

KUOPION YLIOPISTON JULKAISUJA H. INFORMAATIOTEKNOLOGIA JA KAUPPATIETEET 12  
KUOPIO UNIVERSITY PUBLICATIONS H. BUSINESS AND INFORMATION TECHNOLOGY 12

SANNA TIHULA

# Management Teams in Managing Succession

Learning in the Context of Family-Owned SMEs

Doctoral dissertation

To be presented by permission of the Faculty of Business and Information Technology of  
the University of Kuopio for public examination in Auditorium,  
Tietoteknia building, University of Kuopio,  
on Friday 14<sup>th</sup> November 2008, at 12 noon

Department of Business and Management  
University of Kuopio



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ISBN 978-951-781-991-6  
ISBN 978-951-27-0110-0 (PDF)  
ISSN 1459-7586

Kopijyvä  
Kuopio 2008  
Finland

Tihula, Sanna. Management Teams in Managing Succession: Learning in the Context of Family-owned SMEs. Kuopio University Publications H. Business and Information Technology 12. 2008. 237 p.  
ISBN 978-951-781-991-6  
ISBN 978-951-27-0110-0 (PDF)  
ISSN 1459-7586

## ABSTRACT

The objective of this study is to bring forward the role of the management team (MT) in managing succession in family-owned small and medium-sized enterprises (SMEs). Previous studies of family businesses have seen succession as a problematic and challenging process between only two actors – the successor and the predecessor ignoring other participating actors, such as MTs, in the succession process. This study examines the phenomenon from the viewpoint of MT learning, seeking to bring new insights to the discussion on family business and MTs by concentrating on the MT learning through communities of practice (CoP) in family firms. Examining the role of the MT in the succession provides a new perspective, not only to the family business literature, but also to MT research, since the studies of MTs in SMEs have been rare, and those of family firms have been next to non-existent. The interest of this study is to find out: 1) what has a MT learned in the situation of family business succession and how can this learning be seen in the MT work, 2) how can the MT work contribute to managing succession in a family business, and 3) how does a MT work as a community of practice in a family-owned SME? These sub questions of the study lead to the main research question: *“What is the role of a MT in managing succession in a family-owned SME, and how does succession affect the MT work?”*

This study was implemented qualitatively using the case study method. The empirical data is based on interviews of MT members in two case-firms in the metal industry. MT learning of the case firms was examined in succession situations (intensive case study). The CEOs of the case firms were interviewed three times, other team members twice, and the predecessors once. The total number of interviewees was 11 and that of actual interviews was 21.

Analysis of the interviews revealed that the MT in family-owned SMEs is able to manage succession and the business after succession, in two ways. On the one hand, the MT helps the predecessor to relinquish the operational responsibilities, and the successor to become familiar with the firm management and the new responsibilities, without any interruption in the daily operations of the firm. On the other hand, the MT gives significant added value to a SME in a succession situation by taking both a stronger role in developing the firm together with the successor, and a greater degree of responsibility for the management and the daily operations. With the help and support of the MT it is possible for the successor to rapidly gain the knowledge and the skills required in running the business. Succession may also bring up perceptions of other managers (non-family members) which may not have been sufficiently noticed before. This study reveals that a MT introduces new management methods, and thus contributes to the development and rationalization of the family business management. Moreover, the succession can be seen as a contributor to positive learning, as opposed to a situation to which the firm simply has to adapt. With the successor the MT operations may also become more team-like as a result of functioning as a community.

Universal Decimal Classification: 658.11; 334.722

Helecon: Teams; Management, Succession of generations; Family firms; SMEs; Small businesses; Learning, Metal industry; Finland

Tiimit; Johtaminen; Sukupolvenvaihdos; Perheyhtiöt; Pk-yritykset; Pienyritykset; Oppiminen; Metalliteollisuus; Suomi



## ESIPUHE

Väitöskirjan tekeminen on pitkä ja vaativa prosessi, jossa voi kokea onnistumisen iloa, mutta myös ahdistusta. Väitöskirjaprosessini sisälsi omat vaikeutensa, jotka kuitenkin menettivät merkityksensä isäni tapaturmaisen kuoleman myötä. Mitkään ongelmat yhdessäkään eivät ole verrattavissa siihen tuskaan, minkä läheisen ihmisen menetys aiheuttaa. Työ kuitenkin valmistui ja olen siitä monelle kiitollinen.

Ilman case-yrityksiä ja niiden johtoryhmänjäseniä tutkimukseni ei olisi ollut mahdollinen. Kiitos näiden yritysten toimitusjohtajille ja toimihenkilöille aktiivisuudesta, mielenkiinnosta ja vieraanvaraisuudesta kiireenkin keskellä. KTT Juhani Lainetta saan kiittää työni alkuvaiheen ohjauksesta, tutkimusaiheen valikoitumisesta ja jatkuvasta kannustuksesta. Professorit Päivi Eriksson ja Timo Pihkala puolestaan auttoivat ohjauksellaan ylittämään maaliviivan. Kiitos Päivi Erikssonille asiantuntevista kommentteista ja avusta prosessin eri vaiheissa. Suurimmat kiitokseni ohjauksesta kuuluvat Timo Pihkalalle. Hänen asiantuntemuksensa, positiivinen ja nöyrä asenteensa sekä kriittinen tarkastelutapansa on ihailtavaa. Tutkimukseni viimeistelyvaiheen arvokkaista ajatuksista kiitän vastaväittäjäni ja esitarkastajaani, professori Jarna Heinosta (Turun kauppakorkeakoulu) ja esitarkastajaani, apulaisprofessori Mattias Nordqvistia (Jönköping International Business School).

Kiitos pk-yritysten johtamisen pääaineen edustajille käydyistä keskusteluista sekä koko kauppätieteiden laitoksen väelle tuesta tutkimustyössäni. Kiitos myös dosentti, KTT Irma Tikkaselle hänen tuomistaan ja jakamistaan ajatuksista sekä fil. yo Christina Pielille kaikesta käytännön työstä, kieliaivasta ja tuesta. B.Bus/B.Sc Jane-Louise Lampardille ja FL Douglas Brearille olen kiitollinen heidän avustaan kielentarkastuksessa. Minulla oli tutkimustyöni aikana suuri ilo tutustua myös moniin muihin ystävällisiin ja avuliaisiin ihmisiin, jotka ovat eri tavoin vaikuttaneet työhöni. Kiitokseni heille kaikille. Lisäksi rahoittajilla on ollut merkittävä vaikutus työni valmistumiseen. Parhaimmat kiitokseni seuraaville tutkimustyöhöni uskoneille rahoittajille: Liikesivistysrahasto, Pauli ja Paavo Talkan muistorahastosäätiö, Kaupallisten ja teknillisten tieteiden tukisäätiö, Yksityisyritysjäin Säätiö, Vuorineuvos Tekn. ja Kauppat. tri H.C. Markus Wallenbergin Liiketaloudellinen Tutkimussäätiö, Jenny ja Antti Wihurin rahasto, Pienyrityskeskuksen tukisäätiö, GRAMIS-tutkijakoulu, Kuopion yliopiston rehtorin rahasto, ja Kuopion yliopistosäätiö.

Lämmin kiitos sukulaisilleni ja ystävilleni myötäelämisestä niin väitöskirjatyössäni kuin elämässäni muutenkin sekä erityisesti appivanhemmilleni Kertulle ja Ahtille heidän kannustuksestaan ja huolenpidostaan. Lopuksi haluan kiittää kaikkein läheisimpiäni heidän antamastaan voimasta ja loppumattomasta tuesta. Paremmalta pohjalta en olisi voinut ponnistaa. Meillä on **Raija-äitini** sanoin ”hyvä tiimi”. Kiitos äiti siitä, että olet kannattanut meitä raskainakin aikoina. Toivottavasti positiivisuutesi, elämänviisautesi ja vahvuutesi on periytyvää. Kuinka tärkeää onkaan, **sisareni Katja**, että meitä on kaksi. Tuskin kukaan ymmärtää toista kuten oma sisar. Kiitos sinulle sekä **Jussille** kaikesta avusta, kannustuksesta ja yhteisistä hetkistä. **Jari**, sinun ansiostasi saavutin haaveeni väitöskirjasta ja unelmieni elämänkumppanista. Kiitos, että olet elämässäni jakamassa kanssani sen tuomat ilot ja surut. Kiitos myös korvaamattomasta avustasi ja järkkymättömästä tuestasi väitöstyössäni. Kunpa **iskä** olisit vielä täällä kanssamme. Kunnioitukseni, kiitollisuuteni ja ikäväni on loputon. Elät muistoissani ikuisesti.

Omistan väitöskirjani kahdelle elämäni tärkeimmälle miehelle:

*edesmenneelle isälleni Timolle ja puolisololleni Jarille*



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## 1 INTRODUCTION

### 1.1 Topic and background of the study

The importance of family businesses in our society is incontestable: they promote economic growth and maintain and improve employment. However, the life cycle of firms is typically short and confronts many difficulties. Only half of the established firms survive more than five years in business whilst only a fifth of all firms survive the first transfer of generations, i.e. 80 per cent of family firms fail to transfer the ownership to the next generation (Finnish Family Firms Association 2006). More widely cited statistics suggest that only 30 per cent of family firms survive into the next generation, and merely 15 per cent into the third generation (Morris et al. 1996; Kets de Vries 1993). One of the main reasons, if not the most important reason, for the high failure rate among first- and second-generation family businesses is their inability to manage the complex and highly emotional process of ownership and management succession from one generation to the next (Venter et al. 2005). As these unsuccessful successions are becoming a threat to economic development it is important that firms become more successful in learning to survive successions. This need is highlighted by the fact that on account of demographic reasons transfer of ownership will become necessary in many European and Finnish firms during the next decade. The successor and the predecessor are the key actors in a firm succession. Today, however, there are also other key actors in the core of many family-owned small and medium-sized enterprises (SME), but they have generally been ignored in the literature to date.

A number of studies have shown that firms managed by teams are more successful than other firms: this supports the idea of the resource-based view of the firm, according to which firm growth is constrained by the availability and quality of the managerial resources (Penrose 1959). Following the resource-based approach, family relationships in the business can be seen as a valuable resource for the firm (Varamäki et al. 2003). Although Barnes and Hershon argued as early as 1976 that a third party intervention (such as consultants, advisors, and stakeholders) could be used in the succession process and transfer of business (Malinen & Vento-Vierikko 2003), the research from this viewpoint has been limited. So far, succession has been seen as a difficult and problematic process between only two actors, the successor and the predecessor (e.g. Brunåker 1996; Handler & Kram 1988; Handler 1990; Matthews et al. 1999). The pioneering resource-based view of Habbershon and Williams (1999) in the field of family business inspired, however, the suggestion put forward in this study of a missing link in the succession process in family firms, i.e. management teams (MT). This important link and actor in the management of numerous firms has been ignored in the literature to date, and only a few studies (such as Neubauer 2003, 270; Ward 2004) have even recognised further dimensions of family business in addition to the family, the business and the ownership. For example, boards of directors in family businesses have been studied to a limited extent (e.g. Alderfer 1988; Ward 1989; Corbetta & Salvato 2004; Lane et al. 2006; Blumentritt 2006) but the family business researchers still criticize their absence in addition to the absence of MTs in the current family business models (Hautala 2006, 46). Moreover, some studies concerning boards of directors (e.g. Huse 2000) use only the term SME to describe the firms, thus making it difficult to know whether the studies actually concern family businesses.

A great deal of organisational theory and literature, as well as practice, supports the significance of MTs and perceives them to be crucial in firms. To perform well in the tighter competi-

tion<sup>1</sup>, greater efficiency is required. As it is impossible to deal with all the rapidly increasing amounts of data and the complexity of the global economy, managers are forced to become more flexible in their ways of dealing with the management. It is more common today that instead of a single manager there may be a group of managers who take care of the important issues concerning the whole organisation (e.g. Nadler 1997, 1; Belbin 1996; Murray 1989; Hambrick 1987). MTs run a great number of firms and almost all institutions (Belbin 1996, vii), being most common in those firms the size of which requires several managers, and which demand for their performance multiple skills, judgments, and experiences. However, a MT has become an important strategic actor not only in large firms; it is at the centre of survival, growth and development in all kinds of organisations. Whether it is a small firm owned by a husband and wife or a large firm governed by a board of directors, the MT is at the core of the business (Weltman 2001, 41). Voordeckers et al. (2007) and Gabrielsson and Winlund (2000) recognise that the directors' provision of advice and counsel to the CEO may be especially important in smaller and entrepreneurial firms.

It is not uncommon that some growth-oriented small firms which lack the expertise to run business themselves have boards of directors, or advisory boards which function as MTs, in order to assist in the management of their businesses (Weinzimmer 1997; Blumentritt 2006). In practice, the firm's growth requires the sharing of responsibility and bargaining from a position of entrepreneurial independence, thus creating a need for MT work. MTs play a powerful role in the success or failure of organisations in many studies (e.g. McIntyre 1998, 13-14; Timmons 1999, 278; Peterson et al. 1998; 2003; Goines 2002; Vyakarnam et al. 1999) and their important role in the growth of a firm has also been widely noted (e.g. Pasanen 2003; Storey 1994; Wiklund 1998). For example, Eisenhardt and Schoonhoven (1990) showed that a MT has a strong impact on the growth of young firms, and that they thus play an important role in small firms. Obviously, in larger firms, a number of people are needed for effective management (Weltman 2001, 41-42). In addition, MTs are so important in new firms that venture capitalists list the quality of the MT as the most important criterion in the investment decision (Timmons 1999).

Succession in a family business is a critical event (Handler 1992) which may benefit from the contribution of a MT. Succession is also an excellent learning opportunity for MT members. In other words, the succession situation may be seen as a positive process conducive to learning, and not merely as a situation to which the firm is forced to adapt. It is vital to change the black-and-white understanding of succession as a problem between only the successor and the predecessor. At its best succession may bring out the often previously unrecognized views of other managers. An important situation such as succession may become a learning experience for the key persons of a firm, and may expedite the firm's development. With the help of a MT the successor may quickly gain the required know-how, to whilst the MT members learn through taking both a more central role and greater responsibility in the development of the firm.

## 1.2 Objectives and research problems

The objective of this study is to highlight the role of a MT in managing succession in small family businesses. Previous studies (such as Brunåker 1996; Handler 1990; Cadieux et al. 2002) have

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<sup>1</sup> New owner-managers need especially alliances and networks to survive in competition during the first years (Fisher & Reuber 2003).

seen succession as a problematic and challenging process between only two actors: the successor and the predecessor. Today, however, succession can be seen as a more collective process, creating a wider arena with the appointed managers of the firm as suggested by this study. Different participating actors with varying interests and abilities can contribute both to the on-going succession and to the business. Succession in a small firm is a critical event and tailor-made for learning for all MT members. Thus, this study seeks to bring some new insights to the earlier family business and MT discussion by concentrating on the MT learning in family businesses. The perspective in this study follows the framework of MT learning, i.e. team learning through a community of practice (CoP). The study aims to achieve both conceptual and empirical research results. The conceptual results define the language of the basic concepts of the study, thus developing the framework which describes the phenomenon and brings added value to the current MT discussion. On the other hand, the empirical results provide new information on MT learning and on the significance of MTs in the management of a Finnish family-owned SME in a succession situation.

The study also seeks to obtain new information and a deeper understanding of two MTs of family-owned SMEs in Finland and to explore on the nature of the succession process in these firms (i.e. what has the MT work been like before and after the succession in a family-owned SME). As an outcome of the research, the meaning of MT learning and managing succession will be clarified. The aim is to discover: 1) what has a management team learned in the situation of family business succession and how can this learning be seen in the management team work, 2) how can the management team work contribute to managing succession in a family business, and 3) how does a management team work as a community of practice in a family-owned SME? These sub questions of the study lead to the main research question: *What is the role of a management team in managing succession in a family-owned SME, and how does succession affect the management team work?*

### 1.3 Approaches and limitations

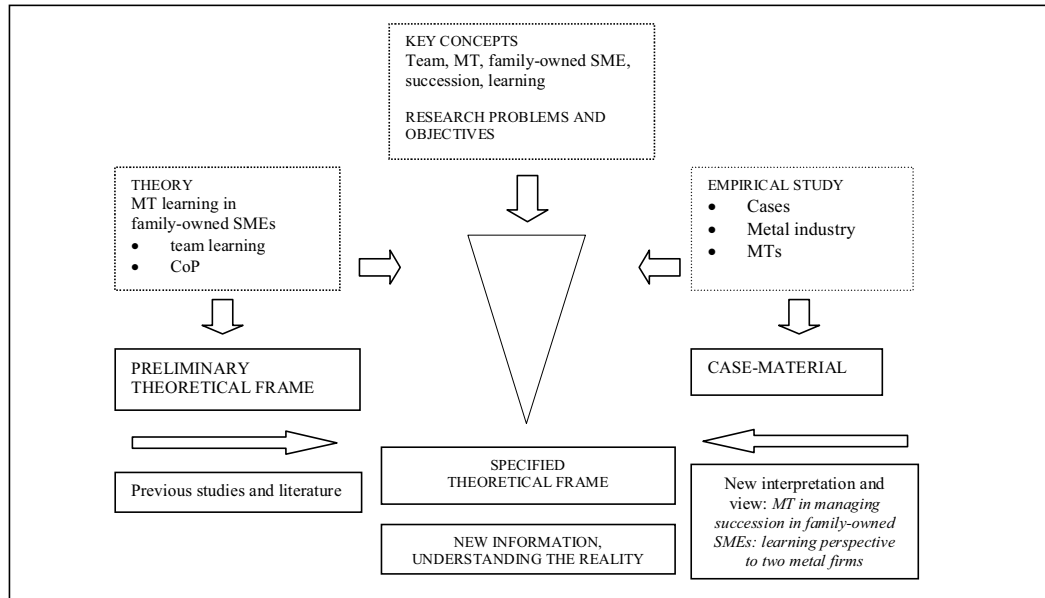
This research differs from previous studies in several ways. Firstly, this study examines the MTs of Finnish firms, where as the concentration of earlier studies has mainly been on firms in the United States of America. Secondly, the focus of the study being on MTs in small and medium-sized enterprises represents a novel contribution, since only a few empirical studies of MTs in SMEs have been published (e.g. van Gils 2005; Weinzimmer 1997; Nicholson & Cannon 2000; Reuber & Fischer 1997)<sup>2</sup>. Thirdly, the viewpoint and the research frame differ from those in previous studies: this study examines MT learning in the succession situation of family firms. The study brings a new viewpoint both to the family business literature by presenting the MT in managing succession in family-owned SMEs and to the MT literature, by examining MT learning and a MT as a CoP. In addition, the study brings new insights to the MT literature by examining MTs qualitatively in the context of family-owned SMEs.

<sup>2</sup> What exactly SME or family business is depends on who is doing the definition. Statistics Canada (Statistics Canada 2006) uses the term SME to refer to businesses with fewer than 500 employees and there does not seem to be any standard definition of SME in the U.S. Also, SME in Finland as an environment differs many ways from the mainly studied environment. The definition of family firms is even more ambiguous. There are a lot of different definitions, which are discussed more precisely in the chapter 2.3.2 (family business).

The study is based on the framework of MT learning in family-owned SMEs. The examination of the MT learning in SMEs provides an important counter-balance to the emphasis in the MT literature which has tended to focus on large firms. MT learning in this study includes the viewpoint of the CoP thus being considered in the theoretical framework. The theories of group behaviour and teams are also briefly presented because of their importance in the MT discussions. The focus of the present study is on the MT as the unit of analysis: two MTs are being analyzed from the viewpoint of learning in the succession situation of family-owned SMEs. This study

- focuses on MTs in Finnish firms which have barely been studied at a dissertation level before
- concerns family businesses and SMEs, the research into which is still somewhat limited (there is more research on entrepreneurial teams, but also this research is rather rare); family entrepreneurship and succession are also emerging research areas
- focuses on SMEs in order to gain deeper understanding of the dynamics of the development and the learning process of the MTs in these firms
- differs from previous studies in its viewpoint, approach and research propositions, thus offering a new aspect to both the discussion on MTs and the discussion on succession.

The main reason for choosing SMEs and the family business content is the structure of Finnish firms, i.e. 99.8 per cent of all Finnish firms are small or medium sized (Federation of Finnish Enterprises 2005) and most of these small firms are family firms. Moreover, the impact of MTs has been widely studied in large firm settings, mainly in US manufacturing firms in which various industries are represented, but studies in small business and the family context have been rare. MT work is increasingly considered as being more and more valuable in present-day firms. MTs have been a popular subject for research on strategic management since the mid-eighties, but there are, however, several biases in mainstream research into MTs. Firstly, the majority of the studies of MTs are an empirical setting from the US, and their US bias is seldom discussed. MTs from other countries should also be studied and should be compared with the US firms. Secondly, the impact of MTs has been widely studied in large firm settings, such as Fortune 500 firms, but such studies in the small business context have been rare. Obviously, it is arguable whether MTs are at all common in SMEs, and whether it is meaningful to study them. In the ever changing world of the present however where, for example, business opportunities and technology age very quickly not even small firms necessarily survive when managed only by the entrepreneur. In the future the meaning of MTs will also increase in smaller firms and it is timely to explore MTs in family-owned SMEs. Thirdly, research should go beyond studying MT learning in family-owned SMEs and should carry this out qualitatively. Almost all studies concerning MTs have been quantitative, so that there is a real need for the examination of MT issues qualitatively. For example Priem et al. (1999) suggest steps for improving the usefulness of future MT studies by integrating qualitative research with quantitative, as a base for developing research questions that are more informed and salient, as well as for incorporating more substantive heterogeneous constructs. The process of the formation and production of information in this study can be seen in Figure 1.



**Figure 1: The process of information forming of the study**

As with all research, this study limits itself to a consideration of certain areas and omits others. Firstly, it concerns MTs in family-owned SMEs, omitting consideration of MTs in large firm settings. MTs in SMEs may not be directly comparable with those in large firms but there may be some connections. For example, some large-firm MT theories are applicable to small-firm growth (Weinzimmer 1997). The use of top management team (TMT) theory has important applications to small businesses and many of them utilize TMTs to manage organisations (Eisenhardt & Schoonhoven 1990). Likewise, micro-firms are not included in this study as there is reason to believe that micro-firms do not have MTs in this sense on account of the small size of these firms (fewer than 10 workers). Secondly, this study discusses only MTs, rather than TMTs. TMTs have been combined variably in large firms and they are not addressed in this study except for referential purposes. TMTs are widely studied in large firm settings but they are not suitable for the SME scale because it is uncommon for there to be different levels of units and several MTs in SMEs.

The third limitation is that the viewpoint of the study (i.e. the unit of analysis) is the MT. Thus, other employees, family members and internal groups (e.g. board of directors and work teams) or external interest groups (e.g. networks common especially in small firms) are omitted. The terms 'MTs' and 'boards of directors' are sometimes used interchangeably in the literature because persons holding the managerial titles in MTs are usually also on the board of directors in SMEs (i.e. same persons form both the MT and the board). However, using the same persons in both roles does not serve its purpose since both of them have their own important tasks in the firm. CEO duality (the CEO also serving as the chairman of the board), has particularly been blamed in large firms for poor performance and slow response to change (Boyd 1995). The role of the board is an important area of management research but less attention has been paid to the role of the board in SMEs (Bennett & Robson 2004; Huse 2000). In this study, boards and MTs have been separated from each other and the study focuses only on MTs, which are taken into consideration based upon whether or not the managers take part in the operational management. Typically, the

CEO acts in both bodies, but it is not practicable for all MT members to be also members of the board. In such a case the firm may fail to notice the full range of managerial perspectives brought to discussions. Only those managers holding leadership position in the firm are accepted into the definition of a MT in this study.

In contrast, boards are composed of people (also from outside the MT) who meet periodically for the purpose of joint decision-making but who have no other connection as a group (McIntyre 1998, 4). It is frequently argued that the main functions of a board are to monitor the management on behalf of shareholders and to be involved in strategy formation (Haalien et al. 2004; van Gils 2005). The board implements the institutional management, being the governing body of the firm, and provides a vital link between the owners and the managers of the firm. The board is accountable to the shareholders for the firm's progress whereas the MT is the highest user of power delegated by the shareholders (Weltman 2001, 43; Cadbury 1990, 31). The minimum number and the range of the tasks of the board members are dictated by law in Finland (OYL 8.6§) (Trade Register 2005). Firms are not required by law to have a MT, but in some cases a public financier may require it. Cadbury (1990, 39) summarises the critical board functions, which are to define the firm's purpose, to agree the strategies and plans for achieving that purpose, to establish the firm's policies, to appoint the CEO and to review both his/her performance and that of other executives. Pearce and Zahra (1991) suggest that a) powerful boards provide useful business contacts thus strengthening the link between the firm and its environments, b) powerful boards are necessary to ensure the protection of the shareholder interest, and c) that such boards play a critical role in creating firm identity. Finkelstein and Hambrick (1996, 9) claim that while boards are not charged with the routine administration of the firms, they are responsible for reviewing major policy choices. Boards vary widely in how they involve themselves in strategic choices but it is well known that boards affect such fundamental choices as acquisitions, executive compensation, and CEO dismissal (Finkelstein & Hambrick 1996, 9).

A fourth area which has been omitted from examination is that of entrepreneurial teams. However, entrepreneurial teams established in SMEs are often closely related to MTs in SMEs. Moreover, there are numerous mixed definitions between a MT and an entrepreneurial team in the literature (Tihula & Pasanen 2006). Nevertheless, both MTs and entrepreneurial teams have received little attention in entrepreneurship and management studies (Pasanen 2003, 240). Entrepreneurial and managerial studies emphasise the importance of entrepreneurial teams and MTs in business management today. Earlier literature loosely defines an entrepreneurial team as a team which consists of friends, relatives and/or associates from former employers or educational institutions, indicating that they emerge from existing relationships (Vyakarnam et al. 1999). The definition of a MT put forward in this study differs from the definitions of an entrepreneurial team presented by Kamm et al. (1990), Laukkanen (1999, 33), Schjoedt (2002; 2007) and Cooney (2005). Entrepreneurial teams are jointly established teams in which two or more individuals have common financial interests and goals, and who are present during the founding and the pre-start-up phase of the firm before it begins making its products available to the market. As teams are not always complete at the time of founding, Francis and Sandberg (2000) also include in the term entrepreneurial team also those who join the team within the firm's first two years of operation.

A crucial difference between a MT and an entrepreneurial team is the shared entrepreneurial risk which usually is lacking from a MT. The team members in an entrepreneurial team are

often stockholders; this is not always the case in MTs in which managers hired outside also operate. Owners may have a stronger motivation and commitment for pursuing the firm's goals and objectives due to their financial interests related to equity ownership (Tihula & Pasanen 2006). For example, Ucbasaran et al. (2003) have suggested that, owing to their ownership stake in the firm, entrepreneurial team members may have a clearer incentive to leverage their human capital in order to enhance organisational performance. Moreover, an entrepreneurial team is not formed based on titles but on the fact that the members have a commitment to each other as participants as well as to the future of the firm (Schjoedt 2002; 2007).

Kaikkonen (2005, 21) defines an entrepreneurial team as a group of individuals who create new organisations or investigate renewal or innovation within an existing organisation. She brings a new perspective – family dynamics to the conversation of entrepreneurial teams, i.e. a team formed within the same family (husband-wife teams, sibling teams and teams of two generations). Furthermore, Nordqvist (2005) and Filbeck and Smith (1997) suggest new concepts in order to distinguish between different categories of family-influenced firms such as family teams, new family ventures, or family partnership. On the contrary, Levi (2001, 4) does not see a family as a team because its roles are inherited and not directly related to the tasks. Nevertheless, many Finnish SMEs are typically owner-managed and family-owned, i.e. there are also usually stockholders and family members in the MTs (owner-based MT). Thus, the composition of MTs in SMEs may be different in comparison with the composition of those in large firms. There can also be managers hired from outside without ownership in a MT, a feature which becomes more typical as the firm size increases. In contrast, an entrepreneurial team is made up of founders, entrepreneurs and owners, rather than managers hired from outside. Firms with a MT can benefit from the separation of the decision-making functions (i.e. control) and risk bearing (i.e. ownership) (Ucbasaran et al. 2003), which is not the case in firms with an entrepreneurial team. However, the difference between a MT and an entrepreneurial team depends on the definition. Based on the differences and definitions between MTs and entrepreneurial teams presented above, this study concerns MTs in family-owned SMEs.

Finally, the study concentrates on only one line of business, i.e. the metal industry. By such a focus it is possible to eliminate from the research results the contingency factors caused by the differences between different fields. The line of business is presented in the chapter 3.4, metal industry.

#### 1.4 Key concepts

The main key concepts of the study are: team, management team, family-owned SME, succession, and learning. These concepts are defined in this study as follows:

##### Team

The well-known definition of a team given by Katzenbach and Smith (1993, 45) is: a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable. Teams may be considered as a specific type of group, in them there is greater reliance on group discussion, on debate and decision-making, on sharing information and on best practice performance standards than is

the case with groups. Teams produce discrete work products through the joint contributions of their members and have highly defined tasks and roles and demonstrate high group commitment (Katzenbach & Smith 1993; Tosi et al. 2000, 223; Levi 2001). The term 'team' has largely replaced 'group' in the literature but the latter predominates in many studies because it uses 'group' as its root word (e.g. group dynamics, intergroup relations etc.) (Guzzo & Dickson 1996). Although teams and groups are frequently separated by their definition and purpose, they are on occasion used interchangeably as a convenience. Cohen and Bailey (1997) define a team as a collection of individuals who are interdependent in their tasks, who share responsibility for outcomes, who see themselves and who are seen by others as an intact social entity embedded in one or more larger social systems (e.g. the firm), and who manage their relationships across organisational boundaries. They distinguish four identifiable types of team in organisations today: (1) work teams, (2) parallel teams, (3) project teams, and (4) MTs. In addition, the recent entrepreneurship literature has introduced the term 'entrepreneurial team'.

#### Management team

A MT is a small group of managers including the CEO and managers from different functional areas (such as manufacturing, marketing, and finance) together with other key persons who give a firm its general direction and who specialize in running the business. In a MT the managers with complementary skills are at the same organisational level, report to the same person, hold a leadership position in the firm, and share information which helps them carry out their individual functions more effectively (McIntyre 1998, 2-3, 5-6; Longenecker et al. 1994, 215; Van Egeren 1994, 18; Keck 1998; Finkelstein 1992; Keck & Tushman 1993). Thus, the team members are not only responsible for their own functions, but also 'wear another hat' in the firm leadership (Nadler 1992). Team members meet regularly to make CEO-conducted key decisions which both affect the entire organisation and department, and to help the firm to achieve its goals (McIntyre 1998, 2-3, 5-6; Nadler & Spencer 1997). Not all members of a MT need competence in all areas; the main idea is balance (Longenecker et al. 1994, 215). The CEO remains the top leader and is accountable for the entire firm's performance, but the other MT members allow the CEO to have multiple viewpoints and enable the common decision-making process. A MT not only performs the strategic management function of maintenance, but also looks to the future with a vision of new opportunities and strategic direction (Lester et al. 2002; Cohen & Bailey 1997). MTs are accountable to external owners, the board, employees and other stakeholders (Stumpf et al. 2002). Although members of the MT may hold some equity in the firm (i.e. small ownership position), this is not always the case (Stumpf et al. 2002). MT members are a part of the firm's formal management structure, a feature which distinguishes them from other types of groups. A small firm may have only one MT while a larger firm could have several teams at each level of their hierarchy (Longenecker et al. 1994, 215; Van Egeren 1994, 18; McIntyre 1998, 2-3, 5-6, 17; Clark & Smith 2002). This study deals with MTs in family-owned SMEs.

McIntyre (1998, 3, 17) and Cohen and Bailey (1997) define a *top management team* (TMT) as a synonym for 'executive team'. George and Jones (1999, 10) agree that a TMT is a MT at the highest hierarchical level, responsible for guiding an entire firm and coordinating all major functional areas so that the firm can achieve its goals. At the top and the strategic apex of the firm the TMT establishes the firm's strategic direction and future success, manages its performance,



and affects people both inside and outside the firm (Finkelstein & Hambrick 1996, 116). In the TMT literature, team is a widely adopted term referring to a group of individuals in top positions of decision-making and implementation although they are not necessarily team-like in their behaviour. The term TMT is typically used in the consideration of large firms on which many MTs operate on different levels, and when it is considered as the highest level of MTs. In smaller firms, the managers who lead major autonomous functions may also be considered an executive group. Research reveals various conceptualisations of TMT; however, an accurate description of MTs or TMTs is yet to be agreed upon. Many of the existing definition of TMTs are presented in Table 1.

**Table 1: Top management team definitions**

Author(s) (year)	TMT definition
Amason & Mooney (1999), Amason & Sapienza (1997), Amason (1996), Clark & Smith (2002), Collins & Clark (2003), Iaquinto & Fredrickson (1997), Knight et al. (1999), Papadakis & Barwise (2002), Simons et al. (1999), West & Anderson (1996), West & Schwenk (1996)	Top managers involved in strategic decision-making identified by the CEO
Bantel & Finkelstein (1995)	All inside board members
Bergh (2001)	All executives above the level of vice president, plus any officers not so classified who are members of the board of directors
Auh & Menguc (2005a), Carpenter & Fredrickson (2001), Carpenter (2002)	Top two tiers/ or the top of an organisation's management
Cohen & Bailey (1997)	CEO and top executives
Ferrier (2001)	Chairman, vice chairman, CEO, president, CFO, COO
Boeker (1997), Finkelstein 1992, Keck 1997, Keck & Tushman (1993), Tushman & Rosenkopf (1996)	Chief executive and his/her direct reports
Goines (2002)	CEO and most effective members in enhancing the performance in organisation selected by the CEO
Carpenter & Fredrickson (2001), Geletkanycz & Hambrick (1997), Hambrick et al. (1996)	All executives above vice president level
Hansen & Peytz (1991)	Corporate center: CEO and other top managers, plus the staff advising them
Kor (2003)	All inside top-level executives, including CEO, COO, business unit heads, and vice presidents
Marton (2003)	Group of executives who are responsible for the performance for the whole organisation
Michalisin et al. (2004)	High-level managers responsible for formulating and implementing the firm's strategies
Minzberg (1979)	Top executives (executive committee) with overall responsibility for the organisation
Pitcher & Smith (2001)	Chairman/CEO and key division CEOs
Sanders & Carpenter (1998), Tihanyi et al. (2000)	Executive vice president and above
Sutcliffe (1994)	Those who report directly to the CEO, incl. administrative support staff
Wiersema & Bantel (1992)	Highest level of management: chair, CEO, president, COO, and the next-highest tier

### Family-owned SME

In practice the size of family firms varies, although they are usually perceived as small firms. Family business is not, however, synonymous with small business or SMEs (Winter et al. 1998, 239) although they have been referred to this way (e.g. Corbetta & Salvato 2004; Huse 2000) and in fact approximately 70 percent of all Finnish SMEs are family firms. This study focuses on family-owned SMEs and a 'family-owned SME' is the definition used in this study in order to focus only on SMEs, not on larger family firms. Thus the terms 'family business' or 'family firm' used in this

study also signify SMEs. The definition of family-owned SME is formed using two main concepts: ‘family business’ and ‘SME’, each of which will now be discussed.

*Family business:* The literature reveals an extensive list of definitions of family business. According to Neubauer and Lank (1998, 8) the family business is a proprietorship, partnership, corporation or any form of business association where the voting control (i.e. family’s voting majority) is in the hands of a given family. Koironen (2000, 18) defines it as a commercial entity in which 1) the authority is under one family, 2) the family and firm systems actions are connected interactively, and 3) the succession for the following owner generation of family member to become the owner has happened, is happening or is expected to happen in the future (i.e. continuity of the business). Family business can be seen as any business in which a majority of the ownership or control lies within a family, and in which two or more family members are directly involved. Typical for all family businesses is the integration of firm, ownership and business. Many family businesses have non-family members as employees, but particularly in smaller firms, the top positions are often allocated to family members. Family participation in a business can strengthen the business because family members are usually very loyal and dedicated to the family enterprise (Koironen 2000, 18, 106; Finnish Family Firm Association 2006; Tagiuri & Davis 1996).

*Small and medium-sized enterprise (SME):* Small and medium-sized enterprises are socially and economically important since they represent 99 per cent of all enterprises in the European Union, provide around 65 million jobs, and are an essential source for entrepreneurial spirit and innovation. The European Commission’s (2005) definition of SMEs (in Table 2 below) provides a clear global framework for all the measures directed towards small and medium-sized enterprises:

**Table 2: European Commission’s definition of SMEs**

	Medium-sized	Small
Max. number of employees	250	50
Max. turnover (in million euro)	50	10
Max. balance-sheet total (in million euro)	43	10

To be classified as a SME, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria, i.e. either the turnover total or the balance sheet total. In addition, a firm must be independent, which means an ownership of less than 25 per cent by any one enterprise falling outside the definition of an SME. In contrast, SMEs in the US are firms with fewer than 500 employees, and in Japan those with fewer than 300 employees (European Commission 2005). Thus, SMEs in the US and Japan are significantly different in comparison with their counterparts in Europe. In Finland 99.8 per cent of all firms are small or medium sized (Finnish Family Firms Association 2004).

#### Succession

Generally, succession has been examined from the viewpoint of ownership or managership. Shepherd and Zacharis (2000) determine a succession as a process during which the managerial control of the business is transferred from one generation to the next. Similarly, Ibrahim et al. (2001) define succession as the transfer of leadership from one generation to the next. Koironen’s (2000, 34) definition is wider perceiving a family business succession as a multi-level and multifaceted process through which not only the ownership but also managerial and other tasks are transferred from

one generation to the next. Varamäki et al. (2003) agrees and adds that the succession process is normally a lengthy period, comprising both the transfer of ownership to the successor and the learning of the essentials of the business. A succession is not one single event (Gersick et al. 1999; Handler 1994), but a dynamic process, because it includes simultaneously the issues of, for example, business, sociology, and psychology (Neubauer 2003, 277). These activities and events lead to the transfer of the management from one family member to another (Sharma et al. 2001). According to Lassila (2005) succession is a process that makes on in phases, the result of which is the transfer of the operational power and responsibility, as well as the ownership inside the family, from one generation to the next.

In one of the two case firms examined in this study, the predecessor has transferred the managerial responsibilities to the successor but not yet the whole ownership; the transfer of the operational power and responsibility, a part of the ownership, and the transfer of the managerial responsibilities are regarded as a succession. The final transfer of ownership will continue over a lengthy period of time for reasons of taxation. According to Koironen (2000, 67-68) the simultaneous transfer of ownership and managerial responsibilities is not necessary. However, the remaining vote or ownership of an old manager may exercise control over the new generation, thus placing difficulties in the way of recognition of the succession by interest groups. In this study a succession can be seen as a process which extends from the planning of a succession to a point in time several years after the transfer of the managerial responsibilities: this is because it is difficult to determine the starting point or the end of a succession (Handler 1990; Koironen 2000, 34; Heironen & Stenholm 2005, 16).

### Learning

The multiplicity of theories, approaches and definitions of learning (Sfard 1998) all, according to Wenger (1998a, 3-4), emphasise different aspects of learning and are therefore useful for different purposes. Learning is seen as an ongoing process of reflection and action characterized by asking questions, seeking feedback, experimenting, reflecting on results, and discussing errors or unexpected outcomes of actions (Edmondson 1999, 354), a process which leads not only to long-term changes in behaviour but also to improved performance over time of tasks similar to those carried out earlier. According to Jarzabkowski and Searle (2004) learning involves both seeing errors as unintentional and potentially beneficial acts, and creating environments in which MT members feel it safe to air mistakes. Through this, the MT can examine problems and determine more effective strategy-making processes, thus improving its performance.

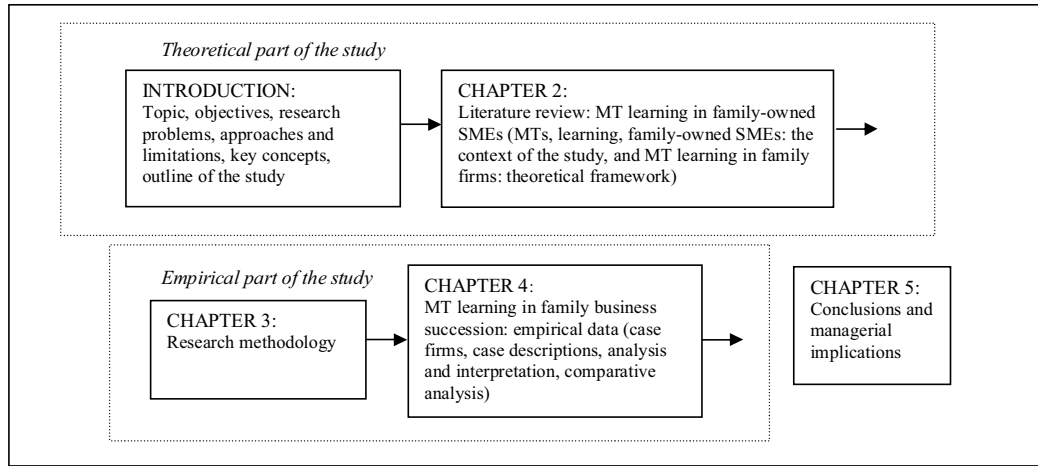
The term learning as used here refers to an activity which increases the capacity and willingness of a MT to acquire new knowledge and skills, to grow and mature, and to adapt successfully to changes and challenges in the succession of family-owned SMEs. Such learning empowers the MT members to work together, to make choices, to solve problems and to take a stronger role in running and developing the firm in collaboration with the successor. Moreover, this study examines the learning of a MT in a family business through a CoP. This learning view is useful for MT learning, because a MT is seen as 1) a group composed of MT members and thus as being related to team learning, and 2) a community which gather together in order to run the firm and which sees learning as social participation (Wenger 1998b). Teams and their learning are central because an organisation learns through people within smaller groups or teams (Edmondson 2002; Murray

& Moses 2005). A CoP is suitable for the MT learning perspective because a MT can function as a CoP, and because CoPs have been identified as playing a critical role in the promotion of learning in organisations. Moreover, a MT fulfils the characteristics of a CoP; it is a group of people who (Wenger 1998a, 125-126; Hildreth et al. 2000; Wenger et al. 2002, 4-5): have a shared interest and a real need to know what the others know, are in interaction to deepen their knowledge and professionalism, share their expertise, learn together, create knowledge, and even share tacit knowledge. They are groups of people who work together and share a concern or a passion for something they do, and learn how to do it better as they interact regularly (i.e. they share expertise, information and knowledge) (Brown & Duguid 1991; Wenger 1998b). As people work together, they not only learn from doing but they also develop a shared sense of what has to happen in order to get the job done (Stamps 1997).

### 1.5 Outline of the study

The study is divided into five chapters which comprise the following items (Figure 2). In the introductory chapter the topic, background, objectives and research problems are presented. This chapter also includes approaches and limitations, key concepts and the outline of the study. Chapter 2 presents the literature review and theoretical framework of the study. It presents the literature review of all three main sections of this study: MTs (including the basis for studies on MTs and a thematic review of MT literature), learning and family business, as well as elaborating the theoretical framework of this study. The chapter begins by presenting the MTs and the basis for studies of them, including what may be considered the most common theoretical approaches to MTs, i.e. groups and teams, upper echelons, and the reasons for MT work. It also reviews the main results of previous MT research including MT building and development (composition of MTs, team selection, and diversity in MTs), MT learning, MT and succession, MTs in SMEs, and firm performance. Moreover, the chapter presents the perspective of the study, i.e. learning (team learning and CoP), and the family business context (SMEs, family business, and succession).

Chapter 3 outlines the methodological basis of the study. Qualitative research methodology, research strategy and design and case selection are presented in this chapter as well as the line of business (the metal industry), data collection and analytical methods for case materials. Questions of validity and reliability are also presented in this chapter. Chapter 4 presents the empirical findings of the case firms. Finally, chapter 5 will summarise the main results and conclusions as well as the contribution of the study, underscoring both the managerial implications and further research, and presenting references and appendices of the study.



**Figure 2: The outline of the study**



## 2 LITERATURE REVIEW: MANAGEMENT TEAM LEARNING IN FAMILY-OWNED SMES

### 2.1 Management teams

Organisations use teams in various ways and therefore there are many ways to classify them. One important distinction between teams is their relationship to organisations. Teams differ depending upon how much power and authority they are given by organisations (Levi 2001, 6-7). In the MTs, the set of top executives collectively takes on the role of providing strategic, operational, and institutional leadership for the firm in order that it can meet increasingly complex internal and external demands. MTs chosen by the firm's CEO have profound effects upon the performance of a firm because they both determine what an organisation is trying to accomplish and develop plans for goal attainment. These teams also have the ability to achieve their own purposes and set their own goals, thereby allowing them to focus on the issues which they see as being most important for their organisations (Edmondson et al. 2002; Nadler & Spencer 1997; George & Jones 1999, 388). No other group, not even the board of directors, has so great a potential for affecting the form and fate of an organisation as does the MT (Lubatkin et al. 2006).

Encouraging the managers to work as a team has been suggested as a way of enhancing strategic leadership effectiveness, particularly in complex firms. The value of MTs depends on the situation: when organisations face turbulent environments in which changes are necessary for success, the value of MTs increases. The effectiveness of MTs is related to heterogeneity of functional experience, i.e. diversity of skills and knowledge improves the performance of these teams (Levi 2001, 296; Guzzo & Dickson, 1996). The components of the MT also depend partly on the size and the nature of the firm. In a mom-pop type operation, a leader can handle day-to-day operations as well as planning for future growth, while others are responsible for other aspects of the business. However, the leader is not alone in the firm. His wife or someone else in the firm, who may be a co-owner, handles many of its operations (Weltman 2001, 41-42).

Although the research into group dynamics has a long history in social psychology, the linking of the characteristics of a MT to organisational performance only began in the first half of 1980s (van Olffen & Boone 1997). Many scholars have since argued that teamwork at the top level promotes the generation of creative ideas and multiple alternatives, enables executives to utilize diverse experience to solve difficult problems, and increases the involvement and commitment of managers (Bantel & Finkelstein 1995; Edmondson et al. 2002; Nadler & Spencer 1997; McDermott 1999). A MT is a powerful unit for both performance and organisational change, because it can deliver both individual and collective output so that "the total is greater than the sum of its parts" (Katzenbach & Smith 1993). Applied collective expertise and output, shared accountability, and ability to shift the leadership role create both a higher performance capability as well as competitive advantage, by applying integrated disparate efforts, and sharing responsibility and positive synergy for the firm success (Cohen & Bailey 1997; Katzenbach & Smith 2001, 133; Katzenbach 2000, 184; 1997; Eisenhardt et al. 1997). Although the teams take longer to reach full effectiveness, leadership groups capable of shifting between their traditional working group, and real team models of behaviour can, over time, achieve extraordinary levels of performance and increased leadership capacity (Katzenbach 2000, 184).

Several scholars have observed that MTs differ significantly from other teams in the organisation. Their environment is more complex, as are the tasks they face. The tasks are also more critical and unstructured than the activities carried out by most other organisational work teams, which perform specific tasks. The politics are more intense, and the stakes are much higher (Nadler 1992; Bantel & Finkelstein 1995; Edmondson et al. 2002; Nadler & Spencer 1997). In addition, there are often loose boundaries between team membership and members' positions in their organisations, thereby making it difficult to determine what the tasks of the teams are. MTs may also suffer from the absence of a supportive organisational context. They operate in competitive environments which are not supportive of teamwork (Levi 2001, 291-292).

Despite the positive aspects linked to the teams, the literature indicates that MTs can experience difficulties performing as a team, and that the notion of single organisational leaders is difficult to avoid. It seems that MTs are groups rather than teams; possibly very few MTs are actually teams according to the criteria, and most organisations are run by working groups rather than by MTs. For example, Katzenbach (1997) claims that US TMTs are merely 'pseudo teams' because the individualist model is predominant and because top executives by aptitude and disposition do not work at their best in teams (Glunk et al. 2001). Despite the label 'team', top leaders often avoid teaming and they do not work at their best in teams because of their 'lone ranging'. Decisions are frequently made behind closed doors rather than at team meetings. Instead of mutual accountability of teams, there are in the case of MTs strong leaders, individual work products and accountability, and indirect performance measures. There may be several reasons why a MT does not function as a real team: the CEO is eventually responsible for the success of the firm, MTs have a clear internal hierarchy, the managers are more typically lone rangers, and the members are often selected by their position in the firm (Eisenstat & Cohen 1990, 78-86; Longenecker 2001; Boyle 1997; Levi 2001, 297; Katzenbach 1997, 5).

However, it is worth considering that this may depend on the size and formality of firms (cf. SMEs). Although these groups discuss issues, make decisions, and provide coordination to implement decisions affecting their organisations, the members operate independently and less task interdependence exists because each member is generally responsible also for running his or her own operation (i.e. the role and contribution of team members are defined by both their hierarchical and functional positions, and the expected contribution from each person coincides with that of the individual's formal job). They do not necessarily perform integrated tasks for which the members are mutually accountable. However, collective works are set up because the performance obtained in the end is usually better than what the team members could have achieved on their own (Nadler & Heilpern 1998; Levi 2001, 296-297; Katzenbach & Smith 1993, 216-221). In addition, in MTs the membership is often automatic, i.e. when real teams include only members with complementary skills, common commitment, and mutual accountability, strong individual performers with advanced functional skills who lack teamwork or interpersonal skills are more difficult to exclude from the team. Moreover, the purpose of the team at the top is often identical to the purpose of the firm, as are the goals of the group and the organisation which is not the case in real teams (Katzenbach & Smith 1993, 216-221).

Furthermore, Nadler (1992) lists some of the most notable differences between a team and a MT as follows: salience of the external environment (e.g. customers, competitors, financial markets, the board of directors and shareholders all have a major impact on MTs), intensified po-



litical behaviour, 'fixed pie' rewards, increased visibility (the MT becomes a source of institutional leadership, and therefore its dynamics are carefully observed by others in the organisation), composition (selected individuals tend to have a strong need for power and achievement, whereas MT members may be less inclined to lead or to participate in teams than their colleagues at lower levels), status (membership in a MT means more than in other teams), and the unique role of the CEO as team leader (Nadler 1992). The special opportunity of MTs derives from their power in the organisations (Levi 2001, 291-292).

The remarkable differences presented above between teams and the MTs calls into question whether in fact MTs are teams according to the criteria. Hambrick (1995) argues that the CEO's own behaviour and style of operating greatly affect how team-like the MT will be. Moreover, when examining MTs in the SME context, it is worth considering that they may be more team-like in smaller firms than in larger firms. A valid question is, however, whether there is any reason to differentiate teams and individuals in any eventuality. For example, Rawlings (2000) claims that Katzenbach and many others make the mistake of separating team activities from individual responsibilities. In this paradigm, leaders are only a team when they are together, interacting in the creation of joint solutions or the making of group decisions. When leaders are leading their respective functions, they are no longer acting as a team. Rawlings (2000) disagrees and argues that the leaders can wear two hats at the same time (team hat and individual hat) and that they can and must reach the higher level of collaboration.

According to Longenecker (2001) the reasons for the failure of managers to work together include personality conflicts, conflicting goals, reward systems based on individual performance, lack of unifying goals, direction and focus, and ineffective leadership from above. Eisenstat and Cohen (1990, 82-85) and Hambrick (1995) claim that one of the most difficult problems CEOs have with their MTs is managing the level of competition among team members. The competition can lead to fragmentation and teams tend to fall apart if the internal processes of the team are poorly managed and if conflicts remain unresolved. If the teams are unable to solve their problems, managers are likely to remove their power by making decisions unilaterally. This can create a cycle from which MTs find it difficult to recover (Levi 2001, 297). Other problems include the inadequate capabilities of a single manager, a common team-wide shortcoming, and 'groupthink' (Hambrick 1995).

Janis (e.g. 1982) has coined the term groupthink as a designation for the extreme polarization (i.e. extreme decisions in the group) which leads to the making of wrong decisions. Groupthink as a phenomenon in MTs can be seen as an opposite of mutual competition and fragmentation. The strengths of highly cohesive groups may rebound on themselves. Groupthink occurs when a homogenous, highly cohesive group is so concerned with maintaining unanimity that they fail to evaluate all their alternatives and options and thus make faulty decisions. Group pressures lead to a deterioration of mental efficiency, reality testing, and moral judgment (Janis 1982, 9; Peterson et al. 1998). The pressures cause decision makers to censor any misgivings they may have, to ignore outside information, and to overestimate the group's chances of success. A group is especially vulnerable to groupthink when its members are similar in background, when the group is insulated from outside opinions, when the group confronts serious threats (e.g. high stress), and when there are no clear rules for decision-making (Peterson et al. 1998). McCauley (1998) argues that poor decision-making is most likely to occur when the group cohesion is based on the per-

sonal attractiveness of the group members to each other. Groupthink explains how groups of otherwise intelligent and thoughtful people can make serious miscalculations resulting in disastrous outcomes (Peterson et al. 1998).

### *2.1.1 Basis for studies on management teams*

Several studies examine MTs through group or team theories or the upper echelons perspective. They have been presented in this chapter because of their central role. The theories of groups and teams can be seen as natural starting point for the understanding and explanation of MTs. The roots of MTs are in the theories of groups and teams, so that consideration of them in this study is important. The chapter also suggests reasons for MT work. The upper echelon perspective is presented here because firstly, it covers most of the MT studies. Secondly, the upper echelons theory emphasises firm management as a shared activity and is therefore the basis for the whole MT debate. Thirdly, it is obvious that those who are in a MT have influence on significant issues, their discussion of which forms the basis for decisions. The upper echelons theory emphasises the importance of understanding the background of the members in MT decision-making. Furthermore, the upper echelons theory is in the background of numerous studies which claim that teams have stronger influence on the firm's performance than do the individual managers, and that MTs have greater chances of success.

#### *2.1.1.1 Groups and teams*

Behind the research literature on groups and teams lies a rich tradition of social psychology. Theoretically there are many different ways examining group phenomena, which are complementary rather than exclusive. The group and team literature segments itself in many ways: group conflict, group decision-making, problem solving, creativity, intergroup behaviour and so on (Thompson 2003, 185). Concerning group research, there are various research traditions enshrining various philosophical views on persons and their social nature. However, basically three schools or traditions can be distinguished in the examination of groups and teams: 1) the cognitive tradition based on the theory of social identity, 2) the micro sociology tradition, and 3) the psychodynamic tradition. The first is a traditional theory, based on group research partly by Lewin (the head of group dynamic movements), in which the main idea is that the membership of the group affects the information processing (knowledge) and identity formation of the group members. The groups are seen as greater than the sum of their parts (e.g. van Knippenberg & Hogg 2003; Brown 1988; Haslam 2004; Paulus & Bernard 2003).

The micro sociology school understands the group as a unique micro culture and focuses on the study of small groups and the face-to-face interactions among humans. The micro cultures involve an emphasis on the importance of culture, roles, language, norms and ethical standards. A view based, for example, on American pragmatism, upon which many post-modern views also rest (e.g. Holstein & Gubrium 2003; Cahill 2004). Finally, the psychodynamic tradition is based on psychoanalysis (e.g. the unconscious, suppositions, and model learning). Teamwork reflects the subconscious actions of people, e.g. the group membership learned in early childhood (e.g. Niemistö 2000; Bion 1979; 2001). Moreover, there are numerous further classifications and

theories within these research traditions. This study comes close to the research subject mainly through the cognitive tradition as the mainstream literature.

All the phenomena and the social problems related to the functioning of small groups are of interest to group dynamics. This branch of social science has been developed in response to the need for a comprehensive and systematic understanding of how people work in groups and how they compose and develop, and what are the interrelations between groups and individuals, other groups and larger entities (Cartwright & Zander 1953; Kelly 1998, 115; Johnson & Johnson 2004, 36). There are numerous “mini-issues” in group dynamics, but the most important centre around two major questions: what is the best approach to the study and analysis of groups, and do we need groups? At the level of theory, there are a wide variety of approaches (Shaw 1981, 11-12).

Small-group researchers have long pondered why people spend so much time working in groups, and the resulting theories can be summarised as falling into one of two categories: 1) the functional perspective, i.e. people join groups because groups are able to accomplish that which is beyond the capacity of individuals working alone, and 2) the interpersonal perspective, i.e. groups help people to fulfil their social needs (Stewart et al. 1999, 4). According to Helkama et al. (1998) the three fundamental elements of teamwork are initial factors, phenomena developed in the group, and results.

The initial factors are conditions for development because they affect both the boundaries within which the group can act and what it can achieve. The phenomena born in the group reveals the group dynamics, the intentional and unintentional group phenomena and the changing character of the group. Finally, the results refer to the internal and external achievement of the group (Niemistö 2000, 20-22), the work of the group always being controlled by certain external and internal conditions. The former include environmental factors and the basic task of the group whether it has been formed, whereas the latter are related to the group members (Niemistö 2000, 34-35). The model of group process, terms of group and essential factors of group work are shown in Figure 3 (Niemistö 2000).

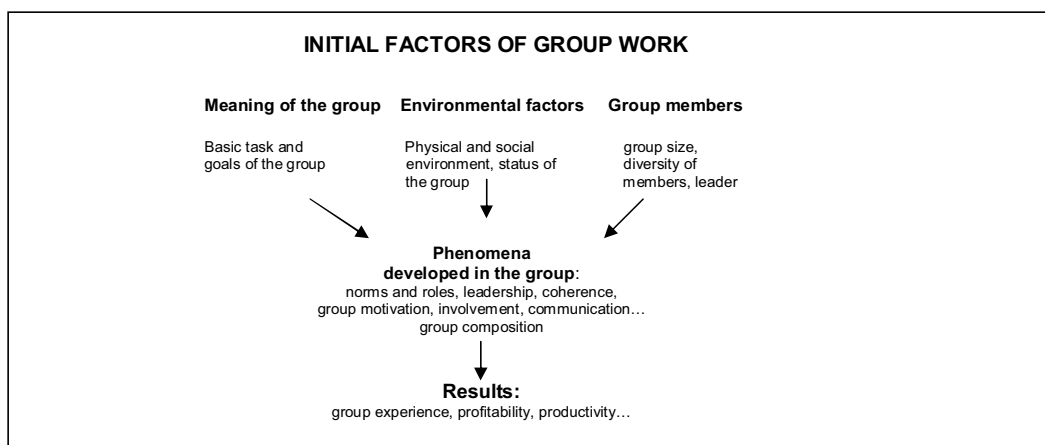


Figure 3: Model of group process, terms of group and essential factors of group work

In many cases the concepts ‘small group’ and ‘team’ are used interchangeably in the group dynamics literature, but not all groups can be considered as teams, since group is a more inclusive term than team. Groups range in size from two to thousands, whereas teams have a narrower range of sizes

(Levi 2001, 5). Normally a group is defined as two or more people who interact in some way, whereas teams are one type of small group rather than simply a number of people working together. Teams are usually thought of as groups with shared commitments and goals, suggesting that a team is more than a group (Johnson & Johnson 2004, 544-545; Stewart et al. 1999, 3). Katzenbach and Smith (1993) believe that the concept of a team should be limited to a fairly small number of people with complementary skills who interact directly. This helps to distinguish teams from work groups whose members jointly carry out the same tasks but do not require integration and coordination to perform the tasks. Katzenbach and Smith (1993, 213-214) distinguish teams and other forms of working groups in organisations as follows (Table 3):

**Table 3: Differences between working groups and teams**

Working groups vs. teams	
Working groups	Teams
A strong, clearly focused leader	Shared leadership roles
The group's purpose is the same as the broader organisation mission	Specific team purpose that the team itself delivers
Individual work-products	Collective work-products
Effectiveness is measured indirectly by the group's influence on others (e.g. financial performance of business)	Measures performance directly by assessing collective work-products
Individual accountability alone is evident	Both team and individual accountability are evident
Individual accomplishment are recognised and rewarded	Team celebration occurs, individual efforts that contribute to the team's success are also recognised and celebrated
Meetings are efficiently run and last for short periods of time	Meetings have open-ended discussions that include active problem solving
In meetings members discuss, decide and delegate	In meetings members discuss, decide and perform real work together

In a working group interdependence is low and accountability focuses on individual members rather than the group as a whole. The product of a working group is the sum of all the work produced by the members, members taking responsibility only for their own tasks. In meetings, members share information and make decisions which assist each person to do their work better, but the focus is always on individual performance (Johnson & Johnson 2004, 545). Perhaps the most critical element in this distinction is interdependence (Levi 2001, 5) which exists when an individual cannot perform a given task or fulfil a set of responsibilities alone, without the assistance of others. This is also the basic assumption in MTs: essentially, the message of teamwork is delegation and empowerment. Team working is all about passing responsibility to working teams, and these need to be given sufficient authority to make day-to-day decisions about their work, and sufficient power to make sure that things are done properly (Haynes 1997, 2).

The success of a team depends on many factors (Levi 2001, 23, 31): the team must have the appropriate group for the performance of the task; the task must be suitable for teamwork; the team needs to combine its resources effectively to complete the task; and the organisation must provide a supportive context for the team. Moreover, a team needs goals to focus its efforts and to evaluate its performance. A leader is also needed both to help manage the internal and external relations of teams and to orient teams toward their goals. A group's performance depends greatly on the qualities of the individuals involved, and these qualities can be viewed in three different ways. First, the group must contain those having the knowledge, skills, and abilities which match the requirements of the task. Second, the group must have members with the authority to represent the relevant parts of the

organisation and the power to implement the group's decisions. Third, the group's members must have the necessary group process skills in order to operate effectively. The creation of an effective group involves ensuring that the required diversity of knowledge and skills is present (Levi 2001, 23-24). Team member compatibility is a further important factor for understanding team composition, and a common prescription for teams is the choice of mutually compatible members (Stewart et al. 1999, 42). This can be referred to as 'fit' (e.g. Chatman 1991), team fit signifying positive social relationships among team members. With the exception of a few traits such as extroversion, positive relationships usually result from some level of team member similarity (Stewart et al. 1999, 42). The correct fit will depend on many factors including the industry itself, its organisational goals, values and performance, and the external environment (Flood et al. 2001, 18).

However, even though the use of teams has been seen as increasingly important in organisations, teamwork can bring with it several disadvantages. Team members often complain about wasting time in meetings which do not result in any action. Small group research has identified a number of factors and phenomena impacting negatively team performance and member satisfaction (Adams et al. 2004): for example, overdependence on a dominant leader (Edmondson et al. 2001), groupthink (Janis 1982), over-commitment to goals (Staw 1976), diffusion of responsibility (e.g. Guerin 2003), social loafing (Liden et al. 2004), and the Abilene paradox (Harvey et al. 2004), in which groups act in a manner with which members disagree because they fail to express their true feelings (Adams et al. 2004). However, Adams et al. (2004) argue that these negative factors associated with teamwork can be overcome when teams become able to learn from experience.

