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The Consumer Co-operative Sector

International Perspectives on Strategic Renewal

Edited by John F. Wilson, Anthony Webster, Espen Ekberg and Samuli Skurnik

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2 The darker Finnish consumer co-operative story

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Anitra Komulainen and Samuli Skurnik

2.1 Introduction

From early in its history, Finnish consumer co-operative activity consisted of two competing groups with large nationwide operations: S Group (mainly rural members) and E Group (mainly industrial workers). Before World War II, they were both quite successful, accounting for nearly one-third of the country's retail grocery business. As the operating environment changed and competition increased after the war, both nearly fell into bankruptcy. Subsequently, each co-operative group attempted to solve its own problems using very different strategies. This has made Finland an interesting consumer co-operative experimental laboratory of strategic renewal (SR). This article focuses on the strategic renewal (SR) of the E Group, or rather its attempted SR. Firstly, we describe the birth of Finnish consumer co-operatives and the drivers behind their early success. Secondly, we explore the reasons behind their long decline since the early 1960s. The third part concentrates on both co-operative groups' SR in the 1980s. The penultimate section deals with the effect of E Group's rationalization, and finally we summarize our conclusions.

2.2 The big competition: the rise of Finnish consumer co-op groups 1900–1950

The co-operative concept arrived in Finland late in the 19th century. At that time, the country was industrializing rapidly, and economic upheaval stimulated interest among Finns in co-operatives. They saw in this ideology a path which would help the poor integrate into the emerging money-based economic system, while the country's political situation provided a conducive environment for rapid growth. At the end of the 19th century, Finland was an autonomous Grand Duchy of the Russian Empire. In 1899, a broad 'Russification' program in Finland imposed harsh restrictions compared to the relatively independent status the country had enjoyed to that point and sparked widespread resistance. In this situation, Finns chose co-operatives as one of their countermeasures, as

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it provided a means of retaining control of many important business sectors in Finnish hands (Kuisma et al., 1999: 32). Fear of Russification united the Finns and motivated people from various social classes to become members of co-operatives, resulting in the creation of exceptionally broad-based co-operative activities. An illustrative case was the creation of the Pellervo Society in 1899, which organized co-operative activity through the leadership provided by members of the intelligentsia.

The country's political situation also influenced the strategies of Professor Hannes Gebhard, the father of Finland's co-operative movement. At first, he believed that the normal scenario was for citizens interested in co-operative activity to establish local co-ops; only later would central (second tier) co-ops emerge. The Russification program, however, changed Gebhard's plans (Kuisma et al., 1999: 15). He made central organizations the priority, resulting in the formation of the co-operative banks' OKO in 1902, the consumer co-operatives' SOK in 1904, and the milk producers' Valio and agricultural products and supplies middleman Hankkija in 1905. Each of these in turn began to promote the creation of local co-op societies. The speed with which the local co-operative movement spread was exceptional. The Finns established 1,700 local co-ops with 125,000 members within ten years, 1899–1909. Approximately every 20 citizens had joined some co-op (Komulainen, 2018: 38).

This organizational model expanded quickly in the consumer co-operative sector, largely because of the existence of two competing central organizations. Firstly, there was SOK (later S Group), which retained control of most of the rural population. By 1917, however, a rival had emerged when co-ops in working-class areas founded their own federations, first KK in 1916 in an ideological and advisory role and then the wholesaler OTK (later E Group) in 1917. The fierce competition between the E and S Groups emerged immediately. The underlying cause was that as a vast country, Finland was sparsely settled and relatively poor. Consequently, to become operationally competitive entities, S Group and E Group had to establish co-operative societies in their respective spheres (Herranen, 2004: 93; Komulainen, 2018).

Civil War in 1918 intensified this competition. At the time, the Red Guard fought against the White Guard. The latter prevailed and outlawed almost all working-class organizations. However, OTK and KK, which remained neutral during the war, were allowed to continue operating, enabling them to emerge as resuscitators and supporters of the entire workers' organizational field. A strong bond was consequently formed between the E Group, workers' political parties and trade unions. This bond lasted almost throughout the entire existence of E Group. Correspondingly, S Group's identity as a supporter of the rural population that had aligned itself with the Whites was strengthened (Kuisma et al., 1999: 301; Komulainen, 2021).

