JYVÄSKYLÄ STUDIES IN BUSINESS AND ECONOMICS
39

Liisa Niemi

The Father, the Son and the Refreshed Spirit

Strategic Renewal after Family Business Succession in the Context of the Textile, Clothing, Leather and Footwear Industry

JYVÄSKYLÄN YLIOPISTO

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Esitetään Jyväskylän yliopiston taloustieteiden tiedekunnan suostumuksella
julkisesti tarkastettavaksi yliopiston vanhassa juhlasalissa (S212)
huhtikuun 23. päivänä 2005 kello 12.

Academic dissertation to be publicly discussed, by permission of
the the School of Business and Economics of the University of Jyväskylä,
in Auditorium S212, on April 23th, 2005 at 12 o'clock noon.

UNIVERSITY OF JYVÄSKYLÄ

JYVÄSKYLÄ 2005

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Publishing Unit, University Library of Jyväskylä

Cover picture: Perintö/Inheritance by Esa Riippa

URN:ISBN:9513921158
ISBN 951-39-2115-8 (PDF)

ISBN 951-39-2130-1 (nid.)
ISSN 1457-1986

Jyväskylä University Printing House, Jyväskylä 2005

ABSTRACT

Niemi, Liisa
The Father, the Son and the Refreshed Spirit: Strategic Renewal after Family Business Succession in the Context of the Textile, Clothing, Leather and Footwear Industry
Jyväskylä: University of Jyväskylä, 2005, 219 p.
(Jyväskylä Studies in Business and Economics
ISSN 1457-1986; 39)
ISBN 951-39-2115-8
Finnish Summary
Diss.

This study describes the strategic renewal of family business after succession in the textile, clothing, leather and footwear industry (T/C) in light of three examples. Family firms often have an individual approach to developing capabilities for new generations. A turbulent environment, internal resources and the capabilities of the management all have an impact on strategic decisions.

The research is a multiple case study of three cases. In each of the companies the succession process, the different roles of the successor, the critical incidents and how they relate to the succession are described. In addition the capability for renewal, renewal process and its effects are introduced. All the firms are situated in the same geographical area, where small family firms are the main source of employment. Data was collected by open-ended, thematic interviews, phone interviews and corporate analyses made from annual reports by Finnvera Oyj. The first interview for the research was made in May 2002 and the latest phone calls in November 2004. The researcher interviewed the successor and the incumbent of each company. The interviews also included space for free conversation. Following the interviews, several short phone discussions have taken place with the successor when more detailed information was needed.

The collapse of business with the Soviet Union, and the strong currency of the Finnish mark at the end of the 1980's, and in the beginning of the 1990's, changed the Finnish textile and clothing field completely. The last and perhaps the worst critical incident was the devaluation of the Finnish mark in 1991. After this in two of these cases the predecessors had neither the motivation nor the energy to continue. This was the trigger for the succession and the renewal process.

Today the scope of the market is more concentrated and focuses on fewer customers. Specific strategies used in the Finnish T/C industry are design and delivery flexibility as differentiation, and responding with speed and dependability being the competitive advantages. Anyhow, Finland has new global problems to face in the enlarged EU market.

According to the corporate analyses it can not be said that all of the companies had succeeded in their strategies, but they are successful in so far as the business still exists. They all had different strategies. A new product-line saved one of the companies and enabled growing export. The other started to divest and developed new marketing strategies, gaining new market areas. All the successors had been employed in the company and with the family since a young age, even from childhood. They had good technical skills and some of them also had experience in the marketing field.

The potential for renewal depends on the person, but its roots lie in the family firm's history. The ability and the agility for renewal after succession depend on the entrepreneurial skills and the resources of the family firm built in the past. The managerial and paternal support of the incumbent and the family also play their part. Essential factors in entrepreneurial capability and commitment are motivation, culture and values of the family firm. In many ways the present owner could have chosen an easier way to earn a livelihood, but the belief and pride in the family name and the independence in decision-making can be seen in the interviews.

Keywords: Family firm; textile; clothing; leather; footwear; strategic renewal; life cycle; succession

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ACKNOWLEDGEMENT

This research has been a learning process in many ways. I started to study again, first for fun, in the beginning of the 1990's not knowing where it would take me. Sometimes the motivation has been hard to find but I am still grateful that I started it. Actually in my turbulent environment the studies gave me the opportunity to start in a new profession as a teacher in 1996. The last three years I have been focusing on this doctoral thesis. Much of the research has been done while working as a fulltime lecturer, and it has become more or less a leisure time hobby.

Over these past years there are several individuals who have contributed to this process. My sincerest and warmest thanks go to my supervisor, Professor Matti Koiranen of the University of Jyväskylä, School of Business and Economics. His enthusiasm and knowledge have provided essential support in this study. He has given valuable guidance and always believed that I will get this thesis ready some day. I have enjoyed the co-operation and studying under his guidance. His ability to co-operate is part of my learning process and I hope that I can someday support students with the same enthusiasm.

I very much appreciate the support of the management of Central Ostrobothnia Polytechnic and the possibility to join the doctoral student group. My colleagues, friends and students in Central Ostrobothnia Polytechnic have supported me in many ways. I gratefully acknowledge the cooperation of Nina Hynynen, Esko Johnson and Sharon Keaveney for their skilful work in proofreading and checking the English language of this report and Terttu Lämsä for the layout of the report.

To Professor Heikki Mattila and Professor Elina Varamäki I wish to express my thanks. I have received many important comments from them, two talented experts in the research field. As pre-examiners they provided me with valuable suggestions to clarify my arguments, to improve the discussion between theory and empirical data. I am also grateful to Professor Kari Lohivesi who has provided me with professional advice for improving my thesis.

Special thanks are due to the new generation, entrepreneurs and the incumbents, the parents, who have given their valuable time and shared with me their experiences and thoughts in discussions and interviews. I would also like to extend my thanks to Finnvera Oyj. With the permission of the entrepreneurs I was able to gain access to the corporate analysis from Finnvera Oyj. This was extremely helpful in the evaluation process.

Furthermore I am grateful for the financial support received from the Finnish Cultural Foundation (Suomen Kulttuurirahasto), the University of Jyväskylä, the Federation of Finnish Textiles and Clothing Industries (Finatex) and Yksityisyrittäjäin Säätiö.

To conclude I would like to express my gratitude to my family. My parents always supported me in my studies, especially thanks to my old mother Aune. Ari-Pekka and Harri, the sons of my husband and their families have been stimulating with the studies of their own. Without the loving care and understanding of my nearest and dearest husband Kaj, this process would not have been worth going through. Thank you for your love and belief in me.

Kokkola, January 2005

Liisa Niemi

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GLOSSARY

ATC	Agreement on Textiles and Clothing
CEO	Chief executive officer
C10	The 10 countries acceded to the European Union on 1 May 2004
C12	The 10 countries acceded to the European Union on 1 May 2004, plus Romania and Bulgaria
EDI	Electronic data information links between the partners
EU15	Old member states of the EU
FBSI	The Family Business Stock Index
FFA	Family Firm Association
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product, the total value of goods and services produced by a country in a year
GNP	Gross National Product, includes foreign profit
IMD	International Institute for Management Development
MFA	Multifibre Arrangements
N.O.S	Never out of stock
OETH	L'Observatoire Européen du Textile et de l'Habillement
OPT	Outward processing transactions
POS	Point of sale
QR	Quick response, a merchandising strategy used by apparel manufacturers and retailers and their raw material manufacturers for shortening the pipeline from raw material to checkout counter at the retail store
ROI	Return on investment
SKU	Stock keeping units
SME	Small and medium sized enterprises
T/C	Textile and clothing sector
VMI	Vendor managed inventory
WTO	World Trade Organisation

CONTENTS

1 INTRODUCTION

The background, scope, research problem and boundaries of the study, as well as research methodology and study structure are presented in this chapter.

Family business as an academic doctrine is young but of major interest. Defining a family firm has become a hot topic globally, and the succession of a family business is of special interest in every European country. There is no consensus on the definition of family business enterprise in the research, teaching or consulting communities, among journalists or even among those running a family business (Neubauer & Lank1998:3).

Neubauer & Lank (1998:4) argue that if one closely examines the published literature on issues that are potentially of considerable concern and utility to those interested in family business, one can discern four quite distinct research traditions or sources, as illustrated in Figure 1.

In this study the cases are identified within the centre of the circles in Figure 1. They are small & medium sized firms, the business is owner-managed and ownership has been within the family for at least two generations. Entrepreneurship, which will be one part of the research, is very typical for small companies and especially for family firms. The authors write that researchers have a strong tendency to stay within the boundaries of their own choice of circle and much too rarely establish links with those from other traditions, though there are several zones of overlap (Neubauer & Lank 1998).

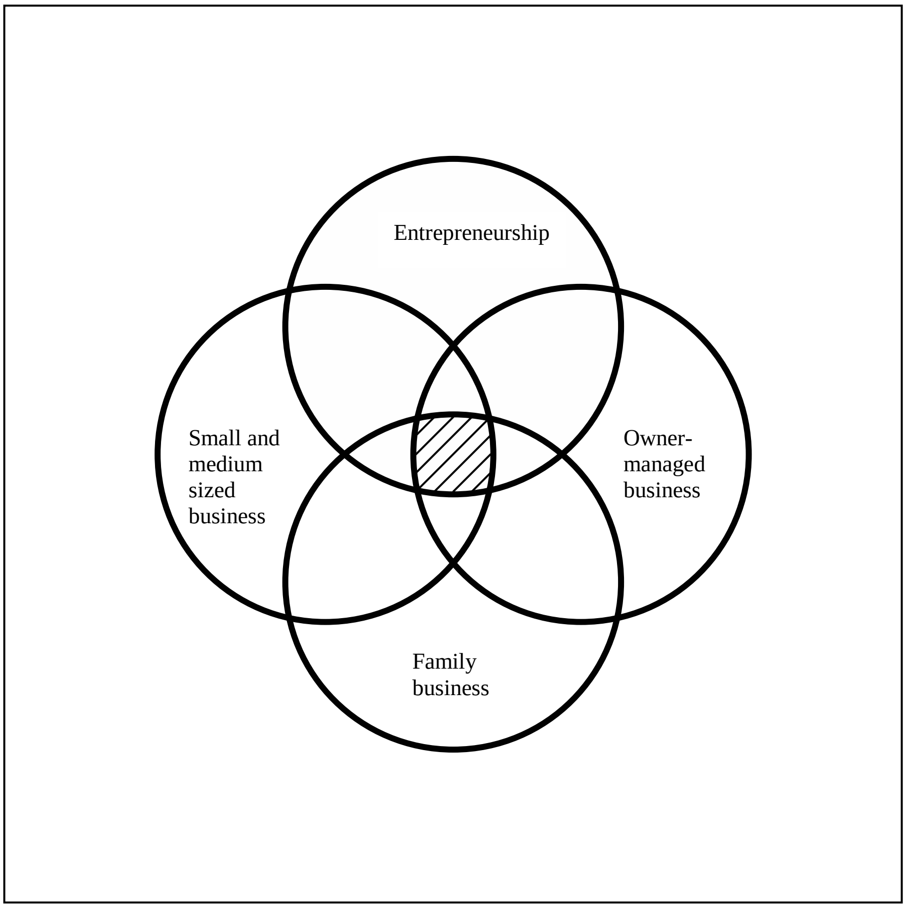


FIGURE 1 Related academic fields (Neubauer & Lank 1998:4)

1.1 Background and research motives

The study was set out to investigate the strategic renewal, after succession, in family firms in the textile, clothing, leather and footwear industry in the light of three examples. In the research field of family business there is still a lack of studies after succession process.

Management skills play an important role in the development and success of renewal strategies. Part of the background of the successor was explained in former research, which describes how succession was carried out, what different roles the successor had in the company, the critical incidents of the company and whether they were reflected in the succession (Niemi 2003). The purpose of this study is to describe and interpret the ability to change; the main changes in strategies; and how they effected the renewing process.

Due to the researcher's personal occupation and background, the interest of the study is focusing both on the branch of industry, and especially in the entrepreneurship associated with this branch of industry. In the EU, the textile, clothing, leather and shoe industry has been viewed as a branch of industry in crisis for a long time. Still, there have always been successful companies. Some of them are small family firms. Even the old companies are usually small, and most of the old companies are family firms. The continuation and succession of small businesses play an important role in providing employment. There is discussion about downsizing in the field, and the loss of employment has been considerable (Mattila 1999). Even with these problems the field has survivors and there is desire within the family to continue the business despite difficulties.

Many companies have been formed when, faced with loss of employment, former employees have become self-employed and taken over the management of the company. When new companies are born and under development they create employment for a small number of people and their life span is often short. With the help of research, it is possible to gain new information about the needs for training in such companies, and to further develop the role of entrepreneurship in training programs, so that potential entrepreneurs can be aware of the worst pitfalls. It is very likely that young people will also set up new enterprises in the near future, because the amount of employment in this field of industry is decreasing.

Originally the study consisted of four different cases which each have gone through, or are still going through, a succession process. One of the cases was left out from the analyses because no succession process had happened yet. One of the analysed cases is in the hands of the third generation and two of them are run by the second generation. The findings of this study are compatible with the assumption that the problems of succession are more apparent when there is no previous experience to build on within the business (Beckhard & Dyer 1983a). In addition, the transition from first to second generation is the most difficult one due to the great dominance of the founder (Hollander & Elman 1988). A number of different approaches for defining the family business can be found in the literature, see e.g. Donnelley (1964), Barnes & Hershon (1976) and Handler (1989).

The approach used here is built on the definition, which includes issues of family control, family management, and the identification of two generations of family members. Within this definition, business principals are related by kinship or marriage, ownership is combined with managerial control, ownership and managerial control are transferred to the next generation, and at least two generations of the family members are present or have been in business. New businesses are seldom started with the explicit objective of becoming a family business. Instead, they evolve into a family business. When a second generation starts to become involved in daily operations, the business gradually becomes a family business (Budge & Janoff 1991).

The influence of family–controlled enterprises has become quite visible again in recent decades. During the recession of the 1980s and 1990s family enterprises were among the most effective “locomotives” of the economies. They created jobs, they were among the enterprises that were successful enough to pay taxes and they displayed the ability and flexibility necessary to manoeuvre successfully in the troubled economic situation. The situation has been similar on both sides of the North Atlantic as well as in Asia, where family-controlled enterprises have driven the economies of that part of the world (Neubauer & Lank 1998).

1.2 Research problem

The object of this study is to research how strategic renewal was carried out, and to follow up the effect of the strategies used, after succession in three small family firms (Figure 2). The following questions are used to define the research problem:

1. What is the background of the successor? (in business management and in ownership)
2. Which have been the main changes in the environment of this branch of industry?
3. What have been the main changes in management strategy after succession?
4. What have been the main effects of the changes?

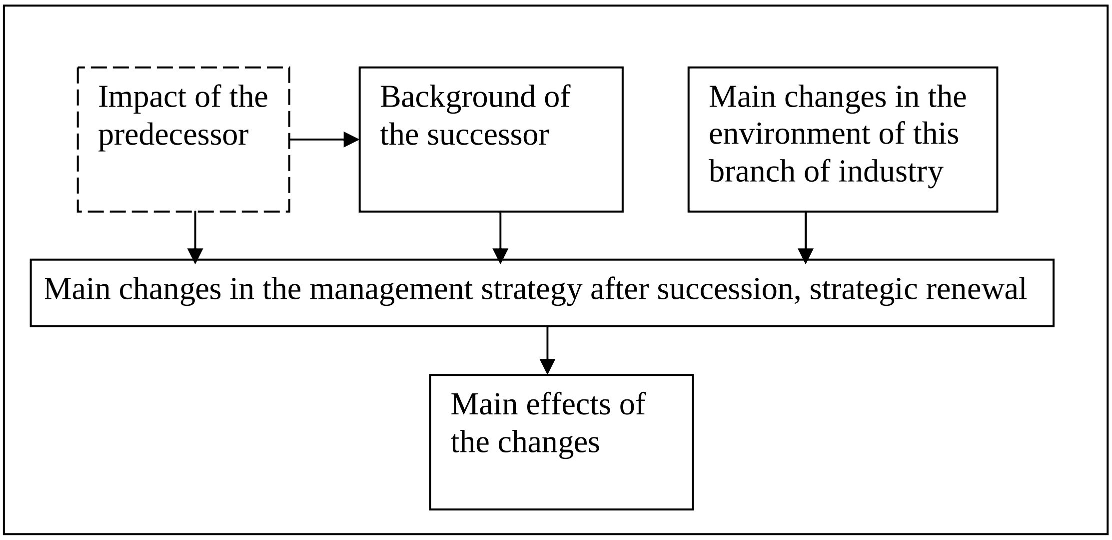


FIGURE 2 Illustration of the research setting as related to the study questions

1.3 Scope of research

The textile and clothing sector (T/C) is an important part of the European manufacturing industry, employing more than two million people. Its importance for social and economic cohesion is increased by the fact that the T/C sector is dominated by a large number of small and medium-sized enterprises, which are often concentrated in particular regions, thus contributing extensively to their wealth and cultural heritage. Being one of the oldest sectors in the history of industrial development, the textile and clothing industry is often referred to as a "traditional industry", as a sector belonging to the so-called "old economy". These notions divert attention from the fact that the European textile and clothing industry has undergone significant changes in restructuring and modernisation during the past ten to fifteen years. This has resulted in one third of the total work force being made redundant, increased productivity throughout the production chain, and the reorientation of production towards innovative, high-quality products (Stengg 2001:1).

The EU is, together with the US, the world's largest trader in textiles and clothing products. In the year 2003 total trade amounted to € 11.8 bn. It is also the world's biggest exporter of textile products and the second largest exporter of clothing products. In 2003 the EU textile and clothing industry employed 2.700.000 workers in 177.000 companies, with a total turnover in excess of €225 billion. The EU industry has shown world leadership in quite a number of segments and a great deal of innovative capacity, which is a result of a century-long tradition, in its quality, creativity and fashion capabilities (www.europa.eu.int). Within the overall EU manufacturing industry, the T/C industry accounted for about 4% of total production and turnover, and 7% of employment (Commission of the European Communities 2003a).

This study will take a general look into the development of the textile, clothing, leather and footwear industry in Finland. Today, the field can also be associated with commerce as well as industry, because many of the traditional industrial enterprises have extended their role and now also operate as importers of finished products and place orders in near zones (Russia, the Baltic countries) or in Asia (China). Although fashion is "fashionable", currently the field is not particularly impressive in Finland. Its importance as a line of business in industry has diminished in Finland every year (Textile and clothing industry statistics 2002). In any case, the branch has a 36% share of total employment in EU-countries and in the Mediterranean Zone the share is 44.1% (Stengg 2001). The share in manufacturing employment is smaller; in the EU it is 7%.

The study will also look into the concept of entrepreneurship and its role in the family enterprise. The concept of entrepreneurship can also be associated with family values and commitment, see e.g. Niemelä (2003). They will be touched upon in this context as well as the social and cultural behaviour.

The study's target group was three small family businesses in the field of textile, clothing, leather and footwear industry in the Bothnia area. The companies represent the traditional textile industry (weaving factory, tricot factory) and the leather industry (leather factory).

The leather factory represents indirectly also the footwear industry, because its production is mainly the raw material for this industry. The tricot factory represents indirectly the clothing industry based on the same principle. The turnover of the companies is between €1.0 million and €2.2 million and the number of employees is between 7 and 29. Each company had either two generations, two family members or both in the business. The roles of the family members vary from partner to employee. The companies are either second or third generation companies. The family businesses chosen for this study are from Bothnia, since this area is known for having both a long tradition and high concentration of small enterprises in this branch of industry. Family entrepreneurship is also typical for the area, although there are large regional differences. Havusela (1999) and Koski (2002) have researched these phenomena in the Bothnia area, where family values are emphasized. For example, locally there are a low number of divorces and the consumption of alcohol is the lowest in Finland.

The researcher knew the companies reasonably well beforehand due to her work history. This partly lowered the threshold to contact the companies and helped to create an open, in-depth discussion. Partly it increased the need for objectivity through out the research process, where one has to stay calm although some of the entrepreneurs are gripping storytellers, which is part of the entrepreneur's nature.

The studied industry has encountered several crises in recent years, linked to the general economic difficulties in Finland at that time. A typical crisis of the field, which caused many of the companies to go bankrupt, was the collapse of the Soviet Union and the end of bilateral exchange trade. Another serious crisis was associated with the devaluation of the Finnish Mark and the ensuing depression.

1.4 Boundaries

Most research projects have strengths and weaknesses, as well as virtues and limitations. Although this study is anchored to one small branch of industry, the industry is not the main issue to be discussed. The chosen sample and method can also be seen as limitations in terms of collection and analysis of data. The subject of the study is to research how strategic renewal was carried out and the continued effect of the chosen strategies after succession in a small family firm. The issues of taxation and finance are minor subjects in the study.

Location

The firms in this study are located in the area of Bothnia in Finland; two of them in the southern part of the area and one in Ostrobothnia. There was an industrial district of clothing and leather industry in this area until the end of the 1980's. Since the collapse of the Soviet Union and communism and the opening of the Asian market, the European textile and clothing industry has changed from producing their own products to sourcing products world-wide. Only some of the most determined or persistent enterprises remain. One of the reasons for this study is to find out why they still exist. Many of the few still existing T/C companies are situated in the Bothnia and Ostrobothnia area.

Size of the firm

All the firms in this study are small, which is typical for this branch of industry. About 90 per cent of the companies in textile and clothing industry are SME-companies according to the European Union's definitions (Textile and clothing industry statistics 2002). The companies are good representatives of this target group.

Period of the research

The study focuses on the time between the beginning of 1990's until the year 2003. The main interest of the first part of the study was on the succession process and the changes in the ownership and in the power process (Niemi 2003). In this study the content is about the changes in the management strategy after the succession and the effects of these changes on the renewing process. It is not possible to evaluate the effects of change over a short period of time, and therefore the results can not be interpreted over a very short research period.

Interviews

The interviews were conducted inside the family. Family firms in Finland are typically small and the power to make decisions is concentrated in the hands of the entrepreneur/owner. According to the research of Arion & Lehtinen (2001:70) 87% of the family firms in Finland have less than 10 employees. Employees or managers inside or outside the family firm or family were not interviewed during this part of the study. The research has an ownership and business perspective, though family aspect is important in this context, as the family is neither free from the business influence nor the business free from the family influence.

Branch limitation

The problems of succession in family firms in other branches of industry might be identical to some degree, but every branch has its own special and typical features. Because the typical feature for this branch of industry in Finland is the small domestic market, there is a need for export. The management of the global business for purchasing, outsourcing and export requires complicated logistics solutions. However, Finland has been among the first to rebuild this industry, because of the huge influence of bilateral agreements with the Soviet Union. When the old Soviet system collapsed, Finland was among the first countries to be affected. Consumption of clothes in Finland is not as great as other European countries (www.finatex.fi) and it is not predicted to increase quickly. The market area in Finland is small and it is in the hands of a few wholesalers, both Swedish and Finnish. The Swedish market is very hard to acquire though they are near by geographically.

One of the main reasons for selecting the textile and clothing industry is the fact that it is the main subject of the researcher in the educational field.

Generations

All the information in this research is based on the first, second or third generations' experiences. In the case section there is a short illustration of the history of each company, but the main research concentrates on the period of the successor's time in business. All the incumbents are alive and the researcher had the opportunity to interview them all.

1.5 Research methodology

The objectives and the phenomenon of a study always have an impact on the choice of the research methodology. The scientific paradigm is affected by the following (Gummesson 2000:172):

- The researcher's goals (to obtain new knowledge, to publish an article etc.)
- The researcher's previous understanding and understanding, with focus on theory and support from practise
- Choice of research territory and within this, the research projects
- Choice of methods and researchers roles for gaining access to information
- Choice of quality criteria: the assessment of good and bad research by the scientific community

The research strategy chosen for this study represents qualitative, subjective, hermeneutic and inductive approaches. The aim of the study is to make comparative research and achieve findings based on empirical evidence which then will be reflected to the previous theoretical literature (c.f. Gummesson 2000). The main method is a multiple-case study.

This study does not, however, represent a purely inductive approach; instead the approach can be labelled abductive, that is, an intermediate type between inductive and deductive approach. According to Gummesson (2000:63-64) in practice, only the starting point for the research separates deductive and inductive research. Deductive research primarily tests existing theory, whereas inductive research primarily generates new theory. After the initial stages, all types of research become an iteration between the deductive and inductive. Abductive logic, originally from Charles Peirce (quoted in Grönfors 1982), is based on the fact that new scientific findings and theory building are possible only when there is some guiding principle in making the observations. It is not possible to develop a new theory based only on observation as in deductive logic (Grönfors 1982:33). Abductive logic means that multiple streams of literature have been blended with empirical findings to develop a new model and classifications. According to Alvesson & Sköldberg (1994: quoted in Holmlund 1997), case studies which aim at theory building by using empirical data and existing theory are mostly abductive. Theory building in these kinds of studies is integrated into empirical analyses and should not been seen as a separate stage in the research process.

Research paradigm

The hermeneutic (from Greek hermeneuien, to interpret) approach is used in the behavioural sciences when trying to gain an understanding of complex organisational processes. A positivistic approach is more natural with conceptual analysis and is chosen in physics, mathematics and other natural sciences, while functions' analysis and constructive research use a hermeneutic approach (Gummesson 2000).

The social scientists, who are primarily controlled by the positivistic paradigm, like to structure both questions and answers to simplify quantitative processing of data. They completely disregard non-verbal data, such as body language, physical environment, and unexpected events that may occur during an interview. Phenomenologists would register all cues in an effort to "understand" the respondent. Hermeneutic scientists would go a step further and "interpret" these immediate events also in the light of previous events, private experience, and whatever else they find pertinent to the situation (Gummesson 2000:175). In hermeneutics the paradigm will also depend on the interpreter, the researcher.

The choice of the philosophy of science for this study is mainly hermeneutics, which is a context-oriented paradigm (Gummesson 1991:150). The most central part of hermeneutics is interpretation and, when interpreting human behaviour, hermeneutics often tries to go beyond the observable in order to read the bottom lines (Turunen 1987:54). Hermeneutics also emphasises studying people's perception of reality and how action is determined based on that.

In Burrell & Morgan's (1979) sociological framework, the study represents a subjective approach, which they call "Interpretative paradigm" or "German idealism", although there are some features of an objective approach. This kind of intermediate approach is accepted, for instance, by Pihlanto (1993:179) and is also recommended by Borch & Arthur (1995) when studying inter-firm relations. Pihlanto claims that these two approaches are complementary and that the subjective approach always includes an objective phase in the beginning, when the researcher is not familiar with the subject matter and rather sees the phenomenon from the outside.

Burrell & Morgan suggest that a subjective approach includes a nominalistic assumption for ontology and an antipositivist assumption for epistemology. Epistemology is a special branch of the philosophy of science that poses the question: Can knowledge exist? Three schools of thought give the answer "yes" (dogmatism), "no" (agnosticism), and "maybe" (scepticism) (Gummesson 2000:7).

According to Gummesson in this study the phenomenon knowledge is taken for granted. It has an assumption of voluntarism of the human nature, and an idiographic assumption for methodology. This is opposed to nomothetic which means pertaining to or involving the study of cases or events as universals, with a view to formulating general laws (Webster's Encyclopaedic Unabridged Dictionary of English Language 1994). For the antipositivist the social world can only be understood from the point of view of the individuals who are directly involved in the activities which are studied.

The general procedure in small business studies is to borrow methods and theories from other sciences, because this field has not yet developed its own distinctive paradigm. Many researchers in the field of small business have thus recommended this kind of perspective, which relies more on fieldwork, see e.g. Brytting 1989, Bygrave 1989a, Stewart 1991 and Curran, Jarvis, Blackburn & Black 1993.

According to Neilimo & Näsi (1980) the main research paradigms used in business and management sciences are:

- Conceptual analysis research paradigm
- Nomothetic research paradigm
- Decision-making analytical research paradigm
- Functions' analysis research paradigm

Olkkonen (1993) further supports the suggestions by Kasanen, Lukka & Siitonen (1991) that a fifth research paradigm - constructive research paradigm - is useful in business and management sciences. The different research paradigms are introduced according to Olkkonen (1993).

Selecting the research method

The main difference between functions analysis and constructive research is that functions analysis aims at understanding the phenomena and developing a theory on the basis of the phenomena, while constructive research starts out with a specific problem and aims at, on a normative basis, finding methods for solving the problem. The aim of understanding the phenomena and not to start with a specific problem was the main reason for selecting the research method as functions analysis. Kasanen et al. (1991) position the different research paradigms as shown in Figure 3.

According to Olkkonen (1993), one research paradigm alone can seldom be followed. Though the difference between a research paradigm and a research method is not very clear, the research method can be interpreted as the scientific way of collecting and processing the data used in connection with the research paradigm. A number of different research methods are used in conjunction with different paradigms. For example, statistical methods are commonly used in the nomothetic paradigm. Qualitative methods are typical with functions analysis although statistical methods may be applied to the processing of qualitative information.

When selecting the research method, functions analysis seemed to be most suitable for studying and solving the research problem of this study. Based on the researcher's own experience, a detailed study of a few selected cases of companies would be more beneficial. The empirical part of the study concentrates on in-depth analysis of three case studies leading to a functional model of strategies of renewal after the succession process.

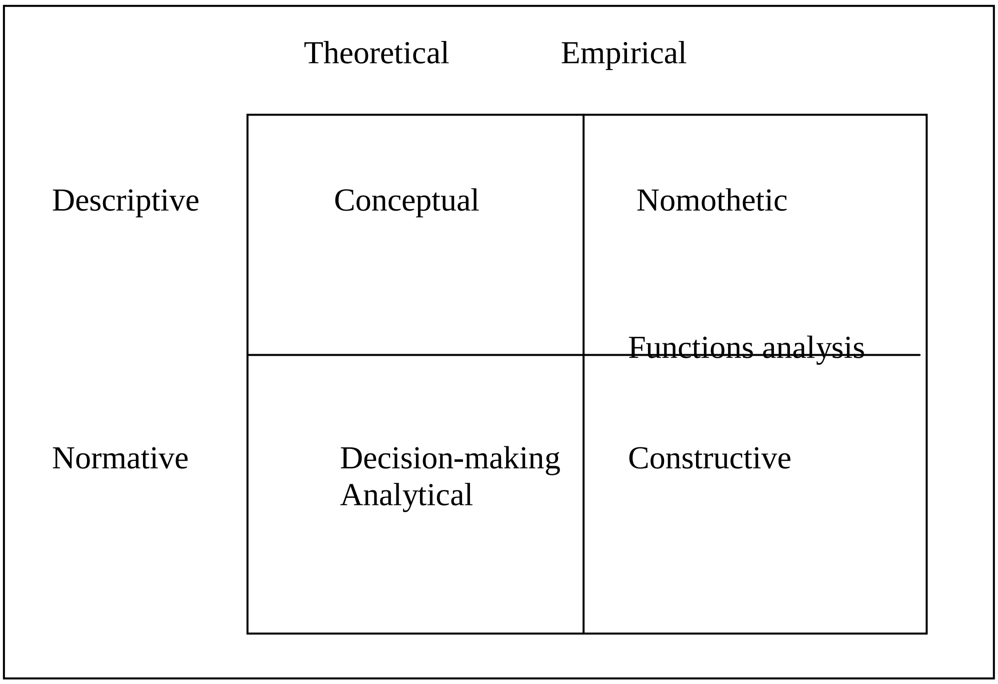


FIGURE 3 Position of the different research paradigms

Case study as research strategy

As a research strategy, a case study approach is used in many situations including the conduct of dissertations and thesis in the social sciences: the academic disciplines as well as professional fields such as business administration, management science and social work (Yin 1994).

Case studies vary in character. The first type attempts to derive general conclusions from a limited number of cases. For example, one can examine the succession process in a single company or in a few family companies to be able to draw conclusions about the process. The second type seeks to arrive at specific conclusions concerning a single case because this “case history” is of particular interest (Gummesson 2000:85). According to Yin (1994) how and why questions are likely to favour the use of case studies.

Yin (1994:3-4, 138) distinguishes between three types of uses of case studies research: exploratory, descriptive, and explanatory. Even though each strategy has its distinctive characteristics, there are large areas of overlap among them. Kerlinger (1977) defines an exploratory study as having three purposes: (1) to discover significant variables in the field situation, (2) to discover relations among variables, and (3) to lay the groundwork for later, more systematic and rigorous testing of hypotheses. Yin (1994) suggests four different structures to exploratory study: (1) linear-analytical, (2) comparative, (3) chronological, (4) theory-building structure. Researchers in business-related subjects traditionally limit case studies to the exploratory use: a pilot study that can be used as a basis for formulating more precise questions or testable hypotheses (Gummesson 2000:85).

This study is both exploratory and descriptive. The study seeks to learn what already exists rather than to predict the relationships to be found. There are also features to a descriptive research as linear-analytical, comparative or chronological structures are the structure types of descriptive case studies (Yin 1994). The object of this study is to provide a rich description of the phenomenon. It compares the situation of the company before and after the succession and compares the three companies' renewal processes. The purpose of hermeneutic function analysis in this case is to produce exploration by interpreting the research subject, to describe what is behind the succession process, to describe the strategic renewal process and its results for the company.

Hermeneutics and functions analysis approaches have their limitations. Although the analysis is carried out empirically and one tries to select a case that is as typical and representative as possible, the researcher is forced to draw conclusions on the basis of her interpretation and understanding rather than on external readings and test results. Due to the limited number of cases, traditional quantity-based generalisation of the results may be a problem. In other words, the generalisation, if any has to be based on analytical and theoretical judgement (Yin 1994).

Multiple-case study

There are three cases in this study. The selection bases for the cases present embedded (Yin 1994:43) multiple-case study. The logic underlying the use of multiple-case studies is the same. Each case must be carefully selected so that it either (a) predicts similar results (a literal replication) or (b) produces contrasting results but for predictable reasons (a theoretical replication).

According to Yin (1994) the sources of evidence in a case study research are:

- Documentation (letters, memoranda, agendas, reports, news-clippings)
- Archival records (organisational charts and budgets, maps, list of names, calendars, telephone listings)
- Interviews (open-ended interviews, focused interviews, survey-interviews)
- Direct observation (observing e.g. meetings)
- Physical artefacts (physical evidence, work of art etc.)

Data in this study was collected by open-ended interviews, phone interviews and corporate analysis made of annual reports. The first interview was made in May 2002 and the latest phone calls in November 2004.

There are various possible methods for analysing the qualitative data. When analysing the texts, the optional choices would be for example analytical comparison, case analysis (Eisenhardt 1989, Yin 1994), content analysis (Silverman 1993, Yin 1994), critical incident analysis (Yin 1994), discourse analysis, and narrative analysis. In this study the method of analysing qualitative data is case analysis. The aim is that the case analysis, connected with the hermeneutic functions analysis research paradigm, will provide more knowledge and better understanding, increased by interpretation.

Each case is presented in chapter 4. In this section the ability for renewal and the renewal process are introduced. The effects of renewal are presented by corporate analyses. A lesser amount of cases could not be analysed this way. A few more cases could of course have been chosen, but sometimes the researcher must make selfish limitations because of personal resources. Glaser & Strauss (1967:58) state that there are two basic criteria for selecting the investigated cases: either minimising the differences between the units or maximising them. The minimising logic was realised by trying to select the family firms according to the criteria of context, size (all comparatively small) and succession (happened in the near past). All the firms are situated in the same geographical area.

Since the same model could be used for more case studies, one can assume that the succession process in small family companies is relatively similar. Furthermore, the findings of this study are in line with previous international research, see e.g. Levinson (1978), Mintzberg (1981) and Peiser & Wooten (1983).

The firms represent typical family companies not only within the branch, but as to the life cycle and the size of family enterprises in Finland. In this case study it was not meant to test any hypothesis. The aim of understanding the phenomena and not to start with a specific problem was the main reason when selecting the exploratory case study as a research method.

1.6 Study structure

In the first chapter, INTRODUCTION, the general purpose of the study and research problem is put forth. The scope of the research, limitations and methodology of the study are presented.

The second chapter is called DESCRIPTION OF RESEARCH CONTEXT. In this section the significance of family enterprises as well as the significance of the textile and clothing industry in the EU and in Finland is presented as the first part of the context.

The third chapter is called THEORETICAL FRAMEWORK. In this section the theoretical framework about family business as the second context is constructed. Chapter 3.1 presents the main theories of strategic thinking, capabilities for renewal, theoretical framework for entrepreneurship and critical incidents in the renewal processes. Chapter 3.2 focuses on family business from the ownership and business perspective. Culture and values in family business will be touched upon in this context. In chapter 3.3 succession processes and models are presented. At the end of the section the definitions of the key concepts as used in this study are presented.

The fourth chapter is entitled CASE STUDIES. In this section the three cases are presented and introduced in the structural context. Structural context means the capability for renewal, the main changes in strategy after succession and the effects of the changes in the business.

The fifth chapter is called FINDINGS, where the results of the case studies are analysed. The analysis concerns the ability and agility of the company for renewal after succession - knowledge of substance and business management, the spirit of entrepreneurship - and as a result the strategies for renewal are presented. In this chapter also the research findings and previous studies of strategic renewal and family business are presented.

Chapter 6 is called DISCUSSION. This section synthesises the study. After analysing the cases the conclusions are made using the exploration method. In this chapter the critical assessment of the study and suggestions for further research are introduced. In Figure 4 the frame for study structure is presented.

Research Context (Chapter 2)

- Significance of family enterprises
- Textile and clothing industry in EU and Finland

Theoretical Framework(Chapter 3)

- Strategic thinking in ownership and business
- Strategic renewal
- Entrepreneurial thinking
- Culture and values in family business
- Succession

Empirical Research (Chapter 4)

- Case A
- Case B
- Case C

Selecting Renewal Strategy(Chapter 5)

- Model for renewal strategies
- Findings

Discussing and Assessing Results (Chapter 6)

FIGURE 4 Study structure

2 DESCRIPTION OF THE RESEARCH CONTEXT

The context of the study will be considered more closely in this section. Previous research concerning the significance and prevalence of family business will be presented. A definition of the textile and clothing industry is introduced as well as the role of the EU in textiles and clothing manufacturing in Europe, including information more specific to the Finnish context.

2.1 Significance and prevalence of family enterprises

International articles on family business make various guesses about the number of family-controlled companies in existence, but even the most conservative estimates put the proportion of all world-wide business enterprises that are owned and/or managed by families between 65 and 85 per cent. Many of these companies are small sole proprietorships, which will never grow or be passed down from generation to generation. However many of them are also among the largest and most successful businesses in the world. It is estimated that 40 per cent of Fortune 500 are family controlled. Family businesses generate half of U.S. gross domestic product (GDP) and employ half of the workforce (Gersick, Davis, McCollom - Hampton & Lansberg 1997:2).

Successful family businesses

The aim and challenge of a company is to maintain competitiveness by introducing value adding business ideas, ensuring that the customers are ready to pay enough for the company's products or services. This is based on the capability of the organisation, its resources and management. The profitable business enables the company to develop and be part of the society. The challenge is the turbulent competition and its demand for the organisation's capability to be successful.

The success of an enterprise seldom depends upon a single factor. The factors generating organisational performance identified by the research of Lentz (1981) are environment, environment combined with organisation and its structure, market conditions enabling strategy, and quality of management, its motivation and skill of administration. These are the key factors that influence performance. Risk taking, commitment of the management and ownership are the factors of power and have their impact on organisational performance.

In the tradition of earlier studies of organisations, success and failure are differentiated by a target or aspiration level (March 1988). Defining an outcome as a success one should specify the period of time to look at and specify when an event or outcome may or may not be classified as a success. An event with a negative outcome in the short run is usually labelled a failure, even though other events occurring later on might justify something else in a larger construct. These long-run consequences may be neglected in such short-term classifications. Know-how obtained from failure and mistakes can benefit other parts of the company or organisation. The method of problem based learning used e.g. in education is one example of this.

An event that has been classified as a success may in fact be a failure. This will depend on the point of view of the evaluator and also the time-perspective. For example in the textile, clothing and footwear industry the period and business with the Soviet Union can be classified as successful for many companies, but at that time these companies neglected the fairs and customers of the western market and faced with huge problems when the market with the Soviet Union vanished.

In addition to this the definition of success or failure is also dependent on what is meant by the words firm, company, organisation or family. Even though a firm may end up being liquidated its previous possessions (individual businesses) may continue their existence in a new form. What is essential is to distinguish what is being saved - the business - and what is being sacrificed - the firm (Lohivesi 2000:31). Only seldom in the case of bankruptcies or selling the business has the business also been terminated. Somebody else continues the business after buying the liquidated assets.

The word failure includes undesirable organisational performance such as bankruptcy, dept restructuring, take-over, sale, merger or closure, where as success can mean the desired organisational performance. In order to speak of a success, we must know the outcome of events that lie in the future. Thus we must also define the period of time we have to wait before this evaluation can be made (Lohivesi 2000:33). In the literature of strategy a company's success is manifested in attaining competitive positions that lead to a superior and sustainable financial performance and that competitive positions are measured relative to the world's best rivals. As the market area of family business is often small and often domestic, the targets can not be the same as in global business.

It appears that family firms define success in their own terms, which differ from the "rational" measures of success used by the banks and stock market (Dunn 1995). Success may mean finding work for the owning family or for relatives of employees or to sustain the good name of the firm in the community. Members of the family might think that a job is a "birthright" as a family value. Dunn argues that all firms said that good family relationships were essential for success in a family business (Dunn 1995).

In this study success means the company, the same legal entity, continues to exist, albeit sometimes weaker and with fewer resources than before. The economical success is evaluated according to the Finnvera Oyj's corporate analysis guidelines.

Certain studies have indicated that family enterprises outperform their non-family counterparts in several aspects. Leach & Leahy (1991) examined major UK industrial firms in the 1980's and concluded that ownership control implied:

- Higher valuation ratios
- Greater profit margins
- Higher returns on shareholders' capital
- Higher growth rates of net assets

A study published in Forbes indicated that of the 800 biggest publicly traded firms, the 31 companies where a member of the founding family held the post of CEO were, on average: 15 per cent more profitable than the industry average. They were also 14 per cent faster growing than the industry average, and one third more profitable when controlling for size variations. The results are the same for studies in France (Société de Bourse Francaise SBF 1996:2) as well as in the US, where The Family Business Stock Index (FBSI) versus the S&P500, 1976-1996 (Family Business 1996:19) shows that family heritage companies are better investments.

Thus it seems evident that family enterprises–small, medium and large–are often very significant actors on the world-wide macroeconomic financial scene, producing better than average results for stockholders, family or otherwise. Neubauer & Lank's (1998) interviews with participants in IMD's -Leading the Family Business-programme- strongly suggest that successful family firms manifest characteristics that are often lacking in large publicly-owned companies. The definition of success in this context is firms that have remained in the control of the founding family for two or more generations and which remain financially sound. What is the reason for the success of the family firm? The most common response could be:

- Introducing excellent management development systems, at least for family and often for non-family employees too.
- Training family members in ownership rights and responsibilities–for example the norm of stewardship and creating wealth for future generations. This can start very early in childhood, around the dining table and may be made deeper by working in the business during evenings, weekends and school holidays.
- Treating employees fairly and with loyalty is usually reciprocated; many non-family employees may be third and subsequent generation employees of the firm.
- Having a strong sense of responsibility to society–local, regional, national or trans-national–which is often reflected in the contribution of time and money to worthwhile community projects.

- Emphasising value for money and quality, as the family's good name depends on the product or service.
- Making decisions quickly as everybody knows where the locus of power is.
- Taking a long-term strategic perspective not bound by next quarter's earnings and working to maximise shareholder wealth even a generation hence.
- Remaining innovative and entrepreneurial, the keys to future success.

These characteristics could be the reasons that differentiate the family firms from non-family-company counterparts. If this assertion is true, they present competitive advantages and can be a cause for optimism about the future of family firms (Neubauer & Lank 1998:13).

Significance and prevalence in Finland

The Finnish family firms' economical situation has been compared with the biggest public companies in Finland (Fortune 500 in Finland, Kankare 2002). According to the article, the 100 biggest family companies had a growth of almost 5% in their turnover; moreover, the investments were €1,000 million greater than in the previous year. The degree of equity ratio is near 50% though the profits are a little lower than before. The median of the degree of equity ratio is 42% of non-family firms among the 500 biggest companies in Finland. The turnover during 1997-2001 has been growing but in family firms the growth has declined and it is smaller than other companies among the 500 biggest. ROI (return on investment) in family firms is about 13% and in other companies 7%. Stagnation has not beaten the family firms, because during the past five years the workforce has increased from 18,000 to 150,000 in the 100 biggest family firms in Finland. "The balance sheets of the family firms are made of steel while others are made of iron", (Kankare 2002).

Kankare defines the family company as a company where the majority of the voting power (normally the majority of shares) is in the hands of one family. All the biggest 100 family firms are also among the 500 biggest companies in Finland. A family means one person and the members of his/her family. A family can also mean the ownership kindred, whose members are owners and have a fixed relationship to the company. This definition excluded many companies, where the ownership of a family was less than 50 per cent.

The amount of dividends is normally one third of the profit in a family business. According to a survey conducted by the Family Firm Association (FFA), nearly 60 per cent of family companies have reported that they will keep their dividend policy the same. The head secretary of the FFA Anders Blom states that the society has to see the importance of family businesses as the backbone of the economy and to notice how the owners of family businesses have committed to long-lasting capital funding, producing continuous added value and basic security. This means that the family business employs a workforce, is part of the region's everyday life in good times and bad, pays its taxes and honestly accepts the basic rules of society (Kankare 2002).

There are approximately 225,000 family firms in Finland (Kankare 2003), which offer work for 500,000 employees. This is almost 50% of all private sector employment (www.statistic.fi). In some research the figures are even bigger (Arion & Lehtinen 2001). This shows the problems in the definitions and in the statistics. The turnover of the family enterprises is €90,360 million, which represents 40% of the volume.

In the next ten years there will be some 50,000–60,000 successions. Anders Blom, the head secretary of FFA predicts that almost 80 per cent of the successions will fail. This does not mean that 80% of companies will die. However the ownership will change and the next owner will be a competitor, either personal or someone else. Blom predicts that half of the family firms that cannot find a successor within the family will continue in some other form. The loss of jobs is a big issue for the EU as a whole, if family firms are not able to continue their life cycle within a family or in some other way (Kankare 2003).

Only L-Fashion Group, established in 1907 (Luhta) represents the textile and clothing business among the biggest 100 family firms in Finland. Among the biggest companies in Finland L-Fashion Group is 224 on the list of 500 (Lilius 2004).

Significance in Europe and in the Middle East

Table 1 presents some examples of the estimated percentage of all registered business that are regarded as family enterprises (Neubauer & Lank 1998:10).

TABLE 1 Family enterprises as the estimated percentage of registered companies

	Per cent
Portugal	70
United Kingdom	75
Spain	80
Switzerland	85
Sweden	>90
Italy	>95
Middle East	>95

Source: Neubauer & Lank 1998

Neubauer & Lank remark that the majority of new jobs created in the last decade can be attributed to family firms. There are many huge multinational, family-controlled firms that are household names, yet the overwhelming majority are small (even micro) and medium sized firms. It is the latter that have created the new jobs–whether or not family managed and/or owned. The largest companies have become synonymous with downsizing or its equivalent euphemism right-sizing (Neubauer & Lank 1998). As shown in Table 1 family firms are among the most important contributors to wealth and employment in virtually every country.

Significance in USA

Shanker & Astrachan (1996) have undertaken a study to describe the impact of US family firms on macroeconomic variables. In the results of their study they present the number of family firms, GDP (=gross domestic product, the total value of goods and services produced by a country in a year*)*, GNP (national, includes foreign profit) workforce and new jobs created. They developed three definitions of family business that they labelled "broad", "middle" and "narrow". The descriptions are the following:

- Broad–effective control of strategic direction, intended to remain in family, little direct family involvement
- Middle–founder/descendant runs company, legal control of voting stock, some family involvement
- Narrow–multiple generations, family involved in running and owning, more than one member of owners' family having significant management responsibility, a lot of family involvement.

The power of this typology resides in illustrating the dramatic differences that result in the US macroeconomic data depending on the definition (Table 2). Most of the authors' interest has been with medium-sized to large multinational companies. In this study the family enterprises are small and definitions of family business in case studies can be labelled as narrow.

TABLE 2 US macroeconomic data

Broad:	
No. of family firms	20.3 million (90.6%) *
Percentage of GDP	49
Percentage of workforce	59
Percentage of new jobs	78
Middle:	
No. of family firms	12.2 million (54.5%)*
Percentage of GDP	30
Percentage of workforce	37
Percentage of new jobs	48
Narrow:	
No. of family firms	4.1 million (18.3%)*
Percentage of GDP	12
Percentage of workforce	15
Percentage of new jobs	19

Source: Shanker & Astrachan (1996), * the total number of US business enterprises is 24.3 million.

2.2 Textile, clothing, leather and footwear industry in the EU

In this chapter the main focus is on the textile and clothing industry. Some figures relating to the leather and footwear industry will also be presented.

Introduction to the textiles and clothing industry

The textile and clothing industry (T/C industry) is a very diverse and heterogeneous industry, as its products are used by virtually everybody - private households and businesses alike. Its activities range from the production of raw materials (i.e. natural as well as man-made fibres) to the manufacture of a wide variety of semi-finished and finished products. Every private household regularly buys garments, bed linen or carpets. Downstream, parts of the T/C industry–such as the clothing industry–consume the output of more upstream parts (such as fabrics of all types and colours). The T/C industry is also intertwined with the agricultural sector when it needs raw materials in the form of natural fibres (such as cotton or wool) and with the chemicals industry when it comes to the wide range of man-made fibres such as nylon or polyester. Hardly any other industrial sector could do without so-called technical (or industrial) textiles, which include products as diverse as filters, conveyer belts, optical fibres, packing textiles, ribbons and tapes, air bags, insulation and roofing materials (Stengg 2001:1). In paper manufacturing, clothing is used to remove water and to transport the web of paper through the process. Filter fabrics are used to separate liquid and solids in wet filtration applications (www.tamfelt.com).

Definition of the textile and clothing industry

The T/C industry includes the following activities:

- the treatment of raw materials, i.e. the preparation or production of various textile fibres, and/or the manufacture of yarns (e.g. through spinning)
  - ‘natural’ fibres include cotton, wool, silk, flax, jute, etc
  - ‘man-made’ fibres include cellulosic fibres (e.g. viscose), synthetic fibres (i.e. organic fibres based on petrochemicals, such as polyester, nylon/polyamide, acrylic, polypropylene, etc), and fibres from inorganic materials (e.g. glass, metal, carbon or ceramic)
- the production of knitted and woven fabrics (i.e. knitting and weaving)
- the production of nonwovens
- finishing activities – aimed at giving fabrics the visual, physical and aesthetic properties which consumers demand – such as bleaching, printing, dyeing, impregnating, coating, plasticising, etc
- the transformation of those fabrics into products such as:
  - garments, knitted or woven (= the so-called ‘clothing’ industry)
  - carpets and other textile floor coverings
  - home textiles (such as bed, table, toilet and kitchen linen, curtains, etc)
  - technical or ‘industrial’, textiles

The distribution sector is the final element of the so-called textile and clothing chain and is therefore important for all T/C products that are sold to the final consumer. Although some T/C companies have created their own distribution networks in the framework of their vertical integration strategy, the manufacturing and distribution sectors remain very different in their characteristics and nature, and should therefore be treated separately. For this reason, all the statistics and most of the analysis contained are limited to the manufacturing T/C industry (Stengg 2001).

One could classify the sector according to the industrial activities related to the production and transformation of different fibres, i.e. synthetic, cotton, cellulose, wool and others. Another possibility for presenting the scope of the sector would be a market-based approach whereby the sector would be divided into end-use sub-groups, i.e. apparel, interior and household, and industrial and technical textiles. The classification for which the widest statistical data are available is based on industrial activities, shares based on volumes produced. In this classification, the sector is divided into two groups, the manufacture of textiles and the manufacture of wearing apparel (based on the value added in 2002). According to these groupings, the sector would be structured as shown in Figure 5 (Commission of the European Communities 2003a).

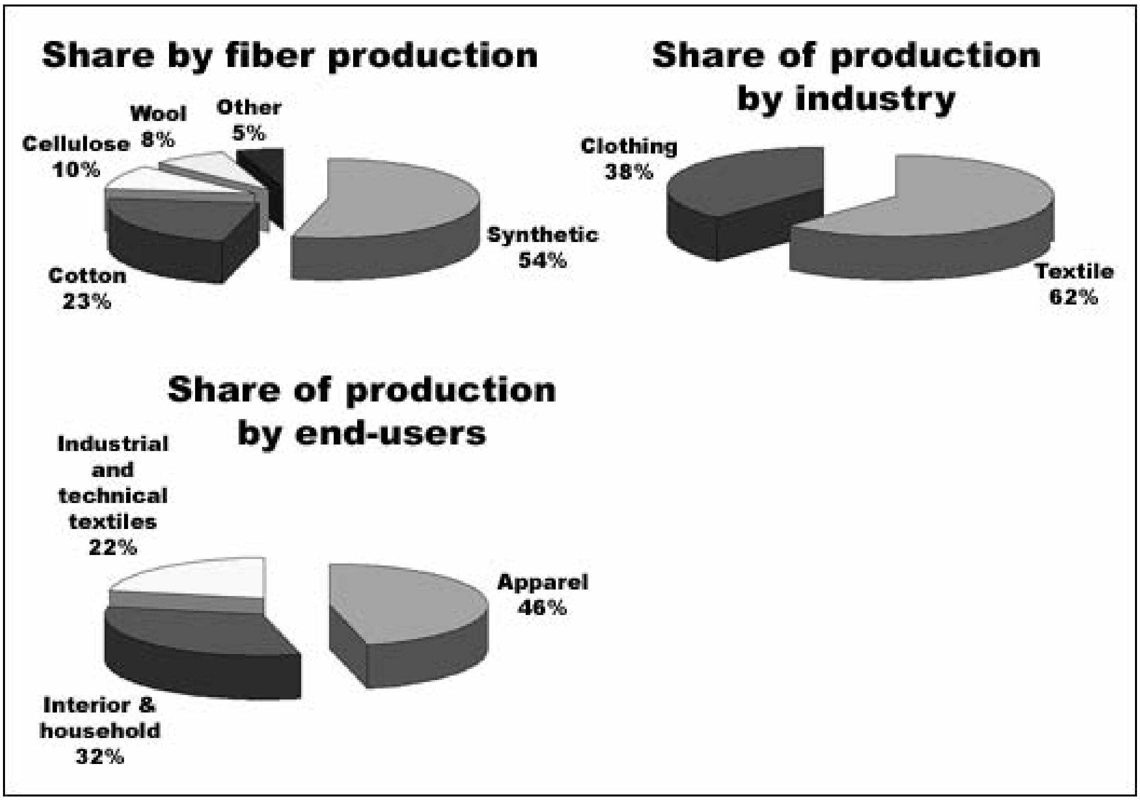


FIGURE 5 The classification of the T/C sector (Commission of the European Communities 2003a)

General characteristics of the EU textile and clothing industry

The EU textile and clothing sector is an important part of the European manufacturing industry. The EU is also the world's biggest exporter of textile products and the second largest exporter of clothing products. In 2003 the EU textile and clothing industry employed 2.700.000 workers in 177.000 companies, with a total turnover in excess of €225 billion (www.europa.eu.int). Within the overall EU manufacturing industry, the T/C industry accounted for about 4% of total production and turnover, and 7% of employment (Commission of the European Communities 2003a).

The T/C industry is a very global industry, with constantly increasing trade flows all over the world. Globalisation and ongoing liberalisation exposes the EU industry to increasing competition from a large number of low-labour cost countries (especially from Asia), which constitutes one of the most important sources of income and employment in the sector.

