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2014 UKRAINE CRISIS

Implications for corporate crisis management

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1 INTRODUCTION

"A crisis can be defined as an extraordinary event, disclosure, or set of circumstances that threatens, or is perceived to threaten, the welfare of one or more staff, customers and stakeholders, or the integrity, objectives and reputation of the organization"

- Janes 2010, 89

At the end of 2013, events started to unfold in Ukraine that escalated into an international and even a global crisis during 2014. These events would eventually have long-lasting effects on nations and corporations alike. Presently in autumn 2015, the events are still on going and one can only speculate the severity and longevity of the consequences that these events are going to have. This chain of events is commonly called "the Ukraine crisis" or "2014 Ukraine crisis". This research paper will utilize both of these terms when discussing this theme. The crisis, which started to escalate in the beginning of 2014, has had significant implications on the political and economic environment of Europe and Russia. Especially the Russian economy is suffering due to sanctions posed by the European Union (the EU) in the form of weakening national currency and the devaluing of the Russian stock exchange (Kauppapolitiikka.fi 2014a; Freedman 2015, 29). The domestic crisis in Ukraine in the beginning of 2014 has escalated gradually from mere protests into a political, economic and even a military crisis between Ukraine, the Russian Federation (Russia), the EU and even the United States of America (the US) and its NATO allies (Teramae 2014).

The escalation of the crisis into a global one, and the economic ramifications that it has had for the region of the EU, Eastern Europe, and Eurasia, has caused problems for countries and corporations alike. Entire national economies in Europe have suffered but so have individual companies operating within the economic region of EU and Russia (Taloussanomat 2014). Especially countries that have close ties to the Russian market and have either export operations or foreign direct investment operations in Russia have encountered economic problems. For Finnish companies the effects might be even more severe than for others as the Russian market is one of the biggest single target markets for Finnish exports (Finnish customs 2014). This study will also look into these micro level issues from the point of view of a single Finnish dairy company, Valio limited (Valio). This corporation's corporate crisis management operations in the wake of the crisis are at the core of this research paper's empirical research. At the same time though, the larger scale of events of the crisis, both economic and political, will be analyzed thoroughly.

Consequently, this research will look into two major themes when discussing the issue of 2014 Ukraine crisis and its implications on corporate crisis management. The macroeconomic issues, themes and reasons of the crisis in Ukraine are at the core of the study in the first chapters 2 and 3 of the paper. These two chapters will serve as both theoretical background as well as analysis chapters on the crisis and its development. The information is derived from various secondary sources, which has demanded an analysis to be made because there is not sufficient amount of academic literature on the subject to build a solely theoretical examination. Later, chapter 4 will look into the corporate crisis management. Chapter 4 will build a theoretical background for implications for what an individual company has done when trying to maneuver in the midst of these transformational changes happening in its operating environment. This part of the research follows a more traditional academic research order. First, theory of corporate crisis management is looked into and is followed by an empirical research on a case company. The research is then that of a qualitative nature and combines both analysis from secondary sources and from primary data, which has been collected empirically.

From these limitations and observations, one can additionally make the conclusion that this research will be combining aspects from several scientific fields. Most notably literature and themes will draw from business research, economics, and political sciences. This is important in order to be able to form a comprehensive picture of the crisis and its implication in business. Understandably, corporate crisis management will draw from business research and the 2014 Ukraine crisis will draw from economic and political literature.

The research goals for this study are:

- To describe the implications of the 2014 Ukraine crisis for corporate crisis management.
 - Describe background events, birth and development of the 2014 Ukraine crisis and its possible special implications.
 - Analyze the effects of the 2014 Ukraine crisis on economic activity within the region. More specifically analyze Finnish food industry's exporting into Russia.
 - Analyze Valio's corporate crisis management in the wake of the crisis.

1.1 Justification for the research topic

It is important for all academic researchers to identify the relevant research gap that a given study is aiming to fill. Thus, at the end of the research the implications and findings of the research can be properly evaluated and new guidelines for future research found. It is valuable to research this particular subject in order to create an understanding of why

this crisis is happening and why it is taking place at this specific time. The crisis is in many ways different from any previous ones and there is a gap in former literature in this respect. Furthermore, the way a company can prepare for, manage, and learn from such a situation is also important. The evaluation and the creation of understanding and new information for theorists and corporate managers alike. The information gained from this research will be valuable for not only companies and their managers trying to create corporate crisis management plans and academic researchers focusing in researching those. The information will also be useful and meaningful for national governments and international institutions, in order for them to gain understanding to prevent this kind of a situation from happening in the future. The research of the subject is particularly relevant because there has not been a crisis of this nature in the recent history, at least not in this scale and this complex. Thus, corporations and other organisations have no clear guidelines to prepare or predict what kind of outcome it may have on their everyday operations. This is especially true as the situation is still on going and the overall insecurity within companies is increasing (EK 2014a). In essence, this crisis could even be described as a "black swan" for many companies involved. A black swan is a crisis, which is unpredictable, has a severe impact and after thorough post-analysis can be seen as one that could have been possible to predict (Taleb 2007; Heller & Darling 2012). Generally speaking, these kinds of external crises are becoming more and more frequent in the world for corporations. It is important to study them in order for company managers to have some kind of benchmarks and previous cases to look into if they are confronted by a similar situation. Previous literature has focused mainly on internal crises and their management so this research will shed light into external, which has not been studied as broadly yet.

The learning aspect and the future implications of the happenings are also important. It would seem that the Ukrainian and Russian economies are suffering the most damage and it might take years to rebuild them (Freedman 2015, 28-30). It is not in anyone's best interest to see these economies failing because the Russian and the European economies are quite intertwined with each other, at least for now. Corporations that are operating in this kind of an environment will also need future implication on how to better prepare for and predict these kind of events in order to keep their operations going to the best of their ability.

1.2 The structure of the study

It is noteworthy to analyze and represent the structure of the research at hand for the reader to be able to better follow the argumentation and reasoning throughout the thesis. Figure 1 illustrates the structure of this research paper through the research goals identi-

fied in previous chapter 1. In addition, the Figure brings together the key terms and theories that will be used to answer different research goals and sub-goals. Finally, Figure 1 brings together the research into the conclusive chapters 6, 7 and 8 that bind the different goals, theories, and empirical findings into a coherent entity.

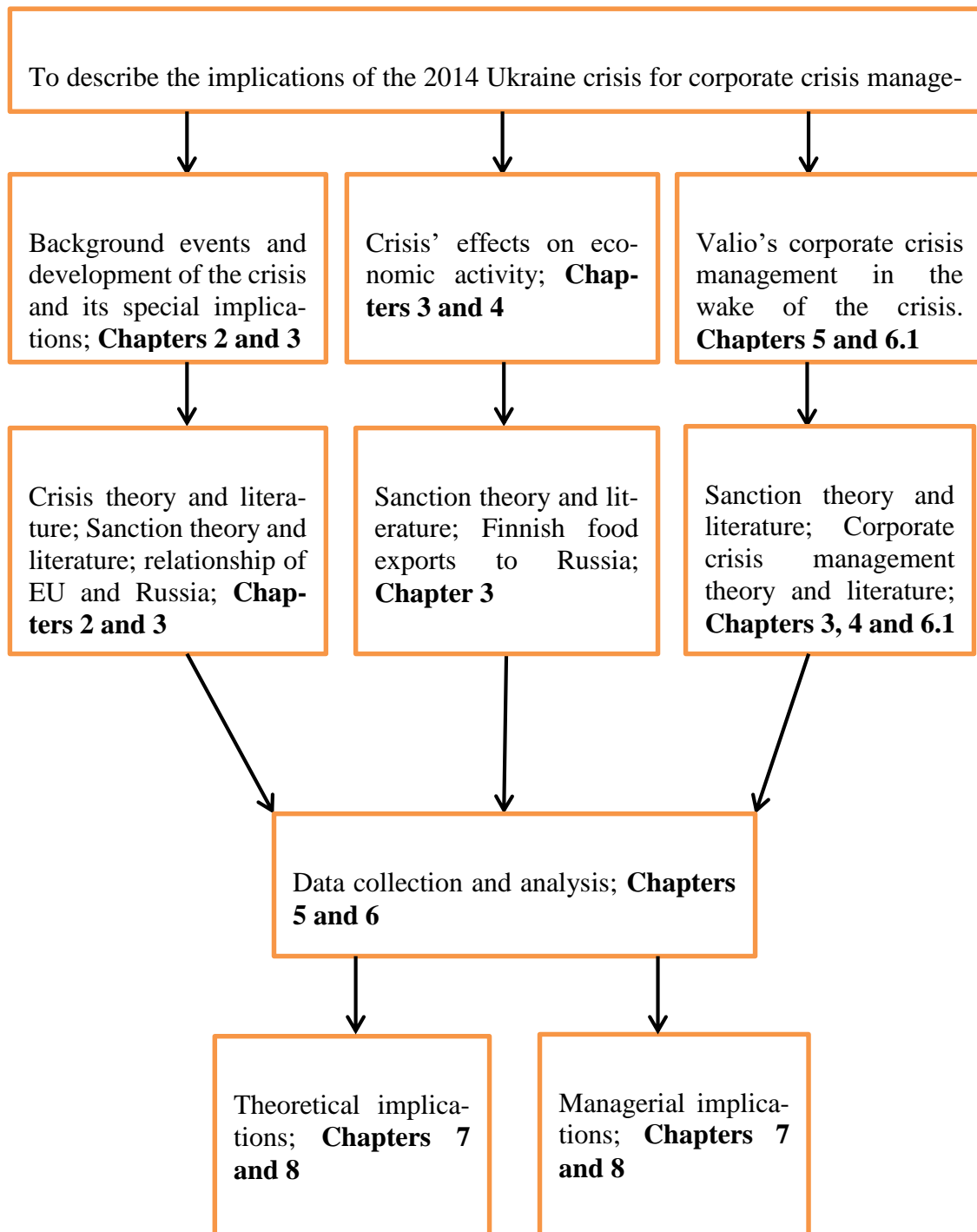


Figure 1 **Structure of the study**

After the introduction, it is essential to establish the baseline for the current crisis through exploring the recent joint history of the Russian Federation and the European Union. The different crises and institutional changes that have taken place during the last 25 years after the dissolution of the Soviet Union are especially important in understanding how the current situation has unfolded. This is because it would seem as though these events are a part of the continuum that has slowly been developing in the region. Finally, in the same chapter 2 also the reasoning for the significance and specialty of this particular crisis in relevance to former political crises in the region is clarified. Next, the research turns its attention to the crisis, and how it has, and is, taking place, with chapter 3 looking into the economic and political sanctions that have been placed on numerous countries by separate parties during the crisis. Chapter 3 will also clarify the significance of the economic sanctions for Finnish dairy industry and Valio.

In addition to the evolution of the political situation in the region, it is important to understand the state of the Finnish food industry, specifically dairy industry, in Russia and its export operations to the Russian market. Chapter 3 will serve as a justification for why particularly a Finnish dairy company was chosen in the core of this study's empirical section. After the baseline has been established, the paper will analyze the theory of corporate crisis management. Additionally, other key terms and terminology in terms of this paper are identified. Previous literature on the subjects is analyzed during these first chapters from chapter 2 to chapter 3.

In the latter chapters 5 to 6, the paper continues to explain the research itself and its methodology, and individual methods used, in data gathering and analysis. The trustworthiness of the study and future research gaps are examined and elaborated. Finally, after going through the research and its key findings the paper is concluded in conclusive chapters covering theoretical and managerial implications and a summary chapter where the whole research paper is summarized and the most important conclusions elaborated from the research into future research, theory, and practical guidelines. It is important that there are actual indications on how the industry managed this crisis in terms of crisis management and how corporations, and possibly government alike, should handle this kind of crises in the future.

2 2014 UKRAINE CRISIS

In order to fully understand the crisis at hand and its implications it is first important to reflect on the history of the European Union and the Russian Federation since the dissolution of the Soviet Union. The shared history of Russia and continental Europe spans throughout modern history. However, in terms of this paper and the subjects it studies, it is only relevant to examine the shared history between the European Union (EU) and the Russian Federation (Russia). In practice, this means the time since the dissolution of the Soviet Union at the end of the Cold war. This limitation is due to the extreme economic and political changes that have taken place in the Post-Cold war Russia (Ketonen & Vihavainen 2008, 154-160; Haukkala 2010, 68). The former Soviet Union was such a profoundly different political, economic and even geographic actor than modern Russian Federation, that there is not much sense to analyze it.

After the dissolution of the Soviet Union in 1991, the government of the newly formed independent Russian Federation started the so-called ‘shock therapy’ in order to stabilize its economy (Ketonen & Vihavainen 2008, 161). Simultaneously, the Russian domestic economy was transforming closer to its capitalist, western counterparts from a centrally led Soviet economy. Consequently, the political leaders both in Russia and in Europe saw that closer ties needed to be formed between the two in order to cement and reinforce the new political environment in the region. Both parties saw that an institutional agreement with guidelines for political and economic cooperation would be the best way to achieve this. (Ketonen & Vihavainen 2008, 161-165; Haukkala 2010, 68.) As a result of this common political will, an institutional agreement was achieved between the two parties. The partnership and cooperation agreement (PCA) was signed in surprisingly even terms. In hindsight, it was surprising that Russia was even able to force many unfavorable terms for the European community in the agreement, which boosted its own ambitions. This is peculiar because Russia has in many ways been seen as ‘the loser’ of the cold war in the eyes of the west, even though Russia is a completely different state and a nation than the Soviet Union. In fact it is important to take into account when ever analyzing modern Russian Federation that, this Russia is just one of the many former Soviet states that broke away from the union, not the successor of the Soviet Union as it is often seen in the eyes of the west. As the negotiations reached an end, it is important to notice and keep in mind that, from the beginning of the relationship (signing of the PCA), both parties (the EU and Russia) have been equal and both have been able to negotiate favorable terms for themselves. Not one or the other has had considerable political upper hand on the other. (Haukkala 2010, 87-88; Wilson 2014, 263.)

After the signing of the first agreement, the PCA, there have been many efforts to get a sounder and a more holistic agreement signed, that would in addition to economic and political terms, have implications of shared values and norms. Especially the EU has been

driving this goal in order to get Russia closer to EU's values and norms. The negotiations though, have not been successful, at least not in the scale that the EU would have wanted. Rather, there have been several crises between the two parties over the years. These events have made the negotiations harder and harder to finish and reach a final understanding that would satisfy both. For example, the two Chechen wars and the war in Georgia have had significant impact on the evolution of the relationship between the two parties. Additionally, the crises have shown the EU's inability to negotiate with Russia on EU's own terms. On the contrary, it has had to try to find a consensus rather than force its own opinion, values and norms on the negotiation partner. Russia would seem to have been content with co-operation and agreements only dealing with economic and political issues. Thus, leaving its hands free to handle its domestic issues and problems near its borders according to its own liking, not the EU's or the West's as a whole for that matter. (Haukkala 2010, 167-171.) Therefore, a lack of a document or an agreement that would cement the relationship between the two political entities still exists. This, in coexistence with the numerous conflicts, crises, disagreements, and the colored revolutions of old soviet states during the last 25 years, might very well have contributed to the current situation in Ukraine. (Haukkala 2010, 167-171; Freedman 2014, 15-17.) Later on we will take a closer look on this matter and thus this research tries to determine whether this is the case.

2.1 The background development leading to the crisis in Ukraine

At the time that this thesis is being written, it has been much more than a year since Russia annexed the region of Crimea in southern Ukraine on March 18, 2014 (Freedman 2014, 9). Despite several attempts on an agreement, the crisis has not reached a solution one way or the other. The parties involved seem to be more and more stubborn every day with the sole certain loser being Ukraine itself. The crisis has evolved from mere protests on the Maidan square in the Ukrainian capital of Kiev, in November 2013 into a full blown global crisis involving countries and international institutions, such as the United Nations (The UN). (Teramae 2014; Freedman 2014, 9; Wilson 2014, 259.) Nonetheless, the center of this political and economic conflict is far from the UN's general assemblies. It is in Ukraine and its surroundings within the geopolitical regions of Russia, Eastern Europe and the EU. This research is going to focus on events, actions, and implications that have taken place in or closely around this region. This limitation is important in order to help limit the themes and issues so that they are analyzable thoroughly within one paper. The inclusion of the UN, the US, and the World Bank would explode the amount of economic and political questions out of reach of a doctoral thesis, let alone a master's.

Interestingly though, the fact that economic issues and themes are so visible and are used as a major tool by all of the parties involved, separates this crisis from previous political crises. For example, the conflicts during the Cold war between the West and the East did not include important economic or trade questions. (Freedman 2014, 31.) They were rather conflicts that evolved around political questions and resulted either through political means or with military power. Naturally, if a crisis evolves into a military conflict, economic hardships are inevitable but economics and trade as the main means of political strength have not been used during the cold war. Economic sanctions for example have not been present in those days. Something, which is in the core of the Ukraine crisis and this research paper.

It would seem that the political seeds for this current crisis in Ukraine have been set already in the beginning of 1990's when the western nations and newly formed Russia started to cooperate. The profound matter at hand to which basically all of the political tension in Eastern Europe draws to, is the fact that, former soviet republics of Eastern Europe have been inclined to draw closer to the Western sphere of influence (the EU and NATO), both politically and economically, instead of Russian and Eastern sphere of influence. Consequently, Russia is trying to counteract and prevent this development by several actions, such as a customs union for Eastern Europe (Freedman 2014, 9; Stenberg 2014). The time since the dissolution of the Soviet Union has been a series of reoccurring disagreements between the West and Russia that have stemmed from an event in one or more previous soviet republics. Common for these events is the fact that more often than not, the events have evolved to include not only the former soviet republic and Russia, but also the EU. Examples of such events are the Chechen wars, colored revolutions (2003 Rose revolution in Georgia and 2004 Orange revolution in Ukraine) and lastly the 2008 war in Ossetia between Russia and Georgia. EU's participation in these events has though remained quite docile and it has remained more or less idle. (Freedman 2014, 16-17; Haukkala 2008, 167-171.) The EU has usually taken the side that tries to defend democracy and prevent the escalation of disagreements into military conflicts. The main reason for this kind of actions most probably is the economic codependency of the EU and Russia on each other. Neither side has been inclined to risk this economic partnership. Russia though found out in the early stages of this cooperation (at the time of signing the PCA) that it's 'harder' approach got it results and perhaps this reason with the economic dependency is why EU has remained quite idle.

It would seem though that the constant stretching of political climate and disagreements have led to this current escalated political situation despite the economic dependencies and a pursuit of peace. Russia would seem to be stretched too far with the EU's and NATO's influence closing a decisive final step too close to Russia's traditional sphere of influence. For example, the Baltics have joined both of these 'Western' organizations and Ukraine has had talks about joining with both. (Pyynnöniemi 2014.) Consequently,

Russian federation's president Vladimir Putin famously, and somewhat notoriously, stated about the political environment during the 2014 Ukraine crisis immediately after the annexation of Crimea from Ukraine into Russian federation:

"Russia found itself in a position it could not retreat from. If you compress the spring all the way to its limit, it will snap back hard."

- Kremlin 2014

Additionally, to these political tensions and developments another key factor in the background development has been trade. However, compared to political development, the trade issues have escalated in a much faster pace during the last 5 years or so. This escalation of trade disagreements with the years and years of political tension together seem to have been the sadly 'perfect' combination to trigger and enable the situation that has unfolded. As we shall later see, the whole crisis was triggered because the Ukrainian president agreed to sign a trade agreement with Russia rather than with the EU. (Freedman 2015, 20-27; Euronews 2015; Stenberg 2014.) The trade relations between these three have been gradually developing throughout the last 25 years, much like the political situation with the most drastic events taking place after 2010. In 2010, Russia started to form its own customs union, which was to include all the previous soviet republics in the East, except Estonia, Latvia, and Lithuania. It has been in Russia's interest to get Ukraine to join the union, it has offered substantial gas, and raw oil price decreases for Ukraine if it was to join. At the same time though, EU was planning its own free trade agreement with Ukraine in order to cement the trade between the EU and Ukraine and draw the country closer to the EU's sphere of influence. Ukraine was very much drawn towards this option as the WTO membership it holds (since 2008) is in conflict with the rules of Russia's customs union. Additionally, the EU is the biggest single trading partner for Ukraine in 2013. Finally, president Yanukovich opted to sign an agreement with Putin's Russia (long co-operation has existed between the two state heads), which angered the Ukrainian pro-EU population and eventually resulted into the crisis that is still going on. (Stenberg 2014.)

2.2 The development of the 2014 Ukraine crisis

The previous sub-chapter 2.1 shed light into the complex and lively coexistence of the two Eurasian giants, the EU and the Russian Federation with Ukraine in the middle. In the beginning of 2014 though, a crisis started to form that was quite different from any that had occurred before that. Ukraine and Russia had had previous disagreements, for

example, about the Russian owned gas pipelines going through Ukraine into Central Europe and the prolonged trade discussion whether to deepen trade cooperation with Russia or the EU (Kovacevic 2009; Stenberg 2014). This new crisis however, would become much more widespread, far-reaching, and would involve actors outside these three parties, even global institutions and federations would be involved (Banerjee & Talukdar 2014). Figure 2 summarizes the timeline of the events that have unfolded in Ukraine during late 2013, 2014, and at the beginning of 2015. The timeline has been collected from several sources, both academic and news sources. It is not complete but it aims to give a coherent picture of the events that have taken place in order for deeper understanding of situation and its special implications, which shall be analyzed in later chapters 2.3 and 2.4. The three distinct timeline inputs, which are written in bold, are the ones that include economic implications. Those are the most relevant in terms of this research paper's later research because the objective is to study the economic and business implications of the crisis for an individual Finnish dairy company. Also as stated previously, the key events concerning the US or the UN are excluded from this timeline. The amount of economic sanctions would be much higher if the US sanctions were elaborated also.