The division into S and E Groups furthered the goals of these co-operative movements between the wars. As Marshall and Fay put it: 'The success of any

kind of co-operative in any [country] tends to vary with the homogeneity of the class of population to which it is applicable' (quoted in Battilani & Schröter, 2012: 13). In addition to E versus S Group competition and the influence of the value systems of their respective memberships, the overarching structure of society contributed to their success, given that private commercial competitors had only established local, not national, companies and supporting structures (Hilson, 2017: 127–129; Komulainen, 2018). From early in their existence, both groups also started to open their own factories, in response to rising costs and the difficulty co-ops had in obtaining goods because of competition from private industry and the impact of protective tariffs and import restrictions. By 1939, the various co-operative groups held about a 29% market share, which was quite evenly divided between them (Perko, 1979: 339, 366).

2.3 The sleeping giants: the time of decline 1950–1980

The competitive environment changed radically after World War II. Although in many European countries private chain stores challenged co-operatives for market position, in Finland they never mounted a serious challenge to co-ops (Tammitie, 2011: 39–40). Instead, far-reaching political decisions were responsible for changes in the competitive environment. War-time price controls on the most important provisions were kept in place until the 1980s (e.g. Kallioinen, 2022: 157; Komulainen, 2015: 190; Hoffman, 2004: 134, 271). This approach, as well as certain income redistribution measures, served the goal of making Finland a Nordic welfare state, towards which companies were also required to contribute. These changes resulted in rising costs and permanently decreasing sales margins.

To manage the burden, companies had to resort to rationalization. This did not come as a surprise to S and E Groups. Hugo Vasarla of SOK (CEO from 1921 to 1939) had already published a widely read article emphasizing rationalization and efficient centralization as keys to success (Vasarla, 1942 and 1945). In addition, he also told that all foreign industry experts did not trust the co-op's dynamic capabilities to reconfigure their competitiveness, describing them as 'sleeping giants'. Unfortunately, this assessment proved to be correct during the ensuing decades.

In this difficult situation, OTK made a strategic decision in 1954 to concentrate henceforth on less regulated and more profitable sectors instead of its shrinking retail grocery business. This error turned out to have far-reaching implications. Why did OTK go down this path? OTK's management believed that price regulation would be lifted soon. While OTK was exclusively active in the wholesale, industrial and speciality goods store sectors, the guidance of local co-operative grocery stores was left to KK (Lamberg & Tikkanen, 2006: 833; Komulainen, 2021).

This problematic, two-headed KK-OTK structure had its roots in the dissolution of SOK. When the agrarian co-ops refused to give financial support to

workers' organizations, the workers' co-operatives responded in 1916 by founding KK. KK assumed, however, that they would recapture their majority position in SOK before long. When this did not happen, the workers' co-operatives moved forward and created OTK in the following year. Nevertheless, KK retained its position as the supervisor for local co-operatives, while in SOK guidance of the co-ops was part of its own role.

E Group did not correct this flaw until the early 1960s, when it re-established the grocery store as the primary focus of its business. Correcting the damage that had been done proved, however, to be challenging as OTK had neglected its grocery stores for nearly a decade (Lamberg et al., 2009: 52). Consequently, it had not invested in the renewal of its logistics network as its competitors had done as part of the rationalization of their operations. On the contrary, E Group's grocery business had atrophied even further.

In response to this, OTK's deputy CEO, Salovaara, in 1963, drew up a rescue plan in a memorandum entitled 'Co-op Finland'. The idea was to merge OTK, KK and the member co-operatives into a single nationwide co-operative society, which was in line with the plans of many other troubled Western European co-operative movements at the time (Ekberg, 2012: 229–230, 237; Komulainen, 2021: 93; Hwang, 1995: 32, 40–41, 70–71). However, OTK, KK and local co-operatives' administrative bodies rejected Salovaara's plans. Only in rare cases were these representatives knowledgeable enough about the E Group's wretched financial condition. At the time, such confidential information was reserved exclusively for top management! In any case, many members of the Social Democratic Party and trade unions sitting in the E Group's administrative bodies did not want to relinquish their powerful positions.

The greatest problem was again in politics and E Group's two-headed KK-OTK structure, with even modest plans for SR being rejected. The KK was not only responsible for providing direction for local co-ops, but it had also grown surreptitiously into a financial powerhouse, and its wealth enabled it to oppose OTK's plans. In practice, the diverging paths of the federations meant that neither one had sufficient strength to carry out the SR of E Group (Lamberg & Tikkanen, 2006; Komulainen, 2021: 94–96).