Textiles and clothing trade among World Trade Organisation (WTO) Members is governed by the Agreement on Textiles and Clothing (ATC), which came into force with the WTO Agreement on 1st January 1995. This agreement means that alongside progressive application of General Agreement on Tariffs and Trade (GATT) rules, there will be progressive phasing out of quotas in the EU, US and Canada. These quotas were inherited from the Multifibre Arrangements (MFA). After a 10-year period ending on 1st January 2005, the ATC will expire and all quotas will be abolished. The EU, as well as the other producers in the world, will be facing a profound change in the trade environment. In fact, in 2005, all WTO members will have unrestricted access to the European, American and Canadian markets (Commission of the European Communities 2003b).

In the light of the tremendous labour cost difference between many third world countries and Europe, the EU industry strives to remain competitive by means of higher productivity and through competitive strengths such as innovation, quality, creativity, design and fashion. These competitive advantages are the result of a permanent process of restructuring and modernisation. The sector has been adopting new technologies at a fast pace, with regard to information and communication technologies and new production techniques. Equally, the EU industry has a leading role in the development of new products, such as man-made textile fibres or technical textiles (Stengg 2001:3-4).

As far as the work force is concerned, Europe has seen a sharp decline in employment over the past two decades, losing as much as 47% (in textiles) and 40% (in clothing) over the period 1980 to 1995. The fact that EU production declined to a much lesser extent than EU employment suggests a substantial rise in productivity during that period brought about by the restructuring process referred to above. Moreover, it is generally acknowledged that the quality of the European workforce exceeds that of other world regions. Women account for a large proportion of the T/C workforce, particularly in clothing. Recently, the EU industry has had some difficulty in attracting highly qualified staff, such as staff with sound knowledge of information and communication technologies (Stengg 2001:3-4).

Subcontracting accounts for an important part of the activities of Europe's T/C industry, though they vary considerably between the Member States. These subcontracting activities have been spread between a web of thousands of small businesses, often taking the form of cottage industries, which play an essential role as a source of employment and income, and which are often highly concentrated in particular regions.

The recent restructuring process has also involved the outsourcing of more labour intensive operations (which have less added value) to countries such as new members of the EU in particular, Romania and Poland and countries of the Mediterranean Rim such as Tunisia or Morocco. Labour cost comparisons for the T/C industry illustrate the large wage gap between countries such as Germany (US$ 18 per hour), Poland (US$ 2.77), Morocco (US$ 1.36) or Romania (US$ 1.04). In their outsourcing strategies, EU manufacturers prefer those countries to some Asian countries with even lower wage rates such as Vietnam with US$ 0.22 or China, US$ 0.43 due to their geographical proximity and their higher quality standards (all figures for 1998). Thus, the EU companies remain able to respond quickly to changing market demands, and they can readily maintain control over the management and quality of the outsourced operation (Werner International quoted in Stengg 2001:4). Labour cost comparisons for the T/C industry is presented in Figure 6 (Commission of the European Communities 2003b).

A large number of such operations are conducted as outward processing transactions (OPT). Such OPT transactions basically involve the export of EU fabric, cuttings or semi-finished garments to neighbouring low-wage countries, which manufacture them into finished garments for re-import into the EU. The liberalisation of trade with the countries in question – i.e. the recent removal of all quotas and tariffs for imports into the EU – has had a clear effect on OPT reporting in trade statistics. Previously, operators declared such transactions as 'OPT' transactions in order to benefit from lower tariff rates (since duty was due for the 'value added' only). Under the present preferential regime, this is no longer necessary, and companies avoid the unnecessary administrative work involved in OPT reporting. However, while official trade statistics even indicate a decline in OPT activities, estimates of the real economic situation suggest constantly rising OPT trade. The OETH estimates that in 1999 OPT imports of clothing amounted to €11.3 billion–which corresponds to more than a quarter of total clothing imports into the EU (Stengg 2001:5).

Over the past decade, the T/C industry has made significant efforts to restructure and modernise, which have involved considerable reductions in production and, above all, employment. The importance of textile and clothing in total manufacturing exports has diminished between 1988 and 2002, though not drastically being 4% in 2002 after 5.9% in 1988 (Stengg 2001:5, Commission of the European Communities 2003a).

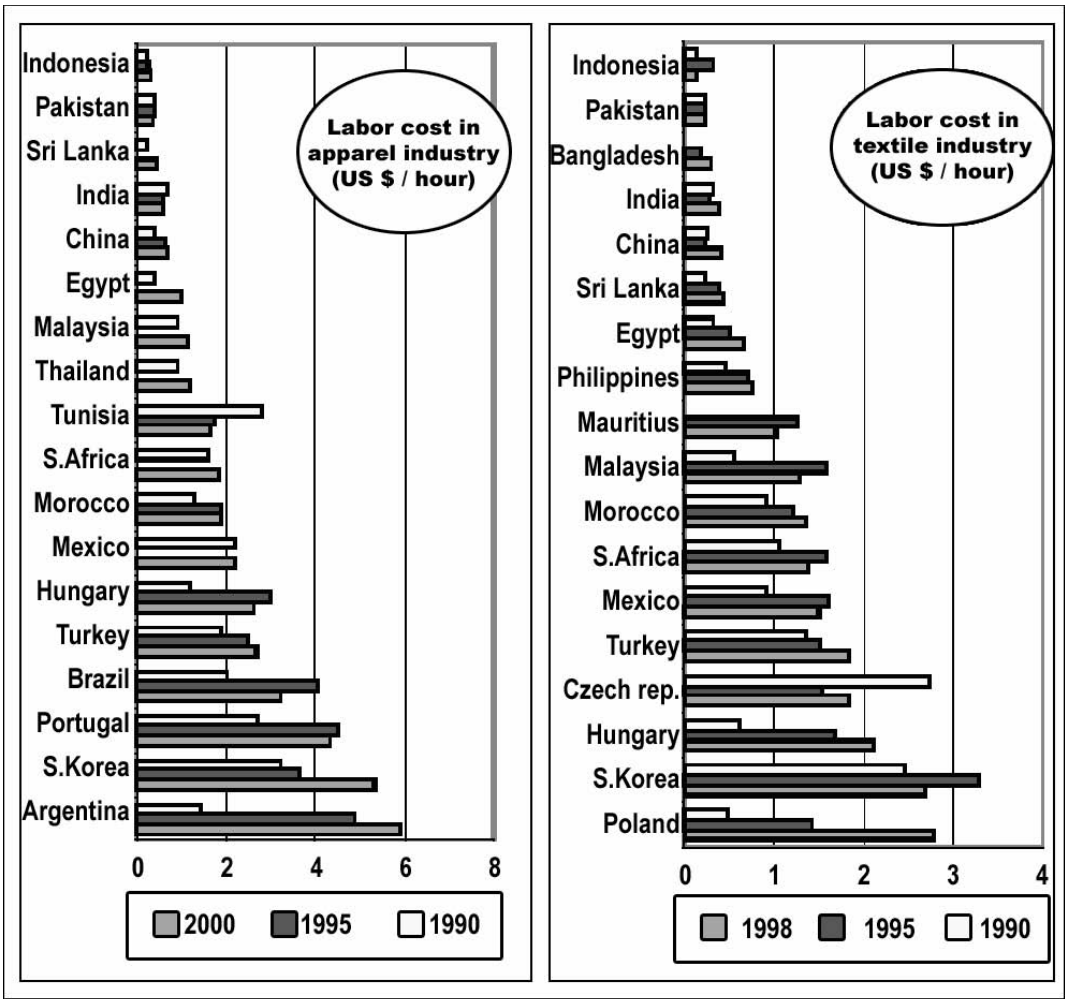


FIGURE 6 Labour cost comparisons for the T/C industry (Source: World Bank in Commission of the European Communities 2003b)

Labour productivity is significantly below productivity for manufacturing as a whole, i.e. at EU-level it is on average around 50%. Personnel costs are also lower, though not fully compensating for the lower productivity, which leads to a level of personnel costs per unit of value added that is higher than in total manufacturing. When comparing the sub-sectors, textile production presents a much higher productivity than clothing, as more advanced technologies can be used more extensively in a capital-intensive industry (Commission of the European Communities 2003a).

An analysis of the size distribution shows that the EU T/C sector is predominantly an SME-based industry. Figure 7 gives an overview of the structure of the T/C industry as far as the size of enterprises is concerned. Enterprises are divided into 6 groups, taking the number of people employed as the indicator of size. The group of smaller companies includes all the companies with less than 20 people; the group of bigger companies includes companies with 500+ people employed. The upper part of the Figure 7 gives the distribution of value added by size of enterprise, while the second part looks at the distribution of employment by size. The figures for the T/C sectors are compared with those for manufacturing as a whole (Commission of the European Communities 2003a).

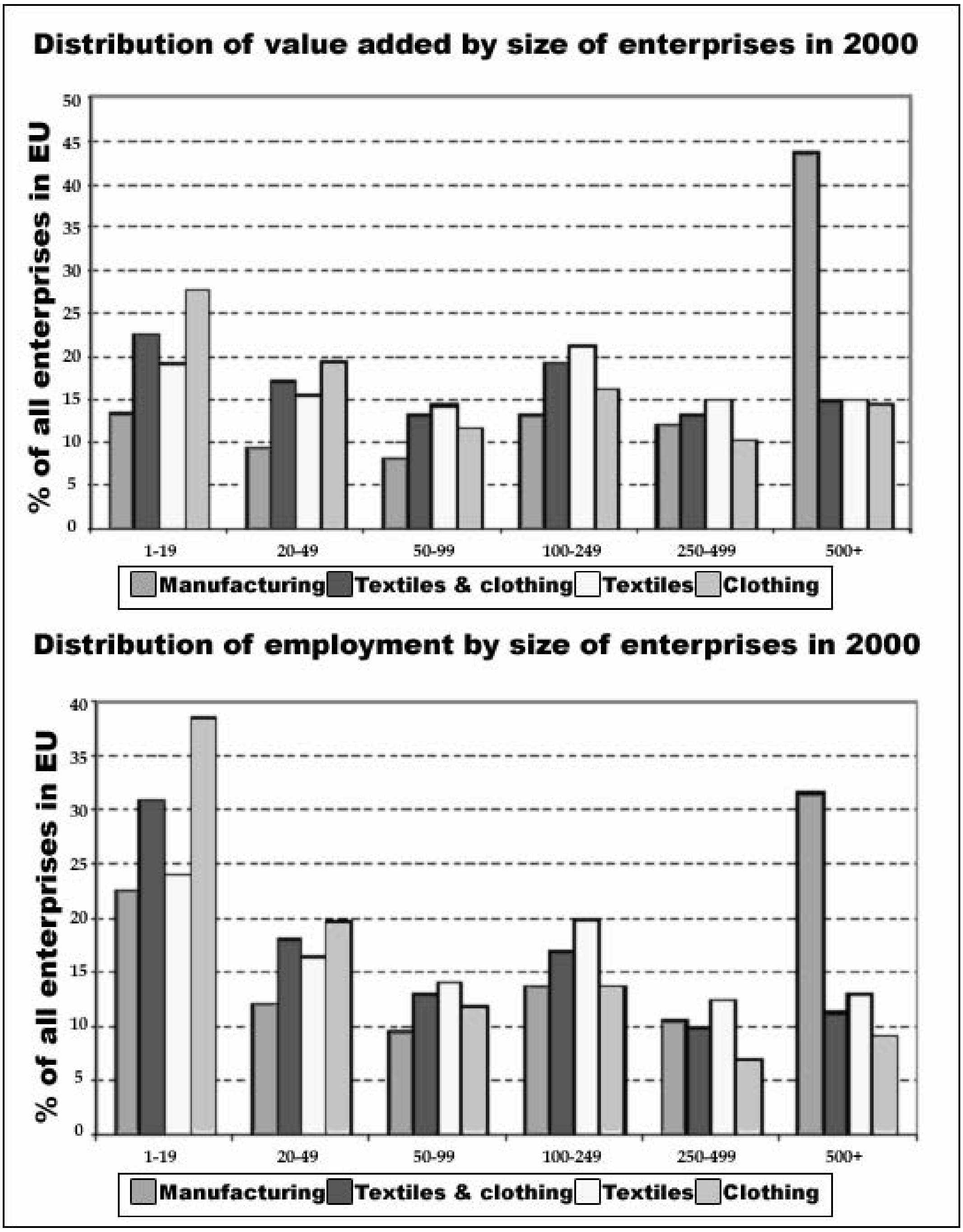


FIGURE 7 Distribution of value added and of employment by size of enterprises in 2000 (Commission of the European Communities 2003a)

Within the sector as a whole, clothing is concentrated in even smaller units than textiles. In manufacturing in general, a very significant part of both value added and employment are concentrated in enterprises with more than 500 employees. In the T/C sector, these big enterprises only account for 10% of employment and 15% of value added.

The textile sector is relatively evenly distributed among the various size classes, with 50% of enterprises employing between 50 and 500 workers. Despite the capital intensity of this sub-sector, enterprises with less than 20 employees still account for an important part of employment (24%) and value added (19%).

Enterprises with less than 50 employees employ 60% of the workforce in the EU clothing sub-sector. This fact is a source of concern in view of the 2005 trade liberalisation, as both clothing production and smaller enterprises usually present a higher degree of vulnerability (Commission of the European Communities 2003a).

Regional concentration

The textile and clothing industry is concentrated in the 5 most populated countries of the EU, which account for about three quarters of EU production of textiles and clothing, i.e. Italy, the UK, France and Germany, followed by Spain (Figure 8). This concentration is very similar to the level of concentration of total manufacturing industry in the EU (Commission of the European Communities 2003a).

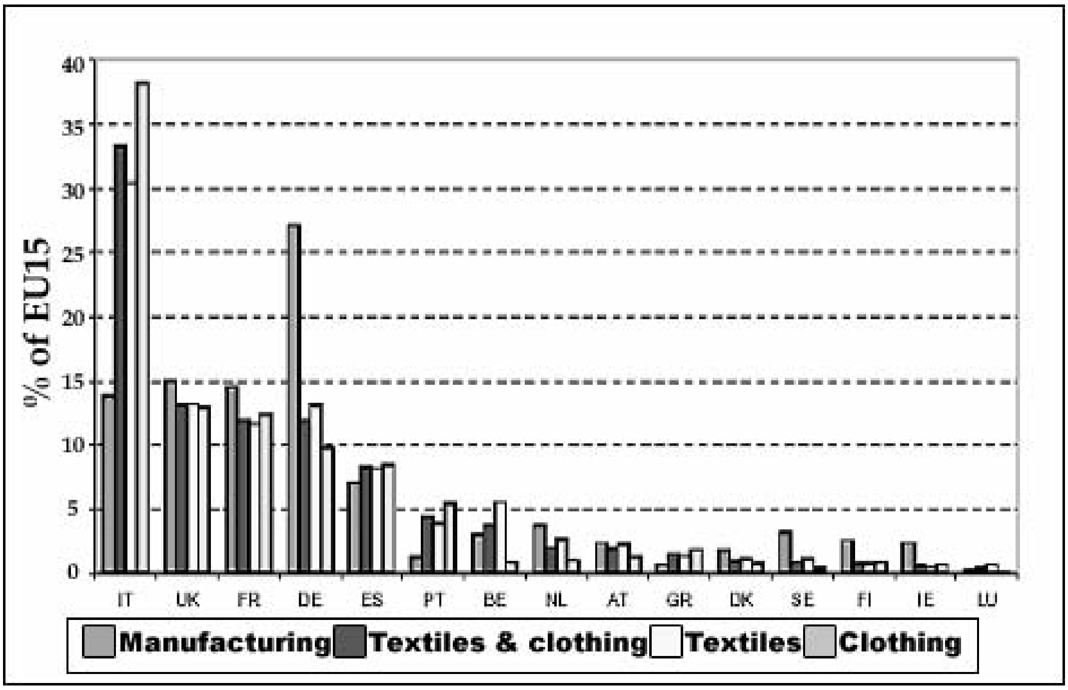


FIGURE 8 Percentage distribution of value added in the EU in 2002, EU15 = 100% (Commission of the European Communities 2003a).

Figure 9, which presents the distribution within the EU of total manufacturing and T/C employment, shows in a rather striking manner that distribution in terms of production does not necessarily match with the social stake associated with the textile and clothing sector. While Italy keeps its strong leadership in terms of its contribution to total T/C employment, Spain and Portugal follow as second and third contributors. Greece also takes a higher rank when employment is taken into account. This illustrates the labour intensive nature of clothing production by comparison with the more capital-intensive production of textiles (Commission of the European Communities 2003a).

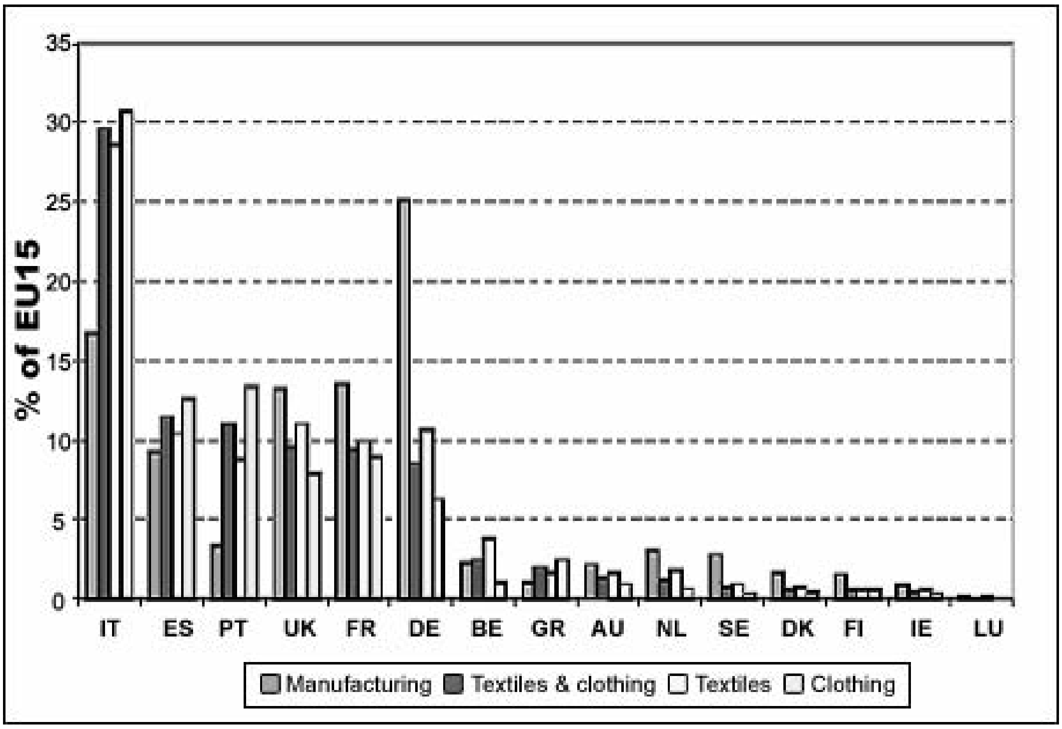


FIGURE 9 Percentage distribution of employment in the EU in 2002, EU15 = 100% (Commission of the European Communities 2003a)

Clothes and the clothing business have always been attractive and respected in Italy. In other member countries, UK, France and Germany the extent of its production is far below Italy. The German clothing industry has used Eastern European countries close to its border for outplacement transactions.

When comparing the member countries according to population, the figures differ remarkably. There are 217 persons in the textile and clothing industry per 10,000 inhabitants in Portugal, and 119 in Italy. The proportion is only 14 in Sweden, though Sweden controls the business in Finland with companies like H & M, Lindex and Kappahl (Figure 10). In Germany, there are almost as many personnel (23) in textile and clothing industry per 10,000 inhabitants as in Finland (21) (www.finatex.fi).

In terms of company size (expressed in turnover), Europe has only a few global players. Europe's textile and clothing sector (T/C) is dominated by a large number of small and medium-sized enterprises, the average company having 19 employees (in 1999). Most companies are privately owned, and few are listed on the stock exchange (mainly on the secondary market). This low degree of concentration has to be compensated for by increased co-operation along the textile and clothing chain, both horizontally and vertically. The increasing use of the opportunities offered by e-commerce should allow small companies to pool their needs on electronic market places (Euratex 2000 in Stengg 2001: 4).

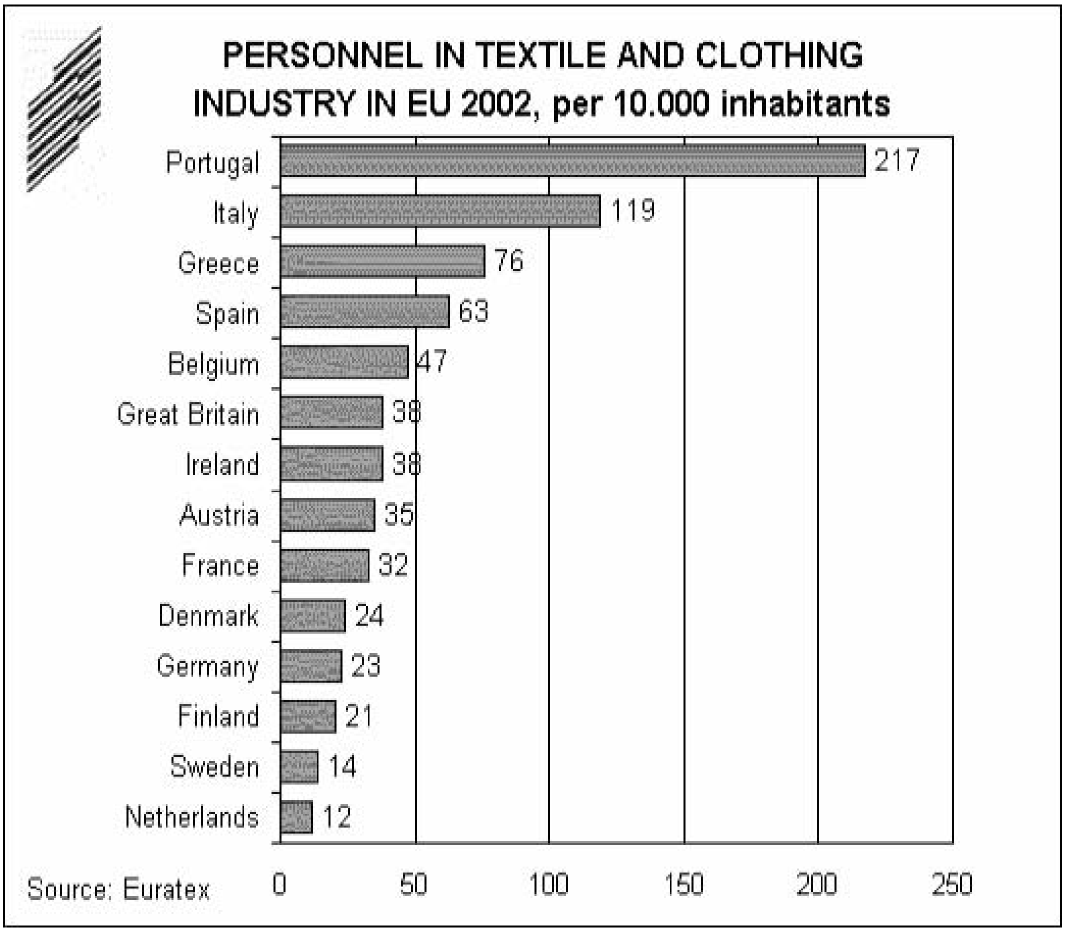


FIGURE 10 Personnel in textile and clothing industry in the EU 2002, per 10.000 inhabitants (www.finatex.fi)

One of the most striking business trends of the past few years has been the increasing degree of concentration in the distribution sector. Formerly, T/C products were sold by a powerful industry to a distribution sector, which was mostly composed of SME retailers. Today, distribution is increasingly controlled by a limited number of big players, who are in a position to put the upstream part of the textile and clothing chain under considerable pressure as far as terms of payment and delivery are concerned. The system has thus changed rapidly from industry driven to customer driven (OETH report 2000 in Stengg 2001). The phenomenon is the same in the furniture distribution sector with the exception of the biggest Finnish furniture factories which have always had retail shops of their own.

The role of the Acceding and Candidate countries in EU

In the Acceding and Candidate countries, textiles and clothing have traditionally been a major sector in the manufacturing industry. Figure 11 shows of the importance of the sector in these countries in comparison to the EU15, old member states of the EU. The aggregate considered here is C12, which is composed of the 10 countries acceded to the European Union on 1st May 2004, plus Romania and Bulgaria. The graph thus gives an idea of the impact that enlargement will have on the sector, and the challenges which are emerging for industrial policy (Commission of the European Communities 2003a).

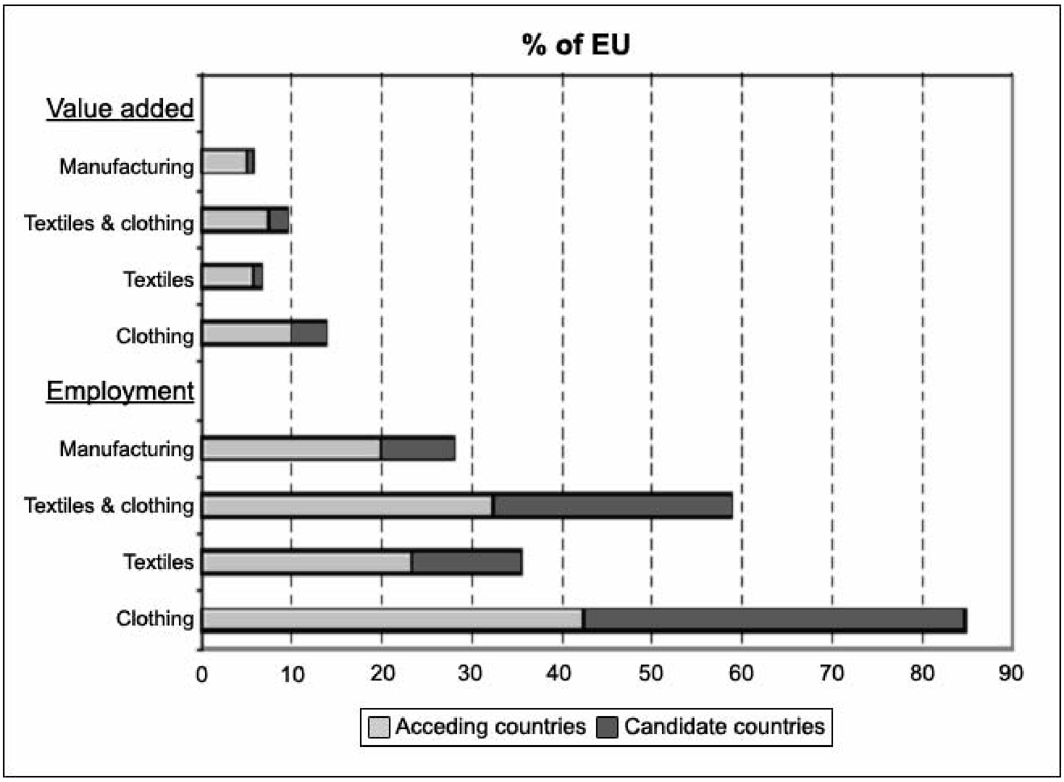


FIGURE 11 Share of Acceding and Candidate countries in EU value added and employment in 2001 (Commission of the European Communities 2003a)

With a population of slightly above 100 million, amounting to almost 30% of the population of the EU15, in an enlarged European Union these countries will be strongly underrepresented in terms of their value added. With 5.6% of the EU15 level, this is particularly true for manufacturing as a whole but to a lesser extent also for T/C, where these countries produce less than 10% of the EU15 value added, as can be seen in the upper half of Figure 11. As to the relationship between the two sub-sectors, textiles and clothing, relatively less of the capital-intensive textile production is located in Acceding and Candidate countries, whereas clothing amounts to roughly 14% (Commission of the European Communities 2003a).

This relation between new and old Member States changes completely when employment figures are considered as is done in the second half of Figure 11. In terms of employment, the T/C sector plays a particularly important role and the figure for the clothing sub-sector is especially striking. In the Acceding and Candidate countries, employment in 2001 amounted for approximately 85% of clothing employment in the EU15. Roughly half of this employment is located in Bulgaria and Romania alone. The rather low relation to value added and an extremely high relation to employment compared to the EU15, highlights the huge productivity gap in the sector that prevails in the future Member States (Commission of the European Communities 2003a).

Within these 12 countries, roughly three quarters of T/C production is located in the large countries Poland, Romania, the Czech Republic and Hungary. Clearly, Poland – being the biggest country with a population of close to 40 million people – is also the most important new location for production in the enlarged Europe. The major challenge ahead is in a second round of enlargement when Romania and Bulgaria join. Those two countries alone contribute to roughly half of the T/C employment in the C12. Lithuania and Slovakia also contribute proportionately more to employment than to value added (Commission of the European Communities 2003a).

Productivity in the Acceding and Candidate countries in EU

The above figure for value added and employment gives an impression of the productivity gap in the sector that exists between EU15 on the one hand and the Acceding plus Candidate countries on the other. Figure 12 shows this challenge clearly. Only the Maltese labour productivity is comparable to average EU15 labour productivity, all others rank very much below this reference value. Malta has a very small industrial basis and data has to be interpreted with care. Cyprus and Slovenia, among the most productive in the C12, have a labour productivity only slightly higher than Portugal, which ranks last in the EU15 (with eleven thousand € per person employed). At the bottom end, there are Romania and Bulgaria (Commission of the European Communities 2003a).

This productivity gap will form a major challenge to industrial policy in the European Union in the medium term. It must be noted, however, that until now the industry in the Acceding and Candidate countries was at least partially able to compensate for its low productivity with relatively low labour costs.

Unless fundamental measures are taken to reduce the productivity gap in the new Member States, a series of layoffs in the sector can be expected. While to some extent this is true for total manufacturing, it is important to notice that the productivity gap is particularly pronounced in T/C. The European policy maker therefore needs to focus on supporting the T/C industry in its efforts to improve productivity and on providing support to its structural adjustments, e.g. by supporting textile regions in their efforts to implement structural changes and/or by helping those affected by structural adjustment to cope with it (Commission of the European Communities 2003a).

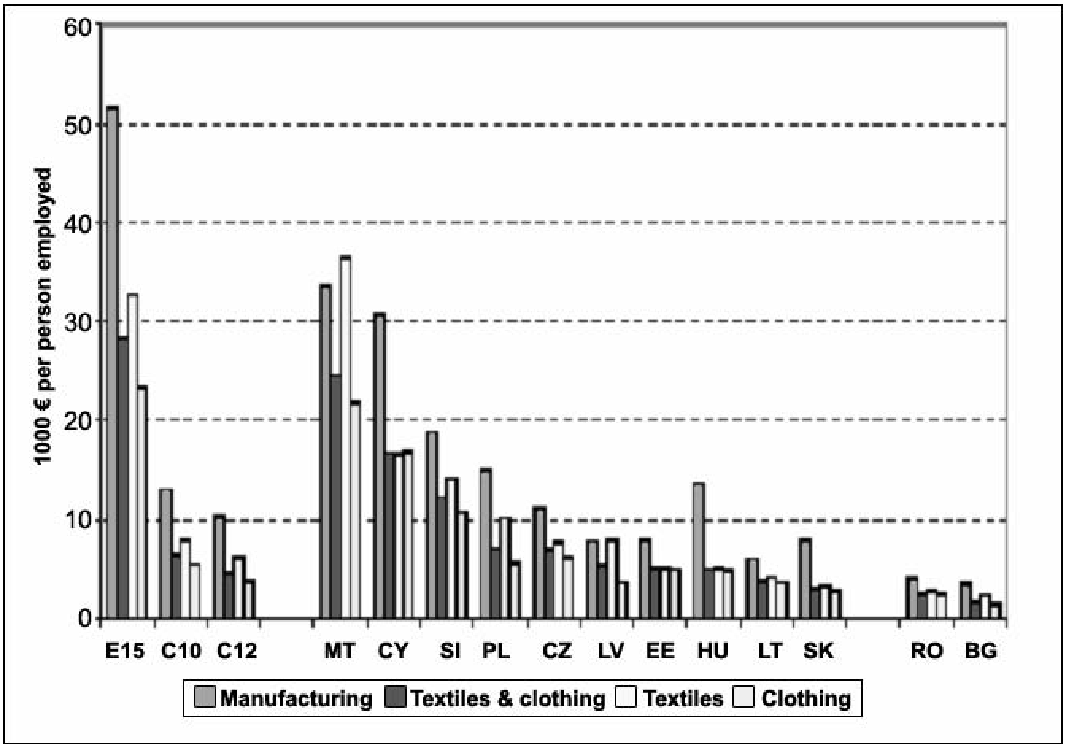


FIGURE 12 Labour productivity in Acceding and Candidate countries in 2001 (1000€/ person employed) (Commission of the European Communities 2003a)

Quality competitiveness of EU

The factors, which are regrouped here under the generic term of "quality competitiveness", are particularly important for assessing the competitiveness of the T/C sector as they are actually the main explanation for its rather good international trade performance (i.e. positive textile trade balance and growing exports of clothing), despite the very significant comparative advantages in terms of labour costs enjoyed by most of its competitors.

The factors that allow EU production to differentiate itself from its competitors beyond the price element include (Commission of the European Communities 2003a):

- The quality of production, as defined by the superior technical quality of the products for both fashion and technical applications, but also their aesthetic characteristics and "fashion content".
- The capacity to develop highly demanded brands which are also associated with fashion content and with the capacity to build a strong image thanks to a combination of tradition, promotion and marketing.
- The ability to deliver the products in a speedy, flexible and reliable way. This is particularly important for responding to an ever more demanding market with rapidly changing fashions.
- The sustainability and safety of industrial systems both as regards to their interaction with the environment and with the enterprises' workers.

These competitive advantages stem from several elements that often characterise the EU industry, i.e. the high skill of the labour force, the quality of the management, the ability to create and innovate, efficient industrial organisation including the use of information and communication technologies in the production and distribution processes, access to finance, and the geographical and/or cultural proximity to important consumer markets (Commission of the European Communities 2003a).

Although it is difficult to capture in statistical data, this ability to differentiate can be broadly assessed with a rather simple indicator, i.e. the unit value of export as compared to the unit value of import of a similar product. The difference between the two unit values can be defined as the "quality premium", quality being defined in the broad sense described above. For instance, the average unit value of shirts exported by the EU was 23€ in 2002, while the average unit value of shirts imported by the EU from India was 5€. The difference of 18€ is the premium that consumers are prepared to pay for an EU-made shirt, which integrates one or all of the quality characteristics described above (Commission of the European Communities 2003a).

Figure 13 proposes a comparison of unit values for a range of relatively homogeneous products, i.e. yarns, threads and filament, apparel fabrics, technical fabrics and made ups, home textiles, garments, textile floorings and others.

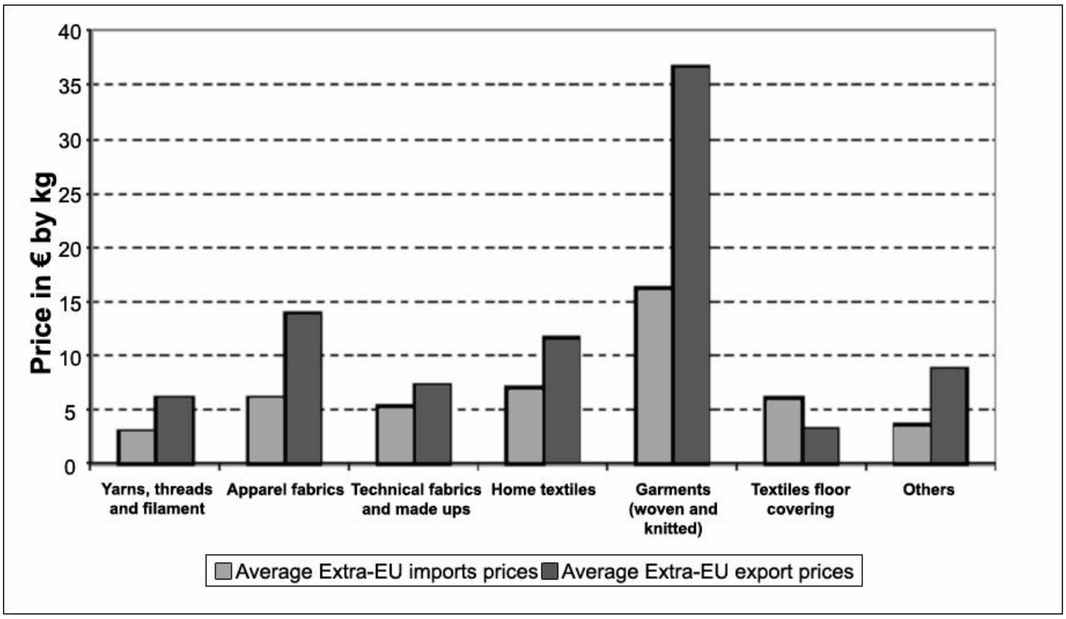


FIGURE 13 Average Extra-EU import & export prices in 2002 (Commission of the European Communities 2003a)

This figure emphasises the strategic importance of increased market access to emerging economies where middle classes are growing, representing a growing quality-conscious market where the EU has the highest competitive advantages (Commission of the European Communities 2003a).

The development of textile, clothing, leather and footwear industry in Finland

The development of the studied industry in Finland will be presented in this chapter. The Finnish industry has had its special problems in relation to the crises and the bilateral merchandising agreement with The Soviet Union. This has strongly affected the survival of family businesses and in the struggle the roles of the family are evident.

The textile, clothing, leather and footwear industry in Finland has only a few exchange-listed companies (Tamfelt Oy, Marimekko Oy, Suominen Yhtymä). Marimekko is also a former family business, whose success has always been based on its strong main owner persona. When this profile did not exist e.g. the case of Amer as an owner, the company was among the other companies in the corporation with declining profit. The current strong entrepreneur-owner person Kirsti Paakkanen wanders if a non-owner director can manage Marimekko Oy in the future (Holtari 2002). She has no successors, and thus the fate of the company is open. Typical and also perhaps exceptional of the sector is the fact that almost all the companies in the field can be considered family businesses (e.g. L-Fashion Group Oy). If a company becomes too big, a complicated family proprietorship can cause the company to be sold to be a part of a larger consolidated corporation (Peiser & Wooten 1983, Mintzberg 1981). The former textile family business J.W. Suominen - today part of Suominen Yhtymä - can be considered as an example of this kind. With the growth the family sold the company to Lassila & Tikanoja–corporation (L&T) after the shares had been dispersed between many owners when in the possession of the family.

Textile and clothing industry

According to the statistics of the textile and clothing industry (www.finatex.fi) almost 90 per cent of the companies have less than 100 employees. In reality, the ratio is even bigger, because many companies in the sector are so small that they are not included in the statistics or they are not members of the Federation of Finnish Textile and Clothing Industries.

Table 3 shows the relative shares of companies of different sizes in the Finnish textile and clothing industry.

TABLE 3 Relative shares of companies of different size in Finnish textile and clothing industry

Number of employees	< 10	10-29	30-49	50-99	100-249	249-800
Share of companies (%)	30.5	33.2	13.4	11.80	7.5	3.7
Share of employees (%)	3.1	12.1	10.0	15.9	23.6	35.3

Source: www.finatex.fi

The biggest clothing producers of Finland were listed in Kauppalehti (Pesola 2004) with the text "Not a growing business or gold mine". The turnover of more than half of the companies was declining. Most of the companies were still profitable, but the profits were diminishing (Table 4).

TABLE 4 The biggest clothing producers in Finland

Company	**Turnover million €**	**Change % of turnover**	**Net result million €**	**ROI %**	**Equity ratio %**
L-Fashion Group	160.7	-5.5	-2.0	4.1	41
Marimekko	56.6	14.7	6.0	34.9	64
Nanso	48.7	4.8	1.9	12.7	43
Reima *)	41.1	-4.3	-1.3	1.2	4
Virke	32.4	-12.0	0.9	8.0	48
Image Wear	32.1	7.1	2.0	22.3	61
Turo Tailor	23.5	-12.9	-1.0	-3.6	39
M.A.S.I Company Oy	16.6	-2.8	0.5	13.0	32
Pola Oy	11.7	-15.9	0.3	4.0	78
Kwintet Leijona Oy	9.3	-4.9	0.5	19.7	54
Marja Kurki **)	7.5	1.8	0.1	4.0	42
VPU Pukutehdas	7.4	-5.2	-0.8	-9.9	46
Voglia	7.4	7.1	0.8	31.8	76
Naisten Pukutehdas Oy	7.3	6.5	0.1	6.8	28
Dimex Oy	5.0	4.0	0.4	19.0	91
Team Oy Finn-Flare	4.9	2.3	0.2	14.7	36
Sinisalo Sport Oy	4.8	0.5	0.1	8.3	16
Everdeal	4.7	7.1	0.1	12.4	29
Petritex Oy	4.3	-5.0	0.1	8.5	35
Friitala Fashion Oy *)	4.0	-1.0	-0.1	0.1	21
Rockseri *)	3.9	-0.6	0.1	4.6	86
Ursuk Oy	3.9	24.4	0.4	45.6	67
Sasta Oy	3.5	-7.1	0.0	3.7	22
Karjalan Puku	3.2	-21.4	-0.2	-2.2	53
Modelia Oy	2.9	4.7	0.2	28.0	14
Oy Terinet Ab	2.7	-1.3	0.2	16.7	41
Kivisalo Oy	2.6	-1.4	-0.1	-3.4	16
Leonardo Design	2.6	-4.7	-0.1	-3.4	36
Naxos Oy	2.5	27.0	0.0	14.5	44
Topper Tuotanto Oy	2.3	-7.1	0.2	28.8	77

* Annual report 2002
** Annual report 2001

Source: Kauppalehti

In spite of the difficulties the equity ratio of the companies is good, to a degree even excellent. The poorest quartile might have problems with the creditors, if more financing was needed. Marimekko is growing fast and profitable. Though L-Fashion Group is still unprofitable the company has been able to half its losses since 2002 (Pesola 2004). During the last years L-Fashion Group has been forced to invest in merchandising with its own retail chain to keep its share in the market against Swedish competitors. This has not yet been profitable through Finland. The company has even had some problems in deciding the name of the chain, which has caused more effort.

One of the growing sectors is profile clothes (working clothes) as many of the firms in the field have had good results, such as Image Wear, Kwintet Leijona, Dimex, Topper Tuotanto and Naxos. According to the managing director Nikkanen, the success of Image Wear is based on having their own shops. At the moment they have 19 shops through out Finland (Pesola 2004).

"The biggest clothing producers in Finland" does not mean that the clothes are produced in Finland, because most of the companies have outsourced their manufacturing into Estonia or Russia. However some part of it, mostly design and marketing is based in Finland, in many cases cutting as well. But one must remember that where ever the product is manufactured, the business with operating margin comes to the Finnish company.

Figure 14 demonstrates the gross production of textiles and clothing in Finland from 1991 to 2002 (www.finatex.fi). Though the production has been rather stable during the last five years, the trend is decreasing (2002, €1,166 Million).

Figures 15 shows that the trend of consumption is growing and the import from other countries has taken footsteps into the Finnish industry. Although the trend is growing, the consumption of textile and clothing (507€/person) in Finland is far less than in other European countries despite the weather differences, e.g. in Italy the ratio is €740/person (www.finatex.fi). Reasons for smaller consumption could be many, but one explanation is the increasing consumption of home electronics, the use of mobile phones, etc. in Finland.

FIGURE 14 Gross production of textiles and clothing in Finland

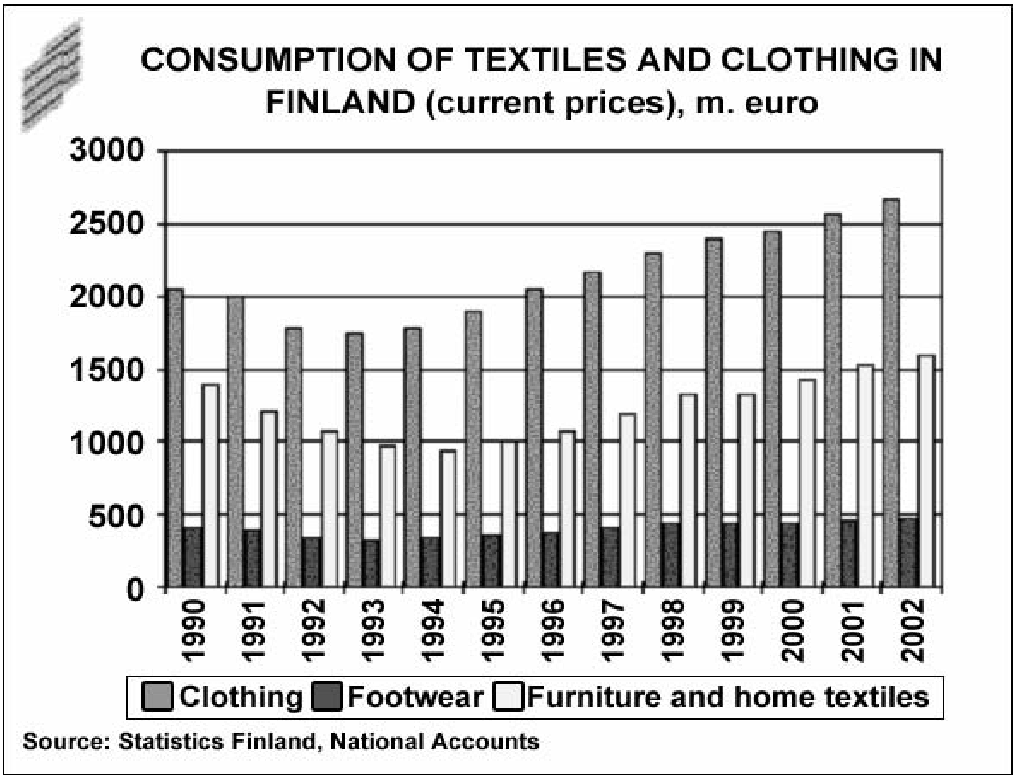


FIGURE 15 Consumption of textiles and clothing in Finland

Leather and footwear industry

In the leather industry of Finland there are only a few producers. The biggest company is Lapuan Nahka Oy, which today is part of Sievin Jalkine Oy. Sievin Jalkine Oy is the biggest footwear company in Finland as well. The company bought Lapuan Nahka Oy in 2002 and secured its raw material sources. By this means the strategy of Sievin Jalkine Oy is more vertical. Other main leather producers are Kokkolan Nahka Oy, Viljo Viljanmaa Oy and Ab Ahlskog Oy (Table 5). The year 2004 has been a hard year for Kokkolan Nahka Oy. Sales of the company have declined, because the main area of the production is the export of deer hides to the USA's footwear industry and the dollar has been weak (Örnberg 2004).

In the Finnish footwear industry there are three major companies, Sievin Jalkine Oy, Urho Viljanmaa Oy and Janita Oy (Vannela 2004). Urho Viljanmaa Oy and Sievin Jalkine Oy are concentrated in the safety footwear business. They both also have leisure shoe collections and Urho Viljanmaa Oy also has sport shoe production with the brand "Jalas". Janita Oy is for the most part focused on women's boots. Pomarfin Oy, Hamken Oy, Mantereen Kenkätehdas Oy and Palmroth Oy have a share of the market as well. Palmroth Oy and Hamken Oy are owned by the same family. Palmroth Oy takes care of the retailers and under Hamken Oy both the production and the company's own shops are managed (Wiskari 2004). Hamken Oy (Palmroth) as one of the ladies' fashion shoe producers uses mainly synthetic upper material in their collections.

The companies are not totally comparative because part of the information was not available from the year 2003 (Table 6*) and some part of the production of Palmroth Oy and Hamken Oy also includes handbags. In a phone discussion with Sievin Jalkine Oy the company states that their share of safety footwear business in Finland is approximately 60% and the share of the whole Finnish production is one third (Juola 2004).

All these leather and footwear companies mentioned are family businesses with a long history. The oldest leather producer Ab Ahlskog Oy was established in 1920 and the oldest footwear producer Urho Viljanmaa Oy was established in 1916.

TABLE 5 Key figures of the main leather producers in Finland (2003)

Company	Turnover 1000 €	Change % of turnover	Net result %	Personnel	Sales / person 1000 €
Lapuan Nahka Oy	7 863	51.0	7.8	58	136
Kokkolan Nahka Oy	5 889	-2.2	3.9	25	236
Viljo Viljanmaa Oy	2 189	-29.4	0.8	29	75
Ab Ahlskog Oy	2 080	-17.2	-24.1	32	63

Source: www.bluebook.fi

TABLE 6 Key figures of the main footwear producers in Finland

Company	Turnover 1000 €	Change % of turnover	Net result %	Personnel	Sales / person 1000 €	
Sievin Jalkine Oy	34 148	0.5	23.3	405	84	(2003)
Urho Viljanmaa Oy	22 109	7.6	15.2	180	123	(2003)
Janita Oy	14 120	-25.1	6.3	162	87	(2002)*
Pomarfin Oy	7 527	7.6	0.1	61	123	(2002)*
Hamken Oy	7 258	9.9	4.1	149	49	(2002)*
Mantereen Kenkätehdas	6 274	-0.9	2.6	66	95	(2003)
Palmroth Oy	4 841	5.4	-12.1	68	71	(2002)*

Source: www.bluebook.fi

The total production of leather is manufactured at 16 companies, which employ 212 people. These four companies' share of the Finnish production in the year 2002 was 67% and 68% of the employment (Table 5). The footwear industry consists of approximately 89 company units, which employ 1871 people. These five companies are representing approximately 49% of the Finnish footwear industry's sales and 47% of the employment (Table 6). Production of leather wear (leather clothing) consists of approximately 106 companies, which employ 169 people. Production of bags and other leather products (excluding shoes) are produced in 211 companies, which employ 283 people (Association of Finnish

Shoe and Leather industries 2004). The size of the companies producing leather wear and other leather products is very small.

Gross production (2002) of footwear, leather, bags and other leather products in Finland is presented in Table 7.

TABLE 7 Gross production (2002) of footwear, leather, bags and other leather

Footwear	€166.6 million (Gross value)	€69.8 million (Value added)
Leather	€26.3	€6.4
Bags and other leather products	€33.0	€11.4
Leather wear	€17.8	€5.9

Source: Association of Finnish shoe and leather industries 2004

The estimated gross production of leather in 2003 is €24.6 million (Hänninen 2004). In the Finnish leather and footwear industry the trend is decreasing.

Table 8 shows that the export of footwear (all materials) was €63.1 million /1.7 million pairs, of which over 1.2 million pairs consisted of leather footwear. The main product group in the export of leather footwear was safety footwear (28%) and women's boots (20%). Export of bags and other leather products was €12.1 million. The total export value of hides of bovine and equine animals was over 90%. Approximately 60% of the value of export of finished leather consisted of bovine and equine animal leather, sheep leather 5% (Association of Finnish shoe and leather industries 2003).

The import of footwear was 13.7 million pairs (€175.7 million) of which less than 5.2 million pairs consisted of leather footwear. Italy (8.1%), Portugal (3.6%), Estonia (3.6%) and China (3.5%) were the top suppliers of footwear. Measured by the value the EU has 70% share of import, the rest of Europe counted for 12% and China 7%. The import of bags and other leather products was €54.0 million. The import value of hides was about 43%, sheep skins 24% and other hides 33%. Approximately 90% of the value of import of finished leather consisted of bovine and equine animal leather as the share of sheep leather was 7% (Association of Finnish shoe and leather industries 2003).

TABLE 8 Export and import (2002) of footwear, leather, bags and other leather products

	Export (million €)	Import (million €)
Footwear (all materials)	€63.1 (1.7 million pairs*)	€175.7 (13.7 million pairs **)
Bags and other leather products	€12.1	€ 54.4
Hides	€17.5 (9.5 million kilos)	€ 4.4 (3.2 million kilos)
Finished leather	€21.3	€ 25

* 1.2 million pairs of leather footwear = €52 million
** 5.2 million pairs of leather footwear = €99 million

Source: Association of Finnish shoe and leather industries 2003

The declining figures and the problems within the shoe and leather industries are due to the sharpening global competition, the price of leather imported from Asia, the problematic environmental issues in Europe as well as the value of the US dollar.

2.3 Summary of section

Family enterprises create jobs, they are among the enterprises that are successful enough to pay taxes and they have displayed the ability and flexibility necessary to manoeuvre successfully during troubled economic situations.

Due to the problems in definition, there are only estimates about the significance of the numbers of family-controlled companies. The proportion of world wide business enterprises that are owned or managed by families is between 65 and 85 per cent (Gersick et al. 1997:2). There are approximately 225,000 family firms in Finland (Kankare 2003), which is almost 50% of all private-sector employment (www.statistic.fi). Many family companies are small, sole proprietorships, which will never grow or be passed down from generation to generation.

The textile and clothing sector is an important part of the European manufacturing industry, giving employment to more than two million people. Its importance for social and economic cohesion is increased by the fact that it is dominated by a large number of small and medium-sized enterprises, which are often concentrated in particular regions, thus contributing greatly to their wealth and cultural heritage. Being one of the oldest sectors in the history of industrial development, the textile and clothing industry is often referred to as a traditional industry, as a sector belonging to the so-called old economy. The European textile and clothing industry has undergone significant restructuring and modernisation during the past 10 to 15 years (Stengg 2001:1).

The T/C industry is a global industry, with constantly increasing trade flows all over the world. Globalisation and ongoing liberalisation exposes the EU industry to increasing competition from a large number of low-labour cost countries (especially from Asia). In the light of the tremendous labour cost difference between many third world countries and Europe, the EU industry strives to remain competitive by means of higher productivity and through competitive strengths such as innovation, quality, creativity, design and fashion.

Subcontracting accounts for an important part of the activities of Europe's T/C industry, though they vary considerably between Member States. These subcontracting activities have been spread between a web of thousands of small businesses, which play an essential role as a source of employment and income, and which are often highly concentrated in particular regions (Stengg 2001). In the Acceding and Candidate countries of the EU, textiles and clothing have traditionally been a major sector in the manufacturing industry in comparison to the old member states of the EU.

Typical and also perhaps exceptional of the sector in Finland is the fact that almost all the companies in Finland can be considered small or medium sized enterprises. According to the statistics of Finatex (www.finatex.fi) almost 90 per cent of the companies have less than 100 employees.

The trend of consumption in clothing is growing and imports from other countries has taken footsteps into the Finnish industry. Although the trend is growing, the consumption of textile and clothing (507€/person) in Finland is far less than most EU countries.

Perhaps the greatest question and threat at the moment is the agreement with WTO (1.1.2005), which means a profound change in the trade environment as all WTO members will have unrestricted access to the European, American and Canadian markets. This will create new challenges for the problematic Finnish T/C industry.

3 THEORETICAL FRAMEWORK

The conceptual frame and theoretical basis of the study will be considered more closely in this section. The study focuses on the strategic renewal process after succession in the context of T/C industry. Some general level implications of the competence perspective for understanding and managing strategic renewal are described more thoroughly. Also strategic change in business, capability for renewal and entrepreneurship in family business are introduced. The definitions of family firms, culture and values as well as succession are presented in this section as the second part of the context. The last part of section three consists of definitions of the key concepts as used in the study and summary.

3.1 Definitions of strategy

Strategy is a set of decision-making rules for guidance of organisational behaviour. The future performance of the firm is measured by objectives and goals. The set of rules called business strategy define the development of the firm's relationship with its external environment: what products-technology the firm will develop, where and to whom the products are to be sold, how the firm will gain advantage over competitors. The rules for establishing the internal relationships and processes within the organisation are frequently called the organisational concept. The rules by which the firm conducts its day-to-day business are called major operating policies (Ansoff 1984:31). Figure 16 presents the two contexts of this planning (how and what).

