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Work in progress

Business, Politics, and Ideology in the Age of Extremes

A Case Study of the Finnish Consumer Co-op HOK-Elanto 1905–2014

The Colors of the Co-ops

”In the field of co-operation, all colors of the rainbow are represented. The colors vary from the deep red of Moscow, to the red of Belgium, the pink of Germany, the yellow of half-bourgeois co-ops, and the green of Denmark. These colors were the mark of the union already in the pages of the Old Testament, and today we can see them in the flag of the International Co-Operative Association (ICA).” – Väinö Tanner at ICA conference in Århus in the 1920’s.

The managing director of the Finnish co-op Elanto and the president of ICA Väinö Tanner wanted to underline that there are many kinds of co-ops, and that their different ideological and political backgrounds have given the co-ops their different colors. In this paper, we examine how co-operative ideology, political ideology, and politics of bourgeois and labor movement affected the business of two Finnish consumer co-ops, bourgeois HOK and workers’ Elanto.

Co-ops have been a popular form of business in Finland from the early 20th century onwards. In 2014, Finland is the most cooperative country in the world. There are approximately seven million members in Finnish co-ops (number of inhabitants is only five and a half million), and they employ over 100 000 people.¹

¹ The report of the United Nations, “The International co-operative year 2012”.

In the beginning of the 20th century, the Finnish consumer cooperation was a unified movement. In the capital city Helsinki, Elanto was established in 1905. The Finnish civil war of 1918 resulted in a polarization of the nation, which in Helsinki drove some bourgeois members of Elanto to found a rivaling co-op, HOK. The consumer cooperation split in two along political lines.

Already after the First World War, Elanto and HOK were serious competitors to private retailers. Throughout the 20th century, the consumer co-ops and their wholesalers held a market share between 30 and 50 percent. All this time, Elanto remained much larger by any measure: it had more members, more turnover, more stores, and more employees.²

HOK and Elanto were conglomerates: they competed in retail, hotels, restaurants, production, various industrial operations etc. The competition continued through the Age of Extremes, the century of strong ideological juxtaposition between the communists and the capitalists.³ Like most of the Western co-ops up until the 1960's, HOK and Elanto were close their members and steered their operations according to this cooperative ideology, which resulted in politically oriented business decisions. From the 1960s onwards, party politics strengthened and the voice of the customers faded. After decades of financial difficulties, HOK and Elanto came back together and merged in 2004, which marked the end of the Cold War in Finnish retail. Political ideologies had faded, but the politics and politicians remained in the cooperative structures. A new keynote idea of consumer-orientation gained ground. HOK-Elanto returned closer to its members and revitalized the cooperative ideology. The success of HOK-Elanto has been exceptional even on an international scale.

We have recognized three main periods in the developments of HOK-Elanto:

- 1) Period of strong cooperative and political ideologies, circa 1905–1960
- 2) Period of fading cooperative ideology and high politicization, circa 1960–1991
- 3) Period of fading political ideologies, strong party politics, and reappearing cooperative ideology, circa 1991–2014

² Kyösti Suonoja 1966, *Kuluttajat rakentavat I: KK:lainen osuuskauppaliike 1916–1939*, 117.

³ See Eric Hobsbawm, *The Age of Extremes 1914–1991*, 1995.

In the post-Chandlerian era, business historians have increasingly started to take politics and ideologies into account.⁴ This is especially relevant when studying co-operative enterprises. Co-ops have always had two objectives, economic and socio-political. As John F. Wilson and Espen Ekberg have argued, historians should study the connections of the two, not one or the other. The newest research has searched for a holistic approach by handling these social, cultural, and political factors as well as economic aspects of cooperation.⁵

How did the ideological and political factors contribute to the success of the Finnish consumer co-ops, which flourished even after the multiples (chain stores) challenged them in Western Europe from the 1950s onwards? As Espen Ekberg has shown, different organizational structures did not alone explain this. The co-ops strengthened their organization by different levels of centralization.⁶ Our paper argues that political ideologies, party politics, and co-operative ideology affected the success of HOK and Elanto from the beginning.

We first demonstrate how these factors affected the specialization of the co-ops to their different branches of business, i.e. how workers' Elanto got into retail and bourgeois HOK to hotel and restaurant business. Secondly, we track the developments of the two co-ops leading to convergence and finally the merger, and show the ideologies and politics in play. And thirdly, we connect the developments to changing international political climate, the end of the Cold War and the Age of Extremes, and the struggle between capitalism and socialism.

We have been granted unlimited access to the internal business records of HOK-Elanto, and have acquired interviews from more than twenty executives and board members

⁴ Franco Amatori, "The Business History: State of the Art and Controversies", from a talk given in Barcelona, 11 December 2008. See also Mary Hilson, Pirjo Markkola and Ann-Catrin Östman have focused in their new study (2012), "Co-operatives and the Social Question: The co-operative movement in northern and eastern Europe 1880 – 1950", on how the Nordic co-ops affected welfare states.

⁵ E.g. *The Co-operative Business Movement, 1950 to the Present*, edited by Patrizia Battilani and Harm G. Schröter, studied widely the co-ops, especially their social, political, and cultural relations. See also John F. Wilson, Anthony Webster and Rachael Vorberg-Rugh "Building Co-operation: A Business History of the Co-Operative Group, 1863–2013", especially pages 8–13.

⁶ Espen Ekberg 2012, "Organization: Top Down or Bottom Up? The Organizational Development of Consumer Cooperatives", Patrizia Battilani and Harm G. Schröter (edited) "The Cooperative Business Movement, 1950 to the Present".

(some of whom are top politicians) of the co-op. This gives us a rare opportunity to examine the case.

Bourgeois HOK specializes in restaurant business

The workers and the progressive-minded intelligentsia established Elanto in 1905. To use social democrat Tanner's symbolic palette, the color of the co-op was rose. The members of Elanto came from the working class as well as from the bourgeois circles. However, the reputation of the co-op started to turn red, when more and more of its members came from the working class, and especially after it received a new managing director in 1915. He was a well-known social democratic politician, Väinö Tanner. He directed Elanto until 1946, and was the chairman of the supervisory board until the beginning of the 1960s.

