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Explaining by Mechanisms

A Study of Organizational Decline and Turnaround Processes



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To my family

Abstract

This dissertation argues that when examining organizational processes we can make the fundamental issues related to processuality and how things work more intelligible and understandable by means of examining causal mechanisms driving the processes. In order to defend this argument, the study seeks to explain how organizational decline and turnaround processes work in practice. To accomplish this goal, however, requires us to address essential issues regarding explanation by causal mechanisms in social sciences.

First, this study seeks to define the exact nature of causal mechanisms and, building on the premises of scientific causal realism, present a sound ontological and epistemological foundation for explanation by causal mechanisms. Another essential precondition this study aims to fulfill is the construction of a methodology that enables the examination and theorization of causal mechanisms. As an essential part of the suggested methodology a theoretical framework is formulated. The framework consists of two main parts—entities and activities. The first part focuses on identifying stakeholders as entities of mechanisms as well as on developing a model of stakeholders' ability to influence organizational survival. The second part describes a preliminary structure and general concepts for examining organizational decline and turnarounds as processes unfolding in time.

In addition of the methodological and theoretical basis, to identify and confirm mechanisms also requires intensive empirical work that intelligibly demonstrates the existence of mechanisms producing the outcomes of interest. Thus, I correspondingly apply the methodology and build the theorization of causal mechanisms on a comparative historical analysis of three organizational decline and turnaround processes from the Finnish pulp and paper industry: Kymi Corporation (1904–1913), Walkiakoski Paper Mill (1920–1934), and United Paper Mills (1963–1979).

Building on the previous theoretical knowledge and the findings of the detailed case analyses and their comparisons, an explanatory scheme of how organizational decline and turnaround processes work is presented. The scheme includes the mechanism for decline and the four other mechanisms (i.e., for general awareness, for explicit action, for retrenchment results, and for recovery results) that cumulatively and interdependently work against that mechanism and finally produce the successful turnaround. The scheme captures most of the previously confusing issues related to a decline and turnaround process. Altogether, the main argument of the thesis is proved to be warranted and the methodology developed is shown to be a systematic and productive way to do so. Regarding our epistemic and ontic assumptions as researchers, the conclusions provide strong support for the proposed realistic approach.

Keywords: Mechanisms, causal explanation, processes, methodology, realism, philosophy, management, organizations, turnaround, decline, stakeholders, history, pulp and paper industry

Tiivistelmä

Kun tutkimme kausaalisuhteita organisationaalisissa konteksteissa kohtaamme perustavanlaatuisia kysymyksiä liittyen prosessuaalisuuteen ja siihen kuinka asiat toimivat. Tämän väitöskirjan keskeinen argumentti on, että nämä kysymykset voidaan tehdä ymmärrettäviksi ja niihin voidaan saada vastauksia tutkimalla ja selittämällä prosessien toimintaa kausaalisten mekanismien avulla. Argumentin puolustukseksi tutkimus pyrkii selittämään kuinka organisaation elinkykyä uhkaava toiminnan heikentyminen ja sitä seuraava täyskäännös toimii prosessuaalisena ilmiönä. Vastaaminen tähän kysymykseen edellyttää syvällistä pohdintaa kausaalisesta selittämisestä mekanismeilla.

Tutkimus pyrkii ensiksi määrittämään kausaalisten mekanismien eksaktin luonteen ja esittämään ontologisesti ja tietoteoreettisesti mielekkään pohjan mekanismeista. Tässä tukeudutaan tieteelliseen kausaalisen realismin oletuksiin. Toiseksi tutkimus rakentaa metodiikan, joka mahdollistaa kausaalisten mekanismien tutkimisen ja teoretisoinnin. Esitetyn metodologian tärkeänä osana on teoreettisen viitekehysten muodostaminen. Viitekehys koostuu mekanismien luonteen mukaisesti kahdesta osasta—entiteeteistä ja aktiviteeteistä. Ensimmäinen osa identifioi mekanismien entiteetit eli tässä tapauksessa sidosryhmät ja kehittää mallin sidosryhmien kyvystä vaikuttaa organisaation elinkykyyn. Toinen osa esittää yleiset käsitteet ja alustavan rakenteen elinkykyä uhkaavan toiminnan heikentymisen ja sitä seuraavan täyskäännöksen tutkimiseksi ajallisena prosessina.

Selkeän metodologisen ja teoreettisen perustan lisäksi mekanismien identifiointi ja vahvistaminen vaatii syvällistä empiiristä tutkimusta, jonka tulokset ilmaisevat seurauksia tuottavien mekanismien olemassaolon ja toiminnan. Tämän takia esitettyä metodiikkaa sovelletaan ja teoretisointi mekanismeista perustuu vertailevaan historialliseen analyysiin kolmesta ko. prosessista suomalaisessa paperi- ja selluloosateollisuudessa. Tapaukset ovat: Kymi yhtiö (1904–1913), Walkiakosken paperitehdas (1920–1934) ja Yhtyneet paperitehtaat (1963–1979).

Aiemman teoreettisen tiedon sekä seikkaperäisten tapaustutkimusten ja niiden vertailun pohjalta tutkimus esittää teorian/skeeman, joka selittää kuinka organisaation elinkykyä uhkaavan toiminnan heikentyminen ja sitä seuraava täyskäännös prosessina toimii. Skeema sisältää organisaation elinkykyä uhkaavaan mekanismiin ja neljä muuta mekanismia, jotka kumulatiivisesti ja toisistaan riippuvaisina työskentelevät toiminnan heikentymisen mekanismeista vastaan ja lopulta tuottavat onnistuneen täyskäännöksen. Esitetty teoria ja mekanismeilla selittäminen vastaavat useimpiin kysymyksiin, jotka ovat jääneet epäselviksi aikaisemmassa tutkimuksessa. Tulokset osoittavat tutkimuksen keskeisen argumentin oikeutetuksi ja vahvistavat esitetyn metodologian systemaattiseksi ja toimivaksi tavaksi tutkia ja selittää prosessien toimintaa kausaalisten mekanismien avulla. Ontologiaan ja tietoteoriaan liittyen johtopäätökset tukevat esitettyä realistista lähestymistapaa.

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Tampere, November 2004

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Chapter 1

Introduction

One of the basic objectives in organization and management research, and in the social sciences in general, is to examine how some occurrence or outcome comes about, how we can provide causal explanations for various processes, or even more fundamentally, how things work. Following the dominating empiricist tradition, we may choose the conventional view of covering-law explanations and perceive the Humean notion of “constant conjunction” or, in other words, the empirical regularity theory of causation as the only legitimate way to respond to these issues and so explain cause and effect. As Hume already concluded, “... the object we call cause precedes the other we call effect. In no one instance can I go any further, nor is it possible for me to discover any third relation betwixt these objects” (1739/1978: 155). Hume’s problem is, using his own example, that although we can observe regular conjunctions such as the motion of one billiard ball before colliding with another stationary billiard ball and after the collision the motion of the other ball previously stationary, we cannot observe the connection that binds these two obviously regular conjunctions together. Accordingly, Hume could not find connections relating causes to effects or underlying powers by which the cause brings about the effect. By ignoring this dilemma he proposed the notion of causation to be simply the observable regularity of one happening following another.

The regularity theory of causation has its obvious merits and, as a result, it has maintained the dominant position in the considerations of causality in the social sciences, including research on organizations and management. Nevertheless, it is well known that although we may observe regularities they need not necessarily be cause-

effect relations. Night follows day, and day follows night; however, day does not cause night, and night does not cause day. As aptly summarized by Salmon (1984: 14): “although some regularities have explanatory power, others simply cry out to be explained”. This statement, I believe, is very much true as regards causal explanations of social and organizational processes.

The Aim of the Study

In this dissertation I argue that in social scientific research, and in particular when examining organizational processes, we can shed more light on the fundamental issues related to processuality and how things come about by means of examining causal mechanisms driving the processes. I do not argue that the regularity theory of causation is totally misleading or that it has absolutely nothing to do with causal explanation, but I do argue that there are many issues that cannot be explained, or the explanations remain defective and greatly restricted if we rely solely on the accounts provided by regularity theory. The argument for explanation by causal mechanisms suggested here is neither intended to be a unilateral manifesto to solve the perennial problems related to causal explanation and underestimate the contributions of other approaches. On the contrary, this study will show how counterfactual accounts have a supportive role when we seek to explain by mechanisms, especially in the social sciences, and that more intelligible generalizations can be suggested when they build on the explanations of specific causal mechanisms. Overall, causation is essentially seen as singular and causes fundamentally as producers of difference.

The idea that mechanisms should occupy a central position in our considerations of causal explanation is fairly explicitly presented in the social scientific literature though rising from rather different premises (Bunge, 1997; Elster, 1989; Hedström and Swedberg, 1996, 1998; Little, 1991; Mahoney, 2001; Merton, 1968, Sayer, 2000; Stinchcombe, 1991). However, more precise definitions of the nature of causal mechanisms, considerations of their philosophical underpinnings, suggestions of possible methodologies for their examination as well as actual research are incipient or even non-existent. In short, if we as social and organization scientists wish to better understand of how things work and how various outcomes are realized, there is an urgent need to carefully consider each of the above issues.

First of all, this situation provides a motivation, or actually a need, to turn in our considerations more toward the philosophy of science, where the importance of causal mechanisms, both in natural and social scientific explanations, is openly perceived. In fact, during recent years this literature has paid increasing attention to the explication of the nature and elements of mechanisms as regards causal explanation (e.g., Glennan, 1996, 2002; Harré, 1985, 1986; Harré and Madden, 1975; Machamer, 2002; Machamer, Darden, and Craver, 2000; Psillos, 2004; Salmon, 1984, 1998). However, this

knowledge has not diffused much over disciplinary boundaries. Indeed, as noted, the received view that sees causal explanation as a constant conjunction has the dominant position in the social sciences and those who do not accept this view in practice deny the entire possibility of causal explanations. This is an unfortunate situation since even in our everyday commonsensical perceiving of singular episodes we refer to causalities and try to find out how things work. Fortunately, for us who are aware of the insufficiencies of regularity theory but acknowledge the causal structure of social reality and ultimately want to know how things work, explanation involving the identification and postulation of causal mechanisms can provide a way to make those various, usually processual, things more intelligible and understandable. This is the fundamental argument this dissertation will defend and develop.

In order to provide a basis for the argument developed in the subsequent chapters of this study, let us briefly introduce what mechanisms can be. On a general level Machamer et al. (2000: 3) defined that mechanisms “are entities and activities organized such that they are productive of regular changes from start or set up to finish or termination”. According to this definition to explain a thing is to give a description of the mechanisms—to show how the termination conditions are realized through the conditions established and the intermediate stages. In other words, a description of a mechanism begins from an initial condition or setting that may be, and usually is, the result of preceding processes and mechanisms, but can be idealized as a static situation. The description ends with a finish condition or outcome that may, for example, be the state of affairs that we are trying to understand. Between these conditions stand the intermediate activities, the productive body of the mechanism. In an inclusive account of a mechanism there are no gaps in generative continuity or “black boxes” between the start and the end. In short, an explanation reveals how the outcome or thing is produced.

As the above definition shows, an essential feature of causal mechanisms, in particular in the account of Machamer et al. (2000), is their dualistic nature as they interdependently consist of entities and activities. While there are definitions of mechanisms that do not make this division (e.g., Glennan, 1996, 2002), I believe that it is necessary as regards the nature of the social world. Specifically, entities are the objects in mechanisms, usually described by nouns in linguistic representations and individuated and identified in terms of their properties and spatiotemporal locations. Activities, in turn, are what these entities do. They create change and are typically described by verbs or depicted by arrows. Activities can be individuated by their properties or their mode of operation. An activated entity, then, forms a functional component or a role function of a mechanism (Craver, 2001). Specific types of activities, of course, require that entities involved have specific types of properties. Finally, a combination or configuration of these components, as a whole, forms the productive account of a mechanism.

Accordingly, the recent contributions in the philosophy of science provide a basis for our considerations of explanation by mechanisms in general. However, in order to

examine the issues related to mechanisms more profoundly in the context of the social sciences and in the processual organization and management research in particular, these suggestions may need some elaborations. First of all, to affirm that causal mechanisms are indispensable in the research regarding how things work, we need an explicit, conceptually and spatiotemporally specified issue to be explained. In this study organizational decline and turnarounds provide such a processual research subject.

As an end product of the dissertation I will therefore present a theory, or more precisely a scheme, of mechanisms as *explanans* in organizational decline and turnaround processes. In the positive case the *explanandum* is a successful turnaround whereas in the negative case the converse is true. To outline the numerous issues that the suggestion of such a scheme of mechanisms actually requires, and should satisfy, let us begin by briefly considering a hypothetical decline and turnaround process of a business organization where mechanisms consisting of functional components of entities and activities produce changes.

First, one asks, what or who are the entities? To provide a satisfactory answer to this question we have to sketch the group of relevant actors involved in organizational processes. In most cases we are able to identify such entities as managers, owners, employees, creditors, suppliers, customers, government, and various pressure groups. There exists a common denominator for all these entities of mechanisms. In a word, they are stakeholders. As argued, stakeholders (entities) engage in activities by force of their properties. Since certain kinds of activities are only possible when stakeholders have certain kinds of properties or constituents, the functions of some stakeholders are obviously more significant than others. Conversely, certain kinds of stakeholders are necessary for the possibility of acting in specific ways. An essential question rises, then, what are the constituents or properties of stakeholders that enhance their capacity or ability to act in organizational decline and turnaround processes?

Second, one asks, if stakeholders use their ability to act, what are the possible or meaningful activities? A specific answer to this equally profound question always necessitates empirical examination. However, drawing on the organizational decline and turnaround literatures, it is possible to identify at a certain level of abstraction a potential set of activities employed by organizational stakeholders as types of causes in terms of their properties, spatiotemporal locations, and in particular their mode of operation.

Overall, in order to answer the questions related to entities and activities, it is necessary to construct a theoretical framework that analytically determines the possible set of stakeholders and their relevant properties and also defines the preliminary structure of the possible activities available for these entities in organizational decline and turnaround processes. This two-part framework serves as a theoretically derived sketch, like an analytical proposition or a model, which focuses the empirical research. In fact, as I will justify more specifically later, an explanation with mechanisms would be impossible, or extremely difficult, without a preceding theoretical basis.

Altogether, previous research offers us necessary knowledge of the entities of mechanisms as well as the possible activities of the entities to be derived into a form of theoretical research framework. However, our knowledge of how mechanisms generate changes and produce outcomes, and thereby the knowledge of *how a decline and turnaround process works* as an entirety, is exiguous at best. Therefore, the fundamental question remains, *what are the causal mechanisms and how do they drive organizational decline and turnaround processes?*

To accomplish this fairly specific goal, however, requires us to address more imperative issues regarding explanation by causal mechanisms in the social sciences. First of all, we need *to define the exact nature of causal mechanisms and how they provide a way to explain how things work*. In other words, *the second main goal of the study is to describe a philosophical foundation for explanations based on the identification and postulation of causal mechanisms*. Another essential precondition is to construct a methodology that offers a systematic approach for causal explanation across complex sequences of events and actions, and in so doing enables the examination and theorization of causal mechanisms driving various processes. The establishment of a methodology requires that it is explicitly argued and that the methodology is in harmony with the explanatory logic of causal mechanisms as well as the suggested philosophical foundation. Thus, *the creation of such a methodological procedure is the third major goal of this study*.

Moreover, to identify, clarify, and confirm mechanisms also requires intensive empirical work that intelligibly demonstrates the existence of mechanisms producing the outcomes of interest. Therefore, I apply the methodology and build my theorization of causal mechanisms in organizational declines and turnarounds on a comparative historical analysis of three organizational decline and turnaround processes from the Finnish pulp and paper industry. As a result, *the fourth main aim of this study is to provide realistic and verifiable knowledge of these historical processes*, which have significantly influenced the organizations' history but have also shaped industrial life in Finland during the 20th century.

All things considered, to provide an explanation of how organizational decline and turnarounds work requires the development of a full-scale argument for causal explanation by mechanisms in the social sciences and, conversely, to show how explanation by causal mechanisms enables us to better understand how decline and turnarounds work provide a robust way to defend the relevance of explanations by causal mechanisms in general. As a result, besides making a contribution to a more specific discussion in the area of management and organization research, this study will also be a contribution to a discussion of causal explanation and mechanisms in the social sciences more generally. In view of this, the structure of the study may not straightforwardly follow the conventional reporting tradition in organization and management research. Therefore, I will next outline the main lines of the argument and briefly introduce the issues I will more closely consider in subsequent chapters.

The Progress of the Argument

As a whole, the argument of the thesis develops through four main parts that are divided into ten chapters. These parts and chapters construct a sequence where each part, at least to some extent, builds on the conclusions provided in the previous ones. Thus, in order to fully understand the argument, it is advisable to start from the beginning. Overall, I hope that this outline makes the work easier to follow.

After this short introductory chapter, the next two chapters constitute Part I that as its main contribution provides a philosophical and methodological foundation for the social scientific research that aims to examine how an organizational phenomenon¹ comes about, how some processes or things work and, in particular, how we can produce causal explanations by examining and identifying mechanisms driving the processes. As a result, Part I seeks to provide answers to two main research questions.

Specifically, I begin Chapter 2 with a discussion of the current state of theories and explanation in general and in the management and organization studies in particular. The focus is on the prevailing problems and contradictions as regards to “once received views”, or positivistic arguments, and the postmodern tradition of research. Nevertheless, it is relatively brief, as its purpose is not to cover every nuance of these arguments, but rather to provide a counter perspective for the realistic approach more thoroughly discussed in the following section. Accordingly, the second section of the chapter, building on the premises of scientific causal realism, is suggested to provide a sound ontological and epistemological foundation for examination of how things work and, in particular, explanation by causal mechanisms. Finally, in the third section, I give my account of causal mechanisms.

The argument for realism and causal mechanisms is offered on a rather general level in order to emphasize their relevance in the examination of a variety of issues, not only organizational declines and turnarounds. Briefly, the basic proposals of Chapter 2 are that realism offers the basis for the very meaningfulness of scientific work to seek more truthful and intelligible accounts and understanding of the world and that causal mechanism is the answer needed to the questions inherent in each study attempting to explain processual issues and how things work.

Chapter 3 builds directly on the premises introduced in the preceding chapter by providing a detailed discussion of a methodological procedure that offers a systematic approach for the identification and theorization of causal mechanisms. The chapter begins with a general justification for case-oriented research as an appropriate research

¹ In this study the term phenomenon/phenomena is not restricted to the observable world, but it is also used to refer to things that are directly unobservable. Thus, it is assumed that there are observable and directly unobservable phenomena. However, when there is a danger for misunderstandings, I have tried to qualify the term somehow.

design when examining causal mechanisms and then, on an equally general level, argues for history and historical research. Thereafter, the discussion is focused on the main methodological elements of the argument; that is, historical narratives, event-structure analysis, levels of mechanisms, and comparative approach. The fourth section of the chapter finally describes a general procedure for the identification and theorization of causal mechanisms. Each of the philosophical and methodological elements discussed earlier has an essential role in the procedure. Chapter 3 concludes with a discussion and assessment of the research design and data used in this study as well as issues related to the archival research and source criticism.

Part II, consisting of the next two chapters, focuses more closely on the argument on organizational declines and turnarounds. Following the specific suggestions regarding the nature of causal mechanisms and the methodology for their examination, Chapters 4 and 5 describe a theoretically derived, analytical framework. Thus, there is a clear rationale that instead of preceding the methodological considerations (i.e. the traditional reporting tradition in management and organization research) the theoretical framework follows them. In any case, as already stated, entities constitute one side of mechanisms' functional components. Therefore, Chapter 4 considers stakeholders as entities of mechanisms in organizational decline and turnarounds. Specifically, it develops a model for the identification of stakeholders' ability to influence organizational survival in terms of their resource dependencies and structural network positions and thereby their ability to activate functional components of mechanisms. In addition, as a spin-off, the chapter provides a succinct discussion of the current trends in stakeholder research.

Chapter 5 continues the argument by presenting another and equally necessary part of the framework. In order to outline the possible activities of stakeholders and the potential structure of this activity in the context of organizational survival, it provides a comprehensive discussion of earlier research in organizational decline and turnarounds. Specifically, Chapter 5 delineates the general, theoretically meaningful concepts related to the possible actions and events in organizational decline and turnarounds as well as the issues that an analysis focused on theorizing about the causal mechanisms should concentrate on. As a result, an entity becomes activated as a functional component of a mechanism. Both parts of the framework, even as such, provide independent theoretical contributions to the stakeholder as well as organizational decline and turnaround literatures.

Part III finally moves the argument onto the empirical level. It consists of three chapters that consecutively describe the analyses of the decline and turnaround processes of three Finnish pulp and paper firms: Kymi Corporation (1904–1913) (Chapter 6), Walkiakoski Paper Mill (1920–1934) (Chapter 7), and United Paper Mills (1963–1979) (Chapter 8). Each of the decline and turnaround processes is correspondingly analyzed following the premises and the methodological procedure presented in the earlier chapters. Specifically, each analysis includes a description of the

economic and industrial context during the process as well as the main indicators and parameters of the organization's production and financial performance, a historical narrative, stakeholders' influence identification, chronology of events including general codes and entities of the activity (presented in the Appendices), and a construction of an event structure incorporating a causal diagram of the process. Besides providing systematic accounts of the processes that can then be straightforwardly simplified and compared, each of the cases, following the tradition of historiography, that seeks to provide truthful descriptions of the past, itself answers one of the main questions of this study presented above.

Part IV, consisting of two chapters, culminates the argument. Chapter 9, building on all the foregoing, provides an account of how organizational decline and turnarounds work. Specifically, the first of the three main sections gives a comparison of stakeholder influence identifications and by this means identifies those entities that seem to have crucial roles in organizational survival as a result of their attribute- and structure-based properties of influence—the properties that also have a strong influence regarding the ability of an entity to activate a functional component of a mechanism. Thereafter, the second section provides the simplification of the causal event structures using the general level concepts and the issues defined in the analytical framework and in so doing postulates the causal mechanisms driving the specific processes. Finally, in the third section, I provide a comparison of the mechanisms, and, by building on all the foregoing propose a general scheme of the causal mechanisms driving organizational decline and turnaround processes.

Chapter 10 concludes the argument regarding causal mechanisms in general and those that drive organizational declines and turnarounds in particular. In this chapter the discussion proceeds through three main themes. Briefly, I begin by evaluating how the proposed explanation by causal mechanisms contributes to our understanding of organizational decline and turnaround processes. Thereafter, I discuss at a more general level how causal mechanisms and the methodology developed contribute to the discussions of causal explanation and processual research in the social sciences. Finally, I provide some concluding remarks by outlining avenues and issues to which future research should pay closer attention. But now, let the journey begin.

Part I
Explanation with Mechanisms

Chapter 2

Philosophical Foundation

Debates about the role, nature, and creation of knowledge have probably been one of the most far-reaching and divisive issues in all fields of scientific research. Today this debate is as lively as ever. In the social sciences, however, and perhaps unfortunately, the discussion has been relatively stagnant around the contradictory arguments of two broad groups. Basically the same assumptions and arguments of postmodernism (or idealism, post-structuralism, social constructivism, conventionalism, epistemological relativism etc., depending on the context, these concepts are often used interchangeably) have now for over three decades been exploited as general standpoints to defy more traditional ways, usually labeled positivistic, to increase our knowledge of the social world although in the philosophy of science both standpoints have been criticized and even found to be outdated as early as in the 1970s (e.g., Suppe, 1977).

The field of management and organization research is no exception in this bipolarized debate. By examining the literature it is easy to perceive that the field has basically been divided into two dominant camps: positivists and non-positivists (cf. Hunt, 1994). In fact, the most radical views of the non-positivists have even called into question the whole meaningfulness of explanations and the possibility of knowledge accumulation, at least if scientific theories seek to provide approximately truthful descriptions of the world (cf. Weiss, 2000). However, at least implicitly, the notion that explanations, theories, and their continuous development are essential still seems to prevail in both camps. This easily becomes evident when examining the contents of the

leading journals in the field. They all are filled with explanations and the aim of almost every article is to create a new theory or to develop, test, or criticize the previous ones.

Indeed, majority of the scholarly community accepts the goal that we have to devote further effort to creating more reasonable and advanced theories concerning the variety of issues that still lack clear explanations and, perhaps, finally to try to take steps toward a more integrated view of social reality. Nevertheless, there is much more disagreement as to how this should be done (Bacharach, 1989; Elsbach, Sutton, and Whetten, 1999; Sutton and Staw, 1995; Weick, 1989, 1999). How to construct a strong theory, what can be constituted as a theory, what kind of explanation is a satisfactory explanation, if there is one, and, finally, what can it tell us about the social world?

This situation transparently shows that although social scientists, including the management and organization scholars, may not need to continuously concern themselves with the latest questions of philosophers, neither can they neglect the developments in the philosophy of science, and the general discussion of causal explanation, as this would exacerbate the prevailing confusion and stagnation in the field. Therefore, as far as our argumentation and theories build on epistemic and ontic assumptions, so far we are doomed to consider these questions. Before making my contribution to this needed discussion in the forms of realism and explanation by causal mechanism, however, it is necessary to briefly outline the basic characteristics and prevailing arguments of the nature of theories, explanation, and knowledge advocated by positivist and postmodern researchers during the past decades.

Positivist and Postmodernistic Views of Theories and Explanation

Positivism, as the term is used today, refers to the 19th century French philosopher Auguste Comte and more precisely to the 20th century philosophy of logical empiricism that can be identified with the views of the scientists who formed the “Vienna Circle” and in particular Moritz Schlick, Rudolf Carnap and Otto Neurath. Comte already argued that knowledge developed from a theological to a metaphysical and, finally, to a positivist stage in which non-observable entities and abstract principles were rejected in favor of the primacy of empirical observations. As an ideal, positivistic science replaced religion and provided the basis for the objective prediction and control of natural and social processes. Therefore, traditional positivistic research, as its basic tenet, believes that observation of the visible empirical world by using our senses provides the only foundation for knowledge. Because only the observable reality is seen as having relevance, the postulation of non-observable mechanisms or the existence of theoretical entities are rejected as metaphysical speculation. All theoretical propositions have to be empirically verified or “falsified” using direct observation. Building on this basis,

positivists believe the Humean notion of “constant conjunction” as the only legitimate way to explain cause and effect.

If it is observed, for example, that a car motor starts up because an ignition key is turned, one can conclude that turning the ignition key causes the motor to start up. Or, at least, cause is understood to be the likelihood of one event following another: turning the ignition key is likely to be followed by the start up of the motor. However, no attempt need be made to seek out any underlying causes or causal mechanisms as a way of explaining why the motor started, or is likely to start. Directly unobservable entities and deep causes belong to the realm of speculation and have no place in positivistic research. Instead, positivists consider that the main task of science is to enable the prediction and control of observable events by formulating “laws of nature” or at least “covering laws”. In fact, an explanation without a predetermined law is deemed impossible. However, the claim that a direct empirical verification provides the most convincing form of knowledge is based upon a metaphysical assumption which is not empirically verifiable.

The above basic assumptions also underlie the positivist models of explanation, the most influential of them being the deductive-nomological (DN) model in the form developed by Carl Hempel and Paul Oppenheim. According to the DN model, a scientific explanation consists of two main components: an *explanandum*, a description of the thing to be explained, and an *explanans*, “the class of those sentences which are adduced to account for the phenomenon” (Hempel, 1965: 247), or simply a thing that explains the thing. However, in order for the *explanans* to scientifically explain the *explanandum* several conditions must be fulfilled. First, the *explanandum* must be a logical consequence of the *explanans*, which, in turn, must be true. That is, *explanandum* is deduced from the premises of *explanans*. Second, the premises of the *explanans* must include at least one “law of nature.” If this necessary premise were removed, the derivation of the *explanandum* would not be valid. Thus, the first condition presents the “deductive” part and the second condition the “nomological” part of the DN model. Those positivists who have found the DN model’s deterministic nature of laws problematic have made considerable efforts with noteworthy results to develop forms of statistical explanation, deductive-statistical (DS) and inductive-statistical (IS) models being the basic alternatives. More detailed discussions of these models as well as statistical relevance (SR) model can be found, for example, in Hempel (1965) and Salmon (1990).

As straightforwardly demonstrated by Craver (2002: 58–64), however, almost every feature of these “once received views” (ORV) has been attacked and rejected, although the reasons for the rejections have been various (see also Salmon, 1998: 72–78). Basically, Craver (2002) distinguishes three groups of limitations of positivistic views of theories and explanation, particularly when compared to how theories are actually constructed, presented, tested etc. by scientists. First, there are important structures of theories that ORV neglects or de-emphasizes and, conversely, some

significant characteristics of ORV are marginal in the uses of theories by scientists. For example, theories are presented in multiple ways, only rarely following the form of first-order predicate calculus. They are also often partial or incomplete representations and the nomological patterns described by ORV do not need to tell anything about causation or mechanisms that are intuitively related to “good explanations.” Second, ORV neglects or distorts the dynamic aspect of theories. Often the development and testing of theories is a characteristically piecemeal and gradual approach to truth and therefore inadequate for the inflexible successional account of the ORV. Third, there exist fully legitimate theories that lack of laws of nature, especially when laws are defined as universal and exceptionless.

As noted above, the group of researchers that do not accept the assumptions of positivism (or ORV) has grown considerably in recent decades in the social sciences including management and organization research. However, this has been almost exclusively realized as an adoption of assumptions often labeled, postmodernism, poststructuralism, relativism, or social constructivism (e.g., Agger, 1991; Alvesson and Deetz, 2000; Boje, 1995; Calás and Smircich, 1999; Deetz, 2000; Kilduff, 1993; Kilduff and Mehra, 1997). In fact, the mere rejection of positivistic thinking has come to be a routinely used legitimization for inquiry, especially in research that openly claims to be idealistically oriented. Paradoxically, there are only few researchers who explicitly proclaim to be straightforward positivists as a legitimization for their research (e.g., Donaldson, 1996; Pfeffer, 1993). However, in practice most of the research, building on the different versions of covering law explanations (DN, DS, IS or SR), is fundamentally positivistic and, conversely, there are studies that openly claim to characterize some form of relativism or postmodernism but are in fact something other than what they purport to be.

A good example of the latter case can be found in the recent discussion of constructivism in strategic management. In their article, Mir and Watson (2000) suggested a modification of social constructivism for the research in strategic management. However, in their rejoinder, Kwan and Tsang (2001) revealed that what Mir and Watson (2000) actually presented was not at all a form of social constructivism but more or less a form of critical realism. This is also a good example of the situation in the research community, that there seem to be only two basic categories of acceptable knowledge for researchers to choose in order to legitimate their work.

However, there is plenty of research that seeks to provide causal explanations and suggest theories of various issues, but manifestly unsatisfactorily fits either the positivist or relativist/postmodernist categories (such as Mir and Watson’s). Therefore, it is evident that an inquiry based on realist assumptions of philosophy of science is much needed. Yet, before I turn my discussion to realism, it is essential to outline the basic arguments used by the relativists/postmodernists. Within the limits of this study I cannot provide a specific discussion of the every nuance related to these views. Nevertheless,

each of them originates from or is closely connected with the relativistic philosophy of science.

This rise of the relativistic notions of science relates to and partly originates from the issues of possible paradigms, scientific ethos, or worldviews behind scientific research. The popular concept of paradigm, as mostly used in the field of management and organization research, derives closely from Thomas J. Kuhn's (1962/1996) work of scientific revolutions. Therefore, let us briefly recapitulate Kuhn's basic notions.² Kuhn does not offer a precise definition for the term "paradigm," but, drawing from the history of science, he argues that before any specific scientific research can begin, the scientific community in question has to agree upon the fundamental questions about, for example what kind of things exist, how they interact with each other and our senses, what kinds of questions we can legitimately ask, what techniques are appropriate for answering those questions, what counts as evidence for a theory, or what counts as an explanation of some fact, and so on. Thus, following Kuhn's reasoning, paradigms can be defined as sets of ontological, epistemological, and methodological assumptions that outline the scientific inquiry.

Kuhn continues his argument by stating that most of science is "normal science," because it is conducted within a dominant paradigm, which sets the agenda and the standards of a science. It is by reference to this paradigm's assumptions that theories are evaluated. "Normal science" is said to be a "puzzle-solving" activity providing no explanations, and where rules for solving these puzzles are relatively strict and determined by the paradigm. A hitherto successful paradigm may, however, find itself generating an increasing number of anomalies. Scientists may begin to feel that the rules of the game no longer give support to finding plausible answers to the new questions. This may lead, Kuhn states, to the search for a new paradigm, a new way to answer the problem or even thinking about the surrounding world, and finally to the crisis of the previous paradigm—a scientific revolution. Of course, one could immediately look around and appropriately ask what the prevailing paradigm is, is the scientific revolution going on, or even, is the Kuhnian revolution possible in the social sciences or in the modern natural sciences.

The central issue in Kuhn's argument vis-à-vis the philosophy of science and issues related to explanation is that while a paradigm may provide standards and instruments to assess theories that compete within that paradigm, it provides no rules for evaluating new paradigms seeking to replace it. This paradigm dependent theory-ladenness, as relativists have interpreted it, inevitably divides the scientific field into a patchwork of different "isms". Because of divergent basic assumptions, one paradigm cannot be combined with another. Therefore, research based on controversial assumptions, that is, different paradigms at the same time, is not possible. This simple idea of the

² I refer here to Kuhn's "The Structure of Scientific Revolutions" originally published in 1962, and how relativists have interpreted it. Kuhn subsequently modified his ideas. Nevertheless, they have not been so influential as this earlier work.

incommensurability of the paradigms inevitably leads to a situation where it is impossible to say that the theories or explanations of one paradigm are more truthful or explanatory than the theories and explanations of another. In point of fact, discussion between different paradigms becomes unfeasible. That is, one can justifiably propose, a germ of relativist thinking.³

Kuhn's ideas, and the germ of relativism, have had a noteworthy influence on the development of the social scientific research, like management and organization studies. In this particular field of inquiry, Burrell and Morgan's (1979) book "Sociological Paradigms and Organizational Analysis" and in particular their four-paradigm grid has outlined much of the discussion. In fact, their model has gained almost hegemonic status, at least in discussions influenced by postmodernism, in defining the alternative paradigms in organizational analysis (e.g., Deetz, 1996; Hassard, 1991; Schultz and Hatch, 1996). Accordingly, a short description of their argument is justified.

Burrell and Morgan define their view of a possible set of paradigms by intersecting subjective-objective debates in the "nature of the social science" with regulation-radical change debates in the "theory of society." As a result, four independent and incommensurable paradigms in social scientific research are proposed: functionalist, interpretive, radical humanism, and radical structuralism. In their representation, the functionalist paradigm is characterized by an objectivistic view of the organizational world with an orientation toward stability or maintenance of the status quo; the interpretive paradigm, in turn, has a subjectivist world view with an apparent concern with regulation; the radical humanist paradigm is likewise subjectivist, but with an ideological orientation toward radically changing socially constructed realities; and, finally, the radical structuralism paradigm is characterized by an objectivist view, with an ideological concern for the radical change of structural realities.

These are, however, mere possibilities for the concepts to describe different paradigms, and ultimately, if following relativistic and Burrell and Morgan's reasoning, only defined within a particular paradigm. Guba and Lincoln (1994), as another example, have identified four paradigms labeled positivism, postpositivism, critical theory / related ideological positions, and constructivism. Ironically, for relativists, there cannot be one and single way to divide, label, and classify different paradigms and their attributes.

This conceptual jungle concerning different paradigms entails several concrete problems even for those who put faith in the name of pragmatism (cf. Pfeffer, 1993; Donaldson, 1995). On the one hand, there is research that does not fit neatly into any of the above categories. On the other hand, if we wish, we are able to situate rather contradictory research under the same paradigmatic rubric. For example, the paradigm of critical theory in Guba and Lincoln (1994) includes several approaches from postmodernism to neo-Marxism that own some fundamentally different basic

³ In the philosophy of science the different aspects and problems of incommensurability are discussed widely. Hoyningen-Huene and Sankey (2001) provides a comprehensive examination of the issue.

assumptions. Thus, in reality, the idea of the incommensurability of the paradigms becomes seriously flawed. Moreover, even from the viewpoint of a pure pragmatist, this inconsistency in terminology wittingly makes it difficult for different sides of the scientific community to identify what the other side is saying and may inhibit the capacity of divergent groups of researchers to see how their insights might actually fit together (see e.g., Van de Ven, 1999).

Some relativists in organization and management research have attempted to solve these problems by developing multiparadigmatic perspectives (e.g., Evered and Louis, 1981; Gioia and Pitre, 1990; Hassard 1991; Schultz and Hatch, 1996). The multi- or cross-paradigmatic approaches usually argue that they accept the incommensurability thesis, but at the same time, rather illogically, assert that a dialogue between the paradigms is possible and, in fact, needed. Gioia and Pitre (1990), for example, have stated that the boundaries between paradigms can be conceived as blurred transition zones, where it is possible to construct bridges that connect apparently disparate concepts. Schultz and Hatch (1996), conversely, explicitly deny the incommensurability argument, but do not, however, accept an integrationist view of mergers of paradigms without respecting their differences. Their proposition is then interplay of paradigms' where they seek to offer simultaneous recognition of both contrasts and connections between different paradigms.

Multiparadigmatic perspectives are not, however, without some profound difficulties. For example, according to Scherer and Steinmann's critique (1999: 523), mixing the several paradigms does not necessarily lead to more "comprehensive and better explanations" because each of them may have some deficiencies and thus "a combination would be even worse." Likewise, some or even most of those subscribing to multiparadigmatic views tend to underestimate the incommensurability thesis, when accepted, because it clearly states that a decision between paradigms has to be made: simply, the coexistence of different paradigmatic positions, integrations, and combinations in the same study is not possible (Burrell and Morgan, 1979; Jackson and Carter, 1991; Weaver and Gioia, 1994; Scherer and Steinmann, 1999).

In all, neither cross- or multi-paradigmatic perspectives nor any of those labels and views presented by idealists and relativists, or the forms of ORV correspond to the fundamental premises behind this thesis and in particular the proposed form of explanation by causal mechanisms. Some of them, of course, may include consistent or supportive elements. One such element is the assumption that the researcher has to make explicit choices of the underlying premises behind the study, and these assumptions have to follow an intelligible and well-grounded way of thinking. Thus, my position is the opposite of Feyerabend's "anything goes."

A Realist Approach

I now turn to a closer discussion of the philosophical foundation of my argument, that is, realism, and thereafter present my deliberations regarding explanation by means of causal mechanisms. My goal, however, is not to give an all-inclusive discussion of the various, and often problematic, opinions that may arise from these issues. Indeed, questions related to scientific explanation seem to be the perennial questions in the philosophy of science. Thus, no final solutions to the philosophical problems are evinced and many things may be left open, although I firmly believe that it is more than relevant, or even necessary, to do philosophy of science and, in particular, consider the issues related to causal explanation in proximity to the actual scientific work that is its subject.

Accordingly, my approach to build on realism as a well-grounded philosophical foundation arises, first, from the premises of this dissertation—to provide an explanation of how organizational decline and turnarounds work and to defend the relevance of explanations by causal mechanisms in general—and, second, the more general notion that without the explicit discussion of the presuppositions underlying our comprehension of the world, the social scientific research becomes gravely flawed. A realist approach, I argue, offers the most robust basis to answer the research questions as well as to build a plausible argument regarding these issues. In general, as put by Brown (1994: 1), I believe that “realism provides a general framework for understanding how things work.”

As the above discussion has already shown we live *de facto* in a world of multiple perspectives and each of these views may have some value to add. Therefore, my arguments hitherto and forward, including the most provocative ones, are also intended to be dialogical and open to criticism in hopefully somehow cumulative process of the knowledge creation. To position realism more firmly into this study, and in fact in the field of management and organization research, I will now discuss the basic elements of realism and explanation as they are understood in my argument. In particular, I try to show how realism forms the necessary foundation for the explanation through causal mechanisms (though it also allows other forms of explanation as well) that cannot be provided by positivism or postmodernism in their various forms.

First of all, as demonstrated above, by dividing the scientific field into several incommensurable paradigms and theories, all having their own realities would at worst lead to the absurd situation where all “inter-paradigmatic” discussion, shared understanding, and even the modest aim of cumulative knowledge, that is, moving from less adequate accounts to more adequate accounts, becomes impossible. Basically, each paradigm may have the best explanation regarding the same question, which sounds rather absurd for those of us who think there can be only one best explanation per specific question.

For example, if theories A and B are focused to explain different issues, the question whether A is “better” than B becomes pointless. However, if both theories A and B try to explain a particular problem or part of reality, one of them is very likely to be more appropriate or better in making the phenomenon intelligible and understandable (this thesis is equally valid in methodological questions). Therefore, theories can be seen as offering—not only ways of looking at different parts of the world, ways to make observations of reality, and ways of explain the results of the tests and the correlations among the empirical observations—essentially descriptions of reality, including unobservable entities on therein. These descriptions may be approximately true (or, nearly, partially, true) or they may be false. The goal of science, a realist argues, is to produce the former.

Acceptance of the possibility that theories can be at least approximately true provides the very meaningfulness of scientific inquiry, also when the research is focused on the social world. For a relativist there is no space for truth to be explained and therefore no possibility of mistakes: depending on the subject, social group, or ideology, each theory can be argued to be equally acceptable and true. A realist, on the other hand, sees that fallibility and mistakes are inevitably parts of science and one of the basic ideas of scientific work is to correct these flaws, even if only in a piecemeal way, and thereby provide more consistent theoretical accounts and understanding of the world (i.e. the inference to the best explanation, a.k.a abduction: see e.g., Harman, 1965; Lipton, 1991; Thagard, 1978; and Chapter 10 in this study). That is, I believe, a very commonsensical stance.

These commonsensical assumptions form the basic principles of realism or more precisely the *scientific causal realism* advocated in this study. The philosophical discussions around the various sub-species of realism are unending (cf. Leplin, 1984; Papineau, 1985). Therefore, it is unfeasible to present all-accepted postulates of realistic philosophy of science. In point of fact, almost as many variations of realism exist as there are realistic philosophers of science (for a review of the varieties of scientific realism see e.g., Niiniluoto, 1999a; Psillos, 1999; Sankey, 2001; realistic views in the social sciences e.g., Godfrey and Hill, 1995; Kincaid, 2000; Little, 1991, 1998; Trigg, 1985, 1989; and in critical social realism e.g., Sayer, 2000). Even though the field is fragmented (which is a typical situation in all philosophies of science), advocates of realism have some unambiguous common denominators that also form the basis for my argument. I have already discussed two of the most evident of these—(1) the aim of science as the pursuit of truth (even if only approximately reached, I would emphasize) (2) in a world that is able to exist independently of our subjective (as well as objective) minds. These notions, however, need to be formally opened as a step from commonsensical realism to the scientific causal realism.

The second of the above denominators is the basis for the *ontological doctrine*, which includes the principle that objects of knowledge can exist and act independently of our direct knowledge of them—even when they are unobservable, theoretical entities.

Accordingly, scientific realists can also provide explanations that refer to real events and processes occurring a level that is directly unobservable. This thesis already distinguishes realism from all anti-realist accounts, that is, postmodernism and positivism.

In fact, this is explicitly the opposite view to the postmodernist assumption that the social world is completely constituted by discourse, that is, the world is merely socially constructed or is only determined by the concepts people hold about it. Thus, if discourse creates the objects to which it refers, then the discourse itself can never be wrong about the existence of its objects, nor can an alternative discourse criticize another discourse, since the objects of a given discourse exist if the discourse so claims. Moreover, non-discursive practices cannot be examined because they have been ruled out of contention (Patomäki and Wight, 2000). Realists assume, in contrast, that social phenomena can also exist without the human actors involved having knowledge of them, conceptualizing them, or constructing them in discourse. What is not assumed, however, is a naïve realism implying that reality is obvious or self-evident or easy to discover. Indeed, the claim is the very opposite.

Related to the aim of science as the pursuit of truth (*the axiological doctrine*), an assumption that it is possible to achieve knowledge about this reality forms the generally accepted *epistemological doctrine* for realism. Unlike the “once received views” this knowledge is not restricted to the directly observable, empirical level, but also includes those directly unobservable aspects of reality. Thus, phenomena are distinguished from the data (Brown, 1994). Moreover, all versions of realism accept that causal mechanisms are used as the basis of explanatory theoretical accounts. Thus, there is no need to restrict causal explanation to constant conjunctions. In other words, phenomena can be explained on the basis of underlying causal mechanisms or processes (see e.g., Sankey, 2001). However, realism in no way limits the accounts of explanation to causal mechanisms.

Together with the stance that science should pursue truthful theories, the ontological doctrine forms the *semantics doctrine*. Accordingly, there should be at least an approximate correspondence between language of theories and the world filled by observable and unobservable entities, mechanisms, and processes (i.e., correspondence theory). In other words, if theories are true, the unobservable entities described in theories also exist in the world. Here, however, I follow the widely accepted view that our theories are usually able to only approximately correspond to the reality (see e.g., McCullagh, 1998, 2004a; Psillos, 1999; Sankey, 2002). This does not mean that although the accurate natures of the suggested entities, mechanisms and processes may fail to be known thoroughly or in their entirety that such entities, mechanisms and processes do not really exist in a form close to that described by the theory.

This notion forms the basis for the *methodological doctrine*, as it can be called, that the scientific knowledge of reality may be fallible—but also correctable. Therefore, a realist must follow and employ methodological rules and procedures that produce

explanations and theories warranted to be accepted (or there is “good reason” for accepting them, see McMullin, 1987) as approximately true. These accounts, then, can be put under further scrutiny that may produce accounts that fulfill some limits of the previous ones. While both ontic and epistemic assumptions of realism diverge from those of positivism, this does not mean that the research based on realistic assumptions cannot use methodological tools similar to those used in positivistic or some other form of research when seeking better explanations. Altogether, the epistemic optimism related to epistemological and methodological doctrines is often presented as “the no miracle argument” because, according to the well-known slogan of Putnam (1975: 73), “realism is the only philosophy of science that does not make the success of science a miracle.”

The argument has also been criticized. Laudan (1984), for example, noted that there have existed several theories that were once believed to be empirically successful but were then shown to be false. Conversely, realists base their argument on the fact that the newer theories that have replaced the older theories incorporate many theoretical components that have led their predecessors to empirical success. Similarly, neither change of theory is as fundamental and discontinuous as some challengers of realism have argued (for further discussion, see e.g., Brown, 1994; Kitcher, 1993; for a good example from the applied sciences see Logan, 2004). Therefore, in spite of the fact that our current theories may be replaced by other theories, this need not need undermine the realist argument. In fact, this is perfectly consistent with the assumption of the fallibility and progress of science as described above. As pointed out by Psillos (2000: 721): “All it shows is that a) we cannot get at the truth all at once; and b) our judgements from empirical support to approximate truth should be more refined and cautious in that they should only commit us to the theoretical constituents that do enjoy evidential support and contribute to the empirical successes of the theory.”

In the social sciences, realistic perspectives have traditionally been exploited more implicitly than explicitly.⁴ In recent decades, however, arguments based on realistic assumptions have increased, particularly as a form of critical social realism, being most often associated with Roy Bhaskar’s (1978; 1979), and partly Anthony Giddens’s (1979; 1981), works. Although I do not base my argument on the ideas and assumptions related to the thoughts developed by Bhaskar and other critical social realists (e.g.,

⁴ As a consequence of the dominant positions of postmodernist and positivist research in organization and management studies, the inquiry that is explicitly grounded on realism has not been especially popular. However, as stated above, there is a great deal of research including the (sociological) works of scholars such as Weber (1947 and 1949), Durkheim (1947), Veblen (1924), Mannheim (1948), Granovetter (1985), Wallerstein (1974) and Bourdieu (2002) to name but a few, who have rejected both positivism and relativism and accepted something like contemporary realism. Moreover, institutional economics, economic history, and some other forms of non-orthodox economic analysis are clearly consistent with the realistic view of explanation and understanding. In the field of management and organization research some kind of realistic (or critical social realistic) perspectives can be found in the works of Godfrey and Hill (1995), Reed (1997), Tsang and Kwan (1999), and Tsoukas (1989 and 1994). In the area of historical sociology we can identify aspects related to the premises of realism in several works (e.g., Abbott, 1992; Griffin and Ragin, 1994; Skocpol, 1979, Somers, 1998; Steinmetz, 1998).

Brante, 2001; Collier, 1994; Lawson, 1995; Outhwaite, 1987; Sayer, 1992, 2000), and my methodological suggestions may contradict their ideas, as a point of reference I will outline some central aims in their argument. Critical social realism initially focuses attention on ontology, which states that social reality consists of intransitive and transitive entities, which can exist independently of human knowledge. Nature is presumed to exhibit real structures generating real necessities that can be transposed to the social realm (Reed, 1997). Thus, this group of researchers accepts a form of realist ontology that the natural and social worlds alike can consist of real, complex, structures that may exist independently of our knowledge of them.

One of the basic standpoints in Bhaskar's argument is that social world is not a closed but an open system, in which events do not invariably follow a determined and recurrent pattern, but are subject to diverse causal variations. Consequently, the identification of a causal law with a constant conjunction of events is inadequate in the social sciences. This follows that because explanation and prediction can be symmetrical only under conditions of closure, realistic social sciences are primarily explanatory (Steinmetz, 1998; Tsoukas, 1989). However, Bhaskar does not define where the closed system ends and the open system begins. Most likely the world is not bipolar, open or closed, but something in between (see Töttö, 2004).

In critical social realism experiences and patterns of events are explained in terms of certain generative mechanisms or causal powers, which are fully independent of the events they generate. These reside in structures and endow them with particular causal capabilities. They can also endure even when they are not acting, and they may act even when the consequents of the law-like statements they give rise to are not realized, because of countervailing forces or the effect of other intervening mechanisms (Tsoukas, 1994). Thus, one-to-one relationship between a causal law and the pattern of events it prescribes can be obtained only under conditions of closure.

Another basic thesis of critical social realism is that the existence of generative mechanisms and causal powers presuppose that the reality is stratified. According to Bhaskar (1978) reality consists of three domains: the real, the actual, and the empirical. Generative mechanisms exist independently in the real domain, also called as "deep" (Ackroyd and Fleetwood, 2000; Bhaskar, 1978), but are capable of producing patterns of events. The actual domain, in turn, is the domain in which observed events or observed patterns of events occur, and the empirical domain is the domain of experienced events (also called the Humean level). Thus, experiences presuppose the occurrence of events in the actual domain and, in turn, events presuppose the existence of mechanism in the real domain that originally generates these events (Bhaskar, 1978; Tsoukas, 1989). These notions of the predefined independence of mechanisms and the full openness of the social world also form the main controversies and problems regarding other forms of realism and actual research as discussed earlier. However, since my thesis is not based on Bhaskar's ideas and conceptualization, further discussion of the issue is not relevant to my argument.

Altogether, we can briefly note that the idea of stratified reality is not peculiar to critical realism in the social sciences. In fact, Bhaskar's model can be compared to Popper's (1972) suggestion to divide the reality into three domains: world 1, world 2, and world 3. Popper's world 1 includes non-organic and organic physical objects, that is, material nature. World 2, in turn, consists of thoughts, mental states, consciousness and processes within individual minds. The most interesting one, world 3, contains three kinds of man-made entities. First, there are artifacts or cultural objects created by human beings for specific purposes, such as books and paintings. These exist as long as the underlying physical objects exist. Second, it includes abstract entities such as problems, conceptual systems, propositions, theories, and values that do not have physical forms but can be named and represented by concrete or mental instruments. These entities are in a sense timeless that they can be reproduced several times. Thirdly, world 3 includes historical entities and processes in that are created, reproduced, and transformed by the activity of human beings (Niiniluoto, 1984; Pihlström, 1996; Popper, 1972). According to Popper, worlds 2 and 3 are evolutionary products of world 1; that is they cannot exist without world 1. This is also the main difference as regards the model of Bhaskar. However, as a result of causal feedback mechanism worlds 2 and 3 are still able to influence world 1 entities. World 2 and 3 are, thus, relatively independent. World 3 can influence world 1 via world 2 and, similarly, world 1 and world 2 are in causal interaction. Thus, such causal powers are criteria for Popper that all entities in three different worlds belong to reality. World 3 is still a product of humans, not a pre-existing platonic realm. Altogether, the similarities with Bhaskar's model are clear. However, there is nothing surprising in that because Popper can also be described at least within some limits and disagreements, as a scientific realist (see Niiniluoto, 1999a).

Overall, the basic assumptions of realism, as I have presented them in here, form both the possibility, and even inevitability, of explanations based on the identification of causal mechanisms, which would not be possible following the positivists or postmodern spheres of philosophy of science. Specifically, this foundation enables the explanation to focus on real events, processes and thereby mechanisms that can also occur at the level that is directly unobservable. Indeed, it is hard to find organizational processes or phenomena, such as organizational decline and turnarounds (as well as mechanisms that drive those processes), which are directly observable. Despite this fact, we have approximately true knowledge of such issues.

Causal Mechanisms

Building on the above accounts of scientific causal realism, we are not deemed to only rely on the regularity theory of causality as positivists are or to deny causal explanations as postmodernists do. On the contrary, it is argued that correlations are often to be

explained, and that the observed phenomena can be explained on the basis of causal mechanisms (cf. Sankey, 2001). The search for mechanisms, therefore, indicates that we are not satisfied with covariation between variables but rather interested to reveal why and through what process the outcome actually was brought about (Salmon, 1984). Altogether, we need to open the “black box” of constant conjunction that connects one state to another. In fact, as soon as we have identified the mechanism, it becomes unnecessary with regard to causal explanation to acquire further evidence concerning possible regularities it may produce (Cummins, 2000; Glennan, 1996).

Indeed, mechanisms are generally argued to be the answer, among other things, to the problems of common causes and spurious correlations (e.g., Steel, 2004). That is, the observed correlation is not a result of causal relation at all but is produced by some third variable, or causation is dependent on other variables that are unnoticed. Mechanisms also provide a new way to consider the problem of preemption, that is, a cause acts before another cause and in so doing preempts the other.⁵ Most importantly, mechanisms provide intelligible answers to the questions *why* something happened and even more importantly, I would like to emphasize, *how* things work and how outcomes come about. In all, the overall prospects for an explanation based on causal mechanisms are suggested to be promising.

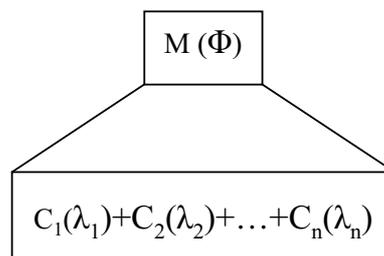
Yet, as noted in Introduction, although the idea that mechanisms should occupy a central position in the explanatory accounts is explicitly presented, the theoretical literature considering mechanisms in the social sciences is not overly extensive and originates from rather limited starting points such as rational choice theory (Elster, 1983, 1989; Hedström and Swedberg, 1996, 1998). Regarding explicit methodological suggestions and actual research, the situation is even more underdeveloped. This largely reflects the consequence of the restricted positivist tradition of comprehending causal explanation only as a form of constant conjunction. Nevertheless, in recent years the discussion round the nature of mechanisms has increased, in particular, in the philosophy of science (e.g., Ahn and Kalish, 2000; Craver, 2001; Darden, 2002; Glennan, 1996, 2002; Machamer et al. 2000; Psillos, 2004; Salmon, 1984, 1998; Steel, 2004; Tabery, 2004). The account of causal mechanisms provided here builds mainly on this discussion and in particular on the works of Machamer, Craver, Darden and Glennan. However, since my considerations regarding causal mechanisms arise from the questions related to the social scientific research, the suggestions are not identical with those of the abovementioned researchers, who have mainly used examples from molecular biology.

⁵ A traditional (and very simplistic) example of the preemption problem concerns a man who travels across a desert. The man has two enemies. One of them poisons his water whereas another enemy, without knowing the action of the first, puts a hole in his water container. The man dies on the trip. The first enemy who poisoned the water thinks that the poison caused the man to die and the second enemy thinks that his action and the lack of water caused the man to die. However, the man who poisoned the water is wrong because the water dripping out of the container preempted the poison to cause the death of the man.

In short, I argue that in the context of the social sciences, including organization and management research, there are three central and interrelated characteristics of a causal mechanism. First, it consists of functional components of entities and activities. Second, it has a hierarchical (part-whole) structure. Third, it produces something. In the following I seek to open this nature of mechanisms more precisely and in so doing describe how mechanisms provide a way to explain how things work.

First of all, each of the functional components of a mechanism has a unique role in the production of a particular outcome. Hardly ever does a mechanism consist of a single component (though that may be possible). Most often, it is the combination of the components that jointly activates the mechanism which, as a whole, produces the outcome or thing. Accordingly, an entity that efficaciously engages in a productive activity acts as a cause (thus it is a difference maker) and, as shown in a simplified form in Figure 1, a mechanism M 's activity to produce something (Φ) is explained by decomposing and analyzing how its components, that is, entities (C_1, C_2, \dots, C_n) acting in a certain way ($\lambda_1, \lambda_2, \dots, \lambda_n$), are relevant to Φ -ing of M (cf. Carver, 2001; Cummins, 1975).

Figure 1. Relation between Mechanism and Its Components



Source: Adapted from Craver (2001).

In other words, to determine the ways in which a causal mechanism M produces or is not able to produce a phenomenon, an explanation of M should exemplify what its functional components are and how they are organized together. To identify a component is to show that it belongs to the mechanisms (In the next chapter I will provide an account of how we can do this. It is also the part of reasoning where counterfactuals can be used). Thus, a component cannot be isolated from other components; rather, its contribution to M 's Φ -ing comes from its mode of operation but also its size and force as well as its relation to other components. The same functional component, for example, may have a different effect when it occurs in a combination of other components.

Both the activities and entities of a component can be seen as having their ontic existence independently of each other (Machamer, 2002). Building on this notion,

entities, such as managers, creditors, or owners are the causal agents that do the acting. Nevertheless, the activities are not ontological constituents of entities, but rather behaviors how the entities express themselves. Entities, instead, have both attribute and structure based properties that define whether or not the entities are able to act. Accordingly, “activities can be abstracted and referred to and identified independently of any particular entity and sometimes, even without reference to any entity at all. So at least activities existing as abstract objects exists independently” (Machamer, 2002: 5). This, of course, is equally true as regards entities; they exist even if they do nothing. Therefore, at least on an abstract level, both entities and activities can be considered separately. This is a central tenet when explaining organizational (and other) processes. Altogether, mechanisms, as a whole, interdependently consist of activated components of entities and activities.

As suggested, another essential characteristic of a causal mechanism is its hierarchical structure. As Figure 1 depicts, a mechanism can be seen to consist of two levels as a part-whole hierarchy (Craver, 2001; Craver and Bechtel, 2003; Glennan, 2002; Machamer et al., 2000), where the lower-level components in combination activate the mechanism as a whole, or at the higher level, to produce the outcome or state of affairs. Whether the levels are defined as macro or micro in respect of other phenomena, as such, is not relevant. However, in respect of each other, the mechanism as a whole (M) is always hierarchically at a higher level and temporally more extensive than its constituting components ($C_n\lambda_n$). Thus, we can also refer to the macro-level when discussing mechanism as a whole and the micro-level as regards to its components. This is consistent with the realist assumptions regarding the possibility of unobservables. It allows the reality to be described at different levels even if they are directly unobservable, as is often the case with mechanisms as a whole.

The issue of explanatory levels, however, is prone to raise questions related to causal reductionism. These need to be addressed. Altogether, I argue, as regards the social sciences, that causal explanation with mechanisms provides a reasonable solution to this problem. Very briefly, the principle of reductionism states that macro or higher-level causal relations are reducible in some sense to micro or lower-level causal relations (see e.g., Jonker, Treur, and Wijngaards, 2000; Kim, 1993; Menzies, 1988). From this it follows that the micro-level relations should be again reducible to lower levels until the fundamental “microphysical” level is reached. According to physicalism, therefore, the causes at the fundamental level determine the facts at all other levels.

As an extreme form, the principle of reductionism by denying the existence of productive, causal relations at the higher levels than at the level of fundamental physics disproves the possibility of genuine macro causal explanations in all applied sciences including social scientific research. For most of us this sounds somewhat absurd and has raised several counterarguments. My intention is not to provide a detailed discussion of all these arguments, but to directly offer a solution that, in addition to the facts of mechanisms already discussed, finds support in the arguments proposed by Jackson and

Pettit (e.g., 1988, 1990, 1992)⁶ and the theoretical knowledge we have in general, for example, of entities and activities in organizations.

The basic idea of Jackson and Pettit's (1990: 108) *program explanation* is that "...a property can be causally relevant without being causally efficacious. According to that account the realization of a property may program for the occurrence of an effect without actually contributing to its production." Let us consider the program model of explanation more closely through a couple of examples also used by Jackson and Pettit. First, think about a closed bottle of water that is heated until the water boils, the molecules of water attain a certain level of mean motion, and finally the bottle cracks. Altogether, we have two options to explain why the bottle cracked: the macro-level and micro-level. The former refers to the increasing temperature of the water, whereas the latter provides the explanation by describing the momentum of particular molecules and their collisions with the molecular bonds in the surface of the bottle. Let us take another example. Consider a case of explanation where a fragile glass is struck and breaks. Again, we can provide macro and micro accounts of why the glass broke. Simply, on the macro-level the explanation refers to the fragility and on the micro-level to the molecular structure of the glass.

In both of the examples it appears that the micro- or lower-level account is more fundamental. The temperature and its rise consist of the movements of the molecules while the glass was fragile because of its molecular structure. Thus, the temperature was efficacious in producing the cracking of the bottle given that the momentum of molecules was efficacious whereas the fragility was efficacious in producing the glass breaking given that its molecular structure was efficacious. Even without closer examination it seems fairly obvious that the macro or higher level was not a directly efficacious property in the production of the outcome, which would, as such, imply that we have to be satisfied with the second class of causal explanations in the social sciences concerning higher-level issues when the truly productive causes lie at the level of elementary physics. However, most of us agree that the rise of temperature and fragility are relevant properties in explaining the outcomes.

This is also the basic assumption in Jackson and Pettit's program explanation, according to which the realization of the rise in temperature and the fragility of glass (i.e. the abstract property) ensured, or *programmed*, the collisions of molecules needed to produce the cracking as well as a particular molecular structure that was efficacious in producing the breaking. Thus, it can be concluded that the higher-level properties were causally *relevant*. In fact, in both cases there could have been an almost endless number of different collisions of molecules as well as molecular structures that are sufficient to produce the outcome. This makes the abstract, higher-level properties of the rise of temperature and the fragility of glass very informative in explaining the outcomes.

⁶ An insightful discussion of Jackson and Pettit's "program explanation" is also presented by Ylikoski (2001).

At the lower level, causally efficacious properties describe the process of what actually occurs in a particular case. However, the same higher-level ‘program’ can be realized through several different lower-level causal configurations and productive processes. As the above examples illustrate, the knowing the increase of temperature explains several “similar” cracks in bottles whereas the particular motion of molecules and their collisions only explain the crack of that particular bottle as well as how that productive process is different in respect of the other “similar” productive processes causing the cracks in bottles. Thus, the account of the productive, lower-level, properties is able to tell that in spite of the different lower-level configurations the same ‘programming’ property was true, whereas the higher-level program explanation tells what is needed to ensure the occurrence of the outcome. By using the program explanation, therefore, we can identify phenomena that are similar in spite of their lower-level differences. Altogether, following the idea of explanatory ecumenism (Jackson and Pettit, 1992), a more fine-grained explanation is not an end in itself. Both levels provide complementary information and thus, as a whole, more intelligible explanations.

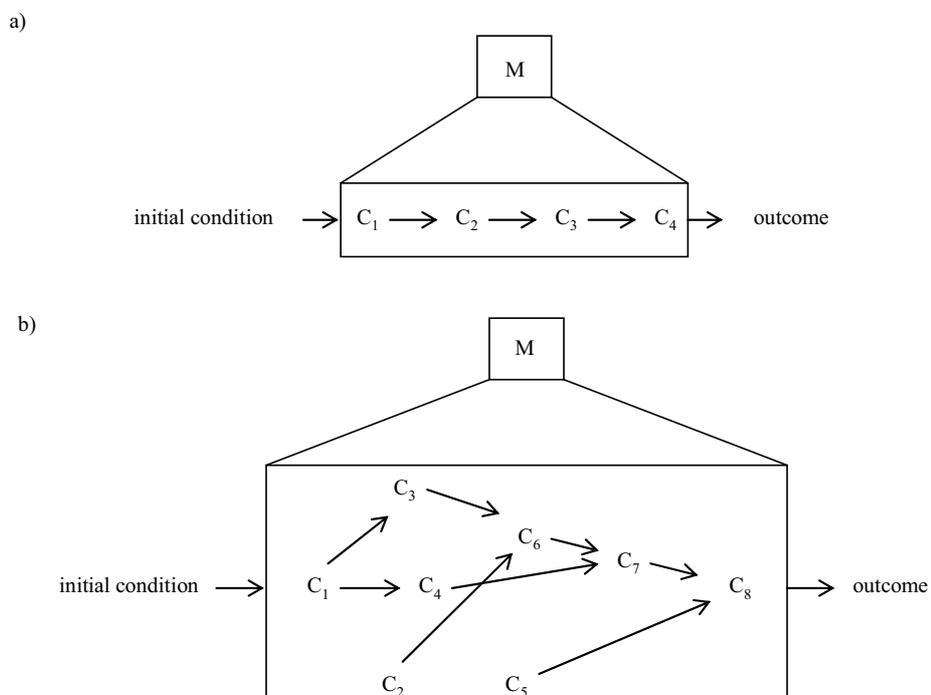
Now, let us again consider the hierarchical structure of mechanisms. Building on the above discussion we can see how the higher-level activity of a mechanism as a whole is essential to the intelligibility of its lower-level components and, vice versa, the lower-level components are essential for understanding the higher-level activity of the mechanism in its context (see also Machamer et al., 2000). Ylikoski (2001) has criticized Jackson and Pettit’s model of explanation by arguing that, actually, lower- and higher-level explanations are explanations of the same kind, but they have slightly different *explananda*. Be that as it may, I cannot see it as an imperative problem as regards explanation by means of mechanisms especially in the context of the social sciences.

In short, at the same time as a mechanism at the higher-level (cf. rising temperature of the water) provides an explanation of *what* behavior is needed to produce a thing or outcome (cf. the cracking of a bottle) in an abstract form, the lower-level combination of functional components exactly explains *how* the mechanism, as a whole, was activated and the outcome produced in that particular case. We can also say that the lower-level combination of components describes why the activity of and outcome produced by the mechanism at the higher level is true (cf. Glennan, 2002). In any case, both of the explanations address the same thing. A macro-level phenomenon, such as the cracking of the bottle, has infinite ways of realization but each of them is an instance of the same phenomenon as far as we accept that there exist abstract or higher-level phenomena in the world (that are usually directly unobservable). As a result, the hierarchical structure of a mechanism provides a possibility, not only to explain how a particular outcome was produced in a particular case, but also to compare how the same higher-level mechanism works in different cases.

Yet if we could not totally deny that a mechanism generating an outcome can be reduced to lower-level mechanisms even until the level of fundamental physics is reached, we can firmly argue that in the social sciences the fundamental laws have nothing to do with the issue of whether the causal argument is true (see also Glennan, 1996, 2002). However, we have to admit that the defining of the “bottom out level” is relative. As stated by Machamer et al. (2000: 13): “Different types of entities and activities are where a given field stops when constructing mechanisms.” Rarely, for example, do organization theorists have any reason to go to the level of molecules in explaining organizational phenomena. While the selection of the bottom out level is relative, it can be done reasonably and the solution is rather obvious.

The level is always a matter of the subject of the research, the research questions formulated by the researcher, and, in particular, the previous theoretical knowledge we have regarding the phenomenon or outcome in question. Accordingly, in this study, it is the research questions I have put forward and the previous theory regarding where the entities (i.e. stakeholders) are and act productively that define the bottom level of the mechanism and the explanation. Therefore a theoretical framework receives such an important position in explanation with mechanisms. Altogether, as the account of Jackson and Pettit tells and that of Glennan supports, the mechanism as a whole, in any case, remains causally relevant.

Figure 2. Complexity of a Mechanism



Building on the epistemic notion discussed earlier, one of the main arguments of this study is that such mechanisms can be examined and approximately true representations and theories of them presented. I provide a more detailed discussion of a methodological procedure for the examination and identification of mechanisms in the following chapter. However, before that I would like to emphasize that a basic difference between mechanisms identified in the natural sciences and the social sciences is that in the former the mechanisms can often be examined in a closed system and at the productive level can take a very straightforward form as illustrated in Figure 2a. In social scientific research, however, a mechanism producing a particular outcome rarely has such a linear or stable structure. Often the outcome is produced through a much more complex system of functional components, as Figure 2b illustrates.⁷ Yet in both cases there are functional components that together activate the mechanism to produce the outcome. Altogether, this complexity imposes specific requirements and restrictions for the identification and postulation of mechanisms.

⁷ According to Glennan (2002) mechanisms are, indeed, in the nature of “complex systems”. To see mechanisms as complex systems is also perfectly suitable regarding the account provided here.

Chapter 3

Methodology

The aim of the foregoing discussion was to show how mechanisms have a central role in causal explanation as well as to provide a justification for realism as a foundation for the examination of how things work in general and how mechanisms work in particular. However, the suggested ontological and epistemological assumptions, or realisms in general, do not directly offer any specific methodological approach to causal explanation or the postulation and identification of causal mechanisms. Therefore, the next crucial step in my argument, and the main aim of this chapter, is to construct such a methodology that offers a procedure for causal explanation with mechanisms in the social sciences in general and processual organizational and management research in particular.

As argued concerning the methodological assumptions of realism, a researcher should follow strategies or methodologies that are focused for solving particular type of problems and thereby producing explanations that can be warranted. Thus, there is no overwhelming reason why the suggested realistic perspective would not allow the use of the same kinds of methodological elements as are used in empirical research in general (e.g., Little, 1998; Psillos, 1999; Sankey, 2002; see also Pihlström, 1996). Indeed, since the aim of realistic research is to produce as truthful explanations of reality as possible, a researcher does not need to be, or even cannot be, restricted solely to follow a particular form of explanation (e.g., counterfactual, manipulation, regularity, or

mechanistic theories) or a particular methodological approach or tool that may not support or even allow the researcher to reach this end.

On the contrary, different methodologies and research designs are more appropriate in seeking causal explanations regarding different things. Therefore, before making any choices or decisions regarding methodological solutions, we have to define the dominant characteristics of the issue under study. As stated, this thesis seeks to examine what causal mechanisms are and how they drive organizational decline and turnaround processes. This research question more or less explicitly includes at least six main elements. Briefly, the study that aims to answer the question will be: a) causal b), comparative c), most likely qualitative, d) processual, e) most likely historical, and f) deals with business organizations. Thus, this broad set of issues can be used as a frame for the development of a methodology that enables the identification and postulation of the causal mechanisms.

Specifically, since the empirical part of my argument consists of three analytically chosen in-depth cases of organizational decline and turnaround processes (I introduce the cases in greater detail in the last section of this chapter), the first methodological element connects this study to case-oriented qualitative research. Second, the study is focused to examine causal mechanisms in organizational processes. This, in turn, incorporates the study into the research traditions of historical narratives, process research, and, of course, the literature of causal explanation. Third, these cases are compared—that is, the study has close interfaces with the tradition of comparative methodology and research, especially in the area of sociology. The fourth methodological element arises from the historical time perspective that connects the approach to historical research and, most importantly, determines the quality of empirical research data available for the analysis and, specifically, how that material was collected and evaluated. Altogether, these methodological elements are not usually exploited separately; instead, they are explicitly or implicitly conflated into diverse combinations. This is also the case in this study.⁸

In this chapter the remainder of the argument proceeds as follows. First, I provide a succinct discussion of the basic characteristics and issues in case-oriented research and small-N comparisons in order to define an appropriate research design for the examination of causal mechanisms. Thereafter I present a general argument for history

⁸ The empirical part of this thesis could also be situated under the category of historical comparative organization research, which, however, is a hitherto non-existent sub-field of social scientific research. Nevertheless, for example, the studies of Alfred Chandler (1962, 1977, 1990), strategy process research (e.g., Mintzberg, 1978, 1990; Pettigrew, 1985, 1992, 1997; Van den Ven, 1992), various case studies, as well as historical organization analyses (e.g., Farjoun, 2002; see also Kieser, 1989, 1994) include convergent elements and references in that direction. In sociology, however, comparative historical research is one of the main trends of the inquiry. Goldstone (1997: 119), for example, has stated that comparative historical studies have produced “many of the greatest achievements of macro-sociological scholarship.” Therefore, my methodological considerations are fairly extensively built on the established and progressive literatures of comparative historical sociology in addition to the philosophy of causal realism and mechanisms.

and, in particular, the research of history. Altogether, this section forms the legitimatization for the use of historical narratives in the analysis of causal mechanisms.

This completed, I turn to discuss the basic elements of my methodological approach more closely in the section entitled “From Historical Narratives to Causal Mechanisms: The Basic Elements”. In this section, I first outline the main streams of research in comparative historical sociology and then describe the data analytic technique of event structure analysis (ESA) used in the analysis of historical narratives. In addition, I describe how the account of counterfactuals provides a heuristic in defining whether an event (or a functional component) belongs to the causal event structure of the process. The argument then proceeds by showing how the idea of two levels of mechanisms is necessary in the identification mechanisms, abstraction of event structures as well as their comparison. Thereafter, I describe a comparative approach based on the notions used in Boolean logic / qualitative comparative analysis (QCA). Finally, I provide a general procedure that builds on these elements and provides a way to identify and theorize causal mechanisms. A section that more closely introduces the cases under the analysis and also discusses and evaluates the empirical research data and the research design concludes the chapter.

