspective is employed to examine Red Queen competition and its effects on market share variation of Finnish grocery trade companies between 1985 and 2005. This study explores Red Queen competition in a business environment setting that represents a food retailing ecosystem, specifically describing how evolving context affects firm rivalry and firm performance.

Assuming that organizational performance is a process, an outcome of action and dynamism in the market, this study reconstructs five different development paths and shows the interlinkages between them, describing the causal complexity behind firm performance generating processes. In particular, this study identifies a wider infrastructure for processes contributing to firm performance. The study expands the previous research by showing how firm performance is created by internal development, external market behavior, and is affected by the events and development in the contextual political, macro- and microeconomic environment as well as technological and social factors in the wider environment. In addition, this research identifies and explains the multiplicity of bifurgative performance development by showing how competition is dispersed into different managerial arenas (Teulings 1985; Tainio et al. 1983 and 1984).

This study argues that the variation in market shares was an outcome of improving the competitive position by developing customer preferences and customer loyalty, and gaining technical, operational and/or institutional superiority. Market share increase or decrease was an outcome of a layered spectrum of events, the combined effect of a number of phenomena in changing causal chains. Companies focused on the continuous improvement of their own capabilities and their own activity by internal development efforts. In addition, there was action, which was targeted at transforming the external structures of the competitive field, in order to modify the operating framework conditions favorable to the focal company. Besides company initiated competitive action there were also significant external environmental changes, which the company itself had a limited possibility to influence, and which could appear on the horizon at short notice. Such external forces, however, had a major impact on companies' market share development and thus on their future efficiency.

Keywords Red Queen, competition

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Haaga, September 16, 2015

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1. INTRODUCTION

Assuming profit-making and organizing for success to be a central part of the management's sphere of responsibility, it is easy to agree with March and Sutton as they noted that explaining variation in performance is "one of the more enduring themes in the study of organizations" (March and Sutton 1997, 698). The basic factors generating organizational performance are known, or at least nominally defined, but how, when, and where these factors influence performance has excited interests within researchers for decades (Tainio et al. 1991, 426; Richard et al. 2009, 721). However, although a widely used key analytical, theoretical and practical concept in organizational and management theories, the idea of performance has been studied with less vigor than the proper understanding of the concept would require. In spite of cumulative understanding of the constructs or elements, which contribute to organization or firm performance, no consensus or universal grand theory has been developed around the topic. On the contrary, the research has focused on many differing settings, with many different measures, constructions, and explanandums, creating less consensus than greater diversity.

This research is focused on finding explanations to variation of market share development in the Finnish grocery trade 1985-2005. The research is conducted as an empirical case study. The research setting consisted of five Finnish food retailing companies and central corporations: Kesko (K-Group), SOK (S-Group), Tuko (T Group), and later Spar, and EKA/Tradeka (E Group).[1]

This research uses market share as an indicator of organizational performance. Figure 1 gives an overview of the changes in the Finnish food retailing between 1985 and 2005. The graph illustrates four different performance paths, which are categorized and described as follows: (1) Slight reduction - K Group retained its large, dominating role in the food retailing business, losing only 10 percentage points of its market share. (2) Strong continuous growth - S Group doubled its market share within 15 years. (3) Lagging low performance - Despite its smaller size, EKA/Tradeka maintained a constant proportion of the markets. (4) Cascading failure – After a promising period of growth T Group and its later successor Spar ended up in a difficult competitive position in the mid-1990s.

[1] Eka Group's daily grocery trade division was named Tradeka in December 1988. After the compulsory restructuring program of Eka Group, the company name of the reorganized group was changed into Cooperative Tradeka Group in 1995. The food retailing and restaurant business unit was renamed as Tradeka Ltd. In this research the company isfirst introduced as Eka; later the name Tradeka throughout the dissertation is used. However, also the combination Eka/Tradeka is used when seen most correct. It is to be noted that the chosen way of using the company name might occasionally be anachronical in some parts of the research.

The Figure 1 is quite revealing in several ways. As can be seen, K Group as far the largest group maintained its share until 1996, after which began a steady decline, although its market share still remained high. The decrease in K Group's figures started at the same time as T Group disappeared from the market. T Group's share of the market increased until the year 1990, after which it turned into a decline, until the company vanished in 1996. Interesting in this data is that S Group declined until 1990, after which started a very sharp increase, which lasted for 14 years. Tradeka's share faded slowly until 1994, when started a stable phase, which ended in a sharp drop in 2003. In 1985, one larger group operated, K Group, and it was double the size of the next largest competitor. In 2005, the market consisted of two large groups, S Group and K Group, who competed with three smaller groups, Spar, Tradeka, and Lidl, plus some minor independent retailers.

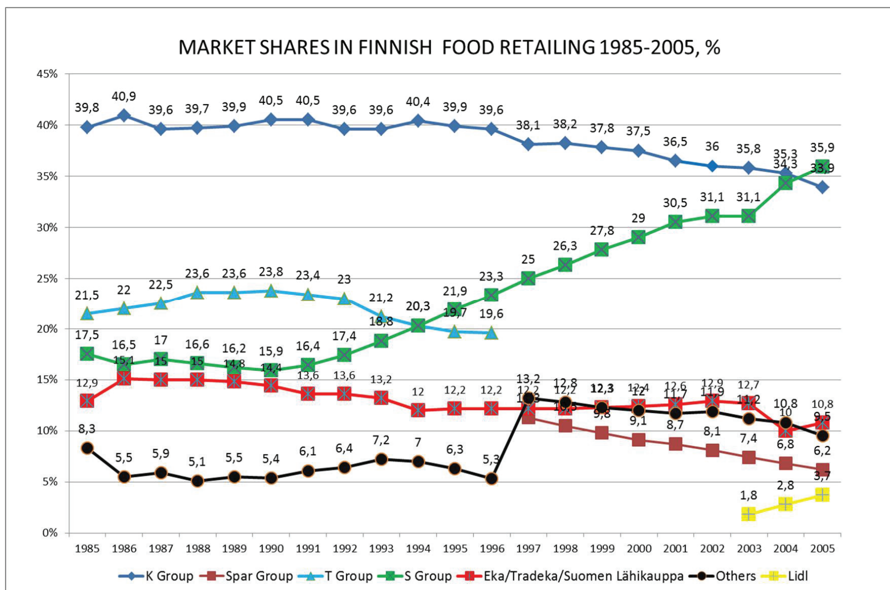

Figure 1. Market shares in Finnish food retailing 1985-2005, %. Source: AC Nielsen.

In 1990, S Group held 15.9% of the Finnish food retailing market share. After that, it entered a path of constant growth of around 1.5 percentage points per year. In the Finnish food retail market the average of total sales between 1991 and 2005 9316.49 million euros. Thus, a growth of one percentage point reflects an increase of 93 million euros in sales. It means that during the period of 15 years' growth, S Group increased its cumulative sales by a total of 1.5 billion euros. Winning market share also produces additional effects; the increased volume lowers for example the costs of purchasing and thus has an impact on profitability, and in S Group’s case the growth enabled a positive loop of increased investments. In 2005, S Group had been growing constantly for 15 years in a row, and the growth had influenced not only S Group’s direct rivals but also the whole food retailing ecosystem in Finland

It is apparent from the Figure 1 that there have been different types of changes in companies' market shares and, hence, certain observations awake interest. There has been both significant change and minor change, as well as sudden, oscillative, gradual and coupled change. In addition, very few moments allow for rapid increase or decrease in the firm performance path. On the contrary, from the data in Figure 1, one can propose that the length of time between significant changes in market share is considerable.

In the shadow of S Group's resurrection, the other market players had differing growth paths. K Group, the leading giant in the market continued to hold its leading position until 1995. Thereafter, the firm slowly lost its market position year by year. In 2004 S Group dethroned K Group as the market leader. Eka was perceived as lagging behind; its market share was heading downwards. After a decade of falling market share, Tradeka managed to stabilize its degrowth to achieve a steady level in 1996. T Group was successful in the late 1980s, but since 1990 the group started to diminish and lose its position and was finally sold to the competitors. The Spar chain, which was established on the remnants of Tuko in 1997, did not manage to gain growth. Its constantly dropping market share came to an end in 2005 when S Group bought out the shares of Spar. A foreign rival, Lidl, entered the scene in 2002. Lidl succeeded in achieving a growth rate of one percentage point per year, but remained a scorned outsider and was not considered a challenger to the Finnish groups.

On the other hand, during the 20-year period few events in the external business environment were significant enough to have an effect on the overall development in the industry. Such disruptions in the business environment are interesting, because they capture moments of mutual and reciprocal coeffect of firm action and the contextual forces, and tie all the actors into a dynamic and evolutionary complexity. Disruptions and discontinuities in the performance paths in Figure 1 convey information about restructuration of the whole competitive field. Major examples of such large-scale rapid changes are the disappearance of Tuko in 1996, the upward swift of markets share of the independent retailers (from 5.3% to 13.2 in 1996), as well as changes in markets share for S Group and for Tradeka in 2003-2004.

Parallel to market share development, the external environment reflected significant changes from 1985 to 2005. Besides internal development in the grocery firms, there were external and contextual factors affecting the firms' market share development. The recession years 1991-1992 marked a period of change in competitive positions in the grocery trade. Recession resulted in a decline in consumption and increased international pressure, for example, in the form of increased rates of interest of currency loans, which limited some companies' choice of options. Moreover, membership in the European Union in 1995 broke up the dependency of the Finnish food retailers on the domestic food and beverage industry. Imports as well as production abroad became possible, allowing wider bargaining possibilities on prices, product specifications and other conditions as well as the possible branding of products as private labels. Free foreign competition arrived in Finland. Another example of extrinsic changes was the Kesko-Tuko merger in 1996, which broke up the T Group into scattered remnants and started a gradual industry-wide consolidation.

When we consider the four Finnish trade group's relative success as the starting point, how can we explain the success of the S Group, K Group's a steady market share

and its decline since 1994, the T group collapse, as well as the Eka/Tradeka's steady market share? What common nominators or factors can we find? The stance this research takes is to dissolve the hardened compositions of direct causal linkages behind firm performance. Referring to Bhaskar (1978) and Tsoukas (1989), it seems that the previous research has hastily produced hypothesized, imagined, inferred or postulated descriptions of mechanisms and variables affecting performance. One can argue that the deficiency in the previous research has been a casualness to connect events and their emergence to a wider picture of how firm performance was created as a process. Such research assumes in principle a direct causal linkage, it does not prove of falsify it.

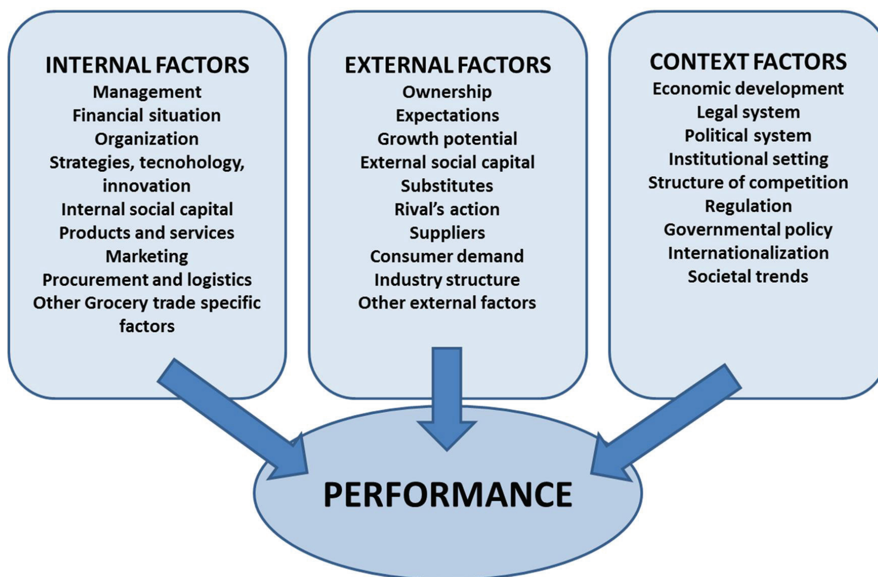

Figure 2. Factors that have been found to influence company performance. Source: Mattila and Tainio 2013, adapted from Kjellman et al. 2004, 10.

In the Finnish grocery trade, the variance in market share development may be seen to be affected by mergers and acquisitions, achieving new customers and retaining the old ones, and governmental and regulative policies. Mergers and acquisitions are the quickest way to affect market shares, and can be used in reorganizing the industry setting and balance of power between rivals. Expanding customer base creates larger demand, improved sales and has a lagged, long-term effect on the market share. Governmental policies and regulation set the limits to expansion or firm growth, and regulate the means and conditions how everyday competitive activity is conducted. In summary, with regard to the Finnish grocery trade, there is no formula that can guarantee success or failure. However, retrospectively we can specify processes that led to the success of S Group and caused the decline of K Group or the failure of Tuko. Success or failure can be produced by several forces and counterforces, and market share is dependent on

customers, competition, and technology as well as internal factors and changes in the contextual environment. Thus far, our best guesses point to internal qualities and competitive dynamics and so-called rules of the game, as proposed in Figure 2.

Given the above, the purpose of the present research is to investigate, how competing firms' initiatives create reciprocal competitive moves aimed at improving their competitive market position. Above all, following Emery and Trist (1965), firm activity is not enough in explaining company growth or firm performance, rather a comprehensive understanding of organizational performance as an outcome of market action and human behavior requires knowledge of the connections, transactional interdependencies, and exchanges between the organization and the environment – understanding "the causal texture of the organizational environments" (Emery and Trist 1965). Thus, this research focuses on constructing causal linkages between firm action and contextual, environmental development. To accomplish these objectives this study utilizes insights drawn from Red Queen theory (Barnett and Hansen 1996; Barnett and Burgelman 1996; Barnett and McKendrick 2004; Barnett and Pontikes 2004 and 2008; Derfus et al. 2008), supplemented with conceptualizations of managerial arenas (Teulings 1985; Tainio et al. 1983; Tainio et al. 1986).

This study examines Red Queen competition and its effects on market share variation in Finnish grocery trade companies between 1985 and 2005, specifically describing how evolving context affects firm rivalry and firm performance. This study argues that firm performance is created by internal development, external market behavior and is affected by the events and development in the contextual political, macro- and microeconomic as well as technological and social factors in the wider environment. External environmental changes have a major impact on companies' market share development.

In the following, this thesis presents an overview on the challenges of explaining firm performance, as well as justifies the use of the coevolutionary approach in studying phenomena related to firm performance. The agenda in performance research in organizational theory was set out in the principles of scientific management by Frederick Taylor. It was based on the assumption that any single variable could be found to covary with success "...foster the idea that if progress toward goals can be measured, efforts and resources can be more rationally managed" (Ridgway 1956, 240). The evaluation and measurement of organizational performance has developed hand in hand with the advancement of ideas of organizational and management theory, and from the needs stemming from practical issues.

2. BACKGROUND TO THE STUDY

2.1 Literature review

The challenges in explaining firm performance are due to several reasons, beginning from the formulation of the concept of "organization" with distinctive sets of criteria for evaluation of performance (Scott 1998, 344; Cameron 1986b, 540), and extending to philosophical discussions about means and ends and the forces of causality (March and Sutton 1997). Several researchers have advocated, in a pessimistic tone, that it might be impossible to explain organizational performance, or that the measures and results are at least unsatisfactory (Lenz 1981; Meyer and Zucker 1989; March and Sutton 1997; Scott 1998; Chakravarthy 1986). The variation in attitudes towards performance varies from deep pessimism to analytical curiosity. As Epstein (2004) wrote "we have not been able to identify when particular performance measures are more appropriate and whether they lead to improved performance". Organization performance research today is pretty much at the same situation to what which Venkatraman and Ramanujam (1986) commented upon already 30 years ago: The research challenges and exploitation potential of the results touch mainly three themes: the operationalizability, the measurement, and the causality chains.

Properties of success are determined from companies that are generally considered to be the most successful. Thus, the characteristics of success are outcomes, results of past achievements. However, the processes that produce these outcomes are seldom specified (March 1994, 223) or are difficult to assess. In such a case, the processes of success - firm performance - are not depicted, they are postulated ad consequentiam. In choosing what to consider as "good performance" the performance description process might be biased and distorted by the so-called Halo effect (Rosenzweig 2007a). The Halo effect means a tendency to make specific inferences on the basis of a general impression, and not keeping the explaining variables independent from each other. A "leading" organization has "a good strategy", "better leaders", "the best CEO". Since a successful company is generally doing well, it is tempting to observe that it "has a smart strategy, a visionary leader, motivated employees, excellent customer orientation, a vibrant culture, and so on." (Rosenzweig 2007b, 7) Thus, inevitably the process that produces "the superior outcomes" must also be superior. The tautological loop starts to spin out: incomparable outcomes have been produced by incomparable processes... "As long as our judgments are merely attributions reflecting a company's performance, our data will be biased, our logic circular, and our conclusions doubtful" (Rosenzweig 2007b, 17).

The processes leading to success might also be depicted as a result of misunderstandings of the causalities or based on "superstitious learning" (March 1994, 184),

which means a situation wherein the connection between organizational action and the interpretation of the environmental response are misspecified. Also it has been noted, that accounts of success are often rather straightforward narratives highlighting particular actions performed by collective management as causes of success, while failure accounts are usually more complex (Staw et al. 1983; Vaara 2002, 239).

Deriving conclusions about a process from its outcomes contains several sources of bias and endangers the applicability of the findings in projecting them to other circumstances. From the process' side, the impact of today's activities may be difficult and uneasy to discover and comprehend. There are several reasons, why our sight is blurry. First, at the moment of management's decision-making, the future is always uncertain and the causality chains leading to a certain outcome are more or less unsure. It may not be properly known what affects what. In describing performance and its constituents, are all the affecting forces known - argumentum ad ignorantiam? If we do not have accounts of certain affecting forces, is it a proof that such forces do not exist? Is there any evidence of absence? As Renvall (1983, 227) put it, "does the fact that there is no mention about a matter also prove that the matter in question did not occur"– argumentum ex silentio? Also, the impact of a decision might be dependent on other decisions, and on other activity, thus the outcomes will be produced jointly. The affecting action, which is meant to change the state of affairs in the future, might halt halfway in the process. Examples of such activities are internal development projects, led by own staff or outside business consultants, the fate of the project being to be terminated for some or other reason without ever coming to closure. Additionally, the impact might be different to that which was expected or wished for, or might even be negative.

Difficulties in evaluating successfulness and effectiveness are also due to lack of stable rules or procedures for assigning numbers to attributes to represent performance quantitatively, in an accurate and consistent manner (Steers 1975, 553). Performance can even be a result of manipulating the accounts of performance (March 1981). Also, performance is an ambiguous concept and sensitive to settings of at which level the research is to capture effectiveness. Should the individual behavior be left out or should a larger view of organizational effectiveness be taken into account, as noted by Steers: "Models of organizational effectiveness must be developed which attempt to specify or at least account for the relationships between individual processes and organizational behavior" (Steers 1975, 554).

In selecting the features that are commonly connected to success, the challenge is that different people connect different things to success and value organizational success differently. How well an organization is performing is a political question, depending on the angle of view (Connolly et al. 1980, 212; Cameron 1986b, 541), as formulated by Scott (1998), "Criteria for evaluating organizational effectiveness cannot be produced by some objective, apolitical process. They are always normative and often controversial, and they are varied as the theoretical models used to describe organizations and the constituencies that have some interest in their functioning" (Scott 1998, 362).

Evaluation criteria of performance are relatively unstable over time. Critics frequently point out that some companies that were designated "exceptional" subsequently soon face difficult times for which they are not well prepared (Rosenzweig 2007b; Forster 2010). What is counted as a determinant for good performance might in

the longer run show to be affecting inferior performance, or the criteria used to evaluate effectiveness at one point in time may be inappropriate or misleading at a later time (Steers 1975, 552-553; Scott 1977, 74; Cameron 1980, 76-77). Hence, the correlations discovered in success, and factors that are proposed as explanation cannot be immediately equated with causation. “Success factors” identified by correlation research may remain unproven until they are put into practice by a new generation of “good” companies that then achieve results similar to those of “great” companies (Finnie and Abraham 2002).

Additionally, the future is seldom a direct continuum of the past, although the outcomes related to effectiveness achieved at one time often become inputs for subsequent decisions and actions by the management (Child 1972, 17). According to Meyer, two different ideas of performance are generally mixed. The "performance as a result of past accomplishments", at a given time spot, and the theoretical "promise of future results" - or the potential - are substituted (Meyer 2005, 288). In research concerning a firm's performance, there is no justification to presume that performance has dimensions that can be projected to the future; not as enablers of proper action in the future, nor as post hoc evaluation criteria. Also, the outcomes of actions leading to success may become visible after a longer time. Some phenomena do not necessarily reveal themselves in the recent past; the effects might be uncovered just over a longer haul (Jones and Khanna 2006, 465).

Most interpretations of firm performance are built on elementary causal conceptions. Theories are specified in terms of a causally dependent variable to be predicted and explanatory variables imagined being causally antecedent. Identifying the true causal structure of organizational performance phenomena on the basis of incomplete information generated by historical experience is problematic (Meyer and Zucker 1989, 65; March and Sutton 1997). It is often unclear what variable should be treated as causally dependent, and neither the data nor the analytical frames help in making such a decision (March and Sutton 1997, 700). Researchers rarely exercise experimental control over the proposed predictor variables. Instead they have to rely on analyses of observation made of naturally occurring events. These are notoriously difficult to interpret. “There exists little evidence that relatively simple, unidirectional causal relationships among the constructs examined account for organizational performance. Instead, we observe a complex network of interdependent elements in which words such as 'cause' and 'effect' should be used with caution” (Lenz 1981, 141).

Studies on firm performance have been dominated by rational-mechanistic research, which draw on abstract constructs, ex ante predefined hypotheses of competitiveness and their statistical validation, as well as direct causal linkages. Variables that have been used in search of competitive advantage and success range from strategy to HR function, from visions to worker motivation. The main research goal has been the identification of the distinguishing characteristics, or essential success factors of exceptional companies, and sources for their efficiency. This has given impetus to an inbred theoretical examinations; performance is connected to constructs, which in turn are postulated from literature rather than verified from observations. Thus, the measurements and the results show only ex post validity, which has little predictive power of forthcoming demands of the future markets (cf. Meyer 2005, 288), in the real world’s performance creation.

2.2 Different approaches to explaining firm performance

What is firm performance and how can it be assessed? The dominant approach to explain firm performance, variable-based research (cf. Cameron 1986a), has produced technical-mechanistic results about performance, reflecting a rational systems (Scott 1992, 23) metaphor of organizations as machines. The premises of such view include statements of classical organization theory; among others that there exists one single best way to organize production, and the best way can be found through scientific research. Organizations exist for the accomplishment of production maximization and economic goals, and that people are rational actors (Scott 1992, 30-32). The challenge is, that the concept of firm performance vanishes when it is dismantled into smaller bits and pieces, which in turn are deconstructed, and at the end the components do not carry anything that could be directly related to increased performance or the potential to achieve it.

Different studies presenting the single variable perspective have identified a set of important factors around organizational performance, and thus opened the way to investigate the in-depth qualities of such variables. For example, Mahoney (1967) investigated the empirical relationships among 114 characteristics that were often considered criteria of organizational effectiveness. Mahoney's analysis yielded a structure of eighteen factors accounting for 65% of the variance in the 114 variable descriptions. One of the factors, comprising 41 variables was sub-divided into seven components providing an overall structure of 24 dimensions of organization characteristics (Mahoney 1967, B81).

While a focal indicator for organizational success has been under search, some of the studies have taken the multivariable approach (Lenz 1981; Chakravarthy 1986; Lewin and Minton 1986; Hansen and Wernerfelt 1989; Barnett and McKendrick 2004). This research perspective has led to recognizing the occasionally inevitable coexistence and coeffecting variables that affect performance level only if they exist and affect at the same time. As Campbell (1977) noted, it might be counterproductive to follow the multivariate approach in the development of effectiveness measures. Although it sounds a good idea to assemble a large sample of organizations, measure each of them on a set of potential criteria, and then examine the pattern of relationships among the measures, it might simply be neither physically nor economically possible to do such a study in ways that will yield useful information (Campbell 1977, 45). The affecting variables became a collection of numerous things of which some were in relation to what the actual organization did, and others beyond the immediate control of the focal company (Campbell 1977, 46).

The combining of several variables and the research of their coeffect has led to deeper views on performance generation mechanisms and about the mutual relationship between the variables. One of the key lessons learned was the effect of the external factors outside the organization's control, in the organization's political and business environment. This led to a surge of the contextual models of organizational performance. It was first constructed in a form where "the environment" and its effect were compressed into an independent variable or a set of variables. Later, the observation of the environment's impact on organizational performance widened into a wide range of

base theories, methodologies, and research paradigms. Performance was no longer considered a phenomenon produced solely internally in the focal company, rather, its dimensions were seen to reach over the boundaries of the organization. Such new assumptions related to the works of Dill (1958), who noted how environment affects the company and its decision-making. According to Dill, an impact on company's goal attainment was connected to such environmental actors as customers, suppliers, competitors, and regulatory groups (Dill 1958, 424). Dill concluded by conceptualizing environments "as a flow of information to participants in an organization" and "as a body of accessible information" (Dill 1958, 442). Later Chandler (1962) and Child (1972) took into closer inspection the fit between organization and environment. Chandler wrote about how a certain environment was producing a certain kind of strategy, and that in turn caused a certain kind of structure.

Child (1972) proposed that the maintenance of the organization depended upon some degree of exchange with outside parties. The relationships between organization and environments are variable, and these relationships concern the degree of influence that the controllers of one organization can exert over their counterparts in other organizations, and vice versa (Child 1972, 10). Child emphasized the interconnectedness of environmental conditions, strategy and organizational structure. Structure alone can have only a limited effect on organizational performance. Child made a notion about the organization having an ability to influence its environment, to select and even create the environment that was seen as equally, or even more, important than mere structure.

The Contingency theory in the late 1960s claimed that there was no best way to organize or lead a company; instead, the successful performance was a result of a proper alignment of endogenous design variables (structure, degree of planning formality) with exogenous context variables like environmental uncertainty, technology, and organizational size (Powell 1992, 120). What constituted a good organizational arrangement was dependent on "what the organization is attempting to do and on the conditions under which it is attempting to do it" (Scott 1977, 90).

However, besides simply being a stimulus environment, the context was also seen as a nested arrangement of structures and processes, an interplay between the organization and the environmental conditions. For example, Miles (1980) developed a macro view of organizational effectiveness. His emphasis was on structures and processes within major subsystems, organizations and their environments, and the linkages among them. The contribution of Miles was to analyze company behavior in terms of processes, while contingency models were seen determining choices of organizational design, of which the organization had little or no control (Miles 1980, 250). According to Miles, organization-environment relations were processes about making choices in selecting, manipulating, or ignoring the organization's external environment. He concluded that, "Thus, organizations are not passive objects that must accommodate strains by environmental forces. They may be both reactive and proactive in their attempts to deal with important sectors of the environment, and this perspective is an essential counterpoint to the deterministic contingency view of organization-environment relations..." (Miles 1980, 279).

Contextual research was extended to a wide range of studies that sought to understand competitive survival and to construct interpretations of organizational histories

that emphasized the adaption of organizations to feedback from their environments (March and Sutton 1997, 698). Some actors were considered as external constituencies; influential organizations, suppliers, competitors, or regulatory agencies set constraints and define appropriate referents or organizational effectiveness, which become incorporated in the overall assessment or organizational effectiveness. In this sense, the organizational environment was viewed as a political economy composed of constituencies (Pennings and Goodman 1977, 154).

In search for explanations of effectiveness, the environment as an effectiveness determinant requires the focal organization to manage interorganizational relationships (Pennings and Goodman 1977, 159). The context, where the company acts, can be conceptualized into spheres: the primary environment (Task environment: Dill 1958, Bourgeois 1980, Wheelen and Hunger 1984; Market environment: Baron 1996) and the secondary environment (Societal environment: Bourgeois 1980, Wheelen and Hunger 1984; General environment: Daft et al. 1988; Non-market environment: Baron 1996). For example, Wheelen and Hunger (1984) saw that the environment consisted of the following aspects: 1) The Task environment – which directly affect and are affected by an organization’s major operations: stockholders, governments, suppliers, local communities, competitors, creditors, labor unions and trade associations. 2) The Societal environment: more general social, political, economic and technological forces that do not necessarily directly touch upon the activities of the organization, but can and often do, influence its decisions.

According to the open systems definition, “organizations are systems of interdependent activities linking shifting coalitions of participants; the systems are embedded in – dependent on continuing exchanges with and constituted by – the environment in which they operate” (Scott 1992, 25). Thus, population ecology views have sought to find answers to organizational performance by paying attention to how parts of organizations react to different interlinked facets of the environment (March 1981, 563-564). The main argument of the population ecology model is that the environment selects organizations for survival through resource scarcity and competition. It assumes that once founded, organizations are subject to strong inertial pressures, and alterations in organizational populations are largely due to demographic processes of organizational foundings (births) and dissolutions (deaths) (Singh and Lumsden 1990, 162). Hannan and Freeman (1989, 25) noted that "...organizational selection processes favor organizations with relatively inert structures, organizations that cannot change strategy and structure as quickly as their environments can change". The ecological view stresses the notion that adaptation has embedded low ability, or even inability, for the organization to influence its environment, rather the organization is shaped by environmental conditions. In the ecological view, human agency is vain, managerial intentionality should have little or no impact on adaptation (Lewin and Volberda 1999, 520). Organizations are unable to adapt, instead selection is the main driver in change. And thus, organizational performance cannot be attributed with managerial or organizational activity at the population level (Lewin et al. 2004, 137).

Hannan and Freeman (1977, 933) use the term population in the sense of referring to aggregates of alike organizations, having some of unit character. Their description for selection was the increased net reproduction. When a population with given properties increases its net reproduction rate following an environmental change, it was seen

to been selected for (Hannan and Freeman 1977, 937). Success means staying alive. On the other hand, Hannan and Freeman (1977, 929) admit that “[t]here is a subtle relationship between selection and adaption” and that they are complementary processes. Hannan and Freeman (1977) do not give any explanation of what "competition" actually is, what processes it holds within, and what mechanisms it affects with regard to the outcome it produces in rivals and in the larger context. This leaves the space open for more elaborated explanations of firm performance. As Pfeffer comments, “[to] examine organizational failure and death and not to examine how that failure occurred is to investigate an important, but clearly only a partial, aspect of organizations” (Pfeffer 1977, 143).

Ecology theories have also been challenged with the question of what characteristics of the environment are eliminating, or to which the firm must conform? For example, Meyer and Zucker (1989) and Denrell (2003, 232) argue that an assumption that all firms with low performance are failing and thus exiting is obviously a simplification. Even unsuccessful companies can stay in the population and remain alive. Firms with poor performance may continue to operate because of the buffering provided by accumulated resources, legitimacy and government support, or for non-economic motives.

While structural and management solutions with environmental demands have been found to contribute for success, other, more abstract, cultural, and unperceivable constructs have also emerged as performance explanations. Studies have touched the effects of institutional environment and the technical environment, the symbolic and cultural elements, or the more material and resource-based features that affect the organization (Scott 1998, 131). Institutional theory (DiMaggio and Powell 1983; Scott 1987, North 1992) adds a view that the viability and survival of a company is achieved through congruence with the surrounding industry norms, values and logics. Institutional theory focuses on impact, coalitions and competitive norms together with power and informal relations. Neoinstitutional theories underline legitimacy as a core concept. Both institutional and ecological frameworks thus suggest that institutional relations increase an organization's survival prospects (Greenwood and Hinings 1996, 1023; Baum and Oliver 1991, 187 and 213). However, task environment relations have been found to be more critical to organization’s success than institutional relations. The quality of an organization’s relations with task environment constituents who control the critical factors of economic production for the industry – land labor, capital and supplies – is more strongly associated with profitability and productivity than the quality of an organization’s relations with institutional constituents in the environment – regulatory authorities, institutional inspectors, professional associations and state agents governing the industry (Oliver 1991, 116).

The main conclusion from the research concentrated on environment-organization relationship is that although environments must be perceived in order to influence actions taken by organizational participants, environments can influence organizational outcomes whether or not they have been perceived. Organizations produce outputs, over whose characteristics they typically exercise control, but outcomes represent the joint product of organizational performance and environmental response (Scott 1998, 142). The primary notion was that organizations are themselves agents of environmental change, as Zammuto noted, "what is effective performance at a given time is seen as being equally likely to be ineffective at another because the context in which it occurred

has changed. Thus the key question becomes one of how an organization can perform effectively over the long run as it operates in a dynamic societal context" (Zammuto 1984, 608).

The evolutionary economics has the same basic starting points as the ecology view: market development carries an implicit notion of “the tendency of the most profitable firms to drive the less profitable ones out of business" (Nelson and Winter 1982, 4). While the bidirectional theories hold the idea of selective criteria or the environment/context to be static, the reciprocal view uses the concept of coevolution – the simultaneous development both in the context and the phenomenon under study. Environment is complicated by the fact that the environment is not only changing, but changing partly as part of a process of coevolution, in a mutual adaptation. Organisms and institutions exist in communities or other organisms and institutions. Their histories are intertwined by competition, cooperation, and other form of interaction, and these interactions considerably complicate the idea of evolution. (March 1999, 105) "In other words the environment is both the object of selection and the creator of the conditions of that selection" (Pantzar 1991, 233).

Within the coevolutionary approach, the changes in all the interacting organizations are a result not only the direct interaction between pairs of organizations, but also by indirect feedback through the rest of the systems. This reciprocity has been noted in various studies, and it can be summarized in the conclusion by Metcalfe and Ramlogan (2005, 217): "If competition generates development so does development generate competition."

The competitive dynamics view provides two sources of change, which are of most interest to the explaining of organizational performance, innovation and adaptation. First of all, dynamic competition renders the environment unstable, by introducing new and more developed means of competition. The motivation for companies to innovate and introduce better production methods is that it brings out lower costs, or a new product which can be sold at a price above cost. Successful innovation leads to higher profit for the innovator and leads to profitable investment opportunities, which make profitable firms grow. At the same time they cut away the market from the non-innovators and reduce their profitability (Nelson and Winter 1982, 266).

Furthermore, every action, which might improve the company's competitiveness, is taken into use by every rivaling company. This leads to the dissolving of the competitive edge, while new ideas are diffused to the whole field of competitors. For a moment innovations taken into use might some firms more competitive than others, but sooner or later the innovations have spread and been taken into use by the competitors (March and Sutton 1997, 699; March 1999, 332-333). Certain action produces better outcomes and is copied by the rivals, and when an innovative property spreads throughout a population of organizations, none of the individual organizations has gained an advantage over the others. The competitive advantage disappears (Starbuck 1994, 211). These "Schumpeterian shocks" redefine which of a firm's attributes are valuable and which are not. What were of value in a competitive situation in previous industry setting may be weaknesses or simply irrelevant in a new situation (Barney 1991, 103). With this change, the capabilities that each organization derives advantage from constantly slip away from it and into the hands of competitors. This leads to a focus not on the organi-

zation's current position or capabilities, but rather on its ability to dynamically increment these over time. In such fluid competition, past performance is irrelevant, because it does not predict future success (Greve 2002, 2; Meyer 2005). Thus, individual competitive action creates, in aggregate, competition in the market. Instead of being equilibrium, competition is economic evolution. Competition affects structures and technological development and thus competition is behavior in the market, not a market structure (Saviotti and Krafft 2004, 2).

Each company operates in the competition being aware of and partly susceptive to the impact of the rivals. Their action is at least simultaneous and embedded in the same landscape with the other companies' activities. A focal company's action is in large extent also dependent what the rivals do at the same time, how successful they are, how fast and innovative they are, with which resources they operate and how qualified is their implementation of necessary action plans. The activity of the other agents, rivals, stakeholders and the aggregate forces of the environment may have an effect on the trajectory of the company's success path. Besides the focal company's own intentions, the performance of a company – might it show as growth, profit, or excellence – may be also dependent on the action and counteraction of its rivals and the changes in the external environment.

Rivals interpret firms' performance rankings as a sign of proper actions, which lead to desired successful outcomes. The market is seen as a process that provides signals to market participants on what courses of action to take and from which to refrain (White 1981, 518; March and Sutton 1997; Lamberg et al. 2009). Hence, competition can be conceptualized as the exchange of initiative and responsive actions mediated by the market process. (Lamberg et al. 2009) Decision-makers appear to interpret the performance by comparing it with the historical performance of the organization and the concurrent performance of its competitors (Greve 2002, 13). In such atmosphere, performance is not absolute, it is relational: "performance of one company is always affected by the performance of other companies" (Rosenzweig 2007, 112).

The coevolutionary view, put forth by Baum and Singh (1994), March (1994) and noted by Aldrich and Pfeffer (1976, 91) the interaction and sources of change and adaptation between organizations and environment is primarily coevolutionary and reciprocal: organizations influence their environment as much as they are influenced by the environment.

2.3 Red Queen theory

Competitive dynamics (for a review see Chen and Miller 2012) focuses on interfirm rivalry based on competitive action and reaction in certain contexts, under the premise of relativity: A firm's strategy and market position must be examined within the context of and vis-à-vis its competitors' strategies and positions. The focus is on the action of the firm and responses to the initiated activity, as action is fundamental in the creation of performance and performance differences (Baum and Korn 1996, Smith et al. 1992, Chen and Miller 2012). Chen et al. (1992), Miller and Chen (1994), Young et al. (1996), Ferrier at al. (1999), and Ferrier (2001) have carried out studies on organizational ac-

tion. The research has concentrated on business and operations related activities: pricing, marketing, new products, capacity action, service and signaling actions. Besides these, there have been more “strategic” orientations, with "higher-order" actions, such as investment in fixed assets, or major reorientation or realignment with the environment, and reconfiguring the organizational structure (Chen et al. 1992, 445).

Competitive dynamics constitute the core of environmental selection processes for both ecology models and evolutionary economics. They relate mainly to the type of approach of the selection environment, and more specifically the factors shaping the competitive dynamics and their implications for feasible strategies. The ecology view links competitive dynamics to the competition about finite resources (raw materials, qualified labor, funding) at the population level. Evolutionary economics claims that competitive dynamics is the core impetus for change (Battaglia and Meirelles 2009, 95).

Competitive action is at the core of Red Queen theory. Following the ideas of Barnett and Hansen (1996), built on organizational learning (March 1988) and organizational ecology (Hannan and Freeman 1989), an organization facing competition is likely to respond. That response then marginally increases the competition faced by the organization's rivals, triggering in them search and decision processes that ultimately increase the competitive pressures faced by the first organization. This again triggers the search for improvements in the first organization, and so the cycle continues. Such a reciprocal impetus - known in evolutionary theories as the 'Red Queen' - has been claimed to be a central, driving force behind the evolution of competitive success and failure. Consequently, firms’ strategies often emerge over time from an accumulation of incremental adjustments rather than through a comprehensive strategic plan. Organizational arrangements that perform satisfactorily do not necessarily lead to a search for improvements, even if better practices could be found. But when performance falls below some certain range, it triggers the members of the organization to search for suitable improvements (Barnett and Hansen 1996).

The Red Queen hypothesis was proposed by the evolutionary biologist Leigh Van Valen (1973). The name refers to a discussion between Alice and the Red Queen in Lewis Carroll's book "Through the Looking Glass". The Red Queen hypothesis is about the dynamism of evolutionary improvements and selective advantages. In coevolution, competitive advantages of a rival and its increase of fitness will tend to lead to the decrease of fitness of another rival. It is selectively advantageous for a competitor to maintain its competitive position relative to others by both improving its own competitive advantages and decreasing the effects of the rivals on itself (Van Valen 1973, 17).

The Red Queen effect is an important stimulus to strategic evolution, and emphasizes competition as a force that continually upsets equilibrium by an incremental and constant self-reinforcing process. Such processes can result in important long-term developments even though each individual adaptive change may be small. Incremental change is usually thought to mean small change, but each small change within the Red Queen triggers the next, accumulating over time into a potentially large evolutionary difference (Barnett and Hansen 1996).

The concept of Red Queen competition (cf. Barnett and Hansen 1996; Barnett and Burgelman 1996; Barnett and McKendrick 2004; Barnett and Pontikes 2004 and 2008; Derfus et al. 2008), provides a link between market competition, internal development, learning in an organization and adaptation. The basic tenet of Red Queen competition

is based on the idea that competition both de-selects less-fit organizations and stimulates organizational learning. Organizations that have survived competition are more fit, and having survived they generate stronger competition. The escalating competitive intensity increases both the rate of unfit organization's de-selection and the pressure for learning, which yet again intensifies the competition, in an ever-increasing manner (Barnett and Pontikes 2004, 352-353).

According to Barnett et al. (1994), organizations are constrained and molded by their competitive history. Later Barnett and Hansen (1996) showed that exposure to competition affects organizational survival. Also, Barnett and Pontikes (2008) argue that an organization's competitive ability is history-dependent. Each organization's competitiveness at a given point in time is a result of historical experience. Barnett and Pontikes establish a link between dynamic interaction with rivals, firm learning and survival. Barnett and Sorenson (2002), Barnett and McKendrick (2004) and Barnett and Pontikes (2004) have also studied Red Queen and firm's prior experience in competition and company size. Red Queen competition has also been investigated as ever quickening rounds of an "arms race", when rival actions require new loops of action to keep pace (Derfus et al. 2008).

As a critique to Barnett's (2008) publication, Swaminathan (2009) commented that by construction, Red Queen competition is calculated by developing cumulative measures of the experience of a firm in terms of the numbers and types of rivals it has faced over its history. Barnett's tests of Red Queen theory have not explicitly modeled the intermediate stage of organizational action. Rather, the effects of exposure to competitive pressure have been modeled as the viability of firms. The evidence in support of Red Queen competition would be more convincing if the missing link of organizational action is explicitly taken into account (Swaminathan 2009, 690-691).

In addition, as the Red Queen model captures evolution of the competitive landscape at the rival's level, it simultaneously excludes the effects of the wider exogenous force fields, consisting of, for example the state and society. The external, nonmarket environment is characterized by the social, political and legal arrangements that structure interactions outside of, but in conjunction with, markets and private agreements. Activity and events in the external environment, including political decision processes and their outcomes and regulative and governmental action, might have an impact on the structure of competition and the boundaries of action for the whole industry. Inevitably, for a focal company this means either the limitations or expansion of tools and choices in constructing and maintaining the company's competitiveness.

As Chen and Miller (2012, 164) have remarked, "competitive actions represent not merely a central nexus between organization and environment, their implementation and its consequences have major implications for how the environment is 'enacted' by the organization". The environment is thus not constant; it is shaped by parties involved and the action-reaction loops of the agents involved. The activity in the environment – whether it would be called external environment, the market, or the context – is part of the change processes that affect both the agents realizing the actions and the context in which the activity is realized. In abstract terms, context is the set of circumstances in which phenomena are situated (Griffin 2007, 860), and thus, the set of circumstances is in a constant transformation. In addition, the context in a competitive

setting in the market is a structure of multi-layered intentions, of which a part is presented by external stakeholders' wider social and societal expectations.

Organizations create substantial portions of their environment by investment decisions, lobbying, and employing other tactics that influence the rate of technological change, access to raw materials and markets, government regulations, and entry barriers. From the public authorities' side, action that alters the environment is likely to favor some firms and penalize others. For companies, a change in the environment may give rise to a competitive advantage or disadvantage, owing primarily to the configuration of firms in an industry (market) at a particular point of time. The manner in which a firm is embedded in the environment is itself an important contingency for performance (Lenz 1981, 142).

The wider environment creates an unstable platform for company activity and growth, by introducing societal and political expectations, rules and regulation. Firms have to respond to a variety of expectations, although they seem to have minimal connection to the technical requirements of the competition in the market (Greenwood and Hinings 1996, 1025). Paraphrased by Baron (1996), the performance of a firm, and of its management, also depends on its activities in its nonmarket environment. Several streams of research have depicted the effect of changes in the socio-political arena on private firms. From topics of "issues management" and "strategic issues management" (Dutton and Duncan 1987) the research has matured into a wider concept of corporate political activity or the political influence of corporations (Bonardi and Keim 2005: political strategies; Clougherty 2003; Hillman 2005: corporate political activity, corporate political strategy). The main point of these studies is that political strategy can be an active part of firms' strategy concept. Laws, regulation and policies - and their enforcement - that comprise the formal institutional environment of business do change over time and are affected by explicit advocacy efforts of businesses and other organizations (Keim 2001, 584). Quoting Nelson and Winter (1982, 372) "Public laws, policies, and organizations are an important part of the environment that shapes the evolution of private sector activities." Change over time in the relative power of different interests and groups within society likely will pull changes in policy in their wake. Public policies evolve partly in response to changes that may result from the evolution of private technologies and market structures or from other identifiable shifts in objective conditions. Moreover, public policies may reflect not changes in objective conditions but shifts in values, or understanding (Nelson and Winter 1982, 372).

As Nelson and Winter (2002, 26) state, If the environment keeps changing constantly, "we should expect to find firm behavior always maladapted to its current environment and in characteristic ways—for example, out of date because of learning and adjustment lags, or "unstable" because of ongoing experimentation and trial-and-error learning". This raises an important question: is it the environment that is affecting the organization or the organization that is affecting the environment. In addition, what particular forces in the environment or in the organization are the most important for success? If organizational intervention and planned adaptation is possible, how to deal with the problematic encounter with the markets? What are "the market" and "the competition" all about?

