

**THE STRATEGIC MANAGEMENT OF SUDDEN CHANGES IN
THE COMPETITIVE ENVIRONMENT
THE CASE OF THE FRENCH DAIRY INDUSTRY***

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Received: 22. 05. 2003
Accepted: 30. 11. 2003

Preliminary communication
UDC: 65.012 : 637.13] (44)

The thesis defended is that sudden changes in the competitive environment constitutes more an opportunity than a constraint for pro-active companies. A neo-institutional framework is chosen to analyse the strategic management of such sudden changes. We focus on the sudden change in regulation the dairy industry experienced in 1984 (i.e. the restriction of raw materials by the fixing of milk quotas in 1984). The longitudinal study of a family dairy business – the Laconie society- complemented by a sectorial analysis has allowed us to analyse the effects of milk quotas on the strategy of these businesses. A phenomenon of coercive isomorphism is noted, as all the dairy firms launched into diversification. Simultaneously, we notice an obvious interaction between quotas (coercive institution)- and abilities and organizational identity (cognitive institution). Confronted to sudden changes in the competitive environment the firms have, of course, been forced to evolve. However, the firms which had based their preceding development on their ability to anticipate, innovate, and change their organizational identity have been able, in a later stage, to transform these constraints into opportunities. The interaction between the environment and the strategic policy of the firms is obvious. It originates, in particular, from the permanent involvement of the firm in the social and economic sphere, as well as its organizational identity and the manager's family. The concepts of involvement, isomorphism and interaction between the environment and strategic policy are called upon to conduct this research.

* The author expresses her gratitude to Marie France Morizur for the invaluable assistance in translating the paper.

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1. INTRODUCTION

The permanent technological innovations and the globalisation of economical as well as cultural and social exchanges make the economic, political and social environment of firms more and more volatile. The intensity of this turbulence sometimes causes sudden changes in the economic, technical, financial and social environmental fields. The management of these changes has led to numerous researches centred on the strategy of the relation between the environment and strategic behaviour.

To study this relationship, several academic researches have been led on the strategy: the approaches of competitive adjustment, the approaches of strategic intention and the interactive approaches.

According to the adjustment model, strategic behaviours are nothing but an adjustment to sudden changes in the competitive environment. In that case, such changes are viewed as a constraint for the firm which must adapt to them to remain competitive in its sector. This model was initiated partly in the framework of contingent approaches (Burns and Stalker 1961; Woodward 1965; Lawrence et Lorsch 1967) which Porter (1985) has largely contributed to formalize. It fits within the paradigm of competitive rationality. It states as a basic principle that the firm must adapt to the environment in order to compete. The firm takes strategic orientations whose aim is the maximisation of profits, meaning the obtention of competitive advantages which will allow it to position itself on the competitive scene, as a leader if possible. The strategic choices are based on the idea of competitors' elimination, aggression and disagreement on the battlefield. It is a competitive space that you can choose but on which you cannot act. It originated in the models of strategic planning developed by the LCAG (1965) and Ansoff (1965) in the '60s and was still topical in the '80s. The basis of this decision process is the notions of strengths and weaknesses and threats and opportunities written down in the SWOT model (Learned et al. 1965). A sudden change in the competitive environment can only be a constraint for the firm which has no choice but to adapt to it.

The hypothesis of the economic rationality of a firm and of its manager is obvious in this model. In order to have a rational and maximising behaviour, the model suggests starting with the analysis of the external environment on which it will build all the strategic choices of adjustment.

Two notions summarize this: adjustment and positioning. The conception has mainly favoured defensive strategies whose idea was to preserve a structure

and its rules to take advantage of it as long as possible in a dominating logic. That logic has been gradually challenged in the early '90s because of the economic recession which made the environment more unstable. The dominating positions which had been dominant until then were called into question by the new practices of new competitors - the Japanese firms. These firms adopted new practices: an alteration of the rules of the competitive game rather than their adjustment. The newly arrived firms brought with them a new conception of the strategic management of sudden changes in the competitive environment. This description fits the pro-active school of thought of which we describe the major findings in the following paragraphs.

Hamel and Prahalad (1989) are the first who called into question the determinist approach. They will later be considered as the key authors of this model of strategic intention. They rely on the Model of Resources and Competence (MRC), which is linked with the evolutionist school of thought. The MRC finds its origins in the works of Penrose (1959) who particularly studied the growth of businesses, diversification and generation of internal resources and abilities. Since the mid '80s, the MRC has represented a new direction for the strategic management which could claim the status of the new theory of the firm (Conner and Prahalad 1996). Even if this MRC model does not call determinism into question, it not only focuses on the analysis of the competitive environment, it also stresses the interest of the knowledge and development of its resources to be competitive.

Hamel and Prahalad argue in favour of the interest of a pro-active conception in the notion of hyper-competition developed by D'Aveni (1994). Hyper-competition means that businesses will endeavour to perturb the rules of the competitive game in order to modify them and create new competitive spaces, asking in turn for new resources. This type of behaviour is at the very heart of the strategic intentions theory. Firms will reason in terms of portfolio of abilities rather than in terms of SBU (Strategic Business Unit), which is considered as short-lived. To succeed in this pro-active strategy, the firms will rely on this portfolio which they will try to develop. The development of competence, that is the learning capacity, is, in this vision of strategic management, the most decisive. We will find it in what the authors of the MRC model call organizational abilities (Teece et al., 1997). This is the logic of organizational rather than competitive rationality.