General Issues in Case-oriented Qualitative Research

Case study research is one of the most common forms of qualitative inquiry. It does not, however, need to be understood as an analytic method or necessarily connected to the qualitative research or single units. More properly, a case study can be seen as a research setting or a frame determining the boundaries of information gathering that is not bound to any particular theoretical framework and that can include different methodological modes of analysis (e.g., Eisenhardt, 1989; Feagin et al., 1991; Gerring, 2004a; Miles and Huberman, 1994; Ragin, 1991, 1992; Stoecker, 1991). In the social sciences, as an explicit research setting, it has been by far the most popular in anthropology and history, and also widely used in political science, sociology, and organization research. In point of fact, a great part of monograph shaping the management and organization research has been case-oriented studies, and a considerable amount of social sciences theoretical contributions were initially created by exploiting case studies (see Mitchell, 2000).

As noted, case-oriented research includes both single and multiple settings. Traditionally, the former is usually undertaken because of the desire to understand a particular phenomenon (Stake, 1994). If generalizations of the results of a single case study are suggested, they can only concern a theory, not populations (Yin, 1994). Multiple case studies, in turn, usually have a comparative element as their central focus. At a very general level, they are interesting in identifying similarities and differences

among social units,⁹ which can provide the key to explaining and understanding diverse historical outcomes and processes of a larger class of similar units. In light of the characteristics of this study, I intentionally focus my analysis on the latter group.

More than often confrontation is created between qualitative case-oriented research and quantitative research, even though they both use the same concepts and frameworks and both ultimately have the same goal, to construct plausible descriptions of phenomena by grounding on reliable evidence (Ragin, 1997). In fact, King, Keohane and Verba (1994) argued that the logic of inferential procedure behind quantitative and qualitative research is basically uniform (see also Bryant, 1994; Smelser, 1976) whereas Raatikainen (2004) drew equal conclusions regarding the human and natural sciences. The remaining disagreement, however, is not factitious but very much an outcome of the dilemma between the choice to emphasize complexity and the need for in-depth analyses on the one hand, and the choice to emphasize possibility to attain maximal statistical generality on the other hand. Research strategies that opt for complexity over the possibility for wide statistical generalizations are most often classified as qualitative case-oriented, small-N, or intensive research. Strategies that focus on statistical generality, in turn, are labeled quantitative, variable-oriented, large-N, or extensive.

This juxtaposition has also a close relation to the disagreement between variance/correlation research and process research. While large-N variance studies give descriptions of phenomena in static moments, process analyses concentrate on longitudinal and dynamic processes (cf. Mohr, 1982). Moreover, these processes are usually presented as a form of case studies. Indeed, it has been emphasized that what the case study does best is to study causal processes. For example, Stoecker (1991: 97–98) has proposed that the term “case study” should be reserved for “those research projects which attempt to explain [j]holistically the dynamics of a certain historical period of a particular social unit.”

Case-oriented comparative studies concentrate on a relatively small number of cases in an in-depth manner and examine each case as an interpretable combination of different parts and context—as a whole (Ragin and Zaret, 1983). This strategy is usually interested in historical outcomes and diversified processes that may require complex combinatorial and causal explanations that are difficult to prove in a manner consistent with the rules of traditional quantitative inquiry. Thus, the goals of case-oriented research can be seen to be both historically interpretive and causally analytic. The interpretive goal attempts to account for historical outcomes or processes in a way that is sensitive to historical chronology and complexity, thus only offering restricted

⁹ Macro social units can be seen to include large groups like organizations, economic units, regions, or whole societies. Micro social units, in turn, focus on small groups and face-to-face interaction among individuals. There is also controversy over the usefulness and relevance of these concepts. See e.g. Giddens (1984). Very often these concepts are blurred. In this study the classification between macro and micro is not a central problem. The interest of the study, organizational turnaround processes, can be seen as a macro social phenomenon, but the explanation and understanding of it also demand in-depth analysis that concentrates on the level that can be defined as a micro social level.

historical generalizations that are often context-dependent. On the other hand, most of case-oriented studies are also causal-analytic in that they try to construct generalizations concerning the causes of theoretically defined categories of empirical phenomena common to a set of cases. According to Ragin (1987), however, there is no indispensable contradiction between causal analysis and historical research. Both are important, and not generally mutually exclusive.

Case-oriented comparative strategies are often exploited in the development of new substantive theories (Eisenhardt, 1989; Gerring, 2004a). Traditionally, in its simplified form, this research strategy includes three basic phases (Ragin, 1987). First, the researcher explores for underlying similarities among members of a set demonstrating some common outcome. Second, the similarities identified are shown to be causally relevant to the phenomenon of interest. Finally, researcher formulates a general explanation on the basis of the similarities identified. This strategy is both deductive and inductive. It is deductive because preliminary theoretical ideas serve as guides in the examination of causally relevant similarities and differences, and on the other hand, it is inductive because the researcher determines which of the theoretically relevant similarities and differences are operative by examining empirical cases. Induction culminates in the formation of abstract concepts and the elaboration of initial theoretical postulates. In reality, however, this process is not nearly so straightforward.

One of the main problems in conducting comparative research is that if cases are very dissimilar it is more difficult to identify causally relevant underlying commonalities. This problem, first of all, is connected to the initial selection of cases. To explain similarities and differences between causal mechanisms, it is not appropriate to choose excessively different cases. This selection can proceed, as it usually does, during the closer analysis (Ragin, 2000). It is, of course, also relevant to analyze different cases to explain, for example, what actually determines their dissimilarities. Other noteworthy problems are situations of “illusory difference” and, vice versa, “illusory commonality” (Ragin, 1987: 47–48). The former illustrates a situation when characteristics that seem to be clearly different have the same consequence. Thus, they are not causally equivalent at a directly observable level, but they have a causal commonality at a more abstract level. The latter, in turn, illustrates a situation when two features seem to be very similar but still have different effects. Often the reason behind these dilemmas is that a causal consequence is not a result of a single factor, but a result of a multiple conjectural causation. This is also the primary justification for examining cases as wholes or, in other words, as configurations of the relevant attributes they exhibit.

Therefore, according to Ragin (1987), good comparative social science should balance the emphasis between detailed cases and abstract variables—that is, to find stability between complexity and generality. This can be attained if a researcher examines cases as complex configurations of events and structures and also treats them as purposefully selected entities. This type of research shares with variable-oriented

research the idea that knowledge can also be derived from the study of cross-case patterns. However, in variable-oriented research, generality is explicitly given priority over complexity. As a consequence, a researcher who exploits traditional quantitative research methods is usually interested in deductively testing propositions or hypotheses derived from general theories by using the widest possible population of observations or representative samples. In contrast, case-oriented comparative research exploits theory to assist historical interpretation and to guide cross-case comparison and thus the identification of salient causal factors.

Although each of the above reasons explains why one would prefer case-oriented research, the paramount reason why it provides the most appropriate research setting for this study is that it enables an in-depth and longitudinal research design for the examination of causal mechanisms. As already discussed, a cross-sectional research design, even if applicable to different questions, is in opposite to explanation by causal mechanisms given that cross-sectional research builds on the notion of the constant conjunction. I will evaluate the research design of this study more closely at the last section of this chapter.

An Argument for History and Historical Research

As stated, one of the main goals of the thesis relates to historiography in terms of providing realistic and verifiable knowledge of historical processes. Consequently, my argument openly builds on the tradition of historical research that, as its definitive purpose, seeks to establish verifiable and as true representations of past reality as possible that, after all, happened only one way (e.g., Bryant, 2000; Dray, 1989, 1995; McCullagh, 1998; Schinkel, 2004; Zagorin, 1999). Specifically, in the discussion to follow, I argue that realism forms an essential condition for the possibility of the investigation of history. In fact, a contradictory stance may at worst lead to the destruction of ethics and moral in the examination of past.

Although theoretical and philosophical questions have not been the prevailing issues in historical research, the debate about different epistemologies has reached historiography during the past decades. For example, the metaphorical narrative theory of White (1973, 1978) and the unambiguously postmodern works of Ankersmit (1989) have convinced a number of historians to accept some form of relativism or postmodernism as an epistemic foundation for their research. However, this group is left in the minority, particularly when compared to the current situation in the (other) social sciences, since, as I will demonstrate, postmodern assumptions are vigorously contrary to the traditional understanding of the basic idea of historical inquiry and the practices used by historians working in archives.

Briefly, the driving force of historians is not, or should not be, to articulate feelings of something that may have happened in the past, but to say something about what

really happened, and it really matters that the historian tries to accomplish this in a way that is as fair as possible (see also e.g., Coleman, 2002; Schinkel, 2004; Zagorin, 2000). Indeed, the rather straightforward statement of Bunge (1998: 262) seems to have an obvious truth-value: “history is arguably the most rigorous of all the social sciences. Indeed, in no other social science is factual truth—the adequacy of discourse to fact—sought so painstakingly and held in such high esteem.”

Regardless of the philosophical basis accepted by a researcher, history is most often presented in narrative form. White and other relativists, however, perceive narratives not as scientific but as fictional constructs of narrators that therefore do not provide any factual information of past reality. Although White does not deny that the past existed, he argues that narratives of that past are “invented” by the researcher—not “founded.” When historians incorporate events and facts into coherent narratives, White claims, they must be imposed on and distorted into generic plot structures or stories (such as comedy, tragedy, romance, or satire). These plots, as coherent narratives, do not correspond or represent the reality of events themselves but are openly imaginary products (cf., Bryant, 2000; Carroll, 1990; White, 1978).

Some historians (e.g., Jenkins, 2000) have taken a step further and even accepted the notion of Derrida (1976: 158) that “there is nothing outside of the text”. Everything is deemed to be just discourse and there is no possibility of any kind of referential relationship between words and world. Therefore, each account is deemed to be as good as every other. However, if history were seen, or allowed to be seen, as a contemporary product of discourse and emplotted in the way a historian chooses, one could only ask what this would imply for our knowledge and understanding, for example, of the Holocaust or the Finnish civil war.¹⁰ In fact, the history of humankind provides numerous examples of situations where imaginary products of historians have been used to legitimize various ethically problematic actions. Thus, while I do not argue that the postmodernistic research of history automatically contributes such a behavior, I cannot see how it would contribute our understanding of the past, that tries to include both the positive and negative aspects as they took place.

The argument of White (1978) that historical narratives are fictional also includes other issues I find hard to accept. Actually and ironically one could again say, it is based on a straight empiricist “picture view” of knowledge, where representation is truthful only if, like a photograph, it captures the whole past reality (see Lorenz, 1998). As a result, since historical narratives are always partial and involve selection and interpretation (i.e., they are not and cannot be absolutely perfect reflections of past reality), they are automatically fictional. However, each professional historian knows that historical narratives cannot ever be photocopies that reflect the past reality in the mirror sense, and also that this does not make them fictional. In the same way as the majority of scientific theories are evidently incomplete and fallible, it does not permit us to automatically judge them as mere products of imagination or deny that they are or

could be approximately true. In fact, if we reject the realistic basis and the notion that historical research can and should aim to produce truthful narratives of past reality, we abandon history as a discipline (Lorenz, 1998).

Therefore, as suggested by Carroll (1990), we have to simply jettison the above naïve correspondence idea of nonfictionality, but hold on to the view that historical narratives can be, as realism emphasizes, approximately truthful. The necessary selectivity and partiality of historical narratives is far from leading us to anti-realism. In reality, a course of events occurring between time 1 and time 2 hardly ever involves every event or conditions in its temporal area. Therefore, to put it simply, “narrative representation that tracks that course of events need not refer to every occurrence in the stipulated time span. Narratives are selective but this is appropriate given the nature of course of events” (Carroll, 1990).

Moreover, the fact that historical narratives may have to be revised in light of new evidence does not mean that they are fictional, because knowledge concerning the past can indeed accumulate. It is true that when a historian links and selects events on the basis of the questions asked, he or she takes advantage of historical interpretation, but it is erroneous to claim that this has something to do with fictional writing. It is also true that historians dealing with human behavior, institutions, and values are also under the influences of this ideological environment, but this should not mean that historians are doomed to draw their study of past reality from a particular ideological or paradigmatic stance (see e.g., Marwick, 1993). As summed up by McCullagh: “History is not simply a matter of opinion” (2004b: 21). The explicit acknowledgement of the various limitations and potential incompleteness of historical inquiry, therefore, is the fundamental prerequisite for an approach to past reality that aims to produce knowledge that is as truthful as possible.

From Historical Narratives to Causal Mechanisms: The Basic Elements

Realistic standpoints and case-oriented research design have at least implicitly formed the basis of much of the research in comparative historical analysis. The main theme in this area of research has been comparison of divergent historical processes in order to more generally understand patterns of stability and change (Abrams, 1982; Mahoney, 1999; Griffin and Stryker, 2000). Specifically, comparative historical analysis allows or is used, among other things, for testing established models (Büthe, 2002), developing and reinforcing general theories (Kiser and Hechter, 1991, 1998), or exploiting the time and space boundedness of social life and its historical antecedents and specificity (Somers, 1998; Skocpol, 1984; Stryker, 1996).

¹⁰ For a detailed discussion of the historical representations of the Holocaust see e.g. Lang (1995).

Griffin and Stryker (2000) have distinguished two basic approaches in comparative historical research and labeled them “analytical formal comparison” and “interpretive comparison.” The goal of the former is causal explanation by exploiting formal logical or statistical tools and replicable analytical methods. The latter, in turn, seeks to develop a meaningful understanding of historical patterns, usually by examining entities or cases as wholes using some specific theoretical perspective. However, these are not closed categories, but can be combined or may overlap.

In fact, Griffin and Stryker (2000) argue that the synthesis, “causal interpretivism,” constitutes the third and probably the most productive approach in comparative history. This approach seeks causal reasoning by using methodological procedures allowing for replication along with emphasis on historical narrative. Thus, a truly synthetic approach incorporates the strengths of both explanatory and interpretive modes (Griffin and Ragin, 1994; Griffin and Stryker, 2000). Some accounts of causal interpretivism can be found in the study of historical or causal narratives. Altogether, the different methodological elements and, finally, the general procedure presented in the next section can be categorized in this third approach if one so wishes. In any case, I believe that it offers a clear and useful underpinning for the processual research and methodology in the social sciences in general and the organization and management research in particular. Let us now focus on the basic elements needed in the identification and postulation of causal mechanisms.

Historical Narratives and Event Structure Analysis

As noted, historical narratives can be defined as analytic constructs of sequential accounts that organize events and actions into chronological order.¹¹ They have a beginning, a series of intervening actions and events and an end that is a result of the numerous interconnections between the intervening actions and events. Accordingly, historical narratives describe in chronological order what happened, why it happened, and how it happened. In that way, they are referred to as tools for combining context, sequentiality, contingency, and generalizability (Aminzade, 1992; Büthe, 2002; Griffin, 1992, 1993; Sewell, 1996; Stryker, 1996). Most importantly, as I would like to emphasize, historical narratives, if following the spirit of historical research described in the previous section, are an essential part of the examination of causal mechanisms.

There has been fairly extensive discussion about the benefits and limits of narratives in causal analysis in general (e.g., Abrams, 1982; Abbott, 1990, 1992; Abell, 1987, 2001; Aminzade, 1992; Griffin, 1993; Haidu, 1998; North, 1994; Rueschemeyer and Stephens, 1997; Sewell, 1996; Stevenson and Greenberg, 1998; Stryker, 1996). According to Mahoney (1999), summing up this discussion, there is consensus that historical narrative can be an especially helpful tool for assessing causation in situations where temporal sequencing, particular events, and path dependence must be taken into

¹¹ Historical narratives are explicitly distinct from those mainly postmodern approaches based on stories or storytelling.

account. It has to be emphasized, however, that a historical narrative or mere process tracking is not the same as a causal explanation, nor adequate for the postulation of causal mechanisms. Therefore, in order to move beyond sheer description to causal explanations, it is necessary to develop systematic methods and explicit concepts for analyzing historical narratives.

This systematic approach is advocated, among others, by Griffin and Ragin (1994) in their form of causal narrative in which a researcher creates a synthesis between the thick descriptions of an interpretive mode of research and the causal generalizations that are produced by an explanatory mode of research. On the one hand, causal narrative relies on interpretation and description as main elements to produce explanations and, on the other hand, rests on some type of logical principles that enable the researcher to produce explanations that include explicit causal reasoning and allow for both replication and theory generalizability. Causal narrative, thus, connects events and actions to other events, determines what events affect other events, and by formal rules generates consistent inferences (Stevenson and Greenberg, 1998).

In this study, I use event-structure analysis (ESA), associated with computer software ETHNO¹², which has been claimed to be the most developed account of how narrative can be linked to causal inference (Griffin, 1993; Heise, 1989). In organization research, Stevenson and Greenberg (1998) have earlier applied ESA in an analysis of an organizational change in a non-profit, municipality context, whereas in historical sociology ESA has been used, for example, in Griffin's (1993) analysis of a well-documented lynching of an African-American in Mississippi in 1930. In these cases ESA has successfully provided a formal tool for analyzing events and reconstituting their constituent parts as a causal interpretation of complex historical processes. Accordingly, it is explicitly shown how this method supports causal narrative by identifying the causally tied processes that also constitute aggregated variables in cross-case analysis if needed (see also Mahoney, 1999, 2000).

More accurately, ESA compels the researcher to transform a chronology of actions into a series of yes/no questions where the researcher is asked to decide if a temporal antecedent is required for the incidence of a subsequent action. Thus, it makes it possible to distinguish temporal relationships from causal inference. Moreover, these inferences are strictly replicable. The exploitation of ESA is directly linked to the computer software ETHNO. I now give a brief description of how ETHNO works (See also, Griffin, 1993; Stevenson and Greenberg, 1998; Stevenson, Zinzow, and Sridharan, 2003) and how counterfactual thinking can support judgments regarding causal connections.

First of all, the researcher constructs a "raw" narrative or a history that can also be given as a chronology of events and actions. This chronology can be then presented in a form where each event is carefully codified (a possible codification schema is presented in the next main section of this chapter). This chronology is then input into ETHNO,

where it is reshaped as a series of questions about causal connections between actions and events constituting the chronology. However, it has to be stressed that ETHNO does not discover causality. It is the researcher not the software that possesses the knowledge needed to structure the causal events. Thus, the researcher has to have in-depth knowledge of the case examined. ETHNO, as its main value, forces the researcher to be precise and careful when making judgments about the relationships between events and to consider the sequence of events causally rather than chronologically (Griffin, 1993; Mahoney, 2000; Stevenson and Greenberg, 1998).

Even though the researcher has profound knowledge of the issue examined and, most importantly, research data (such as letters, memos, minutes/records etc.) rather often shows directly that the particular events are causally related, counterfactual reasoning can be used as a basic supportive tool in defining the actual causal relations between events. This is also the way how counterfactuals can be seen as complementary or supportive in identification and explanation with causal mechanisms. Basically, by using counterfactuals the researcher seeks to answer the questions what would have been or would turn out to be the case if a preceding event had not occurred.¹³ According to the standard counterfactual account of Lewis (1986) if X and Y are actual events, X causes Y only if Y would not have occurred had X not occurred. Of course, the counterfactual cannot be evaluated in the real world because X did occur. Therefore, following Lewis's theory, the counterfactual has to be considered in the conceptually and empirically closest possible world to the actual world where X does not occur.

Another and probably more robust account of counterfactuals is provided by the approach of Woodward (2002, 2003), which tries to avoid the possible world semantic. According to this approach, there is a causal relationship between X and Y, *iff* an intervention on X (that changes the value of X) would change the value of Y and the relationship would remain invariant. Moreover, the value of X has to change entirely because of the intervention and the intervention changes the value of Y only by changing the value of X. Thus, in this account the causes make a difference or are relevant to their effects.

While the researcher using historical evidence cannot implement direct experiments or manipulations in order to test the effects of interventions and thus totally avoid the use of possible world semantics, I believe that the difference making or production inherent in Woodward's account captures the basic essence of causal relationship better than Lewis's theory. Thus, the researcher can consider whether a change in a particular event (due to an intervention) would have made a difference in the production of some other event. As a result, we can identify all those events that directly make a difference or are relevant as regards the existence of another event as it actually took place.

¹² ETHNO software can be downloaded from Internet at <http://www.indiana.edu/~socpsy/ESA/>

¹³ Weber (1905/1949) already emphasized the importance of counterfactuals in the analysis of events, understanding of history and making causal inferences. More recently, counterfactual theories of causal explanation have become increasingly popular in the philosophy of science and are also used in social scientific research (e.g., Moore, 1978; Brady, 2003).

Altogether, this approach better allows the fact that the specific way in which the event actually occurred may have been a result of the action of several difference makers.

Griffin provides an illuminating discussion of issues as regards posing and answering counterfactual questions in order to minimize the danger of causal overdeterminism. Basically the possible world should “start from the real world as it otherwise was known before asserting a counterfactual” (Griffin, 1993: 1102–1104), and the postulated counterfactuals should be “concrete alternatives and specific to concrete situations” (cit. Moore, 1978: 377).¹⁴ Similarly, the intervention one considers has to be a concrete possibility in the situation. Thus, it is by merging theoretical and particular knowledge of the events that the researcher answers the factual and counterfactual questions. Overall, by carefully using the procedure of ETHNO the researcher can systematically formulate a counterfactual question related to each possible causal relation between the discrete events.

The results of ETHNO’s questions, and the researcher’s reasoning, are shown as a causal diagram of the logical structure of action underlying the chronology of the historical chronology. In other words, this diagram is the event structure representing the researcher’s deep interpretation of the causal linkages between the sequences that constitute the process under examination. The ESA diagrams also help to discover key turning points and outcomes in the multiple sequences of events. These turning points direct the causal impact of a sequence of actions and also create an opportunity to change an actor’s routines and goals.

After the construction of a causal event structure, the next phase occupies a central position in the postulation of causal mechanisms and comparative analysis in general, that is, the explicit generalization of the concrete configuration of actions. This abstraction consists of two parts. First, the researcher, as a result of profound knowledge of the case, can extract from the chronology those actions that are incidental or without any meaning in the causal path. Second, those actions that are retained for further analysis are conceptualized as instances of theoretically general sequential actions, usually by exploiting the theoretical framework. In this phase the notion of levels of mechanisms becomes important.

Next, ETHNO questions the researcher, as it did with the concrete actions, about the causal relations between the abstracted actions and finally creates a new diagram action that is parallel but on a higher level of generality than the concrete event structure. This more general event structure is then evaluated for logical inconsistencies, both in relation to ETHNO’s internal logic and the causal necessities embedded in concrete event structure. If there are logical disagreements between the general and the concrete event structures, that may lead the researcher to altering either or both of the structures or relaxing ETHNO’s rules about action.

¹⁴ For further discussion of counterfactuals and thought experiments in history: see De Mey and Weber (2003).

Levels of Mechanisms

As discussed in the previous chapter, mechanisms, like other complex systems, are hierarchical in their essence (see Simon, 1996). Specifically, higher-level activities of mechanisms (Ms) are elucidated by the activities of lower-level components (Cs). The structure of mechanisms closely refers to two-level theories that, according to Goertz and Mahoney (2004), propose explanations of outcomes by conceptualizing causal variables at two levels of analysis that are systematically related to one another. In Goertz and Mahoney's account, one level characterizes the core of the theory, containing the main causal variables and outcome variable at a certain level of aggregation, usually at a higher level that is easily remembered and processed. In explanation by mechanisms this explicitly represents the higher-level activities of mechanisms. A second level, in turn, concentrates on causal variables at a lower level of aggregation. These variables are also causes of the outcome, but their effects cannot be understood independently of their relationship with the causal factors at the higher level. Likewise, in explanation by mechanisms the variables at the lower level correspond to activities of lower-level components.

Goertz and Mahoney have distinguished three possible theoretical relationships by means of which a lower-level variable can systematically relate to a causal variable of the higher-level, namely causal, ontological, and substitutable relationships. In the case of causal relationship, lower-level variables are suggested to represent "causes of causes." The relationship is ontological if the lower-level variables represent the defining features or elements that constitute the higher-level variables. Finally, the relationship is substitutable if the lower-level variables are different ways or alternative means of achieving ends represented by the higher-level variables.

Each of these forms of relationships offers interesting possibilities for social scientific research. However, as the discussion of the nature of mechanisms has indicated, in explanation by mechanisms only the ontological alternative provides a valid way to describe inter-level relationships. Inter-level causation, as suggested by Goertz and Mahoney, is problematic since the components of a mechanism are parts of the mechanism as a whole. Therefore, the mechanism and its components that produce something cannot be logically distinct, which is the usual assumption of causation. Moreover, whether the mechanism is viewed as a whole or on the lower level, it is always the same mechanism (cf. Craver and Bechtel, 2003).

In this study, to enable comparison on the one hand and theorizing about causal mechanisms on the other hand, I use both substitutable and ontological views of the relationships. However, in my account substitutability does not refer to the relationship between the higher and lower levels of a mechanism, but is only used in order to reduce the number of constituent components at the lower level. This basically means that a more generalized or abstracted entity and activity that is theoretically intelligible substitutes for several other concepts describing a similar entity and activity on the same level of the mechanism.

Substitutability may not be needed if historical narratives are very similar, which is, however, unlikely in the social world. Most importantly, substitutability is always needed if we wish to have any theoretical scope in our inferences. Therefore, it is usually a necessary precondition if one seeks to use comparative approach. In any case, the reduced number of possible and theoretically intelligible activities and entities forms the basic group of lower-level components that represents the set of possible properties that the mechanisms, as a whole, can ontologically consist of.

As a result, in the identification of mechanisms in general and the description of the lower-level, substitutable, concepts in particular, prior theoretical knowledge of the question becomes essential. Similarly, a theoretical framework can be used to focus the research on issues and outcomes that the mechanisms, as a whole, could produce. That is, the outcomes that are efficaciously produced by the combination of the components and ensured (or programmed) by the existence of the mechanism as a whole. I return to the role of theoretical framework in the following section, that presents a general procedure for the theorization of causal mechanisms, but before that I consider how the levels of mechanisms also have a basic function when providing systematic comparison of complex, causal processes.

A Comparative Approach

While a single event-structure analysis together with considerations of levels of mechanisms is able to provide a relevant description for hypothesizing about causal mechanisms in a particular case, the comparative method is required in order to consider possible differences and similarities as well as to suggest tendencies regarding causal mechanisms in the wider group of cases that represents the same phenomenon at a more aggregate level. Thus, it makes possible the postulation of a general scheme that compactly explains how things work in general. Altogether, the comparative approach directly builds on the idea of program explanation discussed in the previous chapter, in which the same higher-level property can be produced by different lower-level properties. Thus, if we wish to compare the similarities and differences of how a mechanism works and the same higher-level outcome or state of affairs comes about, we have to focus on the combinations of the components at the lower level.

In fact, the idea of two levels of mechanisms, while being intrinsic part of explanation by mechanisms, also provides a direct step toward systematic comparison. In this study I use a variant of the data analytic strategy Qualitative Comparative Analysis (QCA). The method is based on Boolean algebra and offers a systematic tool for comparing complex cases or processes as configurations in order to reveal their patterned similarities and differences. In particular, it makes it possible to find combinations of variables that can provide evidence in favor of the existence of certain general tendencies regarding the productive level of a causal mechanism. A detailed discussion of the rationale and logic of QCA's is provided elsewhere (Ragin, 1987, 1994, 2000). Here I only present the basic concepts that are needed to apply it.

First of all, in QCA cases or processes are either in or outside a set (1 indicating membership and 0 indicating non-membership), for example, turnaround and non-turnaround. Similarly, each event or action either exists or is non-existent. Consequently, the Boolean form of QCA exploits binary-coded data, where all variables must be nominal-scale measures. This may lead to some loss of information, but in most cases the exact measurement of phenomena using interval scales is fairly fluid. More recently, however, the technique has been extended to fuzzy sets, which allow differentiation between cases with regard to their degree of membership in such categories (Ragin, 2000). However, this method requires that the number of cases is rather substantial (over twenty, according to Ragin).

From the point of view of conceptualizing cases as configurations, Boolean comparison differs from the statistical techniques, that are usually based on independent variables that are considered as independent of each other as possible. As regards mechanisms and in the real world in general, however, X may be caused, for example, by a simultaneous appearance of the causal factors of A and B (i.e., $A \wedge B \rightarrow X$, where \wedge signifies logical “and”). In this example, A and B are necessary conditions that are jointly sufficient for X. There is also a possibility that X can be caused through multiple paths (equifinality) with no necessary conditions (i.e., $A \vee B \rightarrow X$ where \vee symbol signifies logical “or”) or through more complex combinations where we have both necessary conditions and equifinality (i.e., $(Y \wedge A) \vee (Y \wedge B) \rightarrow X$). Indeed, one of the advantages of Boolean comparison is that it permits one to perceive maximum causal complexity in respect of different combinations of causal factors.

Overall, the simplifying logic of QCA helps in examining combinations of necessary and jointly sufficient conditions, if that is sought. However, when the number of cases is low or the set does not include both negative and positive cases, QCA may not provide perfect results if the goal is examination of regularities, which is not the goal of this study. However, even if comparing only two complex cases, the combinatorial logic of Boolean algebra together with the idea of two levels of analysis gives a systematic and replicable procedure for comparison.

A Procedure for Theorizing about Causal Mechanisms

Each of the above arguments, starting from the assumptions of realism and finishing with the considerations of comparison, constitutes an essential element in the identification and theorization of causal mechanisms in general. Consequently, its now time to conclude my methodological considerations by outlining a general methodological procedure for causal explanation by mechanisms.

The procedure incorporates the elements described above and also forms a systematic structure for the analysis of actual organizational decline and turnaround processes presented in Part III of the study. Moreover, it provides a solution to the

dilemma in processual analysis how to intelligibly include complexity and comparability in the same study. Briefly, the structure of the procedure is as follows. First, the historical narratives, event chronologies, and causal event structures of particular organizational processes are elucidated. Thereafter the event structures are abstracted using ESA, a theoretically derived analytical framework, and the idea of two levels of mechanisms, and thereby the causal mechanisms driving the processes are postulated. Finally, using the comparative approach, the suggested mechanisms are compared and the possible general tendencies are identified. Altogether, a more detailed description of the procedure is justified.

Theoretical Framework

As already discussed, the first task of the researcher seeking to examine what the mechanisms are and how they drive processes is to formulate a theoretical framework of the problematic phenomenon in question. The framework defines the set of possible factors or combinations of factors that may have an influence on the process. Most importantly, the framework should include the explication of the substitutive general level concepts and codes that are needed in moving from the unique, historical narrative level of analysis to the explicitly specified, theoretical level of analysis. Thus, the theoretical framework essentially guides the whole research process. However, it does not determine the findings. On the contrary, its role can be seen as heuristic. The framework defines the way of seeing, where to look and what kind of explanatory factors it may be relevant to look for.

In the research of organizations, for example, without the conceptual background it would be impossible to make sense of the complex nature of organizational phenomena and the infinite amount of information that can be collected from the cases. Moreover, rather than examining particular cases and causal narratives for their presumed intrinsic significance, explaining how the thing in question works and doing comparative causal analysis in particular requires the explicit articulation of the theoretical questions against which the historical paths and conjunctions constructed are meaningful and important. It also necessitates that the positioning of these questions within an abstract theoretical framework formed on the basis of previous knowledge of the issue.

As stated in the discussion of case-oriented research, this allows the theorization of historical cases abstractly in terms of the concepts in the theoretical framework, and not just those especially emphasized by the particular narratives and comparisons. The theoretical framework used to conceptualize the cases also enables an explicit definition of the theoretical scope of our arguments and the abstract conceptualization of the cases that are not examined, but that fall within the theoretical scope. This makes it possible to formulate answers to the theoretical questions asked in reasonable abstracted theoretical terms (see also Stryker, 1996).

As a result of the dualistic nature of mechanisms, the theoretical framework consists of two main parts—entities and activities. This is the case independently of

what kind of phenomenon or question is under examination. In this study, the first part focuses on identifying stakeholders as entities of mechanisms in organizational decline and turnarounds as well as on developing a model of stakeholders' ability to influence organizational survival in terms of their direct resource dependencies and structural network positions. The second part of the framework, in turn, describes the possible activities of the entities focusing on their characteristics and modes of operation, and in particular how the process view is understood and exploited in the literature on organizational turnarounds. Finally, the second part suggests a preliminary structure and general level concepts for examining organizational decline and turnarounds as processes unfolding in time.

By and large, these two parts of the framework determine the exact concepts used in the analysis and abstraction of the causal narratives. If concepts or measures are left implicit or imprecise, readers cannot easily replicate or criticize the researcher's interpretations and inference. According to Stryker (1996), analytically constructed and theoretically interpreted narratives and comparisons also provide a basis for developing conditional causal generalizations that respect the original theoretical questions, create new theoretical questions, and provide propositions for following research. Thus, the more we know theoretically, the better we can accomplish the causal analysis in all its forms.

In addition of these facts, the fundamental motivation supporting the formulation of the theoretical framework is the issue of causal reductionisms already discussed. Simply, by explicitly defining the level the suggested explanation concerns, the framework eliminates the question regarding infinite reduction. While the selection of the level(s) is always done by the researcher, this is justifiably implemented by building on the accounts provided by the previous theory. This is also fully consistent with the accounts of Jackson and Pettit (1990) as well as that of Glennan (2002) that the higher-level properties can be causally relevant.

Construction of the Causal Event Structure of the Process

During and after the formulation of the framework, the researcher specifies the relevant cases and starts the acquisition of research data. In this study, I have used historical analysis (e.g., Ventresca and Mohr, 2002) and consulted several extensive archives. This is probably the most convenient data generating method when studying processes that extend over several years or even decades (I describe the data and the source criticism more accurately in the next section). As a result of the archival research and in-depth analysis of the research data, the researcher describes a historical narrative of the process and provides the chronological list of events and actions comprising the process and the narrative. Each of these events is a result of the activation of an entity and potentially a functional component in a mechanism producing a particular outcome. Similarly, the prospective entities of the mechanisms and also the properties of the

entities are identified—in this study using the theory and model described in the framework (see Chapter 4).

The coding of the each action or event in the event chronology can be implemented as illustrated in Table 1. The ETHNO code is case-specific while the general, substitutive, code is defined in the theoretical framework. Next, the causal event structure of the process can be explicated into main actions and events in sequence by exploiting ESA, ETHNO, and counterfactual reasoning. Thus, as an end product, we will obtain a causal diagram of the process. This diagram is then tested, replicated, and modified if necessary. Overall, this diagram provides the specific description of each causal linkage in the process.

Each of the case-specific events in the diagram can be substituted by a theoretically defined general concept. While this results in loss of specific information of the process, the abstracted and formally described event structure provides an opportunity to analyze the process by using explicit, theoretical concepts. Most importantly, it enables the simplification of the process and postulation of theoretically meaningful causal mechanisms. How this is implemented in actual research depends directly on the quality of the processes and the theoretical frameworks. However, the requirement is that the process is coded by using theoretically defined general codes that are explicitly presented in the framework or elsewhere. Failing that the use of Boolean comparison also becomes difficult. The following analysis of organizational decline and turnaround processes will exemplify more closely how this can be done in practice.

Table 1. An Example of a Codification Schema

| Description of the activity | ETHNO code | General code | Entity of the activity |
|---|------------|---------------------------------------|------------------------|
| <i>Creditors deny further financing and decide to implement a thorough investigation in the firm.</i> | CDF | ERD (External reaction to decline) | Creditors |

Simplification and Postulation of Theoretically Intelligible Mechanisms

In general, in the case of complex processes, such as organizational decline and turnarounds, it is difficult to compare complete event structures, and this may even be misleading when the goal is theorization about causal mechanisms. Therefore, one possibility advocated in my account is to divide processes into parts that are supposed to be significant for understanding the process as a whole. In that way, as will be shown in the analysis, comparison using the comparative approach also becomes possible and can be carried out one part at a time.

The segmentation can be implemented using conceptual standpoints such as significant things or outcomes related to the process that are defined in the analytic framework building on the previous theoretical knowledge, by focusing on the central

turning points inductively explicated in the event-structure analysis, or by combining both alternatives, which is often a reasonable choice. However, it has to be stressed that in explanation with mechanisms, the comparison is not an end in itself and that each of the concrete as well as abstracted event-structures provides a valuable step in understanding and explaining how things come about. Moreover, historical narratives, as such, are important when analyzing the internal differences of the constituent components of the mechanisms.

Accordingly, the identification and postulation of the causal mechanisms driving the processes can be done by simplifying the singular causal event structures using the general level concepts and the issues defined in the theoretical framework. For example, if the theoretical framework suggests that an outcome or phenomenon X is a significant turning point in the process and the analysis and causal diagram of the process support this suggestion, the researcher, by examining the diagram, can identify those functional components that were needed to produce the X.

As described, each of the case specific components was substituted by a theoretically meaningful concept (i.e. $A_1, A_2, A_3, A_4 = A$; $B_1, B_2, B_3, B_4 = B$). Thus, using these general, theoretically specified and comparable components we can identify that the X was produced through the activation of the specific set of functional components (e.g. A and B). As a result, we can postulate that the mechanism which activity produced the X was at the productive level activated by the combination of functional components A and B.

The simplification and postulation of a theoretically intelligible mechanism, of course, results in some loss of information regarding the singular causal event structure. However, at the same time the mechanism becomes theoretically specified and directly comparable. If the researcher only wishes to concentrate on examining how a particular outcome was exactly produced in a particular process without any theoretical connections, no simplification procedure is needed. The negative sides of this solution are that the mechanism at the productive level, while exact, may remain unintelligible and there is no way to systematically compare it to other mechanisms. However, the suggestion of a theoretically intelligible mechanism does not mean that the more specific knowledge provided by the singular event structure totally disappears. It is always possible to go back and forth between the causal event structure and the postulated mechanism.

Similarly as in the above example, the researcher can identify and postulate all the mechanisms that drive a particular process and thereafter repeat the procedure regarding other singular causal event structures. As a result, the higher-level mechanisms producing the same abstract outcome or phenomenon, if identified, can be directly compared and thereby necessity, sufficiency, and general tendencies regarding the mechanisms can be assessed.

Finally, building on the results of the singular event structure analyses, which have identified and abstracted the activated entities as the components of the mechanisms, the

theoretical framework, which has focused the analysis on certain issues, identification and postulation of the causal mechanisms through the simplification of singular causal event structures, and the comparison, which has evaluated the necessity and sufficiency of the components of the mechanisms, the researcher can provide both theoretically and empirically warranted accounts concerning the mechanisms that drive the processes—in this study, organizational decline and turnarounds.¹⁵

Before concluding this section, I would like once more to emphasize that while comparison (i.e. Boolean logic/QCA) can be used in neo-humean regulatory explanations, in a realistic study that explains by mechanisms the basis of the comparison is different. First and foremost, the combinations of functional components that activate the mechanism to produce the outcome or phenomenon are already explicated before the comparison. Thus, the researcher has provided the explanation of the mechanisms driving the processes before the mechanisms can be compared. The results of the comparison, then, can be used to describe similarities and differences between the lower-level combinations of functional components that activate the mechanism to produce the same higher-level phenomenon—but to provide an explanation of how, for example, a particular decline and turnaround works is not dependent on comparison. In sum, a comparison of explanations regarding how certain mechanisms and processes work provides an opportunity to consider, for example, how organizational declines and turnarounds work in general. If the results of comparisons suggest clear similarities, I cannot see why these findings could not be seen as descriptions of general tendencies among decline and turnarounds. Overall, I suggest that these tendencies together with the results of specific mechanisms can provide an intelligible explanatory account of how the processes work.

The methodological procedure is consistent with the assumptions of realism presented in the previous chapter and can also be seen rather straightforwardly following the abductive mode of reasoning when it is seen as a “problem solving apparatus”. That is, following Hanson’s (1965: 50) ‘Logic of Discovery’, reasoning “proceeds retroductively, from an anomaly to the delineation of a kind explanatory H which fits into an organized pattern of concepts.” In the preceding sentence I would replace, first, the word ‘anomaly’ by a concept of ‘problematic phenomena’, which may, for example, be an organizational decline and turnaround process; second, the term ‘delineation of a kind explanatory H’ by a concept ‘inductive description of an

¹⁵ As noted, this methodology has not been exploited before. However, recent research has found that, in general, progress toward such a combination of methodologies is very promising since it enables the researcher to develop an argument that is both parsimonious and also shows great sensitivity to historical detail (Abell, 2001; Büthe, 2002; Mahoney, 1999, 2000). A good example of the implicit use of causal narrative for comparing event structures can be found in Skocpol’s (1979) influential work on social revolutions. Most of Skocpol’s key explanatory variables are, in fact, made up of several causally linked processes, and the result of social revolution is itself composed of a series of causally linked events. These constituent processes provide event structure patterns that can be formally and analytically diagrammed and compared across cases (see further discussion Mahoney, 1999). Although Skocpol does

explanatory account’; and, third, the term ‘organized pattern of concepts’ by a concept ‘general scheme of the issue’. These changes do not change the basic structure of the inference.¹⁶

I am well aware that there are researchers that claim to be realists (i.e., some critical social realists) but may not accept the use of empirical research in the identification, postulation, and testing of causal mechanisms as these considerations suggest. Noting that, I argue that such a restrictive realism based on purely theoretical assumptions does not provide a robust basis for causal explanations and, in fact, complicates the whole idea of the progression of knowledge. Thus, while probably fallible, I believe that the suggested methodological procedure offers the needed and productive basis to explain by mechanisms in the social sciences in general and the management and organization studies in particular. The following analyses of the decline and turnaround processes will clarify how the procedure actually works.

Research Design, Data, and Source Criticisms

Since historical evidence forms a crucial part in my argument and as it closely relates to other methodological suggestions, I provided the case for history and historical research already in a separate section above. Building on those suggestions, I finish this chapter with a more detailed discussion of the research design and the source materials (or the research data) used in this study including source criticism, which can be seen as an inherent part of historical research. Accordingly, I next introduce the cases under analysis and then provide descriptions of the research data and source criticisms with respect to each case. Finally, I consider the basic merits and limits of this research design as regards causal explanation in general and explanation with causal mechanism in particular.

Overview of the Cases

As already mentioned in Chapter 1, the thesis examines three organizational decline and turnaround cases from the Finnish pulp and paper industry during the 20th century. Each of these cases – Kymi Corporation, Walkiakoski Paper Mill, and United Paper Mills – represents at the conceptual level the same organizational phenomenon: an existing threatening decline followed by a successful turnaround. The fulfillment of this criterion formed the main rationale for including these particular cases in the analysis. The other

not carry out a formal mapping, she implicitly compares the event structures of her cases in order to infer whether they follow a parallel causal logic.

¹⁶ Abductive reasoning was suggested to be the third mode of reasoning in addition of induction and deduction by Charles S. Peirce already in 1865. The general form of abduction is captured by the famous quote of Peirce (CP 5.189): “The surprising fact C is observed; But if A were true, C would be a matter of course; Hence, there is reason to suspect that A is true.” Abduction is also closely related to inference to

criterion was that the organizations are from the same branch of industry. However, this criterion is not as crucial when raising the level of conceptual abstraction. Altogether, most of the data used in the previous research on organizational decline and turnarounds is from mature manufacturing industries, such as the pulp and paper industry.

The third criterion was the availability of sufficient research data. As a result, the selected cases do not include each and every decline and turnaround process in the particular industry (e.g., the case of Kangas Paper Mill in 1904 – 1912). However, they do provide a representative set of cases regarding decline and turnaround processes in the pulp and paper industry during the 20th century in Finland. Most importantly, they form a set of cases that can be examined and explained using the same methodological tools. I will further assess this research design at the end of this section, but now briefly introduce each of the cases.

Chronologically the first case to be analyzed is the decline and turnaround process of the Kymi Corporation. The firm was founded in 1904 as a result of the merger of three pulp and paper companies—Kuusankoski, Kymi, and Voikkaa—all located in the same area on the banks of the Kymi River.¹⁷ That was at that time the biggest merger process in Finnish history and its direct result was the creation of the biggest industrial corporation in Finland. The idea of the merger initially came from the manager and owner of Voikkaa, Rudolf Elving. Although the archival documents do not give a detailed answer to how the negotiations proceeded, the main reasons for the merger are fairly clear. The zones of the wood supply, the main market areas, as well as the potential customers were the same for all the companies. In other words, the firms were each other's main competitors. As a result of the merger they were able to avoid rivalry and to better seek advantages of the economics of scale and scope.¹⁸ Consequently, in 1904 the new Kymi Corporation was, at least in light of the financial and production numbers, one of the strongest players in the pulp and paper market of Northern and Eastern Europe as well as one of the biggest industrial organizations in Finland.¹⁹ However, only a few years later, the survival of the firm was severely threatened.

I begin the historical narrative and analysis of the decline and turnaround process of the Kymi Corporation from the prevailing situation after the merger in 1904 and finish it with the state of affairs of the company in 1913. During these eight years the company undisputedly went through an insensitive organizational decline which was followed by an evident turnaround. The historical narrative especially concentrates on the years from 1907 to 1911—that is, the period of the explicit crisis and turnaround. However, I also

the best explanation, which I will discuss more closely in Chapter 10. See more on abduction, e.g., in Niiniluoto, 1999b.

¹⁷ The Kymi Corporation included three separate groups of factories: Kymi, Kuusankoski, and Voikkaa. In the following discussion the name Kymi Corporation refers to the whole company and the Kymi factories only to one of the factory combinations.

¹⁸ For more about the economics of scale and scope as well as the formation of the modern industrial corporation see Chandler, 1977 and 1990.

¹⁹ For more detailed information of the biggest firms in Finland, see Hjerpe (1979).

provide a specific description of series of events at the end of 1912 and the beginning of 1913 that had a concrete influence on the management of the organization.

Chronologically the second case to be analyzed is the Walkiakoski Paper Mill's decline and turnaround process that lasted from 1920 to 1934 making as a total of fifteen years. The justification for choosing the first and last year is fairly straightforward. The political and economic turbulence in the aftermath of the First World War, such as forms of the Bolshevik Revolution in Russia and Finland gaining independence and then struggling in the civil war, was stabilized in 1920. Moreover, the production processes and trade relations of Finnish companies had returned to almost normal. Similarly, the business environment for the basic functions of the Walkiakoski Paper Mill was, in general, stable. The main justification for finishing the narrative in 1934 is that Walkiakoski merged in that year with United Paper Mills (UPM) and ceased to be an independent company. Another reason, of course, is that the firm had managed to go through the turnaround process and had survived the Great Depression at the beginning of the 1930s. In fact, the financial and production results of Walkiakoski during the years 1931—1934 support the view that the turnaround was successful. It had changed the basic structures of the firm and thereby supported the resistance to and recovery from the depression. Of course, such a merger could in some cases be seen as a consequence of an unsuccessful turnaround. However, in the case of Walkiakoski the merger with UPM was formed because Walkiakoski was attractive from the financial and production points of view.

The third case of this study analyzes the decline and turnaround process of United Paper Mills (UPM) 1963–1979. The selection of the first and last year of the historical narrative and analysis are not as straightforward as they were in the previous case of Walkiakoski. However, it is obvious that during these thirteen years UPM went through a severe organizational decline and then turnaround that, among other things, included five successive loss-making years. On the one hand, the first years of the 1960s were fairly prosperous for UPM and, on the other hand, during the first half of the 1970s the firm again achieved satisfactory results. In 1976 and 1977, the operations were unprofitable as a result of the worldwide depression, but in 1978 the firm forcefully returned to the positive growth trend that had begun in 1969. Thus, the analysis could also be finished by 1974 as the firm had already undergone a clear turnaround before it drifted into new externally diffused difficulties. However, the recovery from the depression was also enhanced by the improvements implemented during the previous years of the explicit turnaround process. Therefore, by finishing the analysis and the historical narrative at 1979, I indicate that the recovery from the depression was partly consolidated before the externally diffused difficulties began to show.

The essential endeavor and starting point in the data collection and analysis regarding each of the cases has been to include all possible material providing information on the processes. In so doing, it became possible to collect information of the same issue from different perspectives, to obtain more detailed knowledge of the

processes, and to evaluate the value of the information relayed by different sources. Often the researcher has to satisfy only one source of information regarding a particular issue. In such a case the researcher has to evaluate the importance of that information using other means such as situating each individual piece of evidence within a larger context of origin and function (see Bryant, 2000). Of course, such assessments should be included in the process of data collection and analysis whether or not there is abundant information.

In this study, unsurprisingly, the archives of the companies under examination provided the most important data sources with intimate and detailed evidence of the processes. I also consulted the archives of banks, the archives of trade and industry associations, provincial archives, the National Archives, and private archives. Moreover, I was able to draw on various secondary sources, including the histories of the organizations, as well as newspapers and magazines. Since the material related to the each case is distinct, I next provide more accurate discussions of the research data and source criticisms with respect to each case.

Data Related to Decline and Turnaround of Kymi

In the case of Kymi Corporation the company archives (AKC) located in Kuusankoski formed the primary data source. As the period of the decline and turnaround spans the years 1904 and 1914, I focused the data collection on those years. Although the material is approximately a hundred years old, it is relatively well preserved. Only the material concerning the years 1904—1906 is somewhat exiguous. The language used in the material, with some exceptions, is Swedish and the documents are for the most part handwritten.

Specifically, the archives of Kymi provided four main sources of research data. The first and the most valuable one was the minutes of the board of directors' meetings, which also includes appendices concerning the issues discussed. While it is probable that the records do not provide information on all the issues and events occurring in the organization, or may not record to the all opinions expressed in the meetings, they provide surprisingly detailed information on the decisions and reasons why a decision or suggestion was made. What is more, the minutes always report the person who made the suggestion or presented the information. Accordingly, the evidence provided by the minutes can be accepted to be at least approximately correct. In addition, the appendices provide further clarification on the issues discussed in the minutes. Unfortunately, appendices are only occasionally included. During the period 1907—1911 the board of directors met 66 times (i.e. approximately 13 times per year). As a result, the minutes of these meetings provide an unbroken outline of the events and actions in the organization, which facilitates the evaluation of other material and forms a solid foundation for historical narrative, stakeholder influence identification and event structure analysis.

The second main source of the research data in the company archives was the minutes of the creditors' and owners' meetings. While these meetings were only occasionally arranged (but at least once a year), the minutes offer another perspective on the issues discussed in the board as well as novel information on the principal stakeholders. This material also includes appendices with, among other things, cost estimates, letters and reports as well as other internal documents. Since the material was only meant for internal use of the organization, there is no predetermined reason to suppose that the facts described in the documents are not correct. Of course, each piece of evidence again merits its own appraisal.

The third main source of evidence was the company and managerial correspondence. The company correspondence as research data is somewhat asymmetric in respect of the amount and information conveyed by the material. As a whole the correspondence consists of thousands of letters (both dispatched and received). Most of them, however, are only short documents regarding business transactions with little detailed information. Accordingly, the amount of correspondence with a stakeholder, for example, cannot be seen as a direct indicator of the nature of the relationship; rather, inferences have to be based on the content of the correspondence. Managerial correspondence, in turn, was more detailed in respect of the major issues in and around the organization. Moreover, regarding some questions, the managerial correspondence offers opportunities to compare information relayed between different individuals which also facilitate the source criticism.

The fourth broader class of the research data consists of annual reports as well as financial and production accounts. At the beginning of the 20th century the annual reports of Kymi Corporation were not intended for public distribution. Of course, the participants of the annual shareholder meetings obtained copies of the reports and thereby the information diffused. In all, the annual reports provided the "official" description of the organization's performance, which meant that the facts suggested need to be particularly critically evaluated by the researcher. The detailed financial and production accounts, however, were only intended for the internal use of the organization. Therefore, there is no specific reason to doubt their accuracy.

In addition of the company archives, the primary research data was also collected from other archives. While the correspondence material in the company archives was useful in supplementing the information offered by the minutes, even more intimate information was provided by the personal correspondence of Gösta Serlachius. This material is located in the archives of the Gösta Serlachius Art Museum (GS). In these letters the managers openly discuss and share information regarding various issues. Thus, the correspondence, besides providing unique information, supplements the evidence obtained from more formal sources. I also consulted the archives of the main creditors of the organization, that is, Nordbanken and the Bank of Finland (ABF). Unfortunately, the archives of Nordbanken were, in practice, destroyed. In turn, the minutes of the meetings of the Parliamentary Trustees of the Bank of Finland provided

explicit information of how the bank was disposed towards the firm. The personal correspondence of Rudolf Elving, located in the library of the University of Helsinki, does not provide any evidence from the years of the decline and turnaround. In fact, it only consists of a few discrete letters mainly considering issues unrelated to business life.

The literature on Kymi Corporation was used to reflect the evidence provided by the archives (Ahvenainen, 1972; Hoving, 1947; Karonen, 2004; Norrmén, 1928; Talvi, 1972, 1979, 1987; Tuuri, 1999). In point of fact, the literature did not offer significant evidence that the archival material did not show. This is understandable, since the histories of the firm can only provide relatively short descriptions of the crisis. I also consulted histories of the banks, other organizations, and bibliographical information on each actor related to decline and turnaround if that was available. Moreover, I examined how the leading magazine (*Marcator*) had reacted to and reported the crisis. Finally, in addition to the internal accounting data, I also used the official statistics of Finland (Suomen virallinen tilasto, SVT) and separate research reports concerning the growth of the economy and development of foreign trade in order to define the economic and institutional contexts of the process. These secondary statistics were also used in the other cases.

Data Related to Decline and Turnaround of Walkiakoski

The company archives of Walkiakoski Paper Mill (AW), located in the Central Archives of United Paper Mills at Valkeakoski, constituted the main primary source of research data for the analysis of the decline and turnaround process of Walkiakoski. The data collection focused primarily on the material from the years 1922–1934. Altogether, the archives provided four main sources of research data: minutes of the meetings, correspondence material, annual reports and diverse documents, and financial and production accounts. The language used in the minutes is Swedish, whereas the correspondence material includes both hand and typewritten material in Swedish, English, and Finnish.

The minutes of the board of directors' meetings provided a similar basic source of research data as in the case of Kymi. Between the years 1923 and 1933 the board of directors met 81 times (i.e. approximately 7.4 times per year). The minutes are even more detailed than Kymi's and also include appendices. Reports of the managers' visits to the factories and their results, for example, are described carefully in the appendices. Nevertheless, while the material provides detailed data for the analysis of events and actions, the basic assumption of the probability of the partial content of the minutes of meetings is also valid in this case. Since the minutes of the directors' meetings were only intended for use of the management, there is no particular reason to doubt the correctness of the facts presented. I also examined the minutes of the board of UPM as regards the suggestions and actions concerning the merger between the firms that took place in 1934.

In the same way as the material of Kymi, the correspondence data provided more intimate information on the decisions and relationships between different actors and stakeholders. In all, the correspondence is divided into general, director Walden's, and that with the sales association. While most of the correspondence material originates from the everyday business transactions, it also includes informative evidence on the communication between different stakeholders. This data also confirms the validity of the record material since the facts presented in these sources are not contradictory. Again, it is very likely that some of the material is not archived. This assumption receives support from the fact that there is considerable variation in the amount of correspondence between different years.

Annual reports form the official data of the organization with the obvious limitations already discussed above. Nevertheless, they still provided a helpful reference point for other material. Besides, the CEO expressed his opinions about the development of the paper markets and broader business cycles in these reports. To substantiate the correctness of the annual reports, the facts presented were not in contradiction with the evidence in other sources. In addition to these materials, the archives included diverse documents related to specific issues. These were occasionally helpful in clarifying the situation. The assessment of the organization's financial and production performance was implemented by analyzing internal accounting and production reports.

In addition to the company archives, I consulted the archives of the Bank of Finland, commercial banks, and the personal archives of Risto Ryti who was the manager of the Bank of Finland. Ryti's archives are located in the National Archive of Finland (NA). Unfortunately, again, the archives of the banks Pohjoismaiden yhdyspankki and Helsingin Osakepankki, located in the archives of the bank now called Nordea, were for the most part destroyed. The minutes of the board of directors' meetings of the Bank of Finland as well as the correspondence of the bank, in turn, included evidence concerning the loans the bank gave Walkiakoski in 1928. The archives of Ryti, however, do not provide facts on Walkiakoski.

The supportive literature concerning Walkiakoski consists of a company history written by Erkki Nordberg, an extensive biographical study of Rudolf Walden written by Einar W. Juva and a more informal biography written by Raimo Seppälä (Juva, 1957; Nordberg, 1980; Seppälä, 1981). Each of these books provided helpful reference points for the archival evidence. In addition, I was able to draw from the histories of the banks although their evidence of the crisis was rather superficial (Pipping, 1962; Tudeer, 1986). Supporting information of the trade relations was provided by the history of the sales association, Finnpap (Heikkinen, 2000). The other literature concerning the industry and economy is cited in the analysis. Finally, I examined how a magazine *Suomen Paperi- ja Puutavara-lehti* reported on the organization. However, this published material did not provide any new information.

Data Related to Decline and Turnaround of United Paper Mills

The primary research data of the third case, United Paper Mills, was collected from the company archives (AUPM) located in Valkeakoski. The data collection focused on the years 1963—1978. As in the cases described above, the primary source material was the minutes of the board of directors' meetings. The company archives also provided access to minutes of the administrative board's meetings, correspondence material, management's documentation, and financial data. The languages used in the documents are Finnish and English.

The record material supplied the bulk of the research data. However, in this case the minutes were not overly detailed. As a supplement, fortunately, they included fairly extensive appendices providing evidence of the decisions, plans, and various analyses in and around the organization. The minutes of the administrative board's meetings also included similar appendices. Indeed, the mere minutes of the meetings of UPM as alone would not have allowed an in-depth examination of the organizational processes, but the internal documentation of management, presented in the appendices and as separate compilations, offered many-sided source of research data.

Due to fact that this material was only intended for the use of the organization's management, there is no acute reason to doubt the specific facts presented. However, as regards the accounting data from the years 1960—1968, the official numbers as well as those presented to the board were severely distorted, as was shown by the recalculations implemented in 1968. Therefore, each piece of information was carefully considered with respect to the purpose for which it was originally used and who had prepared the document.

The correspondence data in general and from the years 1962—1965 in particular is rather scarce. However, since 1966 the correspondence of the management provides unique and intimate information of the crucial questions in the organization. For example, the correspondence between the CEO of UPM (Juuso Walden) and the CEO of the main creditor (Kansallis-Osake-Pankki's Matti Virkkunen) in 1967—1968 offer direct evidence of this relationship and the overall situation of the organization. Similarly, the correspondence of the CEO Niilo Hakkarainen and his personal handwritten memos supplemented the evidence provided by other documentation. I also had full access to the record, correspondence, and other internal material in the archives until the year 1975. Thus, in the examination concerning the period 1976—1978, I had to rely on unrestricted and public material.

In addition to the company archives, I consulted the archives of the Bank of Finland and the archives of the Central Association of the Finnish Forest Industry (ACAFFI). I did not gain access to the archives of Kansallis-Osake-Pankki (KOP). However, since the material in the company archives included some reports and correspondence material concerning KOP, this restriction was not an insuperable drawback in the data collection. The minutes of the board of directors' meetings and the managerial correspondence of the Bank of Finland offered data regarding the loan decisions and the

relationship between the Bank of Finland and KOP. The archives of the Central Association about the Finnish Forest Industry mainly provided facts of the suggested investments projects in the 1970s.

The secondary sources of research data literature vis-à-vis UPM include the annual reports, books, and magazines. The official company history only considers the organization until the end of the 1960s (Nordberg, 1998). Similar time limitations concern Klemola's biographical book on Juuso Walden (Klemola, 1971) and Sakari T. Lehto's personal memoir (Lehto, 1996). The personal memoir of Niilo Hakkarainen (Hakkarainen, 1993), however, provides closer information on UPM in the 1970s. I also examined *Talouselämä* magazine from the years 1960–1979, though the news and articles concerning UPM were rather superficial. Altogether, while these books and magazines do not provide significant new evidence concerning the events and actions related to the decline and turnaround process, as in the previous cases, they can be used as a point of comparison for the archival material.

Assessment of the Research Design and Data

Since one of the main aims of this thesis is to examine how causal mechanisms drive organizational decline and turnaround processes, it is necessary that the research design and data are the most supportive as regards this aim. However, there are also other, more general criteria of research design regarding empirical efforts at causal explanation that do not need to be conflict with the appropriate research design when the goal is to explain by causal mechanisms (e.g., Gerring, 2004b; Marini and Singer, 1988). Therefore, I will briefly assess the proposed research design from these perspectives.

First of all, regarding explanation by mechanisms, the research data from each of the organizations fulfills the criteria evinced by the proposed methodology. As the above discussion has shown, the processes are rather precisely documented using various sources. As a result, the historical narratives and the event chronologies can be given for each organization, forming the basis for the event structure analyses. Moreover, a substantial amount of these events can be evaluated using different data sources. This plenitude of evidence is, of course, helpful when the researcher examines and makes the counterfactual questions concerning the causal relationships. If the causal relationship is only identified by relying a single source, the criticisms of sources becomes even more important, as discussed above. Altogether, the evident strengths of the data and the longitudinal research design are their appropriateness for the identification of causal mechanisms.

Regarding the cases in respect of each other and the phenomenon in general, several remarks can be made. As already noted, the basic criterion in the selection of the cases was that they are similar to one another insofar as they are clear cases of the process of existence threatening organizational decline and successful turnaround. As a result, all the cases have the same *explanandum* produced through the same kind of

explanans. Moreover, they are from the same mature industry. Thus, the theoretical level issues regarding the processes in the concrete level, too, mean roughly the same things in each case. Of course, the cases are not identical, which is, in fact, a theoretical impossibility. Altogether, the basic argument is that the cases are comparable.

In comparative research another basic criterion in research design is that the cases under consideration are independent. Basically, if one case influences the occurrence of the other case, they cannot be compared as independent units describing the same phenomenon. In the research design of this study, this danger is minimal. I have not found any direct link between the decline and turnaround processes. This conclusion receives support from the time span between the cases. Thus, it is reasonable to claim that the cases are independent.

The cases are comparable with each other, but regarding the theoretical questions of decline and turnarounds, it is relevant to consider whether the processes are representative among the wider population of cases. However, it has to be emphasized that a robust explanation of how a decline and turnaround works is in no way dependent on how representative the case is. Nevertheless, as already noted, these three cases do not represent the whole population of decline and turnaround processes, though the “sample” is a fairly representative for the particular industry in Finland. Indeed, the other requirements of the methodology set limits to the amount of cases a single researcher can examine. However, in comparison to the earlier research, I believe that the research design has some advantages, also in terms of representativeness. First of all, most of the suggestions provided by the earlier research on organizational decline and turnarounds build on cross-sectional research designs, but the number of different organizations has been relatively low (often around 30 per study). The data used has been from mature manufacturing industries (such as textile and car) and from the 1960s onward. Thus, in comparison to the data from which the previous theoretical knowledge of the issue has been obtained, the data used in this study provides a fairly justified basis for suggestions that at the theoretically specified level are comparable with the theoretical suggestions of previous accounts. Moreover, I believe that the time span between the first and the last case increases the representativeness of the sample rather than the other way around. Altogether, and most importantly, at the theoretical level each of the cases is a representative of the phenomenon called organizational decline and turnaround process.

I conclude this assessment of the research design by providing a few remarks concerning replicability and overall transparency of the research data. In general, each of the phases of this study is repeatable. First, the archival data used is available for other researchers in the archives. In historical narratives I have used footnotes in order to indicate the main source materials, and their location in the archives, that provide direct evidence regarding the particular issue discussed. Similarly, the causal event structures can be reconstructed by other researchers, which, of course, also necessitates

the in-depth scrutiny of the source material. Altogether, all this is part of the basic work of a historian. That is, to provide as truthful a description of the past as possible.

Part II
Entities and Activities

Chapter 4

Entities of Activity

This first part of the theoretical framework, besides outlining the possible entities of the mechanisms, seeks contribute to the existing knowledge of stakeholders and turnarounds by constructing a theoretical framework of stakeholders' resource dependencies and network positions that incorporated a model for identifying stakeholders' potential to influence organizational survival. In other words, the suggested framework identifies the constituents of entities that facilitate their ability or capacity to activate functional components of mechanisms. Thus, the basic argument is that the concept of influence is closely related to capacity of entities to act in organizational decline and turnaround processes.

Indeed, the continued existence of a business organization is dependent on its relationships to other organizations and social actors (Oliver, 1990), both in intraorganizational and interorganizational contexts. This dependency is likely to culminate when an organization is in crisis, that is, when it has to implement a successful turnaround or otherwise face descent into bankruptcy (Barker and Duhaime, 1997; Hambrick and Schecter, 1983; Robbins and Pearce, 1992). Although interest in both inter-organizational relationships (for a review see, Oliver and Ebers, 1998) and stakeholders (e.g., Donaldson and Preston, 1995; Friedman and Miles, 2002; Jones and Wicks, 1999; Lamberg, Savage, and Pajunen, 2003; Mitchell, Agle, and Wood, 1997) has grown in recent years, no research has examined stakeholder influences in organizational decline and turnarounds. Previous literature has mainly concentrated on strategy content and the contributions of individual stakeholders (Daily and Dalton,

1994; D'Aveni, 1989; D'Aveni and MacMillan, 1990). Few studies have focused on turnaround strategy processes and strategy contexts (Balgobin and Pandit, 2001; Chowdhury, 2002; Shook, 1998), and comprehensive study of inter-organizational relationships has been almost completely neglected, although it is explicitly acknowledged that stakeholders may have a crucial role in organizational turnarounds (Arogyaswamy, Barker, and Yasai-Ardekani, 1995).

Although there has been a lack of research on this particular issue, the coherent body of previous research in stakeholder theory and inter-organizational relationships contribute to the construction of the model. Accordingly, following the suggestion of Rowley (1997), I combine resource dependence (Emerson, 1962; Jacobs, 1974; Pfeffer and Salancik, 1978) and structural network centrality analyses (Brass and Burkhardt, 1993; Cook, Emerson, and Gillmore, 1983; Freeman, 1978). To be precise, the suggested theory and model explain how stakeholders' influence in organizational survival simultaneously consists of both direct resource dependence based as well as network position based forms of influence.

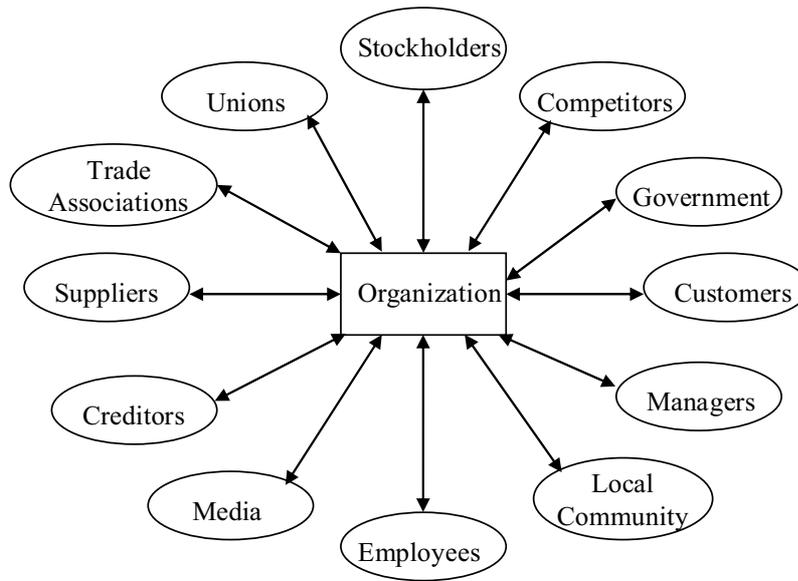
The argument in this chapter continues as follows. First, a concise discussion of earlier research in stakeholder identification specifies the need of the suggested influence identification model. Thereafter, I turn to discuss the two main elements of the influence identification model, that is, stakeholders' direct resource dependence based influence and stakeholders' network position based influence as regards organizational survival. Finally, the last section of the chapter combines resource dependence and network position analyses and introduces the model for influence identification. Altogether, I believe that this chapter, also alone, offers a worthwhile contribution to stakeholder as well as organizational decline and turnaround research.

Identification of Organizational Stakeholders: Earlier Views

Probably the most cited stakeholder definition is Freeman's (1984: 46): "A stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organization's objectives." The strength of this wide definition is that it gives a realistic picture of the possibility that almost anybody can be a stakeholder in an organization (Mitchell et al., 1997). Narrower definitions exist as well. Hill and Jones (1992: 133), for example, define stakeholders as "constituents who have a legitimate claim on the firm." In general, the goal of this narrower view is to define relevant groups and individuals that might have a noteworthy relevance to the organization's economic interests. The debate continues over whether to broaden or narrow the stakeholder definition (see e.g., Kochan and Rubinstein, 2000; Mitchell et al., 1997; Näsi, 1995; Stoney and Winstanley, 2001). However, I argue that it is the particular issue under the study that finally defines how the stakeholders should be defined. In this study the focus is on stakeholders who are most relevant in

organizational survival. Therefore, in this specified context, also the identification of stakeholders has to be specific and purposeful for solving the particular problem if it is going to have analytical and theoretical value.

Figure 3. A Hub Wheel model of Organizational Stakeholders



The hub wheel model in Figure 3 (e.g., Donaldson and Preston, 1995; Freeman, 1984) provides a traditional visualization of firm-stakeholder relationships. This model, however, does not give a realistic picture of context-related relationships. A basic solution in the previous research to improve applicability of the model has been to classify different stakeholders into primary and secondary groups (Carroll, 1993). According to Clarkson (1995: 106) “a primary stakeholder group is one without whose continuing participation the corporation cannot survive as a going concern.” This view is identical with the “narrow definition” of Freeman and Reed that includes those groups vital to the survival and success of the corporation (cit. in Freeman 1994: 69). These primary stakeholders usually consist of stockholders, creditors, employees, suppliers, customers, and managers. In a turnaround situation, when the survival of a firm forms a particularly acute challenge, the prominence of the primary stakeholders easily becomes emphasized. The primary/secondary classification scheme is a useful heuristic for a more profound analysis. As such, however, it does not enable the examination of stakeholders’ actual potential to influence organizational survival.

Other more advanced classifications of stakeholders have also been presented. Mitchell et al. (1997) suggest that classes of stakeholders and their salience could be identified by their possession of three different attributes: power, legitimacy, and urgency. The central proposition of their study is that stakeholders’ salience will be

positively related to the cumulative number of these attributes. Despite its contributions, the model of Mitchell et al. (1997) is somewhat unclear regarding more specific situations. First, it completely ignores the different levels of the attributes. That is, one stakeholder may possess some degree of power and legitimacy, but another stakeholder that simply possesses more of these attributes (e.g. is more powerful) is logically more salient (cf., Giddens, 1979). Second, although power and legitimacy are different concepts, it is difficult to separate them in practice. More than often, power originates directly from legitimacy or legitimacy is exploited as a power. However, I agree that legitimacy attribute as such has obvious value in illuminating qualities of stakeholder relationships. Third, the model is unclear in respect of from where the power attribute actually derives from. Furthermore, the concept of urgency is rather vague and would be difficult to measure in practice.

The most recent attempt to identify stakeholders has been presented by Friedman and Miles (2002). Building on Archer's (1995) views on social realism, the authors construct a model in which stakeholders are distinguished into four configurations in respect of two distinctions. First, whether the material interests or the set of ideas of a firm and stakeholders are compatible or incompatible and, second, whether the relationship between a firm and a stakeholder is necessary or contingent in terms of its contractual form. This scheme provides a useful generic heuristic in considering why, for example, environmental pressure groups in general behave as they do. However, the identification of a stakeholder group that has compatible interests and a contractual relationship with the firm, or of some other group with a different configuration, does not provide much information on the stakeholder's actual or potential level of influence regarding organizational survival.

In sum, the models of Mitchell et al. (1997) and of Friedman and Miles (2002) offer as such useful ways to identify stakeholders. However, because they remain at a rather generic, indefinite, and even abstract in the level of analysis, their operationalization in the analysis of complex and context-related situations, such as organizational decline and turnarounds, is difficult. Therefore, a more specific and more easily applied model for stakeholder influence identification is needed.

Resource Dependence Based Influence

Resource Dependence Theory

From the perspective of resource dependence theory survival of organizations is seen as depending on their ability to acquire and maintain resources (Pfeffer and Salancik, 1978). Organizations as open systems (Katz and Kahn, 1966) are always more or less embedded in their environments, which consist of other organizations and social actors (Granovetter, 1985). Accordingly, acquiring and maintaining resources means that

organizations must constantly interact with those who control those resources (Barringer and Harrison, 2000; Oliver, 1991; Pfeffer and Salancik, 1978).

Resource dependency theory examines these interactive relationships simply by describing how power organizes around crucial and needed resources. The power of one organization over the other is not possible without existing asymmetry in the exchange relationship (Cook, 1977; Emerson, 1962; Jacobs, 1974; Pfeffer and Salancik, 1978). In other words, a stakeholder has power over the focal organization, if the focal organization is more dependent on the stakeholder relative to the stakeholder's dependence on the focal organization. Following Mintzberg (1983) as well as Brass and Burkhardt (1993), power can be seen as consisting of both the potential to affect outcomes and the actual use of that power. Sometimes, power is such an essential part of the actor's position that the mere existence of this power exerts an effect without the need for any concrete actions (e.g. nuclear weapons); in turn, the use of power is futile or impossible without any resources behind it.