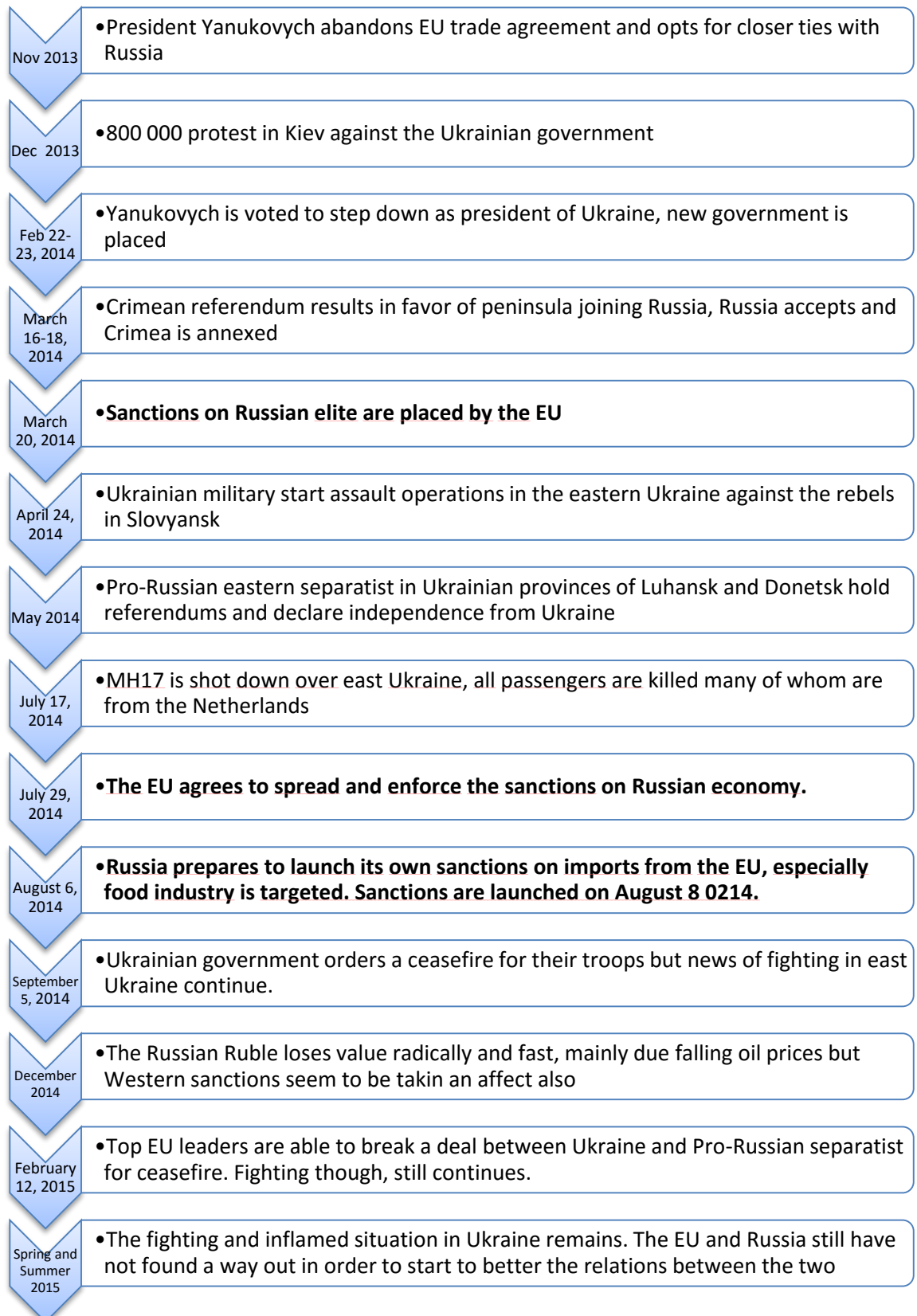


Figure 2 The key events of 2014 Ukraine crisis (Aljazeera 2014; Euronews 2015; Freedman 2015, 20-27; Wilson 2015, 259)

The events can roughly be divided into five parts, between which a clear difference in the nature of events and parties involved can be made. This division is not complete but it makes the situation more comprehensible as the nature of these kind of political crisis is that they are multifold and include complex matters. To look throughout the events specifically and individually would demand a lot more space and time than what is relevant in terms of this paper's later research. The most important part of the crisis in terms of this paper are the different sanctions posed by each party, but in order to understand them it is noteworthy to clarify the whole chain of events.

The first part of the crisis took place at the turn of 2013 and 2014. The protests in Kiev started to escalate in consequence to the Ukrainian president Yanukovich's decision to turn his back on European integration and opting for closer relations with the Russian federation. It is, however, important to note that Yanukovich was between a rock and a hard place. Even if he had wanted to opt for European integration, the EU was not offering enough economic assistance to lift the country from a looming recession. This is something, which Russia was promising to provide. Unfortunately, for Yanukovich, the people of Ukraine were not as understanding as he had hoped. The second phase of the crisis started with the overthrowing of the Ukrainian government. This forced Yanukovich to flee the country and the people of Ukraine placed new government in Kiev. In the next, the third phase, completely new parties come into play from outside the country of Ukraine. Russia gets involved, and in a very quick motion annexes Crimean peninsula in southern Ukraine for itself on March the 18th 2014. The justification for this annexation publicly was the substantial Russian population in the peninsula and the referendum that resulted to favor the joining of Crimea into Russian federation. The Western countries join in and condemn the actions by the Russian government by appealing to international laws that prohibit such actions. In consequence, the West starts setting sanctions, which Russia counters later during the summer 2014. Sanctions will be more thoroughly analyzed in chapter 3. The downing of the Malaysian airline flight MH17 on July 17th drew the attention of the whole world to Ukraine. To this day, there is no definite answer to who shot the plane down but the global opinion blamed the eastern Ukrainian separatist supposedly endorsed by the Russian government. The fourth part of the crisis is considerably longer in duration than the previous ones. It is about the prolonged struggle, and even battle, for the eastern parts of Ukraine. This is taking place between the Pro-European forces of Ukrainian government and the Pro-Russia separatist in eastern Ukraine who want to separate from Ukraine. It would also seem that the forces in the East are supported by Russia both economically and with military assistance. This argument though has not been universally confirmed by the autumn 2015. The final and fifth part of the crisis began in February 2015, with the signing of the Minsk ceasefire and it would

seem that the situation is slowly starting to de-escalate. However, the fighting still continues in Ukraine and the relations between the EU and Russia still very much in the limbo. (Aljazeera 2014; Euronews 2015; Freedman 2015, 20-27; Wilson 2015, 259.)

It is important to discuss the crisis also from a Russian point of view even though information and references about that is much more limited than that of English language media. Much of the media, and academic writing so far, has looked into the issue as something that Russia has, if not started, but at least escalated the situation through its actions with the West trying to prevent it and act as a peacemaker. Pynnöniemi (2014) has summarized a selection of Russian articles by Sergei Karaganov (Russian foreign policy analyst) in her paper concerning the crisis from Russia's point of view. It is argued in these articles that Russia was cornered by the West (EU and NATO). The western organizations have been expanding closer and closer to its borders after the dissolution of the Soviet Union and during the crisis, Russia had no other choice but to act in the way that it has. Russia has done this in order to secure its credibility and to ensure that it is taken seriously as a partner in global politics by the western leaders, instead of being constantly viewed as a 'loser' of the cold war (Pynnöniemi 2014). This analysis is very much in line what this research found about the background development leading to the crisis in chapter 2.1. Still, there is very little left to argue whether or not Russia has been the more aggressive party during the crisis, as it clearly has been. This is mainly due to two reasons: first, the annexation of Crimea and secondly, the military assistance given to the Eastern Ukrainian separatists.

Figure 2, as discussed, shows the timeline of main events during the 2014 Ukraine crisis. Consequently, Figure 3 can be used to supplement those findings made in Figure 2 by combining the phases of this Ukraine crisis with Rupesinghe's (1998) general model of a violent conflict and its phases. Even though the model in Figure 3 is mainly meant for wars and other, more radical events, it is unmistakable that the crisis in Ukraine can be set into the same framework.

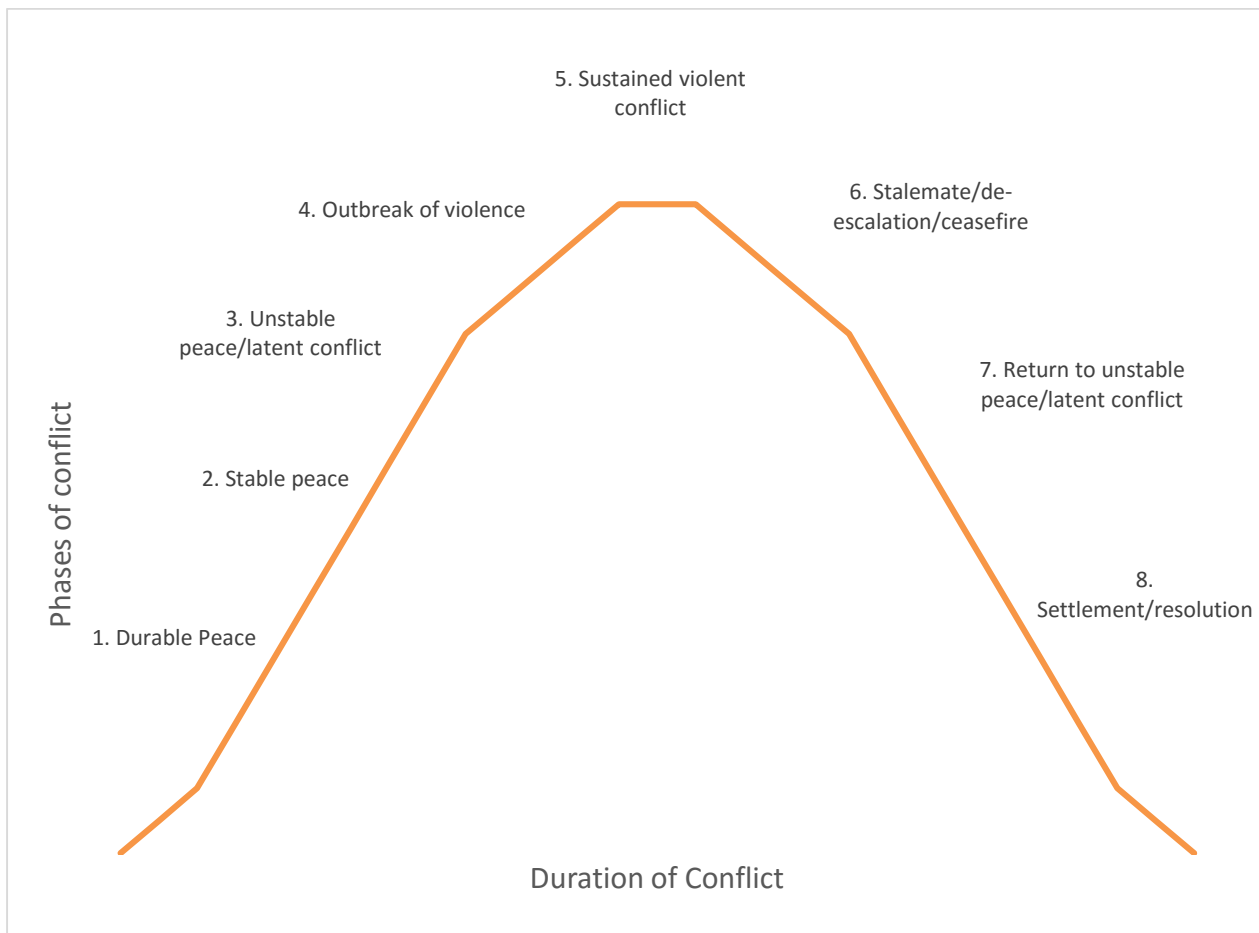


Figure 3 Phases of a violent conflict (Adapted from: Rupesinghe 1998)

The first phase of crisis can be located in Figure 3 in to first three phases of violent conflict. The peace in Ukraine starts to be unstable by the actions taken by the president and the people starting to gather to Maidan square to protest. The second stage of the Ukraine crisis begins by the overthrowing of the government and violence starting to break out, these events fit into the fourth phase of conflict in Rupesinghe's (1998) model. The third part of the Ukraine crisis comes with the inclusion of other actors outside the Ukraine, which also de-escalates the violence when the stakes are starting to be too high as Russia and the EU are involved. In Figure 3 this phase situates close to the top of the figure. The final stages are harder to fit into Figure 3 as the situation has de-escalated and re-escalated continuously. However, some patterns can be found as the fourth part comes with the stalemate and slow de-escalation of the situation, which is though short-lived with the separatists in the east starting violently oppose the new Ukrainian government. These events can be found in sixth and seventh phases of a conflict in Figure 3. Finally, the situation is hopefully starting to settle and resolute, even though the previous phases of a conflict have been visited in the process in Ukraine. The framework would thus, indicate that if the crisis indeed is to follow the same pattern as Rupesinghe (1998) has

found. The crisis is in its closing stages and would seem to be reaching an end. The way and peacefulness of this is still left to be determined.

Another theoretical framework that fits into the Ukraine crisis was also developed and illustrated by Rupesinghe (1998) in his book about resolving conflicts and wars. Table 1 describes Rupesinghe's (1998) view on possible causes for a conflict such as the Ukraine crisis of 2014.

Table 1 Causes of a conflict (Adapted from: Rupesinghe 1998)

Causes of a conflict	
Structural/root causes	<ul style="list-style-type: none"> • Pervasive factors that are built into the policies • Structures of a society or politics that create pre-conditions for conflicts • e.g. illegitimate government, lack of equality • Case Ukraine: increased tension between the EU and Russia, drawing of eastern European nations towards Europe and the prolonged trade negotiations between the three participants (EU, Russia and Ukraine)
Proximate causes	<ul style="list-style-type: none"> • Factors that are symptomatic of root causes → factors that can easily contribute to further escalation • e.g. human rights abuse, objectives of political actors • Case Ukraine: The substantial Russian population of Crimea, the existent division of Ukraine into European west and Pro-Russia east
Triggers	<ul style="list-style-type: none"> • Single acts or events that trigger the escalation of the conflict • e.g. elections, increased food scarcity, sudden collapse of currency • Case Ukraine: Yanukovich declines the EU trade agreement, Annexation of Crimea, Sanctions

Rupesinghe (1998) illustrates in his model individual causes, but at least in the case of the current Ukraine crisis, there can be found a continuum between different stages of the escalation of the crisis and the different levels of causes of conflicts. These different levels are structural or root causes, which include profound factors and structures in a society or environment that make it possible for a conflict to occur. Proximate causes then include things and factors that may contribute to further escalation of a given situation that has been made possible by a root cause. Triggers then are individual acts or events that trigger the situation into a conflict. In the case of the Ukraine crisis, it is indeed possible to identify the different stages and fit them into Rupesinghe's (1998) causes for conflicts as Table 1 shows in highlighted sections with the bolded text segments. The years of political and economic tension result as the root causes for the crisis. The proximate causes then include things that have to do with Ukraine internally and finally president Yanukovich's signing of a trade agreement with Russia served as the trigger cause for the crisis.

These two models by Rupesinghe (1998) in Figure 3 and Table 1 are useful when investigating crises like the one Europe and Russia are facing now. Especially, actors that are not involved in the events straightforwardly, but are clearly influenced by the events can use these models to better understand and prepare for situations like this. For example, EU member countries and companies operating in them can find similarities like the ones described in this chapter in order to prepare for and operate in a crisis like this.

2.3 Justification to research especially 2014 Ukraine crisis

In relevance to this study, the most important part of the crisis in Ukraine is the part when the Russian government poses countersanctions on food imports into the country. This is because these counter-sanctions caused the immediate effects on the Finnish dairy company Valio, as we shall see later on in chapter 6. The countersanctions situate during the summer 2014 and particularly, at the end of it during the month of August. It is though, important to understand the whole crisis in order to make sense of the sanctions. Particularly so, because the crisis in Ukraine is quite different from anything previously experienced in the region. Therefore, an understanding of the events needs be created in order to offer managers, governments, and theory with useful information for future operations and research.

At this point, it is important to argue why this research is so strongly focusing on Ukraine crisis of 2014 in particular and not on political crises in general. This is important because the fact that this study is constructed around Ukraine crisis makes this a so called 'a case within a case' –study. Not only is it needed to construct a theoretical framework of political crises in order to analyze the crisis management operations of the Finnish dairy company Valio, but also in this study, there is substantial weight put into describing

and analyzing a specific crisis. The justification for this kind of methodological choice can be the fact that the situation and crisis at hand is so profoundly different from anything experienced previously that this approach is justifiable. In this sub-chapter, this justification is made and the general approach thus explained. Further methodological analysis will come in later in chapter 5. However, in order for the theoretical and literature choices to be justifiable it is important to explain this choice in the beginning of the research.

Many times during this study, the argument has and will be made that this crisis is different from anything previously experienced and now we shall see why that is. There have been plenty of political crises in history that have demanded actions from corporations operating in those areas, so why is this different and demands a closer attention to detail than general analysis on political crises. Laine (2014) summarized Francis Fukuyama's (historical theorist from the US) thoughts on the development of EU – Ukraine – Russian Federation –relations after the dissolution of the Soviet Union in 1994. Fukuyama argued that the dissolution of the super power and the polarization of Ukrainian people would eventually lead into a situation where the difficult 'special' relationship between Ukraine and Russia would erupt into a difficult problem, which would be extremely hard to resolve. This 'prophecy' by Fukuyama, of the evolution of the relations seems surprisingly close to the current situation described in subchapters 2.1, 2.2, and 2.3. This finding would indicate that the events between 1991 and 2014 in Eastern Europe has eventually lead to this crisis, which is taking place in Ukraine. (Laine 2014, 33-34.) It is not an individual situation separate from others; rather it is the sum of all the previous ones.

This same continuum is visible in the way that Russia has acted during the crisis. Never previously, has modern Russia used so much 'hard' political, economic, and military power when trying to force its way with its neighboring countries. In the events taking place in Ukraine, Russia has annexed a part of a sovereign nation, which is against international laws. In addition to this, Russia has crawled its way in the domestic issues in Ukraine through the eastern Ukrainian separatists and by aiding them. (Makarychev 2014, 197-198.)

In addition to these Russian and Ukrainian issues, also the EU has been posed with a completely new situation, which has required new ways of operating and decision-making. The EU has been forced to act in new ways as a foreign policy representative for its member nations. It has required new ways of doing things and flexibility when maneuvering between Union's interests and those of member countries. (Blockmans 2014, 1-2.) This leads to another new characteristic of the 2014 Ukraine crisis that differs it from any previous ones, the economic sanctions. This crisis has caused the EU to pose economic sanctions on Russia and Russians that has not been done before. Additionally, Russia countered these actions with its own set of countersanctions. This is the most important attribute of the crisis to justify the substantial involvement of detail. This crisis and its

sanctions have posed completely new kinds of challenges for European economies and corporations operating within them. Only the future will tell if the crisis proves to be only a ‘lovers’ quarrel’ or will it create profound change in the political and economic atmosphere in Eurasia.

2.4 The future of EU-Russia relations after the crisis

The crisis in Ukraine has been one of the most profound ones between the EU and Russia. The crisis has even caused the use of military as it has progressed. It has also provoked other drastic measures by all the parties involved compared to any other political crisis that has occurred between the EU and the Russian federation since the dissolution of the Soviet Union. It is therefore important to look how this crisis might affect the future co-existence of the two global super powers in the future. In addition to this, it is important to understand what kind of consequences the actions of each party during the crisis might have in the realization of the possible future scenarios. The shared history of the Russian Federation and the European Union has been somewhat volatile, as we have seen in chapter 2.1. In relevance to this paper, this analysis is important in order to understand what kind of futures are possible for the region. The crisis is hopefully only temporary, and the political relations in the region will return to a more normal state and the economy will recover. These scenarios are consequently important to take into account when the future of national economies, industries, and individual companies are analyzed. This analysis will then offer insight on what kind of a future is probable for a Finnish dairy company, which is operating between the EU and Russia.

Medvedev (2006, 38) has analyzed the relations of EU and Russia during the last 20 years. From his findings, he has created a model matrix (Table 2) on how the future scenarios of the relations between the two parties might unfold depending on the different stances that the two will choose in relation to each other. This parallel analysis is important because the others’ way of acting will inevitably affect the others’ as the two are politically and economically intertwined as we have seen. Liuhto (2014) has developed Medvedev’s table further and brought it to the present day. He has analyzed the model and added the most radical political and military crises that have occurred during the last 10 years to the matrix. Subsequently, the effect of these crises on each party’s stance are shown as the moving orange ‘explosion’ within the stance matrix in Table 2. Medvedev’s (2006, 38) and Liuhto’s (2014) analysis and findings are summarized in Table 2 where top row represents the Russian stances and leftmost column the EU’s.

Table 2 **The EU-Russian relations scenario matrix (Medvedev 2006, 38; Liuhito 2014)**

EU	RUS	Liberal modernisation	Authoritarian Modernisation	Bureaucratic Capitalism
Global Actor		Partnership	Zastoi	Zastoi
Common Market Plus		Partnership	Zastoi	Zastoi
Fortress Europe	Eu-	Combination improbable	Cold Peace	Cold Peace

Next, the different stances and their meaning taken by Russia or the EU are clarified according to Medvedev's paper (2006, 20-44):

Russian scenarios:

Liberal modernization: This scenario would be based on decentralization of political decision-making, which would be a great change on what the first Putin's regime followed. In accordance of this liberalization of power, the opening and liberalization of the economy would also be carried out.