"The greater theoretical development on the external causes of organizational change would be theoretically beneficial", (Barnett and Carroll 1995) is still a valid call,

"research has yet to investigate systematically broad environmental conditions" (Chen et al. 2010, 1411). It has been acknowledged that the monolithic pictures of competition and selective environment are not sufficient. Quoting Levinthal (1994, 175): "In considering the survival of business enterprises, the selection environment tends to be either implicitly or explicitly defined as a competitive market in which less effective organizations are ultimately driven out of business. Organizations, however, operate in variety of selection environments." Similar notes can be found in the works of Geels (2002) and Knudsen (2002).

As Barnett and Sorenson (2002, 293) argue, Red Queen theory "does not require strong assumptions about organizational rationality. The theory assumes only that individuals within organizations respond to competitive pressures by attempting to improve performance." In the field of management's work, what are the principal concerns that managements must decide and that require their action? Barnett and McKendrick (2004) briefly note, that when performance falls below aspirations, it is the managers who will search, act and learn until performance reaches expectations. Thus, it is justified to widen Red Queen theory towards managerial agency, inspecting competitive activity from the perspective of the managers, and how they perceive markets and the market behavior of rivals.

2.4. Managerial arenas as loci of action

In this thesis I use previous conceptualizations of managerial arenas (Teulings 1985; Tainio et al. 1983; Tainio et al. 1986) to categorize events and managerial activity in certain specific layers of the external environment. Following Tainio et al. (1983), management activity in four arenas – finance, labor, markets, and state and politics - are critical to the performance of an organization. The arenas apparently involve their own particular rules, norms basic problems, and conditions. They each represent divergent spheres, with their own logic and condition for managerial action (Tainio et al. 1983, 4-6). Concerning management as the key driver behind developing the firm's success (cf. Augier and Teece 2009), the multiplicity of the affecting forces divides management's agenda, concentration, and the choice of appropriate measures into different purviews, all with their differing features and qualities. As such, they are managerial arenas, where the company link up and meet exogenous networks of power relations, in producing outcomes that affect the organization and its environment. Each arena set different pressures on company viability and profitability, and respectively the responses to these demands differ, as do the stakeholders, audiences and agents in each arena.

Building on an adapted framework of Teulings (1985), Tainio et al. (1983) and on a later categorization of management levels (Tainio et al. 1986, 29), I seek to create understanding about industry level firm evolution and performance in three arenas of management. At the institutional arena, the management works to secure the impact on the prerequisites of corporate action in political arena, so as "to secure and justify the legitimacy of one's own business activity and tries to improve the societal terms and conditions of the economic activity of the company" (Tainio et al. 1986, 103-104; about

the definition of 'political cf. Warren 1999). At this arena the management meet the legislative constraints as well as other institutional forces of the environment. The manager's tasks reach over the boundaries of the organization, into relating the internal functions to the organization's societal environment (Friedlander and Pickle 1968, 303). Institutional arena may hinder the growth of the company by setting criteria for government intervention concerning means of competition, marketing, and mergers and acquisitions. At the institutional arena activity is designed either individually or in concert with other firms or groups, to effectively participate in political markets (Bonardi et al. 2006, 1210).

Institutions here, following Fligstein (1996, 658), refer to shared rules, which can be laws or collective understandings, held in place by custom, explicit agreement, or tacit agreement. Institutional actors, states, government agencies, officials, establish rules for economic actors in property rights, governance structures, and rules of exchange. Institutional political actors can either intentionally or unintentionally upset the status quo of a given market by changing rules (Fligstein 1996, 661). As argued by Bourdieu (2006, 204), competition among firms often takes the form of competition for power over state power – particularly over the power of regulation and property rights and for the advantages provided by various state interventions. In their attempts to modify the prevailing “rules of the game” to their advantage, dominating firms can use their social capital to exert influence on institutional actors. From a coevolutionary perspective the reciprocal effects that political strategy of a firm have on its internal and external environment are acknowledged (Skippari 2005).

A second arena for management's activity is the capital and ownership arena. The management of an organization has to deal with two basic financial aspects: how to obtain sufficient financing for the business, and how to minimize the cost of financing. These problems are handled with various groups and institutions, representing owners, finance capital, investors, and business analysts (Tainio et al. 1983, 8). Simultaneously, investments also create a stream of influence, from and within the organization, which must be guided by the management. The ownership issues – in connection to investor relations, Board of directors, questions in relation to corporate governance – generate a fluctuating landscape of demands for dependency and autonomy, in the pursuit of power and its use in an organization.

A third arena for managerial activity with a distinct set of issues is the business and operations arena. It is a competitive ground for putting the resources of the company and its personnel into use (Tainio et al. 1986, 29). One of the basic functions of management is to secure a specific rate of return on investment for an enterprise. While capital is a critical input process, management is essential in transforming this input into productivity; thus the basic nature of the firm is to produce profits. The main concerns of the management in the business and operations arena are to create opportunities for profit-making: in terms of what businesses to be in, and how to compete in order to be productive and efficient (Tainio et al 1983, 11-12). Some of the key questions in the business and operations arena can be borrowed from Bell et al. (1997, 854): How to engineer growth to maximize economies of scale? How to increase added value? How to provide customers with the benefit of price? And how to engineer an efficient supply chain?

2.5 The research task

Red Queen theory, (Barnett and Hansen 1996; Barnett and Burgelman 1996; Barnett and McKendrick 2004; Barnett and Pontikes 2004 and 2008; Derfus et al. 2008), posits that firm rivalry is an evergoing progress, where reciprocal learning-development action dyads affect the whole industry.

Summarizing the above-mentioned discussion, despite offering a promising platform to explain firm performance, Red Queen theory has a number of limitations. A key limitation is that it omits the effects of a larger environmental context, either the co-created new market or competitive positions, or the new environmental conditions, created by "externalities" (Shapira 1994, 121). As stated by Rodrigues and Child (2003, 2158), "If co-evolutionary theory is to be robust and generally relevant, it has to take account of all situations in which there is interaction between organizations and their environments." Another major drawback of this approach is that it is based on monolithic views of "competition", "organization", and "management". Methodologically, literature on Red Queen has focused almost exclusively on variable-based research, and little attention has been paid to processual and qualitative approaches.

Red Queen theory analyses and compares various aspects of competitive action, but is still short on describing causal processes. The lack of managerial action and agency leaves some interesting and relevant problems to be observed. Furthermore, previous studies have not studied long-term effects, but rather have stuck into "the impact of actions on the same year's performance" (Derfus et al. 2008, 69).

In the light of the controversy presented above, a warranted question arises: How can researchers depict evolutionary change processes in organizational performance if there is no selection (absence of "deaths"), when they investigate a minor organizational subpopulation (the whole industry sector consisting of five rivals) and taking into account the continuous change of the environment (the reciprocal nature of organization-environment relations)? "Without variation, there is no raw material for the selection process, and without a high mortality rate environmental selection criteria would be irrelevant", as emphasized by Aldrich and Pfeffer (1976, 87). And in continuation, quoting Richard et al. (2009, 745): "...we need to understand how the specific performance measures we use are influenced by the complex combination of context and actions over time."

This research assumes that firm performance is an outcome of interplay between a focal company's action, contextual external environment where the company's activity is embedded, and the competitive responses from rivals. Thus, the research investigates organizational and contextual antecedents that drive affected firm behavior and describes the changes affected by such behavior. The goal of the study is to explain variance in market shares by understanding the processes that contribute to success or failure in the Finnish food retail sector. The focus is on describing Red Queen competition as a dynamic interaction between rivals – and adding a missing link between evolutionary change of the environment, and its impact on the retailers' performance levels. The data is derived by examining events in the market and in the wider political and business context.

Although Red Queen theory alludes to the importance of contextual impact, the contextual changes are largely omitted. According to Barnet and Hansen (1996, 141), although political upheaval, technological advantages or regulatory changes cause disequilibrium and organizational change, such changes occur as “singular – albeit dramatic – episodes”. Hence, Red Queen theory misses the link between gradually evolving contextual environment, firms’ intentional activity in changing it and the agency of political and governmental actors. Thus, this dissertation is motivated by the following theoretically informed research question: (1) How do events in the firm's external environment affect Red Queen competition? The research question is derived from the literature review mentioned above and enunciated in a quote by Barnett and Pontikes (2004): "If competitive experience is the teacher, then as time passes and conditions change, the lessons learned by entire cohorts of organizations may prove to be inappropriate. These results are important to understanding the full implications of the Red Queen. The process we describe may increase both the viability and competitiveness of organizations, but only within a given context. Once times or contexts change, precisely those adaptations that once proved beneficial end up working to make cohorts of organizations less viable and less competitive."

To examine the question, the study establishes the following empirical research tasks:

> (1) How has the rivaling groups’ market share development in the Finnish grocery trade evolved through the years 1985-2005?
> (2) What actions have the Finnish food retailing companies taken during the years 1985-2005 to affect their market share growth?
> (3) What consequences have the companies’ competitive action produced in the markets?
> (4) How have different contextual events and other response affected the increasing or decreasing market shares?

In addressing these research questions, this research argues that besides prior knowledge of market competition as an intensifying factor in company coevolution, the links to the external evolving context plays a significant role. The environment and the context are not a constant, as noted by Campbell-Hunt (2007, 799) “Ceteris paribus is not tenable in a complex system, and to observe the phenomena produced by the system it must be studied observed whole.” This research builds on a set of relevant theories about competition, path dependency and change. First, different streams of research on competitive dynamics (cf. Baum and Korn 1996; Smith, et al. 1992; Chen and Miller 2012; Chen et al. 1992; Miller and Chen 1994; Young et al. 1996; Ferrier at al. 1999; and Ferrier 2001; Lamberg et al. 2009; Luoma 2013), as well as the concept of Red Queen competition (cf. Barnett and Hansen 1996; Barnett and Burgelman 1996; Barnett and McKendrick 2004; Barnett and Pontikes 2004 and 2008; Barnett 2008; Derfus et al. 2008) provide the basic platform in understanding market activity and competitive responses. Second, the framework of managerial arenas, e.g. the deliberated action of the management to examine and influence the external factors in different purviews (cf. Teulings 1985; Tainio et al. 1986; Fligstein 1996; Skippari 2005; Bonardi et al. 2006) contributes to the conclusions about the evolution of the external environment, especially in the political and societal domain.

Previous studies, both in the field of firm performance and among Red Queen theory, have failed to consider the pivotal questions of "why" and "how", or "with what mechanisms" the performance of a firm is produced. Neither have they given answers to how the events and occurrences in the context affected the outcome. Moreover, the impact of the contextual factors has remained of limited interest in the previous research. Therefore, it is possible to further improve the depth of understanding of firm performance by inspecting carefully the processes that contribute to market share growth. A processual explanation would improve our understanding of the performance and its causal complexity with various intervening variables.

The novelty and contribution of this research stems from the elaborated research design and research setting. Instead of explaining average performance (cf. Cameron 1986a), the focus is on understanding internal, external and contextual processes that affect performance. The current research is focused to study the simultaneous influence of several competing actions of a number of firms as well as the influence of the wider socio-political environment on performance development. The changes in the environment are treated as a collective outcome of numerous organizations' activities. Accepting a processual, or historical, perspective this research seeks to contribute to the existing literature on organizational performance and Red Queen theory by providing knowledge of the processes, things, events, happenstances and organizational activity that create variance in market share development.

This study gives empirically grounded answers to questions of how performance is constituted, how it is realized under the pressures of rivaling forces and clarifies the concept of competition as a behavior of the firm. As a contribution, this research aims at generating an understanding of the conditions and circumstances for organizational performance as an evolutionary process, partly led by the intentional activity of the firm management, partly molded by external contextual conditions. In addition this research widens the conceptual development of the evolutionary theory of competition (cf. Metcalfe et al. 2003) providing empirically grounded observations of mutual impact of market-tested organizational activity. This research also helps to understand organizational performance as a multilayered phenomenon and elaborates discussion in management studies about causal complexities behind firm performance.

This research is polymorphic (Alvesson and Gabriel 2013), meaning that it is not aimed at "gap spotting" and "theoretical contribution", but rather at understanding an interesting and significant phenomenon. The understanding of the phenomenon is created by establishing the boundaries of the phenomenon (Chapter 1), and depicting the prior literature explaining firm performance and Red Queen competition (Chapter 2). Chapter 2 presents the background to the study and the methodological justifications are presented in Chapter 3. It is followed (Chapter 4) by authoring a "thick description" (Geertz 1973) about the subject area; case descriptions explaining winning and losing in Finnish grocery trade in 1985-2005. Chapter 4 also includes an epilogue in which the later development between the years 2006-2013 is briefly observed and discussed. Finally the research concludes with and draws conclusions from the empirical presentation (Chapter 5). The contributions of this dissertation are reflected in Chapter 6, where a discussion of the implications and significance of this research is presented. The research process and reporting is influenced by the "bricolage" approach (Boxenbaum and Rouleau 2011).

3. IMPLEMENTATION OF THE STUDY

A noteworthy property of Red Queen evolution is that large-scale change develops over time through a series of many, self-accelerating but incremental steps. Ordinarily large-scale change is portrayed as taking place in discrete “reorientations” that redefine the basis of competition at a moment in time (Barnett and McKendrick 2001). Thus, it is the accumulation of actions over time and their effect that is at the core of Red Queen theory. Research concerning long-term historical development means developing knowledge about courses of action, which are contextual – meaning that they are created by or related to the development of the external environment - and which are based on cumulative and linked decisions. Hence, the research design in this study has been inspired by "historical methods”, "processual approach" and "case study design" and is based on three main ideas: Firstly, following Steers (1976, 62), the concept of organizational effectiveness "is best understood in terms of a continuous process rather than an end state". Secondly, the study considers that performance is created by actions that are motivated by human intention, and the result of deliberate choices and responses to this action. Thus, firm performance is an outcome of intra- and extraorganizational processes (Lenz 1981, 149; Steers 1976; Miles 1980). Thirdly, borrowing from Miles (1980), this study argues that organizational effectiveness is linked to structures and processes within major subsystems, organizations, and their environments.

3.1. Market shares as entry point

Several indicators have been used to monitor the development of a company's performance level. Financial measures, operational measures, and predictive measures have been used, for example number of personnel, return on investment (ROI), turnover, and market share. However, referring to Chakravarthy (1986, 445), measures of performance have at least three major limitations: (1) they assume that a single performance criterion can assess "excellence", (2) they focus only on outcomes to the exclusion of transformation processes within the firm, and (3) they ignore the claims of other stakeholders besides the stockholder. Financial measures, derived from annual reports have certain difficulties: "It is difficult to clarify objectively the operational efficiency behind the financial reports, since, as mentioned above, they also fail to include a view or analysis of the operational performance" (Barros and Alves 2007, 550). As Antti Remes, one of the interviewees of this study commented: "Eka Group was in a serious cash crisis.

Which in fact, when I went there, was not reflected in the balance sheets, as there was a kind of swap deals made by both the banks and the insurance companies, in which the real estate mass was built in sets, which were cross-sold at inflated prices so that your balance sheets were strengthened." (Antti Remes, interview on June 3, 2008)

This research measures firm performance by the proportion of market share. Market share is taken as a total and representative signal of an organization's well-doing and success. Market share has been chosen as a measure of performance for several reasons. It is quite accurate, shows dynamism in the market, and concentrates multiple aspects of organizational action into one variable. It is constant through time and is robust enough to verify changes between time periods. Moreover, market share data is easy to access via company annual reports and is derived from the analyses of market research companies, such as A.C. Nielsen. Similar to Dess and Robinson (1984), this research measures increases in market share from the growth in sales – as results of economic performance indicate how well a company relates to its environment by successfully expanding their product-market scope.

Market share as a measure can be used to take heed of the firms' relative position in the market, covering all the competitors with an equally consistent indicator of performance. Following the argumentation of Metcalfe et al. (2003, 12), changes in market shares reflect differences in rates of growth of capacity over the longer term and these changes are derived via the market environment from the causal and different competitive characteristics of the firms. A firm that is gaining market share over some interval has a competitive advantage over a firm that is losing market share.

In the short term, market share is a signal of relative position, current assets, and competitive strength in the competitive field. It reflects growth and endurance at two different levels. If the markets are growing (in real terms) then a steady market share indicates real growth of sales, but a decline relatively speaking. If the rivals are gaining market share over the focal organization, it is assumed that the rivals outperform the focal company, and thus, the level of organizational performance is lower. Losing market share is a message of inferior firm performance.

In the long term, market share communicates about both the internal development of the focal company's efficiency and comparison to rivals' equivalent measure. This is because market share is generated in a process that produces variance of performance. Rivalry means dynamic competition, where companies set and configure their input and participate in competition as dynamic maneuvering; a sequence of competitive moves and countermoves (Ferrier 2001, 858; D'Aveni et al. 2010, 1371). As a consequence, sustainable competitive advantage is rare and declining in duration. Following longer trends in market share development one can identify capacity gaps, thereby noticing timeslots where different companies' growth paths deviate.

Throughout the whole study the term grocery trade is used, although more exactly the market share as a measure in this study refers to the daily consumer goods trade. Another synonym used in this study is "food retailing". In the Nordic countries daily consumer goods refer to foodstuffs as well as to products that consumers use on a daily basis and normally purchase with food. In other words, daily consumer goods include food, beverages, tobacco products, techno-chemical products, household papers, newspapers and magazines, and cosmetics. The daily consumer goods trade usually refers to supermarkets that mainly operate on the self-service principle and offer a full range of

daily consumer goods. Foodstuffs account for some 80% of the overall sales of daily consumer goods stores (Daily consumer goods trade 2005-2006, 3).

This study accepts the definition of firm performance as closely related to the concept of "organizational effectiveness", which is seen by some researches as a broader concept (Richard et al. 2009, 722; Venkatraman and Ramanujam 1986), while some researchers treat the concepts as synonyms (Scott 1998; Moss Kanter and Brinkerhoff 1981, 322).

3.2 Applied Case study design

The design of this study is committed to avoiding the many challenges of previous attempts to capture essential knowledge about performance. The aim here is to provide a substantive explanation, a plausible story based on facts, events and industry-specific logics behind them. The approach taken serves to specify causal relationships and processes between events, which contribute to an organization's performance. Similarly, the approach is to understand processes and discontinuity influenced by both the involved actors and the context, focusing to catch dynamical development (Lenz 1981, 149). Thus, this research tries to avoid the problem of producing post hoc explanations of statistical relationships but aims to generate a holistic explanation, which is grounded on the empirical data. The description of performance is not a question of a priori definition, but rather a question of empirical investigation (Tainio et al. 1991, 427).

This is why this research has adopted the case study design. A case study examines and interprets the reasons for the occurrence and significance of a phenomenon. The material is taken as a whole; it is thought to shed some light on "singularly understood structure of an internal logic" (Alasuutari 1995, 28-29). A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used (Yin 1989, 22). As research cases, this study has five major Finnish food retailing Groups – K Group, T Group and later Spar Group, S Group, and Tradeka. The case of Lidl is also presented, but because the company established its operations in Finland in 2002, its impact on the overall development remained limited in the boundaries of this study. The case study method is used to describe the characteristics of a particular firm under study and comparison of the companies allows the researcher to compare different, unique solutions to performance and to lead a discussion on the components and outcomes of competition within the context of Finnish food retailing. Furthermore, this study is an intrinsic case study, meaning that the researcher is interested in the case not because of its value to generalizations beyond the case itself, but because the researcher needs and wants to learn from the particular case (Stake 1995, 3).

The qualitative research strategy chosen here is not to test, by means of empirical data, a theory that is drawn up in advance, but qualitative research produces inductively a new theory or conceptualizations from empirical research material (Raunio

1999, 303). Following the "humanist" tradition (Raunio 1999, 278) the concept of theory in this study has been conceptual-inductive rather than hypothetical-deductive. The researcher has had no set starting point for a theory to guide his work; rather the theoretical concepts are the results of the research process. This study develops a theory; it does not test any a priori presumption.

In the literature concerning qualitative research, there has been much thought given to the absence of any a priori theory. Knowledge about a phenomenon is generated in interaction with the researcher and the object under study. The scientific method is not aimed at producing credibility, but plausibility. "Theory does more than identify the ingredients of historical problems. It explains the processes which gives those ingredients meaning" (Green 1995, 102). As Van Maanen et al. have argued, theory and method are interlinked. The point of theorizing is not simply to produce validated knowledge but, rather, to suggest plausible connections and relationships that have not yet been caught (Van Maanen et al. 2007, 1148). The data should be sufficiently detailed, rich, and complex so that the organizing processes and causal conjectures can be approached and explained as to why they appear plausible (Van Maanen et al. 2007, 1149).

To improve the research accuracy of the case study method, this research borrows elements from applied historical methods, in a similar way as described in Golder (2000): the complementing parts of from historical analysis is an approach that affects the whole research process – the process of collecting, verifying, interpreting, and presenting evidence from past events. The strength of the approach is the capability to catch the complexity of the processes. In addition, the method of historical inquiry is a hermeneutic, interpretive approach that puts heavy emphasis on the contextual factors. This fits well the aim of the study, as the research interest here is to identify and describe processes that convey effects from the external environment to the focal organization. Several authors have suggested that organizational theory could benefit from historical inquiry and the historical methodology (Kieser 1994; Golder 2000; Jones and Khanna 2006). The main benefits of using historical analysis in this research are the following: (1) Structures and behavior in present organizations reflect culture-specific historical developments (Kieser 1994, 609; Jones and Khanna 2006, 459); (2) The theories can be subjected to more radical test than merely being confronted with data on short-run changes (Kieser 1994; Golder 2000, 167; Jones and Khanna 2006, 455); (3) Historical analysis can reveal possibilities for interpreting things as results of past decisions, some made intentionally and some implicitly (Kieser 1994, 611; Jones and Khanna 2006, 460).

The approach used in this dissertation builds on explaining the phenomenon under study as an outcome of a network of affecting forces, and thus having been inspired by process research. Process theories in organizational studies see processes "as a sequence of events or activities that describe how things change over time, or that represents an underlying pattern of cognitive transitions by an entity in dealing with issue" (Van de Ven 1992, 170), or "sequences of individual and collective events, actions, and activities unfolding over time in context" (Pettigrew 1997, 338; Pettigrew at al. 2001, 700). Following Schreyögg and Sydow (2011, 322) a process encompasses several – at least two – events, decisions and/or other types of actions. These actions do not happen separately, but are connected so that they amount to a sequence in its own order. The result or intermediate state is basically imprinted by the foregoing course of actions and

its characteristics. Causal, deterministic, and teleological explanations are replaced by a view in which events are not treated as independent variables but instead are depicted as contexts and processes (Üskiden and Kieser 2004, 325; Clark and Rowlinson 2004, 346).

The above mentioned definition of a process takes an historical developmental perspective, and focuses on the sequences of incidents, activities, and stages that unfold over the duration of a central subject's existence (Van de Ven 1992, 170). A processual explanation consists of statements that explain how and why a process unfolds over time (Van de Ven 1992, 175), how and why things emerge, develop, grow or terminate over time (Langley et al. 2013, 1). Additionally, it is important to note that "the context" is not something that is held constant and outside the changes being analyzed, but is itself continually reconstituted within and by processes of interaction over time, generating unexpected and largely uncontrollable chains of activity and events in which actors, environments, and organizations are all in constant and mutually interacting flux (Langley et al. 2013, 5). The explanation requires a process story, which identifies a plot, or generative mechanisms, or at minimum, a description of progression or sequence of events that cause observed events to happen and the particular circumstances or contingencies behind these causal mechanisms (Van de Ven and Poole 1995, 512; Langley et al. 2013, 9).

Although process data is difficult to analyze due to dealing with sequences of events, involving multiple levels of analysis and varying temporal embeddedness (Langley 1999, 692), the processual approach has several advantages. Process-oriented research binds together time and context, observable action with individual's freedom to choose, and thus avoids the inevitable teleology and determinism that has been present in previous research design. The process approach takes a holistic approach, grouping individual activities and decisions in coherent, logical ways. The interconnectedness of processes establishes a single framework that includes both cross-sectional and dynamic elements (Garvin 1998, 42-43).

In this research, by using the processual approach, the analysis concentrates on identifying events, impetus of other events and their cross-effects, causes and causality of events. An event is an occurrence or episode in which action, behavior or something that has affecting forces emerges and sprouts up. A cause is anything that contributes, or makes a difference to the event we are concerned with in one or more of its aspects. The causes of an event include everything that contributed to its coming about in the way it did, and therefore extend to background conditions as well as the more salient "triggering" mechanisms that are typically cited in research results and explanations. Some causes might be combined to subsets, causal factors that form causal mechanisms, which produce certain effects in more or less standard ways. Whether a cause is cited is closely bound up with whether it is explanatory relevant (Runde and de Rond 2010, 433-435).

Crucial to evaluating a causal explanation is to verify three criteria: (1) The factors cited as causes were present in the run-up to the event in question; (2) that those factors were causally effective in contributing to that event; (3) given an affirmative answer to (1) and (2), the causes actually cited in the explanation explain it well – taking into account various contextual and epistemic considerations relating to the intended audience for the explanation, and the interests and theoretical presuppositions of the

person providing the explanation (Runde and de Rond 2010, 445). However, it can be noted that causal explanations have instrumental value that depends on their explanatory power; e.g. whether these interpretation lead to increasingly better understanding of the phenomena in question (Durand and Vaara 2009, 1249).

Causes are themselves caused by conditions, which in turn are actual products of by-gone historical developments (Kieser 1994, 618-619). The causes of events are understood and assessed by their relative importance by looking beyond immediate causes to determine the underlying as well. Immediate causes may be just precipitating events (Golder 2000, 157). Historical events always have multiple causes, and things, events and phenomena have a multitude of explanations, and the affecting factors cannot be isolated and excluded outside the situation where they affect. Sometimes the situatedness is in fact important resource in making causal explanations feasible at all (Runde and de Rond 2010, 432). Quoting Renvall: "Almost every time, when in historiography one invokes the reason for a certain outcome, one can say, that it is only one of the reasons or prequalifications, from which the incident arises" (Renvall 1983, 74-78).

The inferences of this research are a result of iterative steps in a process of systematic combining, as coined by Dubois and Gadde (2002). Data collection and analysis are overlapping processes, and they make use of an abductive approach. The data analysis is in constant interaction at the same time with the data collection and both of the processes are influenced by knowledge of previous theories and frameworks. The analysis is a cyclical process of inference and tracing evidence from the past. Multiple and even complex pieces of evidence – newspapers, interim reports, market analysis – can serve as sources in order to draw credible inferences and claims about events in the past. The sources provide useful information after thorough critical and systematic consideration. Also, the evidence must be taken into consideration in its full context rather than in isolation. Wide, complex and contradictory evidence is examined under the rule of corroboration: is there confirmatory evidence from equally credible witnesses? Conformance with other facts is a critical test of evidence (Golder 2000, 160-161). Thus the researcher rebuilds past events polyphonically, always testing the validity of the evidence and relying on multiple pieces of evidence.

Conventional methodology in management and organizational theory rests on assumptions of separating the researcher and the method, in order to claim accuracy and validity. Historical inquiry is more open to the idea of the researcher's central position in the process. The choices made concerning data, material, treatment of interviews, and source criticism etc. all relate to the view on methodological selections. The approach in this study underlines the researcher's role as the main tool in the research process. The researcher is not an outsider and the results he or she produces are not outside of the experiences of the human world. On the contrary, they are the very results of human cognitive activity, outputs of thorough weighting, analyzing, control and criticism. In the approach here the researcher is the tool for the analysis by reconstructing, interpreting, organizing and inferring the data (Golder 2000, 161). This is parallel to Van Maanen et al.'s (2007) view on the significance of the researcher; that "moving back and forth from data-based theorizing to intuition resting on experience, habits of mind, and research context plays an important role in generating interesting theory" (Van Maanen et al. 2007, 1148).

This research builds on a view, that multiple firms' activity affects or even creates external factors, and thus satisfies the needs for more integrated view of the contexts and changes in the focal firms. It answers Pettigrew's (1997, 340) call for a more context-bound and even more "political" approach to studying organizational performance. Quoting Pettigrew, "explanations of the changing relative performance of firms should be linked to higher levels of analysis (sector changes and alterations in national and international political and economic context), and lower levels of analysis (the drivers and inhibitors of change characteristic of different firms' culture, history, and political structures)" (Pettigrew 1997, 340).

This study is positioned between those areas, building on a view where organizational outcome is a product of individual aggregate behavior. Although an organization cannot act because activity is an outcome of human behavior, some action can be summed up to an aggregate measure and consider it as being done by a concordant unity called "the firm", or "the organization". Organizational action is an aggregate of all the action within an organization, originally carried out by individuals, but seen, tolerated and accepted as an action of the community as a total agent, while people who act, act in the name and on behalf of the organization they are affiliated to. Organizations are autonomous institutional entities, in which individuals are the "primary" actors, who generate the basic actions that cannot be decomposed into more elementary sub-actions. Each individual can be viewed as an inter-systemic coordinating agency, capable of synthesizing physiological, senso-motoric and psychological processes in such a way that "actions" are generated as emergent phenomena. "The Organization" is a "secondary actor" that relies on the capacity of their individual members to produce "primary actions" (Geser 1992, 431-432).

In organizational theory, bricolage refers to the assembly of different knowledge elements that are readily available to the researcher. They may be diverse strands of literature, methodological components, various pieces of theory, and metaphors to generate new knowledge. The script of bricolage invites scholars to produce new knowledge through improvisation rather than through adherence to a specific theory, method, or paradigm. In doing research, the researcher does not invent a new theory or new paradigm, but remodels existing theories by combining various theoretical concepts, ideas, and observations at immediate disposal. The researcher identifies similarities and complementarities among the selected elements and integrates them creatively to provide coherent, robust, and actionable insight into a phenomenon. Some organizational theorists have advocated the bricolage script while others object to the loose and fluid combination of heterogeneous elements, refusing to acknowledge this postmodern template as an academic mode of knowledge production (Boxenbaum and Rouleau 2011, 281).

One goal of the analysis is to provide a view on how the differing initiatives of multiple actors collide and reciprocally affect each other, and how the interacting processes jointly produce outcomes. To be able to investigate the variation in markets share, this research borrows from Bacharach et al. (1996) the view that organizations as well as networks of organizations comprise of reciprocal social exchange relationships that are based on dependence. Such relationships exist when an actor's outcomes are contingent not just on his or her own behavior but also on what other actors do simultaneously or in response to the actor's behavior. As stated by Kieser (1994), searching for explanations in differences in performance, "there is no alternative to reconstructing

the course that the development or organizations have taken in specific societal, social, material, and cultural settings" (Kieser 1994, 610-611). Hence, the case descriptions of this research were in themselves part of the analysis, in the creation of understanding the aspects linked to the topic of organizational performance and market share variation.

3.3 Overview of the Sources

The empirical material of this research comprises interviews and written material. Written material from the period of 1985-2005 includes annual reports, press releases, financial statements and interim reports, and other shareholder information. A variety of business magazine articles (Kauppalehti, Talouselämä, Taloussanomat) are used as source as well as companies' customer magazines (Ässä, Kehittyvä kauppa). In historical analysis, the researcher prepares questions of interest rather than develops hypotheses from established theories, and approach sources in an attempt to find answers. Hence, potential data sources for this research are published materials, field interviews, archival material, and cultural artifacts (Golder 2000, 158-159). Almost any material is permitted to be consider material or data if it is seen to be relevant and beneficial to the study (Kalela 2002). The researcher may also use inference at the analysis stage to complete information that is not specifically provided (Golder 2000, 161).

The most important element in constructing the description of events and occurrences behind the firm growth paths (Chapter 4) were the interviews. A total of 20 interviews were conducted with the CEO's of the leading Finnish food retail corporations (K Group, S Group, T Group, Spar, Eka, Tradeka, and Lidl). The contextual development was further studied by interviewing the Directors General of the Finnish Competition Authority and the Managing Director of the Finnish Grocery Trade Association. All the interviews were transcribed verbatim. The interviews were conducted between 2007 and 2012. The interviewees had over 200 years combined experience of the Finnish grocery business. The interviews lasted between 45 and 90 minutes. In addition, the interviewees provided some written and oral additional comments, and some key informants were interviewed a second time. All interviewees had the opportunity to reflect on the written manuscript of this dissertation, in order to provide additional insights and information. (See Appendix 1 for a list of interviewees.)

The strength in the selection of the cases for this study is in line with Denrell (2003), that every research design should avoid the bias of sampling only successful organizations. A misleading picture of the determinants of organizational performance is received, if we do not understand how organizations fail (Denrell 2003, 227). In confirming success factors or qualities, the determined variables have to be tested against counterexamples - are there any firms that have all the same variables as those who performed well, but did not succeed?

Interviews concentrated on the CEOs, accepting their important and symbolic role as shapers of organizational decisions, actions and consequently, and performance (Sutcliffe and Huber 1998, 793). Management is conventionally agents designated as

responsible for a particular bounded area of work activity and responsible for the efforts of those who are engaged in that work. Management also bears accountability of what has been produced (Hales 1999, 342). Organizational outcomes, such as effectiveness, are affected by values and cognitive bases of powerful actors in the organization (Hambrick and Mason 1984, 193). Hence, the CEO's experience, insight, and being part of the industry inner circle give a wider view on the logics of the industry. In this research, the interviewees could provide an account for their own company's performance and provide comparative insights on how that knowledge resonated with the rival's market share development. Top managers may exercise a great deal of choice and can have a major impact on organizational performance. They do this by exerting influence on, changing, or selecting the environment in which they operate, and by changing the configuration and processes in the organization itself in order to improve performance (Cameron 1986a, 107). And as stated by Chen et al. (1993), an insider view on internal variables is confident and reliable.

An interview is based on participation, in which the parties shape in narrative form the content of existing knowledge. The informant's role is crucial and thus interviewing is very useful in getting data and deepening understanding by gaining insights about phenomena. According to Holstein and Gubrium (1997), in a constructivist dialogue the interviewee can be understood as an active producer of knowledge in the creation of meaning and significance, compared with the traditional interview technique. Traditionally, in an interview the researcher asks the right questions, and the interviewee returns a reply of facts and genuine real feelings. Holstein and Gubrium promote an approach, where in an "active interview" the interviewee becomes an active data warehouse, a data-generating source. There is a subjective element involved in the interview study. The respondent experiences and simultaneously also interprets the phenomena and issues. By generating his or her own opinion or openly expressed views, the interviewee creates information. This collected information must be handled with caution, because other types of challenges might arise; for example, that all the empirical knowledge or data collected is dependent on the observer.

Here, the material produced by the interview is not treated as direct evidence, rather as polyphonic stories of the development within the field. The stories are the ingredients for digging out explanations to chronological developmental paths, providing necessary insight, illuminating and making visible the internal logics of the focal companies' development paths. Ingredients means that the stories of the interviewees were weighted against the plausibility of the explanation they in summary generated, not against an absolute truth value. Such absolute truths in qualitative research usually build on positivist epistemology, taking for granted that the amount of repetitions is a sign of higher truth value. However, as Roth and Mehta have argued, “a piece of evidence need not be more true because more people relate to it” (Roth and Mehta 2002, 153).

The reliability of the interview data and the reliability concerning retrospective reports are dealt here from the point of view that interviews may provide an insight to the underlying logics. In many cases the only way to get information of past events is the interview and retrospective recall of what has happened in the past. For instance, Golden (1992) showed that in most case (58%) in his empirical evidence, the categori-

zations ex ante and ex post differed significantly, thus making the retrospective accounts unsuitable for a researcher's needs. Golden referred to theories that show that top management want to make a plausible and socially expectable explanation of what happened or might want things to seem rational. The informant may also want to keep up their self-esteem by given erroneous interpretations of the past (Golden 1992, 849). Roth and Mehta (2002, 143), complemented this view with their findings. There might be problems of memory, where respondents cannot remember detail about what happened. There might be the problem of vested interests, where interviewees seek to protect the professional status or personal reputation of themselves or others. There might be a problem of mistaken judgments, which means the unconscious errors that respondents can make. The interviewee may also make faulty inferences based on incomplete information. These notions of retrospective recalls being inadequate have been repeated with same kinds of conclusions as those of March and Sutton: "...[T]he data that are used to record organizational histories often rely on retrospective recall of informants, recall that is likely to reconstruct the past to make it consistent with subsequent performance results, conventional story lines, and current beliefs" (March and Sutton 1997, 699).

The interviews answered the questions “how” and “why”. In this research, what was obtained from the interviews are not “stories”, having a connotation of "fiction". They are not treated as fiction, but as true, albeit subjective views of what happened. Although the interviews are presented in a narrative form, and as such they produce stories, in this research the analysis has not a "narrative approach" in the sense that the middle of analysis is not a story itself or the way how it is told. While a story refers to the events or sequence of events, a "narrative" refers to the situated representation of those events. There can be many representations of one same event and many versions of how they are narrated and plotted. Narratives organize events and action into a whole by linking them temporally, thus giving individual events meaning as part of the whole (LaPointe 2011, 39). It should be noted, that the meaning of an event is subjective, thus in this research the aim is to use source criticism to clean the narratives of their subjective burden, to be critical to the face value of what has been told, and use a sort of purified account as one source in iterating an aggregate view of what happened. The interviews are accounts, verbally expressed subjective records about the past, thus similar to "narrative non-fiction" proposed by Phillips (1995, 630).

A.C. Nielsen provided a wide basis of company-specific information. This included time series of the number of stores for each food retailing company, as well as data and time series about store size development, sales per store, and market share changes. The market share statistics were derived from A.C.Nielsen’s Store register total sales (value). A.C.Nielsen's Grocery store register is made up of private and cooperative stores selling food in Finland. Service stations chain stores and discounters, which offer a selection of fresh goods, are included in the Register, as well as specialty food stores and shops in market halls. A.C.Nielsen has estimated Lidl's market share. Market Index Oy had already established the Grocery Store Registry in 1979, and A. C. Nielsen began publishing the register in 1993. The register contains data on individual grocery stores. The information for the store register is collected annually, by phone or by mail, in cooperation with trade groups and individual actors. The Register is updated annually in

March and is published in April each year (Kilpailuvirasto 2004). Company annual reports provided numerical information. Data about market share development prior to 1990 was received from professors Henrikki Tikkanen and Juha-Antti Lamberg.

A great part of this research relies on published sources, that is, on business magazines and business press articles, company histories, and other published information. In sociology and organizational theory, the tradition is to name the material, which the researcher has gathered (interviews, notes, observations etc.) as "primary sources". Conventionally in historiography, primary sources refer to material that is created at the time when something happened. A secondary source is something that is written up on the basis of the primary sources. In this research there is no division between "primary" and "secondary" data or material (Goodman and Kruger 1988, 315). In this respect, all the available information has served as sources in creating an understanding of what happened during the research period and as an input in analyzing the logic and content of what happened.

The outcome of decision-making in an organization and the measures taken as the implementation can be found summarized in the company annual reports. Analyzing certain themes, which are repeated, underlined, and considered to be important by the top management makes it possible to elucidate and identify the logic behind top management's decisions and deeds. Analyzing the interdependence and dynamism of these two factors, intentions and organizational response, enables the description of the dynamism with which the company responds to the demands of the environment or other forces. Newspaper articles or other textual sources can supplement this source of evidence.

Annual reports may give the researcher a good a solid base for studying the explanations and reflections of the top management. The annual report is a well-established channel of corporate communications practices. An annual report is an official document and is required to be filed on the Finnish Trade Register and thus must provide a true and fair reflection of the business during the year. The annual report has significant weight, because it is expected to give information about the company's future strategy and prospects. The annual report is presented in the name of the Board or the chief operating decision-makers in the company. However, the form and content of the annual report is dictated by institutional expectations. The past is legitimized from the present perspective, the action already taken is placed in the current context. Business reporting is thus not only retrospective, it is also conformist, and can partly be considered pure marketing to a special audience (Cf. Mars et al. 2000).

The use of published company histories, business journals, and newspaper articles has certain advantages. Firstly, the source can be sufficiently exact in providing evidence that otherwise would be hard to receive. An example is sales figures affected by customer loyalty schemes; they are held as trade secrets, but some indications of their level can be revealed from the business press. Company-specific trade and marketing magazines reflect the company's internal expectations and prevailing attitudes. Secondly, the sources are transparent, open and permanent, and distributed widely as in the case of a newspaper article. This increases the possibility of disclosure of erroneous information. Thirdly, the published information may be rectified swiftly due to the rapid cycle of publication in the business press. Fourthly, published information as sources are based on a wider access to the sources of information. Journalists interview

business managers at the moment of events, and might have a background in specializing in some topic, for example in retailing. Authors and researchers of company history may have access to closed information, to company documents, such as internal memos, strategy plans, minutes of Board meetings and other traditional "primary sources".

Important sources in this research have been company histories, authored by Jorma Kallenautio (1992 and 2009), Matti Lainema (2009), Timo Herranen (2004), and Kai Hoffman (1990). The value of their books lies in the fact that the published histories are detailed in-depth investigation and high quality historical research, with internal sources that otherwise would be out of the reach of a researcher. The authors have had access to primary sources; companies' internal archives, memos and reports, managers' personal notes and diaries, and Board protocols and meeting minutes. As such, the use of their empirical works is methodologically considered as re-examination of existing sources; similar to the approach employed by Hannu Hänninen (2007) in his dissertation.

In this research, citations are used for several different purposes. The citation and the source serve as a basis for verification, that the stated thing exists; hence it can be accessed, re-examined and re-evaluated. Thus, the reader can weigh the trustworthiness of the citation and draw his/her own conclusions based on the evidence. Secondly, the citing binds the views into certain paradigms and schools of thought, joining the proposed ideas and concepts into a continuum and traditions within particular research fields. Thirdly, the citations give support for the arguments developed in this study, presenting previous research results around the topics of interest. Fourthly, citations show that the researcher has chosen and summarized the most important and relevant research literature on the topic (Cronin 1981, 17). And fifthly, the citation is a sign of acknowledgement and appreciation to the original presenter of a fact, an idea or a concept, thus being a part of a larger convention of moral rights in intellectual property rights.

A reference is always given when another source has influenced this research, by offering ideas, hints, perspectives, parts of the argument development, terminology, or otherwise serving as ingredients for the analytical and cognitive process of writing this thesis. Having this as a guiding principle, any imperfection in this must be considered as negligence of the researcher, rather than intellectual theft.

Part of the source material has been the interviews of company CEOs. Because the summaries and conclusions are a result of the researcher, interviews are referred to and citations are given only when they have been taken into the report as direct quotations. In this study, quotations are used to (1) provide evidence for interpretation, claims or conclusions, (2) illustrate or provide a more concrete example of a situation and explain the logics connected to the situation, and/or (3) document the researcher's conceptualization of a phenomenon (Sandelowski 1994, 480; Eskola and Suoranta 1998, 176)

Quotations are presented verbatim. However, being translated from Finnish by the author, they are not in the original form. Translations have been targeted at ensuring that the translated quote is faithful to what the interviewed person wanted to convey (Sandelowski 1994, 481).

3.4 Developing the descriptive framework

The analysis in this thesis advanced in stages. The first step was to spot the changes in the market shares and major events in the research period, and to choose and identify the factors that would be included in the explanation of market share variation. The second step was to specify how certain events might have been causally linked, depicting causal processes on the basis of the events. In creating the causal chains the researcher weights what things lead to another, bound by other things or events. In the process of isolating more important causes from lesser ones, one tool the researcher uses is counterfactual reasoning (Durand and Vaara 2009, 1252). The third step was to record the conclusions in a meaningful narrative, an accurate description and interpretation.

The process of systemic combining included the following steps: (1) During the interviews the researcher took notes on the most emphasized messages of the interviewee. (2) Interviews were transcribed. (3) Single case studies were conducted combining insights from multiple informants per case. (4) Crossing evidence between cases was collected to create an insight of the affecting factors and activity in the entire food retailing industry. (4) The synthetic overall description of the results across the industry (cross-case analysis) evolved and become more accurate while the results of the individual cases begun to take shape. (5) At the same time, existing theory was examined and used to direct data mining of the qualitative interview corpus (Dubois and Gadde 2002).

Each transcription was read several times by the researcher, then a second memo of each interview was written, finding important development, stages or issues and details that contributed to the action and could explain the performance of the company. The memos also included the preliminary development of ideas for the results of the analysis. At the second stage the memos were crosscompared to each other creating links between different interviews and different companies. Further evidence was sought from the original interviews and other sources. All the time, the interview material was mirrored against other sources.

In explaining market share development, and in defining which factors were the most powerful and influential to affect the external and contextual development, the less important events have to be ruled out by observing a longer period of time. This compresses the chronological development into key events. Isolating key events in the contextual environment happened in two ways. Firstly, the researcher followed an individual development path of a company, addressing events that contributed to the variation of the focal company's market share. Secondly, the researcher built up a wider framework and a holistic view of interacting events, to get hold of the separate development paths' relations to each other, as they can have rhizomatic directions while emerging. Thus, via this two-way approach, the researcher made plausible claims of the importance of events during an era under inspection. This more holistic view of events can reveal both company-specific key events and on a larger scale also institutional, that is, political, economic, or cultural "critical junctures" (Capoccia and Kelemen 2007), that have a wider structural influence on society or the industry, or economic life in general.

During the passing of time significant sporadic events may cross the organizational development paths. Such incidents might have a greater impact on the orientation of the organization's activities. The events are not necessarily "critical", in the meaning of perilousness and precariousness – without their interception and impact the development would just have followed another direction, which from the ex post situation is not known and is thus approachable only via counterfactual reasoning. However, during these periods of dense significant events, antecedent conditions have allowed contingent choices and loaded tension about the organization's activities and goals is discharged. Consequently, an outcome of such an event might be that the organization's operations are reconfigured substantially and the organization's action is redirected towards new goals or targets, breaking the presupposed trajectory of market share development.