Each organizational stakeholder (an organization, group, or individual) may be in an asymmetrical relationship and thus have some power over the focal organization (Frooman, 1999). First, they may control the use of resources critical to the operation and survival of the organization. Second, they may possess means with which to influence organizational behaviors. Third, they may control access to and allocation of critical resources, and, finally, they may regulate the possession of resources (Jawahar and McLaughlin, 2001; Oliver, 1991; Pfeffer and Salancik, 1978; Sheppard, 1995). In sum, resource dependence theory argues that an organization should pay greater attention to the demands of those stakeholders in its environment that somehow control critical resources necessary for its continued survival.

As stated earlier, in an organizational turnaround each of the primary stakeholders should be taken into account, as should the resources of some secondary stakeholders as well. Moreover, managers—as a discrete primary stakeholder group—require particular attention. Therefore, I will discuss the role and resources of managers in greater detail after the considering some of the key resources possessed by the other primary and some secondary stakeholders. The overall resource space of a firm includes both tangible and intangible resources. A relationship that bases on friendship, for example, may be in some case an important intangible resource. This resource is not, however, related to the conceptual roles of stakeholders—it is purely context dependent. Thus, the following discussion concentrates on resources that are theoretically possible for stakeholders in turnaround situations.

Resources and Basic Logics of Function of Primary Stakeholders

Owners have a financial stake in a firm. In return for acquiring equity capital, they assume that the firm is able to rise to their expectations and will maximize profit for their investments in proportion to acceptable risks. The stake of owners will differ, of course, by the type of ownership and the type of firm (Freeman, 1994). In a turnaround

situation, the importance of owners may vary as well (Daily and Dalton, 1998; Davis and Thompson, 1994). They possess, however, at least a theoretical legitimacy with respect to making decisions concerning the existence of the firm. That is, they may choose to start turnaround measures or to immediately lead the firm into bankruptcy. Accordingly, major owners are potentially the critical resource holders of capital needed for the existence of the firm.

The main resource provided by creditors, in turn, is their ability to offer finance to firms as a going concern. A creditor may also be a stockholder of the same firm, though it is not essential. Accordingly, it is essential to make a distinction between creditors and owners. In return for funding, the firm is expected to refund the credit as stipulated in the contract. In all, creditors are first and foremost the critical resource holders of liquid money needed for keeping the firm afloat. Therefore, they may often be especially salient for a firm's survival.

Employees' resources include their skills, time, and other human capital they possess for the use by the firm. In return for this work contribution, they expect fair wages, security, and satisfactory working conditions (Freeman, 1994). In short, employees represent salient resource holders, without which a firm would be unable to function. In a turnaround situation, however, their position may not be as strong as usual. A case in a point can be seen in one of the most frequently used turnaround measures: the reduction of employees. Conversely, a successful turnaround requires a competent labor force. It follows that any dismissals may also have negative overall effects (Jones, 1995).

Suppliers are vital to the success of a firm because they may have control over material resources essential for production. In addition to satisfactory payments, suppliers expect accurate compliance with the terms of payments. It is probable that when a tie to a supplier is close or strong, the supplier will respond to the needs of the firm better (cf., Granovetter, 1973; Krackhardt, 1992; Uzzi, 1997). The need for a stronger relationship depends on, again, the firm's dependence on the resources possessed by that particular supplier. Altogether, in the case of a turnaround, major suppliers' resources may prove to be critical.

Similarly, the reliance of a firm upon a single customer is mainly dependent on the customer's share of the firm's sales quota and the number of other actual and potential customers. In a crisis situation, a firm should usually pay even more attention to customers' demands. Often, the reason behind the crisis has simply been an underestimation of customers' power.

Resources and Basic Logics of Function of Secondary Stakeholders

Secondary stakeholders are defined as those who influence or are influenced by the firm, but are not engaged significantly in transactions with the firm, nor essential to its survival (Clarkson, 1995). This does not signify that secondary stakeholders should be ignored. Since they can potentially exert an effect, they can also cause damage to the

firm. Importantly, the classification between primary and secondary stakeholders is not static: a secondary stakeholder may rise to primary position and vice versa. Therefore, each of the stakeholders described below could be a primary one in certain situations.

Competitors have a particular position among the stakeholders (see, e.g., Porter, 1980) that constitute the rest of the environment or the context within which the business operates. Without the constant and careful consideration of the competitors' positions, aims, and future possibilities, the firm may lose both its market position as well as its ability to meet the claims of primary stakeholders, thus endangering the survival of the firm.

Another noteworthy secondary stakeholder group, sometimes also classified as a primary stakeholder, is the local community. It is usually more dependent on the firm than the other way around by benefiting from the tax revenues and other economic and social contributions of the firm. Particularly, in the case of a small community, the whole municipal economy may be highly dependent on these revenues. The firm, in turn, benefits from the communal facilities (Berman et al., 1999), and in the case of a small business the local community may also be the firm's main market area. These, however, do not directly imply that the firm would be unable to function elsewhere.

There are also other secondary stakeholder groups, such as the media, unions, trade-associations, environmental and other movements, which may have an influence on a firm's survival in certain situations. These groups are so diverse that in the limits of this study it is not reasonable to give a more detailed description of their potential resources.

Managers as Primary Stakeholders

Donaldson and Preston (1995) stress, consistent with Clarkson (1995), that stakeholder theory is managerial in the broad sense of the term. It recommends attitudes, structures, and practices that managers should exploit when making decisions and allocating resources. In reality, however, top management is not the only group of actors taking part in the decision-making, and top managers (or a manager) are not a neutral group inside the firm, but a specific and often powerful primary stakeholder group (cf., Jones, 1995).

Managers may own critical resources needed for the survival of a firm. They may possess, for example, a network of useful social relationships or hold special demographic and personal characteristics needed for successful leadership (Boeker, 1997; Hambrick and Mason, 1984; House, Spangler, and Woycke, 1991). The survival and continuing success of the firm is, thus, seen to depend on the managers' ability to adequately satisfy those who belong to other primary stakeholders (Clarkson, 1995). Failure of managers to maintain the participation of resource holders on which the firm is dependent may lead to the failure of the firm. In return for their services, top managers may expect both satisfying financial compensations and intellectual challenges.

This specific role of managers and especially their placement within the stakeholder map among other stakeholders still needs more attention. Hill and Jones (1992) argued that the firm constitutes the nexus of implicit and explicit contracts of stakeholders, and that managers have a unique position at the center of this nexus. They also claimed that managers are the only group of stakeholders with direct control over the decision-making system of the firm. These views are straightforward, but at the same time slightly unrealistic.

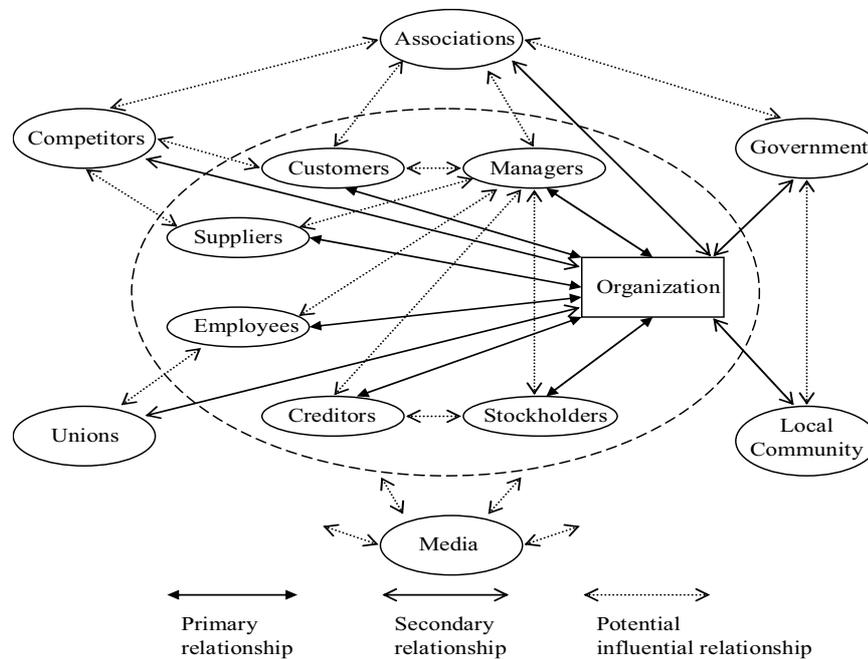
By emphasizing managers' position at the center of the nexus, we have again a simplistic hub wheel model where managers have actually replaced the position of a firm. Managers may not have any relevant relationships with, for example, secondary stakeholders. It is more realistic to see managers having a central position within the network of primary stakeholder relationships, but not necessarily in the middle of that either. Nevertheless, managers do possess a vital role in the decision-making apparatus, though they are not the sole group having a direct control over the decision-making all the time. This is in particular one of those reasons why entities of the mechanism may include also other groups than managers.

Network Position Based Influence

While stakeholders surround the organization, each of the stakeholders is also embedded in its environment. Therefore, stakeholders' potential to influence organizational survival is not only dependent on the mutual firm-stakeholder resource relations. Each relationship is also more or less influenced by other firm-stakeholder and inter-stakeholder relationships. A network perspective is needed in order to define stakeholders' structure-based influence over the focal organization. The network model of stakeholder relationships in Figure 4 presents a theoretical illustration of one possible situation. In reality, because of the context-dependent nature of network ties (Ahuja, 2000), there may also exist some other important relationships, vice versa, there may exist lesser linkages. In addition, groups, such as the media, are difficult to place graphically in the model, as they may have relationships with almost any of the stakeholders.

The most popular and widest explicit area of network research has been social network analysis (e.g., Burt, 1992; Mizuchi and Galaskiewicz, 1993; Granovetter, 1985; Marsden, 1990; Nohria, 1992; Rangan, 2000). Usually social network analysis is not understood as a formal unitary theory, but rather a broad strategy for investigating social structures (Emirbayer and Goodwin, 1994). The main focus social network analysis, however, is the interdependence of actors and how their positions in networks influence their opportunities, restrictions, and behaviors (Wasserman and Faust, 1994). This actor can be an individual, a group, an organization, a society, or any entity that is connected to others in the network (Emirbayer and Goodwin, 1994).

Figure 4. A Network Model of Stakeholder Relationships



In the present study, the actor is consistently defined as a stakeholder (excluding the focal firm), and the investigation focuses on both the individual and group levels. To be exact, social network analysis is employed to augment the stakeholder approach's limited structural view of inter-organizational relationships, as well as to facilitate analysis of the behavior of stakeholders in light of their diverse positions within the network. Despite the fact that they have several convergent elements, social network analysis has only been explicitly connected to stakeholder research in recent contribution of Rowley (1997), although some scholars have already earlier suggested that the stakeholder approach can be seen as a special case of network theory (Foss and Koch, 1996; Thorelli, 1986). Thus, integration of network perspective to stakeholder research is not a revolutionary idea.

Rowley's primary arguments are that both the density of the stakeholder network surrounding an organization and the organization's centrality in the network can influence its degree of resistance to stakeholder demands. In other words, Rowley's interest is to explain some of the consequences arising from the focal organization's structural position in the network (see also Gnyawali and Madhavan, 2001). I approach the structure of the stakeholder network, likewise, by exploiting the concept structural centrality. To be exact, stakeholders' network centrality is analyzed from the focal organization's perspective without, however, supposing that the firm needs to be structurally in the center of that network (see Figure 4). Altogether, analysis of network

centrality enables to examine individual stakeholders' structural positions in the network relative to other stakeholders. This centrality refers to "power obtained through the network's structure, as opposed to power gained through individual attributes" (Rowley, 1997: 898). Thus, the analysis of stakeholders' structural centrality directly complements the analysis of stakeholders' resource dependencies by linking structural and individual attributes together.

Freeman's (1979) identification of major conceptions of graph-theoretic point centrality—that is, in-degree, closeness, and betweenness—provides three possibilities to examine stakeholders' network centrality. In-degree centrality can be defined by the number of direct linkages a stakeholder has with other stakeholders in the network. Closeness centrality, in turn, reflects the distance of a stakeholder to other stakeholders. It can be defined as the ability of a stakeholder to independently access other stakeholders within the network (cf. Brass, 1984; Brass and Burkhardt, 1993; Cook, Emerson, and Gillmore, 1983; Freeman, 1979; Ibarra, 1993).

The third centrality concept, betweenness, takes the perspective of an intermediary stakeholder who is positioned between other stakeholders. It can be conceptualized as the extent to which a stakeholder has potential control over other stakeholders' access to other parts of the network. Thus, if stakeholder B is tied to stakeholder C solely through stakeholder A, then stakeholder A controls all resource exchange between stakeholder B and stakeholder C (Burt, 1992; Cook, Emerson, and Gillmore, 1983; Freeman, 1979; Uzzi and Gillespie, 2002).

Though each of these centrality components explains a stakeholder's structural power, each component also describes and measures a different property of the stakeholder's network position and may not produce similar rankings of centrality. Betweenness centrality is suggested to be the most appropriate for measuring the ability to control information and resource flows across networks (Freeman, 1979; Rowley, 1997). Therefore, I suggest that a stakeholder's betweenness centrality, that is the degree to which the stakeholder acts as an intermediary between other stakeholders and is able to manipulate the crucial resource flows in the network, is also a relevant factor indicating the structure-based influence of the stakeholder over the focal firm in organizational turnarounds.

Analysis of structural centrality, however, does not explain the dynamics that pertain to inter-stakeholder relationships. A more profound understanding of stakeholders' network-based influence relative to the focal organization requires defining the quality, or relational embeddedness (Gulati, 1998; Rowley, Behrens, and Krackhard, 2000; Uzzi, 1996), of the linkages between stakeholders. Previous research has examined the quality of the ties by dividing them into two classes: arm's-length ties that describe formal and contractual relationships, and embedded ties that represent more personal relationships (Granovetter, 1985; Uzzi, 1997). This categorization, however, does not explain the power structure of the relationship; that is, which stakeholder has the dominant position, and thus has an influence over the other

stakeholder. In this framework I fill the gap by exploiting resource dependence perspective to analyze the dominating directions of relationships between stakeholders. This analysis includes both arm's-length and embedded ties. Accordingly, a stakeholder's network position-based influence is defined by examining, first, the stakeholder's betweenness centrality and, second, its inter-stakeholder resource dependencies.

Stakeholders' Influence Identification

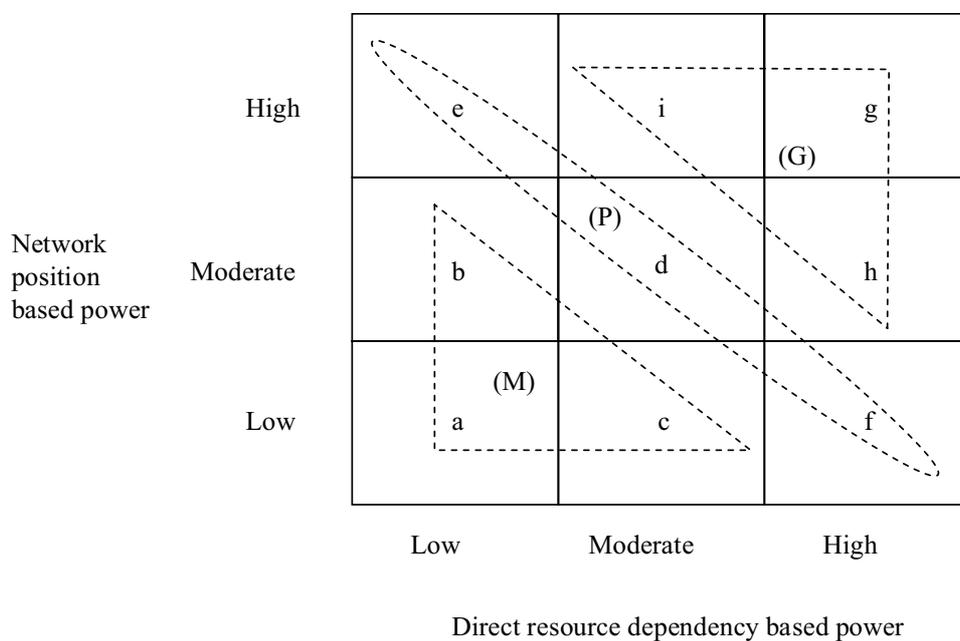
As suggested by Cook (1977), a single theoretical perspective is rarely capable to explain everything about organizational interaction. Thus, the combination of two complementary perspectives to a more comprehensive framework is suggested to be one possibility to increase our understanding of inter-organizational relationships. In particular, I argue that the combination of stakeholders' resource dependence- and network position-based capabilities to influence organizational survival offers an intelligible framework within which to explain organizational interaction in turnaround situations. Altogether, the process of identifying stakeholders' potential to influence an organization's survival involves three phases.

In the first phase, since the potential resource space of a firm can be almost unlimited, the firm's dependency on its direct primary stakeholder relationships should be evaluated using resource dependence theory. After completing the direct resource dependency analysis, the network positions of stakeholders can be determined in order to recognize those structural linkages that may influence stakeholders' allocation of resources critical to organizational survival. This, as stated above, consists of two parts. First, the central and peripheral stakeholders are defined by examining stakeholders' betweenness centrality. Second, the qualities of the inter-stakeholder linkages are defined by observing their dominant directions utilizing resource dependency theory. For example, if a primary stakeholder B has a linkage to and influence over a primary stakeholder C (or C is directly dependent on B), then the power of stakeholder B in respect to the focal firm increases, because stakeholder B now has the potential to influence also through stakeholder C (cf., Uzzi and Gillespie, 2002). As was the case in direct resource dependence analysis, all network positions of stakeholders have to be separately evaluated using the snowball technique (Wasserman and Faust, 1994).

The final phase of the stakeholders' influence identification combines the findings of the above analyses. For this purpose I suggest a stakeholders' influence identification model. It enables to combine both the stakeholders' network- (network position) and resource dependence-based (direct resource dependency) powers on the same scale, in order to define the stakeholders that have the strongest capabilities to influence an organization's survival. The model can be presented in the form of a matrix as shown in Figure 5. Most importantly, using a three-stage scale makes it possible to consider the

central issue of the different levels of resource dependence- and network position-based powers possessed by stakeholders. The "low" level indicates that the particular aspect of a stakeholder's influence alone has no noteworthy effect on a firm's decision-making and survival. The "moderate" level, in turn, indicates that noteworthy implications are possible, and, finally, the "high" level suggests that the characteristic of influence most probably have considerable implications for a firm's survival. It is feasible to use other multipartite scales for more precise identification, however, that would require more sophisticated measurement techniques.

Figure 5. Stakeholder Influence Identification Matrix



The matrix classifies stakeholders in nine different classes (named a, b, c, d, e, f, g, h, i). For example, a stakeholder that has a low network position and lacks critical resources (class a) is not the first stakeholder a firm should pay attention to; conversely, a stakeholder that has both a high level of network position and critical resources for the firm (class g) should be paid greater attention. It has to be noted that the low/moderate/high scales of direct resource dependency and network position do not need to represent equal forms of influence. Consequently, the classes are not the results of multiplication or addition but specific combinations of stakeholders' influence that is based on both structural and individual attributes. This combinatorial logic is superior to a simple rating exercise because it makes it possible to handle simultaneously and systematically two essential forms of stakeholders' power that always constitute an interweaved whole.

To clarify the picture, the classes of combinatorial influence can be categorized into three main groups. First, the group of minor stakeholders (**M**) consists of stakeholders that possess either: (a) peripheral network positions and no critical resources, (b) moderately important network positions and no critical resources, or (c) peripheral network positions and moderately critical resources. The group of potential stakeholders (**P**), in turn, consists of the stakeholders that possess either: (d) moderately important network positions and moderately critical resources, (e) important network positions and no critical resources, or (f) peripheral network positions and critical resources. Finally, the group of governing stakeholders (**G**) consists of stakeholders that possess either: (g) important network positions and critical resources, (h) moderately important network positions and critical resources, or (i) important network positions and moderately critical resources.

This classification scheme, besides measuring the capacities of stakeholders, provides a useful tool for managers to allocate resources and attention among stakeholders during organizational turnarounds. Accordingly, governing stakeholders (**G**), that have a direct ability to influence on an organization's survival, should receive high managerial attention. Potential stakeholders (**P**), in turn, may have a potential influence on an organization's survival and should receive moderate attention. Minor stakeholders' (**M**) capacity to influence, however, is only modest as regards to an organization's survival and thus their needs are usually ignored. Moreover, the model enables stakeholders possessing important resources, but peripherally located, or vice versa, to still be a potential stakeholder. This view is also supported by the finding of Stevenson and Greenberg (2000) that even peripheral actors may have an influence on decision-making in certain situations.

This theoretical foundation and the stakeholders' influence identification model, I believe, offer an explicit procedure for analyzing and identifying different organizational stakeholders that form the set of potential entities of causal mechanisms and, actually, the environment where turnarounds occur. These theoretically intelligible concepts and in particular the stakeholders' influence identification model are straightforwardly adaptable to comparative analyses. Thus, they are also applied in my analyses of organizational stakeholders during the turnaround processes.

Chapter 5

Activities of Entities

Entities, with their properties and ability to exert influence, constitute one side of the functional components of mechanisms. However, the other and equally necessary side of what these entities can do is still missing. The aim of this chapter, and the second part of the framework, is to make the component whole by outlining the possible activities of stakeholders and the potential structure of this activity in the context of an organizational decline and turnaround process. Thus, an entity becomes activated as a functional component of a mechanism.

As a whole, the discussion that follows rests more toward strategic choice perspective (e.g., Child, 1972) according to which the choices of managers, and other organizational stakeholders, influence their organizations and environment more, for example, than organizational ecologist (e.g., Barnett, Greve, and Park, 1994; Hannan and Freeman, 1984) or neo-institutional approaches (DiMaggio and Powell, 1983; Meyer and Rowan, 1983) that, basically, do not believe in the possibility of managed change if the environment is rapidly changing (see also Amburgey, Kelly, and Barnett, 1993). However, the evolutionary oriented perspectives also provide relevant insights (e.g., van Witteloostuijn, 1998). Moreover, as stated in Chapter 2, I do not subscribe to the underlying thinking advocated in postmodernistic literature of organizational change (e.g., Armenakis, Fredenberger, Cheronis, and Field, 1995; Harfield and Hamilton, 1997), but also this approach may include contributions that need to be considered.

The rest of the argument in this chapter proceeds through four sections. First, I briefly evaluate the current state of research regarding organizational declines and turnarounds and in particular discuss how the inherent processuality of the phenomenon is taken into account in the literature. Thereafter, I turn to a closer review of the existing knowledge of organizational declines and turnarounds in order to define a general, conceptual vocabulary of the causes and actions related to the issue. Finally, building on this knowledge, I propose a conceptual model of an organizational decline and turnaround from the seeds of the crisis to the final indications of the successful recovery. The model seeks to solve some of the problems in previous theory and, as suggested in the methodological procedure, it provides the conceptual basis needed in the in-depth analysis and identification of causal mechanisms driving the processes.

To begin with, however, I recall the two basic concepts needed to understand the discussion. By organizational decline I refer to deterioration in an organization's adaptation to its microniche and the associated reduction in resources within the organization (Cameron, Sutton, and Whetten, 1988; Cameron, Kim, and Whetten, 1987a) which may lead to the existence-threatening crisis. By turnaround, in turn, I mean a recovery of a firm's economic performance following an existence-threatening decline. The obverse of performance recovery is failure and eventual death (Arogyaswamy et al., 1995; Barker and Duhaime, 1997; Hofer, 1980; Pearce and Robbins, 1993). Because turnaround refers to a recovery of a firm's economic (and mental) performance following serious organizational decline, corrective and successful actions in the beginning or at the minor level of decline cannot be included in the discussion of turnarounds. Thus, in order to consider a successful change in an organization's performance as a turnaround, the decline has to be a threat to the long-term survival of the organization.

Main Themes and the Process View in Earlier Research

Research concerning questions related to organizational declines and turnarounds has received increasing attention during recent decades, even if these issues are often examined separately. The literature focused on organizational declines has mainly examined the causes of decline (e.g., D'Aveni, 1989; Hambrick and D'Aveni, 1988; Mellahi, Jackson, and Sparks, 2002; Miller, 1994; Mone, McKinley and Barker, 1998), whereas the literature focused on turnarounds has concentrated on examining different turnaround strategies (e.g., Arogyaswamy, et al., 1995; Barker and Duhaime, 1997; Hambrick and Schechter, 1983; Hofer, 1980; Hoffman, 1989; Robbins and Pearce, 1992). That is, activities that will cause the performance of the organization in crisis to turn successful. In addition, more detailed issues such as the characteristics of turnaround managers and compositions of boards have been of interest (e.g., Barker and Patterson Jr., 1996; Barker, Patterson Jr., and Mueller, 2001; Daily and Dalton, 1994; Daily and

Dalton, 1998; Goodstein and Boeker, 1991; Tainio, Lilja, and Santalainen, 2001). Altogether, the overall goal of the research has been the same, to explain and understand the complexities and causalities regarding the issue in question.

Despite the growing interest, however, there is no existing theory of organizational decline and turnaround processes as such (but there are, of course, plenty of separate hypotheses regarding different parts of this process). Besides, both of the literatures, if considered separately, are somewhat uneven and largely dominated by content and correlational aspects. This distortion is critical, since an organizational decline and turnaround is always a matter of causal sequences in time, not a static variable or a constant conjunction between independent and dependent variables. Therefore, to explain organizational declines and turnarounds we have to study them as processes, usually over several years, which, as I have argued, necessarily involves the examination of causal mechanisms. In this framework I seek to create the theoretical basis enabling a move in that direction. But let us first consider how processuality is actually recognized in the earlier accounts of declines and turnarounds, respectively.

Regarding organizational decline, the answer is straightforward. While there exists a fairly substantial literature round the issue (e.g., Cameron, Whetten, and Kim, 1987b; D'Aveni, 1989; McKinley, 1993; Mellahi et al., 2002; Mone, McKinley, and Barker, 1998; Whetten, 1980, 1987), the explicit processual perspective evidently falls into marginal excluding suggestions and findings of a few stage models (Hambrick and D'Aveni, 1988; Weitzel and Jonsson, 1989). Actually, it can be seen as a distinctive feature how the decline literature lacks rigorous longitudinal and in-depth research. Organizational decline threatening an organization's long-term survival is claimed to begin when "an organization fails to anticipate or recognize and effectively respond to any deterioration of organizational performance" (Weitzel and Jonsson, 1989: 94). It either leads to bankruptcy proceedings, breakdown and selling the organization in pieces, direct dissolution, or, in a positive case, successful turnaround. In every instance, however, it is a process that consists of several events and actions unfolding in time. The existing stage models of turnarounds (Chowdhury, 2002; Balgodin and Bandit, 2001) have proposed decline to be the first stage of a turnaround process. This is to propose the obvious and does not tell much about the process of decline itself. In fact, as noted in the turnaround literature (Arogyaswamy et al., 1995; Hofer, 1980; Pearce and Robbins, 1993), magnitudes, time frames, patterns, and severities of organizational decline influence strategies that can be exploited in order to stop the destructive progress and to turn the organization around.

Accordingly, it is necessary to consider the process of decline not as a single stage or a mere variable with distinct attributes, but rather as a continuum that may include several stages consisting of causal events and actions. A starting point to proceed to this direction can be found in Weitzel and Jonsson's (1989) stage model of organizational decline. The model divides the decline into five consecutive stages: blinded, inaction, faulty action, crisis, and dissolution. The last stage of decline is irreversible: it always

fails to materialize in successful turnarounds. However, the four stages before the dissolution can be included in turnaround processes. Moreover, although often confused, decline explicitly differs from downsizing. Organizations may consciously downsize without declining, and they may decline without downsizing (for further discussion see Freeman and Cameron, 1993).

Regarding turnaround research, the situation is not much different. On the whole, the current state of turnaround literature can be divided into two broad categories of research (excluding so-called managerial guidebooks that I have for the most part omitted from my review). The first and prevailing one has focused on identifying the content of successful turnaround strategies. That is, what actions, strategic or operational, managers should choose and implement in order to turn declining firms around (e.g., Arogyaswamy et al., 1995; Barker and Duhaime, 1997; Hambrick and Schechter, 1983; Hardy, 1989; Hofer, 1980; Kvikant, 1998). It has also been widely examined, for example, whether there always is a decisive need to change the managers making the strategic decisions (Barker and Barr, 2002; Barker et al., 2001; Castrogiovanni, Baliga, and Kidwell, 1992) or how the governance structures may influence organizational performance in a turnaround situation (Barker and Mone, 1998; Mueller and Barker, 1997; Tainio, Lilja, and Santalainen, 2001).

The second category of research comprises the stage models of turnarounds. While the “content school” exploits variance explanations in terms of statistical relationships between particular dependent and independent variables, the stage approach tries to explain the distinct stages that a declining firm goes through in the process of responding to a crisis and achieving turnaround. Arogyaswamy et al. (1995) suggest that, in particular, this second category of research analyses turnarounds as processes. This view is denied, for example, by Balgobin and Pandit (2001), Chowdhury (2002), and Shook (1998), who state that there does not yet exist research on turnarounds that truly examines them as processes. This view finds support when one reviews the organizational turnaround literature. For example, Robbins and Pearce (1992) as well as Pearce and Robbins (1993) use the term process as a result of dividing the turnaround into two stages: retrenchment and recovery. These authors do not in any way define the term “process” and the analysis of this “process” then directly follows the procedure of correlational explanation. Moreover, these overly simple stage models concentrate on the period of the explicit implementation of turnarounds and, in fact, analyze separate related variables rather than the longitudinal processes.

Recently there have been some attempts to provide more processual stage models for turnaround research. Strang (1998), for example, divided a turnaround process into three stages: downturn, triggers for a turnaround decision, and turnaround. Balgobin and Pandit (2001), in turn, suggested a five-stage sequence of turnarounds that includes the stages of decline and crisis, triggers for change, recovery strategy formulation, retrenchment and stabilization, and finally return to growth. Thus, in this model the implementation stage is only seen as one part of the turnaround process that is not

possible without the preceding stages (see also Audia, Locke, and Smith, 2000; Stopford and Baden-Fuller, 1990).

The most recent contribution in stage models is Chowdhury's (2002: 264) that claims to present "the first comprehensive process model in the stream of literature on turnaround." The model proposes four main stages of organizational turnaround: decline, response initiation, transition, and outcome. Its main contribution is that it assumes that each of the conceptual stages is composed of inter-related incidents and events. However, it is restrictive in capturing the complexities of a decline and turnaround process and guiding empirical analysis. Moreover, it entails some profound logical difficulties. For example, the model assumes that organizational decline finishes before any concrete turnaround actions and, in fact, that the recovery starts at the same time or even before the implementation of turnaround measures. The stages of Chowdhury's model may exist in turnaround processes, but how they are interrelated is unclear. Altogether, process research, even in the form of stage models, is still a rather marginal avenue in the turnaround literature although it has been suggested to have great potential for strategic and organizational change research (Langley, 1999; Pettigrew, Woodman, and Cameron, 2001).

In sum, to capture the present state of the research, it seems that the awareness of the processual nature of organizational declines and turnarounds exists at least implicitly in the literature. However, this knowledge has not been satisfactorily become materialized in research. Despite the existing contributions, therefore, there is an urgent need to further examine organizational declines and turnarounds as processes as well as to create analytical tools to structure these processes. Thus, the research clearly lacks knowledge that explanation with causal mechanisms could provide.

Forces of Organizational Decline

There are always some reason(s) for organizational decline before the first stage is realized (cf. Weitzel and Johnsson's blinded stage). However, during the progress of decline these reasons may change or, as is often the case, cumulate. Thus, the main reasons and their causal relations behind the deepening decline can be only traced by examining the organizational development far enough backward. Previous research has identified several broad causes related to organizational decline such as management errors, poor marketing, decline of demand, poor quality, increased competition, regression, technological change, lack of economies of scale or scope, distorted organizational culture, inadequate financial control, high costs, failed projects, centralization, to name but a few (e.g., Bibeault, 1982; Chandler, 1962; Grinyer and McKiernan, 1990; Hamermesh, 1977; Hoffman, 1989; Melin, 1985; Prihti, 1980; Robbins and Pearce; 1992; Schendel, Patton, and Riggs, 1976). Altogether, these or

some other reasons may either be the initial causes or emerge during the decline (for a review of decline literature see also Lohivesi, 2000).

Indeed, it is essential to see that there are various ways in which an organizational decline can be caused, but having an exhaustive list of all the particular ways a decline can be caused is not. More properly, the reasons behind or emerging during organizational decline can be divided into two general substitutive categories: industry contraction and firm-specific maladjustment to its environment or industry (Cameron et al., 1987a; Cameron et al., 1988; Whetten, 1987), or briefly *external and internal forces of decline* as shown in Table 2.

The influence of external or macro forces as causes of decline is traditionally emphasized in the industrial organization and evolutionary literatures (e.g., Baum and Mezias, 1992). Decline occurs because an organization is part of a macro-niche inhabited by a population of firms, or part of an industry that is shrinking or shifting in size of generosity. The contraction of the industry's carrying capacity reduces the overall resource base of the firms and may cause the performance of most or all industry firms to deteriorate in intense inter-firm rivalry (Arogyaswamy et al., 1995). External forces of decline, it has to be emphasized, can also derive, for example, from political or other factors that are not industry specific at all.

Table 2. Examples of External and Internal Forces of Organizational Decline

| External forces of decline | Internal forces of decline |
|--|-----------------------------------|
| Conceptual examples: | Conceptual examples: |
| Business cycles | Managerial disagreements |
| Depression | Organizational disagreements |
| Political crises | Lack of knowledge |
| Deteriorating industry | Lack of resources |
| Government's negative policy decisions | Lack of capabilities |
| | Dysfunctional organization |
| | Inadequate control |

Firm-based decline, in contrast, occurs when an organization is in a stable or growing industry, but it is not able to adjust to qualitative changes in the firm's internal and external environment and thus performs worse than the average firm in that industry. Accordingly, this form of decline refers to reduction in resources within an organization independent of the changes in the environment (Whetten, 1987). Basically, the internal forces of decline include all problems that could be solved by knowledge, resources, capabilities, and cooperation originating inside the organization and the stakeholder relationships.

While the previous literature has identified the two different sources of decline (e.g., Robbins and Pearce (1992)), it has, by and large, examined these two categories of causes as separate ones, though there is a strong possibility that the decline simultaneously results from both external and internal problems. Some researchers have also tried to prioritize some reasons over others (Slatter, 1984), although there cannot be exact, predefined, causes of decline. Regardless of the origin of the causes, however, explanation of organizational decline, and causal relations affecting this process, necessitates that the process can be conceptualized by identifying phases or characteristics on the decline continuum.

Accordingly, referring to Weitzel and Jonsson's (1989) model of decline, organizations in the first stage of decline (i.e., blinded) are described as incapable of recognizing industry or firm-based changes and causes that may threaten their long-term survival. These changes are usually qualitative and are not yet materialized in performance measures such as sales and production. Thus, the identification of problems demands other than financial evaluations. It has been suggested, however, that there may exist internal *signals* that indicate problems leading to decline. These may include tolerance of incompetence, massive administrative procedures, loss of communication, scarcity of clear goals, outdated organizational structure, or increased/decreased risk taking, to name but a few (Lorange and Nelson, 1987; Wiseman and Bromiley, 1996).

Organizations enter into the second stage of decline after the recognition of some of these possible problems. According to Weitzel and Jonsson (1989), although the signs of the decline begin to show, for example, in descending sales and surplus inventories, this does not lead to corrective actions, but instead to inaction. Managers continuously misinterpret information and are not able to take the opportunities available, partly because such a change might be costly and disruptive. They prefer to increase commitment to the present course of action (Hedberg, Bystrom, and Starbuck, 1976). This may also be a direct consequence of managers' lack of knowledge and vision to deal with the new challenges, discover the possibilities, and impose their will on the organization (Berson, Shamir, Avolio, and Popper, 2001; Boal and Hooijeberg, 2000; Burgelman, 2002).

The inaction and misinterpretations of problems propel the organization into the third stage of decline. Despite the fact that financial indicators also now reflect problems, the disagreement over the necessary changes increases. At the same time the cohesion of dominant stakeholders may start to crumble and the pressure for changes in the top management team increases (Barker and Petterson, 1996). This is stated to be both a cause and consequence of managers' tendency to centralize decision-making and ignore information and solutions submitted by subordinates and other stakeholders. Centralization may lead top managers to become scapegoats for other organizational members and thus loss of leader credibility (Cameron et al., 1987b; Khanna and Poulsen, 1995). This is likely to further impair managers' and employees' morale and

the overall forward momentum, thus paralyzing the organization (D'Aveni, 1989). Insufficient actions fail to stop the decline and the organization drifts into the crisis stage.

In the fourth stage of Weitzel and Jonsson's model the organization reaches the last moment to undergo a major turnaround or otherwise it inevitably moves on to the stage of dissolution and finally suffers certain failure. This stage is characterized by multiplied problems with almost chaotic consequences. Altogether, the whole decline process may be sudden, more gradual, or lingering (D'Aveni, 1989). It is also possible that an organization almost directly moves from the blinded stage of decline to crisis, but most often organizational decline as a continuum can be divided into several phases. Despite the speed or the different stages included in the decline, it is always a process.

Counter Decline Activities

I turn now to discuss the second main element regarding an organizational decline and turnaround process—an element that is needed to halt the decline, no later than the stage of crisis, and then to turn the development of the organization around. The turnaround literature has, in particular, focused on this part of the process or, in other words, activities that should be implemented in order to ensure the continuing existence of an organization. I want to emphasize already now that there does need to be a clear barrier between the process of decline and the beginning of turnaround. Most likely, there are transition zones (or the whole decline and turnaround can be seen as a big transition zone) where the forces of decline combat the strengthening effects of the possible mechanisms that produce the change.

As already noted, research on the “content school” of turnaround strategies has been somewhat uneven in nature (see Barker and Mone, 1994; Pearce and Robbins, 1994; Robbins and Pearce, 1992; for a review see also Pandit, 2000). Disagreement has mainly been due to the confused relationship between *retrenchment and recovery strategies* (Robbins and Pearce, 1992)—activities that are also referred to as operational and strategic (Hofer, 1980; Schendel et al., 1976) or decline stemming and recovery (Arogyaswamy et al., 1995). I treat these three pairs of concepts as interchangeable, but mostly use the terms retrenchment and recovery.

In particular, the controversy has centered round the issues whether there is a greater need for retrenchment than recovery strategies or vice versa; what activities are actually used and needed during the retrenchment and the recovery; and should firms exploit both categories of strategies equally in turnaround situations. As indicated above, previous research has mainly considered that a turnaround process consists of two stages. Bibeault (1982), for example, defined a clear decision point between retrenchment activities and the more advanced stage where the firm shifts toward objectives of growth. In the first stage, retrenchment activities are exploited to reverse

the process of decline, stabilize operations, and restore the firm's profitability by pursuing a combination of cost cuttings, asset reductions, divestments, production eliminations, and head count cuts. The second stage, in turn, involves changing or adjusting the business the firm is currently engaged in. These recovery strategies attempt to eliminate or cope with the causes of an organization's decline.

However, there is not always a direct line between what can be constituted as a retrenchment activity and what activities can be included in recovery strategies. For example, asset reductions, that are supposed to be necessary in turnarounds (Pearce and Robbins, 1993), may be included in both retrenchment and recovery strategies. As regards to retrenchment, on the one hand, asset reductions most often cover sales of stores, closures, and integration of surplus fixed assets such as plants, equipment, and offices in order to promote cost cutting, streamlining the organization, and creating badly needed revenues. Regarding recovery activities, on the other hand, asset reductions often include getting rid of over capacity and divestment of subsidiaries. In short, the activities may be quite similar.

In order to clarify the situation, I suggest that the main difference is that retrenchment or operational activities are exploited to generate short-term cash flow and profit improvement, whereas from the perspective of recovery and strategic activity, asset reductions are used to change the long-term strategic positioning and performance of the organization. Moreover, when asset divestment is an important element, asset investments may become essential in particular for the recovery activities (Arogyaswamy and Yasai-Ardekani, 1997). As stated by Hoffman (1989), retrenchment activities in an organizational turnaround focus on improving the way a firm currently conducts business, whereas strategic or recovery activities focus on changing or adjusting the type of business conducted by the firm. Overall, a clear way to make a difference between retrenchment and recovery activities is that the former usually try to address the direct *consequences* of the decline whereas the latter are primarily needed to address and manage the *causes* of an organizational decline and in so doing steadily raise the firm's performance to an acceptable level.

The extent to which retrenchment activities are used is seen to be contingent upon the severity of the firm's decline and available slack resources (e.g., Arogyaswamy et al., 1995). Thus, retrenchment activities may be a necessary but not sufficient condition for successful turnaround in most cases and recovery activities that do not focus on the causes of decline may leave the stability achieved by retrenchment activities short-term.

As described above, both environment/industry and firm-based causes may affect the process of organizational decline. Unfortunately, previous research has not examined recovery activities in such a combinatorial situation. However, Arogyaswamy et al. (1995) propose that when the decline is due to cyclical contractions, recovery activities that do not attempt to change the firm's strategic position in a fundamental manner but try to hold and strengthen the historic position will likely be most effective. Similarly, firms in industry with long-term contradiction are suggested to implement

incremental strategy changes that stress the efficient use of existing resources and capabilities to serve the needs of viable customer segments. If the firm's position in the declining industry is especially weak it should even more closely target its favorable customer segment. In contrast, if the decline is firm-based, strong strategic reorientations to build or rebuild resources and capabilities are suggested.

These propositions have also received some empirical support (Barker and Duhaime, 1997), but the situation of mixed causes has not been touched at all. In fact, if the strategic change in recovery stage is incremental, it may be difficult to distinguish from the retrenchment activities. Moreover, it is reasonable to note the possibility that a strong strategic change, for example, into some other or related industry may be a relevant option for a firm in declining industry. This, of course, may require substantial resources, being thus a highly risky or even impossible choice. However, this is also the problem faced in firm-based decline. Barker and Duhaime (1997), rather unsurprisingly, sum up their findings that the level of strategic change during a turnaround varies with whether firms need strategic change to recover and with their capacity to implement such change.

According to the literature, an organizational turnaround may also include other types of activities. *Top management replacements* are often seen as a necessary precondition or action for a successful turnaround (Barker et al., 2001). This can be a force that provides a necessary impetus for the needed change. Hofer (1980), for example, states that the basis for almost every successful turnaround involves replacing the old top management with a new one. The old management tends to have obsessive beliefs on how to run a business, and these beliefs are often unsuitable for solving new problems. Management simply becomes a liability (Miller, 1991). The only way to find a new perspective is to change the individuals leading the firm.

Similarly, Barker and Petterson (1996) found that firms' internal factors usually formed the reasons for extensive top management team replacements during turnaround attempts. Kotter and Heskett (1992) observed that in almost every case, new top managers have come from outside the firm or from completely different assignments. They have provided the necessary external perspective and often a broader insight into possible solutions, as well as a vast emotional devotion to implementing the change. Alternatively, new top managers may also experience problems in gaining confidence inside an organization, thus creating difficulties in, or even preventing, the implementation of new ideas (cf. Laurila, 1995).

Financial restructuring is also found to be an important type of turnaround activity as well as an example of a cash generation strategy that can support both retrenchment and recovery activities. Its purpose is to modify a firm's capital structure in order to reduce the strain of interest and debt repayments. Specifically, financial restructuring can be divided into *equity-based and debt-based strategies*. The equity-based option covers dividend cuts or omissions and equity issues. Aggressive dividend reductions, for example, are found to be typical for large firms in response to financial distress

(John, Lang, and Netter, 1992). The debt-based strategies, in turn, concern the wide-ranging restructuring of a firm's debt in order to resolve existing financial distress or to avoid this by replacing an existing debt by a new contract with changed conditions (Sudarsanam and Lai, 2001).

By and large, these activities may or may not influence firm performance. Whatever the case may be, it is usually a substantial amount of time that has to pass before the results show. Schendel et al. (1976), for example, found that performance improvement occurred over an average of 7.7 years with a range of 4 to 16 years. Hoffman (1989) found that an average decline lasted 2.8 years (a range of 2 to 12.5 years) and performance improvement about 3.1 years. Similarly, Hambrick and Schechter (1983) proposed that an average period of improvement usually takes one to four years. Despite this knowledge, turnaround responses and improved financial results are incorrectly treated almost as simultaneous events (Chowdhury, 2002). In reality, there are transition zones, inertia, counter forces, and organizational rigidities that directly influence the effects of turnaround strategies. Thus, I suggest that even if studying only the content of turnaround strategies the perspective needs to be processual and long enough. In the next section I propose a conceptual model for examining organizational decline and turnarounds from such a perspective.

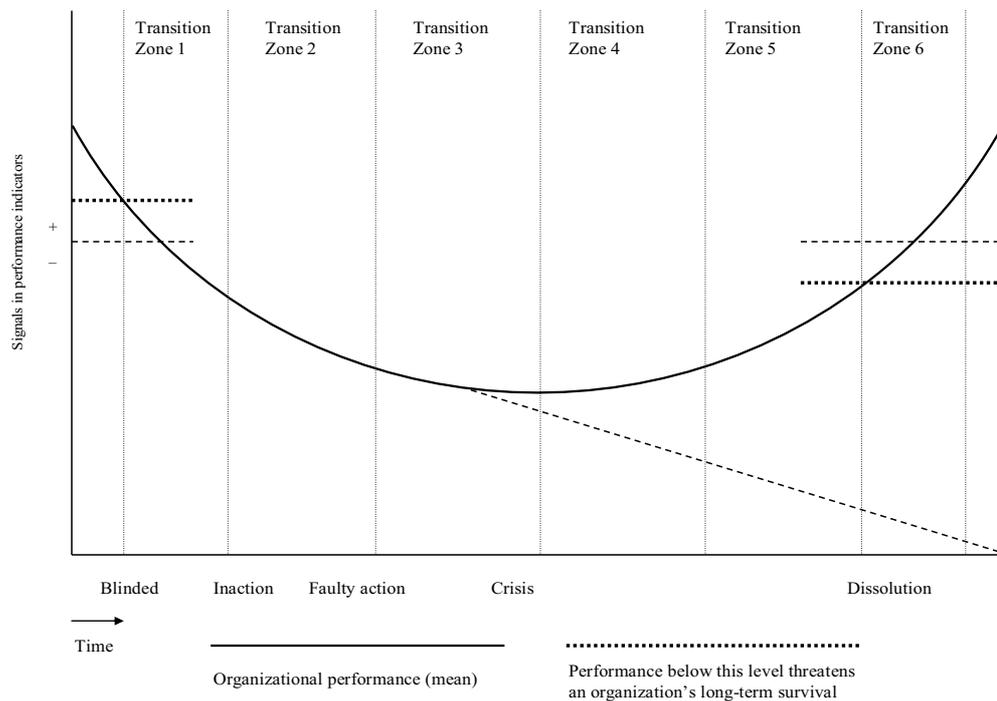
Concepts and a Structure for Analyzing Decline and Turnaround Processes

Since previous research in organizational decline and turnaround processes, *de facto*, is almost non-existent and the stage models simplify reality into a few sequential stages, the existing literature does not, as such, offer a supportive basis for the identification of causal mechanisms in complex, longitudinal processes. However, as the above review indicates, the literature has widely discussed the constituting, conceptual elements regarding the different activities and structures in organizational decline and turnarounds, thus making possible the construction of such a theoretical frame. Accordingly, building on the above discussion, I propose a preliminary model of an organizational decline and turnaround process that seeks to answer some of the problems in previous theory. Most importantly, as suggested in the methodological procedure, the model provides the substituting concepts regarding the possible activities of the stakeholders in organizational declines and turnarounds and outlines the issues on which analysis focused on theorizing of causal mechanisms should concentrate.

To begin with, in order to better identify and understand dynamics and causal relations that may affect such situations, I suggest that the process of decline and turnaround should be considered as a continuum of transition zones. Figure 6 illustrates a preliminary structure for such a process. This conceptual model is primarily for a situation where the decline threatens an organization's long-term survival, thus it may

need modifications if used for depicting other kinds of organizational change. Altogether, I propose six main transition zones with some expected characteristics. The stages of the decline (Weitzel and Jonsson, 1989) are portrayed at the bottom of the figure in order to illustrate the negative alternatives of the process. However, transition zones and stages of the decline are not directly commensurate.

Figure 6. Transitional Structure of Organizational Decline and Turnaround Process



Before arriving in the first transition zone, an organization has already descended into a decline that constantly becomes more serious and finally threatens the organization's long-term survival. The reasons behind the decline may be industry or organization-based, or may originate from both sources. However, the organization is still in the blinded stage of the decline until the first concrete signs in the impaired financial or production performance begin to show. It moves on to the first transition zone when the prevailing level of performance starts to threaten the organization's survival and the need for a turnaround becomes acute. Altogether, I suggest that the main issue for the organization in the first transition zone is to *become generally aware of the decline*. Although the organizational members follow the behaviors described above, there may not be any perceptible changes in the performance measures during the second first zone, instead, decline continues. However, the organization is in a situation when it is able to move into the second transition zone of the process.

The attained awareness of the situation is a necessary condition but not a sufficient one. In Weitzel and Jonsson's (1989) model of decline, an organization first drifts into

the stage of inaction. Thereafter, even though managers may have some insight into the severity of the situation, they commit to faulty actions. Thus, in the second transition zone, the organization should both evaluate the severity of the situation and also begin to consider what kind of activities they should employ in order to respond to the ever-declining performance and probably already start implementing some turnaround activities. Overall, as was the case with the awareness of the decline/crisis, it is an open question how an organization is able to reach a situation that makes possible the correct action against the decline. However, it is likely that some external or internal impulse is needed.

During the second transition zone managers and organizational stakeholders may also try to form a consensus of the primary lines of their expectations and goals (cf. Arogyaswamy et al., 1995). Visions of the future may also begin to form. Indeed, if the existing relationships inside the management or between the manager(s) and the main stakeholders are inflamed, and if the managers have become scapegoats, there is most likely a strong pressure for top management replacements (cf. Barker et al., 2001). Thus, before any concrete decisions regarding the recovery activities can be suggested and the retrenchment activities are determinedly implemented, there has to exist at least some kind of trust and commitment between different organizational groups (see also Berman et al., 1999). Altogether, the second transition zone likewise shows no evidence of major changes in the development of the organization's performance, but successful behavior enables the organization to move into the next phase in the process and to start *explicit actions against the decline*. In the positive case, cost cutting, asset reductions, or some other activities may already slow down the decline, but the forces of decline still outperform the effects of the turnaround measures.

The third transition zone can be seen as emotionally important, since the organizational members may begin to receive the first results from the counter decline activities. If retrenchment activities are started and proceed in a desired way, their effects may begin to challenge the forces of the decline. In an ideal situation, the organizational performance becomes stabilized. Even if achieved, this can be seen as a very dangerous moment since the stabilization does not directly mean that the worst is over and the path is clear to successful recovery. In contrast, during the third transition zone the purposeful implementation of the retrenchment activities and perhaps their modification to better correspond to the consequences of the decline seems relevant. However, as suggested in previous turnaround literature (e.g., Barker and Duhaime, 1997), the retrenchment activities rarely touch the causes of the decline, thus recovery activities and strategic change are often equally needed. Altogether, it is an open question how and when the organization achieves *explicit retrenchment results* and the performance decline stops.

The stabilization of the acute downturn enables the managers and the main stakeholders to more carefully consider the broader lines of their business and new strategies that may be necessary in order to eliminate or cope with the causes of the

survival-threatening decline. In this phase of the process, a clear vision of the organization's future may be needed. Nutt and Backoff (1997), for example, stress that effective visions that help an organization make a radical change can be co-developed with key organizational members and that this development should begin by ascertaining the possibilities. Altogether, it is most likely that evaluation of the causes of organizational decline as well as the potentials of future business, that is recovery strategy, should be carefully considered. Indeed, Berson et al. (2001) suggest that the vision should be grounded in some level of practicality. Otherwise it may cause organizational members to view it as an unrealistic hope. Be that as it may, it is likely that strategic leadership, both pragmatic and more visionary (Beyer and Browning, 1999; Mumford and Van Doorn, 2001) is often needed in the turnaround process. Overall, the third transition zone may be full of aspects that should be addresses simultaneously.

The fourth transition zone is equally critical for the development of the organization's overall mentality. During the deepest financial crisis, although the decline is now stabilized, even the smallest negative changes in retrenchment activities, consensus building, or crucial stakeholder relationships may throw the organization back onto the path of decline. Thus, the organization walks along the thin line between the forces of the crisis and the emerging possibility for changing the direction of the development.

Moving from a stabilized situation to growth may necessitate that not only proper retrenchment activities are correctly implemented at the right time but also that the consensus of the organization's strategic direction is clarified. Although the work with the initial retrenchment activities may continue, it is most likely that the organization should actively work with the recovery strategy. As noted in the above literature review, the recovery strategy may also follow similar operational lines as those taken in the retrenchment activities or take another direction. In addition, it may be incremental or more radical depending on the causes of the decline. In all, returning to the path of decline as result of unsuccessful behavior in the fourth transition zone may already have consequences among organizational and inter-organizational relationships which are difficult to reverse.

During the fifth of the proposed transition zones, the performance of the organization may not be on a stable basis, however, the direction of the development is now positive. Indeed, this period is suggested to be characterized by the *first concrete results of the recovery activities*. The positive results from the turnaround activities are likely to increase trust and motivation among managers and organizational stakeholders. However, the organization is performing under the level that secures its long-term survival and the underlying causes of the decline may not have disappeared. Thus, during the fifth transition zone, the organization may reach the undeviating path of recovery, but there also exists the possibility that the wrong recovery activities, for

example, may turn the organization back onto the path of decline. Thus, the turnaround process is not yet complete.

Successful action, however, finally moves the organization into the sixth and last transition zone. Altogether, managers and other organizational members by acting consistently and comprehensively can stabilize the organizational growth. Positive signs in performance indicators are likely to convince the management and stakeholders that their decisions have been correct. However, the transition to normal business activity necessitates that the activities produce the desired results by eliminating or coping with the causes behind the decline so that the risk of a sudden organizational decline is prevented. In order that a turnaround can be pronounced successful, the positive performance over the level that ensures the organization's survival has to continue long enough, usually for years. Overall, how the organization exactly achieves the *recovery results* is still an open question.

Altogether, building on these theoretical considerations and following the methodological procedure described in Chapter 3, I suggest, first, a set of general, theoretically intelligible, concepts that describe different events and actions may occur during the process. Specifically, these concepts can be used to substitute the case specific concepts describing the same issue. Table 3 draws together the concepts and introduces their general codes. This list can also be inductively supplemented after the analysis of event structures.

Second, building on all the foregoing, it is suggested that an analysis focused on identification and theorization about causal mechanisms in organizational decline and turnarounds should concentrate in particular on the following important turning points and issues in processes:

- (1) *Forces of decline* that lead to existing threatening decline and crisis (both initial and emerging, as well as internal and external)
- (2) Events and actions that lead to the state of *general and unambiguous awareness* of the decline/crisis
- (3) Events and actions that lead to the situation that enables *explicit action* against the decline
- (4) Explicit events and actions that lead to explicit *retrenchment results*
- (5) Those events and actions that lead to *recovery results* and thereby to a *successful turnaround*.

Indeed, it is likely that the whole complex decline and turnaround process consists of a concatenation of mechanisms or several sub-mechanisms. Altogether, the possible transition zones outlined above focus the analysis and emphasize the transitional character of the whole process: each action and event, as an activated component of a mechanism, has a role in the interplay that either enforces the transition toward dissolution or turnaround.

Table 3. Substitutive Concepts and General Codes

| <i>General substitutive concept</i> | <i>General code</i> | <i>Substitutes</i> |
|---|---------------------|---|
| Initial internal force of decline | IFD | Initiating actions and events inside the organization and its stakeholder relationships that generate decline |
| Initial external/general force of decline | EFD | Initiating actions and events outside the organization that generate decline |
| Emerging internal pressure to decline/ Organizational disagreement | OD | New types of actions and events inside the organization that enforce the decline or promote organizational disagreement |
| Emerging external/general pressure to decline | EPD | New types of actions and events outside the organization that promote decline |
| External/general support for recovery | ESR | Actions and events related to industry or broader business context that support organizational recovery / act against decline |
| Retrenchment action | RA | Actions and events that generate short-term cash flow and profit improvement such as cost cuttings, asset reductions, divestments, production eliminations, and head count cuts |
| Recovery action/decisions | RD | Actions and events that attempt to eliminate or cope with the causes of decline. May include same actions as those related to retrenchment |
| Financial action/support | FS | Actions and events of the organization or a stakeholder that provide/seek financial support for retrenchment and/or recovery. Debt-based and equity-based options |
| Management replacement/change | MC | Actions and events related to management changes both in operational (e.g., plant manager) and strategic (e.g., CEO) level |
| External reaction to decline | ERD | Actions and events of external stakeholders (other than managers or employees of the organization) as a response to the observed decline |
| Internal awareness of decline | IAD | Actions and events of managers related to the observation of the organizational decline |
| Understanding of the crisis situation | UC | Actions and events related to the understanding of the actual crisis |
| Evaluation of recovery strategy | ERS | Actions and events related to the evaluation of the causes of the decline/crisis and planning of future business |
| Retrenchment effects | RE | Actions and events indicating evident positive results of retrenchment actions |
| Recovery results | RR | Actions and events indicating evident recovery from the decline/crisis and thereby successful turnaround |

In sum, this suggested preliminary structure, mostly derived from the previous literature, is presented in order to guide the examination of the cases and to help to abstract and conceptualize concrete actions and events in the historical narratives in theoretically meaningful terms. Thus, as already discussed, the purpose of this outline is not to determine the research findings. Rather, it defines the way of seeing, where to look and what kind of factors it may be relevant to look for. In fact, it provides the essential basis to move towards explanation with causal mechanisms in the context of the organizational decline and turnaround process.

Part III
Analyses

Chapter 6

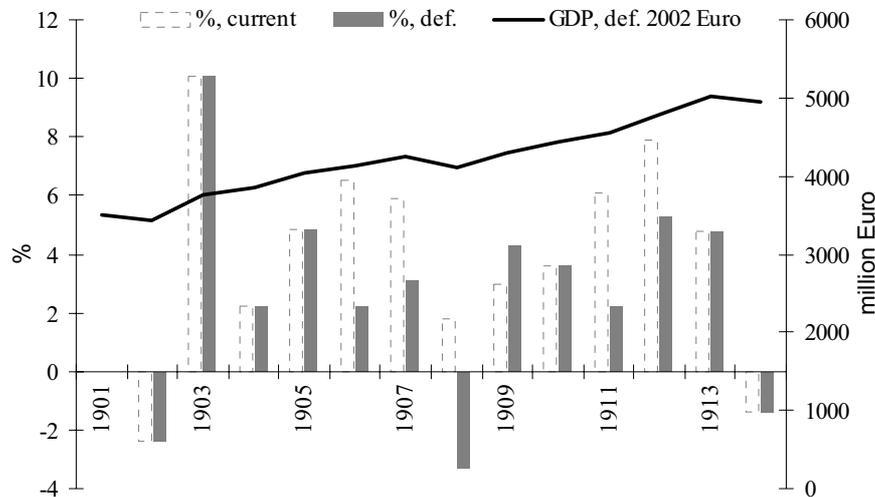
Kymi Corporation

Organizational Context and Performance

This analysis of the decline and turnaround process of Kymi Corporation, as well as the analyses of Walkiakoski and UPM presented in the following chapters, follows the structure outlined in the methodological procedure. However, before describing the historical narrative extending from 1904 to 1913, I briefly describe the economic and industrial contexts as well as present the main indicators and parameters regarding the financial and production performance of the firm during the process. As a result, the first sections of each case provide the institutional and financial frames for the discussion that follows.

The 20th century started in Finland with a minor economic depression. In 1902 GDP even decreased compared to the previous year, but as Figure 7 illustrates, 1903 was already a year of exceptional growth. In terms of current rates the positive development continued until 1914. According to the deflated prices, however, 1908 broke the growth trend. The economic downturn had started from the USA and influenced Finland's export to Western countries (Halme, 1952; Pihkala, 1969). However, the decline was short and did not have far-reaching consequences. The term "depression" would, indeed, be an exaggeration in this case. In spite of these short drawbacks, the average annual growth of GDP in 1902—1913 was 3.1 percent.

Figure 7. Finland's GDP: Development and Annual Growth 1901—1914



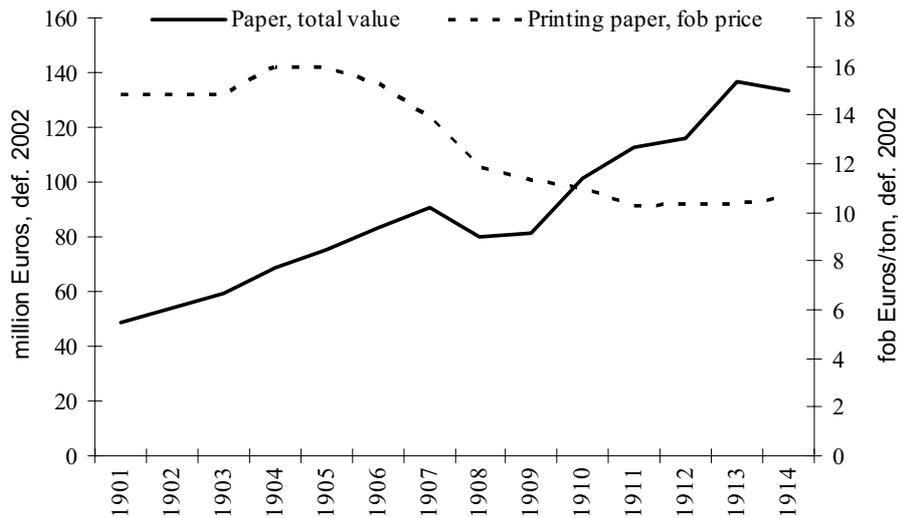
Source: Hjerppe, 1988.

In the pulp and paper industry the development largely followed that of the national economy. As Figure 8 demonstrates, the only negative year in exports was 1908, when the value of paper sold abroad fell by 12 percent. The drawback was rather the consequence of declining prices than decline in demand, since the quantity exported continued to increase. Despite the one poor year, the average annual growth of paper exports was about 9.4 percent during the period 1902—1913. Accordingly, in comparison to the development of GDP, the trend in the pulp and paper industry was much more expansive. In fact, the industry's share of the national income doubled in that period. Another distinctive characteristic for the period, as Figure 8 shows, was the decline of paper prices that started in 1906 and did not level out until 1911. However, after 1908 the downturn was relatively modest. Altogether, the external economic environment for successful business was fairly favorable.

The development of Kymi Corporation's profits and rates of returns (Figures 9 and 10) provides clear indicators of how the decline and turnaround appeared regarding the financial performance of the organization. As both of the figures illustrate, the decline reached nadir in 1907 and 1908, although 1905 had already been difficult. In other words, the firm was distinctly unprofitable before the occurrence of the general downturn in the national economy and export industry. Of course, the poor business cycle did not ease the situation. After two years of loss making, Kymi returned to the positive side of the break-even point in 1909. The financial recovery continued until 1912, when the firm suffered a temporary decline in profits and rates of return. However, in 1913 the results were better than ever before. The short regression in 1912 was more likely due to firm specific reasons than to external influences since the paper

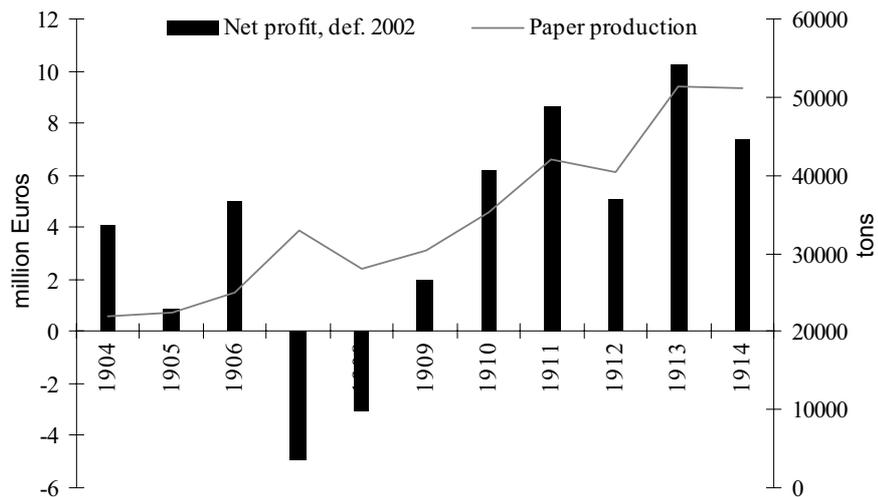
exports in Finland improved in that year although the annual increase was more modest than in previous years.

Figure 8. Value of Finland's Paper Exports and FOB Prices of Printing Paper 1901—1914



Sources: Statistics of the foreign trade (Ulkomaankauppatilasto), SVT; Pihkala, 1969.

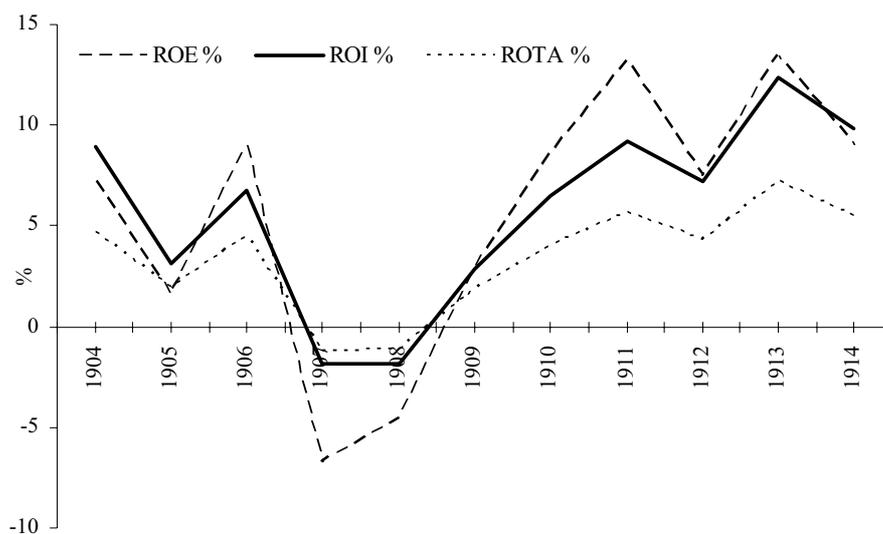
Figure 9. Kymi's Net Profit/Loss and the Amount of Paper Produced 1904—1914



Source: Internal financial and production accounts of the firm, AKC.

As the production quantities in Figure 9 demonstrate, the amount of paper produced increased markedly in 1907. This occurred at the same time that the firm's profitability was in sharp decline. The quantity of manufactured paper diminished in 1908, but was still on a higher level than in 1906. However, the production did not exceed the level of 1907 until 1910. If compared to the total amount of paper produced in Finland, Kymi produced 32 percent in 1905, 29 percent in 1908, 27 percent in 1910, and 31 percent in 1914. In the period 1905—1910 the quantity of paper produced in Finland increased by 83 percent, while during the same period Kymi was able to increase its production only by 56 percent. However, in the period 1910—1915 the growth rates were respectively 44 and 74 percent.²⁰ Accordingly, in terms of production increases, during the decline and at the beginning of the turnaround the development of Kymi was under the national average, but as the turnaround process continued the opposite became true.

Figure 10. Kymi's Rates of Returns 1904—1914



Source: Internal financial accounts of the firm, AKC.

In terms of quick ratio, the liquidity of the organization was on a poor level only in 1908. In 1913 it was already clearly above the good level. The current ratio was somewhat better than the quick ratio.²¹ Altogether, the organization's liquidity developed positively after 1908. The equity rate of Kymi was not a problem since it was at a satisfactory level even during the worst decline.²² Overall, according to the financial

²⁰ Statistics of foreign trade, SVT.

²¹ These parameters concerning the liquidity are only rough estimates since the accounts are inaccurate as to whether the loans were shorter or longer than one year.

²² Although the equity rate remained at a satisfactory level, it was weaker than, for example, in Schauman. See Schybergson (1983).

parameters, the main difficulty of the organization was profitability, although neither the liquidity nor the equity rates were good.

Historical Narrative

1904 – 1907

After the merger, Rudolf Elving became the chairman of the board of directors and the biggest owner of the firm. Although each of the three factory combinations had their own managers and the firm had a nominal CEO, Elving had full control over all decisions, both minor and major, in the corporation. One of the main reasons for the merger had been to achieve economies of scale in production. In the new Kymi Corporation Elving immediately continued this expansive ideology. For example, after his first visits to the Kymi factories, Elving declared that only one of the three paper machines was suitable for production and capable of competing with modern paper machines. His views on the other factories were similar. Elving could not find any other rational choice than to start a major investment program.²³

Elving's specific investment plan included, among other things, three new paper machines for Kymi as well as several calenders, cutting machines, beaters, and other extensions to all factories. The first paper machine was immediately ordered in the summer of 1904 and was started up in April 1905.²⁴ Another similar machine was ordered in November 1904 and was in production at the end of November 1905. The third one, a new tobacco paper machine, was ordered in November 1904 too but did not start up until the third of April 1906.²⁵ As a whole, this meant that Kymi paper mill was totally rebuilt. Moreover, other extensions and repairs were executed in 1904 and 1905. For example, one of Kymi's old machines was transferred to Voikkaa and new cookers were acquired for the Kuusankoski and Voikkaa pulp mills.²⁶ These investments were mainly financed by bank loans, but also personally by the main owners, the Dahlström's brothers (the previous owners of the Kymi factories) and Elving himself.

The autocratic decision-making and investment policy of Elving did not please everyone. After the merger, Oscar Kirchner, the former CEO of Kuusankoski, was appointed for nominal CEO of the Kymi Corporation.²⁷ Kirchner, however, had to resign already in the fall of 1904 due to the major disagreements with Elving. In fact, it is argued that Elving explicitly declared that Kirchner did not have any right to take part in the top decision making of the organization. Moreover, during this conflict, Elving

²³ Report of Elving's visit in 1904, AKC. See also Hoving, 1947: 114–117.

²⁴ Board of directors 6.6.1904 § 5, 27.4.1905 § 2, AKC.

²⁵ Board of directors 20.11.1904 § 1; Annual General Meeting 29.5.1906 § 2, AKC.

²⁶ Board of directors 6.6.1904 § 4, 30.1.1905 § 3, AKC.

²⁷ Kirchner's official title was not CEO, but manager of the factory office.

dismissed the factory manager and all the clerical employees of the Kuusankoski factories.²⁸

Another acute dilemma was the claims of the workers concerning the working hours legislation. This movement culminated, as everywhere in Finland, in November 1905 in General Strike. However, these problems were rather trivial when compared to what happened on the first of July 1906, when the fire at Voikkaa destroyed three paper machines, all the calenders, cutting machines, and a large stock of paper. Despite the fact that the damage was extensive, Elving decided that the burned factory had to be repaired without any delays and all the destroyed machines had to be replaced. The insurance compensated some of the damage, but the firm had to borrow considerable sums of money and arrange a privileged subscription of shares.²⁹ The reconstruction made great strides and the first of the three new machines was ready in February 1907 and the two others in May.³⁰ In spite of the huge sums of money spent on investments and repairs, Elving acquired large stands of forest in 1906 and 1907 in order to ensure the supply of raw material and firewood.³¹

By the late spring of 1907, the whole factory was restored and the new machines were operational. However, at the time the firm was already facing new problems in the form of a dispute about working hours. An agreement on an eight-hour working days (previously twelve hours) with the same daily wages as before solved the first issue in March.³² According to the contract Kymi and Kuusankoski mills would start the eight-hour working day not later than in November 1907 and Voikkaa in January 1908. The decision also meant that Kymi Corporation seceded from the employers' association of Finland's pulp and paper industry.³³ At the time of the agreement, the demand for paper in Russia was keen, thus Elving believed that secession would not have serious consequences. However, during the fall the situation changed. There had been a poor harvest in Russia that caused difficulties around the country. This, among other things, led the Russian government to strengthen the policy of censorship and to close down several newspapers. Moreover, there was an explicit downturn in the world economy, even if its direct consequences to Finland were slight.

Regardless of the deteriorating situation, the firm did not instantly reduce its manufacturing volume. As a consequence, the paper stocks in Russia increased day after day. This would not have caused problems if the business cycle had soon changed, but

²⁸ Hoving, 1947: 121. Richard Becker replaced Kirchner.

²⁹ In 1906 and 1907 the Kymi Corporation took out bond loans to a total of FIM 9 000 000 and executed a share issue worth of FIM 1 000 000.

³⁰ Board of directors 6.7.1906 § 1; Annual General Meeting 30.5.1907, AKC.

³¹ E.g., Board of directors 7.1.1907 § 2; 6.8.1907 § 7, AKC.

³² Kymi Corporation was the first industrial company in Finland to accept workers' demand for an eight-hour working day. This decision caused an intense debate in Finland's industrial spheres and also forced other firms to follow the example of Kymi Corporation.