Authoritarian modernization: In this scenario, Russia will opt for a centrally lead political system combined with a liberal economic and social agenda. Under this scenario, the leadership in Russia would base in a single strong national leader that is driving holistic reforms across different aspects of a nation.

Bureaucratic capitalism: This scenario would see the current political and economic elite remain in power at Russia and continue the so called 'clan-politics' which have been taking place thus far in Russia. In addition, the current trend of privatization of state ownership will continue thus creating more bureaucracy that would benefit the power elite.

No drastic reforms would take place, as the economy would still largely base on natural resources and their export, which is controlled by the same elite.

EU scenarios:

Global actor: In this scenario, the political and economic cooperation between the member countries will deepen and the central authority of Brussels will be enhanced. Subsequently as the union moves closer to a federation approach, the enlargement will continue closer to Russia through former Soviet Union states in Eastern Europe.

Common market plus: This scenario would see the economic and foreign policy decisions re-nationalized and the power of central authority in Brussels weakened. The economic cooperation would remain significant thus referring to a “common market plus”.

Fortress Europe: This scenario sees the union reacting to global problems such as global terrorism and climate change by shutting its borders and creating a fortress Europe. Whereas the previous two scenarios will see the union continue to operate as a global actor at least to some extent, in this one, the union will concentrate mostly on security issues when dealing with external institutions and nations such as Russia and economic and political cooperation will decrease.

The shared scenarios, in other words, what does it all mean:

Depending on choices that the two parties make individually, both politically and economically, three different scenarios, which might unfold as a result. **Partnership** being the most lucrative and positive one for the development of the region and **cold peace** being the most negative one. **Zastoi** situates in between these two scenarios and if it were to realize, it would mean the continuation of the current state of stagnation. Thus, it can be interpreted as a negative outcome for the future peaceful development of the region. Liuhto (2014) has analyzed the model created by Medvedev (2006) and placed his view of the situation before and after different crises. Unfortunately, it would seem that the situation is moving towards the “cold peace” scenario. The 2014 Ukraine crisis would seem to leave the relationship between the two powers in quite a damaged stage. This situation would have significant effects on the economy of the region. Thus, also it would affect the exports of a Finnish dairy firm to Russia, as EU is moving towards the “Fortress Europe” where it mainly concentrates within its own borders. Simultaneously Russia remains to be controlled by its current power elite and no reforms to better the economy are being made (Medvedev 2006, 38; Liuhto 2014.) The future seems quite bleak for the region and everyone operating in it, if the current environment stands and no resolutions are achieved to better the situation.

3 2014 UKRAINE CRISIS AND ECONOMIC IMPLICATIONS

Previous chapter 2 looked into the 2014 Ukraine crisis holistically. This chapter will focus the attention to the most relevant part of the crisis in relevance to this study, the economic sanctions. They are supposedly the most visible and straightforward implication on economic activity within region when analyzing the economic activities that have resulted from the crisis. Bishop (2009, 99) defines economic sanctions posed by countries and institutions on to countries as follows:

"A way of punishing errant countries, which is currently more acceptable than bombing or invading them. One or more restrictions are imposed on international trade with the targeted country in order to persuade the target's government to change a policy."

These kinds of economic sanctions might include measures such as limiting export and import of a specific country or limiting the ability of an individual or an organization to transfer funds or other factors of production (Bishop 2009, 99). In addition, to severe humanitarian and even military crisis, the Ukrainian crisis of 2014 provoked the Western countries to impose substantial and targeted sanctions on Russian economy and Russian individuals. Russia then countered these measures by posing its own counter-sanctions against the West (Aljazeera 2014; Pynnöniemi 2014; Dolidze 2015, 1). Historically speaking, there are previous examples of economic sanctions by the EU and the US on individual countries, for example, sanctions have been posed against Iran and North Korea, due to their nuclear weapon programs. From these previous cases, it has been found that sanctions are no immediate solutions and the effects that they have on target countries might take a long time to realize (Peltonen 2014). Freedman (2015, 29) states that, at best the economic sanctions posed by another country on another, take time to work and force real pressure on the subject nation.

Sanctions should be seen as tools to enhance a broader strategy to affect the target nation in order for it to develop its democracy and other aspects of a society into a direction deemed wishful by the country posing the sanctions. When applying this kind of economic 'hard' pressure, the acting nations and institutions should always remember to use the 'soft' ones too. Sanctions should not be just punishments, rather encourage countries' governments to change their behavior. (Dolidze 2015, 6; 14-15.) In the case of 2014 Ukraine crisis, it would seem that the West has put its sanctions in place without further planning, or a broader strategy, which, in theory, makes the sanctions inefficient. Russia's countersanctions on the other hand would seem to be just as rash and unplanned. It would

seem that both sides have imposed sanctions in the lack of a better plan but because something needs to be done to show strength and to punish the other (El-Erian 2014, 46; Freedman 2015, 27).

As we saw in chapter two, the economic issues have been present in this crisis much like the political ones. The crisis is based almost as much upon economic as political disagreements. The trade negotiations have evolved within the region with Russia and the EU both trying to lure Ukraine into their own respective trade unions. This grown tension in the issues of trade will have contributed to economic sanctions having such a big role in the crisis and its resolution.

3.1 Economic sanctions during the Ukraine crisis

The sanctions have occurred during the crisis almost from the very beginning after the involvement of the EU and Russia. The EU and the US put in place the first ones on Russian elite and their funds. As the crisis escalated further and expanded, more and broader sanctions were put in place by the West to include not only individual people, their funds, and traveling rights, but also organisations and companies in Russia were put in the list of targets to be sanctioned. Russian economy's engine, the strategically important energy sector, though remained mostly unaffected by the sanctions by the EU, as many member countries of the EU are dependent on Russian energy. Figure 4 shows the targets for the sanctions posed by the EU. The fact that the energy sector remained untouched might have made the sanctions a little bit less effective and holistic as the Russian economy is indeed very much dependant on the ability of its energy sector to produce GDP. (Stratfor analysis 2014; Peltonen 2014; Banerjee & Talukdar 2014, 3-4; Kovacevic 2009.) It could also be that the EU wanted to punish the Russian government but not devastate the economy as a whole because the economies of Russia and the EU are very much intertwined.



Figure 4 Sanctions posed by the EU on Russia (BBC 2015)

Russia, quite soon after the second Western sanctions, stated that it would pose its own sanctions, often referred to as the countersanctions. These sanctions are at the core of this study. Russia's countersanctions were different from the West's: they restricted the import of goods to Russia from the countries involved in posing sanctions on Russia. The West on the other hand have put sanctions on Russian individuals and companies. It is therefore, important to make a clear differentiation between sanctions and their nature posed by each party in the crisis. There are clear differences in the sanctions posed by each party. As it has been stated, there would seem to be three major parties in the crisis outside of Ukraine: The Russian Federation, The European Union and The United States of America (Teramae 2014; Peltonen 2014). All three of these have posed sanctions or restrictions during the crisis but the nature varies significantly. The sanctions posed by the EU have been targeted on individuals and organisations specifically involved in the events in Ukraine, at least according to the EU (Figure 4). Whereas the US sanctions have been more holistic affecting for example the immediate close circle of president Vladimir Putin and Russian economy as a whole. The US sanctions are also more comprehensive as the US has no significant dependence on Russian economy's ability to perform, whereas many EU countries are in close trade cooperation with Russia. (Peltonen 2014; Banerjee & Talukdar 2014, 3-4; European Union 2014a.) Russian countersanctions mainly focus on such measures as imposing trade restrictions on imports from countries involved in posing sanctions on Russia. These trade restrictions included most notably, in terms of this paper, import restrictions on food goods from the EU and thus also from Finland. (Simola 2014; European commission 2014.) The Russian countersanctions targeted, in addition to the EU: the US, Canada, Norway and Australia. The countersanctions

consist of a one-year import embargo of agricultural products, raw materials (of foodstuffs), and foodstuffs originating from the countries listed previously. In relevance to this study, it is important to notice that dairy products of course are included in this listing; later Russia though excluded lactose-free milk products from the list of products sanctioned. (European commission 2014.)

The relevant scope of sanctions during the 2014 Ukraine crisis is the sanctions that have been posed by the EU and by Russia. The sanctions put in place by the US will be left out of the analysis. This is because the scope would be too wide to analyze if the US was involved and because those sanctions are not relevant in the context that this research is studying. In addition, this research is focusing on a company, which is headquartered in the EU, thus the focus will be on the EU point of view rather than Russian.

Dolidze (2015, 14) has summarized the key points concerning the exchange of sanctions between Russia and the EU in a SWOT-analysis (Table 3). The table shows the strengths, weaknesses, opportunities, and threats from the EU's point of view during the crisis when the exchange of sanctions is concerned. The most relevant points for this study are highlighted with bold text. In SWOT-analyses the top row (Strengths and weaknesses) represent the internal context of the organization which is observed in the SWOT. It includes things that stem from within the organization or institution on which the analysis is made. The bottom row (opportunities and threats) then represent the external dimension. It includes points that stem outside the organization on, which the analysis is being made.

Table 3 SWOT-analysis on sanctions from EU's point of view (Adapted from: Dolidze 2015, 14)

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • sanction's wide-ranging sectoral nature (right targets) • Credible political value for AA/DCFTA countries (Association agreement/Deep and Comprehensive Free Trade Agreement) • Already recognizable impact (ramifications on Russian economy) • WTO (World trade organization) and SWIFT (Society for Worldwide Interbank Financial Telecommunication) – attacking/threatening pieces • Collaboration with the US (stronger economic pressure on Russia) 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Lack of unity within the EU (different vulnerability levels of member countries) • Lack of solidarity from the candidate countries • No fully-fledged strategy towards Russia and lack of the democracy support instruments • Russian's reactive jingoism and Putin's rising approval rates • EU image hurt in the eye of ordinary Russian people
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Additional impetus for the development of the EU sustainable consumption and production • Deepened transatlantic cooperation/integration • Opening up new market doors to the local products • improvement of the SPS (sanitary and phytosanitary) levels in the potential market countries • Stimulus for the member countries to further develop a common energy policy 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • Energy dependency on Russia (Kremlin cutting the supplies off) • No tangible present alternatives to Russian energy supplies available • Kremlin's unpredictable policy/decision-making • Russia further destabilizing the Eastern Partnership -region • Russia developing alternative to SWIFT (ramifications on the world financial system) • Russia venture of de-dollarization (EU dragged along the US)

From the strengths section in Table 3 it can be seen that the sanctions are already taking an effect even though sanctions are usually seen as a long-range strategy with their impacts realising after a long time. The sanctions posed by the EU on Russian companies and individuals have started to take an effect according to Dolidze (2014, 14). In addition, the wide-ranging nature of EU's sanctions is considered a strength along with the cooperation with the US. However, Finnish Ministry of Finance (2014) point out in their report that Russian economy has been in the decline from 2013 and, thus the actual effects of these sanctions alone on Russian economy, are extremely hard to value because there are so many other things involved in the current economic situation in Russia. The opportunities for EU are a lot harder to realize at least in short term. Of course, the fact that the Russian market has been blocked for food producers creates a need to find new customers, which, naturally, is so much easier to say than do. If this would seem like a challenge, then the development of a common energy policy for more than 30 countries of, which many are dependent on Russian energy, seems like an impossible mission to achieve in the short term. Nevertheless, it can be considered as an opportunity if the EU is able to achieve it.

The weaknesses and threats side of the SWOT seems to give a more realistic picture of the current situation from the EU's point of view. The lack of a coherent strategy on Russian politics enforced by a lack of unity in the Union make it quite hard for the sanctions to take an effect. Furthermore, the dependency on Russian energy, lack of viable options in the short-term and the unpredictability of Kremlin's policy would seem to add in to the negatives for the EU. Then again, the fact recognized by the Finnish Ministry of Finance (2014, 5) that the Russian economy is in a very bad shape to start with, would give the EU an upper hand in the sanctions. Russian economy is in no shape to handle any additional restraints on it, a fact that is universally recognized. (El-Erian 2014, 48; Finnish ministry of Finance 2014, 5; Dolidze 2015, 15; Wilson 2014, 264; Freedman 2015, 29.) Still Russia is countering the EU's sanctions with its own set of counteractions.

The countersanctions by the Russian federation are at the centre of this study as they are the ones contributing most straightforwardly to the operations of the Finnish dairy company Valio, which is exporting into Russia. The EU sanctions might be seen as affecting those operations also through weakening the Russian economy and thus diminishing demand and growth opportunities in Russia but in order to keep the study focused, those effects are excluded from the analysis. (Finnish ministry of finance 2014, 7.) The European commission (2015) has made an analysis on what kind of actions the import embargo will have on the production of food products and market performance in the EU. This analysis will show why the food industry and Finnish dairy industry are at the core of this study. The most affected sector within the food industry would seem to be the fruit and vegetables industry as their domestic markets have reacted strongly to the sanctions posed by Russia. The meat industry is not that closely analysed and its performance would

seem to be remaining in its current state even after the sanctions in late summer 2014. This is because Russia has had restrictions on meat imports from the beginning of 2014 and these new sanctions thus do not add to that embargo. The dairy industry then, which is the most important for this study, would seem to situate somewhere in between these two previous industries in terms of severity of the situation and the importance of actions by the Union. The commission has found that the dairy industry has been able to replace the Russian demand on their domestic markets and the EU's internal market area. In addition, the prices on domestic markets and the EU market as a whole have not reacted as radically to the sanctions as they have on the fruit and vegetables sector. Thus, the European commission sees the situation for the dairy industry as such that it will cope as a whole but some member states (Finland and the Baltic states) and their dairy industries will be more severely affected. (European commission 2015.)

The specific effects on Valio and its operations will be analyzed in subchapters 6.1 and 6.2 and in the conclusion chapter 7 of this study. Valio has indeed been affected by the crisis in Ukraine and the sanction politics that the crisis has aroused. These events have made it inevitable for the company to engage in corporate crisis management.

3.2 Finnish food industry's exports to Russia

Chapter 6 will take a closer look into the specific case company that this study is researching, but at this point, it is important to first establish the macro environment in which the Finnish dairy company Valio is operating. The context that is relevant for this paper is evidently the trade of an EU-member country into Russia, a trade, which has been affected by the 2014 Ukraine crisis. More specifically, by the economic sanctions posed by the Russian government on food imports from the EU member countries. The research will look into a Finnish dairy company exporting into Russia. Finland and its business environment have been chosen from all of the EU members because the researcher is Finnish and thus the information gathering would be easiest to do in Finland and Finnish secondary sources would be easiest to access. Additionally, as the European Commission (2015) has found, the Finnish dairy industry has been severely affected by the sanctions posed by Russia. Due to these facts, in this subchapter the importance of Russia as an export destination for Finnish food industry, and for case company Valio Ltd. as a part of that industry, is clarified. This will aid to justify the case company selection for the research. Food industry was chosen because of the immediate nature that the sanctions during the crisis have on it. Russian government specifically placed an import embargo on foodstuffs from the EU and a few other countries (European commission 2014). Other export industries will have been affected by the crisis also, but the effects on them have not been

straightforward. Rather, they are affected by the crisis through the weakening of the Russian ruble and the economy as a whole. These kinds of effects, though, have been excluded from the analysis in this study due to the limited time and space available to conduct the research.

Russia has been the most important trading partner for Finland since 2007 (Finnish Customs 2013a, 1). In 2013, it was the third biggest export destination for Finland when including only the exports of Finnish goods not transit exports through Finland (Finnish Customs 2013b). Even though the overall export to Russia was in decline by 16% in January-March 2013 compared to the previous year, export of food goods during the same time had increased by 3%. (Finnish Customs 2013a.) Finnish food exports to Russia then totalled in 2013 at MEUR 430 with Valio accounting for around MEUR 350, which makes over 80% of all food exports into Russia from Finland. (Finnish Ministry of Finance 2014.) Though it needs to be remembered that the share of food goods of Finland's total exports is quite small, only 2,5% in 2010: so national effects of the Russian sanctions are not as dramatic for Finland as a whole. (Finnish Customs 2010; Finnish Ministry of Finance 2014.)

Even though the macro significance of Russian food exports is quite small, the effects of the crisis in Ukraine on the micro level might be more severe. The Finnish government has stated that it is extremely worried how the sanctions posed by Russia on certain exports from the EU might affect the operations of individual Finnish food companies (Yrittäjät 2014). The share of Finnish dairy industry of total Finnish gross domestic product (GDP) totaled in 2013 at BEUR 2,5, which makes 1,35% of total GDP (Viitaharju, Määttä, Hakala & Törmä 2014, 203). Thus, the importance of food industry for the national economy of Finland is not that significant if you only look at the revenue numbers on a macro level. On the other hand, the Finnish food market is very centered on domestic production; domestic companies supply almost 80% of the total consumption of foodstuffs. (Finnish Food and Frink Industries' Federation 2014.) From this point of view, the Finnish food industry is very important for Finland, as majority of its citizens are dependent on domestic food production.

From the above facts, it can be concluded that this issue indeed needs further analysis and there is a gap to research. Even if the total value of Finnish food exports to Russia is not that significant in comparison to other export industry, or the importance of dairy industry as a source of GDP is quite small, there is still need to secure the future of Finnish food industry. We have seen that Valio accounts for a huge amount of total food exports into Russia, which makes it an interesting and important case company to study for future implications for both managers, and academics alike. This in addition to the fact, that the Finnish Ministry of Finance (2014, 7) has stated that the dairy industry, with Valio in the center, is the single mostly affected industrial sector in Finland due to sanctions posed by Russia. In addition, as we shall see in the next chapter 4, Valio is a cooperative with a

vast subcontracting network all over Finland, which naturally will also be affected by the fact that the corporation itself loses significant revenue on the Russian market (European Commission 2015, 5).

4 CORPORATE CRISIS MANAGEMENT

At this point, this paper starts to discuss corporate crisis management and thus the focus point turns from political and economics questions towards business research. First, it is important to make clear what is corporate crisis management and what it is not. Heller and Darling (2012, 153) have defined crisis management as a systematic approach on how to deal with crises that the organization faces in such a manner that the organization can continue functioning as normally as possible and to execute its strategic goals to the best of its ability. Additionally, it is important to clarify that corporate crisis management is supposed to be a long-term exercise. It should be a part of everyday planning in an organization. People within the organization should listen and observe the operational environment in order to spot possible crises scenarios and triggers. Some think that crisis management should only happen when a crisis occurs. We shall see that the literature traditionally approaches this theme from this perspective. The biggest downfall in this thinking is that many times that is too late for the management successfully steer the company towards safety, let alone benefit from the crisis. The positive outcomes or their possibilities are often overlooked in crises. This is understandable as the negatives very often outweigh the positives, but it is important to try to make the best out of a bad situation. (Heller & Darling 2012, 153-154; Janes 2010, 89-91; Müller 1985, 40-41; Shrivastava & Mitroff 1987, 5-7.)

It is very common in corporate crisis management literature to think that every crisis is a possibility in disguise. How the management manages a specific crisis, determines whether that possibility is revealed and whether it is possible to take advantage of it. (Janes 2010, 93; Augustine 1995, 3.) The most important thing to keep in mind when managing corporate crises is to remember that you want your company to survive in the long term. Decisions must be made fast when managing an acute crisis situation which disturbs the organization's ability to function. To add to an already stressful situation for the management, this fast decision-making needs to be done, more often than not, with insufficient information. Companies that have prepared themselves beforehand usually handle these situations more effectively, better and assure the long-term survival of the firm. (Augustine 1995, 20-31; Shrivastava & Mitroff 1987, 6; Asel & Posch & Speckbacher 2011, 1-2.) For example, layoffs might seem like a quick fix to better a company's profitability during or after a crisis but they most likely are not the optimal option for a company in the long-term as important tacit information and knowledge is always lost when layoffs occur. (Wetlaufer 1998, 143-144; Asel et al. 2011, 1-2). Of course, sometimes these kinds of actions are inevitable if the company faces crucial financial problems in the short-term due to a crisis. In addition, to these issues a profound question concerning corporate crises is whether the crisis is stemming internally, or is it a menace emerging outside the company.

The concept of corporate crisis management as a field has been studied widely for many years. The basic research, though, has mostly been looking at crises stemming from inside the company through management failure or some other internal shortcoming of the organization. (Müller 1985, 38.) Modern literature has found however, that we are now entering into a new era where unprecedented external corporate crises, such as political or governmental crises, are occurring more and more despite the actions of corporate management (Heller & Darling 2012, 152). The Ukraine crisis of 2014 and its effects on corporations operating in the economic region, clearly form a crisis that has evolved and escalated without any input by the individual companies operating within the economic region. Despite this fact, the sanctions posed by the Russian government on food imports from the EU have affected the Finnish dairy companies and have forced Valio as one of them to act; hence, the crisis has required the Finnish dairy company Valio, which is exporting to Russia to engage in corporate crisis management. At this point, it is worthwhile to underline the fact that the financial effect that the Ukraine crisis has had on Valio clearly puts the company into a crisis situation. This issue will be looked more closely in chapter 6, but it is important to justify that the situation indeed called for corporate crisis management in order for this chapter to be relevant for the research.

4.1 Defining corporate crises

Corporate crises are often called also organizational crises, especially in business literature and research. The fundamental meaning of the two is the same and thus they are often used simultaneously in papers and studies alike. In this research also, both of these concepts are present but corporate crisis is viable because corporate crisis management offers the practical theoretical framework for this study. Pearson and Clair (1998, 60) have made a holistic and profound definition for organizational crises based on a number of studies on the subject that in many ways confirms the statements and findings made in this study concerning the subject of corporate crisis:

“An organizational crisis is a low-probability, high-impact event that threatens the viability of the organization and is characterized by ambiguity of cause, effect, and means of resolution, as well as by a belief that decisions must be made swiftly.”