#### 2.1.1.2 Reasons for management team work

The reasons behind MT work have their origins in both group and team literature and in TMT literature. Small group researchers have extensively studied the reasons why people form teams and work in groups, referring both to a functional and an interpersonal perspective. Similarly, the reasons for working as a MT may be considered as falling into two categories: the firm external factors (which demand the use of MTs, such as financiers or environmental changes), and the firm internal factors (those which encourage or force team formation, such as firm growth, better firm performance or even a crisis). This latter grouping is not, however, unambiguous. For example, a crisis can be a consequence of both internal and external factors; it can arise as a result of poor management, or changing demand, or competition, for example. Similarly, the growth intent of a firm as an internal factor does not itself lead to success. The firm also has to have the external potential (and the realistic possibilities) for growth, such as market potential or demand. Nevertheless, whether the reasons for MT work are internal or external, they are numerous.

##### *Environmental factors*

The functional theory of the formation posits that groups and teams are the only way to survive the demands of the environment (Stewart et al. 1999, 4-6). External demands such as more complex organisations, a turbulent environment, and succession politics have accelerated the shift from a single leader to MTs (e.g. Nadler 1992; Cohen & Bailey 1997; Levi 2001, 296). In addition, the changing nature of people's jobs is encouraging teamwork. As jobs become more complex due to

technology or other factors, teams become an effective way to handle the complexity (Levi 2001, 10). However, environmental changes are often misperceived because highly complicated, novel, ambiguous or dynamic environmental information cannot be processed adequately (Wang & Chan 1995; Sutcliffe 1994). Moreover, MTs have a great ability to attract capital beyond the founder's or owner's resources, from private and venture capital backers (Timmons 1999, 277). Some financiers even require an active MT in return for their financing, and in some firms the shareholders demand a MT to run the business.

#### *Poor performance, crisis and survival*

The urge to try something new and to change the course of action increases when performance is low (Boone et al. 2004), as observation based on the literature on organisational decline, turnaround strategies, and organisational change. Poor performance, troubles, and even crises in the firm, caused either by internal (management errors) or by external forces (not under management control, such as recession, changes in government policy, and the entry of new competition) encourage MT work and promote the formation of crisis MTs (e.g. Kurzbard & Siomkos 1992; Spillan & Hough 2003; Pearson & Clair 1998)<sup>3</sup>. Such teams are responsible for planning for crises before they actually occur, but may an occasion be developed in reaction to a crisis (Spillan & Hough 2003). Although MTs play a key role in reversing the fortunes of failing firms, only a few studies have investigated their importance in turnaround situations (e.g. Lohrke et al. 2004; Mueller & Barker 1997; Barker III et al. 2001). It is, however, generally recognised that a firm's MT takes on particular importance during periods of declining performance. To be successful in such situations, a MT must quickly and accurately determine the cause of the firm's performance lapse and implement decisions necessary for its prompt recovery (Lohrke et al. 2004). Similarly, Pasanen (2003) regards the lack of an effective MT as one of the main factors related to firm failure, whilst Ghosh et al. (2001) see a MT as one of the few success factors in SMEs. Sometimes, mainly in large firms, poor performance stimulates hiring more dissimilar managers, or preventing dissimilar managers from leaving a team (Virany & Tushman 1986; Boone et al. 2004). On the other hand, team diversity may also increase the frequency and intensity of conflicts, which may influence the decision-making process and firm performance negatively. In either case, groups and teams are necessary for survival because they both allow people to care for and replace each other when they become ill, and provide social support to individuals in times of stress. Groups increase efficiency and thus help to improve the quality of life and the ability to complete common tasks more quickly (Stewart et al. 1999, 4-6).

#### *Growth*

Firm growth can be seen as one of the most important reasons for MT work. When the firm size increases, more people are needed for effective management (Weltman 2001, 41-42). An entrepreneur's ability to build a strong and effective team is found to be one of the key factors for growth, because growth firms require teamwork and professional management (Vyakarnam et al. 1999), i.e. sharing responsibility and relinquishing self-rule (Kets de Vries 1985). It has been suggested

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<sup>3</sup> There are several studies in which failure has been seen as a consequence of the errors of an entrepreneur or the consequence of environmental changes. A MT may reduce the risk of mistakes and increase the capability to foresee the upcoming changes.

that the importance of a MT in SMEs is crucial, particularly in growth firms. A strong association between firm growth and MTs has been found for example by Wiklund (1998, 239), Storey (1994), and Brush and Vanderwerf (1992). Storey (1994, 309-310) claims that firm growth is a prerequisite for surviving in SMEs and MT building is seen in his study as one of the four most important key elements of growth. SME success is also frequently associated with firm growth, and achieving growth has been found critical to the success of many SMEs (e.g. Pasanen 2003; Storey 1994).

According to Weinzimmer (1997) some large-firm TMT theories are also applicable to small firm growth, and many of them utilize a MT to manage organisations (Eisenhardt & Schoonhoven 1990). Some growth-oriented small businesses and entrepreneurs who lack the expertise to run businesses themselves often have boards that function as TMTs to help manage their businesses (Weinzimmer 1997). To achieve growth, a small business owner should have a formalized MT because he/she may have insufficient knowledge and skills to ensure significant organisational growth. TMT theory regarding industry heterogeneity may not, however, be an important consideration for small firms organizing their MTs, because small firms may only be single business organisations (Weinzimmer 1997). In many studies the relationship between certain TMT variables and organisational growth is also moderated by the firm size. It is important to remember that a SME is not a small large firm, a consideration which must be taken into account when strategies are planned (Simon 1996, 245).

#### *Profitability and better firm performance*

A manager's perceptions can often be limited, and the task of managing a large or complex organisation may be too demanding for a single individual to perform well. In these circumstances, a MT can significantly improve management performance and thus influence firm performance and success (Vyakarnam et al. 1999; Eisenstat & Cohen 1990, 78-79). The benefits of MT work are manifold and several reasons why an organisation shifts from a single leader to a MT have been identified relating to both work and firm performance and to social processes (e.g. Hunsaker 2001, 288; Eisenstat & Cohen 1990, 78-79; Mullins 1999, 461).

The first reason concerns the diversity of a MT, the role of which is to develop strategies which enhance the profitability of the organisation. An important means of improving the strategic capacity is through the diverse composition (Jarzabkowski & Searle 2004). The variety of experience, knowledge and expertise among team members provides a synergic effect, which can be applied to the increasingly complex problems that firms encounter (Mullins 1999, 499; Eisenstat & Cohen 1990, 78-79). Complex problems usually require diverse, in-depth technical knowledge which can be found only among several subject-matter experts. Interaction among members can have a snowball effect and provoke further thoughts and ideas in the minds of others (Mullins 1999, 499; Tosi et al. 1999, 324; Hunsaker 2001, 288). Jarzabkowski and Searle (2004) have elaborated diverse composition in two ways: firstly, while external measures (gender and informational background) are useful proxies for underlying perceptual diversity, they are incomplete without an understanding of behavioural diversity (personality). Secondly, diversity may have negative effects on the team if it does not work continuously at building links between its diversity and its ability to act as a collective unit. Through evaluation of diversity, super-ordinate goal development, regular process reviews, learning, skilled external facilitation and developing leader-

ship, teams can productively manage diversity and collective action (Jarzabkowski & Searle 2004).

The second reason for MT work relates to social issues, i.e. to companionship, support and status. Companionship and a sense of mutual understanding can help in problem solving and in reducing demanding working conditions. Mutual support arises among team members and it is important between colleagues (Hunsaker 2001, 288; Mullins 1999, 461), although work in MTs is at times rather rivalling. A MT also has a symbolic role: by being a MT member an individual's status and esteem is heightened and managers are likely to identify with groups which enhance their self-esteem (high status and desirable image) (Lester et al. 2006; Li et al. 2002). From an interpersonal perspective people are seen as having a need for affiliation with others, and they join groups in order to provide themselves with the opportunity to fulfil their needs (e.g. exercise power over others) (Stewart et al. 1999, 4-6). People may support joining a team because it gives them the opportunity to obtain more than by working alone (i.e. according to the social exchange theory, the rewards are greater than the costs) (Stewart et al. 1999, 9).

The third reason for shifting to MT work is commitment and satisfaction. Team members are more likely to be committed to the decisions and their implementation because they are likely to understand and support the decisions that they played a part in determining (Mullins 1999, 499; Tosi et al. 1999, 324; Eisenstat & Cohen 1990, 78-79). In all types of organisations, reports indicate that team working improves staff morale and reduces staff turnover. When people are given responsibility they in turn act in a far more responsible manner (Haynes 1997, 1, 3). Moreover, a team's decision is more likely to represent the wide range of interests existing in an organisation. In addition, the interpersonal perspective of team formation can be linked to job satisfaction. Employees frequently report higher job satisfaction when they work in teams rather than independently as individuals (Stewart et al. 1999, 4-6).

Finally, learning, communication and coordination are factors for shifting from a single leader to a MT. When many people work on an organisational problem, a greater proportion of the organisation members will see the need for change and have a vision of how it could be implemented. Teams in other words promote organisational learning in a work setting; they naturally develop the skills of team members and promote both formal and informal learning in the organisation due to the diverse knowledge and skills brought by their members (Hunsaker 2001, 288). Common activities, communication and coordination among the major parts of the organisation should improve with teamwork at the top (Eisenstat & Cohen 1990, 78-79). In addition, the interpersonal perspective suggests that people desire to learn from others (Stewart et al. 1999, 4-6). In short, teams at all levels of organisation may improve the firm's efficiency and profitability.

Moreover, a number of studies have established that firms founded by teams are on average more successful than those founded by single persons (e.g. Lechler & Gemuenden 1999; Kamm et al. 1990); it has also been confirmed that businesses owned by teams are more likely to have a greater diversity of skills and competence upon which to draw, in addition to a wider network of social and business contacts (e.g. Fiet et al. 1997). Timmons (1999, 278) observed that in terms of longevity and profitability, team ventures are more successful than those started by solo entrepreneurs. Kamm et al. (1990) found that 56 of the 100 best performing firms were team ventures, and that team ventures had higher turnovers, higher net incomes, and more successful market capitalization than did non-team ventures. According to Katzenbach and Smith (1993) direc-



tors are turning to teamwork for one reason only: because when it works, it works very well indeed (Haynes 1997, 4).

#### 2.1.1.3 Upper echelons

An important refinement of recent theory concerning executive leadership is its focus on the TMT rather than on the single leader (Hambrick & D'Aveni 1992). This trend has emerged as a result of two important theoretical developments in organisational studies (Tihanyi et al. 2000). First, in 1963, Cyert and March proposed that an organisation be thought of as a dominant coalition, a concept which raised the level of analysis from the individual to the entire MT. Second, the field of demographic characteristics in organisational research has revealed the relationship between the characteristics (e.g. age, tenure, and experience) and the organisational outcomes (e.g. firm performance, growth, innovation, strategy, strategic change, and executive turnover). The dominant coalition and the demographic characteristics were a point of departure for Hambrick and Mason's (1984) upper echelons theory. Thus, the research and conceptual development of MTs have been largely promoted by Hambrick and Mason (1984) but also by Gupta (1984), who supported the proposition that the TMT is a far more critical factor than simply the CEO. Later, Michel and Hambrick (1992) provided additional empirical support for the upper echelons perspective when their studies showed that MT characteristics were related to diversification strategy and firm profitability. A scholarly interest in MTs emerged from the upper echelons perspective and has been pronounced ever since (Finkelstein & Hambrick 1996, 8).

Increasing evidence suggests that the MT can make a positive contribution to firm success and that the MT has a greater influence on organisational performance than has the individual manager. While the CEO may be the primary decision maker he/she shares the power and responsibilities with other members of the team (Hambrick & Mason 1984). In order to supplement the previous research on the top managers, Hambrick and Mason (1984) proposed the upper echelons theory as a means of studying the influence of the dominant coalition. Their study has guided strategic leadership theory in two ways: first by recognising that the organisational leadership is a shared activity and by understanding that the background, experiences and values of top managers are of central importance in explaining the choices they make (Glunk et al. 2001; Reinmoeller 2004). Secondly, strategic leadership theory is guided by providing a model explaining how top decision makers as a unit are to be studied in order to understand firm behaviour (Elron 1997).

The three main clusters of concepts that are of interest in upper echelons research are 1) the team's demography (the aggregated external characteristics of the firm, e.g. heterogeneity, tenure and size), 2) process (the team's actions and behaviours, e.g. communication, and psychological dimensions such as social integration), and 3) organisational performance (e.g. functional backgrounds and firm performance) (Smith et al. 1994). Hambrick and Mason (1984) used demographic composition, or who is in the TMT, to infer how the TMT members would interact. Later, process studies demonstrated shortcomings of this picture and the possibility of its improvement by the measurement of both composition and process directly (Clark & Smith 2002; Smith et al. 1994; Keck 1997).

According to the upper echelons theory, MTs have an important impact on organisational outcomes because of the decisions which they are empowered to make for the organisation. The

theory suggests that managers make decisions that are consistent either with their cognitive base (Hambrick & Mason 1984) or executive orientation (Finkelstein & Hambrick 1996), which consists of two elements: psychological characteristics (including values, cognitive models, and other personality factors) and observable experiences (i.e. demographic measures). A fundamental principle of the upper echelons theory is that observable experiences (individual attributes) are systematically related to the psychological and cognitive elements of manager orientation (e.g. the preferences and attitudes of TMT members) as well as the resulting team dynamics. Executive orientation works through a filtering process that resulting in what is known as managerial perceptions. Managerial perceptions, in turn, influence strategic choices and manager action, and in this way affect organisational outcomes (Smith et al. 1994; Finkelstein & Hambrick 1996; Knight et al. 1999; Boone et al. 1998). Thus, the upper echelons theory emphasises the importance of understanding the functional and educational backgrounds, experiences, and values of top managers in the explanation of their choices (Hambrick & Mason 1984; Sexton & Landström 2000, 293).

However, executives do not always have complete latitude of action. In the case of restricted discretion, managerial predispositions become less important whilst environmental and organisational factors gain increases significance (Finkelstein & Hambrick 1990). Finkelstein and Hambrick (1990) developed a concept of managerial discretion in order to refer to the latitude of action available to top managers. Where discretion is high, managers can significantly shape the organisation: on the other hand, where it is low, the role of the MT is limited, the upper echelons theory will have a weak explanation, and environmental factors prevail (Finkelstein & Hambrick 1990).

Some researchers have taken a contingency approach, claiming that top managers have, after all, relatively little influence on organisational outcomes because of environmental and inertial forces, i.e. business environments are too complex to allow managers any real significance. Top managers face many competitive environments; the most important being to evaluate and judge the strategy. Therefore, a TMT's rapid reactions and effective coping strategies impact the survival of a business (Finkelstein & Hambrick 1990). In response to this debate spawned by Hambrick and Mason's (1984) upper echelons theory research ensured the linking of TMT composition, measured by demographic age, tenure and education with organisational outcomes. In most of the TMT studies scholars have linked TMTs to a variety of organisational outcomes, such as firm growth (Weinzimmer 1997; Vyakarnam et al. 1999), organisational innovation (Bantel & Jackson 1989), management turnover (e.g. Wagner et al. 1984), strategy and strategic change (Finkelstein & Hambrick 1990; Michel & Hambrick 1992; Wiersema & Bantel 1992) and firm performance (Hambrick & D'Aveni 1992; Michel & Hambrick 1992; Smith et al. 1994, Halebian & Finkelstein 1993; Child 1972).

Although there has been an increasing interest in exploring the intervening processes by which top management demographics influence the firm, some researchers, however, have criticized the demographics-focused TMT research (e.g. Priem et al. 1999; Smith et al. 1994; Pettigrew 1992). The main criticism is that there is a need for elaboration of the process variables. The upper echelons theory has been criticized for ignoring the 'black box' in which the mediating process variables are assumed to act as links between demographics and organisational outcomes, and it is claimed that there has been failure to investigate the more fundamental intervening processes. Nevertheless, the upper echelons theory has helped to ensure the continuing reputation of TMT

research (Carpenter et al. 2004). The upper echelons theory literature also provides a theoretical base upon which to develop understanding in the case of MTs in managing succession in SMEs.

### *2.1.2 Thematic review of management team literature*

MTs have been examined in a considerable number of mostly U.S. based studies, observed from a wide variety of perspectives. Almost all MT studies are quantitative with very few qualitative exceptions<sup>4</sup>. The result of TMT studies is a confusing set of highly specific MT research findings which are difficult to integrate into one clear and coherent picture. Rawlings (2000) classifies these works into two categories: those defining the members as operating as a team part of the time and as individual leaders for the rest of the time (e.g. Katzenbach 1997); and those interpreting leadership teams as a specific brand of team, but a team nonetheless (e.g. McIntyre 1998; Nadler & Spencer 1997; Hart 1996). In this literature review the following themes have been presented in order to provide an overview of previous MT studies: MT building and development (including the composition of MTs, team selection and diversity (including heterogeneity and homogeneity)), MT learning, MTs in SMEs, and firm performance. The first three themes have been chosen for this review because of their importance to the subject of the study. The final theme, firm performance, is probably the most central area in MT literature thus being selected for inclusion in this review.

Since Barnard's classic book (1938) 'The Functions of the Executive', researchers have attempted to explain the effect of top management upon organisational outcomes (Clark & Smith 2002). For example, Child (1972) advanced the notion of strategic choice in order to explain how top management influenced firm survival. While the previous research had almost entirely focused on the CEO or the individual leader, a stream of literature rapidly emerged in the mid-1980s under the name of the upper echelons perspective. This perspective greatly increased the popularity of research into MTs, CEO, TMT, and corporate boards being the most widely researched topics in strategic management. MT issues also form a major research stream in small business literature in the US because of its critical impact on firm performance (Lohrke et al. 1999).

According to Finkelstein and Hambrick (1996, 118-119) a TMT comprises three central conceptual elements: composition (collective characteristics of TMT members: values, cognitive bases, and experiences), structure (roles of members, the relationships among those roles, and the actual size of the team), and process (nature of interaction, i.e. social integration and consensus). These multidimensional aspects have been emphasised differently in TMT studies. TMT studies have predominantly focused on the outcomes of the attributes of top management, on the composition of top management, or on the distribution of personal attributes. These demographic characteristics are assumed to reflect the individual experiences, values and dispositions of top managers and to influence team dynamics measured at three levels: firm, team and individual. Research has less frequently focused for example on cognitive styles, values and psychological differences (Glunk et al. 2001; Finkelstein & Hambrick 1996), MT formation, international MT work, or innovativeness. In addition, internal corporate culture, national context, management style, organisational operation, competition and environmental complexity significantly influence strategy for-

<sup>4</sup> There are only a few qualitative studies such as Kisfalvi & Pitcher 2003, Chandler & Hanks 1998, Lester et al. 2002, Hodgkinson & Wright 2002, and Marton 2003.

mulation and management performance. However, there has been little examination of these (Glunk et al. 2001, Wu et al. 2002). There is also a shortage of studies concerning MT learning, family business and succession, and MTs in SMEs.

In addition to the studies of MTs presented in the next subchapters, MTs have been examined also from many other viewpoints. As the research area of MTs is fragmented and all in all forms a confusing set of mostly unique MT studies, these have been in this study thematically grouped as follows: characteristics (characteristics of MTs, MT demography, MT size), firm strategy and MTs (firm strategy and MTs, MT roles, firm internationalization), power, conflicts and compensation (power in MTs, conflicts in MTs, TMT compensation), decision-making (CEO in MTs, MT decision-making, TMT processes), organisational outcomes (firm growth and MTs, team performance), innovation and environmental effects (innovation in MTs, environmental effects), and other studies. The themes together with the authors and certain core findings are presented in Appendix 1.

#### 2.1.2.1 Management team building and development

Most MT building interventions focus on team relationships and cohesion, and are based on the mistaken assumption that improvements in cohesion lead to improvements in team task performance (Flood et al. 2001, 29). Furthermore, team building and development have mainly been connected with team composition, possibly because MT studies have predominantly been concerned with large firms in which MTs are clearly visible in management and the organisation structure. Thus, the subject of MT building and development may be more unusual in MT studies, MTs having been viewed as existing institutions. There are only a few recent studies on MT building and development, and therefore this chapter also includes as subchapters, discussions of the composition of MTs, team selection and diversity in MT.

The pioneering research on team building, i.e. team performance and team types, was carried out by Belbin (e.g. 1981, 1996). His analysis of team typology (for team selection and team training) forms the basis for almost all work in this field. According to Flood et al. (2001, 29), however, TMTs require team building interventions which are different from those of other teams. This relates to the nature of the task involved (highly complex and strategic), the composition of such teams (i.e. members are usually heads of functions or departments), and the frequency with which they meet as a team (Flood et al. 2001, 29). Team building has been seen as a process where participants experience trust and willingness to explore core issues crucial to the successful functioning of the team (Flood et al. 2001, 45).

Longenecker (2001) studied high performance MT building, and found that aggressive, strong-willed, self-starting managers, when left to their own devices, do not naturally gravitate to teamwork. According to Longenecker (2001) in many manufacturing firms the term MT is an oxymoron because managers do not function as a team and it is worth determining the importance of MT work to the organisation's success. Scott (2002) suggests three steps towards building an effective MT (i.e. commit to change, identify areas for change, and coach the team through change). He stresses the continuous learning process which today's successful leaders must recognise in order to build an indispensable MT which constantly stretches and grows to meet changing needs. Waine (1995) proposes introducing a non-executive member into the top team. He consid-

ers that the non-executives could be mentors to their colleagues and could help to develop the younger managers.

Drazin and Kazanjian (1993) argue that it is probable that firms at the earliest stages will have a TMT with technological or manufacturing expertise. As firm progresses, the talent will be augmented first by marketing and sales needs and later by financial and administrative skills. These authors also expect to see an increase in the size of the TMT functional composition over time. Cakrt (1993) examined the team development program for TMTs and found valuable a variety of organisational development techniques combined into a composite package of four sub-programs: educational (the theory and practice of management), realization (the process by which change was introduced), social and psychological (the personal and cultural awareness), and research (learning from experience).

Mumford's (1995) study concerns the development of the top team in order to meet organisational objectives. He argues that management development should not only meet organisational objectives but also be based on them. According to Goldberg (2000) developing the MT as an effective coalition is crucial to creating sustainable organisational change. However, the unique composition and dynamics of MTs contribute to the difficulty of their development.

#### *Composition of management teams*

Despite the long history of group composition research in social psychology, the systematic linking of the characteristics of a TMT to organisational results was only initiated by Hambrick and Mason's (1984) emphasis. Thereafter the empirical research on TMT composition can be included within the upper echelons framework. TMT composition research is theoretically inspired by the old tradition of group dynamics research (Lewin), and by later insights into the effects of managers upon the shaping of an organisation (Child 1972; van Olffen & Boone 1997).

Work in the area of group composition can roughly be divided into two dimensions: 1) the influence of demographics traits on organisational outcomes (believes that specific demographic characteristics such as tenure, age, gender, functional experience, and ethnic background, are associated with executive perceptions that ultimately lead to certain actions and outcomes), and 2) the amount (average) and diversity (heterogeneity and homogeneity) of experience (Tihanyi et al. 2000; van Olffen & Boone 1997). Several of these studies have identified significant relationships between TMT demographic characteristics and firm strategies (e.g. Finkelstein & Hambrick 1990; Wiersema & Bantel 1992) or between TMT demographic characteristics and firm performance (e.g. Finkelstein & Hambrick 1990; Smith et al. 1994; Hendriks et al. 2002; Goll et al. 2001). All these studies seem to imply that performance and the quality of work life in organisations depend on the interaction occurring between and within different groups, as well as on how that interaction relates to differences in the composition of teams (Mello & Ruckes 2006).

Reinmoeller (2004) analyses team composition by looking at the individual members: demographic attributes capture the differences between an individual's experiences, values, capabilities, goals, and his/her behaviour in teams. Similarly, composition has been seen as the characteristics of team members (e.g. values, cognitive bases, skills and experiences) in the studies of Finkelstein and Hambrick (1996, 118-119), Guzzo and Dickson (1996), Johnson and Johnson (2004, 599), and Stewart et al. (1999, 38). According to Thompson (2003, 187) group composition

analysis is the study of the effect upon group performance of the selection of particular individuals into a team. Hambrick and Mason (1984) used the important compositional measure of TMT heterogeneity and who is in the TMT, to infer how the TMT would interact. Stewart et al. (1999) define team composition as different individual input which includes for example the individual's role (e.g. task and social role in the organisation), abilities, self-management skills, conflict resolution, collaborative problem solving, communication skills, and personality traits. In order to provide task and social inputs, the team members require certain knowledge, skills, and abilities. If a team does not include someone with the ability to provide a critical input, its likelihood of success is reduced. Thus its composition is a critical element for a team (Stewart et al. 1999, 38-39, 45). The capability to provide desirable inputs can be obtained either through effective team member selection or through training and development, the goal in either case being to ensure that a team is composed of members with characteristics which allow them to enact roles that provide critical inputs (Stewart et al. 1999, 39).

According to Jarzakowski and Searle (2004) diversity of composition can be elaborated in two ways. First, while external measures (e.g. gender, informational background) are useful proxies for underlying perceptual diversity, they remain incomplete without the understanding of behavioural diversity. Second, the TMT's strategic capacity cannot be derived solely from a diverse composition. Diversity may have negative effects on the team if it does not work continuously at building links between diversity and its ability to act as a collective unit. Through evaluation of diversity, super-ordinate goal development, regular process reviews, learning, skilled external facilitation and developing leadership, TMTs can productively manage diversity and collective action (Jarzakowski & Searle 2004). However, it is still unclear to managers how the composition of the TMT impacts the strategic capacity and their ability to influence firm performance (Jarzabkowski & Searle 2004) and they give only a limited view of the actual communication, interaction and influence patterns within teams (Priem et al. 1999; Glunk et al. 2001). In addition, research into the effects of TMT composition on the performance of new firms has been rare (Ensley & Amason 1999), as has research into team composition in SMEs.

There are a number of studies concerning MT composition examining the matter from different viewpoints. For example, Boone et al. (1998; 2004) analyzed the effects of various team compositions with regard to a locus-of-control trait. They found that teams with a high average internal locus-of-control score collect more information and make more informed decisions when the within-team locus-of-control spread is low, and when the team operates without a leader. Cho (2001) found that as the new managers from outside the firm and the industry joined a top team, fusing in their fresh perspectives and expertise, a new cognitive map seemed to emerge. As the incentive scheme of the managers became more dependent on the firm performance, they also adopted a more entrepreneurial mindset. Simeon (2001) found that the appropriate TMT composition and characteristics are important aspects of effective governance: for example, the composition of TMTs is more likely to change when a firm is performing badly (Hambrick & D'Aveni 1992). According to Glunk & Heijltjes (2003) TMT members have a significant impact on subsequent firm performance on account of the resulting changes in the composition of the team. It is therefore difficult to pinpoint a right or wrong composition for MTs.

Bantel and Jackson (1989) examined the social composition of TMT and innovation adoptions in terms of several TMT characteristics. Their assessment of composition of the TMT

involved two steps: identification of team members by the CEO, and description of their characteristics. The results indicated that the more innovative banks are managed by more educated teams which are diverse with respect to their functional areas of expertise and backgrounds. Edmondson et al. (2002) noted that while the TMT demographic composition is relatively stable, the TMT task is dynamic and variable. However, the same team may perform more or less effectively in different situations. In Wally and Becerra's (2001) TMT study the greater TMT organisational tenure was positively, and the TMT core functional specialization negatively, associated with increases in international diversification.

In addition to demographics, the degree and diversity of experience (heterogeneity and homogeneity) is the focus of many TMT composition studies. For example, Ensley and Amason's (1999) study indicates that TMT heterogeneity has negative direct effects on new venture performance, and new ventures in more volatile task environments require a TMT with a broader and more diverse set of skills. Simons (1995) found that the TMT compositional diversity has to be supported by a debate process to have a positive performance impact. Mello and Ruckes (2006) presented a model of team composition which shows that heterogeneous teams have a greater variety of information sources than do homogeneous teams. The effectiveness of decision-making can depend on the composition of the group (Gruenfeld et al. 1996) and the advantage becomes more obvious in highly uncertain situations. Murray (1989) tested numbers of hypotheses relating TMT group composition to firm performance. In the study dominant function diversity was negatively related to short-term performance particularly under high competition, whilst dominant function diversity was positively related to long-term performance under high competition. Familiarity among team members has also been examined in studies of team composition, research revealing that the greater the familiarity among team members, the more effective their performance. However, other research indicates that too-familiar members may bring with it a greater possibility of error (Guzzo & Dickson 1996). A struggling firm may suffer basically from two types of pathologies within its TMT: either the team is under great stress and as a result makes errors, or the team is compositionally flawed (Hambrick & D'Aveni 1992).

Evidently, composing a TMT is very difficult (Katzenbach & Smith 1993). Compared with other types of teams, these teams have considerable power, authority and independence (Levi 2001, 296). Considerable difficulties present themselves, however, in relation to the study of team composition (Johnson & Johnson 2004, 462-463). First, concerning team heterogeneity, it is difficult to determine the significant attributes. The research has focused on personal attributes and skills because they can be measured, and because they can function as the basis for team selection. It is not, however, clear that they affect team performance. Second, no single attribute is likely to have a significant effect in the complexity of real work. Third, people work with both simple and complex tasks involving intellectual performance, creativity, and judgmental decision-making; furthermore, tasks can change, a factor further complicating team selection. Fourth, it is difficult to determine what is and is not diversity. The definition of heterogeneity offered by outsiders may differ from that given by insiders. Fifth, very little is known about the effects of group composition and tasks upon performance. Finally, group members are simultaneously both heterogeneous and homogeneous: in relation to one attribute, members may be homogeneous, and to another, heterogeneous.

Team composition has been linked to many MT studies by the use of distinct composition variables, above all demographic characteristics and variations in diversity. Appendix 2 summarises 20 empirical studies presenting the author(s) and year, compositional variables used in the study, and the core findings of the study. There are also a number of TMT studies using the same variables, but these have been omitted from the present study because the authors have neither linked them with composition nor used them as compositional variables.

### *Team selection*

Nadler (1997, 13) claims that individuals become MT members through a multiyear process of selection, which may not however, be the case in SMEs. Individuals selected for the MT tend to be very high on needs for power and achievement, and have achieved distinction through individual achievement rather than through their work with or in teams. According to Flood et al. (2001, 14) there are two ways of establishing the ideal team profile: in broad overall terms, or in a position-by-position basis (Flood et al. 2001, 14). Hambrick (Finkelstein & Hambrick 1996) outlines some of the broad areas that a CEO should address: among these are values, aptitudes, skills (e.g. communication, presentation, negotiation, interpersonal skills, planning skills and delegation), knowledge (expertise), cognitive style (e.g. information processing, decision-making, intuition), and disposition (qualities such as enthusiasm, warmth, poise). Rulke (1996) agrees that selecting team members on the basis of their competence may be particularly advantageous in relation to tasks requiring a greater degree of coordination and involving complex problem solving. It is essential that the appropriate people are assigned to the team and that the selection is based on the knowledge or expertise required by the tasks (Rulke 1996; Fowler 1995). Expertise alone, however, is insufficient: teams fail if their members cannot work together effectively. According to Fowler (1995) a mix of types of team persons is needed, the most important characteristic of a MT member being a willingness to work together.

When forming a MT, the CEO selects members whom he/she feels to be the most effective in enhancing the firm performance. In terms of the upper echelons perspective, one of the factors may be the characteristics of the individuals. A further factor which may influence the MT composition is the interpersonal relationships established between the CEO and the individuals (Goines 2002). However, Flood et al. (2001, 17) disagree that the CEO of an ongoing business should be in the position of selecting the MT, the exception being SMEs in which the CEO is also the business owner. This is the case for example in van Gils' (2005) study, in which personal characteristics, knowledge and experience are three of the prime criteria in the selection of new MT members in SMEs. Moreover, most of these new members derive from the personal network of the CEO. The study of Flood et al. (2001, 18) indicates that in many organisations the TMT membership is often a *fait accompli* unless the new CEO decides to restructure the team. The existing team needs to find the gap between the actual and the potential MT, the correct fit depending on many factors, including the industry itself, the organisational goals, values and performance and the external environment. An effective CEO should diagnose the most appropriate 'fit' depending on the type of organisation in question, the external/internal environment and the business needs (Flood et al. 2001, 17-18).

McIntyre (1998, 3) sees membership of the team as a function of position rather than of selection. All team members have individual goals in respect of their departments, funds which



they use to achieve those goals, and personnel reporting to them, who are charged with accomplishing the desired results. The managers meet regularly in order to share information and to engage in joint decision-making in connection with activities within their area of responsibility. Between the team meetings, members may work together on the completion of shared projects or the resolution of common problems. Chandler and Hanks (1998) explain that most small businesses select their team members based on common interest as opposed to the unique functional diversity added by each team member. Team members who do not contribute unique functional diversity tend to drop out of teams within the first few years. Firm growth is enhanced both by the removal of team members failing to add distinctive skills and by the addition of others with particular functional skills (Chandler & Hanks 1998).

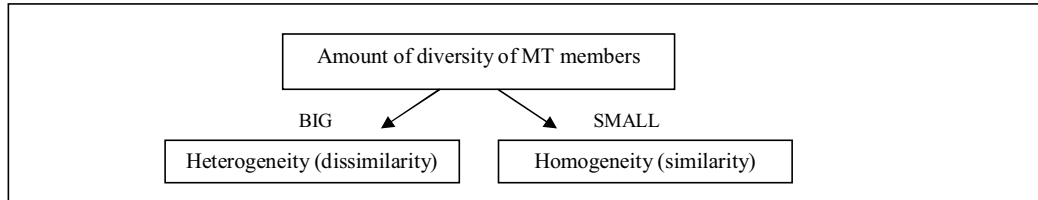
Fowler (1995) characterizes an effective team so that there is a common sense of purpose and a clear understanding of the team's objectives. The team also has to have all the necessary for the achievement of its objectives, together with the skills and know-how needed to deal effectively with the team's tasks. Belbin (1981) argues that successful teams consist of a blend of different individuals and of several types of team members. According to Hinds et al. (2000) there is a striving for predictability (e.g. competence in specific areas of expertise) in the choice of group members. If groups are formed through natural selection, the most common bases of member attraction are similarity, proximity and prior acquaintance (Ancona & Caldwell 1992; Gruenfeld et al. 1996). Finding that people prefer others similar to themselves is one of the most robust and reliable social psychological findings (Barsade et al. 2000, 805). According to Mello and Ruckes (2006) the leaders tend to form homogeneous groups if they are 1) at extremes of the scale, 2) very good or knowledgeable, or 3) incompetent or ignored. Leaders between these extremes benefit significantly from the input of less correlated information arrival, and therefore prefer heterogeneous groups (Mello & Ruckes 2006). A team leader can also change the composition of the team in case of a conflict or interest. Replacement can be harmful and can promote conformity, thus eliminating the benefits of heterogeneous teams (Mello & Ruckes 2006).

The benefit of shared experiences and knowledge can be found many aspects of group problem solving. First, shared knowledge allows more accurate diagnoses of problems. A group's ability to reach consensus about the problem is a key factor influencing the performance of TMTs (Rulke 1996; Dess 1987). Second, shared experience and knowledge of the particular capacities of individuals, can improve planning and coordination within the team. Familiarity allows team members both to identify the areas of individual expertise within the group, and to interact with each other smoothly in problem solving. Third, shared information can also facilitate team performance by facilitating the raising or retrieval of information in group discussion. The amount of shared knowledge and experience may vary, depending on the membership of the team. When team members are selected on the basis of their general competence and knowledge in multiple fields, they are more likely to possess shared knowledge amongst themselves than are those selected based on their specific functional expertise (Rulke 1996).

#### *Diversity in management teams: heterogeneity and homogeneity*

Diversity refers to dissimilarity among team members in terms of gender, personality, culture, functional and educational experience, ethnicity, race, etc. (Guzzo & Dickson 1996). Simons et al. (1999) see diversity as the extent to which a TMT is heterogeneous with respect to its members'

demographics and cognitions. Two aspects of diversity in a MT may be distinguished in terms of the degree of diversity (Figure 4).



**Figure 4: Diversity of MT members**

Team heterogeneity refers to the amount of diversity found within the MT (Pegels & Yang 2000). In a heterogeneous group the members have few characteristics in common (George & Jones 1999, 340) together with significantly different backgrounds and experiences. Examples of differences might be demographic characteristics, such as age or sex, social background, and professional development (Mello & Ruckes 2006). On the contrary, homogeneity refers to the similarity found within the MT (George & Jones 1999, 339).

There are several lines of research within diversity studies, such as cultural diversity, diversity in top teams and its effects in terms of organisational performance, and diversity in the sense of the interest in international or transnational teams (e.g. acquisitions) (Schruijer & Vansina 1997). Much of the research on team diversity has been conducted on lower level teams (Flood et al. 2001, 12). The major sources of diversity affecting groups in organisations can be distinguished in many different ways. For example Johnson and Johnson (2004, 456) and Levi (2001, 231) separate diversity into 1) demographic diversity (i.e. age, gender, culture, language), 2) personal or psychological diversity (i.e. personality, introversion, extroversion, values, beliefs, attitudes, lifestyles, opinions, commitments and styles of interaction) and 3) organisational diversity, i.e. abilities and skills, such as know-how, expertise, tenure, occupation, and status. Jarzabkowski and Searle (2004) use the classification into demographic diversity (i.e. the membership of the team), informational diversity (i.e. the team's knowledge: a wider pool of information, experience and networks), and behavioural diversity (i.e. different personality styles within a team). The diversity becomes salient only when it contributes to the group's ability to achieve its goals. Again, two types of member diversity can be distinguished: on the one hand, role-related (or job-related) diversity (e.g. occupation, organisational position, and specialized knowledge and skills) in which diversity is obvious, well accepted, and often deliberate; and on the other hand, person-related (or demographic) diversity (e.g. age, gender, nationality, cultural values, information processing style, and personality). In inherent dimension, the effects and conflicts are difficult for people to understand and accept (Maznevski 1994; Simons et al. 1999).

The research into TMT has produced conflicting results as between diversity and firm performance. A review of the literature suggests that diversity can either enhance firm performance (e.g. Smith et al. 1994; Bantel & Jackson 1989; Barsade et al. 2000; Farren & Maurer 1999; Miller et al. 1998; Krishnan et al. 1997) or reduce it (e.g. Ancona & Caldwell 1992; Murray 1989; Knight et al. 1999; Amason and Sapienza 1997). The former group proposes normatively that there should be diversity within a TMT in order to obtain more results and high quality decisions. Studies have generally found that the better a MT's background and experience provides it with the skills to handle a firm's situation, the better the firm performs (Cannella & Monroe 1997;

Lohrke et al. 1999). For example, according to Bantel and Jackson (1989) when solving complex, non-routine problems, groups are more effective when composed of individuals having a variety of skills, knowledge, abilities, and perspectives.

In contrast, researchers in the second group claim that diversity might result in fragmented understanding and disharmony because of the lack of common ground. People with similar backgrounds tend to view things similarly and may thereby miss opportunities. Even though heterogeneous teams might have more diverse information, their diversity may also impair collaboration, information sharing and joint decision-making. Thus, MT diversity reduces behavioural integration (Simsek et al. 2005; van Olffen & Boone 1997). A more moderate approach argues that group homogeneity is beneficial for routine problem solving while heterogeneity is more beneficial to unique problem solving.

The relationship between team diversity and outcomes remains unclear partly because there are numerous possible aspects of diversity which can be investigated: for example, West and Schwenk (1996) found no relationship between TMT diversity and performance. Furthermore, none of the demographic diversity measures in the work of Kilduff et al. (2000) were significantly correlated with the cognitive diversity measures. West and Meyer (1998) found powerful individuals in TMTs to have a significant impact on the nature of the consensus-performance relationship. The findings of Goodstein et al. (1994) suggest that diversity in boards may function as a significant constraint on strategic change. Simons et al. (1999) revealed that a team process may act as a moderator of TMT diversity effects, while Boone et al. (2004) showed that poor performance increases the overall likelihood of executive exit, with dissimilar managers tending to leave first. Issues relating to the entry, poor performance and high diversification caused teams to select likes.

Functional diversity in teams has presented a compound picture (Bunderson & Sutcliffe 2002). Studies have shown that functionally diverse teams can be more innovative (Bantel & Jackson 1989), can develop clearer strategies (Bantel 1993), and can respond more aggressively to competitive threats (Hambrick et al. 1996) than is the case with functionally homogeneous teams. On the other hand, because functional diversity is associated with differences of opinion and perspective, it may either stimulate (e.g. Knight et al. 1999; Pelled et al. 1999), or slow down competitive response (Hambrick et al. 1996), and may even endanger performance (Murray 1989; Simons et al. 1999). Team researchers have concluded that functional diversity is a double-edged sword, in that it has positive implications in some contexts but negative in others (Hambrick et al. 1996; Cho et al. 1994; Bunderson & Sutcliffe 2002).

Roure and Maidique (1986) discovered that the founders of successful firms had greater prior experience in working together, tended to form larger and more complete teams, and had more extensive experience in the function which they performed in the new venture. Firms benefit from more experienced managers who better understand what they might learn from cooperation (McGee et al. 1995). According to Eisenhardt and Schoonhoven (1990) past joint experience among the founding team is one factor which might accelerate decision-making. Such managers may have learned performance routines for rapid decision-making and may understand the idiosyncrasies and strengths of their colleagues to a greater extent than is the case in teams formed by strangers. Chandler and Hanks (1998) found that the unique functional diversity added by each team member is not a reason for the selection of team members in small business; on the contrary,

it is precisely common interest that governs selection. There are also many other studies concerning functional and background diversity (e.g. Carpenter & Fredrickson 2001; Michel & Hambrick 1992; Smith et al. 1994; Keck 1997; Keck & Tushman 1993; André 1995) that show that TMT diversity is positively correlated with firm performance (e.g. Murray 1989; Finkelstein & Hambrick 1990; Clark & Smith 2002).

Educational diversity in teams is a further area of significance, education being an indicator of broad knowledge (Clark & Smith 2002). Greater levels of education may be reflective of a desire for new learning and development (Bantel 1993) and of a willingness to grow and change (Finkelstein and Hambrick 1996). The connection between the education of the TMT and its innovation was found also by Bantel and Jackson (1989). According to Simons (1995) TMT diversity in the educational level is advantageous only when the team uses process which allows it to bring its diversity in open debate. In contrast, Boone et al. (2004) contended that the need for team diversity is higher under any of the following three circumstances: low performance, high diversification and tough competition. Complex strategies require a broader pool of managerial knowledge and capabilities than do relatively simple strategies. This also supports the finding of small group research, according to which compositional diversity enhances team performance if groups face complex and non-routine tasks (e.g. Pelled et al. 1999).

*Heterogeneity* is the degree to which members differ in one trait (trait heterogeneity) or in more than are (profile heterogeneity) dimension (Van Egeren 1994, 20; George & Jones 1999, 340). It is obvious that heterogeneity has both benefits and drawbacks (Hambrick et al. 1996; Smith et al. 1994). Three broad categories of heterogeneity can be identified (Ucbasaran et al. 2001): 1) demographic (Smith et al. 1994), 2) educational (Jackson et al. 1991), and 3) functional/skill heterogeneity (Ensley & Amason 1999). Studies exploring heterogeneity have generally tended to focus on the first of these as a proxy for cognitive characteristics (Hambrick & Mason 1984; Wiersema & Bantel 1992). Many demographic studies have used process arguments to explain the empirical relationships between heterogeneity of the TMT and organisational outcomes (e.g. Murray 1989; Wiersema & Bantel 1992). There is, however, some debate as to which demographic characteristics are representative of underlying cognitive processes, and TMTs in large firms have generally focused upon demographic measures (Ucbasaran et al. 2003; Pelled et al. 1999).

Previous TMT research has shown the beneficial results of the heterogeneous backgrounds of TMTs (Keck 1998). In many studies TMT heterogeneity in terms of age, education, academic major, functional background or expertise is positively correlated with firm performance (e.g. Murray 1989; Finkelstein & Hambrick 1990; Clark & Smith 2002; Wiersema & Bird 1993; Wagner et al. 1984; Jackson et al. 1991; Richard & Shelor 2002; Ferrier 2001; Greenberg et al. 1998) but there the challenge of collaboration still faces such a team. The underlying rationale is that diversity enhances the breadth of perspectives, the cognitive resources and the overall problem-solving capacity. Heterogeneous groups possess a greater variety of information sources than do homogeneous groups (Hambrick et al 1996; Van Egeren 1994, 25; Mello & Ruckes 2006). However, there are also studies in which TMT heterogeneity is found to have negative direct effects on venture performance (e.g. Ensley & Amason 1999) and on team performance (e.g. Eisenhardt et al. 1997; Maznevski 1994). Poorer performance in heterogeneous groups can occur because the differences among group member characteristics are positively related to differences in

their preferences. On the one hand, they lead to differences in personal characteristics, and on the other hand, differences in characteristics lead to correspondingly various interests (for example as with young vs. older employees). Moreover, dissimilar individuals experience greater difficulties in working together, since they lack common ground (Mello & Ruckes 2006; van Olffen & Boone 1997).

Firms with high TMT heterogeneity in social and demographic characteristics are likely to compete in a dynamic environment where diverse capabilities of top managers are required in order to outperform competitors (Michel & Hambrick 1992; Murray 1989; Pegels & Yang 2000). Similarly, firms with low TMT heterogeneity may show dominant presence in stable environments where group cohesion produces better results (Pegels & Yang 2000). Keck and Tushman's (1993) study found that the longer the period of stability in a team's environment, the less change in members, the greater the mean tenure and the greater the homogeneity.

Heterogeneous teams have been seen as a relatively strong predictor of team turnover rates (Jackson et al. 1991; Boone et al. 2004). Individuals are likely to leave teams when they are dissimilar to other members (Schrujier & Vansina 1997). The idea of this attraction-similarity-attrition model of Schneider (1987) is that similarity breeds attraction leading to biases in selection, while employees who feel dissimilar are the ones most likely to leave the organisation. Homogenization tendencies are likely to be more pronounced in heterogeneous groups: diversity among group members is more conspicuous, achievement of co-ordination is more difficult, and social influence are more strongly enacted (Schrujier & Vansina 1997; Stewart et al. 1999, 42-43; Schneider 1987). Heterogeneous teams have also been seen as more effective but less stable performers (Chandler & Hanks 1998; Murray 1989). Heterogeneity produces conflict which often yields more creative and higher quality decisions (Amason & Sapienza 1997) but on the other hand, heterogeneous teams may require greater coordination and monitoring (Smith et al. 1994) and may also lack consensus (Priem 1990). Furthermore, heterogeneous teams suffer more from process loss (e.g. suboptimal communication, conflict, and stereotyping), on account of inherent tensions between team members. While differences in functional backgrounds were found to have a positive impact on performance in related acquisitions (Krishnan 1993) no such relationship was identified in unrelated acquisitions. According to Murray (1989) the more heterogeneous the skills or the functional background of the TMT members the better the long-term performance. However, he specifies that team heterogeneity may lower performance in stable environments because the team would be less cohesive and would require more formal communication. Keck's (1998) study reveals that higher cultural heterogeneity will lead to lower performance in turbulence. Those diverse teams are extremely valuable to the firm, because any team representing a wide variety of different backgrounds delivers high potential for creative, innovative results.

*MT homogeneity* has both positive (team harmony and cohesion) and negative (strategic myopia, unfairness in promotion and difficulty of culture change) consequences (Berthon 1993) for example in strategy making (Cho et al. 1994; Priem 1990). According to Hendriks et al. (2002) the more similar are the TMT members with respect to functional background tenure and personality, the higher the observed returns on assets of the firm. More homogeneous groups have similar information sources, insights and skills at their disposal, reducing the risk of group conflict (Glunk & Heijltjes 2003). Homogeneous group members solve problems more rapidly and are more satisfied with their cooperation (Schrujier & Vansina 1997; Bantel & Jackson 1989; Keck 1998; Bow-

ers et al. 2000). They are also more likely to experience positive affect, smooth interaction, and strong commitment (Gruenfeld et al. 1996). In a turbulent industry the advantages of TMT heterogeneity would outweigh the disadvantages. Heterogeneous teams are effective but slow at creating and homogeneous teams are good at deciding (Hambrick et al. 1996).

There are several reasons why the mere presence of diversity may not translate into better decision-making. First, the underlying assumption is that TMT decision-making is a rational process, whereas studies of strategic decision-making show it to be heavily influenced by power and politics. For example, the CEO may play a decisive role. Second, for diversity there should be debate rather than merely decisions made by the CEO. Finally, affective conflict and negative affect in the team may prevent the full airing of strategic issues; personal animosity may cause some member to reject options (Kisfalvi & Pitcher 2003). There is evidence that team effectiveness is well-served by diverse members when teams perform cognitive, creativity-demanding tasks (Guzzo & Dickson 1996). However, the links between group diversity and employee perceptions are complex, and additional research needs to be carried out in order to understand how individuals react to groups with varying composition (Stewart et al. 1999, 44).

#### 2.1.2.2 Management team learning

Relatively little empirical research has addressed the factors which emphasise organisational learning and even fewer researchers have considered the contribution of the MT to the organisational learning process (Farrell et al. 2005). There are, however, exceptions, in which MTs have been examined from the viewpoint of learning. For example, according to Leuchter (1998) the most successful MTs can be found at firms which create such stimulating and adaptive career paths that take managers to a variety of positions; such firms also provide challenges which allow continued learning, and offer broad content as well as functional and geographic spans. They give managers the chance to experiment in a variety of positions, to face challenges which make for continuous learning, and to take on tasks which both have great content and span functional and geographic boundaries. Further, Bunderson and Sutcliffe (2002; 2003) stress the importance of learning, finding that it can have positive consequences for team effectiveness. They (2003) suggest that although a team learning orientation can encourage adaptive behaviours, leading to improved performance, it is also possible for teams to compromise performance by overemphasising learning, especially when they have been performing well. Virany et al. (1992) suggest that the executive succession can alter the knowledge, skills and interaction processes of the MT. It can thus function as an important mechanism for organisation learning and adaptation. Senge (1990, 10) indicates that teams are the base units of learning organisation and organisational techniques are embedded in the teams. Therefore it is the manner in which the business incorporates TMT to work together becomes a matter of importance (Wu et al. 2002).

Scholars have long recognised that exposure to individuals with different expertise, knowledge, and experience is a key source of both individual and collective learning. Interaction with dissimilar others promotes learning and innovation by exposing individuals to new paradigms and perspectives and by enabling the mix of ideas (Van der Vegt & Bunderson 2005). According to these authors moderate levels of expertise-diversity within a team make it more likely that members will utilize their various perspectives and that they will learn from one another. Consistent with this premise, past research in organisational settings has suggested that diverse MTs tend

to be more creative and innovative (e.g. Bantel & Jackson 1989; Wiersema & Bantel 1992; Jackson 1992). However, the findings have not been wholly consistent and there are also studies which does not support this view (e.g. Ancona & Caldwell 1992; Amason & Sapienza 1997; Murray 1989; Knight et al. 1999). Moreover it has been suggested that individuals are motivated to interact with members of their own categories (e.g. Amason 1996).

Team processes can be supported through the development of an internal dynamic which focuses on learning (Edmondson 1999). The creation of learning dynamic fundamentally shifts the assumptions made about errors so that they are seen as unintentional and potentially beneficial acts rather than in some way devious. Through creating environments in which members feel safe to air errors and mistakes, the MT can examine problems, determine more effective strategy-making processes, and so improve its strategic capacity (Jarzabkowski & Searle 2004). As teams are increasingly faced with fast-paced environments and complex demands, the team learning ability is likely to provide a critical strategic advantage (Edmondson 1999).

Those firms with a more extensive range of learning tend both to adopt participative decision-making modes and to perform better in innovation (Wu et al. 2002). TMT characteristics and compositions have a strong impact on organisational learning and innovation, which have been recognised as major factors in business performance. More heterogeneous MTs appear to achieve better results with innovation strategies than do less-heterogeneous teams (Lyon & Ferrier 2002). Argyris concludes, on the basis of his examination of learning in MTs, that the team may function quite well with routine issues, but when they are confronted with possibly embarrassing or threatening complex issues, the 'teamness' seems to evaporate (Senge 1990, 25).

Flood (1999, 24-25) claims that the tools of system thinking, one of Senge's five core disciplines, feature strongly in team learning. The discipline is crucial in MTs which deal with a variety of complex situations, in which the attention may be directed towards possible structures that support the learning organisation. In strategic visioning and policy analysis, the trouble with a MT is that conventional analysis tends to use language that seeks to analyse static, relatively simple situations. According to Flood (1999, 25-26) system thinking offers a language, in terms of systems archetypes, which helps individuals towards dealing with dynamic complexity. It is valuable for the bringing together of the mental models within a MT into a shared systemic language, and for the generating of team learning, understanding, and a shared sense of purpose.

### 2.1.2.3 Management teams and succession

There are few MT studies concerning succession<sup>5</sup> and its influence on firm performance. These relate mainly to the change of the CEO or other MT members, and to the influence of this change, for example on firm performance or to the changing characteristics of MTs in large firms. There is a lack of MT studies concerning succession from the viewpoint of family businesses or of SMEs (for example, cases in which a father leaves a firm to his offspring). Moreover, studies of past succession (when the founder-CEO is replaced) are rare (Wasserman 2003). It is those studies dealing with MT and succession issues which are presented next.

<sup>5</sup> In some MT studies the term 'succession' refers to the CEO, and 'turnover' to the top management, in other studies they have been used interchangeably.

Cromie et al. (1995) have studied the duration of MTs and found the periods to be longer in family firms than in non-family firms. This evidence suggests that family firms are usually associated with a more settled management structure (Westhead et al. 2001). Dyer (1989) has also examined family firms and their MTs. He claims that the three main reasons for professionalizing family firms through MTs are: 1) lack of management talent within the family, 2) changing the norms and values of business operations, and 3) developing management expertise in order to prepare for leadership succession. Previous MT studies have predominantly focused on succession in situations either where environments are changing, or when the organisation is experiencing decline in performance (Virany et al. 1992; Kesner & Dalton 1994), as opposed to those where an owner-manager retires and a successor from the same family takes the responsibility for the firm. However, these situations have some similarities.

Virany et al. (1992) argue that executive succession can fundamentally alter the knowledge, skills and interaction processes of the MT. These revised skills and communication processes improve the team's ability to recognise and act according to changing environmental conditions. Particularly in turbulent environments succession may be critical for improving the firm performance. Tushman and Rosenkopf (1996) found that CEO succession is positively associated with subsequent performance when the context is stable, but is negatively associated in turbulent contexts. MT change has significant effects on organisation adaptation in both contexts. High performing organisations demonstrate a greater tendency than do less successful firms to shift management characteristics over time through succession. Characteristics change over time as organisations evolve (Virany & Tushman 1986). Leibman et al. (1996) introduce succession planning as a relevant means of regenerating a firm's leadership, and claim that the most important goal is the development of strong MT for strategic tasks.

According to Wasserman (2003) past studies of CEO succession have focused either on large firms or on major sports teams whose leaders were not founders of the organisation. Thus, it is important to gain a clearer understanding of the founder-CEO succession in entrepreneurial firms. However, Wasserman (2003) also claims that there is good reason to believe that founder-CEO succession will differ from large-firm succession thus making rendering difficult any extrapolation from the existing literature on succession. Firstly, in those large firms the CEO succession of which has been studied, owners and managers compose two very different groups. The owners frequently lack the skills, specific knowledge, or time to manage the firm, and are thus forced them to appoint managers to do so. Secondly, founder-CEOs can differ markedly from later-stage professional CEOs. In contrast to people who join an organisation after its founding, the identity of organisational founders is tightly linked to the organisation. Thirdly, it has been found that outside successors make more changes, are more highly compensated, and achieve a higher inter-organisational status than do inside successors. In addition, firms are more likely to change strategy when they choose successors from outside the firm. Large firms usually turn to inside successors; in contrast, smaller firms and young firms more often turn to outsiders. Large firms also experience succession events more frequently than smaller firms. Finally, small firms are usually more focused, compete in fewer industries, and have simpler resources; they thus provide a more controlled setting for the study of a succession's antecedents and effects (Wasserman 2003). Past research has also indicated that founder-CEO succession may be the most critical succession event in the life of most firms.



#### 2.1.2.4 Management teams in SMEs

The research concerning MTs has been done predominantly in large firm settings, only a few empirical MT studies having been published within the SME domain (e.g. van Gils 2005; Ensley et al. 2002; Weinzimmer 1997; Reuber & Fischer 1997; Lester et al. 2002; Lubatkin et al. 2006). Moreover, comparison of the studies is not easy, on account of a lack of consistency in the definition of SMEs. For example, in the U.S., there are TMTs even in small firms, and the frame of SMEs often consists from 20 to 500 employees. According to Van Gils (2005) two thirds of the CEOs have created MTs in Dutch SMEs and almost half of the firms have adopted a supervisory board on account of the limited knowledge of the CEO. The research dealing with MTs in SMEs has emphasised the importance of team process variables such as cohesion and conflict in explaining performance (Nicholson & Cannon 2000; Ensley et al. 2002; Ensley & Pearson 2005). CEOs and TMT members combine their industry and functional knowledge in order to create the necessary firm know-how. In the findings of Thompson et al. (1996), research a key to growth seemed to be the quality and effectiveness of management within the SME. However, the smaller businesses seemed frequently to be in the early stages of top team development.

Storey (1994, 309-310) highlights firm growth as a prerequisite for survival in SMEs, and sees MT building as one of the four most important key elements of growing. Reuber and Fischer (1997) examined the relationship between management's international experience and the internationalization of SMEs. They claimed that although the traditional explanation is that firms can gain valuable knowledge and resources as they become older and larger, nevertheless small and young firms are not necessarily disadvantaged if other mechanisms are developed for the acquisition of the requisite knowledge and resources. They showed that experienced MTs have a greater propensity to develop foreign strategic partners, and are less likely to delay less in obtaining foreign sales after start-up. Much international research, as well as the upper echelons literature, supports systematic consideration of the role of the MT, as opposed to that of the single top decision maker, in influencing firms to internationalize. Studies have generally concluded that an international orientation provides a TMT with a greater ability to collect and interpret environmental information about export markets (Lohrke et al. 1999). Lohrke et al. (1999) found a relationship between a TMT's international orientation and small business export performance, performance depending on the export market and industry characteristics.

Weinzimmer (1997) has also studied the impact of TMTs on small-firm growth, since organisational growth is often used as an indicator of effectiveness for small businesses. He (1997) argues that in a case where a small business owner wishes to achieve growth, the firm should have a formalized TMT, because such an owner may have insufficient knowledge and skills for ensuring significant organisational growth. He found that some large firm TMT theory is also applicable to small-firm growth. Ghosh et al. (2001) examined the strategy dynamics and key success factors for high performance in SMEs, identifying a committed, supportive and strong MT as one of the few success factors. Lester et al. (2002) investigated the impact of the TMT on life cycles and performance in SMEs, and they concluded that the course of business could be changed through the efforts of the TMT (e.g. by deciding on a new direction for the business, by taking the appropriate steps to enact that direction, and by creating the conditions for a new business).

According to Lubatkin et al. (2006) organisational impediments tend to be minimized in SMEs, because the MT members are much closer to the firm's operating core than is the case in larger firms. Because SMEs have fewer hierarchical levels, their top managers are more likely to play both strategic and operational roles. Managers in SMEs not only ratify and direct their firm's strategy, as do their counterparts in larger firms, but also participate more directly in the day-to-day implementation of those strategies, as do the operating managers in larger firms. Consequently, the managers are closer to the firm's competencies and to the markets, and they are more aware of changing trends in customer demand (Lubatkin et al. 2006). Despite facing fewer organisational learning impediments, managers in SMEs will experience dissonance in attempting to reconcile contradictory knowledge demands, particularly because they are often expected to play both operating and strategic roles (Lubatkin et al. 2006).

#### 2.1.2.5 Management teams and firm performance

Although the interest in TMTs and their effect on organisational performance is not new, it has increased since Hambrick and Mason (1984) proposed the upper echelons theory. They (1984) argue that the TMT's influence on firm performance occurs in two ways: direct and indirect. As for the direct effect, longer tenured teams may have so much industrial experience that their response time to an arising strategic problem is condensed in comparison with that of a shorter tenured team. The more rapid response of the experienced team may make a greater contribution to the organisational performance. Indirect effects arise when the differences in team characteristics lead to a variety of strategic choices and consequently to different outcomes (van Olffen & Boone 1997). There is growing evidence that TMT group dynamics are directly related to firm performance (e.g. Peterson et al. 1998; 2003). Hambrick and Mason (1984) advanced altogether 21 propositions classified into seven categories relating to those TMT characteristics which explain organisational performance (i.e. age-related, functional experiences, corporate influences, education, socioeconomic background, stockholding, and group heterogeneity) (Hambrick & Mason 1984; Norburn & Birley 1988). Several studies on TMTs have confirmed the link between MTs and firm performance particularly in high-velocity conditions (e.g. Finkelstein & Hambrick 1990; Michel & Hambrick 1992; Hambrick & D'Aveni 1992; Eisenhardt & Schoonhoven 1990; Murray 1989). The associations between TMT demographic characteristics and firm performance have also been delineated (e.g. Finkelstein & Hambrick 1990; Halebian & Finkelstein 1993; Smith et al. 1994). Many other studies have also considered the relationship between the variety of viewpoints within MTs on the one hand and firm performance on the other (e.g. Gilley et al. 2002; Goll et al. 2001; Bantel 1993; Ensley et al. 2003; Carpenter 2002).

Keck (1997) recognised three main streams of research in the area of the relationship between the TMT and performance. The first research stream specifies processes within teams. Here two separate approaches: first, the social psychology tradition emphasises social integration and communications as key predictors of group performance (Smith et al. 1994), whilst the group theory tradition defines team processes by means of a focus upon task and maintenance functions. The second approach links team structure to team process. Smith et al. (1994) proposes three competing models of the effects of team structure on performance: the demography model based on the direct effects of team structure on firm performance; the process model, based on the direct effect of team process above and beyond the direct effect of team structure; and the model of team

process as intervening variables. The third research stream relates to TMT structure to environmental conditions such as uncertainty (Bantel 1993), high velocity (Eisenhardt 1989b; Eisenhardt & Schoonhoven 1990; Smith et al. 1994), turbulence (Haleblian & Finkelstein 1993; Keck & Tushman 1993; Murray 1989; Keck 1997), and munificence (Wiersema & Bantel 1993). The study of Handelberg and Vyakarnam (1999) draws on all these three streams.

