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The Reorientation Process Following Deregulation in Some Finnish Companies

During the last two decades the process of deregulation has been both widespread and swift in Europe and North America. There have been major regulatory changes affecting airlines, financial services, public transport, telecommunications, to mention just a few. In Europe the United Kingdom has been in the forefront of this process. But Finnish business life has also had to adjust rapidly to more liberal markets. The globalization of markets and the drive for European unification have enlarged the markets of Finnish companies, increased competition, created new possibilities and risks and stressed the need to develop the capabilities to respond to free competition. In state-owned companies, the ownership base has been extended and business units have been changed into joint-stock companies. Companies have acted to strengthen their finances and improve their ability to operate in a competitive environment.

Although Finnish companies have been adjusting to competition and deregulated markets for some time, our knowledge of the adaptation process from a monopoly position to a free market situation is rather limited. Deregulation increases uncertainty. The number of important factors increases and the operating environment becomes more complex. Change also becomes a constant feature and is less predictable. But how have companies managed the transformation from a monopoly position to free competition?

Background

Greiner & Bhambri (1989) argue strongly that radical changes ought to be accomplished by the replacement of presidents and CEOs. Turnaround literature also stresses the importance of a change of management. Bibeault (1982) summarizes the most important factors as follows: a) a competent new management team with complete authority to carry through the necessary changes, b) motivated personnel with a positive attitude so that a turnaround can be initiated, c) a profitable and competitive core business.

Although earlier studies contribute to an understanding of the deregulation process, several gaps remain. Briefly the following main observations can be made:

- the deregulation process concerns the whole organization, not only top management
- management of the renewal process itself is the core of the change process
- strong market orientation is of the utmost importance
- new values have to spread through all levels of the organization

In 1997, 11 Finnish organizations at different stages of deregulation were investigated (Kivikko, Lindell and Naukkarinen, 1997). The organizations selected represent different industries. The companies were Okobank group (OKO), Telecom Finland (Tele), the Finnish Forest and Park Service (Metsähallitus), Sampo, Alko, Suomen Autokatsastus (the former motor vehicle inspection monopoly in Finland), Neste, Finnish State Railways (VR), Valio, the Helsinki School of Economics and Business Administration (HKKK) and Imatran Voima (IVO).

The different strategies employed by the organizations to respond to deregulation can be illustrated by Burton, Forsyth and Malick's (1986) framework (see figure 1 below):

Perhaps the most challenging situation is that represented by cell 1: total deregulation within the existing operating framework, especially if the change has to be made rapidly. Suomen Autokatsastus is a good example of a rapid successful turnaround process from a monopoly to the free market. For the other organizations in cell 1 the change process has been more incremental. Tele and Mestähallitus have ventured outside their traditional business areas by offering new products and services to new customer groups. Valio, IVO and Alko have expanded internationally and OKO, like the banking sector as a whole, has offered new products and services to existing customers. Figure 1 illustrates some strategic actions to meet the demands of deregulation. Below the deregulation process will be discussed more in detail.

Phases in the deregulation process

Burton and Obel (1986) stress that deregulation calls for customer-oriented strategies and organizational solutions which respond to customer requirements effectively in a timely manner. The greater uncertainty in the operating environment calls for a greater capacity to process information. Functional organizations have to give way either to divisional forms or to more complex forms which can process information quickly. It is also likely that inter-functional forces, committees and project groups will be more commonplace. And the changes have to be implemented quickly. The period of transition is therefore very important for a deregulated company (Obel, 1986).

Generally a change process can be described as the unfreezing of the earlier situation and the creation of a need for change, experimentation and consolidation of the new solution, cf Johnson and Scholes (1997). More directly connected to the turnaround process, Hoffman (1989) recommends three stages that have to be completed. First, there is the preparatory stage, including a strategy to overhaul the management, organization structure and corporate culture. The second stage, the short-term fix stage, includes cost reduction, redeployment and a selective product/market strategy. The final stage, planning for growth, emphasizes repositioning strategies.

Finklin (1987) also divides the turnaround process into three different phases: the preparatory phase aiming to breathe new life into the organization and exert better control, the awakening phase which focuses attention on the 20% of the structure which causes 80% of the costs, and the trimming phase, which creates a functioning management team, recruits competent personnel and puts together different strategies.

Most of turnaround literature focuses on cost-cutting. This is understandable because turnaround is usually a respond to economic imperatives. For monopoly organizations the situation is somewhat different. Often the financial situation is very good. Therefore the focus is not on financial turnaround but on market orientation. Based on the experiences of the 11 Finnish organizations investigated, the following process model can be drawn up:

Resistance to change

In all change situations there will be resistance to change, especially where there is radical and profound change. But for several of the companies investigated there was a change in the law or a government decision which made the need for deregulation indisputable. Everyone could see that change was necessary. In the alcoholic beverages business, four monopolies (import, export, wholesale and production) previously enjoyed by Alko have been hived off. Only the retail monopoly remains and even then its product range has been limited.