Previously in this chapter, it was stated that the basic literature on corporate crisis management has focused mainly on internal crises. In addition to Pearson’s and Clair’s (1998, 60) fundamental definition of corporate crisis it is important for the objective of

this study to define whether the crisis is internal or external. Traditional literature concentrates on internal crises but during the last two decades, and especially after the 9/11 terrorist attacks, hurricane Katrina, and the economic crises of late, the focus on research has started to shift towards the management of external crises. These are crises, which have an effect on a specific company operating within a specific context, which the crisis affects. These effects may be either direct or indirect. In addition to the change in corporate crisis management literature, the same kind of shift can naturally be witnessed in the kinds of actual crises taking place in corporations. Whether the crisis is internal or external also affects the way that the organization is perceived to act during it. Traditionally, crisis management literature has seen the organization as a victim when discussing external crises. This is because internal crises are seen as something that is induced by human actions and external ones as something else, something that the management is not able to affect because the human dimension is not as evident as in internal cases. Corporations in external crises have been put there by outside happenings out of their reach so to speak. (Crandall et al. 2014.)

Previous literature on corporate crises and their management on crises stemming from outside the company has been mainly dealing with radical and extreme changes in the company's external operating environment. These changes have usually been perceived as being something that radically endangers the survival of the company or its employees for example. Examples of these incidents include such things as terrorism, fires, or weather disasters. (Crandall & Parnell & Spillan 2014, 1; Huzey et al 2014, 3; Shrivastava & Mitroff 1987, 1-2.) After the 2008 global financial and economic crisis the scope has been widening and crises are not seen as only the most crucial and devastating events that risk the very fundamental survival of a company. Rather, a crisis might be something that disrupts the everyday operations of a firm that requires actions to be taken in order to ensure that the company can continue operating and return to normal state as soon as possible. (Asel et al. 2011, 1-2; Heller & Darling 2012, 152-153; Müller 1985, 1; Janes 2010, 89.) A good example of this is the 2007 crisis that hit Toyota car manufacturing company, which had to pull tens of thousands of cars back to its factories in order to undergo crucial security repairs (Heller & Darling 2012, 159). This crisis did stem from inside the company but it had elements of external crisis management, as the potential PR damage was substantial. This crisis severely harmed the company's reputation and revenue in the US market but the company's fundamental existence was not in doubt. This example describes well the complexity and multidimensional nature of corporate crisis management. This research paper also applies the broader concept of corporate crises and their management, as we will see later when the case company and its actions are in the focus.

We have now seen that a crisis does not need to be a profound disaster such as hurricane Katrina in New Orleans but also a conflict, political tension, trade restriction et

cetera, can cause an individual company substantial harm in its operations and future prospects; this is the context and discourse that this research addresses in terms of corporate crises. The Ukraine crisis is still somewhat a mild conflict compared to full frontal wars between nations or natural disasters taking out factories, other buildings, or entire infrastructures completely. Still the effects that the crisis has had on an individual Finnish dairy company seem to be far reaching and challenging to say the least. Chapter 6 will take a closer look on how Valio has been affected by the crisis and what kind of implications it has had on the operations of the company. In this chapter 4 it is important to determine how a company can best react and prepare for a crisis on a general level. The theoretical findings will then be drawn into practicality through the case of Valio in later on.

4.2 Crisis management process in theory

The literature and former theory on corporate crisis management is unanimous on the fact that these themes and issues are something that companies everywhere, despite their size or stature, should take into account in their everyday operations (Huzey & Betts & Vicari 2014, 2-3; Janes 2010, 89). Additionally, crisis management is not just something a firm does when it confronts a crisis; many times, it is far too late to act if the situation has reached that point (Huzey et al. 2014, 2-3). It has even been stated that 80% of companies that lack a sufficient plans to operate in radical crisis, that puts the company's very existence into question, go out of business in 2 years after a crisis hits (Brown 1993). Even if the literature agrees on this, the way a company should prepare, manage and continue operations after a crisis hits, is not as unanimous in former research on the subject. This subchapter looks into various researchers' findings and further enhances their findings into a coherent model of how a company should prepare and operate its crisis management process.

The research on corporate crisis management started to form in the beginning of 1980 with articles published in small numbers until the beginning of 21st century. Especially the US as a nation and as a national economy suffered severe disasters during the first ten years into the new century. 2001 the terrorist attacks on the World Trade Center in New York City and the most disastrous hurricane ever to hit the US in New Orleans in 2005 shattered the businesses and society. These events according to Crandall et al. (2014) are the main reasons and justification for why corporate crisis management literature, and subsequently article numbers, has exploded after 2006. In addition, the discourse in the articles, as shown in the previous subchapter 4.1 has changed to include more external crises that need managing as well as traditional internal ones. The operating

guidelines from theory for corporate crisis management has remained quite similar throughout the years but as it is in the nature of research, when it is conducted more, also the implications start to differ and multiply.

Traditionally corporate crisis management has been seen in literature as a three-stage process. Figure 5 represents this kind of thinking.

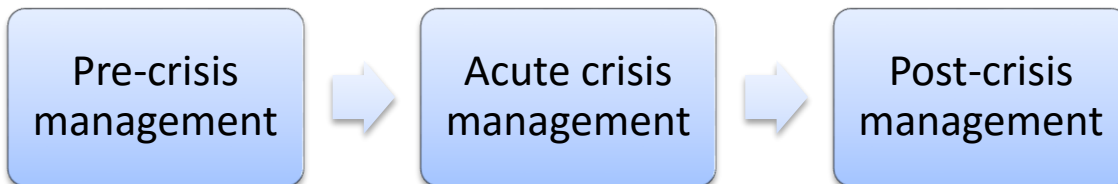


Figure 5 Crisis management measures process (Crandall et al. 2014)

The traditional view includes three different stages of corporate crisis management: 1) preliminary crisis management (pre-crisis management), 2) acute crisis management and 3) post-crisis management. (Crandall et al. 2014.) **Pre-crisis management** is about planning, creating action plans, forming crisis management teams for different crisis scenarios beforehand and orchestrating crisis audits in order to prepare the organization to face the unthinkable in its best possible form and ability. The way that these three distinct exercises in this first stage appear is quite straightforward. Crisis audits are, or rather should be, done regularly in all businesses. They are about analyzing the operating environment actively and identifying possible crisis scenarios. From these findings, coherent plans should be drawn on how a company confronts a specific crisis scenario and finally a specific team should be created that takes the reins so to speak if that scenario presents itself. The kind of basic assumption for pre-crisis management traditionally is that there is a crisis in the horizon that needs to be prepared for. (Shrivastava & Mitroff 1987, 9; Crandall et al. 2014; Heller & Darling 2012, 152).

When the crisis is identified and the company cannot avoid it, the second-phase, **the acute crisis management phase**, of crisis management begins. The organization needs to be steered clear of the crisis as soon as possible with as little damage and harm ensued on its operations. In an ideal situation, the crisis scenario that the company has encountered has been identified in the regular crisis audits and the crisis management operations can begin as soon as possible. This is because, it is important for the management to be able to make decisions and make them fast. This is extremely more efficient if there are some kinds of prepared starting points or guidelines which to follow. Usually, the crisis management team and its readymade plans are activated in this stage, if they have been made and they fit the situation. However, it needs to be remembered that often the easiest

way out would seem to be to adjust the finances of the company through layoffs for example. These kinds of actions though, often put the long-term survival of the firm in danger even if the crisis is handled and company is able to continue its functions normally. (Crandall et al. 2014; Janes 2010, 89; Asel et al. 2010, 214; Müller 1985, 44-45.)

The final phase is the **post-crisis management**. The most important things to achieve here are to ensure that the absolute most is made out of the crisis situation. Everything positive that there is to gain must be taken advantage of and usually in every crisis; there are positive possibilities if previous phases have been handled accordingly. (Heller & Darling 2012, 163-164; Crandall et al. 2014.)

Regardless of the scale or strategic relevance of the crisis for a company, the top management should always be included in crisis management during all stages and they should contribute to them. Many times though, if the crisis is large in scale or if it holds significant importance in relevance to the company strategy, top management team often transform into the crisis management team itself and does not delegate the responsibility at all. This is a good practice because if the crisis is large in scale and has strategic significance, the only people that have the power to make decisions of that magnitude are the top management. (Shrivastava & Mitroff 1987, 5; Janes 2010, 91.)

The latter research has started to include other measures on top of these three basic management phases. The main evolution in the findings compared to traditional literature is the nature of corporate crisis management. The same three phases are still present but the process of corporate crisis management is seen more as an ongoing function that needs to be done all the time even if an actual crisis is not insight. The word ‘function’, in this respect, does not imply that corporate crisis management should be a separate organizational function, but it is something that everyone in the organization should do as a part of his or her everyday functions. The emphasis then is on the first phase of pre-crisis management. Strategic and operational planning and analyzing should be done all the time both internally and externally. Thus, the crisis audits and their importance are enhanced and they should be present all the time. (Heller & Darling 2012, 155; Crandall et al. 2014; Shrivastava & Mitroff 1987, 6-7; Janes 2010, 89-90; Selart & Johansen & Nesse 2013, 99-101.) For example, export companies need to analyze their export markets all the time and try and find implications of possible crisis scenarios even if there necessarily is no evident reason to do so (Müller 1985, 42). Some researchers make a distinction between these efforts and corporate crisis management. They see the pre-emptive measures as a completely different research field from corporate crisis management; this field is called crisis prevention (Selart et al. 2013, 99). This study though views crisis prevention as a part of corporate crisis management and includes those issues into findings concerning corporate crisis management. This is because the two are very much intertwined and the joining of the two offers a much more coherent picture of the actions concerning corporations in crises and preparing for them.

From these findings and analysis of former literature and research, we can make the conclusion that instead of a straightforward event based process, like the one in Figure 5, the corporate crisis management function can be seen rather as a cycle process. Figure 6 displays the model for this kind of thinking on corporate crisis management.

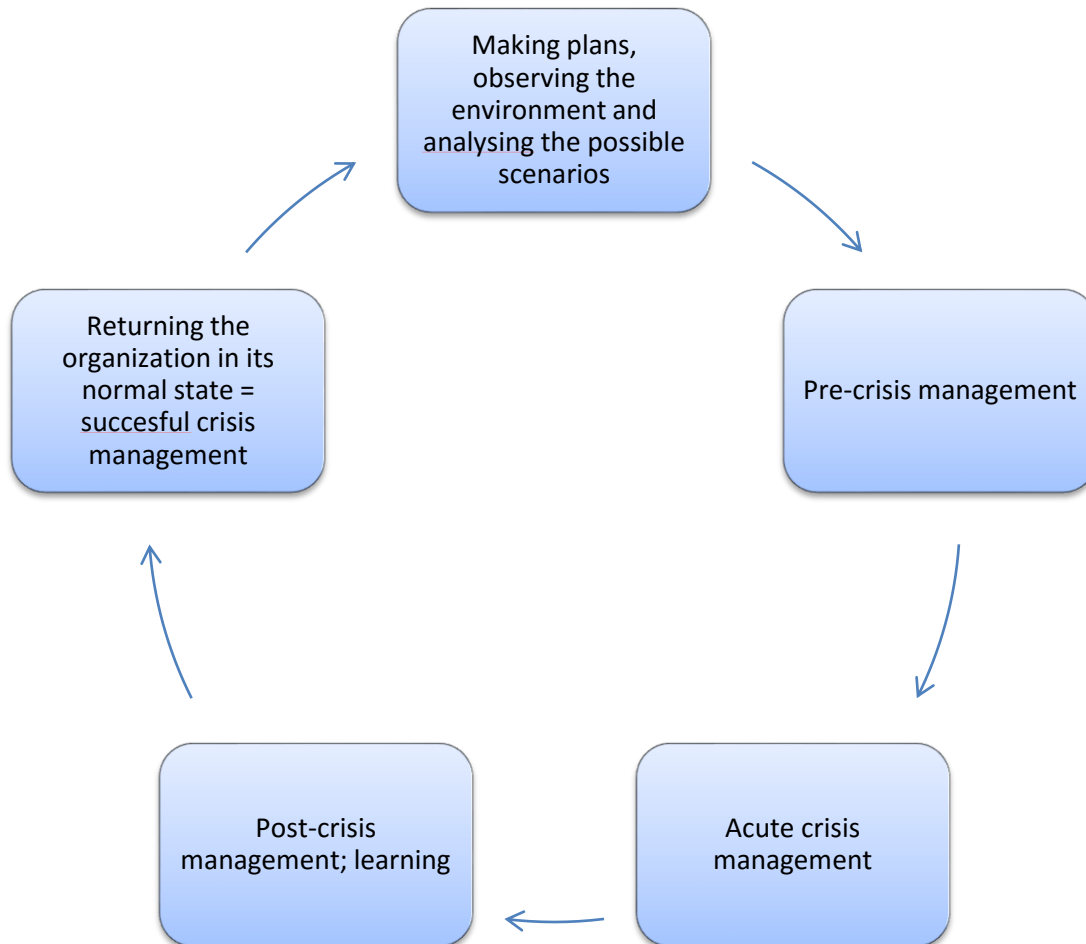


Figure 6 Corporate crisis management as a cycle process (Adapted from: Shrivastava & Mitroff 1987, 6-7, 9; Crandall et al. 2014; Heller & Darling 2012, 152, 155, 163-164; Janes 2010, 89-90; Asel et al. 2010, 214; Müller 1985, 44-45; Selart et al. 2013, 99-101)

It shows the process as a never ending cycle where an organization prepares for a crisis all the time in the background and when a crisis hits the prepared plans and strategies take an effect and crisis management takes the stage. After the organization is steered clear of the crisis, it is time to learn from it and return operations in their normal state. All the lessons from the crisis must be taken into account and thus ensure that the organization learns from it in case of the future. (Heller & Darling 2012, 163-164; Crandall et al. 2014.) If anything, there is always something to be learned from each crisis situation that has befallen the company for the crisis management. Even if there is nothing else to be learned, the corporate crisis management planning, crisis auditing, and the operational

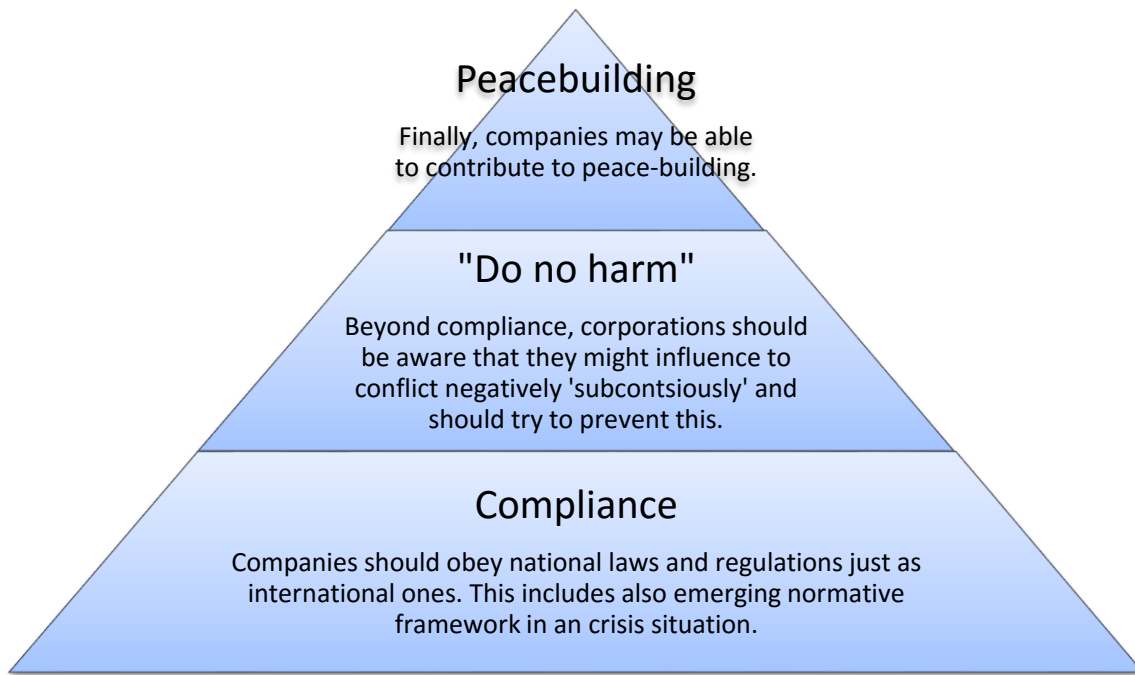
crisis management can be enhanced after each crisis in order for the company to be better prepared for a future crisis. After all this this, the crisis management function returns to its background stance and planning continues after the lessons are learned from the latest crisis.

4.3 External crises - management point of view

In chapter 4.1, we saw how corporate crises could be divided into two distinct categories according to whether they appear inside or outside the company. We concluded that the Ukraine crisis of 2014 and its effects on Finnish dairy company Valio most definitely is an external crisis from Valio's point of view. This subchapter will now look into external corporate crisis management and its specific special implications of how a company should position itself and what kind of actions there are to be taken in order to handle an external crisis to the best of its ability.

A common perception amongst corporate managers is to tend to handle and think of conflicts, such as the 2014 Ukraine crisis, as nation-wide or macro-level issues. This leads to the inevitable conclusions that managers rarely think that they should or even can try to influence happenings when these kinds of conflicts take place in their operating environment. (Zandvliet 2005, 3). Corporate crisis management literature though identifies two different kinds of crises that affect companies and thus require actions from management. These two are internal and external as we saw in chapter 4.1. The literature has concentrated on the previous and perhaps this is the reason why also management tends to look at macro-level environment more as something that they cannot affect and that has led to ignorance at some level. (Shrivastava & Mitroff 1987 5; Heller & Darling 2012, 152.) Of course, it needs to be remembered that external crises might include natural disasters such as the hurricane Katrina, which is clearly beyond the scope of any human to try to influence. The aftermath of such an incident is though humanly controlled and there might be a window of opportunity to influence and have an effect by corporate managers.

Banfield et al. (2005, 141-142) have recognized three distinct strategies for managers to handle situations where their company has fallen into a situation of a conflict, which takes place in its operating environment. These conflicts that Banfield (2005) is discussing are conflicts that stem from human actions, such as military, economic, political, or even war. The three strategies that Banfield has recognized are not excluding each other but rather complementary. These different strategies are illustrated below in Figure 7.



**Figure 7 Strategies for corporations to manage company-conflict impacts
(Banfield et al. 2005, 141-142)**

The bottom tier of **compliance** represents the very least a company should do in a conflict situation. This means that the company acts according to local authorities and does not question the status quo that is taking place. Company merely makes sure that its own survival is not endangered. **Peacebuilding** on the top of the pyramid stands for the strategy for the most a company can do when operating in a conflict situation. In this strategy, the company actively contributes to the conflict situation in a way that would shorten or resolve the conflict so that peace might be achieved. In between these two there is the **"Do no harm"** –tier, which stands for a strategy where company does not actively try and better the situation but try and prevent any negative outcomes that their actions might have on the situation. (Banfield et al. 2005, 141-142.) It is important to take into account that companies can affect governments and other actors through other networks than just the local in the host country. Corporations can for example co-operate with their home governments or institutions in order to influence host governments and institutions. (Zandvliet 2005, 7-8).

Many of these findings are relevant only for very big companies that can have an influence on a situation on a larger scale and not just in its own immediate environment. However, perhaps, what there is to learn from this simple graph from Banfield et al. (2005, 141-142) and the findings by Zandvliet (2005, 7-8) is that a company should not be idle when things are happening in its macro environment. Perhaps a company, despite its size, should be extra careful and 'listen' to every possible signal that might help it to figure out what is going on and possibly even try and affect it through its networks even if there seemingly is no way that the company can affect the situation. At the very least,

this kind of a stance would enhance the capability of the corporation to actively analyze the situation. This then could lead to spot possible positive outcomes of the situation. In addition, a more thorough understanding of the crisis and its reasons would be created, which then contributes to the learning curve of corporate crisis management.

4.4 Corporate crisis communication

No matter what kind of a crisis is in question for the company, internal or external, it always puts pressure on the communications. The influence and value of communications department is often found in a crisis situation. Communications are at the center of crisis management at the acute stage of corporate crisis management cycle (Figure 6). (Heide & Simonsson 2014, 138; Gupta 2011, 55.) Even if communications take the stage at this acute crisis phase, every corporation needs a sound and a prepared crisis communications plan. This plan should then be a part of the more holistic corporate crisis management plan. Communications plan should include established channels of communication both internally and externally and it should be controlled by a pre-planned communication strategy. Today, information travels extremely quick and if a company does not have a communication plan in place in the time that a crisis hits, company most likely finds itself playing catch-up with the media, which is the opposite what the situation should be. This rat race with the media may soon lead the top management ignoring their own personnel and merely concentrate on handling the media in order to avoid public relations problems. The situation should be so that the media plays catch-up with the corporation's communications department. In addition to the media, the staff should be informed just as the media should and justifications and background information should be offered, perhaps even more than for the media. Ignoring the internal dimension of corporate crisis communication might soon lead to rumors and a lack of morale in the workplace. A third party to consider in these situations is always the closest and most vital external stakeholders. These include such instances as financiers, customers, and subcontractors. (Sonnenfeld 1994, 127-130; 133; Heide & Simonsson 2014, 139-140.)

When the crisis hits and it demands fast and out of the ordinary communications by the company, it is important that the top management of the company serve as spokespersons to the external environment, internal environment, and stakeholders (Sonnenfeld 1994, 129). It is important to remain open and honest to the key stakeholders of the company and not try to shift the blame on someone else for example, even if the crisis was out of managements control completely. Companies that face crises straightforwardly and do not ignore warning signals indicating possible crises, and whose management remains accountable throughout the crisis, usually fair better in crisis situations. (Cheng & Seeger 2012, 83.) Media and customer rumors caused by a lack of up to bar public relations

management can potentially be extremely harmful for a company's future aspirations even if the actual crisis was not that radical or harmful (Steele & Smith & Mcbroom 1999, 95).