Ensley et al. (2002) argue that cohesion is an important characteristic of successful new venture TMTs and suggest that it will lead to more effective teams and more successful firms. Because new ventures lack the legitimacy, precedent, and inertia of incumbents, the performance of the TMT is especially critical. Ensley et al. (2002) also found that TMT cohesion is positively related to new venture performance and growth, and strong linkages between TMT characteristics, TMT dynamics, and organisational performance were identified. Francis and Sandberg (2000) found that friendship facilitates the formation of MTs in new firms. Friendships under different circumstances may exert either positive or negative influences on turnover within the team.

In Virany and Tushman's (1986) research high performing firms recruited new top management with new skills which were appropriate to the evolving environment. Lower performing firms tended to make misguided executive recruitments. Moreover, commitment of the TMT to the strategies of the firm is important for success. Dess (1987) and Dess and Origer (1987) found positive relationships between TMT consensus variables (i.e. consensus on goals, competitive methods, and environmental perceptions) and firm performance. The study of Boone et al. (1998) explored the economic consequences of human variation by examining a key aspect of internal organisation the features of a firm's TMT in relation to organisational performance in a competitive context. Carpenter and Sanders (2002) found that the effect of CEO pay on future firm performance was dependent on top team pay. According to Schwenk (1993) CEO, TMT tenure, and firm experience are positively associated with self-serving attributes (taking credit for positive outcomes and laying blame on the environment for negative outcomes), which are, in turn, associated with lower subsequent financial performance. Politics within TMT, however, was associated with poor firm performance in Eisenhardt and Bourgeois's (1988) study.

Collins and Clark (2003) studied the black box between human resources practices and firm performance by mediated through TMT's social networks. The set of network-building human resource practices led to higher firm performance (sales growth and stock performance). Ensley and Pearce (2001) studied shared cognition in TMTs and concluded that the group processes leading to the development of shared strategic cognition are more important than the outcome of shared strategic cognition in terms of predicting organisational performance. Litz and Folker (2002) examined the relationship between MT gender-balance and small firm performance and found that a more balanced representation of both genders in the store management is significantly more likely to generate superior firm profitability. Similarly, Krishnan and Park's (2003) study showed a positive relationship between the proportion of women on TMTs and organisational performance.

Gilley et al. (2002) investigated the influence of TMT risk-taking propensities on firm performance and, in contrast to many other studies, found it to have a strong positive influence on firm performance. In addition, Gupta and Govindarajan (1984) found that risk taking has a significant positive influence on the effectiveness of strategy implementation for building subsidiaries, but has a negative influence on harvest subsidiaries. In Krishnan and Park's (1998) study, TMT

change had a positive effect on performance in down-sized firms. There was, however, no direct or curvilinear relationship between downsizing and organisational performance. Ensley et al. (2004) discovered that environmental dynamism has on the one hand a positive moderating effect on the relationship between transformational leadership and new venture performance, but on the other hand a negative moderating effect on the relationship between transactional leadership and new venture performance. The research of Lester et al. (2002) was designed to examine small businesses in order to determine whether different life cycles could be identified. They found that at each stage of the life cycle, firms rely on TMTs and on a chosen strategy for success. Priem (1994) found that chief executive judgment is important to both organisational alignment and firm performance. Appendix 3 summarises 37 quantitative and empirical studies on MTs in large and small firm setting in relation to effectiveness outcomes over the 15 years, from 1989 to 2004. The table demonstrates the authors, number of teams, industry sector, and core findings.

## 2.2 Learning

When studying MTs in managing succession in family business from the viewpoint of learning, the MT learning perspective forms the main theory around the subject. According to Sadler-Smith et al. (2000) there is a real need to focus on learning in smaller firms, as well as in family firms, since they are so crucial to regional and national economics and since most studies of organisational learning concentrate on large firms. Notable exceptions are those who have explicitly addressed learning from a small firm viewpoint (e.g. Sadler-Smith et al. 2000; 2001; Gibb 1997; Anderson & Boocock 2002). Literature on learning in the small business context is rare and those few studies concerning learning in SMEs have concentrated mainly on knowledge transfer and knowledge management (Isoniemi 2006, 2-3). However, learning is a multifaceted and broad phenomenon, and thus impossible to examine from all different lines of the literature. Based on the research problems of this study the relevant viewpoint for MT learning is team learning through communities of practice. Before presenting team learning and a CoP as a tool of MT learning, learning both in general and as a definition will be first discussed.

The history of the research into learning indicates that the concept has been understood and interpreted in various ways. The same term has been assigned a variety of meanings, depending upon the theoretical assumptions of the research (Mäkinen 2005). Indeed there has been scholarly argument over definitions of learning, and for many this lack of definition itself constitutes as a problem (Clegg et al. 2005). There are manifold theories of, and approaches to, learning and the whole field is diverse (Sfard 1998).

Learning has traditionally been the province of psychological theories and its examination is mainly based on the cognitive, behaviourist, and humanist research traditions. The cognitive approach has been discussed here first, and at greater length than the other research traditions, on account of its centrality to the viewpoint of this study (MT learning). The cognitive approach has been widely used in the examination of the behaviour and decision-making of appointed managers. It is also a view in which people are active learners and learn through their own characteristics, quite the opposite to behaviourism. Experiences affect an individual's personality and cognitions, at least to some extent, as a result of which his/her behaviour can be changed (e.g. Littunen 2000). In management studies the interest has been focussed upon the knowledge structure of decision

makers, i.e. how they can manage and utilize a large amount of information when solving problems and making decisions (Haynes & Allison 1994; Walsh 1995). On the one hand, knowledge structures created by individuals can make complicated subject-matter more controllable, but on the other hand, they can also restrict their thinking and perceptual ability in relation to other factors, such as environmental changes (Walsh 1995).

Learning being itself a cognitive process, the approach to and in cognitive learning has emphasised the mental character of learning. The cognitive approach focuses on the manner in which we process, store, and use information and how this information influences what we attend to, perceive, learn, remember, believe, and feel. According to the viewpoint of cognitive learning, interpretation and selection of information is consciously or subconsciously already made when a phenomenon is observed. This reception of information is guided by so-called internal models (schemes), and the interpretation of new information is based on previously learned knowledge. People use cognitive functions (such as remembering, planning and decision-making) in various actions or in problem solving (Haynes & Allison 1994; Moilanen 1996, 30; Salovaara 2004; Kolb 1984, 12; Wenger 1998a, 279; Rauste von Wright et al. 2003, 161). Individual differences in information processing have been referred to as cognitive style. Cognitive styles are concerned rather with the form than the content of activity and they refer to individual differences in how people think, solve problems, learn, and relate to others (Haynes & Allison 1994). Cognitive processes are only seldom rational because there is always a possibility of factual errors or false conclusions (Baron 1998). As a psychological event decision-making is a multi-phased process in which the final aim becomes clear piecemeal, and in which the decisions have often to be made based only on mental pictures (Raivola & Kampainen 1991, 29).

Behaviourism emphasises the observable phenomena in the behaviour, and this approach sees learning as conditioning. The connection between stimulus and reaction, and the intention to establish it is common to all behaviouristic theories (Moilanen 1996, 26; Salovaara 2004; Wenger 1998a, 279; Järvinen et al. 2002, 81). On the other hand, humanism sees an individual as an entity, as a creative, experimental and target-oriented learner. It emphasises the unique value of an individual, the personal experiences of the learner, interaction, and the social context of learning. According to humanistic theories the experiences of the learner have a central role in learning (Moilanen 1996, 35-36; Kolb 1984). Moreover, there are theories moving away from an exclusively psychological approach such as activity theories, socialization, and organisational theories (Wenger 1998a, 280).

There are numerous other learning theories or research approaches in the management literature such as CoP, experiential learning, project-based learning, network learning, learning histories, practice-based theory and so on. Wenger (1998a, 3-4) claims that each theory emphasises different aspects of learning, and is therefore useful for different purposes. The phenomenon of learning is approached from different viewpoints and distinguishing the most important aspects of learning is therefore difficult. There are, however, certain universal assumptions: it can be seen as an interactive process, in which the learner transforms his/her experiences so that there will be permanent changes in knowledge, skills and attitudes (Mäkinen 2005). According to Isoniemi (2006, 15), however, learning should not be seen only as the increase of knowledge, but also as new methods of acting and solving problems and as the cause of change in the individual's values. The giving of meaning becomes learning only when the individual later uses this interpretation as

a basis for his/her decisions or actions. Järvinen et al. (2002, 103) see learning as both an autonomous and a social process: it is autonomous, because every learner controls his/her actions and learning, and its social, because the learners learn from each other. It is the reflection on deeds and actions, together with as the sharing of experiences which are the essence (Järvinen et al. 2002, 103). However, it is noteworthy that although every experience is a possible learning experience, people do not learn from every experience: they can grow and develop as a result of learning experiences, remain unchanged or even learn wrong things (Isoniemi 2006, 15).

Sfard (1998) distinguishes between two viewpoints of learning: as acquisition of knowledge/information (storing of information), and as participation (i.e. in meaningful activities of some community). According to Wenger (1998a, 8) for organisations learning is an issue of sustaining the interconnected CoP, which an organisation knows what it knows and thus becomes effective and valuable as an organisation. In recent years the situational aspect of learning has been ever more emphasised: the process of learning always occurs in a situation, nothing is simply generally learned (Rauste - von Wright et al. 2003, 54; Lave & Wenger 1991). Thus, learning appears to be connected with the activity, context and culture in which knowledge is acquired and used. The recent research on learning has, on the other hand, particularly emphasised the meaning of social interaction in the planning of learning environments. The constructivist viewpoint in learning emphasises the aspect that an individual does not construct his/her inner world in a void but that profound learning requires social interaction and participation in the activities of the community (Häkkinen & Arvaja 2002, 218).

The aim of learning may be problem solving, exchanging experiences from different projects, sharing knowledge and information, development of skills and attitudes, management development, or organisational change (Bogenrieder & Nooteboom 2004), and each of these may be aimed at different levels. Learning is seen as an increasing preoccupation for everyone: for individuals, teams and organisations. On one level, people learn individually by adopting knowledge from others, i.e. knowledge sharing. On another level, people jointly develop knowledge that is new to an organisation (Bogenrieder & Nooteboom 2004; Kolb 1984, 2). In an organisational sense, individual learning occurs both at the team level and at the organisational level (Murray & Moses 2005). While individual learning concerns intuiting and interpreting, both learning activities feed into the group and the organisation (Murray & Moses 2005). Learning to adapt to new rules is becoming as critical as is performing well under the old rules. Organisations need new methods by which to renew and revitalize themselves and thus to forestall obsolescence for the organisation and its personnel (Kolb 1984, 3). Recent research suggests that learning also contains a feedback mechanism where institutionalised routines feed back to the individual and the team, so that knowledge is widely diffused. Organisational learning always involves individual learning because there can be no organisational learning without individual learning, whilst organisational learning requires skills for the initiation of learning on a collective level. The function of the team and of team learning is to annex the individual learning to organisational learning (Isoniemi 2006, 12, 14; Bogenrieder & Noteboom 2004; Murray & Moses 2005; Ojala 2000, 168). For example, individual learning is a prerequisite for MT learning because a MT is composed of individual managers. There seems to be, however, little agreement on the relationship between individual learning and collective learning in organisations, and on how the one translates into the other. Fur-

thermore, there appears to be little consensus about what a learning organisation is and what organisational learning means (Stewart 2001).

Organisations, teams and individuals need to engage in a continuous loop of learning to sustain ability and organisational transformation (Ng 2004; Murray & Moses 2005). People in organisations create learning routines which embody experiential learning behavior which is intuitively and experimentally driven that later becomes institutionalised reflecting an organisations schema (Murray & Moses 2005). Organisational learning is presented in the literature in two different ways: some discuss learning as an outcome (e.g. Levitt & March 1988, 320) and others focus on the process they define as learning (e.g. Argyris & Schön 1996). In learning organisation literature, learning has been seen as a process that unfolds over time and links it with knowledge acquisition, deeper understanding, and improved performance (Garvin 2000, 9). For example Kolb (1984, 38-41) claims that learning is a social process by which knowledge is created through the transformation of experience. For Argyris and Schön (1996, 20-21) learning involves the detection and correction of errors within organisational learning they distinguish single-loop and double-loop learning. By single-loop learning, i.e. adaptive learning, they understand instrumental learning which changes strategies of actions, or assumptions underlying strategies, in ways which leave the values of a theory of action unchanged. In other words, single-loop learning occurs when an organisation encounters a situation where the errors can be detected and corrected using its current systems, ideas and values.

An alternative response, double-loop (i.e. generative or reconstructive) learning, involves not only behavioural adaptation but also in deeper cognitive structures and questioning changes organisational norms and values. Double-loop learning occurs when an error is detected and corrected in ways that involve the modification of an organisation's underlying norms, policies and goals. It raises the learning mechanism of a firm from the operational to the strategic level. Both learning levels are needed in all organisations. Single-loop learning is suitable for the routines of every-day-life, whilst double-loop learning is required in complex and changing situations which also affect the future of the learning organisation (Argyris & Schön 1996, 20-21; Argyris 1993, 9; Hill 1996).

The interest in organisational learning stems from the premise that success in changing environments requires learning – recognising the need for change, evaluating new possibilities, and implementing new courses of action. Understanding the processes by which organisations learn, and the way in which these processes might be better managed, is a central concern in management research (Edmondson 2002). However, a number of criticisms may be levelled at the indiscriminate advocacy of organisational learning and learning organisations as being panaceas (Sadler-Smith et al. 2001). Firstly, the perspective is often normative, and presupposes some weakness in the organisation. Secondly, there are too few studies attempting to link learning with organisational capability and performance in an empirical fashion. Thirdly, there may be the tendency to see all learning as being of necessity beneficial. Learning can be as much a 'core rigidity' as a core competence. Finally, the emphasis with only a few exceptions has been on larger firms. In recent decades enormous number of studies has been conducted into organisational learning, but they all concern learning in large firms. However, it is difficult to transfer the learning experiences of a large company to SMEs, the structure, methods and resources of which are different. Despite this, similar phases and fields can be also observed in the learning of SMEs (Isoniemi 2006, 2).

An organisation may manage its own learning with the assistance of the learning of managers, with the support of social communities. The use of teams as described by Katzenbach and Smith (1993) creates a basis for the idea of task-conscious teams which are able to learn in organisations (Järvinen et al. 2002, 96). The formation of teams is, however, most difficult at the highest level of the managerial hierarchy (i.e. MTs), because managers are used to working alone. The fact that at the highest hierarchy level all managers have to be included in the core team may also present a problem, as teams cannot be formed purely on the basis of mutually complementary knowledge (Järvinen et al. 2002, 107). Because MTs only rarely extend to the performance level of teams (thus being groups rather than teams (Tihula & Pasanen 2006)), the CoP perspective is highlighted in this study as a main objective of the theoretical examination, and team learning is introduced only briefly.

### 2.2.1 *Team learning*

Learning from others may occur on either a one-to-one basis or within teams (Hendry et al. 1995, 159). Teamwork is prevalent in organisations, yet there are inevitable pitfalls such as groupthink, diffusion of responsibility, social loafing etc. Such negative factors have been widely studied (e.g. Janis 1982; Guerin 2003; Liden et al. 2004; Harvey et al. 2004) and it has been claimed, for example, by Adams et al. (2004), these may be overcome and team effectiveness improved when teams focus on learning. In the study of Adams et al. (2004), “Kolb Team Learning Experience”<sup>6</sup> is used by teams, learning is enhanced. Adams et al. (2004) see team learning as an essential process which facilitates not only team development, but in turn, the ability of a team to take action in the face of specific contextual demands.

As teamwork becomes more widespread in the workplace, greater emphasis is placed on team learning – the ability of individual team members to learn teamwork skills (Stevens & Campion 1994). It has been argued that there are team learning skills which may enhance collective learning, but research seems to have been concentrated on either the team learning processes, on stages in team learning and development, or on the team learning climate (Sadler-Smith et al. 2000). However, there is little evidence to be found in the literature of what might constitute these skills. Before a team can learn, it must become a team. Several models have been developed in order to outline the stages of team development (e.g. Tuckman 1965). Team learning is not, however, merely team building, but rather a team skill that can be learned (Senge 1990, 257). Moreover, recent research has been critical of the traditional team development process, because teams seldom focus on merely one type of decision-making activity, nor are they concerned only with abstract events. Rather, teams face multiple events, and a variety of task structures and conflicts: these account for potential changes in the team development (Murray & Moses 2005). The aim of team learning is to achieve alignment between the thoughts and energies of team members. Developing a common sense of direction creates resonance, so that the team achieves more than would the sum of the team members (Flood 1999, 24-25).

To date, team characteristics, team building and team structures have been the focus of research, but team learning has been underplayed in the literature. More recently, the interest of

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<sup>6</sup> which includes Kolb’s (1984) aspects of team learning: creating, planning, deciding, and acting, i.e. diverging, assimilating, converging, and accommodating



team learning has increased, owing to its centrality in the organisational learning process. An organisation learns through actions taking place between people within smaller groups or teams (Edmondson 2002; Murray & Moses 2005). The team setting promotes both formal learning (training events and educational experiences) and informal, because of the diverse knowledge and skills present in the group members (Hunsaker 2001, 288). Among the issues arising in connection with team learning are learning from failure (Hodkinson & Wright 2002), team development (Kayes et al. 2005), learning processes (Murray & Moses 2005), team learning in multinational organisations (Zellmer-Bruhn & Gibson 2006), multidisciplinary teams (van der Vegt & Bunderson 2005), team learning orientation (Bunderson & Sutcliffe 2003), experiential learning in teams (Kayes et al. 2005), and the role of team learning in organisational learning (Edmondson 2002).

Team learning is a process in which a team takes action, obtains and reflects upon feedback, and makes changes in order to adapt or to improve (Edmondson 2002). Team learning is vital because it is teams rather than individuals who are the fundamental learning unit in modern organisations (Senge 1990, 10). Team learning may empower people by aligning their thoughts and energies thus creating synergy in learning and on engagement in dialogue rather than in discussion<sup>7</sup> (Senge 1990, 10; Flood 1999, 67). Senge (1990, 10) sees team learning as being of greater importance than individual learning, since most decisions are made in subunits such as teams and divisions. Collective interpretation and clarification within a group or team facilitates shared understanding, which in turn brings about integration (Murray & Moses 2005). In addition, Edmondson (1999) predicts that teams which are successful at learning may attain a higher level of performance. In her study the team performance was significantly influenced by the extent to which the teams engaged in learning activities such as seeking feedback, discussing errors, reflecting, and experimenting. Edmondson's study further suggests that psychological safety (i.e. a shared belief in the value of the team and a climate of mutual support) enables team learning behaviour.

A team is a core unit of a learning organisation and it requires an intensive connection between its members. As a basis there are common goals and the climate of the team (Senge 1990, 10; Ojala 2000, 183-184). Teams or communities also provide an opportunity for individual learning, participation in teams being therefore a source of occupational development which the individual can seek out and utilize (Hendry et al. 1995, 159). Team learning is more complex than individual learning because it is dependent both on the capabilities of every team member and on annexation of all the capabilities, towards the attainment of the common goals (Vesalainen & Strömmer 1999, 113). Team learning requires that the team members have common goals and language, and that they can communicate, work and deal with the conflicts together.

In addition, team learning is affected by how well the team members know each other and how well they are able to share their know-how within the team. The know-how of the team is greater than the sum of that of members, and is dependent on the success with which the team is able to draw together its member's know-how so that the goals of the organisation will be attained (Senge 1990, 237-268; Ojala 2000, 184). In many cases, however, when the knowledge of the individuals fails to enter into the stream of distinctively organisational thought and action, organisa-

<sup>7</sup> According to Senge (1990, 10, 240-241) dialogue differs from the more common discussion (both of them are two primary types of discourse). In dialogue a group accesses a larger pool of common meaning (i.e. thinking together), which cannot be accessed individually, and a group explores complex issues from many viewpoints.

tions know actually less than do their members do. Even when teams learn effectively, team learning may not translate to organisational learning, i.e. groups often fail to communicate with others or are unable to adapt to new ways of working (Argyris & Schön 1996, 6; Edmondson 2002). Time pressures may also reduce a team's ability to share information and knowledge (Ensley et al. 2003).

Conversely, there are also situations in which an organisation seems to know more than its individual members: structures, procedures, and memories built into the fabric of the organisation may permit an organisation to perform well. According to Argyris and Schön (1996, 6-7) such considerations may suggest that organisational learning should be thought of in terms of 'organisational environments' within which individuals think and act. Senge (1990, 238) argues that team learning remains mysterious: until there is a clear theory which covers the actual process through which teams learn, it is not possible to distinguish group intelligence from that 'group think', in which individuals simply succumb to group pressures for conformity. According to Hendry et al. (1995, 178) teams provide for the collective learning of their members. Learning teams require practice fields, ways to practice together so that they can develop their collective learning skills (Senge 1990, 258). The second meaning of practice involves the actual performance of work activities. Teams from this standpoint are CoPs, drawing learning from the work that they carry out, it is the ability of people to learn in situations rather than away from the context of their jobs (Lave & Wenger 1991; Hendry et al. 1995, 178; Brown & Duguid 1991).

### 2.2.2 *Community of practice*

Because the community of practice (CoP) as a concept is closely related to collaborative learning, it will here be discussed briefly. Collaborative learning signifies learning in which all group members have a common task, and all attempt to build shared meanings and common understanding in interaction with other people (Salovaara 2004). Collaborative learning is based on the approach of humanist learning, and a number of particular learning theories and trends, including, for example, team learning, active learning, intentional learning, and organisational learning (Vesterinen 2001, 24-25; Järvinen et al. 2002, 92, 107). In the research literature the following synonyms have been utilised for the term 'collaborative learning': peer collaboration, coordinated learning, collective learning, and project-based learning (Vesterinen 2001, 24; Häkkinen & Arvaja 2002, 208). Theoretically the framework of collaborative learning rests upon Vygotskian and Neopiagetian views of the meaning of social interaction for learning. The first emphasises the learning of new things in a context of social interaction often between a more experienced actor and a beginner in which the beginner reaches a level which would remain unattainable alone. The latter emphasises the cognitive conflicts resulting from collaborative actions, the solving of which may lead to conceptual change. The significance of this, from the viewpoint of learning, is the notion that the individual has to reanalyse his/her structures of knowledge (Häkkinen & Arvaja 2002, 207-208).

The characteristics of collaborative learning are reciprocity, shared goals and meanings, shared activity and its evaluation, and the construction of a common understanding (Rauste-von Wright et al. 2003, 61; Eteläpelto & Tynjälä 2002, 208-210). A prerequisite for this is cognitive engagement with the task (i.e. a common task and goal), and the formation of a CoP. The participants require a common base of knowledge in order to be able to cooperate. It is very important

that the members of the group support each other, and that the communality is preserved throughout the task (Salovaara 2004). From the viewpoint of learning it is beneficial to have expertise which is partly overlapping but which still includes different aspects and areas of expertise (i.e. cognitive diversity) (Vesterinen 2001, 25; Häkkinen & Arvaja 2002, 212). The results of collaborative learning may lead to the discovery of unique solutions and new knowledge which would not have been available solely through the vertical distribution of tasks, and the individualization of the goals so frequently the case in simple in cooperation (Salovaara 2004).

The belief that learning thrives in communities is not novel, even though the term CoP is the proposal that learning takes place through participation in communities (i.e. shared activity) and that individuals come to embody the ideas, perspectives, prejudices, language, and practices of that community (Wenger 1998b; Wenger et al. 2002, 4-5; Fox 2000). However, a CoP comprises of a range of different approaches, and is thus an enormously varied and somewhat vague term. For example, Hodkinson and Hodkinson (2003) claim that “whatever it is that we belong to, can be called a CoP”. As a result of the proliferation of definitions, the term CoP has been applied to a range of groups, from project teams (Lindstaedt 1996) to functional departments (Sandusky 1997). It is this broad range of definitions which precludes the assignment of a specific character to a CoP. Thus there are many kinds of CoPs in the literature; both large and small, local and global, or long-term and short-term. A CoP may operate inside or between organisations, and it may be either formal or informal (Ardichvili et al. 2003; Wenger et al. 2002, 24-27; Handley et al. 2006). In addition to a caucus, a CoP may also consist of less active members (Wenger & Snyder 2000). Moreover, a CoP can be a group of professionals or frontline managers in addition to some other work group. According to many definitions CoPs are usually self-formed and are mutually accountable (Wenger et al. 2002, 5; Stewart & Brown 1996). They also evolve over time as new members join and others leave, and are thus not neither stable nor static entities (Roberts 2006). However, some definitions do not emphasise a shared responsibility, and they describe CoPs as being intentionally formed (McDermott 1999) or the membership of a CoP as being commanded (Wenger et al. 2002). Wenger (1998b) claims that membership in a CoP is based on participation rather than on official status.

A CoP may or may not have an explicit agenda (Wenger & Snyder 2000). Some CoPs develop “official” best practices, some create guidelines, others have large knowledge repositories, and still others simply meet to discuss common problems and solutions. Communities also connect in variety of ways. Some meet regularly face to face, others have conferences, and some share ideas virtually (McDermott 1999; Ardichvili et al. 2003). Common to these groups is, however, that they consist of those who (Wenger 1998a, 125-126; Wenger et al. 2002, 4-5): have a shared interest, are in interaction to deepen their knowledge and professionalism, share their expertise, learn together, create knowledge, and even share tacit knowledge. In addition, CoPs are connected by a common sense of purposes and a real need for mutually shared knowledge (Hildreth et al. 2000). CoPs are important to the functioning of any organisation, but they become crucial to those in which knowledge is recognized as a key asset. Knowledge is created, shared, organized, revised, and passed on within and among these communities (Wenger 1998b).

The term CoP was first used by Lave and Wenger (1991), in relation to situated learning in the context of an attempt to “rethink learning”. Situated learning takes place in everyday life, including work places. Brown and Duguid (1991) extended the notion of a CoP to an organisa-

tional context, as did Wenger (1998b), who then further extended the concept and applied more widely it to other contexts. A CoP offers a particularly helpful level of analysis for looking at work (Brown & Duguid 1991), learning (McDermott 1999; Hodkinson & Hodkinson 2003; Lindstaedt 1996), knowledge (Thompson 2005; Brown & Duguid 2001; Ferrán-Urdaneta 1999), and work identity formation (Brown & Duguid 2001). Among other issues approached through CoP may be listed virtual groups (Ardichvili et al. 2003), networking (McDermott 1999), learning groups (Bogenrieder & Nooteboom 2004), education design (Barrington 2006), organisational performance (Lesser & Storck 2001), and innovation (Hislop 2003).

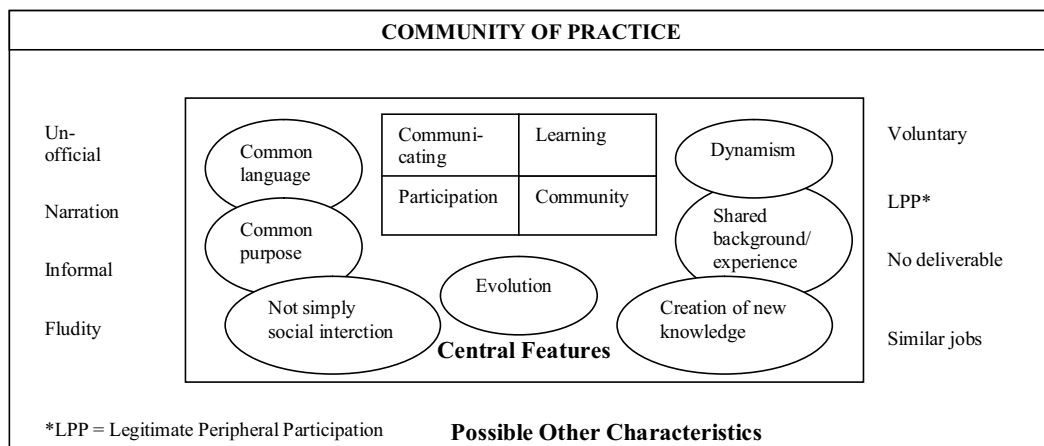
The most recent study has explored the CoP approach and its use from critical viewpoints (Roberts 2006; Fox 2000; Handley et al. 2006). A CoP was used to describe an activity system which includes individuals who are united not only in action but also in the meaning that action has both for them and for the larger collective (Ardichvili et al. 2003). Recent studies have shown that there may be communities within organisations, such communities possibly providing a competitive advantage to their organisations (Brown & Duguid 1991). However, a survey of the management literature still reveals limited research and novelty in the area. A CoP has only recently been introduced into business literature, and organisations remain in their infancy in the management of know-how (Ferrán-Urdaneta 1999; Wenger & Snyder 2000). Nevertheless, a CoP has become an important focus within organisational development, and generally, the research in the field of CoP is widely spread with the use of similar concepts such as learning community (Senge 1990) or community of purpose (Warren 1996).

The organisational development concept of CoPs refers to the process of social learning which occurs when people with a common interest in some subject or problem collaborate to share ideas, find solutions, and build innovations (Wenger 1998b; McDermott 1999; Wenger et al. 2002). They are networks or groups of people who work together in an organisation and who regularly share information and knowledge. Such people may be, but are not necessarily, part of formal teams or units. They often collaborate on particular projects or products, or occupy the same or similar posts. They have been described as peers in the execution of real work, who share both ideas and insights, and a set of problems, and who develop a common practice or approach to the field. While the term has become widespread, it actually stems from theories based on the idea of learning as social participation (Wenger et al. 2002, 7; Wenger 1998b; Lesser & Storck 2001; McDermott 1999). It has been observed that the creation and the support of CoPs is a strong alternative to team building (Nirenberg 1994/1995), particularly within the context of new product development (Stewart & Brown 1996; Ardichvili et al. 2003). CoPs are particularly useful in circumstances where cross-functional teams are the basic structure of the organisation. In such firms personnel has the closest contact with team colleagues from other disciplines. This increases coordination and knowledge sharing but can lead to isolation from peers in a given discipline or field (McDermott 1999). On the one hand CoPs are physically identifiable organisational groupings, with visible, structural components in the form of shared symbols, infrastructure, etc. Yet on the other hand, their actual operation seems to be more difficult to specify, consisting in practice as it does in the form of continued group identification and interaction of their members (Thompson 2005).

Thus, CoPs are groups of people bound together by shared expertise and interest. They constitute social collectives in which individuals working on similar problems self-organize to

mutual assistance and the sharing of perspectives on their work practice (Brown & Duguid 1991; Wenger 1998b). It has been argued that these groups can facilitate and accelerate organisational learning (Brown & Duguid 1991; Wenger 1998b). As people work together, they not only learn from doing, they develop a shared sense of what has to take place in order to complete the task, and develop a common way of thinking and talking about their work. Eventually they share an understanding of their identity and of the nature of their relationship to the larger organisation. Some of the most valuable and most innovative work-related learning occurs in these groups (Stamps 1997).

Stewart (1996) argues that CoPs display special characteristics: they emerge mostly of their own accord, they collaborate directly, they use one another as sounding boards, they teach each other, and they are among the most important structures of any organisation 'where thinking matters'. Moreover, most people belong to more than one CoP, and unlike a MT, not simply within the context of actual work. Wenger (1998b) claims that even when people work for large organisations, they learn through their participation in more specific communities made up of people with whom they interact on a regular basis. Some, who have recently joined a CoP, try to find their place in it. According to Brown and Duguid (2001) CoPs typically possess three primary characteristics: 1) participants possess shared knowledge, 2) the communities develop shared values and attitudes, and 3) the members of communities also possess a sense of collective/group identity. Hildreth et al. (1998) identified an earlier set of 15 characteristics from the literature (in Figure 5). Some of these seemed to be essential to the working of a CoP whereas others appeared to be present to a greater or lesser extent.



**Figure 5: Community of practice characteristics**

Wenger (1998a) suggests that high-quality knowledge and new ideas are transferred through communities even if these are not especially innovative. Belonging to a community and participating in its activities are significant for learning and for the development of intellectual skills. Whatever it may be which enables the belonging to esteemed communities is most strongly adopted. Wenger (1998a, 125-126) distinguishes a number of characteristics, which may assist in the identification of CoPs; among them are:

- sustained mutual relationships - harmonious or conflictual
- shared ways of engaging in doing things together
- the rapid flow of information and propagation of innovation
- very quick setup of a problem to be discussed
- substantial overlap in participants' descriptions of who belongs
- knowing what others know, what they can do, and how they can contribute to an enterprise
- mutually defining identities
- the ability to assess the appropriateness of action and products
- specific tools, representations, and other artefacts
- local lore, shared stories, inside jokes, knowing laughter
- jargon and shortcuts to communication as well as the ease of producing new ones
- certain styles recognised as displaying membership

Wenger (1998a, 72-73; 1998b) identifies a CoP as having three dimensions: 1) what it is about: its joint enterprise as understood and continually renegotiated by its members, 2) how it functions: the relationships of mutual engagement that bind members together into a social entity, and 3) the capability which it has produced: the shared repertoire of communal resources (e.g. routines, words, tools, ways of doing things, stories, actions etc.).

Despite the diversity of CoPs, some common structures may be found. The model of Wenger et al. (2002, 27-29) includes three basic elements common to all CoPs: domain, community, and practice. The domain of a CoP is the reason for its existence: it has an identity defined by a shared domain of interest, gathering people together, defining the relevant knowledge or skill, and building the frame of reference for learning. Membership implies a commitment to the domain, and therefore a shared competence which distinguishes members from others. The domain changes with the CoP. A CoP is not merely a location in which to share information: it is also a social learning environment (Wenger's (2002) second element). The members of a CoP bond by meeting and interacting. When the members know each other personally they know also who has vital knowledge. In order to function, the members of a CoP need regular interaction in order to discuss important matters of their particular field. An individual may be ordered to a CoP, but he/she alone decides the input. Additionally, managers outside a CoP may be needed for example, in the development phase of a CoP in order to offer resources and to create relations to organisations. The third element, practice, signifies the ways of acting which are jointly defined by the CoP, including also tacit and explicit knowledge (see Nonaka 1994). Practice may be seen as the CoP's own culture which defines the manner of behaviour (Wenger et al. 2002, 27-29).

Individuals in firms form CoPs for different reasons. For example when a firm reorganizes itself into a team-based structure, employees with functional expertise may create a CoP as a way of maintaining connections with peers. Typically a CoP is made up of core participants who provide intellectual and social leadership (Wenger & Snyder 2000). For several reasons CoPs seem to be useful organisational subsets for the examination of both organisational knowledge and identity. Firstly, they are privileged sites for a tight, effective loop of insight, problem identification, learning, and knowledge production. Secondly, CoPs are significant repositories for the development, maintenance, and reproduction of knowledge. The knowledge is not possessed equally by all, but shared differentially across the community as a whole, though it is made available to all. Joining such a community (known as legitimate peripheral participation), provides access to that community's identity. Thirdly, community knowledge is more than the sum of its parts. Finally,

organisational adaptability (i.e. environmental change) is to a significant degree determined by a CoP (Brown & Duguid 2001). CoPs have been identified as playing a critical role in the promotion of learning in organisations. They fulfil a number of functions with respect to the creation, accumulation, and diffusion of knowledge in an organisation (Wenger 1998b):

- They are nodes for the exchange and interpretation of information. Members having shared understanding, they can identify both which is relevant and to be communicated, and the most effective methods for the presentation of information. As a consequence, a CoP that spreads throughout an organisation is an ideal channel for moving information, such as best practices, tips, or feedback, across organisational boundaries.
- They can retain knowledge in “living” ways. Even when they routinise certain tasks and processes, they can do so in a manner that responds to local circumstances and thus is useful to practitioners. CoPs preserve those tacit aspects of knowledge (see Nonaka 1994) which formal systems are unable to capture. For this reason, they are ideal for the initiation of newcomers into a practice.
- They can steward competencies in order to maintain the organisation’s position at the cutting edge (by discussing novel ideas, working together on problems, and keeping up with developments inside and outside a firm).
- Having a sense of identity is a crucial aspect of learning in organisations (it serves to clarify those issues to which attention should be paid, those activities which require one’s participation, etc).

CoPs structure an organisation’s learning potential in two ways: through the knowledge they develop at their core and through interactions at their boundaries. As with any asset, these communities can become liabilities if their own expertise lapses into insular. It is therefore important to pay as much attention to the boundaries of CoPs as to their core, and to ensure that there is sufficient activity at these boundaries to renew learning (Wenger 1998b).

#### *Distinction between CoPs and teams, and the criticism of the CoP*

The distinction between CoPs and teams is two-fold. Some studies draw clear distinctions between CoPs and teams, whereas others see the differences rather as ostensible depending on the definition. McDermott (1998) claims that there are notable distinctions between CoPs and conventional units of organisation, such as teams and groups. Group theory in general perceives groups as canonical (formal), bounded entities which are always sanctioned and organised by a particular organisation and its tasks. In contrast, CoPs are often non-canonical and certainly not always recognised by the organisation (Brown and Duguid 1991). Fox (2000), however, sees some CoPs as canonical and others as non-canonical. According to McDermott (1999) team relationships are established when the organisation assigns people as team members, whereas, in contrast, community relationships are formed around practice. Similarly, authority relationships within the team are organisationally determined, whereas in a CoP they emerge through interaction around expertise. Teams have goals which are frequently established by those not on the team but communities are responsible only to their members. The purpose of a CoP is described as the building and exchanging of knowledge, and the development of the capabilities of the members. In contrast, the purpose of a team is to accomplish a given task. Teams rely on work and reporting processes that are organisationally defined whereas a CoP develops its own processes (Storck & Hill 2000; Wenger &

Snyder 2000). Moreover, team membership and structure are defined external to the team, whereas members of a CoP establish their legitimacy through interaction about their practice (Lesser & Storck 2001; Hildreth et al. 2000; McDermott 1998).

According to McDermott (1998) teams are tightly integrated units driven by deliverables, defined by managed tasks, and bound together by the members' collective commitment to the results. CoPs, on the other hand, are loosely knit groups driven by the value they provide to their members, defined by the opportunities to learn and share what they discover and bound by the sense of collective identity formed by the members. Unlike teams, CoPs rarely have a specific result to deliver to the organisation. The value which individuals derive from the community is typically that which maintains the involvement of members. If the heart of a team is a set of interdependent tasks leading to an objective, that of a CoP, on the other hand, is the knowledge which members share and develop. While teams often have clear boundaries and membership, CoPs have many partial, part-time, and marginal members (McDermott 1998; Wenger 1998b).

Teams progress by moving through a work plan, whereas communities develop by discovering new areas in which to share and develop knowledge. Team members gauge their contribution by the tasks for which they are responsible, community members by their interest and knowledge. Managing a team is a matter of the coordination of interdependent tasks whereas managing a community is a question of making connections between members and of keeping the topics of the community fresh and valuable (McDermott 1998). Ferrán-Urdaneta (1999) claims that some communities will try to satisfy all the needs of its members but most of them are neither independent nor self-sufficient.

In team-based organisations, CoPs are often the only forum in which members are able to receive feedback from knowledgeable peers. Praise from community members is often more meaningful than praise from team leaders. McDermott (1998) argues that teams are a stronger connection than CoPs as they place greater on people's time, commitment, and energy. Most CoPs remain as a unit because members find participation in them to be valuable. CoPs create the trust and understanding which allows people to share mistakes as well as accomplishments, and half-baked ideas as well as brilliant insights (McDermott 1998).

Despite its positive aspects, the CoP theory has been criticized. According to Hislop (2003) the majority of the studies examine the CoP viewpoint overly optimistically. Additionally, the CoP literature often concentrates more on the intercommunal dynamics and distribution of knowledge than on the dynamics between communities. According to Hislop (2003) it the CoP is to be a useful analytic tool, recognition of both its advantages and disadvantages is required. CoPs have been further criticised, as being liable to cause a degree of introversion and isolation, which in turn prevents communication and cooperation on the scale of the whole organisation (cf. group thinking). Hodkinson and Hodkinson (2003) claim that most of the CoP literature either defines the CoP too widely or neglects the perspective of the individual learner. Furthermore, the term 'community' implies, in its general English usage, spatial as well as social integration. In their view, Wenger (1998b) aggravates this paradox, since his tighter definition reinforces this stronger community meaning. Hodkinson and Hodkinson (2003) suggest that a CoP could be seen as being on occasional occurrence rather than ubiquitous; if so, the theorizing addressed here is applicable only in specific circumstances where such communities exist. The claim that a CoP is an intrinsic condition for learning has greater significance than any definition of a community. Moreover, a



CoP can be enormously varied and there is a lack either of a precise definition, or of clear identifiable boundaries. This is consistent with the view of Lave and Wenger (1991), that learning is relational. Furthermore, in some situations independent actions, and the adverting to matters of interest only to itself, may lead, to conflict between the goals of the CoP and those of the organisation, the actions of the CoP being then no longer useful for the organisation. In a community cohesion may also be over-emphasised, the consequences being excessive socialization, resistance towards change, or the prevention of cooperation with other groups. Even if the definition of a CoP emphasises solidarity, self-direction, and the lack of an official leader, also in self-directing communities an individual may arise to influence upon the actions of others by his/her opinions and behaviour.

Roberts (2006) and Fox (2000) offer wide-ranging criticism of the CoP approach. Firstly, power may be evident in terms of the degree of participation and thus members with full participation have a greater role in the negotiation. Power, however, is not taken into consideration in Lave and Wenger's (1991) case studies of CoPs. Secondly, a low level of trust and strong hierarchical control may fail to support an effective CoP<sup>8</sup>. Moreover, competition between workers is likely to discourage the collaborative efforts required for the establishment and maintenance of a CoP. Thus, a CoP may fit better to harmonious and trusting environments rather than elsewhere. Thirdly, CoP theory provides no insights into how, in practice, members change their behaviour or innovate. Fourthly, literature uses the same term for a CoP whether its size is only a few members or 1,500, or whether a CoP acts locally or virtually; in both of which cases there may be a significant difference between CoPs. Fifthly, a CoP as a tool of knowledge management is likely to be more successful in those nations having a strong community spirit. In relation to Hofstede's study of national culture, it would be expected that a nation characterized by collectivism might find a CoP to be a more effective strategy than those characterized by individualism. Finally, both a strength and a weakness of the CoP approach is that it can be applied in a wide range of organisational settings, its weakness being that it may encourage inappropriate application. Also, the relevance of a CoP for SMEs has been criticized because of their lack of resources to cultivate a CoP (Roberts 2006; Fox 2000).

It is questionable whether MTs can be considered as teams or as CoPs. MTs may function in a team-like manner, although they do not necessarily extend to the performance level of teams. MTs can also be seen as CoPs even though they do not fulfil all the features of a CoP. There is a lack of studies examining MTs as CoPs, but similar ideas of social interaction among MT members have been introduced recently in connection with behavioural integration.

### *Behavioural integration*

Behavioural integration is a relatively recent and as yet little-studied phenomenon in TMT literature (Simsek et al. 2005). It appears to be a type of CoP in the TMT context, and hence is briefly treated herein. A behaviourally integrated TMT acts as a forum in which managers can openly and freely exchange contradictory knowledge, resolve conflicts, and create shared perceptions (Lubatkin et al. 2006). Hambrick (1997) was the first to argue that teams require both cohesion and a collective vision which he labelled as behavioural integration. It refers to the extent to which the MT engages in mutual and collective interaction (Hambrick 1998). When both cohesion and a

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<sup>8</sup> In the case of SMEs this may not be a problem because of a low organizational structure.

collective vision are present in the team it is acting in a collaborative fashion (the social dimension), sharing information and making joint decisions (i.e. high degree of teamness) (Ensley et al. 2003; Simsek et al. 2005; Lubatkin et al. 2006; Hambrick 1998). Hambrick (1998) noted that behavioural integration enables the TMT to combine knowledge in ways that can open up new insights and create competencies regarding the firm's strategic options. Divergent knowledge sharing also promotes the discovery of new opportunities (Lubatkin et al. 2006).

According to Nonaka (1994) although ideas are formed in the minds of individuals, interaction plays a critical role in the development of ideas and it is through the "community of interaction that new organisational knowledge is developed" (Lubatkin 2006). At the individual level of analysis, tacit knowledge is transmitted through direct participation in relevant decisions and actions (Lave & Wenger 1991) and it is therefore to be expected that teams with a higher degree of behavioural integration will have a correspondingly greater capacity for utilizing the tacit knowledge acquired by individual team members (Reuber & Fischer 2002).

Behaviourally integrated TMTs in SMEs are better able to manage the contradictory knowledge processes, i.e., by synchronizing the social and task dimensions. A behaviourally integrated TMT can promote both a more diverse and a deeper understanding, and a more effective use of the team's existing explicit knowledge base (Lubatkin et al. 2006). Reuber and Fischer (2002) argue that the behavioural integration of a firm's MT is expected to have consequences upon the manner in which small firms deal with the demands of information processing. CEOs of small firms can increase the behavioural integration of the MT by ensuring that the managers responsible interact regularly with other top managers despite their usually hectic schedules (Reuber & Fischer 2002). In a TMT, the extent to which people like to group is irrelevant; what matters is the degree to which they act and process information collectively (Hambrick 1997).

### 2.3 Family-owned SMEs: context of the study

Since most family firms can be categorized as small or medium-sized (Corbetta & Montemerlo 1999) they thus form a significant segment of the SME sector; hence SMEs will be discussed first in this chapter. Almost all small firms are family firms although there are also large family firms; over 30 family businesses are listed on the Helsinki Stock Exchange and family businesses account for one fifth of the TOP 500 firms. According to alternative estimates 86 % of Finnish firms are family firms. Approximately 99.8 % of all Finnish firms are small and medium-sized, and collectively they employ about 800.000 people of which 75 % (i.e. 600.000 people) work in family firms. Thus, the proportion of family firms in Finnish SMEs is high. The combined gross domestic product (GDP) of family businesses is almost half of Finland's GDP. However, no government agency has statistics tailored to family business and, therefore full lists of family businesses are unavailable (Finnish Family Firms Association 2006; 2004; Perheyritystyöryhmä 2005, 20; Litunen & Hyrsky 2000).

### 2.3.1 *Small and medium-sized enterprises*

SMEs are considerable not only in terms of number, but also in their role in the economy world-wide. SMEs represent a vital component of the economics of most nations. In the United States<sup>9</sup> alone, SMEs are the most common form of business organisations generating about 70 per cent of all jobs (Lubatkin et al. 2006). Although this fact has been recognised, much management theory continues to emphasise large firms. However, the economic significance of these latter has declined, whereas that of SMEs has increased (Hendry et al. 1995, 2). Research into SMEs has increased substantially during the last decade. Numerous studies have dealt with, for example, SME performance (Pasanen 2003; Ingram & McDonnell 1996; Watson et al. 2000), success and failure (Jennings & Beaver 1997; Ghosh et al. 2001; Lehler & Gemuenden 1999), and firm growth and development (Storey 1994; Pasanen 2003; Wiklund 1998; Gibb & Davies 1990). The issue of SMEs is of crucial importance in Finland because more than 99 per cent of all firms in the country are SMEs. Their importance in terms of employment (i.e. maintaining existing jobs and creating new ones), of technological innovation and of provided turnover makes the case for the small business context highly significant. Indeed, SMEs are also being viewed as the engine of economic growth (Wiklund 1998, 1; Peel & Bridge 1998; Heinonen 2000, 11).

SMEs are likely to be operating in a single market and 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 in larger firms. Issues of competitive strategies are especially important for the small firm, and decisions on this matter are likely to be strongly influenced by the experience of those running the business. Small firm characteristics are often related to limited managerial, financial and physical resources: SMEs lack both the necessary staff and the time to engage in strategic planning or marketing, and focus rather upon operational aspects geared primarily to survival on a day-to-day basis. A small firm works under the limitations in three areas: their impact on markets, on finance and on physical resources. In SMEs the resources, stewardship and control offered by directors may be very different and more direct than that in large firms and SMEs face many problems. For example, the worst obstacles to the development of SMEs are tight competition, the general state of international affairs, and the availability of a professional workforce and resource factors (e.g. raw materials). In small firms the values and expectations of executives who may be in an ownership position are likely to be very influential. Even when the current management is not formed by owners, the values and expectations of the founders may still linger on (Johnson & Scholes 2002, 26; Bennett & Robson 2004; Federation of Finnish Enterprises 2005). Moreover, SMEs have a need to develop the education and development of the employees. The firm size obviously determines the behaviour of a SME. The theoretical arguments for size as an explanatory factor are that the number of employees is the most usual indicator of size, with the addition of the level of turnover, capital and investments. SMEs often comprise personnel who are solely from one family. A firm with 20 employees functions in a more indirect manner, but there is still eye-to-eye contact (Boter & Holmquist 1997, 165; Hill & Wright 2001; Federation of Finnish Enterprises 2005).

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<sup>9</sup> It is worth considering, however, that the definition of SME differs by countries.

Studies examining smaller businesses highlight the advantages of such firms, particularly in terms of flexibility. These firms manage to adapt extremely rapidly to a changing environment because of their simple structure (Messegheem 2003). Environment scanning is a key factor in the sustained competitive advantage of the firm, and is becoming increasingly important both in SME theory and practice (Analoui & Karami 2002). A well-developed and vibrant SME sector will also be an important source of innovation, since teams often provide a learning advantage in SME situations which larger firms cannot so easily create (Hendry et al. 1995, 1996). Most new firms begin in the SME sector and they can also be a breeding ground for new products and services. The SME sector is a source of strength for the economy as a whole. Since it can offer a wide range of goods and services, larger firms will in turn always have a choice of supplies and markets. This means that the economy will have the necessary flexibility to cope with fluctuations (National Competitiveness Council 1998; Hendry et al. 1995, 4-5).

### *SME performance*

Most investigation of SME performance is carried out in the large firm context and has been focused on new ventures. According to Porter (1991) performance is the result of achieving organisational objectives, a yardstick of success. He asserts that the basis of an above-average performance in the long run is sustainable competitive advantage. The ideal position is achieved by raising barriers which make a firm's strategy difficult to imitate, primarily by differentiating its product or service so that it is perceived industry-wide as being unique (Ingram & McDonnell 1996). Profitability is usually regarded as being the crucial measure of organisational success (Kjellman et al. 2004, 14). However, there is no single unambiguous measure to describe organisational performance. The three most commonly used measures of economic performance are profitability, growth and financial position (Tainio et al. 1991). Survival can also be a sufficient measure of performance (e.g. Pasanen 2003; Kjellman 1997).

Measures of performance frequently aim at the short-term operational (usually financial) objectives, rather than at the longer-term strategic goals of the business. In assessing performance it is possible to measure outcomes (e.g. growth, profitability) or the means of achieving those outcomes (e.g. quality, flexibility, resource utilization). Generally, performance outcomes are measured by such hard data as productivity and profit, but it is often necessary to use soft, subjective measures such as attitudes, behaviour, customer satisfaction or innovation as an evaluation of performance. Additionally, job satisfaction raises a question of whether it is appropriate to take into consideration the quality of working life of individual SME owner-operators in the assessment of performance (Watson et al. 2000; Ingram & McDonnell 1996). Murphy et al. (1996) claim that firm performance comprises multiple dimensions, all worthy of consideration. Watson et al. (2000) argue that the goal-based approach to measuring organisational effectiveness might be particularly appropriate for SMEs, where goals of the firm and of the owner are generally one and the same. This approach suggests that an organisation may be evaluated by the goals which it sets for itself.

Discussion in management studies is often focused upon the degree of emphasis which should be placed on environmental factors on the one hand, and on the process of management an organisation on the other (Kjellman et al. 2004, 15). Both these influence organisational perform-

ance, and this may be approached from several perspectives, e.g. from the internal (firm) or the external (environment) viewpoint. Strategic management explains the theory from the former and population ecology from the latter point of view. Latter studies have seen firm performance as a result of the interaction of leadership style and situational favourableness, i.e. firm context (Antoine 2004; Hannan & Freeman 1977; Amit et al. 1993, 823), or, briefly expressed, as a match between the firm and its environment (e.g. Johnson & Scholes 2002).

Firm performance refers to the firm's success in the market, a factor which may have different outcomes (Pasanen 2003, 25). Success (e.g. continuity of operation) relates to a favorable outcome of a firm and the achievement of goals and objectives. Success (and failure e.g. the ceasing of operations) may also be interpreted as measures of good or indifferent management. Many variables seem to be associated with firm success and failure (Pasanen 2003, 25; Jennings and Beaver 1997). The success of a firm is frequently an unmentioned goal in studies, and it almost appears to be an underlying but unexpressed assumption in business literature.

According to Simon (1996, 12) success depends upon goals and if the goals are achieved, firm is successful. However, Porter (1991) points out that there is no universally accepted definition of success, and it may even depend upon the time frame: SME performance can be approached either as a short or as a long-term phenomenon. Even high economic output over a single year may be interpreted as success, but typically longevity (long-term survival) is most used (Simon 1996, 12; Pasanen 2003, 25). Multiple factors can affect the success of a SME, not all of which are even recognized. Additionally, for every firm there are certain specific critical success factors. However, accumulating evidence suggests that a MT can exert a significant effect upon firm success (e.g. Vyakarnam et al. 1999; Jennings & Beaver 1997; Timmons 1999, 277). For example, Ghosh et al. (2001) claim that there are a few key success factors, which are universal to successful SMEs: a committed, supportive, and strong MT was argued to be among the most critical. According to Westhead et al. (1995), firms with a diverse range of management skills and competencies, i.e. a large number of management functions covered by individuals in the MT, have a significantly greater propensity to survive. A MT is often the crucial determining factor in a firm's development (Christopher 2000). There is also a strong connection between on the one hand the growth potential of a new firm (and its ability to attract capital beyond the founder's resources from private and venture capital backers), and , on the other hand, the quality of its MT (Timmons 1999, 277). Empirical studies have also shown that firms founded by teams are, on average, more successful than those founded by individuals (Lehler & Gemuenden 1999). However, taking into consideration only a single factor may not be sufficient: many factors must simultaneously be taken into consideration, since SME success is a multidimensional phenomenon (Pasanen 2003, 229).

There seems to be no such accepted method for the measurement of SME performance as that, based on economic factors, which is routinely used for large firms (Watson et al. 2000). Murphy et al. (1996) suggested that accurate performance measurement is critical to understanding new venture and small business success and failure; however, little is understood about the dynamics of SMEs at the level of the individual firm, and many of the reasons given for entering the small business are non-financial in nature (Watson et al. 2000). Buttner and Moore (1997) note that entrepreneurs measure success in terms of self-fulfilment and goal achievement. Kuratko et al. (1997) also argue that entrepreneurial success should not be solely measured in financial terms,

whilst Cooper (1993) points out challenges arise because many SME owners pursue personal goals, some of which are non-economic.

SME success depends both on internal factors (e.g. the background of the entrepreneur and strategic choices of the firm) and on external (e.g. environmental factors and rivalry) (Pasanen 1999, 27). It is obvious that opportunities enjoyed by either the entrepreneurs or the firm, to affect the SME success, fall under the heading of the internal perspective. Nevertheless, environments have an effect upon firm performance and success in many ways, either directly or indirectly, and the environment may play a more significant role for small firms than for larger. SMEs are more vulnerable to changes in the environment than are large firms on account of the limited resources and capabilities of the SMEs, and because social support is mostly granted to the large firms (Pasanen 2003). According to Wiklund (1998, 240-241) the following factors enhance SME performance: capital availability, a perception of being larger than the competitors within a specific market niche, MT size (well performing SMEs have larger MTs), entrepreneurial strategic orientation, aiming for growing market niches, the firm's perceived environment, a striving for sales growth, and creative and strategy-focused entrepreneurs.

### *Growth*

Previous studies suggest a close connection between growth and SME performance (e.g. Wiklund 1998, 3) and perceive growth as an appropriate survival strategy for SMEs (e.g. Storey 1994; Brush & Vanderwerf 1992; Chandler & Hanks 1993). However, there is no comprehensive theory which can adequately explain either small business growth or the manner in which this growth takes place (Gibb & Davies 1990). This is partly because of the heterogeneity existing in the various types of SMEs, but also on account of the range of factors which can affect growth, which may interact in certain circumstances. Thus, while it may be possible to identify key success factors affecting the growth of SMEs, it is unlikely that a comprehensive model with predictive capacity will emerge (Smallbone et al. 1995).

Growth may bring the firm new business opportunities, and a larger size enhances its credibility in the market. However, rather than profit maximization or growth, a firm's primary goal may be, for example, the entrepreneur's independence; alternatively there may be no resources for growth. There are basically two broad approaches in the studies of small firm success: those relating to growth and survival (Gibb & Davies 1990; Smallbone et al. 1995). The growth objectives are usually bound up with the owner-manager's personal goals (Gibb & Davies 1990; Jennings & Beaver 1997). More important than ensuring the growth of business may often be the securing of its continuity. For example in 2002 only 15 per cent of Finnish SMEs actively decided to increase their business growth (Euroopan komissio 2002, 6). Thus phenomenon has also been remarked at the international level, for example in GEM studies examining entrepreneurial activity since 1999. According to these, only one tenth of new entrepreneurs believe that the increase in the number of their employees will reach the figured 20 within five years. In Finland, only some 5 per cent of entrepreneurs reach this figure (Autio 2005, 23-27).

Pasanen's (2003) study of the growth of SMEs in Eastern Finland showed, however, that 51 per cent are 'strongly growing' or 'growing as far as possible' (the national rate is 57%) (Federation of Finnish Enterprises 2005). Pasanen noted that growth related mainly to firm-internal

factors, of which the most important ones involved the expansion of markets, and investments in marketing and production. Literature in the field of small business development and growth emphasises both the entrepreneur's ability and motivation to develop and to gain resources, and the skills needed to be able to develop within growth stages. Although the entrepreneur's ability to build a strong and effective team has been found to be one of the key issues of growth, very few studies examine the formation or composition of the entrepreneurial team. In every case, growth firms require teamwork and professional management (Vyakarnam et al. 1999).

### *Small business in change*

Over the years, the nature and scope of small business has gradually changed. Rapid reactions, together with preparation for and adaptation to change have become essential. Firms operate in turbulent and dynamic environments, and constant changes force them to adapt. The ability to learn, to undergo transformations and to change is considered a critical success factor for a firm (Isoniemi 2006, 2).

Ramström (2004) elucidates some of these changes. First, there is a strong shift in the direction of the work of the small firms, from production to a service orientation. Nevertheless, the focus in debate and research still seems to be on production units. Second, small business seems to transfer its location from rural regions to cities, where many of the customers of service firms may be found. Clusters often seem to have their origin in the city areas. Third, the archetype for the small business firm has been the family-owned firm, but other patterns of ownership and leadership have been developed: the ownership may be spread among the employees, or, at least partially, transferred to a chain of firms or to a dominant mother company. Firms may also take new forms, e.g. by hiring a manager, or by expanding the size and the role of the firm board, the independent members of which may have a considerable influence on firm development. Fourth, large and small businesses are intertwined in networks, whereas the small firms may act as subcontractors. Finally, many SME managers may come together to form a chain of firms, where they may take advantages, for example, of common deliveries. Larger firms also tend to outsource parts of their activities to minor firms.

In Finland, a great number of successions of SMEs and changes of firm ownership will take place in the near future. In the last five years 16 per cent of Finnish SMEs have already executed succession, and it is also expected that there will be a succession in every sixth SME in the next five years. With these, it is expected that problems will arise, particularly in the finding of a successor, in the estimation of the value of the firms, and in meeting the costs caused by the succession. It is also expected that acquisitions will increase among Finnish SMEs (Federation of Finnish Enterprises 2005).

### 2.3.2 *Family business*

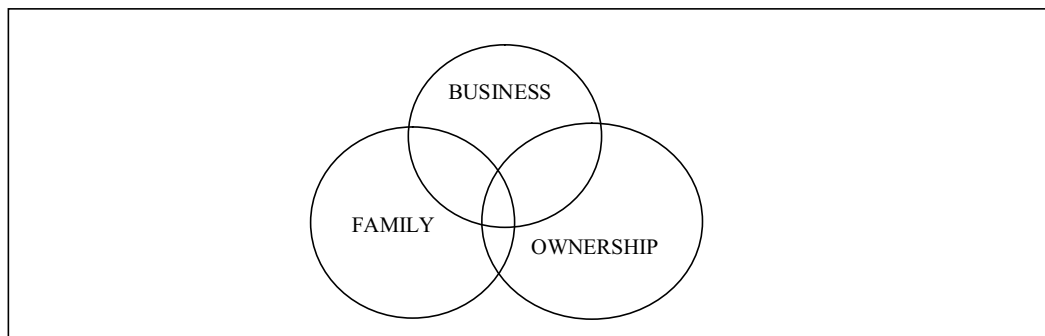
Family business is a relatively new field, but business research has attracted increased attention recently. Comparison of research results is, however, problematic because there is no coherent definition of a family business. This may be due to the incomplete consensus of a young research field, but also owing to the range of elements (provided by Neubauer and Lank 1998, 5-6) affect-

ing the varying definitions (Table 4). Moreover, the homogeneity of these firms can be questioned because every family business has its own particular history, culture and idiosyncrasy. Thus, for example Koironen (2000, 47-51) classifies family businesses according to the size, the age and the operations of the firm together with the age of the controlling owner. However, typical of all family business is the unification of firm, ownership and business. Even though family business can be observed from a variety of viewpoints, the central element (in addition to the above three factors) is the continuity of the business, i.e. there is a conscious intent to transfer (leadership and control of the firm) to the next generation owner (Koironen 2000, 18; Perheyritystyöryhmä 2005, 29; Kelly et al. 2000). For example, for Neubauer and Lank (1998, 8), a family business is a proprietorship, partnership, corporation or any form of business association where the voting control is in the hands of a given family.

**Table 4: The list of elements affecting the varying definitions**

- the percentage of share capital owned by a family
- employment of owning family in executive or other positions
- the existence of non-family managers or employees
- the extent to which the intention is to maintain family involvement in the future
- the number of generations of the owning family involved in the business
- the number of families involved in either management and/or ownership
- whether a given family accepts that it controls its own firm
- whether non-family employees accept that it is a family firm
- whether direct descendants of the founder have management and/or ownership control
- the size of the firm, particularly the number of employees

Many definitions of a family business emphasise the interaction between the family (family system) and the business (business system), which makes the family visible in a family business. It is this interaction which defines the basic nature and the uniqueness of the family business. This operational interaction has been recently considered focal in the aim to understand family businesses and family entrepreneurship (Heinonen & Stenholm 2005, 12-13). Tagiuri and Davis (1996) presented the three-circle-model comprising separate areas with a strong interaction between them (Figure 6: theoretical modelling of the interaction between family, business and ownership by Tagiuri & Davis 1996, 200). The model describes well both the complex nature of family entrepreneurship and the many competing objectives of family businesses and their owners (Habbershon et al. 2003; Koironen 2000, 35-40; Tagiuri & Davis 1996; Römer-Paakkanen 2004, 25).