How to identify such meaningful and relevant spots of change? Certain components must be present. The claim that a significant change has occurred must be true (Collier and Collier 1991), the purpose or content of the event must be fairly clear to the observer and connected to the phenomenon under study. In addition, the event's consequences must be sufficiently definite to leave little doubt concerning its effects (Flanagan 1954). Moreover, the following sequences of action and consequences must be logically explained from the initial key event, that is, key events form a chain of change. In this research, changes are treated as path dependent, not in its strictest sense, but acknowledging the dependency of past made decisions, the irrevocability of the acts, and the simultaneous evolutional development of the environment that brings in contextual contingency. Focusing on these identified key cross-sections of time it is possible to reveal additional knowledge of how things and events connect to a causal texture. Key events are challenging events to which an organization must respond as they become the contexts for substantial change and adaptation. These events are rarely static or contained within a discrete time frame. They unfold over time, and require continual adaptation (Isabella 1990).

However, isolating and defining an event is demanding when it comes to the question of gradual development, as in the case of store site investment planning and construction of, for example, a hypermarket chain network. In depicting an event, we can refer to a principle from the critical juncture literature that “the critical juncture must be brief relative to the duration of the path-dependent process it initiates” (Capoccia and Kelemen 2007, 350). This approach in defining what “a key event is” is usable for sudden incidents and short-term causes, but leaves out cumulative long-term development and action, evolution. Thus, analyzing key turning points and happenstances can be corroborated with deeper analysis of the empiric material.

The cross-case analysis proceeded in parallel with investigating existing research literature. The analysis was grounded in emerging themes from the single cases and sought support from the cross-case analysis. The memos, based on the single case interviews were read again and compared to the first draft of emerging results and constructions. After revising the first sketches, the focus was moved to dig deeper into the original transcribed interviews, looking for support for the initial findings. The subsequent thorough re-reading and search for evidence was guided by the notions of the previous steps. These iterative rounds were repeated several times during the progress of the research. The iteration between different analyzing and reporting rounds guided

the focus of the "data mining" as well as produced a deeper understanding of the connections and means-end-chains in the corpus.

As the goal of this dissertation is to show the interconnectedness of several organizations' action, illustrating even the major means-end-chains during the 20 years period would be almost impossible without carefully extracting large quantities of information. In qualitative analysis the amount of data can be extremely large and thus the data need to be reduced. The choices of reduction or heuristics determine what kind of analysis is possible. Data reduction not only allows the analysis, it is the analysis - following the analyst's evolving sense of how the data come together and how they address the research questions (Huberman and Miles 1983, 285). Explaining variances in market share in the Finnish grocery trade was carried out by splitting the time continuum into smaller sets, and studying them both in isolation and in attachment to the wider. The parts speak for the whole, pars pro toto.

The time period of this research was divided into three main eras: the Boom, the Recession, and the Recovery. The complexity of the impact of competitive action is easier to depict by splitting the organization's activity into smaller sets of subanalysis. Such splitting, isolating and framing creates a periodization for the activities, creating each period around a unifying principle that is meaningful for the development during that era. Periodization is a process of dividing the chronological narrative into separately labeled sequential time periods. It enables comparison to other eras for identifying similarities and differences between periods, summarizes and structures historical research. However, it is noteworthy that all periodizations are products of post hoc evidence and the result of the researcher's summarizing of past events (Hollander et al. 2005, 35-36). The actor at their time did not live or feel any particular "period". As Green (1995, 101) has noted, all periodizations should be rooted in disciplined concepts of continuity and change. Historical epoch should exhibit important long-term continuities and moments of transitions between epochs should involve the dissolution of old continuities and the forging of new ones. The aim is to identify how forces in history interact to generate particular forms of change at particular velocities.

The outcome of the analysis is a construction of credible claims about what happened in each of the companies studied. The aim was to rely on the characteristics of a good explanation, that is: multidimensionality instead of monism. Events, incidents and phenomena have many explanations. The researcher creates an order to the ample set of explaining factors – in other words, puts the explaining reasons into a hierarchy in comparison with each other (Carr 1963, 94-95). Additionally important is that causality can never be assumed, it must be established empirically. As Berger (1986, 26) has pointed out, "[a]ccidents are always caused, but there are no theoretical shortcuts to finding out by empirical methods who hit whom and why."

The reporting of this research, the substance theory about market share variation and firm performance in Finnish grocery trade, is offered as a narrative explanation. Narrative is structurally close to action itself. It is common sense stories with the viewpoint of the agent. When the goal is to produce applicable understanding, the narrative explanation fulfills the requirements of (1) comprehensibility and (2) the point of view of the actor (empathy), and is (3) immediately recognizable and offers strategies to deal with analogous situations (Carr 2008, 22). “A story seems capable of encompassing multiple actions and events, as well as longer-term actions, sub-actions, and reactions

to events; it calls attention to the narrator’s retrospective point of view, introducing the ironic element of viewing actions in relation to their unintended as well as their intended consequences; and it appeals to a logic of the flow of actions through time, a structure of events that gives them a distinctive form” (Carr 2008, 25).

Although some researchers arguing for processual methods see the generalizability of the results as an ideal of scientific explanation (Van de Ven and Poole 1995, 1384; Goldman 1994, 623), others underline the uniqueness of the situation and context. Transferability of the results of qualitative research is only partially possible but is it not always necessary (Cf. Alasuutari 1995, 203-222). Because historical methods place emphasis on understanding all of the data underlying a hypothesis, it can question the generalizability of any research. As noted by Goodman and Kruger (1988, 318), historiography clarifies the full extent of the generalizability of the results in perspective.

"Large processes of historical change are not likely to hinge on single causes; many pieces have to come together. Hence, the presence or absence of particular features in other places should not lead us to expect or preclude parallel and simultaneous processes of development", as Landes (1994, 653) states. Landes' conclusion was that "big processes call for big causes" – the complexity of large systemic changes requires complex explanation. The reasons Landes proposes for this are: multiple causes of shifting relative importance, combinative dependency (some factors have different effects when conjoined or not with certain others), temporal dependency (it matters when changes occur, not only in sequence but relative to similar changes in other places (Landes 1994, 653).

The quality of this study rests on two principal cornerstones. The first is related to the questions; has the researcher chosen proper concepts in studying and explaining the real life phenomenon, and can the researcher convey credibility though plausible reasoning in the literary reporting of the research? The second one relates to the fact that a judgment of credibility rests upon the assessment how the researcher came to the conclusions. Thus, the reader will assess the types of data utilized from what is explicitly stated. It can be evaluated by examining the extent to which the interpretations are consistent with other research examining similar phenomena. The report on the analytical process is a verification device with the help of which the reader can track the research procedure to arrive at the proposed findings. The reporting procedure furnishes details that secondary analyst can use to double-check the findings using other analytic techniques (Miles and Huberman 1984, 22). Validity of this research can be evaluated by assessing that the results are true, transparent, plausible, logical, and grounded on evidence and verified with real-life events.

In the grounded, interpretive research approach used here, the theoretical concepts and framework are grounded in and emerge from the data and analysis (Glaser and Strauss 1967; Strauss and Corbin 1990), rather than being derived from prior theory that guided data collection and analysis. A "purist" approach of interpretive research reporting would entail a qualitative data presentation before the major theoretical dimensions and contributions. The concepts and models, e.g. the theory normally appear after the data presentation (Nag et al. 2007, footnote 822-823; Daft 1985, 200). Bearing in mind the motivation for undertaking research (Daft 1985, 200) – "The point of going out to observe organizations is to construct theory based upon the investigator’s

observations and interviews" – this research builds a narrative explanation and presents first the cases, and then, after that, a concluding discussion that connects this research to previous research and knowledge.

The interpretive approach in this research is part of the rich tradition of the “idiographic” view that seeks to understand the particular rather than generate law-like explanations. Subjects ascribe meaning to their own behavior, and human activity can be understood only by accessing how it is intended and experienced, and thus draws from the tradition of "verstehen" - understanding an action through the actor’s subjective experience of it. Stake (1995) questions the ideals of positivist case traditions, including generalizability, causality and objectivity and stresses understanding of the uniqueness of the case in its entirety. Instead of establishing cause–effect relationships – because they are regarded as “simplistic” in the face of this complexity (Stake 2005, 449) – the aim is “thick description” (Welch et al. 2011, 747).

In substantive theory, the researcher seeks to enhance understanding by identifying similarities and differences of contextualized instances across and within case studies focused on a similar theme. In arriving at the analytical category the researcher has made many rejections, inclusions, and inferences. The content of substantive theory is mainly descriptive, focused on the essence, or substance, of the numerous case instances in a parsimonious relational structure (Adelman 2010, 908-910).

4. COMPETITIVE ACTION AND THREE DIFFERENT CONTEXTS IN THE YEARS 1985-2005

4.1 Setting the scene

Market shares are based on sales, which reflect consumer decisions on where to shop. The choices are dependent on the prices and other features of different food retailers, their chains and stores. Interestingly, market shares in Finnish food retailing underwent a total metamorphosis between 1985 and 2005. Two competitors – T Group and Spar[2] - disappeared from the competitive field; S Group doubled its size and grew to the market leader, and the former overwhelming giant, K Group, slightly lost its position in the market. Eka/Tradeka fell into the smaller company category. The Finnish grocery trade sector was a highly concentrated sector as the largest two firms supplied 61.3% of the market in 1985 and 69.8% in 2005. Nevertheless, the grocery market was reasonably dynamic as the early-2000s saw the entry of Lidl and as seen, the market shares have changed significantly.

During the years 1985 -1990, T Group grew and increased its market share. K Group seemed to be uncontested, its market share level stayed stable. It was a counterexample to S Group and Eka Group, which were losing their market share in the grocery trade, suffering from loss of customers, low quality shop facilities, and poor economic performance. A change in the competitive set up emerged during the years 1991-1996, although K Group still maintained its position as the sovereign leader in the market. T Group's market share fell sharply by 4.2 percentage points from 1990 until 1996, when its activities in the grocery retail sector ended. S Group was given a new lease of life and began to increase its presence in the food retailing market year by year. S Group's market share rose sharply. Eka Group's/Tradeka's poor performance continued equally poorly it was before the 1991 recession, but nonetheless its market share fell only 1.5 percentage points.

From 1997 to 2005, the evolution and development in the grocery trade sector resulted in a change of balance as S Group sharply increased its market share by over 10 percentage points. At the same time K Group was dethroned as the largest player in the market. Spar Group, constructed on the ruins of the T Group in 1997, was unable to

[2] Spar was established from the remnants of Tuko in 1997 and it factually continued T Group's grocery business. Spar Finland plc was formed in 1997 by merging Suomen Spar Oy acquired from Kesko Oy with Sentra plc. On January 2, 1998 Sentra Plc was renamed Spar Finland Plc. (Spar Annual Report 1997) These two succeeding companies are treated in this research as a continuum of a developmental trajectory.

reach a turning point in its decreasing market share and its operations in the grocery trade were ended in 2005. Tradeka's business seemed to produce positive outcomes. It managed to break the cycle of market share loss of the previous years, and its market share was stabilized. At the end of the period Elanto stores broke from the Tradeka alliance, which influenced the loss of Tradeka's market share. The German grocer Lidl entered the food retailing market and managed to show powerful growth, although in absolute terms in 2005 it held only 3.7% of the market.

The development of market shares in Finnish food retailers shows two different kinds of market share variation. First, the market share of a focal company in absolute numbers varies with time. Second, the changes in the relative market shares compared to rivals show repositioning in the competitive field. These changes are assumed to be results of different operational, financial or contextual factors, and different organizational arrangements. They are also highly societal and political – ranging from Eka's close ties to leftist parties, to S Groups commitment to the idea of a cooperative form, and to K Group's praise of individual entrepreneurship. The development described above raises a number of interesting questions. Why the disastrous failure of Tuko? Why the stagnating development path of Tradeka? Why the decline of K Group? Why and how did S Group succeed? These questions comprise the interesting empirical questions of this work.

Based on the development described above, retaining market share as a constant measure for firm performance and an indicator of its development through time, four different growth paths can be reconstructed from the data. The different performance paths can be categorized and named as the following: (1) Slight reduction - K Group remained its large, dominating role in the food retailing business, losing only 10 percentage points of the market share. It tried out a rapid dominance strategy in the mid-1990 for gaining more power in the food retailing industry. (2) Strong continuous growth - S Group doubled its market share within 15 years. (3) Lagging low performance - Despite of its size, reorganized Tradeka maintained a constant proportion of the markets, even after mandatory restructuring and several ownership rearrangements. (4) Cascading failure - T Group's unfortune was the enlargement to stock exchange and investment business, which ruined the central corporation's economic situation. This turned the thus far growing market share to a steady decline of the Group's operations, and its successor Spar.

The approach to empirical research adopted for this study is pragmatic. This study examines firm performance by depicting historical success paths of four rivals in the Finnish food retail market. A success path is a traceable trajectory of different interconnected series and episodes of activity. Each path is unique but related to other paths, and emerges during the passing of time as a recreation of historical conditions and choices. A development path of a firm has resulted alongside the organization's activity within a context and in interlinkedness with other agents within that field. It is formed partly by the organization's own initiative – or the lack of it – by things the organization did or left undone. It is formed or molded partly by environmental forces and partly coincidently by external conditions, such as good or bad luck. It is interlinked in the sense that each single organization's development path is connected and linked to other organizations' development paths. Any action influences, limits, or enables some other action. Hence, the development paths are formed together with the activity and

the influence of all major players and other actors in the industry field –be it rivals, potential competitors, or institutional forces. For this purpose, this research depicts chains of events behind the performance development, and shows the interlinkages between “the competition”, "the market" and "the rivals", in order to understand the dynamic nature of firm performance.

Explanations of a firm's performance can be argued to result from superior organizational attributes, excellent leadership and good or bad luck (Fox 2000, 161). Substantially, food retailers' success can be assumed to be consisting of both internal and external factors: process management, supply chain management, demand pattern, superior products, sales network, industry structural change, and chain operations mode (vertical integration). The contextual factors might include the aspects of governmental policy or support, national environment, and/or internationalization. The internal factors might consist of great leadership, technological capabilities, strategy-related explanations, management systems, governance, and/or strategy (Mattila and Tainio 2013). Even such external forces such as coincidence explanations or the effects of "luck" might be used in an explanation. Luck can be considered as a probability come true in an unexpected manner. However, in organizational studies luck is very seldom an explanation to financial success or organizational efficiency (on the effects of lucks cf. Lieberman and Montgomery 1988, Alchian 1950, and Parnell and Dent 2009). Nonetheless, any effort in the market to increase the market share will be affected with realized risks, and the outcome of action is never precisely the same as anticipated. Accordingly, intention can turn into unintention, and the consequences can be expected, unexpected or emergent, as in a competitive setting, "[n]either producers nor consumers know in advance the outcome of the competitive process, for that can only be established by trial and error; the market process is necessarily an experimental process" (Metcalfe et al. 2003, 6-7).

In order to indicate how the external conditions at the national markets affect firm performance, useful macro-economic measures are change in value sold in groceries and the change of volume. Further, the consumption expenditure changes are a good measure for depicting fluctuating demand in time series. The development of general wellbeing can be summarized in numbers presenting the Gross Domestic Product. First, increasing consumer expenditure from mid-1980 dropped dramatically in 1990, staying at a negative level for four years. The expenditure recovered around 1994-1995, and was stabilized towards the end of the research period. The amount of money available for consumption naturally affected the demand for groceries and other daily consumer goods, thus paving the way for changes in food retailing sales. Hence, the development of the percentage change in volume of daily consumer goods sales showed significant downturn from 1989 to 1993. In 1993 the development was negative. After the recovery the change in volume stabilized.

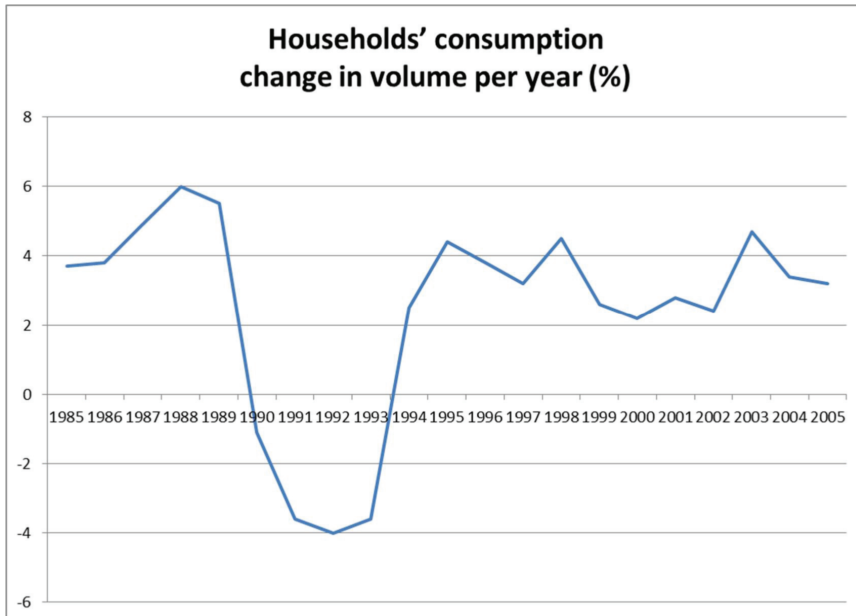

Figure 3. Households' consumption in Finland, change in volume per year 1985-2005. Source: The Finnish Grocery Trade Association.

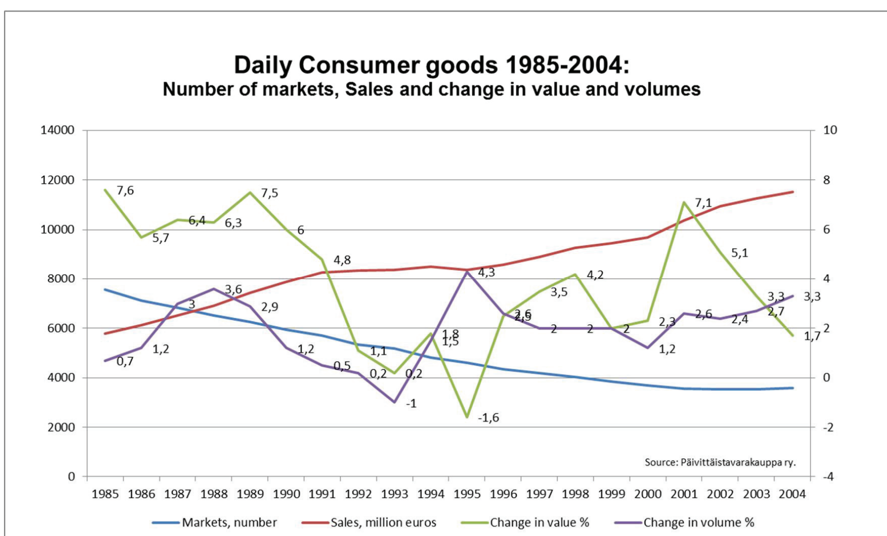

Figure 4. Daily consumer goods trade 1985-2004, number of markets, Sales and change in value and volumes. Source: The Finnish Grocery Trade Association.

Changes in the macro factors in the Finnish economy set three different contextual eras for the food retailing competition. While falling GDP and recession also means diminishing investments, decreasing loans, tightening fiscal policy and other affecting

factors, it is justified to center the contextual eras around significant breaks. In other words, recession, the recovery from it and a major political leap – Finland joining the European Union – serve as the waypoints for determining the sub-periods of this study. The periods are named as follows: the Boom in the Economy (1985-1990), the Recession (1991-1996), and the Recovery and Normalization (1997-2005). The labels point to the state of affairs in the grocery trade, calling attention to the nature of the competitive environment.

4.2 The Boom in the Economy (1985-1990)

During the late 1980s Finland remained quite isolated economically. The business system was dominated by domestic bank group alliances, highly regulated markets, heavy state intervention and stagnation in competition. The economy was dominated by financial power groups of banks and insurance companies, in relation to large-scale industry, especially the pulp and paper industry. The power groups had created overlapping interest structures, inter-board memberships, and shareholding between banks and manufacturing. Finnish state also had a strong role in the collaborative economy (Tainio and Lilja 2005, 62-63).

In the mid-1980s four major grocery trade groups – K Group, S Group, T Group, and Eka Group – were the main competitors in the Finnish food retailing market. All the companies had a long history behind them. S Group was founded in 1904, Eka Group in 1917, Tuko in 1924, and the K Group in 1940. In 1985 these four held a total market share of 91.7% in food retailing. The competitive setting comprised of well-doing private retailers, K Group and T Group, which based their operations and governance on the idea of the grocer-ownership model, combining private entrepreneurship and active ownership. They were contrasted with the poorly performing the “Leftist” Eka and the "Bourgeois" S Group cooperatives. Legally and operationally S Group and Eka Group were consumer cooperatives, enterprises that were owned by consumers, and with democratically arranged governance.

The firm-level competition in food retailing was realized as rivalry between special "coteries". The groupings comprised, besides of the retailing network and the central corporation, as the wholesaler for their own group, the distribution chain of warehousing and logistics, and the food industry production units; among others, bakeries, coffee roasting plants, slaughterhouses and meat producing units were owned by the central corporation or otherwise were in close ties to a certain camp. These horizontal concentrations of food manufacturing, imports and procurement, wholesaling and retailing constituted the Finnish food retailing groupings. The food retail corporations were able to control to whom the food manufacturers could sell their products and brands, and in which stores they were sold. The food and beverage industry sold goods directly to the independent groceries or regional cooperatives, meaning that every single shopkeeper negotiated both the quantities and the prices of the products to be purchased. Hence, conventional food retailing, until the late 1980s, was considered a distribution channel for the producers and food industry. Before the early-1990s, institutional policies af-

fecting food retailing favored the demands of agricultural protectionism. It was structural, maintained under the protection of Finland's isolated political and economic location in North-East Europe behind customs and import barriers.

The K Group consisted of the group's central corporation, Kesko Plc, and the independent K-retailers together with the K-Retailers´ Association. Kesko Plc was a central corporation and wholesaler to K Group's retailers. The ownership of Kesko was held by the private shopkeepers, entrepreneurs who owned and ran their stores independently but were members in the K-retailing network. All K-retailers were members of the K-Retailers' Association through their trade organization. The K-retailers Association was a co-operation and lobbying organization whose main task was to develop and enhance entrepreneurial activities among K-shopkeepers (Daily consumer goods trade 2005-2006, 13).

T Group was a wholesaling and retailing group that consisted of independent grocers, regional wholesalers, and the central purchasing corporation Tukkukauppojen Oy (abbreviated to Tuko).[3] The group was structured on the basis of a three-level hierarchy, in which the local shops were the customers of the regional wholesalers. The regional wholesalers owned and managed the central corporation, which was simultaneously the wholesaler for the regionals.

Eka Group was a large conglomerate, consisting of construction, insurance, food retailing, and hotel and catering services. Eka mirrored the values of the socialist cooperative movement, and its leaders announced strong ties to class consciousness and the labor movement. In addition, the majority of elected officials on Eka's boards and administrative councils came from left wing parties. The profitability of Eka's stakeholders and allies, the E-cooperatives, had since the mid-1960s been continuously negative and the sales had decreased year by year since the mid-1970s. In autumn 1983 39 different E-cooperatives were merged into Keskusosuusliike OTK. This created the E-Cooperative Eka Corporation. Helsinki-based Elanto decided to remain independent and stayed outside of the merger (Kallenautio 1992, 391). By the early 1990s, the food retailing of Eka Group continued to suffer from bad financial and operational performance and was totally restructured in the early 1990s. Tradeka Ltd, which was born after the reorganizing of Eka Group in 1995, was a nationwide retailing chain company with a centrally led structure. The store brands of Tradeka were Siwa, Valintatalo, and Euromarket.

In contrast to Eka Group, although having a similar cooperative ideology as a foundation, S Group favored a moderate and market society friendly attitude. In 1983 S Group consisted of 178 independent local cooperatives. These were amalgamated into 31 regional cooperatives during 1984-1985. In 1985 S Group employed a total of 33,500 employees.

The traditional role of food retailing in Finland slowly transformed from the suppliers' distribution channel for foodstuff and raw material into a provider of a wide assortment of food and food supplies in the 1980s. The cooperatives were more conservative in changing their offering to the customers and less used to utilizing price competition whereas private entrepreneurs were agile enough in fulfilling growing consumer needs.

3 Tukkukaupojen Oy was established in 1942. In a strutural renewal its operations were handed over to Kauppa Oy Tuko in 1992, and in 1993 the name Tuko Ltd was taken into use.

Financially, the Finnish grocery cooperatives had started to lag behind during the 1960s and their situation erupted into a full-scale crisis in the 1970s (Herranen 2004, 185-233). Both the E cooperatives and the S cooperatives ran into trouble at the beginning of the 1980s because of financial and organizational challenges.

In the latter part of the 1980s, deregulation of the financial markets led to an unexpected boom that was especially feverish in the closed sector of the economy. This also affected the development in other industries and sectors, while the larger Finnish corporations were given more room to seek independence in financing, omitting the ties with banking groups' ownership and governance interests. The most striking examples of overheating were in the stock and real estate markets. In the late 1980s, deregulation of capital markets led to increased lending and great indebtedness in the economy (Heikkinen and Kuusterä 2002, 14-15).

In the 1980s the structures of food retailing were homogenous; all the major market players operated both food retailing and wholesaling, although the emphasis on how the business was organized varied among the groups. Shop level competition in the early 1980s could be described as the logic of special offers or price competition. Groceries were competing against each other by offering special prices on selected products, for example coffee, sausages, and sugar. "The special offer" approach was used to lure the customers to the stores, assuming they complement their special offers purchases with other foodstuff, by which the store would generate the needed margin for profits. The special offers were sold with negative margins, and, in principle, were funded by the regular shoppers, who paid the normal price for other goods (Herranen 2004, 279). As Kesko's annual report described in 1985 "The use of price was, however, wide in the daily consumer goods trade".

Demographic changes – internal migration - relocated the need for shopping facilities and stores. In Finland, domestic migration flows of the 1980s decreased fairly steadily until 1985. People sought their way from the North to the South and from provinces to their main centers. Internal migration within the municipalities increased slightly in the late 1980s when two thirds of the migration occurred as commune-internal migration, principally from areas of scattered settlement into main built-up areas (Heikkilä and Järvinen 2002, 3-4).

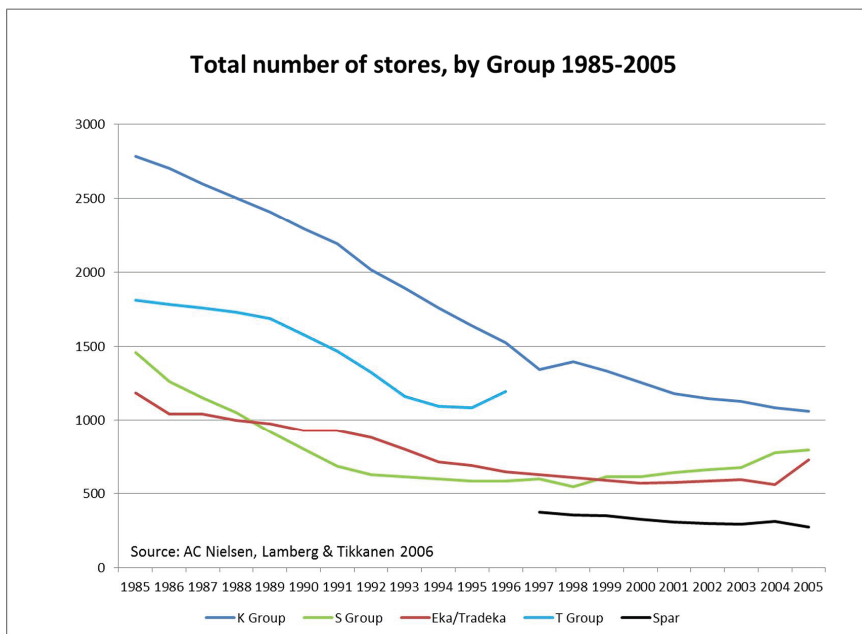

Figure 5. Total number of stores in Finland, by Group 1985-2005. Source: AC Nielsen, Lamberg and Tikkanen 2006.

Already in the 1970s the food retailing groups had started to sell off their food manufacturing and other industry and continued to streamline their operations and to alter the cost structure by increasing the store size and running down operation in smaller stores. As a consequence the number of shops diminished by some 3,300 stores. The decrease of smaller shops continued in the 1980s, which marked a grand closure of small stores. The total number of stores diminished radically during 1985-1990 from 8,557 down to 6,697 stores (Koistinen 2009, 23). The closure of rural stores was due to harder competitive pressures at local level, small selling floor space, low profitability and high costs. Regional aspects, such as wide geographical distribution of inhabitants, and interestingly, low purchasing power of the population contributed to the stores that continued. The surviving stores were more capable of adapting to changes in demand as well as to their new role of being part of a uniting retail group. Being a cooperative contributed to quitting (Home 1989, 304-305).

Since 1985 the share of the hypermarkets and supermarkets grew steadily, and more than half of the small stores and more than a quarter of the specialty stores discontinued their activities. A hypermarket is a retail store selling a variety of goods in different categories, operating mainly in self-service, with the sales area exceeding 2,500 square meters. Food accounts for less than half of the total area but the focus of sales is on groceries (Päivittäistavarakauppa 2006, 6). Subsequently, the number of stores also decreased in the rural areas despite that the Finnish government granted special financial support to the sparsely populated areas.

The total grocery sales grew strongly during the 1980s, and the sales distribution between different store types changed. In the late 1980s, nearly 40% of all daily consumer goods were sold in supermarkets. Hypermarkets also increased their share, but the proportion was still less than 10% of the total (Koistinen 2009, 16). More people had private cars and were learning to prefer one-stop-shopping. Rising salaries and standards of living made it possible to consume higher quality foodstuff and richer and further processed ready meals, even increasing the demand for exported, sometimes exotic foodstuffs. This demand was answered by the wider assortment of the larger stores, especially by the hypermarket concept, which had been a European-wide phenomenon since the 1980s.

An important aspect of the change was that the regulatory setting in the competition policy changed at the end of the 1980s. In 1985 the Government of Finland appointed a committee to reform competition law in Finland. The committee's task was to determine what measures were needed to abolish price regulation and controls in order to promote economic competition. The aim was also to reform pricing and competition laws. The committee's task was to think about what kind of administration of the legislation would be most feasible. Esko Rekola was appointed President of the Committee and the Committee took the name Kilpailu- ja hintakomitea (KIHI, in English Competition and Price Committee) (Purasjoki and Jokinen 2001).

The Act on Competition Restrictions was passed on July 29, 1988. The 1988 Act on Competition Restrictions (709/88) was essential for adjusting the transition from a controlled economy into competitive economy. The amendments made to the legislation aimed at developing more effective ways of removing barriers to entry, and prevent the abuse of a dominant market position (Hallituksen esitys HE 162/1991). As a supervising governmental agency, The Finnish Competitive Authority started its existence in January 1988.

4.2.1 K Group – The winner in the Boom

When the new decade of the 1980s started, Kesko and K Group had held the leading position in the Finnish grocery trade since the mid-1960s. Kesko had enjoyed a significant growth during the 1970s, during which its market share rose from 23% to almost 30 percent. The 1980s also represented a period of growth and heavy investment for Kesko. Building projects included new business premises for two branch offices, a new central warehouse and several large retail stores. The share capital was increased to finance these investments. Simultaneously, Kesko continued divestments of food industry and manufacturing, which included a margarine factory, flour mill and bakery, match factory, rye crisp company, meat processing company, bicycle factory, clothing factory, and coffee roasting plant. The number of branch offices was pared down from 16 to nine. Kesko's own private label, Pirkka products, were introduced to the market. During the 1980s Kesko's net sales increased in real terms from 6.1 billion euros to 7.4 billion euros. K Group's share of food retailing sales among Finland's central trading companies continued to rise from 30% to 41% (Hoffman 1990, 153; International Directory of Company Histories 1999; Kesko’s History 2012).

"Competitiveness was sought at all times. It played a key role, and yes we were back then in the 1970s so damned competitive… As we had such a situation that we were incredibly superior at one stage, when our costs were, these costs were so darned low and once again we were able to take a good price. We made terrific good profits, and it was based on the fact that our price level was competitive and our costs were by far the lowest at the time so we had a good margin although we sold at cheap prices. And we had the best marketing, overwhelmingly, we were aggressive as hell, we used all the tricks in the world that existed." (Timo Karake, interview on January 17, 2008)

Kesko's commercial operations were organized into the Foodstuffs Division, the Agricultural and Builders' Supplies Division, and the Specialty and Home Goods Division. The basic operating framework in 1985 comprised of the main office with commercial divisions, district offices, the central warehouse, and regional distribution centers (Kesko annual report 1985).

An inherited strong position in the grocery trade was considered to be behind K Group's growth. K Group's strength was the retailers' capability to transform their business according to environmental impulses, in other words, the structural change to move towards larger sales premises with the invention of the K-Halli store type and Citymarket. The first realization of a Finnish hypermarket had been the Lahti Citymarket, opened in 1971. The idea of Citymarket was developed following Carrefour's international examples. In addition, the central corporation's store site development activities were considered an asset. Naturally K Group could benefit from the comparably worse operational efficiency of the E Group and S Group cooperatives (Hoffman 1990, 154).

"So one started to compete also with the real stakes, what is there in the background, which the consumer did not see. That is, the marketing started, in the various store types we went even to the logistics up. And there were many really good examples, for example some of the detergents, with which we practiced with Lever and in cooperation with the hypermarkets. We made brilliant results in the turnover rates, or to say that the goods circulating in the market from a pile of phosphate up to the consumer's bag, it dropped to a third of the time. In principle, it was through by the cost of raw materials, and that is a big deal, if you drop from 90 days to 30 days. And then, that really quickly went to papers and sugars, and stuff that requires large masses, and this then started to make real competitive advantage to the whole system. And of course the competitors followed very avidly involved, it is clear that the producers practiced with us and sold the thing immediately to the others. And that was at the same time when it did not pay off to play exclusively with us with the new systems, it was needed, of course, to be spread quite fast to everyone. But the benefit was that we were always a couple of steps ahead." (Eero Kinnunen, interview on January 25, 2010)

K Group was defined by its mission to be an agent in "the delivery of goods from producers to consumers as effectively and economically as possible" (Kesko annual report 1985). Additionally and traditionally K Group treated its relationship with retailers

as a unique and valuable asset. The Group's success was built on the potential of the individual grocer-entrepreneurs, as shown in the statement in the annual report: "K Group's special source of power is a responsible family entrepreneurship in retailing" (Kesko annual report 1985). The K-retailers were independent retailers, who used the K-sign or other marketing names of the K Group. They were also Kesko's shareholders. The retailers had the majority of leading positions in the governance structure of the Group, and actively used a master's voice in group's goal setting and decision-making. The Finnish K-Retailers' Association constituted a trade organization for the K-retailers. The Association was in charge of improving the operating conditions and skills of K-retailers and cooperation among them (Kesko annual report 1994, 49).

> *"We knew by then that, Kesko was given, or the K Group as a whole was winning market share because S Group went to this restructuring, would I say in that way faster than they were forced to shut small stores in a large number and relatively quickly. And in Kesko we considered the aim that we are not are forced to drift into solutions, we have to have so much – how should I put it – in a rough way, money and resources that we ourselves are the playmakers. The others won't tell us what is going on but, instead we do have our own, as good as possible operating decision-making area, which we try to keep as wide, that you possess real discretion in what you can do." (Eero Utter, interview September 4, 2007)*

The emphasis of growth in late-1980s was on store networks, and in expanding logistics and delivery systems. The Building of Hakkila terminal was a project targeted at the future, as CEO Erkki Mansukoski commented: "Although the concrete manifestation of the project will be a sizeable building, behind it exists, however, the whole reevaluation of the material systems and to some extent the reorganization in the whole country using the help of information technology". (CEO Erkki Mansukoski, Kesko annual report 1985, 1) Together with the logistical improvements, the store network was promised to be a guarantee for the success of tomorrow. "The continuous renewal required by the retail store network must in fact be made to ensure the future functionality and efficiency" (CEO Erkki Mansukoski, Kesko annual report 1985, 1)

> *"And the role of the regional Keskos was, therefore, first there in the bottom lays a good wholesaling activity, namely the purchasing of goods and the supply to the storekeepers. It is, therefore, it is the base here. Then it became a responsibility for Kesko, so this is an old, where this started, a very important task for Kesko, the getting of store sites, and the whole maintenance and care of the K-stores network. One had to have a plan for that, you do not ... well, too fine a word, when you take into account that I had a A4 notebook in which I had written probably two or three pages with bullet points, and therefore, if we evaluate it with terms of technical design it wasn't anything very fancy but, one of the strong sides was that it was inside my head and all the action was done according to it. You had to have an estimate of which points are the so-called basic points which are kept and being developed, that is, in what way, what will come, those are allowed to continue." (Eero Utter, interview September 4, 2007)*

During the 1960s Kesko's investments had focused on the development of main sections of the central corporation's business, regional offices and logistics, but they were entirely comparable to the early 1980s investment levels. Characteristic of the 1980s was that investment in the systems of the central corporations never exceeded the investment in retail trade. In the mid-1980s the investment level reached an average of 84 million euros per year. At the end of the decade, two years in a row the investments were over 151.4 million euros for the year (Hoffman 1990, 159). In 1987 CEO Mansukoski was able to state that "Kesko's financial position remained strong in spite of major investments, which is a clear competitive advantage in the development of Kesko and the K Group's activities." (Kesko annual report 1987, 1)

Establishing a store site network ties up capital and lease liabilities for years. As a result of a recession or changes in the competitive situation, there is always a potential risk that store sites become unprofitable, or that the operations will end while the long-term liabilities remain. Additionally, the acquisition of good store sites can be slowed by scarcity of plots, zoning and permit procedures, and trends in plot prices. The risks involved in store site networks are managed by long-term store network planning, careful preparation of each store site investment decision, and the sale-leaseback system (Kesko annual report 2009).

Kesko's strong advancement was fueled by the economic strength it had. Kesko received profits from real estate business and stocks, and the corporation's share capital by share issues was increased (109.2 MEUR in 1988 and 113.4 + 21 MEUR in 1989). The share issues were seen to "strengthen the already strong financial position and shareholders' trust in the company" (CEO Eero Utter, Kesko annual report 1988, 1). A solid financing structure was one of the essential prerequisites for Kesko's continued advancement in the 1980s. Through share issues, Kesko raised a capital surplus 155.6 Million euros (Kesko annual report 1988, 10; Kesko Annual report 1989, 43). Thus, Eero Utter was able to comment on Kesko's profitability: "A good result is a strong foundation for future plans, which require competitive real investments and store network modernization." (Kesko annual report 1989, 3)

> *"I once in one situation got angry a little bit, and I decided that Kesko's funding shall be in a condition that there is no one saying to us that we can do. It was a mid-80s decision. (---) So these financial resources were the base, Kesko had in fact grown so fast, and it had started with relatively scarce own resources, so the growth tied capital up more or less faster than what the company was able to create, as it was, all the time Kesko grew faster than its competitors." (Eero Utter, interview September 4, 2007)*

In the late 1980s, Kesko's publicly listed share experienced a brisk rise in share price. It was later realized in sizeable premiums. A good financial position permitted freedom of movement in investments and market moves, while the competitors were weak at the same time. K Group's main challenger in the second half of the 1980s was a private merchant-owned Tuko and the T Group.

Kesko sought increased purchasing volume by joining Associated Marketing Services Sourcing B.V in 1989, seeing it an operative option against the more concentrating Finnish and European food industry. The goals of AMS were to initiate, manage, and coordinate joint buying activities for its members, in order to create economies of scale, pooling the expertise and volumes of major European retailers (Hoffman 1990, 177; www.ams-sourcing.com, accessed 15.9.2008). The joint purchasing power of AMS members was very countable in negotiating the prices of commodities. AMS completed the volume seeking initiatives together with Kesko's own private label Pirkka, which was launched in 1986.

Kesko’s share price 1986-1990

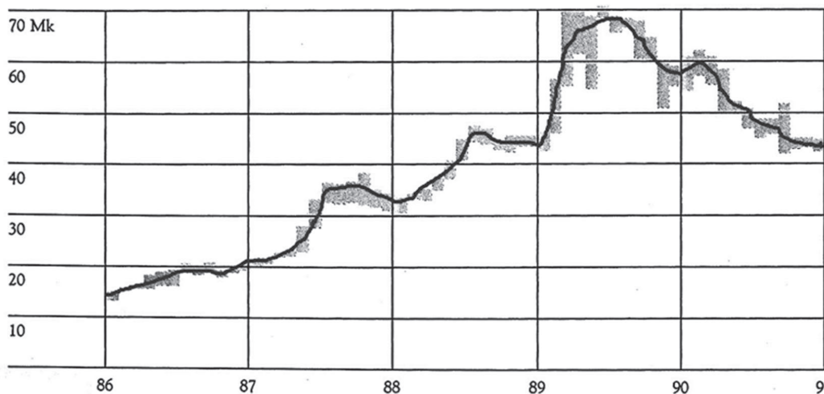

Figure 6. Development of Kesko Plc's share price 1986-1990. Source: Kesko annual report 1990.

4.2.2 T Group – Rising star of the late-1980s

Deregulation and the arrival of a market economy as a new logic of action in Finnish economic life changed the way things were done in Tuko. In 1985 Pentti Kivinen was nominated as the CEO and he brought along an overall reorientation in Tuko’s focus areas. The target was set to growth and widening the business spectrum. Following the "zeitgeist" of the mid-1980s, also Tuko went into investment business. In food retailing T Group sought growth by a yearly increase of 0.3% in the market share, mainly by constructing new business sites (Lainema 2009, 307). The policies were clearly propagated in top management comments: "T Group has taken a contender status in the competition between the central retail corporations, and thus has increased its market share in each year" (CEO Pentti Kivinen, Tuko annual report 1985, 7).

The benchmarking of T Group with other market competitors showed that Kesko and K Group were ahead in the race of developing a network of hypermarkets and large supermarkets, and also had better and more streamlined logistics. Besides building larger stores, K Group was simultaneously closing down smaller shops. Nonetheless,

still after the decrease in store numbers, K Group was capable of maintaining higher total sales levels with the renewed old stores. In addition to this, K Group continued their investment programs, which outcompeted the rivals' capacity. The other groups were worried about how to patch up the loss of stores and even be able to build more stores in order to run alongside K Group's investment speed. The net increase in market share needed proportionally larger efforts from K Group's competitors (Lainema 2009, 351).

In 1988 T Group's market share peeked at 24.2%, and the growth in market share was seem to be due to opening of new stores and the results of efficient marketing (Lainema 2009, 374). However, in 1989 Tuko's balance sheet was already poor and the financial possibilities for new store openings were already diminished (Lainema 2009, 350). The situation was held quite constant by the existing competitive factors: T Group was backed by economies of scale and the procurement was concentrated in the central corporation Tuko. Tuko's growth was based mostly on the successful growth rate of the Anttila chain, a regional wholesaler Wihuri Oy Aarnio's acquisition of the Ruokavarasto chain, and the success of the Rabatti discounter chain (Kauppalehti 1988).

During the late-1980s Tuko took care of the required changes in the operative structures of the Group, invested in commercial sites, acquired a home appliance chain, a hardware business, expanded its agricultural trade, and constructed a main office building in Sörnäinen, Helsinki. Tuko used financial resources first and foremost in the special trade and construction business, and financed operations by currency loans (Vihma 1994, 26-27).

> *"Then this, so one reason for the T-Group dying out, the major factor was that one realized the importance of the store site planning too late in the late-70s. There was time to invest until the mid-80s and the market share was even up to 25%. But then begun to appear these overly high costs, which were attributable to the group structure, and the capability to invest in practice was lost in the final years of the 80s, when we came to the 90s, one was forced to launch the restructuring, which was not done then in the late-80s, so it was not possible anymore to invest in retail store sites." (Kalervo Haapaniemi, interview on January 21, 2009)*

According to CEO Kivinen, "Stock investments and stock selling made good profits, almost like money had been dug up with a swamp hoe". This meant a radical change of focus for Tuko. "The casino game had also lured Tuko in her sweet arms", later CEO Uolevi Manninen wrote (Manninen 1997, 84). The stock investment business also experienced the other side of the coin. Tuko itself became a target for company takeover. At some point of time one third of the shares were drifted to investment company Sponsor Ltd. It was only a matter of time before Sponsor Ltd attained the majority in Tuko. Another major owner of Tuko, Leipurien Tukku Ltd was also a target of a hostile company takeover initiated by Postipankki Bank. The protection against takeovers was financially expensive for Tuko and the fighting over Tuko's ownership in the late 1980s started a series of actions that had unforeseen outcomes. Since 1988 the investments into securing the ownership basis of Tuko rose to a total of 336.4 million euros, which resulted in a rise of Tuko's total debt level from 168.2 million euros to 588.6 million euros (Lainema 2009, 413). The overdebt and the lack of the owners' clear will led to a severe crisis. The responsibility for taking care of Tuko's future was left in the hands of the creditors (Tuko annual report 1993, 4).