The change process requires stamina. Suomen Autokatsastus has actively followed up changes that have been permanent through continuous measurement. The need for constant motivation has been recognized. An individual learning programme and a new reward systems were also developed.

Learning phase

Monopoly organizations seldom make changes and are not eager to learn. Learning organizations are characterized by the identification of problems, errors and mistakes, and rectify them. Such organizations are continuously looking for better working methods, routines, or more radical new business ideas and strategies (cf Bruzelius and Skärvard, 1995). According to Hedberg (1981) organizations are faced by a range of alternative environments which they can select and enact as required. Organizations can also create new environments when reality does not present them with a suitable environment.

Unlearning and reframing can enable an organization to move between environments. The companies in cells 2–4 in figure 1 have done just that.

In the learning phase, one of the first steps is to really understand what market-orientation means. New values are needed. Motor vehicle inspection was previously hallmarked by its civil servant mentality. How can this image be overturned and customer-orientation be introduced? The process started with an analysis of values. Through medium of values the management of Suomen Autokatsastus wanted signal that there was a new operating culture. The central values were "customer and entrepreneur-orientation".

The management encouraged employees to think of problems from a customer point of view. The idea of entrepreneurship-orientation was to encourage initiative-taking and an action culture. Main strategic actions were the development of marketing and service quality, learning new ways of operating, and the measurement of customer satisfaction several times over a time period of a few years.

Senior management at Suomen Autokatsastus was of the opinion that human beings change either in the face of crisis or because they perceive the future to be so tempting. The organization went for the second approach. A common vision was created to motivate employees. One of the goals has been to reach the ISO 9002 standard and obtain certification for that. Rüeegg-Stürm and Gomez (1994) summarize the purposes of a vision in four points, which are relevant for many of the organizations investigated here:

- to make humans act
- to encourage people, teams and complete corporations to look for new solutions and abandon old
- to break up the established day-to-day routines particularly in large corporations
- to help people to embrace more creativity and to encourage them to give more commitment, more cooperation, and to strive for peak performance

New strategies, changed organizational structures and cultures

New values and market-orientation also have an impact on strategies and organizational structure and culture. Changes in these elements have traditionally been an incremental, long-term process. In the process of changing organizational culture, Gagliardi (1986) suggests experimentation on a smaller scale first before implementing full-scale change. The taste of success increases, people's readiness to embrace change. New values and sets of behaviour are learned and a virtuous circle is created. New staff are recruited and the old organization structure is radically changed.

There was a general tendency in the firms investigated for decentralization. The local banks in the Okobank group were encouraged to develop their own strengths. To meet competition, much effort was put into training. At Tele, the company had very little in the way of direct contacts with its customers before deregulation. Customer-orientation was radically increased and the image of Tele as a proactive, competent and reliable company was fostered.

Customer satisfaction and quality

We gained the clear impression that customer relationships gained utmost importance for all the companies investigated. In a market-driven environment firms succeed through customer satisfaction, by adding value for their customers and by retaining their customers. Tele experienced a hard landing in its strategic learning. It lost its monopoly position but lacked real competitive advantages, and this resulted in radical changes in market shares. The loss of customer relationships was disastrous. In competing for market share the price level was destroyed. There was no winner. To sum up, customer service is a key factor in competition.

Summary of the deregulation process

Deregulation can be managed by existing managers if they are ready to change their behaviour. Then the first step is to break down the resistance to change, and to create a climate for change. The most critical factor is strong market-orientation. The second step is to really understand what market-orientation means. It is a change process which concerns the whole organization. An extensive training effort is required. In a market environment it is essential to offer your customers products and services of higher value than those of your competitors. Competitors can quickly match any price cuts, but matching quality improvements requires time, resources and ingenuity. It also requires the creation of a vision of the future competitive advantages of the company and its position on the market and the efforts of the firm have to be directed accordingly. But life under market conditions means that one must also be prepared for surprises and have the resources to react to those surprises. To be prepared one has to have different scenarios to deal with a range of eventualities.

When the direction of the company is clear, the third step is to develop new strategies and a new organizational structure and culture in order to implement the visions. The integration of internal co-operation must be improved and the competence level and learning abilities have to be raised substantially. All bureaucracy has to be minimized and decision-making decentralized. Non-contributing elements should be eliminated and resources freed. Market-orientation and visions have to be effectively communicated and implemented in the organization. This is an incremental and continuous process. Action-orientation and a spirit of entrepreneurship are needed at all levels in a market-oriented organization.

The final step is to consolidate relations with customers, collect information on customer satisfaction levels, what customers value and what quality means for them. How a company succeeds in competition will depend on how market-orientation is implemented in its products and services, and above all how employees in contact with customers behave. Are customers' expectations fulfilled or not? All in all the deregulation process is a question of changing a bureaucratic organization into a lean and competitive one. The adaption process is more acute when an organization moves directly from a monopoly position to open competition. j

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