³³ Board of directors 14.4.1907 § 1, AKC.

no quick recovery came about.³⁴ Not until in December 1907, was the decision made to discontinue paper production in the Kymi factory and to reduce pulp production.³⁵ At the same time Elving was again forced to apply for a new loan from the banks and to float new priority shares.³⁶

The firm received a loan from the banks. However, it was used up as early as in the beginning of 1908. Negotiations continued with the different banks, including the Bank of Finland, but did not lead to any solution. As the crisis deepened, the biggest banks were no longer willing to keep the Kymi Corporation afloat with extra finance—the firm had simply become too big a risk.³⁷ In January 1908 a question arose if the operations of the firm should be closed down.³⁸

1908 – 1909

In the beginning of February 1908, Albert Snellman as a representative of the creditors asked if Gösta Serlachius would be willing to be included in the investigation of the Kymi Corporation situation together with Snellman and Gösta Björkenheim. Serlachius's response was positive. As a result, during February the group of three experts made a thorough investigation of the firm's state of affairs and future prospects. The results showed that Kymi was, indeed, in serious difficulties, but also that it had chances for profitable production and that it deserved the support of the banks.³⁹ Therefore, on the third of March 1908, the creditors decided to take charge of the firm and officially declared that all its payment transactions should be discontinued.⁴⁰ Plainly, the firm had been taken under the administration of the creditors. The official announcement aroused a public debate in the newspapers. The critics wondered, for example, how megalomaniac the previous management had actually been and how different the true situation was from that officially stated.⁴¹

Creditors' intervention included an extensive rescheduling program of the old loans and payments as well as a new credit program to keep the business ongoing. Altogether, the consortium of Nordbanken (the biggest one), Privatbank (second), and Åbo Aktiebank (third) pledged to give a loan of FIM 3 000 000 (€ 9 891 014, def. 2002). Similarly, the Bank of Finland made over the whole FIM 3 000 000 in three installments (March, April, and May) including the needed cash credit. While the representatives of the Bank of Finland were not totally satisfied with the arrangement, they accepted the

³⁴ Ahvenainen, 1972; Hoving, 1947; Normén, 1928; Talvi, 1972, 1979, 1987. Talvi presents the same facts in each book. The volume from the year 1979 is the most comprehensive. However, even in this book he does not have archival references. Actually, he states that he has not used (or in fact found) records of the board of directors and therefore basically repeated what the earlier research has found (Talvi, 1979: 132).

³⁵ Board of directors 18.12.1907 § 1, AKC.

³⁶ Board of directors 13.10.1907 § 3, AKC.

³⁷ Annual report of the directors 1908, AKC.

³⁸ Board of directors 7.1.1908 § 1, AKC.

³⁹ Annual report of the directors 1908, AKC. Normén, 1928: 141.

⁴⁰ Circular for the creditors 7.3.1908, AKC.

⁴¹ Hoving, 1947: 138–139.

contract without further negotiations and clarifications because such events “might endanger the existence of the organization... and lead to severe social and economic conflicts.”⁴²

According to the creditors’ and shareholders’ decision Gösta Björkenheim, Gösta Serlachius, and Gustaf Langenskiöld were appointed to manage the firm. Björkenheim became the chair of the board of directors and Serlachius the vice chair.⁴³ The board of directors also included the counselor of commerce (kauppaneuvos) Ernst Dahlström (a big owner), the former senator Julian Serlachius as a representative of all creditors, as well as consul Albert Goldbeck-Löwe and the engineer Ivar Lindfors chosen by the non-preferred shareholders. Only Dahlström and J. Serlachius had been members of the retiring board. On the fifth of March, before the appointment of the new managers the former chairman of the board, Rudolf Elving, resigned. However, he was still one of the main owners.⁴⁴

The new management team or “the administrators” as they were entitled, received full authority to manage the firm. The only predefined instructions in their assignments were that they would not be allowed to construct new buildings or mills and they should be most frugal in their activities. Neither had they predetermined roles in the management team. In practice, Langenskiöld concentrated on legal matters while Björkenheim and Serlachius were responsible for other matters. In addition to these managerial changes, the factory manager of Voikkaa was dismissed.⁴⁵ None of the new managers, however, lived near the mills and all of them also had other commitments.

⁴² Creditors’ meeting 23.3.1908 § 4, 5; Board of directors 20.3.1908 § 1; 12–13.4.1908 § 1; 29.5.1908 § 2, AKC. Records of the Parliamentary Trustees of the Bank of Finland 24.3.1908 § 1, ABF. Author’s translation.

⁴³ Gösta Björkenheim started his business career in 1883 in the service of Hackman & Co. A few years later he traveled to work and study in Germany, France, and England. As a result, he gained an excellent knowledge of languages. After his return to Finland, Björkenheim worked for a while as a manager of Vientiyhdistys association but already in 1893, when he was 27 years old, he was made CEO of Kaukas (a large forest industry company). As of 1903, he was a member of Nordbanken’s administrative board and as of 1908 the chairman of the same organ (Hoving, 1947: 142; Heikel, 1922: appendix; Kansallinen Elämäkerrasto 1927: 254–255).

⁴⁴ Gösta Serlachius matriculated in 1895. He subsequently studied two years of law at university, but did not graduate. Nor did he have a formal engineering education. However, Serlachius traveled to Britain in 1897 for a long period of study and training. In the period 1902–1903, he studied paper technology and machine industry at the Technologisches Gewerbe-Museum of Vienna in Austria. Serlachius also traveled around the United States 1903–1904, where he gained further new ideas and worthwhile skills for the paper industry and business management. During these periods, he had also acquired excellent language skills. He communicated fluently in English, German, and Swedish. These were the languages also needed in Kymi’s business. In addition, Serlachius had familiarized himself with different industrial organizations, the most modern ideas, and a vast number of important people. Serlachius had also practised paper factory management in his uncle’s firm in Mänttä for a period of four years but he was only a 28 years old when he assumed the role of CEO and turnaround manager of Kangas Paper Mill in 1904. Fellman (2000; 2001) found that the average age for appointment of industrial managers in Finland was 42 years at beginning of the 20th century. Thus, the managers of Kymi were clearly younger than an average industrial manager.

⁴⁴ Agreement of creditors 21.3.1908; Creditors’ meeting 23.3.1908 § 4, 5; Annual report of the directors 1908, AKC. Elving started to sell his shares, but in 1911 he was still an important owner.

⁴⁵ Agreement of creditors 21.3.1908; Creditors’ meeting 23.3.1908 § 1, AKC.

Accordingly, it soon became clear that the firm needed a CEO who would bear the responsibility for the management of all the mills and reside in Kuusankoski. This assignment was offered to Gösta Serlachius in the spring of 1908, but Serlachius was not willing to take it because of his other responsibilities.⁴⁶

The financial arrangements with the banks were the main issue during March, but already in April the members of the management team were able to fully concentrate their efforts on the other concrete questions in the firm. The investigation in February had already shown that the accounting system of the firm suffered from serious deficiencies. Thus, Serlachius decided that they had to reorganize the entire system. Carl Lindvall was employed to do this together with Serlachius and Björkenheim.

Figure 11. Number of Workers in Kymi 1905—1916



Source: Employee statistics and wage books of Kymi, AKC.

The new system was introduced in August 1908.⁴⁷ However, already at the beginning of April all factories were instructed to present daily reports of the sales prices and manufacturing costs for every quality of paper they had produced. This improved the managers' ability to evaluate, for example, what the most economical qualities of paper were for different machines. Indeed, the managers soon realized that some of the machines were used to manufacture inappropriate papers that would have been produced much more efficiently and with better quality on other machines. These simple changes promptly improved the efficiency of the manufacturing process. At the

⁴⁶ Annual report of the directors 1908, AKC.

⁴⁷ Board of directors 12–13.4.1908 § 6; 17.8.1908 § 6, AKC.

same time, they considerably reduced the number of different grades of paper the firm was manufacturing.⁴⁸

The agreement on the eight-hour working day complicated the execution of the labor cost cuts. However, already in April, Björkenheim and Serlachius laid off several engineers and office workers.⁴⁹ By and large, the managers explicitly stated that their intention was to reduce the number of factory workers to a minimum.⁵⁰ As Figure 11 shows, the job cuts were substantial in 1908 and 1909, when almost a thousand workers lost their jobs. The managers were not totally inhuman since the dismissed workers were allowed to continue living in company housing if they were already living there. This also served the company's purposes as a form of a labor force reserve. Moreover, since 1909, the firm began to systematically improve the services and living conditions of the workers.⁵¹

The employment contract with the workers also made it more difficult to implement wage reductions, although the management tried to find all possible legal loopholes. In the case of the Voikkaa timber mill Serlachius acted more outspokenly by stating that they would with impunity reduce the workers' wages by at least ten percent since the stocks were full of all kinds of timber—the consequences of a small strike would not be serious.⁵² On the one hand, the wage policy was not coherent throughout the organization in view of the fact that wage rises were implemented among the managers, the office workers, and the engineers.⁵³ On the other hand, this represented a way to improve the commitment and working motivation of the key personnel. Altogether, the income level of the workers (for example at the Kuusankoski pulp factory) was clearly lower than, for example, the average income level of the factory workers in the Tampere region.

Building on the wage statistics of the factories located at Tampere region in the beginning of the 20th century, Haapala presented a four-step income level classification where the group of low-income consisted of those earning between FIM 400 to 800 per annum (about € 1600 to 2600, def. 2002).⁵⁴ Most of the factory workers at the Kymi Corporation belonged to that group and the rest to the next group (FIM 800–2000; € 2600–6600) of workers who earned comfortably.⁵⁵ Finally, in November 1909, when

⁴⁸ Annual report of the directors 1908, AKC. According to Norrmén (1928), Serlachius decided to cut the amount of different tints available for newsprint from 40 to only three. This, of course, considerably reduced the production costs because the machines had to be adjusted every time for every shade. Unfortunately, neither the records of board and creditors' meetings nor the correspondence clarifies when this change was implemented and what the customers' reactions were. Nor does Hoving (1947) mention this change. The annual report of the managers, however, explicitly states that they tried to reduce the different sorts of paper to a minimum.

⁴⁹ Board of directors 12-13.4.1908 § 9, AKC.

⁵⁰ Björkenheim to the factory office 18.9.1908, AKC.

⁵¹ Board of directors 1.7.1909 § 24; 27.7.1909 § 1, AKC.

⁵² Serlachius to Björkenheim 6.2.1909; Serlachius to the board of directors 30.4.1909, AKC.

⁵³ E.g. Board of directors 29.5.1908 § 9; 1.7.1909 § 24, AKC.

⁵⁴ Haapala, 1986.

⁵⁵ Wage books of the Kuusankoski pulp factory 1906–1914; Board of directors 14.6.1909 § 3; Haapala 1986: 232.

the term of the eight hours agreement was over, the organization immediately returned to the twelve-hour working day. Despite the fact that there was a considerable risk that the workers would strike, the change turned out to be peaceful. Not until in the summer of 1912 did the workers go on strike.

A third series of events also started in April 1908 with the aim of renegotiating the contracts with sales agents both in Finland and abroad as well as reorganizing the sales districts in order to make the sales system more controllable.⁵⁶ However, the first new contracts were not made until August 1908.⁵⁷ The reorganization continued during 1912 and finally culminated in 1916 when the mill's own sales company was founded in St Petersburg. During the negotiations with the agents in the summer of 1908, the managers emphasized that they could not afford to take excessive big risks and that the agents should work as carefully as possible. Björkenheim also clarified the basic lines of their future sales policy that included, first of all, reductions of the stockpiled paper, increasing of the sales volume, accurate and fast payments and, finally, a gradual increase in prices.⁵⁸ The last one is particularly interesting since they did not try to beat down the prices. This, of course, did not mean that they would not sell the paper from the stocks at a reduced price. In fact, in the fall of 1908, the management determined that they could sell the paper stocks in Russia at as much as 25 percent below the cost price if necessary.⁵⁹

The fourth broad issue that the new management started to consider in April 1908 was possible cooperation or the formation of a common price agreement with other Finnish paper mills selling paper to Russia. The first goal was to found a committee to lay out a program that would describe in detail the issues concerning prices, stocking, and terms of payment.⁶⁰ The preliminary thoughts of competitive advantages that the collusive behavior in international markets might bring along to the Finnish pulp and paper industry were already presented in the end of the 19th century. The Finnish Paper Association, for example, was founded in 1892. Kymi Corporation was also aware of the benefits of collusive agreements since it had made a two-year contract in 1906 with other newsprint producers concerning the sales quotas on the Finnish markets. The new management believed that a renewal of this agreement was necessary. As a result, a new agreement came into effect in October 1908.⁶¹ The contract was successfully renewed after a year.⁶² The agreement concerning the Russian markets was more complicated

⁵⁶ Serlachius to the board of directors 29.1.1909; Board of directors 21.2.1909 § 6.

⁵⁷ Board of directors 12-13.4.1908 § 3, 4; 17.8.1908 § 3, AKC.

⁵⁸ Björkenheim to Haydenwurzel 19.6.1908; Björkenheim to Neander 28.7.1908; Björkenheim to Fichtenberg 28.7.1908, AKC.

⁵⁹ Board of directors 17.8.1908 § 6.

⁶⁰ Board of directors 28-29.4.1908 § 4, AKC.

⁶¹ Björkenheim to Tammerfors Papperkontoret 14.10.1908; Björkenheim to the firms of the syndicate 17.10.1908; Board of directors 30.10.1908 § 13, AKC.

⁶² Björkenheim to various firms 4.9.1909; The contract document 28.9.1909; Board of directors 10.10.1909 § 4, AKC.

and did not lead to such a straightforward solution as in the domestic market. In any case, this was a start for forthcoming negotiations.

In addition of the above-mentioned issues, the management team started technical improvements in the mills during the summer of 1908. Because of the creditors' request that the management should try to be as cost-effective as possible, Björkenheim and Snellman, for example, arranged bidding competitions for the machine suppliers.⁶³ However, the biggest open issue was what they should do with the closed Kymi mill. In August 1908, the first paper machine and the pulp factory were planned to be restarted. In fact, Björkenheim was convinced that they should try to restart the whole mill as soon as possible. This, of course, necessitated an increase in order volume. According to Björkenheim, they should monitor the development of the paper markets in Russia very closely and gradually restart the machines. Most importantly, they could no longer produce papers to be held in stock. The agents were likewise ordered to accept only direct orders so that the managers could control the manufacturing processes more carefully. After the negotiations with the agents and the creditors, the first of Kymi's paper machines was finally started in September. This was followed by the decision to continue pulp production, but using only half of the factory's capacity.⁶⁴

The issue regarding a competent chief executive officer to bear the responsibility for the management of all mills and live in Kuusankoski, was resolved in November 1908, when Serlachius started as CEO. Serlachius had earlier refused to accept the appointment, but during the summer he changed his mind. As a result, Serlachius negotiated an agreement in October that, in spite of being the CEO of the Kymi Corporation, allowed him to continue in his other leading positions in the paper mills of Mänttä, Kangas, and Leppäkoski. These connections were not considered to be obstacles because Serlachius asserted that the firms were not the direct competitors of the Kymi Corporation despite the obvious fact that some of them actually produced similar grades of paper.⁶⁵ Even supposing that this was no problem in 1908, in 1912 it became one of the main reasons why Serlachius had to leave Kymi. Nevertheless, a direct consequence of the appointment of Serlachius was that the turnaround process became more production and development oriented.

Serlachius had gained knowledge of paper mills and general management around Europe and the USA. In the Kangas Paper Mill during the period 1904–1908 he had an excellent opportunity to try his skills in practice and Kymi provided a second challenging arena to apply his knowledge and ideas. His first matter-of-fact decision as CEO was to see if coal heating was cheaper than wood. The price of the raw wood had increased in 1908. Thus, there was a clear justification to seek ways of cutting fuel costs. Serlachius found that heating by coal was 17 percent cheaper than wood and

⁶³ E.g. Björkenheim to H. Haydenwurzel 29.6.1908, AKC.

⁶⁴ Board of directors 8.8.1908 § 3; 17.8.1908 § 11; 14.9.1908 § 1; 30.10.1908 § 9; Björkenheim to Neander 18.9.1908; Björkenheim to E. Dahlström 27.8.1908. Björkenheim instructed that the restarted machine should be run by a minimum number of workers.

⁶⁵ Board of directors 30.10.1908 § 8; Björkenheim to Serlachius 31.10.1908, GS.

would thus produce obvious and needed savings. Consequently, in the spring of 1909, the mills at Kuusankoski and Kymi changed to British coal, which had become economical due to the improved steamship services.⁶⁶

Another production decision made by Serlachius and Björkenheim at the beginning of 1909 was to finish the manufacturing of kraft paper at Voikkaa. In fact, Serlachius had already suggested this in August 1908. This was a direct result of the improved cost accounting systems. Moreover, Serlachius had an opportunity to utilize the production calculations of Mänttä and Kangas. By benchmarking the costs of kraft paper manufacturing in Mänttä with those of Kymi, Serlachius became convinced that they had no other choice than to immediately discontinue production and concentrate on the other grades or even to close down the machine if they could not secure profitable orders.⁶⁷

Serlachius did not only focus on the production processes but also on sales and marketing. In February 1909, he made a personal visit to St Petersburg, Moscow, and Rostow in order to meet the important customers and inspect the paper stocks of the agents. In his report, Serlachius describes comprehensively the customers' wishes and complaints. Moreover, the discussions gave him more knowledge of the development and future prospects of the Russian economy and the political situation that influenced the prevailing state of affairs on the paper markets. As a result, he decided to extend the export by starting sulfate pulp trade to Russia via the agent Lindeberg. The visit also caused Serlachius to suggest further changes in the sales areas of the agents.⁶⁸

Although Russia was and continued to be the main market area for paper, Serlachius had a clear intention to extend the firm's clientele to more stable geographical areas, namely Germany and, in particular, Britain. Direct steamship services from Finland to London and Hull made it most rational to recruit sales agents from those cities. The export was established by selling the excess timber stocks.⁶⁹ In April 1909, a decision was taken to start the export of pulp and paper. The idea was, above all, to find new customers for newsprint. However, the quality standards in England were higher than in Russia. Therefore, several experiments were made with the aim of developing an appropriate quality of newsprint. Deliveries started in large quantities during the second half of 1909. In 1910 already 5.8 percent of the paper produced by Kymi was exported to Britain and by 1911 the amount had increased to 12.4 percent. The market price of newsprint in Britain was somewhat lower than in Russia. Thus, the total value of the trade was not as high as the share of the quantity. In all, focusing on a

⁶⁶ Board of directors 21.11.1908 § 3; 16.4.1909 § 4; 24.5.1909 § 1.

⁶⁷ Serlachius to the board of directors 10.7.1908 and 22.8.1908; Board of directors 30.10.1908 § 6; Björkenheim to Dahlström 28.1.1909, AKC.

⁶⁸ The travel report of Serlachius and Norrman 8–13.2.1909; Board of directors 21.2.1909 § 1, 4, AKC.

⁶⁹ Board of directors 21.2.1909 § 7, AKC.

restricted sales area is always risky for a bulk products manufacturer. Therefore, the extension can be seen as a farsighted strategic decision by management.⁷⁰

The demand for paper began to increase early in 1909. The so-called tobacco paper machine of the Kymi factory was immediately started up.⁷¹ The summer also continued favorably and in July a decision was taken to restart the third machine. Before that, however, Serlachius suggested that they should acquire a new motor for the machine in order to fully utilize its potential. During the summer and fall of 1909 another investment decision was made with the intention of improving the quality of papers as well as to make the production processes more economical.⁷² In fact, in the case of every investment proposal, Serlachius presented specific calculations of the costs and how much savings the acquisition or repair would generate.⁷³ The following quotation from Serlachius's letter to Björkenheim is a good example of his attitude:

“In order to save in all areas, I have thought that we could even ourselves manufacture the band iron we need, which we need in quite large quantities, and for this purpose I have provided cost estimates for a needed press ... Because there are several other mills that use considerable amounts of band iron, we might be lucky and find rather significant orders from elsewhere.”⁷⁴

Although Serlachius's idea regarding the band iron manufacturing hardly resolved any profound dilemma behind the crisis, it provides a clear illustration of the mental attitude prevailing in the organization in 1909. An interesting point is also that each of the factory combinations was developed rather evenhandedly. Evidently, one of managements' goals was to make the firm more coherent so that Kymi, Voikkaa and Kuusankoski would be in an equal position. In January 1910, for example, the managers decided to found a common engineering office that would serve the needs of all factories. Indeed, during the era of Elving, the obvious and recognized problems were that the cooperation between the different mills was far from smooth and that Elving often favored Voikkaa, which naturally caused bitterness among the workers and the managers of the other mills.

The band iron case was an example of the organization's mental attitude. However, more significant changes concerning the production processes were also introduced. Serlachius had already paid attention to the importance of the raw material costs and

⁷⁰ Serlachius to Björkenheim 24.4.1909 and 5.5.1909; Björkenheim to E. Dahlström 5.12.1909, AKC. See also Ahvenainen 1972: 60–62. Ahvenainen has described the process of starting the export to Britain. He emphasizes that it was a significant step for the firm. The quality of paper was appreciated in Britain. Thus, the Kymi Corporation had to invest in the high quality of manufacturing, with evidently good results.

⁷¹ Board of directors 11.5.1909 § 1, AKC.

⁷² Board of directors 21.2.1909 § 6; Board of directors 5.11.1909 § 4, AKC.

⁷³ Board of directors 11.5.1909 § 1; 1.7.1909 § 20–23, AKC.

⁷⁴ Serlachius to Björkenheim 26.11.1909, GS. Author's translation from Swedish.

therefore introduced coal heating. During the summer of 1909, he continued working around this issue and tried to find the most convenient solution how to minimize the wood fiber wastage caused by the bark stripping. The existing bark stripping machines produced a wastage percent of 25–30. Serlachius found out that manual bark peeling, although as such much more expensive, saved so much wood fiber that it was cheaper overall. In the next year, however, he was able to test a new American barking machine that reduced the wastage percent to 15–18. This apparently produced a better overall result than was achieved manually. Thus, in October 1910, the managers decided to order eight barking machines from the USA. An interesting detail is that at the same time Serlachius got the European agency of those machines, which increased his personal incomes.⁷⁵

In spite of the gradual improvement in the financial situation, the firm was still in need of external support.⁷⁶ In September 1909, the banks granted a new loan of FIM 800 000 (€ 2 637 604, def. 2002). Moreover, E. Dahlström personally financed the firm.⁷⁷ These loans were used to repair of the old paper machine at Kuusankoski which was idle due to a temporary but displeasing decrease in orders and other acquisitions and extensions in the other mills. Serlachius, for example, decided to improve the mills' internal and inter-factory transportation and communications.⁷⁸

1910 – 1911

The year 1910 also brought along some production changes. First, wood pulp manufacturing in Kuusankoski was discontinued and the employees of the mill dismissed. Conversely, an idle paper machine was started up in Kuusankoski and a new motor was acquired for one of the Voikkaa machines in order to increase output.⁷⁹

Concrete results were also obtained by installing fiber recovery units in the paper machines. In his fact-finding tours, Serlachius had become familiar with this device that enabled the recovery of pulp from the wastewater. The first pulp saver was installed in one of the Kuusankoski paper machines at the beginning of 1910. After discovering it more than useful in the Kymi mill, too, all the paper machines of the firm were equipped with Lambrée & Bestrands fibre recovery units in June 1911. The purchase costs of one device was about FIM 12 000 (€ 40 000, def. 2002), however, according to Serlachius's calculations, a single unit created saving around FIM 55 000–105 000 annually (€ 180 000–350 000, def. 2002), depending on the machine, which was, indeed, a substantial sum of money.⁸⁰

⁷⁵ Serlachius to the board of directors 17.7.1909; Board of directors 16.10.1910 § 6; Normmén 1928: 149–150.

⁷⁶ Björkenheim to Serlachius 6.9.1909, AKC.

⁷⁷ Björkenheim to E. Dahlström 22.12.1909, AKC.

⁷⁸ Board of directors 15.4.1910 § 18, AKC.

⁷⁹ Board of directors 15.4.1910 § 7, 8; Board of directors 28.5.1910 § 10, AKC.

⁸⁰ Board of directors 4.12.1909 § 4; 19.1.1910 § 7; 10.8.1910 § 7; 22.6.1911 § 9, AKC.

During the summer of 1909 Serlachius also got an idea for a collective logging company that would be founded together with the other four forest industry firms operating in the Kymi River area. Negotiations around this issue were prolonged to the next year and not until in June 1910 was the final decision on the new company made. The main purposes of the logging company were to acquire the needed timber for its members, reduce the cost of acquisitions, and at the same time avoid internecine competition. The needed financing was acquired from the banks that financed Kymi.⁸¹

The firm's financial situation and order volume improved during the spring of 1910 and finally in April a refunding plan was introduced. According to the plan, the firm would start gradual repayments of its loans. In his letter to Albert Goldbeck-Löve, Björkenheim wrote that if the creditors accepted the refunding plan the firm could be considered saved. Of course, there were plenty of risks, as Björkenheim also noted. Radical changes in Russian customs or unfavorable decisions by the banks could easily change the situation. However, the creditors were mainly satisfied with the refunding plan and it was approved in May 1910.⁸²

The implementation of the refunding plan required, in practice, that the firm had to show a constant profit and to continue the austerity policy. The increase in volume of orders was the corner-stone that enabled the stabilization of the firm's financial performance. In November 1910, the firm was able to repay a loan of FIM 800 000 (€ 2 670 972, def. 2002).⁸³ During the fall of 1910, the focused development of the mills continued in terms of machine acquisitions.⁸⁴ Additional funding for the acquisitions and loan payments was derived by selling land in Tampere.⁸⁵ Moreover, a redirection in the production was implemented in August 1910, when the management decided to discontinue tobacco paper manufacturing. This was a clear setback for the management because the machine had been repaired and adjusted for darker tobacco paper qualities in September 1909.⁸⁶

The year 1911 followed the same lines as the preceding year. Improvements were made in all areas and statistics.⁸⁷ As already described, several acquisitions and extensions were implemented in order to make the production processes more profitable.⁸⁸ Furthermore, in December, a big investment program for the year 1912 was launched. Its estimated costs were about FIM 500 000 (€ 1 570 000, def. 2002).⁸⁹ In the management, an important alteration was Björkenheim's decision to concentrate

⁸¹ Board of directors 1.7.1909 § 8 and 10.8.1910 § 2; Wolter Ramsay to Björkenheim 4.8., 5.8., and 6.8.1910; A letter from the banks 19.9.1910, AKC. See also Normén 1928: 146; Ahvenainen 1972: 54–55.

⁸² Björkenheim to E. Dahlström 9.4.1910; Björkenheim to Alb. Goldbeck-Löwe 16.4.1910; Alb. Goldbeck-Löwe to Björkenheim 21.4.1910. Annual General Meeting 1910, AKC.

⁸³ Board of directors 18.11.1910 § 5, AKC.

⁸⁴ Board of directors 18.11.1910 § 21–24, AKC.

⁸⁵ Board of directors 10.8.1910 § 6; 18.11.1910 § 15, 21–24, AKC.

⁸⁶ Board of directors 3.9.1909 § 6, AKC.

⁸⁷ Board of directors 22.6.1911 § 1, AKC.

⁸⁸ Board of directors 20.4.1911 § 21; 22.6.1911 § 1, AKC.

⁸⁹ Board of directors 14.12.1911 § 12. AKC.

exclusively on his assignment as the chairman of the board. Therefore, in December 1911, he resigned from his other assignment as CEO of Kaukas.⁹⁰

Already in 1908 Serlachius had discussed of a collusive contract for Russian markets with the other Finnish newsprint producers. Finally, in October 1911, such an agreement was concluded with the Tampere Paper Office. The contract was confined to sales quotas, but the selling was done by the firms' own agents.⁹¹ This also caused some problems because the agents were competing for the same customers. At the same time management decided to continue the reorganization of the agencies in Russia.⁹²

1912 – 1914

In 1912 intensive discussions were held as to whether other firms could join in the cooperation. Björkenheim's vision of the further cooperation was optimistic. However, he thought that it would be easier to arrange if the different mills were more specialized. Moreover, sales should be managed through the agents of Kymi and the Paper Office. The most promising new member was the Mänttä Paper Mill, which was accepted in late 1912. A more transparent consequence was that the discussions brought out the friction of Serlachius's deep involvements with Mänttä, Kangas, and Leppäkoski.⁹³

The state of affairs of Kymi, both financially and productionally, were already fairly secure in 1912. Neither were there any acute new threats. Consequently, the organization had managed to go through a successful turnaround. However, the close connections of Serlachius with the potentially competing companies brought new tension to the organization. In August Serlachius and Björkenheim had very open discussions of Serlachius's connections. Serlachius admitted that Mänttä, Kangas, and Leppäkoski were producing or starting to produce grades that in some circumstances would possibly compete with the products of the Kymi Corporation. However, Serlachius did not want to prevent this progression because he saw that it was necessary for these mills. He stressed that there existed no conflict of interests. The problem, as Serlachius saw it, was how he could divide his time and energy between the four firms. No matter what, Serlachius hoped that they could find some other solution than his resigning from Kymi. Björkenheim believed that Serlachius was able to work objectively, but the seeds of the disagreement were sown.⁹⁴

Finally, in December, the unexpected suicide of Albert Snellman catalyzed a series of events resulting in Serlachius having to leave the firm. Serlachius and Snellman had had a close friendship and business relationship for several years. In 1908, they had together bought the majority of the Leppäkoski Paper Mill's shares. Unfortunately,

⁹⁰ Board of directors 20.4.1911 § 21, AKC.

⁹¹ Board of directors 14.12.1911 § 1, AKC.

⁹² Björkenheim to Dahlström 22.12.1911, AKC.

⁹³ Björkenheim to Serlachius 16.8.1912 and 25.8.1912, GS; The Mänttä Paper Mill (G. S. Serlachius Aktiebolag) to Björkenheim 24.9.1912 and 29.10.1912, AKC.

⁹⁴ Björkenheim to Serlachius 16.8.1912 and 25.8.1912, GS. Serlachius to Björkenheim 9.10.1912; Björkenheim to Serlachius 12.10.1912, AKC.

Leppäkoski was not the most successful investment. In fact, the mill was making continuous losses. Snellman also had personal financial problems.⁹⁵ As a result, Snellman was in debt to a bank director Nils Idman. In December 1912, Idman was arrested for his part in the biggest financial deception in the history of Finland. The official police investigation did not show any concrete evidence to implicate Snellman in the deception. Nevertheless, Snellman decided to commit suicide.⁹⁶

The death of Snellman made the situation of Serlachius in Leppäkoski even more difficult. A loan of a half million marks was due to expire at the end of December, and Serlachius had now to bear the responsibility of Snellman's part of the loan, too. In his letter to Björkenheim on December 15, Serlachius tried to explain his difficult situation and asked if Björkenheim could give some words of advice. Björkenheim wished that Serlachius to continue at the Kymi Corporation. However, he made it clear that Serlachius had to make a decision between these two firms—he could no longer serve the interests of both Leppäkoski and Kymi—and this was a decision that Serlachius had to make himself.⁹⁷ Serlachius had profound difficulties in accepting these terms as he clearly described in his letter to Langenskiöld few days later.⁹⁸

After Christmas 1912, Serlachius received a letter from Nordbanken, which was also the biggest creditor of Leppäkoski and Mänttä. The letter outspokenly stated that Serlachius should leave Kymi and concentrate on the management of Mänttä and Leppäkoski. Otherwise Leppäkoski may well go bankrupt and be sold off. Neither did the bank approve a new loan for Leppäkoski that would have solved the most acute problems. Moreover, Nordbanken declared that, due to the departure of Snellman, the Mänttä Paper Mill was in need of a competent and energetic management and this issue should be managed either so that Serlachius would move to Mänttä or that he would arrange the issue in a way that satisfied the bank.⁹⁹ The result of the process was in accordance with Nordbanken's wishes. The resignation of Serlachius meant that Björkenheim became the CEO of the firm. For Serlachius these events were personally tough and as late as in January 1914, he wrote several bitter letters to Langenskiöld and urged to know what were the real motives behind his resign and why the process had gone as it did.¹⁰⁰

The financial result of the firm's operation in 1912 was to some extent weaker than the year before. Since the disorder of the management did not occurred until the end of the year, this process could not have a substantial influence on the firm's performance

⁹⁵ Contrary to what is stated in the previous literature (see Normén, 1928; Hoving, 1947; Ahvenainen, 1972), Serlachius was well aware of Snellman's problems. In his letters to Serlachius, Snellman explained that he had both financial and health problems. Snellman also asked if Serlachius could lend him some money.

⁹⁶ Pipping 1962: 136–145.

⁹⁷ Serlachius to Björkenheim 15.12.1912; Björkenheim to Serlachius 16.12.1912, GS.

⁹⁸ Serlachius to Langenskiöld 19.12.1912, GS.

⁹⁹ Nordbanken to Serlachius 24.12.1912, GS.

¹⁰⁰ Serlachius to Langenskiöld 30.12.1913; 8.1.1914, and 24.1.1914; Langenskiöld to Serlachius 6.1.1914 and 18.1.1914, GS.

indicators. Moreover, the overall result from 1913 was again on a positive track. Therefore, it is evident that the turnaround process had clearly been successful in transforming the underlying structures of the organization. However, the formal suggestion to end the creditors' administration was not made until June 1914, just before the outbreak of the First World War.¹⁰¹

Identification of the Entities and their Influence

Following the influence identification model described in Chapter 4, I now seek to provide an analysis of how the influence of Kymi's stakeholders developed through the whole period and thereby define those entities that had capabilities to activate functional components of mechanisms. As regards to graphical illustrations of the network positions of stakeholders, they describe the prevailing situations until 1907 (the decline had already started) and since 1908 (the explicit turnaround was ongoing). Altogether, these two reference-points highlight the main changes occurring in the influence of the stakeholders.

Resource Dependence Based Influence

Owners and creditors. According to the direct resource dependencies, the owners and creditors were in a central position throughout the whole decline and turnaround process of Kymi. During the first years of the new organization, and hence during the period of the accelerating decline, one of the main owners and the actual leader of the firm, Rudolf Elving, had significant influence over all decisions in the organization. Elving, besides possessing the best knowledge of the whole firm, holding its shares, and partly financing its operations, was able to control the allocation of resources inside the organization. Therefore, in the period 1904—1907, Elving most evidently possessed a *high* degree of resource dependence based power with respect to the organizational survival.

Other owners and creditors also had noteworthy resources already in the period 1904—1907, but compared to Elving their resource dependence based power was clearly less. The brothers Ernst and Magnus Dahlström were the second biggest owner group by holding together 24.6 percent of the firm's stock after the merger (Elving's share was 25.9 percent in 1904).¹⁰² Altogether, no one did have a majority holding of the stock, although the Dahlströms and Elving together formed such a coalition. However, like Elving, the Dahlströms were not only owners but also financed and guaranteed the loans required in the implementation of the investment projects. For example, in 1906, they supplied a financing bill of FIM 1 500 000 (€ 5 346 637, def.

¹⁰¹ Board of directors 12.6.1914 § 2; Nordbanken to Kymi 10.6.1914; The Bank of Finland to Kymi 29.6.1914, AKC.

¹⁰² Share register from the year 1904, AKC.

2002).¹⁰³ In addition, they had formal membership positions on the board of directors. Accordingly, the Dahlströms had *highly* important resources to influence the organizations' operations during the period 1904—1907. The shares of the other owners were so small that, *de facto*, they did not possess noteworthy resources over the organization.

The resource dependence based influence of the external creditors was low or moderate until 1907. Nevertheless, the power of the banks, as a result of the growing financing of the investments, increased year after year. As described in the historical narrative, new machine investments, forest acquisitions, and the reconstruction of the Voikkaa paper mill were largely financed by external credits. Therefore, during 1906 and 1907, the organization became much more dependent on the Bank of Finland (BF) and the group of commercial banks: that is, Nordbanken (NB) (officially known as Pohjoismaiden Osakepankki kauppaa ja teollisuutta varten or Nordiska Aktiebanken), Privatbanken (PB), and Åbo Aktiebank (ÅA) (Turun Osakepankki). The most important creditors of these commercial banks were, in order, Nordbanken, Privatbanken, and Åbo Aktiebank. Altogether, the resources of these three banks and the Bank of Finland were at least *moderately* important for the business operations of Kymi 1904—1907. During that period the firm also received credit from Aktiebank (Suomen Yhdyspankki), but compared to the above banks the sums were so small that the influence of Aktiebank was minor.

Regarding the resource dependence based power of the owners and the creditors, the situation obviously changed in 1907 and 1908. The firm became heavily dependent on the external creditors when Elving tried to ensure the continuation of normal operations of the organization. Finally, in 1908, a coalition of the creditors, led by the Bank of Finland, Nordbanken, Privatbanken, and Åbo Aktiebank, took the firm under administration and at the same time provided a considerable sum of new credit. Thus, the organization became *highly* dependent on the resources of these creditors. Åbo Aktiebank's share of the credits was clearly lower. Therefore, its resources were more likely to be only *moderately* important.

At the same time as the creditors' resource dependence related power increased the power of Elving decreased. Elving lost his position as an autocratic owner-manager but still remained a major owner. In all, the importance of Elving's resources was no more than *moderate*. The Dahlströms also remained the main owners throughout the whole turnaround period. The organization was no longer dependent on them as guarantors, but the Dahlströms still personally financed the firm. Indeed, the short-term loans supplied by Dahlströms provided the needed flexibility for the business transactions and, most importantly, the firm did not always need to turn to the banks although, as noted, E. Dahlström was also the representative of Åbo Aktiebank.¹⁰⁴ Ernst Dahlström retained his position in the new board of directors but Magnus was not nominated.

¹⁰³ Hoving, 1947.

¹⁰⁴ See e.g., Björkenheim to E. Dahlström 22.12.1909 and 22.12.1911, AKC.

Accordingly, the organization's dependence on the Dahlströms' resources diminished but can still be considered *moderate*.

Managers. In 1904—1907 the management of the firm was basically in the hands of Elving. However, after the creditors' intervention the structure of the organizations' management changed and the new managers—Serlachius, Björkenheim, and Langenskiöld—became important stakeholders. The creditors did not officially predefine the responsibilities of the managers and the board members, but in practice the managerial power was directly delegated to the vice-chairman, Serlachius, and the chairman, Björkenheim. These two also turned out to be the most central individuals in the turnaround process. Björkenheim was also the CEO of Kaukas, a stockholder of Kangas Paper Mill, a member and then the chair of Nordbanken's administrative board, and one of the creditors' representatives in the administration of Kangas Paper Mill (Nordbanken was also the main creditor of Kangas and Kaukas). Accordingly, Nordbanken was clearly behind the appointment of Björkenheim, but the bank also supported Serlachius's nomination since Serlachius had been leading the successful turnaround of Kangas in 1904—1908.

The role of Björkenheim as a chairman was the most prominent at the beginning, but after Serlachius had moved to Kuusankoski the roles changed, or at least became clearer. Björkenheim worked at the office in Helsinki and dealt mainly with issues relating to sales and financing. Serlachius was responsible for the management of the mills. However, both of them were familiar with the organization's operations. There was no straight line between their assignments. The questions and problems were often considered together. Both Björkenheim and Serlachius owned one share of Kymi. In this respect they were purely, salaried managers. The role of Langenskiöld was to manage legal matters and the relationship with the government. According to the correspondence, Langenskiöld was active in his assignment.¹⁰⁵ However, his role in the organization's management was minor if compared to that of Björkenheim and Serlachius. Nevertheless, Langenskiöld was obviously well aware of the state of affairs in the organization.

Except for the orders to be economical, make an inventory of the firm's entire assets, to do something for the accounting system, and not to construct any new buildings, the creditors and owners gave managers free hands to act as they saw fit. As a result, Björkenheim and Serlachius had power over both operational and strategic decisions possessing a *high* degree of critical resources needed for organizational survival. The resources of Langenskiöld were only *moderately* important. As is reflected in the correspondence and records of the creditors' meetings, the owners and the creditors were always satisfied with the suggestions presented by management. However, the close personal connections of the managers with different stakeholders and organizations makes this as a good example of a situation in which it is necessary to

¹⁰⁵ The Letters of Langenskiöld, AKC. See also Hoving, 1947: 140.

examine inter-stakeholder relationships in order to ascertain the nature of the relationship between the focal firm and the stakeholder.

The resources of the other board members—J. Serlachius, Goldbeck-Löwe, and Lindfors—were clearly *low* during the era of Elving. However, the importance of their resources increased somewhat in 1907 and can be considered *moderately* important vis-à-vis the organizational survival and turnaround. J. Serlachius was the lawyer of the firm and also served as a secretary of the board. He had already worked at Kymi in Elving's period and was familiar with the organization's situation. However, his position in actual decision-making was clearly minor.¹⁰⁶ Goldbeck-Löwe and Ivar Lindfors managed the relationships with the deferred creditors. They took part in the board meetings and, accordingly, were aware of the organization's operations. However, the letters between Björkenheim and Goldbeck-Löwe express that the latter was often only informed of what the managers had already decided.¹⁰⁷

Other stakeholders. Although Kymi was most dependent on the resources of the main creditors, the managers, and the owners, other stakeholders also possessed important resources in respect of organizational survival. The most important market area of Kymi was Russia and the trade was mainly arranged through the sales agents. Therefore, the agents in Russia, at least theoretically, possessed important resources such as connections with a variety of existing and potential customers as well as a good knowledge of the Russian markets and the political and business environments.

The agency of Carl Neander was responsible for the most important sales district in Russia, that is, St. Petersburg. Two other significant agents were Fichtenberg and Haydenwurz. The former operated in the areas of Moscow, Archangel, Vologda, Saratoff, Samara, Jaroslav and Nischnij-Novgorod whereas the customers of the latter were in Warsaw, Kiev, and Odessa. Kymi was not fundamentally dependent on a single agent, but in the short run an incompetent agent was able to create considerable difficulties for the firm. Neander was obviously the most critical agent. Therefore, his resources were at least *moderately* important throughout the whole decline and turnaround process. The resources of other agents were *low* or *moderately* important. In Finland the sales agents were Knut Selin (Helsinki) and Victor Hoving (rest of the country). However, Kymi's dependence of their resources was *low*.¹⁰⁸

The pulp and paper production of the mills was, of course, dependent on raw materials and, most importantly, on pulpwood. Kymi was self-sufficient both in chemical and mechanical pulp production. Moreover, as a result of Elving's forest acquisitions, approximately one third of the pulpwood needed was obtained from the firm's own forests. The remainder had to be bought from outside the organization, but

¹⁰⁶ E.g., Board of directors 12—13.4.1908 § 10, AKC.

¹⁰⁷ E.g., Björkenheim to E. Dahlström 24.9.1908, 9.10.1908, 22.12.1909 and E. Dahlström to Björkenheim 27.9.1908, AKC.

¹⁰⁸ As described in the raw narrative, managers also communicated directly with the customers and made tours of inspection to agencies (e.g., The travel report of Serlachius and Normman from St Petersburg and Moscow 8—13.2.1909, AKC).

Kymi was not in these acquisitions dependent on any particular supplier. For that reason, although the wood and other raw materials were necessary, the resources of particular suppliers were *low*. This situation was emphasized after the founding of the collective logging company in 1910.

Employees are often an important stakeholder group. However, in this case they did not possess particularly critical resources. Of course, there was the threat that the workers could go on strike as the General Strike in 1905 had already shown. However, the dismissals of workers, particularly in 1908, indicate that the factory workers' resource dependence based influence on organizational survival was no more than *moderate*. The government, if separated from the Bank of Finland, had no needed resources, though it did have, for example, a potential ability to raise customs tariffs, which would have had a direct and critical effect on export earnings. Similarly, although Kymi was clearly interested on the advantages that collusive trade could bring and explicitly sought to construct sales quotas and price agreements with other paper manufacturers, the organization's dependence on the industry associations was rather *low*.

Network Position Based Influence

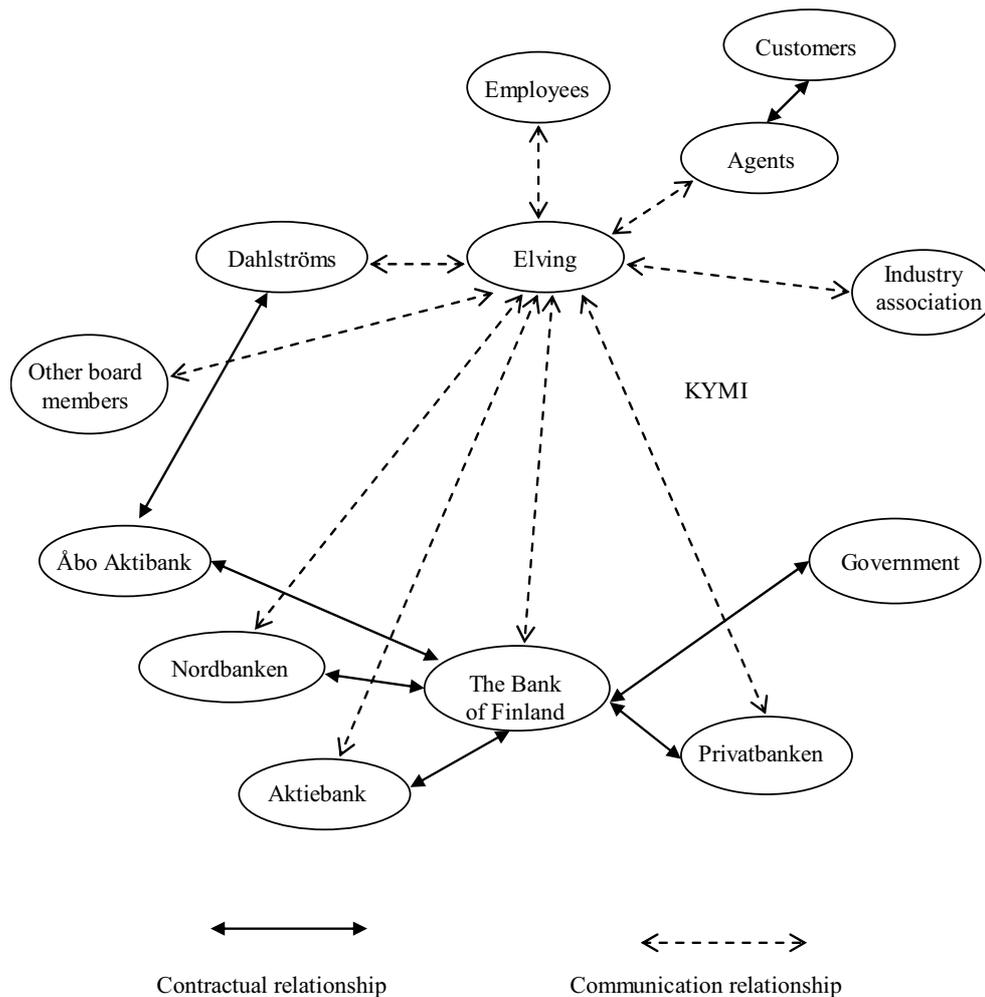
The resource dependence based examination of the stakeholders' influence shows that it is essential to analyze inter-stakeholder relationships in order to assess the actual influence of stakeholders relative to the focal firm. Figure 12 illustrates the network of inter-stakeholder relationships that surrounded Kymi before 1907 (i.e., during the accelerating organizational decline) and Figure 13 depicts the situation 1908—1913. Each of the outlined stakeholders had a direct relationship with the focal organization.

During the years 1904—1907, the betweenness centrality of Elving was clearly *high*. Although Elving did not have several formal or contractual ties with the other stakeholders, he as an autocratic owner-manager communicated and transmitted most of the information between the organization and its stakeholders. However, the position of Elving radically changed as a result of the creditors' intervention. As the figures depict, he was dismissed from his intermediate position and thereafter stayed on the periphery of the stakeholder network. Elving was a noteworthy owner, but his new position did not allow him to have a significant influence regarding the other central stakeholders.

Although Elving dominated the stakeholder network 1904—1907, other stakeholders also had noteworthy positions. The Dahlströms, besides being the biggest owner group and members of the board, had an important intermediate position vis-à-vis a significant creditor, Åbo Aktiebank. Specifically, Ernst Dahlström was one of the bank's founders and the chairman of the board.¹⁰⁹ E. Dahlström's structural position remained fairly constant throughout the decline and turnaround process. However, after 1908, he was not able to use Åbo Aktiebank for his own purposes as before. The task of Dahlström was thus more pronouncedly to be a personal guarantor and controller of the

bank in the administration of Kymi.¹¹⁰ Accordingly, the Dahlströms evidently had a *moderately* important network position until 1908, but thereafter the position was its zenith *moderately* important, whereas the network position of Åbo Aktiebank, at least technically, became *moderately* important.

Figure 12. Network of Inter-Stakeholder Relationships of Kymi before 1907



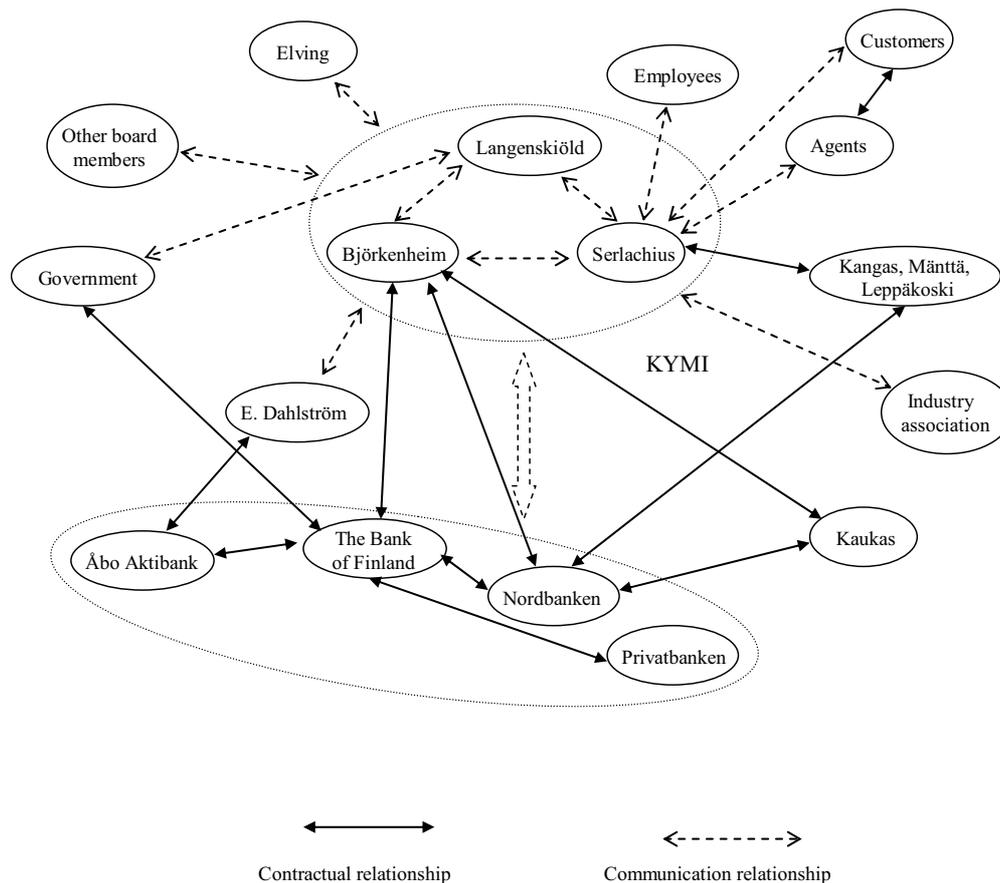
The positions of the sales agents were interesting from the point of view of the different network centrality indicators. On the one hand, they were out-lying if using degree point centrality. On the other hand, in such an arrangement other primary stakeholders did not have power over them. Most importantly, the relatively independent agents were the intermediaries between Kymi and its customers, though the

¹⁰⁹ Jutikkala, 1957; Ginström, 1962.

¹¹⁰ The members of the administrative board of Åbo Aktiebank expressed their concern about Kymi's financing in 1908. See Ginström, 1962.

essential interests of the agents and Kymi were more or less equal. As a result, the agents can be considered as having at least *moderately* important network positions throughout the whole process.

Figure 13. Network of Inter-Stakeholder Relationships of Kymi 1908–1913



The network positions of the main creditors and the new managers also merit a detailed discussion. Until 1908, the group of commercial banks held fairly neutral positions. In fact, the betweenness centrality of Privatbanken, and even Nordbanken, can be considered as to be *low*. The position of Åbo Aktiebank was no more crucial, since, as shown, the Dahlströms had the upper hand in the relationship until 1908. The network position of the Bank of Finland was more important, but it was based on the official relationships with different banks and the government. Nevertheless, these official linkages provided the power that made its network position *moderately* influential.

As was the case with Elving, the situation regarding the network positions of the creditors and the management changed during the period 1907–1908. First of all, the

new managers replaced Elving as an intermediary of information between the firm and its other stakeholders. As described above, Serlachius and Björkenheim shared the most crucial positions in management. Serlachius as a representative of the organization communicated particularly with the employees, the agents, and the customers. In addition, Serlachius had contractual relationships with the potential competitors of Kymi, that is, the paper mills of Kangas, Mänttä and Leppäkoski. Björkenheim had contractual linkages with Kaukas and Nordbanken. Both Serlachius and Björkenheim communicated with the trade association, Elving, and other board members. All the managers changed information with the creditors.

The network position of Nordbanken clearly became more important than it had been before. Nordbanken's relationship with Björkenheim was bipolar: each was dependent on the other. Nordbanken was a creditor of Kaukas, whereas Björkenheim was the chairman of Nordbanken's administrative board. Basically, Björkenheim was appointed with the presupposition that he would further the bank's interests and if that did not happen, Nordbanken had the resources to influence Björkenheim's positions in three different organizations. In that respect the bank obviously possessed to some extent power over Björkenheim. All in all, both Nordbanken and Björkenheim possessed *highly* influential network positions. While the position of Nordbanken evidently changed, the positions of other creditors, excluding Åbo Aktiebank, remained similar to what they were before 1908.

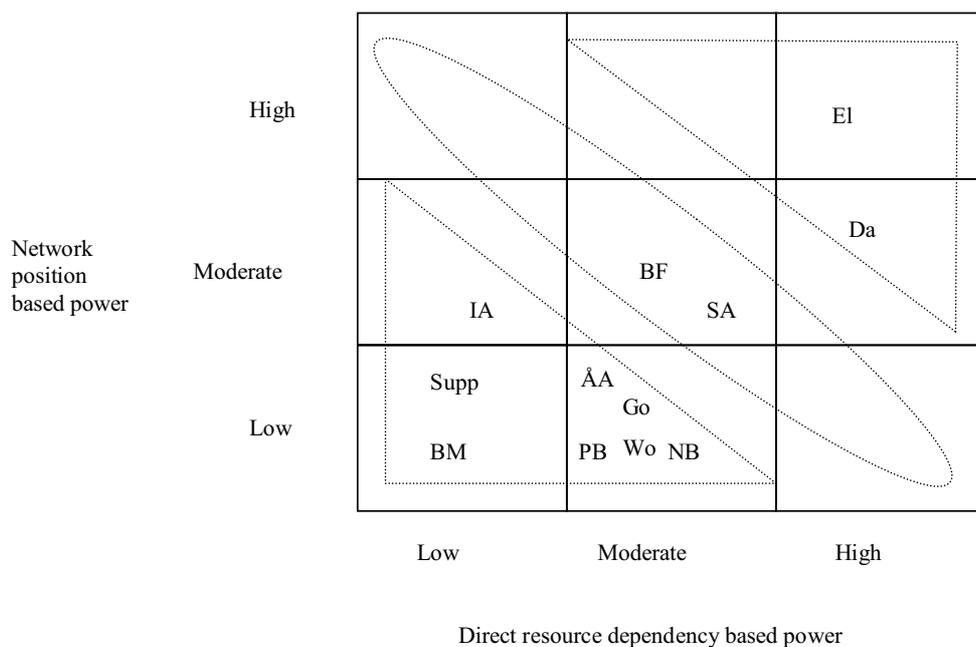
The position of Serlachius was as important as Björkenheim's. However, the responsibilities of Serlachius in Kangas, Mänttä and Leppäkoski—the firms that were also financed by Nordbanken—restricted his autonomy in respect of the main creditor. Altogether, his position as an intermediate was still *highly* important. Langenskiöld also took part the intermediation of the information and resources. However, his position was not more than *moderately* important. Because the role of the board members was basically to be informed by the managers, their network position vis-à-vis the different stakeholders was *low* in influence.

Although the government had a theoretical opportunity to influence by way of the Bank of Finland, it actually throughout the entire process remained in a position that was *low* in influence. Similarly, the position of the factory workers was *low* in importance. They negotiated with the managers but did not have any other direct relationships with the main stakeholders. The suppliers, as such, had an important position in the production chain but their ability to influence the other stakeholders was *low*. The position of the industry association was more complicated since it also formed an informal arena of information sharing between different organizations and managers. Similarly, the importance of collusive trade was strengthening in the pulp and paper industry. Therefore, with certain limits, the network position of the industry association can be described as *moderately* important.

A Combined Perspective: The Properties of the Stakeholders

By using the stakeholders’ influence identification model, the stakeholders of Kymi can now be divided into governing (G), potential (P), and minor (M) ones. As in the above examinations, Figure 14 illustrates the situation before 1907 and Figure 15 the situation 1908—1913. As the figures indicate, the potential of some stakeholders to influence the organizational survival noticeably changed during the decline and turnaround. The most striking changes happened in respect of the influences of Elving (El) and Nordbanken (NB). Elving as an owner-manager was clearly a governing stakeholder until 1907 by having both highly influential resources and a network position. However, from 1908 onwards, Elving was only a minor stakeholder, even if he had moderately influential resources. Nordbanken, in turn, made an opposite move from a minor stakeholder to a governing stakeholder with highly influential resources and a network position.

Figure 14. Influence of Kymi’s Stakeholders before 1907



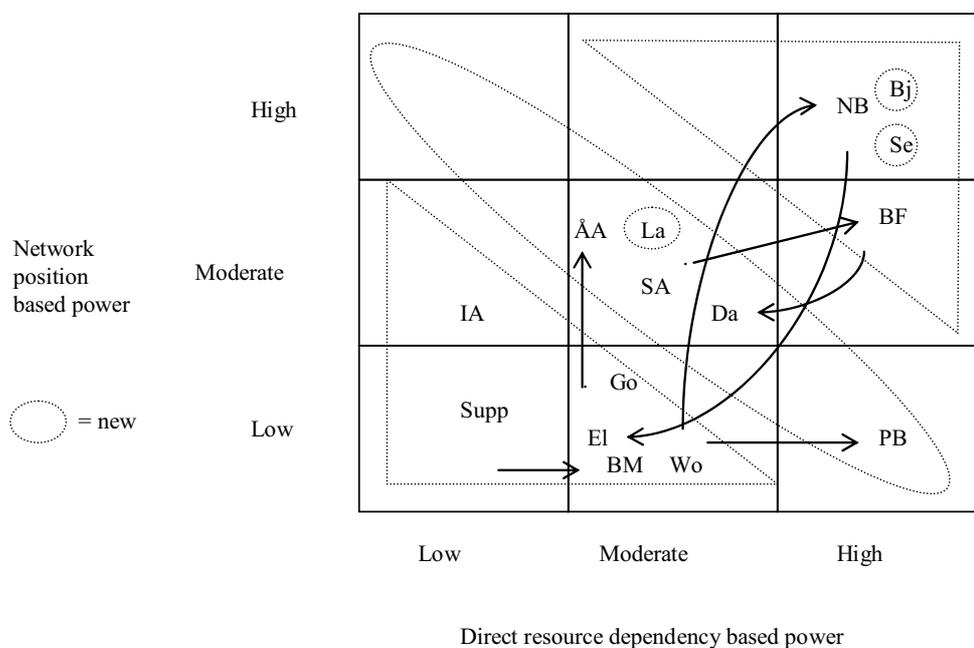
The Bank of Finland (BF) was a potential stakeholder already in 1907, but when its resources turned out to be highly critical it evidently became a governing stakeholder. In contrast, the influence of the Dahlströms (Da), who were a governing stakeholder group until 1907, turned into a potential stakeholder during the process. At the same time that the influence of Dahlströms declined, the potential influence of Åbo Aktiebank (ÅA) increased. Accordingly, Åbo Aktiebank became a potential stakeholder. The sixth evident change during the whole decline and turnaround was that of Privatbanken (PB)

which, as a noteworthy creditor, developed from a minor stakeholder into a potential stakeholder.

In addition of the above changes in the properties and influence of stakeholders, the organization also received new and highly influential stakeholders during the decline and turnaround. As the analysis has shown, the new managers, Gösta Björkenheim (Bj) and Gösta Serlachius (Se), both had influential resources and network positions. They were, without a doubt, governing stakeholders. However, the third member of the new managerial team, Gustaf Langenskiöld (La), can only be seen as a potential stakeholder in terms of his resource and network position based influence.

The resources of the workers (Wo) and the government (Go) remained moderate, and their network positions low during the whole process. In view of this, these entities were clearly minor stakeholders. Correspondingly, the group of other board members (BM) (J. Serlachius, Goldbeck-Löwe, and Lindfors), although their influence changed somewhat, remained a minor stakeholder. The industry association (IA) had a moderately influential network position throughout the process. In terms of resource dependence, however, its influence was low. Therefore, it can be only considered a minor stakeholder. The suppliers (Supp) were minor stakeholders in all respects. Finally, the main sales agents (SA), as a group, had both moderately influential resources and network positions throughout the decline and turnaround, making them evidently potential stakeholders in respect of organizational survival. Of course, some small agencies can only be seen as minor stakeholders.

Figure 15. Influence of Kymi's Stakeholders 1908—1913



Event Structure Analysis

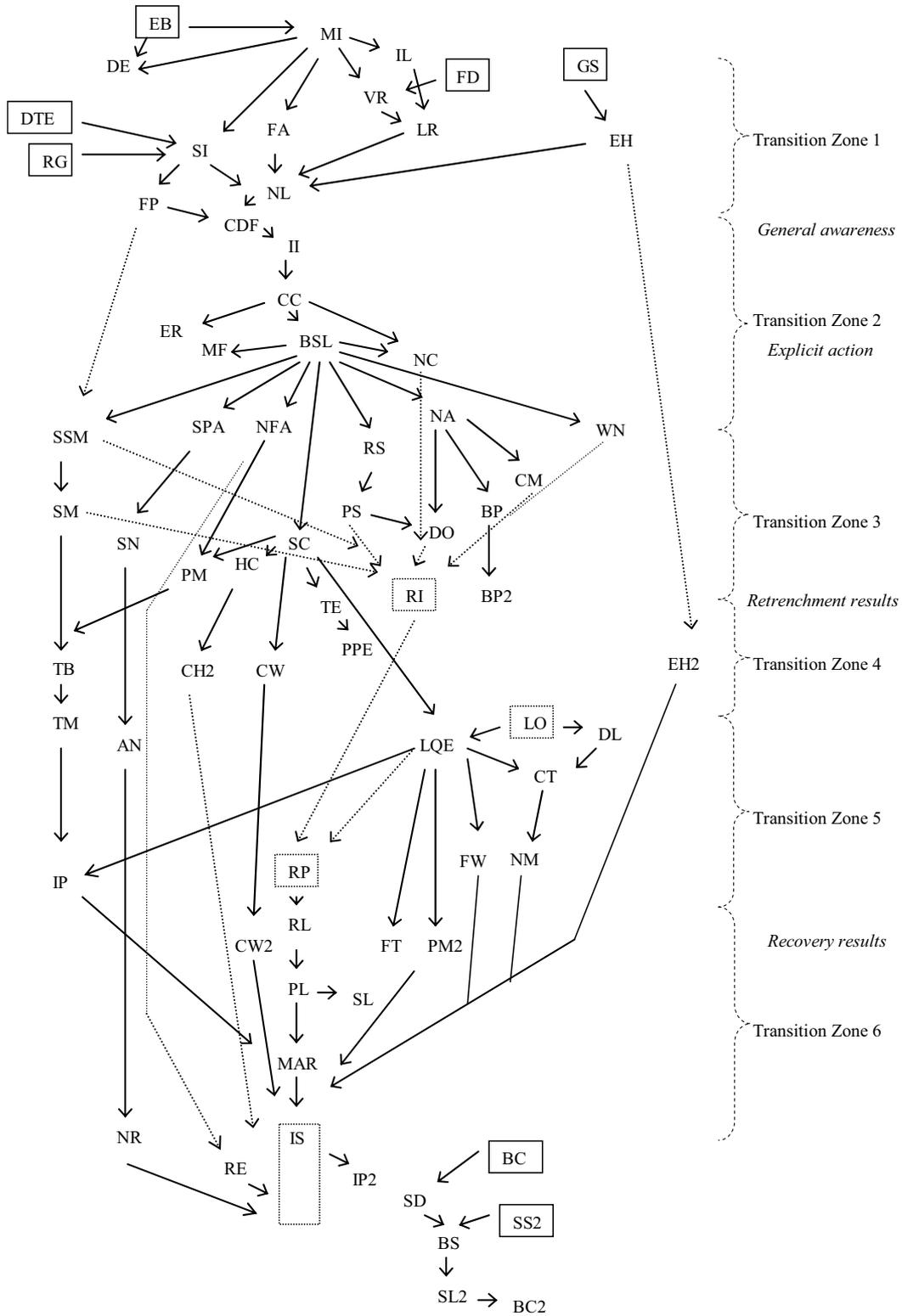
The above influence identification provided knowledge of the entities' ability to constitute activated components of causal mechanisms in the context of the decline and turnaround process of Kymi. Now, following the procedure of event structure analysis presented in Chapter 3, I will modify the actual event/activity chronology to the causal event structure of the process leading from the beginning of the decline through the crisis back to the success. The event chronology is presented in Appendix 1 and is inherent in the above historical narrative. Each event is codified using case-specific ETHNO codes as well as the substitutive general codes presented in Table 3 at the end of Chapter 5. Moreover, the event chronology is used to indicate the entities that activated the particular events and thereby formed the potential functional components of mechanisms.

The result of the analysis of causal linkages between different events, that is, the diagram of the causal event structure of the decline and turnaround process of Kymi is depicted in Figure 16 using the case-specific concepts. Of course, another similar-looking diagram with the general concepts could also be drawn. In the following discussion, provided in order to explain the diagram, the codes of the general concepts that will be employed to substitute for case-specific concepts in the simplification of the event structures, postulation of mechanisms, and their comparisons are given in italics.

As described in Appendix 1 and illustrated in Figure 16, the first antecedents of the organizational decline of the Kymi Corporation can be found in the establishment of the new organization and the beginning of the era of Rudolf Elving (*IFD/ EB*). Of course, such changes would equally have led to success. However, the emerging internal and external causes drove the organization in the opposite direction; that is, into deepening decline. Specifically, the owner-manager Elving's autocratic and all-embracing investment policy (*IFD/ MI*) generated disagreements inside the organization (*IFD/ DE*) and started the running into debt (*IFD/ IL*).

These initial internal forces of decline may not have led to difficulties without other initial internal and external forces of decline, such as the fire in Voikkaa (*EFD/ FD*), the General Strike (*EFD/ GS*), the working hours issue (*IFD/ EH*), the paper market changes, and the general economic downturn (*EFD/ RG, DTE*). However, these fairly explicit negative issues that together pushed the organization into decline did not prevent the implementation of the expansive strategy. On the contrary, the same internal forces (*IFD/ VR, FA, SI*) further accelerated the decline and the circle of debt (*IFD/ LR, NL*). Altogether, the combination of internal and external causes drove the organization forcefully into existence threatening decline and the first transition zone.

Figure 16. Causal Event Structure of the Decline and Turnaround Process of Kymi



The general awareness of the decline did start to emerge until the financial indicators showed signs of acute problems (*IAD/ FP*). Of course, it is possible that the CEO had already seen symptoms of decline. All the same, this did not emerge in actions. Accordingly, when the internal awareness had been received, the following action was rather drastic: closing down the operations of one factory. This event, that could not be hidden, and the increasing burden of debt led to the clear turning point in the process. That is, the creditors' intervention (*ERD/ CDF*), which established the general awareness of the decline. At the same time the organization moved on to the second transition zone.

The creditors' intervention was followed by a thorough investigation (*ERS/ II*) that finally created the actual understanding of the gravity of the situation (*UC/ CC*). This, in turn, led to significant financial support over the most acute problems (*FS/ NC*) and changes in the management of the organization (*MC/ ER, BSL, MF*). As a result of the above events, the personification of the decline had been got rid of, but this did not mean that the decline had been stopped.

The role of the new management was emphasized in the operationalization of the received understanding. As the event structure shows, the managers simultaneously started to take measures against the decline on several fronts. Due to fact that the whole accounting system was outdated and did not provide adequate information on the organization's performance, the development of a new one opened up a course of actions (*RD(RA)/ NA*). Evaluation of the sales system and possible collusive cooperation were also started (*ERS/ NFA, SPA*). However, no concrete result of these actions emerged immediately (*ESR/ SN, AN*) (*RD/ PM, RE*). At same time first, explicit retrenchment actions were also implemented in the form of head count cuts and asset divestments (*RA/ WN, RS, PS*). In addition, a suggestion and then the decision to start up the closed factory were made (*RA/ SSM, SM*). All in all, the events represented both more far reaching recovery decisions and clear retrenchment actions. Thus, the organization was moving on to the third transition zone.

As the diagram shows, new retrenchment actions followed the previous ones. The new cost accounting system, in particular, enhanced these operations (*RA/ CM, DO*). In addition, a more accurate understanding of the costs of production led to the clear recovery decision to reorganize the firm's production portfolio (*RD/ BP, BP2*). At the same time Serlachius officially started as CEO (*MC/ SC*). While this event did not have direct implications for the performance of the organization, it formed the next important turning point in the process of opening up new paths for recovery actions (*RD/ HC, CH2, PM, TE, PPE, CW, CW2*). Altogether, the actions implemented in 1908 began to generate positive results during the fall and the next winter (*RE/ RI*). Moreover, when the situation was improving, the previously idle machines were restarted (*RA/ TB, TM*) and the agreement on the eight-hour working day was immediately cancelled as this became possible (*RD/ EH2*).

Despite the fact that the organization had entered into the fourth transition zone and the direction of the organization's development was now correct, the turnaround was not yet on a solid basis. In fact, a temporary lack of orders forced the managers to stop one machine for a short period of time (*EPD/ LO*) (another reason for stopping the machine was for maintenance) and to apply for further loans for operations (*FS/ DL*). While these were relatively small drawbacks, they forced the managers to consider new ways to improve the quality and efficiency of the production as well as to save money in all possible ways (*RA/ LQE*). As the event structure shows, these considerations led to improvements in the mills (*RD/ CT, NM, PM2*) and changes in the production portfolio (*RD/ FW, FT*). At the same time, the idea of the refunding program was presented (*RD/ RP*). The suggestion soon led to the agreement (*RR/ RL*), which can be seen as a first explicit sign of organizational recovery. Accordingly, the organization was moved on to the fifth transition zone. The first considerable repayment of the loan was implemented after a few months (*RD/ PL*). However, at the same time Kymi also sold land roughly to the value of the sum repaid (*RA/ SL*).

Nevertheless, the recovery became more concrete as new extension and reconstruction programs were presented (*RD/ IP, MAR, IP2*) and the reorganization of the sales agents continued (*RD/ RE*). This was supported by the cartel deal regarding the sale of newsprint in Russia (*RD/ NR*). Finally, when both financial and production results had risen to a higher level than ever before (*RR/ IS*), the organization had clearly entered the last transition zone. The event structure also illustrates the events leading to the change of the CEO (*MC/ BC, SL2, BC2*). Although this series of events created organizational disagreements (*OD/ SD, SS2, BS*) it did not have a profound influence on the organization's positive performance and the established recovery.

Chapter 7

Walkiakoski Paper Mill

Organizational Context and Performance

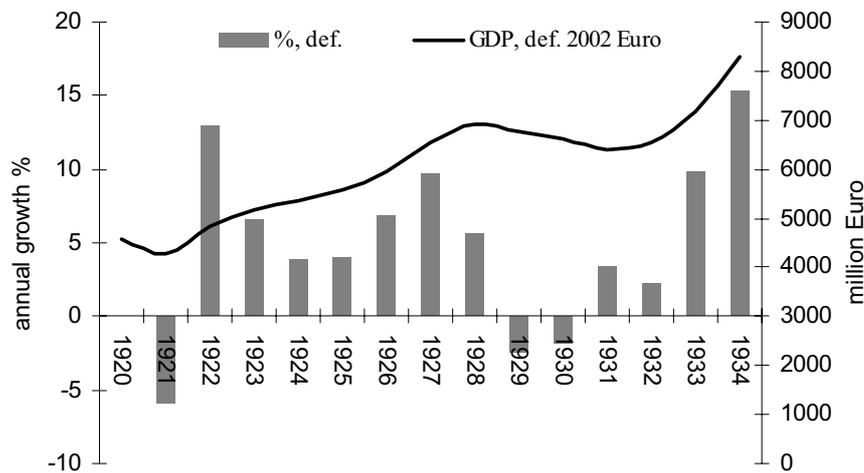
Before describing the historical narrative and analysis of the whole decline and turnaround process of the Walkiakoski Paper Mill, extending from 1920 to 1934, I connect the case to the prevailing economic and industrial contexts and present the main indicators and parameters of the firm's production and financial performance. Starting from the perspective of the Finnish national economy, the interwar period was, as a whole, favorable (See Figure 17). The economic recovery after the civil war was prompt and during the years 1922–1928 the average yearly volume growth of GDP was highly satisfactory at 6.4 percent. Indeed, intense growth and development are the relevant words to describe the period. The Great Depression began in 1929 also interrupting the economic expansion in Finland. However, the slowdown of GDP growth was rather short-lived and less significant than elsewhere in Europe. After 1932 the economic growth continued and GDP grew an average 6.6 percent annually up to 1938. Altogether, the average yearly GDP growth during the interwar years was 4.7 percent, which was much better than the average GDP growth in Europe.¹¹¹

The Finnish pulp and paper firms have always been a prominent part of the export industry and thus an important part of the national economy. The period when Finland was an autonomous Grand Duchy of Imperial Russia (1809-1917), Russia was one of

¹¹¹ Hjerpe 1988; Lamberg, 1998; Halme, 1952.

the most important exporting countries. However, as a result of the Bolshevik Revolution and Finland's independence trade with Russia stopped almost completely. Since Russia had been a significant market area for paper products and in particular for newsprint, the Finnish paper manufacturers were forced to seek compensatory market areas or decrease the paper production. One option was also to turn more to pulp production because the competition in the Western paper markets was keen and the quality of the paper previously exported to Russia was not easily saleable in Western Europe. These changes were neither easy nor overwhelmingly difficult to put into practice. Overall, during the first years of the 1920s, the Finnish pulp and paper industry managed to find new markets especially in Britain and the USA.¹¹²

Figure 17. Finland's GDP: Development and Annual Growth 1920—1934



Source: Hjerpe, 1988.