When the political situation changed in Finland, all the members of Elanto did not like the new color. The country declared independence from Russia in 1917, at the same time as red Bolsheviks seized the rule there. This was a contributory cause to the Finnish civil war in 1918, where the reds (often members of the working class) fought against the whites (mostly bourgeois-minded). The whites won the war. Some former bourgeois members of Elanto founded Helsingin Osuuskauppa, HOK, after the war in 1919, when they were horrified of the dominant role of the working class in Elanto. The color of HOK was "off-white"; pure white was reserved for private enterprises.

Despite of the victory of whites, many bourgeois-minded citizens still feared the reds and thought that they could seize the power with the help of the Bolsheviks. In the same way as workers' Elanto received the counterparty, bourgeois-minded HOK, many other opposing institutions and associations arose in Finland. Finland was politically polarized and un-stable in the interwar period. A tangible evidence of this was the rise of political extremes among both the political right and the left.

HOK and Elanto grew rapidly between the World Wars, as the consumer co-ops in many other European countries.⁷ The Finnish co-ops also started to specialize in certain branches of business reflecting their political backgrounds. HOK took shape as a restaurateur. Serving of alcoholic beverages played an important role here.

⁷ Espen Ekberg 2012, "Organization: Top Down or Bottom Up? The Organizational Development of Consumer Cooperatives", 224, Patrizia Battilani and Harm G. Schröter (edited) "The Cooperative Business Movement, 1950 to the Present".

Prohibition was in effect in Finland 1919–1932. At the beginning of the century, most Finns supported it. Later the support decreased, and during the recession of the 1930's the bourgeois politicians demanded the repeal of the Prohibition for commercial reasons. The left wing parties resisted the repeal, because of their historical connections with the Finnish temperance association. The workers' union and the temperance association had tightened their relationship already in the 19th century. In fact, the temperance association was the first extensive organization of the Finnish workers.⁸

After the Prohibition was revoked, HOK started to serve alcoholic beverages at its restaurants. In the decision of HOK echoed the arguments and opinions of the bourgeois politicians. The majority of the supervisory board of HOK thought that the co-op should start serving alcoholic beverages on the grounds that it would be profitable. Plus, their members had asked for it!⁹ The decision was commercial as well as ideological.

The decision was very profitable for HOK. The sales of its restaurants improved fast. The most important reason was the serving of alcoholic beverages, because until the 1980s there were few restaurants in Finland, and the hard to get licenses were always a guarantee of profits for restaurateurs.¹⁰ The prosperity of the restaurants led the co-op to specialize in this business. Already in the beginning of 1950s, HOK was the most important employer in the restaurant business, and not just in Helsinki, but also in the whole country.¹¹

Elanto decided to stay as a temperance restaurateur. The members of the co-op's supervisory board believed most of their members to be supporters of temperance. Elanto was known as a "friend of temperance", and the co-op's members (mostly workers) were thought not to have enough money to buy expensive alcoholic beverages.¹² Elanto denied the sales of alcohol in its restaurants for ideological reasons. Even when the sales of Elantos restaurants continued to decline, the co-op abstained from the serving of alcohol.

⁸ Irma Sulkunen & Risto Alapuro "Raittiusliike ja työväestön järjestäytyminen" 1987, 142–152, Risto Alapuro, Ilkka Liikkanen, Kertin Smeds and Henrik Stenius (Ed.) "Kansa liikkeessä"; Jorma Kallentautio "Kieltolaki ja sen kumoaminen puoluepoliittisena ongelmana" 1979, 46–47, 238–239.

⁹ Archive of HOK-Elanto, minutes of the HOK's supervisory board 21.3.1932.

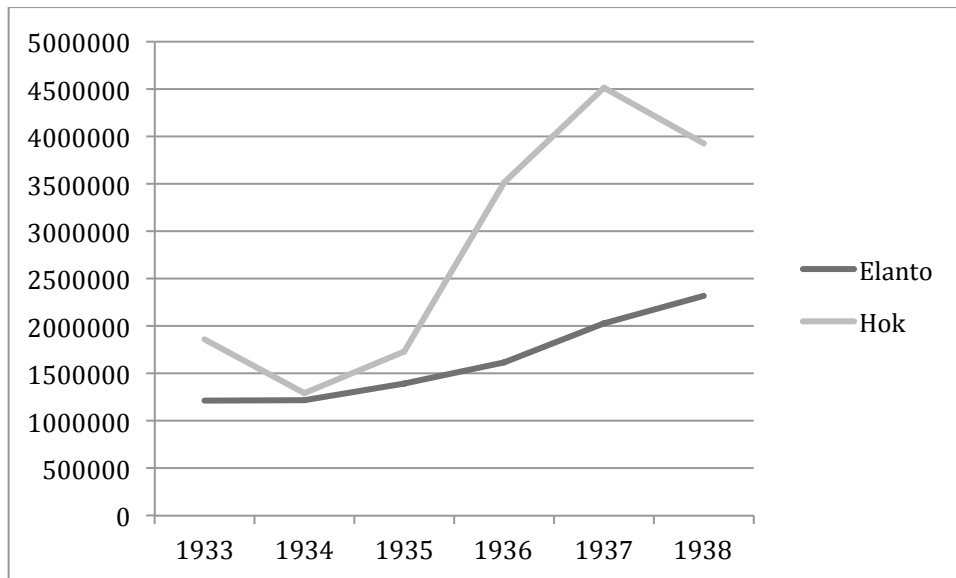
¹⁰ Merja Sillanpää 2002 "Säännöstelty huvi: Suomalainen ravintola 1900-luvulla", 16–17.

¹¹ Yearbook of HOK 1952.

¹² Archive of HOK-Elanto, minutes of the Elanto's supervisory board 27.2.1932, appendix "Uusi alkoholilainsäädäntö ja Elanto".

The decisions of the co-ops reflected their main customer groups' opinions and values (as they were understood by the respective co-ops management), as well as the sentiments of the members of parliament.