A visionary company, able to learn and constantly develop a portfolio of activities is a key success factor in a pro-active conception of the management of sudden changes in the competitive environment. Such a conception is in

opposition to the competitive adjustment framework as every change will be viewed as an opportunity for anyone willing to take it or provoke it.

Between these two extreme and exclusive visions of strategic management, adjustment or pro-action, some authors prefer an interactive approach of the firm–environment relation without, however, denying the benefits of these two exceptions. Such are the researches of Joffre and Koenig (1992), who place strategic management in a pro-active conception. According to the authors, the firm takes part in its construction by contriving different projects of strategic development. It is important to stress that they have no intention of denying the existence of determinist behaviour. They only want to stress the fact that the firm, even without being the absolute master of its evolution, contributes to it. We are here in a conception of the firm–environment relation of an in-between sort.

With different visions, the models of competitive adjustment, strategic intention and interaction give us effective information on the relations that the firm keeps with its economic environment when it makes decisions and performs strategic actions. However, not at all or not enough information is given on the relations that it keeps with its social and internal or external political environment in which it lives. As early as 1984, researches in strategy (Martinet) considered that a firm was indeed in the market but also in the society. It is within the socioeconomy, with the neo-institutional approach of sociological inspiration, that you most explicitly place the firm developing in an economic and social sphere.

In this framework, the management of an sudden changes in the competitive environment is made through embeddedness (Granovetter 1985). This means it can effectively be an adaptation to the sudden changes in the competitive environment, but it can also influence this environment (Fligstein 1996), a concept which allows us to contemplate the idea of an actor's strategy. In this approach, environmental, economic, financial, and technological changes, but also social, political and legal changes, represent a constraint but also an opportunity as long as they correspond to the practices, abilities and history of the business. Under that condition, they are elements of innovation and change for the firms that develop them and for the sector as a whole.

Here, we suggest the analysis of the strategic management of sudden changes in the competitive environment. Without denying the other approaches, we shall rely on the neo-institutional approach. The supported thesis will be that an sudden changes on the competitive environment is more an opportunity than

a constraint. In that perspective, we will study the particular case of the strategic management of legal changes. The rules, more real than ever (Demil 1998, 1999) in the present contradictory context of deregulation and jurisdiction, in the movement of change in the part played by international and European political and economic authorities, experience sudden changes in the competitive environment concerning firms and these rules invite us to question its management.

To support our research, we shall lead an empirical study. We shall study the 1984 milk quotas, a rule that gave rise to numerous debates among the socio-professional actors of the milk sector. Our interest for this sector has several reasons. The date when the quotas were put in place is distant enough and still in force to give us the possibility of a historical vision. This measure will be debated again this year in the framework of the CAP and will certainly be still in force until 2006, possibly until 2008. On the other hand, the milk sector is a sector where, thus far, foreign investors are absent or nearly absent and where the patrimony is mainly a family or a collective one. Therefore, our aim will be to analyse the strategic management of milk quotas by milk businesses.

With the help of a very simple diagram of the strategic management of milk quotas adopted by the businesses of this sector, we shall tackle our question by the study of cases which seems the best suitable to us, considering the process of the researches on this relation and of the approach we follow. Our choice is the Laconie group (a borrowed name), a French small and medium size milk enterprise (S.M.E.). Our research is an interpretive process based on a case study. The objective of this research is to make suggestions based on the case. Whether these suggestions can be generalised and transformed into hypotheses depends on the uniqueness of the case studied. In the first part, we will develop the theoretical foundations chosen to support the proposed thesis. In the second part, we will present and analyse the strategic orientations followed by all the milk firms confronted to the quotas. The third part will be devoted to the study of the Laconie case.

2. THE NEO-INSTITUTIONAL APPROACH TO UNDERSTANDING THE MANAGEMENT OF SUDDEN CHANGES IN THE COMPETITIVE ENVIRONMENT

The neo-institutionalists have particularly worked on the relations between organizations' behaviours and their environment. Two theories developed by these authors must be retained to determine the interest of their approach in the

study of the strategic management of institutional changes: embeddedness and isomorphism. Before focusing on these points, we mention the meaning of the notion of institution, a key concept for neo-institutionalists, as well as the different types of institutions they have identified.

It is widely agreed that the notion of institution can borrow very different forms such as the family, school, state, church, business, and law. Also, it can be generally defined as a way of thinking and doing, values, regulations, representations, beliefs, cultures, etc. Besides this very general vision of the institution, three great types of institution are identified: the cognitive institution, the coercive institution and the normative institution. It is to Di Maggio and Powell (1983) that we owe this distinction. The cognitive institution can be defined as the usual habits of thinking from which practises behaviours will ensue. Out of sheer routine, according to Berger and Luckman (1989), the habits of thinking and of reasoning become an institution in a more or less fast and conscious way. Very deeply rooted, the habits which have become a cognitive institution evolve from the state of social construction to a social reality. The cognitive institution corresponds to the "habitus" of Bourdieu which shapes the representations of groups and individuals, which "rationalizes" their behaviour and legitimates decisions aiming at identity and identification. In that conceptual frame, the firm is considered as a cognitive institution with its customs, history, culture, values and abilities. Bouchikhi and Kimberly (1996) include all this in the notion of organizational identity of the firm.