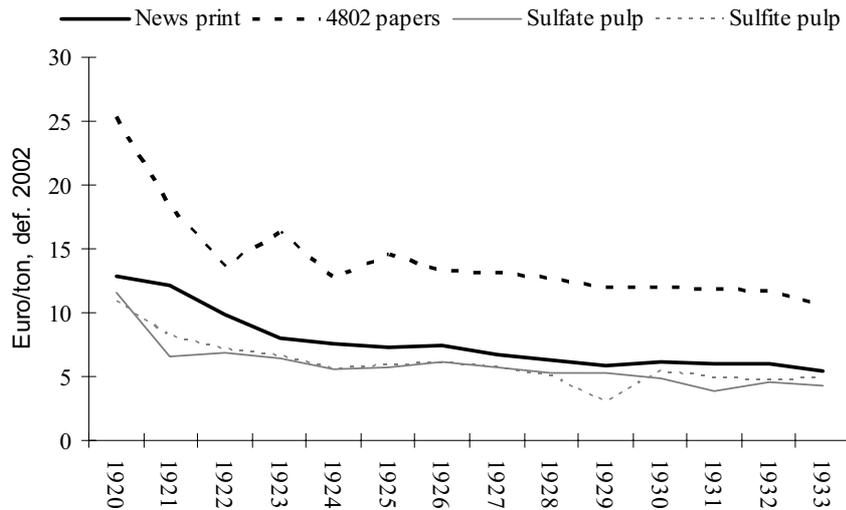
The rate of the Finnish mark started to rise during the second half of 1922 and 1923 in particular was difficult for the export industry. In the same year, the total value of pulp export exceeded the value of paper products. In 1924, the foreign exchange markets stabilized, and finally the return to the gold standard in 1926 (and, as a result, a minor devaluation of the Finnish mark) reduced the risk of exchange rate losses and greatly increased both foreign and domestic borrowing.

In 1928, the financial markets overheated and drifted near to crisis. The current account deficit of Finland was particularly difficult. The need for liquid money remained high and the Bank of Finland had to increase its credit granting. In 1929, however, the Bank of Finland cut lending and raised the interest rates, although the demand for money had fallen as a result of the economic depression. Finally, in the fall

¹¹² Ahvenainen, 1974; Halme, 1955; Oksanen and Pihkala, 1975.

of 1931, Britain abandoned the gold standard and Finland followed this example. The floating of the Finnish mark was complete in March 1933 and the currency was bound to sterling. Altogether, the Finnish currency was devalued 17 percent against the pound sterling, which was an obvious incentive for pulp and paper exports.¹¹³

Figure 18. Development of FOB Prices of Pulp and paper 1920–1933



Source: Statistics of foreign trade, SVT.

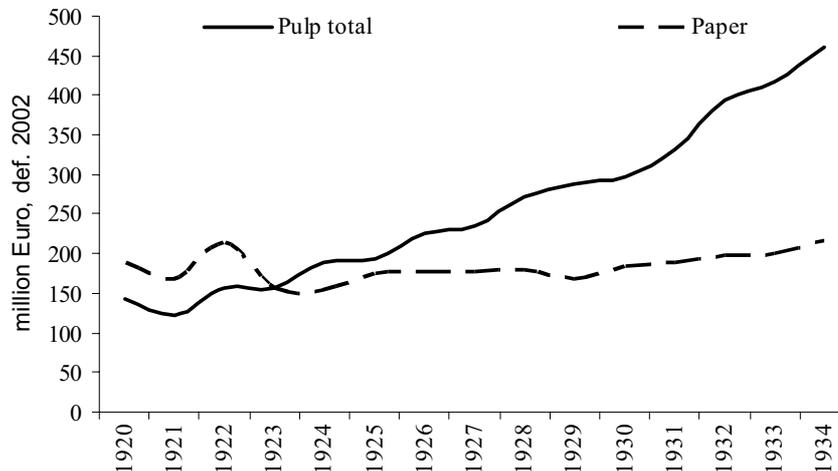
On the whole, during the period 1920–1938 the paper production in Finland increased by 248 percent.¹¹⁴ However, as Figure 18 illustrates, the prices of paper, and especially the wholesale price of newsprint, declined from 1923 to 1933. Figure 19 shows how the value of the pulp and paper exports developed during 1920–1934. As a result of the falling prices, the value of paper exports remained stable during the 1920s and only started to increase in the 1930s. Of course, there was considerable variation in the development between different grades of paper. The demand and prices of newsprint, for example, fluctuated widely. As Figure 19 shows, the most striking feature in the 1920s was the substantial increase in the value of pulp exports in contrast to paper products.

The Walkiakoski Paper Mill was also affected by these economic cycles. The breakdown of the trade relationship with Russia had a direct influence on the market areas and the changes in the exchange rates instantly influenced the profit margins. However, the pulp and paper firms were not totally at the mercy of external market forces. The performance of the firms, as always, was equally dependent on their own capabilities and ability to adapt into the changing environment.

¹¹³ Hjerpe, 1988.

¹¹⁴ Ahvenainen, 1974.

Figure 19. Value of Finland's Pulp and Paper Exports 1920–1934

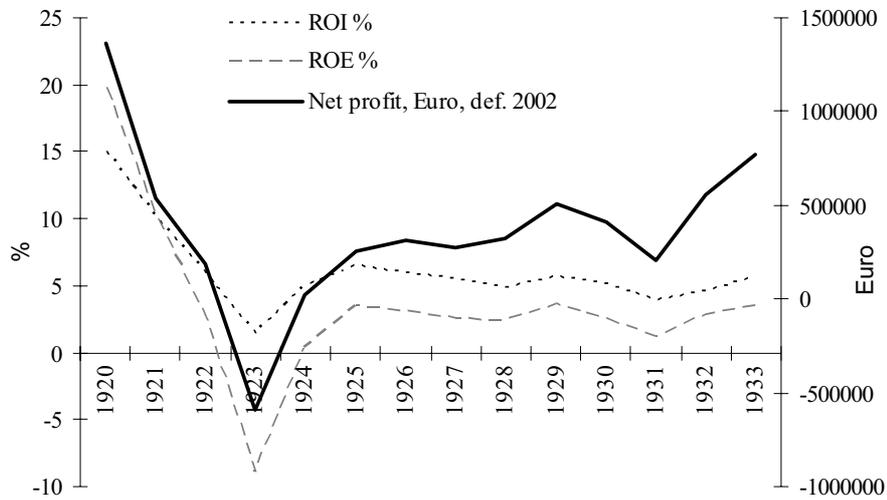


Source: Pihkala, 1975.

The performance of Walkiakoski during the 1920s and the 1930s can be examined using the basic parameters. Figure 20 presents the development of profits and the return on investment (ROI) and equity (ROE). As illustrated, the golden years at the beginning of the 1920s sharply turned into a financial crisis. In the light of these figures, 1923 was the most difficult but the previous year had also been unsatisfactory. 1924 was evidently better than 1923 but still far from satisfactory. During these years the GDP of Finland rose steadily. However, taken as a whole, the export of paper in 1922 and 1923 was difficult. Conversely, the overall trend of the pulp exports was positive.

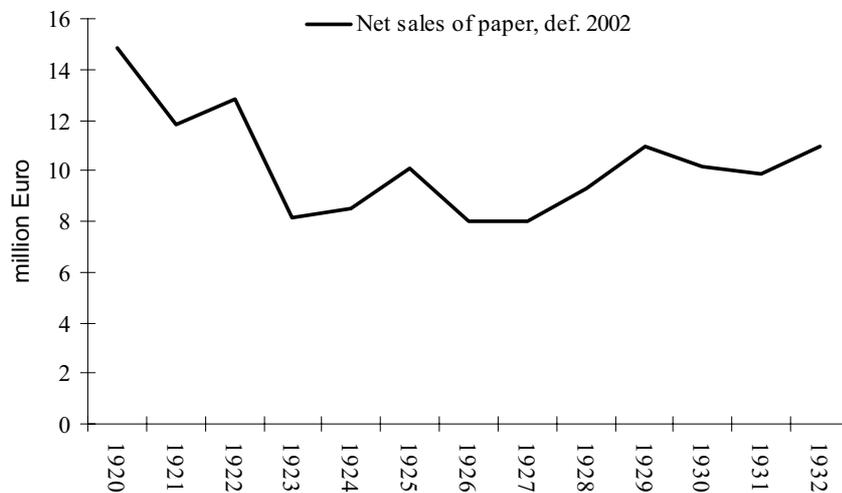
The profits of Walkiakoski increased from the catastrophic year 1923 to 1929 excluding 1927 when the profits slightly diminished compared to the previous year. After the improvement in 1924 and 1925, the levels of return on investment (ROI) and equity (ROE) remained at relatively low levels in the period 1926–1933. A noteworthy fact is that the effect of the Great Depression on the financial indicators was reasonably modest. Figure 21 showing Walkiakoski's sales of paper and Figure 22 showing the quantities of pulp and paper produced provide more information on the origins of the problems as well on the general trends in production. Although paper export diminished on a national scale in 1923, the decrease of the net sales of Walkiakoski was much more drastic and had already started in 1920. In fact, the recovery of the paper sales did not start until 1927, excluding the temporary improvement in 1925.

Figure 20. Net Profit/Loss and Return Rates of Walkiakoski 1920—1933



Source: Internal financial accounts of Walkiakoski, AW.

Figure 21. Walkiakoski's Net Paper Sales 1920—1932

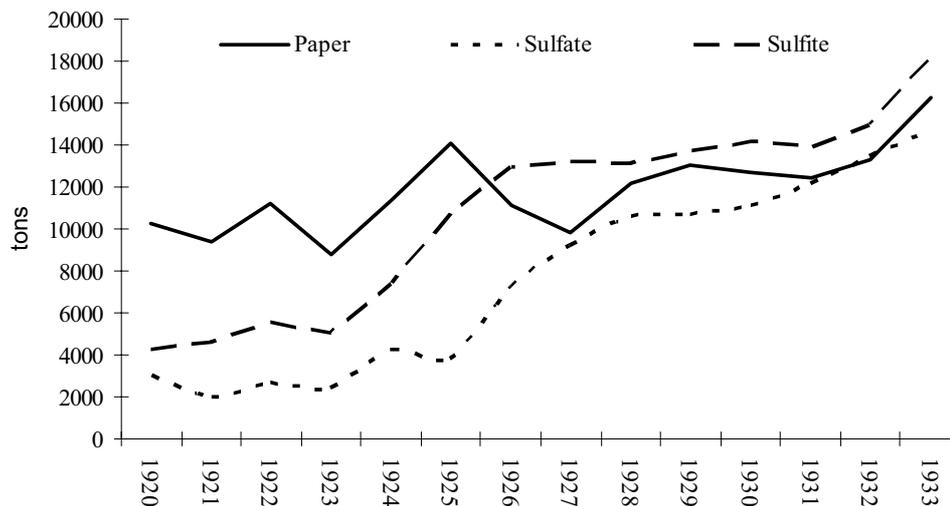


Source: The financial and production accounts of Walkiakoski, AW.

The manufacturing of paper vis-à-vis paper sales forms an interesting equation. As Figures 21 and 22 show, they followed the same lines from 1920 to 1923. However, the decline in sales was much more drastic than the diminishing of the production, whereas in the period 1924—1925 the increase in production was more dramatic than the actual growth in sales. Of course, no direct comparison between these two indicators can be

implemented. The figures still indicate that the decisions in production were misdirected in respect of the actual sales.

Figure 22. *Quantities of Walkiakoski's Pulp and Paper Production 1920—1933*



Source: Production statistics of Walkiakoski, AW.

Another noteworthy aspect is that the production quantities of sulfate (kraft pulp) and sulfite pulp started to increase considerably in 1924, to a certain extent following the overall trend in pulp exports. Pulp and paper production showed the same upward trend until 1925, when an explicit focus on pulp production began. The influence of the Great Depression on paper sales and quantities produced was surprisingly small. In fact, kraft pulp (and also kraft paper) manufacturing increased without any setbacks.

Historical Narrative

1920 – 1923

During the first years of the 1920s, the financial performance of the Walkiakoski Paper Mill was satisfactory. The situation was not a direct result of successful production and sales but rather a consequence of the exploitation of existing raw material stocks in the production processes. According to the annual reports, the occasional difficulties in production and sales resulted from fluctuations on the international markets. No other reasons for the difficulties were evinced. In 1921, the overall price level in the paper markets weakened slightly. Walkiakoski, however, received enough orders and was able to show a profit. This was to some extent assisted by the low value of the Finnish mark.

In spite of the rather narrow profit margin the firm still paid out huge 20 percent dividends to the owners.¹¹⁵

Both financial and production figures begin to show alarming signs in 1922. Paper production in Walkiakoski was divided into several distinct grades ranging from kraft paper to newsprint and fine papers. Now only the production of kraft paper seemed to be profitable. In particular, the main article of the firm, newsprint, suffered from notable sales problems. The CEO (plant manager) Bertil O. Heikel perceived the need to redirect their lines of production, but no major changes were implemented. Instead, the managers and owners simply hoped that the business cycles in the pulp and paper markets would soon improve. In fact, the main owner, Moses Skurnik, and a group of investors from Helsinki demanded for 10 percent dividends by raising an extra loan. However, the main creditor of the firm, Pohjoismaiden Yhdyspankki (PYP), could not grant the owners' wish for the expected dividends. Accordingly, this was the first explicit indication from outside the core organization that the operations of the firm were far from the satisfactory level.¹¹⁶

Although 1922 was poor, the next year was even more miserable. According to the annual report, the reasons behind the situation originated from the strong competitive position of the German paper producers, the higher price of wood pulp (actually was not true: see Figure 18), increased labor costs as well as the sinking price of paper products.¹¹⁷ Indeed, the general conjunctures in the pulp and paper markets were not the most favorable. However, the above issues were not the main reasons for the grave difficulties.

The correspondence with the Finnish Paper Mills Association (Finnpap)¹¹⁸ and the main customers during 1923 clearly indicates that the firm was not able to produce the quality of papers that had satisfied the customers. The following examples from the sales correspondence openly describe what the situation in the firm really was. The letters from Finnpap's sales agent Corke, Sons & Co. from Britain concerning the paper ordered by the newspaper *The Daily News* provide a clear summary:

“We much regret to observe that despite our very emphatic instructions regarding the manufacture of this paper the Mills have turned out a shocking sheet [...] To send in a lot like this will do the Finnish Paper Mills Association more harm than good [...] We have not allowed these outturn sheets to be submitted to the Daily News as we are afraid that they will take objection to receiving same on arrival.”¹¹⁹

¹¹⁵ Annual reports 1920 and 1921; Nordberg, 1980.

¹¹⁶ Annual report 1922; Board of directors 9.11.1922; 27.1.1923 § 3; 18.3.1923 § 3; 20.4.1923 § 3., AW.

¹¹⁷ Annual report 1923, AW.

¹¹⁸ Practically all of Walkiakoski's sales were arranged through the Finnish Paper Mills Association and its agents. In fact, in the mid 1920s the association managed the major part of the Finnish paper factories' sales. The only major company that arranged its own sales was Kymi Corporation. The abbreviation “Finnpap” with two Ns only became official in 1974 (See Heikkinen, 2000).

¹¹⁹ Finnpap to Walkiakoski 16.1.1923, general correspondence, AW.

In the next letter the same sales agent continues to criticize newsprint Walkiakoski:

“Now, once again it is Walkiakoski paper and you will have noticed that whatever this Mill’s make goes, trouble always follows [...] we suggest a closer supervision in the Mills with a view to discovering the faulty persons, and [...] discharge them.”¹²⁰

The poor quality of the paper and problems with punctual deliveries also began to concern Finnpap. As a result, Finnpap openly stated that the paper produced by the competitors of Walkiakoski was much better and that they could not find customers for such poor quality paper. As an example, as usual, they quoted a letter from a customer, Suomen Valtamerentakainen Kauppa Oy, who directly requested that Finnpap would not place their orders with Walkiakoski.¹²¹ Similarly, Corke, Sons & Co. explicitly continued to note that:

“If the Mills will only try to aim at Kajana, Nokia, Mänttä, or Frenkell’s standard we can probably procure sufficient tonnage to keep them busy.”¹²²

Indeed, the paper manufactured by Walkiakoski caused concrete problems for customers. Some magazines, for example, missed their weekly publications because the paper was not suitable for printing or the paper caused damage to the printing machines.¹²³ Although the firm continually received serious complaints about the quality of the paper, they could not respond to the wishes of Finnpap and the customers. Accordingly, in May 1923, Davies & Royle of London stated regarding Walkiakoski’s kraft paper that “it is absolute scandalous to allow such paper to be sent forward.”¹²⁴ Complaints were received from all market areas, not only from Britain, but also from the USA, Central Europe, and even from Australia. Moreover, the problems did not only concern the quality of newsprint but equally the quality of kraft and fine papers as well as repeated delays in the deliveries.¹²⁵ Thus, the market situation was not the most advantageous, but that was not the main cause for the unsuccessful performance of Walkiakoski.

Finally, the explicit financial difficulties and the continued complaints made it obvious that a change, indeed a radical one, was needed. Managers decided to try to cut down the production of the loss-making papers and to produce more kraft paper and also to make the necessary maintenance to machines in order to improve the quality of paper. However, they did not make any drastic changes in the production lines. Costs cutting in the form of compensation reductions were also introduced, but their overall

¹²⁰ Finnpap to Walkiakoski 16.1.1923, general correspondence, AW.

¹²¹ Finnpap to Walkiakoski 19.1.1923, general correspondence, AW.

¹²² Finnpap to Walkiakoski 6.2.1923, general correspondence, AW.

¹²³ Finnpap to Walkiakoski 6.3.1923, general correspondence, AW.

¹²⁴ Finnpap to Walkiakoski 15.5.1923, general correspondence, AW.

¹²⁵ Finnpap to Walkiakoski 21.3.1923; 17.5.1923; 30.8.1923; 28.11.1923, general correspondence, AW.

effects were marginal. Consequently, the funds that were needed to keep the firm a going concern had to be obtained by taking a short-term loan, mainly from abroad.¹²⁶

An important transformation occurred at the end of 1923, when the main owner of Walkiakoski, Moses Skurnik, drifted into deep financial difficulties and his shares were transferred to his creditor, the bank Helsingin Osakepankki (HOP), which then became the main owner of Walkiakoski. As a result, a manager of HOP, Carl J. Wegelius, was nominated to the board of Walkiakoski.

1924 – 1925

Wegelius immediately perceived that Walkiakoski would need a strong managerial effort in order to change the now obviously declining, or even crisis-like, performance. Wegelius was also a board member of UPM and knew Rudolf Walden, the CEO of UPM personally. Hence, Wegelius asked if Walden would be willing to join the top management of Walkiakoski.¹²⁷ After a short period of consideration Walden assented to the request. In May 1924, Walden was then appointed into the board of Walkiakoski, and in August he was officially appointed chairman of the board. This meant that Walden became the actual strategic leader of the firm.¹²⁸

Before the hiring of Walden, Wegelius, with the assistance of Heikel, tried to relieve the acute financial distress by exploiting asset reductions, selling agricultural and forest land.¹²⁹ Wegelius would also have liked to invest in a new power center and to extend the grinding mill in order to improve the troublesome newsprint production. However, no final decisions on these investments were made.¹³⁰ In fact, the extension of the grinding mill remained unrealized and the firm had to wait for the needed investments in the power center until 1926. In spite of the lack of reforms, the firm continued to manufacture newsprint as before, that is, even at a loss.

After Walden had taken his place in top management, he started to examine what the situation in the firm actually was. Since Walden did not live and work near Valkeakoski, where the mill was located, he had mostly to rely on the formal production and financial reports and other information relayed by the CEO, Heikel.¹³¹ As Walden soon realized, this was a rather problematic situation since the management and cost accounting as well as the monthly reporting systems of Walkiakoski were far from adequate.¹³² As a result, for most of 1924 Walden tried to instruct Heikel to develop

¹²⁶ Board of directors 27.1.1923 § 3, § 4; 18.3.1923 § 4, AW.

¹²⁷ Juva, 1957: 89, 95, 222. Another noteworthy fact concerning Walden's recruitment was that a member of the board of directors, Ossian Procopé, was a personal friend of Walden. They had also previously been together in the board of Myllykoski Paper Mill.

¹²⁸ Nordberg, 1980; Juva, 1957.

¹²⁹ Board of directors 29.2.1924 § 5, AW; Nordberg, 1980.

¹³⁰ Board of directors 24.1.1924 § 8; 29.2.1924 § 8, AW.

¹³¹ E.g., Walden to Heikel 17.5.1924; Heikel to Walden 22.5.1924; Walden to Heikel 3.9.1924, AW.

¹³² Walden to Heikel 30.10.1924, AW.

more accurate and systematic accounting systems and also to standardize the reports so that they would match with the practice used in UPM.¹³³

In order to raise funds for the necessary repairs in the pulp and paper mills and to ensure the continuity of the firm's operations, the divestments of land and forest continued throughout 1924. According to Walden, as much as possible had to be sold, even if the price of land was not favorable. The wretched quality of the paper was, indeed, a direct consequence of the worn out machines and the poor quality of the chemical wood pulp. Thus, additional financing for repairs in the factories was urgently needed. The improvements were particularly implemented in the sulfite pulp factory. As a result, its output increased noticeably. Altogether, more than 1/3 of the land holdings of Walkiakoski was sold in 1924 and the last part of 1923.¹³⁴ These asset reductions improved the firm's short-term financial performance. However, the management was also forced to apply for considerable sums in loans.¹³⁵

Regardless of the asset reductions and the necessary repairs, Walden did not have any grand idea at the beginning of his regime as to how to really improve the long-term profitability of the firm. Nevertheless, as he stated to Heikel, he had an obvious understanding that "there was no other solution than to thoroughly examine what sacrifices, great or small, had to be made in order to make the production profitable."¹³⁶ On the tours and visits to the factories, Walden became increasingly convinced that they had to invest in systematic improvements and expansion in the factories. In July 1924, Walden suggested that they, on the whole, had two basic alternatives how to improve the production. On the one hand, they could invest in the production process of newsprint or, on the other hand, they could increase the capacity for sulfate pulp production and, at the same time, reduce the production of newsprint.¹³⁷

In October 1924, Walden together with Wegelius and another board member, Ossian Procopé, discussed at a board meeting whether they should continue and complete the sulfite factory extensions or start reconstructing the sulfate pulp factory. Both improvements were considered to be necessary, but they decided to continue as before and to first invest in sulfite production. Accordingly, the manufacture of newsprint continued as before. At the same meeting, Heikel acknowledged that the poor financial situation still prevented or slowed down every operational improvement they tried to implement.

Walden immediately attempted to respond to this problem by declaring that all actions that would reduce costs should be taken. He demanded, for example, that the

¹³³ Board of directors 18.7.1924 § 6, AW.

¹³⁴ Board of directors 18.7.1924 § 5, § 6; Walden to Heikel 29.10.1924, AW.

¹³⁵ In August 1924, for example, they applied for a 10 000 000 mark loan from the Suomen Teollisuus-Hypoteekki OY—Industri-Hypoteksbanken i Finland AB (Board of directors 22.8.1924 § 5). The loan was established in January 1925 (Board of directors 12.1.1925 § 12). In October Heikel estimated that they may not need new loans that year but already at the beginning of the 1925 they would need three million marks (Board of directors 10.10.1924 § 5).

¹³⁶ Walden to Heikel 3.9.1924 (Author's translation from the Swedish), AW.

¹³⁷ Board of directors 18.7.1924 § 5, AW.

funding of the small company hospital and elementary school should be stopped, the doctor of the firm was to be dismissed, likewise several factory workers.¹³⁸ Indeed, some of the cost cutting operations were more likely to be manifestations that the regime or culture in the organization had changed than actions that would directly affect the future performance of the firm.

In fall 1924, Walden also began to realize that there were obvious problems associated with the current operational management of the firm. At the beginning of October, he officially noted that the work in the administration was out of control. In the same way, he stated that the technical manager was not equal to his duties.¹³⁹ Altogether, it had finally become explicit that the problems in the quality and deliveries of their products and, in fact, the whole performance of the firm were not the sole consequences of the worn out machines but there were more deep-seated troubles in the human side of the organization. This understanding led immediately to the dismissal of the office and technical managers.¹⁴⁰

Cooperation between Heikel and Walden was also faltering. In spite of Walden's requests to improve and standardize the monthly reporting, there were no apparent changes. Walden, for example, directly noted to Heikel that: "Unfortunately, it is impossible to even approximately discover what the result of the previous month's production was."¹⁴¹ The position of Heikel in the organization still seemed to be fairly strong. In point of fact, he had the widest knowledge of the firm's basic operations. A direct dismissal of Heikel without a competent new candidate would have been a somewhat risky operation. Therefore, Walden and Procopé tried first to find a capable assistant for Heikel. The best candidate was the CEO of the Kotka pulp factory Trygve Christiansen. Such a plan did not satisfy Heikel. Thus, already in October 1924, Heikel declared that he would resign. Christiansen, an acclaimed forest industry manager, wanted to start as CEO (plant manager), not as assistant manager.¹⁴²

Heikel's notice was six months. Therefore, he promised to continue his work at least until Christiansen arrived. The replacement process of the CEO, however, required extra effort since a long-standing board member, Gustav Zitting, had doubts about Christiansen's capabilities and demanded that Christiansen should be hired for a trial period.¹⁴³ Christiansen was much opposed to such probation because, first, it reflected on his worth, second, it would be damaging to the authority of a new manager in a crisis company. Christiansen urged that he needed all the available support from the board members.¹⁴⁴ Walden replied to Christiansen and assured him that he as well as Wegelius and Procopé personally trusted him. Walden also emphasized that although the official

¹³⁸ Board of directors 10.10.1924 Sign, A, § 1, § 3, § 6, § 7, AW.

¹³⁹ Board of directors 10.10.1924 Sign, A § 20, AW.

¹⁴⁰ Board of directors 16.10.1924 § 2. Walden to Heikel 24.10.1924. Office and technical managers were next in the managerial hierarchy after the CEO (plant manager), AW.

¹⁴¹ Walden to Heikel 30.10.1924, AW. Author's translation from the Swedish.

¹⁴² Board of directors 16.10.1924 § 2, AW.

¹⁴³ Board of directors 12.1.1925 § 2, § 3, AW.

¹⁴⁴ Christiansen to Walden 11.3.1925, AW.

title of Christiansen during the first months might be that of assistant plant manager, in reality he would be the CEO of the firm.¹⁴⁵

Christiansen's concerns were resolved since Heikel announced that he would leave the firm in April 1925. Thus, Christiansen was able to start as a CEO without longer delays.¹⁴⁶ His appointment resolved one of the acute managerial problems, but the firm also lacked office and technical managers. In April 1925, Walden, Procopé and Wegelius announced that they would not try to find a new technical manager from outside the firm, instead, they decided to extend the tasks of one of the firm's engineers, B. Renggli. The new office manager, Samuel Krogius was recruited from the Leppäkoski Paper Mill. Krogius started at the beginning of June 1925.¹⁴⁷ Overall, Walden's appointment in the spring of 1924 started the period of management replacements that continued at the operational level until the beginning of summer 1925. It should be noted that Heikel had an important role in strategic decision-making, but after Walden had started as chairman of the board Heikel explicitly became an operational level manager.

In January 1925, Heikel reported that, as result of the operational simplifications, they had achieved some improvements in production and sales. Similarly, Walden noted that the firm had real changes of operating without extra financing during the winter months. The cost cuts and asset reductions had taken effect. Nevertheless, at the same board meeting it was reported that a bank, Industri-Hypoteksbanken, granted Walkiakoski a loan of over ten million marks.¹⁴⁸ This loan was used to pay back the other loans received from PYP.¹⁴⁹

Although there were now some signs of the improvements in performance of the firm as well as in the paper markets in general, the problems were not overcome, as a serious complaint from Rio de Janeiro demonstrated.¹⁵⁰ An interesting issue in such a situation was also that Walden and Wegelius demanded considerable improvements in their remuneration. From the perspective of Walden this may have been a reasonable request since his working responsibilities had increased in the first months of the year.

The resignation of Heikel, most importantly, enabled the needed improvements in the cost accounting and the reporting systems. In fact, Walden's correspondence shows that he did not have accurate knowledge of the production results during the whole regime of Heikel.¹⁵¹ Nevertheless, it is also evident that another reason behind Walden's goal to harmonize the reporting of Walkiakoski and UPM was his intention to merge these two firms. There is lack of accurate evidence as to when this originally became the explicit goal of Walden, but a letter from HOP to Walden in May 1925 shows that the

¹⁴⁵ Walden to Christiansen 16.3.1925, AW.

¹⁴⁶ Board of directors 9.3.1925 § 15, AW.

¹⁴⁷ Board of directors: proceedings of Walden's, Procopé's, and Wegelius's visit to Walkiakoski 17—18.4.1925 § 2, § 4; Board of directors 22.5.1925 § 7; 3.8.1925 § 8, AW.

¹⁴⁸ Board of directors 12.1.1925 § 5, § 6, § 12, AW.

¹⁴⁹ Walden to Walkiakoski 11.3.1925; Heikel to Walden 13.3.1925, AW.

¹⁵⁰ Finnppap to Walden 17.1.1925, AW.

¹⁵¹ Walden to Walkiakoski 11.4.1925, AW.

first attempt of UPM to acquire the majority of Walkiakoski's shares had failed. Thus, the idea of the merger had most probably already been in the air in 1924.

Although the firm now had new managers, they were running without a clear understanding of the stream of production that would be most suitable for Walkiakoski. In April 1925, for example, Walden considered that the manufacturing of the high quality grades would be one solution to improve profitability.¹⁵² An important decision dictating future choices, however, was made in May 1925 when they decided to start the modernization and extension of the sulfate pulp factory.¹⁵³ Moreover, the situation in the pulp and paper market in 1925 was favorable for Walkiakoski. As a result, the production results were also stabilized.¹⁵⁴ Altogether, they did not anymore have an urgent need for drastic changes. In fact, in June Walden straightforwardly congratulated the whole organization on its good results in papermaking.¹⁵⁵

Walden often based his instructions and evaluations on the results of continuous benchmarking between the UPM and Walkiakoski mills. In so doing, he tried to find the most critical issues in the production processes of Walkiakoski that were in need of further development. Fluctuations in the demand and market prices had also directly affected Walden's suggestions. In July 1925, for example, he noted that there was an increasing demand for bleached sulfite pulp in Russia, and instructed that Walkiakoski should consider how and at what price they could produce this.¹⁵⁶ Indeed, the benefits of the improvements in the sulfite pulp factory gradually started to be felt and sulfite pulp became an important export article for Walkiakoski.

The recruitment of Christiansen also proved to be a successful decision. He almost immediately suggested how they should reorganize sulfate pulp production.¹⁵⁷ In June 1925, Christiansen presented a detailed report of how they had so far succeeded in developing the production processes and tried to find the most economical ways of manufacturing newsprint. In his response, Walden was clearly impressed with Christiansen's initiative, and a month later he openly applauded Christiansen's technical and administrative achievements.¹⁵⁸ Christiansen was clearly the competent manager that Walkiakoski had needed.

The main problems in management now seemed to be solved. However, the financial situation of the firm was still weak. In June 1925, Walden negotiated with the Bank of Finland (the bank manager Risto Ryti) and PYP for a ten million short-term loan (one year) for Walkiakoski from the United States at an interest rate of 6 $\frac{3}{4}$

¹⁵² Walden to Walkiakoski 27.4.1925, AW.

¹⁵³ Board of directors 22.5.1925 § 9, AW.

¹⁵⁴ Board of directors 22.5.1925 § 3, AW.

¹⁵⁵ Walden to Walkiakoski 20.6.1925, AW.

¹⁵⁶ Proceedings of Walden's visit in Walkiakoski at 21—22.7.1925, AW.

¹⁵⁷ Board of directors: proceedings of Walden's, Procopé's, and Wegelius's visit to Walkiakoski 17—18.4.1925 § 17, AW.

¹⁵⁸ Christiansen to Walden 27.6.1925. Walden to Christiansen 30.6.1925. Walden to Christiansen 24.7.1925, AW.

percent.¹⁵⁹ Such a loan was necessary in order to continue the modernizations and extensions in the sulfite and sulfate factories, although the loan was partly used to repay the other more expensive debts to PYP.

The firm also continued the asset reductions by trying to sell roughly 3500 hectares of forestland.¹⁶⁰ In September 1925, Walden reopened the question of a new power station. According to Walden, this project had been delayed for years as a result of the serious financial problems and the lack of adequate plans. However, the new power station, Walden stated, would considerably economize the production and enable further expansions.¹⁶¹ In short, they acknowledged that on the one hand there was a clear need for substantial investments in the production processes, but on the other hand the investments were impossible to implement without sufficient external funding.

At the end of 1925, the demand for Walkiakoski's newsprint started to decline and the market price of the raw material, mechanical wood pulp, was increasing. Accordingly, Walkiakoski was struggling with the same problem as in 1923. Likewise, the firm was still suffering from problems in paper quality. Christiansen, for example, noted that there were pieces of wood in the pulp produced by Walkiakoski; however, he also offered a solution to the problem.¹⁶²

1926 – 1927

In January 1926, the managers and board members finally became more convinced that the production of newsprint was excessively expensive and that in the future the firm would not be able to compete with the new "giant machines" of the North American newsprint manufacturers. Walkiakoski was in a situation that in order to ensure the future profitability of the organization they had to reorganize the whole production.¹⁶³

According to Christiansen, exporting increasing amounts of sulfate pulp was not profitable. Therefore, the only reasonable choice was to convert sulfate pulp into kraft paper. Walkiakoski had earlier produced kraft paper and demand for it had been satisfactory. The only open question in kraft paper manufacturing was the future level of Britain's import duties. Altogether, this decision redirected and simplified the production structure of the firm. The main streams of Walkiakoski's business were now sulfite pulp and kraft paper manufacturing. Because the price of sulfite pulp was steady, they did not have any need to convert it into paper. Thus, the bulk of sulfite was exported. The transformation, however, was not as radical as it might have been, since they continued to manufacture newsprint for the Russian markets, although on a much smaller scale.

¹⁵⁹ Walden to Walkiakoski 30.6.1925. Board of directors 3.8.1925 § 3, AW.

¹⁶⁰ An appendix in the board of directors meetings records, dated 23.9.1925 by the forest officer Bomansson. Unfortunately there are no records of the amount actually sold, AW.

¹⁶¹ Walden to Christiansen 28.9.1925, AW.

¹⁶² Board of directors 20.11.1925 § 6, § 15, § 20. The solution was a new machine (no further information), AW.

¹⁶³ Proceedings of the Walden's, Procopé's, and Wegelius's visit to Walkiakoski 12–13.1.1926, AW.

The managers announced that these decisions, in order to be fully realized, would require new drying and paper machines as well as more power.¹⁶⁴ The financial situation, however, did not allow investments in new paper machines. Therefore, one of the newsprint machines was converted into a dryer machine and the other to kraft paper production. In point of fact, in February 1926, the board of directors concluded that only the most necessary changes and acquisitions could be immediately implemented. However, they eventually took a preliminary decision to acquire two high-pressure steam boilers to alleviate the power problem.¹⁶⁵

In January 1926, Walden and Wegelius started the process for changing the company rules in order to enable an increase of capital stock.¹⁶⁶ That would, first of all, ease the financial distress of the firm and, second, enhance the potential for a merger with UPM. Moreover, Walden suggested that the number of board members should be reduced. The process took over two years and the stock issue was not realized until the end of 1928. The result pleased Walden—UPM finally became the main owner of Walkiakoski.¹⁶⁷ In October 1926, however, a businessman, J. Th. Lindroos, had foiled the future plans of Walden by buying the shares earlier owned by HOP. As a result, Walden and Wegelius threatened to resign from their positions. The conflict was soon resolved since Lindroos offered a notable proportion of his shares to Walden and Wegelius, who consequently also became important stockholders in Walkiakoski.¹⁶⁸

Before the stock issue was finally realized in 1928, they had to keep making necessary changes in the production processes that would have been impossible without sufficient funding. At the end of 1925, the total liabilities amounted to FIM 36.3 million (in 1924 the sum was FIM 32 million) and in 1926 the amount had increased by eight million to 44 million.¹⁶⁹ The modernizations and extensions were funded by external and mostly foreign loans. The intermediary banks were the Bank of Finland and PYP.¹⁷⁰

The fall of 1926 turned out favorable for Walkiakoski. In October, Walden reported that the kraft paper production had been profitable and the production of sulfate pulp had increased by 121 percent from the 1924 level. A price agreement with the Swedish and Norwegian manufacturers as well as a production quota with the Björneborg Paper Mill promoted this development by stabilizing both the international and domestic kraft paper markets. Accordingly, the new production line was started up in hopeful circumstances. However, the firm had problems in producing the dark qualities that customers were especially asking for. Therefore, they had to invest in a new cylinder for

¹⁶⁴ Proceedings of the Walden's, Procopé's, and Wegelius's visit to Walkiakoski 12–13.1.1926, AW. Newsprint production declined continuously and finally ended in 1930. The quality of newsprint demanded in Russian markets was lower than elsewhere.

¹⁶⁵ Board of directors 26.2.1926 § 11, AW.

¹⁶⁶ Walden to Wegelius 15.1.1926, AW.

¹⁶⁷ Board of directors 9.4.1926 § 3; 27.11.1928 § 3; 12.2.1929 § 21, AW.

¹⁶⁸ Board of directors 25.10.1926 § 26, AW; Nordeberg, 1980; Lindroos became the vice chair of the board.

¹⁶⁹ Board of directors 20.11.1925 § 6; 5.3.1927 § 2, AW. In 2002 Euro respectively M€ 9.7 in 1925, M€ 6.4 in 1924, M€ 11.6.

the kraft paper machine that enabled the production of these qualities.¹⁷¹ Most importantly, Walden emphasized that the production had to be made as easily realizable as possible. They could not afford to increase the pulp and paper stocks.¹⁷²

In spite of the ongoing investment program, the problems with the quality of kraft paper persisted. What is more, at the beginning of 1927, the kraft paper markets started to deteriorate. One reason for this was that the price agreement with the Swedish and Norwegian manufacturers had expired. The stiff price competition in Britain continued during the summer months and Walkiakoski even had to sell at a loss. Fortunately, the markets for sulfite pulp were satisfactory.¹⁷³ Altogether, the production remained profitable, but the financial situation was extremely difficult.¹⁷⁴ Another acute problem in 1927 was that the employees presented substantial wage claims—actually, the threat of a strike was constant.¹⁷⁵ However, this risk did not materialize.

In June 1927, Christiansen unexpectedly left the firm. He was not dismissed, on the contrary, Walden and Wegelius wished that he would at least continue on the board of directors. For this purpose, Wegelius gave up his seat on the board to Christiansen, who possessed the needed knowledge of the firm's operations. The new CEO (plant manager), K. E. Ekholm, was recruited from inside the firm. Ekholm had previously worked as the manager of the sulfite pulp mill. The management change did not happen at a good time, given that the whole of 1927 became difficult, although in the fall the kraft paper markets took a turn for better. As an indicator, the debt continued to increase and in December 1927 the total sum was FIM 49 million (€ 12.7 million, def. 2002).¹⁷⁶

In October 1927, Ekholm traveled to England and Sweden in order to gather fresh knowledge on the desirable quality of kraft paper and the customers' preferences. The journey was necessary since the firm was still receiving more and more complaints. Ekholm's journey made it more than explicit that Walkiakoski's quality was below the average "Swedish quality" that was saleable in Britain. Consequently, they had to continue to improve the production processes, and this was again dependent on the external funding. Another problem was the name of Walkiakoski, which had been badly sullied earlier in the 1920s.¹⁷⁷ New machines were acquired in order to solve the technical part of the problems. Fortunately, the kraft paper markets also began to recover in early 1928. This was partly because the cement industry had started to use paper sacks.¹⁷⁸

¹⁷⁰ E.g., Walden to Walkiakoski 20.9.1926, AW.

¹⁷¹ Walden to Waldemar Granberg 18.9.1926; Board of directors 6.10.1926 § 2, § 18, AW.

¹⁷² Walden to Christiansen 15.9.1926, AW.

¹⁷³ Walden to Christiansen 8.1.1927; Board of directors 11.4.1927 § 2, AW.

¹⁷⁴ Board of directors 2.6.1927 § 3, AW.

¹⁷⁵ Walden to Christiansen 4.4.1927, AW.

¹⁷⁶ Board of managers 30.8.1927 § 2, AW.

¹⁷⁷ Board of managers 29.10.1927 § 10; Walden to Ekholm 7.12.1927; Walden to Ekholm 8.12.1927, AW.

¹⁷⁸ Board of managers 24.2.1928 § 3, AW.

1928 – 1929

In April 1928, Walden made a concrete suggestion that they should change the main banking relationship because the Bank of Finland lent money at much lower interest (6 – 7 percent) than PYP (circa 8 percent). Since PYP was not willing to make a better offer, Walden's proposal was accepted in September 1928 and the Bank of Finland became the main financier of the firm.¹⁷⁹ Walkiakoski, however, retained its current accounts with PYP. All in all, this was not as radical a transformation as it may sound, given that the Bank of Finland had already negotiated Walkiakoski's foreign loans and it also financed other firms in the pulp and paper industry. Moreover, the head of the Bank of Finland, Risto Ryti, was a personal friend of Walden. On the one hand, the change in the banking arrangements amply shows that Walkiakoski was not dependent on one single source of finance.¹⁸⁰ On the other hand, the decision ensured the needed funding in future since Ryti promised that the Bank of Finland would support Walkiakoski's the forthcoming investments.¹⁸¹

As a whole, 1928 turned out to be much better than 1927. In September 1928, the total liabilities had decreased to FIM 44 million (€ 11.1 million, def. 2002) and in October, after the share issue, the sum was further decreased to FIM 37 million (€ 9.4 million, def. 2002). As discussed above, the main consequence of the share issue was that UPM became the main owner of Walkiakoski. The firms were not merged but practical cooperation became more feasible. Indeed, in February 1929 the firms already started to negotiate about integrating their raw materials acquisitions.¹⁸²

1929 also began positively. In February, the sales agents in Britain relayed information that the quality of Walkiakoski's paper had improved and in April Walden reported that they had orders for the kraft paper machines until the end of the year. The investments in steam power continued, too. However, the most important production investment was the acquisition of a new soda recovery boiler (FIM 6.7 million; € 1.7 million, def. 2002) for the sulfate pulp factory in order to improve kraft paper production. As it was promised, the Bank of Finland arranged the required credit.¹⁸³

Although the beginning of 1929 turned out well, the situation rapidly changed in the kraft paper markets as a result of the incipient depression. In November 1929, Walden and Ekholm reported the results of their journey to Britain concluding that there was a potential risk that they would have to produce kraft paper at a loss. Fortunately, the demand for sulfite pulp was keen and they were able to sell newsprint to Russia.¹⁸⁴

¹⁷⁹ The Bank of Finland's board of directors 5.6.1928, ABF. At the same meeting the Bank of Finland decided to grant a loan of FIM 17 million to UPM.

¹⁸⁰ Board of directors 12.4.1928 § 9; 11.5.1928 § 10; 1.10.1928 § 3, AW.

¹⁸¹ Walden to Ekholm 10.11.1928, AW.

¹⁸² Board of directors 12.2.1929 § 21. Memo 24.2.1929, AW.

¹⁸³ Board of directors 12.2.1929 § 14, § 19; 29.4.1929 § 2; 8.5.1929 § 1, AW.

¹⁸⁴ Board of directors 30.11.1929 § 2, AW. Newsprint manufacturing ended in 1930 because of the Russians' unacceptable terms of payment and demands for credit.

1930 – 1934

In 1930 the recession in the kraft paper markets was exacerbated by the overall economic depression. According to Walden, the extensions they had started in the previous years proceeded rather slowly, but they had succeeded already in creating some substantial advantages. Thus, in spite of the depression, the atmosphere at Walkiakoski was optimistic. In point of fact, in July 1930, they decided to found a new firm, Paperituote Osakeyhtiö, in order to start paper converting. Walden had already floated the idea of such a firm in 1927, but the cooperation with UPM made it much more attractive.¹⁸⁵ The following years showed that Paperituote without doubt became one of the most profitable parts of Walkiakoski's operations.

The cooperation with UPM and the intensified production processes also enabled numerous layoffs of workers. During the great depression it was more or less a general tendency to dismiss workers. However, the reductions in the Walkiakoski workforce were surprisingly massive. At the end of 1929 employees at Walkiakoski numbered 760. A year later the number was 670 and at the same time in 1931 they had only 470 employees. These workforce and wage cuts produced substantial savings. For example, in 1931 they saved FIM 3.3 million (€ 1 million, def. 2002) in wages compared to 1930. In 1932 the number of employees started to increase.¹⁸⁶

As a result of the depressed economic situation, the year 1931 was difficult for the whole organization. Cost cuts in the form of layoffs were needed. However, the most important thing was that the quality of pulp produced had finally reached a satisfactory level for the British markets as described in a letter from Price & Price:

“... we think the characteristics of the Walkiakoski pulp are now such as to make the grade a satisfactory one for this market. We know Walkiakoski will continue to manufacture to this standard, and therefore we hope to report an even better showing at the end of this year.”¹⁸⁷

The same innovative atmosphere continued during 1931. Accordingly, they decided to found their own research laboratory at Walkiakoski, although it also served the needs of UPM's mills.¹⁸⁸ Moreover, in the summer of 1931, the demand for Walkiakoski kraft paper began to recover and the trend continued during the fall. The finances of the firm also improved, the sum of debts being FIM 31 million (€ 9.3 million, def. 2002) in July 1931.¹⁸⁹

In 1932, the development mainly followed the same lines as in the preceding year. The positive trend in the volume of kraft paper orders turned down during the first months of 1932 and remained weak during the summer months. As a result, the paper

¹⁸⁵ Walden to Walkiakoski 3.9.1927; Board of directors 12.7.1930 § 7, AW.

¹⁸⁶ Board of directors 27.11.1931 § 2; 15.2.1932 § 3, AW.

¹⁸⁷ Board of directors 2.2.1931 § 3, (including a direct quotation from the letter), AW.

¹⁸⁸ Board of directors 2.2.1931 § 9; 30.3.1931 § 2, AW.

¹⁸⁹ Board of directors 8.7.1931 § 13; 27.11.1931 § 2, AW.

stocks increased alarmingly. Another negative issue was that the CEO (plant manager) Ekholm resigned from the firm in May and started as CEO of a forest industry firm, Kemi Osakeyhtiö. However, this management change was not dramatic and the former office manager of UPM, Samuel Krogius, succeeded Ekholm.¹⁹⁰

1932 culminated in the combined Walkiakoski's and UPM's board of directors meeting in August. At this meeting Walden concluded that in order to ensure Walkiakoski's future as a kraft paper mill, it needed at least one new Yankee machine to manufacture high quality papers. Walden declared that as a result of Walkiakoski's geographical location, the firm had no other choices than to produce highly refined kraft papers. In its current form, Walkiakoski was totally dependent on the British markets and had some quality problems even there. The decision was unanimous and the construction of the new machine started already in the same year. The realization of this major acquisition was assisted by two facts. First, it was incorporated with UPM's order for a new paper machine for the Myllykoski Paper Mill and, second, the Bank of Finland had promised to arrange the financing of the project.¹⁹¹

The effects of such an investment, of course, did not materialize instantly. The firm's recovery from the depression depended on its existing capabilities and changes in the external environment. In particular, the firm was dependent on the level of Britain's import duties and changes in the exchange rates that were volatile. In February 1933, however, Krogius reported that the order volume had clearly increased and Walkiakoski was, in fact, one of the best-booked kraft paper factories in the Northern Europe.¹⁹² The founding of an almost collusive Scankraft organization in 1932 further enhanced the performance improvements. The explicit function of this Nordic kraft paper factories' collective association was to stabilize and control markets.¹⁹³ However, more important than Scankraft's work was that the quality of Walkiakoski's kraft paper had considerably improved as a result of the long-term modernizations and extensions in the factories.

The profitability of Walkiakoski was further boosted in July 1933, when Britain cut import duties from 25 percent to 16.75 percent. Moreover, the construction of the new paper machine progressed well and it was already on trial by the summer. In sum, 1933 clearly showed that the firm had recovered from the depression and, most importantly, had evidently undergone a long but successful turnaround process.

In 1934, Walden suggested that the performance of the firm was on such a high level, thanks to the determined work in sulfate pulp and kraft paper production, that they were now able to concentrate their efforts to improve sulfite pulp production, too, by starting a new investment program.¹⁹⁴ 1934 continued positively and in May both the owners and the creditors of UPM and Walkiakoski finally reached agreement that the

¹⁹⁰ Board of directors 18.3.1932 § 2 § 3, AW.

¹⁹¹ Combined Walkiakoski and the UPM board meeting 11–13.8.1932 § 3, § 6, AW.

¹⁹² Board of directors 2.2.1933 § 9, AW.

¹⁹³ Board of directors 9.2.1934 § 3, AW. See also Heikkinen, 2000.

¹⁹⁴ Board of directors 9.2.1934 § 23, AW.

fusion between the firms would be the most profitable alternative for all parties. The merger was officially accomplished on September 30, 1934.¹⁹⁵

Identification of the Entities and their Influence

In the case of Kymi the main changes in the stakeholders' resource dependence and network position based influence were relatively clear and occurred over a short period of time. In Walkiakoski the transition was more gradual but at the same time some of the changes were more thorough, that is, an important stakeholder of the firm all at once became a non-stakeholder and vice versa. In the following, I seek to provide an accurate analysis of how the influence of different stakeholders developed throughout the whole period. However, for the sake of intelligibility, I graphically illustrate the network positions of the stakeholders only at the beginning of 1923 (the decline had already started) and at the end of 1925 (the explicit turnaround had ongoing). Altogether, these two reference-points highlight the main changes occurring in the network and in the influence of the stakeholders regarding organizational survival.

Resource Dependence Based Influence

Owners and creditors. In Kymi, the explicit reaction of the creditors triggered the turnaround activities. In Walkiakoski, too, the main creditor, PYP, expressed its concern regarding the organization's performance. However, it was the change of the main owner that more clearly drove the organization to the awareness of the accelerating decline. Nevertheless, owners and creditors were the stakeholders on whom the organization was increasingly dependent during the period 1921—1923. As an example, in 1921 the total amount of loans provided by PYP was FIM 11.3 million (€ 3 million, def. 2002). In the next year the sum had over doubled to FIM 23.8 million (€ 6.5 million) and in 1923 the amount was over FIM 30 million (€ 8.2 million).¹⁹⁶ Thus, the organization was *highly* dependent on the resources of PYP.

Similarly, the resources of the biggest owner, Moses Skurnik (almost 50 percent of the stock), can even be considered *highly* important. Although Skurnik was not interested in and did not take part in the actual management of the firm, he was able to influence, for example, how the annual profits were used. In other words, he was able to be a barrier restraining the development of the organization. Other owners, such as Professor Waldemar Granberg, were more or less in the same kind of situation. However, although they had a strong representation in the board of directors, their resources in respect of the organizational survival, as a group, were no more than *moderately* important.

¹⁹⁵ Combined Walkiakoski and the UPM board meeting 22.5.1934 § 6, AW.

¹⁹⁶ Internal financial statements.

Regarding the owners and the creditors, their resource dependence relations began to change at the end of 1923. First, Skurnik became a non-stakeholder and HOP replaced him as the biggest owner (i.e., it took over Skurnik's *highly* important resources). HOP was more interested in the management of the organization and therefore the bank manager, C. J. Wegelius was appointed to the board of directors. However, the main owner already changed in 1926, when J. Th. Lindroos bought the shares owned by HOP. The situation immediately transformed further when Walden and Wegelius became important owners. Thus, in respect the ownership, the organization was rather fragmented until 1928, when UPM became the biggest owner. The resources of UPM came to be very important in 1928, but during the period 1924—1928 they were only low or *moderately* influential. The resources of PYP remained influential until 1925, when the Bank of Finland and Industri-Hypoteksbank started to finance and arrange foreign financing for Walkiakoski. Thereafter the organization's dependence on PYP's resources was only *moderate*. Finally, in 1928 the Bank of Finland replaced PYP as the main financier (having thereby *highly* important resources).

Managers. The resources of the managers played an important role throughout the whole decline and turnaround. In the period 1922—1924, the actual manager of the organization was B. O. Heikel. However, as described in the historical narrative, he was not able to bring about the needed change in the organization, but instead supported the passive behavior of the owners. In this respect it is difficult to estimate the influence of Heikel's resources. However, in view of the fact that he was the *de facto* user of the owners' resources, Walkiakoski was at least *moderately* dependent on his resources. When Wegelius had joined the organization, the importance of Heikel diminished and, conversely, the influence of Wegelius became at least equally important (that is, *moderate*).

As regards the organization's dependence on the managerial resources, the situation changed considerably at the same time as Walden was appointed chairman of the board and the actual leader of the firm. Walden, besides having a broad knowledge of papermaking and the management of pulp and paper companies, had close relationships with several stakeholders. These ties, of course, make the examination of stakeholders' network positions crucial. Nevertheless, as of 1924 Walden had the actual power over the important decisions concerning the organization and therefore possessed a *high* degree of critical resources regarding organizational survival.

After the resignation of Heikel and the appointment of Christiansen, Walden was even more directly able to influence and control the operations of the firm. On the one hand, Christiansen had a rather independent position as a CEO but, on the other hand, Walden in the end made the decisions. Altogether, the organization was at least *moderately* dependent on the resources of Christiansen as a competent manager. However, this dependency was not crucial since Ekholm was successful in replacing Christiansen at the end of 1927. Of the members of the board of directors, the role of Procopé was evidently most important, but in respect of organizational survival the

resources of the board members excluding Walden, Heikel/Christiansen/Ekholm, and Wegelius were, as such, no more than *moderate* important.

Other stakeholders. As the historical narrative describes, a great deal of the organization's problems arose from inability to satisfy customers' needs. Therefore, the organization during the whole period was dependent on the resources of Finnpap as it arranged the sales through the sales agents. In this respect Finnpap possessed critical resources. However, the interests of Finnpap were principally the same as Walkiakoski's. Therefore, its handling of those resources made them less than highly critical for organizational survival (that is, *moderately* important). The effect of the paper cartels with the Finnish and Scandinavian producers was even *moderately* influential during the period of turnaround. This was because small changes in the profit margins had significant effects on the overall results.

The resources of suppliers were fairly insignificant (*low*) during the whole process. Walkiakoski owned an adequate amount of forest and therefore was not dependent on individual suppliers. Similarly, the resources of the factory workers were, as a whole, crucial but in respect of organizational survival they were no more than *moderately* important. In fact, the major layoffs, especially during the Great Depression, indicate that the individual workers did not possess critical resources. Of course, since one of the main problems in the organization was the poor quality of pulp and paper, competent engineers could be seen as an important resource. The government, as a last noteworthy stakeholder, did not have direct resources to influence organizational survival.

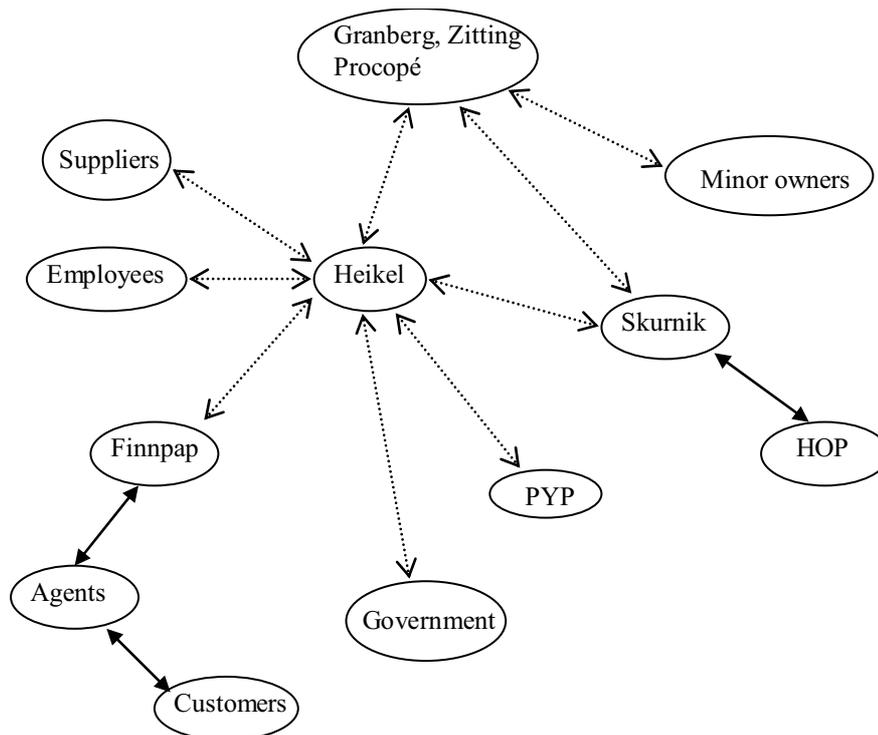
Network Position Based Influence

Figures 23 and 24 illustrate the network of inter-stakeholder relationships surrounding Walkiakoski up to 1923 and after 1925. During the period 1921—1923, the network was fairly simple. In terms of the betweenness centrality, the position of the CEO Heikel was obviously important. He was the intermediary between the firm and its various stakeholders. Although it is difficult to accurately estimate the exact nature of these communication relationships, Heikel possessed and controlled information the stakeholders were interested in. Therefore, his network position was obviously *highly* influential. Finnpap was another stakeholder that had at least a *moderately* influential intermediate position between the firm, the sales agents, and the end users throughout the decline and turnaround process.

As Figure 24 shows the network of inter-stakeholder relationships had changed considerably by 1925 and the whole network had become more complicated if compared to the situation at the beginning of 1923. The most influential position was obviously that of Walden. Most of his relationships were communicational and some of them were based on the personal friendship. Examples of the latter are the relationships with Procopé, Wegelius, and Ryti (the head of the Bank of Finland). Walden also had a close relationship with Finnpap and its managers, although he did not have an official position in the organization during the turnaround of Walkiakoski. Moreover, Walden

was an owner and the chairman of the board of directors of UPM. In these relationships the role of Walden was dominant as regards the resource dependencies. This situation was emphasized after Walden had become a significant owner of Walkiakoski.

Figure 23. Network of Inter Stakeholder Relationships of Walkiakoski until 1923

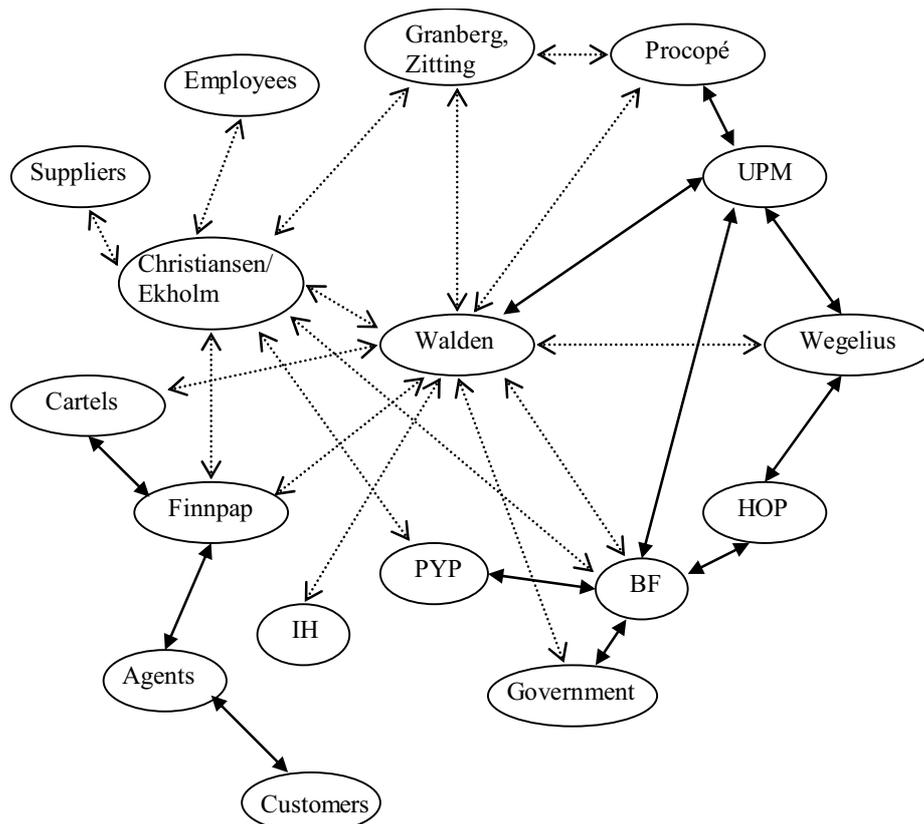


The nature of the relationship between the CEO (that were respectively Heikel, Christiansen, Ekholm, and Krogius) and Walden was divaricated. On the one hand, the CEOs relayed most of the information between Walden and the production processes including communication with the suppliers, employees, and some creditors, though Walden also personally visited the mills. On the other hand, Walden, in practice, had the power to dismiss the CEO if he so wished. Altogether, it can be concluded that Walden as well as the CEO had *highly* influential network positions in respect of organizational survival.

Wegelius had an important intermediate position in the network until 1926 when HOP sold its stocks. Thereafter, although Wegelius was also a member of the UPM board, his network position was not more than *moderately* influential. HOP, in turn, was dependent on the information relayed by Wegelius. Thus, the network position based influence of HOP can be seen as *low*. The network positions of the other board members remained low in influence. However, as regards to the negotiations concerning the stock issues and the merger with UPM, the board members had a more influential position as

they were situated between the owners of Walkiakoski and UPM (of course, the board members were also minor stockholders). Therefore, their position can be considered *moderately* influential with some limitations.

Figure 24. Network of Inter-stakeholder Relationships of Walkiakoski after 1925



UPM developed into a noteworthy stakeholder of Walkiakoski as early as 1925, when it expressed an interest in acquiring the Walkiakoski shares owned by HOP. Therefore, UPM already had a *moderately* important position in the network before it became the owner (but not the majority one) in 1928. First of all, UPM had direct relationships to the management of Walkiakoski through Walden, Wegelius and Procopé. However, since Walden was the actual leader of UPM, he was able to use the firm for his purposes, more than the other way around. Therefore, the influence of the network position of UPM with respect to Walkiakoski should not be overestimated.

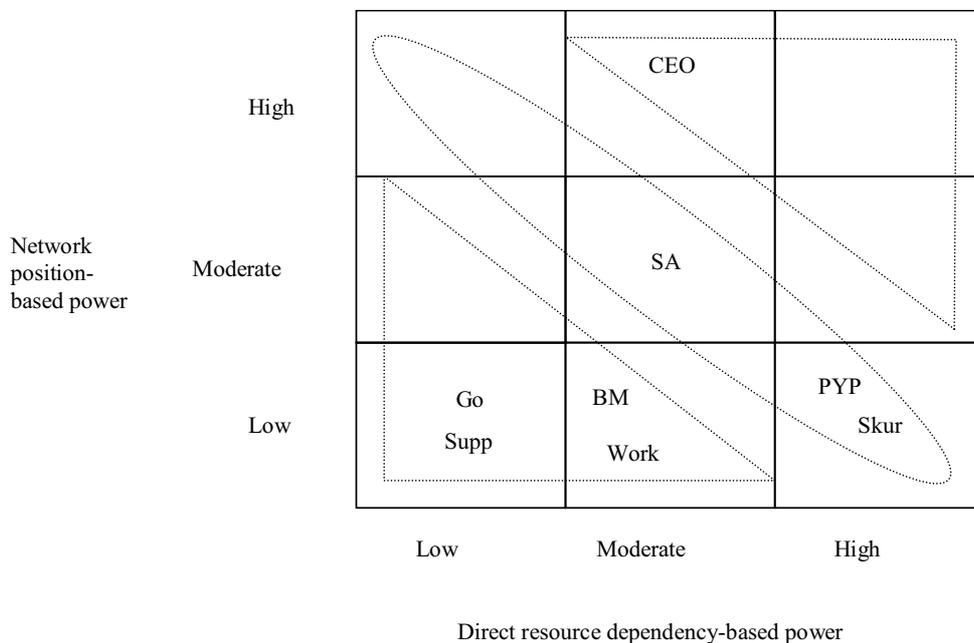
The network positions of the creditors were not as pivotal as they were in the case of Kymi. In fact, PYP's position was *low* during the period it was the main creditor. The Bank of Finland, after becoming the main financier, possessed a *moderately* influential position, partly because it was also financing UPM. The network position based

influence of the minor creditors was *low*. The paper cartels had become noteworthy stakeholders during the turnaround. However, their network position based influence can only be seen as *low*. Other stakeholders such as the factory workers, the suppliers, and the government stayed in network positions *low* in influence throughout the decline and turnaround.

A Combined Perspective: The Properties of the Stakeholders

The influence identification matrix presented in Figure 25 illustrates Walkiakoski's stakeholders' ability to activate functional components of mechanisms until 1923. The matrix in Figure 26, in turn, depicts the situation after 1925, showing some obvious changes. First of all, however, it is noteworthy that during the intensifying decline, the organization did not have a stakeholder with both highly influential resources and a highly influential network position. The network position of CEO Heikel (CEO) was highly influential, but his resources were only moderately influential. Nevertheless, Heikel was obviously a governing stakeholder until 1925, when he was dismissed. Thereafter, the CEOs (Christiansen, Ekholm, Krogius) assumed Heikel's status, each in turn, as governing stakeholders. Nevertheless, Heikel was the only governing stakeholder during the initial decline.

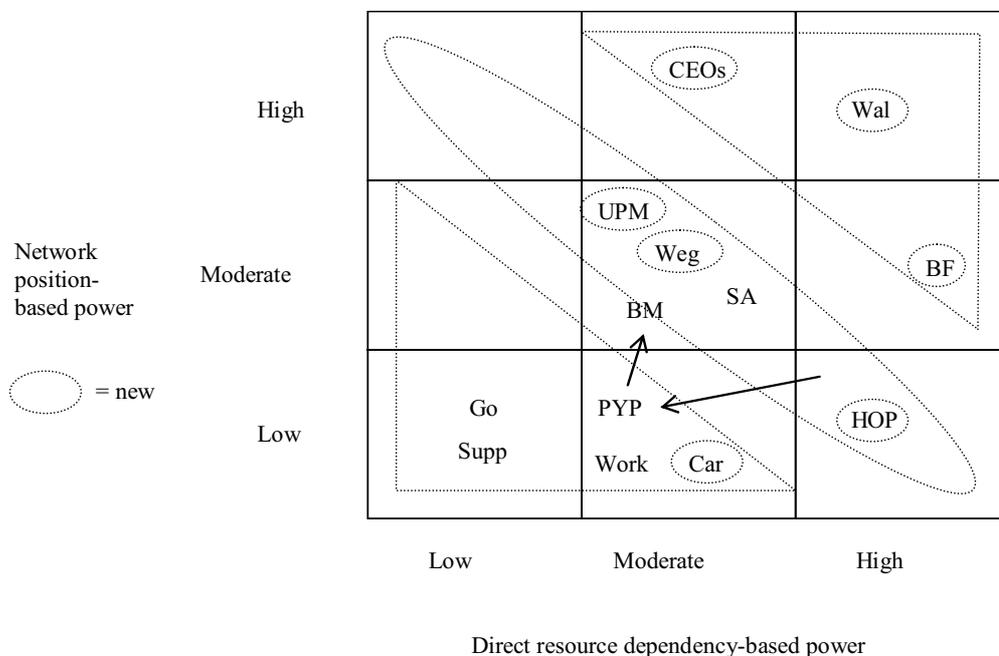
Figure 25. Influence of Walkiakoski Stakeholders until 1923



The influence of Moses Skurnik (Skur), as already discussed, was rather problematic from the perspective of the organization. He did not have an influential network position in respect of the other stakeholders, but he had significant resources on

which Walkiakoski was heavily dependent. As a result, Skurnik was obviously a potential stakeholder until his position was transferred to a new stakeholder, HOP, which in turn became a non-stakeholder as early as in 1926. Another potential stakeholder until 1923 was PYP. As a main financier of Walkiakoski, PYP had influential resources, but due to the increasing financing of the other banks, and after the Bank of Finland had become a noteworthy stakeholder and the main financier of the organization, PYP transformed from a potential stakeholder to a minor stakeholder. The third potential stakeholder before 1923 was the sales association, Finnmap (SA), although it could with some limitations even be considered a governing stakeholder. Be that as it may, the influence of Finnmap remained fairly stable throughout the process.

Figure 26. Influence of Walkiakoski Stakeholders after 1925



As Figure 26 illustrates, the organization acquired several new and influential stakeholders during the process. In addition to the CEOs, an indispensable new governing stakeholder was Walden (Wal) when he began as a chairman of the board of directors. His resources and network position, if possible, turned out to be even more influential during the turnaround. UPM, as another new stakeholder, developed during the period 1924—1932 from a minor stakeholder to a governing stakeholder as its resources gradually became more important. The network position of UPM, however, remained fairly constant throughout the period. Accordingly, on average, UPM is classified into the group of potential stakeholders in Figure 26.

The influence of Wegelius (Weg) also changed somewhat during the turnaround. In 1923, as a new stakeholder, he was put on the board as a representative of HOP (which

was a potential stakeholder). Consequently, he was able to control the very important resources and took part directly in the management of the organization. However, after the appointment of Walden, Wegelius clearly became a potential stakeholder. In addition of the indisputable governing entities (Walden and the CEOs), the new main creditor of the organization, the Bank of Finland (BF), can be included in the group of governing stakeholders since 1928. Altogether, as in the cases of Wegelius and UPM, the line between potential and governing stakeholders was somewhat vague.

Finally, of other stakeholders, the workers (work) throughout the decline and turnaround were minor stakeholders, even if they possessed moderately influential resources. Similarly, the government (Go) and the individual suppliers (supp) can in all respects be seen as minor stakeholders throughout the process. The paper cartel(s) (Car) (a new stakeholder) had fairly notable resources, but the network position makes it a minor stakeholder. The influence of the rank-and-file board members (BM) is somewhat more difficult to categorize. Their network position was in principle low in influence, but during the merger negotiations it became moderately influential, which makes them potential stakeholders.

Event Structure Analysis

The methodological procedure used in the case of Kymi in Chapter 6 also provides the basis for the analysis of the causal event structure of Walkiakoski's decline and turnaround process. The result of this analysis is the causal diagram of the process illustrated in Figure 27. It shows the events and actions in causal and, naturally, chronological order. Following the logic of two levels of mechanisms, each of the case-specific ETHNO codes is substituted in the event/activity chronology presented in Appendix 2 by a general code. In the following discussion, that seeks to open up the event structure, the general level concepts that substitute for concepts used in the diagram are given in italics.

The causal diagram evidently depicts one external (*EFD/ QC1*) and two internal (*IFD/ SAT, EP1*) initial forces for the organizational decline. At the beginning of the (blinded) decline, the members of the organization and especially its owners were satisfied with the current performance and insisted on huge dividends (*IFD/ IO*). None of the required steps were taken to develop the mills and the products, although the customers continually complained about the poor paper quality and the problems with punctual deliveries. At the same time, as an external force, the general conjuncture in the pulp and paper markets was weakening. In all, the organization had arrived in the first transition zone toward insolvency.

The complaints of the customers and the sales association, and finally the explicit financial difficulties, made the CEO aware of the decline (*IAD/ SD*). As the diagram of the event structure shows, this was the first of the two main factors which initiated

resistance to the decline and created the general awareness of the situation. The other main impulse was the external reaction of a creditor (*ERD/ CR*). As a result, the organization began to move on to the second transition zone.