The sales per restaurant

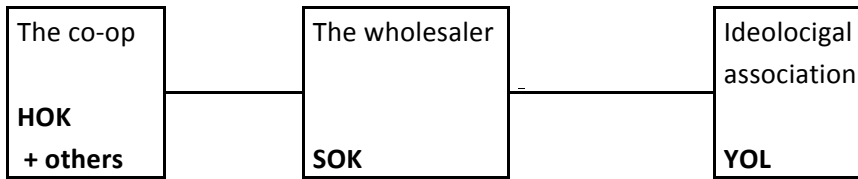


The decline in the sales of HOK in 1934 and 1938 were the result of new restaurants.

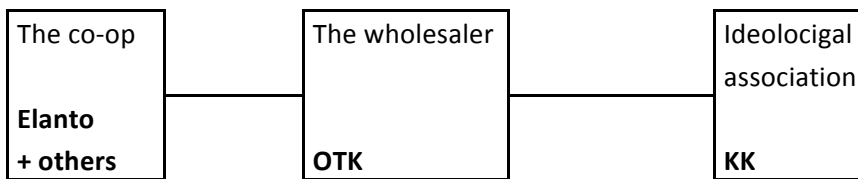
Bourgeois HOK specializes in hotel business

The years of World War II were the times of consensus for the Finnish co-ops. The Finns fought against the Soviet Union in 1939–1944. The common enemy got the old rivals closer to each other. The rough juxtaposition between Finnish right- and red-wing politicians settled. The state's regulation policy diminished the competition between HOK and Elanto. Wholesale and retail prices were regulated. After the war the consensus of the co-ops strengthened because of the collaboration of Finnish private retailers. The cooperative ideology unified more than the political standpoints separated. Private retailers established their own wholesale companies and started to compete fiercely with the co-ops. The Finnish co-ops had centralized much earlier. Already in the 1910s, HOK and Elanto had their own wholesalers and ideological associations.

Bourgeois



Workers'



But the old political differences were long-lived. They still affected the businesses of both co-ops, even if there were no obvious ideological reasons to fight. The ideological differences manifested themselves for example in the Olympic Games in Helsinki in 1952.

HOK received the selling rights of the Olympic stadium. HOKs offer was 40 per cent higher than Elanto's.¹³ Evidently HOK wanted these rights, but there were ideological reasons for this. The Olympics and the stadium both had bourgeois reputation in Finland between the World Wars.¹⁴ And of course HOK had good experience in restaurant business, after it had started to serve alcoholic beverages.

During the Olympics, HOK had a monopoly of catering and serving of refreshments at the stadium. The co-op also had its first hotel ready to accommodate visitors. HOK had started to plan the hotel already in the 1930s for the Olympics in 1940. The Olympics were cancelled because of the World War II. Elanto did not yet go to the hotel business. This was because of its working class members, who did not stay in hotels.

¹³ Sports archives of Finland (SA), minutes of the board of the directors of the Foundation of Olympic Stadium 30.3.1938.

¹⁴ The bourgeois-minded sports association SVUL chose the participants to the Olympics between the World Wars. The red-minded athletes took part to their own "Red Olympics". The founders of the stadium first planned that the stadium would become the white memorial of Finnish Civil War and of Independence.

The Olympics were very good advertisement for HOK. Adding to this, the newly-chosen Miss Universe, Finnish Armi Kuusela, arrived back to her home country during the Olympics and stayed in HOK's hotel.¹⁵ HOK cemented its leading position in restaurant and hotel business during the Olympics.

HOK got into the hotel business because of its bourgeois customers. The decision was commercial and ideological. Elanto did not have hotels because of its working class customers. Hotels were not suitable to the customers' ideology.

Workers' Elanto specializes in retail

The competition between HOK and Elanto escalated again in the 1950s, at the same time as did the Cold War. The international juxtaposition between the communists and the capitalists was reflected by the toughening competition between the co-ops. Also the state's wartime regulation policy, which narrowed the competition, ended. The urbanization of Finland and the growth of the capital city of Helsinki also had an effect. The number of inhabitants in Helsinki increased by 100 000 in 1946–1960, and almost by the same amount again in the 1960's. There were many reasons to compete.

Until the 1950s Elanto had kept as a priority to serve its customers (mostly workers) as broadly as it could. The co-op had factories, farms, stores, dairies, bakery, and different kinds of social benefits for the members. This did not change even in the 1950's, but because Elanto decided to launch self-service stores, it started almost accidentally to specialize in the retail business. Nobody knew in the 1950s that the self-service stores would become the standard model of shops in the future.

Elanto launched the first self-service store in Finland in 1950. The main reason were the working class customers, who had only limited time for shopping. It was not unusual that both parents were working. According to Elanto's surveys, the new stores hastened customer service, and the customer could manage to do the shopping in 10 minutes. A visit in a traditional store in busy hours could take even one and half hours. The new stores also diminished distribution costs and the need for staff. The latter was a significant factor, because there was a serious labor shortage in the postwar years.¹⁶

¹⁵ V. Lähdeoja 1969, "HOK 1919–1969", 87; Antero Raevuori 2002, "Viimeiset oikeat olympialaiset: Helsinki 1952", 182–183.

¹⁶ Archive of HOK-Elanto, minutes of the Elanto's supervisory board 20.12.1954, appendix "Pikamyymälät" director Ihari 20.12.1954; Yearbook of Elanto 1950.