Public relations management towards the external environment is important as we have seen but perhaps even more important is what the corporation does internally concerning crisis communication. In essence, every employee in a company serves as a spokesperson and it is important that all of the staff have reliable, real-time, and accurate information about what is going on. In addition, to offering the information, communications management should enable the staff to discuss the situation and its implications amongst themselves and with the management. (Gupta 2011, 61; Heide & Simonsson 2014, 139-140.)

Heide and Simonsson (2014, 138-140) have analyzed the internal crisis communication efforts in line with the traditional corporate crisis management process as was illustrated previously in Figure 5. It can though, also expand to encompass the broader model of corporate crisis management that was described in Figure 6. In the **pre-crisis phase**, it is important for the communications function to act and encourage everyone else to act as active 'listeners' of the operational environment in order for potential crises to be recognized in advance. In **the acute crisis phase**, the role of communications enhances as we have seen. In this phase, communications is responsible for: 1) giving and sharing information throughout the organization, 2) facilitating information exchange amongst the staff both horizontally and vertically throughout the organization, and finally 3) counseling managers and other workers on how to handle their own communication in this critical time for the organization. **Post-crisis phase** of crisis communication is about learning, just like in corporate crisis management overall. It is important to tell the staff why things happened and how in order to prevent them from happening again.

The communications department is probably not the function that will save the company in the time of crisis and help the organization to make the most of the bad situation. Rather, it has the ungrateful task of handling the crisis to the best of its ability and at best, it is not paid any attention in the post-crisis debriefing. Then again, if communications fail in their vital mission during a time of crisis, they can be sure that they will be in the center of those discussions. Communications are rarely the saviors but more often than not they are the overlooked necessity.

5 METHODOLOGY

In this chapter, the methodological choices for the research paper are clarified and reasoning behind them is made clear. First, before the actual analysis of methodological choices, it is important to keep the main research goal and its sub-goals, presented in the introduction for the study, in mind. This is due to the fact that in order to properly reason the choices and decisions made concerning the methodology of a given academic research, all of those choices need to be based on the research goals so that the methodology and the resulting conclusions and implications offer the best possible answer to the problems. The research goals are as follows:

- To describe the implications of the 2014 Ukraine crisis for corporate crisis management.
 - Describe background events, birth and development of the 2014 Ukraine crisis and its possible special implications.
 - Analyze the effects of the 2014 Ukraine crisis on economic activity within the region. More specifically analyze Finnish food industry's exporting into Russia.
 - Analyze Valio's corporate crisis management in the wake of the crisis.

5.1 Research paradigm and approach

There are two main paradigms or, methodologies if you will, in academic research, the qualitative paradigm and the quantitative paradigm (Hussey & Hussey 1997, 47-48; Wisker 2008, 74-75). The choice between the two is dependent on the research subject and the researcher's view on the world and science in it, through the scope of what the researcher is researching (Wisker 2008, 68; Hussey & Hussey 1997, 47; Weinberg 2000, 3). These views on the world, and scientific approaches to study it, are also called ontology and epistemology. Ontology can be described as the researcher's perception of the world and of oneself in it, whereas epistemology describes the way that science interacts with that worldview. (Wisker 2008, 68; Hussey & Hussey 1997, 49.)

After recognizing the research gap and the aim of the study has been made clear, the research paradigm is chosen by analyzing the research goals and/or questions and what is the best way to answer them through different methodologies. Qualitative methods are the best when the study is aiming to understand and interpret meanings of phenomena and social structures in their cultural context. Thus, the researcher is an active part of the world and interprets it through his/her own eyes, reflecting on own experiences of the world. Quantitative methods on the other hand are good to test existing theories through hard numbers and facts. In this paradigm, the researcher is more of an observer who

makes analysis on the world objectively and does not actively interpret it through his/her own experiences and views. (Wisker 2008, 74-76; Hussey & Hussey 1997, 48; Eriksson & Kovalainen 2008, 4-5.) The traditional way that the two methodologies usually interact with each other in business research, is that first a qualitative research is done in order to identify and familiarize with a given subject and a recognized research gap in previous academic literature. This research would then be followed by a quantitative research where the phenomenon would be analysed to create a more holistic understanding which would be possible to generalize and thus create new academic theory and literature. Additionally, quantitative findings are more definitive because the researcher has acted objectively. (Ghauri & Gronhaug 2002, 87-88.) It must be remembered though, that these lines are becoming more blurry and more and more business research is done by combining the two paradigms in a single research (Wisker 2008, 75; Zivkovic 2012; 91). In these situations the logic and chronological coexistence of the two paradigms is similar to the one described previously. The quantitative paradigm is used to create definitive and generalized findings whereas; qualitative approach is used to familiarize with the subject.

In this research, the qualitative research paradigm will be used. Specifically, qualitative case study research paradigm is used in analysing the Ukraine crisis of 2014 and its implications on Finnish dairy company's corporate crisis management. First of all, this is because there are no definitive answers to be found to this problem because there is little research done concerning the subject previously, thus making quantitative analysis very difficult. This is in accordance with what Ghauri and Gronhaug (2005, 87) say in their book about qualitative research:

"Research problems focusing on uncovering a person's experience or behaviour, or where we want to uncover and understand a phenomenon about which little is known, are typical examples of qualitative research."

The situation is also very novel and the analysis on it is strongly dependant on the viewpoint of the individual narrating it or the viewpoint of the analyst. This kind of a situation calls for a qualitative approach (Eriksson & Kovalainen 2008, 4-5). Additionally, the phenomena and their analysis are strongly linked to the surroundings in which they appear in other words, the phenomenon is very strongly context related. This fact was elaborated more thoroughly in subchapter 2.3 where it was argued that the crisis at hand is very much a new and different from anything previously. Furthermore, as this is a case study, the nature of case studies is that they are context related. Additionally, it is very difficult to draw absolute numbers or facts from the corporate crisis management of different corporations because the nature of corporate crisis management is that they appear in their own organizational and cultural context. Thus, it can be said that the ontological approach is close to that of an objective observer but the novelty and nature of the

case studied make it inevitable for the researcher to take an active role in order to properly conduct the research and create solid academic findings.

In academic research, there are numerous ways to approach research dilemmas as we have seen. In addition to these practical research design questions, it is also important for a researcher to make it clear, what kind of philosophical approach does he/she have on doing academic research as there are numerous ways to do that. The academics have constructed a proper philosophical stance to every imaginable research design. In this research, the study is very much dependant on the views of people and the way that they have experienced or perceived the events that are taken a look at. Additionally, the researcher's own interpretations are important in making findings and conclusions from numerous qualitative sources, both primary but most of all secondary. This leads the philosophical approach of this research towards that of a postpositivism. Postpositivists argue the importance of the known, much like the positivists, but postpositivism also enhances the fact that the knower is crucial in making academic research. Much like the way that it is in this particular research. Postpositivism is a very usual philosophical approach towards academic research in qualitative business research. (Eriksson & Kovalainen 2008, 18-20.)

Furthermore, to choosing the main research paradigm and philosophical positions, it is important to choose the appropriate manner to approach the relationship of theory and empirical part of the research. There are two main ways how to approach this dilemma: deduction and induction. Deduction is about making conclusions and explanations from former theory and research, whereas induction is about creating new theory and laws through making observations, in other words, empiric findings. In this research the two are both present, as it is many times in business research. In these kinds of situations, when both induction and deduction are used in the same research, the term referred to is abduction. Abduction, by definition, in research literature means the process of moving from descriptions and meanings by people, into creating understanding through concepts, which are created in the empirical part of the study. (Ghuri & Gronhaug 2005, 13-15; Saunders, Lewis & Thornhill 2002, 86-87; Eriksson & Kovalainen 2008, 22-23.) In this research, first the research gap and problems are familiarized and described. This is done trough looking at earlier research and literature on corporate crisis management. In this first part, deduction is the main approach. The study is then brought to the relevant context through the Ukraine crisis and Finnish dairy company Valio's operations with the Russian market. Thus, deduction is also applied at this middle point in order to find the appropriate research gap and to describe the wider context of the issue, which is being researched. Finally, in the last part of the study, induction is used in order to make final conclusions from actual research of how the crisis has unfolded and how Valio corporation has acted in the wake of the crisis in order to fill in the gap recognized through deduction.

Final, and perhaps the most important methodological choice, in this research is to choose case study research as the way to conduct the empirical research. Case studies are mostly connected to the qualitative research paradigm and they are used to address complex organizational and cultural issues that are difficult to study through quantitative methodologies. Case studies also aim to find detailed information and tend to avoid the use of generalized research paradigms. (Ghauri & Gronhaug 2005, 171; Eriksson & Kovalainen 2008, 116-117.) In this research, the study actually consists of two cases, one inside the other. The first one being the political and economic Ukraine crisis of 2014 and the other the corporate crisis management of Valio in the midst of the previous one. In subchapter 2.3, it was clarified why Ukraine crisis has been chosen as a specific wider context for the Valio case study. Despite the fact that there are two cases present in this study, the main focus must be placed on one or the other. This clarification must be made because the amount of information, literature, and issues that can be analyzed in one thesis is limited. This research will put emphasis on the corporate crisis management of Valio. This is because, it is closer to business research and can offer more for business research and theory than the case of 2014 Ukraine crisis. The crisis in Ukraine is, despite the significant economic influence, still more a political crisis than anything else. Both of the events are very novel and the fact that the crisis in Ukraine is unique in itself (see Chapter 2 and 3) also leads to the conclusion that the corporate crisis management measures of a given corporation are unique and can be justified to study as a case study. (Eriksson & Kovalainen 2008, 115-117; Ghauri and Gronhaug 2005, 171.) In addition to this, corporate crisis management, by definition is very much organization related and needs the specific organizational context and thus, qualitative case study research is arguably the best choice to analyse it. (Eriksson & Kovalainen 2008, 116-117.)

5.2 Defining the case study

In the previous subchapter 5.1, it was made clear that case study is the main research method within qualitative research paradigm, which will be applied in this research. This subchapter will further explain and define the case study, which is being conducted. The main purpose of case studies is to study a specific case that takes place in the world and find out what can be learned from it. In the core of case studies is the historical, economic, social, and cultural contexts in which the case takes place. The most basic kind of a case study is on a company or an individual, which has experienced a situation. Individual then narrates it in order for the researcher to be able to form analysis and interpretation about the case. Case studying is a widely used method in international business research, which this particular paper also is. (Eriksson & Kovalainen 2008, 115; Welch, Piekkari, Plakoyiannaki & Paavilainen-Mäntymäki 2011, 740-741.) Due to the contextual nature of

case studies, many scholars, managers, and political decision-makers alike prefer it due to the personal and understandable nature. This though leads to the most profound shortcoming of case research. Case study always takes place in a particular cultural and social context, which is why it is widely criticized due to the lack of general kind of results and impact. In addition, cases are vivid and connected to the environment in which they appear in. Thus, the impact and role of the researcher in defining the case are enhanced in case study research. On the other hand, Welch et al. (2011, 755-757) have argued that especially in international business research, where the topics are very often context specific, the case-study approach can contribute, challenge, and enhance to existing theory by adding a specific viewpoint or an addition. Eisenhardt (1989, 546) has even argued that case studies are good contributors to theory because they can unfold new and novel theories and viewpoints due to their contextual nature. Thus, the nature of case-research as a theory contributor is debatable. (Eriksson & Kovalainen 2008, 116-117; Welch et al. 2011, 755-757; Eisenhardt 1989, 534.) The case research in this study concentrates around two distinctive events that are taking place in peculiar cultural, social, historical, and economic contexts. The Ukraine crisis of 2014 and the corporate crisis management of Valio Ltd. in the midst of that crisis.

The 2014 Ukraine crisis is a broad political conflict ranging largely both geographically and contextually. This research has so far covered the outlines of the whole crisis in previous chapters 2 and 3, but by defining the case, the relevant part of the crisis is enhanced and put into focus. The timeline that this research is interested in is the end of summer 2014 when Russia posed sanctions on the dairy products imported from the EU and what has happened since within Valio Ltd. Therefore, the sanctions are the main interest in the vast amount of different economic, military, and political ramifications that the crisis has spawned. The sanctions bring the crisis from a macro-level into relevance for a specific company, in this study that company is Valio. In subchapter 3.2, it was argued and justified why Finnish food industry was chosen as the broader case context. Later in subchapter 6.1, it will be argued why Valio was chosen from a vast pool of companies operating within Finnish food industry. The main reasons for these selections are that food industry was most affected by the Russian counter-sanctions and Valio was arguably the most affected company within the industry. This makes Valio and its corporate crisis management the most important case to study in the context of 2014 Ukraine crisis and corporate crisis management from a Finnish business point of view.

Corporate crisis management is in the core of the case studying conducted in this research. Much of the case analysis on Ukraine crisis has been done in chapters 2 and 3 but the actual empirical research will now focus on the case of Valio and its crisis management. Timeline for corporate crisis management analysis is not as easy to limit as it was for the 2014 Ukraine crisis. This is because, as we saw in chapter 4, crisis management function can be seen as an ongoing process. This leads to the fact that the timespan is very

flexible but still focuses in year 2014 because that is the time that Valio can realistically be expected to have recognized potential risks from Ukraine crisis that might affect it as a company. The case study is also more interested in the internal operations of Valio, though external aspect is also included to some extent. The most interest is put on four distinctive aspects of Valio's crisis management: 1) when the organization is functioning normally day-to-day, 2) when the crisis hits, 3) post-crisis management and 4) learning from the crisis. These are the same as the different stages of corporate crisis management elaborated in Figure 6 in subchapter 4.2.

Furthermore, case studies can be divided into different kinds of case studies. This particular case study on the corporate crisis management of Valio Corporation is an intensive case study. What this means is that the aim of the research is to understand this unique case from the inside out with the cultural and social context of the case in the focus. Therefore, by investigating the internal actions of Valio as an organization, a holistic, detailed, and contextualized description as well as understanding will be created. (Eriksson & Kovalainen 2008, 118; Welch et al. 2011 755-757.) This will be achieved by interviewing key personnel at Valio. These personnel have had access to all information and operations that took place within the organization when Russia posed the sanctions at the end of summer 2014. They have also been in the organization after, before those events and can thus describe what has happened since, and before the crisis hit. These interviews and interpretations by the personnel will then be interpreted in the analysis chapter 6 of the research and conclusions will be drawn both into business theory and into practice. As argued before, case research can and should aim to contribute to general theories by offering a specific viewpoint or additional implications that have been found in a specific case. (Eriksson & Kovalainen 2008, 120, 126; Welch et al. 2011 755.)

5.3 Data collection methods and the use of data

The data for this research is being collected using both primary and secondary sources. Primary data is in academic research, data collected by the researcher him/herself, such as interviews, surveys or other observations of the world. Whereas, secondary data is data that has been collected by some other researcher or institution, for example internet pages, statistics, reports et cetera. (Ghauri & Gronhaug 2002, 76-81.) In this research, both kinds of data are used to create the coherent picture of events and issues studied. The primary data is an expert interview with Valio representatives and its transcription and secondary, text documents available mainly through internet sources (Ghauri & Gronhaug 2002, 76, 81). These documents include such as bulletins by Valio or other organizations during the handling of the crisis, news articles concerning the issue, expert writings from various sources, and other papers and articles published concerning the matter at hand. As the

crisis itself is a very novel one, as argued in the previous chapter 5.2, the analysis of it in chapters 2 and 3 has also demanded the use of qualitative research in order to build a coherent picture. The understanding of the crisis needs the analysis of numerous news articles and other publications and this is the definition of the use of text documents as a source for qualitative research. This has been done because documentary secondary data is a good tool to analyse historical data to create holistic understanding of events such as the 2014 Ukraine crisis (Saunders et al. 2002; 190).

The interview was conducted as a face-to-face interview with two senior Valio representatives at the Valio headquarters in Helsinki, Finland. This primary data is being used to find the answer to the research goal concerning Valio limited and its corporate crisis management. This is because, corporate crisis management by nature, is something that is rarely elaborated in official statements by companies. Thus, interview enables a much deeper analysis of the subject. Both of the interviewees were, at the time when the crisis hit Valio, in a managerial position and were that also before the crisis and at the time of interview. The interview took place in early summer 2015. The other representative is a member of management responsible for strategic issues of the corporation and the other a management level communications employee. It is usual to conduct qualitative interviews with people such as these when running a case study. The interview was based on a set of questions, which were prepared beforehand accordingly. Questions were based on former literature of the subject of corporate crisis management and findings done in chapters 2, 3, and 4. The actual interview though realised more as a conversation and the interview evolved from a semi-structured interview, which was prepared, towards a more unstructured interview where the interviewer also made additional questions and remarks based on the answers of the interviewees. (Eriksson & Kovalainen 2008, 78-81; Saunders et al. 2002, 246-247.) The reason for this was the novelty and the specialty of the issue and the limited amount of information that the interviewer could possess before the interview about the inner doings of Valio at such a crucial time in the corporations' history. The aim of the interview was to aim for an interview approach that is of a positivist (also called realist) approach, where the facts are in the core of the data collected but due to the nature of the studied subject emotionalist, interview approach was also present. (Eriksson & Kovalainen 2008, 79; Silverman 2000, 122-123). Of course, the feelings of the interviewees were also included in the data because as it was found in chapter 5.2, case studies usually evolve in and around a specific context that is experienced differently by different individuals. The questions asked of the interviewees were open questions encouraging a conversation kind approach to the interview. In addition, the questions were constructed as simple as possible so that the interviewees could easier answer them without having to engage complex questions. The prepared questions were also given to the interviewees in advance in order for them to prepare themselves because of the limited time that they had for the interview. After the interview, the recorded tape of it was listened and transcribed

into a coherent transcript, which was then used in the analysis chapter 6 as primary data. The interview was conducted and written in Finnish for practical reasons and so that conversation would go smoother. After writing the transcript, the text was analyzed carefully and the key points and reoccurring themes highlighted to help the analysis of the data. (Eriksson & Kovalainen 2008, 78-85.)

Interview selection: The interview selection for this research does need further elaboration compared to secondary source selection, as it is quite uncommon to have only one expert interview in a master's thesis. The number of interviews to be included in a qualitative research conducted through interviews is a complex matter. Sometimes a few or even just one interview might be enough, and sometimes you might need tens of interviews in order to build a coherent picture of the subject that is being studied. The decision how many and what kind of interviews are to be included must be based on the research approach and methodology, research goals, time available, and the availability of valid interviewees. Overall, it can be said that the amount of interviews is determined by what is needed to create enough information to meet the ends that the specific study is aiming to meet. When the research is about only one case, the need for quantity in interviews diminishes as the need for quality increases. (Baker & Edwards 2012, 16-25.) The information from a few well chosen, planned and conducted interviews will provide a lot more useful information for analysis than a saturated number of ill-chosen, -planned and -conducted interviews. The amount is not the answer when talking about qualitative research as it rarely is in qualitative research as a whole. Although a certain number of referencing is needed in order to create a coherent picture of the studied subject so that certain subjective views or opinions cannot disrupt objective analysis of the subject. This might though, be achievable through adding secondary sources such as documents, articles, news, and bulletins into the mix of sources instead of a larger number of interviews. (Baker & Edwards 2012, 9.)

In this research, there is only one interview included. There are numerous reasons for this, which will be elaborated here. First, as it was seen in chapter 3 and shall be seen in chapter 6, Valio is the only corporation heavily affected by the Ukraine crisis in Finnish business environment. Thus, there is not much justification to interview other corporations just to create a wider picture because it is already known that Valio is the only one relevant for findings. To add to this reasoning, the food industry is the only relevant industrial field relevant to study. This is because of the imminent nature of the sanctions' effects on the EU's and Finland's food industry. It could be possible to include other industrial fields, but then the scope of the crisis would need to be broadened outside the sanctions to include the overall diminishing of Russian market economy, something that has already been defined outside the scope of analysis in this research. This research being a master's thesis and the outlines that this fact provides are on one hand for the need of in-depth analysis but on the other hand the limited amount of pages. In order to fulfill

both of these limitations it is not plausible to include more industrial fields than the food industry and thus Valio as a case company. Then, within Valio, there could be other interviews conducted but here the practicalities come into play. Unfortunately, it was not possible to get more than one interview from management of the company. The two persons interviewed were the ones with the most relevant information about the crisis and its management within the company and were thus chosen as the ones to interview. Also, the fact there has been a substantial amount of secondary sources used in the research, a sufficiently coherent and holistic picture the events and their reasons can be created by adding them to the data gathered from the interview.

The secondary sources were collected from various sources but generally, they were sourced mainly from the internet from various webpages. In some cases, only secondary data might even be enough to answer research questions accordingly and create a sufficient data to conduct academic research. In this research, secondary data is in fact used to find the answers to all the other research goals besides the one concerning the Valio Corporation. In that specific research goal though, secondary data complements the primary data. In this research, there are numerous secondary sources being applied as it has been said numerous times. They are also used to serve many purposes. In the first part of the research, they are used mainly to form a theoretical background and literature review on the main concepts that are being researched. In addition, to this purpose they are also used to answer research goals concerning the Ukraine crisis of 2014 and the relevance of that crisis for economic activity within the region, particularly Finnish dairy exports into Russia. (Ghuri & Gronhaug 2005, 91-92.) The several different kinds of secondary sources that have been included in this research are as follows: academic articles and other publications (i.e. books), research papers by governmental and other institutions (i.e. European commission publications), institutional reports (i.e. Finnish customs), news articles and bulletins, and finally the news bulletins by the Finnish dairy company Valio Ltd. The main reasoning for the vast amount of different kinds of secondary data being used in this research is the novelty of the issue and the lack of sufficient academic research. In addition, the fact that this kind of political and crisis management issues, especially novel ones, are heavily dependent on the source's own agenda it is important to include several different aspects and views from different sources. (Ghuri & Gronhaug 2005, 91-96.)