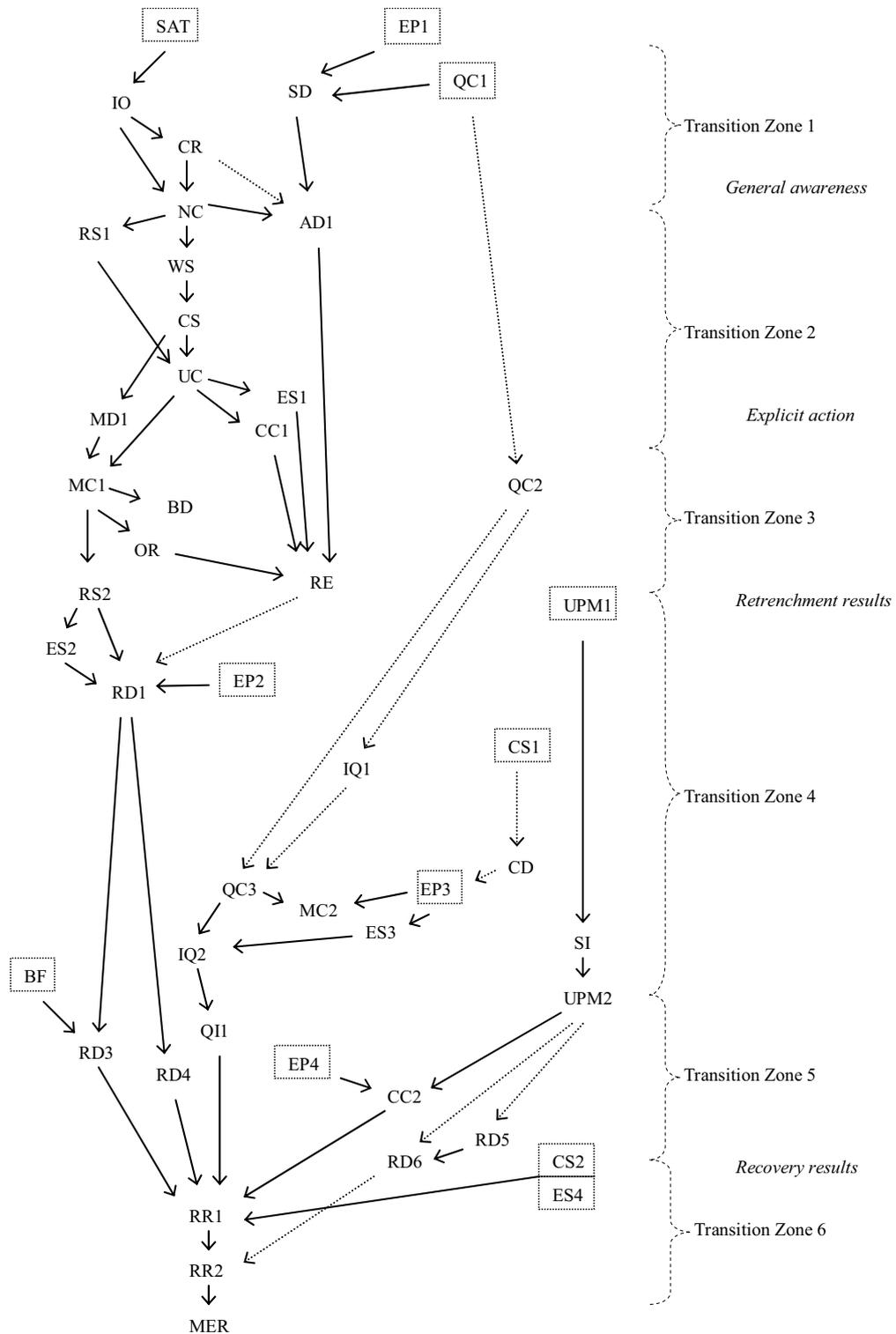
The creditors' reaction, together with the main owners' financial difficulties, led to a change of ownership and changes in the board of directors and thereby the management of the organization (*MC/ NC, WS*). The changes on the board and management were a clear turning point in the decline leading to the implementation of the first asset divestments (*RA/ AD1*) and suggestions concerning the firm's production strategy (*ERS/ RS1*) and the overall situation (*ERS/ CS*). As a result of the evaluations by the new managerial actors, understanding of the actual crisis (*UC/ UC*) was finally achieved.

These evaluations and the received understanding were followed by determined cost-cutting actions (*RA/ CC1*) and a loan application (*FS/ ES1*). However, they also led to managerial friction (*OD/ MD1, BD*) followed by changes in top management (*MC/ MC1*) as Walden changed the managers of the factories and the CEO. Altogether, the organization was ready to move on to the third transition zone as the first explicit counter measures against the crisis had been taken.

Following the management change and the above-mentioned actions, the new CEO was able to intensify the operational restructuring (*RA/ OR*) contributing to the first positive results (*RE/ RE*) received from the retrenchment actions. Accordingly, the organization was clearly into the third transition zone, and after the decline had stopped it soon moved to the fourth transition zone. At the same time, the new CEO also suggested a novel direction for the firm's production (*ERS/ RS2*). However, the strategic decision to radically change the firm's existing production structure (*RD/ RD1*) was not made until the financial support had been arranged (*FS/ ES2*) and, more importantly, external pressure had emerged in the form of declining newsprint prices (*EPD/ EP2*). Fortunately, the general agreement of the production quotas soon relieved this external pressure of the markets (*ESR/ CS1*).

The first initial force behind the decline, the incompetent management and ownership, was finally eliminated and the decisive recovery decision was made in response to the initial internal reason for the decline. The firm had passed the nadir of the decline (i.e. the fourth transition zone) and started gradual recovery. However, no clear solution had been found for the second initial internal reason for the crisis, that is, the inadequate quality of paper. Although the financial situation had improved as a result of the retrenchment actions, the firm still continued receiving rather serious complaints concerning the inadequate quality of the paper they produced (*IFD/ QC2*). Some investments were made to improve the quality (*RD/ IQ1*), but evidently the efforts were not sufficient as the criticism continued (*IFD/ QC3*).

Figure 27. Causal Event Structure of the Decline and Turnaround Process of Walkiakoski



Complaints about the quality of the paper, together with the declining prices and diminishing order volume (*EPD/ EP3*), that were partly results of the disintegration of the cartel agreement (*EPD/ CD*), led to the peaceful change of CEO (*MC/ MC2*), further financial support from the creditor (*FS/ ES3*), and considerable investment in new machinery (*RD/ IQ2*). This finally made possible the significant improvements in paper quality with the acknowledgement of the customers (*RR/ QI1*). This can be seen as the first sign of emerging recovery. The organization has clearly entered the fifth transition zone.

The recovery strategy was further supported by the acquisition of new machinery (*RD/ RD3*) and the founding of a paper converting company (*RD/ RD4*). The external support for the recovery in the form of cooperation was received from UPM, which became the main owner of the firm (*RD/ UPM2*). The chain of events that led to UPM's ownership started after the firm had received the first obvious retrenchment results (*RD/ UPM1*) and the required equity issue had been implemented (*FS/ SI*). Moreover, almost simultaneously, the Bank of Finland promised further support for the investments needed (*FS/ BF*).

The beginning of the cooperation with UPM, and the obvious move to the fifth transition zone, occurred in favorable circumstances—just before the Great Depression (*EPD/ EP4*). The cooperation enabled, in response to the depression, bigger cuts in the wages and the numbers of employees than would otherwise have been possible (*RA/ CC2*). In spite of the depression, the firm also continued the recovery activities by investing in research and development (*RD/ RD5*) and in a new paper machine (*RD/ RD6*). These investments were clearly supported by the cooperation with UPM. The ongoing recovery actions, the cost cutting in the face of the depression, and the external support for recovery in the form of the cartels, decreases in the custom duties, and the currency devaluations (*ESR/ CS2, ES4*) led to the explicit recovery results (*RR/ RR1, RR2*), progress to the last transition zone, and finally to the decision on the merger with UPM.

Chapter 8

United Paper Mills

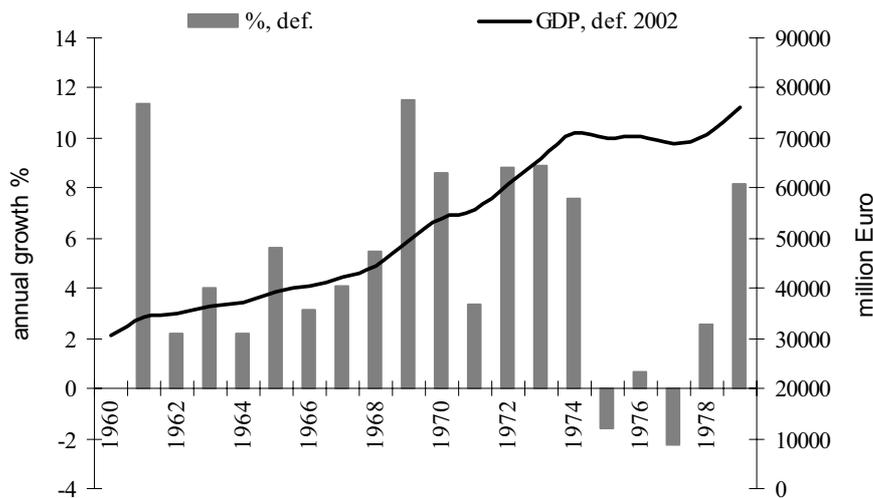
Organizational Context and Performance

As in the previous cases, before presenting the historical narrative I describe the main elements of the organization at the beginning of the 1960s, the prevailing organizational and industrial contexts, as well as the main indicators and parameters regarding the production and financial performance of United Paper Mills. In the 1960s, the core of UPM consisted of four paper mill combinations: Kaipola, Jämsänkoski, Simpele, and Tervasaari (Walkiakoski). The firm also owned the Paperituote paper converting factory, the Jylhävaara engineering workshop, and the Walke chemicals and glass factory, all located in Valkeakoski. In addition, UPM had started internationalization in 1952 by setting up a paper sack factory in Israel. The internationalization intensified during the last years of the 1950s and at the beginning of the 1960s, when UPM both bought and founded several paper and paper sack factories. The main geographical area of the expansion was Italy. In 1958, the first foreign paper sack factory, Unicarta S.p.A., was founded at Trieste. The increase of the paper sack production capacity continued in 1959 when UPM bought 50 percent of SACCA's shares. During the same year UPM also bought the majority holding (51%) of Tiburtine Corporation consisting of two small, loss-making, paper mills. These were the first foreign paper mills of UPM. In 1960, the firm continued the Italian expansion in paper sack manufacturing by buying together with Donzelli corporation three sack factories, FISI, SIA, and SIM, which

together constituted the FISU group. Thereafter, a sales company, Commercialisacco, was founded in order to organize the sales. UPM had a 50 percent holding in the firms.

These were the last major internationalization operations executed in Italy. However, in the same year UPM bought the Onibla paper mill from Brazil together with Haarla Corporation. In addition, in 1960 and 1961, investigations of other possible acquisitions in Brazil and Chile were made. The following acquisitions, however, did not happen until in 1962, when the Downings paper mill was bought in England (100%) and a small paper sack factory, Pappiersver HF, was founded in Island with a 51 percent share of interests (officially 49%). In order to arrange the ownership relations of the foreign firms, UPM founded two holding companies, United International and its subsidiary company Ilves SA (the latter located officially in Switzerland).¹⁹⁷ In all, during the early 1960s, UPM was the most internationalized pulp and paper company in Finland.

Figure 28. Finland's GDP: Development and Annual Growth 1960–1979



Source: Hjerppe, 1988.

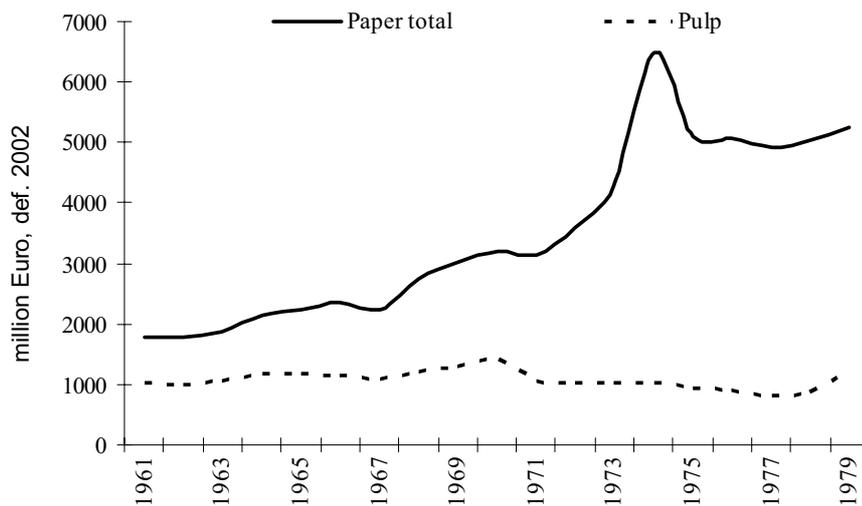
From the viewpoint of the Finnish national economy the phase from 1961 to 1974 was for the most part positive (Figure 28). In fact, the post war economic boom continued throughout Western Europe. The average yearly volume growth of Finland's GDP in these fourteen years was as high as 6.2 percent, although the annual fluctuation was substantial. The Finn-EFTA agreement in 1961 and the devaluation of the Finnish

¹⁹⁷ For more detail, see Lehto, 1996: 52–68; Nordberg, 1998: 179–223.

mark in 1967 by 23.8 percent partly reinforced this affirmative trend.¹⁹⁸ The growth period ended in 1975, and thereafter, during the global depression (1975—1977), GDP decreased. However, in 1979 the development of GDP returned to the same growth trend as before. Despite the depression, the average yearly growth of GDP in the period 1961—1979 was 5.0 percent. In total, GDP increased circa 148 percent.

The development of the Finnish pulp and paper industry followed lines similar to those of the national economy. Despite the price fluctuations, the value of paper exports increased from the beginning of the 1960s to the years of depression by 261 percent. During this period, only in 1967 and 1971 did the value of paper exports fall. Most importantly, as Figure 29 shows, in the 1960s and the 1970s the industry pronouncedly focused on papermaking. It is illustrative that the total value of annual pulp exports was at the same level in 1979 as it was in 1961.

Figure 29. Value of Finland's Pulp and Paper Exports 1961—1979



Source: Statistics of foreign trade, SVT.

During the 1960s a total of twenty-six paper machines were constructed. In 1970, for example, the annual newsprint manufacturing capacity was over million tons higher than it has been ten years earlier. The same trend continued through the first half of the 1970s, when thirteen new paper machines were built. Seven of these machines had an annual production capacity over 110 000 tons of paper. The preceding numbers aptly demonstrate the substantial increase in the paper manufacturing capacity.¹⁹⁹

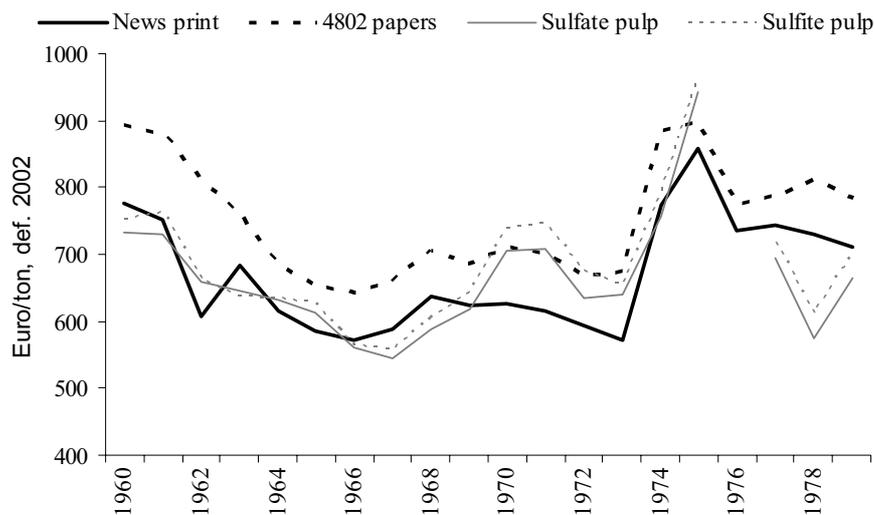
¹⁹⁸ See e.g. Heikkinen, 2000; Junnila, 1970. The devaluation of the pound of England in November 1967 cut some of the benefits provided by the domestic devaluation. The previous devaluation (28.1%) was implemented in 1957.

¹⁹⁹ For more detailed data concerning the paper machines in Finland, see Lund (1999).

At the same time as the production capacity was increasing considerably, the overall price levels of pulp and paper decreased from 1961 to 1966 (Figure 30). Thereafter the prices of different papers remained fairly constant, whereas the prices of pulp increased to some extent until 1971, when both prices turned into a slight decline. However, in 1974 the pulp and paper markets overheated. For example, the average free on board price of newspaper increased by 35 percent and the total value of Finland's paper exports by 51 percent in one year.

The bubble burst along with the accelerating depression in 1976. The price of pulp soared, although its influence on the industry was relatively modest owing to the focus on papermaking. The decline in the prices of paper had a more notable influence on the industry performance. Nevertheless, in 1977 the price level of papers was still much higher than it was in 1973. After the sharp fall, as illustrated in Figure 30, the total value of paper exports remained on a stable level during the years 1975–1978 before turning into increase.

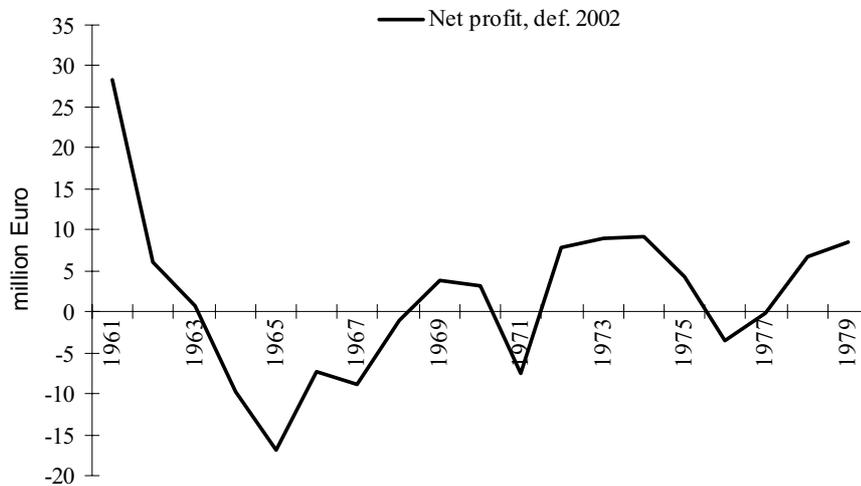
Figure 30. Development of FOB Prices of Pulp and paper 1961–1979



Source: Statistics of foreign trade, SVT.

The developments of the profit/loss (Figure 31) as well as the rates of returns (Figure 32) provide indicators of UPM's performance in the 1961–1979. As both figures indicate, the financial performance of the firm was in a sharp decline during the first half of the 1960s. The data used in the calculations is from the internal accounting and in particular from the auditing report of KOP's credit information department dated 20.3.1968. In the official accounts, the 1960s, as a whole, were presented as profitable, even if the trend in these accounts followed the same lines as in the more reliable ones.

Figure 31. Net profit/loss of UPM 1961—1979

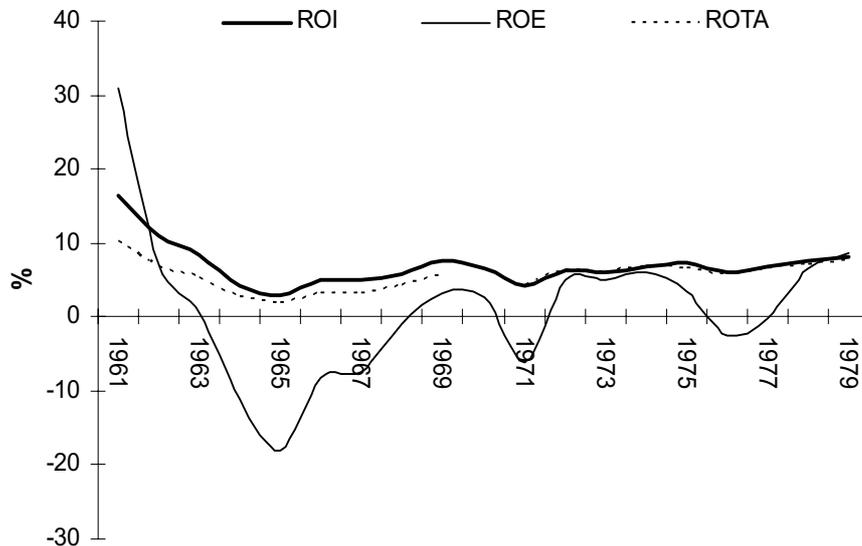


Source: The data for the years 1961–1971 are from the internal accounting reports and KOP’s credit information department’s report dated 20 March 1968 (An enclose in Virkkunen’s letter to Walden of 22 March 1968), AUPM. Data for the years 1972–1979 are from official financial statements. Official statements for the years 1961–1971 show more positive results.

There are also diverse data for the years 1961 and 1971. Therefore, it is possible that the actual result in 1961 was weaker and in 1971 better than presented in the figures. However, various financial accounts show explicitly that the organization was making loss in 1971. For example, the combined result of the foreign subsidiaries was FIM 1 637 000 (€ 1 815 769, def. 2002) in the negative side of the break-even point. In Finland, Simpele one the unit level was the biggest problem with a loss of over FIM 16 million (€ 17.7 million, def. 2002). The most profitable unit that year was Paperituote with six million profits (€ 6.6 million). The rest of the units achieved results from both sides of the break-even point.

According to the financial parameters, the organizational decline reached its nadir in 1965. Nevertheless, the result was already negative in 1964 and not until in 1969 did the organization return to the positive side of the profit line. As noted, 1971 interrupted progress in respect of the financial performance, but during the years 1972–1975 the organizational recovery was established, although the returns on investments and equity remained on a modest level throughout period. The external force of the worldwide depression pushed UPM’s profits under the break-even point in 1976. However, in terms of return on investment (ROI), the influence was fairly insignificant and already in 1977 ROI had returned to its level before the depression.

Figure 32. Return Rates of UPM 1961—1979



Source: As in the above figure.

Equity ratio is an indicator that can be used to describe an organization's solidity in the long run. In respect of this parameter, UPM (Table 4) was running almost throughout the whole period on an unsatisfactory level. Only during the years of 1971–1973, in the phase of the financial recovery, was the equity ratio somewhat acceptable. From the perspective of relative indebtedness, the state of affairs was not much better. In short, UPM in the 1960s and the 1970s was deep in debt. In terms of liquidity, the situation was most difficult in the beginning and the mid-1960s when both quick and current ratios were far below the satisfactory level. The turnaround activities raised the current ratio to a satisfactory level. Quick ratio also improved but remained on a poor level.

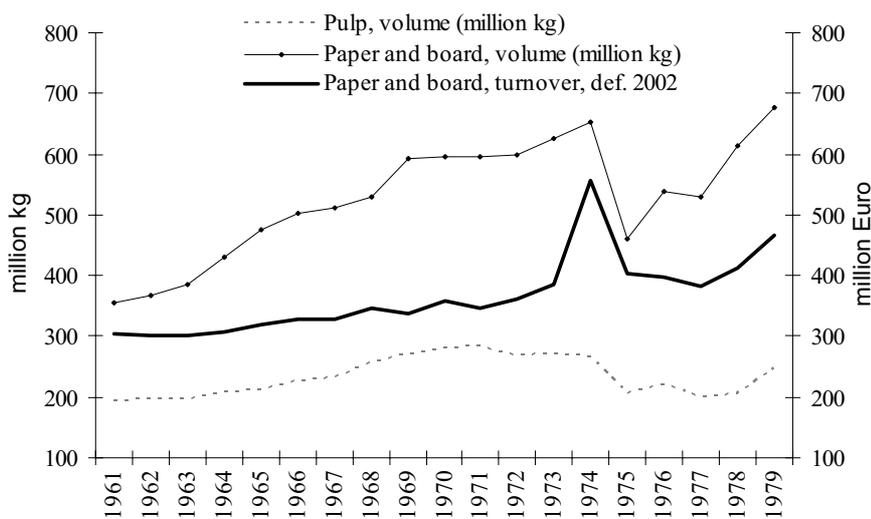
As shown in Figure 33, production quantities of paper increased annually from 1961 to 1974. The growth was fastest in the period 1961–1969 when the total volume of paper and board produced increased by 67 percent. However, during the same period the sales of papers increased by only 11.5 percent. Of course, these numbers are not directly comparable since the price of paper declined from 1961 to 1966. However, they still indicate that the heavy investments in manufacturing capacity had a rather modest impact on actual sales. The overheating of paper markets (in 1974) before the collapse and depression shows in UPM's figures and in Finland's pulp and paper exports in general (see Figure 29).

Table 4. Solidity, Liquidity, and Relative Indebtedness of UPM 1961–1979

| | Equity ratio, % | Relative indebtedness, % | Quick ratio | Current ratio |
|---------------------|-----------------|--------------------------|-------------|---------------|
| 1961 | 16.76 | 64.38 | 0.23 | 0.39 |
| 1962 | 15.50 | 66.09 | 0.29 | 0.46 |
| 1963 | 16.37 | 72.62 | 0.29 | 0.50 |
| 1964 | 14.21 | 77.24 | 0.36 | 0.72 |
| 1965 | 14.00 | 81.36 | 0.37 | 0.94 |
| 1966 | 13.33 | 82.25 | 0.29 | 0.71 |
| 1967 | 16.16 | 86.21 | 0.45 | 1.07 |
| 1968 | 18.39 | 79.10 | 0.35 | 0.89 |
| 1969 | 18.54 | 70.94 | 0.38 | 0.90 |
| 1970 | | 70.73 | 0.37 | 0.92 |
| 1971 | 22.16 | 77.87 | 0.42 | 1.18 |
| 1972 | 25.07 | 80.23 | 0.43 | 1.29 |
| 1973 | 22.47 | 88.32 | 0.31 | 1.11 |
| 1974 | 19.47 | 65.49 | 0.41 | 1.06 |
| 1975 | 16.27 | 77.92 | 0.39 | 0.97 |
| 1976 | 14.06 | 99.15 | 0.32 | 1.00 |
| 1977 | 13.11 | 94.54 | 0.36 | 0.94 |
| 1978 | 11.61 | 93.77 | 0.36 | 0.94 |
| 1979 | 11.92 | 69.89 | 0.51 | 1.22 |
| <i>good</i> | > 40 | < 40 | > 1 | > 2 |
| <i>satisfactory</i> | 20 - 40 | 40 - 80 | 0.5 - 1 | 1 - 2. |
| <i>poor</i> | < 20 | > 80 | < 0.5 | < 1 |

Source: As in the above figures. Scale from Yritystutkimusneuvottelukunta, 1999.

Figure 33. UPM's Production Quantities and Turnover of Paper and Board 1961–1979



Source: Sales and production statistics, AUPM.

Altogether, in terms of the financial parameters of UPM, the turnaround was less than spectacular. However, in respect of the nature of the severe crisis in which the organization was in the mid- and the late 1960s, the turnaround was evidently successful. Moreover, a great deal of UPM's success in the 1980s and the 1990s was built on the strategic decisions taken in the 1970s.

Historical Narrative

1963 – 1964

As the indicators above show, the financial performance of UPM was satisfactory during the first years of the 1960s. However, the problems also started to appear in financial figures in 1962, and 1964 was clearly loss making, despite the fact that the published financial statements declared that the firm was still profitable. The reasons behind the organizational decline were various. Nordberg states that overcapacity in the pulp and paper production, both globally and in Finland, was the main cause.²⁰⁰ It is true, as the above numbers of new paper machines tell, that the industry was on the edge of destructive overproduction as a result of the determined search for maximal economies of scale and scope. Regarding the business cycles, they, too, influenced the performances of UPM and other Finnish pulp and paper producers. Indeed, these were important reasons, but definitely not the only ones and probably not the most significant either.

The first outcomes of the intensive internationalization became apparent in 1962 and 1963. Unfortunately, the results were not desired. For example, UPM had to provide a 46 million lira-subvention for *Commercialsacco* in June 1963, guarantee a 270 million lira loan for *Unicarta*, and lend *Sacca* 100 million liras in September. Altogether, the unprofitable Italian acquisitions almost immediately became a serious problem for the financial stability of the whole organization. As a result, in order to ensure the required capital funding, an internal stock issue was implemented in 1963. However, most of the money needed had to be borrowed from Finland and abroad.²⁰¹

During the 1950s, UPM, in addition to its foreign investments, had also made considerable production capacity investments in Finland, the most recent being the acquisitions of a fine paper machine for *Jämsänkoski* and a newsprint paper machine for *Kaipola*. The former was started up in 1960 and the latter was completed in the spring of 1961. In addition, in 1960, the organization expanded vertically when a shipping company was founded and two new freighters ordered.²⁰² In spite of the fact that the overcapacity was already showing in the performance indicators, the CEO, Juuso

²⁰⁰ Nordberg, 1998: 419.

²⁰¹ Board of directors 4.6.1963 Appendices A and B, § 3, § 7; 3.9.1963 Appendix A, § 11, AUPM.

²⁰² Nordberg, 1998.

Walden, did not see any need to change the strategy. An expansive investment policy appealed him. In fact, Walden already suggested in 1959 that they should order another new newsprint machine for Kaipola and a board machine for Simpele.

The decision concerning the Kaipola newsprint machine acquisition was finally made in 1962, and the machine was already started up in 1964. At this same time, however, they had to interrupt the production process of the other newsprint machine. In 1962, the office manager, W. A. Haaja, who was responsible for the practical matters related to financing, announced that he would like to step aside.²⁰³ Walden did not agree and Haaja continued. What is more, these concrete drawbacks did not prevent Walden from introducing a new investment plan in May 1964 that included three paper/cardboard machines for Tervasaari, Jämsänkoski, and Simpele. According to the plan, the machines would have increased the (over) capacity of UPM's paper production by at least 100 000 tons per year. The paper machine at Tervasaari was the first in the line (1965–1966), Jämsänkoski's the next one (1966–1967), and the new board machine and grinding mill in Simpele was planned to be on stream until the end of 1967.²⁰⁴ Moreover, two new freighters were ordered in September 1963. The new ships started to operate in the fall of 1964. This enforcement of vertical integration proved to be successful since from this year onward shipping remained a profitable business.²⁰⁵ Walden did not only invest in areas of business but also in sport, for example, by participating in a construction project of the biggest ski jump in Finland. Unfortunately, the slope, made of concrete, was too prone to winds and too big for beginners and therefore was not much use.

Walden believed that all these acquisitions could be implemented without increasing the bank credit and, in fact, suggested that the machines should be ordered before making the final cost estimations.²⁰⁶ In reality, however, the bank credit was a necessity. Therefore, in the spring of 1964, the managers of a bank, Kansallis-Osake-Pankki (KOP), asserted that they would be willing to negotiate further financing for UPM as well as to assist it in obtaining money from other sources.²⁰⁷ In other words, KOP remained convinced of UPM's, or more accurately Walden's, expansive future plans. The decision to order the new sack paper machine for Tervasaari was made in November 1964. It was assisted by the manufacturer's (Wärtsilä) promise of low-interest terms of payment.²⁰⁸ Moreover, a new stock issue was implemented in the fall of 1964. It was not a success, but increased the firm's equity capital from FIM 50 to FIM 55.6 million (€ 77 to € 86 million, def. 2002). For the subscribers, the issue was unfavorable since the market price of UPM's shares had already started to decline.

²⁰³ Klemola, 1971: 225.

²⁰⁴ Board of directors 15.5.1964 Appendix A, § 5, § 6; AUPM.

²⁰⁵ Nordberg, 1998.

²⁰⁶ Board of administration 11.8.1965 Appendix A, § 9, AUPM. The memo was dated 5.8.1964.

²⁰⁷ Board of directors 25.5.1964 Appendix A, § 10, AUPM. The original memo was dated 25.3.1964.

²⁰⁸ Board of administration 4.11.1964 Appendix A, AUPM.

At the same time as the major investment plans were made in Finland, serious difficulties continued in Italy. Almost all the factories suffered from a liquidity problem and showed a constant loss. On top of it all, the problems were not only financial. An analysis of Unicarta's situation in 1964 explicitly showed that they had no idea what to do. It seemed that even if they had the most modern machines, the production would remain unprofitable.²⁰⁹ The sack factories of the FISI group were also making a loss, but UPM's board of administration, considering the circumstances, declared itself satisfied with the results of FISI.²¹⁰ Finally, a report of Pekka Artto and Kaarle Walden's Italian journey in February 1965 presented a much more realistic view of the situation by concluding that:

“The preliminary financial figures for 1964 are the worst hitherto and quite disproportionate to investment and turnover. The reasons are fundamental and permanent. There is no reason to expect that this year would be any better. Strong faith, enterprising spirit, and small investments can hardly change this overall picture in the future. Large investments might lead to a better financial result. Factors of uncertainty are however too numerous. The best forces of the parent company are to be concentrated on preparing and executing the extrication of Yhtyneet from Italy with the minimum of losses.”²¹¹

The main message of the report was clear: The investments and acquisitions had been a big mistake and they had no other choice than withdraw completely from Italy. In spite of these warning experiences no decisions were made in the management of UPM to solve the problems. On the contrary, a new foreign investment plan was simultaneously presented. This time the target was Newfoundland. An intensive planning and negotiation process for a pulp and paper combination together with a Canadian firm, the Newfoundland Pulp & Chemical Co. Ltd., started in November 1964 and continued throughout 1965. However, the process did not lead to a mutual understanding, and was a great disappointment for Walden.²¹²

1965 – 1966

In 1964 the total amount of liabilities of UPM increased by FIM 38.1 million (€ 58.9 million, def. 2002) and the same trend continued in 1965. The unsatisfactory financial results were now noted in the annual reports. However, the reasons for the problems were simply declared to result from the increased prices of wood and costs of transportation as well as the falling price of newsprint. Conversely, the price of kraft paper was increasing and the costs of power and fuel decreasing.²¹³ Thus, the situation

²⁰⁹ Board of directors 11.2.1965 Appendix A, § 19, AUPM.

²¹⁰ Board of administration 5.8.1964 Appendix B, § 4, AUPM.

²¹¹ Board of directors 11.3.1965 Appendix A, § 18, AUPM.

²¹² Board of directors 11.5.1965 Appendix A, § 8; 9.6.1965 Appendix A, § 12, Appendix B, § 1. Board of administration 28.6.1965 Appendix A, § 1, Appendix B, § 2, Appendix C, § 2, Appendix D, § 1, AUPM.

²¹³ Annual reports of 1964 and 1965, AUPM.

on the paper markets was not as straightforward as was stated in the annual reports. In spite of this explicit financial distress, the construction of the board machine in Simpele was started in the fall of 1965.

In December 1965, the estimates regarding the demand for money for the next year showed a deficit of over FIM 24 million (€ 35.4 million, def. 2002). This was an explicit turning point in the banking relationships of UPM given that KOP and the Bank of Finland finally refused to give additional money. As an alternative, they declared that a share issue for the existing owners had to be implemented and that a new holding company of KOP, Pohjola (an insurance company) and the Bank of Finland would subscribe the entire share issue if needed.²¹⁴

In the next meeting in February 1966, the board of administration accepted the plan. Actually, it did not have any other choice. As a result, KOP and Pohjola constituted the holding company, known as Teollisuuden Rahoitustuki Oy, which with the collaboration of the Bank of Finland granted a FIM 28 million (€ 39.8 million, def. 2002) loan for one year. The Bank of Finland's share of the loan was FIM 15 million (€ 21.3 million); KOP provide FIM 8 million (€ 11.4 million) and Pohjola FIM 5 million (€ 7.1 million). In order to ensure successful repayment of the loan, UPM had to implement a stock issue at the beginning of 1967 that would increase the equity capital from FIM 55.6 to FIM 83.4 million (€ 75 to € 112.4 million).²¹⁵ Most importantly, the creditors founded a working committee that became the organ that made all the significant decisions on the management of UPM. The CEO of KOP, Matti Virkkunen, became a member of the board of administration as well as the unofficial chair of the working committee. The CEO of Teollisuuden Rahoitustuki, Kaarlo Lehtiö, also became a member of those two governing organs.²¹⁶ The working committee (Työvaliokunta) was officially set up in May 1966, but in reality it started to work already before that.²¹⁷

As a result of the above events, Walden's power in the organization's decision-making had formally diminished. Nevertheless, the change did not lead to the implementation of immediate and concrete changes in the organization. The main decision of the working committee in 1966 was to delay the construction of the board machine in Simpele pending more information on the development of UPM's financial situation.²¹⁸

Another problematic area without a clear solution was Italy. In the spring of 1966, a detailed analysis of Tiburtine's situation proposed four possible and all inclusive alternatives for the factory's future: They could (1) continue as before by making large

²¹⁴ Board of administration 29.12.1965 § 2, AUPM.

²¹⁵ Board of directors of the Bank of Finland 5.4.1966 3 §; Bank of Finland to Teollisuuden Rahoitustuki 5.4.1966, ABF. Teollisuuden Rahoitustuki Oy (M. Virkkunen and T. Angervo) to UPM 15.6.1966, AUPM.

²¹⁶ Board of administration 22.2.1966 § 9; 2.5.1966 Appendix A, § 1, AUPM.

²¹⁷ Board of administration 11.5.1966 § 7; 7.10.1966 Appendix A, § 6, AUPM.

²¹⁸ Board of administration 11.5.1966 § 8. Walden to Teollisuuden Rahoitustuki Oy c/o KOP 27.6.1966, AUPM.

loss; (2) sell both of the paper mills, Mecante and Ponte Lucano; (3) continue as before in Ponte Lucano and sell the Mecante factory; or (4) try to get rid of the Mecante factory and acquire a new machine for Ponte Lucano. The compilers of the report recommended the third option, which was accepted by the working committee and the board of administration.²¹⁹ However, none of these suggestions was particularly appealing. The operations in Mecante were stopped in July 1966, while the factory at Ponte Lucano continued to run at a loss.

In May 1966, the Donzelli group, the Italian partner of UPM, expressed its willingness to sell its shares in the FISCI-Commercialsacco group to UPM. In 1960 these firms had made an arrangement that if one side refuses to buy shares offered by the other side, the one who had made the proposition had to buy the shares of the other partner. Thus, the Donzelli group wanted to acquire the shares held by UPM, which did not have any other realistic choice than to surrender its possession.²²⁰ The contract was financially a zero-sum game. UPM got only a formal 25 000 lira payment for its shares and had to pay 61.5 million lira in debts to the FISCI group by the end of January 1967. Tiburtine already received its 350 million lira receivables from the FISCI group in September 1966, and Unicarta also got its frozen assets. Moreover, the FISCI group continued the rental agreement of SACCA, promised to sell 450 000 of Unicarta's paper sacks per month in Italy, and guaranteed to buy 5000 tons of sack paper per month from Tervasaari or Tiburtine until the end of 1970. Altogether, UPM had managed to divest itself or rent out four of its five paper sack factories in Italy. Nevertheless, the most unprofitable and problematic ones, Tiburtine and Unicarta, remained with UPM, even if they were on the selling list.²²¹

In Finland, conversely, there were no concrete changes. The following episode illustrates the situation. In October 1966, Emanuel Walden, the member of the board of directors and administration as well as a brother of Juuso Walden, wrote to his brother that the board machine of Simpele should be immediately sold off. Juuso Walden did not even respond to the letter. A month later, Emmanuel repeated his view that if they now continued the construction project, it would be very difficult to relocate the machine in some other factory and that "the catastrophe would become even more complete." However, the board of directors, or more accurately Juuso Walden, did not see any reason to change the existing sales contract.²²² The working committee decided, as a kind of compromise, that they would ask if the manufacturer of the machine (Walmsleys Ltd.) would be willing to postpone the transaction for a year.²²³ This event

²¹⁹ Board of directors 28.4.1966 Appendix A, § 14, AUPM. The memo was signed by Pekka Artto.

²²⁰ Board of directors 7.6.1966 Appendix A, § 15, AUPM.

²²¹ Board of directors 5.10.1966 Appendix A, § 9, AUPM. The memo was signed by Artto and Parola on 14.9.1966.

²²² Board of directors 25.11.1966 Appendix A and B, § 14 (letters from E. Walden of 19.10. and 18.11.1966), AUPM.

²²³ Board of administration 15.12.1966 § 11, AUPM.

suggests that there existed explicit conflicts in the top management of the firm and that Walden still possessed power in the organizational decision-making.

1967 – 1969

In early 1967, the attempts to sell the factories in Italy continued. The most promising customer was the state of Italy.²²⁴ The negotiations, however, did not result in agreement. The planned share issue was also delayed until the latter half of the year because of the forthcoming favorable change in the tax legislation. This also meant that the Bank of Finland had to extend the maturity date of its loan to Teollisuuden Rahoitustuki (in point of fact the loan was to KOP).²²⁵ In addition, the board of directors decided to improve the financial situation by obtaining a loan of \$6.75 million from the Singer & Friedlander bank.²²⁶ For this purpose, in June, Walden tried to convince Virkkunen that the budget of the firm was in much better shape than Virkkunen had thought and that KOP should have no reason to refuse to guarantee the loan.

In his letter to Walden in July 1967, Virkkunen promised that KOP would guarantee the loan if Walden allowed the investigators of KOP to make a thorough examination of the organization's financial situation and performance. Virkkunen explicitly declared that the investigators should obtain all the material they want and get answers to every question they present. Moreover, Virkkunen stated that after this possible guarantee, the amount of loans *guaranteed* by KOP would increase to FIM 130–135 million (€ 175–182 million) (50–52% of the total sum of the short and long term credits in 1967). It was such a sum that the bank could no longer increase its liability in UPM.²²⁷ Altogether, the total amount of KOP's loans had increased year after year, but its share of the all loans constantly decreased. In fact, in 1967 as much as 51 percent of the loan had been acquired from abroad. Nevertheless, without the guarantee and agency of KOP and the Bank of Finland, the foreign financing would have been very difficult to acquire.

Walden did not respond to Virkkunen's demand. On the contrary, on August 31, when the investigators arrived at the head office of UPM, they were denied access. Walden had instructed that there should be no investigations before October. As a result, Virkkunen repeated his demand in September by declaring that Walden had no other option than to permit a full-scale financial analysis.²²⁸ At this time Walden had to comply with Virkkunen's orders. At the same time KOP was also preliminarily but unofficially negotiating if Rauma-Repola would be interested in acquiring UPM. The

²²⁴ Board of directors 10.3.1964 § 16, AUPM.

²²⁵ Board of directors of the Bank of Finland 4.4.1967 § 4, ABF.

²²⁶ Board of directors 13.7.1967 §2, AUPM.

²²⁷ Virkkunen to Walden 3.7.1967, AUPM.

²²⁸ Virkkunen to Walden 11.9.1967, AUPM.

negotiations did not lead to concrete results. In addition, an idea of managerial changes was presented in private discussions.²²⁹

In March 1968, the analysis was complete. The report revealed the harsh nature of the operations and the actual financial status of UPM. The situation was very much different than Walden had previously presented. As described in the previous section, the calculations of KOP showed radically different financial figures than those presented in the official accounts. What is more, the distorted accounts were not the only problem documented. The current bookkeeping system had been introduced in the beginning of the 1930s and no longer provided a relevant basis for effective and accurate cost accounting. Moreover, the results of the out-of-date accountings were given only to Walden. The managers of the factories received mere summaries of their mills' results. As a result, the plant managers were forced to make their own estimates. Altogether, no one had a general understanding of how, for example, investments affected the liquidity and solidity of the entire organization.

According to the report of KOP, the budgeting system of the firm was superficial and only concerned with simple financial matters. In fact, they did not make any kind of explicit profit calculations. A conspicuous feature was also that UPM did not use automatic data processing at all, while this was already an established practice in other pulp and paper companies. The causes of these problems were claimed to originate from the highly centralized organization structure where only the quantitative production numbers seemed to matter. Whether the production was profitable or not was not the main concern. In conclusion, it was suggested that the whole bookkeeping, cost accounting, and budgeting system had to be totally reconstructed.

According to the report, the budgeting should be based on contribution margin thinking, the introduction of ADP was a necessity, and all organizational members should understand that profitability was the main goal of the business. The report called for "the spirit of profit awareness." These reconstructions were stated to be the most urgent ones. Without them it would be impossible to eliminate the reasons behind the huge losses. It was estimated that the planning and implementation of the new system would take three to four years in such a big company as UPM and, most importantly, would require the full support of all top management.²³⁰

The message of the report was more than obvious: the whole organization had to be restructured. A major change was particularly needed in the top managements' way of thinking. In practice, however, such a transformation did not take place as soon as had been hoped. The next disagreement in the organization, concerning the dividend policy, surfaced in May 1968. Virkkunen and the working committee strongly opposed the payment of the dividend for the year 1967. The board of directors and Walden, however, was keen to pay at least five percent dividend by drafting a suitable financial

²²⁹ Klemola, 1971: 234; Kuisma, 2004: 212, 216; Nordberg, 1998: 449.

²³⁰ KOP's credit information department's report dated 20.3.1968. An enclosure in Virkkunen's letter to Walden 22.3.1968, AUPM.

statement and using the financial reserves of the firm. The market situation was developing positively and production was increasing. Moreover, by paying the dividend the firm could avoid taxes and preserve its reputation among the stockholders. Thus, according to the board of directors, there was no reason to prevent the payment of a dividend.²³¹

This conflict was solved not until in the end of November when the board of administration decided that no dividend could be paid. Walden opposed the decision. Finally, at the end of 1968, Walden made an unofficial announcement that he would resign after the next year. However, the official announcement was made not until in May 1969 in the meeting of the board of administration.²³² There is no information if the resignation was Walden's own idea, but, as noted, KOP was planning management changes already in the summer of 1968.

Virkkunen immediately suggested a new CEO candidate, Niilo Hakkarainen. In January 1969, Hakkarainen, the CEO of Kemi Corporation, agreed to his request to become the CEO of UPM. However, the management change was not as simple as Virkkunen had initially hoped. Juuso Walden wanted Sakari T. Lehto to become the new CEO and Kari Walden, a member of the board of administration, proposed that Jaakko Lassila should be elected. The "arm-wrestling" continued during the spring and not until May was Hakkarainen finally appointed. In practice, Virkkunen had the last word in the issue. Hakkarainen's appointment as CEO formally started in January 1970, but he already began to familiarize himself with the organization in September 1969. Juuso Walden, however, made certain that Hakkarainen did not gain access to the organization's secret internal documents—Hakkarainen's orientation was made more than difficult.²³³

In 1969, the overall atmosphere in the pulp and paper markets was optimistic. This had a positive effect on the performance of UPM and at least partly encouraged them to engage in new investment projects. Accordingly, Walden, as his last will, decided that the construction of Simpele board machine should continue. The project was started in August without an official decision and agreement of the working committee. It was also a surprise to Virkkunen, who had worried about the consequences of the project.²³⁴ Walden's last major plan started to materialize. Moreover, two new freighters were ordered. All these major investments had to be financed, of course, by increasing the debt burden of the firm.²³⁵

²³¹ Board of administration 17.5.1968 Appendix A, § 7; Board of directors 24.5.1968 § 3; 17.6.1968 § 3, Appendix A, § 3, AUPM.

²³² Board of administration 28.11.1968 § 7, AUPM. Nordberg, 1998: 451.

²³³ Nordberg, 1998.

²³⁴ Hakkarainen, 1993: 67–68.

²³⁵ Board of directors 10.7.1969 Appendix A, § 9, AUPM. The memo was dated by Väinö Oksanen in 4.7.1969.

1970 – 1971

In the meeting of the board of directors in January 1970, Hakkarainen as new CEO reminded the board of their responsibilities and stressed that in order to be successful they had to have common objectives and to be capable of smooth cooperation. Moreover, he emphasized following the lines of KOP's report, that it was the good financial result not the quantity of production that was the goal of their business.²³⁶ The management change did not immediately lead to real changes. Nevertheless, Hakkarainen started to outline a new organizational order and structure including several practical improvements. First of all, clear procedures for the planning and implementation of investment projects were presented. No one should again propose an investment without explicit calculations of its total cost effects, as had been the tradition during the era of Walden.²³⁷ Organization-wide employee controlling guidelines and a training program were also introduced. The most urgent need was found to be for middle and top management training. The list of improvements also included ideas on long range planning and the founding of an in-house marketing department.²³⁸

In February, a set of possible asset reductions was presented. It included among other things selling shares in numerous companies and the Downings Paper Mill as well as building sites in Finland and Brazil.²³⁹ In March, a new research committee was set up in order to promote research and development programs. Moreover, Lauri Pöyhönen was chosen as deputy managing director.²⁴⁰ However, these improvements and suggestions did not have a direct positive effect on the firm's financial problems. Accordingly, the firm had to continue increasing its short and long-term debt burden.²⁴¹

In August 1970, at the meeting of the board of directors Hakkarainen presented his memo of the present situation and future goals of the organization. First of all, the financial deficit for the next years seemed to be growing to such magnitudes that the financial institutions would not be willing to cover it. The firm had to cover the deficit through its own profitable operations. According to Hakkarainen, however, it was clear that the current production structure and the level of costs would not allow profitable production activities. In short, they had no other option than to considerably reduce the expenses of their operations, implement investments that would rapidly decrease the costs, and find new and more profitable products, likewise areas of production.

First of all, Hakkarainen declared that they had to carefully evaluate the profitability of operations and the different grades of paper they produced, and then

²³⁶ Board of directors 7.1.1970 § 1; Hakkarainen's notebook, AUPM.

²³⁷ Board of directors 19.1.1970 Appendixes A and B, § 17, § 18, § 19, AUPM.

²³⁸ Board of directors 19.1.1970 Appendixes A, § 20, § 23, AUPM. Hakkarainen also participated in courses in marketing and management during 1970 and communicated on management problems with other managers. E.g., Ernest H. Vaissiere to Hakkarainen 16.6.1970. Motivation in management and manager-worker relationships was among the main themes in the top management training.

²³⁹ Meeting of the working committee 5.2.1970 Appendix B, § 4, AUPM.

²⁴⁰ Board of directors 13.3.1970 Appendix A, § 2, AUPM. Pöyhönen started on 1.6.1970.

²⁴¹ Hakkarainen to Flemming Kolby (Bank of America) 19.3.1970; Board of directors 3.4.1970 § 4, § 5; 29.8.1970 § 9, AUPM.

consider if they could cut their losses. Second, they had to investigate if there were possibilities of decreasing costs of raw wood, power, and maintenance. Third, a new structure in top management and the job descriptions of managers should be completed in September. Fourth, each of the line managers had to make ten-year plans including all possible and needed investments. Moreover, it was very important that the restructuring of the cost accounting systems should continue as was planned. The first versions of the new and more accurate accounts had to be in use at the beginning of 1971.²⁴² The restructuring of the accounting system started in August from the profit calculation. Improvements in this sector were the most urgent so as to obtain accurate information on the contribution margins and overall productivity of the firm. An ADP system was also finally introduced.²⁴³

In the beginning of 1971, the governance structure of the firm was renewed to consist of the board of administration, the board of directors, and the top management team (formerly the board of directors). Most importantly, the number of the members of the top management team (the board of directors) was reduced to eight with the intention of streamlining the function of management. In addition, a training program was started for management. These alterations were the first step in developing the organizational structure into a form called profit centers/units.

As described in the plan by Pöyhönen and Hakkarainen, the new organization of UPM was illustrated consisting of administrative organs and eleven profit centers. They hoped that the profit centers would become as independent as possible, but remain under the tight control of the central administration. Moreover, a procedure for group-work was outlined and a new research manager recruited to set up a new research and development organization. Altogether, the main reason for introducing the new organization structure was to make the decision-making processes more effective and formally secure. However, the most important short-term goal of the organization was still to improve its liquidity.²⁴⁴

In March 1971, Hakkarainen reported that, thanks to the loan from the Bank of America, the financial situation during the previous months had been stable even though the production results had been below expectations. However, the volumes of orders as well as the utilization rates of the factories were satisfactory compared with their European competitors.²⁴⁵ Nevertheless, the following months were not predicted to bring improvements on the paper markets. Altogether, the state of affairs seemed to go in the opposite direction from what had been hoped.

Indeed, although the previous year had been profitable, the financial deficit of UPM, in March over FIM 64 million (€ 71 million, def. 2002) for 1971, increased so severely that the Bank of Finland decided that UPM had to increase its share capital by

²⁴² Board of Directors 20.8.1970 Appendix A, § 4, AUPM. The memo was dated 3.8.1970.

²⁴³ Board of directors 22.12.1970 Appendix A, § 9, AUPM.

²⁴⁴ Board of directors 25.1.1971 Appendix A, § 5, AUPM.

²⁴⁵ Board of directors 22.3.1971 Appendix A § 10, AUPM.

about ten million mark in order that the bank could continue to support the financial arrangements and guarantee the foreign loans. Moreover, the Bank of Finland decreed that UPM was not allowed to implement other than small maintenance investments. Such a situation, of course, did not improve the changes of increasing the profitability of the firm.²⁴⁶ The new stock issue was accepted in the Extraordinary General Meeting in April and was then implemented during the last part of the year. In June, UPM emitted a FIM 10 million (€ 11.1 million, def. 2002) obligation loan which was bought by the Bank of Finland (5 million) and KOP (5 million).²⁴⁷

Increasing the debt burden and share capital were not, however, the final solutions to the serious problems of the organization. Finally, in May 1971, an “emergency agenda” was introduced. Profit and functional units were ordered to do everything possible to improve the organization’s situation. If feasible, they had to defer payments in order to improve liquidity; make the collection of revenue more effective; cut expenses by workforce cuts, material savings and delaying investments; increase revenue by discontinuing unprofitable production and concentrating on profitable qualities, reducing raw material and paper stocks, and streamlining work procedures. The cost cutting operations also extended to the central administration.²⁴⁸

On the concrete level, the proposed cost cuts were detailed. For example, the canteens in the factories should be outsourced and some cafeterias replaced by vending machines. The firm should give up farming, cattle keeping, gardening, and bakery. Voluntary social activities should be reduced or transferred to the municipalities. Cinemas and some of the laundries should be closed and the twice a day cleaning of offices reduced to once.²⁴⁹

If the situation was difficult in Finland, so it was in Italy. In May, engineer Mäki’s reported that the performances of the Italian subsidiaries had not improved at all. Thus, he suggested a detailed liquidation plan for Tiburtine.²⁵⁰ The negotiations with the state of Italy continued during the summer. Meanwhile the production of Tiburtine was discontinued and the employees occupied the factory. The situation was chaotic. The liquidation decision was finally made in July, although the negotiations continued until the next year.²⁵¹

Italy was not the only problematic area. The Downings Paper Mill in England had also become unprofitable. Thus, in August, a decision was taken to end the paper manufacturing by the end of the year. However, paper converting was continued and, in

²⁴⁶ The Bank of Finland to UPM 10.3.1971, ABF. Hakkarainen to Minister of Finance C. O. Tallgren 16.4.1971 and 3.5.1971, AUPM. In his letters to Tallgren, Hakkarainen tried to convince the minister that because of the financial distress UPM needed to be exempted from the obligatory counter-cyclical deposits.

²⁴⁷ Board of directors of the Bank of Finland 4.6.1971 § 2–7; including an appendix of the contract, ABF.

²⁴⁸ Board of directors 17.5.1971 Appendix C, § 11, AUPM.

²⁴⁹ Board of directors 17.5.1971 Appendix D, § 11, AUPM.

²⁵⁰ Board of directors 17.5.1971 Appendix B, § 12, AUPM.

²⁵¹ Board of directors 13.8.1971 Appendix A, § 19, AUPM. The memo was dated 19.7.1971 by Pöyhönen.

fact, increased as a result of establishing a new factory and closing the old one.²⁵² In Brazil, a new small paper machine was acquired for Onibla. Moreover, at the end of 1971, UPM offered to buy 30 percent of Otford Paper Sacks Ltd. Thus, the acute problems in Italy and England did not prevent planning new foreign investments.²⁵³

Even though the serious nature of the unprofitable production was noted and restructuring measures were implemented, the financial crisis did not ease during the summer months. In August, a report by Pöyhönen stated that the firm's situation had in fact become even weaker, if that was possible. They had major problems arranging financing and the confidence in UPM's capabilities to continue business activities was close to collapse. According to Pöyhönen, it was feasible, even though difficult, to obtain finance for the maintenance of mills and discharging debts when the financial difficulties were temporary. However, UPM has passed this phase and was now close to the fundamental crisis of confidence. Pöyhönen emphasized that the problems were purely internal and could not be resolved by mergers or structural rationalization. Business cycles or other industry related problems were neither the reason to put the blame on because the firm was at nadir if compared to other industrial corporations. The most extreme measures were declared to be acceptable in order to improve the firm's situation.

As a result, a new emergency agenda was presented. As in May, it was declared that they had to cease all unprofitable production, as well as give up unnecessary social activities, assets, and unnecessary employees. More effort should be directed to the profitable units and rationalization of the work and production processes, while cooperation, motivation, delegation, and responsibility were the most important themes in personnel management. New and profitable production streams for the future should also be introduced in order to motivate the personnel now struggling in the streamlining of the organization. Moreover, budgets were to be planned as realistically as possible and to be followed precisely. Finally, it was stressed that all the measures should be implemented urgently.²⁵⁴

At this time the emergency agenda had a more positive influence. The most critical restructuring efforts were needed in Simpele, where the new board machine was finally operational. Unfortunately, the new machine was unprofitable and produced unsatisfactory quality board. The quality improvements and marketing efforts of the new machine's products were serious concerns. In fact, the primary duty of the marketing department was stated to be the marketing of Simpele's production.²⁵⁵

Finally, in October 1971, the Bank of Finland approved an additional five million marks selective investment plan with the intention of improving the firm's profitability. Although the sum was rather small, it ended the investment restriction and enabled the

²⁵² Board of directors 16.8.1971 Appendix A, § 20, AUPM.

²⁵³ Board of directors 20.12.1971 Appendix A, § 17, AUPM.

²⁵⁴ Board of directors 13.8.1971 Appendix G, § 2, AUPM.

²⁵⁵ Board of directors 13.9.1971 Appendix A, § 20; 13.10.1971 Appendix A, § 2, AUPM.

implementation of the most urgent investments.²⁵⁶ The reorganization of the organization structure into the profit center form as well as the construction of unambiguous job descriptions of managers continued in the beginning of 1972. This also included the introduction of a new reporting system for management. In addition, a marketing unit was founded to promote marketing efforts, profile the image of the firm, and improve the development of business relationships.²⁵⁷

1972 – 1973

In June 1972, the Bank of Finland, KOP and Pohjola accepted a new obligation loan. At this time the Bank of Finland provided FIM 18 million (€ 18.6 million, def. 2002) and KOP and Pohjola altogether two million. Basically the loan was a prolongation and extension for the loan granted in 1966. The decision-in-principle regarding the financing had already been made at the end of December 1971 when Teollisuuden Rahoitustuki Oy had been liquidated and its shares transferred to KOP and Pohjola.²⁵⁸ Accordingly, the decision did not have any practical influence regarding the ownership and credit relations.

In May, UPM had presented a new selective ten million mark investment plan. Hakkarainen stated that they had no other option than to keep the level of investments at least on the existing level. Otherwise they could not reach the level of profitability that would be necessary for the successful future performance of the firm. This, of course, involved a continuous increase of bank loans. The Bank of Finland approved the plan in June.²⁵⁹ At the same time wider investments were also being planned. As a whole, five main investments goals were presented: (1) modernization of the old paper machine (PK I) in Simpele (total costs approximately FIM 13.3 million; € 13.8 million, def. 2002) and acquisition of a new fine paper machine for Jämsänkoski (PK IV; total costs approximately FIM 65 million; € 67 million); (2) investments in paper converting that seemed to have a bright future (approx. FIM 7 million; € 7.2 million); (3) investments in the Jylhävaara machine shop that was also developing positively; (4) investment in a pakilo-protein factory (approx. FIM 17.7 million; € 18.3 million); and (5) investments in water protection (approx. FIM 75 million; € 77.6 million).²⁶⁰

²⁵⁶ UPM to the Bank of Finland 4.10.1971, ABF. Board of directors 13.10.1971 Appendix A, § 11. The Bank of Finland UPM 8.10.1971, AUPM.

²⁵⁷ Board of directors 17.1.1972 § 5, Appendix A, § 4; 28.2.1972 § 11; 17.4.1972 § 7; 8.5.1972 § 16, AUPM.

²⁵⁸ The Bank of Finland to UPM 6.6.1972; Board of directors of the Bank of Finland 6.6.1972 § 2, including the loan contract, ABF.

²⁵⁹ The Bank of Finland to UPM 7.6.1972, ABF. Board of directors 8.5.1972 Appendix A, § 19, AUPM.

²⁶⁰ UPM to the Central Association of the Finnish Forest Industry (CAFFI) 14.6.1972, ACAFFI. UPM to the Bank of Finland 8.8.1972, 29.11.1972; 13.12.1972, ABF. In 1970 the Bank of Finland decided that all investments that affect the development of Finland's forest assets should be submitted for approval by the CAFFI working committee in order to control the adequacy of Finland's forest assets (see the appendices and memos of the CEO meeting in CAFFI of 18.12.1970).

The negotiations concerning the acquisition of the fine paper machine were already under way in May.²⁶¹ The situation on the paper markets also improved considerably in 1972, which clearly encouraged the implementation of the investments. The cost cutting operations presented in the emergency agendas continued throughout 1972, though not in such a radical way as was planned. The cost accounting project proceeded as planned, likewise in the implementation of the asset divestments. In Italy, UPM finally closed the unprofitable Unicarta factory and sold SACCA, which had previously been rented. In Iceland, they sold their part of the paper sack factory Pappiersver H/F.²⁶² Conversely, an acquisition of Haarla Corporation was suggested. However, only a loose cooperation deal was accepted.

In 1973, the restructuring of the organization continued at the level of top management concentrating on the corporate planning and strategic objectives of the firm. The working procedures of management groups, including corporate and profit unit levels, were instructed and harmonized.²⁶³ The planning was explicitly divided into long and short run periods. The short run plans consisted of accurate budgets for the following year and the main numerical calculations and guidelines for the next two years. Long range planning consisted of strategic plans for the next ten years.²⁶⁴ In order to facilitate and guide the corporate planning activities a “coordination group of corporate planning” was founded in October 1973. It consisted of six top managers including the CEO and the vice CEO. Moreover, it was decided to acquire a new board machine for Simpele in 1973. The Central Association of the Finnish Forest Industry (CAFFI) accepted this investment. However, the project never started up.²⁶⁵

1974 – 1978

Strategic planning activities continued in 1974 and major investments plans were presented because the market situation seemed very positive. The managers of UPM were also now living in the bubble of ever increasing prices. As a result, a new paper machine was suggested for Kaipola. CAFFI did not accept the plan immediately²⁶⁶ but after UPM’s letter of complaint, the Conciliation Board of CAFFI turned to support the investment.²⁶⁷ However, as a result of the sharply declining conjunctures in 1975, the project did not start up. As an alternative, the planning of thermomechanical pulp production, which became one of the most important investments behind UPM’s success in the following decades, made great strides. A small experimental plant was

²⁶¹ Board of directors 30.5.1972 Appendix A, § 2, AUPM. CAFFI to the Bank of Finland 19.6.1972, ACAFFI. According to Hakkarainen, he capitulated too easily to Jämsänkoski’s demands for a new machine, which later turned out to have been a clear mistake (Hakkarainen, 1993: 79).

²⁶² Board of directors 2.4.1973 Appendix A, § 15: annual report 1972, AUPM.

²⁶³ Board of directors 12.2.1973 Appendix A, § 2, AUPM.

²⁶⁴ Board of directors 3.9.1973 Appendix A, § 8, AUPM.

²⁶⁵ Hakkarainen to CAFFI 15.8.1973, ACAFFI. CAFFI to UPM 12.12.1973, AUPM.

²⁶⁶ Hakkarainen to CAFFI 27.5.1974, 1.7.1974, ACAFFI. CAFFI to UPM 25.6.1974, AUPM.

²⁶⁷ CAFFI to UPM 3.10.1974, AUPM.

ready at the end of the year.²⁶⁸ Related to this, the majority of the stock of a talc firm, Suomen Talkki, was bought.

From the list of unprofitable foreign investments the Onibla Paper Mill in Brazil was sold off. The year 1974 was very positive on the paper markets, though the first signs of the forthcoming depression already began to show at the end of the year. However, the new fine paper machine in Jämsänkoski started in favorable circumstances in 1974.

Although the depression became evident in 1975, the work with thermomechanical pulp production continued and in October a decision was taken to build a full size thermomechanical pulp plant. Another major improvement was the profit units' allowance system that made the units more autonomous in relation to the central administration.²⁶⁹ This culminated the reorganization process of the organization structure that was started in 1970.

However, in the summer of 1975, the managers were already forced to evaluate how they could respond to the accelerating depression. For example, lay-offs were suggested but not immediately implemented because of the lack of cooperation with other pulp and paper firms. The need for liquid money soon became an acute problem despite the fact that the major investment projects, such as the new paper machine for Kaipola, were delayed. Financing was still received among others from the Bank of America. In October the board of administration made a decision on a stock issue that would increase the equity capital from FIM 93 million to FIM 172 million (€ 62.4 to € 115.3 million, def. 2002). The Extraordinary General Meeting accepted the stock issue in December. The issue was implemented in the spring of 1976 and it improved the difficult financial situation by FIM 46.9 million (€ 27.5 million, def. 2002).²⁷⁰

1976 was even more depressed than the previous one. Thus, in the spring a new cost cutting and economy campaign was launched. However, the number of workers remained the same. At the end of 1976 UPM made a considerable acquisition by buying Raf. Haarla Corporation. Another big investment was a peat-burning power plant for Simpele, which was completed in May.

1977 was difficult but already much better than 1976. The devaluations of the Finnish mark, as an external force, supported a more positive development. Although the firm did not put into practice official redundancies, the number of employees decreased by 626 persons. Lay-offs were actively exploited. Asset divestments were focused on stock. As a whole, the organization was streamlined. However, no strategic redirections were implemented or suggested. Instead, the main ongoing investment program of the firm, the thermomechanical pulp plant in Kaipola, was completed. Another investment to be realized was the delivery of a new freighter. It was the first ship

²⁶⁸ Hakkarainen to CAFFI 22.10.1975, see the appendices, ACAFFI.

²⁶⁹ Board of directors 3.3.1975 Appendix A § 10, AUPM.

²⁷⁰ Board of directors 2.6.1975 Appendix A § 4; 23.6.1975 Memo; 24.11.1975 Appendix A § 2, AUPM.

of the four ordered in 1973. These investments in shipping were soon found to be misguided since UPM abandoned shipping in the beginning of the 1980s.

The depression turned to economic prosperity in 1978. The demand for paper increased considerably and the devaluation of the Finnish mark in February further supported exporting firms. The general melancholy in UPM changed to a more positive note and the interrupted investment program continued in the summer of 1978. The optimistic development went from strength to strength as a result of the positive sales and production results. Finally, in January 1979, a major investment plan for Jämsänkoski was proposed. According to the plan, first, a thermomechanical pulp factory substituted the old sulfite pulp factory and, second, a big high-quality SC-paper machine was located in Jämsänkoski instead of Kaipola as had been intended in 1974. The budget for this major project was from FIM 500 to 700 million (€ 225 million to € 316 million, def. 2002).²⁷¹ The project started without delays and the new factory was complete in 1981.

Identification of the Entities and Their Influence

Although UPM was substantially bigger than the firms in the preceding analyses, the influential stakeholders of UPM that were able to activate functional components of mechanisms consisting of a rather limited set of actors. In point of fact, the resource relations and network positions of the stakeholders were not to a great extent more complex than they were in Kymi and Walkiakoski. What is noteworthy is that, again, the influence of certain stakeholders substantially changed during the decline and turnaround, and that the different stakeholder roles merged in the distinct actors (especially the roles of owners, creditors, and managers). Nevertheless, the changes were relatively straightforward as the following influence identification shows.

Direct Resource Dependence Based Influence

Until 1966, Juuso Walden was the undisputed leader and decision-maker with *highly* influential resources in respect of organizational survival. As a CEO, the “preferential” chief of the board of directors, and the biggest owner (Walden’s family as a whole was the biggest owner group), Walden in principle controlled or made decisions concerning most of the resources needed in the organization as a going concern. To put it simply, there was Walden and the other stakeholders.

From the latter group the most influential resources regarding the organizational survival were those of the main creditor/financier, KOP. Since until 1965 Walden had the full support of the creditors, also based on personal relationships, the organization’s dependence on the creditors was not overly sensitive (Walden was also a member of the

²⁷¹ Hakkarainen to CAFFI 24.1.1979. Memo from Hakkarainen 27.2.1979, ACAFFI.

board of governors of KOP). However, KOP evidently had *highly* important resources, as it was also a minor owner of UPM. The Bank of Finland's direct financing in the beginning of the 1960s was unsubstantial, but it intermediated, for example, the loans of the International Bank for Reconstruction. Therefore, its direct resource dependence based power can be seen as *moderate* until 1965.

The resources of the other main creditors can also be considered *moderately* important. For example, the share of a bank Suomen Teollisuus-Hypoteekkipankki (STHP) of UPM's total credit was 20 percent (KOP owned 44 % of STHP) and Mortgage Bank of Finland's (MBF) 17 percent in the end of May 1964 (both were providing long-term credit). In addition, UPM was financed in 1964 by a group of other creditors including Postisäästöpankki, Kansaneläkelaitos, Ilmarinen (KOP/Pohjola sphere), the State Treasury, the First National City Bank, the Bank of America (and its various affiliations), and the International Bank for Reconstruction.²⁷² As a group the resource dependence based influence of diverse creditors/financiers remained fairly stable throughout the whole process.

In 1965, when KOP and the Bank of Finland finally made the explicit intervention in the management of the firm, the situation in the resource dependencies somewhat changed. Credit alone had now become a *highly* important and acute resource. Teollisuuden Rahoitustuki, although it was a new organization, was not a new stakeholder, since it consisted of KOP and Pohjola and was allowed to operate the authorization of the Bank of Finland. At the same time, Walden's resources somewhat diminished because the final decision-making power in the organization was subordinated to the working committee (Virkkunen). However, Walden's in-principle status in the organization remained stable. The *high* resource dependence based influence of KOP and Pohjola further increased when after the share issue in 1968 they became the main owners of the firm. However, the Walden family as a whole had more vote-carrying shares.²⁷³

The next significant change concerning the direct resource dependence relationships took place when Walden resigned and Hakkarainen became the new CEO and chairman of the board of directors. Although Hakkarainen was not an owner, as Walden was, he assumed a position with a considerable amount of power regarding the actual decision-making. On the one hand, his mandate became directly from the KOP/Pohjola sphere. On the other hand, the organization had an acute need for competent management. In any case, the resources of Hakkarainen can be seen as *highly* influential.

The resources of the other stakeholders were scarce compared the previous ones. The sales associations (Finnpap as the most important one) had noteworthy resources as they arranged the sales through the sales agents. However, the example of Enso-Gutzeit shows that a Finnish pulp and paper firm in the 1960s and the 1970s was not crucially

²⁷² Board of directors 5.5.1964, Appendix A, § 15, AUPM. See also Walden (1971: 293–296).

²⁷³ Share certificate books of UPM, AUPM. The Walden family was not a unanimous group.

dependent on Finnpap (see e.g., Ahvenainen, 1992). Therefore, the sales associations' resource dependence based influence in the organizational survival was no more than *moderately* important during the whole period. What is more, Walden was chairman of the supervisory board of Finnpap (1944–1969) as well as head of the administration of the second department (1954–1965) of the same organization. The plant or other managers represented the firm in other associations (Finnboard, Finncell, Converta). These connections, again, warrant the analysis of the stakeholders' network positions.

The actual influence of CAFFI (The Central Association of Finnish Forest Industry, since 1970) is somewhat more difficult to estimate. CAFFI, in principle, worked in accordance with the Bank of Finland. However, building on the fact that each major investment decision needed the approval of CAFFI, it is fair to say that its resources were at least *moderately* important.

During the era of Walden, the resources of the other board (both directors and administration) members were *low*. "Yes-man" is the term sometimes used to describe the role of a rank and file board member of UPM.²⁷⁴ Walden made the decisions and thereafter the board accepted them. However, the resources of the rank and file board members regarding the organizational survival did not change significantly throughout the decline and turnaround process.

The employees were, again, the basic resource for the ongoing operations and therefore important, but otherwise their influence regarding the organizational survival was *low* during and after the era of Walden. Paper wood, as a resource of the suppliers, had as a result of the huge extensions in the Finnish pulp and paper industry become a raw material that the firms occasionally even lacked. Although UPM did not own much forest, it was not dependent on particular suppliers and the lumberjacks were on the payroll of UPM. Therefore, the resource dependence based influence of suppliers can be considered at most *moderate* throughout the whole process.

The relationships of UPM, both formal and personal, with the political elite of Finland were close compared to the present time. Government as a stakeholder had an important role, especially concerning the trade with the Soviet Union. As a legislative force, it also regulated the banking. However, network analysis is again needed to clarify the situation more accurately. Altogether, the direct resource dependence based power of the government during the whole process can be considered *moderately* influential.

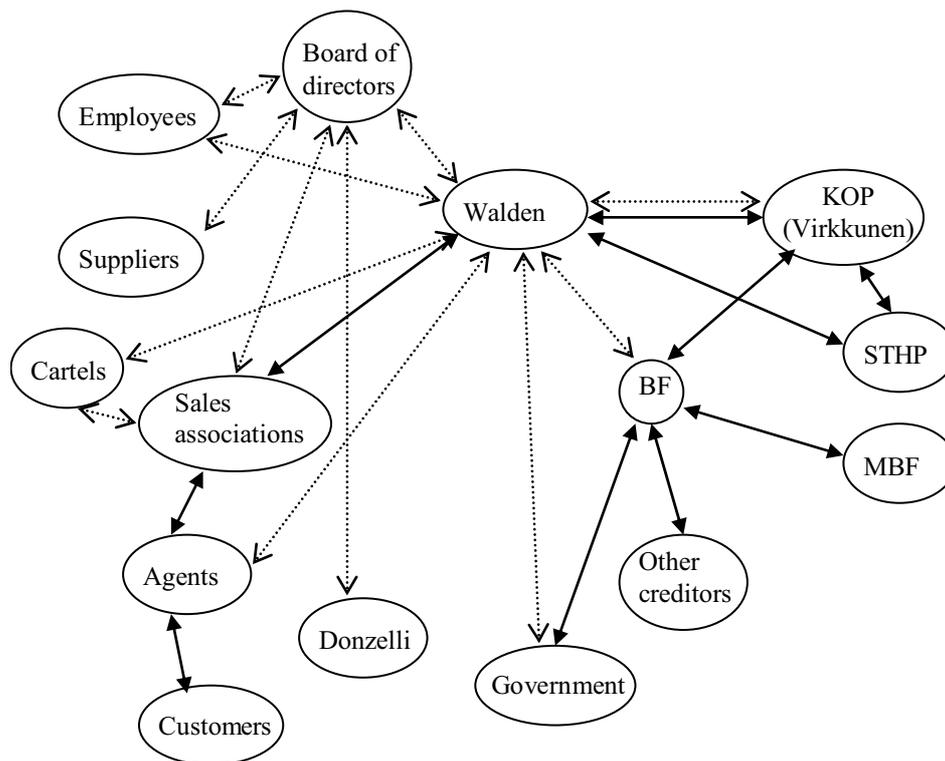
Other noteworthy stakeholders from the resource dependence perspective during the decline and turnaround were the alliance partner Donzelli in Italy (until 1967), international pulp and paper cartels ("Scan" associations), and the town of Valkeakoski. Nevertheless, although they had occasional opportunity influence the organization's performance, the direct resource dependence based influence can be seen as *low*.