HOK didn't follow the example of Elanto, because "self-service stores were not compatible with their (bourgeois) customers' mentality". A visit in HOK's stores was seen as "one way to relax, have fun and chat", and hence self-service stores were not suitable. HOK's supervisory board also thought that self-service stores would be expensive. Packaging costs would rise and it would be difficult to alter traditional shops to self-service stores.¹⁷

It was not until 1959 when HOK opened its first self-service store. Then the first shopping center had been built in Helsinki, and also the competitor, private merchants' Kesko, established a self-service store in the center.¹⁸ Perhaps this was the driving force behind HOK's decision. Still, it took almost three years before the co-op decided to move to self-service store business with volume. The CEO of HOK changed in 1962, and the new managing director came from the central wholesaler, SOK.¹⁹ SOK had urged HOK to establish more self-service stores for years, but with no success.²⁰ With the new CEO appointed, the co-op established no less than 14 self-service stores in two years. In the middle of 1960s HOK had 47 self-service stores, whereas Elanto had already 115 of them.²¹

It was too late for HOK to specialize in the retail business. Elanto had conquered better store locations, whereas HOK had to establish its self-service stores mainly in the new suburbs of Helsinki.²² This was partly a result of HOK's choices. Because of the old customers, the co-op wanted to keep its traditional stores in the heart of the city, so the new self-service stores were mainly founded in the suburbs.²³

The locations of the self-service stores also affected the sales. In the middle of 1960s, Elantos sales were 734 783 Fmk per self-service store, whereas those of HOK were only 497 872 Fmk. Another advantage for Elanto was the reputation of a modern self-service retailer.

¹⁷ Archive of HOK-Elanto, minutes of the HOK's board of directors 15.11.1951.

¹⁸ Kai Hoffman 1990 "Kesko 1940-1990", 91; Yearbook of HOK 1959.

¹⁹ Archive of HOK-Elanto, minutes of the HOK's board of directors 6.9.1962.

²⁰ Archive of HOK-Elanto, minutes of the HOK's board of directors 11.1.1962, appendix minutes of the discussions in the proceedings 11.1.1962.

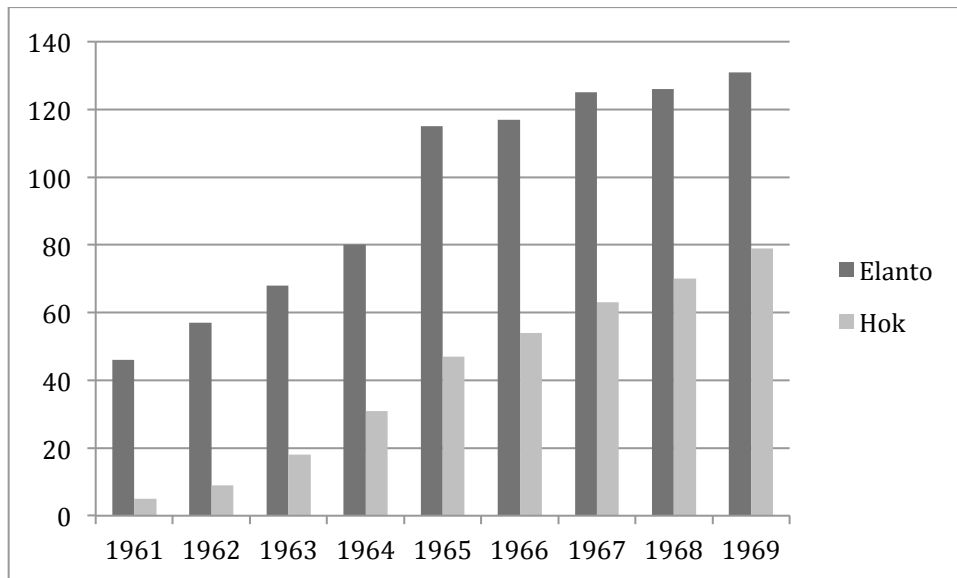
²¹ Yearbook of Elanto 1965, yearbook of HOK 1965.

²² Yearbooks of Elanto 1950-1955, HOK-magazine 1-2/1963 "Asiakaspalvelu uudessa vaiheessa", 3/1963 "Myymäläkierrös", 3/1964 "Neljä uutta pikamyymälää".

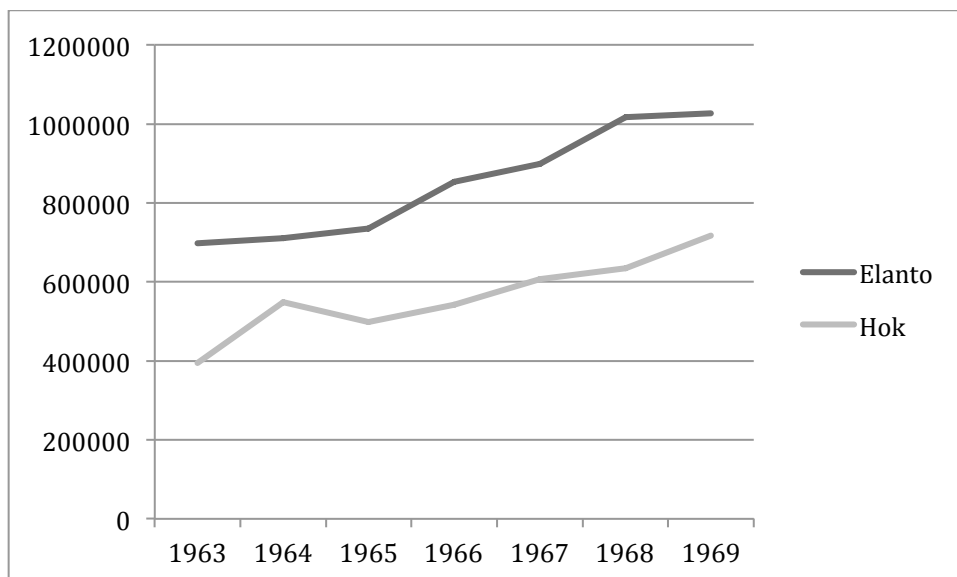
²³ HOK-magazine 6/1961 "HOK:n kolmet myymäläkasvot".

Elanto launched self-service stores for their busy working-class customers, and almost accidentally specialized in retail business. In the beginning of 1950s, HOK did not establish self-service stores because of the co-ops bourgeois customers, and high costs.

The number of self-service stores



The sales per self-service store



Elanto specialized in the retail business and HOK in restaurants and hotels. Both did so because they wanted to serve their customers – Elanto the workers and HOK the bourgeois-minded citizens. However, the customers chose their co-ops by ideological basis; the specialization was also a question of the different political ideologies.