Development of Tuko's wholesale business had been suffering from a complex ownership structure. Several regional wholesalers who owned shares in Tuko were aggressively jealous of its independent status. Tuko's cross-owning in the regional wholesalers was strongly resisted. Both the regional wholesalers and independent T-grocers had no interest in investing in their central corporation and wholesaler Tuko. Especially the regional wholesalers wanted to hinder the growth of Tuko's power, assuming that strengthening Tuko would outbalance the existing power relationships between the regionals and the central corporation. The whole group was fragmented into interest clusters. As Eero Isohanni described the situation, “there were the grocers against the regional wholesalers and these both together against Tuko”. (Eero Isohanni, interview April 18, 2011)

A shareholder agreement in the summer of 1988 secured the owners' status. A new company, Kauppa Oy Tuko was established as a holding company. The holding company was owned by financial institutions and private equity investment companies Sponsor Oy, Pohjola Group, Kansallis-Osakepankki (in English Kansallis Bank), Yhdyspankki (Union Bank of Finland), Osuuspankkien Keskuspankki (OKO Bank), Postisäästöpankki (Postal Savings Bank, PSP, also Postipankki) together with Tukkukauppojen Oy and Hämeenkylä Oy. The latter was owned jointly by the Union of Finnish Wholesalers and Tuko. The aim of the ownership reorganization was to secure the holding of Tuko's stocks. However, with these arrangements Tuko gained a group of owners that were not food wholesalers or retailers and were not using the daily services of the central corporation. Lacking this bondage in operations they did not share the same interests towards Tuko as the user-owners (Hoffman 2004, 258). The pact between the owners obliged Tuko to redeem the owner's shares under all conditions, if the owner for some reason or other wanted it. "The user-owner's voice had spoken most emphatically", Uolevi Manninen commented later (Manninen 1997, 84).

The blurry ownership arrangements, the fight over securing the majority of shares, the heavy three-layered structure and focusing on the investment business resulted in a fragmented agenda for business operations in food retailing. Citing Tuko’s former CEO Uolevi Manninen: "Tuko’s attempts to expand in the second half the 1980s were unfortunate. All the attempts had in common that there were no real strategy and no business concept behind them. Protecting one's own turf and power drove them more than the logical development based on concepts"(Manninen 1997, 88).

The future of the company did not seem to be very promising. "On the other hand the results this year suffered from a high net interest expenses and losses on the sale and write-downs of shares... Reinforcing Tuko Corporation's capital structure requires long-term work", CEO Kivinen commented in 1990 (Kivinen 1990, 2 Tuko annual report). Tuko suffered from a financing paradox. The owners and creditors considered Tuko to be financially weak, which affected the interest rates Tuko paid for its loans. And because of the excessive costs of financing, the financial results of Tuko were inferior (Manninen 1997, 168).

4.2.3 S Group – Decline in the Boom

The S Group’s inferior state of affairs in the 1960s and 1970s had led to a financial heritage in which solvency was considered poor and the profit was commented to be

mostly “pathetic” (Kari Neilimo, interview on June 21, 2007). Inevitably there were no possibilities other than to face a fundamental crisis, which happened in the early 1980s. As a counterreaction to elevated and concentered challenges, S Group started a massive reorganization in 1983. The so-called S-83 plan established the guiding principles for the transformation of the whole S Group. The reorganization was initiated and led by the central corporation SOK's CEO Juhani Pesonen, and the plan reflected a vision of transforming the regional and local structure. A total of 183 local or regional cooperatives were merged into 34 regional units. The branches of the business that needed heavy investments, such as department stores, hotels, hardware stores, and the agri-market business were organized as nationwide chains and were transferred under SOK's responsibility.

The structural change was bipartite. On the other hand tighter central management took over the chain business in S Group’s food retailing, but on the other hand regional cooperatives gained more autonomy in operations and investments. This was illustrated by the comment of CEO Juhani Pesonen: "In S Group's solutions for nearly three years ago a key element was the amassing of resources into the regional cooperatives and in the case of certain business branches into national chains under the responsibility of the central corporation SOK". (SOK annual report 1985, 1)

The Group's support for the low profitability regional cooperatives extracted resources away from S Group’s chain management and integration projects that were set in motion by the S-83 plan. SOK saw that the envisioned positive development of the profitability of the regional cooperatives would call for tighter control of the regionals. Also, the regional structure was to be reconsidered, and smaller stores should have been united into larger scale sales outlets (Herranen 2004, 257). With the completing of the S-83 plan, S Group's financial decline was to be reversed step-by-step into a profitable business. However, the actions of the S-83 plan did not bring any instant change to the economic problems. On the contrary, during the 100 mergers and running down of 1000 local stores at first S Group's losses kept increasing. This was because it was revealed that the local cooperatives were financially in worse condition than expected. The Group's financial results were pulled down by necessary writedowns of the overvaluation of the assets in the balance sheets (Herranen 2004, 257).

Already in the autumn of 1985, S Group started the preparations for the so-called S-90 plan as the Group's strategic guidelines for the four next years. The primary focus was on the creation of the chain operations mode, which was based on a vertically integrated business model. The S-90 plan was accepted in April 1986 (Herranen 2004, 259-261). According to the plan, four of the seven distribution centers operated by SOK would be closed. The number of regional cooperative was to decrease. The local cooperatives were ranked into five classes according to their profitability, solvency and adequacy of cash flow. If the local cooperative wanted to stay independent, it meant being left outside S Group's business unit strategy. Moreover, this meant being excluded from the integrated chain management concept, and the S Group also refused to take any financial responsibility for a badly performing local cooperative (Herranen 2004, 260-261).

> *"When the co-op joined the chain, a pretty tight contract was made with it, so that the cooperative committed to a strict concept. In the beginning, however, one third*

of the assortment was permitted to deviatiate. This again was to promote regionalism, if for example the region had good vegetable and bakery products supply, they could buy from there. Smaller cooperatives, which did not want to join the structure strategy of larger entities, were closed outside of the chain activities because they did not have the resources to implement the necessary measures of the chain concept. They were also made clear that their economy would be entirely on the responsibility of their own and they were not to be saved from possible threats of bankruptcy." (Jere Lahti, interview on October 5, 2006)

The principle in structuring the S Group was that the variety of consumer services, which was concentrated into the Group, was a benefit, if it was properly organized. The aim was that the regional cooperatives' operating areas would correspond to geographical commercial areas within which the essence and image of the cooperative was strongly recognizable among local residents. Regional cooperatives were to satisfy the daily basic needs by the chain units, Prisma, S-Market, Sale, and Alepa stores. Furthermore, it was seen that restaurants were well suited to the regional approach, as well as the sale of fuels. Similarly, S Group saw that some of the specific products and services required a more centrally-led approach. These included, among others, department stores and specialty stores, which necessitated fashion know-how, and knowledge of capital financing and international connections (Lahti 1996, 33-34).

After the geographical structure renewal was commenced, S Group moved towards more profound organizational changes. The target was to establish sufficient processes and supporting elements for a streamlined and lean organization within the whole group.

"In 1986 I was visiting Vienna, Austria at a congress about retail chains and its back office processes with IT-systems. And as I was listening to the presentations and collecting the material I immediately felt that this suits us very well. So that we would build it up, we don't have to reinvent the wheel in every village so to say, the concept exists right there, the only thing we have to do is make the adaptation." (Jere Lahti, interview September 24, 2007)

S Group had three main activities: grocery and specialty trade, agricultural trade, and hotel and restaurant business. Following the S-90 plan, each of the SOK's branches of business was to focus and invest in strategic chains. In food retailing Citysokos stores, S-markets, and Prisma hypermarkets were the intended strategic chains. Sokos department stores were turned into Prisma stores together with the construction of new additional Prisma stores. The number of S-markets was planned to be increased from one hundred to 220 stores. The local shop network would be cut down from 1100 stores to 500 outlets (Herranen 2004, 260). At that time the focus in S Group was in refining the division of labor between business sectors and repairing the Group structure. At the same time the basic fundaments in the S cooperative community were clarified: It was declared that a member of a cooperative was a customer-owner, whose needs were principal. On top of the service portfolio, a bonus card system was built, which helped the Group obtain a better analysis of customer buying habits. Bonus card and customer loyalty programs produced a deeper understanding of customer needs.

The work on designing store concepts in S Group began in the mid-1980s. The first S-Market was founded in 1984, although the trend towards larger sized stores had been tested in earlier individual experiments. For example, S Group's first supermarket targeted for active car users was opened by Osuuskauppa Keskimaa already in 1972 in Jyväskylä (Herranen 2004, 261). The examples for the supermarket concept were the Swedish supermarkets near Umeå and Södertälje (Kangas 2004, 74). The formation of the Prisma chain as S Group's hypermarket concept was initiated in 1988. Initially some Sokos department stores were transformed into Prisma stores. In 1990 the Prisma chain had won the leading position in the hypermarket segment (Herranen 2004, 261).

To strengthen the S Group's foothold in the Greater Helsinki region, in 1987 SOK bought the soft discounter chain Alepa, which possessed a total of 34 stores in the Greater Helsinki region. The S Group’s Alepa mission was to "win the K-grocer in cost efficiency and the Siwa-chain in perishable goods". Two years later regional cooperatives in the S Group started to build up a nationwide discounter chain called Sale (Herranen 2004, 266). Alepa was a soft discounter while it did not compete with prices. Alepa was sold by its owner Edward Pajunen Ltd, which actually belonged to K Group, and thus the deal strengthened S Group’s position in the metropolitan Helsinki area at the expense of K Group (Matti Honkala, written comments on April 8, 2013).

S Group's regrouping, the integration of local cooperatives into larger regional cooperatives lasted until the beginning of the 1990s. The integration turned S Group into a strategic alliance consisting of the regionals together with their central purchaser, administration and support unit SOK. The timing of the reorganization was fortunate, as the major changes in S group were initiated before the deep depression of the early-1990s. Simultaneously the chain management approach was taken into use in the whole S Group (Lahti 1996, 29).

> *"And there in a way during the recession one began to cut down on the smaller store network, and in thoughts was the idea that you go to so large units, that management is the keyword for winning the game, which the K-storekeepers cannot do. And this is how these big units started to come out, S Markets in the supermarket category and then the Prismas in the hypermarket class. We also purchased Alepa from Pajunen family and set up Sale in the smaller category. So we began to have a view that we should first of all make our structure concentrated and then build the business ideas to be customer-oriented. And, seize the power from the food industry and be then the speaker of the customer towards the food industry. One had a lot of momentum in the late 80s, those who had money invested quite a lot and now we are getting at what you want to know, the 90s recession. When it was on, so of course, one had to improve functions, but we had good luck, we were in difficulties at the right time, prior to the recession, wherewith it was possible to close down 500 units and get the money as well for these new projects." (Jere Lahti, interview on September 24, 2007)*

During the mergers of the local cooperatives into larger regional units, SOK sold off its textile and food industry units, for example the clothing factory Leijona-Pukine, and meat packing company OK-Liha Ltd. Numerous other industrial units were merged or hived off into subsidiaries. An industrial joint venture, Meira, established in 1987 was

to combine production units of Eka and S Group. An important step was the deal on merging agritrade units of SOK and Hankkija. This industry branch rationalization was completed by establishing Hankkija-Maatalous Ltd in 1988, and transferring SOK's and Keskusosuusliike Hankkija's agricultural and machinery trade to the company. In 1993 the full ownership was transferred to SOK (Herranen 2004, 267).

In June 1989 S Group's third strategy program was approved - the so-called S-94-plan. It was designed around the key idea of customer-owner satisfaction. According to the plan, S Group would have consisted of a light and efficient SOK Corporation and 25 regional cooperatives. Increasing of chain efficiency was also to be a focus (Herranen 2004, 278).

A new emphasis was put on the significance of cooperative members. A key issued deliberated upon was the task of offering cooperative members, its owners, such benefits they would not get anywhere else. In 1988, the "New Cooperative" program defined the starting point of cooperative activity; the creation of customer benefits to customer-owners (Herranen 2004, 259). The idea of intensively focusing on the customer-owners led to the realization of the customer loyalty program, supplemented by the chain business model and a bonus card system. The goal was to increase customer commitment, concentration of purchases, and to mobilize internal motivation, and underline the emotional bondage to be a member in the S cooperative.

> *"It was a difficult process, even though it was supposed to be clear to everyone that it is a more competitive one, but then it was suspected strongly that, among other things, this cross-marketing seemed to many to be an impossible thing, I mean the fact that in different regions, in example the Helsinki-based customer-owners were able to travel to visit others regional cooperatives and get the same benefits from there. It was feared that someone else will benefit from the expense of another, it took maybe a couple of years, but then it started to work effectively, and yes it's been right ... Kesko gave us a surprisingly long period of time; it took almost ten years before they were able to be correctly with us in the card game, even the stub Tradeka became faster." (Jere Lahti, interview on September 24, 2007)*

Customer-owners was a concept that combined the concentration of purchases, loyalty, and special offers, with bonuses according to the value of purchases. In 1994, all the regional cooperatives were involved in the customer-owners service system (Lahti 1996, 36-37). The benefits offered to the customer-owners comprised of product and service offers with lowered campaign prices, purchases concentration benefits in form of bonuses, and account, deposit and credit benefits (Lahti and Lehtinen 1990, 44).

In the S-94 plan the core idea was to focus on chain units. This was supported by the division of work and tight cooperation between SOK and the regional cooperatives. The operational business was taken care by the regionals, while SOK concentrating on chain management. The coordinating organs were the Chain Boards, where the regionals held a majority (Herranen 2004, 291). SOK's main function as a central corporation was to produce the necessary commercial and supportive services needed for the competitiveness of the trade group (SOK annual report 1993). The S-94 Plan also included a tighter commitment to increase the number of Prisma hypermarkets, to hop into a new series of competition.

"Then, of course, the investments came when we got the momentum in the Prisma chain. The starting point from my perspective was that I wondered sometimes about the terrible gap between Kesko and us, that they were so superior, we had such a poor market share, so what should be done. I had the responsibility for retailing on the SOK Board, and we concluded that we cannot beat them in any other way than the unit size has to be so damn big that it is bigger than the K-retailers', who manage both besides his staff also his customers and knows all and the store is just of appropriate size; we should be larger, and then the personnel and the leaders must be well trained, so we kind of at the management side, by facilities solutions, by the allocation of resources will win the storeowners. It was in 1994 when we started to strengthen these features. And as I said, to set up larger units, Prismas ..." (Jere Lahti, interview on September 25, 2013)

The district offices of SOK were run down as a part of clarifying the nationwide organization. They were transformed into distribution centers, and their former task of guidance and consultation were concentrated within SOK main office. There were several reasons for this change. The district chiefs made one additional level in the Group hierarchy, and at large they represented different views on the directions of how S Group's business must be run. Abolishing them helped in getting the chain management expertise to the central unit. The organization was flattened and streamlined, giving it more focused, and common goals.

Alongside the transformation of the group structure, the question how to distribute investments within different geographical units of the Group also had to be defined. In the 1980s, the central corporation SOK held financial power, and at the same time most of the local cooperatives were in a poor economic condition. In the 1990s the cooperatives had entered into the advancement phase, and were moving towards tightly conceptualized chain management, having more freedom in determining where to invest. The seizure of market potential during the advancement phase, however, required more stores and a wider store network with improved characteristics.

"Investments are traditionally behind the market share in daily consumer goods trade. You cannot grow your market share unless you increase your portion of square meters, and in order to increase your portion of square meters, you need investments." (Arto Hiltunen, interview March 10, 2010)

4.2.4 EKA Group – The Laggard in Stagnation

Since the mid-1960s the profitability of E-cooperatives had been continuously negative and sales had been decreasing year-by-year since the mid-1970s. The spinning losses throughout the E-cooperatives were to be halted by a great fusion of the whole E-cooperative movement. In autumn 1983 a total of 39 different E-cooperatives were merged into the Group's central purchaser Keskusosuusliike OTK. There was no choice; the other option would have been bankruptcy and withdrawal from north and east Finland’s markets (Eero Rantala, written comments on May 13, 2013). The merger established a new cooperative, E-osuuskunta Eka Corporation, which managed and adminis-

trated a structure of over 250 companies. Local Helsinki-based Elanto cooperative decided to remain independent and outside the great merger (Kallenautio 1992, 392). After later mergers and rearrangements, E-Osuuskunta Eka became Eka Group.

At the beginning of the 1980s Eka Group was Finland's fifth largest company with a total turnover of 3.36 Billion euros and branches in insurance, construction, and in wholesale and retail businesses. In mid-1980s Eka Group was a conglomerate that had three functionally independent subgroups that constituted the basic parts of the Group. In terms of turnover, incomparably the largest of these was Eka Group, which comprised E-osuuskunta Eka and an associated petroleum company Finnoil (turnover 1.75 Billion euros), the second largest was the construction company Haka (622 MEUR), and the third, the insurance company Kansa (387 MEUR) (Kallenautio 2009, 202).

Within the group structure, E-Osuuskunta Eka was responsible for the grocery trade. The late-1980s were full of structural and operational changes, and Eka Group's profitability was seen to be a result of a technically adjusted balance sheet rather than good profitable business (Kallenautio 2009, 17-21). In 1983, the comparison between the rivals measured by sales per store showed that Eka's sales (3210 euros) were ahead of S Group (3092 euros) but inferior compared to T Group' (3563 euros) and K Group (4269 euros) in the equivalent store size classes. Especially EKA-markets were seriously lagging behind Kesko's Citymarkets (Kallenautio 2009, 24).

The grocery business in Eka's food retailing sector consisted of four brands: Manteli with 123 stores, Sateenkaari with 109 stores, Tenna with 23, and Siwa with 312 stores. Siwa was an example of a grocery store that had a narrow assortment but could take care of the daily needs of its local customers. Siwa was built Germany's Aldi's model, of which the "discipline and tightness of the business idea" was seen as a benefit. The first Siwa was opened in Jyväskylä in 1981 and by 1987 their number had grown to 312 stores (Kallenautio 2009, 24-25). The first Siwa stores were soft discounters, but later their assortment grew so that categorically they developed into neighborhood stores (Kallenautio 1992, 397). Chain management of the groceries and new grocery store concepts were seen as promising ways to improve Eka's food retailing sector. In the mid-1980s the development of chain business on the basis of selected business concepts was in focus. Simultaneously, the target was to improve profitability (Eka annual report 1986).

The Siwa concept established the base for Eka's intentions to centralize their businesses into chains, and during 1986-1987 the Siwa, Manteli, Sateenkaari, and Tenna chains were ready and operational (Kallenautio 2009, 26). The experiments in developing the Siwa chain convinced Eka Group's management of the chain management benefits. Eka remained an underdog in the competition among larger supermarkets, where the EKA-markets were not able to compete profitably against Kesko's Citymarkets and T Group's Anttilas (Kallenautio 2009, 26).

> *"So it was therefore a very important part of this, that we could make the whole pipeline working from the purchase, transport, definition of store assortment, the layout of shelves and further, it brought the Siwa chain, above all, to be very profitable in a very short period of time. But then in the early 90s, when the overall strategy otherwise was crystallized, it was decided that we will make only three chains, larger EKA-market or the Euromarket brand, Valintatalo brand and Siwa brand,*

and it was just the correct solution. This chain thing, which we started already in the late 80s, early 90s, we talked about that, because there were indications that in the U.S. and in Europe precise chain management was gaining ground and we thought about the fact that Kesko can never respond to this. In our visions there was a view of how SOK will be able to answer to this, if they take away the trading from local cooperatives, so that they remain as regional associations. And after all, SOK was successful, so it was seen that it would be possible to create two chain-based trade groups in Finland, the S Group and EKA-Tradeka. And it was seen that the others, Kesko and Tuko, will face major difficulties because it is very difficult to combine the entrepreneurial retailer philosophy to a tight chain management." (Eero Rantala, interview June 10, 2008)

In August 1986 Eka bought the Valintatalo chain, which had 120 stores, including 96 in the Greater Helsinki region. Valintatalo's market share in Helsinki area was 12%. However, the company was low on performance and unprofitable (Kallenautio 2009, 27). Buying the Valintatalo chain patched the need for business sites in Helsinki, because Elanto had stayed outside of the great merger of the E-cooperatives, and thus had left Eka no store sites in the Helsinki area.

In 1988, the food industry of Eka was merged with SOK's equivalent businesses into a jointly owned company Meira Oy. In December 1988, the retailing sector of Eka Group's businesses received a registered business name, Tradeka, while the logistics services organization was baptized, Ykkösjakelu.

At the end of the decade the weakening trends in the Finnish economy set major challenges for the Eka Group's management and leadership. A renewal of the administrational and operational procedures in the Group management, implemented in the late 1980s, was to ensure that the Group Executive Committee's decisions would have been carried out throughout the subgroups. In reality, only a small number of the Group level decisions could be pushed through in the subsidiary business groups (Kallenautio 2009).

Eka's management system had serious flaws. The main problem was that the Group operated without a shared vision, and each subgroup sought to maximize their own interests, which from the Group's central management point of view included a number of diverging approaches and objectives and interests that were contradictory to Group targets. The effect of Eka Group's central management's views and decisions on Haka and Kansa were all in all, very limited. In Haka, and partly in Kansa there prevailed a largely self-sufficient, isolation-driven spirit that was largely opposite of Eka Group management's way of thinking. During the economically good times in 1980s, the subgroups had achieved maximum independence and Eka Group's central management's means to change the setting in the early 1990s remained weak (Kallenautio 2009).

4.2.5 Summary of the First period: 1985-1990

Pre-1985, Finnish food retailing consisted of localized optimization to the demands of the customers, taken care of by the local grocer or the shop manager. The basic means of competition at the local level were based on special offers – for example on coffee or meat - and pulling the customer into the shop. Entrepreneurship, in the form of the personality of the storeowner, was seen as a competitive advantage in both K Group

and in T Group. During the 1960s the nature of competition had started to transform into adapting to the geographic changes in the population, and this development continued during the 1970s, 1980s and 1990s. The principal means to address the questions of competition and efficiency were the optimized logistical solutions and investing in store site network.

> *"But in retrospect, compared to the present, and probably again in the future these times when it is considered, the competition was not then in the 70s and 80s so awfully hard, however, just because it was so restricted. But I was saying that really, our own competitiveness was not, however, then in a high level either, for example cost-competitiveness, efficiency, and all these kinds, because there was a lesser need for them." (Matti Honkala, interview on October 17, 2007)*

In the period of 1985-1990 the Finnish economy was booming, and the strong performers, K Group and T Group, were leading the market share race in food retailing. The inferior financial state of the E and S cooperatives made the cooperative form appear to be an old-fashioned idea of competing.

The period of 1985-1990 showed no particular surprises in the competitive setting. K Group's strength was a known fact; it clearly was the forerunner in investments and store renewal. T Group and Tuko seemed to be in an upswing, dynamically operating in all areas of business, giving a face to a generation and their attitudes of being involved in the investment and stock exchange mania. Also, the cooperative's crisis was nothing new: their old-fashioned stores and financial concerns and challenges had their origins further back in history. Competition in the late-1980s was based on a continuum or inherited structures and methods, although the massive relocation of the stores and the renewal of the geographical focus of the stores set the tone for the five-year period.

S Group's challenge in the 1980s was the poor financial situation of local cooperative societies. S Group built a new group structure in a large-scale reorganization after 1983, when a total of 183 local or regional cooperatives were merged into 36 regional units. S Group focused in creating a model wherein the central unit was set to be an assisting and steering unit, while major parts of the operational business in food retailing was arranged and adjusted to local demands by the regional subunits. The outcomes of this reorganization were twofold: Firstly, the amassed purchasing power and assortment planning of the whole Group contributed positively to the manageability of the Group. Secondly, the transformation abolished the central corporation's role as a wholesaler and turned it into a central unit, which took the responsibility over chain management. This aided setting in motion the nationwide uniform way of doing; integrating scattered small units into higher efficiency chains. Consequently both these changes profoundly altered the finance allocation model of the whole Group, as well as contributing to the birth of the vertical business and chain management model. The changes included reorganizing the affiliated food industry and agritrade ownership, which in turn disengaged additional capital for the S Group's new investments.

By the implementation of the S-83 plan S Group managed to halt increasing debt, and to lower costs and losses. S Group succeeded in generating a stream of wealth and thus became stronger in investing to larger scale projects. Thus, from economically poor regional cooperatives that could not spend on investments, the S Group started to transform into an alliance of strong local actors.

> *"Yes, so SOK had the economic power and then the cooperatives were in very poor financial shape, and each year a bit of financial support was divided to the cooperative societies based on subjective evaluation. After all, it is of course, such a style did not make possible the investing. (---) In which case, the S Group has a kind of a structural advantage, when the smart decision was made to transfer the results of the value chain to the cooperatives. It means that resources accumulate to places where investment decisions can then be made." (Arto Hiltunen, interview on March 10, 2010)*

Capital allocation was turned to flow towards the regional units, to allow investment in store site development, and allowing investment decisions to be made in the regions. The structural change saved costs in the Group, created more efficiency in procurement, distribution and logistics, gained more volume for purchasing, enabled focusing on a certain assortment, and focused marketing and other chain management operations.

The next step in the reorganization was to strengthen the vertical business model, which was carried out by the S-90 plan. Each of SOK's business branches invested in strategic chains, in Citysokos stores, S-markets and Prisma hypermarkets. The S-90 phase meant strong advancement in the grocery chain operations, widening the S Group's store network and initiating growth. S Group's so-called S-90 phase was, according to CEO Jere Lahti, "a time of fear, would it work or would it not work".

In June 1989, S Group's third strategy program, the S-94-plan, was designed around the key idea of the customer-owner satisfaction. In a modernized version of the cooperative idea the commitment of the customer was set as the focal point of the Group's activities. Quoting Jere Lahti's words, "Our aim is to shake off all the suspicion related to the word 'cooperative' and to give the cooperative activity new content" (Lahti and Lehtinen 1990, 41). Customer-owners was a concept that combined the concentration of purchases, loyalty, and special offers, with bonuses according to the value of purchases. S Group had all its regional cooperatives involved in the customer-owners service system in 1994. The customer loyalty programs were enabled by IT systems development and provided the companies with accurate information about their clientele, as well as allowing them to concentrate on marketing efforts of separate business branches, the restaurants, hotels, groceries etc. The synergy between different branches in this sense meant expanded offering and wider business potential. The customers of S Group's groceries became customers of the whole S Group's bonus cluster, connecting S Group's company image and internal motivation as "customer-owners". A Bonus card and a client loyalty system were introduced.

At this stage, the fundamental structural changes did not show any direct reflections on the surface. Concerning the market share, the reformations did not have much instant effect because of a certain amount of organizational inertia; however, they were fundamental for later development. S Group's market share kept on decreasing from 17.5% in 1985 down to 15.9% in 1990. In S Group's case, all the changes were the initiation of a virtuous circle (cf. Tainio et al. 1991) of generating income and cash flow for investments, which in turn continued the circle by creating more volume and market share. The impact of the measures taken on market share was realized slowly.

Eka Group failed in its attempts to establish a long-lasting cooperation with foreign counterparts, hence Eka' grocery business was concentrated and arranged on the basis of chain management. The good experiences from the development of the Siwa chain concept established the base for Eka's intentions to centralize its businesses into chains during 1986-1987. Eka/Tradeka was one of the first groups to install the idea of integrated chain management. It had less resistance towards vertically integrated business models within its own files, due to the fact that the group was centrally owned and managed. This early establishing of chain operations within Eka laid the foundation for future operations.

Although increasing its share of the markets in the late-1980s, retrospectively speaking, T Group's great future was wasted in the investment adventures during the same period. A heavy organization with three layers had hindered the adaptation of Tuko to the demands of the market. Tuko's management had a clear aim – they sought the position of a privately owned, stock exchange listed company, with a clear focus on the chain-driven business model. A shareholder agreement in the summer of 1988 secured the holding of Tuko's stocks. With such an arrangement Tuko gained owners that did not share the same interests towards Tuko as the user-owners. This led to an unstable situation where the owners were keener on fighting for their financial stakes than developing Tuko as a company. However, even in an internally discordant atmosphere, T Group was able to grow because of Tuko's store site deals and acquisitions. Although compared to the main competitor K Group, T Group's financial potential was used less as investments on stores. Tuko's resources were already deteriorating, as can be analyzed from the company's annual reports and financial figures.

In the contextual environment, the demand for goods and services after a series of successful years slowed in the latter part of 1990. Finland's economy started to sink into a deepening recession. The expectation was that firm operations and profitability would not improve, and retail sales would continue to decrease. The focus in the competing companies was set to cost management. The level of investments was lowered. Credit loss risks were expected to increase, and from the point of view of K Group, the structure of the K-store network was altered due to bankruptcies or business closures of local independent stores. The decline came even faster than the boom had started. The prospects for the starting new decade seemed controversial: at least those trade groups that were financially in good shape anticipated that they could last the decrease in consumer consumption. Those who had inferior financial resources and a multitude of problems in other business branches were concerned about the effects on future economic development. However, the recession proved to be much harder than anticipated at the beginning of the 1990s.

In September 1985, Finland publicly announced her intention to become a full member of EFTA, and in December 17, 1985, the Parliament of Finland approved full EFTA membership. Since 1961 Finland had been an associate member of EFTA, which was a special arrangement due to political pressure coming from the Soviet Union. It was a way to keep the trade routes open to Western Europe (Hämäläinen 1998, 11-14). During the 1990s thoughts about economic freedom gained wider domestic support, which turned Finland's foreign policy orientation towards Western Europe and led to

deregulation of the financial and capital markets. With the 1987 Government, consisting of moderate right wing party Kokoomus and Social Democrats, a historic turning point took place in Finland (Kantola, 108-109).

In 1988-1989, the view that membership of the European Community was the best option for Finland gradually began to take shape. This was crystallized in the speech by Kokoomus Party Chairman, Trade and Industry Minister Ilkka Suominen in August 1990, held at the meeting of the European Democrat Union in Helsinki: "Personally, I believe that Finland will become even during the current decade to seek membership in the EC" (Arvonen 6.2.1998).

However, the change in Finnish political attitudes happened only after the historical seizure of power in the Soviet Union. The unsuccessful coup d'etat on August 19, 1991 when Vice President of the Soviet Union Gennady Yanayev's short-lived junta failed, ended the Soviet regime and triggered a change which by the year's end led to the breakup of the Soviet Union and to the resignation of President of the Soviet Union Mikhail Gorbachev (Koivisto 1995, 429-434). Hence, in early September 1991 Finland's foreign policy made a sharp turn from east to west. The slow exit from the east, and a closer relationship with the West was due to two reasons. The internal difficulties in the Soviet Union offered Finland an opportunity to break away from Soviet dependency. The tight schedule for Western European integration called for urgent decisions in order for Finland to remain involved. European Community membership was accepted one by one. SDP party delegates, who a year earlier had rejected EC membership, approved it in 1991. Minister of Foreign Trade Pertti Salolainen announced on October 25, 1991 to President Koivisto that he would take steps to fully advance Finland's EU membership within the government. (Hämäläinen 1998, 70-74). President Koivisto was in favor of the opinion and called on the government to make necessary preparations.

Categorizing the firm's competitive actions one can note, that corresponding with mutual or reciprocal action-response dyads, competitive moves spread over a wider spectrum of activities. S Group's S-83 program was a response to deep economic problems – not a direct countermove to, for example, rivals' pricing, capacity, geographic presence, marketing or product innovation (cf. measures of focal firm action in Derfus et al. 2008, 68). At the same time, underlying political development was about to emerge as a full-scale change in the competitive terms of reference.

4.3 Recession (1991-1996)

The boom in the Finnish economy came to an end in 1990. Annual GDP growth declined extremely rapidly from +5.4% in 1989 to -6.5% in 1991. Domestic private investments, private consumption and net exports of goods and services fell sharply. Economic decline continued through 1992 and most of 1993 (Honkapohja and Koskela 1999, 405). The former super power the Soviet Union and communist Eastern Europe accelerated to downfall, and the so-called clearing trade within the Soviet bloc Comecon-countries was coming to an end. At the same time, a consensus agreement on the European Union was reached in the European Council meeting in Maastricht in December 1991 (Euroopan yhdentymisen kronologia 2003, 17).

The Finnish economy faced two external shocks; simultaneous decline of both Western and Soviet markets. In the first phase of the crisis the Bank of Finland committed firmly to a new policy of fixed exchange rates, which further aggravated the situation for the export sector. The end of the inflation economy, which had lasted almost four decades, made it even more difficult to adjust to economic depression. The transition from negative real interest rates to high positive rates was a real cultural shock to all economic actors. In order to secure the competitive position of Finnish exports, the Bank of Finland devalued the markka in the autumn of 1991. However, this was not enough. The markka was allowed to float in autumn 1992, and its value sank still lower. The crisis promoted fundamental changes in the structures of the economy and in the behavior of the economic agents (Heikkinen and Kuusterä 2002, 14-15).

The economic growth in the 1980s had been mostly based on debt financing, and the debt defaults led to a savings and loan crisis. The banking system nearly collapsed. In total, over 10 billion euros were used to bail out failing banks, which led to banking sector consolidation. Stock markets and housing prices declined by 50%. By 1993, GDP had fallen 14% and unemployment increased from virtual full employment to 17% of the workforce (Heikkinen and Kuusterä 2002, 14-15).

Negotiations in 1991 regarding agreement with the European Economic Area (EEA) were decisive in choosing whether Finland should take forward further integration towards Western European political and commercial structures, even as a full membership in the European Community. The European Economic Area as a single market covered both the European Community and the European Free Trade Area (EFTA) member states, with a market of approximately 380 million people. The purpose of the EEA agreement was to ensure the possibility of utilizing the European Union's single markets and those of the EFTA countries without EU membership obligations and benefits. Domestic trade in 1991 had no views of internationalization or its impact on competition; for example the managing Director of Central Chamber of Commerce, Matti Aura, said rather laconically "our country is of interest to no one." (Viita 1991, 3-4)

Finland signed the EEA Agreement on May 2, 1992 and committed to the four freedoms mentioned in the EC White Paper 1985: freedom of mobility of goods, services, capital, and persons. The EEA agreement came into force on January 1, 1994 (Koivumaa and Waronen 1989, 109-118; Widgrén 2006, 74-77; Blanchet et al. 1994, 1-5). The EEA decision was a major political step towards efficiency-driven freer markets and thereby it meant heavily increasing pressure for efficiency in Finnish companies. The EEA Agreement had a guiding effect on the legislation to adjust towards European practices. Concerning the Act on Competition Restrictions, the EEA Agreement rules applied only to restrictions of competition that had an impact on the trade between EEA-parties. Finland was in a risk of becoming a blind spot, where the EEA Agreement was not in force, and thus a new completion law was necessary including the same criteria as for international EEA trade in order to prevent harmful restrictions of competition (Salolainen, October 25 1991, the Parliamentary session protocols 72, p. 2338).

The old competition legislation, built on the principle of publicity and consultation and criminal sanctions was becoming obsolete and ineffective. In May 1990 the Ministry of Trade and Industry set up a working group, which among other things was to consider the requirements of the European integration processes for the new Competition Act. The working group proposed a new law, banning fixed pricing and offer cartels

and denying competition restrictions that were invariably considered to have harmful effects. The Committee's proposal, as well as the Finnish Government's bill, aimed at the prohibition of horizontal cartels. The Parliament of Finland also added to the Act a ban on the abuse of dominant market position. Associated criminal sanctions were eliminated and replaced by an administrative penalty (Purasjoki and Jokinen, 2001).

As in the European Community, the abuse of dominant market position was banned and because Sweden was starting preparations for such a law, the Committee considered it appropriate that at this stage prohibiting exploitation of a dominant market position would be included in Finland's legislation (Talousvaliokunnan mietintö 14/1992, page 3). Sweden had also launched a corresponding reform of competition law in order to become more EU-oriented and therefore their legislation included provision for abuse of dominant position.

Finland submitted application for EU membership on March 18, 1992. In legislation this was a decisive step towards pan-European harmonization. Finland joined the European Union on January 1, 1995, along Austria and Sweden. Conforming to European legislative and business structures was a major political, financial and economical juncture for future development in grocery trade.

The internal regrouping and restructuring of the Finnish grocery trade was executed by the gradual liberation from regulation towards free competition whereby EU membership transformed the structures of competition. Until Finnish EU membership, Finland was a controlled and regulated market area. Foreign companies could not import their own merchandize or assortment without permission from Finnish governmental authorities. Minister of Trade and Commerce Pertti Salolainen described the international regulations issues at referral in the debate as follows: "And yes, there will be then no mercy given, they are tough rules of the game, and we have to reckon with them. That's why this law is here. It is a really tough game, which starts at the beginning of 1993. There is no mercy given, there sits the European Court of Justice and they will be telling you how the competition policy is implemented, if not believed in the home country." (Salolainen 25.10.1991, Parliamentary Session Minutes 72, p. 2354)

The Finnish economy had to adapt to the coming internationalization and disappearing borders and barriers. Closed borders and close-ended industries were threatened. Particularly in the retail trade the loss of sheltered markets to European competition was a disappointment. Accused of inefficiency, the Finnish trade and commerce sector tried to argue for its effectiveness. Some discussants painted a hard, if not a fierce picture of future competition. Director General of Finnish Customs Jermu Laine spoke up: "EC membership will in the short run demand Finnish industry extremely large extra efforts to improve competitiveness. Membership does not immediately give any additional benefits to the industry, but forces it to adapt to a much different and more severe competition climate, among others, the EC customs tariff structure, competition rules and an insufficient European network of contacts." (Laine 1991)

The substantive change in the 1990s brought along the disappearance of the bank groups and the system of corporate governance was renewed, and the previous dominance of the diversified corporations diminished. Large and liquid financial markets emerged (Tainio and Lilja 2005, 62-63).

By the turn of the century and start of the depression the trend for migration decreased and migration gains in the urban regions concentrated in bordering municipalities. In 1994 migration losses were not only the characteristic of sparsely populated areas, they were also encountered in more densely populated areas (Heikkilä and Järvinen 2002, 3-4). Business development followed the changes in demand and socioeconomic transformation in Finnish society: smaller shops were decreasing in numbers and larger stores were beginning to appear.

4.3.1 T Group – Drawn to a dead-end

In the late 1980s and early 1990s Tuko was driven forward by its desire to define itself in the market as "Investors' Tuko"; a company that would awake awareness among investors and whose stocks would have been traded on the Helsinki Stock Exchange. Tuko's odyssey in the fields of investment business came to a dead-end in the early-1990s. Step-by-step with a recession and national banking crisis in the Finnish economy, Tuko encountered a severe financial crisis. Tuko suffered from lack of equity, and the owner-wholesalers concentrated more in getting ownership benefits than developing the company. The group lacked a vision and a roadmap; there seemed to be no master in the house (Vihma 1994, 26-27). Tuko's nationwide organization and the modus operandi faced a need for a tighter focus and a clearer vision, as well as an applicable action plan for future success. Unavoidable and hard reorganization was ahead. Tuko's stock exchange adventures were over, and high profits turned into record loss.

At the Board meeting on January 23, 1992 CEO Pentti Kivinen still spoke of a possible initial public offering. Listing on the stock exchange would have happened through a cover-company that already was publicly listed. Kivinen saw that Kauppa Oy Tuko's shareholders sooner or later would have wished Tuko's shares to be tradable (Manninen 1997, 90). Incidentally, CEO Pentti Kivinen was dismissed on February 1, 1992 and replaced by Eero Isohanni. Eero Isohanni's first task was to take care of the launching of T Group's restructuring, while Uolevi Manninen was given the task of creating a new strategy for Tuko (Vihma 1994, 26-27). Isohanni published the decision to cut away the "runners" of the Group, to be performed within a few months. Isohanni noted that... "The abandonment of agricultural trade, selling off an advertising agency, a chain of appliance stores, retailing of automobiles, restaurant operations, and a newspaper, will release capital and improve financial performance in the future" (Tuko annual report 1992, 3).

Tuko acknowledged the future trends in food retailing, where hypermarkets had climbed to a central focus in creating higher sales. Tuko initiated plans for a store chain of larger supermarket sized shops in 1989, and as a consequence the Eurospar concept was defined by 1991. Eurospar was positioned to be competitive in the price segment of supermarkets and hypermarkets. The stores should have possessed at least hypermarket-sized grocery departments. In October 1991 the first Eurospar was opened in Kuopio (Lainema 2009, 362).

In 1991 about 45% of the Tuko Corporation's debts, valued at 555 million euros, consisted of currency loans. Along with the cost saving efforts the number of Tuko's employees was decreased by almost one thousand during 1992. Capital worth 135 mil-

lion euros was released, and on the other hand Tuko benefited from previously committed investments, whose value rose to 76 million euros. However, in 1992 Tuko still made a heavy loss of approximately 168 million euros. From the devaluation of the Finnish Markka, Tuko suffered losses of 42 million euros and the amount of debt increased by 14 million euros (Tuko annual report 1991, 19). The quickly rising interest rates pushed the financial result a further 17 million euros downward. Write-downs of equities were significant. Tuko's credibility to cope with its obligations was questioned by its creditors (Manninen 1997, 98).

> *"In T Group's case, very early I started to see that this is an impossibility what was spoken in the orations; that this threetierness is a huge asset, that we have the retailers' entrepreneurship and the wholesalers' entrepreneurship and Tuko entrepreneurship and oh, there an asset is! But when you knew the trade and its needs, there's no room for a three-tier structure and different ideas with different directions of thoughts, so very early on I had a little bit a miserable vision that this structure will inevitably come to an end." (Uolevi Manninen, interview on September 1, 2008)*

Tuko's structures were deemed to be old-fashioned and ineffective, as noted in Uolevi Manninen's memo, dated March 19, 1992. Manninen also saw that larger units and chains responsible for them had been taking and would take more market share in the future (Lainema 2009, 420). The average sales per square meter in 1992 were in K Group 5,378 euros, in T Group 4,521 euros, and in S Group 4,084 euros (Lainema 2009, 372).

> *"Finnish trade has been a closed sector, and this has allowed the preservation of the old institutional structures. Planning and development has not been realized based on marketing and market needs under the new circumstances, creating effective solutions, but preferably preserving as much as possible the old structures, which the time has already run over... the T Group's structure is cumbersome and the responsibilities are unclear.... Therefore there is no T Group strategy. And no strategy may emerge until the discussion about the structures has been held. The result has been known, but nothing has been done. Hundreds of millions of Finnish Marks have been allowed to flow out of the Group. Does it really have to be so?" (Manninen 1997, 100-102)*

According to Uolevi Manninen the reasons for the expanding crisis inside Tuko and T group were partly internal and partly external. An external reason for the negative development was the collapse of consumer demand, due to the deep recession. The other reasons were internal:

> *"The heavy, outdated three-layer model had for years strained the whole Group's competitiveness. In organizations, owned by their users, the structures can be dismantled only at the eleventh hour. In the whirls of Casino-Finland also an obvious takeover threat was targeted at Tuko, which led to massive counteraction. When all the structures and extra responsibilities which were created for the protection have now been divested, we have to admit that it became extremely costly for*

Tuko. At the time Tuko vigorously wanted to expand into new areas and was otherwise investing at a fast pace." (Tuko annual report 1993, 2-3)

A working group was set up to prepare a plan for Tuko's survival and reorganization in August 1992. The group consisted of Taisto Riski (Pohjanmaa Oy), Pirkko Alitalo (Pohjola Oy), Peter Stackelberg, and Heikki Ala-Ilkka. In November a report was completed under the title "A Proposal for T Group's Structural Change". A three-year plan was set to save Tuko. The critical questions were: will Tuko survive, will Tuko swallow EKA or vice versa, will Tuko continue receive financing? The corrective steps in the implementation of the plan and the according years were named as 1993 Survival, 1994 Trust, and 1995 Profits (Manninen 1997, 114).

Putting Tuko and Eka together, a plan codenamed Premia, was under negotiations through the years 1992-1994. It was not an immediate solution to the core difficulties. However, in itself it was a channel to ventilate ideas of a larger industry restructuration and efficiency creation in the area of food retailing.

"And if we go back to the E Group - Tuko discussion, so yes in a way it was ideological that would we insert the bigger company into a camp which is heavily controlled by political elements with heavy administrative bodies, or whether would it be investor-oriented, in which then some way or another will be included the cooperative structure, how are the things going to unwind. And the E Group had not, among other things, due to the savings fund issues, other choice than demand the control to be theirs, which would have meant that the whole group would've marched in a direction, which I saw as impossible. That cannot happen and on a longer run this kind of business cannot operate with such rules of the game and be based on that." (Uolevi Manninen, interview on September 1, 2008)

The creditors forced Tuko into a hard reorganization in autumn of 1992. Tuko received conditional lending from the banks only until the end of March 1993. Eero Isohanni managed to get the regional wholesalers to bow to the fact that the three-layered structure of Tuko should be rid of. In front of the imposition of the creditors, all owning wholesalers within the T Group accepted transfer of their daily consumer goods functions to Tuko. Eventually Tuko's largest wholesaler owners (Wihuri, Tukkumanni, Tukkuparti, Pohjanmaa) were behind the restructuring, and the necessary agreements were signed on January 20, 1993. Uolevi Manninen was appointed Tuko's Group President on January 29, 1993.

The Board meeting on February 25, 1993 presented new strategic orientations. Negotiations concerning a possible EKA merger influenced the strategic policy discussions at this stage (Manninen 1997, 109). Operational guidelines were agreed upon and a project called "Cut off and Start" begun in Tuko. Restructuring was to be carried out without jeopardizing the daily activities and all costs were to be cut without hesitation. The measures taken led to an annual savings in costs of about 34 million euros. Tuko's role in the future was considered to be that of a kind of light holding company (Tuko annual report 1993, 2-3).