The strategic objective of a company - to be competitive and make profit - is based on strategic planning. The capability of the organisation, its resources and management might enable this by operational planning. With the successful strategy the business develops, the challenge is the turbulent competition and its demand for the organisation's capability.

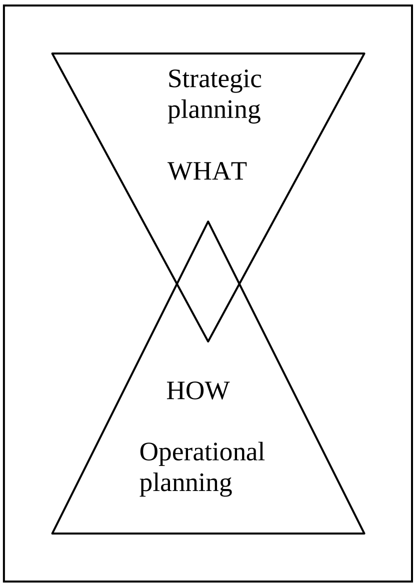


FIGURE 16 The two contexts of planning (Näsi 1991:127)

Johnson & Scholes (2002:10) define strategy as the direction and scope of an organisation over the long term, which achieves advantages for the organisation through its configuration of resources within a changing environment and to fulfil stakeholders' expectations.

Chaffee (1985) asserts that strategy is multidimensional and situational, but it suffers from the problem of three distinct, and in some ways conflicting, views of strategy. The models are linear strategy, adaptive strategy and interpretive strategy. The linear model focuses on planning and forecasting. Adaptive strategy tends to focus the manager's attention on means' and is concerned with fit. Interpretive model is a metaphor and can not be measured (Chaffee 1985).

Many of the reviewers of the "strategy" literature identified a stream which focuses on the social construction of knowledge and interpretation. These authors assume a socially constructed reality such as discussed by Smircich & Stubbart (1985). They suggest that strategists are involved in making meaning by their interpretation of the "values, symbols, language, and dramas that form the backdrop for decision making structures." Managers are extolled to challenge assumptions to encourage multiple interpretations of strategic management (Harfield 2001).

One interesting aspect of strategy is presented by Harfield (2001), who argues that "strategic management" and "strategy", even "competitive strategy" all seem to meet the criteria of a myth by Beeby (1992). According to Beeby to be acceptable and effective a myth must meet certain criteria:

- There must be a general accord with some strong if not clearly defined, aspiration
- The myth must be expressed in language sufficiently flexible to permit a wide range of interpretations
- The language of the myth must allow the possibility of providing practical guidance
- The myth must be "unattainable" in the near future so that it may be sustainable through consistent change

- People working under the myth must believe in it so completely that they will fight for it in its youth, must hold to it in its middle age, but be prepared to see another myth set up in its place when it has served its purpose.

According to Harfield strategy is the word of choice even though it has a range of interpretations. Practical guidance abounds in the literature, but some how "new and improved" models keep the field in constant motion.

Strategy and the study field of family business

No one really knows what the entire study field of family business is like or where its boundaries are or should be. There have been contributions from different disciplines and sub-disciplines in the social sciences, with the largest contribution from psychology and the smallest from general system theory. Clearly, the major contributions to the field at this time are those of psychology, sociology, economics, and law. Ten years ago Wortman (1994) studied and structured the following typology of strategic content based partly upon his previous typologies and partly upon conceptual and research studies in family-owned businesses:

Strategic content:
1. Mission and philosophy
2. Generic strategies
3. Strategies groups
4. Market strategies
5. Life cycle strategies
6. Technology
7. Risk and uncertainty

Strategic design:
1. Horizontal strategies
2. Vertical strategies
3. Strategies alliances
4. Global strategies
5. Mergers, acquisitions, and divestitures
6. Diversification
7. Venture strategies

Strategic evaluation:
1. Performance evaluation
    a. Market measures
    b. Productivity measures
    c. Profitability measures
2. Goals and objectives measures

Strategic processes:
1. Strategic analysis
2. Strategic formulation
3. Strategic implementation
    a. Decision support systems
4. Strategic control
5. Strategic evaluation

Behavioural:
1. Strategic decision making

In the strategic content area, Peiser and Wooten (1983) analysed life-cycle changes in family-owned businesses ranging from small entrepreneurships to large management structures. Danco (1975) and Ward (1988a) have also studied life cycle and growth models of family firms, including the influence of transitional periods and how family businesses manage this process. Two studies were classified as strategic design works. In terms of strategic process, Beckhard & Dyer (1983a) provided concepts for change strategies in family-owned businesses. In two studies the content is behavioural: strategic decision making (Davis 1983) and family culture (Jithoo 1985). These studies have examined individual family members, family environment, and family culture.

In the research of Sharma, Chrisman & Chua (1997) the authors have taken a strategic management perspective with the purpose of examining the extent to which this literature deals with issues that might lead to improvements in the management practices and performance of family firms. The basic strategic management process for both family and non-family firms is similar. The differences are in the set of goals, the manner in which the process is carried out, and the participants in the process (Ibid 1997:3). In family firms, the owner is likely to influence every step of the process, where as in non-family firms, family influences are at best or worst indirect. Figure 17 shows the basic strategic management process, family influence appears in boldface text. Family interests and values are incorporated into the goals and objectives set for the firm.

The interaction of family and business makes strategy formulation a dynamic process. Post (1993) suggests that for family firms to remain successful, they must renew strategies for every generation that joins the business. This provides autonomy for the newly joining family members, there by aiding the maintenance of good working relationships. Strategies recommended include starting a new venture or division of the business (Barach 1984), internationalising (Gallo & Sveen 1991), and helping successors acquire skills that other family members do not possess. On the other hand research in non-family businesses suggests that in corporate entrepreneurship (Biggadike 1979), diversification and strategic change can be risky.

In terms of strategic management, there is much that we do not know. For example do the family firms follow different corporate, business or functional level strategies from non-family firms? Nor do we know whether these differences are justified by differences in resources, skills, or cultures; whether family firms are more or less likely to adopt innovative strategies; or whether differences in strategies between family and non-family firms lead to differences in profitability, growth, and survival. On the basis of a case study Post (1993) argues that family businesses are more likely to get involved in environmentally friendly strategies because of their local orientation. There is not enough empirical evidence to generalise this conclusion.

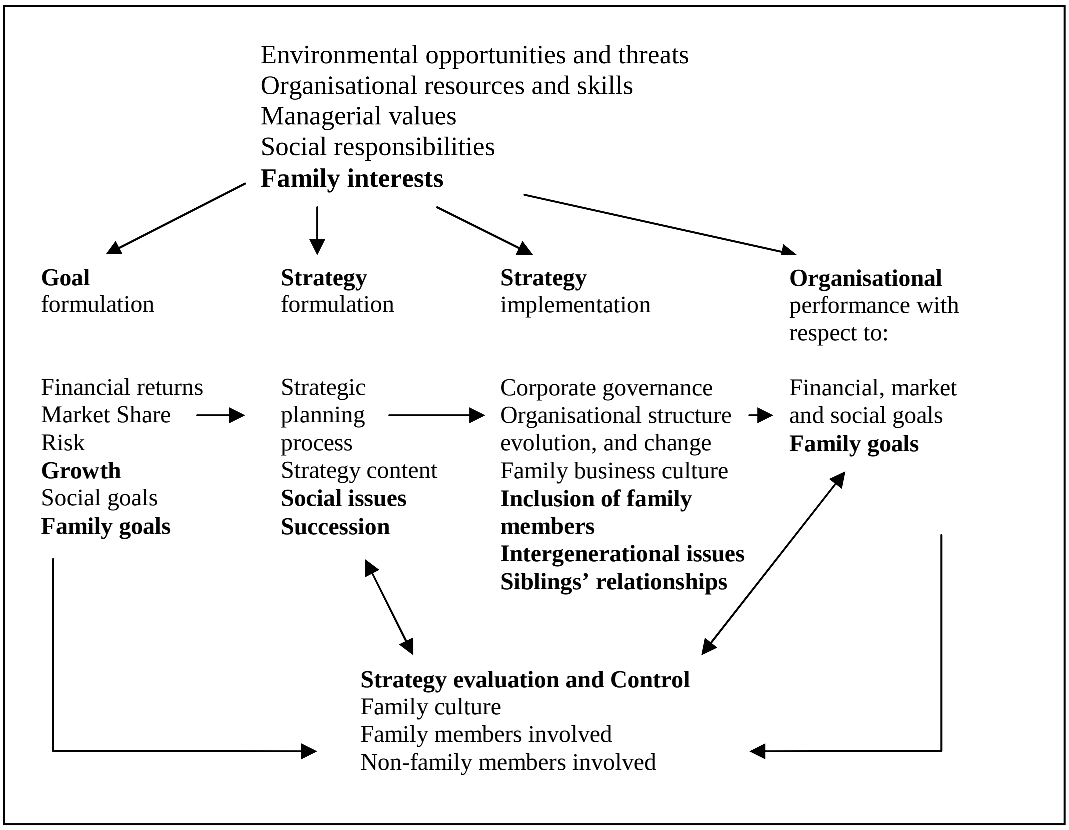


FIGURE 17 The strategic management process (Sharma et al.1997:3)

3.1.1 Strategic change and renewal

Developments like the IT-revolution and the increased role of knowledge in the production process have led to increased dynamics and uncertainty, and, in turn, these developments have created room for (groups of) small firms to act as agents of change (Audretsch and Thurik 2000).

When anticipating alternatives for future action the weight of a decision generally rests on how easily one can recall other examples of a similar situation. This serves well in stable situations, but impedes business and organisational changes that can address vital strategies more effectively for the future. People make decisions based basically on gain or loss. Under normal and stable circumstances, losses loom larger than gains in our minds. In a company's strategic renewal process the questions should be asked in such a way as to compare gains and opportunities rather than just problems. The renewal process may focus on existing products, which in T/C industry is constant. The renewal process may in addition be the development of existing processes and applications or renewal may be innovation of something new. The renewal process is even more challenging when combined with succession. In very few cases the circumstances of the succession are stable. Normally the succession affects the ability to gain profit and in any case the status quo is threatened.

The company's aim and challenge is to maintain competitiveness so the customers are ready to pay enough for the company's products or services to allow a profit to be made. This is based on the capability of the organisation, its resources and management. The profitable business enables the company to develop and be part of the society. The challenge is the turbulent competition and its demand for the organisation's capability to be successful in finding the vision and keeping a correct strategy. Sometimes this means the need to change or renew the former strategy.

Strategic renewal has recently been put forward as one of the most challenging and critical activities for management teams and organizations (Mintzberg 1994, Prahalad & Hamel 1994, Baden-Fuller & Volberda 1996, Hamel & Prahalad 1996). Firms face the challenge to renew themselves strategically on a constant basis, especially in situations of high uncertainty and changing technology. Strategic renewal may be triggered by a perceived crisis, the wish to grow, or vanishing industry boundaries in competence destroying competition. It may take place as revolution (Pettigrew 1985, Hamel 1996), incremental adjustment or punctuated change. At the same time, due to rapid dissemination of knowledge, improved technology, and more rapid changes in competitive situations, more and more managers feel there is a demand to increase the speed of organizational change.

There is relatively little empirical evidence, though, on the actual consequences of renewal processes at the level of the individual firm, particularly for various types of firms, and, particularly for firms of different age and size. Folkeringa, Meijaard & van Stel (2004) investigated the relationship between strategic renewal and the performance in terms of employment, turnover and profit growth of smaller firms (less than 100 employees) in on about 1000 Dutch firms. The dataset contains information on aspects of strategic renewal, including process innovation and knowledge management. Their aspects of strategic renewal were e.g. the introduction of new products or services, the codification of renewal activities, the occurrence of firm-provided training, and the use of an external network to exchange knowledge. In regression analyses they argue that market research, an active external network for knowledge acquisition and strategic efforts into the improvement of internal processes are positively related to turnover growth. Codification of knowledge, cooperation with partner firms and the provision of training for employees directly relates to employment growth. Writing down the innovation intentions has an especially strong impact on employment for micro firms. The results emphasize the importance of both knowledge absorption and knowledge creation to the success of innovative efforts in small firms. They argue that the impact of the various measures varies with firm size (Folkeringa et al. 2004).

Small and medium-sized firms are more likely to bring new products or services on to the market and to employ people for renewal activities, compared to micro firms. But micro firms report a higher share of new activities in total turnover, and, a higher share of employees involved in renewal activities in total employment. This indicates that small firms first have to overcome particular "thresholds" in order to be innovative. The most obvious thresholds in this respect are financial risks and capital restrictions. While decreasing the financial risks involved with investment in strategic renewal remains somewhat difficult, policy makers might at least attempt to improve the possibilities of attracting financial capital for the smallest innovative and high-potential firms (Ibid:21).

Based on their results, the authors suggest that policy makers further stimulate the knowledge creation and diffusion by encouraging firms to participate in networks (universities, competitors, suppliers, advisers) and, by encouraging them to cooperate with other firms (Folkeringa et al. 2004).

The process of strategic renewal

Every business idea is unique. But it is still possible to discern certain classes of factors that have to be part of a business idea. At the most abstract level one can distinguish between three (Normann 2001: 149)

- The external environment, its 'needs' and values and what it is valuing - what is crucial to the larger system in which the organisation works and which it can provide.
- The offering (Product system) of the company.
- Internal factors such as organisation structure, resources, organised knowledge and capabilities, equipment, systems, leadership, values.

The aim of a renewed business idea is to bring all these factors together. Figure 18 shows schematically how an original idea for a business, which has developed successfully, will have found a way of operating in such a way that environment forces, organisational resources and competences, and stakeholder expectations mutually reinforce one another (Johnson & Scholes 2002: 96).

Traditionally, strategy renewal has been seen as reactive. Management reacts to perceived forces from the internal and external environment. Strebel (1992) sees renewal as a reactive strategy in a context where the external and internal forces of change in the organization are strong, and at the same time represent an opportunity that can be exploited. Huff, Huff & Thomas (1992) suggest that strategic renewal is driven by a tension between inertia, or commitment to the current strategy, and stress, seen as individual dissatisfaction and misfit between the organization and its environment. As a consequence, they are mainly aligning their theoretical discussion with work, taking decline and turnaround as starting points. Furthermore, strategic renewal has been viewed as a distinctive province of the top management (Huff et al. 1992).

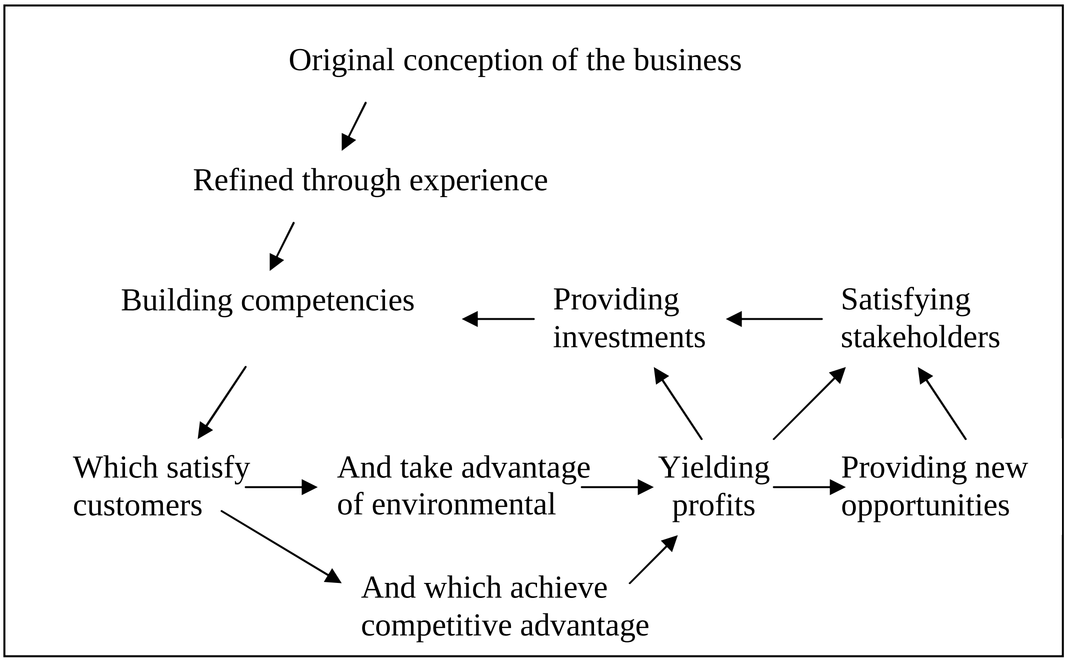


FIGURE 18 The business idea (Johnson & Scholes 2002:96)

In family business normally the top management is at the same time responsible for the operating management as well as the governance of the company. The old generation might be dedicated to old strategy though the environment has changed. In this case the trigger for renewal can be the succession. In many cases the core competence or the business idea has originally been based on technical skills, innovations or other internal competences. Perhaps the business idea was compensating or completing some other part of the family's economy e.g. agriculture. Under the new circumstances the competitive force is not valid anymore. The new logistics solutions, outsourcing far and near, dominating retail chains in distribution and the increasing use of e-commerce even for small companies create new opportunities as well as threats to the management. The operations of the companies are market driven and competencies and capabilities have to fit to the environment. In clothing, footwear and furniture businesses the demand is often conducted by distribution channels.

Although existing theories of strategic renewal (e.g. Hambrick & Mason 1984, Pettigrew 1985, Strebel 1992, Huff et al. 1992, Hamel 1996) start out from different and partly implicit assumptions about triggers of strategic renewal (reactive vs. proactive); participation (top management vs. wider participation), and process (incremental adjustment vs. revolution, punctuated change), taken together they suggest two mutually dependent and equally important dimensions of strategic renewal: (1) strategic renewal aims at bringing the organisation back into a situation of freshness and vigour in strategic thinking, and (2) transforming strategic thinking into co-ordinated strategic action.

The model of Mahnke & Aadne (1998:14), competence-driven strategic renewal, defines strategic renewal as the process that links (1) strategic imagination, with (2) new co-ordinated strategic action, through (3) developing a common ground that facilitates the transformation of strategic imagination into co-ordinated strategic action. In the terminology of a competence perspective, the model concerns: (1) maintaining competence, which targets sustaining intentional and co-ordinated asset deployment through structured coherence, and (2) building competence, which involves qualitative changes in existing assets of capabilities to create new strategic options (Sanchez, Heene & Thomas 1996). Both depend on the careful and purposeful management of speed to avoid potential sources of breakdown that could impede the transition between the different sub-processes of strategic renewal. Figure 19 illustrates the main aspects of the model. In a previous study of strategic renewal (Niemi 2004) the model of Mahnke & Aadne is presented. The model is detailed, but part of the idea fits to the family firm's organisation. As the organisation is normally not wide, all the key people are most of the time present when there is a need to talk (developing a common ground). If strategic imagination exists it is easy to put into action because the locus of power is in the hands of the management. The main challenge is the question does the company have strategy.

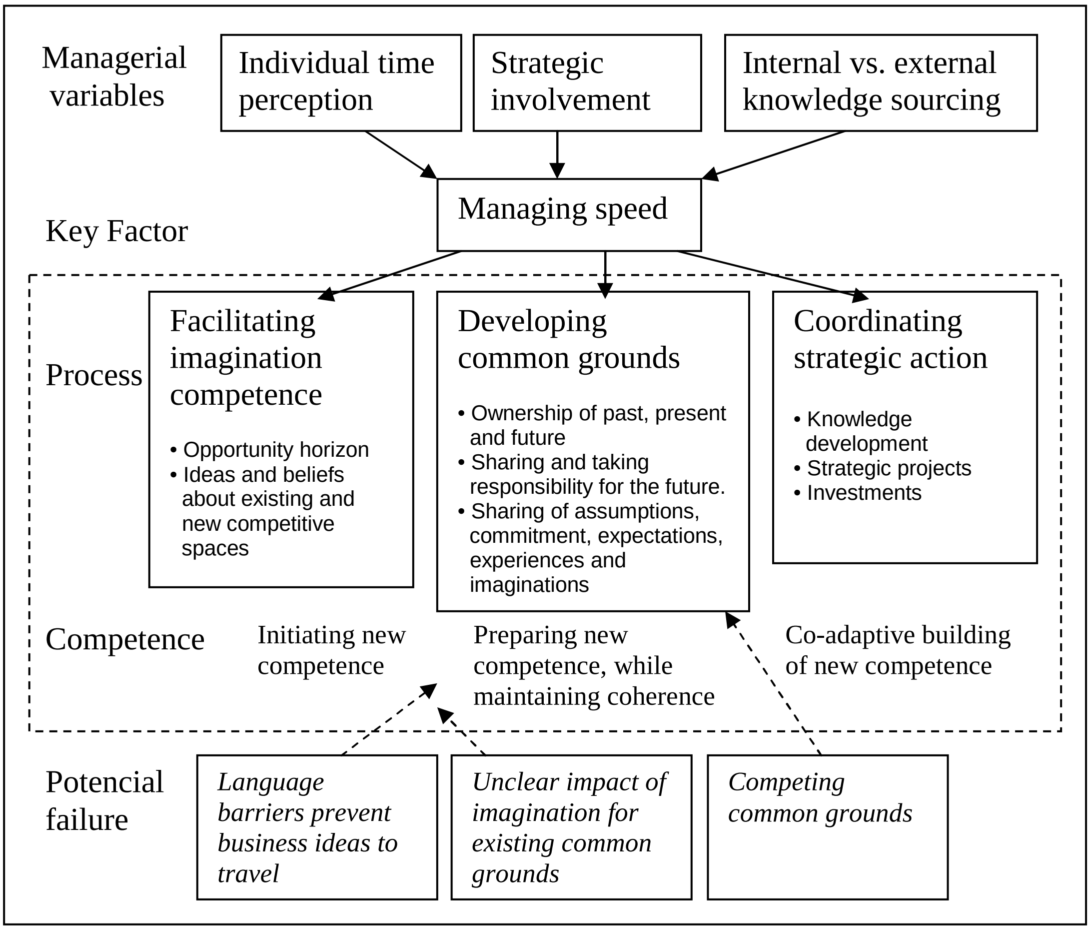


FIGURE 19 The model of competence-driven strategic renewal (Mahnke & Aadne 1998:15)

It is widely recognised that competencies are at the heart of competitive success (Hamel & Prahalad 1994, Hamel 1996, Sanchez & Heene 1997). As competence-based advantages erode through competition, especially in situations of high uncertainty and changing technological trajectories, firms face the challenge to proactively build new competencies while maintaining and leveraging existing ones to reach sustained competitive advantage (Oliver 1997). To avert threats of survival, companies need not only to avoid competence rigidities and competence traps, but they also have to master competence-driven strategic renewal because those who bet on the "wrong competencies" are subject to extinction. On the other hand, firms seeking growth cannot advance without managing the "dynamic process of building, accessing, and leveraging competencies" (Sanchez et al. 1996: 8) in the process of strategic renewal.

Conditions of internal and external dynamics in strategic renewal

Assuming dynamic competence based competition alludes to at least two conditions for strategic renewal. First, it implies that the foundations of competitive advantage are constantly eroding as structured expectations, competencies, and relations in the market place are subject to learning, and hence change. When the structure of competition changes so do relative advantages among firms that - if translated into performance - drive market evolution (Nelson & Winter 1982). Secondly, not only does the external firm environment result from the dynamic and competence guided interplay between market participants, but the dynamic complexity of the internal environments of the firm (i.e. existing competencies, co-ordination mechanisms, pool of skilled people and their interrelation) builds a dynamic structure which acts as an 'enabling constraint' for perceiving the external environment. Thus, the competence perspective sees competition not as a given external reality, but as a contemporary structure that results, and is driven by multi-actor processes of attention, interpretation and learning (Smircich & Stubbart 1985).

Facilitating imagination in strategic renewal

A principal part of competence-driven strategic renewal is the pursuit for new initiatives, like beliefs about new products, new markets, new technologies or new processes. In fact, the potential for future competitive strength is highly dependent on a company's ability to imagine markets and opportunities not yet in existence, and to stake these out before the competitors (Hurst, Rush & White 1989, Hamel & Prahalad 1991). In many companies, this willingness to imagine and play is not necessarily a bottleneck. Individuals and groups at several levels in the organisation constantly produce beliefs about the future.

Imagining a company's opportunity horizon is neither the responsibility of single individuals nor the top management group alone, but a question of collective imagination (Hamel & Prahalad 1991). The focus on collective imagination emphasises the role of energising several voices, at different organisational levels, with different knowledge and skills to take part in idea generation and horizon spanning. This diversity increases variety, which is an important pre-requisite for creating new knowledge (Nonaka & Takeuchi 1995).

Weick (1995:87) elaborate on this in the following way: "The greater the variety of beliefs in a repertoire, the more fully should any situation be seen, the more solutions that should be identified, and the more likely it should be that someone knows a great deal about what is happening". Beliefs about future possible actions and opportunities can be seen as purpose based knowledge (Sanchez 1997). Thus, imagination is about creating new knowledge, creating awareness about possible future tasks, and developing new intentions. Following Sanchez et al. (1996), all these three aspects are essential for initiating new competence in the organization.

Potential breakdowns in strategic renewal

In applying the theory by Mahnke & Aadne (1998) to family business, strategic realities in organisations are developed through the complex interaction between subjective cognitive processes, and tangible or objective elements in the environment which together form the firm's 'opportunity set'. The experience of earlier generations, common family and business life and shared goals ensure constant discussions and continuous cognitive processes. When groups in the organisation bring environmental trends and new ideas into the process of competence renewal, managers often experience different degrees of uncertainty, anxiety, and issue-urgency.

As a critic to this idealistic theory the main disadvantage in family business is the fact that to be capable of systemic change, organisations engaged in competence-driven strategic renewal must consider the diverse interests of internal and external participants. From this perspective it is a challenge to discuss the business openly with external stakeholders. This is because stakeholders or external shareholders might be immersed in the conduct of business to an insufficient degree, and therefore, may be too remote from the seeds of imagination that fuel strategic renewal. In a family business, the preference for the status quo could be disguised in the form of tradition, respect for the founders, and protection of the shareholders.

Sometimes people who work in a successful organisation create an atmosphere of assumed consensus. Routinely, mental filters protect people from undesirable information that could disturb the status quo. To preserve comfortable unanimity, embarrassing questions and unusual approaches are ignored or avoided. New facts or changed conditions that may force new kinds of changes in a business are often denied. Key questions may remain unasked. Attention is often focused on information that bolsters the idea that the status quo should be maintained or simply incrementally improved. This might also be the case in family firms, if the influence of the incumbent is strong or the baton has not yet been passed totally. In family firms where the relationships between family members are also involved this might be a hindrance for renewal process.

Kotter (1996) believes that transformational change begins with a critical mass of people who are willing to go beyond the call of duty. He reminds us that in many attempts at change, leaders tend to underestimate the number of team members who actually prefer the status quo. In applying Kotter's observation to family business, this preference for the status quo could be disguised in the form of tradition, respect for the founders, protection of shareholders, and the like. Teams must be created to lead the process of change, and it must be composed of people in the organisation with position, power, expertise, credibility, and leadership skill. Even in family business the team cannot include people with big egos or who aren't completely trusted within the organisation. The team must create a common goal, one that appeals to both the head and the hearts of the workforce (Kotter 1996).

The chief job of the guiding coalition is to develop a vision and strategy that will lead the change. It is the vision strategy that breaks through the status quo, paints a picture of the future, and provides rationale for why a workforce should help to create the future. Vision thus clarifies the general direction of change and motivates action. The characteristics of effective vision are that it is imaginable, desirable, feasible, focused, and communicable. Great leaders know how to make ambitious goals look doable. It is important to repeat the vision everywhere and keep it simple. Employees must accept the vision before any additional steps towards change can be taken. This seems to be true for both family and non-family businesses. Employees will not accept the vision if they feel powerless to carry it out. Thus, if power resides exclusively in family members in the business, it will be very difficult to get non-family members to place faith in the vision and its attendant action steps. When the vision has been accepted and steps towards change have begun, it is important to create short-term wins. The short-term wins must be visible, unambiguous, and yoked to the change effort. These must be valued by the whole organisation, not just by the family members (Kotter 1996).

3.1.2 Business in general

Strategic management is a systematic approach to a major, and increasingly important, responsibility of general management: to position and relate the firm to its environment in a way which will assure its continued success and make it secure from surprises (Ansoff 1984). Management of discontinuous change is a comprehensive approach, which takes account of psychological, sociological, political and systemic characteristics of complex organisations.

According to Ansoff (1984) "strategic management is a systematic approach for managing strategic change which consists of the positioning of the firm through strategy and capability planning, real time strategic response through issue management and systematic management of resistance during strategic implementation.

The key results of a successful change in strategy (Ansoff 1984) are:

- A new strategy is installed: changes are made in the products – markets – technology mix of firm, new strategies and new societal responses are developed.
- Management capability is developed (skills, information, systems. structure, capacity, rewards) which is needed for successful formulation and pursuit of strategy

- Behaviour and political platform is built which institutionalises acceptance of the new strategy and makes unnecessary the continued enforcement by top management

Ansoff dictates that once a launching platform is built, that is, when the power potential is sufficient and resistance low enough to launch the change, capability building is started and is quickly followed by strategy change (Ansoff, Bosman & Storm 1982:8).

Näsi & Aunola (2002) state that strategic thinking can be devised in two dimensions that are joined together with certain aspects. In a narrow context strategic thinking is only one man's thinking (situational -time and place) that concerns strategic (important) phenomena: me, my company, here and now. In a wider definition according to the authors, strategic thinking is a doctrine that concerns the whole world of strategic investigation and development: individual/collective, common/special and all their combinations (Näsi & Aunola 2002:15).

Competitive advantage and strategy

Porter's (1980) view to strategy is competitiveness. Porter's theory is not a strategic renewal theory, but the survey can reveal the need for a renewal process. The forces that drive competition in industry are: the bargaining power of suppliers, the threat of new entrants, the bargaining power of buyers, rivalry among existing firms, and the threat of substitute products or services. The collective strength of these forces determines the ultimate profit potential in the industry, where profit potential is measured in terms of long run return on invested capital (Porter 1980:4).

In coping with these forces, the type of competitive advantage and the competitive scope of advantage can be combined into the notion of generic strategies, or different approaches to superior performance in an industry (Porter 1998:39). Each of these archetypical strategies represents a fundamentally different conception of how to compete (Figure 20). There may be different variations of the same generic strategy, involving different ways to differentiate or focus. According to Porter competitive advantage is the heart of any strategy and achieving advantage requires a firm to make choices. The worst strategic error is to be in the middle or to try simultaneously to pursue all the strategies (Porter 1998:39).

		COMPETITIVE ADVANTAGE	
		Lower cost	Differentiation
COMPETITIVE SCOPE	Broad Target	**Cost Leadership**	**Differentiation**
	Narrow Target	**Cost Focus**	**Focused Differentiation**

FIGURE 20 Generic Strategies (Porter 1998:39)

Achieving *cost leadership,* a low overall cost position often requires a high relative market share or other advantages, such as favourable access to raw materials (Porter 1980:36).

The generic strategy *focusing* is on a particular buyer group, segment of the product line, or geographic market. The focus strategy is built around serving a particular target very well. An example of cost focus could be relatively simple standard products at lower cost e.g. basic clothing from China and an example of focused differentiation high profile sport or professional clothing with some special technical requirements from the EU-market.

Differentiation is creating something that is perceived industry wide as being unique. Approaches to differentiating can take many forms: design or brand image, product performance such as technology, customer service, dealer net work, market share, proprietary position or other dimensions**.** Ideally, the firm differentiates itself along several dimensions, such as high quality with good service. One principal determinant of both product and market differentiation is the perception of the firm and its products by the customers. Another determination is the manner by which the firm gains advantage over competitors (Ansoff 1984:56). Differentiation should be thought of as going beyond both physical characteristics and service attributes to encompass everything about the product or service that influences the value that the customers derive from it (Heizer & Render 2004).

Differentiation strategy does not allow the firm to ignore costs, but rather they are not the primary strategic target. Differentiation provides insulation against competitive rivalry because of brand loyalty by customers and the resulting lower sensitivity to price (Porter 1980:37). In the high-tech industry the competitive advantage is called *product leadership, operational excellence or customer intimacy* (Moore 1998:175, Treacy & Wiersema 1995). More or less they are all examples of the differentiation strategy. In the model of Moore the author includes the competitive advantage with the life cycle model.

The life cycle model is also appropriate with the fashionable products of T/C as the life cycle of the product is in constant movement (Figure 21). The cycle is very hectic, all the time there are different products in different stages. The total production time can be from a week to some months. Success in this field mostly depends on quick response capability. Flexibility, reliability and timeliness, being the competitive advantages, require strategic decisions within the firm regarding the ability to respond. These are called operational excellence or customer intimacy by Moore (1998).

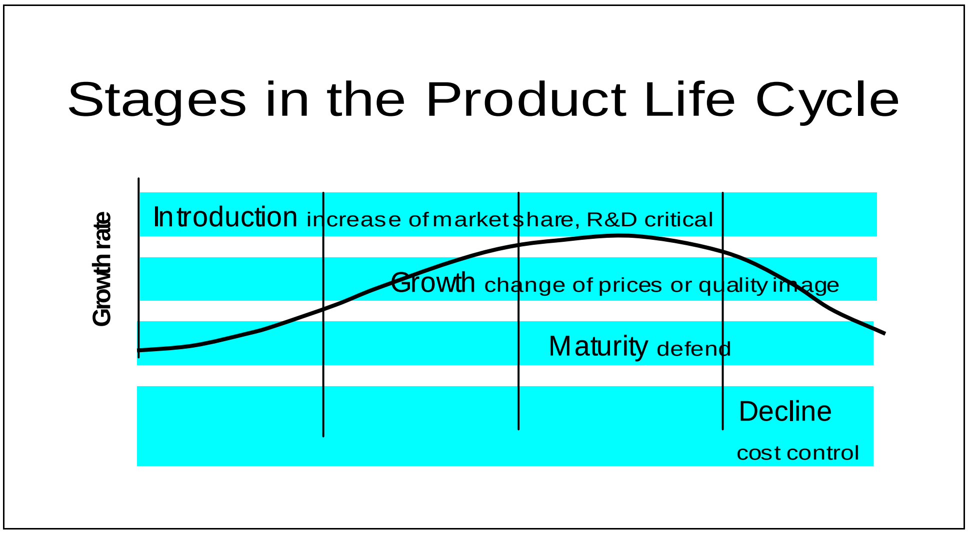


FIGURE 21 Stages in the product life cycle (Originally in Heizer & Render 2004:40)

Strategically, the best time to increase market share is in the introduction stage, but product design and development are critical for success. During production there might be frequent product and process design changes, and short production runs causing high production costs (Heizer & Render 2004:40). In this stage the competitive advantage in Moore's model is *product leadership* (Moore 1998:175).

During the growth stage, strategically a company could change prices or quality image. In this stage marketing and right forecasting are critical if the company aims to strengthen its niche in the market. The product and process must be reliable if competitive product improvements and options are to be made. During a successful growth stage the company might enhance its distribution (Heizer & Render 2004:40). In this stage the competitive advantages in Moore's model are *product leadership and operational excellence* (Moore 1998:175).

During the maturity stage a company can not increase market share as competitive costs become critical. Strategically market position could be defended via fresh promotional and distribution approaches (Heizer & Render 2004:40). In this stage the competitive advantages in Moore's model are *operational excellence and customer intimacy* (Moore 1998:175).

During the decline stage a company's cost control is critical to market share. The product could still have a good margin but the company is already reducing capacity of this product and introducing new ones.

Success on the field is mostly dependent on quick response capability, operational excellence or customer intimacy (Heizer & Render 2004, Moore 1998). To identify the critical success factors, the competitive advantages of the strategy require decisions about marketing, finance and production (Figure 22).

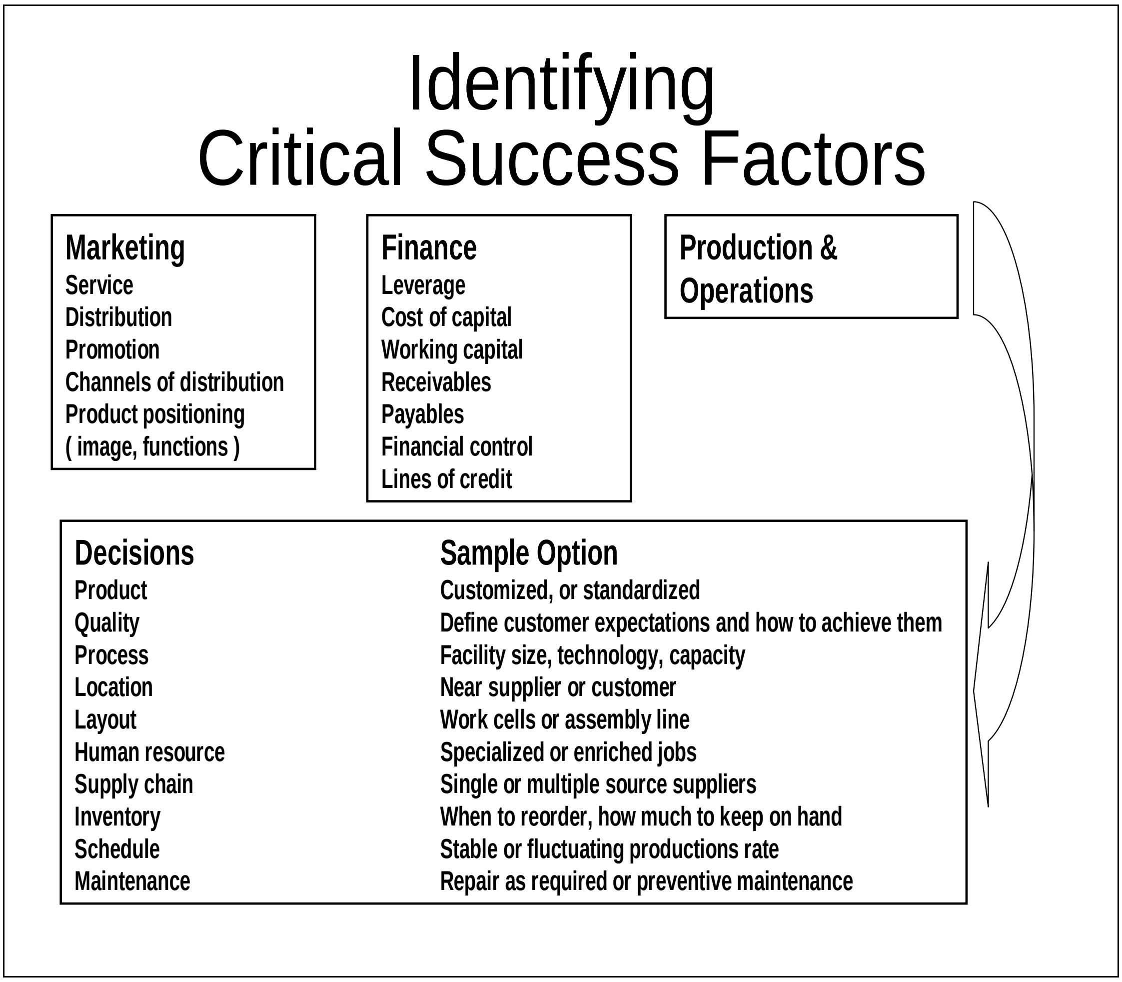


FIGURE 22 Critical success factors (Originally in Heizer & Render 2004:42)

Figure 23 presents some specific strategies used in achieving competitive advantage in the field of the textile and clothing industry. The figure was presented originally in Heizer & Render 2004 and here is applied to the study in the field of T/C.

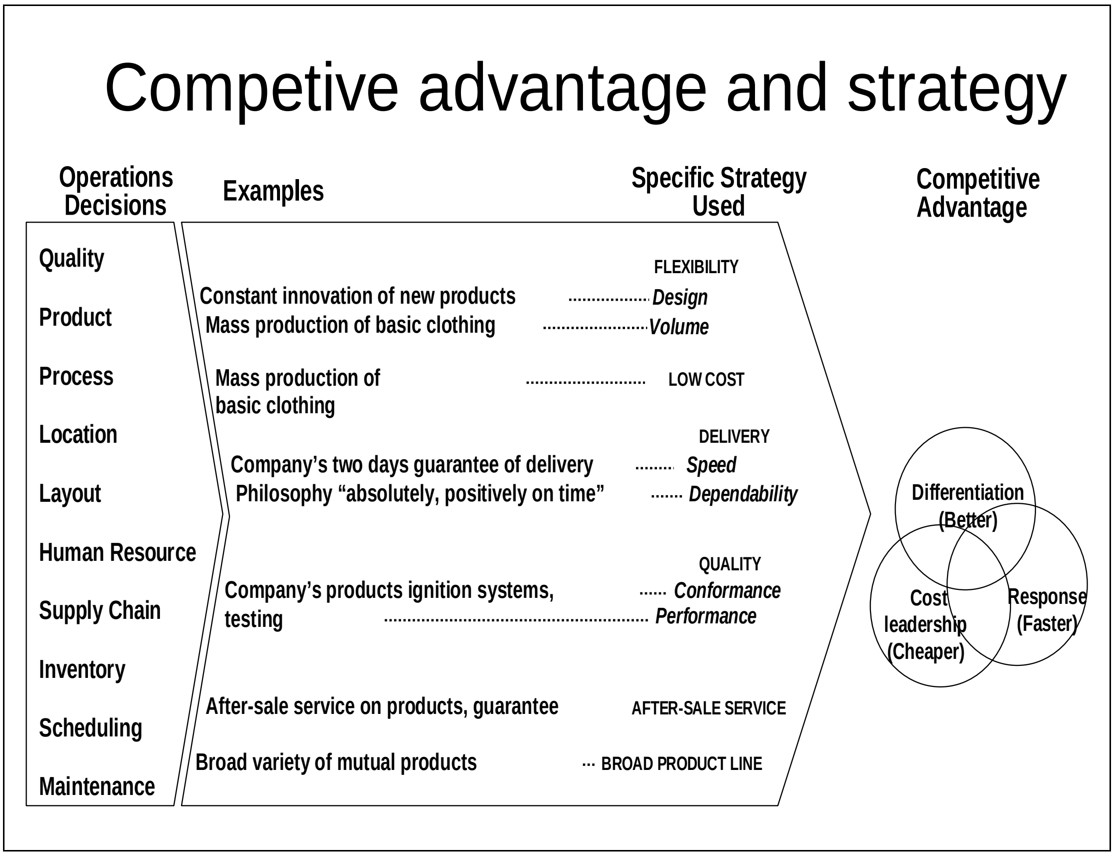


FIGURE 23 Competitive advantage and strategy (originally in Heizer & Render 2004:36)

Specific strategies used in Finnish industry are design flexibility, delivery flexibility and some amount of after sale service. Because of the higher production costs competitiveness can not be based on cost leadership, differentiation, the speed of response, and dependability must form the basis of competitive advantages. Actually cost leadership is never a sustainable advantage, as has been seen with the continuously changing outsourcing markets.

Strategy development

Johnson & Scholes (2002) have extended the product/market matrix originally created by Ansoff as shown in Figure 24. It considers the development directions available to an organisation in terms of the market coverage, products, competence base and expectations about an organisation's strategies. These range from strategies concerned with protecting and building an organisation's position with its existing products and competencies, through to diversification requiring changes of products, competencies and entering or creating new market opportunities which take the organisation into arenas in which it is currently not a credible player.

		PRODUCTS	
		Existing	**New**
MARKETS	**Existing**	**A. PROTECT/BUILD** - Consolidation - Market penetration	**B. PRODUCT DEVELOPMENT** - On existing competencies - With new competencies - Beyond current expectations
	New	**C. MARKET DEVELOPMENT** - New segments - New territories - New uses - With new competencies - Beyond current expectations	**D. DIVERSIFICATION** - On existing competencies - With new competencies - Beyond current expectations

FIGURE 24 Strategy development directions (Johnson & Scholes 2002:362)

The extent of corporate diversity

A manager or developer needs to know about the businesses in order to add value. To do so, it is unlikely that they can cope with a high degree of diversity. Moreover they are likely to need to manage businesses which have a degree of relatedness in some way. Diversification is typically defined as a strategy that takes the organisation away from its current markets or products or competencies. Related diversification is a strategy development beyond current products and markets, but within the value system or 'industry' in which the company operates (Johnson & Scholes 2002:297). Figure 25 shows that related diversification could take different forms. If some companies manufacture components or semi-finished items, there will be additional integration opportunities within assembly or finished product manufacture.

Some reasons for related diversification

The reasons for related diversification are many. Possible advantages can be control of suppliers (quantity, quality and price) or control of markets. Within the clothing sector this means manufactures own retail outlets to gain guaranteed distribution, or even the possibility to sell on centralised markets (L-Fashion Group in Finland, Nanso-shops etc.). In the leather and footwear industry Lapuan Nahka Oy (leather factory) was bought by Sievin Jalkine Oy (footwear factory). By this means the buyer company ensured its raw material sources. Moreover, they accessed a new diversified leather market area, which was the furniture business.

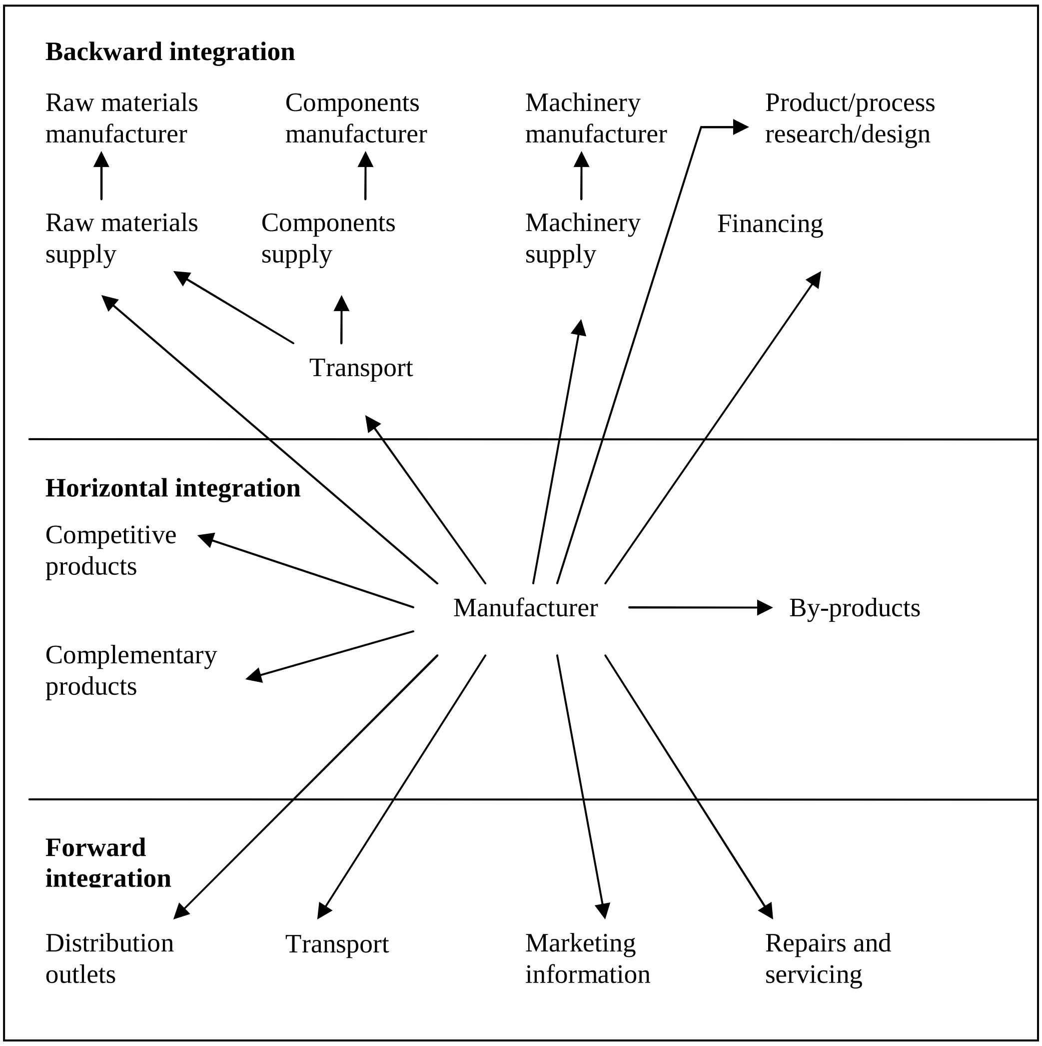


FIGURE 25 Related diversification options for a manufacturer (Johnson & Scholes 2002:297)

Access to information on customers' preferences is one of the reasons for example, retailers own credit services. Cost savings are one of the reasons for fully integrated plants. Building on core competence and technology is an example where an engineering equipment manufacturer in one market, enters another with similar technical requirements. Avoiding over reliance on one product or market means spreading risk. The manufacturer might need resource utilisation and is acquiring a company for compatible products to fill capacity (Johnson & Scholes 2002:299).

Implementing the different strategies successfully requires different resources and skills. They also imply differing organisational arrangements and control procedures and systems. They may also require different styles of leadership, and can translate into very different corporate cultures and atmospheres.

In Porter's competitive analysis there are four diagnostic components; future goals, current strategy, assumptions, and capabilities. Most companies develop at least an intuitive sense of their competitors' current strategies and their strengths and weaknesses. Much less attention is usually directed at understanding what is really driving the behaviour of a competitor – its future goals and the assumptions it holds about its own situation and the nature of its industry. The driving factors are much harder to observe than is actual competitor behaviour, yet they often determine how a competitor will behave in the future (Porter 1980:48). In family business this may be even more problematic as the family firms are often more inward orientated than global non family companies and the external driving factors might be unseen. On the other hand, no family firm works in isolation from society and all the information is available if wanted. Again the question is about resources; time, capability and motivation.

Determining future effectiveness of present strategy

When the different markets of the firm are all growing and are not turbulent, the future prospects can be determined through extrapolation of the historical trends. But when the growth prospects are mixed and turbulent, it becomes necessary to segment the firm's environment into distinctive areas of strengths, weaknesses, threats, and opportunities (Ansoff 1984:71).

Strategic analysis can not start until the management has made clear its objective and goals. This is often difficult, if not impossible to decide, if the managers do not have an idea of the future potential available to the firm. A physical limit on goals and objectives will be set in part by the potential of the present competitive posture and, in part, by the strategic resources which will be available to the firm. At this point "the business we will be in" can be realistically determined (Ibid 1984:88). Figure 26 presents the analysis to strategy formulation.

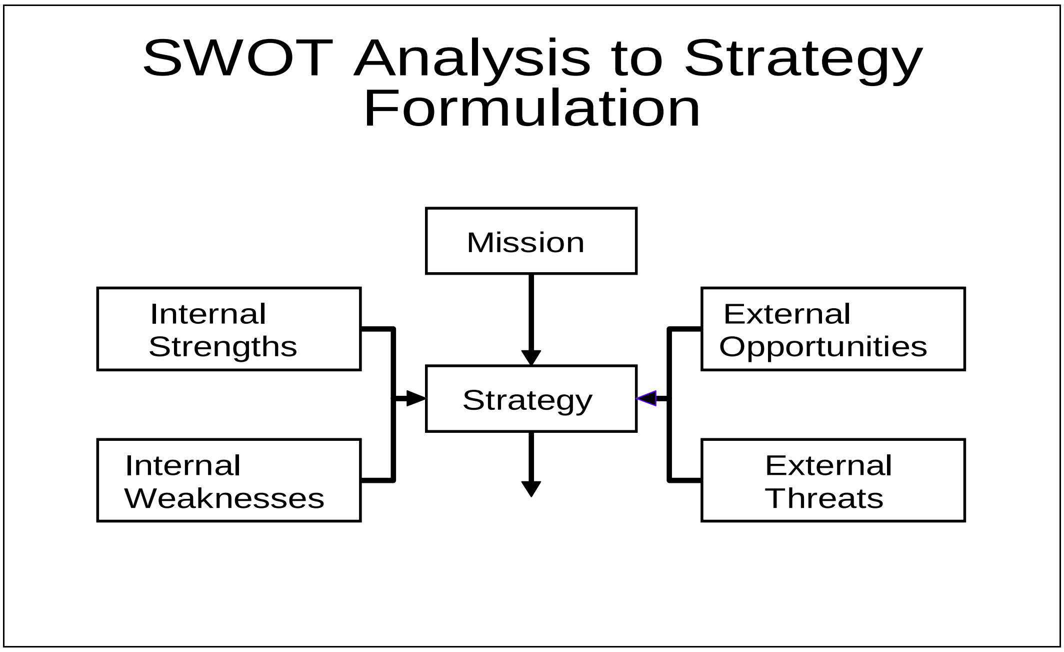


FIGURE 26 SWOT analysis to strategy formulation

3.1.3 Capability for renewal

General management is the organisational function responsible for the overall performance of the firm (Ansoff 1984:209). This responsibility includes strategic positioning of the firm in its environment in a way which assures a co-ordinated performance towards its near term objective. Ansoff refers to capability of general managers as its propensity and its ability to engage in behaviour which will optimise attainment of the firm's (near and long term) objectives.

General management and functional capability can be assessed in two complementary ways. The first is by observing the characteristics of the firm's behaviour; for example, whether the firm anticipates or reacts to discontinuities in the environment. Ansoff calls this responsiveness. The other way is to identify the capability profiles of the firm, which produce different types of responsiveness.

These types of responsiveness are described by three capability attributes: climate, competence and capacity. Each of these is determined on the one hand by managers and on the other by the organisation through which they work (Ansoff 1984):

- Climate is the management propensity to respond in a particular way, for example, to welcome, control or reject change.
- Competence is the management's ability to respond. For example, to anticipate change in a complex environment, the firm needs a sophisticated environmental surveillance system. Without it, the propensity to welcome change is intent without the means.
- Capacity is the volume of work that the general management can handle. Its adequacy is related to the type of response used.

Contextual features of change

Managing change in a small, perhaps relatively new, business, where a motivated team are themselves driving change, would be quite different from trying to manage change in a major corporation or public sector organisation. There are a number of important contextual features that need to be taken into account in designing change programmes (Johnson & Scholes 2002:538), e.g. how quickly and what degree of change is needed, what organisational resources and characteristics need to be maintained, does the organisation have the sort of capacity, capability and readiness to achieve the scope of change required (Johnson & Scholes 2002).

In family business, organisation is flexible and management occupied by the family normally has the power needed for change. But still problems of the readiness of the workforce, diversity, capability and capacity exist. Capability in the form of personal and financial resources is essential in the context of family business.

In business the need for and direction of strategic change is different, since strategies develop in different ways. In the main, strategy development in organisations is adaptive in the way it occurs, with occasional more transformational changes. Balogun & Hope Hailey (1999) developed this further to identify four types of strategic change (Figure 27). These have implications for how change might be managed.

Arguably, if the nature of the change is incremental, it is beneficial for the organisation. This way it will build on the skills, routines and beliefs of those in the organisation, so that change is efficient and likely to win the employees' commitment. A 'big bang' approach to change might be needed sometimes, for example if the organisation is facing crisis or needs to change direction very quickly, but this can be disruptive and painful. In terms of the scope of the change process, the issue is whether the change can occur within the current organisational beliefs and assumptions. This can be thought of as a realignment of strategy rather than a fundamental change of strategic direction. If the process does require paradigm change the question is more of a transformational change. Combining these two axes shows that there are four types of strategic change (Balogun & Hope Hailey 1999).