Business and Politics

In the turn of the 1980s, the Finnish consumer cooperation as a whole had been in trouble for at least ten years. Heavy structures, slow decision-making and inner quarrels had impoverished cooperative societies. Both the bourgeois SOK's and the labor-affiliated OTK's shops had become used to ineffective practices, because following the cooperative principles of mutuality and reciprocity, the central organizations did not let the individual shops to file bankruptcy. The losses accumulated. The private retailers had reacted a lot quicker to the fast urbanization and structural change in the Finnish society, while most of the cooperative societies were still stuck in the countryside to carry out their alleged "national duty". Also the city-based co-ops were continuing with the "distribution-mode" imposed on them during the state-regulated capitalism of the wartime of 1939–1945. The consumer cooperatives did not modify their selections to match the needs of the customers in the emerging consumer society. Hence, the private retailers were winning in almost every domain. Especially the private K-retailers²⁴ strong connections to municipal policy-makers made the group a formidable opponent in the struggle for new store locations and market shares.²⁵

Something had to be done. Both of the cooperative societies found the solution in centralization in the early 1980s. In the E-movement's²⁶ central organization OTK a new CEO Eero Rantala, one of the leading figures in the social democratic party, took office in 1981. At the same time a long-term chairman of the supervisory board of the biggest co-op store Elanto, Mauno Koivisto, was elected as the President of the Republic. The chairman's seat was traditionally held by a social democrat, so the successor was again chosen from within the party.²⁷

²⁴ The K-group was an extensive chain of private shopkeepers and one of the main rivals of co-op societies.

²⁵ HOK, the minute of the board of directors 8/1981 + attachments, Archives of HOK-Elanto (HEA); Kauppalehti 15.6.1983; Talouselämä 24/1978; Interviews of Jorma Bergholm, Arto Ihto, Arto Hiltunen; Timo Herranen, *Yhdessä eteenpäin – SOK 100 vuotta 1904–2004*, Edita, Helsinki, 2004, 185–232; *Myrskyä ja myötäistä – S-ryhmän väylä kriisistä menestykseen*, Osuuskaupparyhmän Muistelmajyhdistys ry, Porvoo, 2011, 12–43.

²⁶ The E-movement consisted of 39 local co-ops, the wholesaler OTK, and the ideological, organizational KK. The E-movement was closely connected to the labor movement.

²⁷ Jorma Bergholm, *Osuuskaupan kujanjuoksu*, Tammi, Helsinki, 1985, 154–155.

The newly appointed CEO tried to revitalize the cooperative society by rationalization, selling property, and cutting costs, but nothing seemed to help. He estimated that there was only one option left: a merger of all the cooperative stores to a one big co-op, “Co-Op Finland”. But there was a problem. The biggest co-op Elanto was not interested in merging. Elanto was not nearly as much in financial trouble as the rest of the E-movement, so the co-op feared of having to pay the costs of the inevitable rationalization in the forming cooperative society.²⁸

The following developments showed clearly how much influence did party politics still have in the cooperative society in the beginning of the 1980s, i.e. after the highly politicized decades of 1960s and 1970s.

The question of the merger was politicized in Elanto’s governing bodies, especially in the supervisory board, the highest decision-maker. The CEO of OTK Eero Rantala had close relations with the powerful players in the social democratic party (with whom he had been a minister in the same government), so the party was pro-merger. In principle the social democrats or any other party did not have a say in the cooperative society’s decisions, but in practice the party used all its power to influence the party members in the supervisory board. The communist party SKP and the communist-socialist coalition SKDL were also in favor of the merger, as was the labor movement. They all harnessed their publicity machines against Elanto’s struggle for independence. Their aim was to keep the E-movement unified.²⁹

The bourgeois group in the supervisory board was against the merger and backed independence. The group had a clear agenda: should the merger become true, the bourgeois influence in leftist-controlled “Co-Op Finland” would lessen dramatically. The same was true for the minority communists³⁰, who therefore opposed the merger. Both also thought that the independence in itself was something valuable and should not be lost.³¹

The social democrats put strong pressure on Elanto’s supervisory board’s members and the management as well. The CEO of STS (a labor-affiliated bank) Ulf Sundqvist put

²⁸ Bergholm 1985, 142–178; Interview of Jorma Bergholm; Jorma Kallenaatio, *Lamasta uuteen nousuun – EKA-Yhtymän ja Tradeka-Yhtymän historia 1983–2008*, SKS, Helsinki, 2009, 11–23.

²⁹ Elanto, minutes of the board of directors 9, 15–26, 29/1982 + attachments, HEA; Bergholm 1985, 142–178; Interviews of Jorma Bergholm and Jorma Seppänen.

³⁰ The minority communists were a radical opposition in the Finnish communist party.

³¹ Ibid.

the squeeze on the newly elected chairman of the supervisory board, who bend and changed his standpoint regarding the merger. The social democrats tried to take advantage of the President of the Republic by interpreting his vague statements about the merger in their favor. The influential CEOs of some companies close to the labor movement and the leaders of the social democratic party made phone calls to the board members trying to flip them over. The CEO of Elanto Ylermi Runko was offered a “golden cage”, a highly valued honorary title and a representative job with a huge salary, but with no real influence. He did not bend. The votes in both the board of directors and the supervisory board were close-run, but the opponents of the merger won. As Finland’s third-biggest corporation EKA³², “Co-op Finland”, was formed, Elanto preserved it’s independence regardless of the high pressures on behalf of the leftist political parties. The right-left-dichotomy was still very real. Party politics played a crucial part in these business developments. The E-movement was an extension of the arena of domestic policy struggles.³³

Attempted Merger

As Elanto struggled for it’s independence, the bourgeois SOK hired a CEO from outside the group in 1983. The new CEO Juhani Pesonen started a fierce reorganization of the whole cooperative society. This became as a complete shock to the member-cooperatives. The 180 individual cooperative stores were reduced half-forcibly by mergers to little over 30 regional stores in the coming years. There were new chains created in department stores, hotels and grocery stores, managed from the central organization SOK. The balance sheets of the regional stores became lighter when the capital-intensive businesses were pulled under SOK. Power was centralized. The cooperative society’s own industrial operations were mostly sold or closed down. Rationalization penetrated all businesses and administration. More than ten thousand

³² EKA was the new co-op formed from the 38 individual, local co-op stores. Elanto remained independent.