The coercive institution is defined as a set of rules and a system of sanctions whose aim is to force the actors to apply them. It mainly concerns the field of those regulations arising from the state and the European Union (EU) that are applied to the French firms. Here, we can speak of legal coercion. Apart from some works like those of Bensedrine and Demil (1999), very few studies in management are devoted to it. The control of EU milk production with a system of quotas, put into place in 1984 is an example of a coercive institution. Before that system that system was put into place milk production was subsidized based on the amount of milk each farmer could produce. This system encouraged milk production to the point where huge production surpluses had to be stored in special warehouses by the EU. The quota system installed maximum production levels on a farm by farm level.

The normative institution corresponds to the set of norms which governs numerous practises such as those in the family, in the not-for-profit (charities) and the for-profit (businesses) economic fields. Management tools and

standards (such as accounting standards) fall within that category (Lemarchand and Le Roy 1999). A normative institution is not coercive for behaviours because it is not accompanied by sanctions, contrary to coercive institutions.

The notion of embeddedness, developed by Granovetter (1994) and inspired by Polanyi et al. (1957), conceptualizes the relation between the firm and its environment. According to him, the firm is an institution interwoven in its environment. He prefers to speak of embeddedness between the firm and the environment rather than of determinism, as do the evolutionists (Nelson and Winter 1982) who are known for their work on that question of the relation between the firm and the environment. To stress this structuration rather than this behavioural determinism, Di Maggio and Powell (1983) develop the notion of an institutional field and Berger and Luckman (1989) the concept of an institution and of an institutional environment. In the framework of this interweaving (or embeddedness), the institution generates individual and group behaviours either through a forced constraint, in the case of a coercive institution, or through an agreed or even wanted constraint, in the case of a cognitive or normative institution. In that conception, the strategic decisions of the firm and its behaviours are made by taking into account this embeddedness. The interest of this vision of the environment, compared with the traditional vision, is that it invites us to place the strategic behaviour of the firms in the historic context of their sector and of the actors which compose them by following, for example, not only the economic changes but also their technical, legal and social changes.

In that perspective of embeddedness, firms do not necessarily follow a logic of the gains of resources but rather a logic of the field, which explains the homogenisation of the behaviours of firms belonging to the same institutional field. In this regard, Di Maggio and Powell discuss the principle of institutional isomorphism. The isomorphism can be mimetic if you speak of a cognitive or normative institution or it can be coercive if you deal with a coercive institution.

On the basis of these two notions, the neo-institutionalists developed the idea that the organization is constrained by its institutional environment as Fligstein (1991) has shown in his works on the behaviour of diversification, particularly under the influence of isomorphism. Then we deal with a rather determinist conception, even if its authors prefer to speak of the structuring part of the institutional environment. However, in the beginning of the '90s, some authors introduced the notion of an actor. For example, in reference to Child (1972), Scott (1991) acknowledges that organizations can make strategic choices. They are not passive actors. Then Fligstein (1996), as well as Fligstein

and Maria Drita (1996) show that some strategic actors may influence the building up of the European Union and the rules of the institutional game. For Holm (1995), the institutional actor may have an influence on the making of the rules and possibly change them. In that conception, an institutional change may be a threat for the firms which have no institutional or organizational competence, but will be a good opportunity for those who have these strategic practices.

The neo-institutional school of thought, built on the idea of institutional determinism, also admits the idea of actors' voluntarism. In addition to this enlarged vision of management modes, it brings us to see through the analysis of the institutions and their functioning that an institutional change can be an opportunity or a constraint according to the organizational abilities of the firm. The possible union of determinist behaviour or voluntarist one, developed by the institutional approach, is in opposition to the exclusive models of competitive adjustment on one side and of strategic intention on the other. However, on the contrary, it supports our thesis that a sudden change in the competitive environment is more an opportunity than a constraint for the firms which have a pro-active strategy. Consequently, we follow the neo-institutional approach to lead our empirical study. In order to put our case study in context, we have decided to start with the presentation of a general chart which will inform us on the way in which the milk business, as a whole, has reacted strategically to the 1984 milk quotas. The chart will be preceded by a general presentation of the present state of the milk industry.

3. THE MILK SECTOR: A GENERAL MOVEMENT OF DIVERSIFICATION GENERATED BY A NEW REGULATION

First, we propose a synthesis of the structure of the French milk sector to date based on the Porterian analysis. This synthesis - even if it is schematic - will allow us to place the Laconie Society within its sector. Then, we will present the three types of strategic behaviour observed in 1984 when the quotas were introduced. Finally, we shall analyse these strategic choices on the basis of the neo-institutional approach.

3.1. The competitive structure of the milk sector today

After examining Figure 1, it is obvious that in 2003 (19 years after the introduction of milk quotas), the dairy sector is still in the hands of industrial businesses and *a fortiori* French ones in spite of three threats: European multinational firms, growing importance of soya, and distributors' growing

power. The manufacturers' concentration rate is, however, much higher than in 1984. Most SMEs have been bought. Laconie is one of the rare SMEs still present on the market. We must insist on its specificity that it is active in the milk sector as well as in the soya sector, which is further becoming a serious threat to the milk industry.