S Group, which did not suffer from a similar two-headed structure, remained successful for about a decade longer than E Group. The toughest blow to S Group turned out to be population flight from the countryside to the cities in the 1960s and 1970s (Herranen, 2004: 189). During this phase, S Group began to formulate its rescue plan. This work took several years and was ready in 1968. The goal was to merge all of its 300 local co-ops into 53 regionals, with each one controlling a specific economic region (Perko, 1979: 426; Herranen, 2004: 191). The plan was not ready a moment too soon, because S Group's local co-operatives' financial results turned negative at the beginning of the 1960s, and the entire Group fell into the red from 1969 (Bergholm, 1985: 56; Herranen, 2004: 7, 12).

S Group's administration nevertheless rejected this plan, as happened earlier with E Group, largely for the same reasons. Most members of S Group's administrative bodies were unaware of the seriousness of the group's predicament. Many of them also had strong ties to producer organizations whose interests, they felt, took precedence over the commercial interests of S Group (e.g. Tammitie, 2011: 36). Those opposing the renewal were supported in their demands by Hankkija, the agricultural wholesaler which drifted into open competition with SOK and established its own retail stores in the late 1960s. S Group tried to prevent this because even in the late 1960s, agricultural supplies accounted for approximately 20–30% of annual net sales of most member stores, and farmers also bought other products they needed from the same stores (Häikiö, 1997: 151; Herranen, 2004: 197). Hankkija and SOK's conflict was reminiscent of the OTK-KK struggle. This competition became a burden on both federations and prevented S Group from moving its business briskly enough into urban centres. It has been estimated that competition swallowed up 1.5–1.6 million euros annually from both federations (Herranen, 2004: 199; Tammitie, 2011: 24).

S and E Groups' financial situations weakened further in the 1970s as competitors challenged them with their modern shops in urban centres. Both co-operative groups began to shrink their networks of unprofitable shops, opening new and larger units in urban areas to maintain sales volumes and market share. However, as S Group's investments were much greater than E Group's, because it started with fewer stores in urban areas (Lamberg et al., 2009; Lehti, 1990: 82–84, 97–105), this squeezed S Group's finances to the limit. The recession following the early 1970s oil crisis, tighter money markets and costly national income policy agreements regarding sales personnel salaries only exacerbated the downward spiral. It increased the gap with the competing private sellers' K and T Groups, which had significantly smaller salaried workforces. The recession also created problems for S and E Groups' profitable speciality stores, service stations, hotels and restaurants. Almost the only remaining means of support was industry, but even that sector's prospects were shrivelling at an accelerating rate, threatened by the shrinking market share of the member co-ops and the removal of tariffs on industrial goods because of the 1973 EEC agreement and the oil crisis (Tammitie, 2011: 19, 77–79; Komulainen, 2021).

Consequently, S and E Groups were both driven to the brink of bankruptcy in the late 1970s. SOK's CEO Pesonen estimated in the early 1980s that E Group's accumulated losses during the 1970s and early 1980s amounted to nearly 800 million euros, while S Group's losses were almost 1,200 million euros (Bergholm, 1985: 57). Both groups also lost market share, and most of the E Group's 44 and the S Group's 202 member stores were unprofitable (Herranen, 2004: 224). Overall, both co-operative groups declined after the war in quite a similar fashion and for similar reasons. Strong ties to stakeholder organizations and poor dissemination of information emerged as obstacles to SR. Some SR research – but not the SR theories presented in the introduction – has also pointed to those

factors as obstacles to renewal, emphasizing the dual nature of stakeholders. Competitive advantage is only created when companies can combine stakeholder demands and profitable operations (Qiang et al., 2020). S and E Groups had been able to accomplish this before World War II (Komulainen, 2018) but not thereafter. As Liao et al. (2003) noted: 'The intraorganizational spread of knowledge is fundamental in order to align organizations with their external environment, and it plays an important role in determining their capacity for response [to changes]'.

2.4 The path to strategic renewal 1980–1992

At the beginning of the 1980s, many E Group co-operative store managers, impatient with spiralling losses and the slow pace of SR, rose in rebellion. The impetus behind their reaction was compounded by the weakening of KK's position. The objective of the rebels was to have OTK's CEO Salovaara removed from his position. They eventually succeeded, replacing him in 1981 with the former head of OTK's grocery business, Mr. Eero Rantala. Rantala's immediate task was to save E Group from bankruptcy. With the aid of an international consulting guru, his management team compared various structural alternatives. In 1983, a single co-operative model emerged: EKA (see Figure 2.1). Previous experience, the competitive environment and the successful example of Austria's co-operative movement influenced the choices (Komulainen, 2021: 147; Kallenautio, 1992: 392).