Tuko's different T-stores were to be changed into a uniform and centrally managed Spar chain under a new wholesaler Suomen Spar, which was founded on the basis of Tuko's food retailing division together with merging four regional wholesalers into its

organization. Suomen Spar Oy took care of the advisory and marketing services, targeted at the T grocers. Tukkuspar Oy started to manage procurement and logistics. All the changes abolished the conventional division into a central corporation and wholesalers. Tuko's emphasis as a central unit was set on daily consumer goods trade, its steering, and improving profitability and efficiency of material operations (Lainema 2009, 463). The old T Group was radically renewed to a chain of Spar stores, supported by some 600 T-stores, which should have been converted to nearby local groceries, under the brand "Lähikauppias". The target was to have 400 Spar stores by May Day 1994.

Tuko's financing agreements were about to expire at the turn of 1993/1994. Tuko's independence was challenged by other, unpleasant options. In 1993, after the strategic renewal and radical cost cuts it was found that Tuko's cash flow was not a problem. Self-sufficiency had fallen low, which required an increase of capital program. The capital program was implemented during the spring of 1994, and produced 84 million euros, which was used to pay back Tuko's loans (Tuko annual Report 1994, 2-3).

The year 1994 was new Tuko's first full fiscal year. The activities of the central corporation, Tuko, were centered on developing the sales channels in food retailing, Spar; in hardware stores, Rautia; and wholesaling, Metro (Tuko annual report 1994, 12-13). The ownership went through reorganization. Kauppa Oy Tuko was merged to become Tuko Oy in May 1994. The share capital was raised by changing loans into Tuko's shares leading to a new ownership structure. The creditors of Tuko rose to leading position, having the majority of the shares. Kansallis Bank's proportion of the shares was 25%, Pohjola Group held a share of 16%, and OKO Bank 9%. The financial situation was poor. During 1990-1994 Tuko's cumulative loss was 355.6 Million Euros (Manninen 1997, 137).

The organizational change in 1993 and 1994 was a major leap from wholesaler-oriented and region-bound three-layered structure to customer-driven sales channel thinking. "It was a major cultural change to put an end to wholesaler-centeredness and starting to build up on retail conditions. Tukkukauppojen Oy became Tuko Oy", Uolevi Manninen wrote in Tuko's annual report in 1995.

> *"But thinking about the effective functioning of the chain activities they [Kesko and SOK] have their own restrictions that are linked to the ownership structures. And just there was the opportunity for Tuko. The table was now cleaned to unconstrained chain operations. Tuko was to be turned into a company that would interest investors. Investor circles kept on saying that Kesko is not sexy. The lack of sexiness arises from the fact that ownership had been cemented to the K-grocers. Maybe good from Kesko's point of view, but for Tuko it would have provided a competitive advantage." (Manninen 1997, 166)*

In 1994, Tuko's management was still after public listing, dedicated to the idea that Tuko's shares would have to find a marketplace. In 1994, Tuko applied for acceptance on the stockbroker's list. The application was pending against new balance sheet information and figures. The broker's list was a list of companies not traded on the Stock Exchange or the OTC list, but that were usually the subject of intensive trading. The broker's list had lower minimum requirements of share capital than public listed firms. It was run by the Finnish Association of Securities Dealers. In September 1995, Tuko's

managers' new plan was to register as an applicant to the Helsinki Stock Exchange, meaning that one could withdraw from the promise of being listed in the broker's list. Tuko's Board of Directors accepted the decision.

Tuko's annual report of 1994 speculated about the vision of public listing in the following way: "Our challenge is to make Tuko an attractive investment target for investors by showing the profit-earning capacity of our business. Tuko's attractiveness as an investment makes it possible to increase share financing in the future and it also helps reducing debt" (Tuko annual report 1994, 12). In 1995 Tuko was described with the epithet "Investors' Tuko". Competitive advantage was sought by serving investor interest in a chain managed daily consumer goods company, without any ownership structure constraints (Tuko annual report 1995, 4-5; Blåfield 1995, 18).

> *"... so when I, in difficult circumstances, had to envision Tuko's possibilities and its situation, I put it to the form that we have the retailers' Kesko, we have the S Group made of regional cooperatives, and we may have the investors' Tuko. Tuko would be such a house that could make a cleaner organization and go to retailing from the investors' point of view and not from the terms set by its structure. And no, it was not realized. It was very…well, I do not know… very close, but that it would have happened like I described, that in the investor and international broker circles was a clear interest in it, and clear visioning was seen, and we saw that there's demand for this, and the market is lacking these kinds of businesses, and that an international stock issue would come to succeed. When the plans were already that way long that it would have been only under Tuko's Board and owners' decision to push the button, with already made roadshow programs to the world, and it would have started, but then there were these Tuko-Kesko figures established so long that it then went its own tracks." (Uolevi Manninen, interview on September 1, 2008)*

4.3.2 S Group – Towards Group coherence

During the recession, S Group continued on its chosen path to establish new stores and to invest in a larger scale store network, the Prismas. Positive signs of the past decision were becoming visible. S Group's market share rose from 15.9% in 1990 to 16.4% in 1991.

> *"We did not have the resources for major operations, thus in a way the development had to be very small scale, we could not build many S-markets a year, and we were really the pursuers from the back, yes, there was probably a bit of low self-esteem, but we had poor prerequisites to improve our market position, because we did not have very much money; cooperatives were terribly indebted and loss-making. Cash flow financing could not be thought of, and the creditors, I always remember when the big bank executives said that 'S Group cannot be given any credit, so do not let them have any.' So big banks had a kind of rule that do not allow credit for the S Group, these were the leading commercial banks in Finland. It was quite a rude world… That's why we had to seek partners, and one of our partners, of course, Tapiola, who started to support us through an insurance company, to finance our store sites or to own them, when we were leaseholders in them, and*

with it we got this mill to rotate a bit faster." (Kari Neilimo, interview on June 21, 2007)

S Group was lucky enough to have started thorough structural changes before the recession. The rivals' businesses were starting to stumble because of poor economic conditions around falling consumer demand. Tuko and Eka were facing a full-scale crisis and rich Kesko spent a while searching for potential investment targets and directions for future growth.

"In a way we were maybe, in our own way we had better tools to respond to the recession because we were just building our network, modern format network, Prismas, S-Markets, Sales and Alepas (---) And yes we noticed it, but the recession did not according to my opinion affect us much, we were rather among building a new network cost effectively and old stores were closed down, in a way costs were reduced by closing down old boutiques, all that as a matter of fact fitted quite well into these times. We possibly had luck with us, all that was not necessarily planned, but we were just historically during that period of time in such a phase." (Kari Neilimo, interview June 21, 2007)

S Group was tuned to move on, and there were great enablers for accelerated action: a possible collapse of one or more of the Finnish grocery retailers could have meant the possibility for a flanking manoeuvre of a foreign food retailer.

"And then it was associated with at some point, actually, the biggest fear was that when Tuko started to tumble down and Eka to fall into forced restructuring, would there be someone taking their locations of business, and thus, we had to increase the rate of investment and rapidly create more new Prismas and competitive S-markets, and smaller class stores and still straighten the logistics, getting more focused activities." (Jere Lahti on September 24, 2007)

The establishing of a joint logistics company Inex Partners Ltd in cooperation with Eka Group was to improve both parties' position in the procurement process and to generate economies of scale against the leading K Group. Inex Partner's volume in purchasing and logistics rose to near 30%, against Kesko's equivalent figure of 41%. Increased purchasing volume meant better buying conditions and lower prices, which in turn were transferred to consumer prices and retailer's margins. The Inex Partners deal also strengthened S Group's commitment to invest in grocery chains; the volume was achieved by uniform assortment within the Groups' chains, plus combining the two Group's joint volume. The idea of combining the procurement volumes of S Group and Eka Group into a joint venture Inex Partners included a shareholder agreement and control mechanisms about not to create surplus or profits of any kind. It was parallel to the new thinking within the S Group that all activities should support the basic businesses at the regional level, not maximize the central corporation's profit. The logistical cooperation had been preceded by the establishing of Meira in 1987 as the industrial joint venture for both cooperatives (Herranen 2004, 295).

"Later it was estimated that establishing Inex brought added value of nearly 4 billion old marks. An own logistics company is important from the chain management

point of view, it improves efficiency, it is to keep control of the chain concept, maximizes the purchasing power and standardizes the selection instead of the earlier meandering. Cooperatives had been involved in a very non-uniform procurement, which eroded the profile and reduced purchasing power." (Jere Lahti, interview on October 5, 2006)

S Group stated that the quick growth of its market share was explainable by the affordable prices of the chains, as tested by several price basket studies. The Group sought to be the price leader. In addition the Finnish Competition Authority estimated that the growth of the market share of the S Group was a sign of the increasing attraction of the group among consumers (Björkroth et al 2012, 12). However, government officials who made price comparisons were skeptical in announcing direct relationships between the price level and certain chains or retailing groups. "Inexpensiveness depends on each customer's or a family's own consumption patterns. In addition, factors other than just price level affect the selection of a shopping place" (Etelä-Suomen lääninhallitus 2007).

S Group kept on advancing the idea of concentrating its business efforts. Its chains were transformed into different brands, emphasizing distinct characteristics by marketing and sales promotion, with price level image and by restricted assortment within each chain. This was connected to region-wide marketing, conjoined commodity sourcing carried out by SOK, and a consistent price level with uniform assortment in every regional cooperative. The members of the cooperatives, the potential committed customers, were tied to the Group by offering them special benefits in form of purchase rewards. The customer-owner was seen as a key asset to the strategies of the whole Group.

In S Group's opinion the customer-owner bonus system helped in bringing down marketing costs and also helped to focus communication to members in a significantly more cost-efficiently way than traditional unfocused marketing. As customers concentrated their purchases, both the benefits offered to the customers and the possibilities of producing services to members would improve. In accordance with the co-operative principles, the economies of scale generated through concentrated purchases were returned to members in proportion to their use of services. "In this way, it will not reach the pockets of external capital investors" (S-Kanava 2012).

The creation of the customer loyalty and bonus system started to emerge at the end of the 1980s, when the first regional cooperatives (Osuuskauppa PeeÄssä, Keskimaa Osuuskauppa, Osuuskauppa KPO and Turun Osuuskauppa) launched a trial. In 1991 a total of 87% of the S cooperatives were in the system. At that time S Group had 460 000 cooperative members, of which 240 000 were more active customer-owners. A monthly bonus was paid to 120 000 households, who had average bonuspurchases value of 336 euros per month. The bonus purchases totaled 387 million euros, which was 40-50% of the sales in grocery retailing (SOK annual report 1991, 20). In 1992, the bonus purchases reached 471 million euros and S Group paid out purchase rewards of around 10 million euros (SOK annual report 1992). In 1993 the bonus payment features were added to an S-Etukortti bonuscard, and the whole system went nationwide in 1994, covering all business branches of the S Group as well as all the regional cooperatives participating in the bonus system.

4.3.3 K Group – The era of mergers

Although T Group was the challenger in the food retailing market during the 1980s, Kesko still held nearly double T Group's size in market share. The recession set the agenda for coming development in the grocery trade for the following years. At the beginning of the 1990s most of the business was still made through smaller size stores. Finnish food retailing went through a structural change in the form of closing down smaller stores and increasing the size of remaining shops. For example the number of K stores decreased by 269 shops during 1992. The decrease in number of shops was simultaneous with the development and investment planning made in Kesko, and the two forces of growth and degrowth had to be balanced in the daily operations.

> *"It was quite enough to do with what then fell into our hands. But, then we had also quite a lot of credit losses, which describes the situation. It included, therefore, structural changes, which were expected to come with, when it came on, small shops, and there were also generational changes, so in small K-stores in remote areas the storekeeper got older and quit, there was no replacement. And it was really known early on, that such a phase will occur, S Group made and had to make the decision centrally and earlier, and lost market share in remote areas, where in turn Kesko's market share increased, and when the start of S Group came, Kesko's position was here, when this structural change appeared, the game was balanced." (Eero Utter, interview September 4, 2007)*

In the early 1990s Kesko and K Group were affected by the recession as much as the other companies in the field. In the atmosphere of the GDP falling by 6.2% and private consumption by 4.3%, Kesko tried to maintain its level of performance by cutting costs and slightly streamlining its organization. Kesko's net sales declined by 6.5% from 1991 to 1992 due to the depression. On the longer run, recession was only a momentary disturbance for Kesko, because they held sufficient financial resources to resist turbulence at the sales level.

> *"The simple rule is that costs have to be kept in relation to the sales. Then developmental work had to be slowed down clearly. (---) That, they are longer periods, but even during the recession we did not quit developing commercial sites… So, it might have been that it slowed down a little bit, not so much because of… Kesko's benefit and challenge was that, yes, Kesko had clearly stronger financial conditions at the time than any of the competitors." (Eero Utter, interview September 4, 2007)*

Kesko's profit level was essentially seen as consisting of the recovery of demand and sales, and thus reduction of costs was Kesko's priority in 1992-1993. The company was back on track in 1994 and continued to do good business and profits. Kesko appeared to have survived the recession without any severe damages. "Kesko Corporation's financial position has remained exceptionally good", CEO Eero Kinnunen stated in the 1994 annual report. Kesko was eager to seize the moment, and during Eka Group's mandatory restructuring in 1993 Kesko participated in speculations of dividing Eka's food retailing between Kesko, Tuko and SOK. Only 200 of Tradeka's 700 sales outlets would have been left operational (Kallenautio 2009, 294-295). Later, in the summer of

1995, Kesko expressed faith in Elanto, bidding to buy Elanto's businesses (Kallenautio 2009, 379).

The immediate after-recession period was a turning point in Kesko's traditional path. Development as a conventional wholesaler and central corporation was about to come to its end. The rise of S Group was foreseen and also affected scenario planning in Kesko. Until the mid-1990s, Kesko and its independent grocers had been profitable and efficient by relying on the entrepreneur-model. However, in the changing market logics, the Kesko way of food retailing was becoming an obstacle. Because the central corporation was bound to fulfill the K Grocers' needs, Kesko's maneuverability in business operations was restricted. Business at the shop level should have been left at the responsibility of the independent K-retailers alone.

In the early 1990s several ideas for unifying and condensing the operative business model were introduced by Kesko's management. One of the aims was to diminish the mediator role of Kesko's regional offices. At that time Kesko was more of a three-layered organization where the regional offices were in charge of managing operative business of the local entrepreneurs in their areas, in charge of limited selection of the groceries, local distribution, sales, store site planning, and management and retail support and contacts. One of the main tasks was also lobbying on local retail issues (Matti Honkala, written comments on April 8, 2013). The reconsideration of the regional office's role was engaged in the mid-1990s, when Kesko closed down the regional offices in 1995. This was mainly influenced by the goal of improving the logistical efficiency by reducing the number of terminal warehouses.

When Kesko observed the restructuring of S Group, it noticed the increase in efficiency and in sales of the S cooperatives. Concentrated chain management, together with controlled logistical stream of goods, and the increased potential from IT systems was winning ground. New store formats and concepts, and the overall organizing of food retailing made traditional wholesaling almost disappear. The centrally-led chain management of S Group managed to show superior results and acted as an example to the whole food retailing industry. S Group's market share began to grow from 16.4% in 1991, reaching 23.3% in 1996. Tradeka's centrally-led Siwa chain was also shown to provide high profits.

During the 1990s the share of vertically integrated chains in Finland's grocery trade rose from 45% to 96% (Kautto and Lindblom 2004, 5). The cooperative actors, S GROUP and Eka/Tradeka, started the "chain reaction". At first the chain business model was taken into use in the larger stores, in the hypermarket segment. Later the supermarket segment also adopted the chain operations business model and finally the near-by smaller markets were adapted to the system (Kotisalo and Kiuru 1997, 14-15). This was a major change in dominant industrial logic in the food retailing sector. Chain management proved to be successful, allowing concentrated procurement, marketing and customer loyalty benefits, and logistical efficiency in the form of uniform assortment. IT-technology development contributed to this change, by allowing increasingly accurate forecasting and planning methods, and value chain management in logistical distribution. Simultaneously, it meant that wholesaling and retailing were amalgamated as a result of the value chain approach (Kautto and Lindblom 2004).

One of the first attempts to align the K Group's initiatives to the S Group's market share growth was the renewal of the grocery store formats, launched in K Group in

1993. The Supervisory Board of Kesko discussed the plan to reorganize Kesko's operation on August 24, 1993 and confirmed the changes at a meeting on December 2, 1993 (Kesko annual report 1993, 5). From January 1, 1994 Kesko's operations were reorganized so that the Specialty and Home Goods Division, the logistical operations, and the grocery purchasing units started to operate as a line organization under nationwide management, after combining the local and national operations (Kesko annual report 1994, 6). The operations were based on chain operation teams, organized on the basis of the store format concepts being revised for grocery stores (Kesko annual report 1993, 5). A total of 318 stores operating under the new concept were opened during the year, including the Rimi discount stores, K-neighborhood stores, K-supermarkets, K-superstores and Citymarket hypermarkets. The Rimi store format was adopted within the K-Group. Its introduction in Finland was part of the Nordic cooperation between Kesko, the Swedish firm ICA, and the Norwegian firm Hakon Gruppen. Operations were based on cost-efficiency and uniformly inexpensive prices (Kesko annual report 1994, 43). The key objectives of the change were to strengthen the image of each store type and to improve profitability through product range management and restructured operations (Kesko annual report 1993, 47).

Kesko's sales and marketing organization was changed to reflect and serve the new format. Each store type formed their own typical basic range of products and goods, which constituted the basis of the commercial and sales activity. In 1994 a marketing campaign followed. The campaign opened a new way of marketing where the focus of marketing shifted from joint marketing to conjoined store type based marketing (Kesko annual report 1994, 33).

In 1995, a major reorganization program was implemented in the K Group's organizational structure, which was mainly focused on remodeling existing K-retailers into five national Kesko sub-chains: Neighborhood Stores, Supermarkets, Superstores, Citymarkets, and Rimi stores. Each of the chains consisted of retail outlets with common characteristics in terms of identification (logotype), size of sales area, basic product assortment, and which would cooperate between themselves in joint advertising, campaigns, and so on. Five matching chain control units were created within Kesko's foodstuffs division to support this reform. The chain control units formed, together with a Board of Directors, made up of K-retailers from the chain, the nationwide management of the chain to which it corresponded. The responsibilities of the chain control unit included coordinating activities of the retailers in the chain concerning purchasing, marketing and sales policies, e.g. joint campaigns. The chain control units also served as Kesko's profit centers. All chain control units were part of Kesko's foodstuffs division. As such, they shared common management structures and reported to one of Kesko's executive Vice-Presidents (EU Official Journal 1996).

Each chain unit formed its own procurement and logistics services, and was in charge of marketing activities for its product lines. Thus, Kesko's organization was changed from matrix to a line organization, based on profit groups. These new units were established on September 1, 1995, except the Kesko Rimi Stores, which was established on January 15, 1996 (Kesko annual report 1995, 8).

One important and integral part of the reorganization was that the K stores of all five chains were to be equipped with up-to-date information systems suitable for use in the Kesko network. Following the completion of the IT-project, it was expected that the

possibilities for rapidly transmitting information within the group would be significantly improved. The fact that Kesko publicly stated its commitment to increased use of information technology was in line with the development in other retail groups throughout Europe. For example, at the time the installation of checkout scanners connected to a central computer provided a basis for increased coordination of stock control, product range selection, and flow of price information (EU Official journal 1996).

The store type reform was continued with a wide structural reorganizing within Kesko and the K-retailers. The wholesale operations-oriented approach was transformed to serve the needs of the new retail chains during 1995. Kesko took more responsibility in chain management where the model of the chain operations business was built in horizontal cooperation among retailers and Kesko. This horizontal chain management model – codenamed K1 - led to establishing the chain units in Kesko and the equivalent chains, both based on store format types.

The so-called Chain Boards rose to gain a significant role. The members of the governance institutions were selected at retailers' meetings. The Chain Board was able to make binding decisions for and on the behalf of the whole group of retailers. The former management model was replaced with a unitary management model based on the principles of quality management (Mitronen 2002, 169-170 and 185).

The changes in K Group groceries undertook a major change in the wholesaler Kesko's operations. The published aim of reorganizing was to increase Kesko's sales and purchasing power and to strengthen its competitiveness as a distribution channel in Finland and in neighboring countries. The new organization was to be a change from the wholesaling and functional organization towards customer-oriented chains (Eero Kinnunen Review by the Chairman and Chief Executive, Kesko annual report 1995, 6-7).

> *"The first thoughts of chains were born in the early 90s and would it have been 1995 when we built up a kind of a rudimentary chain model, which we called at that time K1 and then this is what happened in 2001, which was a real chain, real chain operations, was called K2, so the incipient model was made in the early 90s and yes, this was based on the fact that S Group had already begun to rise sharply. And we felt that we all must be in a single file. And then Kesko started for the first time to contractually guide the retail trade. And it was probably around 1995, you could say that it was operationally the opening shot, and strategically it was the pondering upon, which had been started a couple of years before. (Matti Honkala, interview on October 17, 2007)*

In 1994, within Kesko it was observed that "in addition to increased sales, the improved result was due to good cost management and improved use of capital" (Kesko annual report 1994, 3). Kesko's strong position in the domestic market limited the growth opportunities in the status quo environment. Organic growth was fixed to the growing national economy and consumption habits of the customers. In competitive environments, towards which Kesko was heading, growth was achieved with new openings – new markets, reaching new populations, with enriched supply of better and modernized stores.

New markets and expansion both in domestic and foreign markets became a subject of discussions in K Group around 1995. In 1996 Kesko's CEO Eero Kinnunen announced, "profitable business is dependent on continuous growth" (Kesko annual report 1996, 4). While in 1990 the K Group had stated that "competitiveness in the future is based on efficiency, cost control and a clear division of labor and cooperation between Kesko and the independent K-retailers", in 1996 it was pointed out that, "The goals of Kesko's operations are growth, profitability and cost management to achieve greater competitiveness."

According to Kesko's interpretation, foreign competition was seen as a looming threat, although the Finnish markets had become so saturated that there were neither room for growth nor for new business opportunities. Thus, Kesko's management started to peek over the Finnish borders. The international environment seemed to provide threats as much as opportunities. CEO Eero Kinnunen recognized the power of the foreign competition in 1995 stating: "The competition continued to be tight." One direction of Kesko's ambitions was to grow in the promising Baltic States' market. Kesko accepted a new view, according to which the basic business was not tied solely to the local domestic market. Food retailing as a business was considered capable of being internationalized. In 1995 Kesko decided to open foreign branches in Finland's close-by regions, in Russia in St. Petersburg and in the Baltic States. The enlargement to Sweden, the Baltic countries and Russia became a key growth objective. Timo Karake explained the chosen directions:

> *"In 1995 the Board of Directors found that Kesko is a relatively big company in Finland. Even then it was seen that expansion possibilities in any case, during the coming ten years, would be limited. We estimated EU membership would change the rules, and we believed in any case, that the internal market was developing towards more free markets. We saw that the movement of firms freely across borders will become everyday. Then we checked our action plans. We had assumed that our business is not geographically limited, that we too can move in the surrounding near-by markets and areas." (Timo Karake in Kauppalehti Optio 1997, 23).*

To improve the capability to react to development abroad, Kesko established the International Operations unit in 1995 to hold responsibility for charting and starting new business operations for the Corporation, and developing the Corporation's strategies in its relations with international and cooperating organizations. It also acted as a business controller for the subsidiaries and partnerships that operated internationally. The unit was also responsible for coordinating and developing Kesko's environmental strategy and operations. This organization was separate from the foodstuffs division. The operations of the unit were extended and diversified in 1996, due, for example, to the purchase of Kaukomarkkinat Oy and the expansion of operations to new international markets (Kesko annual report 1996, 18).

In 1998, the marketing strategy of the Kesko Food Division was reshaped and linked to the Plussa customer loyalty system launched in late 1997. The card was designed to respond to the similar cards of rivals, in other words to increase commitment to K Group. The functions of the card were obvious: it enabled accumulation of bonus points against a monthly voucher, which could be redeemed against next purchases. There

were also additional special offers reserved for cardholders. At the end of 1998, there were 1.1 million Plussa households and 1.9 million Plussa cardholders. Much of the good sales development of the Division's retail chain units was seen to be attributed to the Plussa system (Kesko annual report 1998, 13).

Rapidly diminishing general interest rates and Kesko's good liquidity and strong balance sheet allowed Kesko to act proactively in the market. The completed mergers and acquisitions of Kaukomarkkinat Oy and Tuko Oy constituted a clear growth path outside established activities (Kesko annual report 1996, 4-5 and 25).

Although Tuko was drifting in the riptide of frustrated owners, economic pressure, an unsatisfactory store network, and declining market share, nonetheless it still appeared an appealing investment target for Kesko. In December 1995 Kesko approached Tuko's biggest owners, Merita Bank (a merger of Kansallis Bank and Union Bank of Finland in 1995), OKO Bank, and Pohjola, with a vision of restructuring the grocery business sector in Finland. The owners of Tuko were unsure of the viability of the company, and after the unsuccessful attempted merger of Tuko and Eka, they were willing to consider selling the company. CEO Eero Kinnunen stated the purposes of the merger attempt in an interview:

> *"In the autumn of 1995 we thought in the Kesko's Board of Directors, how a major restructuring in trade can be controlled and implemented. We came to a conclusion that the construction race will be reduced by having fewer builders." (Peltola 1997, 8)*

Discussions were held during the first months of 1996 and finally Tuko's creditors and owners liquidated Tuko in 1996 by selling the shares to Kesko Plc. On May 27, 1996 Kesko acquired the majority of Tuko Oy's shares owned by Merita Bank, OKO Bank, and Pohjola Insurance Company; a total of 59.3% of the voting rights. Due to a bond of warrants Kesko gained additional shares in a rights issue. Finally, in August 1996 Kesko made a tender offer to other shareholders for the remaining shares of Tuko Oy. Kesko's stake rose to 99.6% by December 31, 1996 (Kesko annual report 1996, 25).

> *"And actually it did not have any lofty objectives other than that the field had to be streamlined to a better order, and then we had to get more volume to the logistics side, because we had the Hakkila hectares in use there, and they have been in business for 25 years, and still anything goes through them no matter what. And among other facts it included the restructuring of the field, which would have been an extraordinarily big task. Because in almost every village and in every boutique the walls were against each other – Tuko member versus K-store, but when it was calculated, they have always been one time shows to execute the rationalization within a few years to get it done." (Eero Kinnunen, interview on January 25, 2010)*

Tuko had jumped into stock exchange logic and "Investor's Tuko" had become a reality. Tuko's CEO Uolevi Manninen described the turn of the plot in the following way: "The bridge to new ownership had become true, but different to as I had imagined and presented in my strategies. The market economy had worked efficiently" (Manninen 1997, 170). However, even before the merger the future of Tuko was seemingly doomed, as Kalervo Haapaniemi hypothesized:

"I believe that the difficulty, therefore, in the way that we'd most likely have received additional capital with those projects that had already been initiated, but the amount of capital would still have been so small it would have not helped this great lack of investment ability, they'd have been enough to, when it was for many years neglected this, had to neglect this, yes, Tuko would've ended up in one way or another if not bankrupt then maybe chopped to other parties, it would not have been able to continue. Rautia was really in a bad shape, Anttila had major problems and the grocery retailing was withering due to lack of investment capabilities." (Kalervo Haapaniemi, interview January 21, 2009)

As soon as it appeared, the Finnish competition authorities questioned the acquisition of Tuko Ltd (Kesko annual report 1996, 2). The EU Commission had no direct decision or ruling power in the case over the national bodies, but the Finnish authorities were able to send the case to the EU Commission for a decision, because both Kesko and Tuko received two thirds of their turnover in Finland (Bulletin EU 7/8-1996, Competition (22/72), 1.3.51).

"And then when the purchase process started, so we, let's say that we had an accident in the matter, we did not notice the competition law, but yes I did, surely we did study it very carefully, many lawyers investigated it, and they said that there is no legislative obstacles in Finland preventing that thing." (Eero Kinnunen, interview on January 25, 2010)

The European Commission decided on November 20, 1996, that Kesko's Tuko merger was against the EU's merger regulations. The Tuko merger would have created a dominant market position for Kesko, which would have impeded effective competition in consumer goods, retailing and supermarkets in Finland. In addition, the merger was seen to affect imports from European Union member states, and it would have created barriers for potential competitors to enter the Finnish market (Bulletin EU 11-1996, Competition (11/24), 1.3.53). Kesko was obliged to dissolve the arrangement and sell off part of Tuko within a period of six months, thus releasing the Spar chain to start from point zero in 1997.

To some extent, new competition legislation slowed down the operations of Kesko, but Kesko soon managed to learn how to act with the Finnish Competition Authority. The segregation in positioning with relation to the Finnish Competition Authority started at the beginning of the 1990s after the legislation of the Act on Competition Restrictions in 1992. The Finnish Competition Authority could then start to investigate the retail organizations' operations among other things in the light of agreements on prices. S-Group's juridical structure was favorable in this investigation. The local and regional cooperatives own all their shops and thus coherent pricing is possible, whereas independent retailers mostly own K GROUP's retail shops. Compared to Kesko, S-Group started to change its attitude so as to be more benign towards the Finnish Competition Authority. At the same time S Group changed its structure and strategies. Kesko had difficulties to change its ways to operate and to adjust the juridical framework where cooperation between companies that are horizontally on the same level, is prohibited. The cooperation between the Finnish Competition Authority and Kesko was

extremely difficult until the end of the 1990s. Clear hostility could be sensed between the parties (Skippari and Holmlund 2007).

4.3.4 EKA Group – In the capacity trap

In the early 1990s, Eka Group chose to emphasis internationalization of its business branches, building on solid partnerships. The plans in the food retailing sector included an option that Eka's food retailing business would be merged with an international operator. Partners would have provided a large increase in volumes, together with know-how, and they were considered essential in obtaining capital to back possible investments. Thus, Eka's management systemically searched for alternatives for cooperation and alliances, however, realizing that Eka's operational value was weakened by the fact that it did not have any foothold in the greater Helsinki region. This was due to historical reasons: Elanto cooperative had stayed outside of the "Big Merger" of the E-cooperatives in 1983. After buying Valintatalo chain in 1986 Eka's market share in the Greater Helsinki area rose to about 5-10%, but it was still insufficient in attracting international buyers or cooperation candidates. Hence, Eka was active in preparing a merger with Tuko, which first, would have led to improved logistics and second, Eka would have gained more stores inside the Helsinki city area.

> *"This is a big issue, and it postponed all other actions. And because of this we were active in the Tuko fusion preparation - meaning the planned Premia company. In addition to many other benefits it was seen that it is a way to rationalize the whole logistics, therefore, purchasing, storage, transportation, but it also would have patched up the hole in the [Helsinki] metropolitan area store network and it would've then been easier to negotiate with international companies." (Eero Rantala, interview June 10, 2008)*

To improve their position in the procurement process and to generate economies of scale, Eka and SOK found a good cooperation in purchasing and logistics. They co-founded Inex Partners Ltd, which was owned on a 50-50 basis. The aim of the joint venture was to bring together purchasing efforts and increase the volume as well as to rationalize the transportation and delivery processes in both of the retail companies. Measured as a proportion of market share, the Inex Partner's volume in purchasing and logistics rose to near 30%.

> *"For example Eka's purchasing volumes were smaller, so I saw it as very important that we could ally ourselves with someone else to increase the volumes of procurement, storage and transportation, and improve effectiveness. Then this Inex-solution was discovered together with SOK. (Eero Rantala, interview June 10, 2008)*

The sales figures in Eka Group during the spring of 1990 showed that the Finnish economy was moving towards recession. At the end of 1991, Eka switched to crisis management, which meant the strengthening of a sense of crisis, following and controlling more closely the fixed and variable costs and liquidity. The possibility of selling smaller businesses and real estate property were also considered in order to raise more capital. (Kallenautio 2009).

In 1991, Tradeka's "Vision 2000" development program was accepted. Instead of having six grocery store chains the business was concentrated on three store types: soft discounters, supermarkets, and hypermarkets. Manteli stores were transformed into Siwas. Old Misto, Tenna, and Valintatalo chains were the basis for the renewed Valintatalo chain. In 1992, the new Valintatalo chain showed an average sales growth of nearly 40% per unit (Eka annual report 1991, 33 and 1992, 40).

In the aftermath of the Finnish recession Eka suffered a setback in its relations with banks, which launched a financing crisis in the corporation during early autumn of 1992. In September-October 1992 a solution to the acute problems was found, but the continuation of financing for Eka Group was tied to a major reorganization of the Group's businesses. The construction, insurance and retailing sectors would have to go through tough rearrangements (Kallenautio 2009).

At the same time, the discussions and preliminary preparations about the merging of Eka with Tuko rose to the agenda. Negotiations about a possible merger of Eka and Tuko were held several times during 1992-1993, and each time the discussions lasted several months. The project received a name Premia. Eka Group forcibly pushed towards a solution, where Eka would have the majority of the new Premia company for "strategic reasons" and because of the cooperative savings fund, managed and maintained by Eka.

A non-crossable obstacle was the fact that according to the Finnish Ministry of Finances, in order to be able to continue the savings fund operations in the planned company, the majority of shares should be controlled by Eka. The solution was not acceptable for Tuko's management and owners, and also Tuko's main creditor Kansallis Bank resisted the idea. In addition, differing ideological backgrounds between the leftist E-cooperative movement and the entrepreneurial Tuko affected the terms of agreeing a majority and control (Kallenautio 2009). At the peak of the action, in April 1993, Tuko's Uolevi Manninen sent a telefax to the members of Tuko's Board explaining the situation: "There are only two options: 1) Whether the operations turns to the private entrepreneur direction 2) The operations turns to the cooperative direction. An ideology, based strongly on private entrepreneurship, is in opposition to such a socialist cooperative movement, which is based strongly on leftist ideology" (Lainema 2009, 450).

Tuko's Uolevi Manninen had a principal task to overthrow the Eka and Tuko merger. In the merger plans the control and executive power were intended to remain with the Eka managers. Manninen managed to get Tuko's Board and, ultimately, Kansallis Bank's CEO Pertti Voutilainen to support the idea of Tuko's independence. Kansallis Bank was funding two major Finnish retailing central corporations Tuko and Eka, and both of these were in a deplorable state. The Pohjola Group had leased to T Group a significant number of real estate property. Tuko-EKA's merger would have cut the rental income from this property book and lowered the value of the investments. Thus, the collapse of Tuko would have led to depressed balance sheet values in Pohjola Corporation (Vihma 1994, 26-27). Ultimately, the plans to join Eka and Tuko fell due to the resistance of Tuko's leaders and owners, and Kansallis Bank.

> *"It was, of course, it was emotional for sure I can admit that, but there were such setups, that I saw as impossible, for I knew all the forces and I felt that am I the only obstacle on the road? And this was surely admitted. The banks put very strong*

pressure to combining the two patients, and thus it was just doing a calculation that this is what must occur when they are put together, so one has to find more efficiency there. But I think it had a kind of impossibility, which I do not understand, how it would have been solved that a cooperative and a privately owned company are merged. When I saw the background, which was clear: in what way and by what means until the end one had to take care of the fact that E Group should have the dominance, whereas we sought a solution as light as possible which would realize it. The question of keeping the cooperative savings fund operations was the key issue. And the law allowed the right to exist when E Group ought to have the dominance at that point, and it was examined terribly accurately what would have been the lightest possible solution. Then it was that if the Chairman of the Board comes from E Group, the requirement is fulfilled. And I took it as a precondition which I could not understand, and so then the project fell down." (Uolevi Manninen, interview on September 1, 2008)

The driving forces behind the attempted merger were the Finnish commercial banks. Suffering from the banking crisis in Finland, the banks wanted to secure their liabilities in the grocery retailing sector by reorganization the whole industry (Kallenautio 1992). The phenomenon could be described by the term ”nested troubles”, and it also touched heavily the food retailing sector:

"It is so that everything depends on everything and then the solutions that were made, the problem banks had to carry the problem companies, which they tried to save, but that was related to solving their own problems. And then, for example, in the Eka case it meant to be, like, the banks told me off that now you got to accept that this is done. It was associated at the same time with the fact that they were dependent on the political decision-makers. If the politicians would have pressed the wrong button so what would have happened to the banks? Banks had to build their own business in a way that it was acceptable in the eyes of the policy makers and how this was reflected in Eka-Tuko discussion from the banks side, I cannot tell it 100 percently accurately, but it could not have been without reflections, of course." (Uolevi Manninen, interview on September 1, 2008)

However, assuming that the proposed Eka-Tuko merger would have been realized, it would have meant a heavy rearrangement of the grocery trade in Finland, leading to a severe reconfiguring of companies’ market shares, volume, sales and possibilities in improving internal efficiency. On May 21, 1993 the discussions, the planning, and the pressure from the banks and stakeholders ended. The project ran into a dead end, and the merger between Eka and Tuko was buried.

No additional loans were granted to Eka in 1993. The business activity was carried on using the capital deposited in the Eka's cooperative savings fund. Nonetheless, Eka's situation worsened on October 18, 1993 when radio news broadcasted worrisome news and rumors about Eka. The cooperative members started to pull out their deposits, and created an increasing run on the bank because they believed that Eka Group might become insolvent. A total of 23.5 million euros was withdrawn in two days, which created a sudden liquidity crisis for the whole Group (Kallenautio 2009, 271). The collapsed financial situation lad to that Eka Group was adjudicated to a reorganization process by

its creditors on October 20, 1993 to avoid bankruptcy. Under the Restructuring of Enterprises Act the restructuring proceedings were to be undertaken in order to rehabilitate a distressed debtor's viable business, to ensure its continued viability and to achieve debt arrangements. In such proceedings, a court may approve a restructuring program with instructions regarding measures of the activities, assets and liabilities of the debtor (Restructuring of Enterprises Act, Laki yrityksen saneerauksesta 47/1993, Section 1).

The mandatory restructuring program dictated that 319 million euros were to be reduced from the total loans and liabilities of 158 million euros. Of the remaining sum an amount of 185 million euros was converted into stabilized loans. The corporate structure was renewed. Tradeka Group Oy was established as a subsidiary of the Eka cooperative, and another subsidiary, Eka Real Estate Development Oy was established in 1995. The operating companies were Tradeka Oy and Restel Oy, both wholly owned subsidiaries of Tradeka Group Oy. The real estate properties serving Eka's retail trade were to be transferred to Tradeka Oy. Other real estate properties and assets were moved to Eka Real Estate Development Oy. The debt repayment program was to be completed by 31 December 2003. The cooperative was responsible for servicing the debts that would have been paid from Tradeka's operational cash flow and from the revenues accrued from sales of Eka Real Estate Development Ltd.'s real properties. The implementation of the restructuring program depended on the ability of the companies that continued Eka's business operations to fulfill their objectives. The program determined annual targets for Tradeka's and -'s operating profit before depreciation, cash flow and investments (Tradeka annual report 1994, 2).

The 10-year plan for Eka Group's restructuring was formalized into a yearly schedule for the installment of loans, which varied form 19.2 MEUR to 32 MEUR yearly. Investments were limited, although the Group had to invest nearly the same amount as restructuring debt was paid back, that is over 940 MEUR. One covenant was that Tradeka agreed to maintain its ability for debt repayments by committing to a 3% profit level of turnover. Also, the targets for earnings before interest, taxes, depreciation and amortization were fixed (Sirén 2009, 18).

The restructuring process in Eka/Tradeka led to the refocusing of business efforts in the grocery retail sector and hotel and catering services. The Group's name was changed to Cooperative Tradeka Group. In autumn 1993 the unprofitable stores were closed down, and control and steering systems were updated. Operations were developed towards a customer-oriented and demand-based direction. (Kallenautio 2009) In 1994 Eka had a debt of 935.6 MEUR.

In the face of collapse, Tradeka managed to create an efficient and profitable business out of the existing store network. Tradeka focused on ITC-systems and developed the logistics and retail chain management to use its full potential. Tradeka was able to close its unprofitable operations earlier than originally planned (Tradeka annual report 1994, 5). Altogether 66 outlets were closed in 1994; the total number of closings in 1993-1994 was 148 stores. In 1994 Siwa chain's performance in terms of operating profit was described as "excellent" (Tradeka annual report 1994, 7). In 1995 it was noted that Tradeka's three chains all made a positive result.

Because of its challenger position, restricted by the financial burdens that hindered investment, Tradeka had to rely on its existing store network and it had to be creative

in boosting the internal efficiency of the stores. The focus was on developing the logistical pipeline.

> *"But then we explained it, and it was approved, that now we look at, in fact, the whole pipeline. We look at it from the supplier's side, let's not exaggerate that we go beyond the supplier, which also, of course, can be done, to the consumer bag. And this total pipeline is optimized, that is, we are willing to take higher cost somewhere in between, that is, at this stage, from Inex. So we rather pay Inex higher prices when we get the product assortment formed to the store that it's large enough. And then the activity is in a way rationalized, that we can streamline workflows in the store, when the goods arrive, it will not be at the back warehouse, when it comes in it is put on the shelves. And this is the overall optimization. (---) And in this way we were able to start to expand the product range in all sizes, so I can definitely say that our product range compared to the surface area at some point was higher than what the others had." (Antti Remes, interview on June 3, 2008)*

In 1992 CEO Antti Remes had started to search for an experienced grocery trade specialist. Of the available management consulting firms Price Waterhouse and Siard Bossard were selected as Tradeka's new mentors. Besides help from the management consulting firms, Tradeka personnel visited Tesco and Carrefour stores and studied the processes of other foreign food retail chains. The Tesco model was close to the preliminary thoughts of how the Tradeka chain should be organized and served as an inspiration for Tradeka's management. (Antti Remes, interview June 3, 2008)

> *"And all the way, when the management consulting companies had done something new, which was related to this conceptual model, they contacted us that now one has opened such and such a store, which carries the same variables that you have been thinking of. One has treated that problem in such and such ways, come and see how they made it in practice. And then we had the chance to discuss less with the consultants but more with the Tesco people in their headquarters. We questioned ourselves that are we advancing in the right direction and how the other part has thought things over. And then we received confirmation that we're right, they too have had the same problems and solved them in a particular way." (Antti Remes, interview June 3, 2008)*

While S Group was the first in taking into use a customer loyalty program, also Tradeka copied the methods of following individual customers' shopping habits. The Tradeka Loyal Customer Scheme was introduced in May 1994 to reward customers in proportion to their patronage (Tradeka annual report 1994, 5). Loyal customer programs were usually meant to relate to the idea of increasing customer commitment. Such programs also had additional elements, which in Tradeka's case were even more important. Initially Eka Group had built up its assortment relying on flimsy information of what would be sold. As an improvement Tradeka built a theoretical assortment and product range in its stores, and followed how this assortment reacted to customer demand. The customer Loyalty Scheme helped to get a clearer picture of the clientele and their buying behavior.

"More essential to the retailers is that we can extremely accurately follow, what our customer buys. In what part of that market are you, whom you are serving there, and the manner in which you serve your own customers. Then we can watch how the different segments develop as customers, the manner in which the customer groups develop and the manner in which relation the customer groups are to market development. And what we know of our own customers and these segments, we deliver further to the suppliers." (Antti Remes, interview June 3, 2008)

Tradeka tried to commercialize its capabilities abroad, operating two Siwas in Moscow and two in St. Petersburg. In the downturn of the Russian economy in 1999, the resulting insecurity prompted Tradeka to discontinue its business in Moscow, but it decided to continue food retailing in St. Petersburg. The Helsinki-based supporting function was dissolved.

In spring 1995, Tradeka's management started to plan a merger with Elanto Group. Elanto, a well-known and traditional labor movement cooperative founded in 1905 and operating in Helsinki, had stayed outside the large E Group mergers in the 1980s. Elanto Group operated through four subsidiaries in the grocery and consumer goods retail trades, in hotel and restaurant businesses, and in special trade. The merger plan was initiated by the fact that Elanto also suffered a bank run on its cooperative savings fund in 1994. Elanto was forced to apply for corporate restructuring when the company was in a condition of not being able to secure a financial pledge to cover the possible emptying of the savings fund. The planned cooperation between the companies was seen to support the restructuring programs of both companies, and the cooperation was to be confirmed in 2005 as a firmer alliance. At the end of 1995 Tradeka and Elanto joined their businesses. Both companies' daily consumer trade was set under a single joint chain management. Smaller Elanto stores were merged into to Siwa and Valintatalo chains. Elanto clients also took part in the Ykkösbonus Client loyalty scheme (Kallenautio 2009).

The savings in the Elanto project were about 3.4 million euros yearly. The key areas of the cooperation between Tradeka and Elanto were chain operations and taking advantage of the committed customer marketing. With the cooperation pact Tradeka received over 2% more market share, which added to the gains from product procurement (Kallenautio 2009, 380 and 387-398).

The improved economic performance that Tradeka managed to achieve was a result of the hard work and commitment of the personnel towards the organization's goals. "So it is, it's that we got the whole group to come along with us, and then you had, we had a great staff, which was involved " (Antti Remes, interview June 3, 2008)

4.3.5 Summary of the Second period: 1991-1996

The period 1991-1996 was a theater of major changes in the food retailing and grocery trade ecosystem. Finland encountered a severe national economic crisis in 1990-1991. By 1993, GDP had fallen 14% and unemployment increased from virtual full employment to 17% of the workforce (Heikkinen and Kuusterä 2002). Fundamental financial industry structures were severely affected by the recession and the era of bank-group

based financing of Finnish companies came to an end, which allowed room for more independence in obtaining finance and investment from other, including international, sources.