The quotas imposed on milk production by the CAP in 1984 have provoked an increased competition in all the sectors of milk transformation in France and the rest of Europe. The phenomenon has been all the stronger as some markets reached saturation. Besides this impact on the intensity of competition, how have businesses lived through that change?

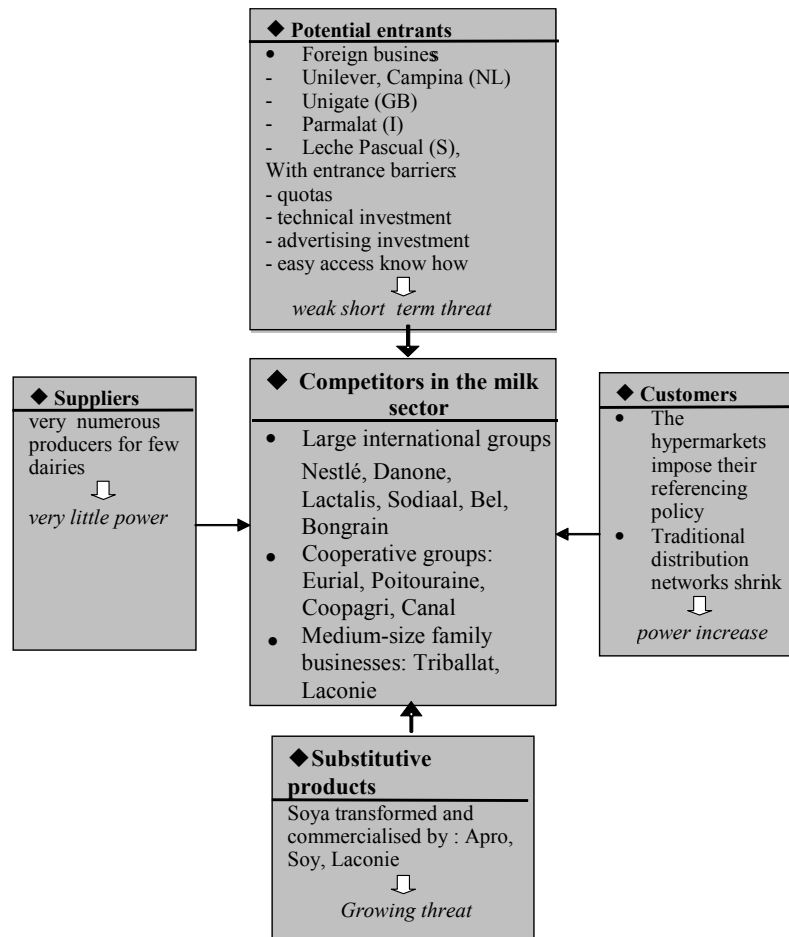


Figure 1: Analysis of the competitive structure of the milk sector in 2003

3.2. Three tracks of diversification

On the basis of a certain number of works carried out on that question, such as those of Robic (1989), Philippot (1992) and Calvez (1997), it appears that all the businesses have launched into a strategy of diversification, but according to different modes. The notion of diversification is taken here in the sense of Robic's diversification (1994), inspired by the works of Rumelt (1974) and Abell (1980). We can single out three main processes of diversification regarding milk quotas.

Table 1: The three tracks of diversification observed within the dairy industry in relation with 1984 milk quotas

	Inter and intrasectorial diversification	Specialization in the sectorial diversification and geographical expansion	Intersectorial diversification
Meaning of quotas	"A call to move "	Setting of entrance barriers	"An opportunity to come closer to each other "
Decision-making process	Anticipation	Anticipation	Reactive
Strategic logic	Concentration with strong value-added activities based on a policy of innovation and brands	World-wide leadership with a differentiation based on a policy of brands	Cost-dominated with weak value-added activities
Mode of development	Internal and external growth and development of underlying skills	External growth and setting of new rules by the development of new skills	Merging and adoption to the new rules
Types of business	Private, family	Private	Cooperative

3.3. Determinism of quotas and influence of strategic organisational practices

In light of sectorial synthesis, we note that the 1984 quotas have provoked a movement of diversification strategy in the entire milk sector. Besides, this diversification is more or less important considering there are either intrasectorial or intersectorial diversifications. Milk firms have diversified their activities to respond to the milk quotas which caused, on the one hand, a rarefaction of the main resource and on the other hand, difficulties to pay off the heavy investments made only a few years before 1984. The quotas have

provoked a strategic break in the milk sector, encouraged by the risk of penalties and they have also favoured the development of existing or new skills. However, this new regulation has played only a relative part, as the implementation of the diversification strategy was different according to the firms' organizational characteristics. The diversification was implemented either by anticipation or by adaptation and carried out by a development of abilities already existing or acquired internally or externally. The family businesses, large or small, have most of the time anticipated the milk quotas, at least partly. They have also chosen to develop their skills towards technological innovation based on research, logistics innovation based on trust and proximity to manage their supplies and commercial innovation based on nation-wide advertising campaigns and on the launching of national brands. Cooperatives have preferably adapted to the situation and chosen a diversification based on an already well-mastered competence: alliance.