		SCOPE	
		Transformation	Realignment
NATURE	Incremental	Evolution	Adaption
	Big Bang	Revolution	Reconstruction

FIGURE 27 Types of change

Adaptation is change that can be accommodated within the current paradigm and occurs incrementally. This is the most common form of change in organisations. *Reconstruction* is the type of change which may be rapid and can involve a good deal of upheaval in an organisation, but which does not fundamentally change the paradigm (the current organisational beliefs and assumptions). For example a company may make major structural changes on a major cost-cutting programme to deal with difficult or changing market conditions. *Evolution* is a change in strategy that requires paradigm change, but over time. Managers may be in a position of planned evolutionary change, with time in which to achieve it. Another way in which evolution can be explained is by conceiving of the organisation as learning systems, this has given rise to the idea of a learning organisation. Within incremental change may lie the danger of strategic drift, because change is based on the existing paradigm and routines of the organisation, even when environmental or competitive pressure might suggest the need for more fundamental change. *Revolution* is change that requires rapid and major strategic and paradigm change, perhaps in circumstances where pressure for change is extreme – for example, if profit decline or a take-over threatens the continued existence of a firm (Johnson & Scholes 2002:537).

Enabling strategic success

In small family business with limited resources this is a crucial question. To be able to compete with the big players they must find their own way. Internet possibilities (web site, intranet), emails, electrical data information in logistic systems, are available rather easily even for small firms. Co-operation with local educational organisations might be a helpful resource.

Mattila's (1999) thesis on merchandising strategies and retail performance for seasonal fashion products illustrates possibilities in clothing merchandising. Because the field of the clothing market is globally dominated by retailers, he concentrated on them (Kesko Oy, Kappahl Ab, Anttila Oy). None of the companies in his work are private family companies and the size is beyond the SME determination. Still, the fact that a few retailers dominate the clothing market in Finland has a huge affect on family business. Mattila's research attempts to enlighten the importance of the near area in sourcing. In his conclusions (1999:211), Quick Response (QR) and Vendor Managed Inventory (VMI) strategies yield better retail performance than traditional up-front buying from low-cost offshore sources, providing that local purchase prices are less than 40 % higher with QR and less than 23% with VMI. The most successful strategy is QR when point of sale (POS) information is shared between the retailer and supplier making it possible to produce and deliver according to actual demand. In practice this means finding supply partners locally or in nearby areas from where transport and communications can be quickly and easily arranged (Mattila:211). This gives opportunities to family firms, whose main market area is domestic.

One of the main contributions of Mattila's research is his suggestion that the best retail performance can be achieved through co-operation with local (European) industry by implementing such strategies as Quick Response and Vendor Managed Inventory. In practice this means finding supply partners locally or in nearby areas where transport and communications can be quickly and easily arranged.

Quick Response (QR) is a merchandising strategy used by apparel manufacturers and retailers and their raw material manufacturers for shortening the pipeline from raw material to checkout counter at the retail store (Knill 1997). The objective is to respond rapidly to consumer demands and at the same time cut down inventories throughout the chain. Three types of information technology are usually required:

- bar codes on all products sold in the retail outlets
- use of bar code scanners at POS (point of sale) in retail outlets
- electronic transmission of replacement data from the retailer to the manufacturer

Implementation of QR requires that vendors and customers form a partnership, which is based on mutual trust because the marketing information will be shared. Information processing and transfer throughout the whole pipeline is emphasised and usually requires EDI links between the partners. These technologies keep track of each Stock Keeping Unit (SKU) sold, and transfer this information to suppliers for automatic replenishment of stock. In this way all the members of the supply chain can plan their production according to actual demand. QR originated in the United States, where the garment industry wanted to find ways of competing with the offshore buying. Kurt Salmon Associates (consultant in USA) carried out a study of lead times within the industry and concluded that the total time in the US apparel supply chain from raw material to consumer purchase was 66 weeks, of which 11 weeks was production and 40 weeks warehousing and transit time. As a result of the report, various projects in the US apparel industry were launched and POS information is actually transmitted back to the garment and fabric manufacturer in several applications (Mattila 1999).

One example of real time sourcing between retail shops and the manufacturer in Finland is the company Everdeal Oy. In this model the retailer gets the information from the cashier and is able to keep the inventory of the products in optimum. Electronic transaction of replacement data from the retailer to the manufacturer is easy to arrange. New orders for the wholesaler/manufacturer are sent according to real time business. Today, this is the normal system in centralised warehousing in all retailing and logistics. If the retail shop does not have these IT possibilities, it is easy to phone, as in the old days, and send the replacement. This is also a strategic way to get space from the competitors in shops. The inventory risk is kept by the manufacturer or wholesaler. Everdeal Oy has this strategy for basic products like men's trousers. Their business idea is to introduce four collections per year and complete them with up-to-date basic designs (N.O.S), meaning never out of stock. Collections are updated by flash collections that introduce the latest trends (www.everdeal.fi).

The core process of a company in the long term is to form new 'dominating ideas' which are in line with the evolution of the external context, and then to ensure that these ideas are expressed in a manifest organisational structure and mode of functioning. No other process in any organisation is more fundamental in the long term than this renewal of dominating ideas, this re-appreciation of an organisation's identity and way of manifesting it, in the face of environmental change. Actions that create new links, and the invention and use of artefacts that divert and refocus attention will act as a catalyst for the evolution of ideas (Normann 2001:150).

When the dominating ideas and the action consequences of them are not in phase with an evolving external contextual logic, management has failed in its core process. According to Albert Einstein: 'We need a new way of thinking to solve the problems caused by the old way of thinking.'

In almost every manufacturing company the core processes besides production are: sales, delivery, product development and after-sales processes. The purpose of the processes are: sales process – to convince the customer, delivery – to deliver customer satisfaction, product development process – to create value-added for customer, after-sales processes – to maintain customer relations. In this kind of definition the purpose of the process is determined from the customer's point of view, and is named the customer convincing process (Tuominen 2000).

In a family firm this kind of process is seldom called process management but it operates in the same way. The process is shorter while the locus of power is in the hands of the owner, being at the same time managing director and often responsible for the marketing. The majority of the customers, anyway the main ones are well known and product development is done with co-operation. In case of dissatisfaction the owner is often the first to hear or to known. Customer satisfaction is the guiding force, profitability is the result of customer satisfaction.

Human aspect in the renewal process

The leader and successor (as well as other family members) must be willing to explore differences of opinion. People who listen to each other's opinion and acknowledge each other's achievements are more likely to work out their differences. Instead of being envious of the younger generation, the leader of the company then can take vicarious pleasure in seeing the younger man or woman do things on his or her own, and both can gain a sense of continuity. Another important factor in ensuring smooth succession is the entrepreneur-owner's ability to transfer to the next generation a sense of fun and excitement about running the business (Kets de Vries 1996).

A pre-requisite skill for any person, not only for family leaders, who want to be successful in the transfer of power, is a capacity for self-reflection. Truly effective executives know how to act but also how to reflect. Such persons share the perspective of the Danish philosopher Kierkegaard, who said that the tragedy of life is that while you can understand it only backward, you have to live it forward. When people look at life as continuity, they are more likely to plan for the future and are better prepared to play the role of mentor to the next generation.

"The human mind is like an umbrella: it functions best when open" Walter Gropius quoted in Kets de Vries (1996:270). Remaining curious and keeping an open attitude toward life and the possibilities for the future will take the family entrepreneur a long way. When such attitude is combined with a solid dose of humility, humanity, and humour, the destructive forces of envy, vindictiveness, and rigidity are less likely to gain a hold in the family (Kets de Vries 1996:270).

For managers in family companies, or for those who interact with such firms, it is crucial to recognise that the same organisational features of these firms account for both their strengths and their weaknesses. Thus it is necessary to recognise the potential for positive and negative consequences of the features, which Tagiuri & Davis (1996) called bivalent attributes. Table 9 is the summary of these characteristics.

The principle of embracing change is particularly important for family business. Each generation has to bring something new to the enterprise, something that hasn't been a part of the visions of previous generations.

TABLE 9 Bivalent attributes of the family firm

Disadvantage(s)	Attribute	Advantage(s)
Norm confusion and anxiety. Family business and ownership issues can get mixed up. Lack of business objectivity.	Simultaneous Roles	Heightened family and company loyalty. Quick and effective decision-making.
A stifling sense of being overwatched. Resentment toward family and business.	Shared Identity	Heightened family and company loyalty. A strong sense of mission. More objective business decisions.
Family members can point out weaknesses. Early disappointments can reduce trust in work interactions.	Lifelong Common History	Relatives can draw out relatives' strengths and complement their weaknesses. A strong foundation can encourage a family to weather adversity.
Lack of objectivity in communication. Resentment and guilt can complicate work interactions. Covert hostility can appear.	Emotional Involvement and Ambivalence	Expression of positive feelings creates loyalty and promotes trust.
Can trigger sensitive reactions that can distort communication and encourage conditions for conflict.	Private Language	Allows fore more efficient communication with greater privacy.
Can lead relatives to feel overwatched and trapped.	Mutual Awareness and Privacy	Improved communication and business decisions that support the business, owners, and family.
Fierce rivalries can develop between relatives.	Meaning of the Family Company	Company symbolism can develop a strong sense of mission for employees.

Source: Tagiuri & Davis (1996)

Concluding remarks

A common criticism to theories and models of strategic change and renewal in this study is the fact that most of them are made by an outsider or consultant. Often these experts are co-operating with large or medium sized companies and the normal operations of a small business are not familiar to them. Days in family firms are very busy. Seldom have the management time for visualising or defining the strategy as understanding the strategic position, the impact of the external environment, internal resources and competencies, and the expectations and influence of stakeholders and how strategic choices of the future can be turning strategy into action. Strategy in many cases is the action of ensuring that operations are working in practice. The greatest challenge in small family firms is to find the resource of time to think, to read, to travel and to investigate the external turbulent environment to build and enable new internal capabilities and competencies for future strategies. In too many cases the capabilities lie on one man's/woman's shoulders. The main surviving strategy in the T/C business has been differentiation or outsourcing.

3.1.4 Entrepreneurship in the renewal process

Entrepreneurial capitalism replaced "managerial capitalism" as an economic system in the 1990s. In this "new" capitalism, the central figure of economics is a knowledgeable entrepreneur who is willing and able to act as a dynamic force on regional as well as global economies (Lahti 1991).

Defining "small business" and "entrepreneurship" is not easy. Even the measure of the level of "smallness" in a business context leads to problems (Johannisson & Lindmark 1996). The concept of entrepreneurship is normally associated with small companies, which quite often are also family businesses. But small-business research covers family business as well as other small-scale economic projecting. The recommendation of the EU includes definitions of small and medium sized enterprises (SME). According to this definition the company in this study is small (personnel less than 50 employees, **and** turnover max 7 milj. euros **or** balance sheet max 5 milj. euros, independent, not owned more than 25 % by other than SME).

However, many small firms are family businesses, where the owner and the management are the same person and the family members are usually involved in the business. Small business is often associated with innovation and entrepreneurship as well as with handicap, if not anomaly, on the market, needing the support of large firms and institutions. Since entrepreneurship has been studied in many disciplines, such as economics, social anthropology, psychology, and geography, the definitions differ not only regarding the unit of analysis chosen, but also with respect to the qualities attributed to the phenomenon. Johannisson & Landström (1999) associate "entrepreneurship" with phenomenon, which is beyond individual personal capabilities. Entrepreneurship encompasses the organising of resources and venture stakeholders into new patterns according to the perceived opportunities (Stevenson & Jarillo 1990, Sweeney 1991, Gartner, Bird & Starr 1992).

If entrepreneurship is associated with continuous projecting it does not need to be run on a small scale or adopt a special legal form. Entrepreneurship may for example, take place within a company. Such "intrapreneurship" is today a separate area of study (Koiranen 1993, Koiranen & Peltonen 1995, Gibb 1999, Kyrö 2000).

Definitions

Entrepreneur

The Dictionary of English Language and Culture (Summers 1993) defines entrepreneur as “a person who starts a company or arranges for a piece of work to be done, and takes business risks in the hope of making a profit.” This definition includes both the ideas of economical risk and profit as well as the basic tasks of management: planning, organising and control.

This is a narrow definition of a person who sets up a business and takes business risks. In addition the entrepreneurial process involves all the functions, activities, and actions associated with perceiving opportunities and creating organisations to pursue them. Entrepreneur connected with entrepreneurship can also mean the spirit of enterprise and entrepreneurial drive and it can also be realised in the form of company entrepreneurship or intrapreneurship (Neubauer & Lank 1998:40).

Entrepreneurship

Entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time, and/or career commitment of providing value for some product or service. The product or service itself may or may not be new or unique but value must somewhat be infused by the entrepreneur by securing and allocating the necessary skills and resources (Ronstadt 1984:28).

The small firm hosting both a family business and entrepreneurship may thus vary considerably and even appear as contradictory, since many paternalistically run small firms want to preserve the status quo. Yet there are enough interfaces to treat the two phenomena jointly. Innovative operations seem to flourish on a small scale (Storey 1994). The innovative process of the growth-oriented entrepreneurial project is often carried out within a family business, which acts as an ownership institution. Neither small business nor entrepreneurship are simple economic phenomena. The small family business includes special emotional and social structures. The family-business literature puts emphasis on the tension between the family system and business system. These differences reflect varying ideologies, and coping with entrepreneurship means introducing yet another ideology (see e.g. Huse & Johannisson1998, Johannisson & Forslund 1998).

Bygrave (1989 a,b) ponders on the special characteristics of entrepreneurship and their implications for the chosen paradigm starting point. His premises are the following: “(i) Entrepreneurship begins with a disjointed, discontinuous, non-linear (and usually unique) event that cannot be studied successfully with methods used for examining smooth, continuous, linear (and often repeatable) process. (ii) As a science entrepreneurship is in its infancy” (Bygrave 1989a:7-8). Bygrave states that the field of research is influenced by a great number of other disciplines, just as business administration has been and still is as a whole. This in turn means that the area must shape its own identity with caution so as not to demarcate its own line of development too quickly. Entrepreneurship must seek its own paradigm with its base in relation to other sub-disciplines in the realm of "management studies". Bygrave himself (1989b) suggests complexity and chaos theory as a source of inspiration, a suggestion elaborated on by e.g. Dandridge & Johannisson (1996) and Johannisson & Landström (1999).

According to a narrow definition, entrepreneurship means the state of being an owner-entrepreneur (a person who sets up a business and takes business risks). In this interpretation, entrepreneurship means the ability to identify and seize a business opportunity, to make the necessary plans and to implement them. Covin & Slevin (1991) define entrepreneurial orientation as a firm-level construct, and it includes innovativeness, pro-activeness, risk-taking and a willingness to grow.

The ideological dimension of entrepreneurship is normally very strong during the first generation of a family business, but it does not necessary survive to subsequent generations. The original entrepreneurship, unless reinvented, easily becomes diluted by professional managerialism (Neubauer & Lank 1998:40).

According to Gartner et al. (1992), entrepreneurship is concerned with that which does not exist but which is becoming. Typical features of entrepreneurship are creativity, experimentation, uncertainty, generating new or renewing old, being visionary and proactive. Schumpeter (1950: quoted in Lahti 1991) based his theory of entrepreneurship on innovative actors whom he called entrepreneurs and the overall ideology of entrepreneurship is described as initiative and innovating.

In Schumpeter's thinking, entrepreneurship is a pragmatic concept, fundamentally historical in nature. He pointed out that knowledge underlies innovation; in his view, successful innovation requires an act of will, not of intellect. Therefore, successful innovation depends on leadership and not on mere intelligence. Drucker (1985) defines entrepreneurship "as purposeful tasks that can be organised – are in need of being organised – and systematic work. Entrepreneurship is neither a science nor art. It is practice. It has a knowledge base."

Entrepreneurship is an ideology of venturing. It is a strong combination of visionary opportunity-seeing and intentional action-orientation. Willpower, intuition and alertness characterises the ideology of entrepreneurship, where structuring of activities is organic and where holistic and associative knowledge are used as a competence in addition to any formal knowledge (Johannisson & Huse 2000).

The intrapsychic world of the entrepreneur

Successful entrepreneurs need both vision and drive. Even entrepreneurs who posses those attributes have to overcome many odds, however. And successful entrepreneurs do: they are the kind of people who will go to great lengths to turn their fantasies into reality. Sometimes the entrepreneur who starts his/her own business generally does so because he/she is a difficult employee. The entrepreneur does not take kindly to suggestions or orders from other people and aspires most of all to run his/her own shop. A significant theme in life and personality of many founder-entrepreneurs is their need for control. Occasionally, that need affects entrepreneurs' ability to take or give direction appropriately and has serious implications for how they get along with others. Some entrepreneurs are strikingly ambivalent when an issue of control surfaces: they are filled with fantasies of grandiosity, influence, power, and authority, yet they also feel helpless. People who are overly concerned about being in control generally have little tolerance for subordinates who think for themselves (Kets de Vries 1996). As a result they are not likely to delegate. In entrepreneurial organisations, this desire for control can lead to problems in the coming succession process.

People dealing with entrepreneurs should keep in mind that the personality quirks in evidence may be responsible for entrepreneurs' drive and energy, important factors in making them successful. Thus instead of fighting these idiosyncrasies, we should regard working with and around them as a challenge. There are many entrepreneurs who seem to know how to manage and prepare their companies for continuity. Often their sense of reality prevents things from getting out of hand. But the boundaries between creative and aberrant behaviour can be blurry; normal and irrational behaviour are not discrete categories on a scale. It is generally the mix of creative and irrational that makes entrepreneurs tick and accounts for their many positive contributions in creating new industries and jobs that stimulate the economy (Ibid 1996).

In Koiranen's study (2003) entrepreneurialism is under a triangulate aspect. The article examines how a family business system works as the ideological arena of three cultural forces: entrepreneurialism, managerialism, and paternalism, which are to a great extent consisting of ideologies based on different rationalities. It reminds us of the three interacting subsystems, management, ownership, and family life (Koiranen 2003).

Ideology is defined in his study as a consistent and permanent way of perceiving and appreciating the world that, accompanied by emotional commitment, generates a specific mode of conduct. Ideology includes cognitive and emotional elements. This means that ideology injects collective confidence and nurtures self-enforcing norms that produce certain behaviour (Johannisson & Huse 2000:356).

In entrepreneurship, the key elements are realising opportunities and seizing them, experimenting, creating new and renewing old, innovation, risk and growth. Entrepreneurship is conceived as being primarily the outcome of human volition. That is, as the result of voluntary human behaviour chosen by individuals on the basis of their information set. Such information sets are heterogeneous and based on the knowledge that individuals who are able to observe entrepreneurs directly are more likely to become entrepreneurs themselves because their perception and valuation of the opportunity costs of entrepreneurial activities are lower. Networking tends to reduce transaction costs and the existence of positive role models increases the likelihood that new individuals will undertake entrepreneurial activities (Bygrave & Minniti 2000:25). In managerialism, the ideological focus is on administrative procedures, structures and institutions, resource allocation, profitability, efficiency and money (cf. Kyrö 1995:140-144, Garmonsway & Simpson 1975:447). In paternalism, the strong ideological factors are protection and guardianship, family institution, traditions and ownership (Sorenson 1999, Palojärvi 1999:135).

In a family business context, the three ideological forces (Figure 28) can be described by an equilateral triangle where the ideologies are the corners and the three sides of the triangle are named as follows (Koiranen 2003):

Entrepreneurship to Paternalism = Emotionality (as the joint feature)
Paternalism to Managerialism = Control (as their joint feature)
Managerialism to Entrepreneurship = Intentionality (as the joint feature)

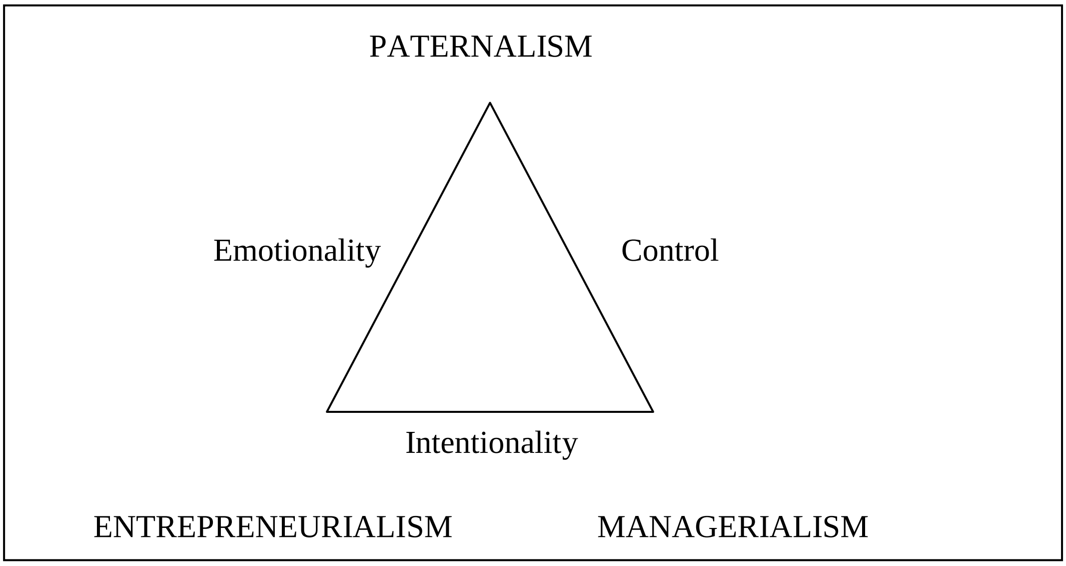


FIGURE 28 Emotionality, control and intentionality (cf. Johannisson 1999:6)

One common factor between managerial and entrepreneurial intentionality is the element of success, i.e. the need to succeed and to achieve a goal. Other obvious similarities between managerial and entrepreneurial spheres are the future-oriented and integrative processes and holistic nature of work (Kyrö 1995:144-144). Entrepreneurial intentionality is strongly based on a lucrative idea or unfilled desire, whereas managerial intentionality is rather based on the judgements related to the goals of an organisation. Intentionality means that something is done on purpose, though people are not always conscious or aware of all the factors related to their intentionality (Koiranen 2003).

Personal motivation of individuals is strongly influenced by the type of leaders and leadership style. The credibility of leaders is important. It may arise from being a member of the peer group - as a professional role model. It can have a negative impact if leaders continue their own professional work as well as overseeing the work of others. Credibility may also be built by demonstrably shaping a favourable context for individuals to work in and interact, as well as from the way which leaders interact with the business environment – for example winning orders or securing a budget. Maister (1982) called these three roles - professional, supporting and securing - grinding, minding and finding roles respectively.

Ansoff (1979) connected the entrepreneurial function to a company's strategic management. Entrepreneurial behaviour is needed in a firm to confront the issue of increasing environmental complexity, allied with discontinuity. In Ansoff's thinking, entrepreneurial behaviour leads to entirely new combinations of economic resources. Also Ansoff's concept is meant to provide a practical manager with a new tool for corporate long term planning.

An entrepreneurial organisation seeks change. Instead of reaction to problems, future threats and opportunities are anticipated: instead of local solutions, global search is conducted for alternative courses of action: instead of a single alternative, multiple ones are generated: instead of satisfying, the decision process is to choose the best from among available alternatives. Rather than seek to preserve the past, the entrepreneurial organisation strives for a continuing change in the status quo (Ibid 1984:180**).**

Entrepreneurship and capability

Entrepreneurship is neither a profession nor a career. Entrepreneurship is defined as 'a cognitive, affective, and conative process intended to increase value through creation, revitalisation and/or growth' (Ruohotie & Koiranen 2000: 29). According to this definition the authors introduce the taxonomy of individual difference constructs by Snow, Corno & Jackson (1996:247). The taxonomy includes the elements that are important to human personality and intelligence. In the context of entrepreneurship, the most interesting are conative constructs reflecting motivational and volitional aspects of human behaviour.

Cognition is a general term for those processes that help an organisation to recognise and obtain information about a certain object. Cognitive constructs include perceiving, recognising, conceiving, judging and reasoning. *Affection* is the feeling response to a certain object or idea. Sometimes it also means the energy resulting from an emotion or general reaction to something that one likes or dislikes. Affective constructs include feeling, emotion, mood, and temperament. *Conation* refers to those mental processes that help an organism to develop. It is a kind of intrinsic unrest or a conscious tendency to act or strive for something. Conative constructs include impulse, desire, volition and purposeful striving (Ruohotie 1998:69).

In cognitive theories there is generally a distinction between declarative and procedural knowledge. New knowledge develops as a result of a process of construction, organising the interdependencies of different pieces of distinct knowledge. Procedural knowledge can be thought of as a set of rules or a recipe that helps in remembering and applying knowledge. This combines aspects of both knowledge and skill. Knowledge cannot be used in practice without skill, and even a modest skill presupposes some knowledge. Entrepreneurs as well as other persons involved in business, and even in the wider environment, need a strong base of relevant domain knowledge, but that can not be used in practise without skills and strategies (Ruohotie & Koiranen 2000:33).

Motivation and volition and their importance for entrepreneurship

People have the ability to introspectively reflect on their own actions, to be self-assertive. People are able to regulate their own actions and make wilful decisions. Self- regulation, the control over free will, is directed by goals. By using her/his will, a person can enact self-motivation strategies or control distracting feelings, such as inadequacy or helplessness (Weiner 1990, Corno 1993).

However, there is no free will over what one thinks about, only to some extent how much she/he thinks about the subject at hand and the intensity or nature of her/his thoughts. What a person thinks about something depends on interest, values, previous knowledge, the environment and experiences (Ruohotie & Koiranen 2000). As a critic to this a person in a highly stressed situation might lose the free will to the extent of how much she/he thinks about the subject at hand and the intensity or nature of her/his thoughts. In family business objectiveness is a challenge when making quick decisions and in demanding situations.

Definition of the study

In this study the aspect of entrepreneurship is discovering, creating and utilising the possibilities. According to this an entrepreneur is someone who perceives an opportunity and creates an organisation to pursue it. The entrepreneurial process involves all the functions, activities, and actions associated with perceiving opportunities and creating organisations to pursue them.

3.1.5 Critical incidents in the renewal process

In the case of older firms, Hambrick & D'Aveni (1988) have proposed that the failure pattern of such companies comprises a protracted process of decline. Of the four phases presented in their model, during the first period, taking more than 10 years prior to failure, the seeds of weakness are sown, such as lagging level of slack and profitability. The second stage (6 to 10 years before bankruptcy) can be thought of as early impairment, a period in which the firm moves from viable levels of slack and performance to being marginal (e.g. showing break-even profits). During the next phases (3 to 6 years before) the firm is weak, hovering in a break-even state. The firm engages in extreme strategic behaviour, inaction or hyper action, and vacillates in its strategic behaviour. Finally the firm continues this behaviour. The firms environment declines significantly and abruptly, the firm's slack and performance levels deteriorate sharply and finally death occurs (Hambrick & D'Aveni 1988).

The similar model was also observed by Weitzel & Jonsson (1989). Their model had five stages. During the first stage the organisation were unable to reorganise internal or external changes that might threaten the long-term survival *(blinded stage).* If the organisation is able to obtain good information, the company is able to avoid the second stage. In a family firm the owner is in a key position to gain and to process the information. The problem might be the lack of objectivity, threat of the status quo and in addition, inward orientation (Harris, Martinez & Ward 1994:171).

The second stage of decline was characterised by *inaction*, despite signs of deteriorating performance, the organisation was unable to make corrective or prompt actions. In the third stage *(faulty actions)* the reactions to problems steered the organisation in the wrong direction, and this resulted in stage four *(crisis stage).* The firm has so far been able to deal with its problem unsuccessfully, resulting in crisis. This is the last phase when reorientation is still possible, though not easy. Finally *(dissolution)* the organisation is in serious trouble due to capital depletion and the exodus of talented and experienced organisational members. At this stage the organisation has to find buyers for its assets, go into bankruptcy proceedings, or move directly into dissolution (Weitzel & Jonsson 1989). In a family firm the owner is, at every stage, in the key position to reorganise the business. If the locus of power is lost to the financier, the last phase is obvious.

One model from the organisational development literature is by Greiner (1972). This model includes five key variables that interplay and have an impact when organisations develop over time. The variables are the age and size of the organisation, stages of evolution and revolution and growth rate of the industry. The term evolution is used to describe periods of growth where no major upheaval occurs in organisation practise. The term revolution is used to describe periods of substantial turmoil in organisational life (Ibid 1972:3).

Greiner's model is located in the contingency school of the organisation theory; in this context, how an organisation's development and progress is dependent on the interplay of these variables. Organisations are seen as highly complex systems whose development is subject to various sets of variables, which are chosen depending on the purpose of the research. Greiner also belongs to the school of thought, which states that an organisation's future is largely determined by its past. As shown in Figure 29, his version of the life cycle is split into five phases of growth. Each development phase has two parts, which he labels "evolution" and "revolution" or "crisis".

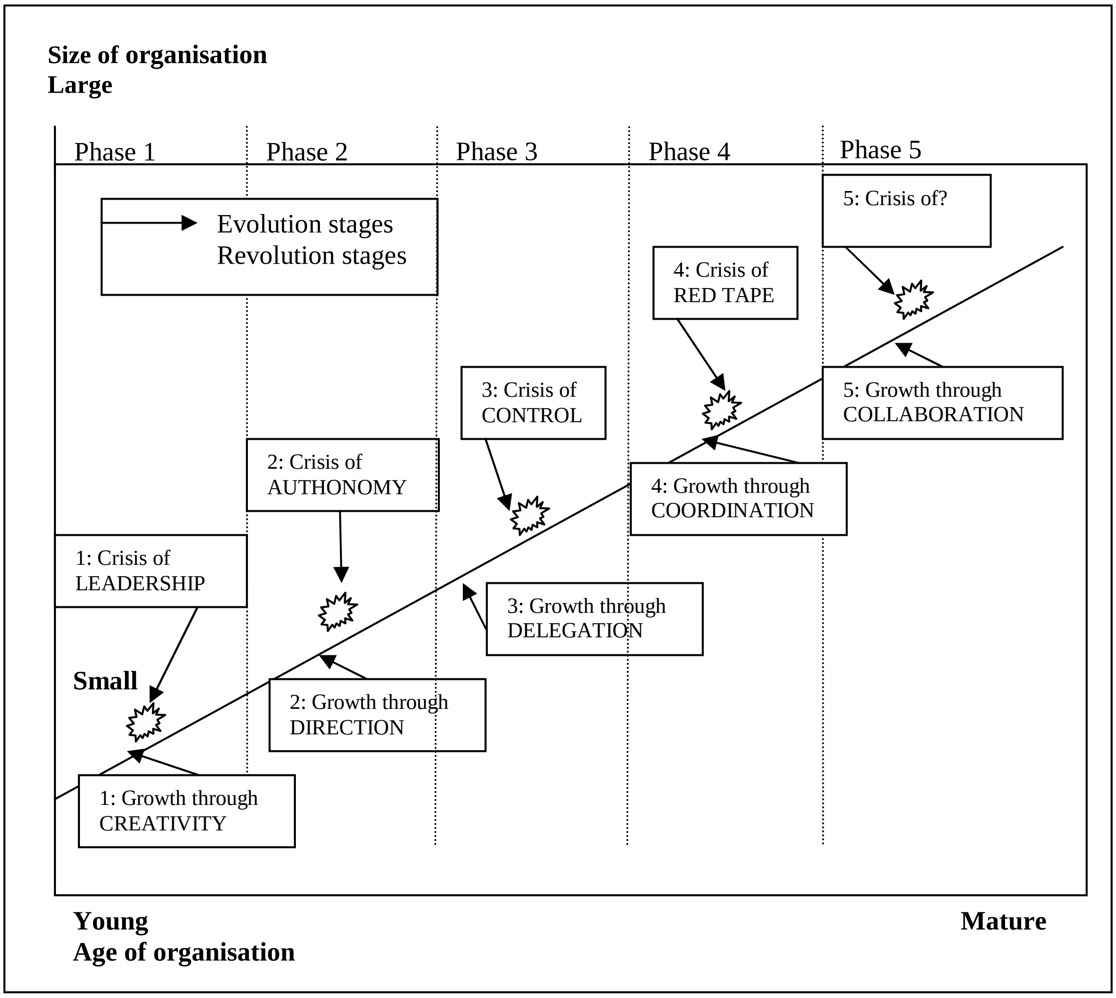


FIGURE 29 The five phases of growth (Greiner 1972:6)

In this model, each evolution creates the conditions for subsequent revolution. In phase 2, "Growth through direction", there is a natural tendency to centralise power in the hands of the owner-manager/founder, which leads to the need for greater autonomy, which is the crisis in phase 2.

The management's ability to handle crisis will directly influence its ability to move the organisation into the following phases. Thus there is no automatic progression between the phases, as in Adizes' model (1979). Stagnation and death are possible at all points between young and mature. The last crisis is not labelled, but Greiner guesses that it will be characterised by the "psychological saturation" of employees who grow emotionally and physically exhausted by the intensity of teamwork and the heavy pressure for innovative solutions. If an organisation is large there is a high probability that the different departments or divisions are at different stages of the life cycle model. This complicates the management and governance task. The family, board, and top management are in key positions in anticipating the described stages and transitions as well as the crisis associated with them.

Conflicts and expectations

Since the expectations of the stakeholders group will differ, it is quite normal for conflict to exist regarding the importance or desirability of many aspects of strategy. In most situations, a compromise will need to be reached between expectations that cannot all be achieved simultaneously. Some common conflicts of expectations are (Johnson & Scholes 2002:207):

- In order to grow, short term profitability, cash flow and pay levels may need to be sacrificed
- "Short-termism" may suit managerial career aspirations but preclude investment in long-term projects
- When a family business grows, the owners may lose control if they need to appoint professional managers
- New developments may require additional funding through share issue or loans, in either case financial independence may be sacrificed
- External stakeholders may require more openness and accountability from the management
- Cost efficiency through capital investment can mean job losses
- Extending into mass market may require a decline in quality standards
- In public services, savings in one area may result in increased spending elsewhere
- In large multinational organisations, conflicts can result because divisions "belong" to two organisational fields

Most of these conflicts presented above are common to family business. Even multinational organisations might be the customers of family firms, as they operate through subcontracts on a very complicated field. One example of this is the trade payables model of many large global organisations. If the due day is near the end of the quartile, sometimes the trade payables are postponed until the next quartile begins because of the balance sheet and the key figures from the asset, no matter the consequences for the smaller supplier.

According to Mintzberg (1981) and Ansoff (1984), when the environment is not complex or turbulent, planning will, at worst, do no harm. But, under high complexity/turbulence, planning no longer works, and managers must return to "intuitive managing" Ansoff (1984:460-461). There are numerous decision occasions in which comprehensive planning may be either ineffective or not worthwhile. These are:

1. When the risk taken by foregoing planning is small, because the desirability and consequences of an action are clear and certain.
2. When the information necessary to formulate concrete plans is insufficient or unavailable.
3. When the cost of planning is so high that it is more cost-effective to take a direct plunge into action without benefit of prior planning
4. When the urgency is so high that there is no time to plan: this typically occurs during a crisis

The model of "intuitive management" is often used in small family firms. Organisation is normally very flexible, fast in decision making and solving problems when they occur, and creativeness is one of the basic features in entrepreneurship.

Family businesses grow over a long time, and sometimes new strategies come with new generations of leadership (Ward 1988b). There are certain obstacles that a multi-generation family business must overcome to grow and prosper. One of these obstacles must be the difficulty of introducing change into a family organisation. Due to increased globalisation, competing in international markets is a certainty nowadays, a crucial topic for all kinds of companies. The critical tasks of strategy development in a family business described by Ward (1988b) are as follows:

1. Reinterpret the entrepreneurial hero
2. Assert strategy choice as the key to success
3. Challenge past strategy paradigms
4. Relate strategy choice to future family vision and resource availability
5. Promote strategy development as an ongoing process of change (Ward 1988b)

3.2 Family business

Research of family business as a system began with a few articles in the 1960s and 1970s. These early classics focused on problems that appeared to hinder family firms, such as nepotism (Ewing 1965), generations' and sibling rivalry (Trow 1961) and unprofessional management (Gersick et al. 1997). Nowadays it is easy to find international and Finnish research concerning the family business, ownership, succession, values (Kets De Vries 1996, Dunn 1995, Ward 1988b, Aronoff & Ward 2000, Chaffee 1985, Berg 1985), networking etc. (Hautala 2001, Varamäki 2001). The family business research in the field of strategic renewal is mostly focusing on the succession process. Wortman (1994) structured the typology of the strategic content studies in family owned business. Other researches have been focused on life cycle, growth models (Danco 1975, 1982, Peiser & Wooten 1983, Ward 1988a, McGivern 1989, Gersick et al.1997), strategic process and management (Beckhard & Dyer 1983a, Harvey & Evans 1994, 1995, Sharma et al. 1997, Brunåker 1999). Ownership and management issues have been studied by Handler (1989), Neubauer & Lank (1998) and Ward (1991). Neubauer & Lank (1998) examine issues that are potentially of considerable concern and utility to those interested in family business in the literature. Bird, Welsch, Astrachan & Pistrui (2002) have recently introduced their study about research in the academic field of family business. Most of the topics included management (28%), other topics were succession (19%), distinctiveness of family business (10%), women in family business (7%), helping family business (6%), economics or policy (7%), and the remaining were topics including siblings and methodology. In the early research on strategy implementation, Donnelley's (1964) key findings were that family firms generally have a valuable reputation, loyal and dedicated family members, and are sensitive to continuity and integrity. Challenges include nepotism, lack of managerial talent, and lack of discipline. His research covered 15 family firms.

The influence of family–controlled enterprises has become quite prominent again in recent decades. During the recession of the 1980's and 1990's family enterprises were among the most effective "locomotives" of the economy. They created jobs, they were among the enterprises that were successful enough to pay taxes and they displayed the agility and flexibility necessary to manoeuvre successfully in troubled economic situations. The situation has been similar on both sides of the North Atlantic as well as in Asia, where family-controlled enterprises have driven the economies of that part of the world (Neubauer & Lank 1998).

Family business as an academic doctrine is young but of major interest. Defining a family firm is a hot topic globally and succession has its special interest in every European country. There is no consensus on the definition of family business enterprise in the research, teaching and consulting communities, among journalists or even among those running a family business. One reason could be that as in any young field, there is little consensus for a definition (Neubauer & Lank 1998). Family business has existed as a distinct field of study for only about 30 years in the United States and for a decade or so in Europe. The US Family Firm Institute, the premier professional association for consultants, academics and researchers, is 15 years old. The Family Business Network, the Lausanne-based, world-wide association was founded in 1990.

One reason for the lack of consensus on a definition could also be that family enterprises are notoriously secretive and usually do not welcome even well-intentioned outsiders, who are prepared to guarantee confidentiality, into their firms for research purposes.

Elements of definition

The review of the literature by Neubauer & Lank (1998:5) has revealed a long list of elements by various authors constructing their varying definitions, which are listed below. The same list also includes the definition of this study (Table 10).

TABLE 10 Elements of definition of family firm

Neubauer & Lank	As appearing in this study
• The percentage of share capital (voting or otherwise) owned by a family	100 %
• Employment of owning family in executive or other position	yes
• The existence of non-family executives or employees	yes
• The extent to which the intention is to maintain family involvement in the future	not articulated
• The number of generations of the owning family involved in the business	2-3
• The number of families involved in either management and/or ownership	1-4
• Whether a given family accepts that it controls its own enterprise	yes
• Whether non-family employees accept that it is a family enterprise	yes
• Whether direct descendants of the founder have management and/or ownership control	yes
• The size of the enterprise, particularly the number of employees	10-31

Source: Neubauer & Lank (1998:5-6)

The work of Neubauer & Lank also includes one of the earliest and most comprehensive definitions by Donnelley (1964):

A company is considered a family business when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on a company policy and on the interest and objectives of the family. Such a relationship is indicated when one or more of the following conditions exist:

- Family relation is a factor, among others, in determining management succession
- Wives or sons of present or former chief executives are on the board of directors
- The important institutional values of the firm are identified with a family, either in formal company publications, or in the informal traditions of the organisation
- The actions of family members reflect on or are thought to reflect on the reputation of the enterprise, regardless of their formal connection to management
- The relatives involved feel obligated to hold the company stock for more than purely financial reasons, especially when losses are involved
- The position of the family member in the firm influences his standing in the family
- A family member must come to terms with his relationship to the enterprise in determining his own career

Definition of the study

Neubauer & Lank's definition of the family enterprise is the following: family enterprise is a proprietorship, partnership, corporation or any form of business association where the voting control is in the hands of a given family (Neubauer & Lank 1998:8). By voting control they mean that the family has the voting majority. According to this definition they have examined interesting cases of governance of family enterprises where no or few family members are active in the day-to-day management of the firm. Furthermore, they believe that the acid test is whether the family has the final say in the strategic direction of the firm and especially in the appointment of the next chief executive officer (CEO) – whether or not this is a family member. They have often stated that the decision on the next CEO is the most fundamental strategic (as opposed to personnel) decision a firm can make.

In this study the case is identified as a small & medium sized firm, the business is owner-managed and ownership has been within the family for two generations. Entrepreneurship, which has been defined earlier in this section, is very typical for small companies and especially for family firms.

Advantages and disadvantages of family firms

Kets de Vries's (1996) main interest lies in the interface between psychoanalysis, dynamic psychiatry, and management. In the field of management he has studied leadership, entrepreneurship, family business, and the process of corporate transformation and change. He has addressed some of the obvious complications of life in family-controlled businesses. While under certain circumstances these enterprises can have major business advantages over publicly held firms, their problems can be serious symptoms of dangerous conflicts having to do with the relationships between family members. He takes a look at some psychodynamic themes. This is the exploration of the inner world of the creator of the firm, the entrepreneur. Figure 30 shows a list of advantages and disadvantages in family controlled firms.

3.2.1 Ownership and family business

Ownership is the basic element of the family business. Ownership and management issues have been studied by Handler (1989), Neubauer & Lank (1998) and Ward (1991). The percentage of share capital (voting or otherwise) owned by a family is the feature that distinguishes the family business from non-family business. In this study ownership has been within the family at least for two generations. "A business firm may be considered a family business to the extent that its ownership and management strive to achieve, maintain, and/or increase intra-organisational family-based relations" Litz (1995:78).

Neubauer & Lank (1998) conclude that the list of definitions leads one to think that "family business", like beauty, tends to be in the eyes of the beholder. Some commonalties cut across in any case. There is the idea of family influence or control – generally of two kinds: ownership and management. Based on these the authors have constructed a two-dimensional matrix shown in Figure 31.

In position X, all owners and all top management are family (often the case in the early stages of a first-generation family company). In position Y no employees of the company are family, but 100 per cent of the ownership is in the hands of the family. Y could be categorised as anywhere between "absentee landlord" and "active landlord", depending on the degree of involvement of the family. Position Z, which is often found when the family has sold the company but remains as the management team, is arguably still a family business in the sense that the family's values and management style may still impact significantly on the day-to-day running of the business. Thus the family's cultural heritage may remain. Position O signifies that the business is no longer "family" as no employees or owners are part of the founding family.

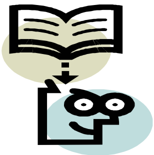
Advantages	Disadvantages
	
Long term orientation	**Limited access to capital markets**
Independence of action - little or no pressure from stock market - little or no take over risk	**Confusing organisations** - messy structure - lack of clear division of tasks
Family culture as a source of pride - stability - strong identification/commitment/motivation - continuity in leadership	**Nepotism** - dominance of family reasons over business logic - tolerance of inept family members - inequitable reward systems - difficulties in attracting professional management
Resilience in hard times - willingness to plow back profits	**Spoiled kid syndrome**
Limited bureaucracy and impersonalism - flexibility - quick decision making	**Internecine strife** - family disputes that overflow into business
Financial benefits - possibility of great success	**Paternalistic/autocratic rule** - resistance to change - secrecy - attraction of dependent personalities
Knowledge of the business - early training for family members	**Financial strain** - family members milking the business - disequilibrium between contribution and compensation
	Succession dramas

FIGURE 30 Advantages and disadvantages in family firms (Kets de Vries 1996:23)

Thus it is probably more reflective of the reality of family business to speak of the degree to which an enterprise is family-controlled. The history of family enterprises is filled with examples of families moving back and forth along either continuum, for example from total ownership to none at all, and then returning to partial or even total ownership. Haas family of Levi Strauss in San

Francisco is just an example of the international clothing business. In Finland companies Lappset, Ponsse and Safematic are examples of other industries.

Management

Ownership	Family	Non-family
Family	X Total Control	Landlord Y
Non - family	Z Cultural Heritage	Exit O

FIGURE 31 The ownership – management matrix (Neubauer & Lank 1998:7)

Ownership-management, family involvement in the business, and availability of family members for generational transfer will vary, just as the size and type of the firm will vary (Figure 32). Any definition of family business must take into account this range of configurations as well as distinguish family firms from other forms of organisation (Handler 1989).

Ownership management
Owner managed
Family owned, externally managed
Family owned, family managed

Family involvement
None beyond owner
Spouse
Sole child
Nuclear family members
Nuclear and extended family members

FAMILY BUSINESS

Next generation in line for generational transfer
None
Sole Heir
Nuclear family members
Nuclear and extended family members

FIGURE 32 Configurations of family business along three dimensions by Handler (1989)

In Figure 32 the term ownership refers to the control of property rights to the business. The term management refers to the control of the business's operations and strategic direction (Churchill & Hatten 1989).

Also Ward (1991) looks at the evolution of the family company through owner (Table 11) and management (Table 12) perspectives. In Table 11 a multigenerational model is presented, which many long-lived family companies can identify with. Dominant shareholder issues are presented for each stage. The inter-stage transitions can be extremely difficult. There is no automatic progression through the stages. Although there is the danger that the firm may collapse or be sold out of the founding family at any time, family enterprise may also stay in the same stage for generations, for example the oldest child may inherit all the shares and behave like a founder. A company in stage two may return to being a stage one company when one sibling buys out another. In this case the dominant shareholder issues look very much like those of a founder stage company. Likewise companies in stage three can cycle back either to stage two or stage one (a process sometimes labelled "pruning the family tree"). Thus, multiple combinations and permutations are possible in the ownership structure over the lives of family enterprises (Ward 1991).

TABLE 11 Ownership issues in the evolving family business

Ownership stage	Dominant shareholder issues
Stage one: the founder(s)	Leadership transition Succession Spouse insurance Estate planning
Stage two: the sibling partnership	Maintaining teamwork and harmony Sustaining family ownership Succession
Stage three: the family dynasty	Allocation of corporate capital; dividends dept and profit levels Shareholder liquidity Family tradition and culture Family conflict resolution Family participation and role Family vision and mission Family linkage with the business

Source: Ward (1991:220)

Table 12 views the family business through the evolution of management stages. Dominant management issues vary with each predictable stage, and the transitions can be problematic. With these two models in the foreground, Ward then goes on to describe his experience with the role, structuring and managing of the board of directors of private (mostly family) enterprises.

TABLE 12 Management stages in the evolving family business

Management stage	Dominant management issues
Stage one: entrepreneurship	Survival Growth
Stage two: professionalisation	Adopting professional management systems Revitalising strategy
Stage three: the holding company	Allocation of recourses Overseeing investment portfolio Corporate culture Succession and leadership Performance of investment Strategy Shareholders relations

Source: Ward (1991:221)

3.2.2 Culture and values in family business

Normally when talking about value in singular form it means money or a variety of financial indicators from share price to return on investment or market share. Family businesses have a special competitive advantage in this regard, because values are used far more often in their plural form. Family businesses also have the vast potential advantage of a cohesive owning family with shared values. When shared among owners, decision-makers and employees in a business, they have great power in shaping the business's performance and results (Aronoff & Ward 2000:4).

Definitions about the topic have been introduced e.g. by Aronoff & Ward (2000:15):

> Beliefs: All values spring from basic beliefs.
> Values: Philosophies or attributes assigned fundamental significance.
> Norms: A shared principle of right action or conduct.
> Artefacts: Practises, possessions, products or stories that serve as signs of underlying values.

A firm's responsiveness to change is rooted in the values and actions of its owners and managers, which again in family firms is determined by the way in which family values and relationship dynamics determine business activity. The purpose of Dunn's study (1995) was to explore the themes to uncover the philosophies or values that lead to their view of success and to observe the philosophies in practise. The purpose was to have families define success in their own terms and identify the sources and the obstacles to their brand of success.

The findings of the study illustrate the differences in terms of the values and actions. The firms used their 'family-ness' opportunistically, for example, by being highly visible and available to customers, suppliers, and staff ('they like to deal with the name') and by using family ownership for marketing purposes to imply quality, care, and special attention to customers. Several respondents felt a 'burden of responsibility' toward their families and to the families they employed, and therefore managed the wealth and well being of the firm's stakeholders by a cautious form of incrementalism.

When considered in the context of family business, culture takes on an even more complex dimension. Because of the dominant role of the founder, not only during the entrepreneurial period but also potentially through successive stages, values and owner motivations are powerful cultural drivers (Denison, Lief & Ward 2004). Barney looked to the founder as the imperfect embodiment of company culture (Barney 1986).

Leaders of family business tend to have a long-term view of their business. They may have a different outlook vis-à-vis their employees, their customers, the community, and other important stakeholders – an outlook that can positively affect the quality of their product. Having their name on the building or on a product makes these leaders more conscious of their standing in the community, prompting them to guard their reputation jealously. In the best managed companies employees share the family's outlook toward customer service, quality and productivity – a covenant that works both ways. Family members back up their strong belief in the potential of people with a set of rights that determine the psychological contract between workers and management. On the other hand, the key problems facing these businesses are psychological. They are usually focused on issues such as, the fit between the senior executive's leadership style and the company's stage of development, the overflow of family conflicts into the business, collusion among various family members, and the question of succession (Kets de Vries 1996).

Families differ widely in the emotional tone of their typical interactions: warm or cold, intimate or distant, hostile or friendly. In business families it is also important to look at the quality of communication as a purposeful activity, a process essential in performing the business's work (Gersick et al.1997:70). Family communications need *honesty, openness and consistency* for people to be able to work together.

Honesty is simply the degree to which family members tell and expect the truth. In business a junior manager from the family will expect that when a parent-executive asks for an opinion or feedback, he can respond truthfully without negative consequences.

All families of course have taboos against some topics such as sex, money, problems at work, etc. These restrictions are kept to a minimum in families that value *openness*. Across business families, the most common complaints about family communications concern frustration over limits on *openness.* For example, if talking about recent strategic decision is considered a challenge to the authority structure, or if protecting individual turf means that no one can ask questions about someone else's division, the openness of communication is restricted.

In some families, one can assume that a person's opinion today will be the same as his or her opinion tomorrow. In other families this is not the case. For example, a young manager may find out that she has easy access to her father and one day when she comes into his office to deliver a market analysis, he informs her coldly that she is taking liberties as a family member and should *always* go through channels. Persistent consistency is neither desirable nor possible. However, in families where consistent communications is the norm, the members' confidence and sense of security may be low, and an atmosphere of perpetual anxiety may cloud family relationship at work.

The family, whose communications are high on honesty, openness, and consistency, will be better able to manage conflicts productively than the one which is low on some or all of these dimensions. At the same time, it is a question of beliefs, myths and values in the family (Gersick et al.1997:71).

Culture and strategy

A cultural perspective on strategy and the re-interpretation of many elements of strategic work, analysis, decision-making, implementation and change aided by the culture metaphor is an interesting possibility. In the context where resources and competence are viewed as the key elements of competitive advantage, the culture metaphor on strategy provides different insights (Prahalad & Hamel 1990).

A cultural view of strategy rejects objective ideas about the company's external environment and instead emphasises reality as a social construction, i.e. what is defined as reality is real in the context of human action. The consequences of the environment for the organisation and the actions of organisational participants are revealed in the interpretations, frames of reference, perceptions and forms of understanding that characterises the strategic actors as a group. Ideas about the market and the environment in general determine organisational operations, not external circumstances per se (Chaffee 1985). This means that the realisation of a strategy requires carefully taking into account the manner in which the group involved gives meaning and content to different aspects of the environment. Conceptualising strategic change as cultural change implies the re-orientations of the corporate group's collective values, ideas and understandings. Such shared meanings are the basis of collective action, including the overall direction indicated by the concept of strategy. One definition of strategy based on this approach might be Chaffee's. "Strategy in the interpretative model might be defined as orienting metaphors or frames of reference that allow the organisation and its environment to be understood by organisational stakeholders. On this basis, stakeholders are motivated to believe and to act in ways that are expected to produce favourable results for the organisation", Chaffee (1985:93).

Berg (1985:289) also proposes a cultural-symbolic perspective on strategy and organisational change, although a more unitary version than the one suggested by Chaffee. Berg considers that strategy should be regarded as a more or less synthesised abstraction of the aspects of the company's identity which are to be developed. He considers that organisational and strategic change is primarily a question of transforming the underlying organisational symbolism holding the organisation together and providing points of reference for social action. Berg (1985:295) rejects the planning approach, suggesting that a strategy is not regarded as a plan, but as a collective image that can be acted upon. This approach means that strategic planning is regarded as a renewal rite, in which the collective process links with fundamental values and ideas and the plan/rite as a manifestation of the corporate mission and vision are emphasised.

Values inspire people to do things that are difficult, to make commitments that require discipline, to stick to plans for the long haul. Shared values also help overcome the conflicts inherent to family business ownership. Values can be the glue that bonds the family and the business (Aronoff & Ward 2000). Even with families, values are bound to vary. They shape the choice of goals, modify the ability to tolerate risk, and influence ideas about teaching and learning. How much money does the family need for security? The answer to this question affects the level of investment in a business strategy. To what degree should family differences be openly discussed and tolerated? The answer to this question affects the ability to debate business facts and perceptions. How close should family relationships be? The answer to this question affects decisions on geographic expansion. These are critical examples and they can lead to conflict. Understanding that there is no absolute right or wrong in many of these issues is one step towards compromise. Strategic planning is a valuable tool that helps to build such qualities as the ability to work towards consensus, team management, and shared decision making. It identifies the fundamental business and family assumptions in a constructive way (Ward 1988b:116).

Strategic planning strengthens the ability to share decisions and value orientations. Both are critical requirements for success in perpetuating the family business. Strategic planning provides a framework for evaluation and choice of a business direction and family goals as well as being a process that prompts healthy communication on critical family issues. Motivating the family requires a compelling vision – a commitment to a family dream – that everyone shares. Among many challenges to sustaining a family's emotional investment in an enterprise from generation to generation strategic planning is one key to success. It helps to create motivation and releases energy that the family can use to fulfil its vision (Ward 1988b:116).

Cultural change in an organisation is not a short-term win. It can take from three to ten years (Kotter 1996). Family businesses often have an advantage over non-family businesses. Continuity of leadership in the family business encourages this kind of long term, sustainable change efforts. Family businesses have less top management, and by their nature, family businesses also take a multigenerational, long term view. Successful leaders stay the course and think long-term.

A strong culture can burnish the reputation of the business in the market place, making it more alluring to business partners and employees alike. Values can also strengthen shareholders' commitment to long-term goals by providing a vision that transcends short-term financial goals. Values must have certain qualities to work this way. They must be authentic, simple and durable, that is resilient, and malleable to changing times. They should encompass as many dimensions of family and business behaviour as possible. In research carried out in the USA by Ward, included in the twenty winning values seen at work in successful business families were: accountability, ethical conduct, meritocracy, risk-taking, self-reliance, servant leadership, social purpose, stewardship, valuing stakeholders and fun (Aronoff & Ward 2000:25).

Astrachan, Klein & Smyrnios (2002) presented the measurements of the impact of family on outcomes such as success, failure, strategy and operations in their study of the F-PEC scale of family influence. The scale comprises of three sub-scales: power (P), experience (E), and culture (C). In addition to the categories of this study's model, the PEC-scale has the culture scale and power scale, which also includes the external members' influence. The reason why the model was rejected is the small size of the company included in this study. Thus the power influence of external members in management and governance is limited. The overlap between family values and business values as well as family business commitment is obvious, and the culture influence is essential in small family companies.