5.4 Trustworthiness of the study

All well-executed academic studies, theses, and other publications include an evaluation of the trustworthiness of the performed research and its methodology (Ghuri & Gronhaug 2005, 216-217). This study is no exception to that rule. In this subchapter, the trustworthiness of the performed research and its data analysis will be looked at critically.

This is done, in order to give the reader sufficient information to evaluate the findings and implications of the paper in correct context.

Trustworthiness of a study is about the researcher reasoning why his/her findings, and other contents of the study, should or should not be paid attention or taken into account in future research (Lincoln & Guba 1985, 290). Some researchers believe that both qualitative and quantitative research can be assessed using the same criteria but due to the epistemological differences between the two, qualitative should be assessed from its own starting points (Tynjälä 1991, 387; Mäkelä 1990, 47). It is common in qualitative research to use only one criterion when assessing the trustworthiness of the study. In this research the criteria created by Klaus Mäkelä (1990) will be applied. Mäkelä (1990, 47-48) has found four criteria that should be assessed when looking into the trustworthiness of a qualitative research: *1) the significance of research material and the societal or cultural placement of it, 2) the sufficiency of material, 3) the coverage of the analysis, and finally 4) the ability to evaluate the analysis and to repeatability of it.* All of these four will be gone through individually in order to determine the trustworthiness of this study.

The significance of research material and the societal or cultural placement of it:

This research has analysed two kinds of material: an expert interview and a mainly online document analysis. The research findings would be more holistic and concrete if it would have been possible to conduct more interviews. The way it was done now gives significance especially for the analysis of Valio corporation's inner doings but lacks a benchmark against, which these findings could be compared. In addition, the fact that the interview was conducted in Finnish and the findings and implications then translated into English is a factor that needs to be stated. (Mäkelä 1990, 48-52; Baker & Edwards 2012, 5-6.)

The substantial secondary data aims to fill in this void but interviews or other primary data would have been better to serve the purpose. The vast analysis of secondary data derived mainly from online sources, has aimed to give a holistic picture by including different kinds of documents from different sources (i.e. company websites, institutional organisations, news articles). This gives significance for the material, as it has not been collected from just one source. However, generally the nature of secondary data is that it is not usually created for the purpose of the study that it is used in. The reasons and aims for the creation of these secondary data is usually something else, a company trying to give its opinion or an institution trying to affect political decision makers (Ghauri & Gronhaug 2005, 91.) In this research, the most untrustworthy secondary data is the one provided by Valio. It is only the one company's viewpoint and opinion. It has been tried to benchmark the findings from data from Valio with other secondary data but it is a difficult task. Societally and culturally overall, the research material is thus quite one-sided. The interview is just one viewpoint of the crisis and its management in a single company. Even though, the documents have been collected holistically, it gives only the

Finnish and “Western” viewpoint. It has been the aim to include also other than “Western” publications in the secondary data but due to the language used, there has been substantially more available than any others. (Mäkelä 1990, 48-52; Eriksson & Kovalainen 2008, 97-99; Ghauri & Gronhaug 2005; 96-98.)

The sufficiency of material: There is no simple rule on how much material is enough in qualitative research. Too little does not offer a holistic overall picture needed for in-depth analysis, but too much may drown the important findings in the abundance of material. Basic rule is to collect material that amount when if one collects more, no new findings appear. In this research, the amount of primary data is quite small, but when considering the reasoning given in subchapter 5.3.1, it can be said that this one interview is sufficient in order to reach the aim of the study, which is an intensive in-depth case study of a particular company operating in extraordinary circumstances. The interview offers just the view of two people on the corporate crisis management in the wake of 2014 Ukraine crisis. More interviews would naturally be better but due to reasons given previously and practicalities, this was not possible in this research. The online document analysis is more holistic and quite a lot documents were gone through as the references of this research show. In addition, it was the aim of the document analysis to collect documents from various sources. The great use of “western” sources might have led to a saturation of arguments when the aim has been to include as many different publications and viewpoints, but the West is quite unanimous on the issues concerning the Ukraine crisis. Then again, when thinking about the corporate crisis management analysis the availability of documents is quite limited as the study concentrates on one particular company. It would be better to be able to include sources from different publishers other than Valio but in relevance of this study, it was not seen that important due to reasons described in subchapter 5.3.1 and previously in this subchapter. (Mäkelä 1990, 52; Eriksson & Kovalainen 2008, 97-99.)

The coverage of the material: The coverage of material is about the researcher making his conclusions and findings based on all the material and using the same criteria when going through all of it. The findings should not be based on random pickings from a transcript or a single document. In this research, the findings have been justified mainly using more than just one piece of material. It has been the aim of the research to include as much different viewpoints in order to achieve as much objectivity as possible due to the lack of academic publications concerning the subject because of its novelty. It is though clear that just one interview offers significant challenges to be able to make holistic findings of the subjects studied. The findings from the interview are supported by the findings made in document analysis and vice versa. (Mäkelä 1990, 52-53.)

The ability to evaluate the analysis and the repeatability of it: The ability to evaluate the analysis is about the reader’s ability to evaluate the reasoning of the researcher and that he/she is given the preconditions to accept or disagree with the findings of the

researcher. In this research the analysis, its methods and the reasons for the choices in the process have been explicitly discussed and reasoned. Particular attention has been given to reasoning and openly discussing the different subjects and their possible shortcomings concerning academic research. It is possible for the reader to understand the analysis and evaluate it.

The repeatability of the analysis means that another researcher would be able to repeat the analysis and its conclusions by using the same methods and interpretation that have been used in this research. It would be difficult to repeat this research using the same methods and sources. The main reason for this is not the inadequacy of the researcher but rather the novelty of the issue. The fact that this subject is very novel gives the researcher a lot of freedom in choosing his/her sources and the reasoning by which the data is analysed. Also the situation is still evolving at the time of this study so more and more data is available continuously, which puts future researches in different situation than this study. (Mäkelä 1990, 53-54.)

6 DATA ANALYSIS

This chapter will move the focus of the research towards data analysis and conclusions. Additionally, case company, Valio limited, will be introduced and Valio's point of view to the 2014 Ukraine crisis will be made visible. The other major theme in this chapter is the data analysis. It is divided into three parts according to the three research goals identified in the introduction to this research. Analysis made in this chapter will create the baseline for key findings and discussion of this study in the following chapter 7.

6.1 Case company - Valio Oy

Valio dairy company was originally founded in 1905 as a dairy cooperative named Voinvienti-osuusliike Valio (translation: Butter export-Cooperative Valio). Its original purpose was to serve as an export co-operative to the English market for Finnish dairies that produced high quality butter. Russian market was first established as an export destination for Valio already in 1908, so Russian market has a long history for Valio, more than a hundred years. Several expansions, name changes, and establishment of many foreign subsidiaries later, the current Valio Ltd. was founded in 1992. At the same time, the marketing of owner dairies became part of the company's operations. In 1994, the Russian subsidiary of Valio, OOO Valio, was founded in Saint Petersburg, and since then, the importance of Russian market has only grown for Valio and its owner dairies. The modern history of Valio after 2000 has included several new product segment launches and otherwise expansion of the operations. Today, Valio has 4600 employees, its turnover is around 2 billion euros, and its yearly investments in 2014 were more than MEUR 150. These numbers make Valio one of the biggest companies in Finland. Overall, Valio is a well-managed and a successfully functioning company and it is still owned by Finnish dairy farmers and functions as a cooperative. The fact that Valio functions as a cooperative for Finnish dairy farmers all over Finland, leads to the fact that as the corporation is affected negatively by the markets, the subcontracting network will also be affected straightforwardly. That network then basically translates to most of dairy farmers around Finland. The Finnish ministry of finance (2014, 7) has analyzed that should the sanctions by the Russian government stand, the effects on Valio will most likely lead to pressure on Finnish dairy production, weakening of production prices, and decrease in profitability throughout the supply chain of Valio. (Valio.fi 2015a; Valio 2015a, 6; Canadean 2014; Marketline 2014; Lampronakis 2013, 85-86.)

The fact that Valio is a cooperative owned by Finnish dairy producers makes it a quite different company from traditional limited companies. For example, the success of the

company is not analyzed by the profit or turnover it generates. These bookkeeping numbers for 'profit' and 'turnover' are only for bookkeeping purposes. The way that the yearly performance of the company is valued by its owners is through a number generated by Valio for itself, "milk return". It represents the amount of money that the company was able to pay back to its owners for each liter of milk that was produced for the corporation during a given fiscal year. Milk return in 2014 was around 43 cents/liter but what is noteworthy is that before the sanctions were posed by the Russian government, Valio was performing in a record pace. The number at the end of the year is the lowest in five years for the company with no significant improvement in sight for 2015. In 2014, the amount of milk that was produced for the corporation by its owners totaled in 1929 million liters, which is approximately 5 million liters of raw milk being delivered daily. (Valio.fi 2015a.) This kind of quantities require very efficient and sophisticated logistics networks in order for the raw milk to be delivered to the correct factories to be manufactured and refined into dairy products, which can then be sold for retailers either domestically or internationally.

Despite the fact that the performance of the company is measured in milk return, it is noteworthy to look into the more common financial numbers of the company in order to create a coherent picture of its operations and the size of the company. Valio's turnover has been around BEUR 2 yearly after 2010 and despite the economic downturn; the company has remained quite profitable averaging at MEUR 50 of profit from 2010 to 2013. The latest fiscal year 2014 marked a decrease in both turnover and profit for Valio Ltd. Its net loss totaled at MEUR -36 and turnover decreased by 3,9% with most of the decrease coming from international sales where the decrease was 9,1%. The board of director's at Valio recognize the sanctions put in place by the Russian government on dairy imports from the EU and the overall weakening of the purchasing power in Finland as the main reasons for the weakening economic situation of the company. (Valio 2015a.)

Valio operates both as a manufacturer and as a distributor of dairy products. It is headquartered in Helsinki, Finland but has five foreign subsidiaries in Estonia (Valio Eesti AS), USA (Valio USA), Sweden (Valio Sverige Ab), China (Valio Shanghai Ltd.) and Russia (OOO Valio). Manufacturing facilities it has 15 in Finland, 2 in Estonia, 1 in Belgium, and 1 in Russia. The product offering of Valio consist mainly of dairy products with milk being the major segment and lactose-free products another major key segment. In addition to dairy products, Valio also offers yoghurts and juice drinks. Valio's subsidiaries in foreign markets are mainly responsible for sales, marketing, and distribution of Valio's products in their respective markets. Some of them like Valio Baltics in Estonia and OOO Valio in Russia have manufacturing and refining facilities for some certain product segments. The foreign market operations of Valio have historically been successful and profitable much like the domestic operations, which has enabled Valio to establish itself as the market leader on the Finnish dairy market. (Canadean 2014; Marketline 2014;

Valio 2015a; Valio.fi 2015a; Lampronakis 2013, 85-86.) It is important to notice that as Valio is owned by Finnish milk producers there is not that much incentive for the company to start establishing substantial manufacturing facilities outside Finland as then the milk would need to be subcontracted from local farmers and producers. Thus, leaving Finnish farmers' raw milk without a market possibly. As Valio's first name indicates, its purpose is to serve precisely as an export cooperative for farmers in Finland.

6.1.1 *Valio and Russia*

The importance of the Russian market for Valio, and thus the impact that the Russian government's sanctions on its revenue creation is the reason why Valio has been chosen as the case company in this research. The next subchapter, 6.1.2 will look more closely into this subject. In this chapter, the relevance of the Russian market for Valio will be clarified and the company selection justified. Valio operates its Russian market functions through its wholly owned subsidiary OOO Valio, which is headquartered in Saint Petersburg, Russia (Valio.ru 2015). Valio has been on the Russian market basically since the foundation of the company and in 1994 after the dissolution of the Soviet Union the subsidiary was founded to enhance the operations in the newly formed Russian market economy. In 2012, the turnover from the Russian market accounted for 17% of the overall turnover of the corporation and it totaled MEUR 341. The significance of the Russian market is underlined by the fact that in 2014 the value of all of Valio's international operations was 450€. Therefore, the Russian market accounts for much more than a half of Valio's total international revenue. Even though the years are different, this gives an idea of the importance of the Russian market for Valio. (Valio.fi 2015b; Valio.ru 2015; Dairyindustries 2014; Maaseudun tulevaisuus 2012.) Valio employed on average 475 people in Russia during 2014, which was the most of all the wholly owned subsidiaries of Valio Ltd. This accounts for a little over 10% of the whole staff of Valio Ltd. At the end of 2014 though, Valio had cut its personnel in Russia down to 354, with more cuts planned for 2015. Valio announced a need for personnel cuts in its Russian operations in 2014. The total cuts totaled at 209 employees. These arrangements mean that the Russian subsidiary, OOO Valio will no longer be the largest subsidiary in terms of personnel. (Valio 2015a.)

OOO Valio is responsible for the sale, marketing, importing, and the delivery of Valio's products on the Russian market. Even though it is headquartered in Saint Petersburg, it owns and operates a processed cheese manufacturing facility and a logistics center in Odintsovo, near Moscow. The manufacturing facility began operations in 2009 with an initial investment of MEUR 60. Main target market segments for Valio in Russia are the biggest cities, mainly Moscow and Saint Petersburg. (Canadean 2014; dairyindustries 2014.) Although Valio has these own facilities located in Russia, absolutely the most of

the products that it sells and distributes in Russia are imported from outside Russian borders. The main source factories being in Finland and in Estonia, both of which are EU member countries with a long border with Russia. (Dairyindustries 2014.) Overall, it can be said that, Valio has been successful in its Russian operations. Its products have won several “Product of the year” –awards, which rank products according to their sales volume. Especially, Valio has had success with its butter brands which have in addition to sales volume awards, also won marketing awards in Russia for best marketing efforts. The Russian market has been one that has been able to remain profitable and even increase volume despite the financial crisis that has been rocking Europe for years. (Goodnews-finland 2012; Suomen kuvalehti 2011; Maaseudun tulevaisuus 2012.)

6.1.2 *Valio and the 2014 Ukraine crisis*

In sub-chapter 3.2 it was shown why Finnish food industry and more specifically the Finnish dairy industry was selected as the wider context for this case research. This chapter will continue that justification by offering insight why Valio is an interesting company to examine in terms of 2014 Ukraine crisis. Particularly, the crisis’ effects on individual companies operating in the economic region will be analyzed. The methodological approach on case selection will be done in later.

Valio’s Russian operations have been a success story for both the company and the Finnish dairy industry as it has been shown. All this though, came to a sudden halt during the summer of 2014, on August 8. That day, the Russian government posed an import embargo and sanctions on dairy products from the European Union for a duration of one year. In a heartbeat, Valio faced a loss in turnover that totaled almost 20% of its total revenue for the next 12 months (Dairyindustries 2014). Any company, no matter how profitable, would be concerned over its operations and capability to perform if such a vast cut in its revenue resulted out of nowhere. What makes the situation ever more saddening is the fact that Valio was performing well during the first half of 2014 with milk returns paid to producers being historically high despite the economic recession still weighing on Finnish economy, before the events more than 1000km away suddenly changed everything (Valio 2015a).

Valio’s Russian operations include both manufacturing in Russia and importing from neighboring countries into Russia. Most of the imported products come from Finland and Estonia, both of which are members of the EU. Thus, this side of Valio’s Russian operations came to a complete halt in August 2014. The manufacturing in Russia and the sales of these products manufactured in Russia naturally continued as usual and kept creating revenue for the company.

When things started to unfold at the end of 2013 and in the beginning of 2014 in the capital city of Ukraine, Kiev as elaborated in chapter 2, the events must have not seen that far reaching. A company from one of the northern most countries in Europe probably felt that this was just another quarrel in a long line of similar ones during the last 20 years in the region of Eastern Europe, which could be traced back to the dissolution of the Soviet Union. Then again, in hindsight, it is easier to say that the tension between Russia and the EU started to build up quite quickly as the Crimean peninsula came into play during the spring of 2014. At this point the alarm clocks should start ringing and the “active ears” that have been observing the environment of the company should start indicating that there might be something here that the company should consider. At the latest, when the EU and the US started posing their sanctions on Russian individuals, companies, and institutions the potential crisis must have seen evident. Considering the Russian government’s past, it was very unlikely that they would just accept these restrictions without any counteractions. Then again, there are countless different ways and targets that the Russian government could pose its countersanctions against. However, the added fact that Russia had already posed a seemingly overcautious embargo on all meat products from the EU in the beginning of 2014 because of cases of tainted meat in eastern European farms, would indicate that something similar might be coming this time around also and that the food industry might be targeted (Euractiv 2015).

Then again having a more than 100 years of experience on the Russian market, Valio might have felt that they are accustomed to these kinds of events and trusted that if something happens, they can handle it like before. On 8 August 2014, Russia did something that seemed, and still seems, impossible to understand. Its government posed total import ban on dairy products and a number of other food imports from the EU. This is especially peculiar because in 2011 Russia was 80% self-sufficient in milk production overall but for example of butter’s consumption, which is one of the most important products for Valio in Russia, 40% is imported. Thus, it seems quite incomprehensible how government could ban import for such a basic food product as butter if the domestic production cannot replace that production for the growing demand. (Turku science park 2011 6-7; Suomen kuvalehti 2011.) It would seem that the Russian government did get a reality check after the sanctions had been effective for two weeks. On August 20 2014, Russia removed the ban on lactose-free products. They are one of the most important product segment for Valio both in Finland but also in Russia (Valio 2014a). In the empirical part of the research we shall see whether this compensated some of the loss that Valio suffered by the initial sanctions or not.

It has been shown in chapter 3 that the importance of dairy industry for the domestic economy of Finland is not that significant in terms of GDP and the overall ability for the economy to perform (Finnish Ministry of Finance 2014). Therefore, even though the government would state the worry for individual companies’ ability to perform, the aiding

of these companies would not be the first priority because the national economy had more troubles managing the prolonged recession.

The European Commission (2015, 5-8) has made a thorough analysis on what kind of implications the sanctions have on the European food production and market performance. The most challenged sector in food industry due to these sanctions would seem to be fruits and vegetables with dairy coming second. For dairy industry, the commission found that companies have been able to perform quite well and they have found new customers from domestic markets and new markets. Thus, this focus on vegetable and fruit sector would indicate that the EU would put most of its actions on securing that sector and leaving the dairy companies to find their own way, with some actions of course being taken to help that sector also.

To conclude, Valio as a company has found itself in a situation, which has radically affected the way that it can operate as a profitable company. The events that have led to this have been mostly out of the reach of the company management with very little for them to do. A giant cut in the revenue of the company has resulted from the sanctions posed by the Russian government on dairy imports from the European Union. However, perhaps as a kind of Pyrrhic victory for the company, the dairy industry has been able to handle the situation better than other food sectors in the EU. Thus, leaving it outside the most radical aiding efforts by the Union. Also the Finnish economy has been battling a prolonged recession for years now, and the government having to put most of its economy efforts on handling that situation, this sudden but yet temporary crisis for Valio might not be the first thing to handle despite the official statements. Many findings in this chapter have been left without a definite answer but after the empirical part of the research, these will be stated also.

6.2 Research goal data discussion

The data analysis of the collected data from the primary data interview and secondary data document analysis will be done by reflecting the data on the research goals elaborated in the introduction and methodology chapters of the research. This enables the data to be organized and coded accordingly under different sub-goals. In addition, the analysis chapter 6 will be easier to both read and comprehend by the reader if the data and findings are organized under certain themes. The sub-goals are at the focus in this chapter whereas the final chapters 7 and 8 of the summary elaborates the main research goal, which is:

- **To describe the implications of the 2014 Ukraine crisis for corporate crisis management.**

Both sets of collected data, the primary and secondary, will be analyzed at the same time. The interview and its transcript are not included in the references of this study but most of the secondary data can be found in the references. The only exceptions to this are the internal company bulletins by Valio communications department. They are not available to the public so there is not much sense in adding them to the references. Many of the sub-goals have already been analyzed previously in this study as it was seen throughout chapter 5. This chapter will add to that analysis and include new information especially on the analysis of the last sub-goal concerning Valio's corporate crisis management. This is because most of the data concerning this sub-goal is from the conducted interview and not from secondary data, which has already been analyzed quite thoroughly. The following sub-chapters are named and organized in order for them to represent the distinct sub-goals individually. Many of the issues identified in the data analysis are overlapping and will thus be included in more than one sub-chapter.

6.2.1 2014 Ukraine crisis and its special implications

A lot of analysis concerning the Ukraine crisis of 2014 has been done in the chapters 2 and 3. In addition, subchapter 2.3 has served as the justification on why this particular situation is so profoundly different and calls for a detailed analysis instead of a more general approach on political crises affecting corporations for example. This chapter aims to draw together different data findings that have been found and to build a coherent picture of the crisis and its implications. The sub-goal that has been identified in this research concerning this crisis is to:

- **Describe background events, birth and development of the 2014 Ukraine crisis and its possible special implications.**

It has been established that the situation, which has unfolded, is in fact a quite different from anything that has happened before between the EU and the Russian Federation. The analysis (Table 2) by Liuhto (2014) and Medvedev (2008) even suggests that there has been a profound change in the coexistence of the two global super powers, which should be identified and recognized in order to better understand to dialogue and actions of each party. For example, the substantial use of economic power in order to affect the other is something that has not occurred before between the EU and Russia. The previous crises and disagreements experienced in the region of Eastern Europe and Eurasia since the dissolution of the Soviet Union have usually been somewhat easily surpassed and the relationship between the EU and Russia has not been compromised. In addition, the trade negotiations and the evolution of the trade negotiations that resulted into president Yanukovych signing the agreement with Russia, would also implicate a changing economic climate. The fact that Ukrainian people (at least in western parts) opted for EU will not

help with the formation of long-term fruitful economic partnership between EU and Russia.