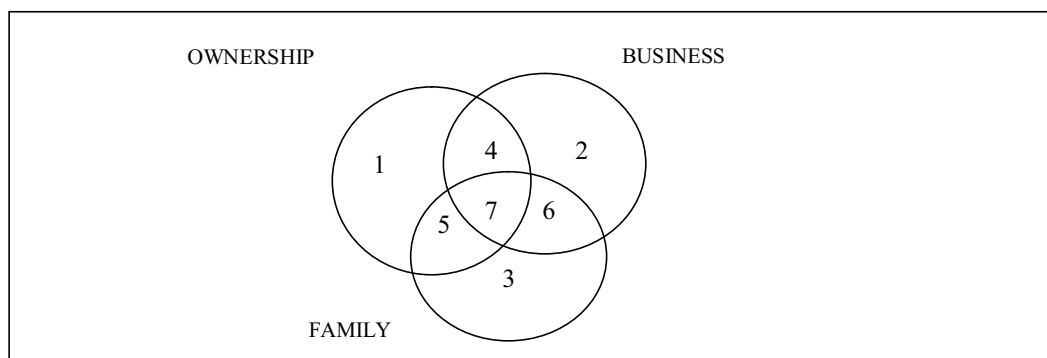
**Figure 6: The three-circle model of family business**

The overlapping circles are useful organisational behaviour models for the description of the complex individual and organisational phenomena associated with the overlapping subsystems and for



identification of the stakeholder perspectives, roles, and responsibilities (Habbershon et al. 2003). However, there is an inevitable grey area, where certain conditions for a family business are fulfilled and others are not. Thus, it is impossible to apply the term ‘family business’ to some firms but not to others (Heinonen & Stenholm 2005, 12-13). The interaction is influenced, for example, by the dynamics, cohesion, possible traditions, and the culture of each family. These features differentiate family and non-family businesses. It is the influence and involvement of the family which marks the unique character of family business. The family brings visions, aims, behaviour, resources and knowledge to the business, and these may be seen as either strengths or weaknesses, depending on each individual case. For example in a situation of succession the family plays an important role, because it is they who decide to either continue or relinquish the business. Furthermore, the way on which the succession is carried out concerns the predecessor and the successor, the family, and potentially even the extended family. In such situations of change, the family must naturally be taken into account the process of decision-making; thus this is not necessarily a limitation, for the family may equally well be a positive resource in a situation of succession (Heinonen & Stenholm 2005, 12-13; Neubauer 2003). However, family business may not be understood as ‘simple business’: rather can it be among the most complex forms of business (Naubauer & Lank 1998), owing to the overlapping of operational and strategic issues of ownership, control, and management.

A family business involves multiple actors who may be viewed in terms of family membership, business ownership, and involvement in the business. With regard to the business, these actors have different roles and objectives, and indeed the various actors and their different goals frequently present a problem in a family business. When observing a family business, seven different relationships may be found between the owners, the use of power, and the involvement in the business (Lassila 2005, 64). The three-circle model, often used in research, in Figure 7 (Tagiuri & Davis 1996), represents the multiplicity of the roles in a family business. Each member of the family system may have one or more roles: he/she may be an owner, or belong simultaneously to all three circles, being thus, for example, an owner, a family member, and an operative manager (Perheyritystyöryhmä 2005, 29).



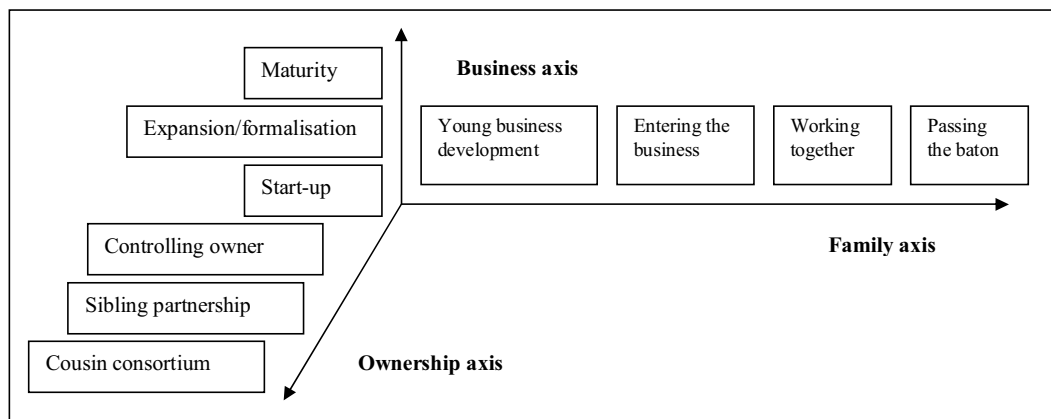
**Figure 7: Overlapping three-circle model of business, ownership and family**

The numbers used in Figure 8 refer to the roles represented in the three-circle model as follows (Naubauer & Lank 1998, 14-15; Lansberg 1988):

1. Outside owners, who do not work in the business and are not family members
2. Employees or managers, who do not belong to the family and are not owners
3. Family members, who are rather owners nor participants in the operation of the business
4. Outside owner-managers and owner-employees
5. A family member owner (not involved in the operation of the business)
6. Family members, who participate in the operations, but are not owners
7. Family members, who are owners and who participate in the operations of the business

The goals and expectations of the actors in a family business differ, among other reasons, according to the size of the business, the industry, the ownership, the age, the life situation, and the personal interests of each family member. If there are many generations involved, the number of actors multiplies. Managing a family firm is a challenging task, since the control is divided between several actors, and because there may be several generations in charge (Lassila 2005, 64-65).

One limitation of the three-circle model is its static character. There are in fact constant changes in families, in business and in ownerships which are not taken into consideration in the model (Perheyritystyöryhmä 2005, 29). In addition to the situational factor, trinity, the model requires the addition of the time dimension, i.e. life-span, the resulting model then being dynamic, and able to represent the changes (Figure 8) (Gersick et al. 1999). The pace of change is often at its most rapid in business, second fastest in the family sector, and slowest in ownerships. Especially sensitive and risky are the transitional periods in any given sector of the family business. These changes reflect to other sectors (Perheyritystyöryhmä 2005, 29). For example Habbershon et al. (2003) see the three-circle model as static. In system thinking all separate systems (i.e. business entity, family unit, and individual members) affect each other. Each entity has its own activities and results. In order to function, all separate systems of the three-circle model need to function well.

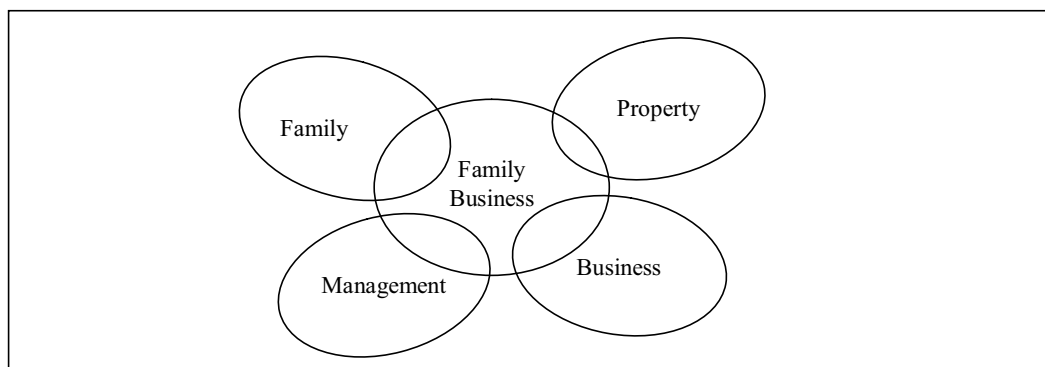


**Figure 8: The three-dimensional developmental model**

Figure 8 demonstrates how the structures of ownership, family and business inevitably change during certain or many generations. Typically the types of family business ownerships (Ward & Dolan 1998, 306) are sole ownership (100%), spouse owners (50-50%), sibling partnership and cousin collaborative. It is also possible to have any given combination of different relatives as owners, as well as shareholders of listed companies, foundations, or other companies. Lansberg

(1999, 27-29) found three types of succession patterns in family businesses and argues that there are primarily three forms of leadership/governance in a family business: 1) the controlling owner form, 2) the sibling partnership, and 3) the cousin consortium. The controlling owner form is what is typically assumed in the discussion of succession: the transfer of ownership from a single, powerful leader to a single successor who takes the responsibility for leading the firm. The sibling partnership represents a collective leadership model in which the children jointly manage the business. The cousin consortium is a highly complex form of leadership for a family business. The second dimension of the model, the family axis, shows the development of the family during a period of time. This dimension refers to the development of the family structure and of the relations between the individuals, turning upon such factors as marriage, parenthood, relations between adult siblings, and roles in the family. Changes also occur in the course of time in the third sector of family business, i.e. the business axis. The size of the firm and the multiplicity of the business also add their significance to the family business (Römer-Paakkanen 2004, 26; Gersick et al. 1999).

In the 21st century the three-circle model has been subject to criticism in family business research for its inability to take either the board or the MT of the family business into consideration; and this is despite the fact that these have a central position in the decision-making in both middle-sized and large family businesses (Hautala 2006, 46). This deficiency is, however, to be found in most discussions of family business, but one exception is the work of Neubauer (2003, 270), who argues that the dynamics of a family business are better represented in a figure where, in addition to family, property and business, the management of the firm is also shown as in Figure 9 (Neubauer 2003, 270). Furthermore, Voordeckers et al. (2007) have noted the importance of outside managers in family business: they state, on the basis of the different roles which directors have to fulfil within a family firm context, it is not the independence of outside directors that is significant but rather the added value which they bring to the firms.



**Figure 9: Dimensions of family business**

However, regardless of the legal form, sector or age, a firm has to meet the following conditions in order to be considered as a family business: 1) ownership is controlled by a family (either an extended family or at most a small number of families), 2) persons belonging to the family (or extended family) are on the board or participate otherwise in the activities of the firm, and 3) the owner-manager considers the firm as a family business (Heinonen & Toivonen 2003, 14-15; Koironen 2000, 18; Finnish Family Firms Association 2006). The challenges facing the family

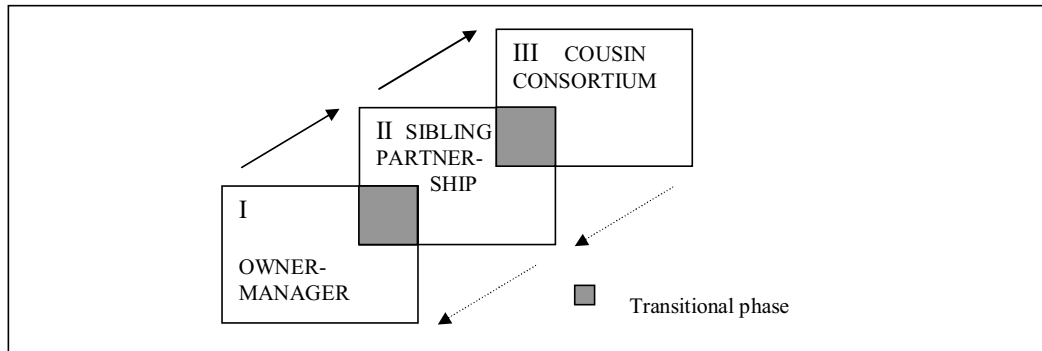
business change according to the life cycle of the firm. The most challenging task facing the first-generation is the creation a successful business that facing the greatest challenge of the third-generation is the cherishing of the unity of the family (Neubauer & Lank 1998, 34-37). The nature of the difference between entrepreneurial or professionally managed firms has been a key concern of many studies (Heinonen & Toivonen 2003, 12; Westhead & Cowling 1998; Gudmundson et al. 1999). Despite the mixed results, it appears that it is interaction between a family and a firm (including family dynamic, cohesion, culture and traditions) which distinguishes a family business from a non-family business (Heinonen & Toivonen 2003, 12). Differences between such firms have also been found in the areas of strategies, management and future orientation (Weasthead & Cowling 1998), although Westhead (1997) identifies ownership, rather than family management, as the crucial family element distinguishing family firms from non-family firms.

Family participation can strengthen the business because family members are usually very loyal, responsible and dedicated to the family firm (Koiranen 2000, 18, 106; Tagiuri & Davis 1996; Neubauer & Lank 1998, 13-17). Such loyalty can reduce the struggling for power in the firm, can give rise to communication, cooperation and trust, and create mutual understanding amongst family members. Neubauer and Lank (1998, 13-17) see the strengths of the family business as being strong commitment and innovativeness, quality, rapid decision-making, responsibility and adaptation. The spirit of enterprise and efficient actions are also strengths of family businesses (Tagiuri & Davis 1996; Neubauer & Lank 1998, 13-17): the simultaneity of roles in the family firm makes for more centralised and efficient decision-making (Tagiuri & Davis 1996). However, the existence of simultaneous roles can also generate negative outcomes: family, ownership and business issues can get mixed up and firms can suffer from a lack of marketplace objectivity and poor profit discipline. The family business may also experience problems in the areas of internationalization and growth, special organisation structures, succession process and emotional charge (conflicts based on the ownership and exercise of power). Succession is an especially significant issue of family business today because of the age structure of the entrepreneurs (Tagiuri & Davis 1996; Koiranen 2000, 71, 107; Neubauer & Lank 1998, 13-17). However, recent studies (e.g. Pajarinen & Ylä-Anttila 2006; Perheyritystyöryhmä 2005) have found some evidence that small firms, usually family-owned firms, have performed on average better than large ones measured by profitability and growth.

The dilemma of the family businesses is the difference between the demands of the family and those of the business. Problems arise, for example, in decision-making on hiring family members, rewarding, expansion of the business, financing, or the choice of successor. Successful owners of family businesses do, however, recognise these challenges and work hard to meet them. Family is often an important competition factor: it has a common history and identity that often strengthens the roots of the business. Family members grow into parts of the business, which gives them greater opportunities to adopt the tacit knowledge of the firm. Family also introduces feelings, thus adding a new dimension to a rational decision-making. Unofficial systems for decision-making often exists in family businesses as do less formal organisational structures which enable flexible management actions and improve the efficiency and speed of decision-making (Perheyritystyöryhmä 2005, 30).

In the life spans of the family, the business and the ownership the crises do not necessarily occur in the same period. Great changes in the ownership of a small family business are rare,

with perhaps decades between them, whereas in other sectors of family and business, changes take place more frequently. Indeed, the phases of the life span may overlap, the periods of overlap constituting transitional phases (Koiranen 2000, 36-37). This is illustrated in Figure 10.



**Figure 10: Succession transitions**

The transitional phases are critical in successions, being the mechanisms transferring the system (e.g. the family business) from one era to another. These periods are characterized by restlessness and vulnerability, and are challenging times for the life spans of family businesses. During them the viability of the business idea, the desire and orientation for expansion, the focus of the operations, the strengthening of the ownership, and the development needs are considered (Koiranen 2000, 37). According to Koiranen (2000, 38) the forces of change preceding the transitional phases may be described through three processes: 1) the ageing process (firms, business ideas, methods, and products age, as do the owners, managers and personnel, 2) environmental changes (e.g. financial and political forces), and 3) psychological and family-dynamic changes (conflicts between family members, exhaustion of key figures). There is usually a trigger to the transitional phases which directs the system from the old towards something new. Certain of these trigger factors are bound to time (e.g. retirement age and coming of age of the successor), but others are caused by the environment (e.g. a sudden change in the competition situation, demands of the investors). These triggers may also be psychological or family-dynamic (e.g. divorce, or a family member moving far away).

There are no universally accepted measures for the definition of a family business. According to Heinonen and Toivonen (2003, 25-38) the following six can be used: 1) the subjective measure (the owner-manager's opinion as to whether or not his/her firm is a family business), 2) the structural measure based on ownership (a firm is a family business if the family owns more than half of the firm or if it has authority in the firm), 3) the functional measure (the presence within the firm will be estimated based upon the ownership of family members and whether the family member works in the firm as a paid employee), 4) the commitment measure (in which are three classifications: only a little commitment of the family, some commitment of the family, and strong commitment of the family), 5) the succession measure (according to which the firm is not a family business unless it has run through a succession), and 6) combinations of above. The number of family businesses varies depending upon the measure utilised. For example, there are considerably more family businesses in Finland in terms of structural and subjective measures, than there are in terms of functional or succession measures (Heinonen & Toivonen 2003, 28) (Table 5).

**Table 5: Family businesses according to a range of definitions**

Definition	Amount	%
Structural	425	86
Subjective	324	65
Functional	151	30
Subjective + functional	143	29
Succession	89	18
Succession + subjective	85	17

According to Neubauer and Lank (1998, 10-12) the majority of new jobs created in the last decade can be ascribed to family firms, and evidence from several studies underlines the importance of family business in a worldwide economy. For example on the basis of a study of several countries, Gersick (1999) discovered that family-owned or -controlled firms represent 65-80 per cent of all firms. More recent studies have established that the percentage value ranges from 65 to 98 (Musolino & Viganó 2005). In case of the Finnish economy, family businesses are the backbone, constituting 86 per cent of all Finnish firms, employing approximately 50-60 per cent of the working population and 75 per cent of all employees of SMEs.

However, because a family firm is not a statistical unit in Finland, it is difficult to estimate the actual number of family firms. The Finnish TOP 500 companies' list contains over 100 family firms and the combined gross domestic product of family businesses is almost half of Finland's GDP. The average age of Finnish family firms is 24 years. Since a large number of entrepreneurs are retiring, many successions will be undertaken during the next few years (Heinonen 2003; Finnish Family Firms Association 2006; Koironen 2000, 18-19). Family businesses operate locally and, being engine firm, they play a significant role in their region. Further, they exert a strong influence on the development of businesses in the region, and are important employers and stabilizers. Regionally, the family businesses are divided unevenly between the provinces in Finland (Heinonen & Toivonen 2003, 35) (Table 6). As with all Finnish firms, most of the family businesses are located in South- and West Finland (Heinonen & Toivonen 2003, 35).

**Table 6: Family businesses by provinces**

Provinces	Family businesses %
South Finland	43.0
West Finland	40.1
Eastern Finland	9.2
Oulu	7.0
Lapland	0.7

According to the 2005 family business barometer (Kansikas et al. 2006), the three most important incentives to family business were independence, the possibility of prosperity, and self-actualization with an additional notable finding, the continuation of family traditions. Correspondingly, the three factors most likely to undermine family business were financial risk, taxation, and financial and other burdens relating to the personnel.

#### *Research into family business*

Research into family business as a system (a systems approach) began in the 1960s and 1970s but emerged less than twenty years ago, and even more recently in Finland. This research has followed

the same path as that into entrepreneurship in the 1950s (Brockhaus 1994) but simply twenty years later. At first the studies covered mainly customer reports by consultants but later the research was also carried out in the universities. Today, this area is well established even if it occupies a minor position in business economics (Mustakallio et al. 2001, 5). Previous research has drawn attention to a number of factors (drawn from diverse fields and disciplines) which influence the management and performance of family firms. Thus, the field of family business is highly fragmented, consisting of numerous viewpoints such as conflicts and rivalry (Levinson 1971), the relationship between owner-manager and successor (Seymour 1993), in-laws in the family business (Aronoff & Ward 1993), second generation and socialization (Brunåker 1996), strategic management (Sharma et al. 1997), inter-firm cooperation (Niemelä 2003), succession (e.g. Handler 1990; Birley 1986; Morris et al. 1997; Hautala 2006), global family business (Ward 2004; Manikutty 2000; Corbetta & Montemerlo 1999). There have been a number of recent review articles on family business (Friedman 1991; Handler 1989; Wortman 1994). The fertility and incoherence of the studies of family business is most probably due to the idiosyncrasies of family firms and the novelty of the research field (Mustakallio et al. 2001, 5). Ideologically this field of research can be seen (e.g. Johannisson and Huse 2000) as an intersection of three different research traditions: entrepreneurialism, paternalism and managerialism, the first emphasising the meaning of entrepreneurship and innovation, the second the meaning of family for firm success; and the third highlighting the importance of professional management.

The field of family business studies has developed to be a separate academic and practice arena that focuses on the assessment of the role of the family in business entities, and the impact of family ownership and involvement on firm outcomes (Habbershon & Pistrui 2002). The research interests have varied over the years but the major area of concentration has been the need of family firms to develop formal succession plans and to engage in early estate planning. This is not the only significant insight into the specific concerns of family firms to have emerged; and among other areas of concern clearly revealed (both by early and by more recent research) may be listed the following (Varamäki et al. 2003; Morris et al. 1997): the problems of selecting successors and managing the succession process from the founder's viewpoint, assessment of family business succession from the next generation's viewpoint, the issues of trust and communication in family, and the importance of shared values. During the years 1988–1997 there were in a single journal (*Family Business Review*) over 270 published articles, exhibiting a wide variety of approaches (Dyer & Sánchez 1998, 290). The most widely studied areas are: successor questions, inter-firm relationships, relations between family and firm, productivity and growth of the business, gender and ethnic questions, work and family life, law and taxation questions, organisational change and development, macro environment of the firm, and firm management (Dyer & Sánchez 1998, 290; Mustakallio et al. 2001, 5). Moreover, several dissertations on the subject of family business have been completed. The real explosion took place early in the year 2000 in the US, Canada and throughout, and in Finland alone more than 12 dissertations in the field of family business were presented during the years 2001–2006.

According to Varamäki et al. (2003) the earlier studies of family business transitions can be divided into two categories: normative studies and process studies. The emphasis has been on normative studies, in which an attempt has been made to produce a checklist for the smooth management of succession (Varamäki et al. 2003; Morris et al. 1997). Only in recent literature has the

resource-based view been applied within family business research (Habbershon & Williams 1999; Davis & Harveston 1998). Although governance and the nature and roles of boards have to some extent been remarked in the literature, studies concerning MTs are lacking. Varamäki et al. (2003) claim that family characteristics could be a resource, if they can 1) be a way to improve the firm's competitiveness, 2) work as a basis or a necessary ingredient for the strategy and survival of the firm, or 3) provide the firm with a route to differentiation in respect to customers, suppliers and financiers. Nevertheless, very little research has been undertaken into the way in which strategy is shaped in family businesses (Sharma et al. 1997; Ibrahim et al. 2004). Aronoff (1998) has identified megatrends, by which is meant the evolving changes fundamental to understanding family businesses. These trends include the increasing upon generational transitions rather than on business succession; team management and ownership as a developing norm; the increasing importance of strategic planning; the increase in financial sophistication, and in managerial professionalism; the refinement of retirement; the expansion of roles for women; the increasing sensitivity of professional service providers to family business; and increasing availability and quality of family business education and consultancy.

Predictably, family business research has been met with criticism (e.g. Westhead & Cowling 1998; Brockhaus 1994; Zahra & Sharma 2004): first, although family businesses are a subject of considerable interest in the US, relatively few studies have explored the nature and scale of family firm activity elsewhere, and second, there is a lack of consensus on the definition of a family business (a number of these have been listed by Handler 1989). Third, research in the area is dogged by the absence of an agreed framework either for model development or for hypothesis formulation; and finally, many studies have explored family firms in isolation. In addition, family business research has been challenged on the grounds of the disjointedness of the methods used, the lack of longitudinal studies, the limited knowledge of family businesses, and the fact that the number of family business researchers is low (Brockhaus 1994; Mustakallio et al. 2001, 5).

### 2.3.3 *Succession*

Succession is the most critical issue and the primary concern in family firms (Ibrahim et al. 2001). As a phenomenon it is not new, and indeed the majority of research into family business has focused on succession issues from the beginning (Upton & Heck 1997). There are basically two different viewpoints on the effect of succession upon a family business and its permanency: succession in the management and succession of property, of which the former has been the focus of research since the 1960s (Hautala 2006, 58; Sharma et al. 2003). The first research was primarily in the form of case studies, but the later marked to the events before and during succession, and to its consequences (Sharma et al. 2003).

It is clear that succession issues have dominated the research in the field of family business (Handler 1994). Nevertheless, although about one-third of family business literature is devoted to succession issues, and although a number of factors influencing succession have been suggested, the literature is highly fragmented (Venter et al. 2005). This fragmentation becomes clear when an overview is gained of the sheer range of subjects upon which attention has been focused. The following list of areas of concentration will substantiate this claim: hard issues (e.g. inheritance, monetary, technical, and legislative matters, taxation and the details of executing the



ownership change issues) (e.g. Koiranen 2000; Morris et al. 1997; Malinen 2001; 2004; Immonen & Lindgren 2004) vs. soft issues (e.g. family issues, personal relationships, selecting a successor, knowledge transfer) (e.g. Handler 1990; Hautala 2006; Kets de Vries 1993; Varamäki et al. 2003; Dunn 1999); succession processes (e.g. ownership process, leadership process) (e.g. Davis & Harveston 1998; Murray 2003); succession planning (e.g. Sharma et al. 2000; 2003; White et al. 2004; Handler 1990; Wortman 1994; Harveston et al. 1997); relinquishing and continuing business (e.g. Neubauer 2003; Birley 1986; Stavrou 1999), and a variety of succession models (normative models: e.g. Levinson 1971; Handler 1998, and process models: e.g. Handler 1990; Morris et al. 1997; Sharma 2001).

Handler (1994) earlier highlighted five lines of research: the succession process, the role of the founder, the perspective of the follow up generation, the multiple levels of analysis, and the characteristics of effective successions. In addition, the importance of approaching family dimensions and associated problems from a strategic management view has been argued (Wortman 1994; Sharma et al. 1997; Donckels & Frölich 1991). Small family business succession has attracted much research attention, especially from the perspective of the transfer of ownership (Handler 1994; Morris et al. 1997; Westhead & Cowling 1998; Koiranen 2000). Yet, despite this increased interest research activity in Finland has still been modest, with only a few exceptions (e.g. Koiranen 2000; Malinen 2001; 2003; Hautala 2006; Varamäki et al. 2003; Heinonen 2003; Stenholm 2003).

According to the literature, succession is the most critical phase of the small business life-cycle (Morris et al. 1997; see also Kets de Vries 1993). Morris et al. (1996) suggest that the successful factors in effective succession may be classified into three categories, relating to: 1) the preparation level of heirs (i.e. formal education, training, work experience outside the firm, entry-level position, years working within the firm, motivation to join the firm, and self-perception of preparation); 2) the relationships between family and business members (i.e. communication, trust, commitment, loyalty, family turmoil, sibling rivalry, conflict, shared values and traditions); and 3) planning and control activities (i.e. succession planning, tax planning, use of an outside board, use of family business consultants, and creation of a family council).

Succession is a process of which the actual starting point and conclusion are difficult to determine (Handler 1990; Koiranen 2000, 34; Heinonen & Stenholm 2005, 16). According to Koiranen (2000, 34) the process of succession in a family business is a multi-level and multi-dimensional process, and includes the transfer of ownership as well as of managerial and other tasks from one generation to the next. The transfer of business involves the transfer of operations and ownership to a family member after the previous entrepreneur has relinquished control. Succession has been considered as the most difficult form of transition, because it includes factors that are complex and testing (e.g. social, cultural, financial, and moral factors) (Aronoff 1998). Ageing and retirement are the most typical reasons for relinquishing of the business, and ageing is seen as the most important reason for starting preparations for successions in Finland as in other European countries (Stenholm 2003, 18). In the US ageing is also expected to increase the number of transfers in business (Sharma et al. 2001).

It has been estimated that in the EU successions occur on average in every third firm. According to a group of experts in the European Commission, in the next 10 years 610.000 firms with a total of 2.4 million jobs will change owners annually. Many of these will be family busi-

nesses, because approximately one third of the managers of family businesses in Europe are aged between 50 and 60 years. It is estimated that in Finland there will be 70.000–80.000 successions in the next 10 years (Finnish Family Firms Association 2006). It has further been suggested that there will be approximately 7.000 successions in the Finnish SMEs by the year 2010 (Stenholm 2003, 16-17). At present, one fifth of the Finnish family businesses at the most are transferred to the next generation, and only a small percentage of them are transferred to the third generation or further (Koiranen 2000, 46). A common problem is the fact that the number of firms requiring a change in ownership exceeds the number of suitable successors (Immonen & Lindgren 2004, 15).

Since the recession in Finland, the discussion on succession has become ever more prominent. The main reason, besides that of, the numbers approaching retirement age, is the fact that at present the firms are financially in such a condition that they can be sold or transferred to the next generation (Siikarla 2001, 25; Sharma et al. 1997). It is noteworthy that the problems concerning small Finnish family businesses are found to be similar to those experienced at the international level (Malinen 2001; 2004). Taxation and financial affairs together with the difficulties of finding a suitable successor are seen as the greatest challenges to succession (Stenholm 2003, 24; Aronoff 1998). Since the turn of the century the focus in the study of succession has moved from hard to soft factors, whereas earlier technical matters dominated in the discussion of succession-related problems, at present both practice and studies indicate that soft values are preponderant (Heinonen & Stenholm 2005, 30). There is no simple advice or solution for all successions; rather, the particular situation of each firm requires separate clarification, together with the identification of the optimum solutions in each case (Immonen & Lindgren 2004, 13; Heinonen & Stenholm 2005, 17).

The fundamental prerequisites for a successful succession are the commitment and the motivation of the successor (Stenholm 2003, 30). The commitment of the successor to the firm has three phases (Levinson 1971). In the first phase the successor participates in the operations of the firm, for example by working in it part-time. In the second phase the successor may be occupied full-time, at which point the successor has usually finished his/her studies and is prepared to commence permanent work (Barach et al. 1988). In the third phase the successor is the manager, or is in a responsible position, and is totally committed to the firm. The relinquishment may be difficult for the predecessor, caused not so much by the lack of trust or by suspicions of the successor, but rather by the way of life of the predecessor his/herself (Levinson 1971).

Even before the actual succession different roles may be identified. At the beginning of the succession the role of the predecessor is entrepreneur-like: the whole operation relies upon him/her, and the successor does not have an actual role in the firm. In the next phase the successor participates in the business operations with no actual part in the management. Gradually the role of the successor becomes that of the manager, and the predecessor is under his/her command with a limited role (i.e. the expertise of the successor falls into some of the operational fields of the firm). The successor may belong to the MT, thus familiarizing him/herself with the management and ownership. In the next phase it is crucial that the predecessor should understand the necessity of the succession, and therefore that he/she should delegate the essential responsibilities to the successor. In the final phase the predecessor no longer actively participates in the management of the firm, but may participate otherwise, for example by belonging to the board (Stenholm 2003, 34; Handler 1990). In general a third of all predecessors remain in place, in order to follow the operations and to assist in the business (Aronoff 1998). The transition is, however, not always a simple

process; the roles of the predecessor and the successor may overlap, and there may even be competition or differences of opinion between them (Stenholm 2003, 35). Research also suggests that the CEO's reluctance to relinquish control may discourage the offspring firm taking over the leadership role in family firms (Stavrou 1999).

According to Sharma et al. (2001) there is little willingness to take over an unsuccessful business: it is important for the successor that the financial state of the business enables continuity and development (Stenholm 2003, 37). The transition to the next generation always requires financial arrangements, and the sales of the business may be impossible, if the successor does not have the required collateral for the financing of the business (Stenholm 2003, 38). An element in the financial status of the business is also the definition of its value, which consists of both the financial value and the intellectual value. In the sale of a business the predecessor often values the firm over its actual price on account of its sentimental value and on a security for retirement. Additionally there are significant taxation issues connected both with the evaluation of the firm and with the succession that should be anticipated at an early stage (Stenholm 2003, 40-42).

The aim of a succession is to secure the continuity of the business (Stenholm 2003, 44). Even if the business continues as before many things do actually change after the succession: the management style (Handler 1990), the experience, the expectations, and the methods (Stenholm 2003, 44-45) for example. The continuity of the firm is largely based on the business and on the strategic planning (Fiegener et al. 1996). There are three goals in a succession: an efficient and fair transfer of the property, the transfer of control over the business in a way that secures the operations, and peace in the family (Koiranen 2000, 55-56). In small firms the planning of succession is minimal, because on the surface it is not considered to be important. Among the reasons for this are the unwillingness of the entrepreneur to discuss the matter, and his /her reluctance to give up the power (Stenholm 2003, 49). Nevertheless, in fact succession is a long process, estimated to take an average of five years (Koiranen 2000, 59). In a succession it is also advisable to consider the significance in and to the business of the values and networks of the entrepreneur, since the smaller the firm, the greater is the importance of these factors (Stenholm 2003, 37). Venter et al. (2005, 285) have classified the factors likely to have a major impact on family business succession in SMEs: 1) family harmony, 2) rewards, 3) trust in the successor's abilities and intentions, 4) personal needs, 5) willingness to take over, 6) preparation level and 7) the relation between owner-manager and successor.

The trinity of business, family and ownership clarifies the business decisions of the family regarding, for example, the management and the transfers of ownership. It does so as follows (Koiranen 2000, 35-40). Before the final succession the predecessor signs away some of the responsibility, but not yet the ownership (i.e. he/she retains control over ownership a little longer; next, but still before the final succession, the predecessor signs away some of the ownership, but not yet the management position (i.e. he/she keeps the title and control over the business, but divides the transfer of the property between several years). Finally, the successor signs away managerial responsibility and ownership simultaneously. A succession involves the transfer of the property and the power to the successor. If the predecessor retains the power and the property, remaining in order to control everything that happens in the firm, the succession has not yet taken place, nor do the interest groups recognise the succession. However, it is not necessary to transfer both ownership and managerial tasks simultaneously (Koiranen 2000, 67-68).

The successor may have several reasons for continuing the firm: the desire for self-expression, the wish to manage the firm, the desire to continue a functioning family business and to work independently (pull factors). If the successor is financially committed to the firm before the actual succession, or if he/she has somehow gained his/her position, it is likely that the successor wishes to continue the business. In addition to these motivation factors external (push) factors may also influence the motivation of the successor (e.g. an unfavourable situation in the labour market). Any unwillingness on the part of the successor to continue the business may be based on the desire to detach him/herself from the family, to create his/her own identity and career. Further possible factors may be the fact that the education of the successor is not suitable for the business, or that the future of the business and the career plans of the successor do not tally, or that the successor has career opportunities elsewhere. The risks involved with the business may also be intimidating (Malinen & Stenholm 2005, 35; Koiranen 2000; Stavrou 1999).

Within the broad field of research into the succession process, clear differences of opinion appear regarding the validity of certain several claims about the subject. For example, it has been claimed that the motivation of the successor is a requirement for a successful succession; that succession is not possible without discussion; that the successor needs to be involved with the firm before the succession; that the roles of the predecessor and the successor change gradually during the succession; that it may be hard to relinquish; and that it is important to consider the interest groups of the firm (Stenholm 2003, 65). The attitude of the personnel also plays an important role in a satisfactorily completed succession. Just as the predecessor and the successor need to know each other's hopes and goals, so the personnel needs to know what the succession means to the firm (Malinen & Stenholm 2005, 44). Particularly in small firms succession is a critical event, because the CEOs of small firms face fewer organisational constraints than do those of large firms; their decisions can have proportionately greater and more immediate impacts on the business (Fiegener et al. 1996; Norburn & Birley 1988). Succession in family business is not simply a transfer of ownership; rather is it a multi-staged process, which consumes both time and effort (Wang 2004).

#### 2.4 Management team learning in family firms: Theoretical framework

In this chapter, a theoretical framework for MT learning in family firms is developed on the basis of earlier studies on MTs, learning and family business. The aim is to review and synthesize available research into a conceptual framework that would explain MT learning with CoP. According to Eskola (2003, 146) there is not necessarily one single meta theory at the basis of study; rather there may be several theories, a range of approaches, or a variety of interpretations for the phenomenon under examination. There is, in fact, no currently dominant theory of the family business. The resource-based theory and the agency cost theory have been increasingly applied but they leave some *lacunae* (Chrisman et al. 2003). In this study the theoretical framework is composed of three main factors: MT, learning, and family business, which offer a novel viewpoint on both MT and family business research (Figure 11).

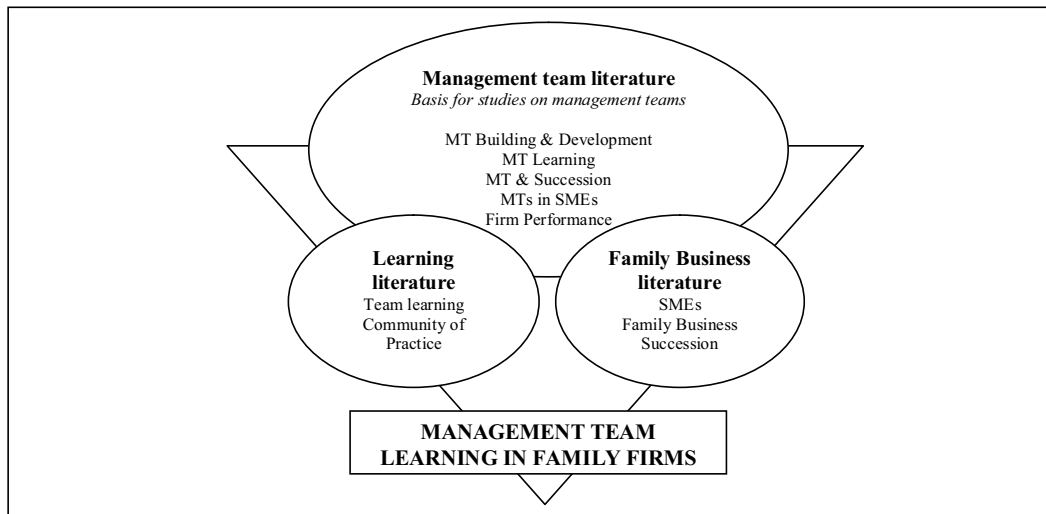


Figure 11: Theoretical framework of the study

Even if the MT research has for long been versatile and plentiful, there are only a few studies concerning SMEs, and next to none concerning learning, succession and family business. In the discussion over family businesses, the relationship between the successor and the predecessor, the problems and processes of the succession, and strategic management have all been popular topics, but little attention has been paid to MTs and their learning in family businesses.

Typically, a succession has been seen as a mutual role adjustment process between only the founder and the next-generation family member(s) (e.g. Handler 1990; Brunåker 1996, 59-64). Handler's (1990, 43) role adjustment process (in Figure 12) influences, while lagging behind, the parallel process of the next-generation family member, who moves through phases of increasing involvement. The lag (the fact that it takes the predecessor longer to move into his roles than the heir) means that the founder may hold on to a former role while the successor moves into a new role. The founder moves from being the sole operator to finally a more consultant who is disengaged or retired from the organisation. In proportion, the successor moves from having "no role" to finally being leader and chief decision maker. Although the process of succession is not always smooth or continuous, and there may be other influential factors, this is the way the succession process has traditionally been seen.

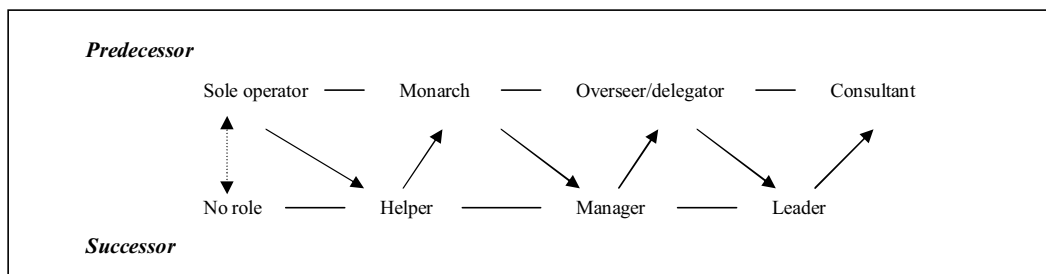
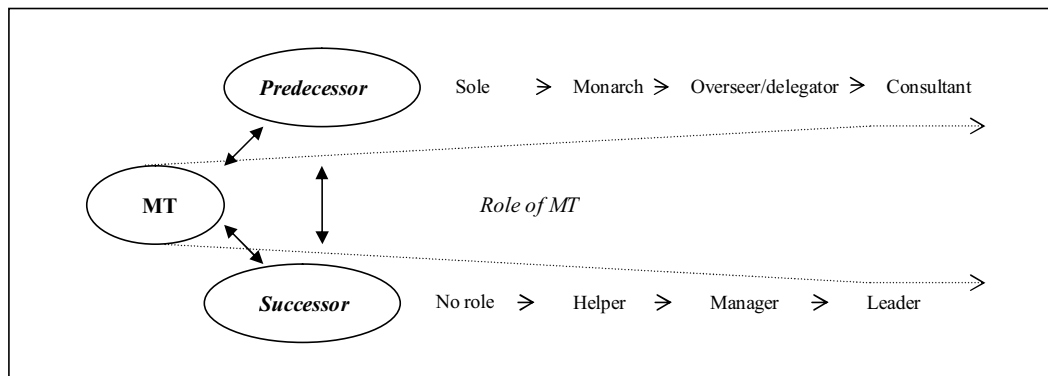


Figure 12: The succession process as mutual role adjustment

In this study, the prior work on the succession process will be extended by presenting a succession as a process between three actors: successor, predecessor, and MT (Figure 13). A MT represents a

new means or tool for the management of succession in a family-owned SME. Thus the succession process is seen as a wider arena with the appointed managers of the firm. In the model all actors have their roles, of which the roles of the successor and the MT may be seen to be strengthened, and that of the predecessor to be weakened during the succession process. This does not mean that the MT could not have a significant role even earlier, but that in a family-owned SME it may be assumed to be further strengthened. At some point the role of the predecessor ceases completely, and when the role of the successor has been strengthened, the meaning of the MT is stabilized. However, it is impossible to determine the exact points at which a succession commences and is concluded (Handler 1990). The new role of the predecessor may, for example, be that of the chairman of the board, or that of a consultant; alternatively, the predecessor may have no role at all.

The meaning of a MT in managing a succession is important, because it assists, on the one hand, the predecessor to retreat (i.e. the successor will not be alone in the management) and, on the other hand, the successor to familiarize his/herself with the management of the firm without disturbance of the operations. The successor learns, with the help of the MT, the skills necessary for the business, and becomes acquainted with the management of the firm, and with the existing values and networks (i.e. the interest groups). Moreover, positive psychological effects have been identified: working together in a team lowers entrepreneurial stress and loneliness in management tasks (Lechler 2001). During the period of a family business succession, the importance of the MT may increase in the business and management of a firm and that kind of a critical incident also contributes to the learning of MT members. A MT learns, for example, by taking a major role and greater responsibility in the firm, on account of the lack of adequate experience of the heir.



**Figure 13: Expanded view of the succession process between predecessor, successor and MT**

In this study, the MT learning is theoretically examined through the CoP. This is because a MT can be seen as a CoP, although not all definitions support this view. However, the range of the definitions is broad, and a MT largely meets the criteria of a CoP. Because the MT has not been previously examined as a CoP, this aspect brings a new standpoint to the study. There are, however, reasons that conflict with the status of a MT as a CoP. Firstly, a CoP is considered as a free community of experts, something which MTs may not necessarily be. MTs in smaller firms are often led and called by the CEOs, and they participate in decisions on account of their tasks (e.g. Van Gils 2005; Tihula & Pasanen 2006). In contrast, a CoP is based on participation and it selects its members itself. Members develop among themselves their own understanding of what their

practice is concerned with, and they are mutually accountable (Wenger 1998b; Wenger & Snyder 2000; Wenger et al. 2002, 5; Stewart & Brown 1996). Secondly, CoPs are a different cut on the organisation's structure - one that emphasising the learning process through which people have gone together rather than the unit to which they report (Wenger 1998b). The shared learning and interest of its members keep the members together. In contrast, in MTs, it is the position, membership and common tasks which usually keep people together. Thirdly, some scholars see a CoP as an informal community, which unlike a MT, is not always recognised by the organisation (Brown & Duguid 1991). Finally, a CoP is defined by knowledge rather than by task, and exists because the participation has value to its members (Wenger 1998b). However, the boundaries are not always so clear and many characteristics of a CoP lend themselves well to a MT.

A MT, like a CoP, is a group formed by those, who share their expertise and knowledge for a joint enterprise, such as operative or strategic management (Wenger & Snyder 2000). A CoP is not simply a set of relationships; it has an identity as a community and thus shapes the identities of its members. Even though MTs clearly have a chairperson (often the CEO), who has the power and responsibility for the decisions, there is greater opportunity in smaller firms both for discussion and democratic and indirect action than is the case in larger and more hierarchical firms. Assuming that the managers wish to increase their expertise in the organisation, and also to handle their area of responsibility well, it is the common discussion, interaction and distribution of knowledge which help them to develop and manage the business. MTs work in meetings, which may be seen as time-consuming by the members, but which is useful and necessary for the handling their own responsibilities, as opposed to the mere carrying out of the duties dictated by their position. The position reached in a firm is usually a result of the active participation of an individual, and thus derives from the active aim of proceeding in one's career. It may be assumed that the individual is motivated to be a member of a MT and to learn. This aspect supports the function of a MT as a CoP.

The work of each MT member is a part of the entity, and therefore it is necessary for the MT to meet and to discuss matters. Social skills also have great significance in the work of a MT. According to the literature the personal level of status and respect of the MT members are prominent, which may make it difficult for them to cooperate and work as a team. In small firms the MT work may, however, often be more informal, and the relations between members more equal. In CoPs the learning of social skills is essential for the cooperation, and the same is true of MT, although the latter must also master meeting protocol and cooperational skills in general. The MT may have a significant influence in the learning of the whole organisation, whereas the CoP exists because it produces a shared practice through the engagement of the members in a collective process of learning (Wenger 1998b).

One of the most central characteristics of a CoP is the knowledge shared by its members, communities typically creating common values and attitudes. In smaller firms the knowledge of the industry often connects the members of the MT regardless of their educational background. Moreover, in the case of family businesses their common values and attitudes, and a strong sense of unity may be visible in the work of the MT. The members of a CoP share similar tasks and face similar problems; they are aware of their position in the organisation, and feel themselves to be members of an identifiable community (e.g. of the MT, or the family firm). The members have a common understanding of the reason for their collaboration, and act distributors of high-profile

knowledge and new ideas, a process which is further encouraged by the fact that the community is valued. A community may cohere and form a strong identity, by which is meant that not only the members are aware of their belonging to the group, but also become more particular regarding the sharing of their knowledge. MTs are often very conscious of their important role, and membership of it confers status and dignity.

Additionally, since MT members discuss matters which are of importance to the work of all personnel, they thus are sharing common knowledge. The members also support each other. The discussion of a CoP is focussed upon the firms' internal operations and development, and thus aspect is valuable for the examination of the learning of MTs. The CoP is characteristically dynamic and ever developing. Changes occur, for example, when a member of a community leaves and a replacement steps in. This is also common in the MTs, when changes in personnel occur. Even though the MT in a family business has been observed to have a more stable management structure than is the case in other forms of firm (Cromie et al. 1995; Westhead et al. 2001), such teams in family businesses may take in new members in to learn the MT work, or some person other than core-members of the MT may occasionally participate in its work (e.g. experts, owners, board members, employees).

Even though there is a partial overlap in the expertise of the MT members, there is also a necessary element of individuality, reflected in the diversity of characters, perceptions and knowledge. Such a situation is perfect for learning (Vesterinen 2001, 25; Häkkinen & Arvaja 2002, 212). MT characteristics and compositions have a strong impact on the learning process. Moderate levels of diversity within the expertise of a team will enable it to utilize the variety of perspectives brought by its members, and will facilitate the process of interactive learning (Van der Vegt & Bunderson 2005). This could be essential in family firms where appointed managers bring views and capabilities into the family business which may be novel and stimulating. Heterogeneous teams also have a greater variety of information sources and they thus reach more satisfactory decisions and more creative innovations (Mello & Ruckes 2006; Lyon & Ferrier 2002). Of course, there are also opposing views, for example that individuals are motivated to interact with members from their own groups and categories (Amason 1996).

A MT also learns by cooperating and by participating in meetings. Sharing ideas, views, language and practices in a community promote its learning. Some MTs use agendas in their meetings, others discuss the central points of every issue. Since the regularity of the meetings contributes to learning, the members meet regularly in order to share their knowledge and to deepen their understanding. In fact, there are several reasons why regular meetings are required (McIntyre 1998, 174-175): firstly, since a team approach to management requires collaborative decisions, more occasional team meetings, or a concentration primarily upon information sharing would alike indicate that the leader was making decisions without input from the group. In the second place, managers of separate functional areas require predictable occasions on which mutual sharing of information takes place: knowing that they are expected to provide regular updates assists the development of a habit of screening information. Finally, ongoing interaction helps solidify relationships between members, and managers with well-established relationships are likely to resolve conflicts more easily. If the members become exhausted, the meetings need to be held more often. Meetings should occur at a predictable time as an encouragement to regular attendance: holding meetings with absences occurring routinely defeats the whole purpose of the exercise, this being to



increase collaboration, to improve internal networking, and to break down walls between functional groups (McIntyre 1998, 174-175).

The MT as a CoP exist not only to share knowledge, but also to encourage social learning. There is an actual need for the whole team to be familiar with the knowledge of each of its members, and to share this knowledge with others. All in the MT know each other and are aware of the input brought by each. The work of a MT may be formal or informal; the pattern of work is set by its members. When the members work together they do not merely learn by doing, but rather develop a shared sense of what is required to carry out the work (Stamps 1997). They also use one another as sounding boards, teaching each other and bringing multiple and varied perspectives to issues. The members are also aware of what is, or is not relevant to the meetings and of how information is to be presented in a useful and efficient manner. Even should the format of meetings become routine, nevertheless, active participation, besides being the ideal way to share information, functions also as a testing ground for efficient methods, and facilitates the interaction of advice and feedback. In contrast to a CoP, the existence of which is limited only to meetings and cooperation, the MT remains such outside its meetings. Moreover, the work of CoPs is not restricted merely to the organisations of localised activities; it is also more broadly concerned with the significance and the implications of belonging to larger organisations (Wenger 1996). Learning is not simply a matter of the development of individuals' knowledge and practice: it also involves a process of growth towards self-understanding and towards an awareness of the CoP to which they belong and into which they have been accepted (Handley et al. 2006).

A MT which has been working together for a considerable time has such experience of industry as brings shorter reaction time to strategic problems than would be required by a less experienced MT. This strength may, however, also prove to be a disadvantage, since too great a weight of experience and too confident of trust in their own abilities may result in routinisation, and in a growing away from active operations. Learning is thus also connected with the context in which the knowledge is gained and used. For example, learning in a SME is occasional and informal. SMEs manifest certain deficiencies, particularly in the area of systematic and formal knowledge management at the strategic level; in SMEs, official ways gathering the evaluation, development and sharing information on the operational level are unofficial. Small firms often have an efficient network, enabling them to solve problems rapidly, but they lack the time and the financial resources to exploit either external sources of information or scientific and technological expertise. Distinguishing relevant information from irrelevant is particularly a problem in small firms, and the retention and utilization of information also represents a challenge to SMEs (Isoniemi 2006, 2-3; Egbu et al. 2005).

Social interaction and participation in the activities of the community are prerequisites for learning. Succession is seen as being the central event in the life span of small firms most likely to affect the knowledge, skills and interaction processes of the MT (Wasserman 2003). These revised skills and communication processes improve the team's ability to recognise, and act to appropriately act in changing environmental conditions, especially in conditions of turbulence. The changes in a MT also affect the organisational adaptation in a stable environment (Virany et al. 1992). For example, the entry of a new member develops an awareness of that community's practice (Handley et al. 2006). Newcomers develop these practices through the observation and imitation of others, after which they adapt and develop their own particular practices in ways which

match both the wider community's norms and their own individual sense of integrity and self (Ibarra 1999). Thus, it is through participation in communities that individuals develop, adapt and reconstruct their identities and practices (Handley et al. 2006). Additionally, the rotation of tasks and positions may improve MT learning: new challenges activate learning and increase motivation (Leuchter 1998). However and in contrast, in smaller family firms the tasks are often already extensive and varied.

Interpreting errors as unintentional and potentially beneficial acts rather than in some way devious is also a rich stimulus for the development of MT learning. Through the creation of environments in which members feel it safe to air mistakes, the MT can examine problems, determine more effective strategy-making processes, and so improve its capacity (Jarzabkowski & Searle 2004). People in organisations create learning routines embodying intuitive, experimentally driven, experiential learning behaviour which later becomes institutionalised and reflective of an organisations schema (Murray & Moses 2005). However, although a team learning orientation can encourage adaptive behaviours, the possibility also arises of compromising performance by an overemphasis on learning: this is especially likely to occur when a team has been performing well (Bunderson & Sutcliffe 2003).

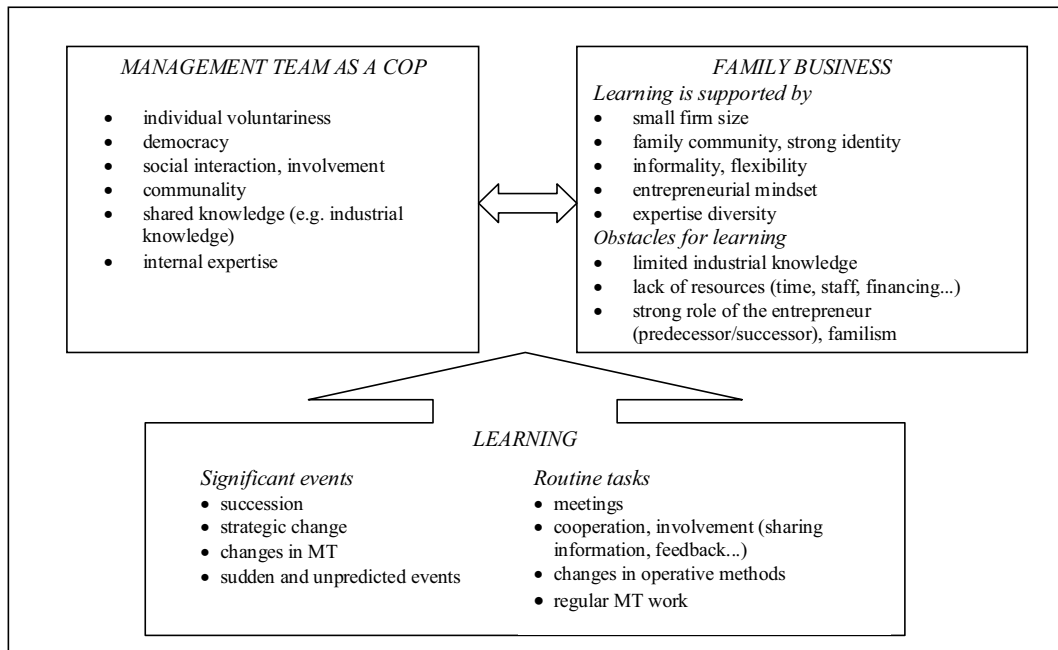
It has been argued that managers are the key to the learning process, particularly in small firms, and this is also the case in family firms: it is they who may facilitate the learning of the other members of the organisation (Sadler-Smith et al. 2000). Hendry et al. (1995, 160) observed that managers as a special group have been overlooked in the small firm, despite the fact that it is the development of managers which determines the learning environment for other employees. Related to the notion of managerial and organisational learning is that of managerial competence, i.e. learning is seen as an antecedent of competence (Sadler-Smith et al. 2000). However, it is likely that learning is as between small family businesses and large firms. Small family firms often have limited managerial, financial and physical resources and employees. Moreover, in smaller firms owners and managers are required to operate across the full range of activities, sometimes with limited knowledge and skills and in an environment in which resources are often committed to short-term operational horizons (Sadler-Smith et al. 2000, see Storey 1994). They lack the staff and the time to engage in strategic planning or in marketing, and focus mainly on operational aspects. Decisions in smaller firms can have both wider and more immediate impacts on the business. Although smaller firms provide a favourable environment for learning "learning from job context" and "new occupational skills" they are weakest in providing for basic occupational learning (Hendry et al. 1995, 152-153). Studies have shown that SMEs do not offer as wide a range of training opportunities for their employees as do their larger counterparts (Storey 1994). However, despite the limitations imposed a lack of resources, the smaller family firm offers several advantages for learning.

These advantages centre around the related factors of size, growth, and market uncertainty, and the consequent requirement for flexibility. Small size firms offer some employees a wider range of tasks and the possibility of seeing the influence of one's own work on the whole organisation. Growth brings with it the requirement that certain employees have to perform across a wider range of situations, and respond to a wider variety of people, than they might encounter at similar levels of experience, education, age, and career in a larger firm. Both factors enable, and require, employees to extend their competence over a wider performance domain, to accelerate

their learning, and to undertake increased responsibilities. These influences of size and growth are moderated by technology and by the complexity and routine nature of the operating tasks, and as a result opportunities may be restricted to a limited number of employees. Market uncertainty impacts in a number of ways. Niche specialization requires skills at a higher level of specialisation. The degree of flux in the markets means that smaller firms often find it more practicable retain a degree of flexibility in their definitions of tasks and skills (Hendry et al. 1995, 152). In family firms the management practices are also highly flexible, a characteristic which accelerates and improves the decision-making in a MT. As a result of flexibility, tasks are often linked in unusual combinations, with jobs and skills loosely defined and subject to change. The flexibility, together with responsibility given by a family firm, may increase the commitment of the MT members to the firm.

The managers in a smaller family firm are in an important position, with a high level of responsibility and an entrepreneurial attitude. However, on occasion a strong entrepreneur (CEO) may hinder the MT learning. If the firm was originally founded, for example, in order to gain freedom and independence, it will be more difficult for the entrepreneur to abdicate the power and to share it with others. This has also been observed to be one obstacle for the growth of a firm (Kets de Vries 1985). On the other hand, the fact that a firm has a MT indicates that independence was not the original motive for entrepreneurship, but that there is a growth-orientation. Nevertheless the operations of the firm may remain too family-oriented, even if it has a MT: the owner-managers may overrule the hired management, and the family may dominate the business excessively. The size and operations of the firm may, however, require several managers and, in the case of family business, learning is seen also as a way to acquire extra resources (Kansikas & Koironen 2005).

However, in some cases working in a small family business does not offer sufficient experience for the successor, and the required experience has to be gathered outside the firm. Additionally, the conflicts caused by the strong emotions of family members may disrupt MT work and thus MT learning. In the circumstances described earlier, the real day-to-day issues form the basis of learning in family firms, and thus experiential learning has commonly been seen as a key process in smaller firms (Hendry et al. 1995, 152-153). Based on the previous discussion of MTs, family business and learning, the theoretical model of MT learning in family firms is illustrated in Figure 14.



**Figure 14: Theoretical model of MT learning in family firms**

### 3 RESEARCH METHODOLOGY

#### 3.1 Qualitative research methodology

There are broadly two approaches which may be adopted in order to understand the collection of information for research purposes: quantitative and qualitative research. Early forms of research originated in the natural sciences in which observations and measurements were made objectively and could be repeated by other researchers. Less quantifiable areas, such as the social sciences, are referred to as 'soft' as an indication of their imprecision and lack of dependability. Qualitative research attempts to increase the understanding of why things are the way they are in the social world, and why people act in the way they do (Hancock 1998, 1; Milliken 2001). The qualitative method describes the phenomenon (what) and explains the issue (how) in a specific context. In qualitative research the generalization of the research results does not have that objectivity aimed at by quantitative research. Material collected in different ways brings new "why" questions (Alasuutari 1999, 223-231). In qualitative research the aim is not to attempt to prove some presupposed viewpoint but to gather as exhaustive material as possible in order to bring out paradoxes and inconsistencies (Alasuutari 1999, 83-88, 218).

Qualitative methods in general have been gaining acceptance in the small business and entrepreneurship research community (Perren & Ram 2004). The young and emergent nature of small firms, combined with the unique characteristics of the human participants, suggest that a qualitative approach allowing small firms to be viewed in their entirety and permitting the researcher to draw close the participants, to penetrate into their realities and to interpret their perceptions is appropriate (Shaw 1999). Additionally, within family business, qualitative research has its own merits and value. Hall et al. (2005) argue that there is a need in the field of family business for further rigorous qualitative research, which both draws upon and generates theory.

The research approaches drawn together under the qualitative umbrella have included, for example, ethnography (e.g. Brewer 2004), critical incidence (e.g. Chell 2004), discourse analysis (e.g. Lämssä 2000), and case study (e.g. Yin 1994). The objective of a case study is to give a phenomenon a rich description: in such a study, the data is limited to one or to a few cases, rather than the data being gathered from several different cases, as in quantitative research (Eisenhardt 1989a). Qualitative research is suitable for cases where the interest is rather in detailed structures of the events than on the general diversity per se; the concern is with the meanings of individual actors formed by certain events, and the goal is to study natural events which can neither be experimented upon nor controlled in regard to all dependent variables (Metsämuuronen 2003, 166-167).

Qualitative research focuses on how individuals and groups view the world, and it constructs meaning out of their experiences. Its methods are sometimes combined with those of quantitative research methods in order to gain deeper understanding of the causes of social phenomena, or to assist towards the generation of questions for further research. Qualitative research focuses on the understanding of the research phenomena within their naturally occurring context, and one aim of the qualitative researcher is to tease out the meaning which the phenomena have for the actors (Perren & Ram 2004; Creswell 2003, 181-183).

Qualitative research eludes easy definition: it is a large and amorphous entity with its many subfields and methods, and it is growing and changing continually (Taylor & Trujillo 2000, 162). It is for this reason that Symon and Cassell (2004, 1) address the question of the characteristics of qualitative research. They make the following points about the approach: 1) for data collection qualitative research uses multiple methods which are interactive and humanistic (e.g. interviews, observations, documents), 2) qualitative research is emergent rather than tightly prefigured, 3) the research question or data collection process may change and be refined, 4) qualitative research is fundamentally interpretative, i.e. the researcher makes an interpretation of the data, 5) the qualitative researcher views social phenomena holistically, 6) qualitative research takes place in the natural setting (e.g. in the office, the home, on in industry), 7) the qualitative researcher may use more than one strategy of inquiry, and 8) uses complex reasoning that is multifaceted, iterative, and simultaneous (Creswell 2003, 181-183).