Culture refers to shared values in a group, which tend to persist over time even when group membership changes. This is true in family business and in successful family businesses, generation after generation, values spring from basic beliefs, philosophies and shared principle of right action or conduct.

3.3 Succession in family business

Family enterprises are notoriously short-lived. Studies on the longevity of family companies in several countries have all come to the same conclusion. The life-cycle crisis often occurs when the second generation has developed enough expertise to assume major responsibility in the general management of the firm, but the first generation is not prepared to share that responsibility (Peiser & Wooten 1983, Vesper 1996). A living myth about succession in family firms is that the first generation creates, the second builds and the thirds destroys. However, there are also some (surprisingly) old family firms.

The succession process in family firms involves numerous participants (Barach & Ganitsky 1995:131). The most important participants in the succession process are successor, incumbent and the owner of the family firms. Also other family members might be involved with the succession. At its best, succession is a slow process in which an incumbent (owner- entrepreneur) hands over the real decision power and ownership in his/her (family) firm to a successor.

Within the strategic management framework, the prime objective of managing the succession process is to choose the best successor. This requires a definition of the best successor. The "best" will depend on the goals of the family firm. If the family firm is most concerned with family harmony, then the successor who will contribute the most toward that goal is the best. On the other hand, if the family firm's goal is growth and profitability, another candidate might be more preferable (Sharma et al.1997:11).

Roles in succession

During the first generation's tenure, between 2/3 and 3/4 of family businesses either collapses or are sold by the founding family. Only 5-15% continue into the third generation in the hands of the founder's descendants. These figures compare unfavourably with the equivalent non-family-controlled companies. The different roles and their complexity in family business might be one of the reasons for the unfavourable trend.

Successor

The concept of a successor may be very ambiguous. A successor can be an inside-promoted or outside-promoted person. Examples of inside-promoted persons are offspring, a relative or a long-time employee without any blood ties. Examples of outside-promoted successors are a professional manager at high level, and a major stockholder (Brady, Fulmer & Helmich 1982).

Usually an inside-promoted successor is prepared in many ways throughout childhood, adolescence, and adult years, formally and informally, to accept the mantle of leadership at some time in the future (Longenecker & Schoen 1978:1). The first succession in leadership is crucial, because it can determine whether the organisation will continue to exist beyond the life of its founders (Davis 1968:403). In the United States almost 85percent of all successors go to work for the family firm immediately after graduation (Barach, Ganitsky, Carson & Doochin 1988), but it is also recommendable that the next generation gets experience working for someone else, before joining his/her parent's family firm.

Incumbent

The role of the incumbent is very significant in the succession process. One of the crucial problems in succession is how the entrepreneur or incumbent can transfer the social capital and the trust of customers, suppliers, and network to the successor. Brady et al. (1982) have studied the succession planning of chief executive officers. They found out that CEO's have either formal, informal or "privately developed" succession plans.

There are several reasons why the incumbent hands over the business to a named successor. One of the typical reasons is the willingness to retire. Other reasons might be old age, sudden serious illness or sometimes the incumbent's unexpected death.

Varamäki (1999) has made a study of 300 South Ostrobothnian owner-entrepreneurs over 55 years old. The firms represented all branches of business. The result of the study highlighted the incumbent's weak preparation for succession both for the transfer of ownership inside the family and the transfer of ownership to outsiders. In Varamäki's study 39% of the owner-entrepreneurs announced that a successor will be found inside the family, 16% will sell the company or part of it to an outside buyer, 13% will terminate the business. In four per cent of the companies the other owners will continue in the business in the future. Almost one third (29%) could not answer what will happen to the company in the future.

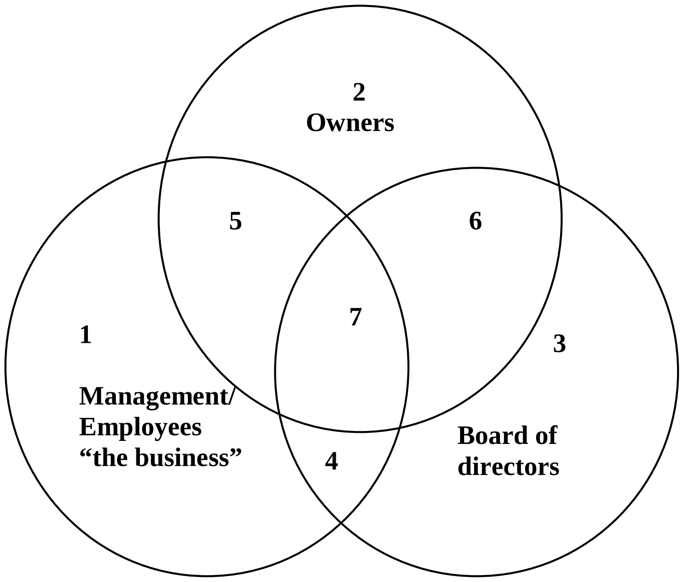
Owner of a family firm

The owners of the family firm are the natural partners involved within the succession process. Ownership and control are aligned according to the most commonly accepted definition of family business (Beckhard & Dyer 1983a, Landsberg, Perrow & Rogolsky 1988, Gallo & Sveen 1991). Several studies show that firms whose ownership and control are aligned achieve better results than those with ownership and control separation. The level of commitment is influenced by the effort and quality of the shareholder decision-making process. The main components of effort and quality are identification, involvement and loyalty (Buchanan 1974).

Neubauer & Lank (1998:14-15) explain their role theory with a model of different roles and their complexity in Figure 33. According to the authors, family enterprises are the most complex form of business organisation. The CEO who holds a role in position 7 has to deal with the managing of all seven sets of roles in a synergistic manner in pursuit of the business's mission and objectives – not simple under the best of circumstances.

The authors added one more dimension (family) to Figure 33. The model is called the "three circle and a tie" model (Figure 34). The number of roles to be managed by the CEO in position 15 is more than double and is significantly more complex.

This concept of the family – controlled corporation begins to explain some of the negative dynamics commonly associated with such organisations. Conflicts between and within generations are often attributed to "personality differences", although Figure 34 shows that the basis of the differences may be related more to a role or perspective than personality. An example of this could be the important, frequently emotionally charged, decision concerning the dividend payout ratio. A person in role 15 may have a very different opinion than a person in role 5. No totally publicly held corporation has to face these challenges which are seen in the three circles.

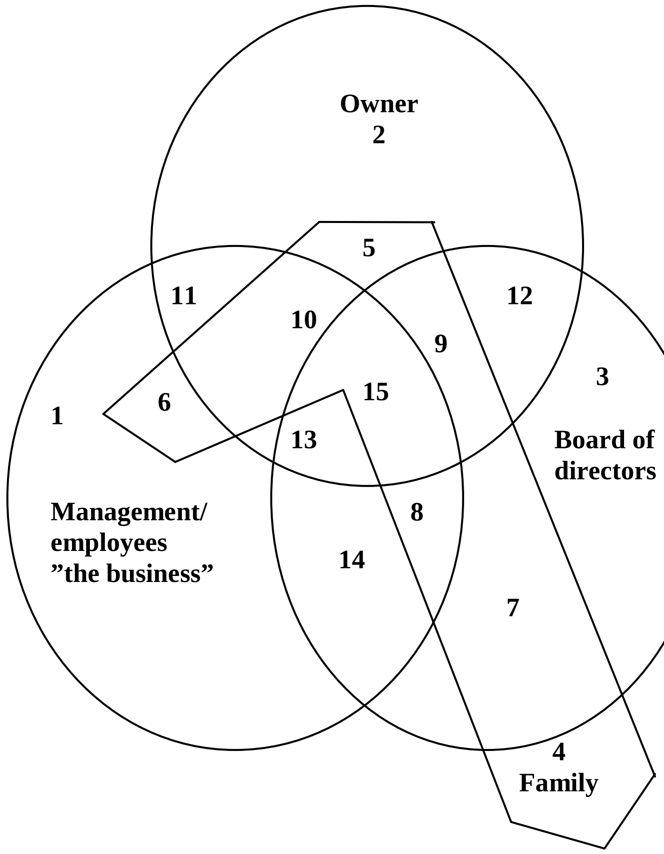


Roles

1. Just management/employees
2. Just owner
3. Just board of directors
4. Management – board of directors
5. Management – owners
6. Owners – board of directors
7. Management – owners – board of directors

FIGURE 33 A typical corporation

The size and the degree of overlap of the business, ownership, board and family circles and tie will probably change over time. In the beginning a newly married couple launch their local enterprise. They are co-owners, only employees and sole members of this family. They meet monthly as an informal board of directors to discuss the strategic development of their firm. At this stage the components of the model lie almost on top of each other. Over time, they have grown as a family and a firm, hired employees and independent directors, who have bought some per cent of the voting shares. If the company is then sold to outsiders and no family members hold shares or are in the business, the firm has mutated to something much closer to a non-family business (Neubauer & Lank 1998).



Roles

1. Just management/employees
2. Just owner
3. Just board of directors
4. Just family
5. Family – owner
6. Family – management/employee
7. Family – board of directors
8. Family – management/employees – board of directors
9. Family – board of directors – owner
10. Family – owner – management/employee
11. Owner – management/employee
12. Owner – board of directors
13. Owner – board of directors – management/employee
14. Management/employee – board of directors
15. Family - owner – board of directors – management/employee

FIGURE 34 Three circle and a tie – model (Neubauer & Lank 1998:15)

Succession process

In business economic literature, there are many models concerning the succession process. Normative models of succession are to help the family firm to implement the succession successfully. In family business succession literature these models have been presented by Levinson (1971), Barnes &

Hershon (1976), Davis (1982), Barach & Ganitsky (1995), and Morris, Williams & Nel (1996).

Two other models to illustrate succession are called the stage model and the process model. They attempt to illustrate the succession as a periodically continuing process. These models have been presented by e.g. Levinson (1978), Longenecker & Schoen (1978), Adizes (1979), Danco (1982), Barach et al. (1988), McGivern (1989), Handler (1990), Ibrahim & Ellis (1994). The common characteristics for all these process models are careful planning in advance, as well as the anticipation of succession.

Definitional questions still exist for the question of what defines family business succession and what, if anything, distinguishes it from management succession, leadership succession, or executive succession. Related to this is the question of what defines a "successful" or "effective" succession (Handler 1989). As this study is from the ownership and management perspective, the succession means the locus of power of the owner, in this case the power of the successor. Successful succession in this study means, that the company, the same legal entity continues to exist, even though weaker and with fewer resources than before. The economical success is evaluated according to the Finnvera Oyj's corporate analyses guidelines.

3.3.1 Stage model

Some of the literature on succession bears a strong influence from entrepreneurship theory and the use of stage models. Longenecker and Schoen (1978) state that succession is a complex process of socialisation that spans over an extended period of time. They identify distinct periods of learning and activity for the successor in the stage model of the succession process. This model is criticised by Harvey and Evans (1994), who state that the model assumes that a successful succession process ends with the transfer of power and responsibility. Harvey & Evans identify a post-succession stage and emphasise that the succession process is not over just because the successor is in place. When the formal succession is completed the successor has to deal with the conflicts that the succession may have caused within the business. Thus, the transfer of power can be seen as an inflection point within an ongoing process, not an end stage. Succession can be seen as a permanent condition in the family business (Brunåker 1999).

Stages of evolution of family enterprises

In most of the firms, which survive until the second generation, both the family and the enterprise must come to grips with the problems of growth, purpose, personal conflict, succession, and a whole host of family issues ranging from the mundane to the bizarre (Peiser & Wooten 1983).

Businesses go through life cycles; so do the families playing the dominant roles in managing these firms. It is this overlap of family life cycles on the business life cycles, which provides the central issue in making a successful transition.

The conceptual source of most dynamic models is to be found in the psychological and psychoanalytical literature that traces the development of an individual from birth to death. Life-span perspective tends to favour a reciprocal-influence model of person-environment relations. In other words, it sees both the individual and the environment as potentially influencing and being influenced by each other. It positions a changing organism in a changing context (Sugarman 1990). The extrapolations are constructed from the life cycle of individuals and applied to the collectivity of individuals that comprise the infrastructure of all organisations. The components of organisational life cycles are variously described as "stages", "eras", "phases", "steps" or "passages" – most of which are deeply rooted in human psychological development models created during the 20th century. Levinson and his colleagues undertook the classic 10-year study of male adulthood. Their life cycle is split into "eras". They draw from biology, psychology, social psychology and sociology in their descriptions. As they state, "The sequence of eras constitutes the macro-structure of the life cycle. It provides a framework within which developmental periods and concrete processes of everyday living take place", Levinson (1978:18).

Organisational life cycles

Like every business, the family enterprise also has a model of organisation. Adizes (1979) in his work hypothesises that people, products, markets and even societies go through a life cycle composed of four generic stages: birth, growth, maturity and death. He expands his list to 10 stages when he applies it to business organisations. He further declares that a well-managed firm must undertake four roles to be effective:

The firm must Produce (P) the results for which it exists. It must also achieve results efficiently. The firm must be Administrated (A), that is, the decisions must be made in the right sequence and with the right timing and right intensity. In the long run, a well-managed organisation must adapt to its external environment. The Entrepreneurial (E) role focuses on the adaptive changes, which require creativity and risk-taking. Finally, to ensure that an organisation will have a life span longer than that of its key managers, the fourth role – Integration (I) – is necessary to build the team effort. Effective and efficient management over short and long term requires all four roles PAEI – to be performed well (Ibid:3-4).

Adizes then lists and describes in detail the 10 'phases' of his model. Over time, the firm passes from one stage to the next, and the four roles – in a descriptive sense – are more or less important. He illustrates his finding through the following shorthand. A capital letter implies that the particular role predominates; lower case implies a lesser role; - indicates that the role is largely inoperative. His model is shown in Figure 35.

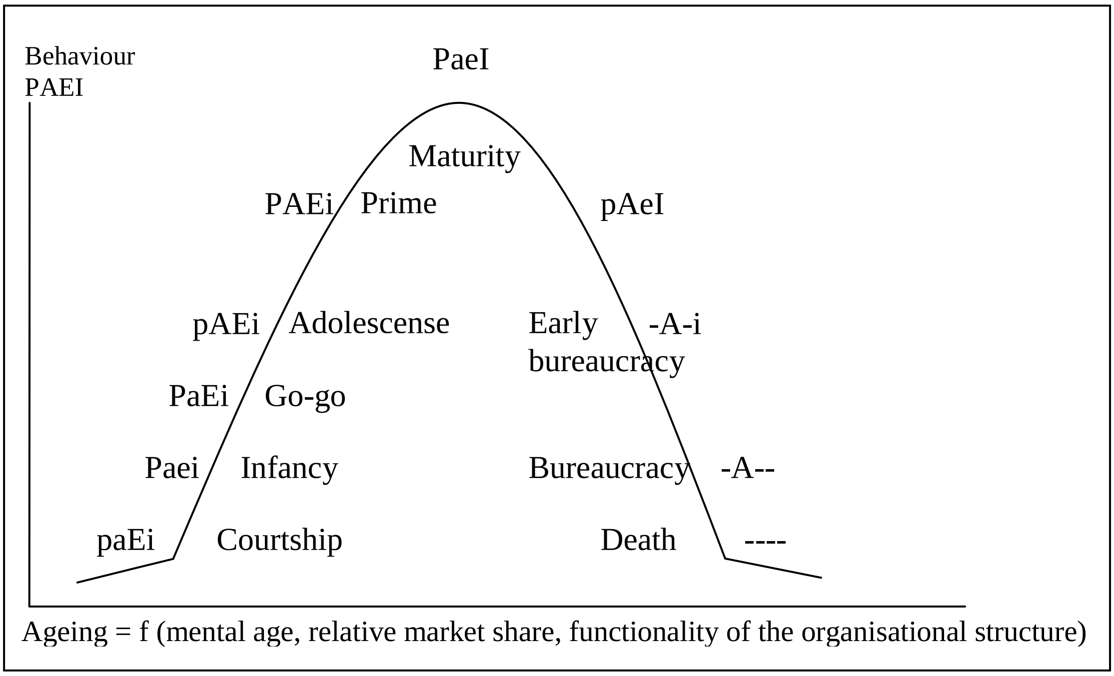


FIGURE 35 Organisational passages by Adizes (Neubauer & Lank 1998:31)

There is no inevitable progression up the curve, so failure can occur at any stage. Adizes labels these causes of exit "aborted idea" at the courtship stage, "infancy mortality" at the infancy stage, "the founder's trap" at the go-go stage and "divorce" at adolescence. The founder's trap relates directly to many family enterprises in their early stages. Adizes points out that the very behaviour that allowed the organisation to prosper during the go-go stage may, if allowed to continue, prevent its further development (Neubauer & Lank 1998).

The Infant organisation survived a hostile environment because of the mother-like commitment of its founder. While this commitment is indispensable for the survival of the Infant organisation, it becomes dysfunctional after the go-go stages. The loving embrace becomes a stranglehold. The founder refuses to depersonalise policies and institutionalise his leadership, namely, to establish workable systems, procedures, and policies that do not require his personal judgement. Avoiding the founder's trap requires the A role – administrative systems – to grow in importance (Neubauer & Lank 1998).

Adizes' model has most of the earmarks of the previously cited individual development theories. There are describable and predictable stages and transitions, each with their own special characteristics and challenges. Death occurs, when the starting point and the end point are the same. Knowing the challenges of each stage and transition, Adizes states clearly what should be done to correct the course to avoid pitfalls such as the founder's trap. He speaks of two kinds of "treatment" – preventive and curative (Neubauer & Lank 1998).

A criticism of the model of Adizes is the lack of space for strategic renewal. One could also interpret his model as if the renewal process is constant as he speaks of two kinds of "treatment" – preventive and curative.

Life cycles of family business

Danco (1982) has been considered by many as the godfather in the field of family business literature. There are four possible stages or periods in the life cycle of the family firm in his model, the axes being time and growth. He focuses on the founding owner-manager. The stages are:

- The wonder period
- The blunder period
- The thunder period
- The sunder or plunder period

The last stage may mean the death of the enterprise, because many of the family enterprises have a short life cycle. Danco leaves the door open for the fifth stage, which he labels the "new wonder":

"But there is a third alternative. That is the possibility of investing his successor with his own sense of wonder in the joy of risking and building the business so that they can provide the leadership the business needs to continue grow, without repeating all the mistakes and hardships of a first generation. This is what I term the rebirth of wonder …the real solution to continuity of the owner managed business" (Ibid:46).

McGivern (1989) uses a life cycle model as a basis for insight into how to manage CEO succession in small family firms, thus providing a bridge between the organisation life cycle model and how to manage CEO succession in small family firms. He connects together the five life-cycle stages (initiation, development, growth, maturity, and decline) and the hypothesised managerial roles that are required at each stage, the axes being life cycle stage and managerial role in different stages (Table 13). This formulation strongly suggests that the choice of successor should be based on the skills needed for the particular managerial role, played in the life cycle stage the new CEO will be inheriting.

TABLE 13 Managerial development through the life cycle of the small firm

Life cycle stage:	Managerial role:
Initiation	Originator, Inventor
Development	Planner, Organiser
Growth	Developer, Implementation
Maturity	Administrator
Decline	Successor, Reorganiser

Source: McGivern (1989:407)

McGivern works with five variables, which are:

- Stage of business development
- Motivation of owner-manager
- Extent of family dominance
- Organisational climate
- The business environment

Hershon (Cited in Hollander & Elman 1988), creates a two dimensional graph that links the progress of a family through three generations (the management succession x – axis), and normatively suggests appropriate management styles or patterns (the organisation development y –axis) for each stage in the evolution of the family business (Figure 36).

Again, the transition in the life cycle appears between each of the generations and each of the management style patterns. Hershon was among the pioneers who took a multigenerational perspective rather than just concentrating on what transpires during the tenure of the founder or a single owner-manager.

A similar three-stage model was developed by Benson, Crego & Drucer (1990): first generation (starting the business, growth, the plot thickens); second generation; third generation and beyond. The tradition of stage descriptions, challenges and transitions is maintained.

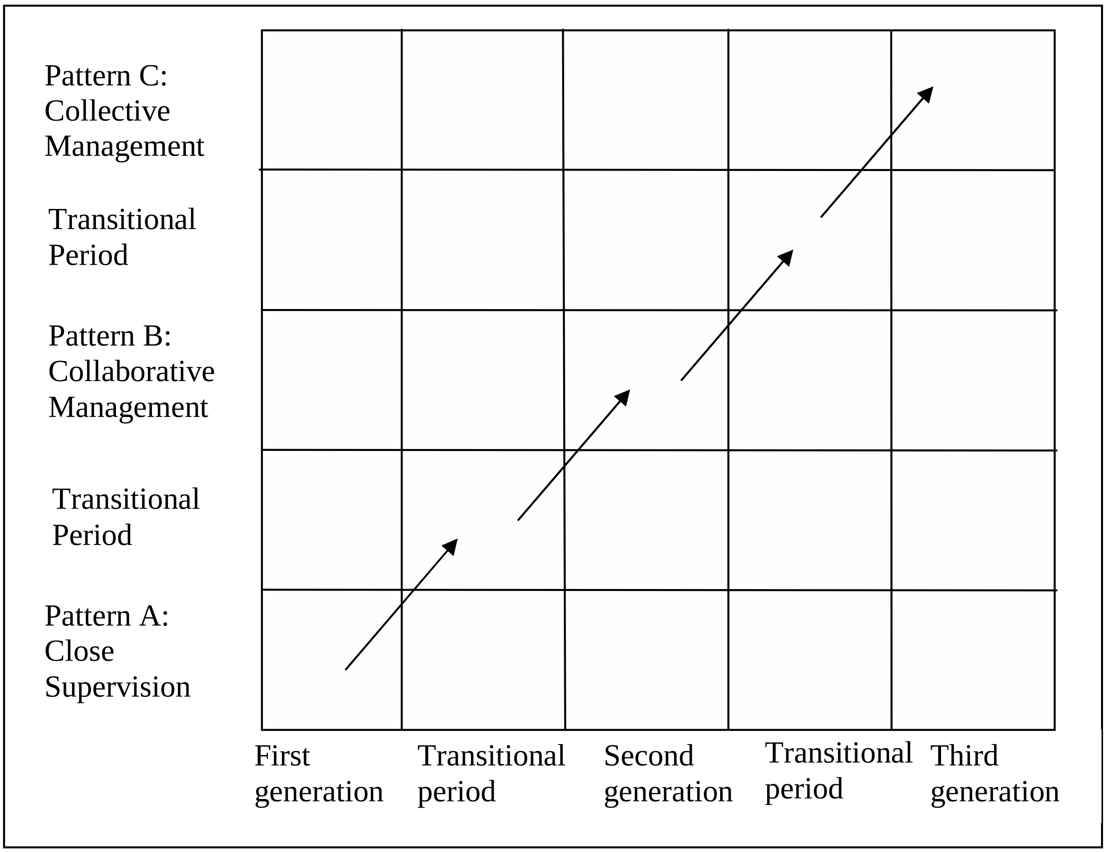


FIGURE 36 Successful management succession patterns. Source: Hershon (Cited in Hollander & Elman 1988:153)

Ward developed his first model in 1988 and then represented his thinking in 1991. He specifies three different life cycles:

- Business life cycle
- Organisational life cycle
- Business owner's life cycle

In his earlier studies, Ward also believed that various forces influence the passage of the family firm through various predictable patterns of growth and change. Among these forces are:

- The nature of the business (type of product, its stage in the life cycle, competition and market conditions, and so on).
- The character of the organisation (size, complexity, speed of change)
- The motivation of the owner-manager (his or her major focus)
- Family financial expectations (the evolution of its needs)
- Family goals (its major focus)

His model has three stages of growth in the life cycle of a family business (Table 14). These three stages are the following:

- Stage I: early
- Stage II: middle
- Stage III: late

The challenges of each stage vary and there are difficult transitions. Individual family firms will stay for varying periods of time in each stage, and many will not continue to exist throughout the three stages. Management styles and strategies, among other things, must change over time if the enterprise is to prosper (Ward 1988a).

Gersick et al. (1997) have another model of life cycle applied to family firms. The result is a three-dimensional matrix of their "development model" of the family enterprises. The "**family"** axis comprises four stages:

- Young business family (older generation at work)
- Entering the business (the next generation is employed in the firm).
- Working together (of two generations)
- Passing the baton (succession)

This has been influenced by the work of Levinson and other individuals as well as family life cycle theorists. The "**ownership**" axis is derived directly from Ward (1991) and the three stages have been relabelled as:

- Controlling power
- Sibling partnership
- Cousin consortium

The third axis is "**business**" and there are three stages:

- Start up
- Expansion/ formalisation
- Maturity

TABLE 14 Evolutionary stages of a family business

	I	II	III
Age of business (or business renewal)	0 - 5 years	10 - 20 years	20 - 30 years
Age of parents	25 - 35 years	40 - 50 years	55 - 70 years
Age of children	0 - 10 years	15 - 25 years	30 - 45 years
Challenge:			
Nature of business	Rapidly growing and demanding time and money	Maturing	Needing strategic "regeneration" and reinvestment
Character of organisation	Small, dynamic	Larger and more complex	Stagnant
Owner-Manager motivation	Committed to business success	Desires control and stability	Seeks new interests, or is semi retired; next generation seeks growth and change
Family financial expectations	Limited to basic needs	More needs, including comfort education	Larger needs, including security and generosity
Family goals	Business success	Growth and development of children	Family harmony and unity

Source: Ward (1988a:21)

This is a more complex model as it is a telescope version of many of the business life cycle models. It combines the majority of the life cycle literature, which is this model's strength, but it has a large number of possible combinations deriving from a 4 x 3 x 3 matrix. A given family enterprise can be at several stages on any given axis, which makes the model quite complex. The model focus is periodically on archetypes such as "controlling owner", "young business family" or "start- up business". When the spotlight is on succession, they roam more widely throughout their model. This model of three axes is shown in Figure 37.

Each stage has particular challenges, but a company in Stage 3 (Ownership) faces significant centrifugal forces in the struggle to remain in family control. At Stage 1, both ownership and management tend to be in the hands of the same person, and governance issues are not a major concern. By Stage 2, centrifugal forces may well have started, with only some siblings both in the business and part owners. People external to the firm may have very different views on family and business matters.

The case of this study is in Stage 1 on the ownership axis. If the company would grow to Stage 3, it would also face significant centrifugal forces in their struggle to remain in family control, as the size of the company is quite small, and there have already been problems with the ownership of the siblings.

Most third and subsequent generation shareholders' ownership may be very small. Even though their wealth, measured in the value of their shares, may still be significant, these shares may be partially or totally illiquid unless provision for selling them has been institutionalised. This can lead to frustration and jealousy of the non-active family members. Different parents have brought up the family members by the third generation. The norm of the individual nuclear families may vary. The key actors will not know each other as well the older generation. The cousins and even the siblings may be geographically separated and the chance to get together is limited. The active members probably have detailed information concerning the company and its current and future prospects. Information is perceived as power. Furthermore, siblings and cousins may not have the educational background to understand the data even if they have the information (Gersick et al. 1997).

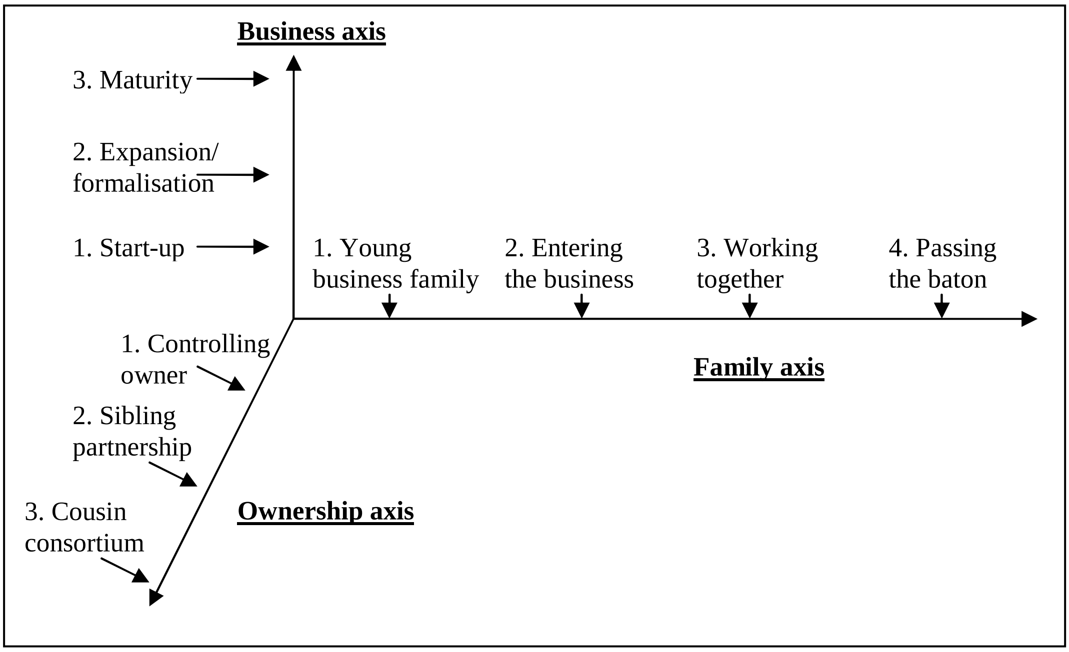


FIGURE 37 The three-dimensional model (Gersick et al. 1997:17)

All this may be a part in explaining why so few family enterprises are in the cousins' confederation stage. According to Gersick et al. (1997:31) it has been estimated that in the United States only 5% of family enterprises are in Stage 3 compared to 20% in Stage 2 and 75% in Stage 1.

3.3.2 Process model

The criticism against stage models has sometimes been strong, see e.g. Kazanjian (1988), Gibb & Davies (1991) and Hanks & Chandler (1994). An alternative to theories based on stages in a life cycle is what Van de Ven (1992) calls a teleology process theory. This process theory explains a phenomenon by final causes. It is based on the assumption that the development is purposeful and adaptive. The change process starts because of specific reasons, not because it is predestined. Also, the end stage is not known beforehand. It gradually becomes more explicit as a result of the interaction between participants, even if it is not articulated at the outset. The change process contains no fixed sequence of events; it can be achieved by following a number of different paths, which all lead to the same end stage.

Brunåker's (1999) study focuses on the very first steps of integrating family and business. Family member's experience and their understanding of the introduction process are of central interest. Brunåker's studies in a single-family case show how the organisational routines of the family operated business develop and function and how second generation family members are introduced into the business. The findings of the study are summarised in a set of social constructions that guide the behaviour of the family members in different contexts. These constructions replace traditional control systems and are communicated to the next generation of family members through socialisation. Brunåker sees that the advantage of relying on social constructions for the organisation of the family business is that under certain conditions they can provide both organisational stability and flexibility. Thus, the development of the family business is not defined by external forces alone, but is very much an outcome of the family's own visions and will power. Second generation family members are introduced into the family operated business through a process of socialisation characterised by ascription of roles and mutual role adjustments rather than formal control systems. In the model of Mahnke & Aadne (1998) developing common grounds can be seen as the same kind of process.

According to Ibrahim & Ellis (1994) an effective succession process is a result of six ingredients. The first part is preparing offspring. This can mean that the successor should work outside and gain experience, work in a family firm in different jobs during the summer at an early age and work at the operative level as well as getting to know the business. The second ingredient is role adjustment. This means that both a successor and an entrepreneur or an incumbent should have enough time to adapt to their new roles: the successor as a managing director and the incumbent as a retiree. The third part is de-coupling the two systems: family and business. The successor has two simultaneous roles when being a part of the family and business. When the company is small and also other family members work in the firm it is almost impossible to separate these roles from each other. The forth ingredient is the emotional support of family. This is very important for the successor. Family members can be very supportive during the transition process of the incoming managing director. The fifth part of an effective succession involves strength of relationships between the incumbent and the successor. The last (sixth) part of an effective succession consists of the successor's ability. This is in many cases a question of the ability of leadership and understanding the position of family and non-family members (Ibrahim & Ellis 1994).

Harvey & Evans (1995) examine in their study the after-succession environment that exists when the management and leadership of the family business are passed on to the next generation. The article addresses the organisational climate and the potential for additional problems in the business-family if post-succession issues are not identified and addressed, and suggests some steps that will be helpful in producing complete succession success (Harvey & Evans 1995:3).

The process of succession does not end when leadership transfers from one generation to the next. It is important not to assume that conflict will be avoided because the change was successful. Change itself provides the stimulus for conflict to arise (Beckhard & Pritchard 1992). The new generation as the leader(s) need to be confirmed by many important stakeholders, including key employees, investors, bankers, suppliers, and distributors. Attention to residual post-succession conflict is important to all. The new leadership inevitably brings changes in the organisational culture as well. These compounded circumstances make it important that both positional authority and ownership pass during succession. Among other things the new leader must avoid being considered a figurehead for the older generation that still owns the business. Maintaining stability in the family business after succession is a process that is essential for the future success as well (Harvey & Evans 1995:4).

Successful succession

Because only 30 percent of family businesses are thought to survive the transition to the second generation (Beckhard & Dyer 1983b), as many of the following characteristics need to be present as possible (Handler 1992):

- The succession meets the personal career needs of the individual placed in power
- There is a good fit between the personal psychological needs of the successor to be a leader and to contribute to the family business.
- The position should be appropriate for the life stage of the candidate, that is, he or she is prepared and has sufficient ability to take on the responsibilities of the family business.
- The more the successor can exert personal influence, the more likely that it will be a high-quality succession experience for the candidate.
- The mutual respect, understanding, and communication between generations so that the family unit feels an informed decision has been made.
- The more siblings accommodate rather than conflict with one another, the more likely high-quality succession experience will occur.
- Succession reinforces the family and the selected family member's commitment to perpetuate the family business.

If the succession is a natural evolution from one generation to the next generation, and if these individuals have worked together for a period of time and have shared values and beliefs, the change to the company culture may be transparent. On the other hand, if the succession is a revolution, brought about by outside stakeholders, the resulting company culture may be dramatically different. The degree of change to the culture of family businesses after succession is contingent on a variety of issues (Harvey& Evans 1995:8). If the two generations have common philosophies, and shared beliefs the company culture may not be modified dramatically. The age and experience base of the successor is essential in successful culture succession. The condition and the health of the company after succession can effect the motivation of the successor in two ways. If the family business was successful prior to succession and was financially sound, the motivation to modify the culture may be low. On the other hand, if the company had been in decline for whatever reason, the successor may be motivated to look towards a fundamental change in the culture to revitalise the family business. The level of older-generation involvement in the family business after succession has its influence as well. The more involved the predecessor is in the business, the less likely a precipitous change in the culture will occur, but that involvement also extends the succession process.

After succession, primary stakeholders may have highlighted sensitivity to changes undertaken by the successor. Unanticipated change and revolutionary change, such as the loss of a major customer, resignation of key employees, and product failure, are normal occurrences in business and will continue to disturb the family business. The longitudinal nature of change, the evolution, the slow pace of changes to the core of the family business, needs to be managed by the successor with as much care as unanticipated shocks to the family business. Knowing the consequences of one’s action on all the family entities is an important dimension of being an effective family business leader. The last stage of the process is to establish a monitoring process to ascertain the rate and impact of premeditated change in the family business initiated by the successor (Harvey & Evans 1995).

3.4 Revisiting the key concepts used in the study

The study focuses on the strategic renewal process in succession in the context of the T/C, leather and footwear industry. In the renewal process capability and entrepreneurship in family business are introduced. The definitions of family firms, culture and values as well as succession are presented in this section as the second part of the context.

Textile and clothing industry

The textile and clothing industry (T/C industry) is a very diverse and heterogeneous industry, as its products are used by virtually everybody– private households and businesses alike. Its activities range from the production of raw materials (i.e. natural as well as man-made fibres) to the manufacture of a wide variety of semi-finished and finished products. Every private household regularly buys garments, bed linen or carpets. The T/C industry is also intertwined with the agricultural sector when it needs input in the form of natural fibres (such as cotton or wool) and with the chemicals industry when it comes to the wide range of man-made fibres such as nylon or polyester. Hardly any other industrial sector could do without so-called technical (or industrial) textiles, which include products as diverse as filters, conveyer belts, optical fibres, packing textiles, ribbons and tapes, air bags, insulation and roofing materials, and so on (Stengg 2001:1).

The textile and clothing sector as well as leather & shoe industry are important parts of the European manufacturing industry, giving employment to more than two million people. The importance of this sector for social and economic cohesion is increased by the fact that it is dominated by a large number of small and medium-sized enterprises, which are often concentrated in particular regions, thus contributing greatly to their wealth and cultural heritage. Being one of the oldest sectors in the history of industrial development, the textile and clothing industry is often referred to as a 'traditional industry', as a sector belonging to the so-called 'old economy'. These notions divert attention from the fact that the European textile and clothing industry has undergone significant restructuring and modernisation during the past 10 to 15 years. This has resulted in one third of the total work force being made redundant, increasing productivity throughout the production chain, and reorienting production towards innovative, high-quality products (Stengg 2001:1). As in any sector, but especially in the significantly restructured T/C industry, strategic renewal is the biggest challenge in the fight for survival in the global market of the enlarged EU.

Strategic renewal

The company's aim and challenge is to maintain competitiveness and make profit. This is based on the capability of the organisation. The profitable business enables the company to develop, pay taxes and be part of society. The challenge is the turbulent competition and its demand for the organisation's capability to be successful in finding the vision. Sometimes this means the need to change or renew the former strategy.

According to previous research studies (Mintzberg 1994, Prahalad & Hamel 1994, Baden-Fuller & Volberda 1996, Hamel & Prahalad 1996) strategic renewal has been put forward as one of the most challenging and critical activities for management teams and organisations. Strategic renewal may be triggered by different reasons such as crisis, the wish to grow, or vanishing industry boundaries in competence destroying competition. It may take place as revolution (Pettigrew 1985, Hamel 1996), incremental adjustment or punctuated change.

Strategy renewal has been seen as reactive and, at its best, as proactive. Management reacts to perceived forces from the internal and external environment. Strebel (1992) sees renewal as a reactive strategy in a context where the external and internal forces of change in the organization are strong, and at the same time represent an opportunity that can be exploited.

In family business it is normally the case that top management is responsible for both the operating management and governance of the company. The old generation might be dedicated to old strategy although the environment has changed, and the trigger for renewal is the succession. In many case the core competence or the business idea has originally been based on technical skills, innovations or other internal competences. Under the new circumstances the competitive force is not valid anymore. In this field of study the operations of the companies are market driven by the dominating retail chains and competencies and capabilities have to fit to the environment.

The model of Mahnke & Aadne (1998) defines strategic renewal as the process that links (1) strategic imagination, with (2) new co-ordinated strategic action, through (3) developing a common ground. In the terminology of a competence perspective, the model concerns: (1) maintaining competence, which targets at sustaining intentional and co-ordinated asset deployment through structured coherence, and (2) building competence, which involves qualitative changes in existing assets of capabilities to create new strategic options (Sanchez et al. 1996). Both depend on the careful and purposeful management of speed to avoid potential sources of breakdown that could impede the transition between the different sub-processes of strategic renewal.

In family business the competence is based on long experience across generations, and the new generation is often more qualified and professionally educated. Individuals and groups at several levels in the organization constantly produce beliefs about the future. The focus on collective imagination emphasises the role of energising several voices, at different organisational levels, with different knowledge and skills to take part in idea generation and horizon spanning. This diversity increases requisite variety, which is an important pre-requisite for creating new knowledge (Nonaka & Takeuchi 1995). One could assume that in family business it is easier to search for new initiatives, like beliefs about new products, new markets, new technologies or new processes, as there are low barriers and less bureaucracy between the individuals and groups at different levels. The disadvantage is that family firms are small and the same people have many responsibilities, limited resources may pull out the needed energy from the key people and lead the company to enter a process of non renewal. Furthermore, sometimes confusing, bivalent roles in a family firm and the unclear organisation of responsibilities might be a reason for an unsatisfactory renewal process. It is crucial that the management of the family firm find the resources needed to keep the business mind fresh.

It has been strongly argued that the history of a company and its top management is nothing more than a major impediment for bold and successful strategic renewal (e.g. Hamel & Prahalad 1994, Hamel 1996). From a competence-driven strategic renewal perspective, past competence deployment is both a unique source of experiences and a possible facilitator for future coordinated strategic action. This does not mean that a manager should dwell on the past being nostalgic, but stress the importance of imagining the future and seeing the relationships between the future, and competence deployment and action in the present and past. This is a pre-requisite for coordinated future strategic action. In family business this has a natural base, as family and business lives are often common including the common history of generations.

It is important to translate the different projects and activities from ideas to realities. Based on the common ground developed and the different anchor points identified, action planning to create specific plans, timelines, and responsibility is conducted. These plans cover knowledge development, strategic projects, investments, or plans for specific products. In family firms bureaucracy is not an obstacle. If plans are thought to be profitable, the plans are easy to put into practise when the funding is arranged. In many cases, financing is the greatest challenge.

Strategic change and strategic management

Because strategic change in business is unpredictable, strategic management must be a systematic approach to a major and increasingly important area of responsibility of general management: to position and relate the firm to its unpredictable and turbulent environment in a way which will assure its continued success and make it secure from surprises. Management of discontinuous change is a comprehensive approach, which takes account of psychological, sociological, political and systemic characteristics of complex organisations (Ansoff 1984).

The strategic objective of a company - to be competitive and make profit - is based on strategic planning. The capability of the organisation, its resources and management, might enable this by operational planning. With the successful strategy the business develops, the challenge is the turbulent competition and its demand for the organisation’s capability.

In small family businesses the resources are limited and systematic strategic work is not always the first to be seen. But as one can read from studies, family businesses compete well with non- family companies in many aspects. Flexibility and speed in making decisions might compensate for the lack of a systematic approach to managing strategic change. The basis for the cognitive renewal process has been developing across generations of common history.

Strategic change and challenge in the clothing field, as in many other fields, is demand driven marketing. Buyers, for example big retail chains, compete within the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other – all at the expense of industry profitability. The power of each of the industry’s important buyer groups depends on a number of characteristics, of its market situation, and on the relative importance of its purchase from the industry compared with its overall business. In the ready-to-wear clothing industry, for example, as the buyers, department stores and clothing stores have become more concentrated and control has passed to large chains, the industry has come under increasing pressure and has suffered falling margins. The industry has been unable to differentiate its product or engender switching costs that lock in its buyers enough to neutralise these trends, and the influx of import has not helped (Porter 1980: 26). Suppliers can exert bargaining power on participants in an industry by threatening to raise prices or reduce the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices (Porter 1980: 27).

In the making of strategic decisions each company seeks for its competitive advantage. Specific strategies used in Finnish industry are design flexibility, delivery flexibility and some amount of after sale service. Because of the higher production costs competitiveness can not be based on the cost leadership but on differentiation, quick response, and dependability. Actually cost leadership is never a sustainable advantage, as has been seen with the continuously changing outsourcing markets.

In the model of Moore (1998:176) the author includes the competitive advantage with the life cycle model. The life cycle model is also appropriate with the fashionable products of the T/C industry as the life cycle of the products are in constant movement.

Capability for renewal

The definition of capability requirements and development is a strategic question. Strategic management is not just planning, but also converting plans into target-oriented and measurable development projects, as well as managing the implementation. Ansoff (1984:209) has defined capability attributes as climate (will to response), competence (ability to response) and capacity (volume of response).

Tuominen (2000:28) argues that the capability of strategic management consists of skills, by which the quality and speed of implementation are ensured by identifying the needs and opportunities to change the business idea, defining business targets and supporting plans and getting everyone committed to them. Learning from experiences supports the continuous development of common ground. Because strategic management is not an individual job, the problem in this model is how to get all employees committed, to understand, and to be willing to learn from their own and others' experiences.

The strategy of an organisation is affected not only by environmental forces and available resources, but also by the values and expectations of those who have power in and around the organisation. Power is often unequally shared between the various stakeholders in family firms.

In some respects, strategy can be thought of as a reflection of the attitudes and beliefs of those who have most influence on the organisation. This can be seen as the ability to motivate. In family business the power is normally in the hands of the family and often in the hands of the owner. Power also depends on financial resources and in the worst situation it is outside the family in the hands of a financier (banks etc.).

Although the organisation in family firm's is normally lean, strategic planning and implementation leading to success is no longer possible within organisational levels or on a departmental basis, because the customer is only the next organisational level up. Compared to non-family firms, the near relationships with customers offers advantages to family firms.

Entrepreneurship

In this study the aspect of entrepreneurship is based on the culture of the family firm, the heritage of capability and cognitive thinking.

In Koiranen's study (2003) entrepreneurialism is under a triangulate aspect. The research examines how a family business system works as the ideological arena of three cultural forces: entrepreneurialism, managerialism, and paternalism, which are to a great extent consisting of ideologies based on different rationalities. It reminds us of the three interacting subsystems, management, ownership and family life. In a family business context, the three ideological forces can be described by an equilateral triangle where the ideologies are the corners and the three sides of the triangle are named as follows (Koiranen 2003):

Entrepreneurship to Paternalism = Emotionality (as the joint feature)
Paternalism to Managerialism = Control (as their joint feature)
Managerialism to Entrepreneurship = Intentionality (as the joint feature)

Entrepreneurship and capability

Entrepreneurship is neither a profession nor a career. Entrepreneurship is defined as 'a cognitive, affective, and conative process intended to increase value through creation, revitalisation and/or growth' (Ruohotie & Koiranen 2000: 29). According to this definition the authors introduce the taxonomy of individual difference constructs by Snow et al. (1996:247). The taxonomy includes the elements that are important to human personality and intelligence. In the context of entrepreneurship, the most interesting of these constructs are those reflecting motivational and volitional aspects of human behaviour; that is, conative constructs. To become an entrepreneur a person needs both competence and capability of business mind but also the right kind of attitude. In this aspect entrepreneurship is often based on culture and heritage. This can have originated from the family or education.

Entrepreneurship is finding and utilising the possibilities. According to this an entrepreneur is someone who perceives an opportunity and creates an organisation to pursue it. The entrepreneurial process involves all the functions, activities, and actions associated with perceiving opportunities and creating organisations to pursue them.

Family business

There is no consensus on the definition of family business in the research, teaching and consulting communities, among journalists or even among those running a family business. One of the reasons could be that a person who works in a family business has many roles: owner, family and business. In this study the cases are small sized firms, the businesses are owner-managed and ownership has been within the family for two or three generations. The percentage of share capital owned by a family is 100%.

Stages of human life cycle in a family connected to the business life cycles of a family company gives challenges for those who work in the company. The model for the life cycle of the company is very hard to find from the models introduced in this study. The closest suitable is the three-dimensional model by Gersick et al (1997). The problem in the model is that the stages of the functions (ownership, business and family) are supposed to move forward on the axis. In many cases, the siblings have not been able to share the ownership, thus the stage of the ownership has started from the very beginning all over again (controlling owner). The most typical stages of business life cycle are the initial/entrepreneurial stage, the growth stage, the (resource) maturity stage, and the decline/death stage.

A person who is working in a family business has many roles. It is very human that ownership, family and business mix together. The roles are based on the model of Neubauer & Lank (1998). Besides strategic renewal the study also focuses on the succession process in family firms. The most important participants in the succession process are the successor, incumbent and the owner of the family firm. Also other family members might be involved with the succession. At its best, succession is a slow process in which an incumbent (owner- entrepreneur) hands over the real decision making power and ownership in his/her (family) firm to a successor.

Small family businesses are likely to be operating in a single market or a limited number of markets, probably with a limited range of products or services. The scope of the operation is therefore likely to be less of a strategic issue than it is in larger organisations. It is unlikely that small businesses will have central service departments to undertake complex analysis and market research. Rather it may be senior managers themselves, perhaps even the founder of the firm, who has direct contact with the marketplace and whose experience is therefore very influential. Indeed, in small firms the values and expectations of senior executives, who may themselves be in an ownership position, are likely to be very important, and even when current management are not the owners, it may be that the values and expectations of the founders persist. It is also likely that, unless the firm is specialising in some particular market segment, it will be subject to significant competitive pressures; so issues of competitive strategy are likely to be especially important for the small firm. However, decisions on competitive strategies are likely to be strongly influenced by the experience of those running the business, so the questions posed and concepts discussed about the nature of competition and the basis for competitive strategy are likely to be especially relevant (Johnson & Scholes 2002:26).

Culture and values in family business

A firm's responsiveness to change is rooted in the values and actions of its owners and managers, which again in family firms is determined by the way in which family values and relationship dynamics determine business activity. People are at the heart of a strategy, the knowledge and experience of people can be the key factors enabling the success of strategies. But they can also hinder the successful adoption of new strategies. So human resource issues are the concern and responsibility of most managers and especially in family businesses these are not normally confined to a specialist human resource function. Also the relationship between people and successful strategies is concerned with behaviours as much as competencies. The ability to change may be the key ingredient for success.

In family firms, as in any kind of businesses, there is a relationship between technology and, innovation and strategic success. Managing technology is often easier than managing people. The key strategic issue is innovation, and technology should be seen as a means of underpinning innovation in organisations. Sometimes it is easy for organisations to get distracted by technology development itself, without asking how the technology will assist in the creation and sharing of knowledge within an organisation. A crucial question is how this process will provide competitive advantage. Technology itself may be easy to acquire by competitors. The exploitation of that technology is where advantage may be created (Johnson & Scholes 2002).

Successful organisations will be those where there is a strong commitment to innovation from senior management, and business acumen is based on an understanding of the business strategy and technology relationship. In successful family businesses there is a need to be creative, innovation is fostered, communication is extensive and the culture supports learning. Structures and processes must facilitate the creation of this environment and provide a commitment to individual and team development. In particular, it must support key individuals who champion and facilitate for strategic renewal for success. In many cases a family firm's original business idea is changed and new challenges have occurred from a totally changed market situation.

When considered in the context of a family business, culture takes on an even more complex dimension. Because of the dominant role of the founder, not only during the entrepreneurial period but also potentially through successive stages, values and owner motivations are powerful cultural drivers. Conceptualising strategic change as cultural change implies the re-orientations of the corporate group's collective values, ideas and understandings. Such shared meanings are the basis of collective action, including the overall direction indicated by the concept of strategy. Values inspire people to do things that are difficult, to make commitments that require discipline, to stick to plans for the long haul. Shared values also help overcome the conflicts inherent in family business ownership. Values can be the glue that bonds the family and the business (Aronoff & Ward 2000).

A strong culture can burnish the reputation of the business in the market place, making it more alluring to business partners and employees alike. Values can also strengthen shareholders' commitment to long-term goals by providing a vision that transcends short-term financial goals. Values must have certain qualities to work this way. They must be authentic, simple and durable, that is resilient, and malleable to changing times. They should encompass as many dimensions of family and business behaviour as possible.

3.5 Summary of section

This section has focused on introducing a literature review and providing a definition of key concepts in this study. In very few cases the circumstances of the succession are stable. Normally the succession has an effect on the ability to gain profit, and in all cases the status quo is threatened. The old generation might be devoted to old strategy although the environment has changed, and the trigger for renewal is the succession.

People make decisions based basically on gain or loss. Under normal and stable circumstances, losses loom larger than gains in our minds. In a company's strategic renewal process the questions should be asked in such a way as to compare gains and opportunities rather than just problems.

In this section the competence perspective has been extended to the process of competence driven strategic renewal. It is widely recognized that competencies and competence management are essential in developing and sustaining competitive advantage. Today the demand is market driven and all the partners on the field need new competencies to cope with the competition. Taking three major sub-processes within the overall strategic renewal process as a starting point, Mahnke & Aadne (1998) have examined the processes of building and maintaining competence. Their model extends 'building competence' by including the notion of structuring goals through the process of competence driven strategic renewal. In this view, intentionality and goals cannot be assumed ex ante, but result from successfully managing the competence-driven renewal process.

There are some typical characteristics that differentiate family firms from non-family-companies. The family starts training its members in ownership rights and responsibilities very early. Also non-family members are often committed because there might be second generation employees in the firm. Taking a long-term strategic perspective not bound by next quarter's earnings, and working to maximise shareholder wealth, even a generation hence, might be one of the reasons for the family firm remaining innovative and entrepreneurial. This also gives motivation to non-family members.

Family business is entrepreneurial business, and strategic thinking, though not always in written form, is an important part of entrepreneurship. These are the themes in this section. The stage model and the evolution of family enterprises, drawing from life cycle models developed in the literature of individual psychology, organisation theory and family development have been introduced.

Any model, by definition, is a simplification and cannot completely represent the complexity of the phenomena being studied. Members of the owner family can choose from the numerous life cycle models, those that seem to best depict the history of their family enterprise and its probable future. The most useful models are those stage descriptions that help further the understanding of the current state of the family, ownership and business. Equally importantly, they should predict both the transitional and the next-stage challenges that have to be faced with an indication to actions that should be taken to minimise future disruptions.

Strategic management is different in nature from other aspects of management. An individual manager is often required to deal with problems of operational control, such as efficient production of goods, the management of a sales-force, the monitoring of finance performance or the design of some new system that will improve the level of customer service. These are all very important tasks, but they are essentially concerned with effectively managing resources already deployed, often in a limited part of the organisation within the context of an existing strategy. Operational control is what managers are involved in for most of their time. It is vital to the effective implementation of strategy, but it is not the same as strategic management. The scope of strategic management is greater than that of any area of operational management. Strategic management is concerned with complexity arising out of ambiguous and non-routine situations with organisation-wide, rather than operation-specific, implications. This is a major challenge for family business owner-managers who are used to managing on a day-to-day basis the resources they control, resources, which mix the time table, of business and family. Again it is a question of goals and the motivation required, to reach them. It is a question of strategic renewal to bring the organization back into a situation of freshness and vigour in strategic thinking and transform thinking into co-ordinated strategic action.

4 CASE STUDIES

The material was gathered by interviewing the current CEO (operative generation) of every company. The representative of the previous generation was also interviewed. They were more or less aside from the everyday operations, one of them completely aside, one sometimes still strongly present. The interviews were conducted as direct thematic interviews, in addition there were focused phone interviews. There was opportunity for free discussion during the thematic interviews. The duration of the interviews was a total of 5 hours and 49 minutes including the fourth (excluded) case. In addition for the background information about the textile, clothing, leather and footwear industry as a context there were several phone interviews with the representatives of other companies of the field.

4.1 The settings

The subject of the study is to research how strategic renewal was carried out and its effect on three small family firms after succession. The following questions were used to define the research problem:

1. What is the background of the successor? (In business management and in ownership)
2. What have been the main changes in the environment of this branch of industry?
3. What have been the main changes in the strategy after succession?
4. What have been the main effects of the changes?

The cases that were studied will be introduced in the outline of this section. Analysing the case reveals the strategy and its results. The first research question, the background of the successor, is described in the chapters:

- Life cycle of the company A, B and C **(4.2.1.1, 4.2.2.1, 4.2.3.1)**
- Roles of the family business in cases A, B and C **(4.3)**
- The capability for renewal **(4.4)**

In the capability chapter both strategic and entrepreneurial capability are introduced.

The second research question, the main changes in the environment of the branch, is discussed in the chapter:

- Critical incidents in business environment **(4.5)**

The third research question, the main changes in the strategy after succession, is of major interest in this study. The changes in the strategy are described in the chapter:

- Renewal process **(4.6)**

The answers for the final research question, the main effects of the changes, are introduced in the chapter:

- Effects of renewal **(4.6.1)**

In this chapter the process is under economical inspection and the key indicators are explained.

4.2 The case descriptions

The cases that were studied will be introduced in the outline of this section. The companies in this study have a CEO (chief executive officer), who is also the owner of the company.