E Group had earlier made the strategic decision to reorganize from 70 co-operatives to 20 in 1973. The change did not take place as planned: there were still nearly 40 co-ops at the beginning of the 1980s, and the E Group was still

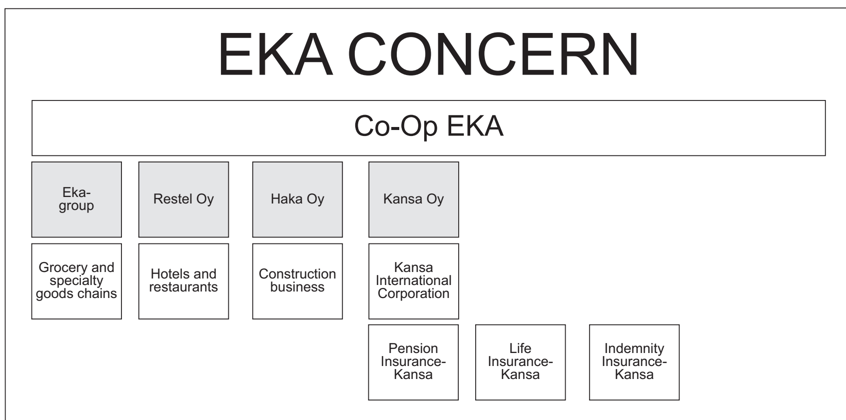

Figure 2.1 The structure of EKA concern. (Kallenautio, 1992)

losing money. For that reason, Rantala's team had no confidence in the federal model with sparse local co-ops, pursuing instead the objective of a new unified co-op structure. Secondly, competitors forced them to move. There was not a single national chain operating in the country. As the private K and T Groups were owned and operated by independent retail and wholesale merchants, a single co-operative model seemed to offer important efficiency benefits. Thirdly, OTK's leadership closely followed the Austrian co-operative movement, which had decided on a single co-op model in 1978. However, even though its beginning looked promising, it went bankrupt in 1995 (Brazda et al., 2017: 291–293; Komulainen, 2021: 147; Kallenautio, 1992: 392).

S Group decided on its SR at the same time as EKA. The choice was to retain its federal structure while merging its 180 co-op stores into 35 units. In the beginning, an outside professional rationalizer, Mr. Juhani Pesonen, began to lead the S Group's SR process. In addition, both groups resorted to harsh cost cutting, resulting in extensive reductions in personnel and the sale of real estate that had accumulated over decades. At first, EKA's centralized model looked to be the more successful. EKA's net income turned positive in 1986, and its operating income followed suit the next year (Kallenautio, 1992: 395). On the other hand, S Group's situation deteriorated. SOK board member and later CEO, Mr. Jere Lahti, summarized the 1986 situation as follows: 'We were shown by consultants that the group would not make it out of this swamp. Our assets totalled about 350 million euros, and losses came to about 175 million euros a year. In other words, we simply would not have survived two more years with that model' (Tammitie, 2011: 135–136; cf. Henttinen, 2019: 141). With Pesonen at the helm, S Group hurriedly drew up different survival strategies, including the CEO's proposal to adopt a single co-operative model, as EKA had done. That proposition was narrowly defeated in a vote by the board, four votes to three (Tammitie, 2011: 136). However, S and E Groups' comparative situations reversed in 1988. E Group slid again into the red while S Group began to win more market share (see Figure 2.2) and climbed into the black. How was this possible?

There is one important reason that differentiates the co-operative groups' strategies: specifically, they had chosen differing structural models. S Group chose a federal model and E Group a single co-operative structure. However, while studies have shown that differing structural solutions are strategically important, they have also shown that alone they are unable to explain the outcome (Ekberg, 2012). In this respect, the Finnish experience corroborates these research results. Surely the fact in the E Group case is that the chosen structure was one reason for its decline. At the same time, along with the structural solution EKA made, the outcome was also affected by its delayed implementation and rough top-down execution. There were also other points of emphasis in their SR strategies that contributed to the differing outcomes. In early 1980s, S Group prioritized the grocery, speciality, agricultural supplies and hardware sectors, where responsibility rested primarily with the regional operations, while SOK