The process of analysis in the qualitative approach is difficult and time-consuming. This is mainly because qualitative research often produces huge amounts of data drawn from small samples, and defying simple classification (Curran & Blackburn 2001, 103). Qualitative research is interpretative research, with the inquirer typically involved in a sustained and intensive experience with the participants (Creswell 2003, 184). However, it is worth noting that no single interpretative truth exists in qualitative research.

The choices concerning the research approach and methods can be justified by the characteristics of the research subject, which demand familiarization with a complex unity. The research is conducted from a firm-internal viewpoint, i.e. from the viewpoint of the CEO and other MT members. The qualitative method is the most suitable in this study for several reasons. First, since the earlier studies concerning MTs are quantitative studies of large firms, the present work focuses on only two firms and their MTs, using the case study method. Second, the MT as a concept is ambiguous, as argued earlier. It has been connected to the board of directors, to entrepreneurial teams, and to other groups. A quantitative survey might not have given a correct picture of the phenomenon under examination. Third, the qualitative research method is ideal when the researcher wishes to gain more profound understanding. In the present academic world, the results of this research are expected to add conceptual depth to the MT discussion, and by the use of the qualitative method it is possible to delve more deeply into the reality of MT learning in family-owned SMEs. Gathering deeper information requires the use of the qualitative method and of the case study. Finally, the research questions and research design support the use of the qualitative method and the case study in this study.

### 3.2 Research strategy and design

This study was carried out through the application of qualitative research techniques, and the research problems were tested empirically using the case study method. The case study as a research strategy has a long history in the mainstream management literature and it is commonly used when studying firms and organisational behaviour (Eriksson & Kovalainen 2008, 115; Perren & Ram 2004; Yin 1994, 3; Aaltio-Marjosola 2001). Case studies are the preferred strategy when “how” or “why” questions are being posed, when the investigator has little control over events, when the boundaries between phenomenon and context are not clearly evident; and when multiple sources

of evidence are used, and the focus is on a contemporary phenomenon within some real-life context. Such explanatory case studies can be complemented by two other types, exploratory and descriptive case studies (Yin 1994, 1, 12-13; Aaltio-Marjosola 2001). Stake (1995, 236-237) has divided case studies into three groups, based on their purpose: the intrinsic case study (aimed at reaching better understanding of the particular case), the instrumental case study (providing insight into an issue or refinement of theory), and the collective case study (studying number of cases jointly in order to inquire into the phenomenon, the population, or the general condition).

The case study is an empirical inquiry the objective of which is to understand thoroughly and to interpret the case in its own particular context, and to obtain information concerning both the dynamics and the processes (Yin 1994, 12-13; Aaltio-Marjosola 2001; Eisenhardt 1989a). From case studies we gain both propositional and experiential knowledge (Stake 1995, 240). Case studies can be used to accomplish various aims: to provide description, to test theory, or to generate theory (Eisenhardt 1989a, 535). The case study is particularly suited to those research questions which require a detailed understanding of social or organisational processes, on account of the rich data collected in the context (Hartley 2004, 323). The research questions are always related to the understanding and the solution of the case: what the case is about and what can be learned by studying it (Eriksson & Kovalainen 2008, 115). Answers to the research questions are not sought in generalisation, but rather through intensive and contextual case observations (Aaltio-Marjosola 2001; Eriksson & Kovalainen 2008, 121).

Case study research increases the understanding of a complex issue, of an object or of the inner dynamics of a unit, and can extend the experience of, or add strength to, what is already known through previous research. Case studies emphasise detailed contextual analysis of a limited number of events or conditions and their relationships (Hartley 2004, 323-324; Eisenhardt 1989a). In some work communities, the task of comprehension and explanation is so complex that it may be that only a case study can offer an adequate foundation (Clegg et al. 1985).

The tradition of case study belongs to the qualitative research tradition, and forms a special research strategy and approach (Eriksson & Kovalainen 2008, 116; Aaltio-Marjosola 2001). The data may consist of one or of several cases. The research questions and the setting for research determine the number and the nature of the cases studied. Rich research data provides the opportunity to quote the interviewees and to bring forward the viewpoint of an actor in the empirical study. A thorough case study is not, however, merely a description of data but a logical approach which relies on interpretations and analyses. Identifying its roots in the theoretical frame is therefore a special challenge for the researcher using a case study: a clear conceptual frame forms a context for the interpretation of the results of a case study (Aaltio-Marjosola 2001).

In data gathering the researcher's own observations and discussions are used more frequently than are indirect ways of measuring. The analysis is inductive by nature, i.e. the objective of the researcher is to reveal unexpected issues. The testing of the theory or of the hypotheses is less important than the examination of the data in a complex and precise manner. The research set for the study is selected according to the requirements of the case and the cases studied are treated specifically (Aaltio-Marjosola 2001; Hirsjärvi et al. 2004, 151-153). A case study is an in-depth investigation of a specific social unit, which provides a well-structured picture of the object, and proving valuable whenever reliable background information is required. As an intensive strategy it makes it possible to identify essential factors, processes and relationships (Aaltio-Marjosola 2001).

Case studies are complex: they generally involve multiple sources of data, they may include multiple cases within a study, and they produce very considerable amounts of data for analysis. The advantages of the case study are its applicability to real-life, contemporary, human situations, and the opportunity of stimulating new research or of contradicting an established theory. Case study results facilitate the understanding of complex real-life situations and provide new insights (Aaltio-Marjosola 2001). Critics of the case study point out that the study of a small number of cases can offer no grounds for the establishment of reliability, or the generality of findings. However, the case analysis does not focus on the discovery of a universal, generalizable truth, nor does it typically seek for cause-effect relationships; rather, emphasis is placed on exploration and description (CSU 2005). Data are sought on dynamics, mechanisms, processes and internal regularities in a manner which comes closer to the ordinary conception of generalisation. The purpose is to reach the conceptions and the understanding by moving from the individual towards the general, and by examining a specific object by using many variables (Aaltio-Marjosola 2001; Silverman 2000, 10). A further criticism of the case study points out the researcher's subjective feelings and interpretation (otherwise known as researcher bias), his/her memory distortions, and the difficulties in replication (Silverman 2000, 9-10). Normative and practical case studies in particular have been criticized for their managerial concerns (i.e. the aim to assist managers towards gaining tighter operational control over business organisations) (Eriksson & Kovalainen 2008, 116). A final source of criticism relates to the soundness of the explanations offered (i.e. validity - the problem of anecdotalism). Research reports sometimes appeal to a few, telling examples of some apparent phenomenon, without any attempt to analyze data which is either less clear or contradictory (Silverman 2000, 9-11).

The overall research strategy guiding this study is best described as a case study approach (e.g. Yin 1994; Eriksson & Kovalainen 2008), because it is the most suitable way to understand and interpret the cases in the context of family-owned SMEs, and to investigate a phenomenon which has not been studied previously. It is also possible to use a variety of data sources and to gain more detailed information on the phenomenon. Case studies are appropriate for studying complex social situations in which experimental research is neither possible nor desirable. Case studies also enable a holistic approach and therefore the embeddedness referred to above can be taken into account. This study is an example of the descriptive and intensive (classic) case study (Yin 1994, 15).

The descriptive case study method is suitable for this study since it describes the phenomenon, i.e. MT learning, in the context of family-owned SMEs. The study describes also the case firms and the course of action of the MTs. It cannot establish a causal research relationship but it is able to describe the "who, what, when, where and how" of a situation, i.e. events are described. Descriptive research is used here to obtain information concerning both MT learning in the situation of family business succession, and the MT work in the case firms. The intensive case study method is suitable here because it relates a couple of cases which are examined in a multifaceted way within their own context. The case itself and its internal world, that is, the MT work in family-owned SMEs is the research object. According to Eriksson and Kovalainen (2008, 118) intensive case study research aims at understanding a unique case from the inside by providing a thick, holistic and contextualized description. In this study the aim of the intensive case study is to examine MT learning in the situation of family business succession in two family-owned SMEs.



This phenomenon has not been studied previously thus making this study unique. Although the cases have been examined individually in this study, two case firms were selected in order to compare the MT learning between these cases (i.e. similarities and differences of MT learning). Both cases have been examined through the same theoretical framework.

This case study was realized through a continuous dialogue between the theory and the empirical part which gradually became integrated into a unity. Thus, the research problems of the study arose from the combination of theory and empirics. The process of writing comprised three broad stages: first, the literature review was carried out and the theoretical framework formulated, after which the empirical findings were integrated. Finally, after data analysis and interpretation the theoretical basis of the study was re-evaluated. The data was collected through interviews with the CEOs, other MT members and predecessors of two case firms during the years 2004–2006.

### 3.3 Case selection

The depth and detail of qualitative methods typically derive from a small number of case studies selected on account of their particular interest given the purpose of the study. Qualitative inquiry typically focuses on relatively small samples, even on single cases, selected purposefully (Patton 1990, 53, 169). According to Eisenhardt (1989a, 537) the cases may be chosen in order to replicate previous cases, to extend an emergent theory, or to fill theoretical categories and provide examples of polar types. Yin (1994, 38-46) adds that the single-case design is justifiable under three conditions: where the case represents a critical test or existing theory, where the case is a rare or unique event, or where the case serves a revelatory purpose. In the same way, in multiple-case studies, an individual case is considered akin to a single experiment, each case being carefully selected so that it either predicts similar results (i.e. a literal replication) or produces contrasting results but for predictable reasons (i.e. a theoretical replication). Stake (1995, 243-245) claims that almost any case can serve as a source of learning and that wise procedure would be the selection of that the case from which the most can be learned. He argues that the purpose of case study is to represent not the world, but the case. In accordance with the idea of theoretical sampling in which “cases are chosen for theoretical, not statistical reasons” (Eisenhardt 1989a, 537), firms were chosen in which the phenomena of interest would most likely manifest themselves.

The cases of this study were selected purposefully. The logic and power of purposeful sampling lies in the selection of information-rich cases, from which issues of central importance to the purpose of the research can be learned (Patton 1990, 169, 182-183). In the present study the purpose was to find cases of family-owned SMEs run by a MT, which had similar contingency factors (e.g. line of business, firm size, or age), and either which had undergone a succession, or in which the process of succession was still in progress. The sampling strategies of purposeful sampling in this study were, first, combination or mixed purposeful sampling, and, second, intensity sampling. The benefits of the former method are flexibility, method triangulation, and additionally, it meets multiple interests and needs. Intensity sampling concentrates on information-rich cases which manifest the phenomenon of interest intensely but not exhaustively (Patton 1990, 171, 182-183). The purpose was not, for example, to find unique cases or to achieve saturation. The cases were selected in order to provide the researcher with an opportunity to study the phenomenon of interest in two family-owned SMEs, and in order to explore how the phenomenon

exists within these particular cases (Stake 1995, 236-237). Using a case study, it is possible to obtain information at greater depth on a very small number of cases within the limits of a report.

The study required a sample of firms which were willing to cooperate freely with the researcher. After initial interviews with the CEOs of four firms, two family firms were selected. The case firms were selected from the same field of industry (the metal industry), mainly because firms from different fields of industry might not have provided comparability; the work of MTs could have differed, for example, on account of the dynamics, the unpredictability or the variability of the industry. Moreover, by focusing on one line of business it is possible to eliminate those contingency factors arising from the differences between fields. The objective of the case selection was to find similar firms with the same backgrounds (e.g. line of business, legal form, firm size, age) and in which the succession either has taken place, or is currently taking place. Although the selected case firms differ in their levels of performance, comparison of the firms in terms of this difference was not the primary aim. More important was the task of identifying, on the one hand, the precise role and function of a MT in management of succession in these firms, and on the other hand the effect of the succession upon the work of the MTs. It is because the firms are dissimilar in terms of MT work and succession that investigation of the two cases may provide valuable on the phenomenon in question.

A pilot survey was carried out prior to the actual case selection and the interviews in order to familiarize the researcher not only with the MT in a family-owned SME, but also particularly with the work of MTs. Moreover, the purpose was to confirm that the themes and questions would provide sufficient information for answering the tentative research questions, and for reaching an understanding of the MT work in the family-owned SMEs. There seemed to be many similarities, but also certain differences, between the case firms<sup>10</sup>. The legal form in both firms is that of a limited company, the type of owner in both firms is private domestic owner, and both firms are family-owned SMEs.

In Varkauden Metallityö Oy, the MT consists of members hired from outside the firm and without ownership, although a family owns the firm. The family members (i.e. the parents of the CEO) participate occasionally and as required, in the MT meetings and do so in the role of members of the board of directors, or as owners. Thus the team has parental ties (familial MT), even these are only occasional. In Metallipojat Oy, the MT consists of hired managers and family members, but without parental ties (Ensley & Pearson 2005; Nordqvist 2005). The size of the firms in terms of employees, sales turnover and production premises are within the same category. The present CEOs of both firms have a sound basic knowledge of the firms and the business, both of them having grown up in the firms and having participated in the firm operations since childhood. In both cases team-based working became necessary after the succession, in 2003, of the next generation. However, in Varkauden Metallityö Oy the MT work had commenced earlier, several years previously, on the initiative of the former CEO. Metallipojat Oy had operated for 34 years and Varkauden Metallityö Oy for 23 years before the succession. Both the young successors spent some time also outside the firm either in other occupations or studying, before the succession. Both firms have grown since their foundation; Metallipojat Oy markedly so immediately following the succession, and Varkauden Metallityö Oy earlier, during the era of the

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<sup>10</sup> The information about the selected firms is based on Asiakastieto Oy register, Inoa Yrityshaku register and the interviews of the firms' CEOs

older generation. Metallipojat Oy operates only at the domestic markets but Varkauden Metallityö Oy has also export and import operations.

### 3.4 Line of business: metal industry

The term industry or line of business are frequently used to classify individual firms according to a set of common characteristics, related to types of products, production technology, or market attributes (Boter & Holmquist 1997, 166). Firms operating in the same line of business are comparable in terms of principal activity and common factors. Similar functions or activities within each industry group are classified together according to the commodities which they produce, and their production inputs and process. In this study, the firms examined represent the metal industry, and both have been classified under the same industry classification TOL 28, manufacture of fabricated metal products except machinery and equipment within Finland's national Standard Industrial Classification TOL 2002. The industrial classification is the most commonly and widely used classification standard within the system of official statistics. It is utilised in several statistical areas and administrative systems in the public sector, and it is also generally used in private sector information systems and surveys. However, the businesses of different firms in the metal industry are heterogeneous and therefore the views produced by the industry need to be applied in detail (Elf 2005; Statistics Finland 2007).

The focus on the metal industry was natural, as that industry is strongly SME-intensive, and has good preconditions for growth and development. The sector was also chosen on account of its primacy in the Finnish economy (Littunen 1992; Littunen & Storhammar 2000; Littunen & Niittykangas 2004). Several factors have increased the need for business interaction, particularly been growth-orientated firms: the changes in the working environment of metal industry firm, internationalisation and the heightened importance of know-how as competitive advantage have increased the need for interaction, especially between growth-oriented firms (Littunen & Storhammar 2000). Moreover the choice of industry for this study is supported by the fact that SME policy is also aimed at metal industry firms (Ministry of Trade and Industry 2005).

The metal industry is one of the three technology industries in Finland, these being the electronics and electricity, the machine and metal industries, manufacture of basic metals being the largest industrial sector in Finland. It makes up 44% of the sales turnover, 59% of exports, 46% of personnel, and 81% of research and development (R&D) of all industries in Finland. The sales turnover of manufacture of fabricated metal products (TOL 28) was 5 m€ (Elf 2005, Federation of Finnish Technology Industries 2005). The sales turnover of each field is presented in Table 7.

**Table 7: The sales turnover of technology industry by the fields (m€)**

Sub line of business	1995	2001	2002	2003	2004
Electronics and electricity	7900	21000	20550	18700	18900
Machine and metal products	11500	18750	17900	17700	18500
➤ metal products (TOL 28)	2800	1650	4800	4850	5000
Manuf. of basic metals	3850	4900	4950	5300	6800
<b>Total</b>	<b>23250</b>	<b>44650</b>	<b>43400</b>	<b>41700</b>	<b>44200</b>

The technology industry embraces metals manufacture, together with refined steel and copper products, valuable steel, zinc and nickel for the needs of metal products, machine, vehicle, con-

struction as well as the electronics and the electro technical industries. Every hour, 500.000 kilos of metal are produced, throughout the year. The industry is developing its production towards refined speciality products and related customer services. The emphasis is on expertise as well as on efficient utilisation of information technology, automation and new technologies. Finnish metal processing is known for its efficient energy and raw material utilisation. More than a half of the world's copper and a third of nickel is manufactured with the ecological flame-melting technology developed by the Finns (Federation of Finnish Technology Industries 2005).

The metal industry is among the most traditional and the strongest industries in Finland. Its central strengths are cost effectiveness, high-quality operation and high production technology whereas the weaknesses relate for example to marketing (e.g. to planning, selling, and after sales), to paucity of customer related business planning, to the supply of a professional workforce, and to the competence required by international projects (Elf 2004; 2005). The metal industry is highly dependent on the development of domestic demand. Manufacture of machinery and equipment, and construction are important upgraders, and investments in those fields directly affect the increase in production of metal products. In 1995 manufacture of machinery and equipment and metal industry passed the level at which it stood before the recession and strong growth continued until the year 2001, after which date growth came to a halt and a recession has been felt once again. Fluctuation variations slowed many factories in the years 2001-2003, not only in for example the electronics industry but also in the metal industry. The volume indexes of the metal industry weakened uniformly with the exception of the manufacture of machinery and equipment. However, there was a rise in 2005 (Elf 2004; Statistics Finland 2007).

The sales turnover of the production of the metal industry (manufacture of fabricated metal products, TOL 28) was 4.75 billion euros in 2003. In 2001, the industry provided employment for 41.300 employees altogether, of which the manufacture of structural metal products employed 12.670 workers (ca 31%) (Elf 2004). In 2005 the greatest increase in sales turnover occurred in all sub lines of businesses in the metal industry, as well as in the chemical industry. The growth rate in the metal industry increased from 15 to 23% in 2005, the manufacture of fabricated metal products in particular accelerating its growth. At the beginning of 2004 its sales turnover was still on the wane (Statistics Finland 2007), the gross value of production for the metal industry (TOL 28) being 5.44 billion euros in 2004. Approximately 1.37 billion euros of production went to export (Vuoste 2005). Table 8 represents the salient figures for the metal industry (TOL 28) in 2003 (Statistical Yearbook of Finland 2004).

**Table 8: Salient figures for the metal industry (TOL 28)**

<b>TOL 28 Manufacture of fabricated metal products (2003)</b>		<b>Change to previous year</b>
Personnel (year 2002)	41301	-0.40 %
Export	1448 m€	18.20 %
Gross value of production	5081 m€	-1.70 %
Value added of production	1935 m€	-0.20 %

Table 9 presents the key ratios of TOL 27 (manufacture of basic metals) and TOL 28 industries in 2002 (Statistical Yearbook of Finland 2004). Comparison of operating margins is possible only between firms in the same field of industry, but is however, difficult because the means of production may be owned or rented either partly or completely by the firms. Moreover, a generally applicable target value for an operating margin has not been defined, although the recommended value

in the industry sector is more than 10 per cent. To be profitable, the net result of the firm has to be positive, adequate level being predetermined by the goals of strengthening the financial structure and sharing the profits. The total result as a key indicator is valuable for the control of a firm's development, for comparison within and between different industries. The total result rate is good when it is over 10 per cent. In the metal industry (TOL 27-28) the rate is 9.8 per cent. Return on investments (5.5%) in the field of the metal industry is passable; the boundary for a good level is 15 per cent. Equity ratio (>40%) in the field is good whereas quick ratio is at the satisfactory level (the boundary for good being over 1) (Yritystutkimusneuvottelukunta 1999, 52-63).

**Table 9: Industrial firms: key ratios by industry in 2002**

Industry	Operating margin % <sup>11)</sup>	Net result % <sup>12)</sup>	Total result % <sup>13)</sup>	Return on investment % <sup>14)</sup>	Equity ratio <sup>15)</sup>	Quick ratio <sup>16)</sup>
TOL 27-28	9.8	3.8	8.7	5.5	44.9	0.8
Basic metals and metal products manufacture						

Approximately 93 per cent of all firms in Finland are micro firms (i.e. employing fewer than 10 workers). In the field of the metal industry (TOL 28), the corresponding proportion is slightly lower, being about 80 per cent. The next common firms in the field of metal industry are small firms, employing fewer than 50 workers. Small firms are extremely important employers in metal industry employing over 54 per cent of all workers in the firms fewer than 50 employees. Approximately 99.9 per cent of all firms in the metal industry (TOL 28) are SMEs (employing fewer than 250 employees) which is slightly more than the rate of all SMEs in Finland (99.8%). The key ratios for 2002 are shown in Table 10 (Statistical Yearbook of Finland 2004).

**Table 10: Industrial firms: key ratios by industry in 2002**

Establishments in manufacturing: data by the size of their personnel in 2002.									
TOL 28 Manufacture of fabricated metal products, except machinery and equipment									
Size of personnel									
0 – 9		10–19		20–49		50–99		100–199	
Establishments	Personnel	Establishments	Personnel	Establishments	Personnel	Establishments	Personnel	Establishments	Personnel
3631	7813	447	6050	284	8667	116	7892	44	5943
200–499		500–999		1000 –					
Establishments	Personnel	Establishments	Personnel	Establishments	Personnel	Total:		Establishments:	Personnel:
12	3102	3	1961	0	0			4537	41428

Manufacture of structural metal products (TOL 281) represents about a third of the whole metal industry, being thus the predominant group of metal products measured by different key ratios. Manufacture of structural metal, together with other metal sub industries, has decreased in terms of

<sup>11)</sup> Operating margin = Operating profit + depreciation and reduction in value

<sup>12)</sup> Net result = Operating profit + total financial income./total financial expenses./direct taxes/tax refunds

<sup>13)</sup> Total result = Net result + capital gains from sales of fixed assets +/-other extraordinary income and expenses

<sup>14)</sup> Return on investment = (Net result + interest expenses + other expenses on liabilities) ÷ (liabilities subject to interest + capital + optional reserves + depreciation difference)

<sup>15)</sup> Equity ratio = (Capital and reserves + optional reserves + depreciation difference) ÷ (total liabilities./advance payments)

<sup>16)</sup> Quick ratio = Financial assets ÷ (current liabilities. /advances received)

the sales turnover of establishments. This weakening of competitive capacity in terms of the development of operations with the main purchasers (i.e. leading firms in the industry) is often an overwhelming exertion for small firms due to meagre resources. The average size of the firms should be increased in order to respond to product and development requirements of needs of main purchasers. The manufacturers of structural metal products (TOL 2811) in Finland in 2002 are presented in Table 11.

**Table 11: Manufacturers of structural metal products in 2002**

Order of personnel	Firms 2000	Firms 2001	Firms 2002	Personnel	Turnover (1000€)	Personnel/firm	Turnover/firm	Turnover/ person
0.....4		786	781					
5.....9		195	192	1272	123123	6.6	641	97
10.....19		134	118	1585	179490	13	1521	113
20.....49	97	89	83	2543	330038	31	3976	130
50.....99	21	26	22	1509	196369	69	8926	130.1
100...249	12	15	12	1876	437497	156.4	36458	233.2
250...	2	2	2					
Total	1215	1247	1210	10488	1481331	8.7	1224	141.7

Many small firms are important employers in the field of the metal industry. The number of firms with more than 100 employees has decreased in comparison with the figure for 2001. Large firms expand and take care of volume products, but in the long term there will be opportunities for specialized and high technology firms to operate, grow and develop in profitable ways. The changes of firms and personnel in 15 different areas (Employment and Economic Development Centres) during the period 2000-2002 can be seen in Table 12 (Elf 2005). For example in Northern Savo the numbers of both firms (-5.9%) and personnel (-23.9%) have decreased from 2000 to 2002. On the contrary, in Uusimaa the figure for firms has increased (1.7%) but that for of personnel has fallen (-3.2%).

**Table 12: Firms manufacturing structural metal products (TOL 281) by Centres**

Employment and Economic Development Centre	Firm				Personnel			
	2000	2001	2002	2003	2000	2001	2002	2003
Uusimaa	236	242	240	235	2156	2243	2088	1952
Varsinais-Suomi	164	169	162	154	1408	1616	1441	1204
Satakunta	96	103	105	98	836	861	653	498
Häme	144	150	147	145	1518	1613	1586	1445
Pirkanmaa	160	159	156	150	1090	1124	1059	1014
South Karelia	57	63	59	57	726	859	815	792
South Savo	45	49	44	43	343	424	357	350
North Savo	68	67	64	62	657	626	500	481
North Karelia	46	48	44	45	314	309	231	253
Central Finland	70	71	70	68	399	434	423	419
South Ostrobothnia	116	123	123	131	1325	1312	1283	1211
Ostrobothnia	63	62	58	56	501	546	461	439
North Ostrobothnia	75	76	76	78	842	1119	867	819
Kainuu	21	21	18	18	147	136	78	77
Lapland	46	44	45	46	223	199	245	231
Whole country	1407	1447	1411	1386	12485	13421	12087	11185

The possible growth in production and investments in the metal industry will be restrained in Finland. The increase in production does not create new jobs, on account of more efficient production. In the metal industry the engines of growth will be strong client industries, i.e. electronics, construction, process and machinery. The leading firms in the industry outsource their production and seek new systems and part-system providers, a pattern which increases the need for collaboration in the SME sector. Metal firms lag behind other lines of business in terms of cooperation tradition. For example, in the purchase of raw materials, cooperation within the SME sector would lead to a rise in imports through the increasing effectiveness of the price war (Elf 2004; 2005; Federation of Finnish Technology Industries 2005).

The central possibility for firms in the field of the metal industry might be to create superior competitive advantage, for example by arranging opportunities for lifelong learning to motivated employees (i.e. by the creation of a learning organisation). Additional investments are required in R&D operations, in project work and in control of the firm's integrated planning processes, as well as in the development of information systems. Of central importance is also the need for system providers and for internationalization (e.g. cooperation with international partners and foreign licences) (Elf 2005). Growing threats in the industry are lack of the R&D operations, new engine firms, and young, motivated and professional employees; the high costs of raw materials, and the transfer of production from Finland to countries offering a cheap workforce (e.g. in Eastern Europe). The providers are usually of too small a size, they are not expansive and they lack both long range planning and the resources for risk taking. Development in these areas will be a great challenge in the future in Finland. Furthermore, large international firms enter the European and Finnish market through acquisitions, a process which tightens the competition (Elf 2004; 2005; Federation of Finnish Technology Industries 2005; Ministry of Trade and Industry 2005). Finally, the continuous uncertainty of the world economy threatens not only the metal industry but all industries.

### 3.5 Data collection and data analysis

In the qualitative method the data is usually either verbal or visual (Uusitalo 1991, 79), and are obtained by means of three kinds of data collection: in-depth, open-ended interviews, direct observation, and written documents (Patton 1990, 10). Usually the data is so-called spoken data (Pyörälä 1995, 19). The interview as a method of data collection is flexible, allowing the interviewer to ask further, more defined questions, and clarify unclear questions and answers (Tashakkori & Teddlie 1998, 102). On the one hand it allows the researcher to observe the body language and emphasis of the respondent, but on the other hand it allows also the researcher through his/her expressions, stress, or words, unintentionally to influence the answers (Tashakkori & Teddlie 1998, 102).

In this study the data collection was based on the individual face-to-face theme interviewing method, but also on written documents (i.e. brochures, statistics, figures and plans given by the case firms, articles in newspapers, professional magazines, web pages, and register information). A theme interview was suitable in this case, as the interest was to discover the interviewees' opinions on the subject. Moreover, theme interviewing was suitable in this study because although the subject matter, MT work, was familiar, the themes within it were not. The first interviews opened

up several alternatives to be studied, but one theme, MT learning, emerged as the strongest. Thus theme interviewing and theme analysis offered the most suitable way for the gathering of deeper information about the cases. In addition, the informants were able to speak the theme in their own words. The flexibility of theme interviewing and analysis was also an important criterion in the selection of the suitable method. Rather than their responding to detailed questions, it was more important that the informants were able to talk freely about the subjects within the selected theme. Moreover, the theme interview method fitted well to this study, because it tends to examine points of which the interviewees are not aware or to which they did not pay attention to. In order to attain a holistic picture (Hirsjärvi et al. 2004) and a deeper understanding of the phenomenon, it was essential to let the data speak. The empirical part of the study began with a pilot survey, which was also an important part of the learning process for the researcher. The main reason for the pilot survey was, however, not only to test the form of the theme interview, but also, and particularly, to gain greater understanding of MT work in practice in a family-owned SME. The pilot case assists the researcher to develop relevant lines of questioning, possibly also even providing some conceptual clarification for the research design (Yin 1994, 74). The pilot survey was carried out in a similar firm in the same industry in October 2004.

The first extensive interviews were conducted with the CEOs in October 2004 and June 2005. The CEOs were asked, for example, to speak about themselves, their firm, work, MTs, and goals. The objective of this was to gain a holistic picture of the firm, the CEO, and the MT. The second interviews for the CEOs were carried out in August and September 2005 and they dealt with more specific information about their MTs, such as MT forming, MT meetings, and MT members. Thereafter, in autumn 2005, multiple informants were interviewed (every member of the MTs, including also certain previous MT members), and both semi-structured interviews and open questions were conducted. Open questions were aimed mainly at the CEOs but also at other MT members in the first interview. The objective of open questions was to allow the informants to talk about themselves, their firm, the MT, and the issues which they considered to be most important in their work: this produced a full and rich array of such issues. The interviews also helped to regenerate and refine the research questions and to focus the research subject. Moreover, the previous interviews together with the first analysis based upon them, functioned as a base for the third interview with CEOs and for the second interview with other MT members. At this time the more specific questions (i.e. the semi-structured interviews) could be formulated during the research process, as the uniqueness of the case and the phenomenon of interest became more familiar to the researcher. The second theme interviews, focusing on MT learning and succession, were conducted in autumn 2006, when the founders of the case firms were also interviewed.

Interviews with the MT members lasted from 30 minutes to 2 hours, and they were carried out mainly in the meeting rooms of the case firms. The place was familiar to the interviewees and it was they who also decided upon the suitable time for the interviews. After several visits to the firms and the first-time introduction to the premises and the factories by the CEOs, the researcher began to feel familiar with the case firms. One predecessor was interviewed at his home and two MT members were interviewed on the telephone on account of distance (one of them had left the firm and worked far away, and the other was on a maternity leave). However, all interviews were recorded, and on each occasion the informants' permission for the recording was requested. There were altogether 9 MT members in the case firms (5 MT members including the



CEO in Varkauden Metallityö Oy and 4 MT members including the CEO in Metallipojat Oy). The total number of interviewees was 11 and that of actual interviews was 21. The CEOs were interviewed altogether three times, other team members twice and the predecessors once (a table of the interviewees with the dates and duration as a piece of empirical research is presented in Appendix 4). Shorter follow-up sessions were conducted wherever necessary in order to clear up factual confusion and to verify perceptions and interpretations. Notes were taken both during and after the interviews, and the interviews were recorded using a mini-disc recorder. There were nearly 104 pages of transcribed text. Data collection in this study relied also on the reports of Asiakastieto Oy and Inoa Yrityshaku registers and written documents (e.g. brochures and other written material from the case firms and newspapers), as presented in Table 13, in addition to discussions on the telephone and by email.

**Table 13: A summarising table of the collected data**

Data	Hour (app.)	Page (app.)	Piece
Interviews	19	104	21
Brochures		12	7
Statistics/reports* included:		39	6
• Inoa Register			
• Asiakastieto Oy			
Statistical Yearbook of Finland			1
Figures (organisational, operational)			2
Articles in newspapers			10
Professional magazines			3
Web pages			4
• Case firms			2
• The Finnish Technology Industries, Statistics Finland			2

\*financial statements

In this study information from the cases was collected in order to gain a more profound understanding of the MT learning of two different firms, with the intention of comparing the two MT learning cases and examining their differences and similarities. It was interesting to see to what extent the reasons for the MT learning were similar, and in which aspect they differed from each other. Thus the comparative case study method was suitable for this study. Data collection and analysis were inseparable from each other, because every attempt to organize and label the empirical material required some kind of interpretation. After the first interviews the data was categorized thematically, interpretation being included at this stage. According to Metsämuuronen (2003, 196) it is very common in qualitative research for the data collection and analysis to take place simultaneously. Miles and Huberman (1994) identify three phases interacting with the actual data collection: reducing the data, classifying, and making conclusions. The first of these phases involves the reduction of a large quantity of information to more manageable proportions by means of thematization. The next step is to examine the answers of these themes followed by classification of the material in order to draw the conclusions. In practice this means comparing the various topics and the answers in order to identify the differences and/or the similarities between them. Finally conclusions are drawn from the data in order to clarify the total meaning, and to evaluate the reliability of the interpretations (Miles & Huberman 1994, 10-12). This is the method by which the data was processed in this study. Processing qualitative data is largely manual work carried out by

the researcher, thus it is important for the credibility of the study that the processing of the data, in addition to the choices and their justifications, should be described in detail (Pyörälä 1995, 21).

The data analysis of this study began after the first interviews (those with CEOs and other MT members) with the analysis of both firms separately (i.e. within-case analysis). The purpose of this description was to construct meaning by linking empirical patterns (themes, events and processes) in order to form a holistic configuration, i.e. the case (Stake 1995, 78). The data was examined in as empirically-based a manner as possible, in order to allow different themes to emerge (Eskola & Suoranta 1998, 153). The data was systematically studied, and each topic was marked with a different colour during, as an aid the structuring and clarification of the contents. The coding was to facilitate the examination of the variety of data, i.e. to study which topics found in the data were related to the research topic. Coding facilitated the processing and analysis of the data, as similar parts of the text were easily found (according to the code). The coding was done by hand with colours and side notes, the aim of using different colours being to identify different topics in the text. The side notes showed the key words of the contents. Manual coding seemed a natural choice to the researcher, there being no programs available for the processing of qualitative data. Dividing the interview text into themes or discussion topics helped towards the recognition of central matters and the creation of connections between them. Gathering the rejoinders under the same theme simplified the interpretation and summarised the opinions of the respondents on the different themes in both firms. The same piece of text may have been classified under several categories, if it referred to several themes.

Many interesting themes were discovered in the data, such as reasons for MT work and forming a MT, responsibility, commitment, flow of information, co-ordination, firm growth, development of MT work, ownership in MT, turnover, conflicts, power in MT, and decision-making: these were classified on the basis of the themes. Many of these, although interesting as such were widely studied phenomena. At first MT learning seemed to be somewhat on the periphery of the discussions but repeated attention to the data revealed that the subject recurred in connection with certain other themes. MT learning seemed to be an extraordinary and important phenomenon in both the case firms run by new successors and their MTs. This fascinating phenomenon demanded examination, and it thus formed the main research question of this study and the theme of the final interviews.

The analysis of the final data (including the entire interview material) was conducted as follows. The taped text was transcribed, by which is meant that all interviews were transcribed verbatim. The relevant was separated by classifying the sections of the interviews into many different groups and sub-themes which clarified the research problem and helped towards structuring the text. This was done by picking out those sections of the text which discussed the current theme, and by arranging them under the different themes. This was conducted with the copy-paste function, which also allowed the use of the same text under several themes. It was important to organize the material chronologically in order to show and maintain the order of the events. Over time, changes had occurred both in the MT work and in their membership, and it was important to be able to examine these changes in the correct order. However, although the data collection was made temporally, the analysis of the cases did not follow the same chronological order, because it was not possible to present chronologically the themes arising from the discussion. However, chronological order was used where possible. The data was organized gradually, and the theoretic-

cal framework assisted in the processing of the empirical observations. At the same time the relationship between the separate answers and the theoretical framework was beginning to take shape. Quotations were used as a basis for interpretations, for example, to justify an interpretation, to describe the data, to invigorate the text, and to simplify the story (Eskola & Suoranta 1998, 173). After this it was easier to identify the issues which the MTs had learned, and to see the whole body of data from the viewpoint of the study, i.e. MT learning.

### 3.6 Validity and reliability

In qualitative research the question is discussed as to whether the validity and reliability of the study are relevant when evaluating the quality of the research (e.g. Eisenhardt 1989a). Many researchers (e.g. Lincoln & Guba 1985) speak rather of trustworthiness and authenticity when evaluating qualitative research and its empirical suitability. Knowing what conclusions to draw when findings agree or differ across studies depends upon evaluations of the validity and reliability of observations (Kirk & Miller 1986, 41). Validity may well be a problem which quantitative researchers are far less likely to face on account of their faith in numbers (Curran & Blackburn 2001, 117).

Validity refers to the degree to which a study accurately reflects or assesses the specific concept which the researcher is attempting to measure, or in other words, the quality of fit between an observation and the basis on which it is made (Kirk & Miller 1986, 80). It indicates whether the methods, approaches, language etc. used in the study are relevant from the viewpoint of the research subject and questions. The validity of the study signifies the ability of a measurement or the capability of a method to measure the information which it is intended to observe (Uusitalo 1991, 4, 84; Pyörälä 1995, 15). Validity represents the truthfulness of findings, and the results can be seen as trustworthy if they are not a cause of coincidence. In qualitative research validity is present constantly (Uusitalo 1991, 84; Whittemore et al. 2001).

Researchers should be concerned with both external and internal validity. External validity describes the relationship between empirical data and theoretical conclusions. It may also refer to the extent to which the results of a study are generalizable or transferable (Uusitalo 1991, 84; CSU 2005). Internal validity refers, first, to the rigour with which the study was conducted (e.g. the design of the study, the care taken to conduct measurements, and decisions concerning what was and was not measured); secondly, it refers to the extent to which the designers of a study have taken into account alternative explanations for any causal relationships they explore (CSU 2005). The validity of the study can also be examined from many different viewpoints, such as face validity (the obviousness of the relationship between an observational procedure and what it is intended to observe); instrumental validity (the correspondence between an observation and a different and accepted observation of the same thing); and construct validity (the quality of the relationship between an observation and the element of a model that represents it) (Kirk & Miller 1986, 21-22).

The standards for establishing the validity of qualitative interpretations do not differ greatly from those that may be applied to any kind of research on social and business topics. First, the statement of the problem which the researcher aims to address has to be expressed clearly and precisely, as do all key concepts and assumptions. Second, validity also rests on methodological adequacy, i.e. the ways in which data has been collected. While the size is not crucial, the theoretic-

cal justification for the case study situations selected must to show evidence of careful thought. In the third place, validity is also dependent on analytical adequacy (are the elements in the interpretation clearly stated, and is the logic linking them equally clearly presented?). Fourth, is the interpretation situated clearly in the context of previous research and does it anticipate the objections an informed reader might make? Fifth, what form do the claims made by the interpretation take? Are they qualified to refer to a specific range of situations or are they universal claims? Finally, where the research has implications for policy and practice, do these receive sufficient attention? Meeting the needs of policy-makers and practitioners is always not the main goal of small business research (Curran & Blackburn 2001, 118-120).

In qualitative research the question of validity is theoretical and multiphase. The researcher has to show that using the current research setting and focus group it is possible to answer the research questions, and also has to estimate the generalization of the interpretation. Presenting interpretations to respondents certainly acts as a check on their validity and is relatively easy to use in small business research. However, respondent assessment is no guarantee of validity since most people like to see themselves in as favourable light as possible (Curran & Balckburn 2001, 120).

Reliability in qualitative research refers to the extent to which the same experiment, test, or observational procedure in the same context yields the same information or result on repeated trials (Kirk & Miller 1986, 80; Uusitalo 1991, 84; Whitemore et al. 2001; Yin 1994, 33). The goal of reliability is to minimize the errors and biases in a study (Yin 1994, 36). Without the agreement of independent observers able to replicate research procedures, or having the ability to use research tools and procedures that yield consistent measurements, researchers would be unable satisfactorily to draw conclusions, to formulate theories, or to make claims about the generalizability of their research (CSU 2005). Particularly with case studies, the requirement of reliability is being understood as a repetition of analysis (Uusitalo 1991, 84; Eskola & Suoranta 1998, 209-211). In other words, reliability measures how the researcher has implemented the research; would another researcher end up with the same kinds of results, even though the interpretation could be different? The researcher itself is the most important criterion of reliability and Eskola and Suoranta (1998, 211) use the terms *credibility* and *cogency* to describe reliability.

In qualitative research there exist also other substitute criteria for reliability: *credibility*, *transferability*, *dependability*, and *conformability*. The last of these refers to how the interpretations of the research about reality of the objects correspond to the original thoughts. Concerning transferability, the researcher has to estimate in which way the results are transferred or adapted to other, similar contexts (Lincoln & Cuba 1985, 42-43). Reliability depends on explicitly described observational procedures. Several kinds of reliability may be distinguished such as: *quixotic reliability* (referring to the circumstances in which a single method of observation continually yields an unvarying measurement); *diachronic reliability* (referring to the stability of an observation through time), and *synchronic reliability* (referring to the similarity of observations within the same time period) (Kirk & Miller 1986, 41-42). In the case where the reliability of the study is low, then the validity of the study is also low. However, the opposite is not necessarily the case: a measure may be reliable but it cannot be valid without being reliable, i.e. the research method can be reliable even though the study was not valid. Reliability is a necessary but not adequate condition for validity (Pyörälä 1995, 16).

*Validity and reliability of retrospective study*

Despite doubts on the validity of self-assessment and its utilization, there is reason to believe that individuals are in a good position to make a valid assessment of their own knowledge and capabilities. The person who is carrying out the task possesses the greatest familiarity with it, and therefore is an appropriate person to answer the questions. How could anyone else have a better understanding of a task and of an individual's functioning in it, than the employee him/herself? (van der Heijden & Nijhof 2004). Self-ratings ought to be appropriate for four reasons (Levine 1980, 261): 1) people experience the effects of their actions directly, 2) they gain information about the world around them by observing others, 3) they have received others' judgments of their performance and 4) they have had a good deal of time to verify feelings about themselves and their performance. There are also many reasons to expect individuals in the upper echelons of firms to accurately recall their firm's past (and often continuing) strategy (Golden 1992). First, formulating and implementing a firm's strategy is typically a high-involvement activity for the CEO. Second, the effects of a strategy of the recent past are generally enduring and thus, the CEO may be continually reminded of earlier decisions. Third, in a firm which has recently and intentionally begun to alter its strategy, management might be acutely aware of the recent history of the firm. Finally, anecdotal evidence from research on formal strategic planning processes suggests that processes significantly increase the salience of past and present strategies (Golden 1992).

Despite the popularity of retrospective reports, many researchers are sceptical about results originating from asking people to report on themselves and their performances. It is claimed that key informants may not be able to recall the past accurately. For example Golden (1992), Huber (1985) and Huber and Power (1985) suggested that respondents may misrepresent the past as a result either of 'hindsight bias' or of subconscious attempts to maintain their self-esteem. This may be because of inappropriate rationalizations, dissonance reduction, reduction of distortions caused by initial emotional reactions, oversimplifications, forgetting, the leniency effect (i.e. the tendency to present oneself positively), or the good intentions of respondents. However, it may be pointed out that many of the events studied with retrospective reports are important to the informants, are experienced over significant periods of time, or are discussed with co-workers. Such events are likely to be recalled reliably (Huber 1985).

*Validity and reliability of this study*

The validity and the reliability of the study was secured by paying special attention to the definition of the terms, to the choice of the case firms, to the planning of the theme interviews, and to the gathering of the data. In addition to members of the MTs, certain former members were also interviewed, in addition to former entrepreneurs, i.e. predecessors. In both the case firms, the sample represented a well-chosen topic. When there are sufficient interviewees, the researcher has a clear understanding of the researched group (Hirsjärvi & Hurme 1988, 129). The validity was also increased by concentration upon different themes on several visits to the firms. In other words, the reliability of the results was improved by conducting the interviews in several phases. In practice, the focus of the research was sharpened during the first interviews, and at the same time the knowledge of the researcher about MTs was increased. The researcher also gathered information

of MT work by visiting a MT of an IT-firm outside this study, and by interviewing the CEO of the pilot firm.

One problem regarding the validity in an interview study is the human memory. At some points the interviewees recognised this problem. The events may have happened a long time in the past, or may have seemed insignificant at the time they occurred. It was, however, easier for the interviewees to speak of difficult or sensitive events after a lapse of time. It was also easier for them to evaluate the events afterwards.

The reliability largely concerns the activities of the researcher. During the interviews the reliability was strengthened by using a mini-disc recorder, by following the interview frame, and by the fact that the functioning of the recorder was checked regularly. In addition, the interviews were transcribed immediately after the interviews by the researcher. Moreover, a careful examination of the interviews in the phase of analysis improved the reliability. The texts were organized under different themes and were examined several times. Interpretations were quoted in order to provide the reader with the opportunity of forming an opinion on the validity of the interpretation.

However, an interview research also has its disadvantages. It must be taken into consideration that the researcher influences the received information, and that the research consists of the interpretations of the researcher even if the actual outcome of the interview follows the cooperation between the researcher and the interviewee. The reliability of an interview may also be weakened by the interviewee's tendency to give answers that are too positive. Other possible disturbing factors may also have influenced the interview. For example, in one case the interviewee had forgotten the appointment, and was therefore busy and visibly irritated by his lapse of memory. On the other hand, his state of mind resulted in straightforward answers without prolonged consideration. In addition to the reliability issues of the study, problems also arose in connection with the translation of case descriptions, and with analyses, quotations, and interpretations from Finnish into English. Since there were many expressions which do not translate into English, the language became poorer and more formal. It does not, however, reduce the reliability of the study since they were only translations from the original Finnish text.

#### 4 MANAGEMENT TEAM LEARNING IN FAMILY BUSINESS SUCCESSION: EMPIRICAL DATA

This chapter presents the empirical results of the study. It begins with a short description of the case firms as well as of the MT work during the predecessor and the successor (i.e. situation of the succession) in order to illustrate the backgrounds of MT work in both case firms. At the request of the case firms, the names of the employees and the case firms have been changed in addition to some of the basic information regarding the firms. After the case descriptions the analysis and interpretation of each firm will be presented separately. At the end of this chapter the results will be summarised as a comparative analysis.

##### 4.1 Case firms and case descriptions: background of management team work

###### 4.1.1 Case 1: *Metallipojat Oy*

The previous owner-manager provided the foundation for entrepreneurship in 1970. The firm founded then was a small metal workshop operating in the domestic market and it employed less than 10 workers. The entrepreneurship was strongly based on technical expertise and hard work, rather than on business plans, strategies or budgets. It was a small-scale business in which the management culture was unambiguous: a great deal of work and the hope that there would be enough money at the end of the year. The objective of the owner was to survive with equity and hard work, and to avoid risks and debt. Even though entrepreneurship was hard, it was a lifestyle, not only for the owner-manager but also for the children, who worked at the firm in their free time. Over the years, the firm grew steadily and the operations became more modern. In the end of the nineties, one of the firm's most important customers suggested an extension of the business, but rather than expanding the current business, a new firm was founded by the owner-manager's son. It was quite soon obvious, however, that it was not reasonable to have two small firms operating in the same field of industry, and that it would be useful to merge. Furthermore, the succession had been taking shape in the entrepreneur's mind for some while. The succession seemed to be the right choice for many reasons: the owner-manager was reaching the retirement age soon, and there were some differences of opinion over the visions and the management styles of the firm. For example, increasing the size of the firm was seen as essential by the son for survival in increasing competition, and because of the stricter demands on the market. In practice, a succession was taking place in the original enterprise.

Now the new entrepreneur is leading the firm towards a new strategy and a new operations model. The pioneer generations' way of dealing with problems by working harder and longer hours has been replaced by the operating models of the new generation. The goal of the successor was for strong growth of the firm. By the end of the year 2001, the size of the personnel had been doubled, and large investments in machinery had been made. Today the modern firm employs approximately 35 workers and aims at achieving a 20 per cent annual growth in sales turnover by continuous development of the operations and by investment. The goal of the new CEO is to raise the amount of debt in the first few years, regardless of the results, because it is obvious that increasing the size of the firm also significantly increases the costs. The greater results are expected to be achieved in the future. The production and the size of the machinery are constantly increas-

ing and therefore the need to invest is high in proportion to the sales turnover. The sales turnover of the firm is about 2, 5 million Euros, which is still small compared to the turnovers of other firms in the field. Profitability, liquidity, and respectability of the firm are all weak or at most passable, which is a high risk for a business in the long term. However, the successor does not even try to avoid risks but sees them as an essential part of the business and as due to the strong growth. The firm also seeks to increase the profitability of its customers and to create enduring partnerships with them. Figure 15 presents as a summary some of the key figures of the firm during the years 2000–2006 (Asiakastieto Oy register; Inoa Yrityshaku register; Statistics Finland 2007).

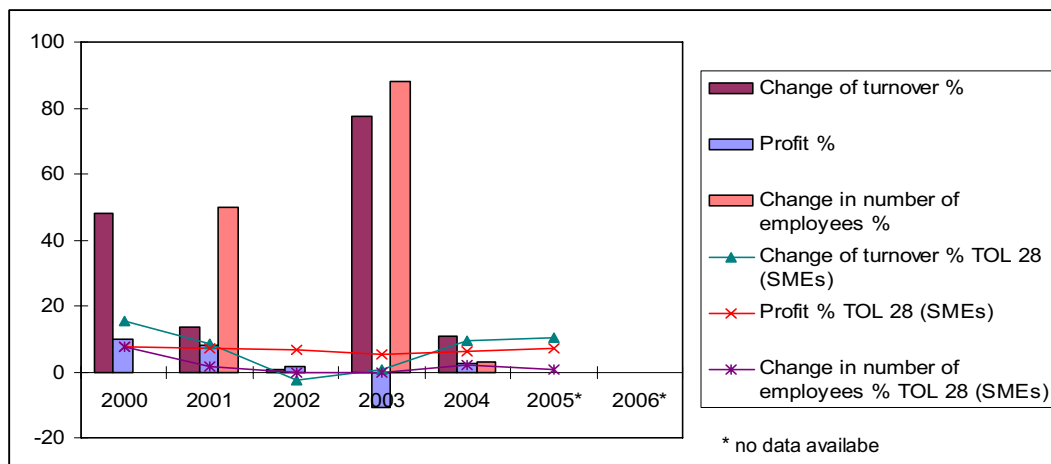


Figure 15: Summary of some key figures in Metallipojat Oy

Growth is seen to be very important in the firm, because at the moment the majority (app. 85 %) of mechanized components in Finland is produced by from small firms with very small sales turnovers. The problem is that the customers want ever higher aggregate control and ever larger supply entities. In practice, the unit size has to be larger in order for the firm to better meet the customers' demands. If the firm is small, it has no credibility and there are no guarantees that it can deliver. In addition, the demands for greater expertise are ever increasing and the control of purchase activities is becoming more important as the customers outsource their purchases. Further, in the next few years the size of firms will grow, the number of firms will decrease, and there will not be successors available for all.

#### *Background of management team work in Metallipojat Oy*

When the present CEO Olavi finished high school the business in the family firm run by his father Paavo was rather small-scale, and the firm employed less than 10 people. The founder of the firm, Paavo, also had all the information regarding the present situation and the future of the firm. The business was run without any written business plan or strategies, as was typical for small firms. During his studies Olavi participated more and more in the business, and he also took part in the board work in the end of the 1990s. Founding a firm of his own became an option for him, as one of the most important clients of his father's firm suggested an expansion of the business. Olavi and Paavo discussed several alternatives, and in the year 2000 founded a new firm in Tampere with Olavi as its main shareholder and CEO, Olavi's two younger brothers Jani and Jussi being the



other shareholders. Founding a new firm was sensible, because Olavi thought it would have been too great a contrast to redirect the whole operations of a fairly profitable, traditional firm, had he taken over directly after his father in the original firm. The two firms had separate functions until 2002, when the owners decided on a merger and a succession. In practice the succession concerned the firm founded by Paavo, even though Olavi already acted as CEO of both firms for a year before the merger.

An unofficial, board-led MT commenced work in the original firm at the same time as the idea of the succession was being considered. At the beginning the MT searched for its shape, and the same people were in both the MT and in the board, and this continued until the merger and the change of manager in 2003. At the same time the methods of work in the two firms were standardized, and MT work and board work were separated. The new CEO in particular, was in favour of the separation between the MT and the board, after which more formal MT work started in the firm. After the succession the predecessor no longer participated in the business and the responsibility was entirely transferred to the successor. It was soon realized, however, that operating in two locations was not profitable, and it was decided that all operations would be centralized to Kuopio. Because of the centralization and the need for more employees the premises required expansion. During this expansion a destructive fire slowed down the business, and among other solutions to the problems caused was the renewal of the MT work and the nomination of an experienced chairman for the board. However, in 2006 the firm ended up in reorganisation. The aforementioned events are described in Figure 16 as a timeline from the founding of the family firm until the reorganisation.

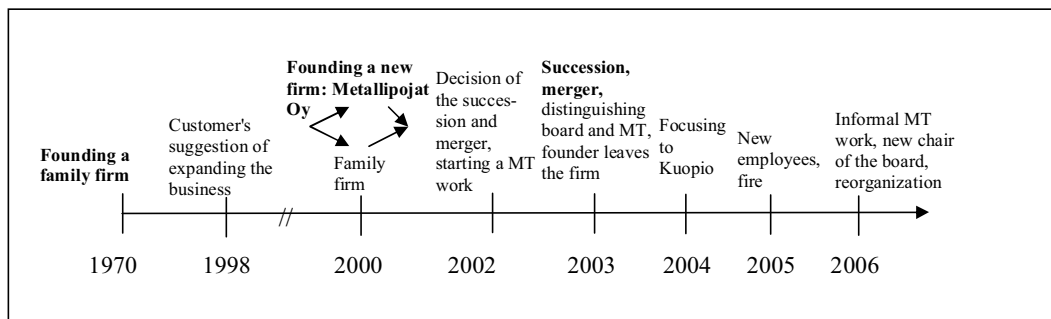


Figure 16: Time line from founding a family firm to the reorganisation

#### Paavo's era

Paavo is a traditional, hard-working entrepreneur with a long career and an endless interest in his life's work. His career comprises work in many firms in the metal industry, and he has founding experience of several, temporally sequential enterprises. Being an entrepreneur is such a vital part of him that even after his retirement he founded a firm, mainly for his own amusement. New business was also a way to ease the concern and anxiety he feels about the new generation taking over the original firm.

Paavo's first business started as a garage firm. As its first actual premises the newly founded firm had an old cowshed, filled with different kinds of metal-working machines. The quality of work was praised by customers and increasing demand soon forced the expanded busi-

ness to look for more premises. These new premises had space for nearly 20 employees and served until the succession. Even though Paavo had a much conversation with the employees, the decision-making, the running of the business and all knowledge about the firm from strategies to financial matters was his responsibility. His solution to problems was to work longer hours and harder. Even though the business was small-scale, there was still considerable office work, not to mention managerial work, in a firm with now about 20 employees. Paavo, however, was in his element while working the machines. As an example of this he transferred in his last years all CEO responsibilities to a hired manager, Pentti. Before the succession Paavo had two hired managers who together took care of machine acquisitions, salaries, and other important issues. Thus there was informal MT work occurring in the firm already in the beginning of the 21<sup>st</sup> century.

In practice Paavo started in his last years to renounce the power he had had since the founding of the firm, and thus made room for other key persons in the firm to take on further responsibilities. Even though Paavo knew that the successor would form a MT, he never felt that this mode of operating was suitable for himself. He was used to working by himself and to taking all the responsibility thereby also controlling the risks. At the beginning of the 21<sup>st</sup> century Olavi also participated in the MT work that was becoming a standard working method in the firm. The work was, however, informal and the board led those issues mainly concerning the daily managerial and operational tasks, such as securing smooth production and promoting the sales efforts.

#### Olavi's era

Olavi's era can be roughly said to have begun in 2002 when, among other changes, the responsibility for the original firm was transferred from Paavo to him. Olavi is the eldest of Paavo's sons and has worked in different positions in the family firm nearly all his life. He dropped his business studies at university when the opportunity to found a business of his own arose in 2000. After watching for years how his father worked Olavi had his own ideas about running the business, and with the succession he had a possibility of trying these out, and of showing the senior employees of the original firm that the business could also be handled in a different way. The successor had more credibility, when he had experience in the field and did not simply come straight from university to revolutionize the operation models. Olavi thinks that when there are differences of opinion between the predecessor and the successor, and when feelings are involved, outside experts with insight and diplomacy in the issues of succession are required. Olavi and Paavo made great use of outside experts during the succession, because they considered that each expert brought his own additional value to the succession process to help it forward. Sometimes Olavi thought the succession would still not take place, especially when tax issues seemed overwhelming. Nor did the urge of Olavi's two brothers to actively participate in the operations and management of the firm help the process: he thought that the succession had to be clear, well planned, and preferably rapidly realized. In practice this means that the former CEO no longer participates in the operations of the firm after the succession. Olavi also emphasises that the predecessor should have plans, as to how to continue his own life. With Olavi and Paavo, this was the case: there was a storm which caused severe damage to the forests, and Paavo, having much work to do in the clearing up of that, thus stayed away from the firm. Olavi thinks that problems would definitely have

arisen if both had continued in the firm simultaneously, and this would probably also have caused confusion among the employees.

When he considers the matter afterwards, Paavo thinks, however, that the succession was too sudden. For his peace of mind it would have been better to stay in the firm alongside the successor for a while. Even if the responsibility and the management were transferred to the next generation, Paavo thinks that he could have brought his experience and patience to the work alongside the eager development of the younger generation. He considers now that there should be a certain transition time in a succession, when the predecessor and the successor would work side by side, and the predecessor could gradually familiarize the successor with the responsibilities. It was, however, decided in the family that when the successor took over, the predecessor would no longer be involved with the operations. Paavo had to sit by and observe how the successors would respond to the challenges and difficulties. He is still proud of the young generation, and pleased with their eagerness, enterprise, public relations, and courage, although in his opinion the risk-taking could be more moderate. For this he desires help from the MT.

After the succession a many methods were changed in the firm, and new practices were adopted. It took nearly a year (2002–2003) for the key persons to form the actual MT, after which the more formal MT work began, with regular meetings, although in various compositions. The successor Olavi thought that it was more relevant that there now was a systematic method of handling matters important for achieving the firm's goals, and that there was a reliable core-group. In the small firm people were used to the founder Paavo having all the central know-how. With the successor the MT become a tool for managing the firm. Each MT member has his/her own area of functioning and the role of the members is to gather information and to report. For Olavi, the MT, despite being a management and informative tool, is also a vital support after the succession.

The MT was formed of representatives of the firm's accounting, production, sales, and marketing entities. As the CEO of the firm Olavi also acts as the chairman of the MT. Olavi's brother Jani was in the first years few responsible for production, before he transferred to sales in 2005. Two other MT members, Katja and Jorma, were recruited outside the firm. Katja was responsible for accounting and Jorma for marketing. Figure 17 shows the composition of the MT.

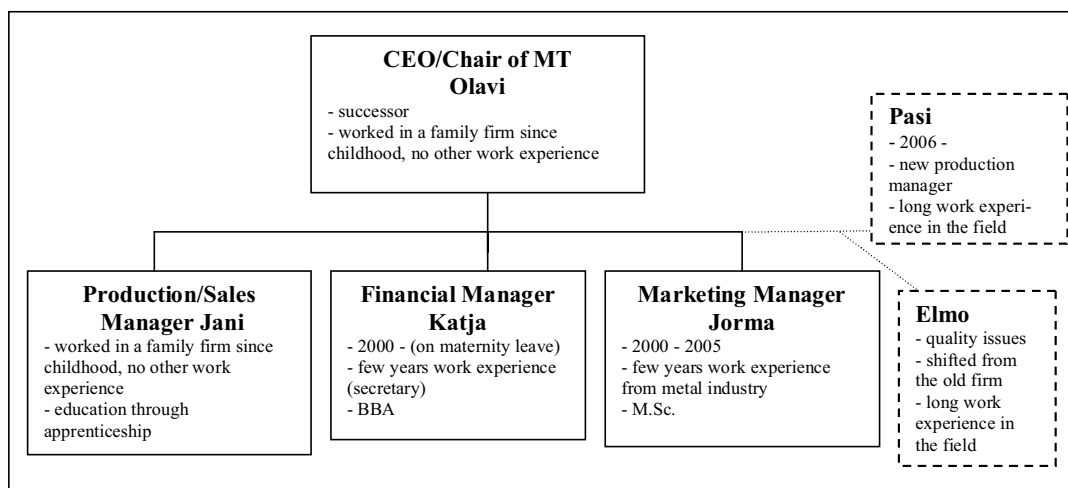


Figure 17: The composition of management team in Metallipojat Oy

Like his brother Olavi, Jani has worked for the family firm his whole life. He acquired his vocational education in the metal industry through an apprenticeship contract, and has represented production in the MT, but since Jorma left the firm, he has been responsible for sales and purchasing. Katja joined in Metallipojat Oy after obtaining a degree in Business from the polytechnic school. Before this she worked as a secretary for the general government for a several years, and soon after joining in Metallipojat Oy she took up the position of financial manager. When she took maternity leave the accounting was outsourced to a private entrepreneur, who operates on the firm's premises and is thus constantly available. Jorma has a Master Degree in Business and also the longest work experience in a large company in the metal industry. In Metallipojat Oy he was the marketing manager for several years, until 2005. There have been several changes in personnel during the last few years. After the interviews Pasi started as the newest member of personnel who was not an original member of the MT. Additionally other members of the personnel were invited to the MT when required, Elmo, for example, who is responsible for quality matters.

The composition of the MT was influenced by the position of its members, but also by their similar views about the development of the firm. After the new CEO started, a clear decision for strong expansionary action was made. For some of the clerical employees the expansionary ideas were, however, impossible; either they did not wish to commit to the bold expansion plans, or they felt their own resources inadequate for expansionary operations. Some termination notices were given in 2003 because of the resistance to change, and the group of key persons was formed quite naturally in the end. According to Olavi the members of the MT took their places and roles in the composition of the team by themselves, by their actions and commitment. The same persons always stayed after hours to discuss matters informally, and even though there were more experienced and even educated persons in the firm, those who were committed and prepared to prolong their days when needed were selected to the MT.

According to the CEO, the marketing manager, and the financial manager the MT work began to develop when the need for systematic methods arose with the expansion, as the control of matters became more difficult. It was hoped that these issues would be solved by more systematic MT work. Until then, according to the financial manager Katja, the MT work had been more like moments of chatting. According to the production manager Jani, the MT work became visible through increased reports and the development of coordination. Even though the representatives of different operations had been conscious of their work previously, the MT work aimed at combining various operations to an even more controllable entity. The CEO Olavi emphasises that earlier the various operations were not in line with each other and therefore starting the MT work was well advised. On the other hand, the manner in which the MT work was begun was not especially well planned: the members admit that there was a general agreement on the matters that should be handled, but the work was not always very efficient or well planned. The main idea was to begin the MT work as soon as possible, after which it could be changed and developed the better to match the requirements of the firm.