³³ Elanto, minutes of the board of directors 9, 15–26, 29/1982 + attachments, HEA; Bergholm 1985, 142–178; Kallenautio 2009, 11–60; Interviews of Jorma Bergholm and Jorma Seppänen.

jobs disappeared. The newly formed S-group recovered with these measures, although it took some years.³⁴

The biggest cooperative store HOK became even bigger when three cooperative stores were merged into it. It now had approximately 50 000 members. And soon enough the central organization SOK made arrangements to help HOK in the retail sector, which irritated the agrarian co-op stores. HOK continued to the 1990's mainly as a hotel and restaurant cooperative.

Party politics played no visible role in SOK's reorganization in the 1980s, even though the supervisory boards of the co-op stores were elected among candidates organized among political lines. The ideological question in the reorganization of SOK was cooperative: was an outside CEO with investor-oriented approach a threat to cooperative ideology? Centralization and non-democratic, non-transparent decision-making during the mergers implied the fading of traditional cooperative values. The old notion of mutuality or reciprocity disappeared; the losses were no more covered together. The new guiding light was efficiency. The small agrarian cooperative shops, gas stations and restaurants were facing extinction. Urbanization and societal change encouraged the cooperative society towards the cities and population centers.³⁵

SOK's CEO changed again in 1988. The rationalization and the reorganization were done and the cooperative society in a much better shape. The S-group announced its first profitable result in 15 years. The new in-house CEO Jere Lahti was a strategist. He followed through considerable changes in the organization's ideological basis, which had not yet been updated, as were the business operations. The member-relations became central. The newly appointed CEO created a whole new concept, the customer-owner, around which the cooperative society started developing its services. The trend in management was away from diversified business portfolios, but the focus of cooperator was somewhat different from that of capitalist. The focus was not on a single business operation, but on the customer-owner. The businesses were still diverse, because the idea was to serve the customer-owner on as wide a scale as possible. This included groceries, department stores, hardware, agricultural trade, hotels, restaurants,

³⁴ HOK, minutes of the board of directors 8-13/1983, 5, 6 & 10/1984 + attachments; Interviews of Pentti Pasuri and Harri Nurminen; Kauppalehti 15.6.1983; Herranen 2004, 235-272; *Myrskyä ja myötäistä*, 44-83.

³⁵ Ibid.

gas stations etc. The vehicle with which the customer-owner was steered to shop in his own stores was progressive bonus. At first, the idea seemed crazy: how could the cooperative society share out money when all the co-op stores were unprofitable? But the new green bonus card spread fast and made customer-owners faithful. In the capital HOK introduced them in 1991. This implementation was of crucial importance in the years to come.³⁶

As the S-group started to get itself in shape in the late 1980's, the E-movements EKA was in deep trouble. Retail was unprofitable. EKA's two daughter companies, construction company Haka and insurance company Kansa had both made heavy losses. Haka had invested with high leverage and had ended up with massive debts. Kansa had internationalized and gone into high-risk businesses such as credit insurance, which got the company in financial trouble after the "Black Monday" crash of 1987. To the detriment of EKA, it bought Elantos and the trade unions' shares of Kansa some time before, thus leaving EKA alone with the heavy burden. The unified block of the labor movement started to crumble.³⁷

None of the three retailers was faring well in the late 1980's, even though HOK and the S-group were doing better than Elanto or EKA. Because of the problems with profitability and finances, there were preconditions for reorganization or even mergers. As for starters, SOK and EKA put their industrial operations in a joint venture in 1988.

The most important effort was made between the rivals in the capital region, HOK and Elanto. There was an attempted merger in 1989. The CEO of Elanto and the new CEO of SOK sought to include Elanto in the S-group. This so far unimaginable merger would have made a very strong player in the capital region's retail markets. The negotiations advanced and all the factual questions were solved. Then politics came into play. The press had found out that the CEO of Elanto had gone to the social democratic party leaders to ask for their consent for the merger, or just to keep the party updated. This

³⁶Interviews of Jorma Bergholm, Arto Hiltunen and Pentti Pasuri; Jere Lahti & Jarmo R. Lehtinen, *Asiakasomistaja – S-ryhmän voimavara*, P.S. Systems Oy, Jyväskylä, 1991; Ramon Casadesus-Masanell & Tarun Khanna & Samuli Skurnik & Jordan Mitchell, "Finland's S-Group: Competing with a Cooperative Approach to Retail, Harvard Business School Case N2-709-409, 2008, 2; Herranen 2004, 275–292; *Myrskyä ja myötäistä*, 84–127.

³⁷ Kallenautio 2009, 11–60; Unto Luukko, *Rakentajan elämänkaari – Helsingin Hakan noususta Haka-konsernin tuhoon 1938–1994*, Otava, Helsinki, 2000, 169–236; Jorma Kallenautio, *Kansan tarina – Vakuutusyhtiö Kansa 1919–1994*, Otava, Helsinki, 1994, 169–275; Esko Seppänen, *Punapäätöman romahdus*, WSOY, Helsinki, 1995, 89–140.

upset the directors of HOK, who would not accept the cooperatives business decisions to be handled in any party organs – at least not in those of the social democratic party. Especially one member of the board of directors, a member of the bourgeois party and deputy mayor of Helsinki, was angry of the mingling of leftist politics to business. Because Elanto was much bigger with any given standards, the managers of HOK were afraid that the merger would create a co-op run by social democrats, i.e. they would lose their influence. The negotiations were cut off. There were many statements and comments in the media, especially on the part of social democratic party and its highly influential representatives in Elanto. The merger did not go through, but a smallish joint venture was created in the ready meal business.³⁸

Here again, the top-down party politics creeping into business prevented substantial changes. Business and ideology were still very much intertwined.