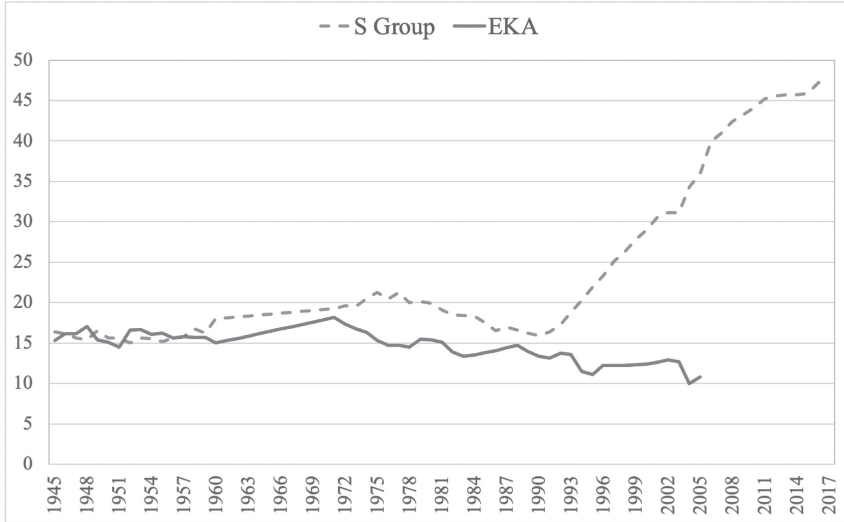

Figure 2.2 The grocery market shares of E and S groups (Lamberg et al., 2009; for 1979 onwards, A.C. Nielsen; see also Skurnik, 2023).

took responsibility for more capital-intensive sectors. The cash flow obtained from the latter provided support for the development of the group's main businesses (Tammitie, 2011: 50).

S Group further honed its strategy in 1986, defining retail grocery business, restaurants and hotels as its main business sectors. The concatenation which had begun earlier continued. At the same time, S Group sold off most of its factories, netting more than 300 million euros during the 1980s from their divestiture (Tammitie, 2011: 83). Meanwhile, the group's largest grocery chain, S-Market, continued making losses (Tammitie, 2011: 93). Importantly, however, the group was able to invest ever more robustly in its main business sectors, and its total financial results remained slightly positive. Finnish consumers' increased buying power and the conclusion of the resource-devouring conflict with Hankkija in 1988 promised further improvement (Häikiö, 1997: 291–292).

In contrast, EKA's strategy emphasized diversification and internationalization, both business megatrends of the period, as well as the importance of its two strongest business sectors, insurance and construction. At the time, Eka-owned Kansa was Finland's financially soundest insurance company and Haka the country's largest builder. However, size and their leftist image had prompted E Group's insurance and construction companies to internationalize in the 1970s. In the 1980s, EKA also continued to search for international partners for both Kansa and Haka, albeit without success. At the same time, EKA's heavy investment in the insurance and construction sectors diverted E Group resources from

the development of its grocery business, even though it managed to restructure its grocery stores into chains (which never became profitable as they were excluded from the first Finnish nationwide discount store chain, Siwa).

At the same time, the experiences and mental landscape of management influenced the S and E Groups' differing alignment (Lamberg & Tikkanen, 2006; Lamberg et al., 2009; Komulainen, 2021). Rantala from OTK, along with several other managers with wholesale backgrounds, guided EKA. Their familiarity with the retail grocery business was weaker than that of the S Group's leadership, where Pesonen, well acquainted with the sector, led the renewal effort along with many regional co-operative managers (Komulainen, 2021: 166). EKA management's weaker familiarity with the grocery business also played a role in the unprofitable acquisition of the Valintatalo chain in 1986, which operated in the Metropolitan Area. The reason for this was that the local co-op, Elanto, which operated in the same important market area, had remained outside the EKA fusion.

Beginning in 1987, EKA's largest money-loser proved to be Kansa. Under the leadership of Mr. Erkki Pesonen (1973–1978), Kansa had underwritten many terribly risky foreign reinsurance and American liability insurance policies. Even if Kansa and EKA hired leading experts in the field to clarify the situation and staunch the flow of claims, the costs mounted to close to one billion euros. Starting in 1988, Kansa's and Valintatalo's losses drove EKA in the direction of more incisive SR. Firstly, it defined its main business sectors as groceries, hotels and restaurants, just as the S Group had done two years earlier. Consequently, EKA was now prepared to sell its majority holding in Kansa and Haka. The group also began, for the first time in its history, to hire many non-political external experts, leading to EKA's official withdrawal in 1990 from its attachment to the workers' movement. Thus, the focus shifted to profitable business and away from development of the entire labour movement (Komulainen, 2021: 170).