Besides the fact that these empirical observations confirm the embeddedness between the business and its environment in agreement with Granovetter, we can conclude from the analysis of the effect of the milk quotas that a coercive institution influences the firms' strategic orientations. It disrupts the strategic practices. It also favours change rather than verification. It determines the contents of the strategic choices. The threat of sanctions as well as the scarcity of resources forced the firms to widen their activities, to diversify them on the basis of added value or else they ran the risk of disappearing altogether. Their diversification was the result of coercion. One can speak of coercive rather than mimetic isomorphism. A coercive institution can cause a certain homogenisation of the firms' strategic behaviours in the same sector as all the milk firms diversified their activities after the 1984 quotas, even if they diversified their activities after the 1984 quotas and even if they did it differently. This result proves the relevance of the institutional approach in as far as it allows us to explain a general movement of diversification in a given sector at a moment when it was thought to be more efficient to refocus or even to specialize. There was even a time when it was considered old-fashioned to diversify. In 1991, Fligstein already showed the effect of institutions on the diversification behaviour of successful businesses.

The importance of the coercive institution must, however, be qualified considering the heterogeneity of the means chosen to implement that diversification. It must be qualified by the part played by organizational identity. Thus, patrimonial and strictly capitalist businesses have anticipated the quotas, more than others, by entering very quickly into an intra-sectorial or even an inter-sectorial diversification based on an innovation logic. Those who were

in a logic of leadership have carried on in the same spirit. The environmental evolution and the regulations identified as being coercive institutions force businesses to modify their strategic orientations. However, these changes are carried out by taking into account organizational identity to achieve a better coherence and even to avoid questioning the identity itself. It is possible to assert that organizational identity in those circumstances has exacerbated existing abilities and consequently emphasized differences. The interaction between institutions is obvious. Coercive isomorphism has played its part, considering that all the businesses have diversified their activities. However, this part has been reduced by the effect of organizational identity manifestation of the cognitive institution business. To analyse these evolutions more in depth, we propose to study the case of the Laconie private family business, which illustrates the compelling effect of an sudden changes in the competitive environment. This change was caused by the quota system.

4. THE LACONIE DIVERSIFICATION STRATEGY: THE ROLE OF SKILLS AND ORGANIZATIONAL IDENTITY CONFRONTED TO A LEGAL CONSTRAINT

We have chosen to study the case according to a longitudinal approach (Yin 1990). This method has been chosen because it fits into the lasting character of the institution. We have chosen the Laconie business because it is a private family business which has now reached the third generation. It belongs to the first group of dairy businesses previously analysed, for which the quotas were not a constraint. Thanks to the trust granted to us by its managers and to the interest shown for our theory, we have gathered information through interviews backed up by the national press, sufficiently concrete and rooted in its history to develop and argue our thesis.

4.1. Strategic dynamics through the history of Laconie

The Laconie business is a typical family firm which carried out a sales turnover of 850 million francs in 1999, with 750 employees and which occupies the 23rd place within the milk sector. The Laconie Society holds four SBUs: organic dairy products, soya and by-products, cheese, and industrial products, which mirror three jobs: production (55% of the sales turnover), logistic activity of distribution and wholesaler (40% of the sales turnover) and the transfer of technology, that is, setting up ready-made manufactories (5% of the sales turnover).

Considering this portfolio of activities, the Laconie Society is today diversified. It is horizontal diversification linked at the same time in terms of offered products, satisfied needs, attended customers and covered geographical zone. Furthermore, the Laconie Society follows a strategy of vertical diversification considering the modes of soya and milk supplying and their activity of wholesaler, which we will study later on in more detail. Laconie follows a strategy of diversification built on technological and commercial skills, more precisely, technological innovation and management of proximity. The process engaged by Laconie to develop this portfolio of activities will be described. A historic approach of Laconie's development will allow us to shed light on the strategic management of quotas chosen by the society.

The history of the firm begins in 1874 with the establishment of a little dairy by the Valet family at St. Crepin des Moines. After Mr. Valet's death in 1930 and until 1950, the dairy was managed by one of his nephews. In 1951, Juliette and Robert Laconie, millers of the Breton region, bought the dairy. The star product at that time was a cheese called "Petit Breton". Robert died in 1955 after a car accident. His wife managed the business alone until 1964. Then Juliette and Robert's daughter, Brigitte, assumed the direction with her husband, Gilbert Duval. Since that date, the Laconie Society has been managed by the Duvals. Their son, Vincent rejoined them in 1997.

In 1964, the Laconie speciality was the production of cheese, mainly Camembert. However, the business soon ventured into fresh dairy products such as yoghurts and white cheese. The making of Camembert was abandoned because it was not produced in Normandy and, consequently, did not have an image of quality in the consumer's mind. Furthermore Camembert represented only a small fraction of sales. Laconie had to look for partners to develop, to stay on the market and fight the competition. For example, in the early '60s, Gilbert Duval took part in the making of a prototype called the "hydroloc", which was in fact a sterilizer.

In May 1968, the firm started the production of sterilized milk in capped plastic bottles. This innovation was a revolution because it made it possible to obtain milk of a higher quality than that obtained until then. This was done with "pinched" bottles, which implied more intense heating and gave it a caramel-like taste. In time, when UHT (Ultra High Temperature) milk appeared on the market, Laconie decided to give up the production of sterilized milk. The firm also developed towards organic products when, in 1968, it bought a Parisian dairy which was a pioneer in that field. In the '70s, Laconie also worked on the first ultrafiltration mechanism in partnership with the National Institute of

Agronomic Research. The firm knew all the novelties, starting with paper membranes to cellulosic membranes. Additionally, it was the first to use mineral membranes. Laconie has always believed in technical progress and the need to innovate to ensure growth.