According to the CEO Olavi the MT was seen as the best method for developing the firm's operations, and for learning. The other members of the MT also emphasise its being a means of support for the young CEO, a support which was necessary for the operations of the firm. Olavi was only 22 years old when he started as CEO, and he had not had the chance to gain sufficient managerial experience or knowledge. The MT members are satisfied with the fact that

they survived the first phases of the business, and managed fairly well with the existing resources, although none of them had that wider view of developing the business which is usually gained with more knowledge and experience. Even though everything had to be learned the hard way, the MT gave the necessary support for the new CEO and successor. The CEO himself said: *“When it feels like some matter makes the world go under, someone says, it’s not a problem, vice versa, someone says that something may prove to be a problem later...”*

Since 2005, when the operations of two small firms were finally merged and moved under one roof, the firm has adopted three levels of teamwork: MT meetings, production team meetings, and monthly board meetings. The CEO thinks it a good solution to have a separate production meeting under the production manager, this makes the MT meetings more efficient, with the often time consuming production matters being dealt with in their own meeting. In addition to Olavi, Jani also belongs to both the MT and the board, whilst the youngest of the brothers, Jussi, is a member of the board chaired since 2005 by Eevi Rantamäki, who has experience gained in the boards of many other firms. She has brought that very experience longed for in the MT, and it is hoped that she will also be of assistance with the financial situation of the firm.

#### 4.1.2 Case 2: Varkauden Metallityö Oy

The firm was founded in 1980 and it specializes in manufacturing and supplying pipes for industrial projects. However, the roots of the firm are even deeper. Before the year 1980 the firm was operating under a different name, the name of the firm being changed when it moved to a new location which offered a better starting point for the business and larger premises for production. Larger premises and operation in an industrial area provided wider opportunities for the growth and success of the firm. At the beginning, the firm employed less than 10 employees, and the entrepreneur couple worked hard for the firm and invested almost all their time, money and lives into it.

Today the firm is a notable manufacturer in Finland within its field of industry. The production premises have been multiplied and the firm operates as a subcontractor for the largest manufacturers in Finland. In addition, it acts as a representative for a foreign company. The major customers of the firm are power-plant suppliers and the pulp and paper industries, for which it manufactures steel structures such as platforms and conveyors, in accordance with the customer’s blueprints. The firm operates both nationally and internationally, the main export destinations being Germany, Sweden and France. The firm currently employs some 35 workers, and its sales turnover is over 4 million euros which is good to middling in the field. The profitability, the liquidity and the respectability of the firm are all good or excellent, and the business has grown evenly in recent years. However, because of the high level of variability of the field, these results may differ from year to year. Even so, the firm’s financial position is good, the business has been profitable, and the firm has strong possibilities of achieving its goals, which are to reach a sales turnover of 5 to 6 million euros, and to raise its market position in the future. Moreover, the firm wishes to serve its customers according to their orders, and to provide the products as total project-based deliveries. It has invested strongly in the quality of its products as well as in environmental protection and sustainable development. Figure 18 presents as a summary certain key figures of

the firm during the years 2000–2006 (Asiakastieto Oy register, Inoa Yrityshaku register, Statistics Finland 2007).

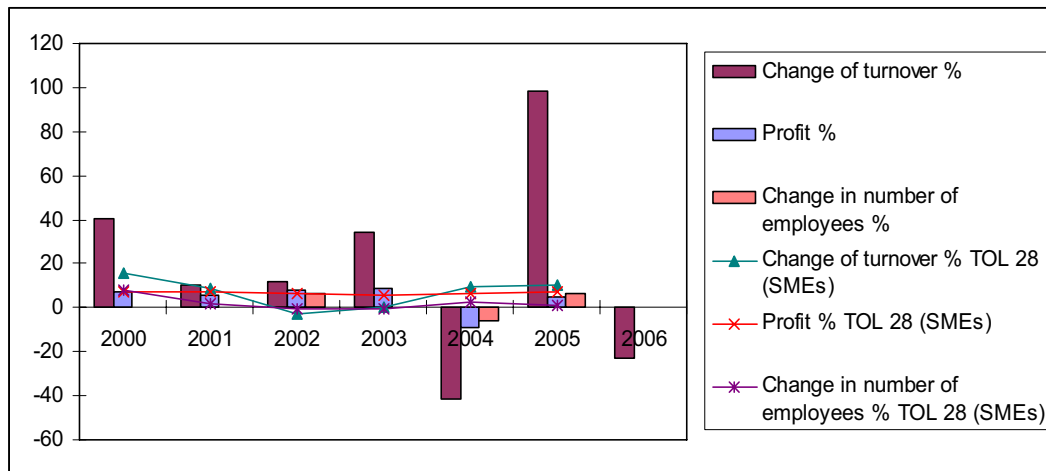


Figure 18: Summary of some key figures in Varkauden Metallityö Oy

Even though the business has developed steadily over the years, and although the numbers of personnel have remained generally constant all the time, there are some stages in the firm's history which have influenced its operations more than others. One of the most significant periods is that growth of the firm which enabled greater production. Without this growth the firm might not have survived in the field. The second remarkable phase that changed the character of the business occurred in the mid-nineties, directly after the recession in Finland, when the firm changed from solely being a manufacturer to being also a supplier in accordance with circumstances and the expectations of customers. The firm started to supply, and also partly to manufacture, the plant and pipes as a subcontractor for a foreign company. It is a considerable asset for the firm to operate as a representative for a foreign company, because it can, on the one hand, increase profit significantly in the good years, but on the other hand, it can also increase the amount of work, thus compensating for the lack of demand in poor years. Therefore, the firm benefits in two ways from its status as a subcontractor.

The most recent significant change in the firm took place in 2003, when the founder made room for the new CEO and turned to act as a chairman of the board of directors. The new CEO is the founder's son, who has worked in the firm in his youth as well as for some time since his homecoming at the beginning of the 21<sup>st</sup> century. The succession is a current issue in the firm and it is planned to be executed in the near future.

In the future, the firm seeks to operate as a system producer in larger projects. Operating as a subcontractor, however, is also necessary for the SMEs in the metal industry. The firm relies on large projects executed all over the world, or at least in Scandinavia, for the firm is more likely to gain a foothold in European or Scandinavian projects. If the contractor comes, for example, from the US or Asia, the chances that a Finnish SME will be included in the project are very slim. The metal industry is extremely variable and labour-bonded, and this considerably affects the operations of the firm: it may be profitable in a good situation in the field, but a poor situation may take away the returns of several years. The threshold for access to the field is high for a new firm,

because the metal industry requires large investments (e.g. machines, equipment, production premises and employees), and because of fierce competition. Indeed, one of the greatest threats for the firm at the moment is the countries of cheap production, competition with which is one of the most difficult issues. The firm plans to transfer a part of its production to Russia (for example a unit producing a certain component) for cheaper production, but the attempt is time-consuming and it requires elaborate preparations because of the high risks involved in operating abroad.

*Background of management team work in Varkauden Metallityö Oy*

The present CEO of the firm Varkauden Metallityö Oy, Mikko, has worked in the firm, founded by his parents Erkki and Sisko, since his childhood (when he worked in his summer vacations and helped with various tasks), with the exception of a period of some years just before his return in 2001. When choosing a career Mikko was at first not interested in the family business, and he studied a different profession, which took him abroad as a pharmacist with quite a different lifestyle from that which the family metal industry firm in Northern Savo would have offered. But when his parents started to plan their retirement and the future of their successful firm in 2001, the family firm won, and Mikko started working there directly after returning to Finland.

*Erkki's era*

Erkki's career as an entrepreneur is long. He set up his first metal industry firm together with two workers, but after some years founding a family firm with wife Sisko seemed more interesting: Erkki used his previous experience to start a firm of their own in the same industry in 1980. Gradually the number of employees increased, thanks to the desire to expand, to increasing demand, and to the commodious production facilities. In addition, the group of employees with responsible positions, 'the responsible crew', as Erkki calls it, grew gradually. As the firm expanded, the flow of information and the ability to manage the entire firm became ever more important for all decision-making and Erkki suggested that some sort of a MT would be necessary. Computers and a new production control system, both acquired in 1996, provided accurate data as a basis for the work of the MT.

The employees, and especially the clerical employees, favoured the MT, as a means of becoming more aware of the business and of the firm's situation. In discussions the MT was found to be the best solution to satisfy the hopes and needs of the whole firm. When it started in the late 1990s, the CEO acted as its chairman, while other responsible individuals formed the rest of the team. However, Erkki wished to concentrate more on the ever-increasing sales, with offer calculations and orders, and hoped to delegate responsibility for the MT work to others. The MT meetings, despite their importance, were also time consuming, and frequently the members wished only for them to be over, in order that they could continue with their work. The CEO decided to hand over the MT to other managers entirely himself, concentrating only on sales. The production manager, Ahti, accepted the challenge, and became the chairman of a more production-inclined MT.

### Mikko's era

When he first returned to the family firm Mikko worked in sales. During this time the idea of succession matured, as the founding generation planned their retirement. Mikko became the CEO a few years later in 2003. The former generation still continued as his support, with Erkki working entirely in the sales department, but continuing as the chairman of the board, and with Sisko in the finance department. About a year after succession commenced, a new production manager, Peetu, joined in the firm, replacing Ahti, who retired after working some time simultaneously with Peetu in order fully to familiarize him with all his future tasks. In addition, the vacant position of sales engineer was soon filled, and Aada commenced work in the beginning of 2005.

The former generation, however, could not leave the business as planned, owing to unfortunate choices in the recruitment of personnel. The new production manager Peetu caused disagreements in the MT, and after only a year the owners asked the former production manager Ahti to step in again. He agreed, but only until his official retirement age. Ahti's return did not entirely solve the problem of staff shortage, since the sales engineer Aada was also about to leave the firm, and did so in the following year. Nor did the situation seem promising for the near future, either, as the MT members' retirement age approached, and as the vacancy of sales engineer had not been filled after Aada's departure. There were to be more challenging changes in personnel in the near future. Figure 19 presents the events described as a time line, from the foundation of the family firm to the departure of the sales engineer.

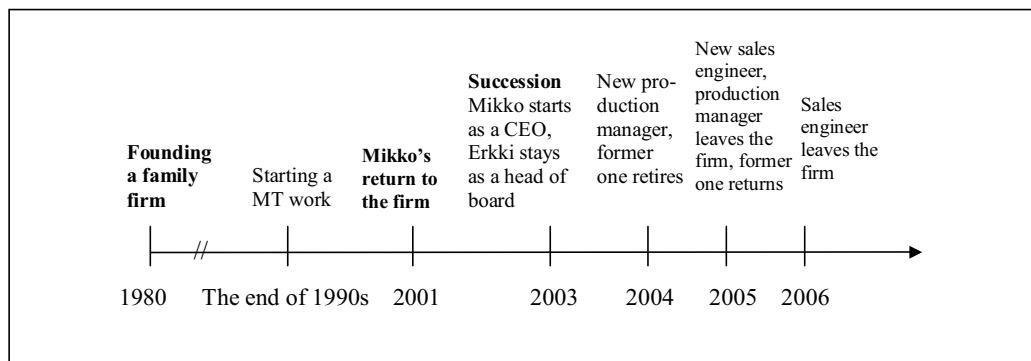


Figure 19: Time line from founding a family firm to the sales engineer's leaving

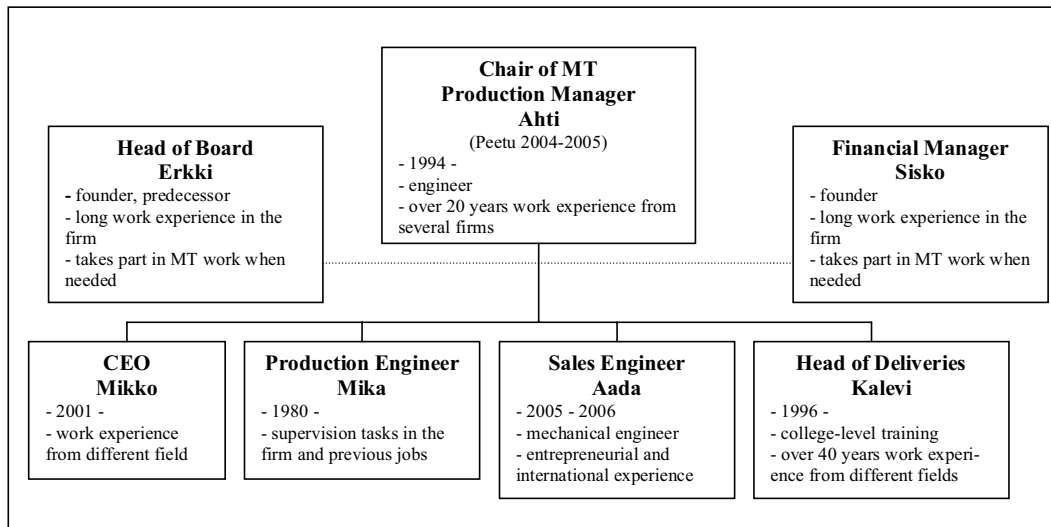
The succession in 2003 meant only that the position of the CEO was transferred, since a part of the shares remain owned by the predecessor. The change of ownership in the firm is not entirely simple, because the shares of the firm are high and the new CEO does not at the moment have the financial resources to buy them. The family does not, however, see the ownership as a deciding factor: more significant are the future form of operations and the management in the near future. Both the successor and the predecessor consider it important to continue for some few years more together, until the shortage of staff is filled and the successor is entirely familiar with the work of a CEO. The transfer of knowledge and expertise takes time and requires strong support. Furthermore the predecessor feels that he could not leave the firm before the successor is sufficiently prepared for his new responsibilities. It would not be even possible to leave the firm at the moment on account of the shortage in personnel, but the predecessor has stepped down from the commanding



position and now supports the successor and his new ideas. In practice the aim is to enable the former generation to have as much spare time as possible, and to let them leave the firm gradually during the next few years. At the moment the knowledge of the founding generation is, however, still required within the firm.

The succession was made easier by the established MT work. Because the new CEO did not have as much knowledge as had his father or other senior personnel of the firm, it was natural that the production manager Ahti should remain chairman of the MT. This was the same solution as that had been adopted during the predecessor's time, and justifiable by the fact that the industry is very much production-orientated. In addition, Ahti had long experience with the industry, with chairmanship of the MT, and with the production of the firm, and was very much liked by the staff. As his father before him, the new CEO wanted to share the responsibility and the tasks, and it was thought reasonable that the person with the most intimate knowledge of the industry and the firm would lead the MT meetings. All parties agreed that Mikko did not yet have the necessary experience, and on the other hand, some thought that being CEO and the chairman of the MT would lead on one person's having too much power. In the new situation, the responsibilities were more equally divided, and Mikko could concentrate more on the sales and on being the CEO. The MT members are, however, prepared to rethink the arrangement if necessary.

The CEO, Mikko, and the production manager, Ahti, both consider that their roles in the MT and their agreement on sharing the workload are very effective. Mikko is responsible for project sales and, as CEO, has an important role in the decision-making and in the management of entities and finance issues. He also manages external relations, as well as the matters relating to the employees within the firm. On his part the production manager, Ahti, is professional as the chairman of the MT. He is a trained machine technician and has worked in the metal and construction industries in several firms, with more than two decades of experience in the metal industry alone. Ahti, together with production engineer Mika, represents the viewpoint of production, and they have the same peaceful and solution-oriented way of handling things. Mika also has the widest experience in the firm, more than 20 years. He worked previously as a foreman in a firm in the same industry, so and therefore the tasks of managing workers are familiar to him. A further member of the MT is Kalevi, a commercial college graduate, who is responsible for the outgoing deliveries and who has over 40 years experience in a range of industries. At the time of the first interviews Aada, the sales engineer, was still employed in the firm. She had a degree in machine engineering, and was the newest and youngest member of the MT with experience both as an entrepreneur and of working abroad. The now vacant position of the sales engineer is covered by Mikko and Erkki together. If the need arises, other members of the personnel are invited to the MT, for example Sisko, who is responsible for the finance department. The line-up of the MT of Varkauden Metallityö Oy is presented in Figure 20.



**Figure 20: The composition of MT in Varkauden Metallityö Oy**

The composition of the MT has remained almost the same since the beginning, despite the most recent changes. The production engineer Mika points out that the changes in the composition have not, however, been sufficiently significant to disturb the MT work. He emphasises that tasks determine the place in the MT, the members having additionally their own tasks to take care of. The production manager Ahti adds that the former CEO Erkki, for example, did not interfere at all with personnel or production matters. In Ahti's opinion the roles became jumbled during Mikko's time when Peetu was production manager: the MT members did not have a clear vision of their tasks, and the confusion had harmful effects upon the functioning of the MT. The members see clear definition of tasks as important, and thus the original MT composition, with the production manager in charge of the production and its recruitment, was reclaimed with Ahti's return.

The members of the MT are unanimous that their work gained in efficiency with the new CEO. Some of the members think that the MT work actually first started with Mikko. Some, on the other hand, suggest that a similar working method had already been implemented by the former CEO, but that the MT work had been carried out in more irregular weekly meetings with varying practices. The present practice is to meet regularly every week with the same group composition, at the same time, and in the same familiar meeting room. As previously in Erkki's era, the scheduled orders are still the leading guideline for the meetings. Owing to the product-orientated nature of the operations, the scheduled orders form the agenda of the meetings, but if necessary, other matters are also discussed: these may be resource planning (e.g. recruitment and investments), projects, and the planning of the MT work itself. The list of scheduled orders displays everything concerning time, money and deliveries, and additionally, the present situation together with future plans for production. The list of scheduled orders is a management tool for production and sales, and is thus according to the CEO and the other members of the MT the most appropriate agenda for the meetings. Earlier, everyone made personal notes on his/her own copy of the scheduled orders, and the production manager's version was saved as the original document, which also constituted the official record of the meeting, and to which the date and the list of members present was added. With the improvement in technology, there are now a wireless internet connection, lap-

tops, and a large screen in the meeting room, rendering it easy to follow the meetings. The members now see the MT work as an important and a systematic way in which to operate. This operation is seen as imperative by the new CEO because there are constantly a large number of customers and orders to be dealt with, and the work is still new to him. In his opinion, for the control and piecing together of the jigsaw puzzle, more personnel and a more effective flow of information are required.

The topics on the agenda of the MT meetings are mainly production-orientated, operative matters. The strategic lines are drawn by the board; the MT only participates in establishing partial goals and discusses the strategic matters caused by daily situation management. The members agree that to ensure efficient MT work, suitable and professional personnel are required, able to discuss relevant matters in a pertinent manner. No member should think about matters only from the point of view of his/her department, but rather the firm should be seen as an entity. The CEO, Mikko, says that in addition to the MT work there are meetings concerning various projects, but if these were the only meetings there would be no sense of the whole entity. In his opinion the MT work clarifies the operations of the whole firm and its managerial work, when managers of different departments meet as a team.

On the initiative of the successor, a team organisation model clarifying the internal operation, communication, and to some extent also the logistics has recently been introduced to the firm. This means in practice that there are four different departments, the managers of which form a group responsible for the operations, i.e. the MT. Each manager has his/her own subordinates with whom more specific discussions take place. Thus greater responsibility and input in development is shifted to the teams, and the voice of the employees is more likely to be heard. The model is also a part of the firm's quality system, enabling even more efficient surveillance and control in the future.

#### 4.2 Case 1: Management team learning in the situation of family business succession

The subchapters of the analyses and interpretation part of this study predominantly discuss themes arising from the data. The chapters "Formation and composition of the MT" and "Mutual support in the MT" in Case 1, however, follow on earlier. The intention was to describe the factors related to the learning of the MT chronologically. The themes arising from the discussions (ownership and responsibility in the MT, improvement of discussions and cooperation, comprehension the 'big picture', and the role of the MT) did not, however, allow a chronological approach, and therefore the review continues mainly by theme, and after the first subchapter (4.2.1. Management team formation, support and ownership), chronological order is used where possible. The interpretation section in the last subchapter (4.2.5) presents the themes in the order corresponding to the analysis. The emphasised (underlined) parts in the analysis chapters show the connection to the characteristics and discussion of CoP. Moreover, it is to be noted that the analysis is based not only on the quotations but also on the other background information to the cases. The quotations, however, lead to the discussions and descriptions presented in this study.

#### 4.2.1 Management team formation, support and ownership

##### *Formation and composition of the management team*

At Metallipojat Oy the MT work started in 2002, when successor Olavi became CEO of both family firms, one in Kuopio, the other in Tampere. In practice the position meant driving from one location to the other. The firm in Tampere, founded with significant investments, had only operated for a few years when the owners realized that both firms were too small to operate separately in the same industry. The idea of succession and the merger of the two units developed, and the preparations began. In the old firm, called Rautapaja Oy, there was no MT work until the very end, when the board started discussion of the issues of daily management. Even though some irregular MT work occurred in the firm as Paavo was finishing his career, the composition and work of the MT in reality first started when the new CEO Olavi became as the CEO of both units. Jorma, who had been responsible for sales and marketing in Tampere, transferred to Kuopio almost at the same time as the future financial manager Katja joined in the firm as an assistant in the accounting department. The brother of the new CEO, Jani, had already worked in production at Rautapaja Oy, but transferred from the unit in Tampere to the original family firm around the same time. At this point there was, however, no clear picture about the composition of the MT.

*"The succession was on at the time when I came and in the beginning it wasn't very visible as I wasn't that actively involved, but after a while you started to see what it was all about. I myself was more involved with the concrete things." (Marketing manager Jorma)*

*"Since the change of leader we had a huge number of method changes and practical arrangements. It took almost a year for the MT to find its form. The formation was nobody's idea. It is an entity that was formed in discussions after work or in the sauna. It would be wrong to say that someone had the idea, because a lot of people have had ideas that have been formed to something else than the original idea actually was..." (CEO Olavi)*

*"The MT was formed by active work during the succession. The whole business was run by the MT and all decisions that were made, and everything that was planned was pretty much in the hands of the MT." (Production manager Jani)*

At the beginning of the millennium there were two simultaneous, on-going processes of change which were central to the control and continuity of the business: the succession, and the inception of the MT work. The successor had already taken on all the responsibility before any MT members had even joined the firm. Not all members, therefore, had seen the initial phases of the firm, or the change of manager, and not all were familiar with former methods. The MT at Metallipojat Oy was formed more as a result of the succession than during it. In practice, however, the MT had in fact worked through the succession, a process which does not necessarily end with the change of the manager but has effects which may usually be seen during the early years after that change.

Even though the successor had a clear vision of the future operations of the firm, the composition and work of the MT were still not formed for some considerable time.

*"There was this group of entrepreneur-like persons who were naturally involved with it. They were also otherwise interested. Whatever needed to be discussed, there was always the same gang..." (Marketing manager Jorma)*

*"...everyone had a role, some bigger, some smaller, some none at all, and we had to find more resources. When the MT then actually was formed, we noticed that it was the same group of people who always stayed after hours to discuss things unofficially." (CEO Olavi)*

*"...it has nothing to do with owning or position, but more with commitment. I believe that 99% of working time can be difficult, but that 1% gives you something and is what you enjoy and rewards...and you with your own actions show what you are capable of...or not so much show but take your position." (CEO Olavi)*

In the way typical of CoPs the MT of Metallipojat Oy was partly formed by itself, even if some criteria were set for the members. The CEO Olavi considers that no one either can automatically assume or can be forced to take responsibility and a position in the MT, but that all have to prove themselves and their suitability for the MT. The members were not in the MT directly because of their position, but were selected based on their work and commitment. In the end the responsibilities were given to those who showed the greatest interest in the business, and who were most willing to use their resources to achieve the goals of the firm. Before the merger of Rautapaja Oy and Metallipojat Oy the MT work had mostly been quite unintegrated, and no one was clearly assigned responsibility for any specific part of the business. Clerical employees had neither official position nor clearly defined tasks. For example, no one was responsible for the budget, sales or production, the CEO was solely responsible for all such decisions. It was only after 2003 when the business increased after the merger that the sharing of tasks and responsibilities was discussed. After that every responsibility was thoroughly discussed together with the CEO, a procedure which was found to be a natural development in the growing family firm.

In addition to the clarification of responsibility areas the common reason to meet was a factor that affected the establishment of the MT work. The business aimed at success through growth, and the need to succeed in the separate areas of responsibility was itself a reason for meeting and cooperation. The MT members were also able to form a coherent and clear picture of the members of the community, i.e. the members of the MT. Thus the members had stabilized their positions in the firm.

*"I like doing this job and I think it's a relevant part of this job, I don't much think about whether I like belonging to the MT..." (Production manager Jani)*

*"I believe belonging to the MT is natural for me. I was the only one who knew about sales and marketing as a whole and I was responsible for it. ...I had close relations, even friendly relations and we discussed things very openly. That was partly what influenced me to find a natu-*

*ral role in the MT. It was also important that I had insight, knowledge and experience that others didn't. Everyone had a different vision about the business and different strengths...* (Marketing manager Jorma)

The key persons of the firm see membership of the MT as natural and necessary both for taking care of their own tasks and for the business as a whole. The status which the MT membership gives its members is not considered in the daily work, if such status is even recognised in small family firms. The MT work reflects naturally the whole organisation through different operations and areas. The unity of the members, on its part, reveals itself in common goals, cooperation, and interaction. Even if the status of belonging to the MT is not recognised in the daily work, the MT is still seen as the most significant community for the development of the business, since in the MT the key persons make all central decisions for operational functions. In this case, the roles and the importance of the MT members becomes clearer and group cohesion increases, a feature which is typical in the norming phase of group development (e.g. Tuckman 1965).

The composition of the MT in Metallipojat Oy largely explains both its learning and the development of the operations. In other words, the characteristics of the members have a great influence on the learning and on how the learning occurs. At first sight the characteristics of the members seem different and complement each other.

*"...the MT requires that there is one reluctant person. Kind of a bone-deep realist, sort of a pessimist. And then you need to be that realist about sales and marketing in relation with your own competency area...and from the viewpoint of finances you need a mother-figure, who keeps the gang together."* (CEO Olavi)

*"If you think about the MT, there are so different personalities. For example, if you think about the production manager, so technically centred... On the other hand, the financial manager is as financially centred as can be, and I have everything in between. People have different kinds of education and working background, and these affect a lot."* (CEO Olavi)

*"It's good that people are fairly different, and there are rarely two people united to defend their view, but people have purely different views on many things."* (Marketing manager Jorma)

Both the comments of the CEO, Olavi, and the marketing manager, Jorma, emphasise the heterogeneity of the MT. However, from the quotations presented above, it appears that the MT members may not be characterized as genuinely different in their characteristics. The expertise of the members is from a rather narrow field, and it is partly overlapping. Three of the members studied business, two of these at university level. In addition, the CEO and one of the owner-managers have worked in the firm since they were young, and learned the metal business through working. Only the marketing manager Jorma has work experience from another firm, three members having experience in the industry. The quotation of the CEO thus only substantiates the claim that, owing to their tasks and responsibilities, the members have different views of the issues discussed in the MT. The members reveal probably a greater number of common than dissimilar characteristics, in

regard to their views, if not to their personalities. This notion is supported, for example, by the CEO's comments on the composition before the actual formation of the MT in 2003 after the merger:

*"In the beginning there was another production manager in the MT. He was okay to run the routines, but as we started to change the methods, he couldn't adapt at all. There was too much change resistance. Another one was the fellow in charge for the data systems and transfer, he was a bit the same... We decided to outsource this function. Both left the firm."* (CEO Olavi)

*"We made a clear decision as we started the business that it would be growth oriented. Unfortunately there were persons among the clerical employees who couldn't think that way. Either they didn't want to, or they didn't have the enough mental capacity. In practice there was a kind of elimination..."* (CEO Olavi)

Those who rejected the growth goals, or who were otherwise opposed to the reforming ideas of the new owners, were thus eliminated from the MT composition. Long-serving experts who could have brought up various ideas and realistic views left the firm, and in the end the MT was formed by those functions or departments whose representatives agreed with the owners on the development of the firm. Even though the MT members had similar views about the development of the firm, the need for experience was evident in the beginning.

*"There should be someone with experience in the MT, someone with authority if not some other influence in the firm... we need a gang who could secure the operations for the first few years..."* (Predecessor Paavo)

*"...seniority is needed. I don't mean that the CEO should be 20 years older, but seniority in a positive way, a broader view is sometimes needed."* (CEO Olavi)

In particular, directly after the succession more experienced members would have been needed in the MT. The predecessor Paavo also thinks that it was a mistake to step aside entirely rather than remaining in the firm after the succession. On the other hand he justified his decision by the fact that the younger generation would not have wanted him to continue, but would have felt his presence to be dominating. Even though the younger generation had similar ideas about the management of the business, the lack of experience and the uncertainty in taking care of matters gnawed at their minds. The predecessor had hoped that there might be an experienced authority figure in the MT, to whose ideas the young would have listened.

#### *Mutual support in the management team*

It was considered that more important than the experience of the MT members was the fact that there were now the right kinds of enthusiastic and committed people in the management of the firm. Even if everything had to be learned from the beginning with the new business and the inexperienced personnel, the MT was still a valuable support for the successor.

*"...the support was vital. If you think of me, I started as CEO at 22, there wasn't enough know-how, and none of us has. We have learned everything the hard way, but there still is the support. It's a bit like being a teenage mother. You are forced to learn." (CEO Olavi)*

*"As a result of this succession process I, even more than before, value the right people doing the right things. Having a reliable, functioning core group around you as a support...even though entrepreneurship is in a way an individual sport, the result is still defined by the few key persons that you have. So you are never alone, but, on the other hand, the group is never very big." (CEO Olavi)*

*"...it was kind of a support. In practice it showed when the things that needed to be done were done much more systematically, and the flow of information was easier, and it was much easier to promote the things you wanted." (Production manager Jani)*

*"The MT was a big support for the successor. Especially, when the successor faced new things and didn't dare to make big decisions by himself like the predecessor had done, the MT was a kind of a strength indeed, when you could go through things with others and get support for your decisions. Without the MT the new manager would be all at sea for the first few years before things start rolling." (Marketing manager Jorma)*

The succession did not end with the change of manager, but was a beginning for the successor's long way, in which the support of the MT was extremely important and welcome. In the succession situation it would have been impossible for the young and quite inexperienced successor to manage the firm entirely by himself. The efforts and mutual support of the trusted personnel has thus been vital for the business. Indeed, apart from the successor, the support has also been valuable and important for the other members of the MT, because it has compensated for their insufficient work experience. The members soon learned that they were stronger as a group than as individuals. In the first years of the 21<sup>st</sup> century significant changes had occurred: first, the merger, then the leaving of the predecessor and certain other experienced clerical employees, and also the doubling of the number of the personnel (see Figure 15, p. 106). In addition, the growth of the business challenged the MT members to discuss solutions for securing the financing, for increasing the sales, and for securing the efficiency of the production. At the same time the MT work became an even more important tool for those responsible for the various operations. The internal discussions in the MT, and the fact of knowing each other, had a significant meaning for the running of the business.

*"As nobody had experience, we have tried together. We have had to think how to handle this (job) together..." (Production manager Jani)*

*"We discuss things a lot, and different views are brought up. You are allowed to say things out loud, but, on the other hand, it is sometimes difficult to criticize others when you are mates. There is no unnecessary bureaucracy in the MT, or a manager-employee setting, but everyone can freely say their opinion." (Financial manager Katja)*



*"It is extremely important, especially in a crisis, to know the working methods of each other. In a small firm the responsibility areas of the MT get personified a great deal, and you have to deal with your expertise in a concrete way. In a crisis it is extremely important to know, how to deal with a certain person, and it speeds up the things and you avoid even bigger conflicts. You just have the knowledge. The subconscious and understanding the knowledge of others and compassion have their value. It tightens the organisation." (Marketing manager Jorma)*

The cooperation and flow of information were significantly facilitated by the immediate and forward relations between the members, which indicate a strong group identity. The hierarchy of the organisation is shallow, and the members cooperate flexibly and support each other. In such a CoP as a MT, knowing the knowledge and skills of the members is very important, because decisions concerning the firm are made based on this individual expertise. This is of significance especially in situations of crisis, when the members need to know each other's strengths, as well as how each functions and reacts in surprising situations. In the MT work it is important that all members have equal knowledge and that they are able to exchange opinions among themselves. This is in a way facilitated by the fact that the MT members have similar views. They know each other well and spend time together outside work. Differences of opinion are thus easy to bring up, even though a close friendship may sometimes hinder the work: for example, discussions among mates may easily be driven onto a sidetrack. Although things can be discussed in a straight and open manner, it may sometimes be difficult to judge a friend's actions. According to the CEO the most important factor in the MT is, however, the working personal chemistry, and the knowledge that the members have of each other's compensating roles and of the mutual support. MT work may thus enhance the control of a succession when the members have learned to know each other's tasks, strengths, and weaknesses as well as to form the right kind of unit comprising different individuals.

#### *Ownership and responsibility in the management team*

Since the composition of the MT was clear it had been considered important to treat the hired managers and the owners as equals. From the viewpoint of work motivation it is crucial that everyone has a voice, and simply not just the owners; in addition, the views of persons outside the owner family were needed for the management of the business. MT members speak:

*"Outside members don't feel as if they had less to say in the MT. That they wouldn't dare to speak, or that it would be useless to tell their opinion. That's a healthy situation that there are not just the view of the brothers Miettinen and then the view of the others, but the opinions vary. There is, thank God, a thread running through the whole thing, and everyone wants the business to grow, and everyone has a common goal." (CEO Olavi)*

*"Outsiders coming to the MT was a good thing, because it made the work official, and you had to forget quarrels among brothers and other personal things, when outsiders were also involved. You can't let out everything; I mean your feelings, like before. Outsiders being there developed the work into a more professional direction... We noticed that with outbursts, which are*

*kind of natural among the family, don't further anything, on the contrary, things do not go forward, and quarrels just took things backwards. They were clear childish mistakes..." (Marketing manager Jorma)*

*"In other firms the discussions are probably a bit more official, and even more correct...among family members we are more direct, and the way how that family members talk to each other does actually rub off...and that's good, you don't need to be shy...In a bigger firm things may not go forward as openly. It may be easier to agree with others, even if you really don't..." (Production manager Jani)*

Although every MT member may openly express their opinions, the ownership is bound to be seen in the operations of the family firm. After the succession, all the brothers had a need to be involved and to take care of matters in their own way, which caused conflicts and disagreements between them. All of them had a high level of commitment, which had both positive and negative consequences. Ownership usually increases the level of commitment to the firm and the willingness to learn quickly. On the other hand, however, the CEO Olavi thinks that family strings are a negative factor, because the opinions of family members often require more attention than the actual task at hand would require. The owners should to be constantly aware of this in order to avoid unnecessary quarrels between brothers. The situation may be seen as rather typical for family firms, where family relations reflect strongly in the business.

MT members from outside the family have brought along a certain level of expectation regarding acceptable behaviour, and the frequency of outbursts and other unnecessary quarrels between brothers has diminished with the hired managers. The owner-managers, on the other hand, think that the straightforward relations between the family members have had an influence also on other MT members and have thus facilitated open and forward discussions. The influence has most probably been mutual, but it may also be a matter of similarity between those members, who personally held similar views to those of the owners, and who were selected to the MT; this may also have had a positive influence on the discussions.

Ownership is naturally also connected to question of the financial responsibility for the business. Because the MT works as a tool for the CEO Olavi, it may be argued that joint responsibility lies far from the decisions of the MT. At Metallipojat Oy the questions of responsibility do not, however, concern only the CEO. Members speak of responsibility as follows:

*"Decentralization of responsibility is an advantage for the MT. The CEO may decide things, but practically only, when the question is about "Hell, does anyone have any idea or a strong opinion on how to act, how we should go forward!?" If everyone is like: "I really don't know", then the CEO decides." (Production manager Jani)*

*"I believe that in a small family firm the power and the responsibility are more easily to be found. The process of learning usually requires a certain responsibility that you get, or have to take, and that may make things easier in a smaller environment. In a bigger firm you may become a wheel in the machinery..." (Production manager Jani)*

*“...making decision is a collective process. We rarely voted, sometimes there were disagreements, but we discussed things. If something was left floating, we continued another time, and if we even then couldn't decide, the CEO made the decision. Or time took care of things. At least we tried to reach an agreement and joint responsibility.” (Marketing manager Jorma)*

In the end, however, the CEO Olavi is the one who decides and who bears responsibility for decisions. Even though the profitability of the business affects the owner-members of the MT more than other members, and even though the MT could not, according to the principles of CoPs, be thus considered jointly responsible, nevertheless the MT of Metallipojat Oy sees the matter differently. The MT members consider themselves to be jointly responsible, because they see the work as being valueless if the CEO decides all matters alone. Moreover, as the firm is fairly small, and since the core group in charge, also small, is in addition somewhat inexperienced and small as well, the responsibility is shared. Very seldom does the CEO decide on anything by himself; according to the MT members this occurs only when a decision is required, even though no one has certain knowledge of how to take care of the issue.

As the firm size doubled with the merger, more people were needed to run the business. Controlling the whole entity would have been impossible with Olavi as a sole manager, and he needed the help of several people in order to be able to share tasks and responsibility. Despite the lack of experience the MT members still think that they have succeeded in supporting the young CEO by taking their share of the responsibilities and the work load.

#### 4.2.2 *Conversational atmosphere and cooperation*

The MT discusses matters more frequently, and more openly. Everyone agrees that bringing things forward and discussing them together may promote the work of the members, and thus of the business. Open interaction is a result of the positive atmosphere in the MT. The CEO and the production manager speak:

*“There, if somewhere, the open and good working atmosphere can be seen. Opinions of others are respected, but not as absolute values but like you are allowed to criticize openly and question, and then discuss it. It either emerges from the group dynamics, or it doesn't ...” (CEO Olavi)*

*“Well, the things are facilitated in the MT by a straight forward rattling off of things, meaning that things are openly discussed in the group. It's better when more people are involved. In a small firm like this promoting your own development is only spurious because if the whole thing is not developing, you don't have much of it.” (Production manager Jani)*

*“No one wonders if he can say this, but we get along also outside work. The clerical employees are selected so that they get along. I personally don't believe that it's enough if you can take care of business. That's bullshit. It becomes somehow obvious if people don't get along. If you get along, it's easier to stick to business.” (CEO Olavi)*

The MT members of Metallipojat Oy have had a good relationship with each other from the beginning. As is typical in CoPs, so also in the MT of Metallipojat Oy tight interaction was seen as being important, and as being a prerequisite for learning together. Knowing each other and having a easy atmosphere have also facilitated discussions of difficult matters. For this reason the members emphasise the significance of finding the right composition. The MT has in a way 'patched up' the individual members' lack of knowledge and know-how, and this has made it possible to control even large thematic entities without a great deal of work experience. Open interaction is naturally a pre-requisite for furthering matters, and the MT successfully offered an opportunity for open distribution of information and for exchanging opinion. Open discussions have improved not only the members' knowledge of all firm matters, but also the mutual flow of information, the progress of affairs, and feedback.

Despite the lack of experience the business was thus run together. The inexperience, on the other hand, included the MT members to look at new matters more positively. The MT meetings formed a sound platform for discussions, and for the possibility of dealing with new information together.

*"We have the principle of "thinking out loud" in the planning of things, and often the things are just spoken out loud and rattled and twiddled around, and then we notice that the idea has totally changed to something else... The MT directs your doings, and it's a bloody good place to mirror your own ideas of what you are actually doing..." (Production manager Jani)*

*"I see as the most important thing that there has to be a genuinely good atmosphere. You are allowed to make mistakes. No one wants to try anything new, if they are punished for mistakes... If a couple of times a year something doesn't crash down because someone makes a mistake, then I think we have also failed. We haven't simply even tried. If you never make mistakes, you have just been cautious and scared." (CEO Olavi)*

*"They gave me quite a lot of responsibility and quite soon... and when the firm is so young, and the managers are young, the cycle of doing things was really fast. Like if something didn't seem to work, it was very quickly changed...flexible and quick it was..." (Financial manager Katja)*

*"When you come as an outsider to that small family firm, you get a lot more freedom to experiment with things, which you probably couldn't get through as easily in a bigger environment, or it would be a lot more difficult and take a lot longer. But that was the situation...you could try things more quickly. Some backfired totally, and some were successes..." (Marketing manager Jorma)*

As the above quotations reveal, the young MT members had an enthusiastic and entrepreneurial-like attitude. Because they had no previous experience, work had to be carried out through a process of trial and error, and they had to learn from experience. It was acceptable to bring incomplete ideas to the MT meetings and to solicit the opinions of others before reaching decisions. The positive atmosphere enabled the flow of new ideas, motivated experimentation and the making of bold

decisions, while allowing failure also. Because no one was especially experienced, responsibility was shared among the MT members, and everyone was able to handle their responsibilities as they saw fit. Strong trust was established between the members, and they were given responsibility from the beginning. Responsibility and the freedom to experiment increased the members' enthusiasm and activity. The following selection of features describing the MT work such as ideas, feedback, and allowing both experiments and errors is very typical of CoPs. The MT members report that the responsibility, the experimental atmosphere, and the mutual support have best advanced their learning.

Given the lack of experience, the cooperation of the MT members was actually the only way for the firm to survive, and thus also the best methods have slowly developed. No one knew at the beginning of the MT work, precisely how things should be taken care of or how tasks should be shared, but everyone had the desire to further things and to learn.

*"There just aren't experts in the group. As the business has grown, we have had to stretch and think about how to handle this and who will do it. We have tried together...Now we know the goals and desires better, and what to do and where to go, as we have started to go through things more and for a longer period of time. We thought together and looked a bit further. Things got more planned." (Production manager Jani)*

*"I would blame a lot on inexperience. We were not able optimize the situation. We used a lot of time, but had not so much results, only that you learn from experience. The meetings were very time consuming, as an entrepreneurship you don't count the hours, and still we couldn't decide anything really. The decision-making methods were then made more efficient and official, it made it all more efficient, and we discussed what we were supposed to discuss and then we went home." (Marketing manager Jorma)*

The MT work seems to be a solid learning platform from which the business as a whole can be studied. In practice this has become evident in the development of the MT work in the direction of more long-term planning and more efficient coordination. During the succession the MT meetings became a working method that everyone unanimously agrees to have been crucially important. At the beginning the MT work was merely taking shape and the questions of which matters were to be discussed, and of the manner of discussion, were not clear to members. The meetings were extremely time consuming, the goals unclear, and no decisions were made. The work itself and the cooperation, however, revealed how matters were to be handled in the MT, and it became a tool, chaired by the CEO, that dealt with the matters most central to the firm.

Finding a common working method has improved the MT learning through active participation and doing of the members. They agree on the importance of the work, and have learned to recognise the relevant topics of discussion, and how to communicate different matters. The importance of the MT in the distribution of information and in the control of the entity is vital.

*"Precisely the better control of the operations and the better flow of information can be seen. Third comes the fact that the MT was felt to be, perhaps not the only, but at least the so far best way to handle entities, to develop the own work, and to learn and develop." (CEO Olavi)*

*"A clear threat in a growth-oriented strategy is the growth itself. To control growth seems to be bloody difficult, that we have unfortunately learned the hard way. It's critical to have the right information and have it quickly, and there the MT is important. The MT has an enormous responsibility; it has to be able to create the right information. The worst that can happen is that the information decisions are based on is somehow insufficient or wrong. So the MT has a critical position."* (CEO Olavi)

As the previous quotations suggest, one of the MT's concrete goals is to advance the flow of information and to secure sufficient information as a basis for decision-making. These goals were not, however, met automatically, but rather the most efficient ways both to produce information and to distinguish relevant information were learned through working together. An increased number of perspectives were represented in the discussions, and decision-making was easier. The daily upcoming situations and changes often offered the most fruitful possibilities for learning. The learning process was not necessarily rapid; in fact it took a fairly long time. By participation in the management of the business, and by collaborative working, the members learned much, and the learning results in the MT may be reflected through discussion and the cooperation of the whole firm. In the case of Metallipojat Oy the MT work is a practical way to control both the on-going process of change, and the uncertainty arising from it.

#### 4.2.3 Seeing the big picture

The succession in 2003 was a new situation for everyone, and the young managers were for the first time responsible for running the business. The MT offered a valuable channel for the vital sharing of the responsibility, although the meaning of the MT was somewhat unclear at the beginning. At first the individual, daily matters were noticed.

*"Before the MT discussed everything, starting from the little things, but now it has changed, so that we see what we want to do...meaning that things are searched for through goals. The MT makes certain decisions, for example about the personnel, production, sales, and we agree how to do things, and then the next time we'll see, how it went, and how to go forward..."* (Production manager Jani)

*"In the beginning it was just for the firm through the work only...it was a vital condition. We knew the sales for the coming months, and how the production can answer it...really practical things. As we went further it became serving the board. Even if we couldn't at that point analyze the figures, we started gathering data and receiving control information for that. Before we didn't have any kind of controls, now we have them on a monthly, even on a weekly, level."* (Marketing manager Jorma)

*"It took months, even years to realize what things should be discussed in the MT...there was no manual to tell us that. The MT is quite an abstract thing in people's minds, the board is much clearer... I think it just takes an awfully long time to get used to the MT work and to*

*the things discussed there, so there should be some information about the limits we operate within.” (Marketing manager Jorma)*

*”The people in the board and in the MT have to be different, because otherwise the ideas are the same as during the day at work. One of the biggest weaknesses in the SMEs in general is that now enough is invested in the board work...we have them now separated.” (CEO Olavi)*

Afterwards the MT realized that it had discussed matters that were too trivial: indeed, practically anything concerning the daily routines was discussed. This caused the meetings to take an unnecessary long time, and the members became frustrated with each other’s questions that did not necessarily concern all who were present. Most of the various questions concerning production and sales were discussed, and gave rise to problems. Help from someone experienced outside the firm would have been valuable in order to indicate what the MT was supposed to discuss, and what were its actual tasks. Eventually a working method too concerned with the individual routines was perceived to be inefficient.

During the years 2002–2004 the MT work was mostly concentrated on matters concerning sales, but gradually moved in a more comprehensive direction, taking in development, planning and controls. The change was also visible in the way that issues were handled, and in the decisions that were made. The MT members paid greater attention to the strategies issued by the board and to the numerical goals it had set, even if the main emphasis of the MT was still on operative matters. In 2003 the board and the MT were separated, and both had their own tasks in the firm. This was important for the development of the MT work at Metallipojat Oy. After the clear separation of the board and the MT, the work changed during the year 2004 in a such way that the goals set by the board affected the matters discussed in the MT. The MT meetings concentrated on operative matters which were discussed under four sections (finances, production, sales and personnel). The meetings were partially documented, but some members thought that the documentation could have been more efficient, even though the matters were easy to remember on account of their importance. The board’s comments about how, and by which measures, business such as the efficiency of production and sales could be controlled, received a positive welcome in the firm. Even if there was inadequate knowledge in the firm for the analysis of figures at that point, the task of gathering quantitative and control data began. Hitherto there had been short-term controls in the firm, and even the controls on a yearly basis were poor; but since then monthly and weekly levels have been reached.

As described above, the fact that the emphasis of the discussions changed from irrelevant issues to issues relevant to meeting the goals, may be seen as one concrete learning result. The MT has learned to prioritize tasks, and at present the understanding of which matters are within the MT’s remit and which are outside it, has increased. Sometimes a member brings up a routine problem, and the others soon realize that mutual discussion of it is useless. One-to-one discussions are nowadays conducted outside the meetings. Even minor matters may, of course, be brought up in the meetings, but the persons involved usually continue discussion of them after the meetings.

What should be discussed in the MT has been learned through experiment. There simply was insufficient time for all matters, and owing to prioritization, the matters discussed and decided

upon are at present more far-reaching and, according to the MT, also more successful. For example, the merger of the units in Tampere and in Kuopio in 2004–2005, and the arrangement whereby all clerical employees work in the same premises (made a year later) have been decisions with which the MT is especially satisfied. Merging the two units had developed the functions and reduced the fixed costs. It has also made the production more effective, and facilitated the management. Working in the same premises has facilitated discussion and the flow of information. The move started in 2004, but the centralization of the operations in Kuopio did, however, require an expansion of the original premises. The expansion work started in the same year, with the help of support from the municipality. Some of the personnel from Tampere moved to Kuopio, but generally the new employees came from the districts around Kuopio. The movement of the machinery, as well as the expansion of the premises did, however, prove to be a long and expensive project. The work, which continued for more than a year, became even more stressful since fire destroyed the newly expanded premises and the work had to be started anew.

The events described earlier have, however, increased the capability of the MT members to distinguish the relevant matters from the irrelevant, and have developed their ability to perceive entities. Nowadays the MT members are almost unanimous in their opinions on the major results of the MT work and its development process.

*“Thanks to the MT work I now have a more comprehensive picture about the operations. Before, I just concentrated on my own job. And I understood the cause and effect relationships, also in production. For me it was a relief to have the MT meetings, because it clarified my work as well when things were gone through together.” (Financial manager Katja)*

*“The best is that you learn to understand how the different functions are linked with each other. And how your own doings affect those of others. That has given me the most. In my previous experience in a big company I never was able to link the different functions to each other even though I worked in various functions and formed my opinion of each of them...” (Marketing manager Jorma)*

*“...every one did their own things in separate pieces, but the pieces were not necessarily put together, and there was no connecting line. There was a need to put the whole thing more together... there are areas where different people act and make those decisions. They are coordinated together, and bigger decisions are made together. To have started this kind of a working method is in itself such a big change in the history of both firms.” (CEO Olavi)*

Forming a comprehensive picture of the firm, and connecting the individual's job description to it, has been an important learning result for the MT. Thanks to the MT work the job descriptions of the individual members have become clearer, and it has been easier to understand how one's own work is linked to that of others, and, for example, why taking care of certain tasks on time may be important to others. Earlier, the way in which the tasks of one department or area affected another was not at all clear. The MT learnt, through many important events, to see the firm more comprehensively; this became evident in clearer job descriptions, in the taking notice of entities rather



than individual issues, in the understanding of the cause and effect relationships, and in a tighter control of the operations.

#### *Developing patience*

The first years of the MT, and of the working method that became established during the succession, also taught the members patience. Unnecessary haste was abandoned, and things were handled in a more patient manner. Members report:

*"We have definitely gone to a more patient direction. It's probably patience brought by experience, and that we now can better perceive entities. And even if some things need to be reacted to quickly, a kind of unnecessary fussing and impatience are not there. Now we also recognise better what is relevant and what is not..." (CEO Olavi)*

*"Bringing a more meeting-like and official way into the business has taught that the MT work is not only fussing and snatching back and forth, but it brings a backbone to the work. Especially in that kind of family firms I think it a good thing." (Marketing manager Jorma)*

*"We have learned to handle also unfinished matters. Before we always needed to close something, now we have learned more to handle things to a certain point and then continue from there. We sleep over things and let everyone absorb things...It has taught patience." (Production manager Jani)*

The above comments describe the development of patience in the MT work. They noticed that matters may be reacted to calmly. Discussing and thinking things through in the MT reduced the number of errors and increased the efficiency of the business. With increased refinement of judgement and patience, recognition of different situations was developed. In particular the strong growth in the business after the succession in 2003, the difficult financial situation, the on-going rush, and the resistance to change of some clerical employees all caused a crisis that required a solution from the MT. Through working together and taking things calmly, the MT was better able to concentrate on the problems, and the unnecessary fussing ceased. A further significant crisis undergone together by the MT was the fire in the spring of 2005 that destroyed the newly expanded production premises. Overcoming crises which have threatened the continuity of the firm has taught the MT members patience.

The capacity to prioritize and to handle matters that cannot be resolved immediately may be seen as learning results. Not all situations require the immediate reaction of the MT, since some could be dealt with at a later point. Some matters could be left to be thought over and slept on, a procedure which had not been possible earlier. At the same time functions became more planned and developed as the MT learned to discuss the relevant matters, to try out solutions together, to throw around ideas and to share information and experience. All the MT work was based on cooperation, and on learning from it, as none of the members had previous experience in MT work, let alone in working in other firms.

*Regularity of the management team work*

The MT work at Metallipojat Oy has been based on regular meetings where matters are discussed. As the meetings were at first highly irregular, they were deliberately developed in a more official and regular direction. MT members report:

*"The work definitely changed into more organized. In the beginning the meetings were very unofficial... The work became more sensible, and the production people started also having their own meetings. Others were present, if needed. For example, there was a team leader present from production, which was not the case in the beginning." (Financial manager Katja)*

*"We meet regularly. Certain basic things are held regularly, but the MT works also in a way that if something acute occurs, the gang is called up and we discuss." (Production manager Jani)*

*"Basically there are regular weekly meetings for the MT. It is, of course, possible that situations and matters come up when there is, for example, so much information that it's not reasonable for the whole gang to stay and sort them out and analyze. Or the matter may be solved afterwards..." (CEO Olavi)*

In the first years 2003–2004, when the MT work was strongly shaping up, a more bureaucratic and official working method seemed sensible for the members. Regular control and reporting over the financial parameters also commenced at that time. Sharing information was seen as extremely important, because until then the MT members had had no insight into how the different functions were integrated. The aim was to have the meetings regularly with the same members at the same place and time, although owing to rush periods, it was not possible to meet quite every week. The MT always met, however, when needed, for example, when something surprising occurred. Before this, the meetings were irregular, and the MT discussed everything, from very insignificant matters to important issues.

The MT believed that regular meetings would lead to the best possible results for the business. During 2003–2004 the MT work was, according to some members, changed perhaps to too great an extent, and it was in a constant change during rush periods. Whereas at one point sales would be the main function, at the next customers would be asked to wait because the demand had increased to a level that could not be met. As a result of the constant rush, meetings were often cancelled, and the routines changed. Soon the irregular meetings, however, backfired, and began to hinder the daily functions: the flow of information suffered, and uncertainty increased. It was soon realized that the MT meetings were important, regardless of whether the firm did well or badly. When the financial situation was extremely bad, financial controls were a daily function. The MT members saw no point in meeting separately as in any event the controls made daily cooperation necessary. Because of the controls meetings were cancelled, but it was soon realized that the MT work could not be abandoned, because there were many other matters to be discussed, and controlling the growth without the MT was impossible. The marketing manager, Jorma, comments that

sitting in the same office daily is not sufficient, because the ideology of the MT is seen as being different because of its responsibility and tasks.

During the course of 2005 the MT work became yet again more unofficial, and it started to meet only when needed. The need has, however, existed, even if the work is not as regular as it was during the more official phase. The time-lapse between meetings has increased, and the meetings last, depending on the matter under discussion, from minutes to hours. The CEO, Olavi, thinks that the methodical carrying out of procedures and documentation were more efficient during the official phase. The core group has, however, proved its reliability, and the present, less official model works well enough in his opinion.

The regularity of the MT work has been affected by changes in membership during 2005. Since the changes the MT work has not been as regular, and the MT meets basically when there are matters requiring discussion. More important for the MT is that everyone has internalized the common working method and it is thus possible to be flexible with the regularity of the meetings.

*"We went through a very official phase, and it had its own good. Say, about the methodicalness and documentation. Now we are back in a more unofficial, basically in a sort of meeting-when-needed kind of a picture. I haven't seen a need to change that, because the gang is very committed, and it has worked well." (CEO Olavi)*

*"The MT work has become more tight, meaning that even if changes happen, there clearly is the gang who have the certain method to work, and it's not the MT just for the sake of the MT, but a method like this is how we live up here and this is how we handle things. It has changed and is now more a tool." (Production manager Jani)*

After the succession the MT members developed a working method which has been continued despite the recent changes in personnel. When the marketing manager Jorma left the firm, his tasks were transferred to Jani. At the same time, on account of Katja's maternity leave, the financial matters were outsourced to an entrepreneur who now runs his accounting agency at Metallipojat's premises. The newest member of the management, the production manager Pasi, has long experience of corresponding work from other firms, which helped the management of production. It has thus been easy for the new people to step into the ready-made working method. Since these changes in personnel, the MT work has become more irregular and informal. During the years 2005–2006 three different levels of teamwork were introduced in the firm: production team meetings, MT meetings, and monthly board meetings. It was hoped that the changes would clarify the work and would separate production matters to their own meetings. At the same time it was decided that the MT would only meet when needed. However, the irregularity, and the longer lapses of time between meetings have in practice prolonged the duration of the meetings; this varies greatly, and can be as short as ten minutes, or as long as several hours.

In addition, the use of outside experts has increased since the changes in personnel. For example, experts in production or quality work are present at the MT meetings as less active members. It has been observed that the views of outsiders broaden the discussions; according to the predecessor and non-family members of the MT, this would have also been beneficial directly after the change of manager, as the MT was trying to make the best of its situation with the exist-

ing resources. In addition, a strong group identity, typical of CoPs, may have separated the MT members too sharply from other employees. In the MT the changes of managers are seen as natural, even though the commitment to the task and to the firm typically increases the desire to remain in a firm. Changes in personnel and the renewal of the MT may, however, also be of advantage to the firm.

*"...if you want to take things further and do something new, you learn by it...The environment affects a lot and you just need to go with the flow. When new people come, you learn from each other when you work and think together...If someone leaves the firm, you need to react to the situation and learn yourself. When you teach a new person you also go through things from different points of view, and new ideas are bound to arise..." (Production manager Jani)*

*"There have been changes in the gang quite recently, meaning that more people have come in and we work in the same office. We have a new production manager and then there are me and Jani. The financial matters have been outsourced, meaning that the entrepreneur handles them through his own firm. The new members have brought more experience." (CEO Olavi)*

As the previous quotations suggest, changes in personnel may be useful. Members learn by working with new members, by teaching them, or by taking over someone's tasks. The MT of Metallipojat Oy has received new members, and this seems to have been of use for their learning. The original members are still missed, because the common experiences in the beginning of the operations were useful, and strengthened the relationships between members. Even though the MT work has, since the changes in personnel, become more unofficial, the method has not entirely been abandoned.

*"I wouldn't have time for anything else, if I just chatted with different people. I think that the MT is a much more efficient way to work, and good decisions are made by it based on the knowledge we have." (CEO Olavi)*

*"We have a common way to work. It has changed and is more an every day tool and all members work in the same place now...it has probably made it easier to handle things, and made it more efficient, of course. Finding the routine is important." (Production manager Jani)*

The previous quotations communicate the awareness of the efficiency of the MT work, and the finding of a common working method, which members unanimously see as important. MT work has, because of its efficiency and time saving, been the only solution for the CEO. The production manager Jani feels that finding a common working method is seen as routine, but routine which he does not, however, see as a restriction but as a possibility. The formation of routines has been advanced by the fact that the key persons are now working at the same premises and are increasingly working together. This was not the case before the merger in 2003, when people were working in different locations and saw each other only occasionally. When the operations were centralized, it was easier to create a common working method. Giving up the more official MT work was caused by, in addition to changes in personnel, the expansion of production and new premises in 2005–

2006, which made it possible for all the clerical employees to work in the same place. Additionally new equipment and the more spacious premises have facilitated the work.

#### 4.2.4 Understanding the role of the management team

After its first years the MT now recognises and understands better its important role in the business. The new CEO has needed the support of other MT members who have made it possible to continue and develop the business. On the other hand, the mutual support among the MT has been vital for the members because of the lack of knowledge and experience. The members feel that the MT is essential in an SME.

*"The biggest use is quite concrete, that you have the reliable people around you, who take care of things...that you have someone to talk to, and, on the other hand, to realize things, people you can trust. That brings clear added value to the work. The relevant thing is that there is the reliable core group around you, and so it clearly brings partners for discussions and reliable realizers as well. And to some extent also sort of sparring partners." (CEO Olavi)*

*"It is easier in a small firm to tie people to the work when you share responsibility and tasks. MT is a good way in a firm this size to make people involved, and to control through the MT work the things that happen. MT is the only way to keep it all together, when you think of SMEs. It's a lifeline." (Marketing manager Jorma)*

*"There is no longer, for example, a situation when someone can't take a vacation. This was not the case earlier, and things nearly stopped. Additionally you have clear areas. Everyone takes care of their jobs, but we coordinate together. I'm satisfied with the operational development, but it still stretches your patience sometimes as the results are only seen somewhere in the future..." (CEO Olavi)*

These comments describe well the situation at the beginning of the business, when the persons responsible for different areas have found their positions in the firm. The role of the MT has been emphasised as the members have learned to take on responsibility for the management of the firm. The freedom and power to deal with matters have, on their part, advanced the both commitment and activity of the members, and the continuity of the business during holidays, for example. The trustees assisting the CEO are also discussion partners in important matters. After the separation of the board and the MT at the end of 2003, the role of the board has also become clearer: it is utilized as a partner and advisor of the MT and the MT follows up its guidelines in its work. The MT is generally satisfied with the development of the work, although many goals have still not been achieved.

Succession as a situation often demands a great deal of the owners' time and energy, and additionally, the capacity of the successor to take all responsibilities may still be insufficient. In particular, if strong growth objectives are realized simultaneously, the resources of the owners may prove inadequate. In such cases the responsibility for running the business and the daily routines may be transferred to a MT. At Metallipojat Oy, one of the tasks of MT was to ensure that

there were no problems in the daily work and that things were handled effectively despite the succession.

*"The MT, as I see it, has more the clear role to run the daily routines. These people, who work in the firm, may use too much time in the problems around the succession, and there is then a small risk that things can get too crossed. Therefore I think its better that the owners handle the succession, and those involved and the TM concentrates on the daily managing." (CEO Olavi)*

*"...the problems with the succession were never discussed; the problems in the MT were quite different. It was about running the business..." (Marketing manager Jorma)*

These quotations illustrate well how the succession is often seen as a technical operation concerning only the owners of the firm. The MT does not wish to discuss the succession; it is seen as a concern of the owners only. At the same time, however, the quotations reveal that the MT may take more responsibility for running the business and thus for advancing the succession. In practice, in an SME, succession always more or less affects the way in which the firm is managed, in fact which, on its part, has immediate influence on the whole personnel and their working climate.

The members of the MT at Metallipojat Oy see the MT work as useful not only in their own work but also for the entire organisation. The MT has learned much, and its work has developed particularly through the various crucial phases. The work of the community remains, because the members see it as useful and valuable.