S and E Groups' similar strategic business-sector foci and the continuing financial maelstrom led the long-time competitors to seek help from each other in late 1980s. Firstly, in 1988 they created Meira Ltd., a jointly owned company in the grocery business. The new company immediately grabbed an approximate 30% market share in the coffee, margarine, and milling and baked goods businesses, competing profitably with the sector's largest companies. Just two years later, E and S Groups sold all Meira's milling, baking, biscuit and margarine factories to improve their finances, and Meira concentrated on coffee, spices and the catering industry (Tammitie, 2011: 81–82). A strategically more significant joint venture, Inex Partners Ltd., was founded in 1991 in the supply, warehousing, and logistics sectors. It threw the old wholesale business concept out of the window. Instead of selling to co-op stores, Inex served as their non-profit supply channel. Naturally, Inex's purchasing volumes, and thereby negotiating power, grew, reaching a comparable level to that of the market-leading K Group (Tammitie, 2011: 108–113; Henttinen, 2019: 160).

Even these joint ventures, however, were unable to save the E Group, which did not manage to sell its biggest companies, Kansa and Haka, before Finland's economy succumbed to the severe recession of the early 1990s. Worst of all, Kansa's estimated foreign losses grew to more than one billion euros. All this detracted from the development of E Group's core business. At the same time, S Group succeeded in selling most of its own factories and earned nearly 300 million euros from those sales alone. This income supported the group's SR without the kinds of loss-making problem units that bedevilled EKA. Finally, the patience of the banks that were financing EKA ran out, forcing it into corporate restructuring in October 1993.

Although up to the late 1980s, S and E Groups' renewal strategies had similarities, the results were very different. The real renewal of both was undertaken only under compulsion. In hindsight, the high-turnover Kansa and Haka operations supported E Group for too long. S Group, lacking such large turnover businesses, was brave enough to reorganize earlier. Furthermore, S Group's strategy was more focused than that of E Group. Retention of the regional co-operatives and co-operative concept helped, although co-operation was generally thought at that time to be an outmoded form of enterprise (e.g. Kuisma, 2015: 12; Siltala, 2013: 58). Turnaround professional Pesonen, well familiar with the grocery business, led in the same direction, resulting in S Group focusing on its main business sector – developing its grocery business – from the beginning. In contrast, E Group pursued trendy diversification and internationalization. E Group management's OTK background in wholesale also contributed to the retail grocery business remaining in a secondary role. Surprisingly, its rural background supported S Group. As it had to invest more in larger urban stores than E Group did in the 1970s, this continued under CEO Pesonen's leadership to gain marketing strength. Furthermore, the federal model helped S Group acquire better store properties than its competitors, thanks to the leaders of its local co-ops, who had good connections to municipal decision-makers (Lehti, 1990: 71; Lainema, 2009: 375; Peltola et al., 2022: 116).

The implementation of E and S Groups' structural renewal also differed. EKA's leadership dictated and prescribed from above the necessary improvements and pace of implementation in the large new enterprise. It sowed bitterness among the co-ops' managers and personnel, and dissatisfaction among membership (see Figure 2.3), nor were personnel tragedies avoided. Many directors fell victim to alcoholism and some even committed suicide (Komulainen, 2021: 139–147). Before long, the frantic pace of renewal sparked strong resistance within E Group, preventing its business operations from achieving equilibrium. Conversely, SOK negotiated proposed reforms with each of its regional co-operatives and won their trust (although resistance arose within a few co-ops). Pesonen, who led the renewal first phase, did not relent despite agonizing that he was 'going crazy' from having to negotiate with each regional co-operative for days on end about each shop, restaurant and hotel (Komulainen,