In parallel, they increased their production of organic food after 1975 by developing a network of suppliers with whom they already worked. This network implied, on Laconie's part, a purchase cost of the milk higher than in traditional agriculture. As a counterpart, the farmer promises to respect a specification of production according to the conventions of organic agriculture, which allows him to be certified OA (Organic Agriculture). The society has also contributed to the specification of this formulation. As we may see, Laconie adopts the spirit of vertical integration, which means that they control the die of raw material in particular, without having to support its constraint as they choose to build it on the relations of trust rather than to invest. Both partners keep their independence.

In 1980, the firm started using a new brand for some of its products "leger" on the market. It is the first light cheese to be found in the retail departments of SME. In 1981, Laconie bought a second firm of organic dairy products, which allowed them to increase their capacity of transformation in order to position themselves more seriously on this little structured, but high value-added niche market.

After 1984 and the implementation of milk quotas, Laconie launched into the production and commercialization of soya products, which was first commercialized in diet shops after 1986. This activity made rapid strides in 1988 under the brand "Soya", the first range of 100% soya desserts on the market. Today, this range has significantly broadened, including yoghurts, fruit juices as well as soya steaks, which the society commercializes in hypermarkets. Laconie also makes "tonyu", soya juices certified by the French norm. This norm guarantees that the product is exclusively elaborated from whole soya beans thanks to the setting of a system of operations control. The system was in place even before the obligation of tracability was introduced.

In the same period, the firm launches the production and transformation of goat's milk. They created goat breeding farms by signing contracts with farmers in a specific agricultural zone, western France, which had no experience in that field. This new orientation allowed them, on the one hand, to counter milk quotas limited to cow's milk and, on the other hand, to develop a high value-added activity on an expanding market; goat's cheese. To penetrate this market

rapidly, they chose the logic of vertical integration without financially investing in the farms. They signed procurement agreements with the farmers based on trust, following the same logic as the one adopted for organic agriculture.

In 1995, Laconie launched the brand “veritable”, certified OA, which is the first complete range of fresh dairy products coming from organic agriculture and commercialized in hypermarkets. This range included yoghurts, white cheese, specialized desserts, but also butter and cheese.

Besides those innovative products, Laconie also makes traditional cheese, most of them AOC. Each of the cheese farms of the firm is situated in the heart of a milk producing region and is specialized. To position itself on this activity, Laconie has chosen external growth. As soon as they can buy a small dairy farm producing AOC cheese, they do it. At the same time, as they keep the activity in the same place, they invest in the production tool to modernize it and make it competitive by making every effort to adopt a proximity management for each firm they have bought.

In parallel with these innovative products, Laconie has, from the start, gradually developed skills in trade and distribution, which to date represent about 40% of the turnover. These skills are represented by two firms: Laconie Transport, whose headquarters is at St. Crespin sur Moines, which carries out two-thirds of transport and the Sécher Firm, whose office is in Angers and which belongs totally to Laconie Transport. This firm is a firm of trade and is, in fact, the turntable of dairy products. It has two distinct objectives. The first one is to give a general view of competitors’ sales on the dairy market, to know what goes wrong and to analyse the competitors’ prices. The second objective is to discover which firms are encountering difficulties that Laconie might eventually buy. The Sécher Firm is based on central merchandizing that has taken shares in other subsidiary companies.

In conclusion, we see that throughout its development, Laconie has positioned itself on high value-added markets. Starting from a strategy of specialization, it has gradually diversified its activities without, however, leaving the milk sector, even in its wholesale activity. In 1984, it took the decisive step of diversifying outside the milk sector by launching into soya and intensifying its activity in organic products. Each change of orientation has been made on the basis of innovation and internally developed communication. We witness continuity in its development, even in the change of direction toward soya.

To finalize this presentation of Laconie's strategy dynamics and, more particularly, of its management of the 1984 quotas, let us examine what its skills and organizational identity are.

4.2. The skills and organizational identity of Laconie

First, we shall present Laconie's skills, keeping in mind the preceding development. Then, we shall present Laconie's organizational identity on the basis of the identity of its key people, the Duval family.

4.2.1. The skills

If we consider its history, prior to 1984, Laconie possessed immense skills which prepared the society for innovation and change. Year after year, its constant reorientations, after leading a policy of research and development because of an evolution of the market that no longer coincided with its know-how, underline its capacity to evaluate its portfolio of skills, to open to partnership, to lead a policy of innovation, to refuse to choose quantity and prefer activities which generate added value. The permanent search for reliable suppliers, in reference to a specification as they did for the supply of organic cow's milk as well as of goat's milk, testifies to a buyer's competence based on trust but also on technique.

This competence was again obvious when they set up the diversification towards soya. They were able to write a specification requiring from suppliers that they deliver non-genetically modified soyabeans. Their development, conducted by internal as well as external growth, enables them to follow different management practices and to evaluate their competitors. They were also able to acquire these skills by their systematic practice of a competition watch through their distribution-logistic activity. Finally, they found and then followed a strategy of brand. This trading practice in the milk industry was marginal in those days and it strengthened their competence in that field, especially if we compare Laconie to other types of firms like cooperative ones.