²⁷⁴ Klemola, 1971: 120.

Network Position Based Influence

The main difficulties in the analysis of the stakeholder network of UPM are the several informal connections. Therefore, the communication relations identified describe the linkages (both formal and informal) that were clearly documented and relayed significant information. Walden, for example, most certainly had other communication relations with other entities and even the stakeholders of the organization. In turn, the relationships based on official contracts were easier to identify. Nevertheless, Figures 34 and 35 respectively describe the network of inter-stakeholder relationships surrounding UPM until 1965 and since 1970 are intended to be illustrative rather than flawless. The situation illustrated in Figure 35 also depicts the network of inter-stakeholder relationships between 1966 and 1970 with the main exceptions that Hakkarainen had replaced Walden and CAFFI had been founded.

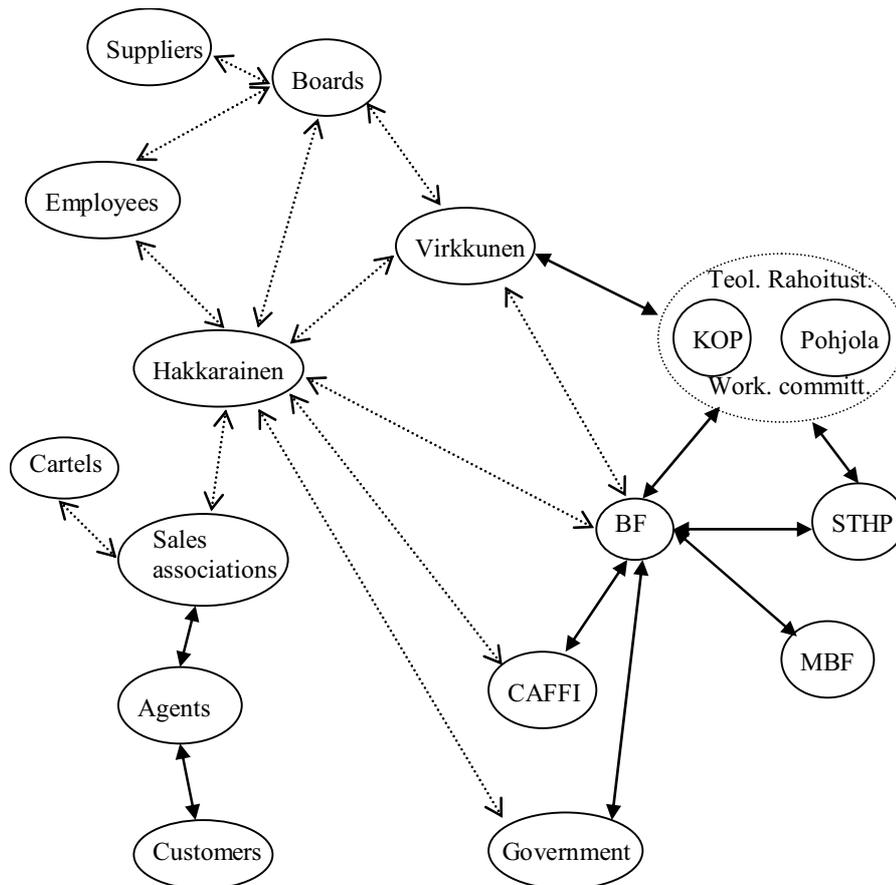
Figure 34. Network of Inter-Stakeholder Relationships of UPM until 1965



During the accelerating organizational decline, the stakeholders were like a cartwheel round Walden as Figure 34 shows. His betweenness centrality was evident. In practice, all the significant information both in and out of the organization was carried through Walden. Moreover, his role in these relationships was equal or dominant in respect of the resources. Altogether, Walden's network position was *highly* influential.

As regards the other stakeholders, the network position of KOP was at least *moderately* influential until 1965. Besides having a close owner/creditor relationship, it intermediated and guaranteed the loans of the foreign banks as well as allocated the resources of STHP. In the same way, the Bank of Finland had formal relations with the government and the commercial banks. Therefore, its network position based influence can also be seen as *moderate* until 1965.

Figure 35. Network of Inter-Stakeholder Relationships of UPM after 1970



The main change in the network positions occurred when KOP, the Bank of Finland, and Pohjola made the intervention and, as a result, captured a considerable part of Walden’s power as a decision-maker and controller of the resource flows. Thereafter, in practice, the “cartwheel” had two hubs. In the trinity of UPM, KOP and the Bank of Finland, each relationship can be seen as an important definer regarding how the organizations behaved. First, the survival of UPM was dependent on the finance of KOP; second, KOP as the main owner and creditor would not benefit if UPM would not

survive; third, in order to supply the finance KOP needed the support of the Bank of Finland; fourth, it was neither in the interest of the Bank of Finland nor the government that UPM should face descent into bankruptcy. Accordingly, each resource relation had clearly a bipolar nature.

KOP's and especially Virkkunen's position in the organization and the trinity makes the network position of KOP *highly* influential. In Figure 35 Virkkunen is separated from the KOP/Pohjola camp in order to emphasize his personal role in the process. The Bank of Finland, besides its own position, had a dominant role in CAFFI (since 1970), which made available an additional link to influence the survival of UPM. Altogether, the network position of the Bank of Finland was *highly* influential, whereas the position of CAFFI was not more than *moderately* influential.

The other main alteration in the network was Walden's resignation in 1969, when Hakkarainen inherited this *highly* influential position. Moreover, Hakkarainen possessed strong support from Virkkunen and KOP, something that Walden did not have during his last years in his position. At the same time, the potential influence of the board members increased (especially the influence of managers of the units, who received more autonomous positions). If the network position based influence of the rank and file board members as a whole had been *low* during the era of Walden, it can be seen as *moderately* influential after 1970.

In spite of these changes most of the stakeholders stayed in stable positions throughout the process. One of these was the government, whose role as an intermediate in the trade relations was fairly important both in the 1960s and the 1970s. Moreover, Walden had a direct personal relationship with the dominating leader of Finland, President Kekkonen. Even so, the government of Finland had a *moderately* influential network position even without the explicit presidential connection.

The sales associations, and in particular Finnpap, had *moderately* influential intermediate positions. Although these associations were prominent in the everyday business transactions and performed as intermediates between the firm and its customers (or more precisely between the firm and the sales agents), their influence was restricted in several ways. Most importantly, Walden had an influential position in Finnpap, and so was also able to influence the decisions made in this organization. Hakkarainen's connection to Finnpap was not as strong as Walden's. However, he became a member of the board of directors in 1970 and the chair of the magazine paper section of Finnpap in 1974.

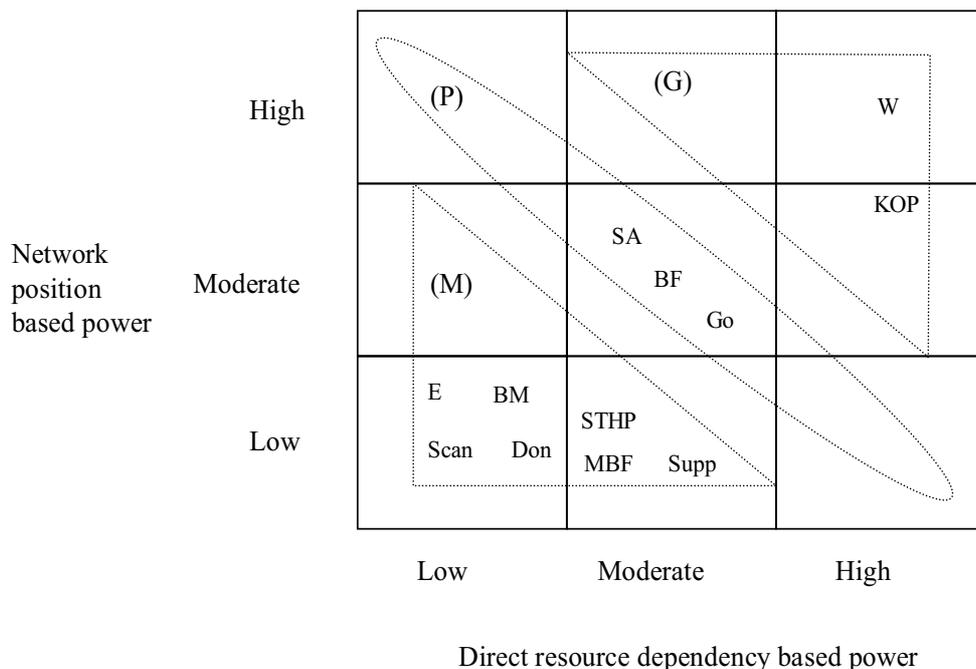
Finally, as Figure 35 shows, the betweenness centralities of the employees, the suppliers, and the diverse creditors, including STHP and MBF, were somewhat peripheral. Thus, they neither had noteworthy inter-stakeholder relationships. As a result, their network position based influence was *low*. Similarly, the pulp and paper cartels (Scan associations), while connecting competitors, had only a *low* or at maximum moderate network position based influence regarding organizational survival.

A Combined Perspective

Following the same procedure as used in the previous cases of Kymi and Walkiakoski, and described in the theoretical framework (Chapter 4), the influences of the stakeholders regarding organizational survival can be classified into three categories. The influence identification matrices in Figures 36 and 37 depict the respective situations until 1965 and after 1970, although the changes were not especially substantial. As in the network position analysis presented above, Figure 37 depicts the period between 1966 and 1970 with the main exception that Hakkarainen had replaced Walden.

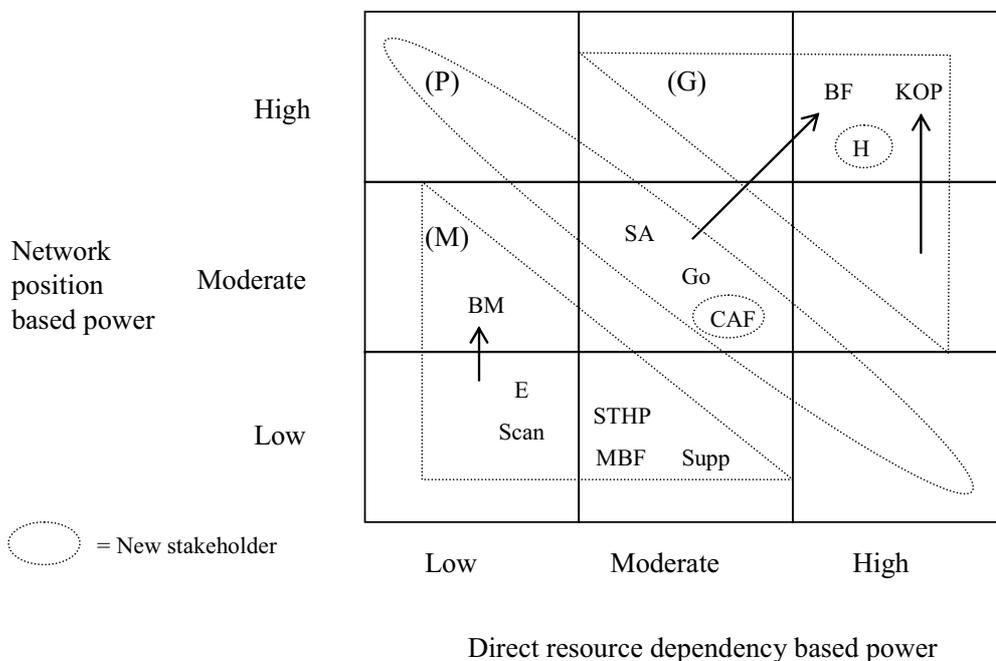
Starting from the group of governing stakeholders (G), the only entity that before the year 1965 had both high levels of direct resource dependence and network position based influence was Walden (W). Indeed, the dominating power of Walden was very conspicuous throughout the whole organization. The main creditor/financier, KOP, can also be seen as a governing stakeholder, but with a clearly lower level of influence than Walden. The situation changed during the period 1965—1966, when the influence of KOP and especially its network position based power noticeably increased. At the same time the Bank of Finland (BF) transformed from a potential stakeholder to a governing stakeholder with high levels of direct resource dependence and network position based influence. Despite these changes Walden remained a governing stakeholder. Finally, in 1970, a considerable alteration occurred in the group of governing stakeholders when Walden resigned and Hakkarainen (H) took his place at the head of the organization.

Figure 36. Influence of UPM's Stakeholders until 1965



The main change in the group of potential stakeholders (P) was the Bank of Finland's transformation from a potential stakeholder to a governing stakeholder. The sales associations (SA), and in particular Finnpap, were significant stakeholders, but their combined resource dependence and network position based influence makes them no more than potential stakeholders. Similarly, the government (Go) was in all respects a potential stakeholder, even if its role in the everyday business was not as visible as that of the sales associations. In addition, the organization acquired a new stakeholder in 1970, when CAFFI (CAF) started to operate. In practice, it was a similar potential stakeholder to the government.

Figure 37. Influence of UPM's Stakeholders after 1970



In respect of the level of influence on organizational survival, the group of minor stakeholders (M) remained fairly constant and most numerous throughout the process. The only noteworthy change was the amelioration of the rank and file board members' (BM) network position based influence after the resignation of Walden. In spite of this, they remained minor stakeholders. The group of diverse creditors (mainly STHP and MBF) possessed moderately important resources which could even have been highly important if KOP and the Bank of Finland had not controlled and guaranteed the granting of credit. However, their low network position based influence makes them not more than minor stakeholders, though with some reserve. Other minor stakeholders,

noteworthy in respect of organizational survival, were the suppliers (Supp), the employees (E), and the Scan associations (Scan). However, an exact influence identification of Scan associations is somewhat vague in the limits of this study.

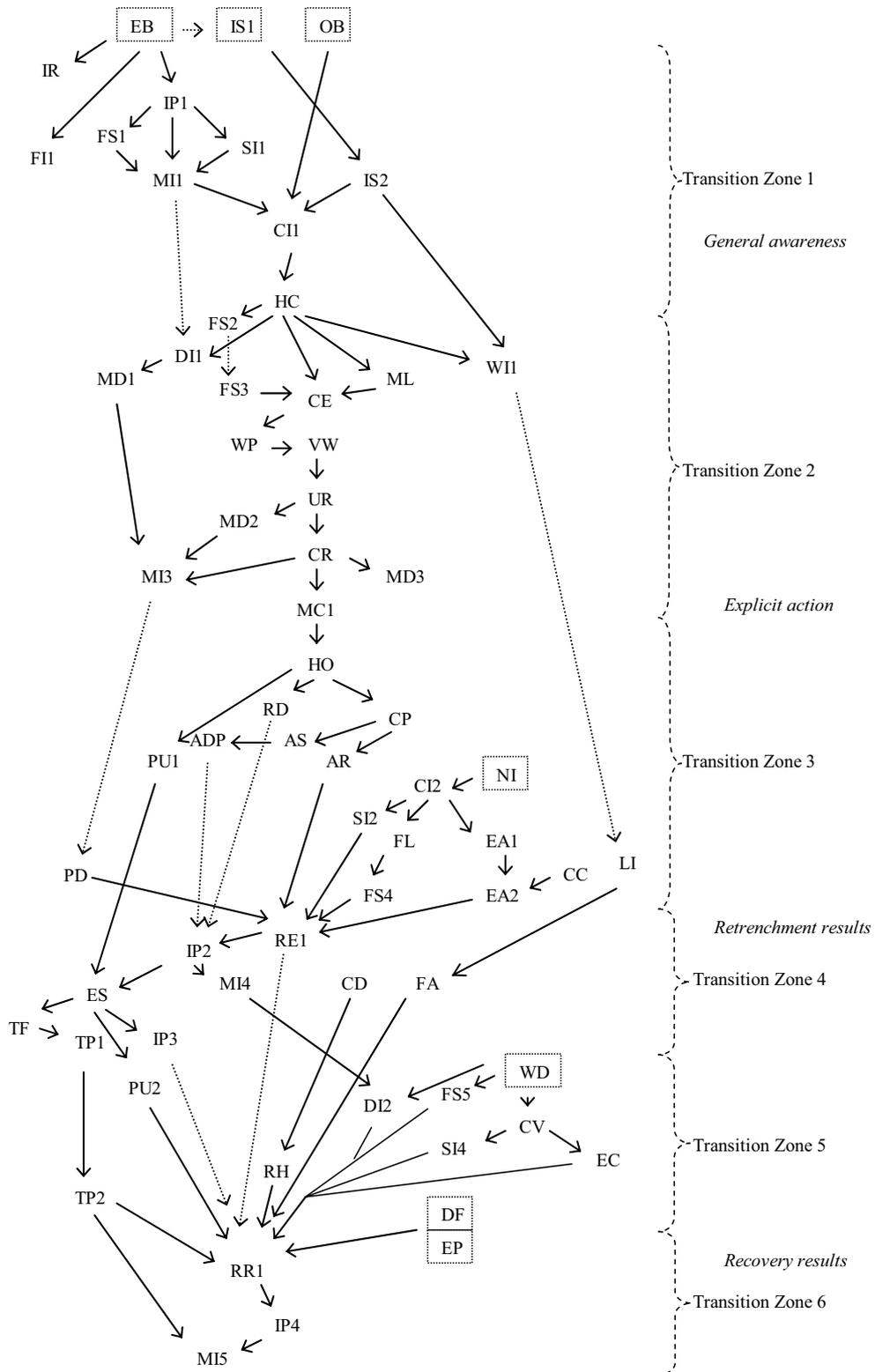
Event Structure Analysis

The analysis above defined the different entities and their abilities to activate functional components of mechanisms. Now, in the same way as in the preceding cases of Kymi and Walkiakoski, the diagram of the causal event structure of the decline and turnaround process of UPM is presented in Figure 38. Appendix 3, correspondingly, presents the activities/events related to the process in chronological order starting from the beginning of the decline through the crisis back to success. In addition, it includes the ETHNO codes, the substituting general codes, and the entities activating the events.

The diagram of the causal event structure depicts one external (*EFD/ OB*) and two internal (*IFD/ EB, IS1*) initial causes for the organizational decline. However, one of the internal forces (i.e., *IS1*) can also be seen as an initial consequence of the main internal reason: the CEO's excessively expansive business strategy, which was realized through several actions and events (*IFD/ IR, IP1, MI1, F11*) and was supported by the main creditor (*KOP*) and the majority of the owners (*IFD/ FS1, SI1*). In some other environment this strategy could have produced a successful outcome, but during the explicit overcapacity in the world's pulp and paper production and the unfavorable business cycle, it created the existence-threatening problems. Altogether, the organization was, in practice, blind of the foremost difficulties, thus being in the first transition zone of the decline.

The first explicit impulse to resist the decline came from abroad. The CEO and other managers were well aware that UPM's Italian subsidiaries were making a loss, but not until the top management had received a detailed analysis of the performance of these units was it suggested that they should withdraw from Italy in order to avoid catastrophic consequences (*IAD/ IS2*). The second and more important impulse against the deepening decline, which was already showing in the financial statements, came from outside the organization when the main creditors refused to grant additional finance (*ERD/ CI1*). Indeed, the financial situation became so acute that the creditors decided to found the holding company and to set up the working committee to take over UPM (*ERD/ HC*) before allowing the financial support needed (*FS/ FS2*) to keeping the firm as a going concern. Overall, the general awareness of the organizational decline had been reached and UPM was moving on to the second transition zone, which, however, became 'long and bitter'.

Figure 38. Causal Event Structure of the Decline and Turnaround Process of UPM



The strong external reaction to the crisis initiated the actions against the decline, but it did not immediately produce radical improvements since the same powerful CEO continued to lead the organization. However, the withdrawal from Italy was clearly boosted (*RD(RA)/ WI1*) and investment in the board machine was delayed (*RA/ DI1*), though causing strong managerial disagreement inside the organization (*OD/ MD1*). Unfortunately, these actions did not alleviate the acute financial distress and the firm was again forced to apply for external financial support (*FS/ FS3, ML*).

The working committee promised to guarantee the loan if and only if the main creditor was allowed to make a thorough examination of the firm's situation (*ERS/ CE*). The CEO first prevented the examination (*OD/ WP*), but was later forced to accept it (*OD/ VW*). After a few months, the detailed results of the examination revealed the critical situation in the organization and indicated the necessity for urgent reconstructions (*UC/ UR*).

In spite of the explicit facts regarding the crisis, the CEO wanted considerable dividends (*OD/ MD2*). Finally, the management disagreements and the creditors' examination led to the CEO's resignation (*MC/ CR*) and further disagreements (*OD/ MD3*). As his last action, the CEO decided to continue the interrupted board machine project (*OD/ MI3*), which caused further problems. Yet, the change of CEO (*MC/ MC1*) basically eliminated the main initiator of the internal problems and opened the organization to more determinedly work against the decline, even if some retrenchment activities were already implemented after the creditors' intervention. The organization was now ready to move on to the third transition zone, but the forces of decline still persisted in the organization.

The new CEO started by outlining a new organizational order (*ERS/ HO, CP*) and considering how to reconstruct the organizational functions and governance structures (*RD/ RD, PU1, AS, ADP*) — that is, he concentrated on the recovery actions. However, the CEO also realized that clear asset reductions had to be implemented (*RA/ AR*) in order to obtain liquid money. Altogether, these actions did not prevent the financial deficit from increasing (*IFD/ NI*). Thus, the Bank of Finland reacted again and decided that UPM had to increase its share capital and that it was not allowed to implement anything other than small maintenance investments (*ERD/ CI2*). This impulse led to the decision regarding the share issue and loan application to the bank for more credit (*FS/ FL, SI2*) as well as the first emergency agenda (*RA/ EA1*). The retrenchment actions and further investigations (*RA/ PD*) as well as the liquidations in Italy (*RD(RA)/ LI*) were also started, but they did not produce immediate results and during the following months the situation became even worse (*IFD/ CC*). Therefore, even extraordinary measures were declared to be acceptable in order to improve the firm's situation. Finally, the new emergency agenda was presented (*RA/ EA2*). At this time the retrenchment actions together with the share issue and modest loan (*FS/ FS4*) produced

clear, positive effects (*RE/ RE1*). The organization was finally moving on to the fourth transition zone.

After the situation had stabilized, a new investment plan was presented (*ERS/ IP2*) in order to ensure the future successful performance of the firm. It was followed by the major strategic decision to acquire a new paper machine (*RD/ MI4*). At the same time considerable foreign asset divestments were implemented (*RD/ FA*). The evaluation of the firm's strategic goals then continued (*ERS/ ES*) leading to the new investment plans (*ERS/ FI2, IP3*) and introduction of the profit units' allowance system, which made the units more autonomous (*RD/ PU2*). Important strategic decisions were also the investment in thermomechanical pulp production and the cooperation agreement with Haarla Corporation (*RD/ TP1, TF, TP2, CD*).

At the same time as these recovery measurements started to show obvious results and UPM reached the fifth transition zone, the worldwide depression halted the positive development (*EPD/ WD*). As a first reaction, financial support was applied (*FS/ FS5*) for ongoing investment projects, some of the investments were delayed (*RA/ DI2*), and an investigation of the firm's crisis vulnerability was made (*ERS/ CV*). The last measure was followed by an economy campaign (*RA/ EC*) and a share issue (*FS/ SI4*).

These internal evaluations and retrenchment actions together with the above recovery actions, the acquisition of Haarla (*RD/ RH*), and finally external support (*ESR/ DF, EP*) led to the positive production and financial results (*RR/ RR1*) propelling the organization into the last transition zone. These results supported the continuation of the investment program (*RD/ IP4*). Finally, after a prosperous year, a new investment plan was launched (*RR/ MI5*) that became one of the cornerstones of UPM's success in the 1980s and 1990s.

Part IV
How Things Work

Chapter 9

Mechanisms of Decline and Turnaround

Before moving on to the last part of my argument, I briefly take a few steps backwards. I began my journey, that aims to examine causal mechanisms in general and those that drive organizational decline and turnaround processes in particular, by considerations of realism as a general framework for understanding how things work. Building on this basis, I then proceeded to the argument for causal mechanisms by suggesting how they provide a forceful way to explain how things actually work. Thereafter, the following phase of the argument took the discussion to the methodological level in order to offer a procedure for the identification and postulation of mechanisms that drive processes and produce outcomes.

While the philosophical and methodological considerations were presented on a rather general level, the second part of the argument focused more closely on issues related to organizational decline and turnarounds. Specifically, as suggested in the methodological considerations, the theoretical framework defined the two sides of the functional components of mechanisms, namely, entities and activities. Finally, the argument was ready to move to the third part—the analysis of actual decline and turnaround processes.

Following the methodological procedure described in Chapter 3, employing the conceptual models presented in the analytical framework (Chapters 4 and 5), and using the research data outlined in Chapter 3, the preceding three chapters described the analyses of three decline and turnaround processes. Each individual analysis included

analyses of the industrial context and organizational performance, a historical narrative of the process, identification of entities and their influence regarding organizational survival and thus their ability to activate functional components of causal mechanisms, an event chronology including general codes and entities of the activity, and finally the construction of an event structure incorporating a causal diagram of the whole process. As a result, it is now time to move on to the postulation of mechanisms and their comparison and in so doing to the theorization of how organizational decline and turnaround processes actually work.

The remainder of this chapter proceeds through three main sections. To begin with, I present a comparison of stakeholder influence identifications and thereby suggest those entities that seem to have decisive roles in organizational survival due to their attribute- and structure-based properties of influence—the properties that also make up the constituents that can be used to assess whether an entity is able to activate a functional component of a mechanism. In the second section, I turn to a simplification of the singular causal event structures using the general level concepts and the issues defined in the analytical framework and in so doing postulate the theoretically intelligible causal mechanisms driving the processes. Finally, in the third main section, I present a comparison of the mechanisms, and building on all the foregoing, evince a general scheme of the causal mechanisms driving organizational decline and turnaround processes.

Activating Entities

Since an entity that is able to activate a functional component of a mechanism and so exert a direct influence on organizational survival may in practice be anyone of the organizational stakeholders, my argument concerning the mechanisms of organizational decline and turnarounds is not, as such, dependent on the results of the comparison of the stakeholders' influences. However, there may be tendencies that some entities, at the general level, have better capabilities to activate functional components than others. In order to more carefully consider this dispositional issue, the comparison of the results of the stakeholder influence identifications presented in the above analyses is warranted. Yet, the conclusions have nothing to do with statistical generalizations or constant conjunction. On the contrary, being influential and having the capability to act does not ensure or even mean that an entity will indeed act. As a consequence, the results of the comparison have to be considered as theoretical suggestions that capture meaningful aspects as regards the capacities of different stakeholder groups during organizational decline and turnarounds.

The findings of the influence identifications are directly comparable in terms of governing, potential, and minor stakeholders, as summarized in Table 5. Each of the individual analyses has demonstrated that fairly noteworthy changes occurred in the

influence of individual stakeholders during the processes. Comparison and assessment is, therefore, also warranted in order to consider more closely whether and how the changes took place at the conceptual level of different stakeholder groups.

Table 5. Governing, Potential, and Minor Stakeholders during the Initial Situations of Declines and during the Turnarounds

| <i>Initial situation</i> | <i>Kymi</i> | <i>Walkiakoski</i> | <i>UPM</i> |
|---------------------------------|---|--|--|
| <i>Governing</i> | Manager-owner, Main owner | Manager | Manager-owner, Main creditor |
| <i>Potential</i> | Main creditor, Sales agencies | Main creditor, Main owner, Sales association | Creditor, Sales association, Government |
| <i>Minor</i> | Board members, Other creditors (3), Government, Industry association, Suppliers, Workers | Board members, Government, Suppliers, Workers | Board members, Other creditors (2), Int. industry cartel, Suppliers, Workers |
| <i>During turnaround</i> | | | |
| <i>Governing</i> | Managers (2), Main creditors (2) | Managers (2), Main creditor | Managers, Main creditors/owners (2) |
| <i>Potential</i> | Manager, Main owners, Sales agencies, Other creditors | Manager, Main owner, Sales association, Board members | Sales association, Industry association Government |
| <i>Minor</i> | Board members, Government, Industry association, Suppliers, Workers, Minor owner | Minor creditor, Cartel, Government, Workers, Suppliers | Board members, Minor creditors (2), Int. industry cartel, Suppliers, Workers |

Note: The number in brackets shows if there was more than one representative of that particular stakeholder group in the same category.

Before moving on to the comparison, however, I would like to underline that each of the analyses has already demonstrated how both direct resource dependence and network position analyses are crucial elements in examining stakeholders' influence (and capacity to act) in the context of organizational survival and thereby in the identification of potential entities in organizational mechanisms. In a broader perspective, this result is consistent among others with the suggestion of Rowley et al.

(2000) that the roles of relational and structural embeddedness can only be understood with reference to each other. Moreover, the analyses support the view, suggested by Cook (1977), that it is possible and valuable to integrate separate theories into more comprehensive perspectives that enable us to explain organizational interaction more intelligibly. But let us begin the comparison from the governing stakeholders.

Governing Stakeholders

In each of the processes analyzed, during the initial situations a manager at the highest level of the managerial hierarchy, or such a manager accompanied by a considerable share of ownership, possessed the greatest influence on the organizational survivals. In Kymi the group of governing stakeholders in the initial situation also included the main owner and in UPM the main creditor. On the whole, in both of these organizations, the influence of an individual top manager was overwhelming in respect of the other stakeholders.

As the analyses have shown, notable transformations occurred concerning the membership of individual stakeholders in the all three groups of combinatorial influence during the processes. This was equally true as regards the group of governing stakeholders. However, as summarized in Table 6, the changes at the conceptual level of stakeholder groups were not as radical. Nevertheless, three noteworthy changes in the group of governing stakeholders can be identified.

First, although the managers were evidently governing stakeholders in both of the reference points, during the initial situations there was only one individual manager in each organization representing that group, whereas during the explicit turnarounds the number of governing managers had increased in each case. In other words, authoritative management structures had transformed into more democratic management teams. However, it has to be noted that in each organization, individual managerial actors possessed considerable influence throughout the decline and turnaround processes. Moreover, the comparison does not reveal the main change concerning the managers as active entities. That is, in each of the cases the factual “content” of that conceptual entity changed.

A more noteworthy change, and in fact the most important transformation concerning the influence of stakeholder groups during the processes, was the increasing influence of the main creditors. In the initial situations, only in one organization (UPM) was the main creditor among the governing stakeholders, but during the explicit turnarounds, the main creditor(s) were among the governing stakeholders in each organization. Thus, both the stakeholder influence identifications as well as this comparison provide a strong account in respect of the dynamic and influential roles of the main creditors in organizational decline and turnarounds.

Table 6. Changes in Stakeholders' Influence during the Decline and Turnaround Processes

| | <i>Initial situation</i> | <i>During turnaround</i> |
|------------------|--|--|
| <i>Governing</i> | Top manager (3) Main owner (1) Main creditor (1) | Top managers (3) Main creditors (3) |
| <i>Potential</i> | (Main) creditors (3) Sales agencies/association (3) Main owner (1) Government (1) | Sales agencies/association (3) Manager (2) Main owners (2) Other creditors (1) Board members (1) Industry association (1) Government (1) |
| <i>Minor</i> | Suppliers (3) Workers (3) Board members (3) Government (2) Other/minor creditors (2) Industry association/cartels (2) | Suppliers (3) Workers (3) Board members (2) Government (2) Other/minor creditors (2) Industry association/cartels (3) |

Note: The number in brackets refers the number of organizations (1-3) where the particular stakeholder group was in that category.

The third change concerning the group of governing stakeholders was the diminishing influence of the owners, especially in contrast to the creditors and managers. This became evident in the cases of Kymi and UPM. However, the transformation has to be seen more as a side effect of the changes in the management (i.e., the dismissal of the owner-managers) than as an actual change in the influence of the distinct owners. Additional important facts that have to be noted are that the main owners remained at least as potential stakeholders having noteworthy opportunities to influence the organizational survivals. Moreover, the main creditor of one organization (UPM) became the main owner of that organization during the process, though its role as a creditor remained dominant.

Overall, as a general tendency the results indicate that managerial actors, as a group as well as an individual entities, and main creditors are the entities most likely to possess the constituents that facilitate the activation of functional components of mechanisms in organizational decline and turnarounds. Moreover, in each of the organizations there was a clear tendency for the top management to become more

diversified and for the influence of the main creditors to increase considerably during the processes.

Potential Stakeholders

The changes in the influence of creditors and owners also had an effect on the composition of the group of potential stakeholders as illustrated in Tables 5 and 6. Yet it was an equally significant change that the total number of different stakeholder in the group of potential stakeholders noticeably increased. Initially there were only four different conceptual groups of potential stakeholders (creditors, sales agencies, main owner, and government), formed by eight actual stakeholders, whereas during the turnarounds the number of conceptual groups had increased to seven and the number of stakeholders to eleven. The new potential groups were individual managers, board members, and the industry association. Although this change only took place in Kymi and Walkiakoski, it has to be noted that in UPM the actual number of governing stakeholders increased from two to three.

The comparison of the potential stakeholders also provides other noteworthy results. Most strikingly, the sales association(s) was unchangingly a potential stakeholder in all organizations throughout the processes although it could occasionally even be seen as a governing stakeholder. Another interesting point is the inclusion of new managerial actors. This can be considered as a direct consequence of the more democratic management as referred to above or, actually, of more democratic forms of organizations. Some unique changes also occurred. In the case of Walkiakoski the group of board members developed (with clear limits) from minor stakeholders to potential stakeholders and in UPM the new industry association directly obtained the status of a potential stakeholder.

On the whole, while some of these changes were relatively modest, it can be concluded that during an organizational turnaround the number of stakeholder groups with potential or significant ability to activate functional components of mechanisms has a tendency to increase than the other way around. Although this suggestion does not receive overly strong support from the case of UPM, it is not so much opposed as to be refuted.

Minor Stakeholders

While the influence of minor stakeholders, and this also means that their ability to activate functional components is relatively low, minor stakeholders constitute an interesting class of entities primarily because as a whole it remained relatively unchanged regarding the inclusion of different conceptual groups. As the analyses have identified, some stakeholders transformed from minor stakeholders to potential and even to governing stakeholders during the processes. However, at the same time a member of the same conceptual stakeholder group (e.g. a creditor) transformed from potential or governing stakeholders to minor stakeholders. As a result, the number of

different conceptual groups remained stable. In this respect, the only change occurred when the group of board members in Walkiakoski became a potential stakeholder.

The most obvious minor stakeholders in each case were the suppliers and the factory workers. They remained in this group throughout the declines and turnarounds. In UPM the government was a potential stakeholder, but in other cases it possessed an unchanging place as a minor stakeholder. The influence of the minor creditors and the industry associations/cartels was also found to be relatively low in two cases throughout the processes.

Altogether, while the capacities of the minor stakeholders to activate a functional component were modest during these organizational decline and turnaround processes, this does not say that they could not act at all. Moreover, in some other situation or context the same stakeholders may have possessed more influence. Indeed, the comparison shows that there were same conceptual stakeholder groups both in potential and minor groups of influence. As a general tendency, however, it can be concluded that the same conceptual entities are likely to occupy the group of minor stakeholders during the whole process of organizational decline and turnaround.

Simplification and Postulation of Mechanisms

The singular event structures presented in the previous chapters describe the specific causal structures of the three organizational decline and turnaround processes consisting of detailed causal relations between specific functional components. As such, each of these components is a unique event resulting from the activity of an entity in a particular moment. Most likely there has not been and will not be two perfectly similar functional components in the causal history of the social world. However, the specific components are also concrete manifestations of more general or abstract conceptual issues. As suggested in the methodological considerations, this is a necessary assumption we have to accept if we wish to have any theoretical scope in our arguments. Therefore, each of the case-specific components is substituted by a theoretically derived, general level concept (and code) presented in Chapter 5. By using these general level concepts, we have an exact, comparable, and theoretically warranted basis to identify the components that together, as a combination or a configuration, may activate a mechanism that produces an outcome.

As suggested in the theoretical framework, a study that aims to examine and theorize about causal mechanisms in organizational decline and turnaround processes should in particular focus on the following higher-level outcomes and states of affairs: (1) *Forces of decline* that lead the organization into existence-threatening crisis, (2) events and actions that lead to *general awareness* of the decline/crisis, (3) events and actions that lead, initiate, or trigger *explicit action* against the decline, (4) events and actions that lead to *explicit retrenchment results*, and finally (5) those events and actions

that lead to *unambiguous recovery results*. As the event structure analyses have shown, in each of the cases these phenomena existed and formed important turning points in the processes (See Figure 16, p. 122; Figure 27, p. 153; and Figure 38, p. 186).

Altogether, we have now an empirically explicit and theoretically replicable foundation to simplify each of the event structures and to postulate the theoretically intelligible causal mechanisms. Thereafter these mechanisms can be compared in order to consider the issues regarding the necessity of the components and their combinations, equifinality²⁷⁵, and finally general tendencies of the mechanisms. However, the explanation of how the particular processes actually worked is in no way dependent on the results of the comparison. Thus, I continue the argument by identifying the activated functional components and their combinations that formed the productive account of the mechanisms as well as the conceptual groups of entities that actually activated these components. As a result of all this, I believe, we will have a clear understanding of how each of the decline and turnaround processes actually worked. Due to the systematic structure of the methodological procedure, the discussion that follows may have a repetitive character. However, that cannot be totally avoided.

Kymi

In the case of Kymi Corporation, (1) the organizational decline was due to both internal (10IFD) and external forces (4EFD), which together drove the organization into crisis. As described in the historical narrative, the numerous internal events were directly associated with the owner-manager of the organization. Thus, the various internal forces for the most part originated from the same source. The decline was also partly exacerbated by emerging external pressures (EPD). Overall, in simplified form the postulated, theoretically intelligible mechanism of decline (M1) was sufficiently activated and sustained by the following combination of necessary components:

$$(9.1) \quad 10IFD \wedge 4EFD \wedge (EPD) \rightarrow M1$$

Each of these components was activated by an entity. As Table 7 shows, three conceptual groups of stakeholders were involved in the initial internal forces of decline. The managers (governing stakeholders) were clearly the dominating entity, but the main creditors (potential stakeholders) were also involved in the activation. The workers instigated an event, but otherwise their role was minor. As regards the initial external forces of decline, as a whole four different conceptual entities were involved. Of these, society describes the general movement of the workers, economy the deteriorating economic and business cycle, and indefinable the fire in the factory. The external pressure for decline was activated by the business recession. In all, the components of

²⁷⁵ As defined in Chapter 3, equifinality means a situation where the same outcome can be produced by different causes or combinations of causes as is often the case. In management and organization research the importance of equifinality is noted by Gresov and Drazin (1997).

the suggested mechanism were activated by seven different entities, though the role of the managers was clearly predominant.

Table 7. Entities Activating the Mechanism for Decline in Kymi

| | <i>IFD</i> \wedge <i>EFD</i> \wedge <i>EPD</i> | | |
|-------------|--|---|---|
| Managers | 6 | | |
| Creditors | 3 | | |
| Workers | 1 | | |
| Society | | 1 | |
| Government | | 1 | |
| Economy | | 1 | 1 |
| Indefinable | | 1 | |

(2) The transition from the blinded level to general awareness of the decline required two impulses; one internal (IAD) resulting from direct signals in the financial indicators and one external (ERD) as a reaction of the creditors. Thus, at the theoretical level the suggested mechanism for general awareness (M2) was sufficiently activated by the combination of two necessary components. To put it formally:

$$(9.2) \quad \text{IAD} \wedge \text{ERD} \rightarrow \text{M2}$$

Regarding the entities activating the components of the mechanism, the findings are equally straightforward (Table 8). The manager of the organization activated the component of internal awareness of the decline whereas the main creditors activated the external reaction. Both of the entities involved were governing stakeholders.

Table 8. Entities Activating the Mechanism for General Awareness in Kymi

| | <i>IAD</i> \wedge <i>ERD</i> | |
|-----------|--------------------------------|---|
| Managers | 1 | |
| Creditors | | 1 |

(3) After general awareness had been reached, the organization moved on to explicit action against the decline as a result of the thorough evaluation (ERS), the understanding of the actual nature of the crisis (UC), the resignation of the owner-manager and the selection of new managers (2MC). In short, in simplified form, mechanism (M3) was sufficiently activated by the following combination of functional components:

$$(9.3) \quad \text{ERS} \wedge \text{UC} \wedge \text{2MC} \rightarrow \text{M3}$$

The same groups of stakeholders as in the preceding mechanism also activated the components of the mechanism for explicit action. However, the role of the main creditors as governing stakeholders was especially emphasized. In fact, as Table 9 shows, the creditors were activating each of the components whereas the managers, as an activating entity, were only involved in the management change.

Table 9. Entities Activating the Mechanism for Explicit Action in Kymi

| | <i>MC</i> | \wedge | <i>ERS</i> | \wedge | <i>UC</i> |
|-----------|-----------|----------|------------|----------|-----------|
| Managers | 1 | | | | |
| Creditors | 1 | | 1 | | 1 |

(4) The first explicit retrenchment results were then fairly straightforwardly produced through considerable financial support (FS) (in several batches) and the determined retrenchment actions (8RA). Thus, at the theoretically intelligible level the postulated mechanism producing the retrenchment results (M4) was sufficiently activated by two necessary components. Thus, more formally:

$$(9.4) \quad 8RA \wedge FS \rightarrow M4$$

In the same way as the mechanism was activated through two components, only two entities activated the components. As shown in Table 10, these entities were the same stakeholders as in the preceding mechanism for explicit action. However, their roles had changed somewhat. The managers were now the most active entity. Conversely, the creditors were the only entity that activated the component of financial support. Thus, in that respect both entities were equally necessary.

Table 10. Entities Activating the Mechanism for Retrenchment Results in Kymi

| | <i>RA</i> | \wedge | <i>FS</i> |
|-----------|-----------|----------|-----------|
| Managers | 8 | | |
| Creditors | | | 1 |

(5) Finally, the obvious recovery results were produced through the further planning of the recovery strategy (2ERS), the management change (MC) (i.e. Serlachius started as a CEO/plant manager), the determined recovery actions (19RD), the further retrenchment actions (5RA), the financial support (FS) as well as the external support (2ESR). On the one hand, these activities already started before the clear retrenchment results were achieved. On the other hand, as shown, the retrenchment activities were also needed to support the recovery after the explicit retrenchment results had materialized. The role of the external support is not fully apparent, but most likely the general cartel agreements had a clear, positive influence on organizational recovery.

Altogether, in simplified form the theoretically intelligible mechanism for recovery results (M5) was sufficiently activated by the following combination of components:

$$(9.5) \quad 2ERS \wedge MC \wedge 19RD \wedge 5RA \wedge FS \wedge (2ESR) \rightarrow M5$$

As regards the entities activating the functional components, the group of stakeholders involved remained fairly similar (Table 11). The only new entity in comparison to the previous mechanisms was the cartel that activated the component of external support. The role of managers was now undoubtedly dominant as they alone activated four of the six components, the recovery actives being the main concern. However, the support of the main creditors was once more needed.

Table 11. Entities Activating the Mechanism for Recovery Results in Kymi

| | <i>ERS</i> | <i>MC</i> | <i>RD</i> | <i>FS</i> | <i>RA</i> | <i>ESR</i> |
|-----------|------------|-----------|-----------|-----------|-----------|------------|
| Managers | 2 | 1 | 19 | | 5 | |
| Creditors | | | | 1 | | |
| Cartel | | | | | | 2 |

Overall, the above account is suggested to provide an explanation of how the decline and turnaround process of Kymi Corporation worked. To sum up, the existence-threatening organizational decline was produced by the mechanism for decline. This and the four other mechanisms that worked against the mechanism for decline were sufficiently activated by the specific combinations of functional components described above. Specifically, the mechanism that led the organization to general awareness of the decline was sufficiently activated by the combination of two functional components ($IAD \wedge ERD$). The mechanism activated by the combination of three different components ($ERS \wedge UC \wedge 2MC$), was then needed to drive the organization to the state that enabled explicit action against the decline. Thereafter, the combination of two components ($8RA \wedge FS$) activated the mechanism that halted the decline and produced the explicit retrenchment results and the combination of six components ($2ERS \wedge MC \wedge 19RD \wedge FS \wedge 5RA \wedge 2ESR$) was sufficient to activate the mechanism that produced the explicit recovery results.

Accordingly, the outcome produced by the activity of the mechanism for general awareness was needed before the mechanism for explicit action was able to work and the outcome produced by this mechanism made possible the work of the mechanisms for retrenchment and recovery results. The organizational decline would not have been halted without the activation of the mechanism for retrenchment results. Thus, while the mechanism for recovery results did not directly follow the outcome produced by the mechanism for retrenchment results, it would not have been able to overcome the last forces of the decline without the outcome produced by the mechanism for retrenchment results. Therefore, although they did not directly and temporally follow each other, the

mechanisms were clearly interdependent. In all, each of the mechanisms had to be productively activated to defeat the mechanism for decline and realize the turnaround.

Walkiakoski

In the case of Walkiakoski, (1) the organization descended into the decline under the power of internal (3IFD) and external reasons (EFD). The internal forces had more influence, but without the external forces the organization would not have run into crisis as it did. Thus, both the internal and external forces can be seen as necessary reasons. The deepening decline was further enforced by the emerging organizational disagreements (2OD) and the external pressures (4EPD). Altogether, in simplified form the theoretically intelligible mechanism for decline (M1) was sufficiently activated and thus the existence-threatening decline produced by the combination of two general level functional components and further maintained by two additional components. The postulated mechanism for decline as a whole can then be presented in the following form:

$$(9.6) \quad 3IFD \wedge EFD \wedge (2OD \wedge 4EPD) \rightarrow M1$$

The set of entities that activated the above functional components consists of five rather diverse stakeholders (Table 12). The initial internal forces of decline were equally activated by the managers (governing stakeholders) and the owners (potential stakeholders). The initial external force of decline resulted simply from the unfavorable business cycle. Regarding the emerging organizational disagreements, both the managers and the board were involved. Finally, the general economic and business recession as well as the cartel disintegration activated the component of emerging external pressure. Altogether, industry-wide problems had a considerable influence throughout the process.

Table 12. Entities Activating the Mechanism for Decline in Walkiakoski

| | <i>IFD</i> | <i>EFD</i> | <i>OD</i> | <i>EPD</i> |
|----------|------------|------------|-----------|------------|
| Managers | 2 | | 1 | |
| Owners | 2 | | | |
| Economy | | 1 | | 3 |
| Board | | | 1 | |
| Cartel | | | | 1 |

(2) The general awareness of the organizational decline was achieved as a result of internal (IAD) and external (ERD) impulses. Thus the postulated mechanism producing this outcome (M2) was sufficiently activated by the combination of two necessary components. To put it formally:

$$(9.7) \quad IAD \wedge ERD \rightarrow M2$$

Regarding the entities involved, the mechanism was equally simple as shown in Table 13. The component of the internal awareness of the decline was activated by the manager, whereas the main creditor activated the external reaction to decline. The manager was clearly a governing stakeholder and the creditor a potential stakeholder. Altogether, the ability to influence was also realized as a concrete activity.

Table 13. Entities Activating the Mechanism for General Awareness in Walkiakoski

| | <i>IAD</i> \wedge <i>ERD</i> | |
|-----------|--------------------------------|---|
| Managers | 1 | |
| Creditors | | 1 |

(3) Thereafter, the transition from general awareness to explicit action against the decline was reached through the changes in management (2MC), the evaluation of the firm's strategic situation (2ERS), and the understanding of the severity of the crisis (UC). Altogether, in simplified form the mechanism to explicit action (M3) was sufficiently activated by the combination of three different necessary components.

$$(9.8) \quad 2MC \wedge 2ERS \wedge UC \rightarrow M3$$

The group of entities that activated the components changed somewhat in comparison to the preceding mechanism. Specifically, as shown in Table 14, the role of the managers was emphasized as they were involved in each of the components. Another change was that the owners had replaced the creditors. However, the owners were only involved in activating the management change. Altogether, both entities were needed to produce the explicit actions against the decline.

Table 14. Entities Activating the Mechanism for Explicit Action in Walkiakoski

| | <i>MC</i> \wedge <i>ERS</i> \wedge <i>UC</i> | | |
|----------|--|---|---|
| Managers | 1 | 2 | 1 |
| Owners | 1 | | |

(4) Although the first event related to retrenchment already took place during the evaluation, the functional components necessary to produce the evident retrenchment results were the correct retrenchment actions (3RA), the financial support (FS), and the management change (MC). Accordingly, the theoretically intelligible mechanism that produced the retrenchment results (M4) was sufficiently activated by the combination of three different general level components. Thus, to put it formally:

$$(9.9) \quad 3RA \wedge FS \wedge MC \rightarrow M4$$

As regards the entities involved in the activation of the mechanism, the role of the managers was still dominant (Table 15). They activated both the retrenchment actions and the management change. However, in order to produce the outcome this mechanism also needed another entity. The main creditor took this place by activating the component of financial support. Thus, the owners and the creditors had again changed places (although activating different components).

Table 15. Entities Activating the Mechanism for Retrenchment Results in Walkiakoski

| | <i>RA</i> | \wedge | <i>FS</i> | \wedge | <i>MC</i> |
|-----------|-----------|----------|-----------|----------|-----------|
| Managers | 3 | | | | 1 |
| Creditors | | | 1 | | |

(5) Finally, the organization reached the obvious recovery results due to the sufficient activation of the mechanism (M5) by the same management change as in the mechanism for retrenchment results (MC), the evaluation of the new production strategy (ERS), the recovery decisions (9RD), the financial support (4FS), the further retrenchment actions (RA) as well as the external support (3ESR). Altogether, in a simplified form, the mechanism for recovery results was activated by a combination of six necessary components and can be formally presented in the following form:

$$(9.10) \quad MC \wedge ERS \wedge 9RD \wedge 4FS \wedge RA \wedge 3ESR \rightarrow M5$$

Compared to the previous mechanisms, the number of different groups of entities involved in the activation of the functional components notably increased. As Table 16 shows, the managers activated four of the six components and were the only activating entities in three of them. Accordingly, as governing stakeholders with the ability to act, they also acted actively. While the owners did not activate the components in the mechanism for retrenchment results, they were involved in two of the components in this mechanism. The needed component of financial support was again activated by the creditors, but the owners also provided necessary equity based support. The component of the external support for recovery was activated by the cartel and the general economic recovery.

Table 16. Entities Activating the Mechanism for Recovery Results in Walkiakoski

| | <i>ERS</i> | <i>MC</i> | <i>RD</i> | <i>FS</i> | <i>RA</i> | <i>ESR</i> |
|-----------|------------|-----------|-----------|-----------|-----------|------------|
| Managers | 1 | 1 | 7 | | 1 | |
| Owners | | | 2 | 1 | | |
| Creditors | | | | 3 | | |
| Cartel | | | | | | 2 |
| Economy | | | | | | 1 |

To conclude, I recapitulate the main lines of how the decline and turnaround process of Walkiakoski worked. First, the organizational decline that deteriorated to the existence-threatening crisis was produced by the mechanism for decline, activated and maintained by the combination of four different functional components ($IFD \wedge EFD \wedge (OD \wedge EPD)$). The combination of two functional components ($IAD \wedge ERD$) activated the mechanism for general awareness of the decline and made possible the activation of the mechanism for explicit action ($2MC \wedge 2ERS \wedge UC$). The outcome produced by this mechanism was thereafter needed to ensure the activation of the mechanisms for retrenchment results through the combination of three different components ($3RA \wedge FS \wedge MC$) and the mechanism for recovery results through the combination of six components ($ERS \wedge MC \wedge RD \wedge FS \wedge RA \wedge ESR$). Altogether, the activation of these four mechanisms overcame the mechanism for decline and finally produced the successful turnaround.

UPM

Last but not least, in the decline and turnaround process of UPM (1) the organizational decline was initially caused by both internal (8IFD) and external (EFD) reasons. Although the internal reasons were more numerous, the external force was equally needed to drive the organization into the crisis. The decline was maintained and further enforced by the organizational disagreements (6OD) and the external pressures (EPD). Altogether, in simplified form, the theoretically intelligible mechanism proposed for organizational decline (M1) was sufficiently activated by the following combination of functional components:

$$(9.11) \quad 8IFD \wedge EFD \wedge (6OD \wedge EPD) \rightarrow M1$$

The group of entities activating the components of the mechanism consists of the managers, creditors, owners, board members and economic regression. As Table 17 illustrates, the component of initial internal forces of decline was activated by the managers, the creditors, and the owners. However, the role of the managers (or a manager) was dominant. The regression in the industry performance and the national economy activated the initial external force of decline and also formed emerging

external pressure for decline. In addition, the decline was further maintained and even accelerated by the component of organizational disagreement activated by the managers, the board of directors, and the main creditor.

Table 17. Entities Activating the Mechanism for Decline in UPM

| | <i>IFD</i> | \wedge | <i>EFD</i> | \wedge | <i>OD</i> | \wedge | <i>EPD</i> |
|-----------|------------|----------|------------|----------|-----------|----------|------------|
| Managers | 6 | | | | 4 | | |
| Creditors | 1 | | | | 1 | | |
| Owners | 1 | | | | | | |
| Economy | | | 1 | | | | 1 |
| Board | | | | | 1 | | |

(2) The transition from the blinded level to general awareness of the decline was produced through the internal signals (IAD) from the foreign subsidiaries and by the external reactions (2ERD). Accordingly, in simplified form the combination of two necessary components was sufficient to activate the mechanism for general awareness (M2). This can be given formally in the following form:

$$(9.12) \quad \text{IAD} \wedge 2\text{ERD} \rightarrow \text{M2}$$

As Table 18 shows, two entities were involved in the production of the outcome. The component of the internal awareness of the decline was activated by the managers (but not in the first instance the CEO). However, the role of the main creditors (governing stakeholders) was more than substantial. Their unquestionable ability to exert influence materialized as an activation of the component of external reaction to decline.

Table 18. Entities Activating the Mechanism for General Awareness in UPM

| | <i>IAD</i> | \wedge | <i>ERD</i> |
|-----------|------------|----------|------------|
| Managers | 1 | | |
| Creditors | | | 2 |

(3) The transition from general awareness to explicit actions was impeded by the continuous managerial disagreements also deriving from the initial forces of decline. However, it was the creditors' inspection of the prevailing situation and the future prospects (ERS), the financial support (3FS), the enhanced understanding of the severity of the crisis (UC), and the change of CEO (2MC) that led the organization to the situation that make it possible to take explicit action against the crisis. Altogether, the postulated mechanism for explicit action (M3) was sufficiently activated by the following combination of components:

$$(9.13) \quad 2MC \wedge ERS \wedge UC \wedge FS \rightarrow M3$$

The role of the creditors in the mechanism was substantial, as Table 19 shows. As governing stakeholders, they activated three of the four components. That is, the evaluation of the organization's overall situation, the general understanding of the severity of the crisis, and the financial support. The managers and the owners, in turn, were only needed to activate the component of management change.

Table 19. Entities Activating the Mechanism for Explicit Action in UPM

| | <i>MC</i> | <i>ERS</i> | <i>UC</i> | <i>FS</i> |
|-----------|-----------|------------|-----------|-----------|
| Managers | 1 | | | |
| Owners | 1 | | | |
| Creditors | | 1 | 1 | 1 |

(4) Some modest retrenchment actions were implemented after the creditors' intervention, but the determined retrenchment leading to the explicit results required besides the correct retrenchment actions (4RA) that the new CEO further evaluated the situation (2ERS), that the external reaction to the bad situation (ERD) took place, and that the firm received additional financial support (3FS). In brief, the postulated mechanism that produced the explicit retrenchment results (M4) was sufficiently activated by the following combination different components:

$$(9.14) \quad 4RA \wedge 2ERS \wedge ERD \wedge 3FS \rightarrow M4$$

In total, three different groups of entities activated the components. Table 20 shows how the managers were needed to activate the retrenchment actions and the evaluation of the strategic situation. The creditors had an equally important role as they activated the components of financial support and, once more, external reaction to decline. The equity based financial support was also provided by the owners. Altogether, the governing stakeholders were also the most important entities in the mechanism for retrenchment results.

Table 20. Entities Activating the Mechanism for Retrenchment Results in UPM

| | <i>RA</i> | <i>FS</i> | <i>ERS</i> | <i>ERD</i> |
|-----------|-----------|-----------|------------|------------|
| Managers | 4 | | 2 | |
| Creditors | | 2 | | 1 |
| Owners | | 1 | | |

(5) Finally, the explicit recovery results were produced through the constant evaluation and visioning of the strategic situation (6ERS), the determined recovery

actions (14RD), the further retrenchment actions (2RA), as well as the financial (2FS) and external support (2ESR). The first of these activities started at the same time as the determined retrenchment was going on. However, the implementation of the recovery activities was interrupted twice: during the intensive retrenchment and during the worldwide depression. Specifically, during and after the depression, the retrenchment actions and the financial support were needed to assist the implementation of the recovery strategy. Overall, in the simplified form, the suggested theoretically intelligible mechanism producing the recovery results (M5) was sufficiently activated by the following combination of components:

$$(9.15) \quad 6ERS \wedge 14RD \wedge 2RA \wedge 2FS \wedge 2ESR \rightarrow M5$$

In total, four entities activated the components of the mechanism (Table 21). However, the role of the managers was dominant. They independently activated three of the five components including the central one of the recovery action. The managers' intensive evaluation and visioning was also noteworthy. However, the creditors as activators of the financial support were still needed. The component of external support for recovery was activated by the economic expansion and the supportive policy of the government.

Table 21. Entities Activating the Mechanism for Recovery Results in UPM

| | <i>ERS</i> | \wedge | <i>RD</i> | \wedge | <i>FS</i> | \wedge | <i>RA</i> | \wedge | <i>ESR</i> |
|------------|------------|----------|-----------|----------|-----------|----------|-----------|----------|------------|
| Managers | 6 | | 14 | | | | 2 | | |
| Creditors | | | | | 2 | | | | |
| Economy | | | | | | | | | 1 |
| Government | | | | | | | | | 1 |

To sum up how the decline and turnaround process of UPM worked, I review its main lines. First, the organization drifted into an existence-threatening crisis as a result of the activation of the mechanisms for decline ($IFD \wedge EFD \wedge OD \wedge EPD$). The combination of two components ($IAD \wedge 2ERD$) activated the mechanisms for general awareness, which in turn was needed to enable the activation of the mechanism for explicit action ($MC \wedge ERS \wedge UC \wedge FS$). The combination four components, ($4RA \wedge 2ERS \wedge ERD \wedge 3FS$), activating the mechanism to retrenchment results, and the combination of five components ($6ERS \wedge 14RD \wedge 2FS \wedge 2RA \wedge 2ESR$) activating the mechanism for retrenchment results, followed the outcome produced by the mechanism for explicit action. The mechanisms for retrenchment results stopped the decline and the mechanism for recovery results finally completed the turnaround. Overall, each of the mechanisms was needed in order to overcome the mechanism for decline and to produce a successful turnaround.

Comparison and Theorization

Building on the previous theoretical knowledge and the findings of the case analyses, the simplification of the causal event structures of the decline and turnaround processes of Kymi, Walkiakoski, and UPM suggests the existence of five higher-level phenomena related to the realization of an organizational decline and turnaround process. As described above, each of these outcomes was produced by a theoretically intelligible mechanism consisting at the lower-level of a combination of functional components. In brief, at a higher-level (the level that is directly unobservable), the existence-threatening organizational declines were generated by the *mechanism for decline*.²⁷⁶ The organizations received the general awareness of the decline through the *mechanism for general awareness*. Then, the *mechanism for explicit action* ensured that the organizations started to work against the decline. The *mechanism for retrenchment results* was thereafter needed to stop the declines and to produce the first explicit results of the turnarounds. Finally, the *mechanism for recovery results* produced the recovery and ensured that the processes ended in a successful outcome.

As the hierarchical nature of causal mechanisms supposes (see the discussion in Chapter 3), each of these higher-level activities of mechanisms as a whole was at the lower, productive level activated by a combination of components (and a component was an event resulting from the activity of an entity). Thus, in each case, it was the lower-level components and their combination that actually produced the activity of the mechanism at the higher-level and thereby the outcome. However, without the presence of the higher-level activity of the mechanism as a whole there would not have been sufficient lower-level components and their combinations to produce the outcome in question. Therefore, on the one hand, without knowledge of the mechanism as a whole, we could not understand that the outcome produced does not need to be produced by the particular group of components that are engaged in that case (i.e. the combination of the components would be necessary and sufficient). On the other hand, lacking knowledge of the lower-level components would mean that the way in which the mechanism was activated and the outcome produced would be incomprehensible.

Now, having knowledge of the mechanisms as a whole and the outcomes their activity ensured, a comparison of the lower-level components of the mechanisms can be implemented. Specifically, this can be done one higher-level mechanism at a time using the comparative approach defined in Chapter 3. As a result, we can provide an account of necessity, equifinality, and more general tendencies as regards mechanisms of

²⁷⁶ Each of the higher-level properties could, of course, be metaphorically titled. The mechanism for decline, for example, could be called disharmonization. However, each of the metaphorical concepts should then be exactly defined. I could not find any need or justification for this. Therefore, in this study,

organizational decline and turnaround processes. Moreover, differences and similarities between entities actually activating the components of mechanisms can be given. The results of the comparison of the mechanisms are formally presented in Table 22.

Table 22. Minimal Combinations of Necessary Causes

| | <i>Mechanisms</i> | <i>Minimal combination of necessary causes</i> |
|--|---|--|
| (1) <i>Mechanism for decline</i> | K : 10IFD \wedge 4EFD \wedge (EPD) | |
| | W : 3IFD \wedge EFD \wedge (2OD \wedge 4EPD) | IFD \wedge EFD \wedge (EPD) |
| | U : 8IFD \wedge EFD \wedge (6OD \wedge EPD) | |
| (2) <i>Mechanism for general awareness</i> | K : IAD \wedge ERD | |
| | W : IAD \wedge ERD | IAD \wedge ERD |
| | U : IAD \wedge 2ERD | |
| (3) <i>Mechanism for explicit action</i> | K : ERS \wedge UC \wedge 2MC | |
| | W : 2MC \wedge 2ERS \wedge UC | MC \wedge ERS \wedge UC |
| | U : ERS \wedge 3FS \wedge UC \wedge 2MC | |
| (4) <i>Mechanism for retrenchment results</i> | K : 8RA \wedge FS | |
| | W : 3RA \wedge FS \wedge MC | RA \wedge FS |
| | U : 4RA \wedge 2ERS \wedge ERD \wedge 3FS | |
| (5) <i>Mechanism for recovery results</i> | K : 2ERS \wedge MC \wedge 19RD \wedge 5RA \wedge FS \wedge (2ESR) | |
| | W : MC \wedge ERS \wedge 9RD \wedge 4FS \wedge RA \wedge 3ESR | ERS \wedge RD \wedge FS \wedge RA \wedge ESR |
| | U : 6ERS \wedge 14RD \wedge 2RA \wedge 2FS \wedge 2ESR | |

The Mechanism for Decline

First of all, the comparison shows that in the simplified form the suggested theoretically intelligible mechanism for decline (M1) was sufficiently activated in each organization, thereby creating the existence-threatening decline, by the combination of two necessary components. That is, the initial internal (IFD) and external forces (EFD). In Walkiakoski and UPM, the decline was further enforced and maintained by the emerging internal (OD) and external forces (EPD). In Kymi, however, the initial forces of the decline were only supported by the emerging external force. Thus, the result of the comparison can be given as a minimal combination of necessary causes that, as a general tendency, indicates that the combination of initial internal and initial external forces at least is needed to drive organizations into existence-threatening decline and to

the mechanisms are defined in accordance with what they actually do using the concepts defined in the theoretical framework.

create the counterforce for turnaround activities (In fact, the results suggest that it would also be a sufficient combination). Moreover, it can be suggested that the decline is supported by emerging external and, almost as likely, internal pressures though this was not the case in Kymi. Altogether, to put it formally:

$$(9.16) \quad M1 \rightarrow IFD \wedge EFD \wedge (EPD)$$

The functional components of the mechanism are now taken into closer consideration. As regards the initial internal forces of declines (IFD), ten events were identified in Kymi, four in Walkiakoski, and eight in UPM. As Table 23 shows, in each organization three different groups of stakeholders activated the component. As a whole, the managers were clearly the dominant entity, but the main creditors and the owners were also associated with the issue. As shown above, these entities were among the governing or potential stakeholders during the initial situations of the declines (see Table 6). Thus, the entities that had the greatest influence and ability to act were also actually acting.

The external force of the decline (EFD) as the second component was needed equally in each of the organizations in the activation of the mechanism for decline. While in Kymi the component was activated by four different and rather abstract entities, the most obvious external force originated from the general economic or business cycles influencing the performance of pulp and paper firms in general. The component of the emerging organizational disagreements (OD) that sustained the declines in Walkiakoski and UPM was activated by the managers and the board members. The creditors had this role only in UPM. In each of the organizations the component of emerging external pressures (EPD) was mainly activated by the general economic recessions.

Overall, as summarized in Table 23, the functional components of the mechanism for decline were most often activated by the top managers of the organizations. This is not surprising since they were undeniably the governing stakeholders. The main creditors also influenced the development of the declines. As an external ‘entity’ economic or business cycles had a substantial role in the mechanism. Though these entities were most often linked to the creation of an organizational decline, it is noteworthy that there were, as a whole, ten conceptual entities relating to the mechanism and four different stakeholder groups relating to the components of IFD and EFD. Thus, while the mechanism producing the existence-threatening decline was rather similar in each of the organizations regarding the lower-level components, there were some differences worth mentioning among the activating entities of these components.

Table 23. Entities Activating the Components for the Mechanism for Decline

| | <i>Kymi</i> | <i>Wk</i> | <i>UPM</i> | <i>Total</i> | | <i>IFD</i> | <i>EFD</i> | <i>OD</i> | <i>EPD</i> | <i>Total</i> |
|--------------|-------------|-----------|------------|--------------|--------------|------------|------------|-----------|------------|--------------|
| <i>IFD</i> | | | | | Managers | 14 | | 5 | | 19 |
| Managers | 6 | 2 | 6 | 14 | Creditors | 4 | | 1 | | 5 |
| Creditors | 3 | | 1 | 4 | Workers | 1 | | | | 1 |
| Workers | 1 | | | 1 | Owners | 3 | | | | 3 |
| Owners | | 2 | 1 | 3 | Society | | 1 | | | 1 |
| | | | | | Government | | 1 | | | 1 |
| <i>EFD</i> | | | | | Economy | | 3 | | 5 | 8 |
| Society | 1 | | | 1 | Indefinable | | 1 | | | 1 |
| Government | 1 | | | 1 | Board | | | 2 | | 2 |
| Economy | 1 | 1 | 1 | 3 | Cartel | | | | 1 | 1 |
| Indefinable | 1 | | | 1 | Total | 22 | 6 | 8 | 6 | 42 |
| | | | | | | | | | | |
| <i>OD</i> | | | | | | | | | | |
| Managers | | 1 | 4 | 5 | | | | | | |
| Board | | 1 | 1 | 2 | | | | | | |
| Creditors | | | 1 | 1 | | | | | | |
| | | | | | | | | | | |
| <i>EPD</i> | | | | | | | | | | |
| Economy | 1 | 3 | 1 | 5 | | | | | | |
| Cartel | | 1 | | 1 | | | | | | |
| Total | 15 | 11 | 16 | 42 | | | | | | |

The Mechanism for General Awareness

In the simplified form the theoretically intelligible mechanism for general awareness (M2) was at the lower-level the most corresponding of the mechanisms identified. In Kymi, Walkiakoski, and UPM the sufficient combination of two necessary components, namely the internal signals of poor performance (IAD) and the strong external reactions (ERD), activated the mechanism that drove the organizations from a state of blinded decline to one of general awareness of the decline. Accordingly, there was no evidence of equifinality (see Table 22). As a general tendency, therefore, at least the following combination of necessary causes can be proposed to be needed in the activation of the mechanism for general awareness (actually, according to the results, the combination is both necessary and sufficient, see note 277 on page 218).

$$(9.17) \quad M2 \rightarrow IAD \wedge ERD$$

From the perspective of the functional components of the mechanism, two noteworthy remarks can be made. First, as indicated in Table 24, in each of the processes the managers activated the component of internal awareness of the decline (IAD). In fact, they were the same entities as in the mechanism for decline. Second, the component of external reaction to decline (ERD) was in each case activated by the main

creditors. Moreover, as a result of the creditors' reactions, they gained ground as governing stakeholders while the managers already held this role.

Overall, contrary to the mechanism for decline, in the mechanism for general awareness there seems to be no evidence of equifinality among the entities activating the components at the productive level. Thus, it is reasonable to suggest that, as a general tendency, both of the functional components (IAD and ERD) as well as both of the entities (managers and creditors) are needed at least to produce the outcome.

Table 24. *Entities Activating the Components of the Mechanism for General Awareness*

| | <i>Kymi</i> | <i>Wk</i> | <i>UPM</i> | <i>Total</i> |
|------------|-------------|-----------|------------|--------------|
| <i>IAD</i> | | | | |
| Managers | 1 | 1 | 1 | 3 |
| <i>ERD</i> | | | | |
| Creditors | 1 | 1 | 2 | 4 |
| Total | 2 | 2 | 3 | 7 |

The Mechanism for Explicit Action

After reaching general awareness, the mechanism that produced explicit action (M3) was needed in each of the organizations before the implementation of determined turnaround activities became possible. In Kymi and Walkiakoski, the theoretically intelligible mechanism was sufficiently activated by the combination of three functional components: management change (MC), evaluation of the organizations' strategic situation and future prospects (ERS), as well as understanding of the severity of the crisis (UC). In UPM the combination of components additionally included financial support (FS). Consequently, the same mechanism was activated and the outcome produced by two slightly different combinations of functional components (see Table 22). As a general tendency, therefore, the management change, the evaluation of the strategic situation, and the understanding of the severity of the crisis form the combination of necessary causes that can be suggested to be a minimal requirement to activate the mechanism to produce the outcome. To put it formally:

$$(9.18) \quad M3 \rightarrow MC \wedge ERS \wedge UC$$

Regarding the entities of the functional components, the main findings are illustrated in Table 25. First of all, the entities activating the component of management change (MC) were the managers themselves as well as the main owners or the creditors of the organizations. Rather similarly, the components concerning evaluation of strategic situation (ERS) as well as understanding of the crisis (UC) were activated

either by the managers or the main creditors. The entity related to financial support (FS) was the main creditors.

Taken as a whole, the functional components were activated by a relatively small group of entities. While the top managers were again closely associated with the successful production of the outcome, the influence of the creditors seems to be even more substantial, as Table 22 indicates. However, in Walkiakoski the creditors did not have any role. Therefore, it is reasonable to suggest that in addition to the managers at least the main creditors or the main owners are needed in the activation of the mechanism. As shown in the comparison of the stakeholders' ability to activate components, these entities were at least potential stakeholders. Altogether, in order for the mechanism for explicit action to be activated, it would be beneficial that the influential entities in the organization are capable of working together.

Table 25. Entities Activating the Components of the Mechanism for Explicit Action

| | <i>Kymi</i> | <i>Wk</i> | <i>UPM</i> | <i>Total</i> | | <i>MC</i> | <i>ERS</i> | <i>UC</i> | <i>FS</i> | <i>Total</i> |
|--------------|-------------|-----------|------------|--------------|--------------|-----------|------------|-----------|-----------|--------------|
| <i>MC</i> | | | | | Managers | 3 | 2 | 1 | | 6 |
| Managers | 1 | 1 | 1 | 3 | Creditors | 1 | 2 | 2 | 3 | 8 |
| Creditors | 1 | | | 1 | Owners | 2 | | | | 2 |
| Owners | | 1 | 1 | 2 | Total | 6 | 4 | 3 | 3 | 16 |
| <i>ERS</i> | | | | | | | | | | |
| Managers | | 2 | | 2 | | | | | | |
| Creditors | 1 | | 1 | 2 | | | | | | |
| <i>UC</i> | | | | | | | | | | |
| Managers | | 1 | | 1 | | | | | | |
| Creditors | 1 | | 1 | 2 | | | | | | |
| <i>FS</i> | | | | | | | | | | |
| Creditors | | | 3 | 3 | | | | | | |
| Total | 4 | 5 | 7 | 16 | | | | | | |

The Mechanism for Retrenchment Results

The situation of equifinality most clearly becomes evident in each of the decline and turnaround processes in the activation of the mechanism that produced the retrenchment results (M4). Specifically, in the case of Kymi, the explicit retrenchment results were sufficiently produced by the combination of retrenchment actions (RA) and financial support (FS). In Walkiakoski the sufficient combination of components additionally included the management change (MC). In UPM, the mechanism was activated by the combination of components that with the retrenchment actions and financial support also included the further evaluation (ERS) and external impulse (ERD). On the whole, there were three different but sufficient combinations of functional components and

only the retrenchment actions and the financial support acted as necessary components in all cases (see Table 22). These components also form the minimal combination of necessary causes that is suggested to be the minimal requirement to activate the mechanism. More formally:

$$(9.19) \quad M4 \rightarrow RA \wedge FS$$

While equifinality seems to be emphasized in the combinations of different functional components sufficient to produce the outcome, the opposite is true of the entities activating the components. As Table 26 indicates, there was only one group of entities activating a particular functional component, the financial support (FS) being an exception. Specifically, the retrenchment actions (RA) as a component were activated by the managers in each organization. This entity also activated the components of management change (MC) and the further evaluation of the organizational situation (ERS). The component of financial support was activated by the creditors in each case, though in UPM the owners also had this role. In the process of UPM the creditors produced the needed external reaction (ERD).