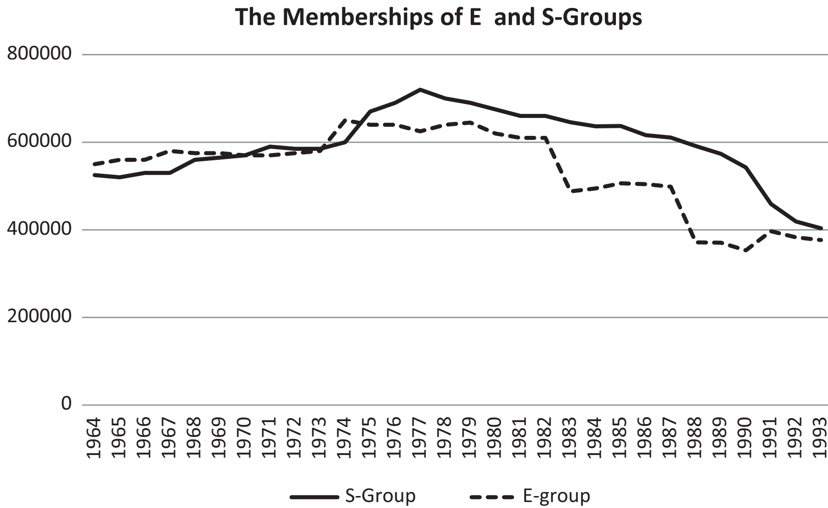

Figure 2.3 The memberships of E and S groups (Kallenautio, 1992; Herranen, 2004).

2021: 178). In S Group's SR, a significant role was also played by piloting the most important steps, carried out in cooperation with the most progressive regional co-operatives.

Clearly, the different ways SR was implemented made the overhaul more difficult for E Group while facilitating reform in S Group. The latter could bring its business model into equilibrium and develop a functioning division of labour among SOK, the chains and the regionals. The result achieved significant economies of scale at the group level (centralized purchasing, storage and logistics), but also nourished the preservation of local and member commitment (Skurnik, 2023).

2.5 The final struggle 1993–2020

EKA's strategy did not achieve the desired result, leading instead to corporate restructuring in 1993 – many contemporaries called it de facto bankruptcy – in response to the banks' insistence. This was the first-ever corporate restructuring of a large Finnish corporation based on the new law. The law governing restructuring had only come into force a little earlier in 1993. This unnerved the officials who oversaw the insurance sector. They forced EKA to sell its shares in Kansa and place the rest in receivership in 1994. In the same year, the banks, frightened by EKA's predicament, stopped providing finance for Haka, thereby forcing it into bankruptcy. Creditors imposed on E Group a payment program and annual revenue goals that had to be met or bankruptcy would follow. Now

called Tradeka, the co-operative federation managed to emerge from corporate restructuring by 2003. Its neighbourhood store chain, Siwa, and hotel and restaurant business, Restel Ltd., brought in revenue. In addition, the adoption of a progressive bonus card program, which was rolled out nationwide in 1994, supported Tradeka during its restructuring period. Significant real estate realizations and co-operation with Elanto, which was simultaneously undergoing restructuring, also boosted its fortunes.

Despite all this work, however, Tradeka failed to regain its position as a serious challenger to the strongly advancing S Group. From Tradeka's point of view, the most damaging development was that precisely during its restructuring period – the 1990s and early 2000s – Tradeka's competitors opened several hypermarkets in competition to Tradeka's stores which were still small neighbourhood shops. Tradeka simply did not have the financial resources to imitate this strategy. In addition, Tradeka still had debts totalling 130 million euros after emerging from restructuring in 2003. Elanto, which merged in 2003 with S Group's regional co-operative HOK, ended its co-operation with Tradeka in the following year. Ultimately, S Group was tired of its 'hidden support' of Tradeka through Inex Partners, whose purchasing volumes from their jointly owned procurement company had constantly declined. Consequently, S Group's management informed Tradeka that it would not continue co-operating under existing terms. Thus, Tradeka's painful solution was to withdraw gradually from the grocery business between 2005 and 2012. The loss of its nearly century-long core business sent Tradeka into an identity crisis, even though the co-operative federation still had considerable net wealth (550 million euros in 2012) and was proceeding with in a kind of 'ownership co-op' mode (Komulainen, 221: 297).

2.6 Conclusion

The decline of S and E Groups began in the 1950s and 1960s, when the competitive situation changed radically. The price regulation policies limited retail grocery companies' ability to raise prices at the same time as the many income redistribution measures that built the country's welfare state increased their costs. The managements of S and E Groups were both aware of the necessity for strategic renewal (SR), but they were ultimately tripped up by excessively powerful stakeholder relations. In a sense, this was contradictory because prior to World War II, it was precisely the close stakeholder relations – E Group with workers and their organizations and the S Group with the rural population and their organizations – that had prompted their growth. The situation, however, changed after World War II and neither group's administrative body received adequate information about their co-operatives' constantly deteriorating condition. This conclusion is in line with the observations of SR research, which emphasizes the importance of smooth information flow.