We think that organizational identity, particularly that of a family business, is built by its practices, of course, but more than anything by its men. That is why we have chosen to present a short "biography" of the key people of the Laconie business. Gilbert Duval, Chairman and Managing Director, Brigitte Duval, General Manager in charge of staff and finance and Vincent Duval son General Manager in charge of marketing, sales and export.

4.2.2. *Organizational identity*

Gilbert Duval (Chairman and Managing Director), the son of a dairy manufacturer, refused to inherit his father's business. He preferred to develop his own. He has a Bachelor of Law degree, but he is also a musician who had always dreamt of becoming a conductor. He has done the most he could to transmit his business. He venerates his 95-year-old mother-in-law who still lives on the dairy grounds. He loves working with his staff and considers no one incompetent, thus, finding the post best suited to the ability of each employee. The employees who were appointed to the soya activity were appointed by right of internal promotion. He took part in the writing of the specification of organic agriculture. He works with the associations for the protection of the environment. He takes great interest in crisis management. He is a visionary man.

Brigitte Duval (General Manager) is the founder's daughter. She was the first girl ever to graduate from the Surgères dairy school, where she met her husband. She is in charge of staff and finance. Thus far, she has recruited her staff locally, whenever it was possible, to guarantee a certain culture to the firm. Currently, because of the requirements in terms of management skills, she has been led to recruit more and more employees with higher education. This, however, creates difficulties of integration and of the maintenance of a firm's culture. Moreover, she became linked to the economic and social life of her town when she was elected the first town councillor, and now mayor. She belongs to that group of "heiresses" that are active inside as well as outside the firm. She takes part in the transmission of family values as well as entrepreneurial values. She also believes in political values, which she endeavours to develop and put into action as the mayor of her town.

Vincent Duval's son (General Manager) is 33. He spent his childhood on the grounds of the family business. Today, he inherits the business. He went to a trade school in Great Britain. According to his father, he "has brains". He is in charge of the commercial aspect of the firm, as a whole, and of the soya activity in particular. He is anxious to separate his family life from his working life -- his wife does not work for the firm. He lives in a neighbouring village where all the buildings of the soya activity are. One can say his occupation is a "chosen constraint". This fact illustrates the weight of the family on the individual and on the firm's behaviour.

Laconie is a family business, which has now reached the third generation (Allouche and Amann 2000). There is embeddedness among the values and

objectives of the managers, the Duval family and those of the business. It is this embeddedness, if not confusion between these different dimensions that favoured and still favours the past and present development of Laconie.

Laconie is prompted by the will to ensure its endurance in the long term. Consequently, it is concerned about innovation and development. It is defined more by its men and patrimony than by its size. It is a family business of know-how values and human and financial patrimony.

As a conclusion, Laconie is a family business rooted in its region, anxious to transmit values of justice, sharing and man's richness, but also of dreams through innovation and the belief that the family is a cradle of society's creation. It is a business managed by a man trained as a lawyer, innovating and enterprising, supported by two heiresses who can be called "house-keepers" of the family community or of the family patrimony.

4.3. The milk quotas: A constraint and an opportunity for Laconie

How can we analyse the strategy of intra and extra sectorial diversification of the Laconie business? "Embedded" in its legal and political environment, Laconie had to engage into a movement of intersectorial diversification: it decided to launch the soya activity. The quotas, a coercive institution, can be considered as a constraining variable for Laconie. However, if it diversified itself like all the other businesses in the sector, it did it in a specific way as it moved out of the sector by adopting a management by anticipation. Once more, the parallel can be drawn with the works of Fligstein (1996) and Fligstein and Maria-Drita (1996) who develop the idea that economic actors can influence their environment. Milk quotas were first a constraint, then an opportunity for the Laconie business.

The type of diversification it adopted and the way it was carried out are the fruit of two variables: the society's existing skills and its organizational identity. Its skills, that is, the production of added value, a culture of change, the systematic practice of competition watch, and development according to the logic of brand allowed the Laconie business to cross the borders of the sector and to conquer, until then, a confidential market and to acquire an unquestioned reputation in that sector of high added value brought by new consumers' modes. Its organizational identity, such as we have previously described, allowed the Laconie business to orchestrate this sudden strategic change by crystallizing its skills around a risky idea, in which few economic actors believed at the time, even within the firm. Gilbert Duval, was able to beat time for his collaborators

and succeeded in that project in which only his “family” believed. His competencies as a lawyer helped him to elaborate a strict specification guaranteeing the absence of genetically modified soya, to which his suppliers had to conform. In that way, he anticipated the official regulations to satisfy consumers’ and distributors’ expectations. The launching of this carrying activity allows Laconie to ensure its endurance in the medium, if not in the long term as it is obvious when we see its position on the chessboard of the milk sector today. Laconie can consequently contemplate a transmission of its patrimony in economic as well as managerial good conditions, a challenge that many patrimonial businesses are confronted to and find difficult to overcome.