Gersick et al. (1997) have constructed a model which describes the life cycle of a company. The problem in this model is that the stages of the functions (ownership, business and family) are supposed to move forward on the axis. In many cases, the siblings have not been able to share the ownership, thus the stage of the ownership has started from the very beginning all over again (controlling owner).

The roles of the family business are based on the model of Neubauer & Lank (1998). The roles are extended to include the incumbent and successor during the period 1990-2003. The roles of the family members involved in the case at the end of the research period (2003) are presented. In the interviews the role of the successor is marked as a son.

The capability for renewal is a process that starts from the very beginning of the firm's history. The strategic and entrepreneurial capabilities are introduced in this chapter.

Since the textile, clothing, leather and footwear industry in Finland and in the EU has been in decline, critical incidents in the business environment are presented. The strategy and renewal process is introduced at the end of this section, as well as the effects of the process which are under economical inspection.

Some parts of the interviews are presented in this chapter, some of them more than once. The text is rich and it was impossible to categorise them under one topic.

4.2.1 Introduction of case A

Company A was established in 1917 when Finland was under Russian rule. The first entrepreneur was the grandfather of the present owner. In the beginning, the company produced felt for horse harnesses and different parts of machines for industry. Since 1920 the original company concentrated on the production of felt shoes. The father of the present owner started his own company (Ltd), in 1955 with his brother. This company produced furniture fabrics from the very beginning. Afterwards the first company was merged and its production was terminated in 1977. At that time the original company was a spinning mill and produced threads. Now company A is in the hands of the third entrepreneurial generation and the second generation of this particular firm specialised in furniture fabrics. The mills are in the same place and in the same buildings as they were when the company was first formed.

The stages of company A are numerous. Also, other members of the family (uncles) had companies, e.g. weaving factory for bed covers. Four other companies were supporting each other in the 1960's in the area where the company is situated. In the 1960's more than 100 people were working in the textile branch in all of these companies in that area. Today company A employs 9 people and the turnover is €1.7 million. There are 5 employees in weaving; weavers are able to take care of the weaving machines' mechanics; one person is in the office, he takes care of orders, paper work etc.; one makes sample books for customers, for furniture shops and architects; and the owner and his wife. The owner's roles are many, he is the head designer, production manager (purchasing, investments, machines), general manager and he is also responsible for sales. The wife is responsible for projects (marketing and sales).

4.2.1.1 Life cycle of company A

Appropriate models for the life cycle of the company can not be found from most of the models introduced in this study. The closest suitable is the three-dimensional model by Gersick et al (1997). The problem in the model is that the stages of the functions (ownership, business and family) are supposed to move forward on the axis. In many cases, the siblings have not been able to share the ownership, thus the stage of the controlling solo ownership has started from the very beginning all over again.

The business axis

The phase of the business axis in company A is expansion and formalisation. The organisation is very low and limited and the general manager has too many tasks.

Son: so the decision has to be made ... and of course many times it annoys you, when you have to make these decisions in a short period of time and everything is based more or less on intuition,..... (Emphasizes:) Like, you have to be ready to decide right here and now.

Son: People have asked me, how do you work, and I say, that I wish I could live a year so, so I could ask. Yeah, I think it would be wonderful. Nothing else, but always when I have some problem, so I open that door and I go and ask, which one I'll do, do I take this or that. No, I have to decide, do I buy or not, do I sell or don't, this fabric or that fabric, this colour or that colour, this yarn or that yarn, this supplier or that. Oh Jesus, that was a bad supplier, it didn't deliver, why did I decide this.

Son: It's the constant feeling of insufficiency, it's probably connected with that growing as a person and getting old, I read somewhere that a bloke who's forty sees his incompetence for the first time. And you start to think of yourself with the incompetence and not just that, like he's a bloody bull and believes. So goddamn, here to there and everybody else stumbles down and like this, but then you notice, it's not at all possible here.

Son:... And certain kind of tiredness is also there and you know, boredom and certain kind of cynicism.

The family axis

The phase of the family axis is, has passed the baton. The present owner of company A has grown into the company from childhood. Every summer and during holidays he did many different tasks. Since the late 1970's, after completing military service, he started to work full-time in the company. Before that the company had given him a scholarship to go to Germany (Wirkerei techniker - weaving technician), which lasted for six months. Just before his studies the company had bought a new knit weaving velvet machine from the machinery exhibition in Germany. During the course, he more or less installed the company's machine. After the son had worked for some time in the company and gained wide experience of production, the father (incumbent) took the son with him on a business trip. At the end of the 1980's, he gradually started to take responsibilities from sales as well.

Son: We've always been around ... summer jobs, ripping nails in building site, bloody stoopid job. Well these goddamn pietistic work ethics and you have to work and it has to be bloody hard and it has to start, above all, goddamned early in the morning. Then it's a blessing, so no way, that you could come to work at eight o'clock or nine o'clock but bloody seven o'clock or half six so that you wouldn't fool around in work days. It was our topic of fighting all the time. ... But.. er.., maybe then it was thought differently. And there was a lot of nail ripping, then we built all kind of things here and did and changed but maybe we learned the wrong things.

The sister of the present owner worked as a designer with their mother as well. She had studied in the vocational school of design and handicrafts. This was her only experience and responsibility in the family company. Her husband also worked for a while in the firm, taking care of the financing and bookkeeping.

The siblings all received some shares at the beginning of 1980's. This caused several problems during the stagnation period, because the other sister and her husband worked in the company and the ownership was split between many shareholders (between the father who was the controlling owner and three siblings, two of whom were working in the company).

> *Son: ... and I said, that I'll be leaving now, I can't just stay here and watch, 'cause I then had a strong idea that I'm the one, I don't want it now, that it's true, but anyhow I'm going to say, that the only one, who was really working... .like for the future. Jarmo run the economy then and did his job well in that place, but his talent was between Lankilankoski and Ritamäki and in that world and Minna, well she was below him and Minna, she was a designer, designing fine pictures, she didn't have even one furniture dealer she knew. And my mom (laughs), no more about that, but we know one thing, she's extremely talented and artistic, but not very skilled in this technical stuff and dad is incredibly talented and creative and quite skilled, but he was plainly so tired that he simply couldn't concentrate any more and then the constantly looking back.... ....Then we did that kind of succession decision, that I will buy all the shares, that was my condition...*
>
> *Incumbent: Yes, it was clear, that it was Vesa who would continue*
>
> *Interviewer: you have two girls and a boy?*
>
> *Incumbent: By then Kaija-Leena was married, was a housewife in a farm and..*
>
> *Mother: But she never thought of it!!*
>
> *Incumbent: And Minna was married, but her husband wasn't to be a businessman like that.*
>
> *Mother: Minna would have wanted!*
>
> *Incumbent: Minna would have wanted! Her husband was a capable and able bloke, but he wasn't a risk-taker. A businessman is a risk-taker, Vesa was just like that.*
>
> *Mother: Vesa has lots of skills.*

The ownership axis

The second generation has gone backwards on the axis from the Sibling partnership to Controlling owner. The history is described briefly in the previous family axis chapter. The present owner acquired the total ownership in 1991.

4.2.2 Introduction of case B

Company B was established in 1923. It has operated in its current location since 1933. The founder of the company was the grandfather of the present owner. The history of the company extends still a bit further back in time. The father of the grandfather was already working in the leather field, but this company nowadays operates under another name, as a shoe factory. Thus the managing director is an entrepreneur in the 4th generation representing the third generation in this company.

The company business idea is based on the leather manufacturing process, where value is added to the raw material. Most of the raw material is sheepskin. The raw skins include the fur. This sector is called the fur-line in the factory (dressing). The other line is called wet-blue-line, as company B is a subcontractor in processing as other companies send their leather for further wet process. The skins are already pre-processed, no hair is left in them and they are light blue in colour (tanning), the reason for the name wet-blue. This sector is also called the leather-line.

Case B has a turnover of almost €2.2 million, and the factory employs 29 workers, two supervisors, the managing director and his wife. The largest part of the production (2/3) is leather processing from raw skin to ready made skins. One third is wet-blue production, where the process only includes the work, since other companies own the raw material. In wet-blue process the skins are wet when they arrive to the mill. The pre-processes have been done at an earlier stage in some other factory and only the wet-processes (colouring and finishing) are done in factory B. Half of the firm's own production goes to the shoe industry in Finland and most of it, after the shoe manufacturing, is exported to Russia. Half of this production goes directly to Russia and the rest (25%) goes to other purposes like clothing and bags etc. One third of the turnover comes from the wet blue process. This kind of process needs a lot of experience and tacit knowledge. It demands strong investments and an effective system for water cleaning. It is a new line in the business and was introduced by the new generation in 1995.

Most leather factories in the world are very old, because the process is quite difficult to learn and demands years of work and heavy investments, which pays back slowly. Moreover, companies today have vast problems with water cleaning and recycling, because the process is very water intensive. Many of the old factories have been forced to discontinue their production, because they have not been able to solve their problems with the water system in line with the new legislation.

4.2.2.1 Life cycle of company B

The business axis

The phase of the business axis in B is expansion and formalisation. The organisation is very lean. The managing director has two supervisors in the production, one for the fur-line and one for the leather-line. Marketing, product development and financing are the main tasks of the owner and manager. His wife helps with the paper work and also with marketing. The basic marketing policy is to invite the customers to the factory. Lunches or meals are prepared and served in their home close to the factory. This seems to be very highly appreciated among Russian customers. There is no special marketing policy. During the business visits to the factory the customers can see the normal family life and in the summertime they are taken to fish with the manager. The problems are discussed during the visit and the product development concentrates on solving the customers' problems.

Son: …Especially these Russian customers, they feel at home in Finland and they like to come to visit us. We never arrange anything special, but then we serve lunch and sometimes we go to angle a bit, but that is still different. They are our traders, we are the manufacturers of this kind of material, when we don't have any consumers.

Because the wet-blue line came to the factory with the new generation in 1995, one could say that the business axis is more located in the stage of formalisation than expansion. The focus is on gaining new market areas through customers with the help of the process they have invested in.

Son: ..Yeah. that wet blue – it was sort of big to that time's turnover, couple of million all in all, when the turnover was like 10 million. ..(FIM). You have to keep the feet firmly on the ground, it's not really like possible in our financial situation, to tell you the truth it is that kind of small stress, it doesn't give any possibility to make mistakes, all the decisions have to be financially correct, of course you make kind of misinvestments all the time, but we have been still able to keep our limits, so it hasn't bothered us ... All the biggest investments, couple of hundred thousand Finn marks, yeah we have been through them closely and thought about all the time...

The family axis

The phase of the family axis has passed the baton. The present owner had worked after graduation (Master of Science in chemistry) in a large Finnish company (Cultor). He moved from home in 1981 and began his studies in the University of Helsinki. The crises of the Finnish economy (stagnation, devaluation) caused crises also to the company. The father lost his strength and he told his son that he could not carry on alone. He offered the company to his son or otherwise he would sell it.

Son: … But it was that 1990's depression that was mentally hard for Pekka and in the winter 94-95 he said that he simply didn't have enough strength to carry on his own. ... called me and asked if I'm interested to continue or should we sell ... And I thought for a couple of months, that hang on, I can't just give up just like that ... I have been all the summers, and even then, when I worked over there for Cultor, so I worked here all the summer holidays and always like that followed things to some degree.

... Yeah, it was little bit like, I think that, it was a even a little bit too fast that transition, he (dad) simply didn't want to take part in strategic decisions in any way...

Interviewer: Well, you probably didn't have any collisions with your dad, as you just told me that you have been able to do what you have planned? Maybe you might have needed a bit more support, but you have said that your father has been tired, has given you full power and the right to make decisions?

Son: Well, so easy that I didn't have to argue with anybody, but sometimes when you have to go on what did you call it, intuition, it's not when I don't have this knowledge of history that long, although I have followed it, but I don't have an idea in that way, like what has been in the markets in previous decades and well, happened. So, for that I would need sometimes...

The ownership axis

The third generation has remained on the Controlling owner. The ownership was sold to the present owner and managing director in 1995. Before that the company was a partnership company and owned by the parents, the father 2/3 and the mother 1/3. They changed the form of the company into limited company in 1995 and the present owner bought the shares from them, becoming the sole owner of the company. The parents had been paying personal retirement arrangements for themselves through the company. The father of the owner continued as an employee in the company until 1998 and then retired. The mother continued as an employee until 2001 (age of 60) when she retired. Since the ownership was arranged in 1995, both the mother and father continued as employees until they retired.

There is also a daughter in the family who works in the same branch in southern Finland. The present owner, brother and the father said in the interview that she was never eager about the family business and did not want to move back home.

Incumbent: .. it's better the fewer shareholders you have and the decision between the girl and the boy was easy, Jussi has the education, he's older, worked the summers here and rest of his education supported this. All the summer holidays he worked here, when he was young, one summer at a petrol station, otherwise in the company; the girl had no interest.

Incumbent: …rest of them didn't get along with dad, I was the only one that lasted the longest and I stayed there.

Interviewer: Did dad understand that if no-one stays, the company will not continue (earlier succession)?
Incumbent: Dad understood ... I took the authority, although I was not given it.

Interviewer: How could you make the deal financially (question to the son)?
Son: ... we got the decisions in advance from the tax authorities and well, that the company was then financially in trouble and that helped then that the balance was very small, we could show to the tax authorities, that the market value is very low and from that we got a suitable moment to make this deal.

4.2.3 Introduction of case C

Company C was established in 1975. The founder was the father of the present managing director. The company is a knitting factory, which makes special knitting for the clothing and shoe industry. Sport knitting is made for the products of high technology, shoe knitting and work wear knitting are for the safety products in production processes such as wood processing. The turnover is Eur1.0 million and the company employs 7 people. The production operates in three shifts. The raw material is sent for dyeing and finishing into other factories nearby when needed.

The father of the present owner had a severe accident in construction work before his career as an entrepreneur and had to be re-trained. At the time the family lived in Sweden. The father inquired for a job from the socking factory. One of the supervisors asked him to be a member in a group which was sent to Leicester, England to be trained as mechanics for the factory's machinery. Some years later he was invited to work as a mechanic in a tricot factory in Finland. One of the factory's Swedish customers asked him to join him as a minor partner in a knitwear company. This was the beginning of the present company. Originally the company was established to fulfil the rules of bilateral agreements with The Soviet Union. All the textiles that were used in the production had to be of domestic (Finnish) materials, even the yarns had to be spun in Finland. The demand for domestic percent of the product was about 80 %. The father bought the former partner out as early as 1978.

4.2.3.1 Life cycle of company C

The business axis

The business axis is at a stage that is not appropriate to this model. The market is declining and the successor is reorganising the business. There are many question marks at the moment. The organisation is very lean, and the managing director has many tasks. The company has two mechanics and one engineer maintaining the machines in each shift (three shifts). The managing director is also able to maintain the machines; he studied knitting machines in the same school as his father in Leicester, England. He spends most of his time with operation management and financing, while the father concentrates on marketing. They have made business trips and visits to fairs together, thus, the son has had the opportunity to get to know the customers.

> *Son: I don't know... it can be, that dad would have wished, that I would have been more active over there in the marketing. But for that we have made automatic procedure. But may be he hasn't been a fan of them. We have concentrated on products that can be moved easily and that can be held in stock and that customers can order just over the phone. So that we have arranged so that they have this product in use and then automatically they order it, in contrast to that we make some products and then start to sell them.*

One of the objectives of the present managing director is also to enjoy family-life. It was different in the beginning: he and his father alone were responsible for the running of the machines 24 hours a day. The son started working at 8.00 p.m. when the father had finished at 6.00 p.m. and in the morning he finished work at 6.00 a.m. while the father started work at 8.00 a.m.

> *Son: I don't remember it as a tough time ... we had enthusiasm, when we could see where we were going, no, no I don't think nobody would do that just for the money, it's because of the family enterprise....*

The family axis

The phase of the family axis is passing the baton. The present owner has grown into the company from the beginning since the age of 19. After the military service the son lived in Sweden working for the firm of the other owner to learn about the machines.

> *Son: I wanted to learn to become the mechanic, it was the time, when I was interested. I started as a weaver in Sweden on the floor, and when somebody was sick in Sweden, I was called over and that's how I got to start from there.*

The siblings of the present owner have never been in the operations but are owners in the company. The brother has worked in the company for some time.

> *Son: …well, my brother has worked the machines for some times in a summer job. But never like involved in the business. But he is a partner, yes….Yeah, it was just this kind driftwood theory, hmm. I was interested in that very much and wanted to be a part of it ... it's not the easiest kind to start like that to work with your dad....*
>
> *Well, my brother has always been more or less the kind of business person he's never been interested in machines, and then it was me who was interested in them...*
>
> *Interviewer: How did it become obvious that it would be Jari, who would continue this?*
> *Incumbent: ….and there wasn't any other choice.*

The mother also worked in the office for many years. In 1995 she retired from the company because of illness.

The ownership axis

The second generation has transformed from the Controlling owner of the father to the Sibling partnership, but the process still continues. The family started the process of succession in 1985. The siblings all received half of the shares. In 1988 the father sold the rest of the shares to the children, but the majority is in the hands of the managing director (51%). Later on the problems in the business forced the father to return to the business and now he owns 29% and the two siblings each own 10%. The share of the managing director is 51%.

Recently the researcher discussed with the managing director and it turned out that he had serious motivational problems since the father and the mother did not seem to agree with the management. He even said that he would resign unless he was able to gain the complete ownership of the company. The question is open and at the moment there is a "truce".

4.3 Roles of the family business in cases A, B and C

The model of roles by Neubauer & Lank (1998) is the basis for the cases in this section. The roles in Table 15 are extended to include the incumbent and successor during the research period 1990-2004. The roles of the family members involved in the cases are presented in Table 16. The time of investigation is the year 2004. Succession had happened in all the companies.

TABLE 15 The roles of the successor and the incumbent in cases A, B and C

Roles of the successor (son)	In the beginning of the owner's career in FB	In the beginning of 1990	At the moment of succession	Just after the succession	In 2004
A	6	15	15	15	15
B	4 (6) *	4 (6)*	6	15	15
C	6	15	15	15	15
Roles of the incumbent (father)	In the beginning of the owner's career in FB	In the beginning of 1990	At the moment of succession	Just after the succession	In 2004
A	15	15	15	4 (financier)	4
B	15	15	15	6	4 (6)
C	15	15	15	15	15

(*) Summer work etc.

Key for role codes (Neubauer & Lank 1998):

1. Just management/employees
2. Just owner
3. Just board of directors
4. Just family
5. Family – owner
6. Family – management/employee
7. Family – board of directors
8. Family – management/employees – board of directors
9. Family – board of directors – owner
10. Family – owner – management/employee
11. Owner – management/employee
12. Owner – board of directors
13. Owner – board of directors – management/employee
14. Management/employee – board of directors
15. Family - owner – board of directors – management/employee

TABLE 16 Summary of the roles of the family members involved in the cases at the end of the research period (2004).

Members of the family	Successor (son)	Ownership	Incumbent (Father)	Siblings	Mother	Wife
Case A	15	Successor (100%)	4	4	4	8
Case B	15	Successor (100%)	4 (6)	4	4	6
Case C	15	Successor (51%) Incumbent (29%)	15	5	4	4

In Table 16 the role of the successor is the same in all the cases. The main owner is the CEO, the successor. In cases A and B, the ownership is 100%. In case C the father has still 29% ownership. In Case A the father has left the business and has retired. In case B the father has also retired and his role is just a member of the family, but at the same time he still works in the factory operations every day. He does not interfere with management, his role is more or less of a voluntary employee. In case C the father's role is almost the same as the CEO's, although formally the power is in the hands of the CEO, who owns 51% of the company.

4.4 The capability for renewal

If change is to be successful it also has to link the strategic, the operational, and the everyday aspects of the organisation. This emphasises the importance not only of translating strategic change into detailed resource plans, critical success factors and key tasks, and the way the organisation is managed through processes, but also of how change is communicated through the everyday aspects of the organisation. Managing strategic change is also context dependent. It will not be the same for all situations in all types of organisation (Johnson & Scholes 2002:534).

> *Son(A): If I was now thinking that I would like to train my son into this, so I'd surely put him there in the furniture shop to help, pay his wages there. So to learn that marketing, or how people think. What, why they buy something, what they like, what and how they decide.... why they decide to by this shaped and not that shaped furniture, you can't learn that with ripping out nails, but..*

In business the need for and direction of strategic change is different, since strategies develop in different ways. In the main, strategy development in organisations is adaptive in the way it occurs, with occasional more transformational changes. Balogun and Hope Hailey (1999) developed this further to identify four types of strategic change (Figure 38). These have implications for how change might be managed.

Arguably, if the nature of the change is incremental, it is beneficial for the organisation. This way it will build on the skills, routines and beliefs of those in the organisation, so that change is efficient and likely to win the employees' commitment. A 'big bang' approach to change might be needed sometimes, for example if the organisation is facing crisis or needs to change direction very quickly, but this can be disruptive and painful.

Adaptation is change which can be accommodated within the current paradigm and occurs incrementally. This is the most common form of change in organisations. *Reconstruction* is the type of change which may be rapid and can involve a good deal of upheaval in an organisation, but which does not fundamentally change the paradigm. *Evolution* is a change in strategy that requires paradigm change, but over time. Managers may be in a position of planned evolutionary change, with time in which to achieve it. *Revolution* is change which requires rapid and major strategic and paradigm change, perhaps in circumstances where pressure for change is extreme – for example, if profit decline or a takeover threatens the continued existence of a firm (Johnson & Scholes 2002:537).

		SCOPE	
		Transformation	Realignment
NATURE	Incremental	Evolution	Adaption (C)
	Big Bang	Revolution	Reconstruction (A,B)

FIGURE 38 Types of change

Cases A, B and C

> *Son(A): Still understanding that person's behaviour has been the hardest part, that I feel like I've achieved in my career. Or I'm not saying that I understand her/him still... Yeah, I know a lot more about it, why some person... a consumer buys just and only that colour...*

The capability and skills were established on the long and versatile experience of the successor in the family firm in all the cases in this study. All of them hade been working more or less intensively with the firm. Experience was in case A both in marketing and in the technical area. One of the strengths was the excellent know how of the furniture business both from the manufacturers' and the markets' field and skills in marketing.

In case B, the successor had been working also outside the family business in a large global company for a few years. Moreover, he had a technical university degree and he had been working with the father during his free time and had had experience also with the customers. In this case (B) the marketing culture was very informal. The family brought the customers to their home for lunch and in the evenings went fishing with them. This was a natural way to gain contacts with the customers in the early days of his career or as a young family member.

In case C the successor had studied economics, but his practical experience and personal interest was more in the technical area. The father had been and still is the one who stressed the marketing aspect and has the most contacts with the customers.

According to Figure 38 all of the three companies were in the middle of the 'big bang' because of the critical incidents which happened at the end of 1980's and in the beginning of the 1990's. They all had the challenge of reconstructing the business. Personal capabilities like professional knowledge, skills and experience built up during the former years, the incumbent's attitude and support as well as the support from the rest of the family contributed to the uniqueness of each case.

The trigger for succession in cases A and B was the big bang, the problems. The succession of case C had already happened in 1988, when the situation was not that bad yet. The essential changes did not happened in the management before the problematic time.

Ansoff (1984:209) defines capability of general managers as its propensity and its ability to engage in behaviour which will optimise attainment of the firm's (near and long term) objectives.

General management and functional capability can be assessed in two complementary ways. The first is by observing the characteristics of the firm's behaviour; for example, whether the firm anticipates or reacts to discontinuities in the environment. Ansoff calls this responsiveness. The other way is to identify the capability profiles of the firm which produce different types of responsiveness.

These types of responsiveness are described by three capability attributes: climate, competence and capacity. Each of these is determined on the one hand by managers and on the other hand by the organisation through which they work.

- Climate is the management propensity to respond in a particular way, for example, to welcome, control or reject change
- Competence is the management's ability to respond. For example, to anticipate change in a complex environment, the firm needs a sophisticated environmental surveillance system. Without it, the propensity to welcome change is an intent without the means.
- Capacity is the volume of work that the general management can handle. Its adequacy is related to the type of response used.

To answer to the question "What is the general management's capability for renewal?" is rather demanding. Some of the features of each case have been described above and will be described in the following chapters. A summary of the evaluation is presented at the end of this chapter.

4.4.1 Strategic capability

Strategic planning and operational capability is the way the company is building and maintaining competitive advantage.

> *Son(A): Then I started to participate in sales more and more and well started to go round the world… then I started to see for the first time that we don't have like any means in the long run to make it with the kind of recipe we had so that the cost structure was completely insane.*

Many approaches to strategy begin with the development of a mission statement. The classic strategy literature suggests that strategy is then formulated by relating a firm's industry situation to its strengths and weaknesses. Industry analysis indicates attractive opportunities, whereas company strengths and weaknesses analysis indicates what is possible. After the analysis stage, the top managers can choose the future course of the firm (Harris et al. 1994:160).

> *Son(A): …And I have been thinking a bit of the kind of strategy that we would have here in this customer group three, four fabrics as alternatives, here ten fabrics as alternatives and here 5 fabrics as alternatives… Which we would code some way, so that when somebody goes and asks for a granny-sofa from a furniture salesperson, he then goes and gets our four granny-*

sofa fabrics and says that these fit with these… yeah. The only means for our survival is now, it has become clear, our only job is to make it really easy to buy furniture, nothing else is our job.

The critical questions all business leaders need to ask are, "What is our business?" and "What will our business be in the future?" The process of determining a meaningful direction for the company, the mission, begins with these questions. The statement focuses and motivates individual efforts to beat the competition (Harris et al. 1994:160).

Incumbent(B): It is impossible to lead a leather manufacture company behind the desk; you have to know the processes…

A fundamental determinant of a firm's profitability is industry attractiveness, which is affected by the existence of five forces that shape the structure of the industry (Porter 1980). This can be called industry analysis. An important part of the explanation for a company's success or failure is given by the industry in which it competes. Family business participates in business types that are less capital intensive and therefore have lower barriers to entry. Affinity to the business built by previous generations may also create high emotional barriers to exit, leading to greater rivalry among firms. On the other hand, loyalty from customers and suppliers provides a more attractive industry structure for a family-owned business. Family businesses may be less likely to view themselves as rivals to each other, since they interact in social and business spheres, each of which has institutional memory that can serve as a check on untrustworthy behaviour (Harris et al. 1994:162).

Company situation analysis indicates how strongly a company can hold its position and whether the current strategy is capable of increasing long-term performance. This strategic analysis centres around three questions. The first question is to clarify what the present strategy is. Does the company's competitive approach focus on a low-cost, differentiation, or focus strategy? What is the firm's competitive product-market scope or the degree of vertical integration and geographic market coverage? What are the company's functional area support strategies in marketing, human resources, finance, and production? Have any recent strategic moves enhanced competitive advantage or position? Indicators of a firm's strategic and financial performance are market share, profit margins, return on investment, sales growth, and competitive advantage and position.

The second question assesses the company's strengths and weaknesses. A company's internal strengths generally represent competitive assets – its expertise, core competencies (Prahalad & Hamel 1990), and competitive capabilities. Family firms may have lower recruitment costs, greater employee loyalty, more productivity and more effectiveness in labour-intensive business.

The third question evaluates the company's competitive position and competitive strengths. The assessment of a company's strengths or weaknesses on key success factors relative to its direct competition is essential. If family firms are more inwardly orientated, they may be less accurate than their competitors in analysis. A relative disadvantage of family-owned firms is lack of capital. Future research may determine whether limited access to capital affects business behaviour or results. Hamel & Prahalad (1993) argue that learning to "stretch" limited resources actually increases the strength of the business. Is lack of capital more of a strength or more of a weakness? Does the perceived reluctance to borrow significant debt increase the flexibility of the family business?

Family-owned firms may have certain inherent relative strengths. Most often, it seems, it is suggested that family businesses have a more long-term view. Many family firms seek to preserve the business for future generations – or perhaps they have a fear of what passive wealth from selling the industry will do their heirs (Harris et al. 1994:163).

Strategy development is a dynamic process that evolves over time. The strategic goal for a company is to build a sustainable competitive advantage. A firm can differentiate a product or service based on price, quality, image, or design. In addition, the focus can be on a market segment or niche (Porter 1980). Once a core business is established, it can be elaborated by developing a new product or market. A business may extend its core business to continue growth and develop additional competitive advantages through vertical integration and diversification. Vertical integration aims to extend a company's competitive scope in the same industry by owning the operations of their customers or suppliers. Diversification refers to entry into a new business. The diversification can be either related or unrelated to a distinctive competence or the core business (Harris et al. 1994:164).

Each of the companies was in poor financial shape at the beginning of the 1990's. The relative disadvantage of family-owned firms is the lack of capital. So was the situation in all of these cases. Hard years from the end of 1980 till the beginning of 1990 had weakened the buffer of the owner's capital. At the stage of the succession the successor took total ownership in cases A and B. The successor in case C was the main owner as his brother and sister owned both a small share. Case A and Case B were able to reorganise their financing on a more reasonable level of interest. The successor's vision of the future strategy, which would renew the business and make it profitable again, convinced the financers to cooperate with cases A and B. In Case C the successor could not reorganise its business. Turnover has declined every year, turning the business non-profitable, which has caused a serious financing problem. In the year 1995 the incumbent had to come back to finance the business as he bought back 29% of the shares. Because of the non-profitable development the owners have been forced to credit the company in a form of subordinated loan (own capital loan) to avoid bankruptcy. This is also an example of deep commitment from the family.

In case C, as the incumbent who already passed the baton, was forced to come back in a role of the financier, which also meant motivational problems for the successor. Under good financial circumstances the owner can take the power, and the power arguments and decisions are easier to make.

Interviewer: Son has the responsibility and the power to make decisions?
Incumbent(C): Yes, or together we decide …. I'm always in this operations as well, always when I'm in Finland (father retired in February 2002, interview was conducted in May 2002), three – four months in a year.

Interviewer: Ok.. Have there been any conflicts?
Incumbent(C): ..Yes, it happens sometimes….

4.4.2 Entrepreneurial capability

An important reason why entrepreneurial behaviour is more frequently observed in business is the fact that many SME-companies are showing good financial results. These companies are often family firms and observed to behave entrepreneurially continuously, in a deliberate search for growth through change. Families in business tend to think that they are in charge of their own money.

Typical features of entrepreneurship are creativity, experimentation, uncertainty, generating new or renewing old, being visionary and proactive. Schumpeter (1950: quoted in Lahti 1991) based his theory of entrepreneurship on innovative actors whom he called entrepreneurs and the overall ideology of entrepreneurship is described as initiative and innovating.

Entrepreneurship is an ideology of venturing. It is a strong combination of visionary opportunity-seeing and intentional action-orientation. Willpower, intuition and alertness characterises the ideology of entrepreneurship, where the structuring of activities is organic and where holistic and associative knowledge are used as a competence in addition to any formal knowledge (Johannisson & Huse 2000).

To be successful, entrepreneurs must have both vision and drive. However even entrepreneurs who possess these attributes have to overcome many odds. And successful entrepreneurs do: they are the kind of people who will go to great lengths to turn their fantasies into reality. Sometimes the entrepreneur who starts his/her own business generally does so because he/she is a difficult employee. An entrepreneur does not take kindly to suggestions or orders from other people, and aspires most of all to run his/her own business.

Quick decisions

Son(A): ……We were on Saturday at the Frankfurt fair and as we were going to the upstairs of market hall nine I said to Päivi that we are not going to buy anything today, we have bought enough already, so 15 minutes later I had bought fabric worth FIM 360.000 …(laughs)… there goes that decision, but it was just the kind of product right there, it was pure chance that I saw, like goddam this … come here Päivi see this, let me see the colours, tsik, tsik, tsik, then there were 17 colours, 100 meters each at once and reservation for 500 meters right after that, otherwise you won't get it…. And this year we will make about 3 million turnover with it.

Son(A):..Yeah, one thing was like this, that I was on Wednesday afternoon they called me that now there were two good Dorniers in France and on Friday I was buying them.

Self confidence

> *Son(A):.. I can say with no boasting at all that we are pretty good to sell. That talking that I have, dad has it really good and I'm sure I have it almost as good. And we get on with people and can in a way like do our thing very convincingly. And this kind of situation that we have always been entrepreneur colleagues and pretty like strongly brought this entrepreneur argument forward, so we have gotten into even to that kind of houses that many don't get into…*

Long-term view

> *Son(A): … this staff, that has stayed with us, so it is in my opinion pretty hard-working, talented people. If I would manage them better, we would make even better profit that what we do now … Raimo has changed the chains of my moped and there he works all day. Allu has been with us over 30 years and Aino has been for 30 years and this kind of basic staff…*

> *Son(A): Well, I don't know. The years '91 to '95 were still really good, and we made it, with the new models we had. I could promote the interior decoration projects night and day. See that prize over there? It was great feedback to us. But still, though they kept praising us, at least I thought our products didn't sell a lot, and that the man in the street had a different taste. With all those people in the weaving factory, I thought we should keep it up. And I have tried to get up a mix here that covers things for ordinary people, the kind of things we can make roll after roll, but all the time these interior decoration projects*

Limitation of resources in human resource management

> *Son(A):… I am that way a bad manager, I don't keep enough contact with my people, you know, individually, that I think, that it is enough contact to talk this and that every day, but we should have much more that kind of weekly meetings and we have tried to keep them sometimes, but it seems that we are always so bloody busy. Sometimes it makes me sick and sometimes its bloody annoying and sometimes everything else… it's like that…*

> *Son(A):… I definitely know my weaknesses and my fault is that, that I'm really bad at delegating and I have some kind of a fault in my head that .. I'm like that, that I'd like to run in front and others come after… But it's difficult to do things like that, to plan, I'm so tired with it .. I was really good at keeping a calendar five years ago, I had all my jobs marked on the weeks, but what started to upset me was that although I had what kind of a calendar, I had to tear it on Monday or on Tuesday…*

Values

> *Interviewer: What do you think that they value in this company?*
> *Son(A): That when you come to work, you get paid every day … Security I think and of course they know their job and the pay is good…*

Many of the opinions of the successors about the long-term view contain similarities to the opinions about the values. They appreciate the staff and they like to be a better leader. For example the successor of company A, since he was a young boy he has known the people in the company. He feels he has a strong responsibility for the stability of the company.

Son(A):...Staff, that has stayed with us, so it is in my opinion pretty hard-working, talented people…Raimo has changed the chains of my moped and there he works all day. Allu has been with us over 30 years and Aino has been for 30 years and this kind of basic staff…

Son(A):…But still, though they kept praising us, at least I thought our products didn't sell a lot, and that the man in the street had a different taste. With all those people in the weaving factory, I thought we should keep it up. And I have tried to get up a mix here that covers things for ordinary people, the kind of things we can make roll after roll, but all the time these interior decoration projects

Motivation

Son(A): Somehow I could manage, absolutely, I was committed very strongly... I was willing to fight ... and then came that too, that I saw like my mom's part that she has newer had wages paid and she has like lived through my dad's wallet a good life, not so that it would have been financially bad but when that tomorrow wasn't taken care of, so she wasn't getting any pension for example... and in quotation marks on the mercy of that old despot so that wasn't any fun, well..

Son(A): Even through a bloody stone, but we never give up. Over there some economist decided that it's not worth it, and so the first thing is to do is to close the machines and sack the people. ... Whereas with us, if it's not worth it, first we look in the mirror and then another look in the mirror and but we don't sack the people, because we gave them jobs. It's like that and we have always found a solution. But it was...

Son(A):..If I was now thinking that I would like to train my son into this, so I'd surely put him there in the furniture shop to help, pay his wages there. So to learn that marketing, or how people think. What, why they buy something, what they like, what and how they decide.... why they decide to buy this shaped and not that shaped furniture, you can't learn that with ripping out nails, but..

Son(B): … But it was that 1990's depression that was mentally hard for Pekka and in the winter 94-95 he said that he simply didn't have enough strength to carry on his own. ... called me and asked if I'm interested to continue or should we sell ... And I thought for a couple of months, that hang on, I can't just give up just like that ... I have been all the summers, and even then, when I worked over there for Cultor, so I worked here all the summer holidays and always like that followed things to some degree.

Son(B):... must say that I had been little less than 10 years in that kind of big organisation and somehow, when one has been all his life in this kind of entrepreneur family, so there I got terribly big problems to motivate myself to this kind of big organisation, it's ugly to say it, but bureaucracy, but when you have a lot of people, well, decision-making takes awful lot of paper and sitting and all kinds of stuff, and I felt at times that not all of them made much more sense for the business, so it was quite easy then, when the situation was there, to motivate myself to leaving ... The wife's also from around here. Must say, that she left the decision totally up to me, so she wasn't pulling one way or another in that way.

Son(C): I don't remember it as a tough time ... we had enthusiasm, when we could see where we were going, no, no I don't think nobody would do that just for the money, it's because of the family enterprise....

Son (C) … that everyone that are now with us have been for a pretty long time … we haven't organised much a lot of these joint gatherings and don't spend yeah we come there to do 8 hours and then everyone goes to their own and we concentrate on doing what we do then efficiently, but we don't need each others company then after the working hours… and I *haven't had that kind of thought. Yeah I have always tried to work it so that people will take the responsibility what they have there during the working hours…*

Interviewer: Do you think that there would be somebody from your relatives or family to continue this?
Son(C): Well in my opinion absolutely not… laughs … and even if he would be up to it, I would say that no

Interviewer: Have you thought that you will sell that enterprise then sometime?
Son(C): No, no I haven't thought it so far and now we have those unprofitable years to begin with so that it's not even fit to be sold…

Competence

Son(A): Versatile knowledge after all, knowing your own technical profession from a to z, I have done all the jobs. So far I have been longer a weaver than a CEO, there is still two years 'till I have been longer in this position, so that I have been doing all the jobs and then that this marketing is so familiar to me and perhaps the nicest part of my job is the designing of the fabrics, that is the most difficult part and when you get it right, you feel happy for such a long time. Then you can wallow again on another day.

Son (B):Everybody can use a bit of their own brain, if you see, that a thing can be done differently , then it's possible, since the most important thing is that the quality stays… Not like there is a system but it is just so that if we see that there is a problem somewhere, so we start with that, that the management tries to teach it right that stage, if we see that kind of problems. If there is a mistake in some stage, so then we just go and train them or sometimes we have had to change jobs, if they just don't have enough skills to do some thing, so then we have changed things…

Son(B): It is very important that we get the clients here on the spot to see and to discuss about it, because it is really difficult to do these kind of deals, you know with a one-way model, that I have these models right here, so most of it is co-operation, so that we look that we have this kind of and this kind of and then we search for the new models and versions many times just by inventing. It probably would not work if we were somewhere further away…

For managers in family companies, or for those who interact with such firms, it is crucial to recognise that the same organisational features of these firms account for both their strengths and their weaknesses. Thus it is necessary to recognise the potential for positive and negative consequences of the features, which Tagiuri and Davis (1996) called bivalent attributes.

To reach the best of the entrepreneurial capabilities in family business the challenge in these organisations is to be able to maximise their positive, and minimise their negative consequences.

Entrepreneurship, paternalism and managerialism

Entrepreneurship, paternalism and managerialism are all obvious phenomena in the interviews. In entrepreneurship, the key elements are realising opportunities and seizing them, experimenting, creating new and renewing old, innovation, risk and growth. Entrepreneurship is conceived as being primarily the outcome of human volition (Bygrave & Minniti 2000:25). In managerialism, the ideological focus is on administrative procedures, structures and institutions, resource allocation, profitability, efficiency and money (cf. Kyrö 1995:140-144, Garmonsway & Simpson 1975:447). In paternalism, the strong ideological factors are protection and guardianship, family institution, traditions and ownership (Sorenson 1999, Palojärvi 1999:135).

The features of the case studies are shown in Figure 39 (Johannisson 1999:6, Koiranen 2003).

In case A the **support** appeared in many ways. For example the arrangement by the father enabled the studies of the son in Germany. After a few years of experience the father "let" the son meet the customers, to gain knowledge from the marketing field. First they travelled together and later, the son was responsible for marketing by himself. This could be seen also as the **control** of the father as he wanted to ensure the future of the business because the **intention** was common, to continue the family business. The father's opinion of the successor was very sure as the work history of the son could not be compared with any other siblings. But the decision of the time and the terms of the succession were painful, and the incumbent and the successor often quarrelled. The incumbent's **support** in financing the succession process, and then in six months to split the price, was the happy end of the process. The **support** appeared also from the successor's side as he was worried about his parents, especially his mother's financial future as the father had neglected her pension payments for her.

In case B the **support** from the father was the arrangement in transition of the company. The price was reasonable, because father had enough for his retirement. After the succession the father still works as a silent "emeritus" in the factory. The **control** can be seen in an earlier stage of the firm as the son was working during his leisure time in the factory. The father could ensure himself if the son is capable in the future to take over and perhaps even encourage an interest to family business, although he was permanently working outside the company. After all the father's **intention** was to keep the firm with the family.

In case C the **support** from the father was the arrangement of financing as the company needed more capital to survive. In an earlier stage of the company the successor was practising in Sweden, this was supported by the incumbent. This could be seen also as the **control** of the father as he wanted to ensure the future of the business because the **intention** was common, to continue the family business. The **control** can be seen in the stage of the ownership as the father still works every now and then with in the factory and there are some problems with decision making. All the time the father's **intention** has been to keep the firm with the family.

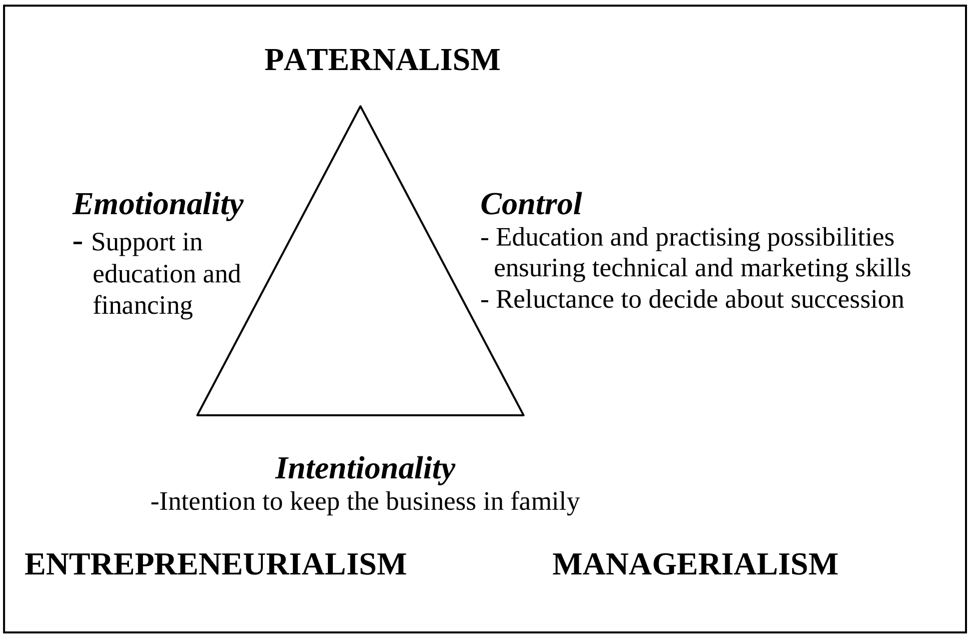


FIGURE 39 Emotionality, control and intentionality in cases (cf. Johannisson 1999:6)

Incumbent(A): Yes, it was clear, that it was Vesa who would continue

Son(A):... the value of the shares is one FIM ...we cried and grieved and shouted at that table ... I said that I'll be leaving ... that I won't stay so, that dad will be in a minority, I'll buy all the shares, it was my condition....

Son(A):. ... then that succession agreement, that I'll pay 1.2 million in 10 years time for these shares ... after six months we opened that paper and the price was lowered to 500.000 FIM... It was hastily done that decision then, that we had to do some kind of decision then, so we can move on forward, but if this agreement goes like this, I'll give everything away that this firm will make profit, and after 10 years this firm will be as poor as it is now...

Interviewer: Did you have any dreams you when you left, the sort of things Vesa has made true? I mean, you realised your own dream by achieving what you aimed at in your life--you experienced a colourful time and a boom, after the war. You worked in three shifts…any reason for you to say that your dream lives on in Vesa's work?
Incumbent(A): Sure, my dream lives on: he's my successor, he's keen, and he's working hard.

Interviewer: How did it become obvious that it would be Jari, who would continue this?
Incumbent(C): ….and there wasn't any other choice.

Motivation and volition and their importance for entrepreneurship

Entrepreneurship is defined as 'a cognitive, affective, and conative process intended to increase value through creation, revitalisation and/or growth' (Ruohotie & Koiranen 2000: 29). According to this definition the authors introduce the taxonomy of individual difference constructs by Snow et al. (1996:247). In the context of entrepreneurship, the most interesting of these constructs are those reflecting motivational and volitional aspects of human behaviour; that is, conative constructs

Conation refers to those mental processes that help an organism to develop. It is a kind of intrinsic unrest or a conscious tendency to act or strive for something. Conative constructs include impulse, desire, volition and purposive striving (Ruohotie 1998:69).

> *Son(A): If I was now thinking that I would like to train my son into this, so I'd surely put him there in the furniture shop to help, pay his wages there. So to learn that marketing, or how people think. What, why they buy something, what they like, what and how they decide.... why they decide to buy this shaped and not that shaped furniture, you can't learn that with ripping out nails, but..*

> *Son (B):Everybody can use a bit of their own brain, if you see, that a thing can be done differently , then it's possible, since the most important thing is that the quality stays… Not like there is a system but it is just so that if we see that there is a problem somewhere, so we start with that, that the management tries to teach it right that stage, if we see that kind of problems. If there is a mistake in some stage, so then we just go and train them or sometimes we have had to change jobs, if they just don't have enough skills to do some thing, so then we have changed things…*

> *Son(B): It is very important that we get the clients here on the spot to see and to discuss about it, because it is really difficult to do these kind of deals, you know with a one-way model, that I have these models right here, so most of it is co-operation, so that we look that we have this kind of and this kind of and then we search for the new models and versions many times just by inventing. It probably would not work if we were somewhere further away…*

> *Son(B): …Especially these Russian customers, they feel at home in Finland and they like to come to visit us. We never arrange anything special, but then we serve lunch and sometimes we go to angle a bit, but that is still different. They are our traders, we are the manufacturers of this kind of material, when we don't have any consumers.*

Entrepreneurs as well as other persons involved in business, and even in the wider environment, need a strong base of relevant domain knowledge, but that can not be used in practise without skills and strategies. It is obvious that the earlier experience of the successor had provided him with the skills needed to plan the renewal strategy. The interview brought to light that the process continues.

> *Son(A): …And I have been thinking a bit of the kind of strategy that we would have here in this customer group three, four fabrics as alternatives, here ten fabrics as alternatives and here 5 fabrics as alternatives… Which we would code some way, so that when somebody goes and asks for a granny-sofa from a furniture salesperson, he then goes and gets our four granny-sofa fabrics and says that these fit with these… yeah. The only means for our survival is now, it has become clear, our only job is to make it really easy to by furniture, nothing else is our job.*

Pintrich, Marx & Boyle (1993) classify beliefs into goal beliefs (e.g. intrinsic and extrinsic orientations), value beliefs (e.g. intrinsic interest, instrumental value), self-efficacy beliefs (e.g. perceived abilities, confidence), and control beliefs (e.g. perceived internal vs. external control, outcome expectancies). Entrepreneurs do have beliefs, for example goal belief would be an orientation to enlarge the firm or a belief in the importance of becoming wealthy. A value belief would be the desire to challenge one's own limits or a commitment to ensuring that new ideas are developed to the point that they become commercially viable. Self efficiency belief would be strong self-esteem, confidence in being successful and control belief an entrepreneur's optimistic view that the operating profit of the company will be sufficient to cover further investment (Ruohotie & Koiranen 2000:36).

> *Son(A): Even through a bloody stone, but we never give up. Over there some economist decided that it's not worth it, and so the first thing is to do is to close the machines and sack the people. ... Whereas with us, if it's not worth it, first we look in the mirror and then another look in the mirror and but we don't sack the people, because we gave them jobs. It's like that and we have always found a solution. But it was...*

> *Son(B): … But it was that 1990's depression that was mentally hard for Pekka and in the winter 94-95 he said that he simply didn't have enough strength to carry on his own. ... called me and asked if I'm interested to continue or should we sell ... And I thought for a couple of months, that hang on, I can't just give up just like that ... I have been all the summers, and even then, when I worked over there for Cultor, so I worked here all the summer holidays and always like that followed things to some degree.*

> *Son(B): ..Yeah. that wet blue – it was sort of big to that time's turnover, couple of million all in all, when the turnover was like 10 million. ..(FIM). You have to keep the feet firmly on the ground, it's not really like possible in our financial situation, to tell you the truth it is that kind of small stress, it doesn't give any possibility to make mistakes, all the decisions have to be financially correct, of course you make kind of misinvestments all the time, but we have been still able to keep our limits, so it hasn't bothered us ... All the biggest investments, couple of hundred thousand Finn marks, yeah we have been through them closely and thought about all the time...*

People have the ability to introspectively reflect on their own actions, to be self-assertive. People are able to regulate their own actions and make wilful decisions. Self-regulation, the control over free will, is directed by goals. By using her/his will, a person can enact self-motivation strategies or control distracting feelings, such as inadequacy or helplessness (see more Weiner 1990, Corno 1993).

> *Son(A): It's the constant feeling of insufficiency, it's probably connected with that growing as a person and getting old, I read somewhere that a bloke who's forty sees his incompetence for the first time. And you start to think of yourself with the incompetence and not just that, like he's a bloody bull and believes. So goddamn, here to there and everybody else stumbles down and like this, but then you notice, it's not at all possible here.*

> *Son(A): ... and I said, that I'll be leaving now, I can't just stay here and watch, 'cause I then had a strong idea that I'm the one, I don't want it now, that it's true, but anyhow I'm going to say, that the only one, who was really working... .like for the future. Jarmo run the economy then and did his job well in that place, but his talent was between Lankilankoski and Ritamäki and in that world and Minna, well she was below him and Minna, she was a designer, designing fine pictures, she didn't have even one furniture dealer she knew*

> *Son(A): Somehow I could manage, absolutely, I was committed very strongly... I was willing to fight ... and then came that too, that I saw like my mom's part that she has newer had wages paid and she has like lived through my dad's wallet a good life, not so that it would have been financially bad but when that tomorrow wasn't taken care of, so she wasn't getting any pension for example... and in quotation marks on the mercy of that old despot so that wasn't any fun, well..*

Son(A): I don't know... it can be, that dad would have wished, that I would have been more active over there in the marketing. But for that we have made automatic procedure. But may be he hasn't been a fan of them. We have concentrated on products that can be moved easily and that can be held in stock and that customers can order just over the phone. So that we have arranged so that they have this product in use and then automatically they order it, in contrast to that we make some products and then start to sell them.

4.4.3 Summary of capabilities

Ansoff (1984:209) defines capability of general managers as its propensity and its ability to engage in behaviour which will optimise attainment of the firm's (near and long term) objectives.

Theories of strategic renewal (e.g. Hambrick & Mason 1984, Pettigrew 1985, Strebel 1992, Huff et al. 1992, Hamel 1996) start out from different, and partly implicit assumptions, about triggers of strategic renewal (reactive vs. proactive), participation (top management vs. wider participation), and process (incremental adjustment vs. revolution, punctuated change). Taken together they suggest two mutually dependent and equally important dimensions of strategic renewal: (1) strategic renewal aims at bringing the organization back into a situation of freshness and vigour in strategic thinking, and (2) that transforming strategic thinking into co-ordinated strategic action (Mahnke & Aadne 1998).

Ansoff (1984) uses the term responsiveness to describe a firm's behaviour in anticipating and reacting to discontinuities in the environment. His way is to identify the capability profiles of the firm that produce different types of responsiveness.

These types of responsiveness are described by three capability attributes: climate, competence and capacity, in Table 17. Each of these is determined on the one hand by managers and on the other hand by the organisation through which they work.

- Climate is the management propensity to respond in a particular way, for example, to welcome, control or reject change
- Competence is the management's ability to respond. For example, to anticipate change in a complex environment, the firm needs a sophisticated environmental surveillance system. Without it, the propensity to welcome change is an intent without the means.
- Capacity is the volume of work that the general management can handle. Its adequacy is related to the type of response used.

In Table 18 the organisation element has been joined to the manager element. Organisations in these study cases are very lean, and most of the decisions are made by the owner-manager. In the interviews it was obvious that the successor would have appreciated guidance and response to his decisions if available. The evaluation is made by the researcher's subjective comprehension according to the experience of knowing the entrepreneurs (incumbent and successor) for several years, the information from the interviews and the annual reports.

TABLE 17 General management capability

Capability attributes	Managers	Organisation
Climate (will to response)	mentality power position	culture power structure
Competence (ability to response)	talents skills knowledge	structures systems shared knowledge
Capacity (volume of response)	personal	organisational

Source: Ansoff (1984:209)

To assure optimal effectiveness of the capability profile, the components of the profile must be supportive of one another. When repositioning is discontinuous, the general management capability to anticipate the need and to assure time repositioning becomes the key to success. Thus, general management graduates from a secondary role of a co-ordinator of growth, to a vital role of developer of the firm's future. Successful performance of this role requires a climate within the firm which welcomes and seeks change, a competence to anticipate, analyse and select attractive opportunities (Ansoff 1984:213).

In the context of entrepreneurship, the conative constructs is the most interesting of the constructs which are reflecting motivational and volitional aspects of human behaviour (Ruohotie & Koiranen 2000). Entrepreneurship, paternalism, managerialism and conative constructs are all obvious phenomena in the interviews. To be able to answer the question "What is the general management capability for renewal" is, if not impossible, at least too complicated with this small case study material. Some of the features of the cases have been described above.

TABLE 18 Subjective interpretation of management capability in case A, B and C (successor)

Capability attributes	A	B	C
Climate (will to response)			
Mentality:			
-aware of external vs. internal problems	+	+	+
-positive orientation to the future	+	+	-
-propensity to take risks	+	+/-	-
-wish to keep the family business	+	+	-
Power position:			
-the strength of his/her power position within the firm	+	+	-
-the ambitiousness and drive to use the power	+	+	+/-
Competence (ability to response)			
Skills:			
-problem solving	+	+	+
-leadership styles			
-knowledge of the importance, wish to improve	mentioned in the interview	mentioned in the interview	
Knowledge: (firm and environment)			
-work experience outside family firm	-	+	-
-knowledge about retail market	+	+/-	+/-
-skills in marketing	+		
-skills in technology	+	+	+
-skills in business knowledge	+	+	+
Capacity (volume of response)			
Personal:			
-work capacity	+	+	+
-work habits	+	+	+

4.5 Critical incidents in business environment

The companies were in the middle of the ‘big bang’ because of the critical incidents that occurred at the end of the1980’s and in the beginning of the1990’s. They faced the challenge of reconstructing the business.

Case A

Son: Even through a bloody stone, but we never give up. Over there some economist decided that it's not worth it, and so the first thing is to do is to close the machines and sack the people. ... Whereas with us, if it's not worth it, first we look in the mirror and then another look in the mirror and but we don't sack the people, because we gave them jobs. It's like that and we have always found a solution. But it was...

Son: The manufacture of plush ended all of a sudden in September 1988. It was the artificially raised value of the Finnish mark. We still made some good deals with Russia at the end of the 1980's for the car seat cover side and especially the plush took even from 85 to 87 bloody well. We made almost 5 million (mark) sales in the plush business and we didn't have more than six people working. So it was a wicked good business. But at the same time dad hadn't the patience to develop that weaving factory, nor money or ability, so we had two shifts ,the evening shift and morning shift, two maintenance men and both of them had to have work. It ate up such a ridiculous amount of money that maintenance of the weaving factory, the profits kind of melted there. And at some point dad thought that the plush side kinda owed the factory..... Absolutely the same corporation and the money came from his pocket...