The recession was reflected in the central corporations' results. In 1990, Kesko was still able to achieve over 50 million euros profit, but the following year this was halved. SOK was loss-making in 1990 but in 1991 made a profit of 14.3 million, the same sum as the loss in the previous year. T Group's grocery trade - which in 1990 had made a small calculated profit - collapsed in 1991 to a loss of 21.2 million euros. Tradeka's loss was 25.2 million euros in both 1990 and 1991 (Lainema 2009, 479). The economic pressures erupted into a crisis and were realized in the forceful reorganization of T Group.

Economic changes, and an increase in real income affected the level of consumptions and the composition of the consumption. The change in shopping habits and consumption affected demand. The distribution of population, the population growth or decline, and migration to cities created new geographical divisions of wealth and buying potential. The change in people's mobility – number and frequency of transportation and vehicles, quality and intensity of traffic connections – strengthened trends in concentration (cf. Home 1989, 37).

The political development was towards a less regulated and more capitalism-friendly national business system, which marked the first half of the 1990s. Finland sought closer ties with West European economic and political structures in coming out of the shadow of the Soviet Union. EEA and EU membership applications were a big sudden leap towards open capitalist systems and accordingly values in business and politics. The opening of the so far closed Finnish economy produced enormous possibilities as financial regulations and custom controlled imports were shrinking.

During the recession there occurred an indepth reversal in the market shares development trends. S Group's market share achieved strong growth. K Group maintained its steady and strong position, but even that began to show a slow decline towards the end of the era. Tuko's market share was in a strong downward slide. Tradeka also had a negative market development. Besides the events and activity in the previous period, the market development was now affected by a severe economic crisis, total reform in the regulatory environment due to Finland's EU-membership, and an industry-wide business manoeuvre by Kesko.

The severe national economy crisis together with the recession and national banking crisis in the Finnish economy paved the way for Tuko’s financial crisis. Tuko's credibility to cope with its obligations was questioned by its creditors. T Group did not have clear retail concepts, and T Group’s shops were located in poor and bad commercial venues. Additionally, during the 1990s T Group was not able to invest sufficiently, and its operations started to stall due to lack of resources. T Group was unable to attract any partners, neither to the operational side nor to the owner side. Hence, T Group had to be reorganized in autumn of 1992. As a result, the ineffective three-layered structure was abandoned and the changes abolished the conventional division into the central corporation and the wholesalers. The old T Group was radically renewed to a chain of Spar stores. Tukkuspar Oy started to manage procurement and logistics.

Eka Group rushed into reorganizing its structures and basic philosophies together with the E-cooperatives in the early 1990s. The politically leftist cooperative attitude,

tied to working class consciousness, was overshadowed by the efficiency and profitability of the other retailing groups. A loss of identity as part of the Finnish working class movement together with the simultaneous bankruptcies of Eka's insurance and construction businesses led to a crisis, which was magnified by the deep recession in the early-1990s. The crucial decisions of merging Eka's and SOK's logistics and procurement, which was carried out at the end the 1980s, served to decrease the costs of purchasing. The cooperation with SOK meant that Eka's important resource base was shared with a rival, and not totally controlled by Eka itself.

The collapsed financial situation after a bank run in October 1993 led to Eka Group's creditors' decision to implement a reorganization process in October, 1993 to avoid bankruptcy. The renewed corporate structure, Tradeka Group Oy, was established as a subsidiary of the Eka cooperative. The crisis emptied the pockets of the Group, annulled the investments possibilities and created an "on-the-edge" situation of death or survival. Several large-scale mergers, set by Eka in the early-1990s were disbanded by Eka's creditors, because they were related to other ownership struggles within the industry. Industry restructuring should have been carried out to the benefit of the Finnish banks, not taking into consideration the optimal best of the merging companies or their business efficiency.

> *"And then came this, I have to say, the recession with all the consequences and then came our corporate restructuring, but regardless of that, by that time one had already seen that when discussing with the banks, the banks were still living the old regulation times. Banks lived in a time, when they managed the market, they governed their customers, who marries whom and so forth. (---) But the basic attitude was this kind, and the same was true in the retail trade, that my goodness, you are importing, to their great markets, international players! It is hard to characterize, it was all built in into our banking system." (Eero Rantala, interview June 10, 2008)*

Despite the planned merger between Eka and Tuko, these plans contributed to the later fate of Tuko and softened Tuko owners to ponder other possibilities to cash in their investments. The second merger candidate was Elanto. Elanto had also suffered a bank run on its cooperative savings fund in 1994, and like Eka, was forced to apply for corporate restructuring because it was not able to secure a financial pledge to cover the possible emptying of the savings fund. During the mandatory restructuring program the Elanto grocery business and daily consumer trade was amalgamated into Tradeka's chain management.

Eka Group/Tradeka concentrated on arranging its food retailing business on the basis of chain management. Tradeka never had opportunities to invest in the larger scale store competition - in the hypermarket segment - where the growth of the industrial field was based. It had to rely on getting as much efficiency as possible from its old store network, building on effective chain management. The action was hindered by the fact, that Tradeka's investments were focused on a certain level. Tradeka was viable, even profitable, but the money ran to the creditors and forced investments.

> *"And actually we did not have the resources; Eka Group was in a serious cash crisis .... There were no resources to move on, the existing outdated store network was impossible to renew. So what was done was some restoration, reparation, but the*

new constructing, that we would establish new units, build a new store entities, we had no chance for that. And at a later stage when we were in the mandatory restructuring program and the money was even tighter, we had to focus on the fact that we began to get more from existing retail store network... And resources and environmental conditions forced us to certain kind of mental model, which was not bad at all, because we had to do it then." (Antti Remes, interview June 3, 2008)

A new logic of centralized chain management of branded store networks boosted the food retail trade. The dualism between chain operations and entrepreneurship in K Group started to shear off in the favor of the latter. This meant increasing pressure to move from entrepreneur logics towards centralized chain management logic in Kesko Plc and the whole K Group. Consequently, the structure of the K Group was altered twice successively to align it with the competitive demands of the grocery trade market. The first alteration, the store format change (1993) and the succeeding K1 (1995) were targeted at reaching a balance between a horizontal business model and the interests of the K retailers. Kesko's organization was changed from a matrix to a line organization, based on profit groups. K Group's central corporation, Kesko, took more responsibility in chain management. This led to conflicts in governance and ownership structures. A new form of operating, the chain management, was introduced alongside the entrepreneurial logic, which in turn had effects on the ownership and control of the Group, and resulted in conflict within the K Group. Kesko had a reasonable sum of money for investments, which it used to continue the establishing of hypermarket-sized stores. Tradeka's and Tuko's inability to answer the investments race especially in the hypermarket segment, increased K Group's advantage.

"Rather it was more this restructuring and then the store sites played a bigger role. And when the S Group dropped the number of its retail sites strongly in the 80s and thousands of people were reduced as employees and the number of shops really dropped down, how much it was dropped after all, then it gave Kesko and the K Group a good opportunity to boost our lead, there were Citymarkets and Supermarkets established, big Supermarkets at the time and so forth, that when our competitors more than else rotated in their economic problems, it made room for us." (Matti Honkala, interview on October 17, 2007)

By the mid-1990s, Kesko stepped out of the organic growth path by acquiring Tuko Ltd with a vision of restructuring the grocery business sector in Finland. Tuko was battling for its existence among frustrated owners, economic pressure, an unsatisfactory store network, and declining market share. Tuko's owners had become, after an unsuccessful merger attempt between Tuko and Eka, willing to sell the company. Tuko's creditors and owners sold Tuko to Kesko Plc in 1996. However, competition authorities considered that the Kesko-Tuko merger created a dominant market position for Kesko, and made it a precedent. The European Commission decided that Kesko was obliged to dissolve the arrangement and sell part of Tuko. One of these spin-offs was the basis for the Finnish Spar Group, releasing the Spar chain to start over from point zero in 1997.

Kesko's blessing and curse was its dominant size and wealth. As a publicly listed company Kesko was in constant need of beneficial investment projects, to signal to shareholders a continuous stream of revenues and growth. On the other hand, this

drive for growth was hindered by institutional barriers, mostly the Competition Act and supervision of the Finnish competitive authorities. Also, the internal opposition in K Group was against widening the central corporation's business, in order to control, for example, ownership in the hypermarket segment. K Groups ownership structure, which was dominated by the major entrepreneur-retailers, did not allow moving towards centrally led chain management systems because it would have altered other deeper assumptions about the K Group business model.

S Group managed to continue to the total transformation, already started in the mid-1980s. They altered their structure, lowered the number of subunits, turned capital allocation upside down, and eliminated a hierarchical level of regional offices. The expansion and released energy were connected to the fundamental development of the modus operandi that followed from the Group restructuring in the earlier period of 1985-1990. The chain business model in S Group was supported by the bonus card customer loyalty program, which became nationwide in 1994 and covered all business branches of the S Group as well as all the regional cooperatives participating in the bonus system. The bonus program included effective potential for marketing benefits and was a step in strengthening the established customer-owner concept. S Group created a positive circle, which strengthened the company.

The first steps towards open, capitalist and the European Union were taken at the beginning of the 1990s. The rapprochement with west European business systems changed the competitive terms of reference remarkably in food retailing, among others by allowing direct imports from abroad without protectionist governmental quotas or licenses, and diminishing existing regulation of food imports, as well as altering the possibility for foreign entrants to enter Finnish markets. Additionally, it affected the cost level of the food retailers by lowering the purchase prices of goods. The new currency, the euro, resulted in greater transparency and comparability of prices across the European continent. This in turn altered the balance of power between the food and beverage industry and the retail chains, triggering the restructuring of the agricultural production system and led to transformation of the Finnish food manufacturing industry, with a shift in power to the benefit of the food retail chains. Now the food retailers were capable of taking a larger and growing share of the profit from the whole value chain. The food industry had to transfer the costs somewhere, which in turn hit agricultural production and Finnish farmers.

> *"But on the other hand when the EU membership came in and the imports were released, there came at a time "one million" products to the market which competed with the domestic industry. And then the domestic industry, of course, had to rearrange its components in a new order. This in fact had been preceded by the early 90s Soviet trade collapse. Many exported their goods to the Soviet Union, and this orientation in the industry production had also directed the companies' growth thereto." (Matti Honkala, interview on October 17, 2007)*

Before the referendum about Finnish EU-membership in October 1994, Liiketyöalan keskusliitto (LTK, Confederation of Commerce Employers) took a pro-membership attitude. The referendum result was consistent with LTK's wishes (Pietiäinen 1995, 391). For the S Group, it was very important to attain membership of the European Union, in response to international competition and to strengthen productivity. In those

years SOK's CEO Jere Lahti was the Chairman of LTK and a Finnish Commerce Federation board member. "As a rule, we operated a low profile, however, we did everything possible to promote the membership" (Jere Lahti, comment on September 24, 2014). Eka Group did not undertake initiatives, but was involved in the background, supporting among others the Social Democratic Party's active line for EU membership. Eka also organized a major conference on its premises, where the so-called EU-experts explained what membership would mean for Finland. Similarly, Eka's Board of Directors visited the EU and the Embassy of Finland in order to gain more information from EU membership (Eero Rantala, comment on October 1, 2014). As a company, Kesko did not specifically, at least not officially, take a stand on Finland's EU membership. Instead, as a member of various lobbying organizations such as Confederation of Commerce Employers (LTK) and the Central Chamber of Commerce Kesko supported the application for membership at the times when the matter was on the agenda of their decision-making bodies. LTK was also a founder member of the Finnish Business and Policy Forum EVA, which from its inception drove the internationalization of Finnish business (Matti Honkala, comment on September 15, 2014).

After Finland's EU accession, the question of how to adapt to the requirements of the Competition Act was crucial. The companies had different approaches how to tackle regulatory issues directly with the supervising Finnish Competition Authority. Superiority in institutional management rose to a significant factor in creating competitive advantage. As it became clearly evident in the late 1980s that larger scale stores were preferred by consumers and simultaneously were the solution to increasing efficiency, it was obvious that investment in hypermarket construction gained relevance on the agenda of grocery trade groups. Market share growth was achieved through better access to customers, more sales potential, and larger shop floor surfaces. Access to customers meant reaching the customer via the store network, shops, or other ways of selling, for example sales via the Internet. This was seen to be contingent on heavy capital investment in land development and construction projects. According to Lamberg et al. (2009), the role of organizational slack resources was of crucial importance. Tuko and Eka had been in desperate need of capital from the 1960s onwards.

The price level of the products was also affected by the fact that the price mechanism in the product value chain was altered by political decisions. Before Finland's membership of the European Union, the central Union of Agricultural Producers and Forest Owners (MTK) took care of collective bargaining with the Finnish government with regard to the income level of farmers, mandated by the Act on Agricultural Income. This had stiffened the food producers' price elasticity and in turn affected the pricing in groceries.

> *"After SOK started to promote the idea of grocery stores as branded chains, in which each chain had a typical own assortment and store concept, they amassed a greatly higher purchasing power towards the food industry. Additionally, the sourcing and buying was concentrated at the central headquarters of the Group. The efficiency of the chain operations mode was to intensify the volumes of sales. And that gave us the weapons in our hands. We could jump on the food industry saying that: here we have such a stack of orders, what would it cost?" (Jere Lahti, interview September 24, 2007)*

Later developments set clusters in the industry logic – from a food industry and food retailer-driven axis to a bonus cluster consisting of food retailers, restaurants and hotels – which resulted from customer loyalty programs and bonuscards. It seems justified to argue that in food retailing the industry logic since the 1970s was based on access to customers, logistics and procurement, and additionally entangled in the 1990s with the triangular relationship between price, sales floor space, and assortment.

> *"Then, well, yes, what has changed, of course, in our competitors' side is the fact, that the customer's and the customer-owner's role has risen remarkably. And then, of course, what has brought along these Loyalty Cards and Bonus Cards, and Plussa cards and everything else that customers are bound with, and the means of competition have changed. But those too are based on, of course, in the wide network, because the card alone is worth nothing if you cannot buy something with it."*
> *(Matti Honkala, interview on October 17, 2007)*

An inseparable part of the store network and chain management as well as vertical integration was the refining of the shop concepts. The concept development was the answer to the change in the average size of the stores, the change in the shopping and buying habits of the customers, and in the increased efficiency targets. Store concepts began to represent ideas about store efficiency and improvement trends. Besides single shops, whole chains were taken under development initiatives. The measures included, among others, defining the clientele potential, target groups, and adjusting the assortment according to the selected customer profile. Store concepts helped in guaranteeing the average service experience within a chain. Food retailers' store networks were locally adapted to the demands of the customers and the surrounding environmental conditions. The adaptation produced a homogenous spectrum of different sized stores with varying locations. Maximizing customer average purchase or preventing the loss of clientele was addressed by marketing efforts, including chain and store brand, price level image, and bonus card and customer loyalty programs. Customer segmentation and store concept development was utilized to achieve optimal coverage of customer population.

From the perspective of Red Queen competitive processes, the most notable long-term action was focused on firms' investment on store networks and in the hypermarket segment. Refining store concepts and chain management was also relevant to increasing competition pressure. This activity led to mimetic institutional and structural isomorphism (DiMaggio and Powell 1983), thus creating more normative pressure for proper alignment with the external and contextual demands. Two simultaneous contextual occurrences – the economic, social and societal shock of the recession and Finnish access to the European Union – affected development in Red Queen competition considerably more strongly than internal or external Red Queen processes. The most apparent differences in performance were achieved by winning the rivals in the field of the political arena, as the Tuko merger case showed. Adaptation and the freedom to act were noticeably altered due to developments in domestic and international politics.

At the end of the second period – dominated by the recession – consumers' expectations concerning economic development were changing towards slight optimism. In 1996, total output in Finland returned to its pre-recession level. Although the average

rate of unemployment was still nearly 16% in 1996, there were sufficient reasons to expect that the positive development in domestic consumption would continue and the rate of unemployment slowly would improve (Eero Kinnunen, Kesko annual report 1996, 5). Retail trade volumes, however, were still some 15% under the peak achieved at the beginning of the 1990s. Furthermore, the structures of production and consumption had changed radically in preceding years. Price development had been favorable to the consumer. Whereas consumer prices had risen by an average of 13% from 1990 to 1996, food prices fell by 7% during the same period. The poor growth caused by the recession was revealed in Finnish national economic statistics; following an average growth path with an annual rate of growth of three percent, total output would have been a fifth higher than it was in 1996. Total output grew by 3.2% and private consumption a little more. For some years, consumer prices had hardly risen at all and the rate of inflation was at its lowest level in 40 years. Once lower income taxes, improved employment and a possible reduction in the level of national savings would combine to boost purchasing power, private consumption and retail sales could continue to grow at a rate of 3-4 percent (Jere Lahti, SOK annual report 1996, 7).

4.4 Recovery and Normalization (1997-2005)

After the severe recession, at least the exporting sectors the Finnish national economy reported a recovery around 1993. The domestic sector remained relatively depressed until 1995-1996, and unemployment continued to rise, and in 1999 it was at 11% (Honkapohja and Koskela 1999, 406). Large competitive reorganizations had occurred in the grocery trade during the 1991-1996 era: Kesko's maneuver to acquire Tuko had foundered; Tuko had fallen apart. Spar had started from scratch; Tradeka and Elanto were in mandatory reorganization.

The late-1990s and early-2000s were the times of the hypermarket. Hypermarkets grew in number and the hypermarket and other store concepts were the topic of heated discussion in the political arena, due to assumed imbalance of the efficiency of certain store sizes, challenges set on urban planning and traffic, and environmental impacts. Restrictions were put on the opening hours of larger stores. The Commerce Committee of the Parliament of Finland saw that allowing a wider opening hours system and lengthening the evening hours would balance the competition between smaller stores, kiosks and service stations. In the longer run, the renewal would benefit the larger stores more, which were seen as able to exploit the efficiency benefit of their size. This in turn was forecast to hasten the pace of retail concentration, and would have meant that kiosks and smaller stores would occupy the role as resupply shopping stores (Talousvaliokunnan mietintö 27/1996).

In its memorandum, the Commerce Committee stated the following: "The opening hours of retailing are widely controversial within our society. The effects of opening hours on employment, work relations, consumption, trade efficiency or prices one can have no simple answer. This has appeared in a wide hearing by the Committee. The opinions cross between different interest groups, that is trade, workers and consumers. Unity has not been reached within separate branches of trade, not within the small-

scale retailers, nor greater merchants. The Committee has formed a view that larger scale daily consumer goods units are more in favor of the government's bill, whereas the smaller retailers have made more reservations" (Talousvaliokunnan mietintö 27/1996).

The competitive benefits of a large store in food retail competition are (1) wider assortment, (2) wider customer base both geographically and demographically (3) faster inventory turnover and (4) larger volume. In managing store profits two important figures have a central role: 1) Category ROI, which is comprised of the rate of inventory turnover multiplied by the sales margin, and 2) Sales, which is counted as sales per work hours (€/h) or sales per floor space (€/m2). Inventory overturn of a grocery store can be speeded up for example by category management and optimizing the sales floor surface. Broader assortment satisfies a wider and more heterogeneous spectrum of customer needs, and creates a larger potential customer base. Consecutively, a wider customer base generates increased demand and sales volume for fast moving products – those products that are bought by almost every customer, for example milk, butter, cheese, and bread. At the same time it increases the demand and circulation rate of the slowly circulating products – those products that are purchased by a vast minority of the customers. Such products are for example special dietary food, low lactose products or gluten-free diet, as well as premium and luxury products. Slowly circulating products are not held in the store warehouse, to diminish the capital tied to goods and inventory, and as they have only a limited shelf space, they must be resupplied and replenished instantly to avoid product shortages and the image of "empty shelves". Product shortages on the shelves are a negative sign, which affects consumer behavior, and vice versa. In this regard, the availability of products on the shelves is an important key indicator of the service quality experienced at the store.

A rising general prosperity among population meant an increase in the wealth of consumers, and this has led to an increased demand for higher-quality products and a wider assortment, including imported premium or luxury goods. When the key criteria for choosing the primary grocery retailing channel are price, quality, selection and assortment, and shopping environment, the main choices are hypermarkets and supermarkets. If the most important criteria are service, shopping efficiency and accessibility on foot or by public transportation, the first choices of consumers are neighborhood and convenience stores and supermarkets (Koistinen and Järvinen 2009, 267). As a consequence, hypermarkets have been the winners in the contest over customers. Broad product range and assortment in the hypermarket lead to a lucrative "we have everything" feeling and results in the possibility for one-stop-shopping.

The renewal of the opening hours legislation and the Kiosk Act provided new potential to expand food retailing to other sectors of customer service. The bill of 1996 on opening hours allowed shops to be open on weekdays between 07.00 and 21.00 and on Saturdays between 07.00 and 18.00. Opening hours were not regulated for shops, kiosks and stores located in rural areas, or for service stations. In May 2000 a bill concerning opening hours in the retail trade provided an extension of opening hours, with the aim of improving the competitiveness of smaller shops (Hietanen 2000). The new opening hours and permission to keep shops with a maximum sales area of 400 m2

open on Sundays had an impact on supporting neighborhood shops and their competitiveness. From that point of view the decision was seen politically justified (Saarinen 2007).

After the renewal of the Kiosk Act in 1991, there were no limitations on what goods, including alimentation and foodstuff could be sold in a kiosk or service station. Convenience stores were characterized by very long opening hours; some stores were open around the clock. The product range included, different "easy" foods, such as sandwiches, salads, soft drinks and potato chips (Koistinen 2009, 18). In an amendment in 1995 the maximum floor space for a kiosk was set to 100 square meters of selling floor space, thus giving a reasonably large area for a convenience store type of sales premises (Saarinen 1998, 29). In 1997 all stores smaller than 100 m2 could freely decide their opening hours (Lähde 1999, 25).

While the number of small corner stores in food retailing was diminishing, the service stations wanted to expand to this area of business, thus introducing the birth of service station stores. As a result, the number of convenience store-type service stations, specialized in daily consumer goods increased in such a way that at the end of the 1990s there were already more than 200 in operation (Marjanen and Saarinen 2000, 7). In 1995 the proportion of service stations with a grocery store assortment was 12.5% of the whole number of the stores with a turnover of 0.25 MEUR to 1.6 MEUR. The total sale of groceries in service stations was 3.2% of the total sales in food retailing (Saarinen 1998, 22-23). This development introduced a new possibility for a grocery trade distribution channel.

4.4.1 S Group – The new master

In the later part of the 1990s, S Group continued in the previously established growth path. In 1997 S Group's chains produced daily consumer good sales worth of 2272.56 million euros (SOK annual report 1997, 35). In 1998 The S Group grocery business market share rose from the previous year's 25.1% to 26.3% (SOK annual report 1998, 36).

An important aspect of the S Group's growth was the customer-owner concept. The concept included both rational and emotional motivators of being connected to S Group. S Group's aim was to convince the customers, that the Group was doing good and supportable business for the benefit of its customers, and to feel that the cooperative was their own store.

> *"As our growth has been, let's say 13 percent a year, it's been nearly double compared to our competitors, our sales have been growing in recent years an average of about 10 to 12 percent. So, out of this this 12 percent increase 10 percent comes from new customer-owners, in a sense via the volume, that is, through the growth of the number of customers, and only two percent comes from the increase in average purchase. This explains, this is a good example to see, why it is said that retail is growth business, volume business. If the number of customers grows slowly or is not growing at all, then the trade will end up poorly. And we have succeeded to attract more new customers, we must continue to keep getting more new customers. In a way, one of our ways to grow is to search for more customer-owners." (Kari Neilimo, interview on June 21, 2007)*

Jere Lahti wrote in SOK's annual report that "The international competition is increasing in all areas. The trade must also be prepared for fierce competition brought by internationalization" (SOK annual report 1999, 5). Following this strengthening trend, the Baltic markets also seemed attractive to the S Group. In 2000 SOK opened two Prisma hypermarkets in Tallinn, Estonia and following an opening of two additional Prismas in 2002, quite quickly SOK gained nearly 15% of the market share of the Estonian food market, and reached a 30% share in the Tallinn area. Going to the Baltic food retailing was one step in increasing the accumulated volume of the S Group. Quoting CEO Kari Neilimo, "The S Group's different business and support-service units must also be developed so that they have the necessary size to obtain sufficiently strong economic and competence resources to ensure the S Group's future performance" (SOK annual report 2003, 7). A year later, Neilimo wrote;

> *"...in future years the S Group must also be able to increase its business volume, prudently and judiciously, in Finland's nearby areas. Generating higher operational revenue flows from abroad in order to support services for customer-owners at home, making the best use of our own know-how and our own business model in international markets as well as taking part in international procurement organizations and securing synergy benefits are among the grounds for expanding the S Group's international operations in the years ahead." (SOK annual report 2004, 5-6)*

SOK started to aim at foreign opportunities, especially in the St. Petersburg area. The reasons for going abroad related to getting know-how, market knowledge and relations with suppliers. After a long period of continuous growth, S Group knew that ongoing growth necessitated even stronger capabilities. Expansion and internationalization was also seen to provide the benefits of increasing knowledge and experiences. "We are going abroad with the service areas that we can do best", SOK's chief executive Kari Neilimo said (Kauhanen 2005).

> *"When we do not have in Finland these foreign big players, we really cannot ensure here that the efficiency and concept that has been developed would be internationally competitive. But when we go to St. Petersburg, there we can quickly see how the concept works in the international competitive environment. (---) It would be very short-sighted, if we would train young new leader potential only for the conditions in Finland, to the Finnish environment, when all this is getting international and global. That's not the way with the localness how one can compete against the international operators." (Arto Hiltunen, March 10, 2010)*

The new market entry, the service station grocery store business, was one stream that was backed by the reactive competitive move of the gasoline and service stations, in order to secure their viability and the continuation of their existing business. The increased interest towards service station food retailing was the emergence of a new competitive environment for gasoline stations at the beginning of the 1990s. Selling mere gasoline was no longer profitable (Lähde 1999, 60). Also, oil companies were willing to elaborate the promising service station grocery store concepts. Among others Shell was one of the leading companies in this field and launched its Selecta chain as a convenience store chain. Neste had the Quick shop concept, and Esso had its Snack and Shop.

In 1998 there were 1435 manned service stations, all of which sold some kind of grocery goods. 193 stations had a store concept, of which Neste Quick Shop stores numbered 50 (Kilpailuvirasto 1999). The S Group answered the call for new innovations in the service station business by going into the oil and gasoline business. Otherwise it would have remained only a mere wholesaler to oil companies. Instead, utilizing its distribution capabilities, possession of commercial sites, combining the mobility of people, gasoline sales, restaurant services and convenience store format, S Group was able to create synergies between several business strengths. S Group's repertoire of business concepts was widened by entrance into the convenience store category. S Group spotted a promising area for food retailing and started to experiment with the ABC concept, which combined restaurant and convenience shops together at the facilities of a gasoline station.

> *"S Group at the time still had too small stores, and we were thinking about what their fate might be. The means of making them profitable did not really seem to exist. Then we built a model on the basis of Shell's approach that we put in a service station on the side of a S-market and restaurant and we will grasp through it the highway's customer flow and areas in the influence zone of the ABC units. We began to break away from Shell, and fuel procurement was carried out independently." (Jere Lahti, interview on October 5, 2006)*

The first ABC was opened in Utti in 1998. S Group's nationwide accessibility for motoring customers improved substantially when ABC service station stores were established along major roads and highways The main services offered at ABC service station stores were versatile and moderately priced cafés, restaurants, supermarkets and convenience stores as well as fuels. ABCs were open for service every day of the year; at a single stop customers could eat a meal, do some shopping and fill up their tanks during the long opening hours (SOK annual report 2004, 18).

> *"When we brought this kind of ABC concept to the market we forced our competitors in a way to adapt to the concept, inside which we had built our strengths, in other words a very efficient food retailing, highly efficient catering unit inside and an efficient fuel sales and kind of a vertical integration, which was made together in collaboration with North European Oil Trade and ST1-chain to give the volumes. And now the service station trade was polarized into two fractions in a way, you have these big stores and automated stations, and the others will disappear sooner or later from the between. And it was seen that the world is going to go in this direction. We watched the world, we analyzed the markets, human behavior, smaller vehicle service intervals, cars becoming computers, that the traditional service stations with their grease pits were of no use. And we went into making this, letting now the rivals to wonder what the heck they would do well all in all. A sort of kind proactive, future making strategy, in which of course institutional aspect was involved in the sense that, when we seek store sites, influence, make them, then one has to be dealing with external stakeholders very much." (Kari Neilimo, interview on June 21, 2007)*

4.4.2 K Group – The dethroned sovereign

The silent downward slide of K Group's market share from 1993 gave reason for modifications in the value chain thinking in Kesko. Centrally managed chains had been more profitable in the market compared to shops run by independent storekeepers. Exactly positioned and defined chains, which were following tightly centralized procedures and processes, had been able to answer the demands of sales, profitability and customer satisfaction challenges (Mitronen 2002, 147). Kesko followed the rival's development and noticed the threat it posed on Kesko's profit opportunities. Kesko and K-retailers started the K1-program in the name of horizontal cooperation, which, later, turned out to be only a temporary arrangement.

> *"But it did not after all finalize as expected, it was made, it was on paper and we had the contracts, but we made it too lose and it did not function as we desired, as the retailers were not accustomed to that type of control and they were a little bit against it. And the Kesko people did not quite master it, of course, when we ourselves were not experienced how it was to be managed. So it remained a bit sort of half-finished, and we densely practiced it for three to four years more or less successfully, until the late-90s, we took it under reconsideration and decided, in 2000 a decision was made in Kesko that we move to the next stage of chain operations." (Matti Honkala, interview on October 17, 2007)*

Kesko's Board of Directors decided in June 2000 to move to the vertical business model. In order to "adapt to the changes in the domestic competitive environment" K Group initiated a more thorough chain restructuring, which was targeted at clearer store concepts, higher efficiency and gaining competitive advantage, with common assortment, selections and pricing together with shared information systems. The reform was aimed at clarifying the distribution of duties between Kesko and the K-retailers. The local grocer-entrepreneurs were taken into a new revenue model and given a renewed base for fees and fixed-term chain contracts. The change process of adapting to the so-called K2 plan meant transformation from horizontal chain operations to a vertically integrated model.

In the new K2-model, cooperation between the grocers was replaced by Kesko-led operations. The aim was to improve the competitiveness of the grocers, in particular to be able to offer better priced products to customers. Kesko was responsible for continuous development of the operating system and retail concepts, controlling chain operations and for purchasing the products included in the chain product selections. Kesko took charge of obtaining store sites, information systems, marketing channels and training for the chain. Each chain was defined its own particular customer pledge and operating practices, which facilitated consumer choice. Retailers, as entrepreneurs, were considered to be responsible for the profits, personnel management and implementation of the chain concept in their own store. The stores, operating in the chains were obliged to pay Kesko for the right to use the chain concept and other services that Kesko provided (Kesko annual report 2000).

It was estimated that after the reform was fully implemented, annual profits and cost savings for Kesko would be over 35 million euros (Kesko annual report 2000, 8). The higher efficiency was most necessary, while reflected against the development in

the market share, K Group's proportion kept decreasing, from the 1999 figure of 37.8% to the equivalent 36.5% in 2001.

The new chain operations model was seen to have a positive effect particularly on procurement, category management and logistics. The cooperation between the K retailers was replaced by enterprise resource planning and management carried out by Kesko, which took over decision-making concerning the chains (Mitronen 2002, 425-426). The competitive advantage was created by centralized functions taken care of by Kesko, together with independent local K-retailers' sales channels. In total 1403 grocers accepted the new terms, and 71 rejected. The K-Retailers' Association lost its participatory role in the governance or management structures of Kesko (Mitronen 2002, 166). After the transformation, Kesko was no more a wholesaler, but defined itself as "a marketing and logistics company which develops retail concepts and operating systems". It was engaged in retailing, in close chain co-operation with the K-retailers, and in wholesaling directly to industry, restaurants and other wholesale customers (Kesko annual report 2000, 4).

Parallel to this, the Board of K-Retailers' Association decided in the autumn of 2000 that the vision and activities of the association must be redefined to correspond with changes in K Group and the operating environment. Old procedures had been good enough, but it was seen to be the right time to move forward into new directions. The Association had to find a new way by which they could secure continuity of successful entrepreneurship in the frames of the renewed K Group. It was seen that rival groups and chains in the daily consumer goods trade did not differ much, if one inspected their assortment or physical facilities. The only differing factors, from the K Group's point of view, were the activity and dynamism of the individual grocers themselves, entrepreneurs in charge of their own shops. The strength of the K stores lay in the work of the storeowner. The entrepreneurs' mission, together with their staff, was to secure that the customers would experience the K-stores and services better than that which rivals could offer (Moilanen 2003, 24-25).

In moving the aim towards entrepreneurial professionalism in the grocery trade, the K-Retailers' Association changed from a collaboration organization into a supervision of interests and lobbying association that had to take more care about watching over its members' shared financial, professional, and ownership and governance interests within the K Group, as well as safeguarding the status and prestige of the grocer (Kalliala 2003, 28).

For decades, K Group's activities had consisted of collaboration between Kesko and the K-store owners. The competitive advantage before the renewals in 2000 were created by a model in which Kesko was responsible for the centralized functions and the independent local K-grocery owners met the demands of the customers (Mitronen 2002, 166). The controversial element in the renewal was the fact that the K-retailers had been, for decades, the pivotal owners of the central corporation Kesko Plc and thus the controlling party in the K Group's structures. The ownership was sheltered by heavy ownership arrangements to protect the dominance of the K-retailers. The changes altered the traditional division of work and responsibilities within the Group and led to some acts of protest.

"Because if that kind of a hard change is made, first of all in the decision-making, and then the business logic changes both on retailers and on Kesko, it is such a big change that is completely impossible to push it through without pain. And there was controversy. Both inside the K-Retailers' Association, and between the retailers and Kesko. I actually do remember when I was CEO of the Association that from the retailers' side and members' side came out really strong guidance how we should act on this. The comprehension and perceiving of such a complex whole was really hard, it was windy times the years 2001 and 2002." (Paavo Moilanen, interview on March 25, 2010)

Kesko's traditional assumptions and guiding principles on how good business was made were based on the superiority of the entrepreneurial spirit. In such a system, a talented grocer could make high profits without having to take into consideration the success of the central corporation.

"And in every system it goes by the Gaussian curve, and this, there are the lazy there, they fleece and waste the good made in the other end so much, that it remains more or less balanced, like it is in the chain stores." (Eero Kinnunen, interview on January 25, 2010)

On the other hand, from the Group's point of view, chain management practices guaranteed sufficient volume for lower prices, and an acceptable minimum level of operational standard. From Kesko's perspective, centrally led chain activity was seen to be more disciplined, and was expected to give higher average individual performance than the traditional individual grocer model. At the end of 2005 Kesko's own retailing accounted for 31% of net sales (Kesko annual report 2005, 8).

"So the conceptualization is good in a sense that it can be taken by a fellow who does not totally master the supermarket job, but if he or is an experienced storekeeper and has done that stuff, it gives you a framework, that when you go into it you'll go to make it. If the person is a gifted one, he or she will improve it by his own action and will be able to succeed really well, but it guarantees the minimum operating level, that was the continuity in it." (Timo Karake, interview on September 24, 2008)

In 1999, Kesko's Corporate Charter was amended so that in theory all share capital and voting rights became subject to public trading at the Stock Exchange (Kesko annual report 1999; Mitronen 2002, 147). The voting rights of the previous "exclusive shares", which could have been owned by K-retailers only, were changed so that each modified A-share had 10 votes per share. The exclusive shares were converted into A-shares and the ordinary shares into B shares. The A-shares were also listed on the Helsinki Stock Exchange starting from June 1, 1999. In 2000 a reform in the administration followed. The Supervisory Board was abandoned, the Business groups were incorporated, and the Corporate Management Board was set up at the Group level, consisting of members of the acting management.

"And it annoyed me terribly, when I was, when I started as Chief Executive Officer and when I had seen it for years, in the Board for over ten years, and also before

for years, that what is the role of the Supervisory Board, and how complicated and difficult the decision process is, and how the advancing of the strategic issues is difficult. And then our first task immediately, it was in 1997 we began already the operation of listing the A-shares, which was then carried out in 1998. It had the meaning, of course, that it reduced the retailers' direct influence. After all, the ownership did not significantly change to anything in numbers, the number of stocks, we just dropped also the A-share voting rights from about one hundred down to ten. (---) Well, then, another operation related to this was the reducing of the Supervisory Board and we took outsiders into it, which had never happened before." (Matti Honkala, interview on October 17, 2007)

The change in the operative structure and changes in the ownership and governance system in 2000 mirrored the gradual transformation from a group that satisfied grocery-owner's interests towards a more investor-oriented K Group. This was also noticed by the owners themselves as the grocers started to acquire Kesko's shares in order to use votes in the Annual General Meeting. The phenomenon was speculated in the media: "Kesko is a stable investment target and a good payer of dividends. Or are the grocers buying shares to get the decision power so that like the Raisio farmers they can reject all decisions harmful to their own business?" (Vihma 2002)

When Lidl entered Finland in 2002, Kesko's response To Lidl's entrance was, among others, to clearly increase the supply of Euro Shopper private label products. They were procured via the international AMS (Associated Marketing Services). At the beginning of 2003, Citymarkets began to market a product basket of about one thousand products at the same prices as Lidl. One third of the products were Euro Shopper products and the rest were Kesko's Pirkka products as well as branded goods. In the latter category the prices were dropped in cooperation with suppliers (Kaupan työryhmän mietintö 2005, 26).

In 2002 Kesko also moved to experiment with its own discounter concept Cassa, aiming at testing what kind of market share the new emerging discounter format could take. Kesko wanted to learn how to compete with the low-priced product assortment. Additionally, another kiosk type of store concept Pikkolo was tested. In the pilot phase of the trial, the Cassa kiosks were operated directly by Kesko. Kesko's maneuvering into the retailing irritated a number of K-retailers and was fiercely resisted by the grocery entrepreneurs. After the trial, Kesko's dedication to the project was calculated against the cost and benefits. Focusing on core business drove other smaller scale experiments. Kesko abandoned the idea at the end of 2005 running down the project and transforming the Cassa shops into smaller K Markets.

"It was sought after a city neighborhood store, street-level shops model, which has long opening hours, and in addition to selling the normal food items it sells more refined take-aways. Then again, this Cassa was kind of a trial that had certain store locations in which the turnover had already sunk so low that they did not support the retailer family. (---) But it happened that neither Pikkolo nor Cassa lent themselves to our concept family. Firstly, we did not have a reason to, now it is easy to say afterwards that more brands were built for no purpose when we already sufficiently had them under our management. Then, as we have experience in, particularly in grocery trade and hardware stores where we have succeeded quite well

over the decades, so there cannot be two models in the same area, the Kesko-driven and the retailer-driven." (Paavo Moilanen, interview March 25, 2010)

In line with the other food retailing companies Kesko was also active in experimenting with service stations as sales points for daily consumer goods. In 2001 Kesko and Neste Plc founded a new retailing channel for food products, the K-Pikkolo, by combining the K-Pikkolo and Neste Quick Shop chains. The new management unit of the chain was Pikoil Oy, which was owned by Kesko and Neste on a 50-50 basis. The framework of Pikoil's operations consists of K-Pikkolo stores, Neste Motorest service stations with a restaurant, and Neste K-Pikkolo service stations with a grocery store. On 30 September 2005, Kesko Food and Neste Marketing signed an agreement under which Kesko Food acquired Neste Marketing's holding in Pikoil. The company operated at over 130 business locations in 2005 (Kesko 2005).

The efficiency of the K Group was quite well comparable to the best international food retail chains, which in turn encouraged Kesko. As stated by Kesko's CEO Matti Honkala in 2003; "We know from experience that our competitiveness equals the level of the best international retail chains. That encourages us to expand and reform store operations in Finland and abroad" (Kesko annual report 2003, 7). In Kesko's plans, the Baltic countries were selected to be a strategic growth area for Kesko's food retailing. Kesko claimed that because they had a strong foothold in Finland and possessed capabilities of internationalizing, they were able to grow in size and to acquire needed experience in international business operations (Honkala 2004). The first one of planned four or five hypermarkets to be built in Riga, Latvia, opened in 2001. Soon the growth abroad was established as one of the Kesko's main business goals. Kesko's CEO Matti Honkala stated in the 2001:

"After Finland joined the European Union, the international retail chains have gradually entered the Finnish market (---) Finnish companies are responding to the competition by increasing their effectiveness and turnover by growing their operations outside of home country." A share of 20% of the overturn should have been generated by foreign operations. (Kesko annual report 2001, 6)

The transition towards a western trading culture in the Baltic markets seemed to offer possibilities in competition. The post-Soviet tradition of buying and selling in market squares was increasingly being replaced by trading in modern retail stores. The structure of the market was changing fast, because of increasing numbers of people with cars, and the number of new stores and the proportion of large units was growing. Kesko's food retailing operations in the Baltic countries was built on large units and improved, controlled and own nationwide logistics in Estonia. Kesko aimed at a 20-25% share of the EUR 3.4 billion Baltic grocery market (Kesko annual report 2000, 16). In Estonia, Kesko Food operated the Säästumarket discounter chain, Citymarket, and Supernetto stores and one distribution center near Tallinn. In 2004 Kesko controlled 67 groceries in the Baltic region.

In June 2004 Kesko Food, and the Swedish food retailer subsidiary ICA Baltic AB, signed an agreement to set up a 50/50 joint venture for the Baltic food market. The parties operated a total of about 150 food stores under hypermarket, supermarket and discounter concepts in Estonia, Latvia and Lithuania, as well as logistics centers. According to the agreement, the Kesko and ICA operations in the Baltic States would be

combined, and their Baltic grocery operations transferred to a Swedish limited company. The aim was to support the growth in the area and reach a market share of 25% within three years (Foodnavigator 2004).

Simultaneously, Kesko sought increasing scales of business to gain critical mass, making the corporation stronger to stand against foreign competitors. Kesko's management wanted to learn how to compete against the threat of entry of foreign competition by responding with their own store formats that were in operation at that time. Going abroad also meant that Kesko's freedom of action, due to ownership arrangements and attitudes inside the K Group, was much higher than at home, where the group's independent grocers were an obstacle to new business experiments.

However, due to a strategic reorientation, Kesko ran down its food retailing operations in the Baltic region in 2006. Although the initiative was hyped as a strategic solution, retrospectively it can be categorized as an operative move, a trial to gain experiences and to develop internal capabilities:

> *"Well, it was the answer in a way to this international competition or its entry threat, that we wanted to have a look at how one can succeed outside Finland with the store types and concepts we had at the time. And we went to search for experience, not so much to conquer markets, but to search for experience." (Matti Honkala, interview on October 17, 2007)*

K Group was not allowed to undertake centralized marketing activities, for example including uniform pricing. The problem was related to pricing during 1997-2000 in the K-market and K-neighborhood store chains and during 1999-2000 in the K-extra chain. K chains were accused of fixing maximum prices. Since 2001, Kesko Food received exemptions from the Finnish Competition Authority to decide the highest retail prices for Pirkka products and some other products sold at K-food store chains (Finnish Competitive Authority 2001).

4.4.3 SPAR –From declining operations to a merger

After the break up of Tuko and the T Group in 1997 due to Kesko's obligations towards the competition authorities, a few new grocery retailers started to operate outside of the established groups. These were Stockmann's Sesto chain, Wihuri Oy's Ruokavarasto and Eurospar chains, and Suomen Spar. Stockmann was a publicly listed company that operated in several branches of retailing, and was involved with daily grocery trade in its department stores in Finland, Russia, Estonia and Latvia. The Wihuri Group was a conglomerate involved in daily consumer goods retail through its own Sesto, Etujätti and Ruokavarasto store chains (Daily consumer goods trade 2005-2006).

Suomen Spar Oyj (also called Spar Finland Plc) operated all over Finland, and was established in 1997 as a daily consumer goods oriented wholesaler and retailer. Technically it was established by Sentra Plc buying Suomen Spar Ltd from Kesko Oyj. In 1998 the company's name was changed to Spar Finland Plc. Its shares were quoted on the OTC list of the Helsinki Stock exchange (Spar annual report 1997, 1). Spar's activities were divided among different smaller players, of which Wihuri was one. Wihuri Group's daily consumer goods division was strengthened by the remnants of Tuko.

Spar Finland Plc was established as a nationwide retailer in daily consumer goods. Spar Finland served Spar retailers by offering daily consumer goods wholesale, leasing facilities and fixtures, as well as providing marketing, real estate and other support services. The retail stores of Spar Finland operated in two nationwide chains: Spar and Eurospar. Independent shopkeepers owned two thirds of the Spar shops, while Spar Finland owned the remaining one third. The Eurospar chain was a daily consumer goods chain fully owned by Spar Finland (Daily consumer goods trade 2005-2006, 15).

Spar Finland acknowledged the tough environment in which it had to start its operations. The company chose to focus on developing the store network. Spar's policy was threefold. First, the least profitable stores in the Spar Group would be turned into Rabatti stores, which meant an expansion of the Rabatti chain outside the Helsinki metropolitan area and the Uusimaa region. Second, new stores would mainly involve new outlets in the Eurospar and Superspar chains and also new business locations for the new Spar Express chain. Third, Spar was to continue the renewal process in the trader-driven Spar markets with the aim of refurbishing 50 stores during 1998 (Spar annual report 1997, 3). In early 1998 Spar Finland had 72 wholly owned stores. Of these, three were Eurospars, 16 were Superspars and 27 were Spar markets. The company also has 25 Rabatti neighborhood discount stores (Spar annual report 1997, 5). However, the start up of the new food retailer was not an easy one.