*"Information is absolutely relevant, and the meaning of the MT with that is, at least here, quite critical. Without it we shoot the rapids blindfolded and hope for the best, even though it probably is the worst that happens." (CEO Olavi)*

*"We have learned a lot in the MT, the biggest lesson has probably been to control change. In a way so many things have happened that we have learned to react to different things and situations..." (Production manager Jani)*

*"I think that the biggest development that has happened there and what we have to respect is the capability to handle pressure, and what we learned with that – we had to solve even tricky situations quickly...new situations and challenges and handling them under pressure were the biggest advantage of it." (Marketing manager Jorma)*

The role of the MT in coordination, the sharing of information, and the management of change is evident. The advantage in the MT work derives both from a greater ability to perceive the entity as a whole, and from collective work and learning from it. Handling difficult situations under pressure has developed the members' ability to react and to work together. The MT work has changed considerably from the beginning and has passed through various phases, and all this has also affected its role in the firm.

Even though the present MT work is far from being stiff bureaucracy, it still has its own routines. Decisions are made on the basis of gathered information, according to which strategies

are agreed upon. Despite the difficulties and the weak financial situation, the CEO, Olavi, is pleased with the operational development of the firm. Patience has, however, often been stretched to the limit owing to the demands of growth, and because the results of the investments may only be visible in the future. The financial manager Katja sees the stabilizing of the financial situation of the firm as the most important task, and in her opinion even more could be invested in the future to develop the work of the MT. For example, she suggests using outside experts with experience in efficient MT work. This change has actually been made, since other employees have been invited to the MT as less active members. Additionally, the outsider Eevi Rantamäki with firm experience from working on the board of other firms was appointed as the chairman of Metallipojat Oy board in 2006. Experience and assistance were actually required as Metallipojat Oy ended up in reorganisation in the same year. The tighter competition in the industry in the first years of operations, and the large and expensive investments which brought about the poor financial situation as well as the fire in the production premises were all significant factors that explained the situation. The challenges facing the MT, even after the initial difficulties, thus remain, and the rehabilitation of a firm with financial difficulties and debts is a task that lies before them. Figure 21 shows the events described in this chapter with the help of a timeline between the years 2002–2006.

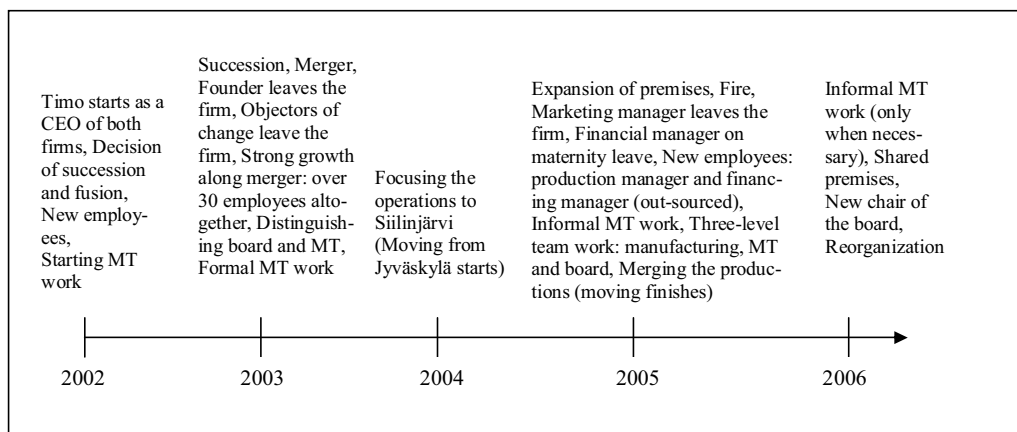


Figure 21: Time line between the years 2002–2006 in Metallipojat Oy

#### 4.2.5 Interpretation of management team learning in the situation of family business succession

##### *Formation, support and ownership of the management team*

The composition and work of the MT at Metallipojat Oy gradually took shape, even though the successor had a clear idea of how to arrange the future management of the firm. There were two significant change processes going on simultaneously in the firm (the succession and the start-up of the MT work), a fact which made the situation in the beginning of the millennium extremely challenging. The strong growth, along with the succession and the merger, increased the need for more personnel to manage the business. In practice it would not have been possible to manage the business without more personnel to whom the successor could delegate tasks and responsibility (see e.g. Weltman 2001, 41–42; Finkelstein & Hambrick 1996, 1–2; Gabrielsson & Winlund 2000;

Voordeckers et al. 2007). It took, however, rather a long time before the MT work was stabilized, owing to the events following the succession. In addition to the succession itself and the merger, the predecessor left the firm after the succession, the situation in the industry tightened, and differences between the clerical employees emerged, leading some of them to leave the firm. Additionally, the separation of the MT and the board, and the clarification of their tasks took its time. It may be questioned, however, whether the situation would have been any easier, had the predecessor and the successor worked side by side for some time in the management. On the one hand this would probably have restrained the development of the firm. On the other hand, the successor had worked in the firm nearly his whole life, and thus the transfer of the tacit knowledge had been secured. The decision of the predecessor to step down was understandable, and the prerequisites for the successor were, at least theoretically, good.

The MT was not formed in the same manner as in the case in larger companies, where the membership is usually determined either by a large-scale selection process or by position (see e.g. McIntyre 1998, 3; Flood et al. 2001, 14). At Metallipojat Oy the emphasis was mainly on personal commitment and interest in the firm. To some extent, the MT was thus formed through internal entrepreneurship, i.e. the activity of hired personnel. In addition, the friendship between the members facilitated the formation of a MT (cf. Francis & Sandberg 2000). The CEO thought that no one can be forced to join the MT, but he needs to motivate the personnel to accept more responsibility through his own example. He also believed that a MT was formed through the activity of the personnel was the best possible in its composition. This belief was shared by other MT members. In reality, the knowledge and the experience rested on a somewhat narrow basis, although all operational units of the firm were represented in the MT. The lack of experience was especially problematic in the decision-making (see e.g. Cannella & Monroe 1997; Lohrke et al. 1999; Bantel & Jackson 1989). For example, more experience would probably have restrained the growth expectations, and the decision-making would have concentrated more on more acute questions. The MT did not, however, accept members who did not share the CEO's views on the growth of the firm.

The comments of the CEO about the composition of the MT describe well how persons with similar views of the development of the firm were selected to the MT (cf. Mello & Ruckes 2006). For example, some of the clerical employees at Rautapaja Oy strongly opposed the growth plans of the new generation, an attitude which could be seen as resistance to change, and which caused conflicts between the owners and certain employees. Eventually the conflicts led to the resignation of two clerical employees during 2003. In reality, only entrepreneurial-like and committed individuals who shared the owners' views of growth were accepted to the MT. It is, of course, to some extent understandable that all MT members should accept the goals of the firm and commit to them: this facilitated the acceptance of the CEO's personal goals without any major conflicts. At least at Metallipojat Oy, the MT members' similar views of the development of the firm had a positive influence on the efficiency of the MT work (cf. Simsek et al. 2005; van Olffen & Boone 1997). Such a consensus may, however, also lead to excessive unanimity, making it difficult to question the rationale of the business and its goals (cf. groupthink in Janis 1982).

Unanimity in a MT does not, however, necessarily mean that the hired managers would totally submit to the CEO's ignoring of their own views. On the evidence of the interviews, it would seem unlikely for a person without strong opinions to succeed either in the MT or with the strong-minded owner brothers. It may thus be seen that there were both positive and negative sides



in the formation of the MT. On one hand, had the change-resistant clerical employees stayed in the firm, the growth expectations would probably not have been realized, or at least the dissenting opinions would have caused significant problems in the MT. On the other hand, however, they could have brought with them valuable work and life experience, and, through that a degree of patience regarding the development of the business. An excessively homogenous group has most probably too similar views, and may thus miss opportunities (Bantel & Jackson 1989).

How have the MT formation and its final composition influenced learning? The MT members strongly emphasised their differences in the interviews. In reality they do, however, seem more similar to each other than different from each other (see the discussion on diversity in, e.g. Guzzo & Dickson 1996; Simons et al. 1999; Pegels & Yang 2000). All members are fairly young, and do not have much experience, on account of which their general impression of the business, and the ways to succeed in it, are to some extent vague. The MT was formed of individuals with similar views but without previous experience either in MT work, or in business in general. The MT would have benefited from more experience, i.e. persons with the aforementioned qualities. The similar characteristics of the members also partly explain the MT's learning, because the skills needed in business, such as perseverance, methodological ways of working, and the ability to anticipate and to adjust were first developed as a consequence of the MT work. Its inexperience and impatience caused blindness to haste, and unrealistic expectations. These factors have also hindered decision-making and long-term planning. The lack of experience has, however, increased interactivity within the MT, because without further knowledge the members nevertheless had to discuss the decisions. The support within the MT has thus been of the greatest importance to the members.

Due to the lack of business experience and the homogeneity of the MT, developmental skills had to be learned the hard way, i.e. through experiment and error. It is, of course, difficult to estimate the costs caused by these however; for example, had the MT had their present knowledge, the centralization of the operations to Kuopio would probably have occurred earlier. Additionally, many large-scale investments in the machinery were realized in a fairly short time. On the other hand, the MT learning has features of 'learning by doing' (typical for entrepreneurs) where the success or failure of what is done significantly improves an individual's learning. According to the concept of learning by doing (e.g. Kolb 1984) learning takes place through cooperation, common experiences, and interaction. The efficiency of learning is based on one's experiences and the immediate feedback received, and the application of these in practice. Learning proceeds by reflecting concrete experiences and activities towards better working methods.

At Metallipojat Oy the learning described above is revealed in the independence of the members for handling their responsibilities, transferring responsibility to others being actually impossible. On account of this, the results of learning for an individual member may be more revolutionary and of longer duration. The MT may even be seen as a kind of pre-incubator of business knowledge, where members have had the possibility of developing their individual management skills together. Because of the entrepreneurial-like attitude, the trust among the MT members is strong, and responsibility is shared readily. The firm offers the members a platform for learning with the possibility to stretch their limits and ideas, and to provide mutual feedback. On the other hand, the sharing of responsibility already at the beginning of the business was necessary for management, because neither the successor nor any other member of the MT could have made it alone.

Sharing the tasks and responsibilities also became necessary with the growth of the business (see growth discussion e.g. Vyakarnam et al. 1999; Wiklund 1998, 239; Storey 1994, 309-310).

It must to be remembered, however, that even though the members are somewhat similar in their characteristics, education and experience, the MT still comprises persons representing different operational units. In addition to their individual job descriptions they also bring to the MT work the views of their respective operational units (cf. Stewart et al. 1999, 38-39). Every unit has its own points of emphasis, which naturally brings diversity to the discussions. The task of the MT is to facilitate the comprehensive control of the business through discussion of the challenges and problems facing the various units. At the beginning of Olavi's leadership the emphasis was mainly on forming working methods, sharing tasks, and selling the firm's products and services. In recent years the working method has been developed and planned to enable the MT to even better perceive the business as an entity.

A MT with owners and appointed managers seemed to be well justified in the firm. The brothers are strong-minded, and as owners they react to the matters with strong feelings (cf. Perheyritystyöryhmä 2005, 30; Heinonen & Stenholm 2005, 12-13) resulting easily in disagreements and quarrels. Appointed managers brought a more professional and conciliatory manner with them. The division into owners and hired managers could, in the opinion of the members, hardly be seen in the practical MT work. Impartiality was emphasised, and the opinions of the owners were valued no more highly than those of the hired managers. In reality, however, the rhetoric used by the MT members in the interviews reveals a division: the hired managers often referred to themselves as outside MT members, raising the question of equality in practice. This is, of course, also natural, because even if most MT members considered the work to be a joint responsibility, the CEO and other owners ultimately bear the financial responsibility (see e.g. Katzenbach 1997; Eisenstat & Cohen 1990; Levi 2001, 297).

#### *A conversational atmosphere and cooperation*

There was a conversational, supporting, and open atmosphere in the MT of Metallipojat Oy. The members got on well, and also spent time together outside work. They knew each other well, and it was easy for them to discuss openly and to cooperate. On the other hand, excessively similar views may also hinder not only the development of the firm as well as the true learning of the members, but also the profitability of the business. If the position of the owner family is too dominant, and if only persons with similar views to those to the owners are accepted to the MT, the situation is not ideal for learning. The members from outside the family often only learn the ways of the family, and the learning has no positive effects from the viewpoint of firm development. Family members may, of course, profit, if they are able to learn new methods from outside members.

At Metallipojat Oy, the experience of the key persons regarding managing a business were, however, wanting, and no one was able to present the MT with ready-made, previously approved methods. The operational responsibility was even to an exceptionally large extent shared with the hired managers, a fact which is partly explained by the want of experience of the clerical employees, which made it safer to take joint decisions. On the other hand, as mentioned earlier, it was precisely this that made the learning experiences significant and fundamental. On account of their inexperience, the members had an open perspective enabling the free testing of ideas, and the

development of new methods and knowledge. It was allowed, even desirable, to present ideas and unfinished thoughts. Allowing failure encouraged the members to try again and to try harder. They learned through cooperation and experiment (see e.g. Kolb 1984; Wenger 1998b; Edmondson 2002; Murray & Moses 2005).

The experience gathered in the MT work has clearly developed the business skills of the members. It may safely be argued that their knowledge and skills would not have reached the same level without participation in the MT work (cf. Eisenstat & Cohen 1990, 78-79; Hendry et al. 1995, 159; McIntyre 1998, 174-175). However, under critical analysis, it may be questionable whether the cognitive capabilities of each member have been fully utilized in the MT work. The strong views of the owners, the hectic nature of the operations, and the lack of experience have most likely hindered some creativity in the development of the business. In practice this means that the MT has mainly discussed matters that have secured the continuity of the firm and its daily survival, and the key persons have not had the possibility to visualize the future of the firm in the long run. For the same reason, decisions are often based on intuition, because there has been insufficient time for purely rational or analytic decision-making. Intuitive decision-making is very typical for entrepreneurs, and for managers of small businesses in general, who are forced to make quick decisions based on incomplete information. In such cases so called decision heuristics are followed, i.e. certain rules of thumb or guidelines that may facilitate the decision-making. In uncertain situations this is often economical and efficient, but at the same time the possibility of errors due to prejudice is not excluded (see e.g. Tversky & Kahneman 1982).

Additionally, strong cohesion and loyalty in the group may have prevented sufficient consideration and independent thinking (e.g. Murray 1989; Janis 1982; Peterson et al. 1998). All members agreed to the goals of growth without questioning them, and they were prepared to make sacrifices to reach those goals. Even though the members were aware of the fact that in the next few years the liquidity of the firm would be challenged, the gearing ratio weakened, and profits would not increase, the development of the next few years was somewhat excessively taken for granted. This resulted in insufficient attention being paid to financial control, and in the MT's hardly discussing alternative strategies or making any risk surveys for the future.

#### *Perceiving the entity*

Some of the stages of development which are often connected to group formation and work (e.g. Tuckman 1965) may be observed in the development and content of the MT learning at Metallipojat Oy. With the succession, the MT members faced, for the first time, the management of a business, and the meaning and goals of the MT were unclear. The situation was new for everyone, and no one had any conception of the issues which the MT was supposed to handle. In the early stages, separate, routine matters were mostly discussed, and the comprehensive development of the business received less attention. Additionally, the working method changed, along with the situation, from informal to formal and later back to flexible again. There were, actually, different points of view among the members on the formality level of the work. Hired managers favoured the formal model, because they thought it brought clarity and posture after the changes (i.e. the succession and the merger), whilst, of the owners, the CEO Olavi in particular preferred the more informal working method.

The views described may partly be explained by the previous work experience of the MT members, because this may influence a person's learning and future behaviour. For example, the MT member who preferred the most formal methods had previously worked for a large metal company, whereas the successor-entrepreneur had worked all his life in the family firm. Studies on entrepreneurship have shown that persons with experience in a large company often lead small firms into trusting formal methods, whereas in contrast persons with experience in a small firm most often prefer the more informal ways (see e.g. Rosa 1998). In addition to work experience, a different educational background, for example, may influence the management methods adopted by a person. In this case, however, both individuals had quite similar educational backgrounds, both having studied business at university. Following the last changes in personnel the more informal method has been used again, because it has sufficed. Additionally, three different levels of teamwork have been separated in the firm (monthly board meetings, MT meetings and production team meetings) in order to make the decision-making more efficient. The irregularity of the MT meetings may, however, also indicate that the appropriate regularity for the MT work has still not been found in this firm; however, the work is still shaping up.

The fact that the members have finally accepted common behavioural standards may be seen as one of the most central learning results of the group. The development of learning is seen in the MT meetings first, in the change in emphasis within the matters discussed from daily routines to more long-term planning; second, in intensified meeting routines; and finally, in shorter meetings. On the other hand, shorter meetings and common standards may also indicate the harmony or consensus in the MT, which may prove to be harmful (e.g. McCauley 1998; Janis 1982). In any case one of the most central learning results in the MT of Metallipojat Oy is the shift from irrelevant to more relevant matters of discussion, which may indicate a natural learning process, through which the MT has moved, after the initial experiments, to a more comprehensive working method. In other words, the MT has adopted methods that have been proven to be successful after experiment and error, and wish to keep them. This is typical for all human behaviour, because behaviour which has led to success is likely to be repeated and that which has led to failure is likely to be avoided (see e.g. Cardon & McGrath 1999).

One of the greatest challenges in the MT learning has been the strong growth of the firm, and the changes in operations consequent upon it. Even if the unofficial decision-making system allows more flexible management methods, and improves the efficiency and speed of the decision-making (Perheytystyöryhmä 2005, 30), during strong growth a formerly small firm has in practice to relinquish its former entrepreneur-centred methods. Developing more multiform management methods in order to control growth seems inevitable when the firm reaches the size of a medium-sized firm. According to analyses this kind of change in attitude, from intuitive to more rational decision-making, has not completely succeeded in the firm. One logical consequence of growth was the separation of board and MT. However, the management of the firm still follows the principles of small firm management, although the challenges faced are more typical for those of a medium-sized firm. In general, the MTs or entrepreneurial teams in new firms are often initially homogenous. For example, a research team at a university may decide to found an enterprise or a group of accountants an agency of their own. Usually, however, the passing of a certain point of growth, and particularly the control of growth, require more diversified experience and knowledge in the MT. The lack of these features may create the danger of having still to make too intuit-

tive decisions based upon one's own narrow views. This seemed to be partly the case also at Metallipojat Oy before the recent changes in personnel, a situation which brought experience to the MT. In Metallipojat's case there seems also to have been some sort of growing pains, as the small firm learns the ways of a medium-sized counterpart. The change in the decision-making process from intuitive to rational, and of the MT work from informal to more formal, seems not to have been easy.

As for an individual member, the teaching and schooling of a new employee for example may be a valuable learning experience. The situation is similar to any teaching situation, where the teacher needs to profoundly think about the task at hand in order to explain it in an intelligible manner to the learner. At best this forces the teacher to review the matters in a more diversified way. Similarly, the departure of a key person forces the MT to fill the void, and to learn the tasks of another unit. In practice this means that the MT has studied the business broadly, as opposed to merely concentrating on their own areas of responsibility. Additionally, the liquidity crises have forced the exercise of patience in the development of the business. It may be assumed that the MT with its present experience would not necessarily make the same decisions as earlier, and that growth would be pursued in a more patient manner. Furthermore the growth expectations would probably be more realistic. In this respect, despite the negative development of the profitability, the learning results may be considered positive. In other words, the members are more likely both to be patient and persevering, and to recognise the risks more easily than would be the case without their experience in the MT of Metallipojat Oy.

#### *Understanding the role of the MT*

The tasks and the significance of the MT in the development of the firm were gradually understood by the members. One concrete result of understanding the tasks and the meaning of the MT was the separation between it and the board. During the process, the tasks of both decision-making bodies were examined, and overlapping tasks were deleted. It was considered extremely important that the same persons would not sit both on the board and on the MT (see e.g. Boyd 1995; Weltman 2001, 43; Cadbury 1990, 31, 39). The recognition of the role of the MT could have dawned much earlier, if the matters and changes brought up by the succession had been introduced to the MT. The succession at Metallipojat Oy was mainly seen as a technical matter concerning the owners. Many problems in the business may, however, either be connected to the succession, or be the results of it, and discussion of them in the MT would have been justified. Based on the analyses, the MT could have been more actively involved with the succession in order that everyone might gain a clearer perception of how the changes would affect the various areas of responsibility and the whole business. To utilize the MT in a succession would also have been a kind of a sign of trust that could increase commitment to the firm. At Metallipojat Oy, the MT had only a small role in the succession, because the succession and the start of the MT work were realized almost simultaneously, only the managers being involved in the planning of the change of generations. The meaning of the MT was, however, emphasised during the changes after the succession, when it acted as an important link between the owners and the employees. In certain situations the MT may thus, at its best, be a filter between the owners and the employees, keeping constant certain

routines and encouraging the feeling of safety in a situation of succession that may cause serious uncertainty.

At Metallipojat Oy, the role of the MT as the support of the successor and the organizer of the practical matters has been vital for the continuity of the business. The MT has enabled the growth and development of the firm, but at the same time has itself been a significant support for the members, whose experience and knowledge of the business was still limited. The members of the MT have, however, since the beginning of its work, understood their importance in the business, as the whole MT work actually started with the active discussions and meetings of this group after hours. With time its role was even more emphasised as the members learned to carry more responsibility for the management of the firm. This, on its part, has increased the commitment and activity of the members up to the recent changes in composition.

With these the role of the MT has changed slightly. Even though the MT work is still considered essential, it is more informal and irregular than earlier. The members believe the present meeting method to be satisfactory and the lapse of time between the meetings to be sufficient, because they know their tasks and the working method is clear to all. The present MT could, however, utilize both the strength of the community and the newly acquired knowledge more efficiently, because managing a firm in reorganisation requires efforts to rehabilitate the operations. According to studies MT work is especially important in the rehabilitation of indebted firms (see e.g. Lohrke et al. 2004). Additionally, the development of new ideas may be adversely affected by the longer period of time between meetings, as this causes the agenda to be fuller. At present the MT meetings seem to be platforms more for the exchange of information than for decision-making; this is because the infrequent meetings lead to more independent decision-making by individual managers, or to decisions being based on discussions between only a few people. It is, in any case, clear that it would have been impossible to continue the business after the succession without a MT which cooperatively could run on inexperienced firm which had doubled in size, despite the accompanying its difficulties.

#### 4.3 Case 2: management team learning in the situation of family business succession

The subchapters of the analyses and interpretation part of this study mainly discuss themes arising from the data. The chapter “Succession and the role of the management team as a support for the successor” in case 2, however, follows on earlier plan. The intention was to describe the factors related to the learning of the MT chronologically. The themes arising from the discussions (improvement of discussions, learning and cooperation of the group, and long-term planning and development) did not, however, allow a chronological approach, and therefore the review continues mainly by this theme after the first subchapter (4.3.1 Succession and the role of the management team as a support for the successor), and chronological order is used where possible. The interpretation part in the last subchapter (4.3.5) presents the themes in the corresponding order to the analysis. The emphasised (underlined) parts in the analysis chapters show the connection to the characteristics and discussion of CoP. Moreover, it is noteworthy that the analysis is based not only on the quotations but also on other background information to the cases. The quotations, however, lead to the particular discussions and descriptions presented in this study.

#### 4.3.1 Succession and the role of the management team as a support for the successor

Before the succession in 2003, and for some time after it, the MT of Varkauden Metallityö Oy thought that the succession would hardly affect either the business or the work of the MT members. The firm had a strong foothold in the industry and business was steady. The members of the MT thought that the operations did not change significantly after the succession but continued from where the previous CEO left it. At the beginning of the interviews, the MT members assured that succession was a natural solution with no dramatic aspects and that people would adjust to the change of the CEO and the business continue as usual.

*"The succession is still unfinished, but it has no real effect on my work. It has been quite natural and everything is pretty much the same. It's a good thing that the previous (CEO) will still be around for a while..." (Production manager Ahti)*

*"In which ever firm there is certain cycle, people come and go, and it helps if the predecessor and the successor have time to adjust and see what happens..." (Production engineer Mika)*

*"Erkki has distanced himself from the employees, so it has all gone quite naturally. The situation would probably be very different, if it were forced, meaning that if there had been a pressure to proceed very quickly, but now it has been rather slow. The personnel have adjusted well and there have been no shocks. At first there were problems with to whom people should turn to...They turned to Erkki...These were kind of disruptions, which is natural, but nowadays the boundaries are clear." (CEO Mikko)*

Even though the former CEO Erkki still works in the sales department of the firm, he has delegated the managerial responsibilities to others, and has distanced himself from the employees. In other words, the responsibilities of personnel management have gradually been delegated to the new CEO Mikko. Erkki's employment in sales is only a temporary solution and the aim is to recruit a replacement for him in sales as soon as possible. The presence of the predecessor in the MT, however, is seen as positive. Many things are easier when the former CEO is still active in the business. When Erkki stood down as CEO and Mikko took greater responsibility, the MT work also changed gradually. Mikko wished to have a different role as a manager and to encourage discussion in the MT; he wanted to develop the MT functions in that direction which would allow the business to benefit most after the succession.

At first it was not easy to share the responsibility, and tasks were delegated from one person to the other. The former CEO Erkki was sometimes more, sometimes less, involved in the business. He soon realized, however, that it would be best to step aside and delegate the responsibilities entirely to Mikko and the MT. Even if the role of the predecessor was clearly diminished he still had a significant influence in the business.

*"Eki is an old leader and he has his own ways developed during the decades and he doesn't need to think what he does, he has a pattern ready and also the relations to the customers and Mikko doesn't yet have these all and he needs some practice..." (Chief of deliveries Kalevi)*

*"In a family business the management line is visible for a longer time. Probably for longer than in firms with hired managers that can be changed after every couple of years. So the business looks like its owner. Maybe the drastic changes need to be done this way, because there is a certain human side in a family firm, which big companies don't have..." (Production engineer Mika)*

*"If Eki were no longer involved the contact to the customers would have been lost same as the history the firm has...it is extremely difficult with such customer relations that are based on personal chemistry and a long history, it would definitely be risky to cut it at once. It is hard to replace the kind of know-how Erkki has..." (CEO Mikko)*

*"It has been quite necessary to go side by side for a while. The knowledge has been well transferred to Mikko and there has been enough time, and there still is. Also that the MT work is my job may have an influence, it may also make the succession easier...It has been interesting and above all the personnel has been great. That's the main thing." (Production manager Ahti)*

Because of the long history of the family firm, the CEO of which has remained the same from the beginning, the MT members thought that it would be especially important that the former CEO would remain involved for a while. This solution was even more encouraged by the functioning work relationship between father and son. The members were unanimous that it was important that the former CEO should not leave the firm immediately, but should stay alongside the successor until he was aware of all his tasks in the firm. This offered the predecessor also the possibility of transferring the knowledge gathered during his career to the successor, and to introduce his relationship network. Also the predecessor found it important that he and the successor work side by side for a while. The succession was partly facilitated by the fact that the predecessor had already, in the early years of operations, delegated the chairmanship of the MT to the production manager. The predecessor accepted that many things would change in the firm, and purposely concentrated on sales and on keeping apart from other operations. He still hoped that new employees could be found to replace the shortage in management. Bearing in mind the shortage of resources in the industry, it was impossible to imagine that Erkki would leave his position in the firm immediately after succession. In practice the remaining of the predecessor in the firm assured a fluent and peaceful succession, a good family relationship, and the possibility of transferring know-how and skills to the successor.

The members of the MT did not expect in the early stages of the succession that they would have a significant role in the procedure. In the MT the succession was considered a family-internal matter that concerned only the owners. The members thought that they would only took care of their responsibilities during the change. As the interviews proceeded, however, what became obvious was the way in which the perception of these responsibilities in the succession phase



changed, and how the role of the MT was understood to facilitate the succession and to assure continuity.

*"In practice it [the MT] is important. In this organisation of ours it is the motor of the business so that it just won't work without the team. Otherwise this card house falls apart. It is such a significant part of the operations that there can't be any succession or continuing the business without it..." (CEO Mikko)*

*"...without us the succession would hardly have been possible, because it can't be done alone. We are needed because if you change everything, it wouldn't be possible..." (Chief of deliveries Kalevi)*

*"If a succession would happen in one stroke, then the key group would be even more important. How it has happened here, the successor has had time to learn and develop... The MT has been the motor of the business during the succession..." (Production manager Ahti)*

*"It is difficult for me to imagine the succession without the help of the MT. It is such a relevant part of it. It must have a relevant function in the operations of an organisation like this..." (CEO Mikko)*

As a matter of fact the MT had a central role in the planning and realization of the succession. Without a competent and experienced MT the running of the business would in practice have been impossible, and the planning and realization of the succession could not have been so smooth. According to the predecessor, the firm had to be sufficiently mature in age and in operations for the succession to be successful. Long tradition and set functions made it possible for the founder-father to step back and delegate responsibilities to his son. In other words, the role of the predecessor diminished as the roles of the successor and the MT were strengthened with the succession. As the MT took more responsibility in the operations of the firm, the owners had more time to concentrate on the planning and realization of the succession.

The influence of the MT work and the succession has been mutual. The successor has obtained more tools for managerial work during the succession from the latter, for its part, has been further developed by the succession.

*"The situation is really like that here that when the successor has good backup it [the succession] has gone smoothly. If it were like the succession had happened during, say, a couple of years and Mikko had been alone in it, it would have been so hard on him. And it would have increased the work load of others..." (Production manager Ahti)*

*"Practically the succession hasn't been one topic in the MT, like 'hey, how should we do this succession'. The relevant matter is that the firm must develop, the projects and tasks be taken care of, and that's how the responsibility is taken and increased. If we think about the succession, the old manager has the tacit knowledge that he then transfers further, and the future*

*manager tries to adopt all the good things of the past. If the MT really and genuinely is the motor behind the operations, then it's part of the process. It develops along..." (CEO Mikko)*

Even though the succession was not as such discussed in the MT, it increased the responsibility of the MT for the daily management of the firm. The task of the MT was to manage operations while the owners concentrated on the change of manager and the challenges brought with it. The MT work facilitated the stepping of the successor into the shoes of the manager of the firm, because the business was secured right from the beginning of the succession process. At its best the change can increase the knowledge and expertise of all parties and encourage group spirit and cooperation. Thus, not only was belonging to the MT important for the work of the individual members but also the changes in the task entities and responsibility areas made the MT even more important for the business. The CEO and the production manager comment:

*"The members of the MT must really be given the power to make decisions. This wouldn't work without the MT, it is needed all the time. The further we go, the more the role of the MT will be emphasised." (CEO Mikko)*

*"They have more courage to take responsibility...They dare to take lot more responsibility and to make bold decisions. And to bear the results. All the time, even though you would think you wouldn't learn much, the confidence and certainty of what you are doing increase. You don't need to doubt everything, or necessarily go ask for everything...this way the own role has become known." (Production manager Ahti)*

*"...it really affects the motivation of people especially when there are the right people. It is very good when it works. The load is shared and the roles and responsibility are emphasised and they are pointed out as you share the work on a weekly basis and how we run the business." (CEO Mikko)*

The increased responsibility of the MT also affected the members' commitment, motivation and willingness to work together. When matters were agreed together, the commitment to the tasks and desire to handle them increased. The responsibility for managing the firm was divided amongst more people, a factor which facilitated the work of the individual MT member. Cooperation and MT work also increased the commitment to the firm, as did the sharing of the responsibility and the group work increase the motivation of the members. In addition, developments in the flow of information, and the increased possibility of influencing one's own work, have had a positive impact on the motivation of the employees. In practice, the CEO has delegated more responsibility to other MT members. The role and the responsibility of the MT thus are given even greater emphasis as the firm continues to grow.

The MT cannot be held jointly responsible for its decisions and its work as can a CoP, because the CEO of the firm has the ultimate power and responsibility. The MT members in Varkauden Metallityö Oy, however, see the joint responsibility in a family firm differently.

*"When you work in a family firm and it goes bad you will get your share of hell, not like in bigger firms, where you are barely a person, just a pawn in the game. And you can't influence as much there as you can in a smaller family firm like this." (Production manager Ahti)*

*"There they are in one pile the people who make decisions and take the responsibility. We hired help have the moral responsibility and the owners have the financial responsibility. Well, we hired help also have kind of a financial responsibility, too, but it's a bit different, when you are hired." (Production engineer Mika)*

The MT members feel they have more responsibility in a family firm than they would have in a larger firm. Some of the members feel almost part of the family, after working for years for the firm. In a small family business the members feel they can have more influence on the whole operation than they could in corresponding tasks in a larger firm, and even if the financial responsibility is ultimately understood to be in the hands of the CEO or the owners, the MT members bear their share of the total responsibility.

It is a relief for the young successor to be able to share the managerial responsibility. Taking over the tasks of the CEO is smoother when there is a skilled and experienced MT as a support. Owing to the limited experience of the successor both in the industry and in managerial tasks, the support of an experienced MT is extremely important especially in the first years after succession.

*"In the MT the long experience just shows. Those who have long insight and experience, you can only admire how they handle things. In the present form, I couldn't run this myself. It's a vital support..." (CEO Mikko)*

*"It's maybe a personal thing how you take the newcomer, it can take some time...I believe that especially old production manager Ahti tries to reach to Mikko, he likes to take a helping, fatherly role. I guess he has handled it well and smart..." (Predecessor Erkki)*

*"It's largely with our support that Mikko fills in for Eki. He's not alone, the same gang runs the business...If he asks, we help and if we know that that's not the way to do it, we say it. The help is there in any situation, in the weekly meetings, but also otherwise every day and in the different phases of different projects. There is an ongoing discussion..." (Production engineer Mika)*

*"...the MT helps and it helps throughout the whole process, so doing together helps...Cooperation is more and more learned, you just have to do more and more together. Alone...it just wouldn't work." (Production manager Ahti)*

The above comments clearly show how the MT members took a more responsible role in the operational management of the firm. Because the successor did not have the same background of experience and knowledge, nor as significant a relationship network as his father, the support of the MT in the practical managerial work was of the utmost importance. It would not have been

possible to run the firm without the support of the MT, because the successor had only for a short time worked in the firm, and had had his education in a totally different field. However, the MT did not immediately notice the need for support, nor is helping others easy or natural to everyone: it was gradually learned, with the production manager Ahti as an example for others.

After the change of CEO and the first getting-to-know-each-other and a calm phase, a stormy phase could also be recognised in the MT of Varkauden Metallityö Oy. This phase, typical to group formation, required the new CEO to redeem his position.

*"I had to learn a lot of firmness after the start. You need to interfere rather brutally if you want to get things done. Instructions have to be extremely clear, you can't afford to be naïve. At first, when this all started, I believed that everything would be done by discussing and listening and making smart decisions together. I had a work history in Sweden, where these soft values rule, so I imagined that that's how I'll smartly handle things, but I've had to get tougher, firm hand..." (CEO Mikko)*

*"It has been interesting to watch how wretched people are. When Mikko first came to the picture, there was this honeymoon phase, which was really nice. But then still came this resistance to change. The new manager was forced to be as hard as the old one in his time..." (Predecessor Erkki)*

The successor sees it as quite natural that the employees did not at first know to whom they should turn. On the contrary, the way in which some employees showed reluctance towards the change of manager, after first being positive about it, felt unpleasant. The successor needed to change his attitude and to show who ultimately had the power to make decisions. In the MT this change of attitude and learning became evident as increased authority, firmness and clear delegation of tasks. The norms of behaviour accepted by the MT were formed through these group formation phases, and the changed attitude of the successor on its behalf shaped the MT work to its present form. The comments from both the predecessor and the successor presented earlier describe the early stages of the succession well, that of the successor also describes well his own learning process, how he developed as a manager. In their turn, the MT members learned at an early stage to cooperate more, and to recognise the successor's need of assistance. Learning in relation to these issues became manifest in the MT in increased discussion and interaction (both in meetings and otherwise).

The MT members are unanimous in their view that the MT work is useful. They also think that the MT has a central importance in securing the continuity of the business. MT members speak about the usefulness of the MT work as follows:

*"The whole thing wouldn't work without the MT, we feel it's vital. Otherwise this mishmash would be uncontrollable. And the role of the MT increases, when the business is taken further..." (CEO Mikko)*

*"Most useful is the distribution of information, everyone knows where we are and that's a big deal in a firm. And when things are agreed on, everyone is committed to do their jobs and it succeeds much better than it would otherwise." (Production manager Ahti)*

*"Without the MT work it would be difficult, because there are several projects going on at the same time and without the MT gathering it all the information wouldn't flow. ...it's also necessary to see the development and the regression of the firm. This gives an overview. And the problems of others come up that also affects your work. It's like doing a jigsaw puzzle together." (Sales engineer Aada)*

MT work has remained as an ongoing method in the firm in the era of the second generation. The MT members consider the method to be both valuable and useful for the firm, and also necessary for the continuity of its business. The knowledge pooled in the MT, and the support of the community, are extremely important not only for the successor but also to other members of the MT. The usefulness of the MT work is manifest in the family firm in a better flow of information, in the commitment of members, in the focus of the operations, and in increased cooperation.

#### 4.3.2 *Improvement of discussions*

The succession happened at a favourable time for the improvement of the working atmosphere in the MT. Even though the MT work had continued for a considerable time, the conflicts between the members continued to interfere with meetings and discussions. The atmosphere had already become strained during the predecessor's time, and the meetings focused on the identification of the culprits responsible for previous failures. When the atmosphere and the relations between team members improved with the new CEO, such conflicts abated but others arose which were more knowledge-based. In other words, personal disagreements were replaced by disagreements over the matters handled by the MT, and related to the various individual viewpoints of the members.

*"...what I felt was unpleasant and what I've tried to change as much as I've been able to, is the atmosphere of the MT meetings. It was really bad before. Culprits were searched and others were blamed when things didn't succeed. "This is your fault, no, yours." We have developed from that into a discussive, dynamic and constructive direction. We actually achieve other things than looking for culprits for some failure... ...one good thing is that different viewpoints come out. That's vital..." (CEO Mikko)*

*"As a group we have learned to discuss more now...sometimes things get said, though, when there is reason...I don't see any point in sweeping things under the carpet. I haven't got any permanent injuries..." (Chief of deliveries Kalevi)*

*"... there is more discussion. We discuss more now, and about relevant things. This group of ours, in order to be efficient, it needs the right people, proficiency, bringing up the right things and keeping to the point. We discuss real issues without blaming anyone. Not someone try-*

*ing to play into his corner, or not seeing the big picture, or discriminating someone, but keeping it professional and that's what gets results...It's more like this now." (Production manager Ahti)*

Earlier, the discussions in the MT meetings of Varkauden Metallityö Oy were quite sharp and accusing, these being mostly personal conflicts harmful to the matter in hand. There was much argument, members blaming each other for failures and errors. The irregularity of the meetings only increased the number of conflicts: sometimes the meetings were held regularly, at other times there were long periods without any meetings. This caused significant problems in relation to the flow of information. Some of the MT members described their work under the former CEO more as an irregular, board-dictated activity, but after the succession in 2003, the team began to meet weekly. They noticed that efficient work required regular meetings, and in spite of the busy schedules the meetings were considered necessary. The skipping of only a few meetings was reflected in discrepancies between production and sales. According to the members the absence of only one person increased the possibility of error, because decisions were then made on the basis of incomplete information. Moreover, the improvement in the quality of discussion had a positive effect on the atmosphere of the MT: communication and interaction between the members was improved, and they learned not only to discuss in a more constructive manner, but also to handle difficult issues without mutual blame.

The separation of the board and the MT may also have had an impact on the improved discussions. Because the topics of the board and the MT were partially distinct, these vital organs were separated during the first year of the succession.

*"In my time we have tried to get rid of the board-led way of doing things: the board and the MT are totally separated. It was important to keep the former generation out of the meetings. It was soon clear that it wouldn't work, if the same people sit (in both), nothing would really change that way and nothing new would happen..." (CEO Mikko)*

*"The MT determines more the goals of the near future, what we need to achieve. The goals are set by the board, and we agree what will be achieved with the goals..." (Production manager Ahti)*

The leading role of the board was deliberately abandoned with the succession, and the two decision-making bodies in the firm were separated, because the tasks of the MT and those of the board were seen as being different. That of the latter was to create the strategies, whilst the MT executed these strategies in practice, i.e. led the operations. The new CEO in particular, considered the separation between board and MT to be important. Mikko, as CEO, naturally sits on both the board and the MT, but there are no other board members in the MT. According to the successor it was essential to exclude the founders from MT meetings, as the smoothness of the operations required the adoption of a new mode of functioning. It was also easier for the new CEO to show his leadership when the former CEO no longer participated in the managing of the firm. It would have been difficult to implement changes if the same persons had sat both on the board and in the MT: the decision-making bodies would have overlapped unnecessarily. According to the members of the MT it was important to separate the tasks, with the board helping the MT when needed, but staying back

otherwise. Owing to the lack of personnel, the founders still work in the firm, but have stepped aside in order to allow the successor to concentrate on his tasks and on acting as a front man of the family firm. The separation of the board and the MT has clarified the issues discussed in the MT, improved its work, and opened up new perspectives to the business.

For some time it seemed that many aspects of the firm would develop in a positive direction with the succession. The year 2003 was the most profitable in the history of the firm. The management was more focused as a result of the separation of the board and the MT and of the regularity of the MT work, and the atmosphere within the MT also improved significantly. The former CEO thought, however, that the improved atmosphere was also due to the 'honeymoon' period, during which the personnel wanted to humour the new CEO. However, the excessive work load in comparison to the personnel and production resources, the strong fluctuations in the industry, and the changes in personnel in 2004-2005 all indicated that the positive changes were not permanent. The year 2004 was extremely bad for the foreign client company, and the financial situation of the firm collapsed. At the same time the new production manager Peetu had just joined the firm following the retirement of his predecessor. In addition, the increased prices of material had a negative impact on profit, and in order to boost the slow demand the firm had to accept orders even at a loss. This increased the work load and made the years 2004-2005 extremely busy. Keeping to the delivery times also presented difficulties and additional associated costs.

The shortage of personnel was relieved in the beginning of 2005 when the new sales engineer Aada started in the firm. The atmosphere had, however, become tense again, the relationship between the sales engineer Aada and the production manager Peetu being very strained. Aada felt that her competence was questioned and that she was not heard because of her gender; the sharp comments and the inappropriate behaviour of Peetu in particular made her doubt whether she belonged in the whole community, so underestimated and discriminated against did she feel. In addition, there were too many overlapping and unclear tasks among the clerical employees. The responsibility areas of the MT, Mikko and the production manager Peetu were not clearly distinguished, and the new sales engineer Aada did not know her responsibilities. As an example of this, the stocks of the firm were exhausted before Aada even knew that she was also responsible for purchasing. After Peetu's departure and Ahti's return as production manager, Aada's prejudice against the others still persisted, and she was said to have taken the comments of others too personally. The disagreements were thought to be caused by the differing viewpoints of the members, but the MT members were unanimous that the production manager Peetu had caused the disagreement within the MT and that his departure had made the situation easier. With the new CEO and the old production manager more attention was again paid to the atmosphere and to the discussions, and in the same year the profits started to climb again.

With the events described above, and the changes in the personnel, the MT members have learned to understand the significance of the MT composition. Even if there are people with different characteristics and temper, it is still possible to cooperate and to handle matters given the right composition of the MT.

*"If you manage to play it right the differences are an advantage really. If the right person has the right job, with the right personality, that's a huge thing. The thing with the atmos-*

*there is another matter. Meaning that if you let the atmosphere go sour, it will get really sour..."*  
(CEO Mikko)

*"...those who question the most are the very best. I know that some here are difficult, so to speak, but when those men are really listened to, there come the best results..."* (Predecessor Erkki)

The comments of both the new and the former CEO show that differences and understanding conflicts are seen as possibilities, rather than as threats. Some show their feelings more openly, or speak more frankly. Even though there are disagreements, or if the ideas of others are not always understood, the conflicts no longer take a personal turn. In comparison with the earlier situation the tone of discussions has improved remarkably, and there is no accusing of others. Sometimes hurry and stress still cause clashes, but matters are handled as matters and the positive change can be seen throughout the personnel. Objections are interpreted much more smoothly even though everyone thinks that there still is much to learn in the skill of listening, and the hectic pace of work sometimes causes emotions to boil over. As a result, not only is information distributed within the MT, but also new information is created, emerging from its conflicts and the ensuing discussions. Its work is encouraged further, within the limits of time, so as to increase new ideas and understanding in the future.

Differences are seen as strengths, because the MT is a combination of youth and experience, enthusiasm and vision, and discussion and listening. The appreciation of dissimilarity became evident from the following comments:

*"The members are very different; this is a strange house really. There are personalities as different as can be. Sometimes it's an advantage, sometimes a difficulty. No one is the same as the other. There are different ages, personalities, it's unbelievable! There are different ways to think and to act, different education and experience. It's both an advantage and a disadvantage...There are multiply skilled people in the MT, a large scale of experience, answers can be found to many problems."* (CEO Mikko)

*"Mika has a good characteristic. He listens a lot, observes, checks things out and then he makes up his opinion and tells it to others, and usually the solution seems good...Different people are needed in the MT. When others go on and on about the same thing, there is someone who listens, registers and gathers thoughts to solve the problem. Ahti is also like that."* (Sales engineer Aada)

*"The gang is good that way that everyone has his own area where he is really good. There are also educations from engineer to the quite opposite and there are self-educated. There are also many views. Education never hurts, but in small firms the lack of time is a problem. Unlike in small firms, big firms can always have someone taking a course..."* (Production manager Ahti)



The members of the MT in Varkauden Metallityö Oy are different from each other in age, education, experience, knowledge, skills, and personal characteristics. These differences benefit the whole community and highlight personal skills, when applied in the daily work. Additionally, the differences create diverse views on the development of the firm, and thus promote creativity and innovation. On the other hand, the community is more difficult to manage, and it requires constant development in order to bring out the differences, in the best possible way, in order to improve the operations. Even though the MT members have different personalities, the common working environment has shaped their behaviour and brought their views closer together. The formation of common behavioural standards facilitates the cooperation, which on its part improves the fluency of discussions and the flow of information.

The close cooperation and discussions have significantly improved the flow of information in recent years, and the communication skills of the MT members have improved remarkably as well. During the first interviews the poor flow of information was revealed as an actual problem: with the new CEO, the flow of information was at first most unsatisfactory, as people were not accustomed to communicating within the firm. During the later interviews, however, all MT members were satisfied with the development and the speed of the flow of information. The MT work is seen in the firm as a kind of an information crossroads that needs to be extended to the other parts of the organisation. The following comments were made about the flow of information:

*"The MT is an instrument that distributes information between all activities. When there are several sales people the MT doesn't necessarily know everything, or doesn't know where the sales stand and where the production stands. It is necessary for people to get together around the table. Even a firm this size requires that." (Production manager Ahti)*

*"These MT meetings really require the knowledge and the information that the discussions are based on that are the frame. If it's only a debating club, that doesn't lead to anything, in my opinion. The MT work is above all open change of information and the most important people are present there, who know the things." (CEO Mikko)*

*"This kind of an activity gathers people together at the same time and to discuss important matters at the same time. Otherwise it may happen that something is misunderstood when people talk to each other individually. The flow of information works now, the computer system spread information and we have more developed systems now. Before the information dangled up there somewhere among the MT members. Some of it was, of course, spread through team meetings to the organisation, but that was sadly little... The distribution of information is really important and its best achieved with the help of the MT." (Production engineer Mika)*

*"The basic frame of the MT is the same, everything else has improved: how the knowledge based on the information has been developed, how things and information are promoted in the firm, how projects are controlled...Also the that has improved, what information is available in the meetings. This has been a learning voyage, this whole succession, and everyone is genuinely involved with the developments...These team meetings must become as natural a way of*

*acting as this MT work of ours. That will take time, no doubt, to adopt this management system.”*  
(CEO Mikko)

The poor flow of information between the different departments was a problem for a long time. Under the new CEO the flow of information has improved remarkably, with the help of regular MT meetings and a more positive atmosphere. In addition new IT solutions have facilitated the flow of information with wireless connections, portable computers and big screens. Assistance with the information problems was also provided by a consultant who organized the team and communication courses for the whole firm in 2005–2006. In 2006 a team organisation model was introduced into the firm as a part of the quality control highly emphasised by the management. In a team organisation model the different functions are divided into teams each with a team leader. The MT is responsible for all functions, under which the teams of composition of steel constructions, deliveries and finishing, and sawing and preparations operate. For the moment the opinions of the MT members are divided as to the team organisation model, and in the opinion of some members the working teams increase the work load and bring about repetition of information. The members are, however, mainly satisfied with the advantages brought by the team organisation model. As the flow of information and general communication in the MT has significantly improved, the model is promoted in the organisation as the concern of all employees. With the improved flow of information the operations are more efficient and rapid, an improvement which becomes evident in the flexible lead-time of the products and in the reduction of confusion and conflicts. The learning of the MT, on the other hand, is shown through increased openness and the improved flow of information which, in turn, affect the efficiency of the operations.

#### 4.3.3 *Learning and cooperation of the management team*

The learning of the MT and its' members in the succession could clearly be noticed. The individuals were able to perceive the 'big picture' of the business and their role in it.

*“It's possible to learn together. You can see it for example when someone is responsible for a client and tasks and then takes a vacation and you how much there is to learn and ask from them. When everyone takes care of his own area there is just so much tacit knowledge...”*  
(Production engineer Mika)

*“We have all learned to cooperate and that's the whole point of this group, anyway, learn more cooperation. So we could better recognise the areas of others, where you could help them. And not pigeonhole yourself, focus just what you are supposed to do, but also help others if you have time. You can always learn something from your neighbour...you learn all the time from others and of the whole business.”* (Production manager Ahti)

*“This won't work if there is no transparency. The flow of information is an important matter. Every one should see the big picture...”* (Chief of deliveries Kalevi)

Learning could be seen particularly in the individual working methods. Learning in the MT could, on the other hand, most clearly be seen in the development of cooperation. Without the MT to compile the information the members would not have had as clear of a vision of their own impact on the entire business as they do now. The MT made it possible for its members to learn on a broader scale about the business, and they were also able to replace each other, when necessary. The present methods and rules have been developed through mistakes and through learning from them. In practice the best evidence of this is the increased openness. In the succession phase the MT cooperates even more, and the cooperation skills (interaction, communication and decision-making) have improved. The members have also learned to help each other and to learn from each other in taking care of various tasks or in adopting working methods. In addition, the MT recognised that the objectives of the firm can more easily be met. Cooperation made the operations more effective brought about a smoother flow of information and increased the transparency of all operations, i.e. the members were able to follow each other's work and tasks. Some of the MT members would like even more transparency and control of entities, but everyone thinks that they are moving in the right direction. The comprehensive knowledge of the members has also increased the activity and eagerness in the business as a whole: however, the shortage of personnel limits everyone's activities mostly to their own tasks.

The MT has learned with the succession to utilize the strengths and knowledge of its members. Various skills and experience have been noted as enriching the business, not only from the viewpoint of the successor but for all MT members.

*"I, at least, make less mistakes, I learn a lot from the MT, and I want to learn even more. There is a lot of creativity in the work and people's strengths are combined: everyone looks at the same line and sees different things. Even if I looked ten times at the same line I only see what I see. Someone else sees the same line differently. We all have our own filters on." (Sales engineer Aada)*

*"It's more international with Mikko, and we have gone forward...It's good that Mikko has lived abroad and has really strong language skills. Every new man brings his own new ideas with him..." (Production engineer Mika)*

The insight gained into the strength of cooperation was one of the clearest learning results of Varkauden Metallityö Oy, as the above comments describe. With increased cooperation, learning from others was strengthened and there were fewer mistakes. The MT appreciates the diversity of its members and their various strengths, because it is noticed that it brings versatile views into decision-making. Especially appreciated was the international knowledge brought with him by the successor, even if his competence was questioned in the beginning.

The common work history of the members has helped them to learn cooperation. There have hardly been any changes in the MT since that of the CEO in 2003 and those in personnel in 2004-2005. The members have learned to know each other personally over a long period of time.

*"If you really know the person and his strengths and you use them, it's a big thing. You have to know the people and their competences. This helps when decisions are made. You know who can handle what." (Production manager Ahti)*

*"It really shows who is good with what in the MT. Like who knows about certain things and who you can turn to with something, about information or to develop something." (CEO Mikko)*

*"And when you have a rather small organisation everyone knows each other quite well, you know who handles what and who knows...We know the people in here." (Production engineer Mika)*

The members all agree that when members of the group are closely familiar with each other and have worked together for a long time, it facilitates and expedites decision-making. The members know who has the relevant knowledge of the issue discussed, and to whom to turn with different matters. Communities that have not worked together long, or which otherwise do not know each other well, do not enjoy these advantages. There is also a genuine interest in the knowledge and skills of others in the MT, and the members are willing to share their knowledge. It has become clear that the success of the firm depends on the total knowledge of the MT. The CEO describes the MT work as a jigsaw puzzle with various pieces, all needing to be considered. By putting these pieces together through discussions and cooperation the know-how is distributed, diminishing the possibility of errors in the decision-making. The members speak about the distribution of the MT know-how:

*"...the meeting is conversational and responsibilities are distributed and when there is discussion it comes evident who has the most knowledge and responsibility of the matter. It is necessary to have everyone come forward with their knowledge." (Production manager Ahti)*

*"...I would miss a lot of information if I wasn't a member of the MT. And you also need feedback from your work. The information flows also in the other direction: if I'm not able to grab the right information it echoes either technically or financially...or if one MT member is missing, you also notice the information missing." (Sales engineer Aada)*

One of the advantages of the MT work is the emergence of various viewpoints. The MT is seen as a good platform for promoting versatile knowledge. It is extremely important in practice for the members to be able to use the know-how and strengths of others, whilst the feedback received from others also develops both the individual and the group activities. The presence and active participation of all MT members is seen as important for managing the business, and the absence of only one member is noticed immediately.

In addition to the active participation of the members the regularity of the MT work is one of the most important signs of a CoP. In the early years of Varkauden Metallityö Oy no MT meetings were held, but issues were discussed in informal meetings either between two persons on

break or in between the work. When the firm grew and the MT work became established at the end of the 1990s, it became an irregular working method.

*"In the beginning there were no meetings like now, you could say that things were discussed during coffee breaks. The work was not so regular and large. Now as we have that method, it's really regular and necessary." (Production engineer Mika)*

*"The meetings are regularly every week. At some point we missed a week, but not now, and we think it's important. It's absolutely necessary for the information and weekly meetings are required..." (Production manager Ahti)*

The new CEO has seen the development of the flow of information as one of his foremost priorities, and the regular meetings of the MT have been seen as the most important factor in achieving this goal. At the busiest times meetings were cancelled in the new CEO's time, a decision which backfired immediately in some departments and throughout the whole firm. Extended periods between the meetings caused problems in operations. In the summer of 2004, for example, MT meetings run by the new production manager Peetu were cancelled because of the rush. Afterwards this adversely affected operations: the problems in production and the need for personnel were not known, information did not flow, wrong information was received, or people had different views of the tasks and matters. This, in turn, caused confusion and disagreements. The MT members stress that rush should not interfere with the regular meetings of the MT. In addition to the regularity, the attendance of every single department of the firm in the meetings is also seen as important. Experience has proved this to be necessary for successful operations. After the production manager, Ahti's, return in 2005 the meetings were held regularly every week at a set time. The meetings are conversational, even though quite formal, and always follow the same, familiar pattern in order to maintain efficiency and to save time.

The MT members learn by participating actively, by working together and by watching each other work. Learning from cooperation has been best comprehended during the succession, when the responsibility of the MT increased and the cooperation between members was even tighter.

*"These meetings make learning possible because it comes up if there is something special in a job, or if something is important...and a lot of things come up. It's not just a mechanical thing where you check whether the schedule was kept or not." (Production engineer Mika)*

*"We learn well from each other, you always learn from others, even if they are little changes. Many times good ideas come up that can be useful in the future. In discussions and otherwise, of course. Everyone starts to think more deeply about his position after the meeting, and to discuss separately. It develops the whole group..." (Production manager Ahti)*

*"I have learned a lot, because I haven't work in this industry before, I have learned everything here. When running this business you have had to go deep and to learn a lot. And I guess everyone learns from others, too..." (Chief of deliveries Kalevi)*

With the MT it is not only a question of a common method of working in order to make decisions through cooperation: it is also a question of creating an atmosphere of discussion and debate, where expertise and skills are further developed. Such interaction and learning are the goals of the MT, even though their achievement is challenging owing to the constraints of limited resources. In other words, that which could not have been learned only by distributing tasks and responsibilities has been learned through cooperation. The MT work has developed the members' ability to listen to others and to take responsibility for both one's own learning and that of the whole group. Some members think that the cooperation still needs to develop further, for example listening skills require improvement.

Through cooperation the willingness to help and to ask for help has also improved. The problem-solving in the MT has developed and become more efficient when there is better and open cooperation, and the members have a strong sense of participation in the MT work. The members comment on cooperation:

*"I would say that others have also quite well understood the meaning of the MT and everyone has tried to get help from there to their own work, how they could handle their jobs well in their own department." (Production manager Ahti)*

*"These weekly meetings are a good practice. This is like such an internalize way to do things that no one even wants to go through the week without MT work, you get so much help in all planning and doing out of it." (CEO Mikko)*

According to the MT members the common information is utilized and new things are learned with the MT work. The work is useful for each individual's own work. Cooperation and learning from it are paramount for the MT members. Learning is necessary, because each project differs from the previous one, and both the requirements of customers and the methods change with time. The members have, in a way, had to grow around the changed operations. With MT work the members seek strength and ideas for their own work.

#### 4.3.4 Long-term planning and development

The succession has caused the MT members to look further to the future, and to consider their positions, the future of the firm, and their career and retirement.

*"The trouble is that Ahti is retiring soon and waits for a clear solution in the matter. But we haven't found the right person. And it's even more annoying that two years of recruitment have totally failed..." (Predecessor Erkki)*

*"...we'll see, when Eki quits totally and the production manager also in a couple of years, after that there will be big changes. I can't say how long I'll be staying, I'll have to see..." (Chief of deliveries Kalevi)*

*"...this succession could actually be further, but because of the resources it is impossible to think that Erkki could retire. The future recruitments would need to be successful. We'll have to focus on finding new people, and that's a big problem..." (CEO Mikko)*

The succession made also nudged the managers to plan their future and the future changes in the management. Even though changes in the personnel are natural, in a small family firm they often cause significant changes, and these changes demand an early reaction. The renewal in the composition, or the changes of members typical of CoPs, is relevant also in the MT of Varkauden Metal-lityö Oy. In 2005-2006 there were more changes than usual, as the sales engineer and the new production manager worked only for about a year in the firm. Recruitment has been unsuccessful, however, and not only does the position of sales manager remains vacant, but also a new production manager has not yet been found. Even though the original production manager returned, his approaching retirement age has forced the owners and other MT members to consider the future of the business and of the MT. Finding professional hired managers to replace those retiring has proved difficult for the firm. Even though there are constantly vacancies in the firm, suitable people have not been found. The MT has occasionally been completed with the founder-entrepreneur, who is a lesser active member of the MT. Personal career and retirement plans, new recruitments, and vacant positions are a part of planning for the future in a small firm. The short-term aim is to fill the vacancies and to add representatives of the employees to the MT. There will thus be considerable changes in the MT in the coming years.

Some of the future plans of the MT members also look further to the future. The MT has learned much from the succession, and the members have new ideas about how to develop the MT work in the future.

*"I think we haven't had meetings where we would go through and evaluate what has happened and would learn something from both good and bad experiences. Until now, when something was done, we haven't got back to it but only gone forward. At some point we ought to stop and scratch our heads and think why we succeeded or failed. And how to react in the future." (Chief of deliveries Kalevi)*

*"The MT should discuss big things, not only the present situation like we do now. We should aim at the future and the things there. If the owners have planned something for the long run, they could from the very beginning bring it to the MT to simmer. To some extent they do this, but it should be more and earlier... The MT should discuss the insufficiencies, how the firm is doing financially, give the facts. It could happen at regular intervals and the prospects should also be discussed. And it would be good to know why we are doing well or bad." (Production manager Ahti)*

*"The MT work could be diversified a little, get more people and sharpen the whole thing to find the real bottlenecks, and it should be scheduled in a way that it wouldn't be such a constant stress. That hampers with the cooperation and development..." (Chief of deliveries Kalevi)*

*"...if we would stop and evaluate the reasons, we could be smarter the next time and actually learn something about the solutions made. We just see the whole thing through as a lump and don't pay attention to any diversions. They should be evaluated and learned from. As soon as the dust settles we have a new crisis on, there are no breaks." (Chief of deliveries Kalevi)*

*"New people should sit on all chairs, in different tasks and places, so they would see the whole picture. Now when they sit straight on one chair, they only see that one truth. For the entire picture it would be important to circle the tasks and be familiarized with different tasks. If you sat in two or three places and worked there, the whole picture would become evident and new ideas would surely come up." (Chief of deliveries Kalevi)*

There has been progress in the distribution of information since the changes in the MT work, but more transparency is still required. Because of the rush and the workload due to the lack of resources, it has not been possible to discuss all issues affecting the MT work. The members would like more evaluation of the work, more financial information, planning for the future and diversification of their work. Some of the members point out that it would be important to stop once in a while to discuss the successes and failures. At present this kind of evaluation and feedback is completely forgotten. The criticism has been made that the MT sometimes works as a production method rather than as a management tool for the CEO. Even though long-term planning has increased, the MT could discuss the more distant future in addition to the present issues. With the development of the MT work, the members wish to extend discussions into the future and the controls of the firm. The rush and the lack of personnel, however, hinder the growth and development of the family firm, because there is time only to take care of the every-day activities; the main hope placed in future recruitment is that it will help to spread the work load, so that time could be spent on other issues. In addition, all the firm's operations will be introduced to the new MT members in order that they will learn a comprehensive working method. The MT members think it is important for the new managers to familiarize themselves with all tasks and to see first-hand how the various departments are managed. Thus they would see the whole entity, seen as vital for all management members. The members also recognise that learning does not end with the completion of the succession but that the MT work needs constant development also in the future.

#### *4.3.5 Interpretation of management team learning in the situation of family business succession*

##### *Change of CEO and the role of the MT as support of the successor*

A significant change occurred in the MT work with the succession. In the beginning, however, the MT had quite a passive attitude towards the succession, and the change of CEO was not thought to have much influence on the working methods of the firm. This attitude was probably influenced greatly by the production manager's decision to continue as the chairman of the MT, by the long tradition of the MT work in the firm, and by the composition that had remained nearly unchanged over the years. Also the fact that the former CEO could not resign, according to his original plan owing to the shortage of personnel may have influenced the view of the MT members. The members saw the presence of the former CEO alongside the new one in the first years of succession as



a positive factor. His professional skills and know-how were hard to compensate, and additionally the shortage of skilled management personnel in the industry made it difficult to find replacements. The presence of the former CEO has smoothed the immense practical changes caused by the succession, and this, to a point, explains the sense of unchanged MT work among the members.