Son: In 88-89 I thought, that I'll get the hell out of here, there is no way this is going to support me. That here was Minna, my sister, my mom and all kinds of strange things were done, I thought, Marimekko aprons were bought and a shop was kept and nobody was sure what was done. I started then to participate in the sales more and more and well, I was sent to go out around the world... then I started to see for the first time, that we don't like have any skills to survive in the long run with that kind of recipe like we had, that the cost structure was completely insane.

Son: Then in 88-89 when the furniture business was at its peak so 80 to 90 percent of the couches were sold with leather. And the consumption of fabric was down and at the same time the Belgian factories started selling even more stuff into Finland. The Finnish mark was so strong, that they could import fabrics from The US, even the small factories themselves. And... er... of course dad then grew old, though he's not old even now, well he's just 70. And still the terrible hard drudging over the years started to show and there were fights over even reasonable things. And then I thought that there was Minna, my mom and then Minna's man Jarmo, so he more or less in my opinion, like thinking afterwards, tried to smoke me out from here and like they'll be entrepreneurs here and ……….Somehow I could manage, absolutely, I was committed very strongly... I was willing to fight ... and then came that too, that I saw like my mom's part that she has newer had wages paid and she has like lived through my dad's wallet a good life, not so that it would have been financially bad but when that tomorrow wasn't taken care of, so she wasn't getting any pension for example... and in quotation marks on the mercy of that old despot so that wasn't any fun, well..

Son: It was KOP (a bank) offering those money then, with an interest rate 17% at its best, like completely baffling interests we had to pay... then this devaluation in -92. Bloody hell also, we got 74,000 FIM more credit in one night, and we didn't have to ask for it one bit... Then the KOP men came here and started to take pictures of the estates and securities... I told them right in the face to get the fuck out of here. You yourself offered us... Even Kanra offered so that six weeks before devaluation we had to change our ancient receivables into foreign credits, even that cost us 80.000 in one night... all we did was home trade...

Son:....Wiklund got these balances right and then we rated the stock into real value... like surveyed, what's saleable...

Son:... the value of the shares is one FIM ...we cried and grieved and shouted at that table ... I said that I'll be leaving ... that I won't stay so, that dad will be in a minority, I'll buy all the shares, it was my condition....

Son: I bought the shares off from uncle Heepe and from Kaija-Leena and Minna their shares off and paid for them a couple of marks in the end. I paid 4,000 or 5,000 to Minna, with very little money I bought them off. The State Guarantee Office and Kera's money came into play then and Veikko Anttonen from Kera, to whom I'll probably be forever grateful. ... then that succession agreement, that I'll pay 1.2 million in 10 years time for these shares ... after six months we opened that paper and the price was lowered to 500.000 FIM... It was hastily done that decision then, that we had to do some kind of decision then, so we can move on forward, but if this agreement goes like this, I'll give everything away that this firm will make profit, and after 10 years this firm will be as poor as it is now...

Interviewer: ... dad was ready after six months...
Son: yes, yes ... and on top of it the company's debts, which were that I remember like 7 million...

Case B

Son: But it was the depression in the beginning of the 90's that was mentally pretty hard for Pekka and he then in the winter 94-95 said that he simply didn't have enough energy to continue his own and the he called me and asked if I was interested to carry on or should we sell? And I thought, well, hang on for a couple of months,, I just can't give up like that.

Son: It was really the collapse of the Russian trade between the 80's and the 90's, when these problems of the Soviet trade started and this depression that came on and then there just wasn't enough strength for a new advance, that he could take care of that the company kept going, and could reorganise most of the staff out of the company, but when he should have looked at new developments, he didn't have that kind of courage or initiative.

Interviewer: Now we have discussed some of the critical incidents in this company's history, you mentioned that Russia–Soviet Union collapse of trade and then was that depression in the 90's and this currency, devaluation, did you have, you probably also had loan in foreign currency?
Son: We had loans in foreign currency that still bother us.

Interviewer: You didn't have any export operations then, direct export, so then you lost the difference?
Son: We had very little export, one that came with the trade with The Soviet Union, for us a large part of production was glove manufacture and then most of the Finnish wholesaler firms changed to these low-cost import gloves, or there came the exemptions from duty that the GATT brought, they had previously restricted a little bit and secondly, it was really that general shift of all of clothing industry into Far East, to the cheap countries.. Well, in the gloves it showed very strongly, it is so labour-intensive product. …. And it's not still that kind of, let's say, fashion product, but that kind of necessity, it's a typical product that will be bought based on the price. With these costs, there is no foundation for this.

Interviewer: And you quit that?
Son: Well then we, let's say slowly, shut down production and did couple of more years 19 95 and 1996 still delivered gloves we got orders for. We did nothing into the stock.

Phone interview with the father (incumbent) June 10th 2002.

Interviewer: What do you remember as the most critical incidents in the enterprises history?
Incumbent: (Laughs:) .. all the time (critical)...

The father tells about the announcement by the bank which ended the funding suddenly. The matter was connected to the provincial takeover of SKOP (a bank). SKOP had made a company analysis and it had been announced that the management of the local savings bank was personally responsible, if it would continue the loan to the enterprise, and thus no more credit was available. Nobody in the bank would see the father, representative of the company B. He just went to the bank and found out how the installments of the loan had been handled. There was an error in the company analysis. He made a report that the loans had always been managed; there was a misunderstanding in the analysis and the business went back to normal as the loan was continued.

Case C

First critical incident was when the other founder of the company wanted to retire and offered the shares to the father (incumbent) in 1978. The reason was the oil crises.

> *Son: It was that, right in the beginning, I mean in 1975 we founded and then in 1978, when the Swede wanted to pull out, it was the first crisis. There was a kind of, I don't remember why, a time of still waters with the trade to the Soviet Union, just for a moment. We believed that it will continue (the trade), and Bengt Göran didn't, and then he want to end that operations.*
>
> *Interviewer: It was probably in 1977, when there was the first oil crisis.*
> *Son: Yeah... it was that kind of crisis, that we thought that will we continue or not and decided then to continue. Then there was that actual collapse of the Soviet trade... Yes and everything connected to finance and organising it, personal guarantees and loans, so that way you have to take the responsibility.*
>
> *Incumbent: Well, you can't say that it will continue like before, because this field has changed, you know. Today clothes are imported from China, Hong Kong and wherever they make them. When we started, so then it was the clothing side, which made the living for us, but not any more, it's got very little to do with the clothes we make.*
>
> *Incumbent: When the trade with Russia ended, just then it was very critical. We lost our customers into bankruptcies almost every day, they didn't pay their bills, credit losses of many, many millions.*
>
> *Interviewer: Yeah, how did you survive that then?*
> *Incumbent: Through hard work.*
>
> *Interviewer: Did the bank have anything to do with it?*
> *Incumbent: No, the bank didn't help us in any way at any stage.*

4.5.1 Summary of the critical incidents

The strong currency of the Finnish mark at the end of the 1980's and at the beginning of the1990's caused imports to be a threat to domestic production in all areas of industry, and company A was operating only in the domestic market. Factories were starting to import fabrics of their own.

The collapse of the business with The Soviet Union at the end of the1980's and at the beginning of the 1990's caused tremendous problems to the customers of companies B and C. The Finnish textile and clothing field changed when the factories went bankrupt. This was reflected directly in the companies, and initiated the problems. The greatest threat was import. Not many competitors are left in Finland. The market has changed completely and the co-operation is more thorough and focuses on fewer customers.

High rate of interest (highest 17% FIM) was a huge problem. Those who had credits had serious problems in profitability and those who had liquidity invested in financing, not in the production. According to the father of the present owner in case B, the company was part in the fight between banks for market share in Finland.

Devaluation of the Finnish mark in 1991 was perhaps the worst of the critical incidents. Many companies had been tempted or "forced" to change their credits into foreign currency, because of the lower interest rate. After devaluation, the amount of credits increased in one night. Most companies did not have an export market to compensate for this. Case A did not have any and case B exported only a small part of their production.

Family issues in succession were critical for company A. The family has a strong father, the incumbent and the whole family was in the business. This caused problems when the roles of family and business were mixed. The company was too small to provide a livelihood to all in the future. The price of the company had to be negotiated in the succession to support the parents' future.

Gloves were a considerable part of the production of the case B. The import of gloves was liberated due to the GATT agreement. Retailers started to import from the low labour cost countries.

The first oil crisis in 1978 was seen as a crisis as well as an opportunity to increase the ownership in the family in case C.

4.6 Renewal process

At the most abstract level one can distinguish between every unique business idea the external environment, its 'needs' and values and what it is valuing, the product system of the company and the internal factors such as organisation structure, resources, organised knowledge and capabilities, equipment, systems, leadership, values (Normann 2001: 149).

The core process of renewing the dominating ideas

The core process of a company in the long term is to form new 'dominating ideas' which are in line with the evolution of the external context, and then to ensure that these ideas are expressed in a manifest organisational structure and mode of functioning (Normann 2001:150). Actions that create new links, and the invention and use of artefacts that alter and refocus attention will catalyse the evolution of ideas.

The T/C industry in the EU can be evaluated as a stage of maturity or decline (Figure 40). In the maturity stage a company can not increase market share as competitive costs become critical. Strategically market position could be defended via fresh promotional and distribution approaches (Heizer & Render 2004:40). In this stage the competitive advantages *operational excellence and customer intimacy* introduced by Moore (1998:175) are available if company is looking for leadership or niche strategies.

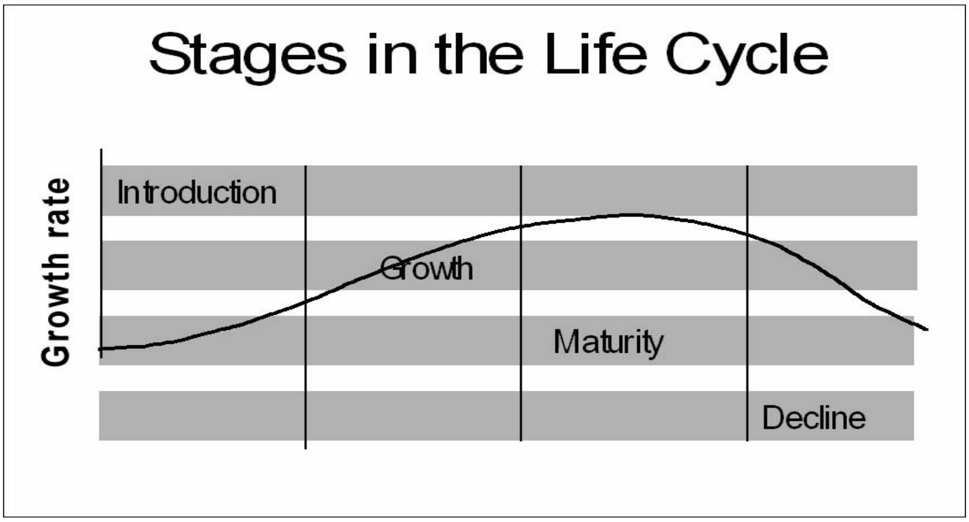


FIGURE 40 Stages in the life cycle

The transition to maturity is nearly always a critical period for companies in an industry. Fundamental changes take place in companies' competitive environment, requiring difficult strategic responses. The impact of transition to maturity extends beyond strategic considerations, holding implications for the organisational structure of the firm and the role of its leadership. Slowing growth means more competition for market share. Outbreaks of price, service, and promotional warfare are common during transition to maturity (Porter 1980:238). Manufacturing, marketing, distributing, selling, and research methods will often undergo change. These changes are caused by increased competition for market share, technological maturity, and buyers' sophistication. The firm is faced with the need for either a fundamental reorientation of its functional policies, or some strategic action that will make reorientation unnecessary. If the firm must respond to such changes in functional policy, capital resources and new skills are almost always required (Porter 1980:239). Where the growth phase may have been one of the rapid discoveries of new products and applications, the ability to continue product change generally becomes increasingly limited, or the costs and the risks greatly increase, as the industry matures. This change requires a reorientation of attitude towards research and new product development.

In increasing international competition the competitors have different cost structures and different goals compared to domestic firms and a home market base from which to operate. Industry profit often falls during the transition period, sometimes permanently. This was the situation in all the cases. But the solutions were different. Fortunately family firms seldom compete with low price, but with customisation and variety.

Case A

In case A, the new CEO made quick decisions and discontinued the non profitable product line. At the same time he saw the trends on the furniture field changing. The ability and agility of the company was successful to meet these new challenges. Taking advantage of the high rate of FIM the company started to import fabrics to complete their variety of fabrics. The negotiation skills of the successor enabled him to take advantage of the payment terms of this new way of operating. This was enabled by their earlier connections and network within the international furniture cluster. In imports they entered into the new market area of projects, such as upholstering public buildings and luxury cruisers. The import line is growing, today its share is one third of the turnover. At the same time the successor started to focus on the receivables and costs. Those customers who did not pay in due time were rejected. The managing director described one small example of the expenses in transportation costs. The logistic of the orders is reorganised and they are taken care of once a day by a transportation company.

> *Son: Well the projects are in between, we have always done bloody good things, these big ship projects, three Eagle ships and they were million mark deals for us, and there might be more of them sometime in the future, let's see, if they come, we'll take them. We have never budgeted for these, so that we'd have to have them, but they are always like if we get them, we do them.*

The competitive advantages of company A are the level of service, customisation and delivery time. The managing director did not emphasise quality in the interview, but they test all the fabrics in a laboratory and perhaps the good quality is taken for granted at this price level for fabrics. They keep quite a large stock and especially of those fabrics which are in the show rooms of retailers. The model books play a huge role in their marketing. Customisation is important for the company, it is enabled by the high variety of the collection. There can be nine colours available for one model. The managing director said in the interview that one of their biggest target groups is the one that makes the decision about the right fabric in furniture shops. As company A has the fabric chosen by the customer in stock, the fast delivery competes with all the big Finnish players in the field. Short lots may well enjoy cost advantage over the high-volume producer for servicing custom orders.

The financial figures have been excellent since the succession. The energy and new ideas from the successor enabled this development, along with the ability to convince and commit the financier.

Case B

The succession process enabled the new process line called wet-blue-line, which was introduced by the new generation in 1995. This line completed the company's service level and brought new customers. In wet-blue-line other companies send their leather for further wet process. The skins are already pre-processed, no hair is left on them and they are light blue in colour, the reason for the name wet-blue. Wet processes in leather manufacturing are critical because of environmental issues and they involve investments. The company's original business idea is based on the leather manufacturing process, where value is added to the raw material. Most of the raw material is sheepskin. This sector is called the fur-line in the factory. The new line has enabled also the growth of direct export.

This kind of process needs a lot of experience and tacit knowledge. It demands strong investments and an effective system for water cleaning. Most leather factories in the world are very old, because the process is quite difficult to learn and demands years of work and heavy investments, which pay back slowly. Many of the old factories have been forced to discontinue their production, because they have not been able to solve their problems with the water system in line with the new legislation. The incumbent said in the interview that there is no threat from Russia for the company like other clothing factories. Learning the leather process takes generations and the new generation in Russia wants quick money. This can be done in the clothing business but not in leather manufacturing.

The firm that is not the overall cost leader in a mature market can sometimes be a lower-cost producer for certain types of buyers, product varieties, or order sizes. In this case the firm explicitly has designed its manufacturing process to be flexible like in case B. In case B competitive advantage is also gained with customisation.

> *Son(B): They say that delivery times can be long, but if an order or delivery reservation is made with the customer, so he can make changes into colours and finishes and things like that very closely near the delivery moment and we can add that very flexibly.*

The financial figures have been better since the succession. The energy and new ideas from the successor enabled this development with the ability to convince and commit the financier as well.

Case C

In business the need for and direction of strategic change is different, since strategies develop in different ways. These have implications for how change might be managed. The succession process started in 1985. At the beginning of 1988 the successor became the main owner of the company (51%). At that time the company started to invest heavily just before the problematic period as the earlier years had been rather successful.

In case C the experience was more in technical area and the father had been and still is the one who stressed the marketing aspect and contacts with customers the most.

Interviewer: So you are the operative director and the father is responsible for marketing
Son(C): yeah

Interviewer: Well, in your own opinion, what in your operative activities is that kind of drive, that you make your decisions, is it sense…?
Son(C): Well… I'm like this.. too much of an analyst, so that I think long and hard, even too long things that some think are important.

Interviewer: .. So you must be that kind of person who bases things in sense, analyses things and then makes the decisions.
Son(C): Yeah, more like that, no quick decisions.

In this case later the environment changed rapidly, many of the customers vanished or went bankrupt in the market. Company C started to focus on the existing customers, many of them in the technical sector. But declining turnover caused serious financial problems which have not been properly resolved. The policy of stocking certain materials was the idea of the successor. This raised the service level of the company for the remaining customers. The father insisted on putting more effort into marketing, wanting to gain new customers as well. According to the successor, the father was from the older generation which worked harder than his generation. The successor appreciates leisure time with his family.

Son(C): Son: I don't know... it can be, that dad would have wished, that I would have been more active over there in the marketing. But for that we have made automatic procedure. But may be he hasn't been a fan of them...

We have concentrated on products that can be moved easily and that can be held in stock and that customers can order just over the phone. So that we have arranged so that they have this product in use and then automatically they order it, in contrast to that we make some products and then start to sell them.

…and it might be that if we had take all the orders home, they would have been available and we would have had more of that money on the other account too…

Interviewer: … where do you get the new ideas and thoughts…
Son(C): I have always received from the client and the client has needed something. The product hasn't fulfilled what the client wanted and then there has been the question, that can this be done like that or could you do this…. And then from there we have started to build it… Sometimes we succeed, sometimes we don't

Between the lines one can read that many non profitable years have demotivated the successor and the differences in opinions of the policy of the company do not encourage one to take new challenges.

Son(C): … Yeah then we did a lot of work, yes we did both then that time when I was young and I still didn't have that family. We started just the two of us, then from the beginning we *worked just the two of us those machines that 24 hours a day. I can't remember that as a hard time (laughs).*

Anyhow the family has been very committed and invested new money in the company hoping that the problems will be solved.

Interviewer: … but you have still been able to adjust then?
Son(C): Well yeah, the years have been different

Interviewer: Have you had unprofitable years?
Son(C): yes.

Interviewer: Then you have some existing buffer there?
Son(C): We've had some buffer, we've been able to organise

Interviewer: And this kind of family business is flexible in a different way than others, in working hours and maybe otherwise then?
Son(C): When needed you have to

Interviewer: In dividend politics and such?
Son(C): Yes and everything that has to do with financing and organising it, guarantees, loans and in that way you have to take like responsibility.

Last discussion with the successor brought up new plans. He has started to diversify in the accommodation business as a landlord in Estonia. This has been possible through his connections with former customers in the clothing business. Most of their knitted material is exported to Estonia for their customers' clothing manufacturing processes. The outsourcing of the manufacturing has created the need for short apartment-like accommodations different from the hotel business.

Personal capabilities like professional knowledge, skills and experience built up during the former years, the incumbent's attitude and support as well as the support from the rest of the family can be seen as the critical key factors in the renewal process and forming the uniqueness of each case.

As a summary of the interviews Figure 41 shows the renewal process of the study cases (originally in Johnson & Scholes 2002:362).

At the beginning of the 1990's the market situation in the Finnish T/C industry changed and declined dramatically. Discussion of strategy during decline usually revolves around disinvestment or harvest, but there is a range of strategic alternatives. These strategies vary greatly, not only in the goals they seek to achieve, but also their implications for investment. In the harvest and divest strategies, the business is managed to produce disinvestment, the classic goal of decline strategies. In leadership or niche strategies, however, the firm may actually want to invest in strengthening its position in the declining industry (Porter 1980).

		PRODUCTS	
		Existing	New
MARKETS	Existing	<u>CASE A,B,C</u> **PROTECT/BUILD** **- Consolidation**	<u>CASE A (import)</u> <u>CASE B (wet-blue-line)</u> **PRODUCT DEVELOPMENT** **- On existing competencies (A)** **- With new competencies (B)**
	New	<u>CASE A (projects)</u> **MARKET DEVELOPMENT** **- New segments** **- New uses**	<u>CASE A (import & projects)</u> <u>CASE C (landlord business)</u> <u>CASE B (wet-blue-line, clothing)</u> **DIVERSIFICATION** **- On existing competencies**

FIGURE 41 Renewal process of the study cases

TABLE 19 Alternative strategies in declining industries

1. Leadership	2. Niché (A, B)	3. Harvest (A)	4. Divest Quickly (B)
Seek a leadership position in terms of market share	Create or defend a strong position in a particular segment	Manage a controlled disinvestment, taking advantage of strengths	Liquidate the investment as early in the decline phase as possible

Source: Porter (1980:267)

Table 19 shows the strategies of the companies on declining industries. The case study A applied strategies of niché and harvest. It disinvested the non profitable line (harvest) and concentrated on the service of the furniture industry including shops (niché) and projects. The unique approach of company A is the exceptionally high level of service which consolidates its position in the competitive field. They keep a large stock of yarns and fabrics, so their delivery time is a few days. On growing markets (projects) the import of fabrics from Europe gives the company a new opportunity to grow alongside the basic existing production line. Moreover it enables them to react soon enough to the changes in the market. The company's future development is dependent on the Finnish economy, because it operates mainly in the domestic market (except for the luxury cruisers). Projects will provide a buffer to the company.

Case B applied strategies of niché and divest. They divested the gloves-line. Wet-blue-line was built up to compensate for the declining markets of domestic leather consumption. With this line they also reached a new marketing group (diversification) through clothing manufacturers as originally they operated only in shoe manufacturing. Wet-blue-line's market area is not declining, it can be called mature. In this field the company operates mainly in an international market and the production is based on contracts, as the company does not own (buy) the leather but adds value to other firms' raw materials. The business is called contract tanning (leather) or contract dressing (fur). At the beginning of the succession (1996), the share of footwear materials was 65% of the production and the rest were miscellaneous leather products. Today the share of footwear is only 30% and clothing is 50%, the rest is miscellaneous. The new market area is interior decoration, from where the company could achieve more margins with some unique leather material if they succeeded with marketing.

Case C is still struggling to find an appropriate strategy.

As a summary of diversification options for a manufacturer (originally in Johnson & Scholes 2002:297) the case A (complementary import) and case B (complementary products to clothing industry and interior market) are shown in Figure 42. Case B has been developing a business idea based on the by-products from the hair of the skins, so far nothing concrete. Diversification in Case C (housing service) is forward integration from a totally different field, still connected with the existing business. Company C has started housing service on its export and outsourcing market in Estonia.

In coping with the forces driving industry competition (Porter 1998:39), there are generic strategic approaches to outperforming other firms in an industry: broad target *cost leadership or differentiation* and narrow target *focus (cost or differentiation)*.

Achieving *cost leadership*, a low overall cost position often requires a high relative market share or other advantages, such as favourable access to raw materials. Within the Finnish infrastructure, the textile and clothing industry can not compete with cost leadership.

Differentiation is creating something that is perceived industry wide as being unique. Approaches to differentiating can take many forms: design or brand image, technology, customer service, dealer net work, or other dimensions. Ideally, the firm differentiates itself along several dimensions, such as high quality with good service. One principal determinant of both product and market differentiation is the perception of the firm and its products by the customers. Another determination is the manner by which the firm gains advantage over competitors (Ansoff 1984:56).

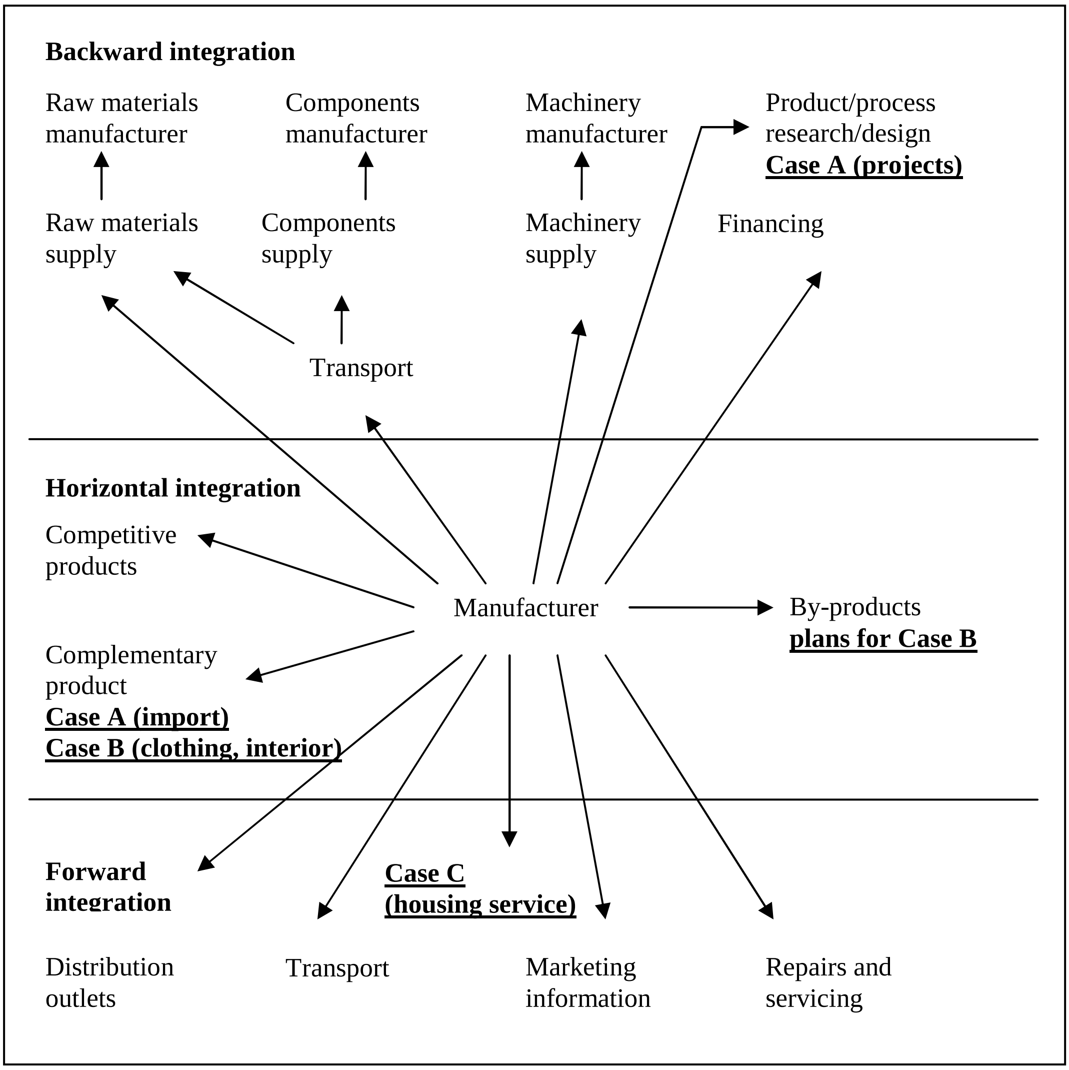


FIGURE 42 Related diversification options for a manufacturer (Johnson & Scholes 2002:297)

Table 20 shows four principal dimensions of differentiation: through image, product performance, market share, and propriety position. As described earlier in the case studies, differentiation (level of service) and focus (scope of customer groups) are the successful generic strategic approaches to outperforming other firms in an industry. In Table 20 the dimensions of strategy differentiation in the cases is presented.

Differentiation strategy does not allow the firm to ignore costs, but rather they are not the primary strategic target. Differentiation provides insulation against competitive rivalry because of brand loyalty by customers and the resulting lower sensitivity to price (Porter 1980:37). The focus strategy is built around serving a particular target, buyer group, segment of the product line, or geographic market very well. The strategy rests on the premise that the firm is thus able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. As a result, the firm achieves either differentiation in the form of better meeting the needs of the particular target, or through lower costs in serving this target, or both (Ibid 1980:38).

TABLE 20 Dimensions of strategy differentiation in cases

Strategy Components		
Relevant groups	Market differentiation	Product differentiation
Customers	Company / product image - service level (A) - delivery time (A) - model books (A) - www- pages (A)	Product performance - quality (A,B,C) - variety (A,B) - flexibility (A,B)
Competitors	Market share/ control	Proprietary position / timing

Source: Originally in Ansoff 1984:56

Differentiation strategy of company B is flexibility as the manufacturer is able to make changes still quite near the beginning of the process with the ordered leather (colour, finishing etc.) material.

> *Son(B): They say that delivery times can be long, but if an order or delivery reservation is made with the customer, so he can make changes into colors and finishes and things like that very closely near the delivery moment and we can add that very flexibly.*

Differentiation strategy of company C has performance if orders are continuous and serves the mass or basic product lines. Their main customers are in the sport clothing and safety footwear sector. In this area competition is hard.

> *Son (C): We have concentrated on products that can be moved easily and that can be held in stock and that customers can order just over the phone. So that we have arranged so that they have this product in use and then automatically they order it, in contrast to that we make some products and then start to sell them.*

Because strategic management is characterised by its complexity, it is also necessary to ensure that the strategy is put into effect, meaning the capability of organising, enabling and managing change. According to Johnson & Scholes (2002:16) strategic management includes understanding the strategic position of an organisation, strategic choices for the future and turning strategy into action. The strategic position is concerned with the impact of a strategy on the external environment, internal resources and competencies, and the expectations and influence of stakeholders. Strategic choices involve understanding the underlying basis for future strategy at both the corporate and business unit levels and the options for developing strategy in terms of both the directions and methods of development. Strategy into action is concerned with ensuring that strategies are working in practice (Ibid 2002). This contains all the main elements in strategic work, even for a small family company. The main issues of this model are discussed in the interviews. In these study cases as in many other small companies the main challenge is the capability of organising, because most of the resources required to enable and manage change are on one shoulder; that is, the successor.

4.6.1 Effects of renewal

In this chapter the effects of the renewal process are under economical inspection and the key indicators are compared with each other. The research starts from the succession year, which varies in each case and is the first period under inspection. The results are compared with each other so that in cases A and C the analyses covers the last 10 years (the succession year and the years 1994-2003). In case B it covers the succession year and the years after that (1995-2003). Information is based on Finnvera's annual corporate analysis as the family firms studied gave permission for the researcher to use this material. Indicators are analysed according to the Committee for Corporate Analysis (2000).

TABLE 21 Corporate analyses of the succession period vs. 2003, cases A,B,C

	case A 1992	case A 2003	case B 1995	case B 2003	case C 1985	case C 2003
Personnel (amount of persons)	8	9	32	29	10	7
Change of turnover from previous year , %	2.1	-9.6	4.1	-29.4	-8.2	-22.4
Operating margin, %	5.3	17.6	0.7	5.8	8.3	8.7
Net profit, %	-7.0	10.4	-9.1	0.8	0.4	-2.1
Return on investment, %	2.1	53.3	-5.4	5.5	7.4	3.6
Equity ratio, %	-1.4	59.8	3.1	24.0	34.8	2.5
Debt/turnover, %	85.3	17.0	77.8	52.4	56.9	138.9
Net working capital, %	49.5	18.8	27.4	12.2	22.1	41.8
Trade receivables turnover ratio, days	86	16	38	11	102	29
Trade payables turnover, days	71	22	58	113	137	114
Dividend (1000 €)	-	55	12	-	-	-

Table 21 shows what is described in the former chapters. Cases A and B were in poor financial shape at the beginning of the succession. The economy of case C was still in 1985 relatively healthy though the evaluation of the turnover had started to decline. The turnover has declined most dramatically in case C.

The economical analyses shows (Tables 22,23,24) that both case A and B have been able to find new market areas in spite of some minor variation in evaluation of the turnover. Net profit (%) is growing for A and has been positive since the succession. Net profit (%) has been positive since succession also for B except 1999. For Case C these indicators are weak. Return on investment (%) has been excellent in case A since the succession and satisfactory in the case B. It measures relative profitability i.e. the yield which has been generated on the invested capital which requires a return in the form of interest or something similar. It can be regarded as fairly good when it, at the minimum, amounts to the average financial expense percentage of the interest bearing liabilities. Equity ratio (%) measures the company's solidity, its ability to withstand losses and ability to fulfill its commitments in the long term. The evaluation has been good in case A (>40%), (satisfactory 20-40% and poor < 20%). (Committee for Corporate Analysis 2000.)

Debt/turnover (%) measures the relationship between the adjusted balance sheet debt and turnover. It helps to provide a rough estimate of the level of operating margin which is required to meet loan debt obligations. The indicator can only be reliably compared between companies operating in the same line of business. The evaluation has been good in case A (<40%) and satisfactory in case B (40-80%) and weak in case C (>80%). (Committee for Corporate Analysis 2000.)

In the year 2003 in case A the growing import (trading) is the main reason for the declining turnover of the company. In trading the company has no production costs and the effect is seen in the growth of the operating margin.

In the year 2003 in case B the growing share of contract work in wet-blue line is the main reason for the declining turnover of the company. The raw material is not owned by the company as they sell only colouring and finishing contract work. This should have a positive effect on the operating margin. But according to the successor the high rate of the euro has also caused problems in export last year. This has its impacts in sales and profitability.

Working capital is the amount of money required to finance the company's ongoing business. Net working capital indicators, trade receivables turnover ratio and trade payables turnover (days) show that in case A they are quite balanced. The customers of company A are paying their payables (16 days) to company A before it must pay to the suppliers (22 days). In case B their customers' paying terms are short (11 days) as the company's suppliers allow almost four months paying term (113 days). This is a way to finance the need of working capital. In case C the situation is the same, trade receivables turnover ratio is 29 days and trade payables to the suppliers 114 days.

The economical analysis shows healthy figures in both cases A and B. In case B the evaluation has not been as stable as in case A. During low inflation the growing turnover means new sales. In all the cases the operating margin has covered all the expenses. Even the company in case C has been able to pay for part of their loans, but the relative debt/turnover per cent is growing, which is caused by the declining turnover. The disadvantage of family-owned firms is a lack of capital. This was the situation in case A and B at the beginning of the research as equity ratio was negative in case A (-1.4%) and weak in case B (3.1%). Hard years from the end of 1980 until the beginning of 1990 had weakened the buffer of the companies' own capital.

TABLE 22 Corporate analyses of the case A

Case A	1992	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Personnel	8	9	10	8	9	11	11	11	10	10	9
Change of turnover, %	2.1	8.7	19.3	-2.2	2.1	-8.1	7.1	10.0	15.8	38.9	-9.6
Operating margin, %	5.3	8.3	13.4	13.7	12.4	10.4	13.7	14.0	11.5	11.9	17.6
Net profit, %	-7.0	1.3	2.2	2.3	4.0	2.5	6.9	5.5	5.0	6.3	10.4
Return on investment, %	2.1	12.4	26.5	21.0	18.4	11.8	23.8	24.9	24.5	39.5	53.3
Equity ratio, %	-1.4	18.7	23.9	27.6	32.6	30.4	35.9	31.1	33.5	39.1	59.8
Debt/turnover, %	85.3	46.6	35.3	36.6	32.1	40.0	36.8	41.7	33.9	25.2	17.0
Net working capital, %	49.5	24.7	20.0	18.4	17.3	20.0	24.0	24.3	21.0	171	18.8
Trade receivables turnover ratio, days	86	41	47	41	31	27	20	26	18	19	16
Trade payables turnover, days	71	37	30	34	43	75	48	68	51	52	22
Dividend (1000 €)	-	-	10	25	29	22	22	66	59	48	55

TABLE 23 Corporate analyses of the case B

Case B	1995	1996	1997	1998	1999	2000	2001	2002	2003
Personnel	32	32	33	30	23	29	29	35	29
Change of turnover, %	4.1	37.5	13.8	4.2	-34.8	33.9	14.9	10.9	-29.4
Operatingmargin, %	0.7	9.6	7.4	9.4	9.0	9.3	6.4	7.5	5.8
Net profit, %	-9.1	2.3	-	2.2	-0.3	2.0	0.6	2.8	0.8
Return on investment, %	-5.4	12.2	6.9	11.0	5.1	9.8	7.8	13.5	5.5
Equity ratio, %	3.1	5.7	6.8	10.1	10.0	13.4	15.7	20.6	24.0
Debt/turnover, %	77.8	74.8	72.8	64.9	98.2	63.0	48.7	42.7	52.4
Net working capital, %	27.4	26.8	26.9	23.9	38.6	22.3	14.5	4.3	12.2
Trade receivables turnover ratio, days	38	36	29	16	29	20	13	6	11
Trade payables turnover, days	58	36	54	70	112	79	68	108	113
Dividend (1000 €)	12	-	-	-	-	-	-	-	-

At the stage of succession the successor had total ownership in cases A and B. The successor in case C was the main owner as his brother and sister owned both a small share. In case A the incumbent financed the succession. Since the company has a healthy development, the successor has been able to pay back for the ownership in the form of dividends. Companies B and C have not, so far, taken dividends from the company. The strategy of company B is to build a greater buffer for further development in investments. During recent years company C has not been able to take dividends because of the non-profitable situation. In this case the company can be seen as a normal employer of the successor (B and C), whose salary is paid by the company.

TABLE 24 Corporate analyses of the case C

Case C	1985	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Personnel	10	15	10	10	10	10	10	9	9	8	7
Change of turnover, %	-8.2	48.9	47.0	-1.1	11.4	16.1	-20.9	-31.5	-4.9	-3.2	-22.4
Operatingmargin, %	8.3	6.1	11.8	13.5	11.0	7.7	8.5	2.5	5.3	7.3	8.7
Net profit, %	0.4	-6.8	-0.6	1.1	2.3	1.9	0.7	-7.7	-6.9	-4.5	-2.1
Return on investment, %	7.4	-0.1	8.7	10.7	9.7	6.5	5.1	-3.3	-1.0	1.1	3.6
Equity ratio, %	34.8	2.8	10.9	3.9	5.8	10.8	10.0	4.7	0.2	2.9	2.5
Debt/turnover, %	56.9	152, 7	92.8	95.0	89.9	71.1	81.8	124.5	124.9	115.4	138.9
Net working capital, %	22.1	23.6	18.4	18.9	23.9	24.9	29.0	32.2	29.9	34.8	41.8
Trade receivables turnover ratio, days	102	65	48	39	55	45	30	50	43	47	29
Trade payables turnover, days	137	108	71	57	66	40	35	106	116	106	114
Dividend	-	-	-	-	-	-	-	-	-	-	-

Case A and case B were able to reorganise their financing to a more reasonable level of interest. The successor's vision of the future strategy which would renew the business and make it profitable again convinced the financers to cooperate in cases A and B. In Case C the successor could not reorganise its business. Turnover has declined every year turning the business non-profitable, which has caused serious financing problems. In the year 1995 the incumbent had to come back to finance the business as he bought back 29% of the shares. Because of the non-profitable development, the owners have been forced to credit the company in a form of subordinated loan (own capital loan) to avoid bankruptcy. This is also an example of the deep commitment of the family although there have not been dividend possibilities for years.

4.7 Summary of section

This section is the empirical part of the study. It focuses on the case studies. Each case has been thoroughly introduced at the stage of their life cycle. The roles of the family business are complex. The model used is based on Neubauer & Lank (1998). The roles are extended to include the incumbent and successor during the research period 1990-2004. The roles of the family members involved in the cases at the end of the research period (2004) are presented.

The capability for renewal depends on the person, but its roots lie in the history of the family firm. Resources built in the past enable successful strategic change for the new generation. In entrepreneurial capability motivation, culture and values of the family firm are essential factors.

The T/C branch has been in deep crisis. This has affected the success and failure of the companies. This section focused on the critical incidents of the study cases in the business environment and they were presented as a summary. At the end of this section the strategy and renewal process of each case was introduced. Effects of the renewal process are under economical inspection and the key indicators as results of the development are compared with each other.

In these study cases, as in many other small companies the main challenge is the capability of organising, because most of the resources to enable and manage change depend on the capacity and motivation of the successor. Comparing to non-family firms, the management may, by delegation and trust, motivate the personnel and the family to accept the change and commit to it. Management can never be faceless or hide in bureaucracy. When problems occur they have to be solved and often by the owner-successor. Constantly keeping in mind the chosen strategy might be threatened by the heavy load of operational issues.

5 FINDINGS

5.1 Analysis of the cases

Analysing the cases reveals many similarities as well as differences in the background, strategy and its results. The family is strong for better or for worse. Some of the fathers have been very strong and some more gentle. In case B the grandfather (outside this research) seemed to have been very strong and determined, but in this succession the father was supportive of the son. One could easily think that often the father does not want to make his son suffer as much as he had done in his time. This was the atmosphere in case A, when the present owner was discussing how he would handle his son, should the son be interested in entering the business. The succession process had been very hard on family relationships. In the last case C the situation is still open and seems to be problematic, since the ownership has not been settled.

The support, control and intention appeared in many ways. Arrangements made by the fathers enabled the studies and practising of the sons. The incumbents wanted to ensure the future of the business because the intention was common, to continue the family business.

Family firms are often observed to behave entrepreneurially continuously, in a deliberate search for growth through change because most families in business are in charge of their own money. Normally family firms are too small to be able to provide a livelihood for many members of the family. This is the main reason why the decision making power and the control process should be in the hands of the main owner.

5.2 Life cycles and roles

In the study cases each of the life cycle stages are different. McGivern (1989) uses a life cycle model as a basis for insight into how to manage CEO succession in small family firms, thus providing a bridge between the organisation life cycle model and how to manage CEO succession in small family firms. He connects together the five life-cycle stages (initiation, development, growth, maturity, decline) and the hypothesised managerial roles that are required at each stage, the axes being life cycle stage and managerial role in different stages. According to this model the managerial role of the family business in cases A, B and C is presented in Table 25. This formulation strongly suggests that the choice of successor should be based on the skills needed for the particular managerial role, played in the life cycle stage the new CEO will be inheriting. In these cases the successor has been chosen and the stage is formed during the new generation. Here the model describes the current stage of each case.

TABLE 25 Managerial roles of the family business in cases A, B and C

Life cycle stage	Managerial role
Initiation	Originator, Inventor
Development	Planner, Organiser (Case A and B)
Growth	Developer, Implementation (Case A and B)
Maturity	Administrator
Decline	Successor, Reorganiser (Case C)

Source: McGivern (1989:407)

The roles in family business are often complex. In these cases all the CEOs are main owners and the successors. In cases A and B, the ownership is 100%. In case C the father still has ownership of 29%, the other two siblings 20% together. With the power of ownership it is easier to make decisions.

5.3 Capability for renewal

In all the cases in this study, the capability and skills were established on a long and multiple experience of the successor in the family firm. All of them had been working more or less intensively with the firm. Experience in case A included both the marketing and technical areas. One of the strengths was the excellent know how of the furniture business both from the manufacturing and the marketing point of view, and skills in marketing.

In case B, the successor had been working also outside the family business with in a large global company for a few years. More over he had the technical university degree, and working periods with his father during his free time had also given him experience with the customers. In this case (B) the marketing culture was very cosy. The family brought the customers to their home for lunch and in the evenings with leisure time they went fishing with them. This was a natural way to get contacts with customers in the early days of the career or as a young family member.

In case C the successor had an education in economics, but his practical experience and personal interest was based more in the technical area. The father had been, and still is, the one who stressed the marketing aspect and contacts with customers most.

The critical incidents that occurred at the end of the1980's and at the beginning of the1990's challenged the companies to reconstruct their business. Personal capabilities, such as professional knowledge, skills and experience built up during the former years, the incumbent's attitude and support as well as support from the rest of the family provided the base for the successful renewal process.

Strategic capability

> *"Family businesses are long-term orientated. We have a saying in our family, that quartile economy in Paulig means a quartile century" Bertel Paulig, Paulig Ltd, head of the board.*

Family-owned firms may have certain inherent relative strengths. Most often, it seems, it is suggested that family businesses have a more long-term view. Many family firms seek to preserve the business for future generations – or perhaps they have a fear of what passive wealth from selling the industry will do their heirs (Harris et al. 1994:163).

Small family businesses very seldom have a written mission. But in the discussions they often seem to have a clear picture of where they want to be or why they exist. Many times it is a question of family pride and commitment, but more often it is the personal interest in the business. They are both basic elements of motivation, which is needed during bad times.

Each of the cases was in poor financial shape at the beginning of the 1990's. The relative disadvantage of family-owned firms is lack of capital. So was the situation in all of these cases. Hard years from the end of 1980 until the beginning of 1990 had weakened the buffer of the companies' own capital.

Case A and case B were able to reorganise there financing on a more reasonable level of interest. The successor's vision of the future strategy that would renew the business and make it profitable again convinced the financiers to co-operate. In case C the successor could not reorganise the business. Turnover has declined every year turning the business non-profitable, which has caused serious financing problem. In the year 1995 the incumbent had to come back to finance the business as he bought back 29% of the shares. Because of the non-profitable development the owners have been forced to credit the company in a form of subordinated load (own capital loan) to avoid the bankrupt. This is the also an example of deep commitment from the family.

Families in business tend to think that they are in charge of their own money. Perhaps this is too obvious and is often forgotten in non-family businesses. Many of the entrepreneurial capabilities are needed in managing small or larger businesses. In the chapter of entrepreneurial capability there are many examples of how this is shown in the case study. The dilemma in these organisational features is that they are both strengths and weaknesses. Thus it is necessary to recognise the potential for positive and negative consequences of the features.

5.4 Critical incidents in business environment

Several of the critical incidents appeared to be the same. The beginning of the problems was the collapse of business with the Soviet Union at the end of the 1980's and at the beginning of the 1990's. This affected the businesses of all family companies considerably. The majority of the businesses in the textile and clothing industry in Finland were associated with bilateral merchandising agreements with the Soviet Union. The collapse caused numerous bankruptcies and unemployment in the sector (Stengg 2001, Mattila 1999).

One of the common critical incidents was the strong currency of the Finnish mark at the end of the 1980's and at the beginning of the 1990's. Due to this, imports were a threat to the domestic production in all branches of industry, not only in the textile and clothing industry. The problems of the main industries in Finland were the reasons for the devaluation of the Finnish mark (FIM) in 1991.

The interest rate was high due to the strong currency and the rapid liberation of financial policy. Those who had credits, had serious problems in profitability and those who had good liquidity invested in financing, not in production. The highest annual rate of interest was 17% at that time.

The last and, perhaps the worst, critical incident for firms was the devaluation of the Finnish mark in 1991. Many of the companies had been "forced" to change their credits into foreign currency because of the lower interest rate. After the devaluation, the amount of foreign credits grew dramatically in many companies overnight. The total effect of the devaluation was almost 30%, because of the association with the free-floating currency of the FIM. Most companies did not have export markets to compensate for this. Although the issues of finance and taxation are not included in the research, the subject was very clearly raised in the case during the discussions of the critical incidents.

In one of the cases (A) the family affairs were also critical to succession. The future successor had to struggle for the position and the price of the ownership. What is essential is the fact that the price of the company had to be negotiated to support both the parents' future, and the successful business for the successor. The older generation has to secure his/her future when he/she is still in business to avoid the main problems of the succession.

In one of the cases (B) the poor economical situation in the company's balance sheet helped to set the price in succession. The family was cooperative and there were no family conflicts about the successor. The older generation has retired from the business.

In one of the cases (C) the problems are apparent. The ownership has been divided between the two siblings and the father. Though the company has a managing director, who has the voting majority, the power of management seems to be unclear.

To sum up, the common critical incidents changed the Finnish textile and clothing field completely. Many jobs were lost as the factories went bankrupt. The scope of the market is more concentrated and the co-operation is more thorough and focuses on fewer customers. According to Mattila's (1999) research, location near a market chain could be an opportunity for small companies, which have to be flexible and fast in their decisions. This could be the key to dependability of the customers since profitability is always the objective of performance.

5.5 Renewal process

Case A

In case A, the new CEO made quick decisions and disinvested the non profitable product line. At the same time they saw the trends on the furniture field changing. The ability and agility of the company was successful to meet these new challenges. Taking advantage of the high rate of FIM the company started to import fabrics to complete their variety. With the import they entered into the new market area of projects such as upholstering public buildings and luxury cruisers. At the same time the successor started to focus on the receivables and cost structure. The competitive advantage of the company is a high level of service including short delivery time and intensive marketing policy.

Case B

The succession process enabled the new process line called wet-blue-line, which was introduced by the new generation in 1995. This line completed the company's service level and brought new customers. In contract with wet-blue-line other companies send their leathers for further wet process. The skins are already pre-processed, no hair is left on them and they are light blue in colour, the reason for the name wet-blue. Wet processes in leather manufacturing are critical from environmental issues and they involve investments. The company's original business idea is based on the leather manufacturing process, where value is added to the raw material. Most of the raw material is sheepskin. This sector is called the fur-line in the factory. The new line has enabled also the growth of direct export and a new market field, clothing (leather) manufacturing. Competitive advantage is customization and flexibility.

Case C

In this case the environment changed rapidly, many of the customers vanished or went bankrupt on the market. The company started to focus on the existing customers, many of them in the technical sector. But declining turnover caused serious financial problems which have not been properly resolved. The policy of making certain material in stock was the idea of the successor. This would raise the service level of the company for the remaining customers. The father insisted more effort should be put on marketing, wanting to gain new customers as well.

Between the lines one can read that many non profitable years have demotivated the successor and the differences in opinions within the policy of the company do not encourage one to meet new challenges. Anyhow the family has been very committed in putting new money into the company hoping that the problems will be solved. The last discussion with the successor brought to light new plans. He has started to diversify into housing service business in Estonia. This has been enabled by his connections with former customers in the clothing business.

5.6 Effects of renewal

The effects of the renewal process were evaluated through financial analyses and the results were compared with each other. The analyses reveal what is described in former chapters. Case A and B were in poor financial shape at the beginning of the succession. The economy of case C was still relatively healthy in 1985 though the change of the turnover had started to decline. The turnover has declined most dramatically in case C. The financial analyses show that both case A and B have been able to find new market areas in spite of some minor variation in change of the turnover. At the stage of low inflation the growing turnover means new sales. In all the cases operating margin in 2003 has covered all the expenses. Net profit is positive in cases A and B, but negative in case C. Even the company in case C has been able to pay part of their loans, but the relative dept/turnover per cent is growing, which is caused by the declining turnover.

In the year 2003 in case A the growing import (trading) is the main reason for the declining turnover of the company. In trading the company has no production costs and the effect is seen in the growth of the operating margin.

In the year 2003 in case B the growing share of contract work in the wet-blue line is the main reason for the declining turnover of the company. The raw material is not owned by the company as they sell only colouring and finishing contract work. This should have a positive effect on the operating margin. But according to the successor the high rate of the euro has also caused some problems in export last year. This has its impacts in sales and profitability.

Case A and Case B were able to reorganise there financing on a more reasonable level of interest. The successor's vision of the future strategy that would renew the business and make it profitable again convinced the financers into the cooperation with cases A and B. In Case C the successor could not reorganise its business. Turnover has declined every year turning the business non-profitable, which has caused serious financing problems.

Besides the skills the successor needed, important milestones are also the past, the support of the incumbent and own family.

5.7 Determining future effectiveness of present strategy

Today each company's growth prospects are mixed and turbulent. According to Ansoff (1984:71), it becomes necessary to segment the firm's environment into trends, threats, and opportunities.

Strategic analyses are based on the clear objective and goals of the management. This is often difficult, if not impossible to decide, if the managers do not have an idea of the future potential available to the firm. A physical limit on goals and objectives will be set in part by the potential of the present competitive posture and, in part, by the strategic resources which will be available to the firm. At this point "the business we will be in" can be realistically determined (Ibid 1984:88).

In most cases companies make plans for the future in the form of sales budget, investment etc. In analysing the cases company A had a strong vision for the future.

> *Son(A): …And I have been thinking a bit of the kind of strategy that we would have here in this customer group three, four fabrics as alternatives, here ten fabrics as alternatives and here 5 fabrics as alternatives… Which we would code some way, so that when somebody goes and asks for a granny-sofa from a furniture salesperson, he then goes and gets our four granny-sofa fabrics and says that these fit with these… yeah. The only means for our survival is now, it has become clear, our only job is to make it really easy to buy furniture, nothing else is our job.*

The managing director wants to concentrate on the retail shops with their sample books and with the representative who is telling "the story of the family company A". They want to focus on the customised group which decide the upholstery of the furniture in the shop, who do not buy ready made cheep furniture mastered by the huge chains.

In cases B and C the visions of the company were not so clear. Company B wished to build a greater financial buffer for the company until further development or growth. The investments in the year of the succession 1996 are still a heavy load for the company. In case C the lack of vision might be a result of the ownership arrangement. If the successor had total ownership it would be easier for him to plan the future of the company. Anyhow, big decisions are to be resolved in the future because of the financial state of the company.

According to the swot-analysis the strengths, weaknesses, opportunities and threats of the cases are as follows (Figure 43):

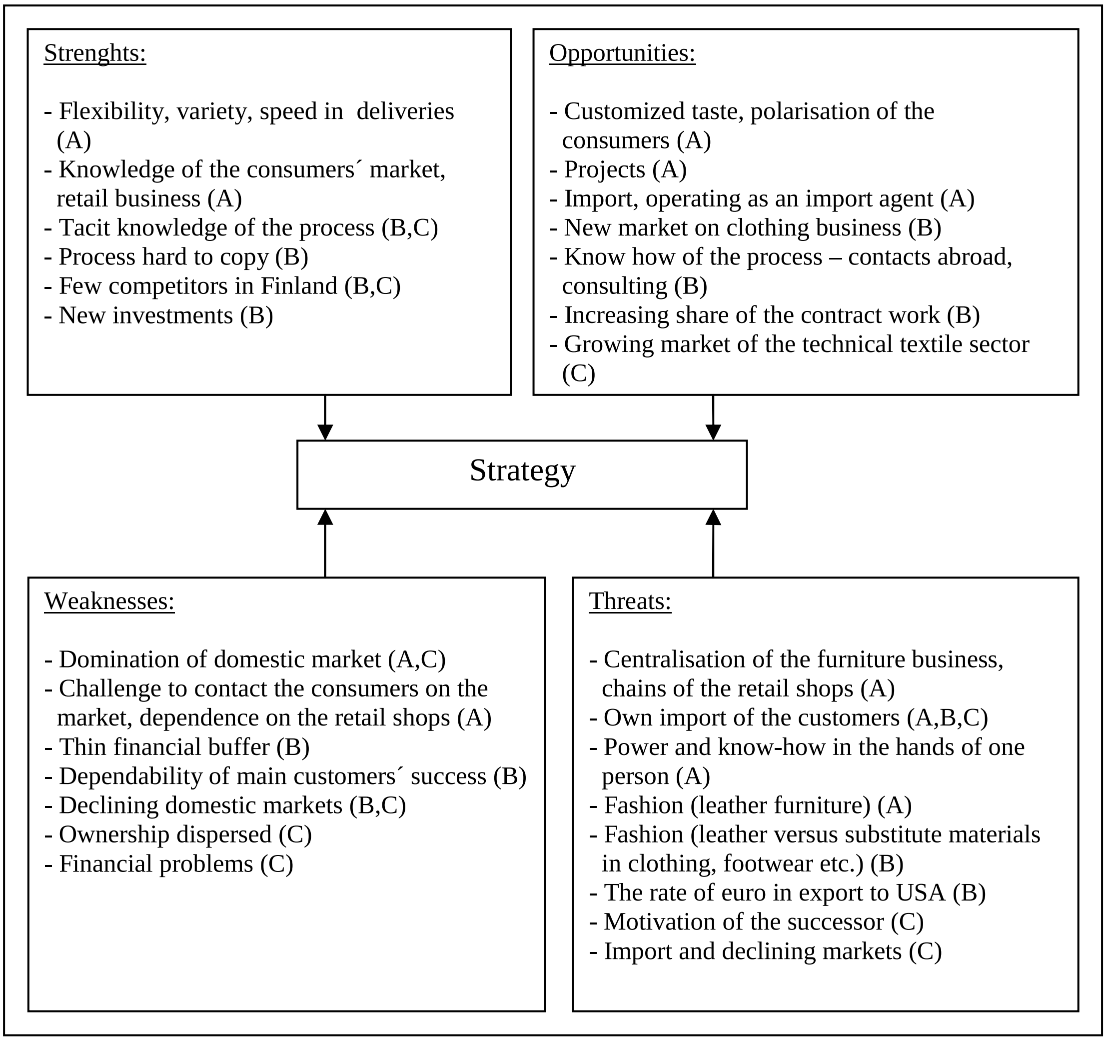


FIGURE 43 SWOT-analysis of the cases

To be a family business might be a strength in the market. In family business the stakeholders often take the flexibility, the commitment and trust of the partner for granted. On the other hand to be able to co-operate with the bigger companies family businesses have to be able to show a long and healthy history to be taken seriously. Today in business most companies are looking for long term partners instead of quick profits. In sustainable co-operation the owners of the company, the personnel and the government each get their share in the society they operate. Each of the companies could easily raise their capacity if the demand would grow but the decline of domestic industry is a common thread for all the studied companies.