The friendly coexistence and the economic partnership have evolved throughout the years despite what has happened between Russia and one or more of its neighboring countries (i.e. Georgia and Chechnya). It would though, now seem as that this particular crisis is kind of a climax point in a series of events that have unfolded in the last 25 years or so. During this time, the NATO and the EU have expanded their sphere of influence too close Russian borders both politically and economically, from Russia's point of view. Consequently, at the same time Russia has experienced that it needs to prove and cement its own position as both a global actor in addition to securing its regional position. (Pynnöniemi 2014; Freedman 2014, 16-17; Haukkala 2008, 167-171; Laine 2014, 33-34.)

Economic sanctions are the most important feature of the crisis in terms of this paper, which make it stand out from anything that has occurred previously. In addition, they are the most important economic implication in relevance of this research because of the immediate nature of the effects that the Russian countersanctions have had on Valio Ltd's operations. It would seem that the EU nonetheless, is gaining an upper hand in the sanction exchange between it and Russia (Finnish Ministry of Finance 2014). However, the lack of a broader strategy, at least a visible one, by both Russia and the EU make the use of sanctions problematic. Both parties lack a more general view and goals what they are trying to achieve. The sanctions should always be a part of a larger plan to affect a given entity or a country, not the sole strategy, as they seem to be in this particular case. The future ramifications of these sanctions might be much more severe than at first anticipated. Especially, because the nature of economic sanctions is such, that it takes usually a long time for them to take effect. The sanctions during this crisis though have already, in a span of less than a year, had substantial effects on the economic activity within the region, both in the EU but particularly in Russia. One can only wonder if there has been this severe short-term implications, what the long-term ones will be. (Finnish ministry of finance 2014, 5; European commission 2014; Dolidze 2015, 14; Wilson 2014, 264; Freedman 2015, 29.)

However, even though the crisis is quite unique in itself and its certain characteristics make it stand out, there are several general theories to be found in former literature that can be applied into the Ukraine crisis and its development. Figure 2 and Table 1 show that the crisis has evolved quite similarly to any other political conflict and that it has stemmed and been triggered by similar causes that are usual for these kinds of conflicts. (Rupesinghe 1998.) As the bolded structural/root cause in Table 1 explain the increasing tension between Russia and the EU has led to this current situation, which has then been escalated by certain details concerning substantial Russian population in Crimea peninsula and the division of the Ukrainian people into Pro-EU in the West and Pro-Russia in the East populations. Finally, the situation was triggered by the president Yanukovych

declination of an agreement with the EU and the escalation of the situation through the annexation of Crimea and the economic sanctions. Then the crisis itself has followed the chronological timeline identified by Rupesinghe (1998), which is portrayed in Figure 2. The events in 2014 Ukraine crisis can be traced to the distinct different phases of a violent conflict recognized in the Figure. The fact that the events during the crisis and causes for the Ukraine crisis can be traced to these general theories by Rupesinghe (1998) would indicate that there is something to be learnt here; rather than the crisis being a completely individual and unique situation, which cannot be generalized for further research or managerial implications. The most relevant managerial implications for corporations from this crisis are of course the substantial economic ramifications that it has had on the region.

6.2.2 Economic implications and Finnish food industry's exporting into Russia

It has been shown repeatedly in this paper that the Ukraine crisis of 2014 has had a substantial effect on economic activity within the region. More specifically, it was clarified in subchapters 3.2 and 6.1 why, from all possible implications, this paper has concentrated on those implications that concern the Finnish food exports to Russia and an individual Finnish dairy cooperative Valio. The sub-goal recognized in introduction chapter concerning these issues is to:

- **Analyze the effects of the 2014 Ukraine crisis on economic activity within the region. More specifically analyze Finnish exporting into Russia.**

The most of the analysis here, much like before, will concentrate on the immediate effects caused by the Russian countersanctions on Finnish food industry's Russian exports and Valio's as a part of Finnish food industry. In subchapter 3.2, it was described how important the Russian market is for the Finnish dairy industry's exports and in subchapter 6.1 how vital it was for Valio dairy cooperative until August 8 2014. (Valio 2014b; Finnish ministry of Finance 2014.)

The empirical findings from the data collected from the interview and secondary data confirm these analyses. Valio had analyzed, according to the interviewees, that they are the company mostly affected by the Russian countersanctions in the whole of the EU's food industry. In fact, to give a picture of the severity of the situation for Valio, the effects on the company can be compared to the whole of Germany's dairy exports to Russia. Germany exports approximately MEUR 165 to the Russian market and Valio alone MEUR 242, which is some 85% of all Finnish dairy exports to Russia. (Valio 2014b.) It is noteworthy that the German national economy is more than ten times larger than the Finnish when comparing the gross domestic products (GDP) of the two countries (Eurostat 2015). The hit for Valio and for Finnish dairy exports has thus been massive.

In subchapter 3.2 it was found that the importance of Valio and the Finnish dairy industry for the Finnish, let alone the EU's, GDP are quite minimal. However, in the empirical data it was found that the Finnish dairy industry is quite peculiar in its import and export operations. The interviewees elaborated that Valio cooperative is the sole dairy company that has considerable export operations that are vital for the Finnish milk producers because the import of dairy products is growing all the time. It is thus important for Valio to maintain its export operations in order to keep the industry's import/export accounts in balance. This is supported by the fact that Valio accounts for such a vast amount of total exports of Finnish dairy. (Valio 2014b; Finnish ministry of Finance 2014).

In addition to these local effects, it was found in the analysis of the secondary data that Russia is in fact the second largest importer of dairy goods in the world (closely competing with China for the first place). Russia also accounts for a third of the whole EU's dairy exports with a relative weight of the importance of Russian market being the highest in Finland and the Baltics. These issues alone are severe enough to describe the severity of the situation for Valio. When you add, the fact that the overall production of dairy in the EU grew 5% during 2014 the situation is even bleaker. The production is growing thus placing pressure on the demand but the demand has collapsed because of the import embargo placed by the second biggest dairy importer in the world. The result is inevitably the lowering of the prices for the dairy producers in the EU. It is clear that this situation has called for corporate crisis management from the biggest dairy producer in Finland, Valio, in order for it to compensate the immediate disappearance of the most important export market for the company's processed produce. Valio's situation overall is peculiar because it is a cooperative owned by Finnish dairy farmers as it has been explained. This is important because Valio's sole purpose is to pay as much money back to its owners as possible for the milk produced. Valio cannot thus scale back the production in order to adjust to changing market situation, because the farmers need their milk to go somewhere and Valio cannot exclude its owner dairies from its production.

6.2.3 *Valio's corporate crisis management in the wake of the crisis*

The previous two subchapters have mostly gathered together previous findings and included some new remarks from the empirically collected data. This subchapter will concentrate in the last sub-goal concerning the case company Valio and its corporate crisis management, which is to:

- **Analyze Valio's corporate crisis management in the wake of the crisis.**

This sub-goal is the least analyzed and described previously in this paper compared to the other two. Former literature in corporate crisis management has been thoroughly referenced in chapter 4 and Valio as a company and Valio as a part of the Ukraine crisis

have been discussed in subchapter 6.1. In this subchapter there will be the most new information provided compared to previous data analysis chapters. This is because the primary data interview with the Valio experts concentrates in elaborating the corporate crisis management operations of Valio in the wake of the crisis. Furthermore, the interview data shows on a general level how Valio prepares for and handles crises occurring in its operating environment. In addition, the 2014 Ukraine crisis will be further analyzed from the point of view of Valio's management. In subchapter 6.1.2, it was analyzed as an external observer but the interview and other secondary document data will offer further information on the events and their reasons.

Probably the most striking revelation concerning the 2014 Ukraine crisis and Valio dairy cooperative was the fact that the company had no idea that their Russian operations might be in danger completely. According to the interviewees, the political risk was identified already at the beginning of 2014 but at no point was Valio prepared, or did they anticipate, that the Russian government would ban the dairy export completely. The situation within Valio on 8th of August 2014 when Russia posed their countersanctions can best be described by a citation from one of the interviewees:

“It was like a lightning bolt from a clear blue sky. We had some twenty trucks heading to the border to deliver dairy products to the Russian market, but suddenly they were not allowed to get through. “

As Russia posed their sanctions, approximately 20% of Valio's turnover was cut in a heartbeat. Additionally, the interviewees confirmed that exports totaled approximately 80%-90% of the total turnover for Valio from the Russian market. The rest 10%-20% are locally produced products. Furthermore, this economic disaster was not the only immediate effect that encountered Valio. This is where the nature of dairy industry comes into play. The millions of liters produced by the thousands and thousands of cows around Finland daily in Valio's owner dairies' needed to be processed somehow. Even if the market disappears, the cows cannot stop producing milk the way a factory can. The resolution for this in Valio's case was to produce the abundance of excess milk, usually targeted to the Russian market, into industrial milk and –butter. The problem in this was though, that the prices and margins for these industrial dairy products are radically lower compared to the processed produce that was previously sold to the Russian market. (Valio 2014b; Valio 2014c; Valio 2015a.)

The main reason for Valio's analysis of the situation, in other words the belief, that there could not be a total blockage of dairy exports to Russia lied in the following facts. First, Russia is far from a self-sufficient domestic dairy industry and it relies heavily on foreign imports. Secondly, because Valio has a long experience on the Russian market and management believed that they know pretty much how the Russian government has

acted in the past and could therefore trust that the same kind of behavior would be followed this time around also. Sadly, in hindsight, it can be said that both these presumptions were wrong and Russia, despite economic realities, placed heavy import restrictions on dairy products. It seemed like Russia was faced with these hard economic realities when it opened the border for lactose-free products on 20th of August 2014. Though, the empirical data both from the interviewees and documents show that the actual export of these products was still impossible as Russia placed a considerable bureaucratic block on the border as Valio tried to bring these products to the Russian market (Valio 2014a; Valio 2014e). Thus, to this day in Autumn 2015 Valio has not been able to export lactose-free products into Russia despite them being technically allowed by the Russian government.

The board of director's report from 2013 also shows that Valio did not anticipate any grave changes on their Russian market. The risk analysis of the report shows no change in the standard way that the company has evaluated its potential risks. The main risks identified at the end of 2013 being the negative development of export prices and the weakening domestic demand for dairy products amongst Finnish consumers. (Valio 2014h.) However, the interviewees did put emphasis on the fact that the operational management of the company did acknowledge the potential risk already in the beginning of 2014 when the report of last year is finalized usually in public companies. An interesting finding is the fact that in the report from 2014 the risk management chapter is very similar to the one in 2013. There is no mention of potential political risks affecting the business, just the general negative development of prices and domestic demand. However, the whole report of 2014 begins with a strong emphasis on the effect that the Russian government's sanctions have had on the operations of the company and the fact that the milk produce needed to be targeted on lower margins industrial products. The interviewees also put emphasis on these as it has been said, and the company indeed was in need of crucial corporate crisis management. (Valio 2015a; Valio 2014h.)

How Valio then handled the situation it faced out of nowhere at the end of summer 2014? The substantial logistics operation and the rearrangement of production outputs have been discussed in this chapter. Now the empirical data will be analyzed from a corporate crisis management point of view; what kind of actions did the management take before, during and after the crisis, how has the company been able to perform in the wake of the crisis and has it recovered from the shock. The interviewees did put strong emphasis on the fact that Valio had very little or no chance of anticipating the gravity of Russian government's sanctions on dairy imports to the country. Thus, there was no specific preliminary plans made. Rather, the management had to act in the moment and trust that the company stood on solid foundations that it could take a hit as big as this, but still maneuver its way through it intact.

The most visible and biggest action that the company's management has taken during 2014-2015 is substantial financial adaptations that have taken place throughout the company. First, the factories serving the Russian market had to be adapted to the new market situation mainly through layoffs. The layoffs were announced a day after the sanctions were posed by Russia, on the 9th of August 2014. Then, the corporate headquarters were the next in line for adaptation through layoffs and finally the logistics department of the company has been adapted to the new market situation that the company is facing. (Valio 2014b; Valio 2014f; Valio 2015b; Valio 2015c.) Also the Russian subsidiary of Valio has gone through severe financial adaptation as its operations are in the new situation just about producing and marketing the domestically produced products, which, as said, accounts only for 10%-20% of the turnover created by Valio in Russia until the 8th of August 2014. These layoffs are the immediate actions that the management has taken along with the change in production into the industrial dairy products that are sold to global markets with clearly smaller margins.

Valio was also able to offload the initial products already produced and packaged to the Russian market because the management acted quickly and got a permission from Finnish officials to do so. This resulted the both infamous and famous "Putin-cheese" – incident. Valio needed to offload the already packed produce to the Finnish market but they did so with a smaller price than the Finnish market was accustomed to. Valio offloaded the produce with the Russian market price, which was considerably lower than the Finnish. The domestic rivals in Finland blamed Valio for interfering the market unfairly, thus the "infamous" -tag on the incident. The interviewees did however also acknowledge a positive outcome, which was a lot of publicity for the Valio cheese brand "Oltermanni" among Finnish consumers due to the incident. This "Putin-Cheese" –incident was not a planned undertaking by Valio, it was just an obligatory action by the management in order to retrieve some of the lost turnover that the producing of these cheeses had taken. However, Valio did make other collaborative actions with the Finnish retailers in order to minimize the losses from the Russian market. Similar actions were taken in the Baltics and in Sweden, which are Valio's biggest foreign markets after the collapse of the Russian market.

The longer-term actions that have been started by the management concern the survival of the firm in the long term. As said, the company is still making great quantities of industrial dairy products and the Russian market is still blocked for processed products and the uncertainty about the future of the Russian market is still very great. (Valio 2015c.) The interviewees even stated that the current adaptation of the company both financially and operationally is based on the assumption that the Russian market is not going to be available in the future either, even though it is acknowledged that most likely it will be at some point in time. Nevertheless, even then, other companies' will have taken a great share of Valio's market share, companies that are operating from countries that are not

listed in the sanctions by the Kremlin (i.e. Belarus, Brazil). (European Commission 2014; Valio 2015c.) However, the interviewees stated that Valio will most likely return to the Russian market when the sanctions are removed but they do not see it probable at the time of the interview that they would be removed in August 2015 even though the original statement on the sanctions by the Russian government stated so. This indeed seems very unlikely as the crisis is still on going at the end of summer 2015.

The quite straightforward answer to these still remaining problems for Valio Ltd is to find new markets for the milk produced by the Finnish dairy producers. The better market in this respect being one with greater margins than the global industrial dairy markets', and with smaller political risk than the Russian market had. The interviewees recognized that probably the shortcoming by Valio that caused so dramatic effects on the company was the fact that it was so dependent on a single foreign market, Russian. However, this is understandable because if a market is performing as well as the Russian did for Valio, it is very difficult to try and restraint that growth and move resources into finding new possible markets. Now Valio though, is forced to do it. Who knows, this might in the long term turn out to be a good thing for the company if it is capable to find new markets that will grow even quicker than the Russian will.

The company's top management undertook the crisis management itself. Usually, in smaller operational crises, Valio has a separate crisis management unit but it concentrates, as said, on operational crises such as burning of a production facility et cetera. This, the Russian countersanctions, posed such severe strategic ramifications and risks that the top management took charge of the situation from the beginning according to the interviewees. Generally speaking, Valio does evaluate and operate its strategic risks as a part of their yearly strategy process. Each manager in charge of a specific aspect of the company is in charge of analyzing his/her own environment, its risks, and their outcome potential. These analyses are then put together yearly to create a coherent risk analysis on the whole company, which is then enhanced by the risk management unit's operational risk analysis. As said, this potential crisis had been identified but not in the scale, it eventually unfolded. This ongoing strategic evaluation is in line with the finding made in chapter 4.2 about the corporate crisis management as a process. Valio Ltd considers the corporate crisis management as something that needs to be done all the time and environment must be closely "listened" to even if there is no particular threat in sight at the moment. The single largest short-coming of Valio in handling the crisis it was hit by is the lack of the learning curve. According to the interviewees the company does not have any specific plans to learn from the experience Valio has had with the Ukraine crisis. The learning curve has been found an important part of corporate crisis management process in previous literature (Figure 6).

The fact that Valio was the single most hurt company in the whole of the EU by the sanctions, according to the interviewees, would suggest that it would have received some

kind of help either from the European Union or from the Finnish government. The Finnish Ministry of Finance (2014) also acknowledged that dairy industry with Valio at the front was most affected within the Finnish domestic economy. However, Valio along with other dairy industry in the EU was able to find new markets, even if with lower margins. Still, they found new markets and could gain profits for their produce. This might have been a reason for Valio not receiving that much help from institutional actors as it was able to steer itself clear of the crisis somewhat intact. The interviewees did point out a helping package from the EU that Valio did receive but it was a onetime aid and as the situation is still going on it does not offer much help.

It was pointed out earlier in this sub-chapter that the board of director's reports from 2013 and 2014 by Valio identify a few key risks that might take place in their operating environment. First risk identified is the negative development of the prices for dairy products in the retail both domestically in Finland and on foreign markets. Second risk, which is identified, is the negative development of the demand on the Finnish market among the consumer due to the recession, and increasing competition among retailers with more and more foreign competition present. According to the interviewees almost the worst possible scenario imaginable happened during the time from August 2014 until the end of the year 2014. What happened then was that both of these longer term risks started to realize and then Russia hit its sanctions. Essentially, Valio was hit by three major risks and it was forced to operate all of them simultaneously. Even of the two previously recognized risks would have been very difficult to maneuver and would have caused substantial problems for the company, according to the interviewees.

This research also identified the crisis communication as a major field to study when looking at corporate crisis management of Valio Ltd. One of the interviewees indeed was a manager responsible for communications in the corporation and the secondary data used is mainly revised by the communications department of Valio. This analysis is then, both useful and sensible to make in order to offer further insight on the subject studied. What was found was that Valio in fact operated their communications in many ways just as they should have, according to the literature. The communications were preplanned in crisis plans and the messages both internally and externally were channeled through a single person in order to ensure the coherence of the information produced. Also the senior management of Valio was included in the analysis of what kind of things are to be included and excluded from official statements. The one thing lacking is in line with previous findings with corporate crisis management as whole. There has not been nor are there any plans on analyzing what was done and what could be learned from the experience.

6.3 Summary of data discussion

This subchapter summarizes the main findings made in the data discussion chapter 6 concerning the corporate crisis management efforts of Valio limited. The other data discussions concerning the other research goals have already been made quite clear in subchapters 6.2.1 and 6.2.2. The corporate crisis management though would call for a little bit more elaboration and summarizing due to its importance as the main research goal with the most business research relevance. The summarizing is made clear with a combination of theory and data discussion. Figure 8 combines these two by bringing together the corporate crisis management cycle introduced in Figure 6 and the data discussion of subchapter 6.2.3 into one figure.



Figure 8 Corporate crisis management data summary

In Figure 8 the different stages are shown in two colors green and red. The green ones represent the stages of corporate crisis management cycle, which Valio fulfilled exceptionally, and the red ones the stages where Valio is lacking to some extent in comparison to theory and literature findings made in chapter 4. The preparedness of Valio for corporate crises seems to be in very good order. Regular crisis audits are being made and all the different functions of the company are involved in the analysis and active “listening” of the environment. The possible implications of the situation in Ukraine and the tightening of EU’s and Russia’s relations were identified. In this respect, Valio performed quite exemplary in their corporate crisis management in 2014 when the Ukraine crisis hit the company fully.

The immediate preparedness to the specific crisis, pre-crisis management in other words, is a point where Valio lacked in awareness to some extent. Valio was not ready for the hit it got so to speak. The possibility of a crisis was identified but risk was not valued that high. Of course, this is easy to say in hindsight and argue based on theory and former literature. The reality though, is that the Russian countersanctions and their total blockage of food imports from EU took everyone by surprise, not just Valio.

Acute crisis management stage is where Valio showed why they are one of the success stories of Finnish food industry. The fact that almost one fifth of the company’s total revenue was cut in a heartbeat is disheartening and paralyzing to the best of companies. Still, the management of Valio were able to steer the company in very fast succession into creating some revenue to cover the suddenly disappeared income. At the same time Valio managed to reorganize the logistics and manufacturing to answer to the new situation in basically one day is a show of well organized and managed processes and awareness from the whole company. Additionally, the communications department remained on top of the situation throughout the crisis and were able to proactively engage both the media and other external stakeholders and most importantly the internal ones.

After the crises has been handled acutely and the company begins to recover, the next step is to analyze what has happened and why and what kinds of actions were taken and what was their effect. This is probably the biggest downfall of Valio’s management in their corporate crisis management efforts in comparison to what the former literature has identified as essential in concerning the subject. Of course, the management and workforce will take a lot of experience and lessons from this crisis to the future but the organizational conscious learning curve is not in the plans for Valio. An outside consultant to evaluate what was done and what could have been done better might give the management new ideas on how to better the organization for example. Additionally, the possible positives of the situation might be easier to recognize with an efficient re-evaluation of the actions and their reasoning.

Finally, the last stage of the corporate crisis management cycle in Figure 8 is the returning the organization into normal stage and to the shape it was before the crisis hit.

This is of course by definition the hardest one to realize especially in Valio's case as it is completely out of the management hands if the Russian market reopens for them. Still, the possible long-term positive of the situation is the fact that Valio is forced to look outside the box for new opportunities and markets to create revenue to supplement the loss of Russian market. Hopefully, they manage to find new markets for their products and the Russian market also reopens. Then the management would be able to readjust their organization and cancel the affect of the heavy layoffs they have been forced to undertake.