Convergence

Finland of the late 1980's was called "Japan of the North" because of the exceptionally strong economic growth. The deregulation of the financial markets flooded the economy with money, which was now easily available for companies and individuals alike. After a long period of strong regulation, the abundance created a highly leveraged boom. The deregulation was done too quickly and with no supervision. All this led to reckless lending, spending and investing. There was a labor shortage. Everything soared: wages, house prices, share prices, loans, and interest rates. This big a bubble was doomed to burst, and it did so. Finland went through a severe recession in the early 1990's. The economy was in a free fall; half a million people were unemployed, the tax revenues of the state and municipalities dropped, costs of social security soared. The real estate values collapsed.

The consumer co-ops got in big trouble. If in the 1980's the problem of cooperatives had been their alleged inefficiency, slowness and old-world reputation in the economy that was being deregulated and opened internationally, the problems of the 1990's were on a totally different scale.

³⁸ Interviews of Jorma Bergholm, Heikki Koskelainen and Veijo Lehto; Helsingin Sanomat 11.1.1990;

Not true it's roots, the E-movement had been an ardent player in the "casino capitalism" of the late 1980's, both in real estate and stock market speculation. When the bubble burst, EKA went close to bankruptcy and had to be reorganized under the surveillance of the debtors, who agreed to cut off a third of their claims. The whole of the E-movement and the "red capital" of the labor movement had been wrecked: construction company Haka, insurance company Kansa, and the labor-affiliated STS-bank had all filed bankruptcy. In 1994 EKA was reorganized into a new cooperative Tradeka, which operated its retail business in a separate joint-stock company. By 2012, the cooperative had sold its possessions in the retail business to a Swedish venture capitalist. There was no cooperative retail left to speak of in the E-movement. There was no E-movement.³⁹

The wealthy Elanto too had to reorganize in concert with the debtors to avoid bankruptcy. This was because of the collapsed real estate values and liquidity problems caused by the emptying of the savings funds. One of the reasons was a merger of the two of the leading commercial banks in Finland, SYP and KOP, in 1995. Elanto's financing (especially in the case of money been drawn out from the savings funds) had been guaranteed by KOP. After the SYP-led merger, these promises did not hold anymore. The message was clear: "The tab is no longer open". The cooperative struggled through the years of recession 1990–1993 without its debts being cut. The company was on a tight leash of debtors, among whom there were government officials on behalf of the state – who turned out to be an aggressive debtor. Elanto went through the reorganization during a time when the media and the bourgeois were dancing on the grave of the E-movement. Not many believed Elanto would rise again. These national developments connected to the international macro-political changes, the fall of the USSR and the final breakthrough of capitalism, and the end of the Age of Extremes.⁴⁰

The S-group was in a much better shape. It had created a purchasing and logistics joint venture Inex Partners with the struggling EKA in 1990. The idea was to have commensurable negotiation power against the rival private retailers wholesaler Kesko. Inex Partners had made the S-group much more efficient in its operations. The bonus system worked. All in all, S-group was guided by its mission "to provide services and

³⁹ Kallenautio 2009, passim; Luukko, 2000, 169–278; Kallenautio, 1994, 169–275; Seppänen, 1995, passim.

⁴⁰ Interviews of Arto Ihto, Arto Hiltunen, Veijo Lehto, Jorma Bergholm, Esko Nurmi, and Heikki Koskelainen. For the banks point of view, see Markku Kuisma, *Kahlittu raha, kansallinen kapitalismi – Kansallis-Osake-Pankki 1940–1995*, SKS, Helsinki, 2004, 540–547 and passim.

benefits for customer-owners”, and this mission worked. The biggest co-op in the S-group, HOK, had flourished during the recession and expanded its market shares aggressively in the capital region. It was now harassing the market-wise big but finance-wise weak competitor Elanto. When the latter got into the process of reorganization, HOK saw its chance and stroke. HOK made an offer on a merger in 1995. The offer would have lifted Elanto up from the hands of the debtors, but it also would have cost the co-ops independence: the structure, the administration, the culture, and the power of decision would have been lost. It would have been a “total liquidation” of Elanto, as one later director put it. The constellation had spanned a full circle from 1989. Now, HOK and the S-group was the strong side.⁴¹

Elanto could not accept the offer, but something had to be done to get out of the severe financial troubles. Following the trend in cooperation, Elanto incorporated its operations in three LLC’s (which were still owned completely by Elanto). The co-op then looked towards its old reference group, the E-movement. Tradeka did not keep the pace of its loan terms and was in even more serious trouble than Elanto. The two cooperatives in reorganization, Elanto and Tradeka, signed a bunch of contracts and created joint ventures to run their administration and chain functions in 1996. Elanto’s retail and restaurants now ran under Tradeka’s signs. The bonus systems were combined, which resulted in more than 100 000 regular customers in the capital (which did not mean the same thing as a member). These efforts tied together what was left of the fallen E-movement.⁴²

During the Cold War, one quite common belief was that capitalist and socialist systems would converge (the cooperative movement was born of the same idea of a “third path”, by the way). Convergence did not happen on the macro-level, but did so in the Finnish retail: there were joint ventures between S-group and Tradeka, as well as between Elanto and Tradeka. The latter led to indirect cooperation between Elanto and SOK as well, through the logistics company Inex Partners. The recession had forced the competitors to cooperation (ironically at the same time as the Finnish cooperative capitalism met its end under the pressures from the European integration and expanding

⁴¹ Interviews of Arto Ihto, Arto Hiltunen, Veijo Lehto, Jorma Bergholm, Esko Nurmi, and Heikki Koskelainen; Herranen 2004, 275–311; *Myrskyä ja myötäistä*, 84–127.

⁴² Ibid.

regime of economic neoliberalism). The now-starting cooperation anticipated real convergence in retail set to happen a decade later.