In comparison to the previous mechanisms, as Table 26 illustrates, the role of the managers as the activating entity becomes emphasized. The position of the creditors is almost equally conspicuous, although their role is not as strong as it was in the mechanism for explicit action. Altogether, the same and rather limited set of influential entities was associated with the mechanism for retrenchment results as with the preceding one.

Table 26. *Entities Activating the Components of the Mechanism for Retrenchment Results*

| | <i>Kymi</i> | <i>Wk</i> | <i>UPM</i> | <i>Total</i> | | <i>RA</i> | <i>FS</i> | <i>MC</i> | <i>ERS</i> | <i>ERD</i> | <i>Total</i> |
|--------------|-------------|-----------|------------|--------------|--------------|-----------|-----------|-----------|------------|------------|--------------|
| <i>RA</i> | | | | | Managers | 15 | | 1 | 2 | | 18 |
| Managers | 8 | 3 | 4 | 15 | Creditors | | 4 | | | 1 | 5 |
| | | | | | Owners | | 1 | | | | 1 |
| <i>FS</i> | | | | | Total | 15 | 5 | 1 | 2 | 1 | 24 |
| Creditors | 1 | 1 | 2 | 4 | | | | | | | |
| Owners | | | 1 | 1 | | | | | | | |
| <i>MC</i> | | | | | | | | | | | |
| Managers | | 1 | | 1 | | | | | | | |
| <i>ERS</i> | | | | | | | | | | | |
| Managers | | | 2 | 2 | | | | | | | |
| <i>ERD</i> | | | | | | | | | | | |
| Creditors | | | 1 | 1 | | | | | | | |
| Total | 9 | 5 | 10 | 24 | | | | | | | |

The Mechanism for Recovery Results

The turnarounds would not have been successful without the mechanism that finally led the organizations to the recovery results (M5). This mechanism in simplified form was clearly the most multifaceted in respect of the different functional components at the productive level. Yet, the combinations of components were rather similar. In fact, in Kymi and Walkiakoski the mechanism was sufficiently activated through the same kind of combination of six components. That is, evaluation and planning (ERS), management change (MC), implementation of recovery actions (RA), further financial support (FS), additional retrenchment actions (RA), and external support (ESR). In UPM the outcome was sufficiently produced without the management changes. Thus, there were only two vaguely different combinations of components existed (see Table 22). What is also notable is that in each case the proposed sufficient mechanism included the necessary components that were producing the retrenchment results. Altogether, the comparison suggests that the combination of the five functional components, seen as a general tendency, is the minimum requirement to activate the mechanisms. To put it formally:

$$(9.20) \quad M5 \rightarrow ERS \wedge RD \wedge FS \wedge RA \wedge ESR$$

In the same way as in the mechanism for retrenchment results, the managers as a group were the entity most pronouncedly associated with the activation of the functional components of the mechanism. However, as Table 27 illustrates, there were, as a whole, five other conceptual entities also activating the mechanism. Regarding the evaluation and planning (ERS), the management change (MC), and the retrenchment actions (RA) the managers were the only activating entity in each of the processes. The component of recovery actions (RD) was in Kymi and UPM was activated by the managers, but in Walkiakoski the main owners were also needed. Similarly, in Walkiakoski the owners, in addition to the creditors, activating the component of financial support (FS). In Kymi and UPM, however, only the creditors, and thereby the credit based support, were needed.

The most diversified functional component in respect of the activating entities was the external support for recovery (ESR). In Kymi and Walkiakoski the general cartel agreements activated the component whereas in UPM the government and general economic expansion were needed. The growth of the economy had this role in Walkiakoski, too. Accordingly, ESR was the only functional component of the mechanism where equifinality of the entities was the dominant feature.

Taken as a whole, the governing stakeholder (i.e. the managers and the creditors) had the dominant roles in activating the functional components in the productive level of the mechanism whereas other stakeholders were only somewhat occasionally connected to the specific components. The total numbers presented in Table 27 do not,

of course, directly correspond to the influence of the specific entities. However, they can be seen as signs of more general tendencies regarding the entities needed in producing the recovery results. What is more, if these findings are compared with the findings of the stakeholder influence identifications, a clear uniformity can be identified.

Table 27. *Entities Activating the Components of the Mechanism for Recovery Results*

| | <i>Kymi</i> | <i>Wk</i> | <i>UPM</i> | <i>Total</i> | | <i>ERS</i> | <i>MC</i> | <i>RD</i> | <i>FS</i> | <i>RA</i> | <i>ESR</i> | <i>Total</i> |
|--------------|-------------|-----------|------------|--------------|--------------|------------|-----------|-----------|-----------|-----------|------------|--------------|
| <i>ERS</i> | | | | | Managers | 9 | 2 | 40 | | 8 | | 59 |
| Managers | 2 | 1 | 6 | 9 | Owners | | | 2 | 1 | | | 3 |
| | | | | | Creditors | | | | 6 | | | 6 |
| <i>MC</i> | | | | | Cartel | | | | | | 4 | 4 |
| Managers | 1 | 1 | | 2 | Economy | | | | | | 2 | 2 |
| | | | | | Government | | | | | | 1 | 1 |
| <i>RD</i> | | | | | Total | 9 | 2 | 42 | 7 | 8 | 7 | 75 |
| Managers | 19 | 7 | 14 | 40 | | | | | | | | |
| Owners | | 2 | | 2 | | | | | | | | |
| <i>FS</i> | | | | | | | | | | | | |
| Creditors | 1 | 3 | 2 | 6 | | | | | | | | |
| Owners | | 1 | | 1 | | | | | | | | |
| <i>RA</i> | | | | | | | | | | | | |
| Managers | 5 | 1 | 2 | 8 | | | | | | | | |
| <i>ESR</i> | | | | | | | | | | | | |
| Cartel | 2 | 2 | | 4 | | | | | | | | |
| Economy | | 1 | 1 | 2 | | | | | | | | |
| Government | | | 1 | 1 | | | | | | | | |
| Total | 30 | 19 | 26 | 75 | | | | | | | | |

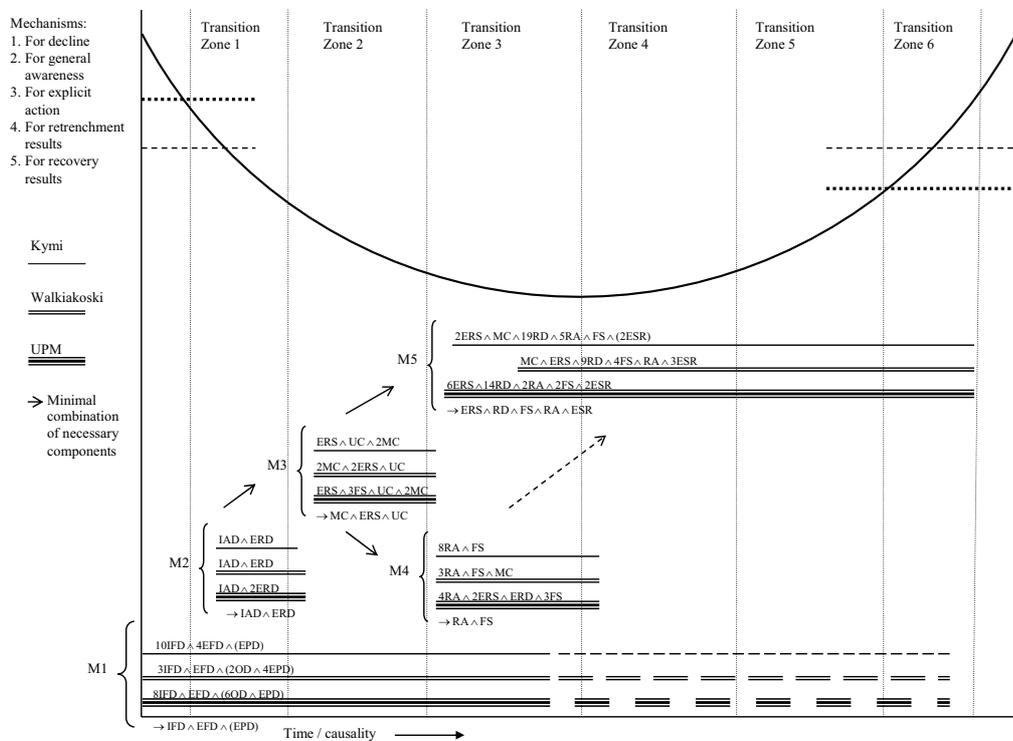
A General Scheme

At the beginning of this study I posed the straightforward research question: *what are the causal mechanisms and how do they drive organizational decline and turnaround processes?* Now, after nine chapters of careful development, I believe that the point has been reached that enables a theoretically and empirically warranted answer to this question. I do not argue that after this chapter we know everything about organizational decline and turnaround processes, or that the conclusions proposed explain *exactly* how organizational declines and turnarounds work in general and these processes in particular. However, analogously with the assumptions of realism presented in Chapter 3, I do believe that there is good reason to accept the suggestions provided here as approximately true.

Accordingly, building on the previous theoretical knowledge and the findings of the foregoing analyses and the comparisons, Figure 39 depicts in condensed form a general scheme of the mechanisms driving organizational decline and turnaround processes. In

other words, it seeks to provide a uniform explanatory scheme of how organizational decline and turnaround processes work. The productive combinations of the mechanisms are illustrated against the conceptual frame of the transition zones presented in Chapter 5. In brief, the scheme includes the mechanism for decline and the four other mechanisms that cumulatively and interdependently work against that mechanism and finally produce the successful turnaround. However, some more specific remarks are needed in order to spell out the scheme and to sum up the main results.

Figure 39. General Scheme of the Mechanisms of Organizational Decline and Turnaround Processes



First of all, it is suggested that, as a general tendency, the activation of the directly unobservable mechanism that drives the organization to a state of general awareness of the decline is necessary for the existence of the mechanism that, if successfully activated, drives the organization to explicit action. The outcome produced by this mechanism is necessary for the activation of the mechanisms that produce the retrenchment and, finally, recovery results. Specifically, the activation of the mechanism for retrenchment results directly follows the outcome produced by the mechanisms for explicit action. It stops the decline and produces the first explicit results

of the turnaround. The activation of the mechanism for recovery results, in turn, begins more or less simultaneously with the activation of the mechanism for retrenchment results, though the beginning of the activation may not directly follow the outcome produced by the mechanism for explicit action. While the activation of the mechanism for recovery results does not follow the outcome produced by the mechanism for retrenchment results, without this outcome the mechanism for recovery results could not produce a successful outcome. Thus, each of the mechanisms is claimed to be necessary in the elimination of the causes and consequences of the organizational decline.

Second, as the scheme shows, a mechanism as a whole consists at the lower-level of a combination of functional components sufficient to activate the directly unobservable mechanism whose activity produces the outcome. The mechanism producing explicit retrenchment results (M4), for example, is at the lower-level sufficiently activated through the three somewhat different combinations of functional components, whereas the mechanism ensuring that the organizations become aware of the declines (M2) is in each organization activated by the same kind of combination of components, even as regards the activating entities. Thus, while the mechanisms driving the processes at the lower, productive level are for the most part similar, and, as the comparison has shown, general tendencies regarding the minimal combinations of necessary components needed to activate the mechanisms can be suggested, the causal complexity and equifinality are equally perceived.

In point of fact, the four higher-level properties of mechanisms, or the mechanisms as a whole, can be seen as necessary conditions in overcoming the mechanisms for decline and producing the successful organizational turnaround. However, each of these higher-level behaviors of mechanisms can be sufficiently produced by somewhat different combinations of functional components. Thus, the components at the productive level of mechanisms in respect of the outcome produced by the mechanism (with reservations the components of the mechanism to general awareness) can be seen as examples of what Mackie (1965, further elaboration in 1974) has labeled an INUS condition: “an Insufficient but Necessary part of a condition which is itself Unecessary but Sufficient for the result”.²⁷⁷

For example, the functional component of the management change (MC) in the mechanisms for retrenchment results in Walkiakoski was as alone insufficient to activate the mechanism and to produce the retrenchment results but without that component the mechanism as a whole would not have produced the outcome. However,

²⁷⁷ The results of the comparison suggest that the combination $IAD \wedge ERD$ was both a sufficient and necessary condition for the outcome. However, even one exception would refute this conclusion. Thus, it may be more reasonable to conclude that this combination was sufficient in these cases but not the only possible combination of functional components that may produce the outcome. Thus, both IAD and ERD would be INUS conditions. Altogether, as regards the in-depth analyses, it seems to be warranted to suggest that the combination is a minimum requirement to produce the outcome, but although it produced the outcome in the cases of this study that does not mean that this minimal combination is always sufficient. In strategic management Durand (2002) has discussed the role of INUS condition in respect of the notion of competitive advantage.

as the comparison has shown, the particular combination of the components that produced the retrenchment results in Walkiakoski was not needed in Kymi and UPM. Thus, the combination of the functional components (including the component of management change) was a sufficient but unnecessary condition in the production of the outcome. In short, the component of management change can be seen as an INUS condition.

The third noteworthy feature of the mechanisms and the scheme is that the same functional component can be an INUS condition in different mechanisms. The component of management change (MC), for example, was needed to activate the mechanism for explicit action in each organization. In Walkiakoski it was also an INUS condition in the activation of the mechanism for retrenchment results and as regards the activation of the mechanism for recovery results the component was needed in Kymi and Walkiakoski. Thus, we can find the same component in the three different mechanisms.

In addition to the management change the components of financial support (FS) and evaluation of strategic situation (ERS) were INUS conditions in the activation of three different mechanisms. These two latter components and the component of retrenchment actions (RA) were also the components among the minimal combination of necessary components in two different mechanisms. Thus, the importance of financial support, evaluation of strategic situation, and retrenchment actions can be seen as substantial in a successful turnaround. However, I would like once more to emphasize that we cannot directly infer the outcome produced by a mechanism from the individual constituent components. It is always the joint effect of the combination of components that is sufficient to activate the mechanism that produces the outcome or the thing.

Fourth, although the scheme is not able to directly depict the entities activating the functional components of the mechanisms, a few specific remarks concerning the entities should be given. As the results of the comparison have shown, the amount and variety of the entities involved in the activation of the different mechanisms varied to some extent. However, clear tendencies were suggested between the specific mechanisms and, thereby, the whole decline and turnaround process. In particular, the managers as a group were the only entity to participate in the activation of each and every mechanism, although during each of the processes the individual top managerial actors changed. The role of the top managers was particularly emphasized in the mechanisms for retrenchment and recovery results but also in the mechanism for decline. In the mechanisms for general awareness and explicit action the role of the main creditors was emphasized even more, though this entity was also needed in the activation of components in other mechanisms. In addition, the role of the main owners was crucial in several mechanisms. Regarding the components of external pressures for decline and support for recovery, the role of the general economic and business cycles was notable.

Altogether, the results show that the governing stakeholders with the greatest ability to influence the organizational survivals and so better ability to activate the functional components of the mechanisms in practice, too, activated most of the components. However, it is noteworthy that there were potential stakeholders that did not act at all and minor stakeholders (workers, cartel) that occasionally took part in the activation of the mechanisms. Thus, as a general tendency, the governing stakeholders carry the main responsibility in the mechanisms of the decline and turnaround processes, but being a minor stakeholder does not necessitate that the stakeholder would not act at all.

The fifth and last remark concerns the connection between the mechanisms and the transition zones outlined in the scheme. While the transition zones, and the transitional character of the whole process, were proposed in order to focus the empirical analysis on certain theoretically meaningful questions, and the mechanisms as such are not dependent on their existence, the transition zones provide a relevant background for the description of the mechanisms. As Figure 39 shows, the mechanisms for general awareness, explicit action, and retrenchment results for the most part were activated during the three first transition zones, whereas the mechanism for recovery results was for the most part activated during the four last transition zones. Thus, in respect of the activation of different mechanisms, the process is accentuated to the first three zones. However, this equally describes how essential part the successful activation of the mechanism for retrenchment results has in the process.

In the final chapter I will discuss more specifically, among other things, how these results and the scheme contribute to the existing theory in the decline and turnaround literature. Altogether, it is already reasonable to conclude that the explanation by causal mechanisms has been shown to provide a most appropriate way of rendering more intelligible the complex phenomenon of the organizational decline and turnaround process.

Chapter 10

Discussion

In the preceding nine chapters I have developed an argument for explanation with causal mechanisms in the social sciences in general and in the processual organization and management research in particular. I have done this from philosophical (ontological and epistemological) and methodological viewpoints as well as focusing on a more specific issue of organizational decline and turnaround processes. I have not argued that the suggestions provided here constitute the only acceptable approach to causal explanation. However, I have argued that without explanations by mechanisms our knowledge of various processual issues such as organizational decline and turnaround would remain decidedly incomplete. Accordingly, if my argument so far has been successful, it would provide at least a modest contribution to the discussions of causal explanation and processual research in the social sciences as well as the more specific organization theoretic discussion of organizational decline and turnaround. In order to consider whether the proposed contribution of the thesis is warranted, I will now evaluate my argument regarding the above issues.

The discussion in this final chapter proceeds through three main sections. The first section considers how my account of explanation by mechanism and, in particular, the proposed scheme contributes to our understanding of organizational decline and turnaround. The discussion follows the *spirit* of inference to the best explanation, or more accurately “inference to the loveliest potential explanation” as suggested by Lipton (1991: 63). Thus, I begin the section by offering a few notes on this. The second

main section turns from the decline and turnaround to a more general discussion regarding the relevance and contribution of the proposed argument for explanation by causal mechanisms in the social sciences and the methodology developed to processual research. Finally, I provide concluding remarks by outlining some critical issues that future research should carefully consider.

Of Organizational Decline and Turnaround

Inference to the Loveliest Potential Explanation

'The no miracle argument', argued for in Chapter 3 as a central tenet of realism and the general progress of science, can be seen as an instance of inference to the best explanation (IBE) where one infers the truth of a hypothesis from the fact that the hypothesis would explain the evidence (a.k.a. abduction). Yet, there are also usually other hypotheses that try to explain the evidence. Therefore, as put by Harman (1965: 89), "one infers, from the premise that a given hypothesis would provide a "better" explanation for the evidence than would any other hypothesis, to the conclusion that the given hypothesis is true". By and large, this can be considered as the basic version of IBE (cf. Niiniluoto, 1999b; Thagard, 1978).

According to Lipton (1991: 58-74), however, this version needs some flesh on its bare bones in order to be an illuminating model of our inductive practices. Basically, since our explanations can be, and often are, fallible, IBE cannot be understood as inference to a best *actual* explanation. Doing so would unrealistically mean that all our inferences are true. As a result, we have to make a distinction between actual and *potential* explanations so that IBE would be an inference to the best potential explanation. Thus, in an ideal situation, an actual explanation is the best of the available potential explanations.

The best of the available, competing explanations, according to Lipton, is then either the one that is the 'likeliest' or the one that is the 'loveliest'. The former is an explanation that receives the strongest evidence of being true whereas the latter, if correct, would be the most explanatory or provide the most understanding. Thus, we have again two accounts to choose from: inference to the likeliest potential explanation and inference to the loveliest potential explanation. What is important is that these versions may produce different explanations. Hence, the question arises, which one to choose?

The answer of Lipton (1991: 62-63) is that while there is a natural appeal for likeliness this would drive IBE towards triviality. Using the example of Lipton, an explanation that people smoking opium will sleep because of the opium's dormative powers is very likely but at the same time a case in point of an unlvely explanation. It does not really increase our understanding of the issue. Indeed, critical evaluation might also be appropriate in the organization and management research on whether the appeal

for maximum likeliness has trivialized many of the questions posed by researchers. Contrary to this, Lipton argues, “we want our account of inference to give the *symptoms* of likeliness, the features an argument has that lead us to say that the premises make the conclusion likely ... for inference to the best explanation to provide an illuminating account, it must say more than that we infer the likeliest cause.” As a result, we should prefer IBE as inference to the loveliest potential explanation because this version basically claims that “the explanation that would, if true, provide the deepest understanding is the explanation that is likeliest to be true.” Thus, loveliness, besides providing more understanding is a guide to likeliness.

Lipton does not offer very detailed criteria loveliness in an explanation. However, he suggests that a lovely explanation is characteristically one (1) which through we can make out a clear causal mechanism(s) for a particular thing, (2) which provides a uniform explanatory scheme for various issues, or (3) which helps to exactly deduce the specific facts of a thing (Lipton, 1991: 117-119). Due to the danger of triviality and unformativeness in the other versions of IBE, I suggest that in the social sciences, in particular, inference to the loveliest potential explanation should constitute the basic version of inference in order to justify our arguments and thereby to make possible the progress and increase of knowledge. Thus, building on this basis, I will next discuss how my argument concerning organizational decline and turnaround processes, besides fulfilling the characteristics of a lovely explanation, can also be considered as the loveliest of the potential explanations.

A Lovely Explanation

I believe that in addition of satisfying Lipton’s (1991) characterizations of a lovely explanation, the account provided here also fulfills numerous other criteria suggested for a causal argument (e.g., Gerring, 2004b; Marini and Singer, 1988; Stinchcombe, 1968). However, most of these are specifications or underlie those proposed by Lipton. Therefore, I follow the criteria proposed by Lipton in specifying each of them.

The first characteristic of a lovely explanation, clarification of causal mechanisms, is in fact one of the basic aims of the thesis. I believe that my account of organizational decline and turnaround has been successful in achieving this. In the preceding chapters I have described how the process works and how a successful turnaround comes about through the activation of a set of causal mechanisms. In brief, without reiterating the whole argument, four causal mechanisms (i.e., for general awareness, for explicit action, for retrenchment results, and for recovery results) that cumulatively and interdependently work against and finally overcome the mechanism for organizational decline were identified. As a result of the exact hierarchical organization of the mechanisms, it was possible to explain what kind of combination of functional components was actually sufficient to activate the mechanism, and at the higher level what kind of mechanism as a whole was needed in the production of the particular outcome. Thus, the postulated causal mechanisms, besides explaining how a particular

process worked, also make possible the systematic comparisons between similar higher-level activities of mechanisms ensuring specific outcomes and finally a successful turnaround.

The second characteristic of a lovely explanation, to provide a uniform explanatory scheme for various issues, is likewise one of the main products of the thesis. This function is carried by the general scheme of the mechanisms driving organizational decline and turnaround processes depicted in Figure 39. Basically, the scheme captures if not every one of the previously confusing issues related to a decline and turnaround process then at least most of them. To name but a few, first, it explains how the process works at the higher level through five necessary and interdependent causal mechanisms. Second, it explains how and why a specific mechanism at the productive level may differ from other mechanism producing the same outcome in other processes. Third, it explains how functional components as difference makers may be INUS conditions and thus the same cause may be related to different outcomes. Fourth, the scheme can be used to clarify which, how, and why certain entities activate functional components, though this may also necessitate the use of the influence identification scheme. Altogether, each of these elements is more closely discussed in relation to the previous literature in the next sub-section.

The explanatory scheme as a characteristic of a lovely explanation may also include other criteria such as parsimony, breadth, and strength, that are often related to causal argument. Parsimony refers to the ability to explain a good deal with minimal use of energy. Breadth can be considered as an ability to explain many things and strength, rather similarly, as an extent to which the scheme explains its intended target (Gerring, 2004b). These can also be used to specify the third characteristic of a lovely explanation, to help to exactly deduce the specific facts of a thing. Regarding each of these criteria the suggested scheme is persuasive. The mechanisms at the higher-level are presented in very simple form but, as shown, both together and separately they have a considerable capability to explain several things regarding the organizational decline and turnaround process. As a result, the breadth of the scheme in its topic area is also extensive. Finally, as we move on to the lower-level of the mechanisms, the scheme provides a complete explanation of how particular decline and turnaround processes worked, thus sufficiently fulfilling the criterion of strength.

The Loveliest of the Potential Explanations

I claimed that my argument regarding organizational decline and turnaround processes fulfills the general criteria of a lovely explanation. Now, following the inference to the loveliest potential explanation, it is time to demonstrate that the argument is also the most explanatory and provides the most understanding if compared to the competing explanations in the research of organizational declines and turnarounds. Since I have already reviewed alternative accounts regarding the issue in the theoretical framework, I will not repeat the whole discussion here. However, Table 28, which does not try to be

all-inclusive, summarizes the main hypotheses and conclusions presented in the turnaround research during the past ten years providing a standpoint for the discussion.

Table 28 does not report the pre-1990s research around the issue, but if the research aims to be progressive these findings should be at least somehow incorporated into the accounts presented thereafter. Thus, the earlier contributions, as such, cannot be seen as competing explanations for the account presented here. However, in brief, in the 1980s the research on organizational turnarounds concentrated on identifying independent variables and factors related to a turnaround (e.g., Bibeault, 1982; Hambrick and Schecter, 1983; O'Neill, 1986). Categorizations of turnaround strategies to different sub-groups were also presented (e.g., Hofer, 1980; Grinyer and McKiernan, 1990). Then, building on that research in the beginning of the 1990s, Pearce and Robbins (1992, 1993) proposed a two-stage model enabling a turnaround process to be multi-staged consisting of both retrenchment and recovery actions as a response to the decline possibly due to internal or external reasons. Thus, the research had been by some means progressive, but, to be honest, our understanding of how decline and turnaround processes work had not progressed very far.

In the 1990s the research was dominated by a rather small group of researchers (the groups of Pearce and Barker being the most productive) and built fairly extensively on the same data sets. The discussion in the beginning of the 1990s put forward both negative and positive arguments on the subject of the integral role of retrenchment in organizational turnaround (Barker and Mone, 1994; Pearce and Robbins, 1994). The view that both retrenchment and recovery strategies/actions are needed at a turnaround became prevalent in the end of the 1990s (Arogyaswamy et al., 1995; Barker and Duhaime, 1997). However, contradictory findings were also presented (Arogyaswamy and Yasai-Ardekani, 1997) and doubts were again cast over positive role of retrenchment actions (Castrogiovanni and Bruton, 2000). The rest of the research during the 1990s concentrated on examining the characteristics of boards and CEOs during turnaround attempts. The research has not found out whether top management changes are associated with successful turnarounds, but outsiders on the board have been found to be positively associated with increasing management replacements and these management changes were positively associated with greater strategic change (Barker et al., 2001; Mueller and Barker, 1997). Overall, it is difficult to see whether the understanding of decline and turnarounds was in any way better at the end of the 1990s than it was ten years earlier.

Table 28. *The Last Ten Years of Turnaround Research*

| <i>Authors and type of research</i> | <i>Main conclusions</i> |
|---|--|
| Morrow et al., 2004 cross-sectional, financial data | In growth industries asset retrenchment positively associated with turnaround, cost retrenchment unrelated. In declining industries cost retrenchment positively related, asset retrenchment negatively. |
| Chowdhury, 2002 theoretical, a case example | Stages of turnaround process: decline, response initiation, transition, and outcome. Each stage consist of incidents and events. |
| Barker and Barr, 2002* cross-sectional | Firms whose managers attribute decline to internal sources as opposed to external sources are more likely to show greater levels of strategic reorientation in response to declining performance. |
| Balgobin and Pandit, 2001 theoretical, a case example | Stages of turnaround process: decline and crisis, triggers for change, recovery strategy formulation, retrenchment and stabilization, return to growth. |
| Barker et al., 2001* cross-sectional | Reduced levels of top management replacements in large firms and firms that have followed the same strategic orientation for a long time. Outsiders control in board positively associated with increased replacements. Greater changes in competitive strategy, structure, and controls positively associated with management replacements. |
| Sudarsanam and Lai, 2001 cross-sectional | Recovery and non-recovery firms adopt very similar sets of strategies. Non-recovery firms less effective in strategy implementation than recovery firms. Recovery firms adopt growth-oriented strategies, non-recovery firms engage in fire-fighting strategies. (rather confusing results!) |
| Castrogiovanni and Bruton, 2000 cross-sectional | No significant retrenchment effects are found. Questions the generalizability of Pearce/Robbins (1992) conclusions. Contextual differences. |
| Barker and Mone, 1998* cross-sectional | Mechanistic structure shifts restrict firms' abilities to change their strategic orientations in response to decline. CEO changes conflicting effects. |
| Barker and Duhaime, 1997* cross-sectional | The extent of strategic change initiated in a successful turnaround varies systematically with a declining firm's need and capacity to reorient its strategy. |
| Arogyaswamy and Yasai-Ardekani, 1997 cross-sectional | The role of retrenchment needs reconsideration. Both non-turnaround and turnaround firms adopted retrenchments. Most turnaround firms invested in technology. |
| Mueller and Barker, 1997 cross-sectional | Turnaround firms are more likely to have CEOs that are also board chairs, medium-sized boards, and greater outsider control of the board. |
| Barker and Patterson, 1996* cross-sectional | Composition of the top management team is strongly associated with the perception of problems at firms trying to recover from decline. |
| Arogyaswamy, Barker, et al., 1995 theoretical | Both retrenchment and recovery strategies are vital to recovering from decline. These two stages are inter-related. Financial issues and stakeholders should be recognized. |
| Pearce and Robbins, 1994 cross-sectional | Disagree with Barker and Mone (1994). Argue that retrenchment should be considered as the first stage in a multistage recovery effort. The amount of retrenchment is important. |
| Barker and Mone, 1994 Theoretical | Disagree with Robbins and Pearce (1992). Little evidence is found that support the assertion that retrenchment is integral to turnaround. Retrenchment seen as a consequence of steeper performance decline. |
| Pearce and Robbins, 1993 theoretical | Response to decline depends on the quality of decline and its sources. Turnaround model consisting of retrenchment and recovery stages. |

* The studies are directly based on the same data set.

At the beginning of the new millennium the processual aspect of a turnaround in the form of linear stages became emphasized. Balgobin and Pandit (2001) proposed that the process consists of five stages, whereas Chowdhury (2002) proposed a four-stage model (decline, response initiation, transition, and outcome). The main contribution of Chowdhury (who, however, does not take account of the work of Balgobin and Pandit) was to propose that these stages consist of events that can be compressed into core concepts (i.e. performance, strategy, implementation, and performance) that flow sequentially. While these purely conceptual and somewhat intuitive models have moved our understanding of the organizational decline and turnarounds in the correct direction, they also left several issues vague or untouched. Altogether, as I concluded in the framework, while there have been several attempts to explain organizational declines and turnarounds, there seems to be no coherent theory on them. Even a glance at Table 28 provides support for this conclusion. In short, the whole problematic phenomenon of organizational decline and turnaround has very much cried out to be explained.

In order to justify how the account suggested in this study is better than the previous ones, I show how it provides an intelligible explanation in terms of the whole process of decline and turnaround and how it clarifies the confusing issues in the earlier theory. First of all, the explanation builds on a systematic methodology, extensive empirical work, and previous knowledge (and the lack of it) of the phenomenon. The previous research, in particular, has been drastically deficient on the two first mentioned topics. Thus, the contribution would, in fact, be warranted even without further considerations of the explanation itself. Yet, since I discuss the issues related to methodology more closely in the next section, I will now concentrate on the main contributions of the suggested explanation how decline and turnaround processes work.

First, the general scheme providing a theoretically exact and empirically valid description of how an organizational decline and turnaround is as a whole produced through the activation of five causal mechanisms, clears up the prolonged confusion around the retrenchment and recovery strategies/actions — The confusion that fairly straightforwardly originates from the use of regularity as an indicator of causality. As we have seen, the retrenchment actions alone do not activate any of the mechanisms needed to produce the turnarounds. Similarly, we have seen that retrenchment actions are needed to activate both the mechanism for retrenchment results and the mechanism for recovery results. Thus, we can identify turnaround attempts with retrenchment activities that end up with different outcomes and this is simply so because it is always the combination of the functional components that as a whole activates the mechanism that produces the outcome, not retrenchment or recovery actions alone.

Accordingly, a result of a cross-sectional research suggesting that retrenchment or recovery actions do not have a clear influence on whether the organizations will turn around from existence-threatening declines is fairly unsurprising. In some organizations retrenchment activities together with other activities are sufficient to activate the needed

mechanism, whereas in other organizations retrenchment actions, alone or within an insufficient combination, are not able to do this. Regularity, as such, does not reveal the issue.

As a general tendency, the scheme shows how the functional component of retrenchment action together with the component of financial support constituted the minimal combination of necessary causes needed to activate the mechanisms for explicit retrenchment results. However, this combination was sufficient in only one organization. Altogether, retrenchment and financial support can be seen as vital parts of an organizational turnaround, but they may not produce the desired result without the support of other components.

The same clarifications as regards the role of retrenchment are valid concerning the results of the earlier research on management replacements. In each of the organizations analyzed the functional component of management change (used as an example of an INUS condition in Chapter 9) was needed. However, it was only an INUS condition in the activation of the different mechanisms. Thus, without the sufficient combination of functional components, management changes would equally lead to unsuccessful outcomes. Overall, while the component of management change was among the minimal combination of necessary causes only in the mechanism for explicit action, it can be seen as having a necessary role in organizational turnarounds as it was also an INUS condition in two other mechanisms.

As regards the stage models of organizational turnarounds, the explanation by mechanisms provided here contributes to the previous knowledge in several ways. First of all, in the real world organizations are not in different stages but are in transition, in one way or another. Thus, processuality as a real thing and as a central characteristic of organizational decline and turnarounds cannot be restricted to separate consecutive stages. On the contrary, as the general scheme that directly builds on systematic and in-depth empirical research shows, the process essentially works through the activation of causal mechanisms that interdependently work against the mechanisms for decline and finally generate the successful outcome.

In contrast to the stage models, the decline is not a separate stage followed by other stages, but rather the outcome resulting from the activation of the mechanism for decline that influences throughout the process until the activation and outcomes produced by the four other mechanisms finally outperform it. As a result, while the proposed mechanisms for general awareness and explicit action can be successfully activated, there need not to be signs of improving performance. Not until the activation of the mechanisms for retrenchment results produces explicit improvements in the performance and stops the decline. However, as argued and illustrated in Figure 39, the outcome produced by the mechanism for retrenchment results is not followed by the activation of the mechanism to recovery results as a linear step; these mechanisms can be activated for the most part simultaneously. This, again, is a great improvement on the view provided by stage models.

Altogether, explaining by mechanisms we can understand how an organization can implement both retrenchment and recovery activities, but still the outcome is unsuccessful. Basically we have two options for this: either the combination of functional components is not sufficient to activate the mechanism for retrenchment results or this mechanism is activated successfully but the mechanism for recovery results is not activated although some recovery activities are implemented. Thus, in a successful turnaround each of the mechanisms that eliminates the causes and consequences of the organizational decline has to be adequately activated.

A substantial improvement on the previous understanding and in particular to the stage models is also the exact form of how causal mechanisms work. It is not just a vague set of events or various turnaround activities that are implemented at different stages (cf. Chowdhury, 2002); each of the mechanisms has an explicitly defined structure and way of working. The scheme identifies clear tendencies regarding how the outcomes are produced but also explains how the same outcome can be produced through different combinations of components. But these issues belong more to the set of contributions I will discuss in the next section.

Last but not least, explanation by mechanisms brings the entities and activities of organizational decline and turnarounds harmoniously together. Indeed, the previous research has basically been mute on the influences of organizational stakeholders. In fact, the research has either considered different turnaround activities without any connection to the entities that do the acting or focused solely on managers' perceptions. I do not repeat here the results regarding the stakeholder influence identifications and the entities activating the functional components of mechanisms, but as a general conclusion it is relevant to note that while the top managers were needed to activate functional components in each mechanism (also in the mechanism to decline) such stakeholders as the main creditors and the owners were as well necessary. Moreover, while the governing stakeholders that had the highest capability to activate functional components also did so, the potential and in some cases the minor stakeholders activated the functional components too. Thus, in order to provide an intelligible explanation of how decline and turnarounds work we have to examine not only the managers but the whole organizational environment including different stakeholders.

Overall, the above considerations make it obvious that the suggested lovely explanation of how an organizational decline and turnaround process works besides making the process intelligible also provides the best understanding in comparison to the previous accounts regarding the issue. Therefore, I suggest that it can be considered as the loveliest of the potential explanations and inferred as approximately true or at least closer truth than the previous ones.

Of Causal Mechanisms and the Methodology

Explaining by mechanisms enabled us to improve our understanding in a particular area of the literature in organization and management research. Thus, the fundamental argument of the thesis, that explanation by causal mechanisms provides a way to make various, usually processual, phenomena more intelligible and understandable, can be seen as warranted. Indeed, showing how a theory of explanation clarifies several confusing issues in a particular area of research where previous suggestions building on different theories of explanation have not succeed can be seen as one of the most essential indicators for its favor (see e.g., Ylikoski, 2002). However, before concluding the study I will at a more general level consider how causal mechanisms and the developed methodology contribute to the discussions of causal explanation and processual research.

The Relevance of Causal Mechanisms

I begin by appraising the suggested view of causal explanation more generally and in particular in respect of the dominating regularity view. As first noted in Chapter 1 and thereafter several times exemplified, regularities and thereby covering laws may not have anything to do with causal explanations in the social sciences. Retrenchment activities can be used again as a case in point. Even if we had data on retrenchment actions from each and every successful and unsuccessful decline and turnaround process, using the regularity theory our conclusions regarding the role of retrenchment would remain vague. We would most likely find cases with a strong association between retrenchment and successful turnarounds, but also between retrenchment and non-turnarounds. We will not receive an explanation why this is so and what the role of retrenchment really is. That is, our understanding of the issue may not improve at all. In the approach of explaining by causal mechanisms the situation is totally different.

To recapitulate, whether retrenchment and a successful turnaround correlate depends on the relation of retrenchment to the other functional components. If retrenchment is among the combination of components that is sufficient to activate a mechanism, that is usually directly unobservable, and also the other mechanisms are successfully activated, then retrenchment actions and turnaround also correlate. But if this is not the case, we will not find a correlation between retrenchment and turnaround, no matter how strong the retrenchment activities might be. Thus, in addition that we can provide a specific explanation of how some outcome or state of affairs was actually produced, explaining by mechanisms we will better understand how things, and often correlations, work in general. Overall, explaining by mechanisms we can more closely control that only the relevant things explain.

Mechanisms also provide other substantial advantages as regards causal explanation in the social sciences. First of all, because at the lower level they build on the specific evidence of processes as openly as possible, causal mechanisms can do

justice to the actual causal history as it happened, which is a positive thing if want to understand how things actually work. As a result, explanations by mechanisms are also unmistakably asymmetrical, that is, a mechanism explains an outcome not vice versa. This is again an important aspect of causal explanation that covering law models cannot fulfill as, for example, the well known example of flagpoles and their shadows tells (see e.g., Psillos, 2002: 224-226).

If we wish to provide more general conclusions regarding how some theoretically specified outcome is produced, I suggest that these generalizations should essentially be based on a comparison of the explanations of specific causal mechanisms as presented in Chapter 9. In so doing we can identify general tendencies regarding combinations of functional components necessary in the activation of a mechanism needed to produce an outcome. However, these tendencies should not be used to predict things or such predictions should be very cautious. This is primarily so because in a particular context the suggested minimal combination of necessary causes does not need to be a sufficient one to activate the needed mechanism. Thus, causal mechanisms (and therefore also the postulated general scheme regarding organizational decline and turnaround processes) should not in the first instance be evaluated in terms of how they predict, but how they are able to provide intelligible and truthful explanations.

As regards the actual research when the researcher is examining the causal event structure, that is the causal linkages between specific events (that are the possible functional components of a mechanism), I suggested that the researcher might seek support for the causal reasoning by using counterfactuals (see Chapter 4). Indeed, at least in non-experimental situations, it is possible that we cannot entirely avoid the use of counterfactuals in distinguishing causal relations and identifying the components that belong to a mechanism at the lower-level. However, counterfactuals alone are not sufficient to make intelligible how some outcome was produced.

As was stated regarding the hierarchical structure of mechanisms (Chapter 3), the understanding of the higher-level activity of a mechanism as a whole is essential to the intelligibility of its lower-level components and how some outcome or phenomenon is realized. That is, the activity of a mechanism as a whole ensures that a certain outcome will emerge and that there exists at the lower level a sufficient combination of components (that may be identified by using counterfactual reasoning) to produce this activity of the mechanism in a particular situation. However, this same higher-level behavior of a mechanism can be activated and the outcome produced by different combinations of lower-level components. In other words, in order to provide an intelligible explanation of how things work and outcomes are produced we need knowledge of mechanisms as a whole as well as how they are activated in particular situations. Thus, in the identification of lower-level functional components we may need the support of counterfactuals but without the understanding of the mechanism as a whole we cannot reach full understanding of how things work. In this respect my

account supports the views provided by Woodward (2002) and Psillos (2004) that counterfactuals and mechanisms complement each other.

Regarding the previous considerations of mechanisms in the social sciences, the account suggested here contributes to the literature by providing an exact description of what mechanisms are, how they produce things, and how they can be examined. First, contrary to view of Hedström and Swedberg (1996, 1998), a mechanism is not understood as an excessively general aspect of an individual's (rational) behavior that can be reductively used to explain different macro-level phenomena. Indeed, it is difficult to see how some general mechanism such as an assumed individuals' belief-formation mechanism (see Hedström and Swedberg, 1998), even if true, would enable a truthful and understandable description how, for example, an organizational turnaround is produced. Conversely, the proposed mechanisms of organizational decline and turnarounds can be used to provide intelligible explanations of how decline and turnaround processes actually work, but their explanatory power regarding some other social phenomena, even processual, is likely to be slight. In general, I claim that causal mechanisms and thereby explanations by mechanisms are always issue or substance specific.

The views presented by Bunge (1997: 414) that "a mechanism is a process in a concrete system, such that it is capable of bringing about or preventing some change in the system as a whole", that "to explain the emergence of some concrete thing or any of its changes, we must uncover the mechanism(s) whereby it came to be what it is or the way it changes" (437), that "the mechanism in question must be empirically accessible, however indirectly" (431), that mechanisms are "activated by events (causes) of a certain kind" (438), and that "all mechanisms are system specific" (450) come much closer to the way mechanisms are understood here. The broad definition of Mahoney (2001: 580) that "a causal mechanism is an unobserved entity that – when activated – generates an outcome of interest" is also compatible with the suggestions of this study.

However, these definitions leave open the exact nature of a causal mechanism and how it actually produces things. I believe that the account developed here, building mainly on the works of Machamer, Craver, Darden and Glennan, explicitly answers these questions and in so doing clearly contributes to our understanding of causal mechanisms and explanations of how things work. Altogether, while the proposed way of explanation by causal mechanisms may not be ideal (thus it is fallible), it is suggested to be a highly relevant way to explain how some specific outcomes come about. It can be applied by researchers seeking intelligible answers with truth value to problematic questions in various fields of the social sciences. In short, explaining by mechanisms has an evident relevance for the work that social and organization scientists are actually doing.

The Contribution of the Methodology

To my knowledge, this is the first explicit attempt to provide a systematic methodology for the identification and postulation of causal mechanisms in the social sciences. On a general level George and Bennett (forthcoming), Steel (2004), and Little (1998) have suggested that process tracing is a suitable for identification of causal mechanisms, but no more specific suggestions have been presented. Neither does the research related to critical social realism (e.g., Bhaskar, 1978) provide clear directions for the examination of mechanisms, which is understandable as they assume that mechanisms exist totally independently of the events they generate. Thus, the methodology suggested here opens up an avenue for the systematic research of causal mechanisms, at least if we agree that mechanisms at the lower level consist of combinations of functional components of entities and activities, that they have a hierarchical (part-whole) structure, and that they produce something.

Regarding process research in general, Van de Ven (1992), for example, has noted that it is concerned with understanding and explaining how things change over time and why they change in the way they do. In point of fact, this is exactly what we can achieve through explaining by causal mechanism. While for at least over two decades it has been emphasized that process research enables us to better understand several social and organizational phenomena that are longitudinal in their character and in particular to do so in a way that variance research is not able to do (e.g., Mohr, 1982; Pettigrew, 1985, 1997; Langley, 1999; Pentland, 1999, to name but a few), the research has been vague as regards questions of causal explanation. Explanation by causal mechanisms is an explicit solution to this issue. In fact, I suggest that the possibility of explanations by causal mechanisms provides the very rationality for processual research (and processual research designs) in general and as the considerations of organizational decline and turnarounds have shown the methodology developed provides a systematic and productive way to do so.

Indeed, in addition of the underdeveloped situation regarding causal explanation, the lack of systematic methods and data analytic techniques for reducing the complex reality that the researcher inevitably faces has hampered many of the contributions that processual research might otherwise have produced. The use of event structure analysis has improved the situation (e.g., Griffin, 1993; Stevenson and Greenberg, 1998), but alone it is incapable of examining causal mechanisms and of systematic comparative research in general. Relating to the discussion of comparative-historical analysis, Mahoney (2000) has made similar remarks calling for urgent methodological work regarding the issue. As a result, while the methodological procedure described in Chapter 4 is in the first instance intended for identification and theorization about causal mechanisms, it offers the desired, systematic, way to analyze complex processual phenomena and longitudinal historical data.

On the basis the analyses presented in this thesis, it is fairly obvious that the successful use of the methodology in the examination of organizational processes may

require intensive examination of the archival material. That is, in order to provide as truthful knowledge as possible of the process under examination the researcher has to try to get as close as possible to the documents related to the entities and their activities influencing the organization's development. By relying solely on secondary sources or public material this can be difficult. In short, the way the methodology was used in this thesis puts a heavy burden on the empirical fieldwork, but this is the same burden or actually the basic idea inherent in all systematic historical research.

Another important aspect that emphasized in the methodology is that it requires the researcher to put the processual phenomenon studied into a larger context of theoretical knowledge of the issue. In the next section that concludes the thesis I consider the general importance of such a practice, but, as the analyses have already shown, without the explicit and theoretically meaningful framework and concepts we could not have reached the shared understanding of how these singular processes worked. Thus, also in processual research, theoretical knowledge and methodological solutions are mutually interdependent.

Concluding Remarks

The aim of this dissertation was, first, to provide a full-blown argument of how explanations by causal mechanisms in the social sciences in general and the processual organization and management research in particular enable us to make intelligible issues related to how things work and, second, to defend this argument by explaining how organizational decline and turnaround processes work in practice. As regards the foregoing discussion, I consider that the dissertation has fulfilled its aim and thereby also answered the goals presented in the first chapter. Thus, the suggested contribution can be regarded as affirmed. However, in addition to all this, I believe that the ideas and suggestions offered here open up some interesting avenues and needs that future social scientific research should pay closer attention to. I conclude the thesis by providing a few words on them.

First, as the methodological procedure and the analysis of the organizational decline and turnarounds have illustrated, in order that the research could be cumulative and our knowledge of the social world would increase, we have to critically evaluate but also make use of the previous theoretical knowledge. Indeed, the idea of the inference to the loveliest potential explanation provides a clear rationality for so doing. Without such a practice, the scientific work, even in a very restricted area of research, threatens to diverge in closed cabinets that do not and probably even cannot understand each other. I cannot find supportive thoughts for such a development. This does not, of course, mean that we should all follow similar research strategies and use similar methodological tools, but there are better and worse ways we can try to provide more truthful and

intelligible answers to various problematic issues. If we agree with this, we are already on the move towards better research.

Similarly, while the problem of causal explanation may be one of those things to which no universally acceptable solution will ever be found, this does not say that we cannot improve our understanding of the issues related to causal explanation. The suggestions provided here, for example, leave open several questions, but at the same time they have improved our understanding of how things work. Altogether, I am sure that there is much work to be done on the issues related to explanation by causal mechanisms as there is in general in improving our knowledge of how things work.

Second, an obvious theme that this study advocates is interdisciplinary communication. It is understandable that the scientists interested in the same specific area of research constitute a more or less close research community with its own traditions, journals, and burning issues. However, by opening the borders of these communities, I think, there is much more to be gained than lost. For example, the explanation that improved our understanding of how organizational decline and turnaround processes work, and thus contributed the literature of organization and management research, would not have been possible without close discussion in particular with the recent contributions in the philosophy of science, sociology, history, and methodology of comparative historical analysis.

Interdisciplinary discussion seems to be particularly important on issues related to methodologies and data analytic techniques used by researchers. Another area where enhanced interdisciplinary work could provide new avenues, especially for processual and case oriented research, is suggested to be the systematic and source critical use of historical data. I believe that this study has provided convincing support for this suggestion. In general, archival research enables the explicit documentation of the research data used, which among other things improves the chances of replicating the research. Most importantly, by using historical material a researcher can examine entire cases and processes that have at least somehow clear spatiotemporal boundaries, and this is especially so when those boundaries are separated by several years.

Conversely, from the perspective of a historian, through the systematic data analytic techniques and methodological solutions as well as the theoretical understanding of the issue in question, the historian can better move from historical descriptions to causal explanations. Thus the value added can be considered as fully bidirectional. But the use of historical material is not without limitations. Common problems are that the material is lost to posterity, very biased, or its use is restricted. However, for example in organization and management research, by using well-preserved archives that include material from the different sources the researcher can obtain information of very detailed issues that would not otherwise be available. Altogether, my general argument is that there is much to learn from history, also in a way that enables us to better understand how things are and work today.

Regarding the above issues we can consider what they require of our epistemic and ontic assumptions as at the end of the day our theories and explanations always rest on them. While someone may try to accommodate these ideas to the postmodernistic or positivist thinking, I claim that the result will not be convincing. Instead, each of them is in harmony with realism. Thus, if we accept that causal explanations can improve our understanding of the world, that accumulation of knowledge and interdisciplinary discussion are important for the social sciences, and that history has relevance in our considerations of how things are or could be, I believe that a realistic approach provides the most robust avenue for future research.

Sources

Primary Materials

The Central Archives of UPM-Kymmene, Kuusankoski

The Archives of Kymi Corporation (AKC)

- Minutes of the board of directors meetings, 1904–1912 (directionsprotokollen); including appendices
- Minutes of creditors and owners meetings, 1904–1912; including appendices
- Annual Reports, 1904–1915
- Company and managerial correspondence, 1908–1913
(Helsingforskontoret kopieböcker 1908–1913; Helsingforskontoret responses 1908–1913; Bokföringsavdelningen korrespondens: Directionen 1908, Styrelsen 1910)
- Kymmene Direktionen: Kymmene Ab under administration 1908–1910: Including various documents related to the creditors' administration in the organization
- Financial statements (Balancer) and other internal documents including lists of share holders and creditors, 1904–1916
- Wage books of the Kuusankoski pulp mill, 1906–1914
- Financial and production statistics 1872–1932 I–III (Statistik Belysning)

The Central Archives of UPM-Kymmene, Valkeakoski*The Archives of the Walkiakoski Paper Mill (AW)*

- Minutes of board and managers' meetings, 1920–1934; including appendices
- Annual reports, 1920–1934
- Company correspondence, 1920–1934
- Personal correspondence of the CEO, Walden, 1927–1930
- Financial statements and other internal documents, 1920–1934
- Minutes of the UPM and Walkiakoski's combined board meetings, 1932–1934

The Archives of the United Paper Mills (AUPM)

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- Virkkunen's and CEO Walden's correspondence, 1967–1968; includes internal documents, e.g. report of KOP's credit information department
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Appendices

Appendix 1. Event Chronology of Kymi

| Description of the activity | ETHNO code | General code | Entity of the activity |
|---|------------|--|------------------------|
| <i>Elving becomes</i> chairman of the board of directors and the biggest owner. | EB | IFD (Initial internal force of decline) | Manager-owner |
| <i>Elving introduces a major investment plan.</i> | MI | IFD | Manager-owner |
| CEO Kirchner resigns due to <i>disagreements</i> with <i>Elving</i> . | DE | IFD | Managers |
| <i>Investments</i> are supported by the creditors. | IL | IFD | Creditors (owners) |
| <i>General Strike</i> interrupts operations for a week. | GS | EFD (Initial external force of decline) | Society (employees) |
| <i>Fire destroys</i> Voikkaa paper mill. | FD | EFD | Indefinable |

| | | | |
|--|-----|--|--------------------|
| Elving decides that <i>Voikkaa</i> has to be <i>rebuild</i> as soon as possible. | VR | IFD | Manager-owner |
| <i>New loan</i> for <i>repairs</i> and <i>operations</i> . | LR | IFD | Creditors (owners) |
| Elving makes big <i>forest acquisitions</i> . | FA | IFD | Manager-owner |
| The agreement of <i>eight hour</i> working day. | EH | IFD | Workers (manager) |
| <i>The government of Russia</i> closes almost every second of the newspapers. | RG | EFD | Government |
| <i>Downturn</i> in the world <i>economy</i> . | DTE | EFD | Economy |
| No reductions in production; paper stocks in Russia increase. | SI | IFD | Managers |
| Elving applies for a <i>new loan</i> from the banks. | NL | IFD | Creditors |
| Decision to <i>finish</i> paper manufacturing and to diminish pulp <i>production</i> in the Kymi's mill. | FP | IAD (Internal awareness of decline) | Managers |
| <i>Creditors deny</i> further <i>financing</i> and decide to implement a thorough investigation in the firm. | CDF | ERD (External reaction to decline) | Creditors |
| Snellman, Björkenheim, and Serlachius <i>implement</i> the <i>investigation</i> . | II | ERS (Evaluation of recovery strategy) | Creditors |
| <i>Creditors</i> (and owners) receive understanding of the <i>crisis</i> and take charge of the firm and discontinue its payments. | CC | UC (Understanding of the crisis) | Creditors |
| <i>Elving resigns</i> . | ER | MC (Management change) | Manager-owner |
| <i>Björkenheim, Serlachius, and Langenskiöld</i> are nominated to manage the firm; also a new board. | BSL | MC | Creditors (owners) |
| <i>New credit</i> to make the business continue. | NC | FS (Financial support) | Creditors |

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|---|-----|--|------------------------|
| Voikkaa's factory <i>manager</i> is fired. | MF | MC | Managers |
| Serlachius decides to construct a new <i>accounting</i> system. | NA | RD(RA) (Recover/ retrenchment decision) | Managers |
| Several engineers and office workers are noticed. | WN | RA (Retrenchment action) | Managers |
| Negotiations of <i>new</i> contracts with the <i>foreign agents</i> start. | NFA | ERS | Managers |
| <i>Suggestion</i> to found a <i>price agreement</i> with Finnish mills who work at Russia. | SPA | ERS | Managers |
| Call for <i>reduction</i> of paper stocks. | RS | RA | Managers |
| Detailed <i>call for</i> offers for several <i>machine</i> suppliers. | CM | RA | Managers |
| <i>Suggestion</i> to start one paper <i>machine</i> and sulphate production at Kymi's mills. | SSM | RA | Managers |
| Decision to sell <i>paper stocks</i> in Russia even 25 % under the manufacturing price if needed. | PS | RA | Managers |
| Serlachius suggests that the manufacturing of <i>brown (kraft) paper</i> should be finished. | BP | RD (Recovery decision) | Managers |
| Decision to <i>start</i> the paper <i>machine</i> (v) and sulfate production at Kymi. Björkenheim orders to cut the workforce minimum. | SM | RA | Managers |
| Decision to take only <i>direct orders</i> from the customers. | DO | RA | Managers |
| <i>Serlachius</i> starts as <i>CEO</i> . | SC | MC | Managers |
| A <i>syndicate</i> for <i>newsprint</i> selling through the Finnish paper association. | SN | ESR (External support for recovery) | Association |
| Decision to try if <i>coal heating</i> would come cheaper than wood. | HC | RD | Managers |
| The financial <i>result</i> is still negative, but it is considerably <i>improved</i> during the last six months. | RI | RE (Retrenchment effects) | The whole organization |

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|--|-----|---------------------------------------|-----------------|
| Decision to finish the manufacturing of <i>brown (kraft) paper</i> at Voikkaa. | BP2 | RD | Managers |
| Serlachius reports his visit in St <i>Petersburg and Moscow</i> . Complaints and acknowledgements from the customers. Changes in agents' selling areas. Start of sulfate pulp export. | PM | RD | Managers/agents |
| Decision to sell sawn <i>timber</i> stocks to <i>England</i> . | TE | RD | Managers |
| Decision to sell <i>paper and pulp</i> to <i>England</i> . | PPE | RD | Managers |
| Decision to immediately start the <i>tobacco (iv) paper</i> machine; First suggestion few months earlier. | TB | RA | Managers |
| Decision to finish the <i>eight-hour</i> working days agreement. | EH2 | RD | Managers |
| Decision to start <i>coal heating</i> . | CH2 | RD | Managers |
| Serlachius suggest an establishment of a <i>collective wood</i> supply and floating company. | CW | RD | Managers |
| Decision to start the <i>third machine</i> at Kymi mills and to acquire a new motor to the machine. Repairs in other mills. | TM | RA | Managers |
| A paper machine (II) in Kuusankoski is stopped due to <i>lack of orders</i> and the need for reparation. | LO | EPD (External pressure to decline) | Economy |
| <i>Decision</i> to apply for a <i>loan</i> (800 000) from the banks. | DL | FS | Creditors |
| <i>Industry-wide agreement</i> concerning the <i>newsprint</i> selling in Finland. | AN | ESR | Cartel |
| Serlachius presents a <i>list</i> how to improve the <i>quality</i> and <i>efficiency</i> and to save money in all possible ways. | LQE | RA | Managers |
| Machines and extensions to factories in order to improve the <i>communication and transportation</i> connections. Also a common engineering office. | CT | RD | Managers |

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|--|-----|--------------------------|------------------------|
| Decision to <i>finish wood pulp</i> production at Kuusankoski and to dismiss the employees. | FW | RA (RD) | Managers |
| Decision to acquire <i>new machines</i> and to develop transportation. | NM | RD | Managers |
| Björkenheim believes that the <i>refunding program</i> becomes accepted and thus the firm is saved. | RP | RD | Managers |
| Decision to <i>increase production</i> capacity at Voikkaa by a new paper machine motor. | IP | RD | Managers |
| Decision to start the <i>repayments of loans</i> by following a gradual scheme of payment. | RL | RR (Recovery results) | Creditors |
| Decision to found a <i>collective wood</i> supply company. | CW2 | RD | Managers |
| Decision to <i>finish the tobacco</i> paper manufacturing. | FT | RD | Managers |
| Decision to order eight <i>American peeling machines</i> . | PM2 | RD | Managers |
| Order volume increased by 28% per annum. The firm is able to <i>pay back a loan</i> (FIM 700 000). | PL | RD | Managers |
| Decision to <i>sell land</i> in Tampere (ca. FIM 800 000). | SL | RA | Managers |
| Decisions of <i>machine acquisitions and reconstructions</i> for all mill. | MAR | RD | Managers |
| <i>Improvements</i> in all statistics. | IS | RR | The whole organization |
| A deal with the Paper Office of quotas in <i>newsprint</i> selling in <i>Russia</i> . | NR | RD | Managers (cartel) |
| <i>Björkenheim</i> starts as full time <i>chairman</i> of the board. | BC | MC | Managers (creditors) |
| Decision to implement a major <i>investment program</i> during 1912, estimated costs almost FIM 500 000. | IP2 | RD | Managers |

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|--|-----|-------------------------------------|--------------------|
| Decision to <i>reorganize agencies</i> in Russia. | | | |
| Björkenheim applies for a loan from Dahlström. | RE | RD | Managers/owners |
| <i>Serlachius's</i> relationships with other paper mills raises <i>disagreements</i> . | SD | OD (Organizational disagreement) | Managers/owners |
| <i>Snellman</i> commits a <i>suicide</i> . | SS2 | OD | Manager |
| <i>Björkenheim</i> and the banks pressure <i>Serlachius</i> . | BS | OD | Managers/creditors |
| <i>Serlachius</i> leaves the firm. | SL2 | MC | Managers |
| <i>Björkenheim</i> starts as <i>CEO</i> . | BC2 | MC | Manager |

Appendix 2. Event Chronology of Walkiakoski

| Description of the activity | ETHNO code | General code | Entity of the activity |
|--|------------|--|-----------------------------------|
| Financial performance <i>satisfies</i> owners and managers. Huge dividends. | SAT | IFD (Initial internal force of decline) | Owners/managers |
| The rate of the Finnish mark reevaluates and the price of paper decreases. <i>External pressures</i> . | EP1 | EFD (Initial external force of decline) | Economy |
| Continuous customers' <i>complaints about the quality of paper</i> . No explicit counter action from the management. | QC1 | IFD | Managers (selling association) |
| Owners demand huge dividends. <i>Incompetent ownership</i> . | IO | IFD | Owners |
| CEO finds alarming signs in financial numbers. Explicit <i>signs of decline</i> . | SD | IAD (Internal awareness of decline) | Manager |
| The creditor (PYP) does not accept the dividend. <i>Creditor remarks</i> the situation. | CR | ERD (External reaction to decline) | Creditor |
| HOP (a commercial bank) becomes the main owner. <i>New chief</i> , Wegelius, to the board. | NC | MC (Management change) | Owner |
| Decision to sell land and forest due to lack of funds. <i>Asset divestment</i> . | AD1 | RA (Retrenchment action) | Manager |
| Wegelius suggests extensions in newspaper production, no decision. <i>Recovery suggestion</i> . | RS1 | ERS (Evaluation of recovery strategy) | Manager |
| Wegelius recruits Walden to bring new managerial input to the board. <i>Walden starts</i> . | WS | MC | Manager (owners) |
| Walden tries to instruct new accounting and reporting systems in order to <i>clarify</i> what is the firm's <i>situation</i> . | CS | ERS | Manager |

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|--|------|-------------------------------------|-----------------------------------|
| Walden urges that they have to thoroughly examine how to improve production and avoid continuous loses. They cannot wait positive changes in conjunctures. <i>Understanding the crisis</i> . | UC | UC (Understanding of the crisis) | Manager |
| Decision to apply for a considerable loan for the repairs. <i>External support</i> . | ES1 | FS (Financial support) | Creditors (Manager) |
| Walden expresses his dissatisfaction to the management's work. <i>Managerial disharmony</i> . | MD1 | OD (Organizational disagreement) | Manager |
| Continuous financial difficulties. Walden suggests a detailed <i>cost cutting</i> and dismissal program. | CC1 | RA | Manager |
| Walden decides to reorganize top management of the firm by dismissing three managers including the CEO. <i>Management change</i> . | MC1 | MC | Manager |
| Still <i>quality complaints</i> . Improvements without total realization. | QC2 | IFD | Customers/ selling association |
| Board of administration disagrees of the new CEO's competence. <i>Board disharmony</i> . | BD | OD | Board of administration/owners |
| The new CEO, Christiansen, improves reporting systems and seeks effectively the most economical ways of production. <i>Operational restructuring</i> . | OR | RA | Manager |
| Christiansen suggests a reorganization and extension of the sulfate production that would change the production direction of the firm. <i>Recovery suggestion</i> . | RS2 | ERS RD | Manager |
| First attempt to sell stocks for <i>UPM</i> . | UPM1 | (Recovery decision) | Owners (managers) |

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|--|------|--|-----------------------------------|
| Positive production results, no urgent need for a new loan. <i>Retrenchment effects</i> . | RE | RE (Retrenchment effects) | The whole organization |
| A new big loan for extensions and reparations. <i>External support</i> for recovery. | ES2 | FS | Creditors (managers) |
| Declining newsprint and sulfate pulp prices. <i>External pressure</i> . | EP2 | EPD (External pressure to decline) | Business cycle |
| Decision to convert sulfate pulp to craft paper, and strongly diminish newsprint production. The main <i>recovery decision</i> . | RD1 | RD | Managers |
| Scandinavian and Finnish agreement of production quotas. <i>Cartel support</i> . | CS1 | ESR (External support for recovery) | Cartel |
| <i>Investments</i> to improve the <i>quality</i> and capability to answer the customers' wishes. | IQ1 | RD | Managers |
| Scandinavian craft paper <i>cartel disintegrates</i> . | CD | EPD | Cartel |
| Prices and orders are declining. <i>External pressure</i> . | EP3 | EPD | Business cycle |
| Quality problems. <i>Quality complaints</i> . | QC3 | IFD | Customers/ selling association |
| Christiansen proclaims to leave the firm. <i>Management change</i> . | MC2 | MC | Manager |
| PYP gives more credit. <i>External support</i> . | ES3 | FS | Creditor |
| <i>Investments</i> in new machines to improve paper <i>quality</i> . | IQ2 | RD | Manager |
| Decision to increase equity capital by a <i>share issue</i> . | SI | FS | Owners (managers) |
| The <i>Bank of Finland</i> becomes the main creditor and promises to support Walkiakoski. | BF | FS | Creditor |
| <i>UPM</i> and its owners become the main owner as a result of the stock issue. Increasing cooperation. | UPM2 | RD | Owners |

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|---|-----|--------------------------|------------------------|
| Customers report that the paper quality has improved. | QI1 | RR (Recovery results) | Customers |
| Investing in a soda boiler to sulfate factory in order to improve craft paper production. Recovery decision. | RD3 | RD | Managers |
| Worldwide depression. External pressure. | EP4 | EPD | Economy |
| Decision to found a paper converting company. Recovery decision. | RD4 | RD | Managers (owners) |
| Considerable employees and wage cuts due to the depression and cooperation with UPM. Cost cutting. | CC2 | RA | Managers |
| Decision to invest on research and development. Recovery decision. | RD5 | RD | Managers |
| Decision to take a loan with UPM and invest to a new paper machine in order to increase the quality of papers. Recovery decision. | RD6 | RD | Managers (creditors) |
| Scancraft is founded and Walkiakoski becomes a member. Cartel support. | CS2 | ESR | Cartel |
| Customs in Britain decrease and Finland's mark devaluates. External support. | ES4 | ESR | Economy |
| Positive production and market signals. Customers satisfied. Recovery results. | RR1 | RR | The whole organization |
| Prices increase. Recovery results. | RR2 | RR | The whole organization |
| Walden suggests that UPM and Walkiakoski should merge. | MER | | Managers/owners |

Appendix 3. Event Chronology of UPM

| Description of the activity | ETHNO code | General code | Entity of the activity |
|--|------------|--|------------------------|
| CEO Walden's <i>expansive business strategy</i> | EB | IFD (Initial internal force of decline) | Manager-owner |
| <i>Overcapacity</i> in industry and an unfavorable <i>business cycle</i> . | OB | EFD (Initial external force of decline) | Business cycle/economy |
| Considerable subventions for <i>Italian subsidiaries</i> . | IS1 | IFD | Managers |
| A new newsprint machine comes into operation. Decision to stop the other. <i>Investment Realization</i> . | IR | IFD | Managers |
| Walden introduces a major <i>investment plan</i> consisting of three new machines. | IP1 | IFD | Manager-owner |
| The main creditor (KOP) believes the investments and arranges <i>financial support</i> . | FS1 | IFD | Creditor |
| Also owners believe the investment, thus a <i>share issue</i> is implemented. | S11 | IFD | Owners |
| A new <i>foreign investment</i> suggestion. | FI1 | IFD | Manager-owner |
| The analysis of <i>Italian subsidiaries</i> recommends withdrawing from Italy. | IS2 | IAD (Internal awareness of decline) | Managers |
| Decision to construct a board machine and order a new sack paper machine. <i>Major investment</i> . | MI1 | IFD | Manager/owner |
| KOP and the Bank of Finland realize the acute financial distress and refuse to give additional financing. <i>Creditors' intervention</i> . | C11 | ERD (External reaction to decline) | Creditors |
| Creditors found a <i>holding company</i> and a working committee that would take over UPM. KOP's CEO Virkkunen becomes the chairman. Also a share issue is required. | HC | ERD | Creditors |

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| The holding company allows the needed <i>financial support</i> . | FS2 | FS | Creditors |
| Decision to <i>delay</i> the <i>investment</i> program and construction of the board machine. | DI1 | RA (Retrenchment action) | Creditors |
| <i>Withdrawing</i> from <i>Italy</i> begins. | WI1 | RD(RA) (Recovery/ retrenchment decision) | Managers |
| <i>Managerial disagreement</i> over the board machine investment. | MD1 | OD (Organizational disagreement) | Managers |
| The share issue is delayed, the <i>maturity</i> date of <i>loans</i> is extended. | ML | FS | Creditors |
| A big loan is suggested that needs KOP's guarantee. Need for <i>financial support</i> . | FS3 | FS | Creditors |
| KOP guarantees the loan if the <i>creditor</i> is allowed to make a thorough <i>examination</i> in the firm. | CE | ERS (Evaluation of recovery strategy) | Creditor |
| <i>Walden</i> prevents the examination. | WP | OD | Manager/owner |
| <i>Virkkunen</i> forces <i>Walden</i> to accept the examination. | VW | OD | Creditor |
| The investigation reveals harsh nature of the situation and suggests urgent reconstructions. <i>Understanding</i> received. | UR | UC (Understanding of the crisis) | Creditor |
| <i>Managerial disagreement</i> between the CEO and the working committee over the dividends. | MD2 | OD | Manager (creditors) |
| <i>The CEO</i> <i>Walden</i> announces that he <i>resigns</i> after the next year. | CR | MC (Management change) | Manager |
| <i>Managerial disagreement</i> over the CEO election. | MD3 | OD | Board (owners) |
| <i>Walden</i> continues the <i>major</i> board machine <i>investment</i> . | MI3 | OD(IFD) | Manager |
| New CEO Hakkarainen starts. <i>Management change</i> . | MC1 | MC | Owners |

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| <i>Hakkarainen outlines a new organizational order.</i> | HO | ERS | Manager |
| A plan for the development of R&D functions. | RD | RD | Manager |
| CEO states that they have no other choices than to considerably <i>cut</i> the expenses and seek <i>profitable</i> areas of production. | CP | ERS | Manager |
| Restructuring process of the <i>accounting system</i> starts. | AS | RD | Manager |
| <i>ADP</i> system is introduced. | ADP | RD | Managers |
| Wide <i>asset reductions</i> . | AR | RA | Managers |
| Introduction of the <i>profit unit</i> organization structure. | PU1 | RD | Managers |
| <i>Managers found no needed improvement</i> in financial and production results. | NI | IFD | Managers |
| The Bank of Finland refuses all big investments. <i>Creditors' intervention</i> . | CI2 | ERD | Creditor |
| A new <i>share issue</i> is decided to implement. | SI2 | FS | Owners |
| The Bank of Finland and KOP provide <i>further loan</i> . | FL | FS | Creditor |
| An <i>emergency agenda</i> is introduced. Includes heavy cost cutting. | EA1 | RA | Manager |
| <i>A liquidation</i> decision in <i>Italy</i> . | LI | RD(RA) | Manager |
| The situation has even weakened. The firm is near to the <i>crisis of confidence</i> and the reasons are purely internal. | CC | IFD | The whole organization |
| A new <i>emergency agenda</i> . Includes all possible asset reductions and cost cuttings. | EA2 | RA | Manager |
| An investigation in order to solve <i>production difficulties</i> of the new board machine. | PD | RA | Managers |

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| The Bank of Finland accepts loans for profitability investments. <i>Financial support</i> . | FS4 | FS | Creditor |
| The situation is stabilized but further improvement needs more investments. <i>Retrenchment effects</i> . | RE1 | RE | The whole organization |
| An <i>investment plan</i> including a new paper machine is accepted. | IP2 | ERS | Managers |
| Decision to acquire a newsprint machine to Jämsänkoski. <i>Major investment</i> . | MI4 | RD | Managers |
| Considerable <i>foreign asset</i> reductions. | FA | RD | Managers |
| A merger with Haarla is suggested. Only a <i>cooperation deal</i> is done. | CD | RD | Managers |
| <i>Evaluation</i> project of the firm's <i>strategic</i> goals. | ES | ERS | Managers |
| Suggestion to acquire a new board machine to Simpele and paper machine to Kaipola. <i>Investment plan</i> . | IP3 | ERS | Managers |
| Suomen <i>Talkki</i> firm is bought. | TF | RD | Managers |
| An experimental plant for <i>thermomechanical pulp</i> production starts. | TP1 | RD | Managers |
| Introduction of the <i>profit units'</i> allowance system. | PU2 | RD | Managers |
| Signs of <i>world wide depression</i> come explicit. | WD | EPD (External pressure to decline) | Economy |
| Decision to apply a considerable loan from abroad. <i>Financial support</i> . | FS5 | FS | Creditors (managers) |
| Some <i>investments</i> are <i>delayed</i> . | DI2 | RA | Managers |
| Investigation of the firm's <i>crisis vulnerability</i> . | CV | ERS | Managers |
| A new <i>share issue</i> is suggested. The Bank of Finland is asked to help for arranging the loan needed. | SI4 | FS | Creditors (managers) |

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| An <i>economy campaign</i> is launched. | EC | RA | Managers |
| The acquisition of <i>Raf. Haarla</i> . | RH | RD | Managers/owners |
| <i>Thermomechanical pulp</i> plant is ready. | TP2 | RD | Managers |
| <i>Three devaluations</i> of the <i>Fmk</i> in 1977 and 1978. | DF | ESR (External support for recovery) | Government |
| Depression turns to <i>economic prosperity</i> . | EP | ESR | Economy |
| Positive market and financial signals. <i>Recovery results</i> . | RR1 | RR | The whole organization |
| <i>The investment program</i> continues. | IP4 | RD | Managers |
| A <i>major investment</i> plan is suggested and starts. | MI5 | RR | Managers/creditors |

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