> *"So you got in your hands of 150 or 200, well 200 lease contracts that had more than ten years' duration. You were nailed to the situation where you're not able to develop normally the store network. You normally get store sites and a certain amount is closed down. And this thing that you could not, in principle, give up, was that kind of an agreement if you had given up after five years you would still have paid the rest of the remaining five-year lease on an annuity basis. So it was like ten-year contracts, so you pay for it a five-year lease and can amortize the loan on annuity basis, so that's pretty crazy a solution. So Spar's competitiveness in the store network disappeared, because you were not able to get rid of the old network. (---) And the retailer, the store was no longer profitable for the entrepreneur retailer, so then the retailer left. You had a lease, and only thing you could do was to continue the business there, in order to minimize losses." (Pekka Kosonen, Interview January 20, 2010)*

In 2000 Spar Finland Plc became a subsidiary of the Swedish food retailing company Axfood AB, formerly called Hemköpskedjan AB. The parent company's holding in Spar Finland Plc corresponded to 65.9% of the voting rights and 40.1% of the share capital (Spar annual report 2000). Spar Finland's operating model was revised in 2001. Five chains were combined into two divisions. The new organization consisted of Eurospar and Spar and their supporting units, which were customers, products, outlets, and administration (Spar annual report 2000).

In Tuko's legacy, Spar tried to continue advancing the ideas of creating a third player in the Finnish grocery market. The vision was to annex smaller players into a combined whole, starting from Spar, Tradeka, and Wihuri.

> *"And we tried to make the manoeuvre from our own part, and so it was tried, and everyone else tried to buy Tradeka. When we failed or the price rose, that what it*

would cost was more than a hundred million more than IK finally paid for it. So a hundred million, yeah well I guess it's after that when we pondered on how much it is possible to grow, if you have a 7 percent market share, IK and Wihuri or Tradeka and Wihuri go together. Thus we could have gone along with, as the third but when IK had built up the ownership this way, X-Food decided why to enter into this with a 60 percent share in Finland about something. That is, on the side IK it would be sold to the highest offer. Once again a new game position was created where S interpreted the situation pretty amazingly well." (Pekka Kosonen, Interview January 20, 2010)

Spar's tale came to an end in 2005 when SOK acquired all the shares of Spar Finland Oy. In June 2005 Spar Group had 14 Eurospar stores and 266 stores in the Spar-chain. Spar Finland owned 182 stores and Spar-retailers 98. Spar Finland owned 35% of the procurement and logistic company Tuko Logistics Ltd (Kilpailuvirasto 2006). Former Spar stores were split among SOK, Tradeka, K Group, the so-called M Group, the latter consisting of small independent entrepreneurs. S Group received 80 new stores while 47 Spar stores went to M Group, 38 stores to Tradeka, and 24 were annexed to K Group (Hohti 2007, 43). This also ended Sweden's Axfood's foothold in Finnish food retailing; it had been a major owner of Spar Finland Plc with a share of 75.2% in 2005.

"At the same time they got themselves, Inex Partners, they got the purchasing power when Tradeka left, the 12 percent. They received at the same time seven percent immediately in. Inex did not weaken. With this deal they could secure that Inex remained its effectiveness and purchasing power. And Kesko did not get any crumbs. At the same time they played out Tradeka in a way. Because now at the moment, Tuko logistics purchasing power was then principally, let's say Stockmann 1 percent, Spar 7, Wihuri 4, and Heinon Tukku how many percent... it is around 12-13 percent. They had counted the 12-13 percent, and if there'd been Tradeka that would double the amount of Tuko logistics purchasing power up to 25 percent. If there would have been Tradeka they'd been able to standardize the assortment and in that way would have been more competitive. Now when Spar was played off, from that 12, so Tuko logistics was changed to 17. Well it is 17 percent and Kesko has 35 and the S Group went suddenly to more than 50 plus. Or, like, it dropped to 45 percent the purchasing power. Inex got in a situation: one owner, more efficient - three chains were thrown out, and Spars were made into Alepas and S-markets. Meaning that they could streamline their operations." (Pekka Kosonen, Interview January 20, 2010)

4.4.4 TRADEKA – Efficiency in its own class

Tradeka's mandatory restructuring program, which was set in 1993, was a nerve-wracking time of trouble. Tradeka's challenge was the negative covenant of spending tens of million euros yearly as investments (In 2003 117.7 MEUR). At the same time Tradeka's management was unsure of the goals of the creditors: were they or were they not willing to continue the debt restructuring and corporate reorganizing program (Antti

Remes, interview June 3, 2008). CEO Antti Remes revealed in 2000, what kind of trouble the indecisive lenders created:

> *"The financial restructuring programme is still taking up much of my and my colleagues' time. Successful completion of the restructuring programme demands great attention to detail, where decisions must be based on judgments confirmed by the correct interpretation of laws. Therefore, we have initiated legal proceedings with a view to finding out the solutions for the interpretation issues arising from the financial restructuring before the programme is completed." (Antti Remes, President's review, Tradeka annual report 2000, 4)*

In 2002, Tradeka's and Elanto's retail outlets reported markedly higher sales growth than their competitors, when comparing all grocery stores operating in Finland throughout 2001 and 2002. According to AC Nielsen's store register, these so-called all-year stores increased their sales by an average of 3.3 percent, whereas Tradeka-Elanto outlets improved their sales performance by 5.7 percent. At the same time, small outlets in particular increased their sales effectiveness, measured in sales per square meter (Tradeka annual report 2002, 6). Tradeka was forced to stay in the smaller stores category, because of its inherited financial history.

> *"And the creditors did not have a clear picture about were they willing to lead the reorganization to an end, can we finish it. So we had a covenant for EBITDA, and cash flow covenant. Covenant for EBITDA is funny in the sense, that is, we had a certain EBITDA, which we were required to achieve a year. So establishment of new stores has caused, or rather the establishment of new stores over the past twenty years has done it, that getting a single store profitable in cash flow, the interval is prolonged. And if you say this in the size range of Siwa, the smaller shops tend to be somewhere one hundred and fifty square meters, so you make the cash flow positive in a year, half a second, at least in two years. But when the size grows, when we go to the hypermarket segment, getting a hypermarket profitable in cash flow may take up to five or seven years. When it starts to, the investment has been paid back and it starts to bring back. And this cash flow covenant that we had and covenant on EBITDA meant that we had to limit the establishment of new shops." (Antti Remes, interview June 3, 2008)*

Tradeka's management planned on renewal of the existing Elanto agreement, establishing a joint group management function. However, when Arto Ihto became CEO of Elanto, the Elanto management started to seek a new partner. Elanto Group's turnover in 2002 was about 393 million euros. This time their glaze was set on S Group's Helsinki area regional cooperation, Helsingin Osuuskauppa HOK. In 2003, Elanto, which had gained more room to maneuver as it had bailed out from its restructuring debt in 2001, separated itself from the Tradeka cooperation and started a merger project with Helsingin Osuuskauppa HOK. However, Tradeka insisted of having certain arrangements in force with Elanto. After two years' negotiations the price for the Elanto break-up was settled: 46 Siwas, one Valintatalo and two hotels were transferred to Tradeka. At the end of 2003 Elanto ran down its existence and at the beginning of 2004 a new

cooperative Helsingin Osuuskauppa Elanto (also known as HOK-Elanto) was established. HOK-Elanto belonged to the S Group's regional structure as its Helsinki metropolitan cooperative. With the merger, all 31 of Elanto's Valintatalo, Siwa and Maxi stores were amalgamated into S Group's Alepa, S Market, and Prisma chains.

The cancellation of the Elanto collaboration with Tradeka caused a drop of 2 percentage units in Tradeka's market share. Balancing the loss, Tradeka's management mapped the territory of potential partners by sending corporate presentation material to 17 different companies, including SOK and Wihuri. In closer negotiations the Swedish investment company Industri Kapital was considered the most promising, and Tradeka opened discussions with both Wihuri and the Swedes (Kallenautio 2009). Tradeka's reorganization program ended at the end of 2003. Inside Tradeka's organization, a separate company was established for grocery retailing in 2005.

> *"Our restructuring program was for ten years, from 1994 and lasted to the end of 2003. We continued the payment schedule even after five years, so we were in debt. When the creditors were demanding one billion in additional revenue, it was lowered to 115 million in the negotiations. So the cash-flow problem would have been still going on, that is, our funds for investments would've been incomplete. And then another question was, I tried to ask it from SOK, now that we have a few years left this cooperation agreement, that'd be finished in 2007, so could we continue it? The answer was 'No, not in its current form, that you guys are there either a minority shareholder or else you are just a customer. You are guaranteed for five years the same terms of purchase.' Well, while you then had to abandon the Inex shareholding, it meant going down then, it would have been only five years extra... And when Elanto stepped out, so our viability became so limited that I pushed the decision through [for the Industri Kapital ownership and Wihuri merger]." (Antti Remes, interview June 3, 2008)*

In May 2005, a new Tradeka Oy was established. The new company was initially owned by Cooperative Tradeka Corporation (51%), Wihuri (16%), and the private equity firm Industri Kapital (32% of the ownership). Industri Kapital held an option to increase its ownership stake to 67%. After such a transaction, Tradeka's and Wihuri's ownership stakes would have been be equal (Industri Kapital 2005).

In August 2005, Tradeka sold its share of Inex Partners to S Group and moved to use the services of Tuko Logistics. Cooperative Tradeka Corporation's daily consumer goods business and Wihuri Group's daily consumer goods retail chains merged their activities. The newly established group aimed to be the third largest actor in Finland's daily consumer goods retail market with an approximate market share close to 14%, and it sought a leadership position in the neighborhood shop category. In 2004 the new group had 750 stores, 6,900 employees and combined net sales were in excess of 1.3 billion euros (Industri Kapital 2005). Matti Mustaniemi, President of Wihuri described the benefits:

> *"The combination of the daily goods retail businesses of Wihuri and Tradeka is an opportunity to create a new, more competitive entity in a changing market. The merger is logical because the concepts and the locations of the retail stores complement each other very well." (Industri Kapital 2005)*

Combining the Tradeka and Wihuri operations was stated to have structural dimensions instead of being a creation of another new grocery chain. According to Industri Kapital, establishing a third major agent in the Finnish food retailing would have benefitted future steps of being listed on the stock exchange or selling the company abroad (Mauno 2006, 4).

4.4.5 LIDL – New contestant arrives

The German challenger Lidl, one of the largest European food retailers, opened its first store in Finland in August 2002. Owned by Schwarz Holding Group, Lidl represented a pure form of the hard-discounter, characterized by low pricing, limited product selection, and the dominance of own private labels. Lidl's price advantage to customers was around 10% (Kiuru et al. 2004, 126 and 127). Lidl aimed at offering the Finns a possibility of satisfy their daily food consuming needs at a discounter store, a store format that had been lacking in the Finnish competitive environment. At the outset Lidl offered a narrow product selection almost of entirely private labels of German origin. Thus the grocery trade had received a foreign challenger to the Finnish market.

Despite Lidl's activity and investments, the Finnish counterparts were convinced of their headstart, as speculated by Kesko's CEO Matti Honkala: "Everyone is talking about Lidl and thinks it is to change everything. I do not believe it. Its take-off strategy is such that it does not rapidly change anything" (Paalosalo 2001). A year later, Honkala commented on Lidl's entry into the Finnish markets by saying that "the national borders and our peripheral location are no longer sufficient to prevent the strengthening of active international competition in our home markets" (Kesko's annual report 2002, 7). Honkala was underlining the fact that the entire retail trade was openly confronted with the pressures of international competition.

> *"But yes, we had an idea that... And I believe, it was also the others who thought so, that it is very hard to enter Finland because of these trade, the so-called retailing groups are so strong, we did not expect in the short term that they would come. But we considered Aldi to be more likely than Lidl." (Matti Honkala, interview on October 17, 2007)*

When Lidl started to build up its store network, the company concentrated on a tested strategy of sticking to the core idea of Lidl. All stores were below 2000 m2, which helped the launching of the store network, but the lack of suitable store sites was considered a challenge. Staying in the smaller store category, Lidl did not have to go through years-long urban planning procedures to erect larger scale stores.

Lidl brought along a professional, centralized and highly standardized store concept. The store network was considered one of Lidl's weaknesses; industry experts and analysts saw that it would be nearly impossible to enter the Finnish markets without acquiring an already operational food retailing structure. In 2002 Lidl managed to open 30 new stores and 55 new stores in the next year. In 2005 the number of stores reached 90 (Uusitalo and Rökman 2007, 125). On the other hand, the strength of Lidl was purchasing volume, which strengthened the low-price and hard discounter positioning. Lidl saw itself as a replenishment buying place. The stores were sized around 1200-1500 m2 and the product selection consisted of around 1,300 items.

Various incidents during the establishment period earned Lidl the status of a real challenger to established rules in the industry. In line with its public relations policy, Lidl refused to publish any information about its strategies or intentions, which was regarded as a sign of an aggressive company policy. In addition, Lidl's expansion strategy in Europe communicated that it had strategic interests in growth (Uusitalo 2004, 667). Upon market entry, Lidl introduced its foreign corporate culture and differing operational practices, showing little intention to conform to local standards of practice. As a consequence, Lidl encountered conflicts with various authorities, as there were several deficiencies and shortcomings in Lidl's operations. The Ministry of the Environment, Consumer Agency, labor union Service Union United PAM, and Finnish Food Safety Authority demanded corrective action from Lidl in order to meet national regulations and standards (Skippari et al. 2014, 5).

Immediately after entry, Lidl started to test the retail practices that had prevailed in the Finnish market. The company introduced beer bargain sales to market, which was faced with substantial disapproval from the traditional market actors and industry trustees. Using beer promotions to gain more customers was both against the recommendations of authorities and the prevailing market behavior. Lidl was attacked by the brewing industry. However, more importantly, the action was not against any law or regulation, as the Product Supervisionary Authority concluded. The pricing of beer or alcoholic drinks could only be deemed a sales promotion activity that is against proper market conduct when the consumer price does not cover the procurement price for the product plus taxes.

Lidl used a bridgehead strategy to gain market share. The company started with a limited and international selection. The later phases of the Lidl entrance witnessed the transformation of the closed German concept into a localized version. Alongside the development, Lidl started to take Finnish food manufacturers' products into selection.

> *"Some came along with us from the beginning, some not, some were very prejudiced, and little by little we got the suppliers and manufacturers to join us when they noticed that our store network is growing and, of course, through the exchange of experiences within the industry rumors and facts circulated that we are a good distribution channel and the volumes per unit were large. The range of products is narrow but again, the volume of a single product is stupendous when we were making promotional campaigns or even just in an ordinary assortment. And thus it turned upside down, and actually the industry many times began to approach us."(Antti Tiitola, interview by the author March 5, 2012)*

Public discussion concerning Lidl's entry into Finland revolved around three themes. The incumbents stated opinions on the entrant that reflected some sense of intimidation, for example, questioning the quality of Lidl's products, and claiming that local planning authorities were treating the foreign entrant more favorably. Moreover, the incumbents made several new investments in the domestic market (Uusitalo 2004, 668).

The efficiency of Lidl was calculated to be constructed on the logistical advantages that a tightly concentrated concept would bring. The improvements and innovations sometimes were really simple and down-to-earth ideas.

"What we did was that we built a distribution center layout to correspond to the store layout. That is to say when the pallet is unloaded at the grocery store it comes from the distribution center in such a form that if it contains products that are designed to be at the 3rd corridor, then it includes only products for that 3rd corridor. The unloading efficiency is of a completely different class than that of Kesko's roll container - when the grocers have had the opportunity to do their own layouts, of which you cannot get a single format." (Antti Tiitola, interview by the author March 5, 2012)

Finnish firms counterattacked Lidl with their own weapon: the price. The competitors reacted soon after the entry and conducted price moves, some of which were probably short-term retaliatory actions while others were aimed at communicating a new price image. The challenger Lidl took the role of market leader, i.e. the previously leading retailers followed the initiatives taken by Lidl. While Lidl maintained its prices, the competitors adjusted their prices accordingly (Uusitalo and Rökman 2007, 131). Food retailing groups established a separate collection of low price products within their assortment. ”Although the edge of competition is aimed at the domestic competition, our basket of 1000 lowered price products is our response to the ecstatic discussion around Lidl”, stated the Managing Director of regional cooperative Suur-Savo, Leo Laukkanen in 2002 (Riihonen 2002). Lidl went the other way around, they followed competitors' choices and analyzed the assortments of their rivals, and in such a way were adapting to the general offering.

"You had the competitor's shelf in front of you and looked what there is, and the other way we made it was when we met the industry people so you got top and flop-lists, of course you even can make it a really high-flying science if you want to. We had just such an assortment analysis that we went through one category per week. Naturally, when we started we looked through the whole range of products. After the take-off we had such a schedule that organized our competitor analysis, and this is how we looked for new innovations and assortment. Suppliers are always happy to tell what will sell. "(Antti Tiitola, interview by the author March 5, 2012)

In 2005 Lidl had invested about 200 million euros in Finland, and run a network of nearly 100 stores. At this time the sales volumes were sufficient enough to sign good deals with the Finnish food industry and producers. Lidl made a decision to start to take manufacturers' brands to its assortment (Vihma 2005). If Lidl would have started its conquest of Finland with localized product selection, the volume of purchasing would have twisted the prices to be higher than that offered by rivals, which in turn would have harmed Lidl's pricing image as a hard discounter (Vihma 2006).

In 2005 the hectic growth phase was over and Lidl Finland had the opportunity to allocate more resources to the development of operations and services. Lidl's CEO Antti Tiitola described the situation: "During the era of strong growth Lidl was a project organization, but now we have been able to reinvent ourselves as a service organization that listens to customers more closely than before.” At the same time, the company gradually started to change its communication and labor policies (Skippari et al. 2014, 8).

4.4.6 Summary of the Third period: 1997-2005

The years 1997-2005 in the Finnish grocery trade were a continuous expansion of the markets, with a challenging flavor of growing internationalization. International companies entered Finland and the Finns went abroad; this also applied in the grocery trade. In the domestic market the increasing pressure from foreign competitors impacted the willingness of the Finns to expand abroad to exploit the first mover advantage in winning market shares, especially in the Baltic Sea area. Knowledge about how to compete against foreign concepts was developed in outbound internationalization projects.

The external development in information technology and logistics systems offered possibilities to further develop the efficiency of food retailers. Among others, the standards in bar coding and point-of-sales terminals, potentially raised the productivity of retail trade in the 1980s-1990s. For example, the first point-of-sales terminals allowed food retailing companies to collect and analyze the turnover of different products and different product categories (Lamberg and Tikkanen 2006). The value chain approach, most naturally tied to the logistical efficiency of transporting the goods, was one key factor in higher operative performance. Using integrative and collaborative management of the supply chain, food retailers succeeded in streamlining their delivery processes. According to a survey in 2005, Efficient Consumer Response projects had resulted in an increase of sales by 482 million euros (+4% of turnover) and cost savings of 191 million euros (-3% of turnover) (ECR Finland 2009).

K Group spent a while in searching for future paths in organizing the group's value chain; trying out different arrangements to combine the retailers' and Kesko's interests. This led to conflicts in governance and ownership structures. From the central corporation Kesko's point of view, Kesko's agility was impeded by a concept restriction. K Group traditions and a silent agreement between Kesko and the K grocers prohibited Kesko as the central corporation to move into retailing as a business. This meant that operational demands for building up a food retail chain, which would be based purely on centrally managed logistics and sales channel, would definitely threaten the chain of command within the K Group. As well it would have jeopardized Kesko's ownership and governance structure (Timo Karake, interview January 17, 2008). For decades, K Group's activities had been as consisting of collaboration between Kesko and the K-store owners.

Kesko was constantly balancing its structure of privately owned distribution channel of grocer-entrepreneurs and the central corporation of Kesko. The pressure to seek advantageous business models led to a notion that the wholesaler-relationship with the K stores was not enough to guarantee neither Kesko's nor K Group's success in the changing competitive environment. The transformation towards the chain business model was anticipated as a solution to effectiveness and performance problems. Hence, at the beginning of the 2000s, the vertically integrated business model and centrally managed chains replaced more independent ways of competing in the grocery business. K Group had to change its basic setting to be in line with the vertically integrated business model and chain marketing, although this led to a series of crisis concerning the decision-making process in the chain and cooperation agreements between Kesko and

retailers. Internal conflicts over dominance within the K Group between entrepreneurs and Kesko were constant during the transformation. After the transformation and renewing the operating principles in K Group, Kesko was no longer a wholesaler, but was defined as "a marketing and logistics company that develops retail concepts and operating systems".

Kesko's organizational transformation was affected by the international players' growing interest towards Finnish markets, signaled by the first international retail chains, who appeared in the competition within the clothing business and household appliance and hardware business sectors. Such new rivals, for example, were Ikea (in 1998), Hennes and Mauritz (in 1999), Hemtex, Indiska, Bauhaus, On Off, and Gigantti (in 2001), and Lindex (in 2003). CEO Matti Honkala mentioned that "National protective measures or our remote location no longer prevent active international competition from taking root in our home market" (Kesko's annual report 2002, 7). Such entry and additional competitive activity was, of course, a natural consequence of the liberalized regulation brought within European-wide political and regulative integration.

S Group continued with earlier momentum and after successful years acquired more sales points and volume by merging both Elanto and Spar Group. Elanto was a wildcard in the industry restructuring scheme, and had a long history of independence. It was also ideologically tied to workers movement cooperatives, so the merger between a bourgeois S Group and the leftist Elanto was also reconstituting a Finnish political heritage. At the end of 2003, Elanto ran down its existence, and at the beginning of 2004 a new cooperative Helsingin Osuuskauppa Elanto (also known as HOK-Elanto) begun as part of the S Group's regional structure.

Spar was born after the T Group was digested by Kesko and the competition authorities made an intervention to deny the deal. The new food retailer and wholesaler Spar started with existing difficulties, poorly located stores, unsuitable retail store network, smaller volumes of purchase, non-existent investments, and a decline in the number of stores. With the help of foreign venture capital investors, Spar aimed to build up a third competitor to the food retailing markets in Finland. In 2005, Spar Group was sold to S Group. The former Spar stores were split between SOK, Tradeka, K Group, and the so-called M Group, which consisted of small-scale independent entrepreneurs.

Tradeka Oy had survived the Finnish recession in the early 1990s and the company was pushed through a mandatory restructuring program, which ended in 2003. After all the trials it still held the same level of market share in fierce competition, which makes Tradeka Oy an interesting example. Tradeka was a company "in between", not the market winner, neither the market loser. With the help of investors, Tradeka took a decisive step in 2005, trying to create a third strong player in the grocery markets.

In 2002 both the threat of newcomers to Finnish markets and the outbound internationalization of the Finnish retail chains sculptured the competitive landscape. Lidl entered Finland. However, despite the hype around the German newcomer, the entrance of Lidl did not greatly affect the total situation in competition. The greatest effect of a Lidl outlet was usually on sales at nearby stores of similar size. Competition from Lidl reduced the gross profit margins of neighboring stores by just over one percentage point (Kiuru et al. 2004, 50). The food retail sector in Finland was very concentrated, and laid both operational and strategic obstacles at the entrance of foreign companies. The Finnish retail groups were protected and sheltered from the immediate effects of

foreign competition because they controlled large market shares and had an up-to-date store network with a large-scale volume of operations. The larger market shares contributed to the buying power reflected towards the food industry and other parties of the grocery trade business ecosystem.

When inspected against the Red Queen theory, the firms' competitive moves during the period 1997-2008 followed the strategic orientations of the different retailing Groups. Store network development and investments made the basis for mutual rivalry in the arena of business and operations. However, much of the competitive moves at a higher level were realized. K Group's alignment with the prevailing industry logic (chain management) was to seek additional efficiency. S Group's buyout of Spar Group was a structural readjustment in the industry, a competitive move that was hard to imitate. The contextual changes were due to decreasing regulation and altered control of opening hours and type of shop facilities, opening up the possibility to spread the food retailing business to kiosk-like shops as well as within gasoline stations. Contextual constraints and possibilities created unequal operating conditions and potential for the different rivals.

In the Finnish economy, low inflation, low interest rates and a positive development in employment boosted consumer demand that contributed to growth in retail trade. Private consumption was forecasted to grow in Finland by 2–3% annually in the coming years after 2005. In the future, the possible slowdown in the growth of households' disposable real income and the expected slight increase in interest rates were expected to influence private consumption in Finland. In the retail trade, strong centralization, formation of chains, and internationalization continued, and concentration and internationalization was expected to continue in the trading sector. Competition for customer loyalty was also increasing. Hence, understanding customer needs and buying habits was considered to be the key for success; consumers' future purchasing behavior was seen to become highly fragmented (Kesko annual report 2005, 13).

4.5 Epilogue: Developments in 2006-2013

From the 2013 perspective, the basis for market share development in the Finnish grocery trade followed a trajectory that was created around the events in 1996. The previous epoch (1985-2005) was dedicated to the fight over first place, especially between S Group and K Group. The other groups were to remain in a second class. A new phenomenon was the German firm Lidl in terms of its emergent annual growth, which in 2013 was already approaching the position of the third-largest retail group. Tradeka had been in a downward trend since 2006, and at the end of 2008 Tradeka's name was changed to Suomen Lähikauppa. The company disposed of part of Euromarkets in 2010, selling them to S Group and K Group. In 2012, IK Investment Partners, Tradeka, and Wihuri sold Suomen Lähikauppa to Triton Investment fund. Before the acquisitions, Suomen Lähikauppa had turned deep losses to a profitable business unit. The S Group cooperative societies' market share had increased to 45.6% in 2012, while at the same time K Group held 34.7 percent. Thus, the two largest trade groups' combined market share was more than 80 percent. The loser in the market share battle was Suomen Lähikauppa, with a market share of 7.3 percent. The share of other private firms

was 12.4 percent, of which the German Lidl's share according to Nielsen estimates was around 5.5% (Nielsen 2012).

The K Group managed to get the downward trend of market development to stabilize in 2006, and since 2009 it has been on the rise. During this period, the smaller companies' market shares have declined (Björkroth et al. 2012, 11). Grocery sales in Finland increased from 11.9 billion in 2005 to 16.04 billion euros by 2013. Two trends prevailed 1) the competition was divided into categories of the bigger and the smaller. 2) The number of grocery stores decreased significantly. In 2012 there were 3,192 stores, while in 1993 there were around 6,000 (Finnish Grocery Trade 2013).

In the 2000s the grocery sales area in Finland increased 28%, which is more than 60 football fields. According to Nielsen, the share possessed by hypermarkets and stores larger than 1000 m2 was 62% of the market. The largest increase in the grocery trade has been made by the hypermarkets, of which there were about 150 in Finland at the time of reporting (Nielsen 2012).

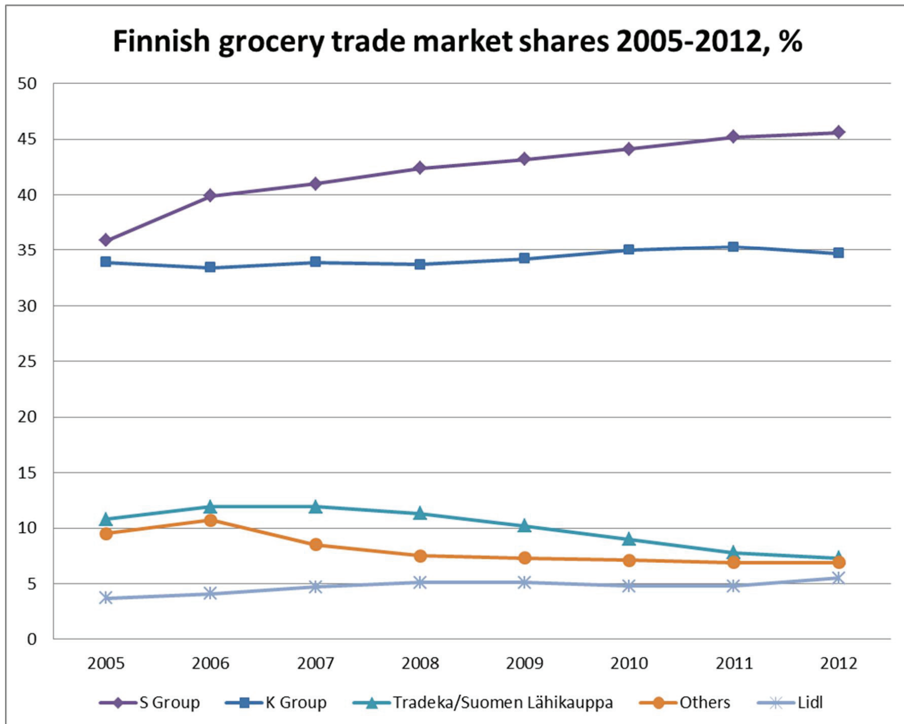

Figure 7. Finnish Grocery trade market shares 2005-2012, %. Source: Nielsen.

In 2006 the daily consumer goods sourcing company Inex Partners Oy was transferred by a share purchase to a wholly owned subsidiary of SOK. The share purchase was strategically significant for the S Group, as owning its own procurement company allowed the reorganization of the management of the total value chain. On 12 January 2006, Spar Finland Plc became a subsidiary of SOK. Spar Finland's Series A and K

shares were de-listed from the Helsinki Stock Exchange on 19 May 2006 and Spar Finland Plc was changed from a publicly listed company to a private limited company, Spar Finland Ltd. SOK, and some of the regional cooperative enterprises started a corporate restructuring under the terms of which some Spar stores, either owned by Spar Finland or operated by independent shopkeepers through a co-operation agreement, were gradually integrated into the supermarket trade of the S Group's regional cooperative enterprises.

Spar Finland sold off the stores not included in the merger to other parties or their business operations were wound up. The Finnish Competition Authority approved, with conditions, the acquisition arrangement concerning Spar Finland on 4 January 2006, although the Competition Authority imposed restrictions, which included the exclusion from the merger of 30 Spar stores that were to be offered for sale to suitable competitors in the grocery trade. According to the merger plan, 81 of the 262 Spar stores were to be transferred to the supermarket network of the S Group's regional cooperatives. By the end of 2006, altogether 63 stores had transferred to regional cooperative enterprises. Tuko Logistics Oy was responsible for handling Spar's company's material flows until 31 October 2006 after which goods deliveries to the Spar stores were transferred to Inex Partners Oy (SOK annual report 2006, 22).

Kesko Food and ICA Baltic AB, which belonged to the Swedish ICA Group, equally owned Rimi Baltic AB (with equal shares) that commenced trade in the Baltic food market. Rimi Baltic AB had subsidiaries in Estonia, Latvia, and Lithuania with 177 food stores in total operating under Rimi hypermarket, Rimi supermarket, Säästumarket, and Supernetto concepts (Kesko annual report 2005, 21). In 2006 Kesko sold its share of Rimi Baltic to the Swedish ICA and realized a profit of 131 million euros from the sale (Kesko annual report 2006). Kesko continued its growth by relying on the idea that a strong store network was important for growth. As a result, K Group's market share has shown a slight increase. Kesko Food's strategic priority was a strong construction and development of the store network, including Russian markets, where it opened its first K-food grocery chain in St. Petersburg on May 12, 2012. The aim was to achieve 500 million euros in net sales in Russia and a positive operating result by 2017 (Kesko annual report 2012, 16).

S Group has continued significant investments, and has developed the ABC station concept and entered new sectors when it started its own banking business in October 2007. The impetus for the creation of S-Bank was the amendment made to the Co-operatives Act in 2003. Previously, cooperative savings funds banks could accept a maximum account ceiling of only 6 000 euros from one person, and in 2013 the number had fallen to 3000 euros. SOK Corporation's Board of Directors decided on December 15, 2005 to establish a deposit bank in the company to further develop and manage the S Group's customer-owners financial services. SOK applied for a credit institution license on December 20, 2005, which was granted on February 14, 2006 (SOK annual report 2005, 16).

Each of S Group's regional cooperatives increased its net sales every year during 2009-2012, and the business was loss-making in only a single cooperative. Financially, the majority of the regional cooperative societies were in good or even excellent condition. They had little debt, and the business was very profitable, and self-sufficiency rates were good. On average, the cooperative societies' operating margin was 2.6%. At

the same time, Kesko's operating margin was a little more than 2% and its equity ratio was more than 50 percent. Cooperative societies have accumulated billions in assets, of which a large part was invested in real estate property. S Group used each year around half a billion euros for investments. In 2012 the customer-owners received bonuses or discounts worth nearly 380 million, and other returns and interests of around 40 million euros (Saarinen 2013).

The grocery trade's turnover has increased despite overall negative economic development, giving an impression of a fairly stable development over the business cycle (Niemistö 2013). Over the period 1995-2012, the turnover of the grocery trade grew every year. The average annual change was 4.3 percent. During the same period, for example, cyclically sensitive industry's average annual change in net sales was 3.4 percent. The increase was mainly due to an increase in volume or a rise in prices. Figure 8 presents both turnover and sales volumes for 2005-2012. Over the period of 2005-2007, growth in sales was largely due to higher sales volumes. Similarly, in 2010, the positive development in net sales was driven by volume; the sales volume increased from time to time even faster than the turnover. Similarly, in 2008-2009 and 2011-2012 turnover growth was dependent on rising prices. Between 2008 and 2011, the turnover grew rapidly, but it was mainly due to higher prices. In the following years 2009 and 2012, turnover growth slowed down and sales started to decline. Common to both periods is they reflect unstable times. In 2008-2009, the phenomenon was more emphasized than in 2011-2012, but on the other hand the 2009 recession was much deeper than later perceived economic uncertainty. This phenomenon can be considered somewhat surprising, as the strong price increases in bad times reduces consumption even further (Niemistö 2013).

In the grocery trade, the cooperative societies' as well as K Group's strong position have given rise to a political discussion. In May 2013 the Finnish Parliament passed a change in competition law, which addressed the concentration of trade competition. Since the beginning of 2014 a food retailing operator is considered to have a dominant market position if its national market share is at least 30% of total grocery retail sales (Työ- ja Elinkeinoministeriö 2013).

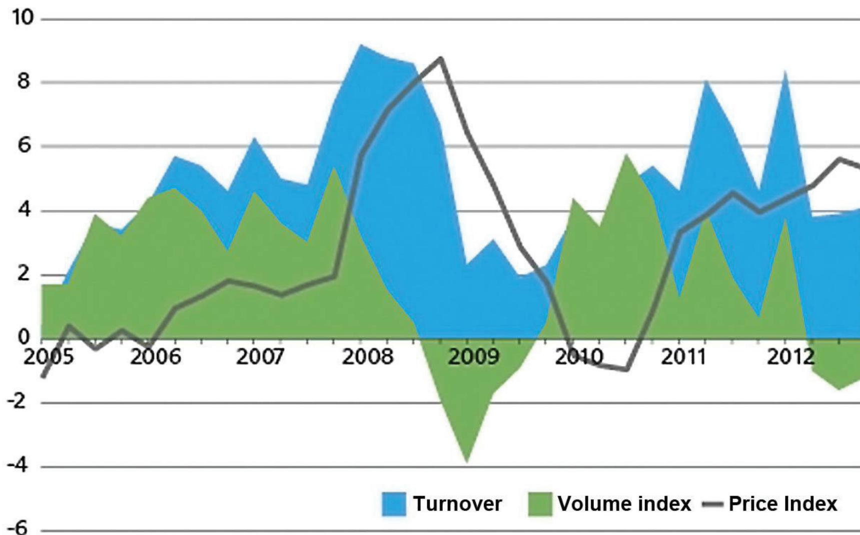

Figure 8. Change in Grocery trade turnover, volume, and price 2005–2012, %.

5. CONCLUSIONS

The empirical tasks of this research comprised finding answers to the following questions: How have the Finnish food retailing groups' market shares evolved through the years 1985-2005? What action have the companies taken to affect their market share growth? What consequences have the companies' competitive action produced in the markets? And finally, how have different contextual events and other responses affected increasing or decreasing market shares? The research tasks were motived by a theoretical interest from the existing literature on Red Queen theory (Barnett and Hansen 1996; Barnett and Burgelman 1996; Barnett and McKendrick 2004; Barnett and Pontikes 2004 and 2008; Derfus et al. 2008), to find out how events in the firm's external environment affect Red Queen competition. This is a research question that has received less attention.

The goal of the study was to argue that a wider infrastructure of processes contributes to firm performance. Firm performance is created by internal development, external market behavior, and is affected by events and development in the contextual political, macro- and microeconomic environment as well as technological and social factors in the wider environment. In addition, competitive action of the firm is dispersed and realized in different managerial arenas. Besides firms' own competitive moves and countermeasures, there are also significant external environmental changes that have a major impact on companies' market share development and thus on their performance.

A suitable choice for a cornerstone of this study was a premise that competitive activity is the key to understanding differences in firm performance (Cf. Chen et al. 1992; Miller and Chen 1994; Young et al 1996; Ferrier at al. 1999; Ferrier 2001). The research setting was focused so as to study the reciprocal influence of several competing firms on each other. This setting was elaborated by taking into account the influence of the wider socio-political environment on the firms' performance.

In previous chapters this research identified action and counteraction that affected grocery firms' growth paths under three different contextual settings – the Boom, the Recession, and the Recovery. The empirical description provided a detailed account of market development and the choices of each single company in reacting to internal and external impulses. The narrative description provided answers to how things evolved and what were the main forces in constituting four different growth paths in the Finnish grocery trade. The description also gave a perspective on the changes in the contextual environment and its effects on the performance paths of the companies. The strength of the explanation comes from the interlinking of all the competitors' views: in the explanatory narratives every agent had an opportunity to position their own firm and its performance development against each of the other firms.

The previous chapters depicted four different development paths and isolated causes that had an effect on the volume of operations and on the level of performance measured by market share. In general, the variation in market share was an outcome of improving the focal firm's competitive position by developing customer preferences and customer loyalty, and gaining technical, operational and/or institutional superiority. From the presented cases, the S Group's "saga", where the company increased its market share from 16% to 36% within 14 years is the most prominent manifestation of firm growth and performance.

Substantially, the performance development in the Finnish grocery trade companies between 1985 and 2005 was a result of heavy capital investment, proactive store development, tight control of distribution and logistics, innovative supply chain management, own-label product development, and an integrated information management systems (cf. Wrigley 1997; Lamberg et al. 2009). In addition, chain operations (vertically integrated business model) was crucial in obtaining superiority in the market, assisted by Efficient Consumer Response (ECR), centrally controlled selection of products, and standardized methods, procedures and economies of scale. (Lamberg et al. 2009)

Companies strived to win market share utilizing two different strategies. Firstly, the firms focused on continuous improvement of their own capabilities and their own activity by internal development efforts. Secondly, there was a category of actions that were targeted at transforming the external structures of the industry in order to modify the operating framework conditions so as to be favorable to the focal company. In addition, besides of company-initiated competitive and market action, there were contextual changes that the company itself had a limited possibility to influence, but that had, with short notice, a major impact on companies' market shares without the companies having possibilities to influence them. The exogenous change was partly a result of the activities of rivals and partly a result of political, institutional, and social processes, in which the companies one way or other were themselves participants and contributors. Complex interaction loops between the rivals twined the simultaneous development in the external business environment and resulted in significant changes in market share. Aspects of the daily competitive action and future-oriented alignment to the rivalry were linked to the demands from larger society and its transformation, policies, regulation and political development.

The development in the external environment was not only both slow and incremental change but also sudden disruptions. The analysis showed how besides the key events there existed certain separate contextual turning points that had a long-term and transformative impact on the Finnish food retailing ecosystem. These events set into motion a sequence that progressively changed the business landscape. While the key events were behind incremental or emergent change in performance, the contextual turning points in the period were more about swift change in the context, which produced irrevocable changes in the competitive setting. In conclusion, relatively few events within the industry had effects on the whole industry branch, but their effects on the different companies varied. Such events were beyond the control of the firms themselves.

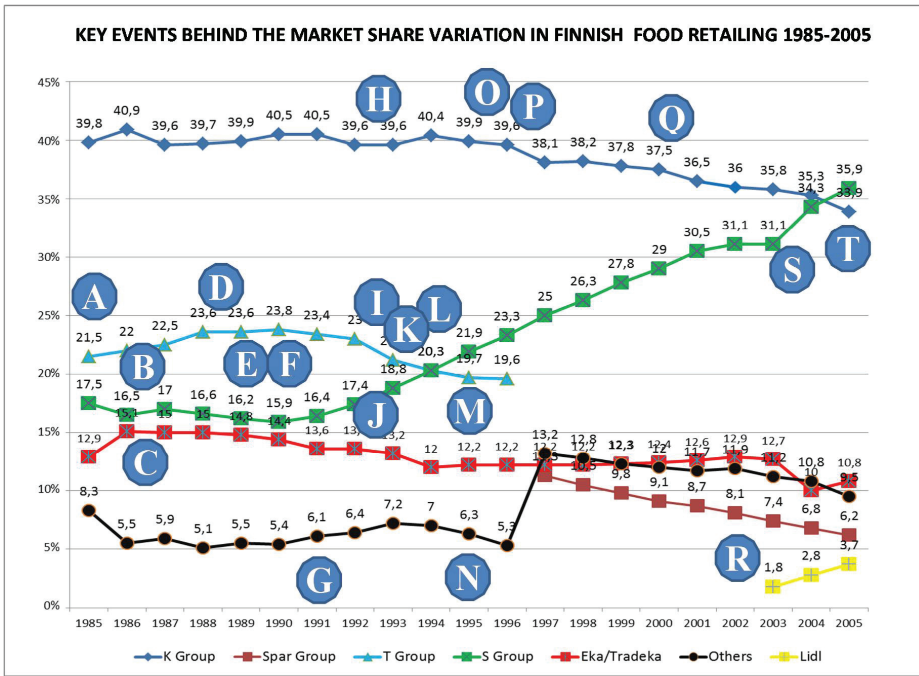

Figure 9: Key events behind the variation of market share.

A) S Group's structural transformation 1983, B) S Group S-90 Plan 1986, C) EKA centralizing its chains 1986, D) Tuko Shareholder agreement 1988, E) S Group S-94 plan 1989, F) Inex Partners 1990, G) Recession 1991, H) K Group store format change 1993, I) Tuko crisis 1992-1993, J) Eka crisis 1993, K) Premia negotiations 1992-1993, L) S-Etukortti Bonus system 1994, M) Elanto crisis 1995, N) Finland joins the EU, O) Kesko K1, P) Kesko-Tuko merger 1996, Q) Kesko adaptation to K2 1999-2000, R) Lidl enters Finland 2002, S) Elanto-deal with HOK 2003, T) S Group Spar merger 2005

The events affecting firm performance can be divided into internal, external, or contextual categories. Internal activity and events happen and are realized within the boundaries of the company. External events or activities occur outside the company, in the larger business environment, and are constructed by the activities of the parties and stakeholders involved in the market competition. Contextual events are those that affect the construction of the “rules of the game”, and lie outside of the direct control of the competing companies. Due to the emergent nature of the contextual development, they are difficult to capture or notice. Figure 9 summarizes the most important events during the research period that affected the firms' market share development, in terms of competitive activity and contextual development.

In the case of S Group, the increase in market share began in the early-1990s, but the roots of the growth lay deeper in history. Just before the recession S Group succeeded in phasing out the old loss-making stores, building up supermarkets, reorganizing the distribution system, and started to develop new store concepts, centralize their assortments and adapt a modern chain management system. Their bonus card system with a customer-owner concept was a great success, which the rival organizations were not too quick to copy or improve. Although the essential restructuring was started and partly implemented before the recession, the effects of these innovations were first visible in the S Group market share in 1991. This characterizes the time lag between strategy implementation and results.

The first steps in the S Group's growth were taken in early-1980s, as guided by the S-83 strategy plan. Nonetheless, S Group's clear growth path did not open up until 1991, when its market share rose from 15.9% to 16.4%. Making plausible claims, it can be established that the outcomes of the S-83 decisions heavily affected later development, which was realized in 1991 as a rise in market share. Such invisible or covered effects cannot be identified or sensed ex ante. At the moment of execution the preceding activity is nothing but "plain work", acts, choices, and creating priorities and alternatives.

One of the main explanations for the continuous growth was assets reconfiguration within the S Group, which set the agenda for Group evolution and expansion. At the first stage, the agenda consisted of the reconfiguring of the distribution of profit and management structures of the Group, and a regrouping and restructuring of the S cooperatives. And later on it was decisions of going into new fields of business, including the ABC traffic service stations. Rivals' effect on S Group activity remained limited. S Group was in the middle of structural change while K Group relied on their financial abilities and run a wide investment program. Eka Group and T Group were in a severe crisis and were not able to influence the markets with massive competitive manoeuvres. Step-by-step, S Group became a good example to others. With dedicated market moves it made the others follow and copy S Group's initiatives.

On the other hand K Group was a good example of a profitable firm that lost its dominant position because its management stuck to a scheme that emphasized the central corporation's wholesaler role at the same time when tensions between Kesko's management and independent grocers postponed and weakened the introduction of vertically integrated chains. A weakened financial situation threw Tuko into a crisis that destroyed T Group's possibilities to maintain its market share and continuity in food retailing business. Tradeka - in spite of its excellence in centrally led chain operations - did not have the financial resources to invest in supermarkets, and later in hypermarkets. Eka/Tradeka sunk through weakened financial capacity in the bankruptcies of the other branches of the corporation. It, however, managed to hold a steady stance by committing to utilize internal capabilities.