Merger Accomplished

In the late 1990's the CEO's in both HOK and Elanto changed. Both of the newly appointed CEOs knew very well the backgrounds of both co-ops, but both also saw that the politicized times were past and that party politics no more played a role in their businesses. Elanto's CEO established connections and started negotiations in all directions as soon as possible. He went to other cooperative societies as well as private retailers, making no distinction. Had politics and ideologies been put aside?⁴³

In 2000, the CEO of Elanto phoned the CEO of HOK and asked for a meeting. The idea was to carefully propose some cooperation, but HOK's CEO put his cards on table right away: how about a merger? Negotiations began.⁴⁴

Elanto had managed well the reorganization and had paid its debts and interests in full. It seemed possible that it would come out of the reorganization program before scheduled, which was a prerequisite for the merger. Now, the graver problem were the joint ventures and contracts with Tradeka, who was still hoping for a merger with Elanto as well. Elanto was negotiating on two fronts, and so were Tradeka and SOK/HOK.

The competition authorities gave a green light to the merger (the private retailers K-group would still be the strongest even after the merger), but the Tradeka-obstacle stayed. The heir of the E-movement had brought many stores to the joint venture with Elanto, and wanted at least to cash them out with as high price as possible. It used all means possible, which included secretly pressuring and influencing members of the board of directors, the members of the supervisory board, and the members of the representative council of Elanto. This happened behind the back of Elanto's CEO, who was negotiating (half-forcibly) with the CEO of Tradeka at the same time. Tradeka's main infiltrators in Elanto were big time players: a minister and a future CEO of the company (who were a married couple). It was all politics again: if one wants to be a

⁴³ Interviews of Arto Ihto and Arto Hiltunen.

⁴⁴ Ibid.

social democratic minister in Finland, one cannot ignore the voice of the municipal policy-makers – many of whom were sitting in the supervisory board and the representative council of Tradeka and Elanto. So, one has to follow the lines of the municipal strongmen.⁴⁵

Negotiations went on at different paces on all fronts. When the home bank Nordea, the successor of KOP and SYP, finally promised Elanto financial backing in 2001 (only after a few big insurance companies were already in), the winds changed in favor of Elanto. The debts were paid in full, three years in advance. Elanto was out of the reorganization program in 2002. As it turned out later, Nordea waited so long before giving the promise because the state as the most prominent debtor was convinced that Elanto would end up merging with Tradeka. The state pushed this way, and, according to a deep throat very close to the game, this was the decision made in the debtor's council. In spite of the state and political parties attempts to influence, the merger of HOK and Elanto became true in 2004. The merger was now possible because the ideologies had faded after the Cold War and the Age of Extremes. The politicians could accept the unification, for which there were compelling financial reasons.⁴⁶

“The last wounds of the civil war stitched”, suggested the media. Symbolically, the merger was seen as the end of the Cold War and the Age of Extremes in retail. For many loyal customers of HOK and especially Elanto, this seemed true. Long traditions and rivalry had ended. Even though the merger had been popping up before, it still came as a surprise for the customers as well as for the media and business circles. On the other hand, for the management of the two co-ops, it was not an ideological question. From their point of view, politics had departed the daily operations a good while ago. Ideologies had faded, but politicians had stayed. The cooperative structures inevitably led to a situation where politicians sat in the representative councils and supervisory boards of the co-ops. In a system of proportional representation, the candidates in the elections had to sign to a list – and these were almost always formed by political parties. The members liked to vote for people they already knew, i.e. the politicians. The politicians could test their support in the representative council. And of course, they got power as well. When the S-group's (of which HOK-Elanto is the biggest regional co-

⁴⁵ Interviews of Arto Hiltunen, Arto Ihto, Jorma Bergholm, and Jorma Seppänen; Kallenautio 2009, 497–534.

⁴⁶ Interviews of Arto Hiltunen and Arto Ihto.

op) market shares have risen to over 40 percent during the decade after the fusion, the question of the political representatives in the co-ops has been actively debated. Does the S-group get competitive edge by recruiting municipal decision-makers to the regional co-ops representative councils and supervisory boards, where they can influence municipal and provincial zoning? Or, are the political parties and politicians actually working (basically for free) for the best of the co-ops customer?

Did Politics Matter?

To conclude, cooperative ideology, political ideology, and party politics have had an undisputable impact on the commercial success and business operations of Finnish cooperative retail. This can be seen for example in the co-ops specialization in different business branches. HOK's businesses were restaurants and hotels, Elanto got into retail. The operations reflected the member-basis of the co-ops. The business was affected by the cooperative ideology (strong customer-orientation) as well as by the political ideology. The retail co-ops in Helsinki have traditionally been seen connected to political parties or at least vaguely attached to either left or right. HOK was bourgeois and business-minded; Elanto was close to the labor movement and the social democrats, but neutral and unbiased at least in its own mind; and EKA/Tradeka was blue-collar, left of Elanto. From approximately the 1960's onwards, the co-op's practices changed in the highly politicized environment, and the customers' voice was no longer heard. Now it was more the politicians putting their noses in the co-ops businesses, so top-down. This led to a long crisis, from which the co-ops struggled their way out at the end of the century. As demonstrated, politics mingled in almost every big business decision examined here, either by preventing or promoting them. The cooperative societies have been an extension of the arena of domestic policy struggles between and in the political parties. Consumer cooperation is very close to the consumer, part of the everyday life, which makes it important grounds for politicians to draw concrete and visible examples from.

The ideologies faded with time, as the competition between capitalism and socialism ended in capitalism's triumph in the end of the century. The Age of Extremes ended in the cooperative retail business as well. Ideological reasons tore the unified cooperative retail apart after the civil war of 1918, and the moderating or maybe fading ideologies

along with harsh economic realities resulted in *convergence* in the retail in the turn of the century. The rivals came back together, and the customers became central again after the overly politicized decades. The co-op societies were pitted against private retailers, i.e. the S-group against the K-group. The constellation was similar to the beginning of the 20th century. The cooperative ideology reappeared again in the form of customer-orientation.

The politics and politicians did not disappear. The cooperative structures and proportional representation in the co-ops elections still draw politicians to their governing bodies in the 2010's. This has been raising more and more questions as HOK-Elanto's and the S-group's market shares have risen. The competition authorities now see them holding a dominant market position and have therefore put the co-ops' operations in special surveillance. Especially the possible impact of the politicians in the governing bodies on zoning has been discussed.