On the brink of bankruptcy, E and S Groups finally began their SR efforts at the beginning of the 1980s. E Group chose a national single co-operative model (EKA) in 1983. Conversely, the S Group decided to retain its federal structure but reduced the number of regional co-operatives from 180 to 35 (and later even further). Although these solutions undoubtedly had a marked – indeed, negative – impact on each group's development, there are also other things which explain their differing degrees of success. In the implementation of the E and S Groups' SR, there was from the outset one factor that unquestionably influenced the outcome. The E Group's transition into a single co-operative model, EKA, was dictated as a top-down solution, provoking strong resistance throughout the entire group. In S Group, on the other hand, reforms were negotiated and piloted over time with the co-operatives, which gradually gained the trust of many managers. This outcome is consistent with many SR studies that emphasize the importance of overall commitment in such transformational situations. Furthermore, the federative structure of S Group helped it to retain closer links to its members and receive better store properties than E Group.

In the early 1980s, both groups concentrated exclusively on structural reform; neither had adequate resources for anything else. Their business strategies only began to sharpen several years later, by which time S Group had focused on the retail grocery trade and hotel and restaurant sectors as its main businesses while strengthening its chain structure and the division of labour between its regional co-operatives and SOK. Everything else was sold off, especially its manufacturing facilities. Conversely, E Group, in addition to its grocery business, placed its trust in diversification, specifically in the insurance and construction businesses and their international expansion.

The history of the two groups notably influenced the different focus each developed. The leftist E Group was practically forced to expand into those sectors because privately owned companies did not want to co-operate with it. Its insurance and construction sectors, both of which expanded internationally at an early stage, grew into large businesses that supported E Group for many years. S Group, seen as bourgeois, on the other hand, had no need to expand its activities into insurance and construction because many friendly privately owned companies already served those sectors. Historic background differences also influenced the position of the retail grocery business within the two groups. At the turn of the 20th century, the E Group had given birth to two centralized organizations, OTK and KK. The former was a wholesaler and industrial operator, and the latter functioned in ideological and advisory – but also supervisory – roles for E Group's member co-operatives but was also involved in industry.

The group's tension-filled and confusing internal KK-OTK structure constituted a 'structural flaw' that consigned the grocery business in E group to secondary status at the beginning of the 1950s at a time when the group's two federations, having grown large, were unable to agree on a common SR. Even EKA, born in 1983, which no longer had KK holding it back, did not invest

sufficiently in the development of its main business because within that framework, leadership responsibility fell primarily to CEO Rantala, the former OTK director with a background in wholesale operations. S Group, by contrast, never developed a comparable twofold structure or consequent internal tensions. From the outset, SOK guided its member co-operatives, which enabled the group to maintain its critical connection to its main business sector. In S Group's SR, this trend was further strengthened by CEO Pesonen, who arrived in 1983 presenting on 15 March 1983, his turnaround program to restructure the group, applying his close familiarity with the retail grocery business. Consequently, the corporations' historic trajectories and background influences also significantly shaped S and E Groups' SRs (Schmitt et al., 2018; Kwee et al., 2011).

In short, three strategic choices that E Group made emerged at an early stage as obstacles to its success in its main business area, the retail grocery business. These were its structural features, insufficient investment in retail business sector, and the concern's conglomerate configuration. With the group already in crisis mode, EKA was unable to sell off Kansa Insurance and Haka Construction before the 1990s depression swept away the last remaining sales opportunities. In addition, Kansa's huge foreign losses bled the group of its strength and resources, keeping the concern's financial results from returning to profitability before the depression years arrived. In retrospect, multi-sector EKA's strategic error can be seen as insufficient focus on its main business. But E Group's fate was certainly affected also by poor timing and bad luck. Ultimately, EKA's banks forced it into corporate restructuring in 1993. While it survived, the restructuring agreement left the co-operative without resources to invest in the critical grocery sector. With its name changed to Tradeka, the co-operative's post-restructuring solution was to abandon the retail grocery business in the 2000s.

In contrast, beginning in 1988, S Group advanced to the second phase of its SR. One important competitive factor, if not the most important, lay in the retention and renewal of its traditional co-operative ownership, incentives and business model. This can be considered surprising while most of the experts at the time condemned S Group's model as outmoded and correspondingly appreciated EKA's investment in diversification and internationalization. In addition, SR research up to the present day has emphasized how companies should react to contemporary megatrends. Why did S Group succeed despite swimming against the current? The next chapter tells this story and the other side in the Finnish consumer co-operative experimental SR-laboratory (Skurnik, 2023).

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