7 KEY FINDINGS AND CONCLUSIONS

In this chapter, the literature review on former theory concerning the research goals of this research will be drawn together with the data analysis conducted in chapter 6. This exercise will be done in order to create both theoretical and practical implications for the findings of this study. It is typical for business research to include both theoretical and managerial implications in conclusive chapters. This is because, often the practical implications are equally important with the theoretical and future research implications when business research is concerned. Theoretical implications will include new research gaps identified in this study and possible new changes in the way that things should be thought of and analyzed by the academic community. The practical implications of the research will be done in the section titled: “Managerial implications”, as the name suggests, most of the things found and elaborated will be for corporate managers to help them include the key findings of this study in their own work and organizational behavior. The theoretical analysis will cover all of the sub-goals of this study, which are as follows:

- **Describe background events, birth and development of the 2014 Ukraine crisis and its possible special implications.**
- **Analyze the effects of the 2014 Ukraine crisis on economic activity within the region. More specifically analyze Finnish food industry’s exporting into Russia.**
- **Analyze Valio’s corporate crisis management in the wake of the crisis.**

Through finding the answer for these sub-goals also the primary research will be answered as it should be in academic research.

7.1 Theoretical implications

The theoretical implications introduced in this subchapter include matters such as new research gaps that have been identified during the execution of this research. In addition to these future research propositions, there will also be analysis on findings that would suggest a profound change in the way that literature has previously viewed things and if this research could contribute to that discussion with new points of view and aspects. Theoretical implications will be gone through by analyzing every sub-goal of the research separately and then elaborating new theoretical findings and contributions from each of the problems.

- **Describe background events, birth and development of the 2014 Ukraine crisis and its possible special implications.**

First, there has been a lot of research done, not the least by Finnish political researchers, on the political environment between the EU and Russia. It would seem as a result of

this research that some fundamental changes are taking place in the way that two super-powers are going to coexist in the future. The background development and birth of the latest Ukraine crisis seems to verify this finding as Liuhto (2014) and Medvedev (2008) analyze in Table 2. The fruitful cooperation and economic partnership of the last two decades seems to be changing into a close to cold-war relations in the region. Russia seems to be more and more prone to using military power to ensure its own borders and sphere of political and economic influence whereas the EU and NATO are aiming to widen their own influence closer and closer to Russia. The profound difference between the two parties is that Russia seems to be doing its expansion by force and the EU and NATO out of the joining countries' free will.

There is a need for a similar kind of profound political research and analysis for current state and future of the relations between the EU and Russia as Haukkala (2010) conducted five years ago. The tides are changing and it is important for the scientific community to understand how and why in order to understand and predict the future better. Additionally, the research on economic sanctions calls for more attention by the academic community. There is not that much research done on these kinds of economic sanctions posed by countries and institutions on one another, thus also their effectiveness is still quite debatable from academic point of view. Overall, business research could widen its spectrum of crises to include more external crises. Former academic research is, as it has been found in this study, concentrating largely on the internal crises caused by themes such as product recalls or management failures. This research has though shown that also external crises can have crucial effects on companies and they are becoming more frequent and thus demand more attention by the academics.

The second sub-goal of this research is about analyzing the impacts of this crisis in Ukraine on the economic activity within the region and especially on a Finnish dairy company exporting into Russia. What makes this analysis particularly interesting is the fact that the crisis is quite far from the sphere both geographically and economically of a single Finnish company exporting to the vast Russian market. Still, the crisis has caused severe economic losses for the company and Finnish dairy industry as a whole through several indirect effects (i.e. the trading balance of the dairy industry in Finland, the lowering of production costs for Finnish dairy producers). The second sub-goal of this research is as follows:

- **Analyze the effects of the 2014 Ukraine crisis on economic activity within the region. More specifically analyze Finnish food industry's exporting into Russia.**

The key implication for future research for business academia from this sub-goal would be to create understanding on how these kinds of, ever more frequently appearing, macro-level political crises affect corporations and what kind of different effects they

might have. The external corporate crises are ever more frequent and the academic literature should follow the same pattern by conducting more research and contribute new theory into how these issues evolve and can be handled by both governments and corporations. This research of course has tried to answer this question but the analysis is concentrated on a single company from a single industrial field and this research has been done while the crisis is still ongoing. It would be important to learn what possible ramifications these kinds of new political and military crises might have in the long run and across industries. Findings from this kinds of studies would offer insight on what kind of stances companies might take in relevance to these crises, thus expanding the analysis started by Banfield et al. in 2005 (Figure 7). Also, the largely used economic sanctions during this crisis would get a more solid justification to be used in the future if further research can confirm their effects in the long run. Finland as a country and an economy is an interesting research subject in this respect as many of its industries and companies are dependent on a single quite volatile foreign market, Russia.

The food industry in particular is an interesting industrial field to keep researching due its special attributes. Cows cannot stop producing milk and crop need to be collected from the fields at a specific time. These make the food industry quite different from other industrial fields where the produce is first of all short-lived and it is very difficult to find new markets for it as food markets are quite established ones. Thus, these kinds of crises pose special problems for food industry as the examination of Valio has shown and the industry would benefit from further research.

The final, and third, sub-goal of this research is the most relevant for business researchers as it clearly concentrates on the micro-level of a single company trying to survive a crisis, which is affecting its operations and future aspirations. This sub-goal is the one that has received the most attention in former literature review and thus also the theoretical background in this research is the most thorough. The last sub-goal of this research is as follows:

- **Analyze Valio's corporate crisis management in the wake of the crisis.**

In chapter 4.2 of this study it was found that perhaps instead of a clear chronological one-time occurrence, corporate crisis management function should be viewed as a constantly on going operation within a company with the learning curve being a never ending phase of the cycle. The findings on the data concerning Valio clearly show that the company indeed functions according to the model introduced in Figure 6 rather than the traditional way introduced in Figure 5. Also the fact that after such a fundamental changing in the way that Valio creates revenue, as the Ukraine crisis has caused, Valio as a company is still recovering and trying to find new markets and ways of doing things. These findings offer further arguments for corporate crisis management to be viewed as an on-going exercise. Even if the company has basically returned to its normal state, there are

still adaptations being made and substantial resources being focused in repairing the damage caused by the crisis almost a year ago. This finding is the most important theoretical implication from this research. Corporate crisis management literature should start looking at crisis management from this new perspective and abandon the old way.

Valio has left the learning without special attention and this is in conflict what the literature has found about corporate crisis management and how it should be done. For future research implications an interesting subject would be to conduct a quantitative research on many companies that have done corporate crisis management and study if the finding that learning curve is often overlooked, applies more generally in companies. The thing that also calls for further research is the fact to find out whether the learning curve of corporate crisis management actually offers much added-value for the company. Valio has ignored the after analysis of the events and the actions by the company both in corporate crisis management and its communications. Nevertheless, the company seems to have been able to survive the crisis quite well in the circumstances despite this fact. The literature however, emphasizes the importance of after analysis for companies' future planning of crisis management. It would be useful to find out whether or not these analyses actually help companies to prepare for future crises or not.

7.2 Managerial implications

Most of the managerial implications from this research will naturally concentrate on the Valio corporate crisis management operations and functions. This is because those are the most relevant for corporate managers to take guidance from. The other research goals will also be covered but their main contribution is on things to consider and take into account when analyzing your own company's environment and possible political risks that might take place in it. Corporate crisis management on the other hand offers concrete examples what managers can do in their own companies to avoid, and/or better prepare for situations such as Valio has encountered.

The first research goal identified in this research has to do with the Ukraine crisis of 2014. The sub-goal is as follows:

- **Describe background events, birth and development of the 2014 Ukraine crisis and its possible special implications.**

The most important thing here for managers to take into account in the future is the fact the political and economic climate is indeed going through a dramatic change in the region. It would seem that the coexistence between the EU and Russia, with Ukraine in the middle of it all, has led to this crisis during a time span of some 25 years. The broadening of NATO's military and the EU's political and economic influence closer to the traditional Russia's sphere of influence just needed a trigger to explode the situation as

Table 1 represents. The key now is to figure out how to move forward towards a prosperous future for everyone involved in the unfortunate events in Ukraine 2013-2015. Though, as Liuhto's (2014) and Medvedev's (2008) findings seem to indicate in Table 2 this might be much further in the future than one would hope.

This profound change in the way that Russia and the EU act toward each other is something that every corporate manager operating a company in the region should consider. Especially the future of the trade is an important question to evaluate in each company that trades in this region. This should be included in the risk analysis for companies that are planning to remain or enhance their operations in Russia or its neighboring nations. In the case of Valio, it is important for them to evaluate the risk potential and overall environment of the Russian market if and when it opens for them again. As sad as it is, it would seem that these kinds of events and crisis are becoming more a rule than an exception in today's world.

The second sub-goal recognized in this research as a subject worth investigating is the one concerning the Finnish food industry's exports to Russia and more broadly the effects that the 2014 Ukraine crisis has on the economic activity within the region that it influences the most. The sub-goal is as follows:

- **Analyze the effects of the 2014 Ukraine crisis on economic activity within the region. More specifically analyze Finnish food industry's exporting into Russia.**

The biggest revelation and implication for managers derived from Ukraine crisis of 2014's effects on economic activity is that managers should start considering this kind of crises as possibly heavily affecting their companies' operations. Even if the ways a manager can affect a crisis of this magnitude are limited, it is important to not remain an idle bystander, but to try your best to be active and prepare for what might happen. Not many food industry managers in the EU at the start of 2014 probably expected their complete Russian market to be cut off in less than 10 months. That must have seemed like a completely improbable scenario for most. The fact though is, that these kinds of crises are becoming more and more frequent, where politics are mixed up with the economics and that inevitably affects individual companies. As the economies around the world continue to grow, to hurt them through economic sanctions for example becomes a more and more possible way for countries to "punish" one another. These issues are important to take into account when analyzing a given company's risk environment.

The political decision-making is also shifting towards cross-national institutions such as the EU, where the worries of an individual country, let alone, a company, are far from the top of the priority list. These facts make it more and more important for corporate managers to try to be active and try to detect silent hints that might indicate something might be afoot and that something might happen that will require actions even if you yourself cannot have affected the situation in any way. The key to recognize these is to

remain active and not idle. As the institutions grow, the more these kinds of possibilities arise as there are more actors involved with the institution.

The final and the most important sub-goal of this research concerning practical managerial implications will be analyzed last. Let us first remind ourselves of the research goal that is concerned with Valio's corporate crisis management before making conclusions on what kind of managerial implications can be drawn from this research concerning it. The sub-goal is as follows:

- **Analyze Valio's corporate crisis management in the wake of the crisis.**

When reflecting the findings, made in chapter 6 concerning Valio's corporate crisis management, on the theories and former literature on corporate crisis management discussed in chapter 4, it can be said that Valio has indeed managed to fulfill a lot of the issues identified in the literature. When looking at the pre-crisis management phase within Valio it would seem that there are many similarities to the ways that Valio does things and the way that theory proposes they should be done. There are regular crisis audits being performed on the strategic and operational level and according to the interviewees there are specific plans how to company should act in distinct crisis situations. There are also roles being handed out in these plans to managers so the responsibilities are clear in the event of a crisis. Therefore, pre-crisis management of a potential crisis has been conducted well and it takes place regularly within the company, which is the same way that the findings from literature in Figure 6 clearly show it should be done. The one thing missing in pre-crisis management phase for Valio was the fact that the corporation was not prepared for this particular crisis. The crisis was not identified and thus the preparations could not be made in order to ease the acute crisis management phase. This phase would have to be tackled by the management in the midst of the crisis, which is not ideal in any case. (Shrivastava & Mitroff 1987, 9; Crandall et al. 2014; Heller & Darling 2012, 152.)

The acute crisis management phase in the crisis that took place for Valio has been exemplary by the company's management when reflecting it on the theory. Whether it was by luck and chance or due to exceptional organizational preparedness, the management was able to steer the company well, despite the lacking of immediate pre-crisis management. The top management of the company took charge of the situation immediately, started to make decisions, and executed them efficiently, thus enabling the company to continue production. However, substantial layoffs have been executed to ensure the company's future. These actions are recognized in former literature as very risky when concerning the long-term survival of a firm. Valio then should take this risk seriously in the future and possibly evaluate if there is some other way to adjust operation, this is an extremely difficult task though and it is unlikely to find other measures that are as effective in adjusting the organization in short term. (Crandall et al. 2014; Janes 2010, 89; Asel et al. 2010, 214; Müller 1985, 44-45.)

Finally, the post-crisis management phase within Valio is the one with most to learn for Valio from the theory and literature. Valio is clearly trying to make the most of the situation through substantial cooperation with the retailers in other markets than Russia and by trying to identify new markets and new ways of doing things in order to prevent this from happening again. The thing where Valio is lacking is the learning curve of corporate crisis management (Figure 6). According to the interviewees, there have not been any, nor are there, any plans to go through what has happened inside and outside of the company when the crisis hit it. This is something that should be done according to the literature in order to better the crisis preparedness of the company and to possibly identify things that could be done better or new possibilities. This learning experience could be done as a part of the yearly crisis audit exercise, which is carried out as a part of the strategic crisis analysis by the company's management. This analysis might also point out possible ways to better make the most of the situation and possibly find positive outcomes that have not been able to be taken into account in the midst of the acute crisis management. The layoffs executed throughout the whole company are also a reason to do this. This is because during layoffs, tacit information is inevitably lost and if there is some critical information missing within the organization about what has happened and why, it is important to be able to acknowledge this. (Heller & Darling 2012, 155; Crandall et al. 2014; Shrivastava & Mitroff 1987, 6-7; Janes 2010, 89-90.)

Another managerial implication in addition to the learning curve, which can be learnt from the Valio case, is how a company should act when a large-scale macro crisis affects its operations. Especially, as the company in question is not a multinational corporation, with leverage on the political decision makers. In chapter 4.3, it was found that company should avoid being idle in the case of a crisis. Shrivastava & Mitroff (1987, 5) and Heller & Darling (2012, 152) put an emphasis on the fact that managers tend to see themselves as victims in the case of large scale crisis taking place. This is what Valio's management seems to have done. It seems as though they have taken the stance identified by these researchers. In the data, it was quite clear that Valio saw itself as a victim who cannot affect the macro events taking place between the EU and Russia. This is most likely true, but as identified in chapter 4.3 Valio could, and should, have been more alert in the situation and try and "listen" to the silent signals of what might happen. Of course, it needs to be stated, that these are easy assumptions to make in hindsight, but offer some implications for managers that might face similar situations in the future.

8 SUMMARY

This research has aimed at shedding light into events that have taken place in Ukraine from the end of 2013 until the beginning of 2015. Furthermore, the interest has also been in the collateral damage that the crisis between nations and international institutions has caused for an individual company operating within the vicinity of the events. These macro scale events in Ukraine are commonly called the 2014 Ukraine crisis. An in-depth analysis has been conducted to analyze the relationship between the European Union and the Russian Federation in order to gain understanding why these events are taking place and what has caused them. Additionally, the role of this Ukraine crisis has been investigated and possible future prospects and scenarios of the situation have been made. Finally, the crisis has also had an economic impact in addition to the political one. Most notably, the crisis has stemmed from political tension but the trade disagreements between the parties have also played a role, which has led to the fact that economic tools and measures have been used during the crisis. These economic actions taken by both the EU and Russia have been most visible in the economic sanctions that the two have posed on each other. The most interesting economic sanction characteristic in terms of this paper has been the import embargo on food products and thus also dairy products by the Russian government. The embargo was placed on products coming from the EU and a number of other western countries. This sanction on dairy imports from the EU brings the research paper towards the second main theme of the study, which is the corporate crisis management actions and happening of a Finnish dairy company, Valio Ltd.

Valio has had to adjust its operations and actions heavily due to the import embargo by the Russian government. The company was driven into a crisis and it has had to engage in corporate crisis management actions. Valio as a company has been heavily affected by the Russian sanctions and the finances of the company have suffered significantly. These facts make the Finnish dairy industry and Valio a worthwhile case example to examine. Whereas, the Ukraine crisis and its analysis was heavily based on secondary sources and the analysis was mainly made simultaneously with the background description in the chapters 2 and 3, the corporate crisis management actions of Valio follow a more traditional research path. First, the fundamental theoretical background is set, and possible special implications are drawn to bring the theory in relevance to this particular research and finally, the empirical data gathering and analysis are reflected on the findings made in the theoretical part.

The methodological approach of this research has been of qualitative research paradigm. The research data has been collected using both primary and secondary sources with the main weight on the secondary ones. Primary data was collected in a single in-depth interview with two Valio representatives to learn about Valio and their operations and actions in the midst of the Ukraine crisis. Whereas, the secondary data has been used

to answer and find conclusions on both main themes of this research. Traditionally the first chapters in an academic research focus on building a theoretical framework for later analysis but in this particular study, the analysis has been actively present from the very beginning. The reason for this being that there has not been done enough research on the Ukraine crisis in order to describe it purely objectively. Additionally, the crisis at hand is so profoundly different from anything previous and thus needs exclusive detail examination instead of a general analysis on political crises. The second main theme has been more traditionally studied. A solid baseline on corporate crisis management was established in theoretical chapters and those findings have then been reflected on findings from empirical research to build holistic conclusions for both theory and practice.

Finally, the most important conclusions of this research paper are divided between these two main themes and into two categories managerial and theoretical implications and conclusions. Theoretically, the most important findings concerning the Ukraine crisis would seem to be that there has been a profound change in the way that the EU and Russia interact with each other both politically and economically. The trade between the two has been building in coexistence with closer political ties during the 25 years or so. After the build up to this crisis, its escalation, and aftermath, it would seem that the fruitful coexistence seems to be coming to an abrupt end. The political leaders in the EU probably start to look elsewhere for energy and the harsh political measures used during the crisis encourage both sides to look for political allies somewhere else. This profound change in the political and economic climate calls for future research, which also leads to the fact that businesses in the region are operating in vastly transforming environment. This business environment needs to be studied and analyzed to offer better information for companies. Finally, the theoretical contribution to corporate crisis management literature is that the management of crises as a function should be viewed as a cross functional and ever ongoing exercise. Traditionally, literature has viewed corporate crisis management as a one time –exercise but the modern examples would indicate that the learning curve of corporate crisis management needs to be enhanced and it must be done actively.

The managerial findings and implications that this research has found mostly concern the corporate crisis management issues but there are also interesting things to be found concerning the Ukraine crisis for managers and governmental leaders alike. The profound change in the political and economic climate in the region of the EU and Russia call for a reality check by managers operating across borders within that region. The stable situation seems to have changed for long term and the risks and possibilities should be re-evaluated. Additionally, Russia seems to be more unstable for companies operating from the EU. These companies should seriously evaluate the pros and cons of operating in Russia. The corporate crisis management implications for company managers are first of all that every company should be actively analyzing their operating environment in order to spot possible risks and different scenarios that might fulfill them. Export operators

should do this across all the markets they are operating in. Secondly, the corporate crisis management function should be seen as a constant learning curve. This is because the risks and crises are becoming more and more frequent and one should always keep learning of the previous ones, what went wrong and what was done well. Crisis audits and strategic planning are good tools to carry out these exercises as the case from Valio well describes. Yearly strategy updates are always accompanied with a risk audit with different potential risks being identified in the operating environment. When the risks are identified, proper plans are made and people responsible identified in advance.

All in all, what the research found was that the Ukraine crisis has spawned a profound change in the political and economic climate of the EU and Russia. This crisis also resulted in substantial difficulties for companies operating in the midst of it all with a specific interest put in to a Finnish dairy company, Valio limited. Valio, faced with huge difficulties to continue operations normally, managed its crisis situation quite exemplary with the top management of the company taking the reins and steered the company towards safety. The only substantial lacking in Valio's operations so far has been the fact that they have not made plans how to learn and enhance their crisis management capabilities with lessons learned from Ukraine crisis. In addition, the literature's earlier findings about the fact that crises are becoming more and more widespread and longer term for companies seems to hold true. The crisis situation for Valio is still withstanding although the sanctions were placed by the Russian government more than a year ago. It takes time for companies to adjust their operations and make them profitable again. Nonetheless, Valio seems to be holding on a solid ground and the future might hold brighter things if the crisis has forced them to look outside the box so to speak. What comes to Europe and Russia, it seems that the situation for these political powers is much bleaker than for Valio. The cooperation and trade seems to be nearing the cold war relations and the trust between the leaders lost for years to come. Perhaps a fundamental change in power might help to solve this problem. Finally, Ukraine stands torn in the middle of it all with its future still very much in the balance. The fighting continues within its borders and the people look more divided in two than ever. One can only hope that the good will and hopes for peace prevail.

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APPENDIX

Interview questions for the Valio representatives

1. Could you describe the crisis from your company's point of view?
2. At which point of the 2014 Ukraine crisis did you acknowledge that the crisis might affect your company?
3. What were the main effects that affected your company during the crisis?
 - a. How did the sanctions posed by the Russian government affect the operations of your company?
4. Was the company able to continue operations normally when the crisis hit, in your opinion?
 - a. If not, at which point do you feel that the company will recover to normal state?
5. Did the company try to influence the crisis somehow externally? Through Finnish governmental institutions that interacted with the EU, for example?
6. How is the company prepared for crisis situations?
 - a. Was a political crisis like this, recognized in your crisis analyses?
7. Was there a person or a group in charge of handling of the crisis?
 - a. Who was involved in the group and how was it formed?
 - b. Was there a specific person in charge of the communications during the crisis? Both external and internal.
8. What kind of actions did the management take to control or minimize the damage of the crisis?
 - a. Was it clear for everyone working for the company why these actions were taken?
 - b. Were they communicated efficiently?
9. What do you feel the company should do differently if a similar situation presented itself in the future?
 - a. Do you feel that the management made the best of the situation?
10. Did you co-operate with other companies in your industry? How?
11. What did you, the organization, learn from the crisis?
 - a. Do you have plans on how to learn from this experience? What kind?
12. Putin Cheese; was this a planned marketing effort or luck?
 - a. The most visible way to compensate the loss of sale, were there others?
13. How do you see the future for Valio in Russia?