From its peak, having 40.9% of the market share in 1986, K Group slipped down to 33.9% in 2005. K Group and Kesko was the forceful driver in the food retailing during the 1980s and early 1990s. Interest to seek additional organizational efficiency, cost awareness, entrepreneur-driven dynamism and solid financial background made K Group agile enough to respond to emerging societal and consumer changes. Kesko was

dominated by retailer-based interests and views. However, traditions and organizational rigidness, due to the dualism between the central corporation and the retailers' power in the administration of the group, created tension and resistance to large-scale changes. The falling market share led to a series of adaptive moves, from store type reform (1993) to the chain unit creation project K1 (1995) and further to the vertical integration K2-program (2001). Outside organic growth, Kesko tried to acquire greater strength in food retailing by acquiring T Group's grocery business in 1996. This deal was, however, cancelled for legislative reasons. After that Kesko opened a new channel for growth, which was the internationalization of its business branches.

K Group was left behind in the markets race for two basic reasons. (1) Kesko's attempts to seek more volume led to a series of acquisitions. Although the Tuko-deal was well prepared, competitive authorities' intervention and the denial was a surprise to Kesko. In a sense, it was an example of bad luck. Kesko and K Group could not make industry-wide arrangements by acquiring their competitors, thus one source for growth became permanently unavailable. (2) Kesko and the retailers were operating in deep symbiosis, where successful entrepreneurs could control the central corporation's activities. As long as the retailer-driven business model was bringing in profit, the balance of power was an unquestioned fundament in the Group's organization. After S Group and E Group/Tradeka overcame their problems of poor company image, low product quality and inferior operative execution, the role of the grocery-owner diminished as a mean of achieving higher sales. The change to chain operations and to a vertically integrated organization came too late, and it brought along a rupture in the governance structures of the K Group.

As in the example of Kesko's and K Group's organizational changes, the modifications in the business model were greatly significant, even revolutionary turning points that touched on the Group's core philosophy. However, it is difficult to draw conclusions about their impact on the competitive position on the basis of external indicators, such as the interpretation of market share changes. Similarly, K Group's growth path was influenced by a glacial alignment process, in which the group, step-by-step, faded into a new institutional logic. The novel K2 model, which was a centralized chain operations model, was productive in terms of internal efficiency, good in relation to managing the whole value chain, and clarified the practices with reference to ownership control. Nonetheless, despite these measures taken, K Group's market share continued to decline in the short run.

In the Tradeka case, different interlinking causal processes influenced Tradeka's stagnated development path through the years 1985-2005. Due to the fact that the entire company was established on the basis of a socialist ideology that aimed at serving working-class customers, in practice its strategic options were rather limited (Lamberg et al. 2009, 53). Building its future on Eka's legacy, Tradeka was forced to concentrate on internal development during the 1990s, due to a lack of investment funds. Tradeka answered the call for increased efficiency by adopting a tight centrally-led chain concept and concentrated to fight in the smaller store class. Tradeka was not able to maneuver to overcome competitive action, because the financial situation did not allow for investment. However, through internal development programs the company succeeded in creating a steady position in the market, its market share rose from 12.2% in 1995 to

12.7% in 2003. Tradeka was capable of outstanding economic performance in a short period of time, well above the competitors' level of financial success.

In Tradeka's case the negative performance loop, (March and Sutton 1997), failure-bred-failure, held true, because the historical conditions did not allow different or other growth paths. At the same time, the activity of rivals was increasing, the pressure on Tradeka came from areas where it could not proactively respond so as to seize the initiative: commercial site development, heavy investments, business model development, new game openings such as the ABC concept, and hypermarket segment competition. Throughout the course of the two decades under study, Tradeka was both the hunted and the pursuer. As the smallest player in the field it was constantly under competitive attacks from the bigger rivals. However, simultaneously, the commitment and activity of Tradeka people made it the pursuer, it resourcefully took action to stay in the achieved positions without losing ground to the rivals.

Tradeka remained as a challenger for third place simply because it could not reach higher growth potentials and was unable to switch to higher series of competition. Thus, the performance path was full of smaller and bigger events, surprises, risks and losses, which interlinked with their own initiatives and their outcomes. Tradeka's organizational performance was a result of several reasons: (1) Eka Group's bankruptcy eroded the entire Group and the food retailing had to be reorganized from point zero, (2) The bank run on the Eka cooperative savings fund surprised the management and paralyzed the financing at a critical moment and affected the Group's slide into mandatory corporate restructuring, (3) Ideological and other causes (Finnish banks' institutional role) prevented the planned merger with Tuko, (4) Competitors' activities increased in sectors, where Tradeka could not respond.

Alongside the stock market frenzy of the mid-1980s, Tuko was excited by casino games, and at the same time also had become a target of complicated takeovers. Protection became expensive. Finally the early 1990s recession pulled the rug from under Tuko. Tuko was driven by interests outside developing the food retailing and wholesaling business, while the regional wholesalers were keen on executing their power in Tuko on behalf of their own interests. However, as Lamberg et al. (2009, 52) have shown, Tuko’s inability in the 1980s, to channel resources to new hypermarkets and related large-scale advertising made it both an under-advertiser and an under-the-average store founder in comparison with the other three organizations. In the early 1990s, Tuko’s competitive and economic position was so seriously weakened that it no longer had the ability to challenge Kesko or SOK. Tuko's top management recognized the changes in the competitive environment but the entire organization and especially the major owners were not motivated to react.

While the interests of the owners were elsewhere than developing the Group as a whole, Tuko fell into a deep crisis. In food retailing operations, the T shops comprised of such a fragmented group that it was not able to any sufficient group-level competition. Rivals’ effect on Tuko was forceful. Kesko’s attempt to merge Tuko ended the T Group’s story in 1996. And at a later stage, Spar group, which was built on Tuko’s former parts, was sold to S Group in 2005. These outcomes were a realization of a long chain of events ranging from contextual factors of recession, the deplorable state of bank groups, and the owners’ will to secure their investments in Tuko.

5.1 Internal processes of Red Queen competition

In order to respond to rivals' competitive moves, focal companies seek higher efficiency and look to internal processes of development and adaptation. The two principal ways of achieving growth were to acquire more customers and retain the old ones. This was realized by working on upgrading and developing single stores, taking into account the price level, selections, store's location, and maintaining logistical efficiency. Its main goals were to focus on improving the attractiveness, efficiency and functionality of a store or the whole store chain. Internal competitiveness was created in many different ways: by raising labor productivity, applying new operating models, utilizing ICT-solutions, changing the layout of the stores, taking planogramming or shelf space planning systems in to use, training and motivating personnel, and renovation of business premises, renewed shopfitting and grocery store equipment. It drew on the conclusions of marketing studies, which stated that the choosing criteria for buying groceries were the store's proximity to home, and the price level and quality of the products and its assortment (See for example Päivittäistavarakauppa 2000, 6). Investments were partly used to maintain the existing level of service as well as the proper maintenance of the quality of the existing stores, buildings and facilities and their equipment.

The growth of the S Group was mainly due to a successful balance to amassing capacity with the growth and uniform chain-like way of operating: hence, in the post-recessions era S Group's market share growth was a result of the momentum it had gained by preceding action in earlier times. This strengthens the notions set out by Lamberg et al. (2009) regarding organizational capacity as a result of the firm-market interrelationship. Organizational action produces cumulative future capacity; especially organizational activity contributes to capital capacity in the form of rents and profits. The level of capacity changes along with the proceeding of time, together with the actions it enables and by the action taken by others in the surrounding contextual arrangements and environment. From such a perspective, organizational capacity is a flow, corresponding to the idea of Dierickx and Cool (1989, 1506) of asset stocks and flows. As a pool of resources, organizational capacity is under constant reconfiguration. If sufficient capacity is not available, the organization is forced to operate within certain boundaries of finances, personnel, knowledge or other resources, rejecting the optimal course of action they otherwise could choose. When the organization's level of efforts equals the competitive response, the organization is in a situation of capacity maintenance. It is situational and connected to one's aggregate position relative to actual competitors, as the Red Queen theory proposes (Barnett and Hansen 1996). Involved with the maintenance of the current level of operations, the needed stakes might increase because of rivals' increasing investments or developmental stakes. Relativeness is of key importance: "As in a race, the award goes to the relatively fastest, even if all the competitors loaf. Even in a world of stupid men there would still be profits" (Alchian 1950, 213).

Capacity decreasement processes, capacity erosion, means a situation where the organization cannot keep up with the rivals in certain dimensions or activities, unless

more effort and expenditure are committed to maintaining them (Dierickx and Cool 1989). In particular this became visible in the Spar Group case, when the company was not capable of increasing the level of capacity to the corresponding general competitive level in the market, and the Group's performance began to decline. Capacity erosion can also occur as a result of external incidents, for example when external conditions or decisions favor other companies or when organizational arrangements are outcompeted by more effective solutions taken into use by rivals. Moreover, major swifts in the competitive and industrial logics affect the level of capacity erosion. Personnel turnover and key person escape might lower the level of knowledge in the organization. Also, excess payouts in the form of dividends or when assets are paid back to creditors decrease capacity.

Lamberg and Tikkanen (2006) have earlier found that K Group's independent K-retailers literally refused to launch point-of-sales terminals as they feared would allow Kesko to control the material flows, the retailers would lose their direct contact, and thus their bargaining opportunities with suppliers. The conflict between Kesko and its retailers continued until the mid-1990s. As a consequence, Kesko had up to 30% more items in its assortment and much less bargaining power with suppliers than its competitors and the bargaining was diluted into all levels of the organization - the retail stores, the local logistical centers, and the central organization (Lamberg and Tikkanen 2006, 829).

In K Group's case, this research is in line with the propositions by Kautto et al. (2007) that mere critical mass and economies of scale, and through this an achieved cost efficiency, is not enough for increased competitiveness. The centralizing of procurement and purchasing brings a significant competitive advantage but only if the firm can keep control of its stores and assortments so that the purchasing department to can negotiate the terms in a reliable and credible way, counting on the aggregated volume of the group.

T Group, which had increased its market share during the early 1980s, was not capable of holding its competitive position at the end of the 1980s, because Tuko was unable to invest in commercial sites and due to a lack of proper business concepts the growth of the early 1980s did not last. T Group's central corporation, Tuko's owners, were not committed to develop the whole Group and did not give much thought to the Group's success. The structural changes in T Group were possible only after the creditors ran out of patience and forced T Group to establish a new structure. T Group lost much of its competitiveness in the restructuring, and despite of the organizational changes market share kept decreasing.

Concerning Eka/Tradeka, there were good prerequisites for chain operations in E Group's grocery business in the late-1980s, and such models were tried out during the start of Eka Corporation at the beginning of the 1990s. However, compared to the market situation it was too late. Eka's store site network was outdated and new business had been acquired with insufficient vigor. The financial problems and collapses of other business branches of the Corporation drove Eka/Tradeka close to bankruptcy, and on a longer perspective the following mandatory restructuring program created a capacity and investment trap for the company. Tradeka could not run along the other competitors S Group and K Group in the investment race. The countermeasures in Tradeka

meant focusing on continuous improvement of the existing competitive edge, the Tradeka excellence in chain management.

According to Lamberg et al. (2009), the role of organizational slack resources was of crucial importance. Tuko and Eka already were in desperate need of capital from the 1960s onwards. The lack of slack resources primarily explains why, for instance, Tuko was unable to found hypermarkets, and in practice never adopted the hypermarkets concept. Tuko's activity in supermarket construction was a reflection of its passivity in the hypermarket competition, which eventually was a major determinant of market success in the early 1990s (Lamberg and Tikkanen 2006, 828). Moreover, when Tuko and Eka lost market share, this initiated a negative loop. The grocery goods manufacturers subsidized the retail chain’s marketing efforts on the basis of the historical development of sales. The more Tuko and Eka lost market share, the more they lost in subsidies and had to pay a higher price for their products (Lamberg et al. 2009).

5.2 External processes of Red Queen competition

Market share development at the industry level was a result of a race, where rivals enhanced their position either by introducing innovations to the market or exploiting their capacity for radical market moves. Partly, this alteration of the market position is a natural consequence of the previously presented internal processes.

Besides shop level rivalry – competition whereby each individual store competed against a neighboring store – the competition at the group level meant an ongoing process of directing investments and company activity according to societal changes, purchasing habits, changing traffic flows and housing density. Societal changes and the effects of migration were responded to with store site location and investment planning, in which the food retailers tried to forecast the future development and establish sales units in the most attractive locations with most potential. Investments were needed in establishing new stores, maintaining and upgrading the current level of service and developing new methods of production, in IT, and in logistics. Store site network planning was a significant competitive factor in the process of food retailers’ growth. Partly, the investments were directed to develop new business and growth by expanding the sales premises network. Even in an internally discordant atmosphere, T Group was able to grow because of Tuko’s store site deals and acquisitions. However, compared to the main competitor, T Group’s financial potential was used less in the development of the whole Group's investments on store sites than that of Kesko.

Quite early on, in 1983 S Group started to modify its organizational structure in such a way that it was possible to install a chain operations model, and the additional efficiency obtained through the changes led the others in the same industry field to adapt to similar solutions – however after a period of time. Centralized chain management logic prevailed and rose to a new industry standard, and put to test the K Group's entrepreneurial model in the mid-1990s. The establishment of the joint venture Inex Partners Ltd by SOK and Eka was a major step in solidifying S Group’s cost-effectiveness. With larger purchasing volume, combined procurement for both the S Group and Eka was close to Kesko’s equivalent figures. This was a significant turn in the capacity generation loop that followed in S Group.

In the meantime, while S Group was wrestling with its group structure transformation, K Group seized opportunities in the market by strengthening its position through large investments, using its big size and dominance as an asset. At the end of the 1990s when K Group was dethroned as the sovereign in the food retailing market, it was forced to alter its storeowner-based basic philosophies and adjust and align to the dominant chain operations industrial logic in order to retain its competitiveness. This change in competition and organizing logics in K Group and Kesko was due to the duel in the market. The change in the competition logic was due to the added benefits of the vertical integration. K Group had begun to show inferior results against the growing S Group. The strength S Group gained via organic growth added to competitiveness of the S Group. Thus S Group continued growing drawing from an increasing pool of resources, steering it back into the market competition by investing in hypermarkets segment construction. The chain management form of operating was introduced to that side of the K Group that favored entrepreneurial logic. The transition from storeowner-driven local actors into vertically integrated chains and chain marketing was not an easy one and led to a series internal fighting over dominance between entrepreneurs and Kesko.

Putting Tuko and Eka together, a plan codenamed as Premia, was under negotiation through the years 1992-1994. The solution was not acceptable to Tuko's management and owners, and Tuko's main creditor Kansallis Bank also resisted the idea. In addition, differing ideological backgrounds between the leftist E-cooperative movement and the entrepreneurial Tuko affected the terms for agreement on majority and control (Kallenautio 2009). If realized, the Premia Corporation would have been a major reorganization of the whole Grocery trade market in Finland. However, since the plan was never implemented, Tuko became a pawn in the industry restructuring, in which it drifted and ended up first in Kesko's possession, but as evolved into Spar Group, later in the possession of S Group.

The new food retailer and wholesaler Spar started having difficulties, poorly located stores, an unsuitable retail store network, and smaller volumes of purchase, non-existing investments, and a decline in the number of stores. With the help of foreign venture capital investors, Spar aimed at building up a third competitor to the food retailing markets in Finland, but in 2005 Spar Group was sold to S Group. The former Spar stores were split among SOK, Tradeka, K Group and the so-called M Group, which consisted of small-scale independent entrepreneurs. The scatteredness of the field later enabled S Group acquisition of Elanto and Spar. The Elanto merger in 2003 and Spar-deal in 2005 enabled the acquisition of store sites and made possible the consolidation of two rival trade groups as well as a rearrangement of their logistical providers. The measures improved access to customers and increased the volumes. Naturally, this increased S Group's proportion of the market.

The entrance of Lidl in 2002 did not immediately greatly affect the total situation in competition. The greatest effect of a Lidl outlet was usually on sales at nearby stores of similar size. Competition from Lidl reduced the gross profit margins of neighboring stores by just over one percentage point (Kiuru et al. 2004, 50). The food retail sector in Finland was very concentrated, and put both operational and strategic obstacles to the entrance of foreign companies in to the Finnish market. The Finnish groups were

protected and sheltered from foreign competition because they controlled large market shares and had an up-to-date store network with large-scale volume of operations.

The chains of events presented above illustrate well how present organizational arrangements have been shaped by past events and their development has been influenced by a broader context and are the result of decisions in past choice opportunities (Kieser 1994, 611; Üskiden and Kieser 2004, 323). This point of view suits well the Penrosian tradition, that an organization is a crucial determinant of its distinctive competencies. History matters (Jones and Khanna 2006, 463).

5.3 Contextual processes that affect Red Queen competition

The previously described two layers of internal and external processes, however, do not fully capture the complexity of Red Queen competition. Formulating a link between the contextual development and Red Queen competition thus advances our understanding of competitive dynamics and firm performance.

In addition to competition moves and countermoves in ongoing evolutionary rivalry, two important events cast their impact on the fundamental structures of the food retailing business and the mutual relationship of power between the trade groups during the research period. These events were: (1) The recession in 1991, and (2) Finland's accession to the European Union 1995. These events were highly important, as they had a major impact on the trade groups' power relations and even on the entire business field or industry ecosystem as "critical antecedents" (Cf. Slater and Simmons 2010) when part of the competition infrastructure was disassembled and rebuilt.

The recession years marked a period of change in the competitive positions within the grocery trade. In terms of market share, S Group's position began to improve, while T Group headed downwards. Recession resulted in a decline in consumption and international pressure, for example, in the form of increased rates of interest of currency loans limited some companies' choice of options. Competitiveness, which reflected in the background market share, is also constituted in financial solvency, which can be used for the construction of new competition by directing resources for investment. The impact of times of recession is most precisely in the fact that they put the capital adequacy and financial capacity to test. The economically unhealthy companies headed into an inevitable dead-end. Although the recession touched all of the food retailing companies, Tuko and Eka suffered the most because of lesser slack resources to resist economic pressures.

The recession led to a re-valuation of companies' balance sheet assets and loan capital. Of course, the already financially poor trade groups were not able to respond to both the simultaneous adjustment in declining consumption and its effect on food retailing, and to be involved in long-term investment programs. Kesko had a strong financial standing. And concerning the timing of the recession, when it came in to sight, S Group was fortunate. S Group had already in the upsurge of the recession been largely finalized the implementation of the required business efficiency measures. The recession matured the setting for more rapid activity, in terms of market and industry restructuring. The worsening financial conditions of Tuko, Eka and Elanto, and the po-

litical pressure from Finnish society together with the fight over banking-industry dominance in the Finnish economy set the stage for later developments. Long rounds of hard negotiations started, and they were finalized in 1996 as the attempted merger of K Group and T Group.

In the early-1990s, political developments in Europe burst into a race towards expanding the EU. This development also affected the legal framework in Finland. The new Finnish competition legislation in 1992 was influenced by several factors. Finland had applied for membership of the EU, and the encountered pressures to harmonize generally the Finnish legislation to be in line with the EU. Several Members of Parliament followed the European integration process and presented views according to which Finland should in advance adapt her legislation with European standards. In particular, Sweden's example was followed. Hence, the Government bill HE 162/1991 Act on Competition Restrictions included changes made by the Commerce Committee, including a ban on abuse of dominant market share. Even in the preliminary discussion in Parliament it became clear that numerous political parties wanted to deny the use of dominant market position (Eduskunnan istuntopöytäkirjat 73, 25.10.1991, Parliamentary Session Minutes).

In addition, membership in the European Union broke up the dependency of the Finnish food retailers on the domestic food and beverage industry. Food retailing groups gained a firmer foothold against the domestic industry and suppliers. Imports as well as production abroad became possible, allowing wider bargaining possibilities on prices, product specifications and other conditions as well as possible branding of products as private labels. This, in turn, improved the margins food retailers received from the products. On the other side of the coin was the free foreign competition, which arrived in Finland in the textile and consumer goods side, but at the same time acted as a spurring partner for the development of Finnish efficiency.

Simultaneously the regulatory powers of the European Union administration started to gain more influence on Finnish competitive arrangements and legal and political control. The European Union had expanded and gained more regulatory powers. Both the markets and the competitors had become under intensive supervision by the European competitive authorities. For example thorough investigation on the subject of retail power issue was raised in the context of development in retail distribution in the EU Commission’s Green Paper on Vertical Restraints. EU has restructured competition policy with the introduction of new guidelines and policies concerning free competition. The question of the food retail industry and its impact on competition was investigated during the process of consolidating two of Finland’s largest food retail groups (Kesko and Tuko) in 1996 and the merger between two of the largest grocery operators (Rewe and Meinl) in Austria in 1999 (Dobson et al. 2001, 248).

The Tuko-deal in 1996 was a prime mover in an episode of restructuring the grocery trade in Finland. Tuko appeared an appealing investment target for Kesko. Tuko's creditors and owners liquidated Tuko in 1996 by selling the shares to Kesko Plc. However, the Finnish competition authorities questioned the acquisition of Tuko Oy, and the European Commission decided on November 20, 1996, that Kesko's Tuko trade was against the EU's merger regulations. As such, it was the ultimate manifestation of external, political forces affecting firm growth and market share development. The Tuko merger would have created a dominant market position for Kesko, which would have

impeded effective competition in consumer goods, retailing and supermarkets in Finland. In addition, the merger was seen to affect imports from European Union Member States, and it would have created barriers for potential competitors to enter the Finnish market (Bulletin EU 11-1996, Competition (11/24), 1.3.53). Kesko was obliged to dissolve the arrangement and sell off parts of Tuko in a period of six months, and thus, Stockmann with its Sesto chain, Wihuri with Ruokavarasto and Eurospars and Suomen Spar started as new food retailers. T Group was demolished into scattered remnants, which lacked the necessary power in the volume race.

The competitive moves and countereffects in 1996 were decisive in constructing the future growth paths of the food retailers. First of all, Kesko's growth via mergers and acquisitions was blocked by the regulative agencies, hence sudden and large-scale changes in the competition were not possible without the interference of the competitive authorities or the government, and their interpretation of the terms of reference of proper market behavior. The markets were split into two categories: by the elimination of the T Group there emerged a competitive market for the big companies, eg. K Group; the middle ground was covered by S group which had strong growth at that time and climbing up to the big companies' series. Additionally, there was a group of smaller retailers – Tradeka, Spar Group and a cluster of independents – making the second level competition, that of the smaller companies. During the period of 1997-2005 S Group managed to reach the position as the biggest player in the market, in turn strengthening the division between the two levels of competition.

The reconfiguring of the old assumptions and "rules of the game" was a direct consequence of a parallel political process and change in the prevailing norms. Without the processes following Finnish EEA-pact and the renewed Competition law in Finland, the intervention of the competitive authorities on Kesko's acquisition of Tuko would not have been possible.

5.4 Loci of competitive activity: managerial arenas

The analysis illustrated how the competition was dispersed, realized in certain managerial arenas, in business and operations, the capital and ownership, and the institutional arenas (Cf. Teulings 1985; Tainio et al. 1983 and 1984; Tainio et al. 1986). The arenas were interconnected, as a solution in one arena served as a problem in another arena, creating multiplicity and causal complexity in determining organizational performance. Each company tackled the subsequent challenges independently and the companies' activities on each arena affected firm performance differently. The managerial arenas construct different platforms for managerial and organizational agency in Red Queen competition

At the institutional arena, the main questions were to deal with legislative and social constraints. The Finnish banking crisis had a heavy influence on the destiny of T Group and Tradeka, first in the form of the proposed Eka-Tuko merger and later in the decision to sell Tuko to Kesko, which in spite of its cancellation by the Finnish Competition Authority's initiative demolished T Group as a main operator.

Also, a major example of the effect of political and governmental forces on grocery trade markets is to be found in the Finnish banking crisis of the early-1990s. Finnish

banks, about to go bankrupt, were feared to set a domino effect of collapsing companies. The Finnish government authorities saw it as important to keep the banks alive and restructure the banking business as well as other branches of the economy to suit the needs of the financial system and society. Thus, the governmental agencies and ministries widely took part in negotiations about the solutions concerning economic activity and transactions in the realm of Business, including in the grocery trade.

The ownership issues – in connection to investor relations, Board of directors, questions in relation to corporate governance – generated a fluctuating landscape of demands for dependency and autonomy, in the pursuit of power and its use in an organization. This constituted the second arena for management's activity: the capital and ownership arena. The management of an organization has to deal with two basic financial aspects: how to obtain sufficient funding for the business, and how to minimize the cost of financing. These problems are handled with various groups and institutions, representing owners, finance capital, investors, and business analysts (Tainio et al. 1983, 8).

The competition at the capital and ownership arena had a very crucial influence on the grocery industry. Because of the high investment costs of hypermarkets and the development of the store network development, funding became a necessary condition for increasing market share. At the ownership arena, Kesko's and Tuko's freedom of strategic choice was greatly limited by their owners. As Luoma and Lamberg (2013, 117) have noted, maintaining or increasing market share through store openings was an important factor with regard to remaining competitive.

S Group’s market share growth was initiated by a reform of the cooperative idea, operational structure changes and transformation of the capital allocation within the Group. The structural changes positively affected financial results, generated profits, helped in gaining capacity for investment and in enlarging the business portfolio. Both the structural changes and the capital allocation model were at the heart of the management’s sphere of tasks in the capital and ownership arena.

In order to finance growth and acquisitions, it has been necessary for the companies to increase their transparency and comparability as actual or potential investment targets (Tainio 2000, 166). This logic was followed by Tuko from the mid-1980s, when it made the transformation into Investors’ Tuko a prominent goal. This logic was also behind Kesko’s changes in 1999 and 2000: the restricted ownership of the central corporation was opened to public trading, reinforcing stock exchange demands on continuous profitability.

Kesko’s and K Group’s activity in the capital and ownership arena were most present in negotiations and arrangements about the retailer-entrepreneurs’ role and the structure of the Group. The debate peeked in 2001 around the K2 vertical integration program. Central management of the consortium rose to power, diminishing the value of the former ruling power elite, the retailers. From the storeowner's side the debate was a question of autonomy of action, sufficient profitability, distribution of profits, and power in decision-making in the K Group. From the central corporation’s point of view, the issues were about the means of taking care and increasing the efficiency of the whole value chain in K Group. Balancing the shopkeeper dominance with centrally managed concepts and stock exchange-driven logics was resolved by moving towards tightly led unified processes, and renewal of management and governance procedures.

Valorinta et al. (2011) pointed out, how once K Group's market share started to deteriorate and the benefits of deeper centralization were evident, the power struggles between the independent retailers and the central corporation also become more acute. Solving the tensions meant partly undergoing a publicly noted juridical process at the end of the 1990s. According to Valorinta et al. (2011, 780) the change in the development path was a result of inferiority in chain management and logistics with simultaneous organizational turbulence.

Another example of the effects of ownership on management and market share development and competitiveness was the long-lasting negligence about structural changes in Tuko. Although Tuko's management sought to gain more independence and ways to diminish the effects of the ownership, after a falling markets share for a number of years in a row, Tuko was merged with Kesko in 1996. As Lamberg and Tikkanen (2006) have shown, politics and ideology among the stakeholders have a major impact on the organizational inertia in the face of renewal: Tuko's political structure made it impossible to search for radical strategic alternatives, as such changes would have destroyed the status of the wholesale owners. This created a demanding field of operations for the managerial work in T Group.

Eka/Tradeka faced severe challenges in the capital and ownership arena. Stagnation in market share growth was influenced by a financial disaster, which was a result of many years' accumulated bad performance. It was also affected by the Finnish banks' decision not to provide capital for Eka/Tradeka. There was even bad luck involved: the bank run in the cooperative savings association was sparked of by rumors broadcast on the radio. Eka/Tradeka remained in a capacity trap, they were neither capable of achieving markets share through investments nor through mergers, but still had to provide a certain profit to the owners and creditors. Tradeka was not fit to concentrate on expanding its market share by investing in the "new game", in the hypermarketization trend in food retailing. Tradeka's management decided to fight back and develop a future based on the good internal qualities inside the company. This is an example of how a challenge in the capital and ownership arena affected and was resolved in the business and operations arena.

In the business and operations arena, cost effectiveness was decisive and success at the arena demanded operative excellence, especially in logistics and procurement, and subsequently economies of scale. In this arena, S Group reached higher economies of scale entering an alliance with Tradeka by establishing lnex Partners Ltd. A bold competitive move by Kesko was to make an attempt to buy Tuko, aiming at restructuring the competitive field and to reach economies of scale.

Kesko's quest for growth, and the demands set out in the business and operations arena were answered by the Tuko merger project. This did not solve the initial problem of Kesko's limited growth opportunities, but escalated it to wide-ranging turbulence in the institutional arena, when the competitive authorities banned the Tuko merger. And finally, verdicts from the European competitive authorities forced Kesko to dispose of certain parts of Spar Finland, which in turn was a prerequisite for an S Group and Spar merger, whereby S Group sought more efficiency in the business and operations arena by involvement in the capital and ownership arena. Hence, Kesko's attempt to reorgan-

ize the competitive setting and also the food retailing market share positions with a dramatic and large-scale buy-out was unsuccessful. However, the event sowed the seeds for and made possible later development in the markets around 2005.

The store network development was another example of how the solutions for market share growth, which was solved in the institutional arena, were transferred in to decisions and activity in the capital and ownership arena, and the business and operations arena. After the process of acquiring the business site and overcoming bureaucratic obstacles, the next step was to adapt the planned store for the customer potential of the area. This connected planning what kind of store concept would be optimal and what amount of investments could be used. Establishing a hypermarket is a large-scale investment, and any decision concerning a hypermarket also raises political and societal questions. In the end, the political decision-making mechanism dictates where the retail corporations can locate their markets, although commercial pressures also affect the question. Thus, at the local level, the management must combine both institutional influencing ("lobbying") towards municipal or regional authorities and towards the landowners through commercially attractive offers.

Many of the causal linkages in the managerial arenas were interlinked and causally complex, and had connections and bridges to the other arenas. The causal complexity resulted from the multiplicity of managerial challenges. Each impulse – a challenge, problem, event or happenstance – was multifaceted and could have been tackled in different managerial arenas. Thus, any impulse that was dealt with by a response splintered among different managerial arenas, leading to an on-going chain of effects and countereffects. As Langley et al. (2013, 8) noted, processes that depart from their origin may wind up and create different level-crossing feedback loops. A problem noticed in one arena had consequences or had to be solved in another arena, by the means and according to the logic used in that particular managerial arena. This meant that a solution to a certain challenge was also an impetus for requirements for a solution in another arena. For example, a foreign partner would have solved Tuko's need for capital increase and knowledge improvement, and would have simultaneously solved some of the ownership problems. The increased level of capital would have enabled effects at the business and operations arena, perhaps as more efficient modes of operating. Another example of the interconnectedness is the Eka/Tradeka case. Tradeka's existence was threatened by the pressure coming from the capital and ownership arena, when the creditors were about to liquidate the company in 1994. The problem was raised in the institutional arena, connected to the restructuring of the whole Finnish grocery trade sector. It meant that one stakeholder in this discussion about Eka's future was also the Finnish government.

The interconnectedness of the managerial arenas makes an organization's challenges less obvious and self-evident, and creates an interconnected web of decision-making and problem-solving. March and Olsen (1975, 154-155) have noted, that environmental actions are often ambiguous, they are hard to observe and not easy to properly understand due to inherent complexity. It is not clear what happened, or why it happened. Ambiguity may be inherent in the events, or be caused by the difficulties participants have in observing them. These interwoven linkages bind emergent issues into larger, underlying premises, dispersing the straight-forward and overt "face-value" of things and issues into a blurry, even chaotic dynamism of a network of challenges

with interlinked decision-making. For managerial work, this means that management's agenda is set by external incidents, which at first glance do not seem to have a direct link to the problem at hand. This could be termed as "multiplicity", following Galaskiewicz (1985, 299).

5.5 Reflections on firm performance

This study was instigated and motivated by four interesting questions; "what happened, where, and why, and by whom" in relation to market share development in the Finnish grocery trade 1985-2005. The research questions of this study were to find answers to what aspects affected market share variation in the Finnish grocery trade during those years. The answers were sought by investigating the competitive and other action of the food retailing companies, and connecting the action to other influencing factors in the food retailing industry, among others the development in the surrounding political and societal environment and changes in that environment. Rivalry was studied as activity in a web of influence, affecting both the focal firm and the context itself.

This study followed Red Queen theory premises that market share development is a dynamic evolutionary phenomenon that produces reciprocal responses in the form of competitive action (Cf. Metcalfe et al. 2003, 8 -11; Lamberg et al. 2009). In such an atmosphere, performance is not absolute, rather it is a relational measure: "performance of one company is always affected by the performance of other companies" (Rosenzweig 2007a, 112) and in that sense, not a property of a firm. (Metcalfe et al. 2003, 8 -11) While the market is growing, an absolute growth number does not articulate how well, relative to the others, the firm is performing. However, relativeness is time-bound. How well an organization did in the past has only partial linkage to how it will do in the future. Besides slow-paced change, critical junctures that can interrupt direct trajectories are critical junctures, during which the infrastructures of competitions are rearranged. This leads to transformation of the terms of competition as well as configurations of firms' competitive endurance, which is reflected in a change of variation in performance levels. Such junctures, however, can be the result of contextual changes, the origins of which were not initiated by the rivaling firms themselves.

The results of this study indicate that the key determinants of the firm performance are causally complex, lack a direct cause-effect chain, and include ambiguity. Causal complexity is due to multifaceted managerial challenges, which are faced in different managerial arenas, each of them having their own internal logic. Similarly, the analysis reveals that performance improvements can, however, also be attributable to other than internal determinants of firm performance, such as a contextual development in the firms' environment. Hence, firm performance of success has interesting dimensions. As noted by March and Sutton (1997, 701) "Performance feeds back upon itself through numerous mechanisms". The processes that create high performance can be self-reinforcing (success leads to success), destructive (success stimulates subsequent failure), progressive (failures contribute to success) or echoing (failure creates failure). As Tainio et al. (2002, 5) have noted, "'Failure breeds success' on the other hand, stems from a common tendency of failures to generate a need for corrective action and repair.

Failures and crises build up readiness for change and stimulate organizational learning."

Observing S Group's development path in terms of market share serves as a good comparison point in illustrating organizational performance. In a covering law principle, the variables explaining the growth of S Group should also explain the decline of Tuko and Spar, as well as those of Tradeka, and the diminishing of K Group. To test the accuracy of the findings, one can ask for example, does the chain business model, which could be stated to be behind S Group's success, also explain the (un)success of Tradeka? According to the results of this study the answer is negative, and neither does the chain business model explain T Group's and Tuko's development from stock exchange riches to bankruptcy. In contrast, it would be more realistic to suppose that all performance explanations are temporal; the change of S Group's capital allocation model explains the development of performance during one era, but in later stages the explaining factors change. Neither of the variables conventionally used in explaining success alone can explain the competitive evolution and performance in the Finnish food retailing sector during 1985-2005. It is most noteworthy that each of the presented four cases – S Group, K Group, Tuko/ Spar, and Eka/Tradeka – contained different explaining attributes for success and unsuccess. K Group's success cannot be explained without explaining the financial difficulties of the S and E cooperatives in the 1980s. It is important to note that everything that happened to Tuko and Eka/Tradeka was also involved in the processes contributing to S Group's and K Group's development paths. Things that were done or left undone had an impact on all the companies in the food retailing industry. Thus, Tuko's misfortune was one additional part in the growth of S Group and Tradeka's long-lasting independence hindered S and K Group's ability to acquire and merge with Tradeka – a competitive move which would have outbalanced the existing power relations in the industry. In addition, performance development is also heavily affected by contextual factors.

As noted earlier, the performance level of a focal company varies with the passing of time. How realistic would it be to hypothesize that things related to performance during a period of 20 years remain the same and the strength of external effects, or even the affecting variables, remain the same throughout the whole period? Is performance a static binary outcome, which may be in one of only two states at any given time: in high or low? Or is it relational, a process that fluctuates, decreases or stagnates? For example, the success path of S Group, as an outcome of the organization's action, is in relation to other activity around the company. Hence, in order to understand S Group's advancement and market share growth, it is necessary to understand also the other companies' performance paths, and moreover, how those paths are, in turn, in reciprocal relation to S Group's performance. The researcher has to engage in finding causal connection nodes in the initiatives set by the all the companies in the market. What kind of action the company executed in trying to sustain growth? What were the simultaneous actions of the rivals - in ensuring their presence in the achieved market positions or in gaining more market share, wealth, income or prosperity? And furthermore, how these actions sum up into interaction and counteraction and loops of reciprocal influence? What about changes in the surrounding political and social environment? Hence, as a process, firm performance is seldom in equilibrium, rather it is constantly changing.

This adds to the quantitative dimensions qualitative dimensions of performance, instead of being either high and low it can be also framed as lagging, increasing, decreasing, stagnating, or boosted.

Firm performance is temporal; there is variation in the level of a focal firm's performance in the passing of time. The temporality leads to another challenge: if the level of performance varies, what happens to static variables that are considered to explain the level of performance? Hence, the conclusion from this detailed investigation of Finnish food retailing groups and their market share growth is that in comparison to cross-sectional inferences, chains of events and their emergence explain the variation in firm performance in a manner that is different to single variables. The same things that we regard as an explanation do not have an unambiguous impact in a different contextual setting. Instead, they bring about divergent changes, others than expected in a ceteris paribus situation. Temporality of performance also includes paradoxes. Action that in the long run can be considered to result in higher performance is the reason for lower performance in the short run. An example of this was S Group's total group restructuring in the late 1980s.

Several notes can be taken from the presented findings of the Finnish food retail trade cases. First, causal complexity was created in a process in which triggering events had their own causation in a longer period of history. For example, all competitive positions of the rivals consisted of the outcomes of preceding events and action. The stagnation in Eka's performance was an example of linked coincidences, where small and single known events linked together in a structure produce unexpected outcomes (cf. Weick 1990; Denrell 2005). Causally complex means-ends chains were partly produced by linking the external processes of the environment to the focal company via different managerial arenas. These arenas switched external issues over to internal decision-making processes, causing the initial impulse to disperse into another different managerial arena, where the impulse was treated with requirements and by those actors and stakeholders present and active in that particular arena. This in turn transformed the straightforward solutions to a noticed problem into multifaceted and complex causal linkages. An impetus dispersed to a wide space of causal linkages, where its further processing creates more impulses, creating a loop of affecting and counteraffecting forces. In such unestimated and estimated means-ends chains, the management has to wrestle between calculated risks and balanced decision-making, corrective measures and adoptive steering, reorientation and envisioning.

Secondly, equivalence can be deconstructed following an event's evolution to its origin in history. As von Bertalanffy (1968) described, in open systems different initial conditions can lead to similar outcomes, and therefore, they are not deterministic by nature. Thus, different causes can lead to the same outcome. And additionally causal asymmetry (Ragin 2008) offers an angle of view that might produce in-depth insight about the nature of performance development – the causes leading to the presence of an outcome of interest may be quite different from those leading to the absence of the outcome. In the Finnish grocery trade development in Kesko and in S Group was realized in operationally very homogenous solutions, but the impulse for the isomorphic development at the microlevel was different. S Group searched for the vital questions of survival, Kesko sought for increased efficiency and wider control over the whole value chain. S Group explored new ways of creating economic surplus, while when Kesko had

to adapt the same organizing principles of vertically integrated chain operations, it conceded to the demands of the industrial logic.

Thirdly, the concept of equivalence can be complemented by offering a view of how the same cause creates different effects. The causal complexity of rivalry and endogenous forces generates webs of influence. They have a very large number of autonomous elements and comprise a complex adaptive system, in which elements in the system interact with each other and exhibit "butterfly effects". A small change in one part of the system can bring out large-scale changes because of "a chain of flow-on effects that ultimately returns in a feedback loop to stimulate further change in cycles of increasing amplification" (Campbell-Hunt 2007, 796-797). Hence, it is underlined that irrespective of whether the initial actions were big or small, they can never be considered causally determinant of path dependent processes. They are contingent in character and the outcome cannot be known unless the process has been formed (Schreyögg and Sydow 2011, 324). As in the Finnish case, macroforces in the institutional setting of European-wide competition legislation treated the Kesko and S Group differently in topics related to joint marketing. The Finnish recession in the early-1990s was another example. It diminished the E Group's and T Group's financial resilience and deprived their ability to invest and thus lowered the possibilities of being present in the markets share contest. In K Group and S Group the impulse sparked a turndown on the number of smaller stores. In the aftermath, K Group and S Group initiated several new approaches to improve efficiency and to reach economies of scale and took advantage of their strong position by large investments into commercial site development and construction of hypermarkets.

Fourthly, different causes interlink and affect the outcome jointly. When taking out foreign currency loans Tuko took an estimated credit risk, and did not count on luck or chances. However, as it was later noticed, Tuko's risk tolerance was low. In Tuko's case luck was also involved, if it is seen as a cumulative collection of several activities and their outcomes. In this case, active investing game in the new financial markets in Finland had two sides of the coin. Besides Tuko reaping out remarkable wins Tuko itself became a target of company takeover. Tuko had to prepare for a hostile takeover, which increased its need for finances and loans. The international political landscape changed very quickly with the downfall of Soviet Union, and the Finnish economy head for a recession. Currency loans, a new instrument widely used in Tuko, multiplied the impact of already heavy loan burden with the politicians most powerful domestic fiscal policy weapon: the devaluation of Finnish markka. Interestingly, these happenstances were independent of each other but jointly they created the seeds for Tuko's disaster. Once the risk was realized, as an outcome of a lengthy and bifurgative chain of events, it paved the way for Tuko's bankruptcy.

And fifthly, this research expands the concept of competition, treating it not only a race of increasing stakes at the business and operations level. Competition between firms disperses and breaks down into different arenas, each of them having a unique character and demands for what is considered the means of competition. This research demonstrates that it is not only learning and innovation, which improve a firm's position on the competitive field, that are the impetus behind Red Queen competition. Con-

textual change lead to an evolutionary spiral of its own, which affects different companies in different ways. Environmental impact can bring out consequences that lead to improvement or setbacks in the competitive process.

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APPENDIX 1: LIST OF INTERVIEWS

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Eero Rantala, CEO EKA Group 1983-1994, interview by the author June 10, 2008, written comments on May 13, 2013 and October 1, 2014

Antti Remes, CEO Tradeka 1991-2007, interview by the author June 3, 2008, written comments on March 8, 2013

Jaana Lehto, Vice President Tradeka, Business development -2008, interview by the author on March 19, 2010

KESKO

Eero Utter, CEO Kesko Plc 1988-1993, interview by the author September 4, 2007

Eero Kinnunen, CEO Kesko Plc 1993-1998, interview by the author January 25, 2010

Timo Karake, Deputy CEO Kesko Plc 1990-1998, interview by the author January 17, 2008

Matti Honkala, CEO Kesko plc 1998–2005, interview by the author October 17, 2007, written comments on April 8, 2013 and September 15, 2014

Paavo Moilanen, Senior Vice President, Corporate Communications and Responsibility, Kesko Plc 2005-2011, Managing Director, K-Retailers' Association 2000-2005, interview by the author March 25, 2010

SOK

Jere Lahti, CEO SOK 1988–2002, interview by the author October 5, 2006, September 24, 2007 and September 25, 2013, written comments on September 24, 2014

Kari Neilimo, Chairman of the SOK Administrative Board 1991-2001, CEO SOK 2002–2007, interview by the author June 21, 2007, written comments on June 17, 2013

Arto Hiltunen, CEO SOK 2007-2009, CEO HOK Elanto 2004–2007 and CEO Helsingin Osuuskauppa HOK 1998–2003, interview by the author March 10, 2010 and March 14, 2013

TUKO

Eero Isohanni, CEO Tuko Plc 1992-1993, interview by the author April 18, 2011

Uolevi Manninen, CEO Tuko Plc 1993–1996, interview by the author September 1, 2008

Kalervo Haapaniemi, CEO Suomen Spar Oy 1993-1996, CEO Tuko Plc 1996, Executive Vice President, Kesko Plc 1996-1998, Deputy CEO Kesko Plc 1998-2005, interview by the author January 21, 2009 and May 14, 2013

SPAR

Pekka Kosonen, CEO Spar Finland Plc 2000-2005, interview by the author January 20, 2010

LIDL

Antti Tiitola, CEO Lidl Finland Ky 2002-2012, interview by the author March 5, 2012

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Matti Purasjoki, Director General, Finnish Competition Authority 1988-2004, interview by the author 1.8.2007, telephone interview by the author March 23, 2005

Juhani Jokinen, Director General, Finnish Competition Authority 2004-present, interview by the author December 10, 2007

Osmo Laine, Managing Director, The Finnish Grocery Trade Association, 1992-2012, interview by the author October 11, 2007

Pertti Salolainen, Member of Parliament, 1991-1995 Deputy Prime Minister, 1987-1995 Minister for Foreign Trade, 1989-92 Board of European Integration Affairs - Chairman 26.5.1989 - 25.5.1992, 1988-94 EFTA Council at Ministerial Level - Chairman 1.1. - 30.6.1988, 31.7. - 31.12.1991, 1.1 - 30.6.1994, 1990-93 Negotiation Delegation for Finland's EEA Agreement - Ministerial Chairman 26.1.1990 - 31.12.1993, interview by the author October, 17, 2014

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