5.8 Research findings and previous studies of strategic renewal and family business

By looking at the literature review and trying to relate findings from these 3 cases to findings presented in the literature the following observations have been made. The basic strategic management renewal process for both family and non-family firms is similar. The differences are in the set of goals as the owner is likely to influence every step of the process.

Economic situation

The Finnish family firms' economic situation was compared with the biggest public companies (Fortune 500 in Finland, Kankare 2002). According to the article, the degree of equity ratio of family firms is near 50% though the profits are a little lower than before. The median of the degree of equity ratio is 42% of non-family firms among the 500 biggest companies in Finland. In the study cases the equity ratio varies from 2.5% (C) – 59.8 % (A). Only case A was over the median. According to Kankare, ROI (return on investment) in family firms is about 13% and in other companies 7%. In the study cases ROI varies from 3.6 – 53.3%.

Strategic change and renewal

The company's aim and challenge is to maintain competitiveness in the turbulent competition. Sometimes this means the need to change or renew the former strategy.

Strategic renewal has recently been put forward as one of the most challenging and critical activities for management teams and organisations (Mintzberg 1994, Prahalad & Hamel 1994, Baden-Fuller & Volberda 1996, Hamel & Prahalad 1996). Firms face the challenge to renew themselves strategically on a constant basis, especially in situations of high uncertainty and changing environment. Strategic renewal has been triggered by a deep crisis in vanishing industry. These cases are examples of this.

The study of Folkeringa et al. (2004) investigated the relationship between strategic renewal and the performance in terms of employment, turnover and profit growth of smaller firms (less than 100 employees). Their aspects of strategic renewal were for example, the introduction of new products or services, the codification of renewal activities, the occurrence of firm-provided training, and the use of an external network to exchange knowledge. The results emphasize the importance of both knowledge absorption and knowledge creation to the success of innovative efforts in small firms.

The renewal processes described in this study were more or less the survival processes of the family firms, whose aim was not the growth of employment or turnover. Anyhow the introduction of new products or services, the codification of renewal activities, the occurrence of firm-provided training, and the use of an external network (e.g. customers) to exchange knowledge is essential also in these companies.

According to Pettigrew (1985) and Hamel (1996) strategy renewal may take place as revolution, incremental adjustment or punctuated change. Traditionally, strategy renewal has been seen as reactive. The theoretical discussion takes decline and turnaround as starting points. In most of the research studies strategic renewal has been viewed as a distinctive province of the top management. In family business it is normally the case that top management is responsible for the operating management as well as the governance of the company. The old generation was committed to old strategy though the environment changed. In cases A and B the trigger for renewal was the succession.

Existing theories of strategic renewal (e.g. Hambrick & Mason 1984, Pettigrew 1985, Strebel 1992, Huff et al. 1992, Hamel 1996) suggest two mutually dependent and equally important dimensions of strategic renewal: (1) strategic renewal aims at bringing the organisation back into a situation of freshness and vigour in strategic thinking, and (2) transforming strategic thinking into co-ordinated strategic action.

The model of Mahnke & Aadne (1998) is detailed, but the idea fits to a family firm's organisation. The organisation of all these cases is small and flexible as the key people are most of the time present, when there is a need to talk (developing a common ground). If strategic imagination exists it is easy to put into action because the locus of power is in the hands of the management. The main challenge is the question does the company have a strategy. In cases A and B the strategy was clearer than in case C.

When the structure of competition changes, so do relative advantages among firms that - if translated into performance - drive market evolution (Nelson & Winter 1982). Secondly, not only does the external firm environment result from the dynamic and competence guided interplay between market participants, but the dynamic complexity of the internal environments of the firm (i.e. existing competencies, co-ordination mechanisms, pool of skilled people and their interrelation) builds a dynamic structure which acts as an "enabling constraint" for perceiving the external environment. Thus, the competence perspective sees competition not as a given external reality, but as a contemporary structure that results, and is driven by multi-actor processes of attention, interpretation and learning (Smircich & Stubbart 1985).

In these small family businesses with limited resources it is essential that the capabilities are created and maintained. As the structure of competition changed, the companies were forced to change their relative advantages to sustain in the market.

Competitive advantage and strategy

The goal of a competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against competitive forces or can influence them in its favour. Knowledge of these underlying sources of competitive pressure highlights the critical strengths and weaknesses of the company and animates its positioning within the industry (Porter 1980:4). Coping with these forces, the type of competitive advantage and the competitive scope of advantage can be combined into the notion of generic strategies, low cost and differentiation (Porter 1998:39). This theory may be applied in this study as the generic competitive strategies of the companies are focusing and differentiation.

In the model of Moore (1998) the author includes the competitive advantage with the life cycle model. The life cycle model is also appropriate with the fashionable products of the cases as the life cycle of the products are in constant movement. Flexibility, reliability and timeliness require strategic decisions within the firm regarding the ability to respond. These are called operational excellence or customer intimacy by Moore. All the companies in this study named flexibility and the need to understand the wishes of the customer to be their competitive advantage (customer intimacy).

The life cycle model is applied also to the branch of industry, not only to the product line. The stage of the T/C market in the EU is rather mature. The growth is dependent on the development of the economy of the nations. Additionally the families are using money in mobile phones and information technology (thread of substitute products). At this stage a company can not increase market share as competitive costs become critical. Strategically market position could be defended via fresh promotional and distribution approaches (Heizer & Render 2004:40). According to Moore's model (Moore 1998:175) the competitive advantages at this stage of industry are the same, operational excellence and customer intimacy. The competitive advantages in the mature stage of industry of the cases (A&B) are operational excellence and customer intimacy. Customer intimacy is applied also in case C.

Strategy development

Johnson & Scholes (2002) have extended the product/market matrix originally created by Ansoff. It considers the development directions available to an organisation in terms of the market coverage, products, competence base and expectations about an organisation's strategies. The solutions of the study cases are applied in this model (Figure 41).

At the beginning of the 1990's the market situation in the Finnish T/C industry declined dramatically. Porter (1980) introduced alternative strategies in declining industries. This theory is appropriated to the strategies of the study cases.

Case study A disinvested the non profitable line (harvest) and concentrated on the service of the furniture industry including shops (niché) and projects. The approach of company A is the exceptionally high level of service which consolidates its position in the competitive field. The large stock of yarns and fabrics enables the delivery time of a few days. The import of fabrics from Europe gives the company a new opportunity to grow alongside the basic existing production line, and helps to react soon enough to the changes in the market. In contrast as a threat, own import is possible for any company. Company's A future development is dependent on the Finnish economy, because it operates mainly in the domestic market (except for the luxury cruisers).

Case B applied strategies of niché and divest, the gloves-line was divested and the wet-blue-line was built up to compensate for the declining markets of domestic leather consumption. With this line they also reached a new marketing group (diversification) in clothing manufacturers as originally they operated only in the shoe manufacturing. Wet-blue-line's market can be called mature. In this field the company operates mainly in the international market and the production is based on contract tanning (leather) or contract dressing (fur). The new market area is interior decoration. In the future the company could achieve more margins with some unique leather material if they succeed with marketing.

Case C is still struggling to find an appropriate strategy.

Determining future effectiveness of present strategy

When the different markets of the firm are all growing and are not turbulent, the future prospects can be determined through extrapolation of the historical trends. But when the growth prospects are mixed and turbulent, it becomes necessary to segment the firm's environment into distinctive areas of strengths, weaknesses, threats, and opportunities (Ansoff 1984:71). Swot analysis is shown for each case (Figure 43).

In business the need for and direction of strategic change is different, since strategies develop in different ways. In the main, strategy development in organisations is adaptive in the way it occurs, with occasional more transformational changes. Balogun & Hope Hailey (1999) developed this further to identify four types of strategic change, evolution, adaptation, revolution and reconstruction. In these cases company C tried to adapt *(adaptation)* in the new market situation and *reconstruction* represent the type of change in cases A and B. The change may be rapid and can involve a good deal of upheaval in an organisation, but it does not fundamentally change the paradigm, as all the companies exist with the current organisational beliefs and assumptions.

Entrepreneurship in renewal process

According to Gartner et al. (1992), entrepreneurship is concerned with that which does not exist but which is becoming. Typical features of entrepreneurship are creativity, experimentation, uncertainty, generating new or renewing old, being visionary and proactive. Drucker (1985) defines entrepreneurship "as purposeful tasks that can be organised – are in need of being organised – and systematic work. Entrepreneurship is neither a science nor art. It is practice. It has a knowledge base."

Entrepreneurship is a strong combination of visionary opportunity-seeing and intentional action-orientation. Willpower, intuition and alertness characterises the ideology of entrepreneurship, where structuring of activities is organic and where holistic and associative knowledge are used as a competence in addition to any formal knowledge (Johannisson & Huse 2000).

Research findings relate to previous studies (Johannisson 1999, Koiranen 2003) as support, control and intention appeared in many ways. Arrangements made by the fathers enabled the studies and practising of the sons. The incumbents wanted to ensure the future of the business because the intention was common, to continue the family business.

In the context of entrepreneurship by Snow et al. (1996) conative constructs reflecting motivational and volitional aspects of human behaviour are presented. Conative constructs include perceiving, recognising, conceiving, judging and reasoning. Affective constructs include feeling, emotion, mood, and temperament. *Conation* refers to those mental processes that help an organism to develop. Conative constructs include impulse, desire, volition and purposeful striving (Ruohotie 1998:69).

In the interviews of the study cases both the conative constructs and affection exist strongly in the successors' opinions. This is shown mostly in chapter 4.4.2 (Entrepreneurial capability). The key elements are realising opportunities and seizing them, experimenting, creating new and renewing old, innovation, risk and growth. In this aspect entrepreneurship is conceived as being primarily the outcome of human volition.

Critical incidents in the renewal process

The model of Greiner (1972) from the organisational development literature includes variables that interplay and have an impact when organisations develop over time. The variables are the age and size of the organisation, stages of evolution and revolution and growth rate of the industry. The term evolution is used to describe periods of growth where no major upheaval occurs in organisation practise. The term revolution is used to describe periods of substantial turmoil in organisational life (Ibid 1972:3).

Management's ability to handle crisis will directly influence its ability to move the organisation into the following phases. Stagnation and death are possible at all points between young and mature. The family, board, and top management are in key positions in anticipating the described stages and transitions as well as the crisis associated with them.

In small family firms the management and ownership (power) is in the same hands. Most of the crises are between phases one and three. First when the second generation enters into the business and the management is to be shared (phase 2). With the age and growth of the company the baton has to be passed (phase 3) and there is one or more new owner-managers. In cases A and B in the future the next problematic phase seems to be delegation and problems of control. Especially in case A the manager seemed to have all the threads in his hand and admitted the problematic situation.

> *Son(A):… I am that way a bad manager, I don't keep enough contact with my people, you know, individually, that I think, that it is enough contact to talk this and that every day, but we should have much more that kind of weekly meetings and we have tried to keep them sometimes, but it seems that we are always so bloody busy. Sometimes it makes me sick and sometimes its bloody annoying and sometimes everything else… it's like that…*

> *Son(A):… I definitely know my weaknesses and my fault is that, that I'm really bad at delegating and I have some kind of a fault in my head that .. I'm like that, that I'd like to run In front and others come after… But it's difficult to do things like that, to plan, I'm so tired with it .. I was really good at keeping a calendar five years ago, I had all my jobs marked on the weeks, but what started to upset me was that although I had what kind of a calendar, I had to tear it on Monday or on Tuesday…*

> *Son(B):…... Yeah, it was little bit like, I think that, it was a even a little bit too fast that transition, he (dad) simply didn't want to take part in strategic decisions in any way...*

There are certain obstacles that a multi-generation family business must overcome to grow and prosper. Ward (1988b) introduced the critical tasks of strategy development in a family business as follows:

1. Reinterpret the entrepreneurial hero
2. Assert strategy choice as the key to success
3. Challenge past strategy paradigms
4. Relate strategy choice to future family vision and resource availability
5. Promote strategy development as an ongoing process of change (Ward 1988b)

As seen from the corporate analysis all the companies had not succeeded in challenging the past strategy paradigm. Most critical is the idea of promoting strategy development as an ongoing process of change.

Conflicts and family business

Kets de Vries (1996) has addressed some of the obvious complications of life in family-controlled businesses. In study cases some of the advantages and disadvantages he presented are obvious.

The companies tend to be long term orientated since more than one generation has owned the companies. The common problem is limited access to capital markets. In spite of this, if the economical situation is fair, they have independence of action. In all the interviews, the family culture was a source of pride. Stability, strong commitment and motivation to keep the business in the family were seen in cases A and B. Even in case C resilience during hard times and willingness to plough back profits showed strong commitment from the incumbent. Knowledge of the business was strong because of early training.

Family disputes that overflow into business were seen in case C, because the motivation to continue was not quite sure. Paternalistic features and resistance to change were seen in all the cases as none of the companies were able to renew the business as far as the incumbent was the owner of the company. In case A there was a succession drama, because the decision of the successor had not been discussed openly in due time.

Definitions of family business

The review of the literature by Neubauer & Lank (1998:5) has revealed a long list of elements by various authors constructing their varying definitions, which are listed below. In this study the case is identified as a small & medium sized firm, the business is owner-managed and ownership has been within the family for two generations. Entrepreneurship, which has been defined earlier in this section, is very typical for small companies and especially for family firms.

Ownership and family business

The perspective of this study is ownership and business. Ownership is the basic element of the family business. Ownership and management issues have been studied by Handler (1989), Neubauer & Lank (1998) and Ward (1991).

Ward (1991) looks at the evolution of the family company through owner and management perspectives. In his model of ownership a multigenerational model is presented, which many long-lived family companies can identify with. Dominant shareholder issues are presented for each stage. The inter-stage transitions can be extremely difficult. There is no automatic progression through the stages. Although there is the danger that the firm may collapse or be sold out of the founding family at any time, family enterprise may as well stay in the same stage for generations, for example the oldest child may inherit all the shares and behave like a founder. A company in stage two may return to being a stage one company when one sibling buys out another. In this case the dominant shareholder issues look very much like those of a founder stage company. Likewise companies in stage three can cycle back either to stage two or stage one (a process sometimes labelled "pruning the family tree"). Thus, multiple combinations and permutations are possible in the ownership structure over the lives of family enterprises.

In his model of management the family business through the evolution of management stages is presented. Dominant management issues vary with each predictable stage, and the transitions can be problematic. With these two models in the foreground, Ward then goes on to describe his experience with the role, structuring and managing of the board of directors of private (mostly family) enterprises.

According to the ownership model in the cases of A and B the sibling partnership did not succeeded. In case B this was voluntary but in case A the successor had to struggle for ownership. Both companies are owned and managed by the same person (100 % ownership). In case C the arrangements with the siblings are still open. According to the model of management cases A and B can be seen at the stage professionalisation, adopting professional management systems and revitalising strategy.

Culture and values in family business

The purpose of Dunn's study (1995) was to explore the themes to uncover the philosophies or values that lead to their view of success and to observe the philosophies in practise. The purpose was to have families define success in their own terms and identify the sources and the obstacles to their brand of success.

The findings of the study illustrate the differences in terms of the values and actions. The firms used their 'family-ness' opportunistically, for example, by being highly visible and available to customers, suppliers, and staff ('they like to deal with the name') and by using family ownership for marketing purposes to imply quality, care, and special attention to customers.

The successors of the study cases also felt a deep responsibility towards their families and to the families they employed.

> *Son(B): But it was the depression in the beginning of the 90's that was mentally pretty hard for Pekka and he then in the winter 94-95 said that he simply didn't have enough energy to continue his own and the he called me and asked if I was interested to carry on or should we sell? And I thought, well, hang on for a couple of months,, I just can't give up like that.*

> *Son(A): Somehow I could manage, absolutely, I was committed very strongly... I was willing to fight ... and then came that too, that I saw like my mom's part that she has newer had wages paid and she has like lived through my dad's wallet a good life, not so that it would have been financially bad but when that tomorrow wasn't taken care of, so she wasn't getting any pension for example... and in quotation marks on the mercy of that old despot so that wasn't any fun, well..*

Many of the opinions of the successors about the long-term view contain similarities to the opinions about the values. They appreciate the staff and they would like to be a better leader. For example the successor of company A, since he was a young boy he has known the people in the company. He feels he has a strong responsibility for the stability of the company.

> *Son(A): … this staff, that has stayed with us, so it is in my opinion pretty hard-working, talented people. If I would manage them better, we would make even better profit that what we do now … Raimo has changed the chains of my moped and there he works all day. Allu has been with us over 30 years and Aino has been for 30 years and this kind of basic staff…*

> *Son(A):…But still, though they kept praising us, at least I thought our products didn't sell a lot, and that the man in the street had a different taste. With all those people in the weaving factory, I thought we should keep it up. And I have tried to get up a mix here that covers things for ordinary*

people, the kind of things we can make roll after roll, but all the time these interior decoration projects

Values are also expressed very concretely in the interviews:

Interviewer: What do you think that they value in this company?
Son(A): That when you come to work, you get paid every day … Security I think and of course they know their job and the pay is good…

Son(A): Even through a bloody stone, but we never give up. Over there some economist decided that it's not worth it, and so the first thing is to do is to close the machines and sack the people. ... Whereas with us, if it's not worth it, first we look in the mirror and then another look in the mirror and but we don't sack the people, because we gave them jobs. It's like that and we have always found a solution. But it was...

Culture and strategy

Berg (1985:289) proposes a cultural-symbolic perspective on strategy and organisational change and rejects the planning approach, suggesting that a strategy is not regarded as a plan, but as a collective image, that can be acted upon. This approach means that strategic planning is regarded as a renewal rite, in which the collective process links with fundamental values and ideas and the plan/rite as a manifestation of the corporate mission and vision are emphasised.

Values inspire people to do things that are difficult, to make commitments that require discipline, to stick to plans for the long haul. Shared values also help overcome the conflicts inherent to family business ownership. Values can be the glue that bonds the family and the business (Aronoff & Ward 2000).

In these studied family businesses this philosophy suits well. The small family businesses seldom have written missions but clear fundamental values and ideas which are shown in the interviews

Succession in family business

According to researches (Peiser & Wooten 1983, Vesper 1996) the life-cycle crisis often occurs when the second generation has developed enough expertise to assume major responsibility in the general management of the firm, but the first generation is not prepared to share that responsibility. Also in cases A and C, where the second generation was involved, this was the situation. In case B the incumbent has experienced the problems already in his succession process. In his turn he passed the baton and gave all the responsibilities and power to the new successor without conflict.

Longenecker & Schoen (1978:1) state that usually an inside-promoted successor is prepared in many ways throughout childhood, adolescence, and adult years, formally and informally, to accept the mantle of leadership at some time in the future. In all the cases this was obvious.

One of the crucial problems in succession is how the entrepreneur or incumbent can transfer the social capital and the trust of customers, suppliers, and network to the successor. This can be called tacit knowledge. Brady et al. (1982) have studied the succession planning of chief executive officers. They found out that CEO's have either formal, informal or "privately developed" succession plans. In these cases there were no formal succession plans, the situations might have been easier in all the cases, if the plans had been discussed openly at an earlier stage.

The owners of the family firm are the natural partners involved within the succession process. Ownership and control are aligned according to the most commonly accepted definition of family business (Beckhard & Dyer 1983a, Landsberg et al. 1988, Gallo & Sveen 1991). Several studies show that firms whose ownership and control are aligned achieve better results than those with ownership and control separation. The level of commitment is influenced by the effort and quality of the shareholder decision-making process. The main components of effort and quality are identification, involvement and loyalty (Buchanan 1974).

In cases A and B, where the total ownership and control are aligned, the level of commitment was tough. Case C, where the ownership was split amongst four shares, was more problematic in this aspect.

Harvey& Evans (1995:8) argues in their research that if the two generations have common philosophies and shared beliefs the company culture may not be modified dramatically. The age and experience base of the successor is essential in successful culture succession. The condition and the health of the company after succession can effect the motivation of the successor in two ways. If the family business was successful prior to succession and was financially sound, the motivation to modify the culture may be low. On the other hand, if the company had been in decline for whatever reason, the successor may be motivated to look towards a fundamental change in the culture to revitalise the family business. The level of older-generation involvement in the family business after succession has its influence as well. The more involved the predecessor is in the business, the less likely a precipitous change in the culture will occur, but that involvement also extends the succession process.

In all the cases it can be seen that the two generations have common philosophies and shared beliefs about the company culture. In cases A and B the economic situation at the stage of succession was weakest and the successors were highly motivated to look towards a fundamental change in the culture to revitalise the family business. In case C at the stage of succession, the economic situation was not yet as it is now. At the moment the crucial question is if the successor of company C is highly motivated to look towards a fundamental change to revitalise the family business.

Important in a successful succession process is that the succession meets the personal career needs of the individual placed in power and that there is a good fit between the personal psychological needs of the successor to be a leader, and to contribute to the family business. Also the position should be appropriate for the life stage of the candidate, that is, he or she is prepared and has sufficient ability to take the responsibilities of the family business. The more the successor can exert personal influence, the more likely that it will be a high-quality succession experience for the candidate (Handler 1992).

6 DISCUSSION

6.1 Conclusions

This study is a multiple-case study of the textile, clothing, leather and footwear industry where families own most of the firms and where they struggle for their market shares. The T/C field has been in deep crisis. This has affected the success and failure of family and non-family companies. This case study focused on the new strategy and renewal process after succession. Economic key indicators and the success of the chosen business strategy were analysed. Cases in this study are small sized like most of the companies in this field. The firms represent typical family companies, not only within the sector, but also as to the life cycle and the size of family enterprises in Finland. Figure 44 illustrates the key phenomenon of the study in its contexts.

It seems evident that family enterprises – small, medium and large - are often very significant actors on the world-wide macroeconomic financial scene, producing better than average results for stockholders, family or otherwise. The Neubauer and Lank interviews (1998) with participants in IMD's leading The Family Business programme strongly suggest that successful family firms manifest characteristics that are often lacking in large publicly-owned companies.

Some of these characteristics also came into play in this study. In this case the senior generation had started training family members in ownership rights and responsibilities. This can start at a very early age, in childhood around the dining table, and may be made deeper by working for the business during evenings, weekends and school holidays. The attitude towards employees is fair and loyal, many non-family employees may be third and subsequent generation employees of the firm. Family members emphasise value for money and quality, as the family's good name depends on the product or service. Finally, as one of the managing directors said in the interview, family companies get the best offers, as the agents and other stakeholders know where the locus of power is.

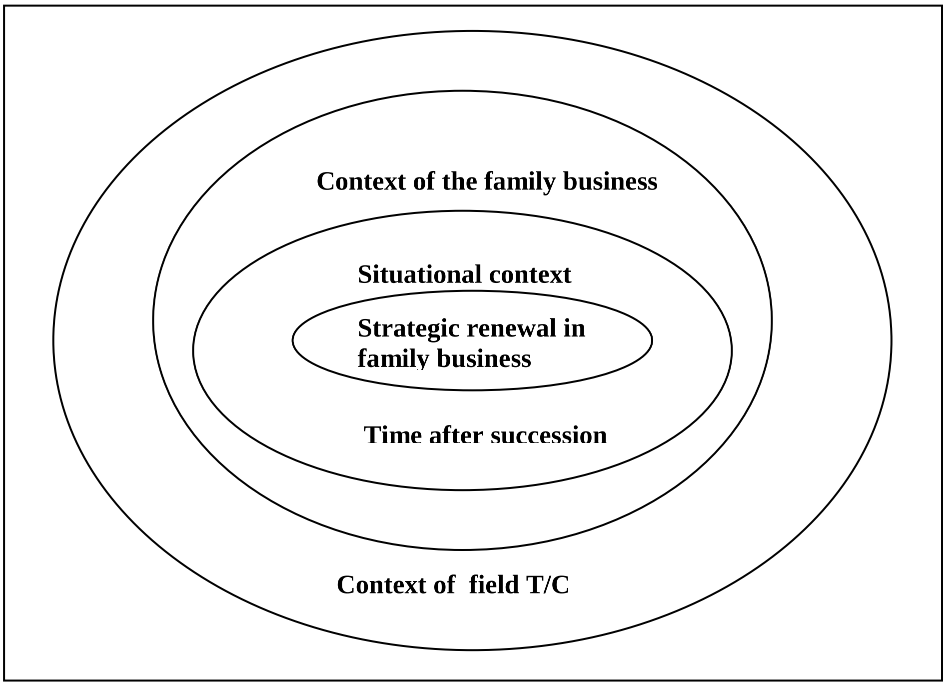


FIGURE 44 Key phenomenon, strategic renewal in research context

Since most family enterprises are small or medium–sized, the importance of internationalisation is evident for them to remain and survive in their business. Historically the national markets were protected before the open market of the EU. Now the same companies have to struggle within huge trading blocks. This is one of the greatest challenges for the future of family business. The family businesses studied in this research have international operations in the form of import (raw material, trading) and export.

Family enterprises are flexible and fast in their decisions, with a lean organisation. These might be some of the reasons which give them an advantage and the capability to remain and find their appropriate market. Moreover, the members of the incoming generation are better educated, often multilingual. The new generation is able to learn from each other. There is no doubt that family enterprises will continue to be in the majority and remain significant contributors to the GNP, employment and creation of new employment.

The strategic management process is similar for both non-family businesses and family businesses. However, the element of family business does affect strategy formulation and implementation. Some of the important characteristics of family business that influence strategy are as follows (Harris et al. 1994:171):

- Inward orientation
- Slower growth and less participation in global markets
- Long-term commitment
- Less capital intensive
- Importance of family harmony
- Employee care and loyalty

- Lower costs
- Generations of leadership
- The board's influence on implementation

The assessment of these family business characteristics and their influence on strategy leaves more questions than answers. This research shares the opinion of Harris et al. (1994) that more research on family business strategy is necessary.

The different roles combining the family and the company build up the most complex form of business organisation. This study has focused on the model of Neubauer & Lank (1998) in family business. According to results, the role of "Family–owner–board of directors–management/employee" should be in the hands of one single person when the size of the company is as small as in these cases. Small companies are not able to provide a livelihood for many members of the family. This is the main reason why the decision and the control process should be in the hands of the main owner to avoid problems with management decisions. If the companies in this study are to grow, they will also face significant centrifugal forces in their struggles to remain in family control. The size of the company is quite small, and there have already been problems with the ownership of siblings.

The beginning of the problems in this branch of industry was the collapse of business with the Soviet Union at the end of the1980's and at the beginning of the1990's. This affected the businesses of all family companies considerably. The majority of the businesses in the textile and clothing sector in Finland were associated with bilateral merchandising agreements with the Soviet Union.

Because of the strong currency of the Finnish mark at the end of the1980's and at the beginning of the 1990's imports were a threat to the domestic production in all industry, not only in the textile and clothing industry. The problems of the main industries in Finland were the reasons for the devaluation of the Finnish mark in 1991. Interest rates were high due to the strong currency and the rapid liberation of money politics. Those who had credits, had serious problems in profitability and those who had good liquidity invested in financing, not in production. The highest annual rate of interest was 17% at that time.

These critical incidents affected the succession process in the cases, and one can even say that it made the succession possible. Problems were so serious and profound that the older generation did not have the energy or power to cope with the business.

Each company has its own way of surviving the crisis. In the interviews, the successor admitted that they had neglected many things with the business in the old days. Still there was a deep bitterness against the creditors and the finance policy. The entrepreneurs now understand that the local banks did not hold the power of decision making at that time. This is also one of the reasons why family companies value the locus of power when making business.

Strategic planning in family business must incorporate family issues into its thinking, which makes it different and more challenging. Family concerns and preferences can include the choice of business strategy and often make the family reluctant to embrace more formal goal-oriented discussions and decisions. Further, family considerations can limit the strategic aggressiveness of the family firm. Financial analysis uncovers potential soft spots. They illustrate just how much money is going into such areas as family bonuses and how much is being ploughed back into the enterprise. The most important of these analyses figures is the rate of reinvestment in the business (Ward 1988b).

In strategic planning a company has to identify possible alternatives: enter new geographical areas, increase the quality of service, and hire strong managers to generate sales or improve productivity. At this stage, family businesses can consider some of their distinctive points or advantages. Clever strategies capitalise on market insights and the relative competitive strengths that the individual business enjoys.

A good family business will share some strength by the very fact that they are a family business. Many family businesses enjoy the benefits of long-term orientation. They rarely have outside shareholders, to whom they must justify quarterly performance in sales and earnings. They can afford to focus their vision on the future. They also tend to have a flexible organisation, with fewer bureaucratic layers that can stall a needed market response. The company's motivation for quality, born of having the family's own name on the door or in the board room, often produces quick service and top-notch products (Ward 1988b:113). The personal involvement of the owner tends to seal the loyalty of employees and customers alike. And, if it is physically close to its market, there is the potential for extra services, such as emergency delivery and personal tracking of customers' tastes. If the family provides a unified culture at the top of the organisation, it becomes easier to establish business direction and to get everyone pulling together in that direction. Clear direction increases a company's chances of success.

The relative weaknesses of the smaller family business are a limited access to a large amount of capital, naiveté of management, or inattention to cost-cutting measures. In the business strategic planning process, the attention should be concentrated on the relative strengths and weaknesses of family ownership. Explicit recognition of these characteristics should improve the choice of strategy (Ward 1988b:114).

Perhaps the greatest threat is the association of planning with change, because change requires compromises. For example, satisfying the demands of the customer for a new product may require the business to divert money from successful projects that have a guaranteed return to experimental activities whose return is unknown.

Planning encourages commitment and common understanding from family members as a part of the process. It provides techniques that help managers to assess the company's rate of reinvestment and assure that the business is retaining sufficient cash for a solid future. Because planning requires a variety of people to be involved, the process increases business knowledge throughout the company and the family and provides outstanding training for the future leaders of the company. Common understanding is critical, because conflict in family business is often caused by differences in basic assumptions or values, especially among family members involved in guiding the business's direction.

Why do so few family enterprises continue into the third generation in the hands of a family-owned company? They could disappear for the same reasons as any corporations, irrespective of the ownership or management structure. Poor management practises could be one of the reasons. Cost might get too high, inflicting pressure on pricing. Perhaps companies are not able to adjust to changes in the market or they have invested insufficiently in research and development programmes. Sometimes capital is difficult to gain, especially for a family business, since the family might like to keep private property out of the business.

Families are the most compelling institutions. For better or worse, our families make us who we are; they are the source of both the nature and the nurture of individual development (Gersick et al.1997:57). Psychologists, sociologists, historians, and economists all consider the family to be one of the critical building units of the systems they study.

The capability for renewal depends on the person, but its roots lie in the history of the family firm. Resources built during the past enable successful strategic change for the new generation. In entrepreneurial capability, motivation, culture and values of the family firm are essential factors.

To sum up, common critical incidents changed the Finnish clothing field completely. Many jobs were lost as the factories went bankrupt. The scope of the market is more concentrated and co-operation is more thorough and focuses on fewer customers. The companies that remain and are struggling for the scope of their market have renewed their strategies in their own way.

In business there are three ways in gaining more profit; selling more, increasing margins to the prices or cutting costs. This looks simple. The means to make this all possible is the key to success. How did companies A and B survive so well, as so few family enterprises continue? Focusing on cost structure, knowledge of business, both technology and market, allowed for a wider approach by the successor, which made it possible to organise the changes the company needed.

The main conclusion of the strategic renewal process is that the ability and the agility for renewal after succession are dependent on the entrepreneurial skills and on the history of the family firm, its economy and technology. In family business the managerial and paternal support of the incumbent and the family shall not be forgotten. Today the turbulent environment is a normal situation and is the same for all kinds of companies. The personal skills and capabilities of an entrepreneur are important. But that is not enough. Perhaps what is required most is a huge amount of motivation. This study and the negotiations with the entrepreneurs have revealed that it must be something in the entrepreneurship that creates and maintains motivation and drives the new generation to aim high and reach even higher. This is a humble attempt to explain it. The main conclusion of this study in education could be that if one really wants to reach a target there is no obstacle. If the motivation and volition of a person are high enough there are forces that push her/him to strive for the goal. This conation must include impulse, desire, volition and purposive striving. Some part of the interviews may be used as cases in education as well. The challenge for every person who works in education in this area is to be a herald of entrepreneurial thinking.

Family businesses are relatively small, which enable their flexibility. Management may be independent and fast in decision making, the entrepreneurs have a chance to learn from their own mistakes as they are controlled by them selves. The firms are owned by the families, which creates a lot of psychological features and challenges in ownership and management. There is never a certainty of the results but in family business there is a great pressure to finish the projects or tasks, because of the responsibility in succeeding and approval of customer's need. The feedback from customers is easy to get. The family business is strongly associated with the surrounding community. The results are achieved also with the help of good personal family and networking relationship.

"In good old times there were five options to get rich; lottery, inheritance, working hard, savings and entrepreneurship. Today lottery is the most popular" Wahlroos (2004). In the successful transition of the entrepreneurial culture heritage the new generation has the possibility to maintain all of these options.

6.2 Validity and reliability

The quality of scientific research may be judged by various criteria, such as validity, reliability and credibility. Validity is the extent to which a researcher is able to use his/her method to study what s/he intends to study rather than studying something else. Thus a theory, model or category should describe reality with a good fit in order to be valid (Gummesson 1991). Reliability means that the operations of a study can be repeated with the same results, in other words, that other researchers can replicate the study with similar results. Reliability shows the degree to which a finding is independent of accidental circumstance. i.e., the researcher could him/herself be the greatest source of random errors. Credibility of the study is increased if the final interpretation is subjected to the scrutiny of those individuals upon whom it is based (Johnston, Leach & Liu 1999:209). Silverman (1993:79) points out the importance of obtaining information of good quality when gathering material during the research process.

Those who aim to understand and document others' understanding choose qualitative interviewing because it provides the researchers with a means for exploring the points of view of the study subjects, while granting these points of view the culturally honoured status of reality (Miller & Glassner 1997:100).

When starting with the experienced person and trying to share his or her subjective view, the task is objective in the sense that we try to describe it with depth and detail. In doing so, we try to represent the person's view fairly and to portray it as consistent with his or her meanings (Charmaz 1995:4).

In research practice, enhancing objectivity is a very concrete activity. It involves efforts to assure the accuracy and inclusiveness of recordings that the research is based on as well as efforts to test the truthfulness of the analytic claims that are being made about those recordings. These concrete efforts, however take different shapes according to the type of recordings on which the research is based (Peräkylä 1997:201).

Reliability of observations in conversation analytic research can be achieved through serious effort. The method itself does not guarantee reliability. In conversation analytic studies, proper attention needs to be paid to the selection and technical quality of recording as well as to the adequacy of the transcripts (Peräkylä 1997:207). The researcher needs to pay attention to the interplay of spoken language with other modalities of communication and social action.

In qualitative research discussion on the validity and reliability of the evaluation of research have been presented by e.g. Eisenhardt (1989), Yin (1994) and Silverman (1993, 1997, 2000). There are no generally accepted guidelines. As a notion of social sciences, there exist some sets of criteria for judging the quality of the research process. Yin (1994:33) has cited Kidder and Judd (1986:26-29). The test could be seen as validity as Kidder and Judd (1986) analysed them:

- Construct validity: establishing correct operational measures for the concepts being studied
- Internal validity: (for explanatory or causal study only, and not for descriptive or exploratory studies) establishing a causal relationship, whereby certain conditions are shown to lead other conditions, as distinguished from spurious relationship
- External validity: establishing the domain to which a study's findings can be generalised
- Reliability: demonstrating that the operations of a study – such as the data collection procedures can be repeated, with the same results

The concepts of validity and reliability are less applicable when assessing a functions analysis, when compared to, e.g., statistical studies. When looking to a functions analysis study, attention should be paid to the chosen concepts or constructs of concepts, taking into account the context and the study as a whole.

Construct validity in a study can be increased in three ways: using multiple sources of evidence, establishing a chain of evidence, having the key informant review a draft of the case study report. In this study case the data has been collected from tape recorded interviews, phone calls and corporate analysis by the financier of the companies. The researcher has also visited the companies several times before and during the research period. In this study, construct validity is a necessary condition for theory development (e.g., conceptual explicitness and clarification of concepts) and for empirical investigations.

Internal validity answers the question: "Do the findings and results of the study make any sense?" (Miles & Huberman 1994: 277-280). The authors have given as their guidelines for quality of conclusions. As Yin (1994:33) states that the internal validity is a concern only for explanatory or causal study, and not for descriptive or exploratory studies, the internal validity is not evaluated in this exploratory case study.

External validity means the validity or competence between interpretation, conclusions and data (Eskola & Suoranta 1998:214). According to Yin (1994:33), external validity deals with the generalisation of the study's findings. In the qualitative case study of three cases the results would seldom if ever be widely and statistically generalised, but they have their impact in transforming new knowledge.

Considering the reliability of the study, the following questions should be carefully examined: Are the functions identified, labelled and understood correctly? Is the reciprocity of the concepts understood correctly? Reliability shows the degree to which a finding is independent of accidental circumstance. In this case the researcher could be the greatest source of random errors. As the study issue was strategic renewal after succession, the theories of strategy, strategic renewal and family business have been the main subjects in this study.

Reliability demonstrates also that the operations of a study – such as the data collection procedures- can be repeated, with the same results. The goal of reliability is to minimise the errors and biases in a study (Yin 1994:36). The interviews were correctly tape recorded to assure that others are able to access the text and make an interpretation. In this study the interviews and the transcription was made by the researcher and the tapes were listened to many times before the transcript was completed. In the economic inspection of the renewal process the research information is based on Finnvera Oyj's annual corporate analysis as the studied family firms gave permission for the researcher to use the material. Indicators are analysed according to Committee for Corporate Analysis (2000). In this manner there is no doubt about the reliability of the cases as bookkeeping and accounting are audited in Finland. In addition the financier, Finnvera Oyj, has all the information needed from the companies for the adjusted annual corporate analysis. Assessing the credibility of this study the technical material of the research (tape recordings and analysed annual reports) is available to any researcher. Several limitations could still exist in terms of being able to generalise and interpret the results of this study.

The researcher knew the companies reasonably well beforehand due to her work history as a corporate analyst for several years. The earlier experience provided a greater understanding and knowledge of the research issue. The researcher had known two of the companies even before the succession and the third one had become familiar some years ago through teaching in the polytechnic in the same town. The companies have been visited by the students several times. This partly lowered the threshold to contact the companies and helped to create an open, in-depth discussion. Partly it increased the need for objectivity through out the research process, where one has to stay calm although some of the entrepreneurs are gripping storytellers, which is part of the entrepreneur's nature.

The researcher knowing the companies, the incumbents and the successors for many years permitted her to collect personal experiences during various stages of the companies' development. The information from other companies in the T/C industry was available for the researcher as a corporate analyst as well. Such data and the numerous discussions as methods of data collection have particular methodological problems of their own. Of these, errors in retrospection are very important (Lohivesi 2000:116). In general, retrospective reports are popular tools for learning about the past (Miller, Cardinal & Glick 1997). In organisational research, retrospective reports have been used extensively e.g. in studies of decision making, organisational change and competitive strategies (Lohivesi 2000:116). The key problem is that the interviewees may not be able to recall the past truthfully.

From the more traditional standpoint, the objectivity or truth of interview responses might be assessed in terms of reliability, the extent to which questioning yields the same answers whenever or wherever it is carried out, and validity, that is, the extent to which inquiry yields the "correct" answers (Kirk & Miller 1986). When the interview is seen as a dynamic, meaning making occasion, however, different criteria apply. The focus is on how meaning is constructed, the circumstances of construction, and the meaningful linkages that are made for the occasion. While interest in the content of answers persists, it is primarily in how and what the active respondent, in collaboration with an equally active interviewer, produces and conveys the active respondent's experience under the interpretive circumstances at hand. One can not simply expect answers on one occasion to replicate those on another because they emerge from different circumstances of production. Similarly, the validity of answers derives not from their correspondence to meanings held within the respondent, but from their ability to convey situated experiential realities in terms that are locally comprehensible (Holstein & Gubrium 1997:117).

There is no trouble acknowledging that interviewees sometimes respond to interviewers through the use of familiar narrative constructs, rather than by providing meaningful insight into their subjective view. The subject is more than that which can be contained in a text, and a text is only a reproduction of what the subject has told us. What the subject tells us is itself something that has been shaped by prior cultural understandings. Language, which is our window into the subject's world, as well as ours, plays tricks. It displaces the very thing it is supposed to represent, so that what is always given is a trace of other things, not the thing – lived experience – itself (Denzin 1991:68).

Interviewers might notice that the story is being told to particular people, it might have taken a different form if someone else were the listener. The issue how interviewees respond to interviewers is based on who they are – in their lives, as well as the social categories to which they belong, such as age and gender – is a practical concern as well as an epistemological or theoretical one.

The issue may be exacerbated, when studying groups with whom the researcher does not share any membership. Particularly, if the interviewees do not trust or if they do not understand the questions, they may mislead the researcher in their responses. On the other hand the researcher may not know enough about the phenomenon under study to ask the right questions (Miller & Glassner 1997:101).

If given a chance, the interviewees will tell which of the researcher's interests and formulations make sense and non-sense to them. Creating these observations one can assume that the researcher share enough experience with the subjects to define things similarly (Miller & Glassner 1997:103).

A large part of the published empirical studies of management comprise of retrospective case histories that have their data collected after the outcome is known. In some cases, this has resulted from researchers' inability to gain access to organisations to take multiple measures over time (Miller et al. 1997). In other cases, reliance on retrospective reports is brought about by a desire to study an event whose timing could not have been anticipated, e.g. the space shuttle Challenger's disaster, or a firm failure (Lohivesi 2000:117).

But despite of the popularity of retrospective reports, many researchers believe that problems associated with informant fallibility strongly influence these reports. The primary problem is that the key informants may not be able to recall the past accurately (Lohivesi 2000:117).

When asked to form a judgement, people rarely retrieve all information that may bear on the task, but truncate the search process as soon as enough information has come to mind to form a judgement with sufficient subjective certainty. Accordingly, the judgement is based on the information most accessible at the time (Schwarz & Vaughn 2002:105).

As Fischoff noted, once people know the outcome of an event, they not only tend to view it as having been relatively inevitable, but also tend to view it as having been relatively inevitable before it happened. As a result, they believe that they, and others, should have been able to anticipate the event and they even misremember their own predictions so as to exaggerate in hindsight what they knew in foresight (Fischhoff 1982:428).

As a large body of research in social cognition has demonstrated, individuals' judgement strategies depend, on the motivation they bring to the task. The more self-relevant and involving the task is, the more likely they are to adopt a systematic processing strategy, paying attention to the specific implications of the information that comes to mind. In contrast, heuristic processing strategies are preferred for less-relevant and less-involving tasks. If so, the self-relevance of the material addressed in the recall task may determine if individuals rely on recalled content or experienced ease of recall in forming a judgement (Schwarz & Vaughn 2002:115).

As many researchers have observed, almost any target is likely to be evaluated more favourable when the judge is in a positive rather than negative mood (Schwarz 2002). Feelings can have a pronounced impact on judgement and decision making. They may influence which information comes to mind and is considered in forming a judgement, or serve as a source of information in their own right. It is often difficult to distinguish between one's reactions to the target and one's pre-existing mood state (Schwarz 2002:546).

Prior knowledge of an outcome invariably (e.g. renewal results) biases judgements. Therefore variables used to explain performance are sometimes assessed considerably after the performance is well known to the informants (Tosi & Gomez-Mejia 1994). The result might be introduction of significant retrospective bias. As informants exist in a world in which organisational performance is important (March & Sutton 1997), performance information itself ensigns subjective memories, perceptions, and importance of possible reasons of performance.

Looking at this study as a whole, quality criteria for a qualitative case study are defined as follows:

- Concepts, theories and models are empirically realistic and applicable to the studied phenomenon.
- Researcher's basic assumptions are related to research questions
- Interviewed owner-managers of family firms were selected by accounting their experience and knowledge of the research issue

In this study assessing the theoretical basis and research design of the study, one could criticise whether all the theories and approaches used were needed in order to conduct this study. Concepts of the study have been identified and labelled as the basis of the research questions and applicable to the studied phenomenon, i.e., strategic renewal in family business after succession in the context of the textile, clothing, leather and shoe industry. The two contexts have been the T/C industry and family business and the research phenomenon strategic renewal after succession in family business.

The researcher herself, being directly involved with the field of her own research, may have been a source of a bias. Mistakes may occur by selecting the most suitable cases and avoiding more demanding cases in the process of data analysing. Therefore, the researcher's pre-understanding and perceptions may have biased the results, as the researcher has not entered into the research field as an outsider, which may have biased the analysis and interpretation of the cases. On the other hand, assessing the credibility of this study as a whole, the researcher's basic assumption related to research questions are based on knowledge of the field, taking into account earlier studies in the field. The researcher has used multiple theories (literature), approaches and models that have been ´tested´ and blended with empirical findings. As the research phenomenon was strategic renewal after succession the interviewed owner-managers of the family firm (incumbent and successor) were selected by accounting their experience and knowledge of the research issue. In this study case the succession had occurred a few years earlier, which offered a time perspective for analysis.

Case studies vary in character. According to Gummesson (2000:85) one type seeks to arrive at specific conclusions concerning a single case because this "case history" is of particular interest. This was one of the basic criteria for the researcher, in these case studies. How and why questions are likely to favour the use of case studies (Yin 1994). The criticism of case studies as a scientific method can be summarised under the following three headings Hägg & Hedlund (1978: quoted in Gummesson 2000).

- Case studies lack statistical reliability and validity
- Case studies can be used to generate hypotheses but not to test them
- Generalisation cannot be made on the basis of the case studies

Due to the limited number of cases, traditional quantity-based generalisation of the results may be a problem. Anyhow each case has its significance in the description of the meaning of strategic renewal after succession and may possibly lead to improvements in the practise of management.

But as Gummesson says: "It no longer seems so obvious that a limited number of observations cannot be used as a basis for generalisation. Nor is it obvious that properly devised statistical studies based on large numbers of observation will lead to meaningful generalisations" (2000:88). According to him a science is a journey, not a destination. This means that a science is a journey and the existing theory is not a destination. In this aspect, new data are never discomforting. He thinks that they never "destroy" existing theory; they expand and improve it (Ibid:90).

The object of this study is to provide a rich description of the phenomenon. It compares the situation of the company before and after the succession and compares the three companies' renewal processes. The purpose of hermeneutic function analysis in this case is to produce exploration by interpreting the research subject, to describe what is behind the succession process, to describe the strategic renewal process and its results for the company. The aim of understanding the phenomena and not to start with a specific problem was the main reason when selecting the exploratory case study as a research method.

6.3 Suggestions for further research

The strategic content area has still many research possibilities. As the market has changed from national to global, also the culture and values in Finnish family businesses would be an interesting area for research. In the research carried out by Ward in the USA the twenty winning values seen at work in successful business families were: accountability, ethical conduct, meritocracy, risk-taking, self-reliance, servant leadership, social purpose, stewardship, valuing stakeholders and fun (Aronoff & Ward 2000:25). It would be interesting to examine if these values are appropriate in Finnish business culture as well.

The following issues could be raised not only in the textile and clothing context but in any field: Are there differences or similarities in strategic renewal processes with small family firms in other fields of industry? What are the essential goals of the family owned business? Are these different from other types of businesses? What do family firms understand by the concept of strategic planning in the T/C industry? What do family firms understand by the concept of entrepreneurialism? How does entrepreneurial thinking appear in family firms?

The subject of the study was to research how strategic renewal was carried out and its effect on a small family firm after succession. Hopefully this work will inspire further investigations in strategic renewal processes.

The success of a business for its owners is measurable in terms of the opportunities it creates for their beneficiaries. If family members have alternative opportunities, they have the talents and experiences that might make them likely to make business together.

> *"Veteran pilots like to say that a good landing is any landing from which everybody walks away, and it's a great landing if the plane can be flown again. In family business terms, it is a successful ending when the whole family survives with their capital free to create new opportunities for all, and with appreciation for how thoughtfully and earnestly their business's stewards created those opportunities", (Kaye 1998).*

It can be argued that a good deal of this analogue has been demonstrated through the analysis of the father, the son and the refreshed spirit in most of the three analysed case firms.

SUMMARY IN FINNISH (TIIVISTELMÄ)

Isä, poika ja yritys yhä hengissä

Perheyrityksen strateginen uudistuminen sukupolvenvaihdoksen jälkeen – tapaustutkimus tekstiili-, vaatetus-, nahka- ja kenkäteollisuudessa

Tutkimus kuvaa perheyrityksen strategista uudistumista sukupolvenvaihdoksen jälkeen. Jokaisella perheyrityksellä on oma yksilöllinen tapansa rakentaa uuden sukupolven voimavaroja ja kyvykkyyttä, joita uudistumisessa tarvitaan. Sisäisten resurssien ja kyvykkyyden ohella turbulentti ympäristö vaikuttaa strategisiin päätöksiin.

Työ tehtiin tapaustutkimuksena TEVANAKE-teollisuuden (tekstiili-, vaatetus-, nahka- ja kenkäteollisuus) kolmesta perheyrityksestä, joissa sukupolvenvaihdos oli tapahtunut, yhdessä yrityksistä 1985 ja kahdessa yrityksessä 1990-luvulla. Yritykset toimivat alueella, jossa perheyritykset ovat pääasiallisia työllistäjiä.

Tutkimuksella haettiin vastauksia seuraaviin kysymyksiin: 1) Mikä on uuden polven yrittäjän tausta (liikkeenjohdossa ja omistajuudessa)? 2) Mitä olennaisia muutoksia on tapahtunut toimintaympäristössä? 3) Miten strategiaa uudistettiin sukupolvenvaihdoksen jälkeen? 4) Mitä uudistukset vaikuttivat yrityksen toimintaan?

Tutkimus selvittää, kuinka sukupolvenvaihdos yrityksessä toteutettiin ja mitkä ovat olleet nykyisen yrittäjän tehtäväroolit perheyrityksen palveluksessa ennen sukupolvenvaihdosta. Tutkimuksessa käsitellään myös yrityksen kriittisiä tapahtumia ja sitä, miten ne vaikuttivat sukupolvenvaihdokseen. Kahdessa tutkituista yrityksistä 1990-luvun kriittiset tapahtumat olivat sukupolvenvaihdoksen vauhdittajina vanhan sukupolven voimavarojen loputtua. Työn pääpaino kohdistuu uuden yrittäjän kyvykkyyden, strategiamuutosten ja niiden vaikutusten selvittämiseen. Tutkimuksella on pyritty myös hankkimaan tietoa yritysten tarpeista yrittäjyyskoulutukseen ajatellen potentiaalisia tulevia yrittäjiä.

Teoreettisella tasolla käsiteanalyysi nojaa pääosin strategiakirjallisuuteen sekä perheyrittäjyyden teorioihin. Toimialaa on myös käsitelty melko laajasti sekä Suomen että laajenevan EU:n mukanaan tuomien uusien haasteiden osalta.

Tutkimustieto on kerätty avoimella teemahaastattelulla, puhelinkeskusteluilla ja Finnvera Oyj:n yritystutkimusanalyyseillä, jotka alkavat kunkin yrityksen sukupolvenvaihdoksesta. Ensimmäinen haastattelu tehtiin toukokuussa 2002 ja viimeisin puhelinkeskustelu käytiin marraskuussa 2004. Tutkija haastatteli uuden sukupolven yrittäjää sekä hänen isäänsä, edellistä omistajaa. Kahdessa tutkituista yrityksistä isä oli ollut yrityksen perustaja, kolmannessa tapauksessa oli kyseessä kolmannen sukupolven yrittäjä. Haastattelut nauhoitettiin.

Neuvostoliiton hajoaminen, Suomen markan vahva kurssi ja sitä seurannut devalvaatio muuttivat Suomen tekstiili- ja vaatetusteollisuuden kentän täysin. Konkurssit kaatoivat monia yrityksiä ja työpaikkoja menetettiin. Tämän päivän markkinat koostuvat harvemmista asiakkaista ja asiakasyhteistyö on tiivistä.

Ei voida yksiselitteisesti sanoa, että kaikki kolme perheyritystä onnistuivat sukupolvenvaihdoksen jälkeisessä uusiutumisessa. Finnvera Oyj:n yritysanalyysit tuovat esiin taloudellisen menestyksen. Kaikki perheyritykset toimivat kuitenkin sukupolvenvaihdoksen jälkeen samana juridisena yrityksenä toimialalla, joka on läpikäynyt syvän kriisin. Jokaisen yrityksen selviytymisstrategia oli erilainen. Nahka-alan yrityksen uuden sukupolven yrittäjä sai rahoittajan vakuuttuneeksi uuden tuotantolinjan kannattavuudesta, ja viennin kasvu mahdollistui. Huonekalukangaskutomon uusi yrittäjä tarkasteli kriittisesti tuottoja ja kustannuksia, luopui kannattamattomasta tuotantolinjasta ja pääsi uudistetulla markkinointistrategialla uusille markkina-alueille. Omaa tuotantoa täydentämään aloitettiin maahantuonti ja tuotanto räätälöitiin vastaamaan siihen tarpeeseen, johon isot toimijat eivät pystyneet. Trikootehtaan omistus on vielä jakautunut eri perheenjäsenille, mikä heikentää motivaatiota ja kehittämisprosessi on kesken. Räätälöinti, toimitusajat, -määrät ja palvelutaso ovat olleet yritysten selviytymisstrategioita. Ratkaisevaa oli se, että kriisin jälkeen johdolla oli uusittu strategia ja rahoittaja vakuuttui sen toimivuudesta.

Uuden polven yrittäjät olivat kasvaneet yritystoimintaan ja omiin perheyrityksiinsä lapsuudestaan saakka. He olivat hankkineet yrityksissään hyvän teknisen osaamisen. Isän opastamana markkinat ja asiakkaat olivat tulleet tutuiksi. Uudistumiskyky riippuu uudistajasta, mutta sen pohja rakennetaan yrityksen historiasta ja kehityksestä. Uudistumiskyvykkyys ja -ketteryys riippuvat uuden yrittäjän yrittäjyysominaisuuksista, menneiden vuosien tuloksista ja teknologian tasosta. Johtamisessa tarvittavien taitojen merkitys ja tuki vanhalta polvelta on tärkeää. Yrittäjyysominaisuuksissa korostuvat sitoutuminen ja motivaatio, perheyrityksen kulttuuri ja arvot. Tutkituissa yrityksissä uusi yrittäjä olisi voinut valita helpommankin tien elantonsa hankkimiseksi, mutta sitoutuminen, ylpeys perheyrityksestä ja itsenäinen päätöksenteko painoivat vaakakupissa enemmän.

Avainsanat: Perheyritys; tekstiili- ja vaatetusteollisuus; strateginen uusiutuminen; elinkaari; roolit; sukupolvenvaihdos

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