For Laconie, the quotas were certainly a constraint at first. However, thanks to its skills and identity, the society turned them into an opportunity. The obviousness of the part played by organizational identity in the conduct of Laconie’s diversification strategy can be compared with the works of Bensedrine et al. The interaction between the regulatory measure represented by the quotas, the skills and organizational identity as an element of understanding the choice of Laconie’s strategic diversification originates from the way the business is embedded into the economic and social sphere as it was stated in the manager’s biographies. The mere approaches of competitive adjustment, strategic intention and interaction in the sense given by Joffre et al. did not allow us to take into account the active part of the social sphere, thus the characteristic of the Laconie business. The neo-institutional approach allowed us to put into perspective the importance of the social sphere combined with the economic sphere. Figure 2. illustrates the results of our research.

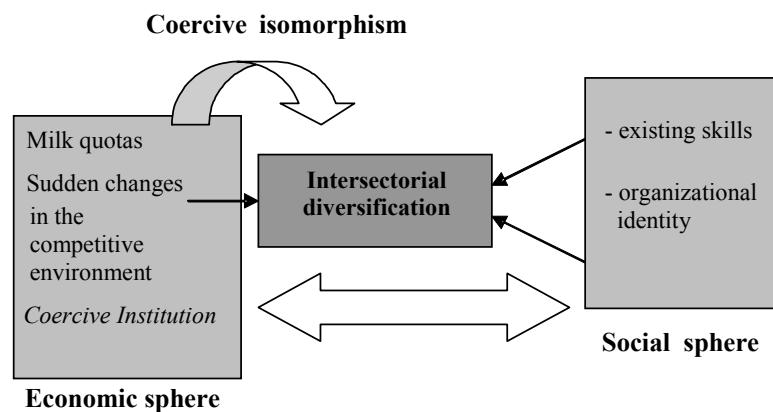


Figure 2: Milk quotas - a constraint and an opportunity for Laconie

5. CONCLUSION

Through the case study of the milk industry, which was submitted in 1984 to the sudden change in the competitive environment caused by the milk quotas and through the case of the Laconie business, in particular, we have shown that an sudden change in the competitive environment may be a constraint but also an opportunity for businesses, provided they already had a pro-active strategic logic. The firms must adapt to their environment. In that sense, we observe a determinist attitude. In the case of the milk industry, its outcome was a phenomenon of coercive isomorphism, considering that all the firms in the sector diversified themselves. However, the determinist attitude is more or less intense according to its existing skills and organizational identity. On the basis of its skills and its organizational identity reacting to the new requirements of the economic and social context, the firm can use the constraint to its advantage and turn it into an opportunity.

We can speak of interaction between the environment of the firm and organizational identity of its skills. This interaction is itself activated by the embeddedness of the firm in the economic and social spheres. The neo-institutional approach has enabled us to go beyond the approach of competitive adjustment, of strategic intention, but also of the interaction developed by Joffre et al., as it takes into account the embeddedness of the firm in the economic and social spheres. Thus, the importance of the part played by the skills of a business and its organizational identity has also been emphasized. The particular case of the Laconie business illustrates the interest of such an approach. The history of its strategic evolution, entwined with the biography of its key people, would not have been possible in a strictly economic approach, whereas it was illuminating on its choices of diversification and its implementation in the context of the quotas.

The unique character of the case does not allow us, at this stage, to generalize our conclusion. However, it will be necessary to rely on studying other cases, other sectors, but, above all, to study other sudden changes in the competitive environment to achieve that generalization.

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STRATEŠKO UPRAVLJANJE IZNENADNIM PROMJENAMA U KONKURENTSKOJ OKOLINI: SLUČAJ FRANCUSKE MLIJEČNE INDUSTRIJE

Sažetak

U ovom se radu za analizu strateškog upravljanja iznenadnim promjenama u poslovnoj okolini koristi neo-institucijski pristup. Pritom se polazi od hipoteze da iznenadna promjena u okolini u većoj mjeri predstavlja priliku negoli ograničenje za poduzeća koja primjenjuju proaktivnu strategiju. Iz navedene se perspektive proučava slučaj francuske mliječne industrije, koji se zasniva na sirovinskom ograničenju, uvedenom fiksiranjem kvota za mlijeko iz 1984. godine. Longitudinalnim istraživanjem obiteljskog poduzeća za proizvodnju mlijeka - društva Laconie - praćenog industrijskom analizom, došlo se do zaključaka o utjecaju kvota na strategiju ove vrste poduzeća. Pri tome se uočava pojava prisilnog izomorfizma, pošto su svi proizvođači mlijeka diverzificirali svoje poslovanje. Istovremeno se može identificirati interakcija između institucije prisile – kvota i sposobnosti, te organizacijskog identiteta, tj. kognitivnih institucija. Suočivši se s iznenadnom promjenom u okolini, poduzeća su morala evoluirati. Međutim, poduzeća koja su temeljila svoj razvoj na sposobnostima za predviđanje, inoviranje i promjenu svog organizacijskog identiteta, u kasnijoj su fazi bila sposobna pretvoriti ograničenja u nove mogućnosti. Interakcija između okruženja i

strategije poduzeća je očita: ona se, posebice, izražava kroz stalnu vezu između poduzeća i društvene, ali i ekonomske sfere, kao i kroz povezanost između identiteta organizacije i obitelji managera. Koncepti povezanosti, izomorfizma i interakcije između okruženja i strategije vodilje su provedenog istraživanja.