The presence of two generations working in the firm simultaneously may confuse both the personnel and the interest groups. Particularly after the change of CEO, employees had difficulties in understanding that they should now turn to the new CEO. After the former CEO stepped down, consultation of the new CEO increased. The operations of small family firms often become personified; the presence of the founder-entrepreneur hinders the understanding that the new CEO is continuing the work and is the new contact person for personnel. Correspondingly, it took some time for the MT members to recognise their significant role in the succession. At the beginning the members merely felt that they should continue with their tasks, while the owners planned and carried out the succession. It was only later that they understood the importance of their work within the succession situation, when the founder of the firm stepped aside and let the successor take the reins. This process would not have been possible without the presence of the MT, compensating the lack of experience of the successor by taking more responsibility in the operative management and decision-making. The role of the MT proved to be significant, not only for the continuity of the business but also for the development of the MT work itself. As the responsibility of the MT grew with the daily management, the motivation and commitment of its members to its work increased accordingly (see e.g. Bantel & Finkelstein 1995; Edmondson et al. 2002; Nadler & Spencer 1997).

With the change of CEO the MT noticed that the strengths of the successor were different from those of the predecessor, a factor which evidently affected the MT work. In practice it would not have been possible to continue the business under the new CEO without the support of the MT. Mikko had had a career in an industry other than metal industry, and was thus learning to run a business in an industry where his education and experience as a pharmacist did not provide adequate proficiency. Through the work of the MT, the new CEO had, however, the opportunity to learn new things in social interaction with the MT members. The more skilled members of the MT, with long experience of the firm, helped the successor manage the firm, and in this way the MT became a vital support for the successor. It took a while, however, to recognise the new CEO's need for help and to offer it, and this may have been caused, in addition to different personal factors, by the former practice where culprits were sought with every failure. This attitude may have had a negative impact on the MT members' willingness to help, and may have led simply to take care of their own tasks. There are also certain dangers in a situation where an inexperienced person enters the MT as CEO of the firm: the lack of experience may, for example, turn against him, everything that he says or does being criticized. This happened partly in Varkauden Metallityö Oy where the first steps as a CEO after the initial lull were very hard for the successor.

The reluctance of the personnel may also have been caused by the expectation that the change of CEO would ease the work load and bring positive change. When the hard graft continued even with the new CEO, the personnel felt disappointed with the succession. Before it they had eagerly expected that it would bring something new to the business. There was resistance to change, however, when the new CEO wished to change the methods of work and management, for

example, by formalizing the MT work and by delegating more tasks and responsibilities to the employees. The reluctance of the personnel may also have been caused by the lack of experience, skill and authority of Mikko when he first started as CEO. He had only been in the firm for a couple of years, and the trust shown by the owners towards the MT, now with its inevitably increased power, threatened the status and authority of the new CEO. After the departure of former respected and charismatic CEO, a power-vacuum had ensured in the MT, which the members now intended to fill. The decisions of the successor were questioned, and it was difficult for him to realize his ideas in practice. The firm was accustomed to the more authoritative management style of the founder-entrepreneur, and the new CEO's more conversational manner and poor knowledge of the industry did not help. Additionally, the retirement of the long-serving and respected production manager, together with the difficulties over his replacement were also part of the problem.

The composition of the MT, i.e. its skills and experience, played a significant role in the development of the situation (see e.g. Hambrick & Mason 1984; Reinmoeller 2004; Finkelstein & Hambrick 1996, 118-119; Guzzo & Dickson 1996). Fortunately for the firm, the position of the chairman of the MT during the succession was held by the experienced and self-confident production manager. His positive attitude towards the successor had a corresponding impact on the opinions of other members, and with his example the MT work became more active, and the members began to support the new CEO. After the change of production manager, however, the interaction between the members once more became more difficult, and the responsibilities of the CEO and the new production manager were partly mixed. The interaction was facilitated again first by the departure of the new production manager and then by the return of the old one. Despite all the problems, this period of time still enabled the successor to familiarize himself with his new tasks, and thanks to the interaction in the MT, the successor was considered to have developed more than would have been the case if acting alone.

The interview material supports the suggestion that, at its best, a MT can act as a supportive tool in the management of succession. In Varkauden Metallityö Oy the role of the MT in introducing the new CEO to his responsibilities has been crucial. The successor has been able to observe the MT work and thus to familiarize himself with all the central areas of the business with the support and guidance of experts. The firm is also a good example of succession as a learning situation, not necessarily as a problem. In addition, the view that the succession is not only a matter between the predecessor and the successor becomes clear. Technically it is usually the business of these two, but operationally the fluency of the succession depends also on other central employees (cf. Varamäki et al. 2003; Malinen & Vento-Vierikko 2003). The decision of Varkauden Metallityö Oy gradually to transfer the power through the MT to the successor may be seen as eminently sensible: the successor has had more time to learn the rules of the industry and of the business in general, not to mention the benefits of a stronger position of the MT, its commitment and active attitude. Additionally, the successor has had the possibility of absorbing the tacit knowledge of the predecessor, the MT having taken greater responsibility for the business. In the case of Varkauden Metallityö Oy this is important, because the successor has not, as have many others, worked his whole life in the family firm (apart from some years in his early youth) but has had a career elsewhere and in a completely different industry. Thus the cooperation between the successor and the predecessor has assisted in the transfer of the former's long experience to the new generation. In this, the MT has also played an important role, because it may also, like the predecessor,

sor, transfer its skills and knowledge to the successor, particularly as there are some members with long experience in the firm and in the industry, and who are able to transfer their tacit knowledge to the successor as well (see e.g. Hautala 2006, 268).

A change such as succession in management may also be seen as a critical situation for the operations and the continuity of a firm. In a succession all MT members have to adjust themselves to a new situation and to the changes caused by it. In Varkauden Metallityö Oy, where the successor has a limited knowledge of the industry, the transfer of the operational responsibility directly to the new CEO would not have been possible. In practice this means that the MT took greater responsibility for management, this became evident when the experienced production manager acted as the chairman of the MT rather than the successor. The chairmanship of the production manager added significantly to the smoothness of the succession and to the freedom of the owners. In the future it is intended that the chairmanship of the MT will be defined again. On the basis of the interviews, it may be assumed that the succession, and with it the increased responsibility of the MT, has offered its members a valuable opportunity to learn more about the development and management of the business.

In practice the MT has influenced the succession process by taking a greater role and responsibility in the management of the business. This may be caused by the long employment, and by the consequent sense of responsibility towards the small family firm. Most of the MT members have a long common work history, and many of them have seen the different phases of the firm over decades. The long-serving members have developed a strong bond to the family firm, and the taking of more responsibility during the succession may have felt natural. According to the interview material, the succession has been a “win-win” situation, from which both the owners and the hired managers have profited. The MT has, through its daily work, granted the owners time to plan and realize the succession. By understanding its ever increasing role as the responsible leader of the operations, by taking even more responsibility, and by developing its own work the MT has greatly assisted the realization of the succession. The succession has influenced the MT, and vice versa.

#### *Improved discussions*

Prior to the succession the MT meetings had become quarrelsome and the atmosphere was uncomfortable. This was probably due to poor communication skills and lack of discussion, and the need to look for culprits or failures. The identification of culprits had become an important element in the meetings, and obstructed cooperation since the responsibility for the MT work was laid on the individual manager rather than on the MT. This caused competition and conflicts between separate departments, so that the MT meetings remained inefficient. The meetings were held irregularly and time was wasted on solving personal disagreements, rather than being devoted to the issues on the agenda. The meetings were made more efficient by the new CEO, when they were made a weekly responsibility of all managers (see e.g. McIntyre 1998, 174-175; Nadler & Spencer 1997; Reuber & Fischer 2002). The search was no longer for culprits, but rather for the range of views on the issues. Valuing the opinions of the MT members encouraged both discussion and concentration on the matters in hand, which, in turn, had an influence on the style of discussions and improved the atmosphere. Additionally the communication and interaction between the MT members was

improved by the regularity of meetings. What had been personal conflicts became more cognitive conflicts, a development which led also to conceptual changes (see e.g. Amason & Sapienza 1997; Ensley et al. 2002). Former concepts were thus changed through learning, when, for example, the former way of MT work was questioned and new ways were adopted, of which the improved discussions and the mutual support of the members have been especially satisfying.

The MT work was, however, temporarily jeopardized by the changes in personnel in 2004–2005: the dominating and aggressive management style of the new production manager and the unclear job descriptions gave rise to conflicts, the relationships between some members being so badly infected that cooperation was impossible. Some of the tasks of the CEO and the production manager were overlapping, and the new sales engineer had no clear vision of her tasks. This lack of clarity, and the conflicts between members which slowed down the MT development, eased only when the firm decided to take a step back. In practice this meant the resignation of the new production manager and the return of the old one. Not all the damage caused by the badly infected atmosphere was, however, reparable, and the difficulties and discrimination experienced by the sales engineer drove her to resign. The unfortunate recruitments had repercussions on the MT work as well as in the whole firm; because of the shortage of personnel, those responsible for the various operations were overloaded with work. Despite all this, the discussions and cooperation improved when the operations steadied after these events.

The separation of the board and the MT may also have had its positive influence on the MT work, as the tasks were clarified and both decision-making bodies were able to concentrate on their own work. With the succession it became obvious that a clear separation between the board and the MT was necessary in order to maximise the efficiency of these bodies. The strategic decisions realized by the MT were left to the board (cf. Boyd 1995; Weltman 2001, 43; Cadbury 1990, 31, 39). The separation of the board and the MT, and the clarification of their tasks, also indicated confidence in the MT, which chose its own methods for the achievement of the goals. When the MT was left to work in peace, and received the authorization to act as it saw fit, the greater degree of trust and authority in turn increased the ambition of the MT to improve its performance.

Additionally understanding the significance of the MT composition was an important learning result. Even though the MT consists of people of different personalities, ages, and experience, they have learned to understand and value these differences. Formerly, differing opinions were seen as objections and criticism, whereas now they are seen as suggestions for improvement and opening up possibility. However, creative and innovative planning is still almost nonexistent in the MT, owing to the general lack of time and the shortage of personnel. There are, nevertheless, clear signs of a CoP approach to be seen (see e.g. Lave & Wenger 1991; Wenger 1998b; Brown & Duquid 1991). The tight community has learned that objective discussion and regular meetings facilitate not only the handling of the firm issues but also the work of individuals. The central point of the MT work is the possibility offered to managers of profiting from the skills and experience of others. The meetings allow the members to hear experts on different fields, and to gain understanding which supports their decisions, i.e. why a certain action is needed in a certain situation. This has also become evident in the positive results of surveys into work satisfaction carried out among the personnel by outside consultants. Today there is a healthy community spirit in the MT, which in practice means that every member feels as a part of the entity.

It is difficult to evaluate the interactive influence, but it seems obvious that many things together have generated significant improvements in the flow of information within the MT. These are, for example, the regularity of the meetings, the improved atmosphere, new information technology, and cooperation and listening. In addition, the course in teamwork and communication, organized by an outside consultant, has most certainly had an influence on the improved flow of information within not only the MT but the whole organisation. A major goal of the teamwork course for the whole personnel was to improve the flow of information, and there has been great success in reaching that goal. The team organisation model applied since 2006 has also improved the flow of information. As a result of the training and the MT work the model formed is believed likely to lead the whole organisation forward. The general idea is to copy the positive experience in the MT, and apply it to the various departments. Through various sub-teams, active communication between all levels of the organisation is encouraged. The flow of information within the firm, or the lack of it, presented a significant problem earlier, but the aforementioned issues have improved this to the satisfaction of the MT. Only the use of the sub-teams caused some disagreement, because not all members considered them as necessary, a view which is understandable, if the sub-teams increase bureaucracy and complicate operations. The goal is, however, precisely the opposite, i.e. to minimize errors and to improve efficiency by means of more active interaction. Those with expertise and a managerial position may, however, find themselves in more than one team, which counteracts not only the idea but also the usefulness of teamwork, since the intensity of work deteriorate with multiple membership of different teams.

#### *Learning and cooperation of the group*

The most significant changes in the MT work appear in the regularity of the meetings, in the improvement of the flow of information, and in the change in the atmosphere, all of which have satisfied all MT members. The former contingency and irregularity have been replaced with systematic methods and regularity, the latter having been considered important not only for the efficient flow of information but also for ensuring that no one may feel left outside and lacking information. The community has become more valuable. With the new CEO and the changes both in the board and in the MT, the atmosphere has been improved, and the MT members have also noticed the development. Formerly, the atmosphere was bad and the MT found cooperation difficult. As described above, culprits were sought and the various operations competed and disagreed. With the succession the members have, however, understood their position as the most central factor in the firm. Putting an end to mutual accusation has improved the relationships among the members, and this reflects directly upon all operations. The working methods of the MT are now more peaceful and conversational, even though there is a greater degree of rush in the MT work, so that even more tolerance for pressure is required from the members. The pressure is created not only by the increase in responsibility; it is due also to the more hectic pace of business in general, to the fluctuations of the industry, and to the shortage in personnel. Even if the relationship between the clerical employees has not always been the best, the working relationships are now good, and all members have a common goal.

The group identity of the MT may largely be explained by the long, common work history and by the relationship between the members. Gathering together is considered important, and

the members have a strong feeling of community (see e.g. Mullins 1999, 461; Nadler 1997, 13). Even though the relationship between some members was rather strained at one point, there has never been any doubt about belonging to the group: each member is aware of his/her belonging to the MT and this membership is considered important and a natural part of one's work (see e.g. Li et al. 2002; Lester et al. 2006). Some of the MT members have over the years learned to know each other's ways and competences, and therefore the trust between the members is strong, enabling rapid decision-making. With cooperation the MT work has become even more efficient, with the members helping each other and being able to replace each other. Although even greater transparency is still needed, the blending of various strengths and knowledge, along with cooperation, have already affected the efficiency of the MT in a positive manner.

As a result of the succession process the MT work has been developed and widened as a working method for the whole organisation. In connection with this process the MT work took a step forward, even though it caused, in addition to the change of CEO, some other changes in the MT composition, some momentary, some permanent. The succession offered the MT an excellent opportunity to evaluate its work and to revise its ways. It has learned to see the firm as an entity, even if some members still think this perception develops through the viewpoints of various operations. Although the responsibilities are clear to all, and although everyone has his/her own tasks, the common MT work is still considered extremely important. It has required much work to reach the present situation, and further development is required in the future. The MT forms a diversified CoP, the internal expertise and diversity of which are useful in decision-making.

The learning of cooperation in the MT has been valuable. It has required both a change in the old, inefficient methods and concepts and active efforts and willingness to change. Individualism has been replaced by teamwork and learning from cooperation. A central factor in exploiting the community learning has been the sharing of knowledge and expertise. The MT has attempted to use the knowledge by exploiting the personal strengths of its members and by sharing expertise (cf. Ensley et al. 2003; Wenger 1998a, 125-126; Wenger et al. 2002, 4-5). The change from former ways to new does not happen overnight but requires time, commitment, and courage to for the critical evaluation of the operations. In this process the MT is still a beginner, but has already taken its first, important step. The improved atmosphere and the motivation of the members along with the feedback will, in the future, have a central significance in the MT learning.

#### *Long-term planning and development*

The succession and the changes brought with it also have affected the willingness of the MT members to commit themselves to the planning and development of the operations. Even though the strategic planning has so far mainly been the responsibility of the board and the owners, the MT members' desire to exert influence has increased along with their responsibility. They wish to exploit their long experience and know-how, and to realize their ideas in order to develop the functions in practice. There are many ideas, but insufficient time for discussing of them. The business is even busier than earlier, and the shortage in personnel is felt as an additional burden by all. The changes in the personnel remind the members of the end of their careers and of the closeness of their retirement, and the increased workload caused by the shortage of personnel remind them of the possibility of their having to continue at the present working pace. These questions require

solution in the near future. Significant changes are bound to take place in the composition of the MT, and a successful renewal of the community is vital for the future of the firm. The lack of a skilled hired manager in the metal industry and in the district is, however, a significant problem for the development of the firm.

Earlier the rotation of tasks, i.e. the possibility of the managers and the employees to familiarize themselves with various tasks, (see e.g. Leuchter 1998) has been next to nonexistent. The short-serving sales engineer, for example, wished to rotate in various departments in order to gain a picture of the whole entity of the business. She considered it a great pity that she never managed to see the production. There are, of course, many practical problems with the rotation of tasks, and a small firm does not have the resources, owing to lack of time and shortage of personnel. The aim is, however, to introduce the future managers more consistently to the various aspects of the firm, because gaining a comprehensive understanding of the business has been observed to be necessary in the MT work. In general, more attention ought to be paid to the introduction of all new employees in order to exploit their strengths more efficiently and to increase their commitment to the firm.

Because of the fluctuation in the industry a rapid reaction to changes is required, and development has thus become important to many firms in the industry. In Varkauden Metallityö Oy the planning has, however, been of a rather short-term nature, and the forecasting of different situations has been weak. Insufficient attention has been paid, for example, to the need for human resources and to the change of the clerical employees. Additionally, the pipe deliveries rely on one client (which has a significant influence on the turnover of the firm), and budgeting for risks has been inadequate. Long-term planning is important even if adaptation of the operations must be occasionally done at short notice. It is, however, easier to make yearly and operative forecasts based on long-term plans, even if these may change according to circumstance. Moreover, those within the firm are more satisfied when they can see the long view, and more to the point, when they are convinced that the MT can also see it and can deal with it (Kakabadse et al. 1993). It might be sensible to rotate the MT members and those involved with the planning process in various tasks, in order to gain new insights, or at least to let them participate in a less active way in the MT work (see e.g. Leuchter 1998; Waine 1995)

#### 4.4 Comparative analysis

The MTs in both small family firms studied have learned much during their succession situations, in which young and fairly inexperienced successors have taken over. The succession as a whole offered an excellent learning situation for the MTs of both firms, since the responsibility has been transferred from the predecessor to the successor with the active assistance of the MT. In both cases the mutual support of the MT members, the strength of the community, cooperation, regular meetings, the understanding of the role of the MT, and the improved flow of information have all had an important influence on the learning of the MT and thus on the continuity of the entire business.

Despite many similarities, the learning of the MTs also had significant differences. In the case of Varkauden Metallityö Oy it was influenced by, among other things, the changed roles and responsibilities of the members, the remaining in the firm of the predecessor after the succession,

the increased and deeper interaction, and the long-term development and planning. In the case of Metallipojat Oy the learning of the MT was especially related its formation and to the sharing of responsibility, the learning patience, a more comprehensive perception of the business, and the creation of common standards and methods. The main reason for the difference in learning as between two firms may most probably be the MT itself, i.e. what the MT is like, and what its role is in the firm. Additionally, the difference in learning in these firms may also be a consequence of the following facts:

- 1) At Varkauden Metallityö Oy, the MT work was already established and stabilized before the succession, whereas at Metallipojat Oy the MT work was actually initiated with the succession. In other words, *the MTs were in different phases of their lifecycle.*
- 2) *The formation processes of the MTs were different.* The MT of Varkauden Metallityö Oy had been formed on the basis of the positions of the managers, and the succession had an immediate effect only on the CEO. At Metallipojat Oy, on the other hand, the MT was first formed after the merger, and was based on the commitment and activity of the members. In addition, it was supposed that the members would share the growth expectations of the owners.
- 3) *The chairmanship of the MT was defined by different criteria.* The chairman of the MT of Varkauden Metallityö Oy was the production manager, with long experience in the firm and the chairmanship of the MT. The chairmanship was not seen as the sole right of the CEO, but in the opinion of the MT belonged to the person with the greatest experience in the industry and in business. At Metallipojat Oy, the successor began as the chairman of the newly formed MT, none of the members of which had previous experience of MT work.
- 4) *There were significant differences in the background experience of the MT members.* The MT of Varkauden Metallityö Oy was made up of professionals with long experience, whereas the members of the Metallipojat Oy MT were young and enthusiastic persons with little experience in the industry and none in MT work.
- 5) *The succession processes of the two firms were different.* At Varkauden Metallityö Oy, the predecessor remained to support the successor after the succession. At Metallipojat Oy, the predecessor stepped down immediately, and was no longer involved in the business. At Varkauden Metallityö Oy the power was gradually transferred from the predecessor through the MT to the successor, whereas at Metallipojat Oy the successor formed the MT to advance his own interest, i.e. to run the business and to implement the growth strategy.
- 6) *The tacit knowledge from predecessor to successor was transferred in a different manner.* At Metallipojat Oy, the successor had been working in the firm for years before the succession, and he had had time to observe and study the predecessor's actions as entrepreneur. The successor at Varkauden Metallityö Oy did not have the same opportunity, and therefore the predecessor's know-how was transferred only during the succession. These differences may also explain why the predecessor at Metallipojat Oy was no longer involved in the business after the succession, whereas the predecessor at Varkauden Metallityö Oy continued in the firm. At Varkauden Metallityö Oy, the tacit knowledge gathered through experience was, additionally, transferred through the MT.



- 7) *The backgrounds of the successors in the case firms differ from each other.* The CEO of Metallipojat Oy followed a more traditional path to entrepreneurship, as he had in a way 'grown into' being the successor of the family firm, and had worked there his whole life. On the other hand, the successor of Varkauden Metallityö Oy had worked for the firm for a short time in his youth, but had made a career in an entirely different industry.
- 8) *At Metallipojat Oy, two processes of change took place simultaneously:* succession and the implementation of the growth strategy, both of which affected the MT work. The MT of Varkauden Metallityö Oy, however, was patiently running the business and secured the continuity even after the succession.
- 9) The MT work at Metallipojat Oy is still shaping up (e.g. the time and regularity of the meetings vary remarkably); whereas the MT work at Varkauden Metallityö Oy is very stable. Thus *the MTs are also different as learning platforms.* Owing to lack of experience, discussions at Metallipojat Oy last longer. At Varkauden Metallityö Oy, the main learner is the successor, but on account of expanded total responsibility, and changes in methods, other members also learn more than was the case earlier.
- 10) *The level of professionalism is different in the MTs.* In addition to experience, the different phases of the lifecycle have an impact. The MT of Varkauden Metallityö Oy has long traditions and is highly skilled because of its long experience, whereas Metallipojat Oy is only now initiating the MT work, and the members do not have the skills brought by long work experience.
- 11) *The regularity and formality of the MT work are different.* The MT of Varkauden Metallityö Oy met weekly, at the same time and in the MT meeting room, and followed a familiar pattern. At Metallipojat Oy, the regularity of the MT meetings varied, and lately the team has mainly met only if required. The individual meetings are additionally very informal, and different matters are discussed when they happen to arise.
- 12) *The decision-making processes are different.* At Metallipojat Oy, decisions are made more intuitively and on the basis of trust in inner feelings as to future developments. At Varkauden Metallityö Oy the decision-making is more rational; the MT has a more analytical working method than has that of Metallipojat Oy.
- 13) *Varkauden Metallityö Oy has a tight relationship with its client* which is visible in the development of the operations. The client also affects the MT learning through the products it sells, and through the schooling it organizes.
- 14) *The creativity and ideas of the MT members are handled in a different manner.* There were creative individuals in both MTs. At Metallipojat Oy, Jani has a vast stock of ideas, but in contrast to situation at Varkauden Metallityö Oy, his ideas were supported and given a chance. Although Kalevi had many ideas for the development of Varkauden Metallityö Oy and its MT work, little attention was paid to him until very recently. The support for innovations may be based on the different attitudes towards mistakes. The MT of Varkauden Metallityö Oy used to spend a great deal of time identifying culprits for any mistakes, whereas at Metallipojat Oy mistakes are allowed and experimentation encouraged.
- 15) *The composition or structure of the MTs is different.* The MT of Varkauden Metallityö Oy was composed of heterogeneous, experienced persons, whereas the MT of Metallipojat Oy was quite homogeneous in its experience and characteristics.

The final point in the above list may best describe the MT learning. In the MT of Metallipojat Oy notion of learning was similar, i.e. learning the hard way. Had there been one or more experienced persons, the learning would most probably have been otherwise. On the other hand, the young entrepreneurs had a very entrepreneur-like manner, and were enthusiastic to learn and to work in their way. Thus, learning has occurred through experiment and error. The MT of Metallipojat Oy has become a CoP precisely through learning: its members have developed common methods and defined common norms for their work. Learning occurs through participation in the MT work, and common meetings are considered important learning situations. Learning is based on actual problem situations and on what emerges from them. At Varkauden Metallityö Oy, on the other hand, the diversity of the MT members and strong professional skills are behind the learning. However, the stable and strong position in the firm, personalized job descriptions, and very strong personalities have previously hindered smooth cooperation between MT members. Even though teamwork is often more fluent in small firms, the persons in responsible and important positions often find cooperation difficult. The succession has thus been very welcome for the sake of the MT work, as the members have been forced to take a greater role and to cooperate more, following the change of CEO.

Altogether it may be observed that the MT members have comprehended that the success of a small firm is often linked to personal success. This may be seen particularly with the inner entrepreneurship of the MT members of Metallipojat Oy. The most concrete evidence of the inner entrepreneurship at Metallipojat Oy is the fact that some of the clerical employees wished to participate actively in the development of the firm during the succession. Thus the need for regular MT work was also created, and the composition of the MT may well be seen as a result of this entrepreneur-like behaviour. In practice the MT is formed either through the decision of the CEO, as at Varkauden Metallityö Oy, or through entrepreneurial-like behaviour, as seen at Metallipojat Oy. Those who were genuinely interested in the business, began to politicize and to participate in the development of the firm, thus in fact forming a MT.

The learning of the MT is exhibited differently in the operations of the MTs in the two family firms. Common to both cases was the recognition and understanding of the role of the MT both in succession and in the continuity of the business. This was in practice viewed as increased freedom of the MT: as power to make decisions, and to take responsibility, as increased motivation and activity, and as the mutual support of members. At Varkauden Metallityö Oy the ideas of the managers have received more attention since the succession, as the role of the MT in the management of the firm has become more influential. Thanks to cooperation, the interaction between the members has also increased, the information now flows, and the members have learned to cooperate more closely. The successor has in a short time gained the knowledge and skills required in the business, with the assistance of the MT. In both case firms, the MT runs the business completely, making it possible in the case of Varkauden Metallityö Oy for the owners to concentrate on the planning and implementation of the succession, and for the successor to familiarize himself with his new duties. Additionally, both the understanding of the influential role of the MT, and the common learning experience advanced the development of the entire business. For example, in both firms the board and the MT were separated in order to increase efficiency and diversity. The MT is clearly a more intense body than the board, and its members work more tightly in the firm. The purpose of the separation was the desire to gain more from both bodies, and to make them

support both each other and other developing forums. In practice the support of the MT was particularly manifested as increased assistance to the successor, but also mutually within the team. Learning to cooperate, in addition to the increased interaction, was especially significant at Varkauden Metallityö Oy, where the members had previously acted independently, taking care only of their own area. Learning to see the 'big picture' was evident in both MTs in the clearer job descriptions, in the understanding of the cause and effect relation, and in the closer coordination of the operations.

Closer cooperation increased the efficiency of the work of MT members, and also, particularly, at Varkauden Metallityö Oy, the extent of mutual assistance and learning. The strength of the community was manifest in its more discussive and comprehensive activity, strengthened group cohesion, and in the improved flow of information. The regularity of the work, for its part, brought about an increase in the flow of information, and helped in a positive manner towards the creation of routines, i.e. the learning of common working methods and standards. One of the most marked learning results in the MT of Varkauden Metallityö Oy has been the improved atmosphere, whereas the motivation, entrepreneurship and courage of the MT members at Metallipojat Oy have long been based on an atmosphere which allows mistakes and experiments, which is trusting and which shares responsibility.

Common to both case firms was also the hiccup in the results after the succession although the change of manager as such may not be the reason for the negative development. In the case of Varkauden Metallityö Oy, the crisis experienced by the client with the largest share of the turnover may largely explain the poor result, as may the doubling of firm size and large investments in the case of Metallipojat. Additionally, the bad situation in the industry exerted a negative effect upon both results. Partly because of their experienced MT it was easier for Varkauden Metallityö Oy to rectify the result, and this occurred in the following year. The change of manager does not therefore necessarily itself bring about the negative results; but in any event, the hardships in the business still have a strong connection to the development of the MT work and to the learning of its members.

This learning could be seen in the MTs of the case firms, and again in a way which differed as between them. For example, at Varkauden Metallityö Oy the MT made it possible for the owners to concentrate on the succession, whereas at Metallipojat Oy the change of the manager triggered the whole formation of the MT, which was based on the commitment of those members who were willing to take responsibility and to develop the business. At Varkauden Metallityö Oy the predecessor continues to work in the sales until a new sales person is found. The presence of the predecessor could be seen as an indication of a peacefully progressing succession, as valuable input into sales, as well as in transfer of knowledge and networks to the successor. At Metallipojat Oy the young MT created its own working methods, and learned meeting practices and management of the business together. At Varkauden Metallityö Oy the successor had to learn managerial skills, which could be seen in the clearer rules for the MT, in behaviour standards, and in the increased authority of the successor. At Metallipojat Oy, on the other hand, the MT work was too unanimous in regard to the development of the firm. This may be caused by the inexperience, and by the selection of members, who to an excessively high extent share the opinions of the owners. Nevertheless, the members act in a daring, entrepreneur-like manner and are not afraid of taking risks.

Learning to communicate has been highly satisfactory at Varkauden Metallityö Oy. The improved flow of information has advanced discussions and efficiency, and has reduced confusion and dispute. The development of communication may also be assisted by the team organisation model, in which other teams in addition to the MT work on various levels. Long term plans for the future have been considered, evidence of which may be seen in ideas of development, in the planning of the careers of the MT members, vacant jobs, and new recruitment. At Metallipojat Oy, the most visible learning results are patience and seeing the 'big picture'. Patience may be seen in the increased consideration, in the recognition of the distinction between relevant and irrelevant issues, in prioritizing, and in the capacity to handle unfinished matters. Keeping emotional outbursts under control and increased equality in the family firm become evident in the versatile discussions, in the paying of attention to the opinions of all members, in the reduction in the number of quarrels between brothers, and in the progress in handling of things in the meetings. Perceiving the entities has clarified the job descriptions, has helped towards the understanding of the tasks and of the cause-effect relations in different situations, and has facilitated the coordination of activities. The MT has learned to see matters in a more comprehensive manner.

One of the most significant contrasts between the two case firms is the fact that at Varkauden Metallityö Oy the differences between MT members were seen as a strength, rather than, as they were seen in the formation phase of the MT of Metallipojat Oy, as hindrance to development. Instead of an attempt to root out different views, these were encouraged and considered important for the development of the firm. The members saw every new member particularly the new CEO as bringing his/her own characteristics to the use of the organisation. At Varkauden Metallityö Oy diversity was seen as a possibility, whereas at Metallipojat Oy it was a threat. These contrasting attitudes towards individual diversity may partly be dependent upon different management cultures. The founder-entrepreneur of Metallipojat Oy, former Rautapaja Oy, was a traditional entrepreneur in his life style, whose main goal was to provide a reasonably good income and high work satisfaction. He wished to manage the firm in his own way, and the increase in its size was not his goal. The successor Olavi, on the other hand, had a clear vision of how to manage the firm with the help of the MT. He had strong goals for growth, and the MT was, in the end, selected to support these goals. On account of the inexperience and homogeneity of the MT, its efficiency and knowledge were, however, quite weak. The founder-entrepreneur of Varkauden Metallityö Oy, Erkki, wished from the outset to increase the size of the firm, and to manage the business in a professional manner with the help of experienced hired managers. After the succession the same working method continued with almost the same composition.

The decision-making in the MTs of the firms may also relate to learning. In the circumstances of lack of experience, Metallipojat's MT trusted more to intuitive feelings. Nor did the firm have any historical precedents which could assist the decision-making process. It would appear that the decision-making at Metallipojat Oy was intuitive, trusting the decision heuristics, guidelines or rules of thumb. In the absence of experience and historic facts, the images of the future were little more than assumptions about the future developments of the business. Varkauden Metallityö Oy, on the other hand, had a long history and a stable MT, and decisions were based upon knowledge of previous similar situations. This has facilitated the anticipation of the future. With growth and development, the decision-making at Varkauden Metallityö Oy became more

rational, and the MT work more formal and more regular. This was, however, not the case at Metallipojat Oy.

The study clearly indicates that the learning of a MT may not be studied without the connection to the current situation of the firm and its MT work. A change as crucial as succession inevitably also causes further changes in the actions of the firm and its managers. The anticipation of this, or the reaction to it, may differ widely in MTs, depending upon those involved in the management of the firm. In other words, the way in which a MT learns, and what it learns in a succession situation, may be explicable largely by the characters of the managers.

This was clearly observed in the case firms of the study. The members of one MT may be considered fairly homogenous in their background, whereas the other consisted of persons with very different characteristics. At the same time, the learning from the succession differed in the MTs. For example, if the case of Metallipojat Oy be considered, what would have happened, had there been more experienced staff in post, with different views on the development of the firm? Most probably the presence of greater experience would have contributed to more patient growth. In other words, the “weeds” that were pulled during the formation of the MT would, it left, probably have slowed down the schedule for the achievement of the growth goals. It is safe to say that at least there would have been a greater variety of views on the development of the firm; matters would have been discussed in a more versatile manner; and the growth of the firm would not have been taken as an absolute truth. In this case the whole learning process would naturally have been different. Learning would not have been as significant for an individual member, because in that present situation, the members had to act in an entrepreneurial-like manner, and had to learn the hard way. It seems clear that this kind of learning through error and experiment may, at its best, be highly revolutionary, and may have long-lasting effects. On the other hand, having acted more patiently and valued differences, the firm would probably be more profitable than it now is. However, as already stated, the members would perhaps not have learned in such a radical way in such a short time, and the learning would not have been as profound (learning by doing). Thus, if the firm is able to control, among other things, the financial problems caused by the speed of growth, the experience of the members may be an excellent investment for the future, and may help to confront future challenges.

The considerations outlined above are also supported by the observations on the composition of the MT of Varkauden Metallityö Oy, and its influence on learning. The MT was clearly more heterogeneous, which may have led, at least partly, to a more patient development of the firm. In the case of individual members, the learning may not have been as revolutionary as that at Metallipojat Oy (the successor excluded), but the learning has been strengthened through tighter cooperation and a more conversational atmosphere. From the viewpoint of a CoP, the MT of Varkauden Metallityö Oy may be considered to have high-level knowledge, which that of Metallipojat Oy lacked. This does not, however, necessarily signify that the members were more educated, but that the knowledge had reached its high level through experience. The know-how has been increased by education, long experience and long MT activity, as well as by various educational functions organized by the firm. The development of the skills of the members through education is more difficult in small firms, because limited personnel resources place a restriction upon the numbers attending courses. Because of the lack of resources and the constant rush, the utilization of the skills of the MT members in planning, creating new ideas, and development are often

hindered by daily management routines. Yet the pressure and the increasing demands of the industrial environment themselves develop learning to a certain point, since learning and the maintenance of professional skills is obligatory for the satisfactory fulfilment of duties. This kind of “stretching” of skills may, however, also have negative effects, as the personnel have to work to the limits of their capabilities and the operations are not developed because they can only fulfil their basic job functions.

Learning and cooperation in the MTs has been parallel in both case firms. Cooperation and learning have improved personal relationships and strengthened the self esteem of the members. Members have brought their individual knowledge to common use, and contemplated the questions of management together. The members thus have a positive mutual dependency, i.e. the members need one another to manage the firm. However, the MT work at Varkauden Metallityö Oy may, to some extent, be considered more professional than that of Metallipojat Oy, because the meaning and function of the MT in the firm have been more clearly acknowledged during the entire succession process. This may, at least to a certain degree, be related to the fact that there were members in the MT with long experience in the industry.

Despite the patiently implemented and the quite well planned succession, Varkauden Metallityö Oy has also faced problems, perhaps the greatest of these being the succession has been the fact that the successor has not been “grown into the firm”, as is the way in many other family firms (e.g. at Metallipojat Oy). Rather than spending his spare time in the family firm, or dreaming of continuing it, Mikko had a very different career abroad. The employees may be more prejudiced towards successors who come from outside the firm rather than from inside, let alone from an entirely different industry and tasks. In that case, the prejudice is directed to the capacity of the successor to take over the firm.

## 5 CONCLUSIONS AND MANAGERIAL IMPLICATIONS

### 5.1 Main results and conclusions

According to the studies one of the main reasons for failure in family business successions is the inability to manage the complex and highly emotional process of ownership and management succession from one generation to the next. The objective of this study was to bring forward a new participating actor, the MT, in managing succession in small family businesses. Heretofore, most of the studies concerning succession have focused on the problems of a succession, and on the relationship between the successor and the predecessor, but they have ignored other actors such as MTs in the succession process. MT work may, however, be essential to a successor in continuing the business, as well as to MT learning. Despite the importance of MTs and their learning in the succession situation, research from these viewpoints (MT in managing succession and MT learning) has hardly been conducted before. There are only a few studies of MT learning but none of MTs in managing succession. In this study the three central factors presented above are combined, i.e. MT, learning, and family-owned SME, by forming the theoretical framework of the study and by offering a new viewpoint on both MT and family business research.

The study clarified, through two case firms, the role of a MT in managing succession in a family-owned SME, and the effect of the succession on their MT work. Since a succession as a critical incident of a family firm lends itself perfectly to the learning concerning all MT members (including also non-family members), the phenomenon was examined from the viewpoint of MT learning. Recognising the role in the succession of the MT composed of managers offers a new approach to the succession process of a family business, which has traditionally been seen as a problematic and challenging process between only the successor and the predecessor. Learning, for its part, opens a new prospect to the MT literature, by focusing on MT learning and by examining a MT as a CoP. In addition, the study examines MTs in Finnish firms and, rather than large companies, focuses on family-owned SMEs. The study was implemented qualitatively using the case study method. MT learning of the case firms operating in the field of the metal industry was examined in succession situations (i.e. it was an intensive case study).

The main research question of this study was: *"What is the role of a management team in managing succession in a family-owned SME, and how does succession affect the management team work?"* This main research question was answered with three sub questions. The aim of the first one was to find answers to the question *"what has a management team learned in the situation of family business succession, and how can this learning be seen in the management team work"*.

Both MTs of the case firms learned much in the succession situation. Learning in these communities was, however, at least in part, different owing to the different phases of the life cycle of the MTs of the two firms. Therefore, separate discussion of the results of the case firms could not be completely avoided, regardless of several similarities of the cases and the results. Additionally, the MT work had different traditions in the two firms, and their composition differed significantly from each other. In both the MTs, however, the question as to how the members themselves had perceived their learning, and what they thought that learning to be. The learning of the MTs was not clarified in the interviews through questions about learning, but rather it became evident, for

example, through the development of the MT work, through the changes it had caused and the identification of those which were central, and through the consequences of the events. The MT members discussed all these issues from the planning of the succession, or the beginning of the MT work, to the present. The observation that MT learning (what and how it was learned) may largely be explained by the MTs composition, by the background of its members, and by the history and present situation of the firm, emerged strongly from the data.

The formation process of the MT and the phases of its work are central factors in explaining MT learning. In one of the firms studied the MT was first formed after the succession, whereas in the other the MT was a relevant part of the operations even before succession. At Metallipojat Oy the MT was first formed after the change of manager and the merger, when the predecessor stepped down entirely. The formation process was rather long, and the members were selected on the basis of their commitment to their work and to the firm, of their initiative and of their level of interest. The formation of a MT may thus be the result of its members' internal entrepreneurship. In such cases the members are willing to use their resources to achieve the firm's goals, and they are prepared to work flexibly in order to meet them. In this case, the formation of the MT was, however, additional to the internal entrepreneurship, influenced also by the common view of the growth strategy of the firm.

In the other firm, for its part, the MT work was already stable when the succession occurred. The MT realized that retaining the predecessor in the firm for a while after the change of manager would be a successful solution. A small firm is often personified in the founder-entrepreneur, a factor which causes a situation in which it requires time for the new CEO to take his place as a manager in the firm. This change was facilitated, as the predecessor remained as a support for the successor in the management work. The predecessor thus had also the opportunity to transfer his knowledge and skills to the successor, and to present him to the existing relationship network. The predecessor also secured a smooth and peaceful succession and the preservation of good family relations. These issues are important and worthy of the attention and support of the MT in the succession situation of a family firm.

The MT learning was explained particularly by the background factors of the members. In one case the MT members were characteristically similar to each other (in age, education and work experience), and in the other they were markedly dissimilar. In both MTs, however, the mutual support on the one hand, and the support to the successor on the other, was of extreme importance. At Metallipojat Oy, the MT members learned already in the formation phase that, in addition to commitment and the sharing of both tasks and responsibility, meetings and immediate cooperation were required. The MT became quite homogenous, not only because of its similar views but also because of members' backgrounds. Owing to the lack of experience, responsibility was shared unconventionally, and decisions were made through trial and error, and by learning the hard way. Because of the lack of experience and the homogeneity of the group, the members could trust and rely strongly on each other, a situation which could often be judged as being excessive consensus. Mutual support is, however, vital when there is insufficient experience. If it is impossible for the successor to manage the firm alone, the support of the group may compensate for the insufficient work experience of the MT members. As a group the members are stronger, and thanks to knowing each other so well personally, taking care of things is facilitated. Personal knowledge and acquaintance assists towards the recognition of others' reactions and methods, and this is particularly



the case in situations of crisis. The mutual support not only advances the handling of affairs and the flow of information; it also develops courage, and a methodical approach to its work, within the team. Recognising the strength of the group may also be seen as strong group cohesion.

Unlike their counterparts at Metallipojat Oy, the MT members of Varkauden Metallityö Oy were heterogeneous in their backgrounds, but managing this firm without its support would not have been possible for the successor who had worked in the firm only for a short time and who came from a very different industry. The giving of assistance was not a self-evident action for all MT members, but rather had to be learned gradually. That learning is not always positive became clear in the firm in question: shortly after the change of the manager and the production manager negative learning could be recognised in the MT. There was strong resistance to change on the part of some employees, which required firmness and development from the new CEO. The increased authority of the successor, as well as the clarified rules and job description, could soon be seen both in the MT work and in the common behaviour standards. After the change in the management style of the successor, the MT members gradually learned to notice his need for assistance and to provide the required cooperation. As a result discussions and interaction in the MT were also increased.

The equality of discussions was regarded as important in both firms. Although there were two owners in the MT of one case firm, the members thought it important that the MT should act equally with regard to all members, and the views of hired managers were also heard when decisions were made. The presence of family relations of the owners did, however, inevitably reflect on the MT, and quarrels and outbursts between siblings hindered the work. The presence of hired managers, and their equality as MT members, calmed down the disputes between the owners and taught them to leave their differences outside the MT work. Learning equality in the MT of a family firm may thus harmonize the work situation and increase the fruitfulness of discussions, feedback, and advanced the matters in general.

Recognising the importance of discussion, and learning to be open in general, advances the work of the members, and thus the business. Even if the members know each other well, and get along well, a tighter interaction is a basic prerequisite for learning together. Common discussions improve members' knowledge of firm matters, the flow of information, the development of issues as well as mutual feedback. A positive and encouraging atmosphere and mutual trust often act as an important incentive, and recognition of its significance is an important factor for running the business. An open atmosphere enables bold decisions, experimentation with new ideas, learning from mistakes, and the accumulation of experience. MT work may act as a learning platform where young members have the possibility of learning the business. The best methods for the production of information and the use of relevant information are often learned by working together. Thanks to cooperation, the MT work is developed further to advance more long-term planning and better coordination. Practical work and cooperation teach members how to handle matters. Learning occurs through active participation, and as a result of cooperation clear rules and standards for operations are formed. A MT will also learn to recognise relevant matters requiring discussion to be, and the optimum length of meetings for maximum efficiency.

Improved discussions in a MT are also welcome, if differences between members have been hindering the work. For example at Varkauden Metallityö Oy the atmosphere in the MT had deteriorated under the previous CEO, and the members accused each other of mistakes and fail-

ures. The haphazard meetings further increased conflicts between the members, and the team noticed that efficient work requires regular meetings and smooth cooperation. When the MT started meeting regularly every week, discussions and cooperation were improved, the atmosphere markedly more cordial, and the meetings were more fluent. The members learned to have constructive discussions and to handle even difficult matters without mutual accusation.

The improved discussions in both case firm MTs may also have been influenced by the separation of the board and the MT, and of their tasks. Separation was seen as important in both firms, in order for both bodies to have their impact in the business. The task of the board is to create strategies which the MTs then carry out through the more operative work. The separation of the bodies has clarified their roles, and the board has become a partner whose directions the MT follows. The clearer allocation of tasks and responsibility also clarifies the matters discussed in the MT, and thus renders its work more efficient. With these bodies the business may gain more versatility. The separation of the bodies is also seen as a sign of trust in the MT, as it is able within the given limits to determine its own ways and methods of achieving the goals.

It is important for the MT work to form a comprehensive picture of the business. In the early stages, a MT may concentrate on individual, rather meaningless matters. With experience the work becomes more comprehensive, carried out with development, planning and control, characteristics which may also be seen in the way matters are handled and decisions made. Decisions are more long-term and, according to the MT members, also more successful, even though the main emphasis in a small firm remains with operative matters. Seeing the 'big picture' in the business, and placing one's own work into the context of that picture is an important learning experience for the individual MT member. The MT work makes it easier for the members to understand the linkage between their own work and responsibility and those of others, and to control the entity together. Additionally, the experiences in MT work develop remarkably the business skills of the members. In regard to succession, it might be advisable to have established stable MT work in the firm before implementation of the succession: if this were in place, it is likely that the MT work would already have its rules, and that the MT could act as an efficient support during the succession.

MT work may also teach patience to the members. Increased patience within a MT may also improve the recognition of different situations. The improved ability of a MT to prioritize matters, and to handle them in order of importance, may also be seen as a learning result. Discussing and considering matters in a MT may additionally reduce mistakes and improve efficiency. With the learning of long-term thinking and prioritization, the capacity to be methodical often increases. A MT may learn to discuss relevant matters, experiment with different solutions, create new ideas, and share experiences. A MT is a tool for the management of a firm enabling cooperation and learning for its members. At Metallipojat Oy, for example, the solution of implementing three different levels of teamwork the production team meetings, the MT meetings and the board meetings, speaks in favour of learning a method. The goal of these changes is to clarify the work and make it more efficient as well as to separate the production matters entirely from the matters of the MT and the board. Despite its recent irregularity the MT work is seen as a necessary working method, augmented with new views by the occasional attendance of outside members.

The MT work has also enabled the MT of Varkauden Metallityö Oy to learn broadly about the business. With their greater knowledge of the various operations the members are more

capable of helping each other, and, if needed, of replacing each other. With the succession the MT has increased its level of cooperation, and its cooperation skills have developed. The members have learned to help and to ask for help. Often the ability to solve problems in a MT develops with improved interaction, open cooperation, a strong group identity; it develops also when the members know each other well and know to whom to turn in connection with specific matters. The decision-making process of a MT becomes more versatile and rapid, if it learns both to utilize the strengths and the knowledge of its members and to combine these factors. Tighter cooperation increases mutual learning, whereas the making of mistakes reduces it. In addition, the cooperation of a MT helps in achieving goals, since the operations become more efficient, the information flows more easily, and the transparency of the activities increases. Comprehensive knowledge increases the activity of members within the set limits of the business. MT work may also develop the skill of listening to others, and of taking responsibility for one's own learning as well as for that of the entire community. It is possible to practice cooperation skills, such as communication and listening, in regular meetings. Cooperation is important not only for the flow of information, but also in order that no one may feel left outside the community.

Understanding the role of self in the succession and the continuity of the business has been one of the most significant learning results in both case firms. The greater responsibility of the successor and the MT, the authority to make decisions, and management of the practical work have increased, not only the efficiency, but also the motivation of the members, the commitment to work, and the willingness to influence personally the development of the business. The role of the MT has definitely been emphasised as members have learned to recognise their important role and to take responsibility for the management. The freedom and authority of the members in regard to the activities have, for their part, advanced the commitment and activity of the MT members, both in their work and in keeping the business flowing.

According to this study the MT's conception of the meaning of its tasks was sharpened in the succession phase, as it recognised its important role in enabling the succession and in securing the continuity of the business. In one of the cases, when the MT took more responsibility for, and power over, the management of the practical business, the owners were offered a chance to concentrate on planning and implementing the succession. The role of the predecessor was thus reduced as the roles of the successor and the MT were emphasised during the succession. The change caused by the succession may develop the knowledge of the parties, and advance the development of community. The increased responsibility of a MT may also influence the commitment and motivation of its members. On the other hand, the increased responsibility and strengthened role of a MT may result in an increased number of tasks, and greater rush in daily management work.

Through succession, changes in personnel, and other critical events MT members learn to understand the value of community and composition in the management of a firm. Even if the members are different in their characteristics and temper, differences and conflicts may be understood as an opportunity rather than a threat. A MT may learn to welcome different opinions as ideas for development and as possibilities, rather than seeing them as criticism. Pertinent discussions and regular meetings not only facilitate the taking care by each individual of his/her own tasks, but also the handling the firm matters and cooperation. A tightened cooperation and positively developing atmosphere improves the flow of information, which, together with increased

discussion, possibly also reduces misunderstandings and conflicts. A MT may also learn to communicate more efficiently and rapidly thanks not only to the improved interaction but also to new information-technology solutions. For example at Varkauden Metallityö Oy, the learning of communication may be seen in the team organisation model, based on team and communication schooling and on MT work. The positive experiences and the satisfaction with the team organisation model (as a result of the MT work) have encouraged the implementation of the method in the entire organisation by means of sub-teams.

Succession may also encourage the MT members to reflect upon matters in a more long-term manner, and to plan for the future and future changes in the management. At Varkauden Metallityö Oy, for example, the managers have started thinking about the duration of their careers, and have tried to anticipate their possible retirement. Their aim is to fill vacant positions and to make their own work more varied by allowing representatives of the employees to participate in the MT work. With increased responsibility, the desire for the MT to influence has also increased, and the members wish to realize their development ideas within the limits of their resources. As a result of the developed MT work, the members desire to have more discussions on the planning for the future and controls. Long-term planning and development may thus be considered one significant learning result of the MT.

As a summary of the learning in the case firms in the succession situation, and the effect of this on the MT work, the following conclusions may be presented. In both firms' MTs, mutual support between the MT members, as well as the support to the successor was extremely important. Working as a group gave strength and confidence, improved the flow of information, and facilitated taking care of matters. Learning to cooperate and increased interaction were significant in regard to the smoothness of the running of the business. The improved flow of information, for its part, strengthened mutual communication, and accelerated the operations. Cooperation facilitated the coordination of the entire business and enabled learning from others, better knowledge of each member's expertise, and the transparency of the various operations. One of the most significant learning results in both MTs has been the recognition of the MT's role in the succession and in the continuity of the business. The increased acceptance of responsibility, authority to make decisions, and management of the practical business, have not only increased efficiency, but also the motivation, the commitment (both to cooperation and to the firm), and the desire to influence personally the development of the business. Additionally, the separation between the board and the MT was seen as important in both firms in order for both bodies to have their impact on the business.

The second sub question of the study asked *how the management team work can contribute to managing succession in a family business.*

In both case firms the attitude towards the succession was rather conservative. The interviews clearly indicated that the idea that a succession concerned only the predecessor and the successor is deep rooted. This became evident in the interviews as none of the interviewed members could give a well-founded answer to the direct questions about the role of the MT in the succession, and some of the interviewees did not even see any connection between them. Often, however, indirect questions or open comments give the best results, as the interviewees had the opportunity to talk

about matters that they find important. Thus points may arise of which even the interviewees are unaware. The place of the MT in the succession was revealed in the answers concerning the MT work and its development from the formation until the present.

As a matter of fact the interview data clearly indicates that MT work may actually advance the control over a succession. Firstly, a MT may take more responsibility than previously for the running of the operational business, allowing the owners to have more time to plan and implement the succession. This is especially important in situations where the succession is implemented in a schedule, which, for same reason, has been speeded up, for example on accounts of the personal situation of either the predecessor or the successor. Secondly, a MT may act as a mentor for the successor, particularly if the new manager has no previous experience either of the industry or of being a manager. This requires that the successor be recognised as an empowered member of the community, and that the members are willing to use their working time to guide and support him. Unfortunately, however, the time used to teach the successor is often seen solely as a cost, or as time wasted, when it could well also give valuable lessons to the teacher, and thus could mutually accumulate the mental capital of both parties. Additionally, the teaching of the successor may enable him/her to learn his/her new tasks more rapidly and increase the transfer of the tacit information from the MT to the successor. Thirdly, a MT may occupy a significant role if there is resistance to change connected with the succession: in such cases it may act as a link between the owners and the employees. This situation may occur in SMEs already employing a significant number of people at different organisational levels.

MT work has in many ways advanced control over the succession. In both case firms the MT has enabled the continuity of the business by supporting the new manager. At Metallipojat Oy, it would have been impossible to implement the growth strategies, and to continue the business after the succession, without the MT and its learning. After the merger the number of employees multiplied, and the firm operated in two locations. Additionally, the predecessor stepped down entirely after the succession. The support and work of trusted persons was thus vital for the running of the business. Even though the members had hardly any previous experience, the void left behind by the predecessor was filled by the MT, which assisted the successor in the operational management work towards the end of the succession. The MT also took increased responsibility in the management of the firm. In Metallipojat's case, the MT was not involved with the preparations and the implementation of the succession, but it nevertheless acted as a tool for the operational management work and for the changes caused by the succession. The MT shared the responsibility of the management work, thus enabling the continuation of the business. In practice, the MT forwarded knowledge in the firm, and also advanced the acceptance of the goals among employees.

The MT of Metallipojat Oy acted as a forwarder of knowledge between the owners and the employees during the succession. The importance of the flow of information is thus emphasised in the entire organisation, and not merely in the MT. It is, however, a totally different matter to consider whether it be reasonable to implement two major processes of change, i.e. succession and strong growth goals, simultaneously. Implementing two significant processes may be a too overwhelming a challenge for a SME and its employees, and may adversely affect the atmosphere and lower the work motivation. This may be the reason for the elimination of employees after the merger, and for the formation of the MT using persons with similar growth-oriented thoughts to those of the owners. The meaning of the MT in the business is, however, undoubtedly significant.

As mentioned before, this was influenced by the succession as well as by the strong growth-orientation. It is difficult to tell which of these processes of change was more central to the emphasised role of the MT, and on the evidence of the interviews it seems that it was precisely their joint influence which was significant. In other words, if the growth goals had been implemented during the predecessor's era, the MT would not necessarily have gained such an important role in the development of the operations on account of the wide entrepreneurial and industrial experience of the founder-entrepreneur. On the other hand, had the growth goals been set at a lower level during the succession, the owners might have been able to control both the practical operations and the succession procedure more successfully themselves. The financial situation of the firm might also be stronger had the growth been more restrained.

The MT clearly also implemented the interests of the successor. It is common knowledge that the operations of a family firm and the interests of the successor do not necessarily meet (e.g. Handler 1992). In such cases the successor may attempt to direct the operations more towards his own interests, or seek change through expansion. In practice this may often be observed as portfolio-entrepreneurship, if the successor wishes to express him/herself in the new business and simultaneously retain the ownership of the original family firm (see e.g. Huovinen & Tihula 2007). The question may well turn upon the different interests of the predecessor and the successor at Metallipojat Oy, where the MT was formed in order to implement the growth goals of the successor. In this case, however, the growth goals aimed at the vertical expansion of the family firm, not at the horizontal expansion of the businesses (i.e. not at founding new businesses).

The MT of Metallipojat Oy would, however, clearly have benefited from greater knowledge and experience, because a group with more heterogeneous backgrounds would probably have had the ability to perceive situations more diversely, and would have found more solutions. At the same time it also needs to be remembered that the homogeneity of a group may also be of advantage, at least if the members have those common characteristics often seen as beneficial for the development of a small firm: e.g. entrepreneurial thinking, innovativeness, and open-mindedness. A group consisting of people with similar backgrounds and characteristics may enable rapid cooperation and initial efficiency, because the identification and the sense of community are more speedily established, and because communication is easier within a homogeneous group (e.g. Murray 1989; Wiersema & Bantel 1992; Pegel & Young 2000). At Metallipojat Oy this could be seen as trust and community spirit among the persons selected to the MT. The members wished to learn the skills needed to manage the business together, and to make the work rewarding. It may thus be considered reasonable that implementation of a change process such as succession will be significantly easier, if at least those responsible for managing the firm agree on the future direction and the goals of the firm, and do not, by their actions, encourage resistance to change.

In neither of the case firms would the continuation of the business have been possible for the successor without the support of the MT. The successor of Varkauden Metallityö Oy previously had a career in an entirely different industry and he did not have the necessary industrial knowledge, skills, or experience to run the business. These shortcomings were in a way compensated for the MT. Additionally, it transferred its knowledge and skills to the successor, as did the predecessor: such transfer of tacit knowledge and mentoring was extremely important for the successor. The role of the MT in transferring tacit knowledge to the successor was significant, because some of the MT members had long experience in both the industry and the firm. The support

of these individuals was central in the control of the succession and in the support of the new CEO on his arrival. The MT enabled the smooth implementation of the succession by taking a leading role and greater responsibility for the management of the business. Without an experienced MT it would have been unreasonably difficult for the successor, given his background, to continue the business. The MT acted as a backup for the successor, facilitating also the work of other employees as the tasks and responsibilities were distributed within the MT. The MT also facilitated and speeded up the transition phase, and reduced the time it took for the new manager to learn his managerial tasks. In addition, the chairmanship of the production manager in the MT has encouraged a smooth succession. The successor has had a greater opportunity to learn about both the management and his new tasks. The solution of Varkauden Metallityö Oy to transfer the power gradually through the MT to the successor was highly successful. The MT has been a functional tool in the succession, and with its assistance, the firm has also developed its MT work. The highlighted role and the increased responsibility of the MT have also stimulated its desire to cooperate, to learn cooperation and interaction skills, and to develop further. The MT work has thus been strengthened and expanded as a result of the succession, and learning team work has also increased the use of teams on other levels of the organisation. However, adopting teamwork is a slow process, and the use of sub-teams is only at a learning stage, with the MT as an example. The team organisation model may, however, be seen as a learning result of the MT in the succession. Even though there is still much to develop in the new working method, the beginning has been positive.

The control of the succession may have been complicated in both firms by the power vacuum. A power vacuum caused by a change situation may be observed in different forms in the two case firms. It could be observed more clearly at Varkauden Metallityö Oy, where the CEO had to modify his management methods, after acting as manager for some time, in order to carry out his new role as the CEO of the firm, and to restore order in the MT. Before this, his opinions and knowledge were belittled and his development ideas were even resisted. At Metallipojat Oy, for its part, filling the power vacuum became evident in the successor's wish to form a MT in which there was no room for members with different opinions regarding growth strategies. This may indicate either an unsure manager, who sends notices to managers opposing his ideas, or a determined manager, who wishes to develop the firm in his own direction. Power vacuums as described above probably occur frequently in succession situations, but in this study two contradictory cases have been observed. The successor of Varkauden Metallityö Oy accepted the fact that he had much to learn from the more experienced MT members, whereas at Metallipojat Oy, dissenters and obstructers had to leave the firm. In the end only clerical employees with similar views to those of the owner, and who also actively participated in the planning of the business, were selected as members of the MT.

According to the interviews conducted in this study the MT has at least two possible working methods in a succession situation. Firstly, the MT may participate in constructing the succession, if it has been a part of the management culture already for a long time, and the MT may be considered to have stabilized its position in the firm. However, this requires a strong mutual trust among the MT members and a good working atmosphere. Secondly, the MT may advance the succession by taking greater responsibility for the daily management, thus acting as a tool for the successor in the operational management work towards the end of the succession. In practice this indicates that the meaning of the MT as a support to the successor is especially impor-

tant during the first years following the change of ownership. Acting as a MT is its way to develop its work and the learning of its members. A MT may also be a long-established management method. Even if the MT did not participate in the construction of the succession, in the planning and implementation of it, the succession may be considered as being more than the concern only of the owners. According to the study the MT members value the discussion, or at least the bringing up of matters concerning the succession in the MT. The members seem to desire that not only more future planning (incorporating their opinions) but also the changes in personnel and the planning for them, should these, to be included in their work. In both case firms the MT did, however, advance the succession most strongly by clearly taking more responsibility for the management of the firm.

The third sub question of the study examined management teams as communities of practice. The third sub problem was the following: *“How does a management team work as a community of practice in a family-owned SME?”*

The MTs of both case firms form their own CoPs. Common to the cases is that to both of them the succession has clearly been the factor strengthening the MT as a CoP. The successions, and the continuation of the business under a new CEO, have demanded even more close-knit participation and cooperation of all MT members. This has not occurred at the command of anyone in the firm, but the MT members have themselves understood the meaning of cooperation in the succession situation, and have gathered to act together. Although the CEO is ultimately responsible for the decisions made in the firm, and although MT work is included in the clerical employees' job (which means that the MT work is not voluntary), MTs largely manifest those characteristics which are deemed to mark the activity of CoPs. In MTs the CEO usually has the power and the responsibility and therefore the MT members may not be considered jointly responsible for the operations of the firm. The MT members of the case firms, however, saw operating in small family firms as a more responsible task than it would be in larger firms, in which case solidarity cannot be seen in black and white terms, but rather as one characteristic of a CoP, even though it is MT which are under discussion. Additional characteristics of a CoP common to the MT work of both case firms were: knowing other people personally, a strong group identity, shared knowledge and information, and a real need to know what other people know.

MT members of both firms knew each other well and had a strong mutual bond and awareness of belonging to that community composed of the most important persons in the firm. To be able to manage the business together, and even to take care of their own work tasks, the MT members had a real need to share the knowledge of others and thus an important reason to come together. Interconnection was experienced as being essential, not only in order to take care of one's own tasks and for communication, but also because the leadership was shared, and there was team-like activity in both firms. Sharing information and knowledge in MT meetings was essential for the business; and the improved flow of information was seen to have remarkably affected the development of the business. MT members of both case firms discovered that they had learned the most by operating as a community and by participating in the MT work. When the MT members had a common task and goal, received support from each other, and worked together, they not only learned a great deal from each other but also developed themselves as learners. The mutual support



of the MT members has been vital at a time when they were running the business together. In the other case firm support has been important not only to the successor but also to other MT members because it has compensated for their lack of work experience.

Changes in the composition of community (i.e. renewal, typical for CoPs) have additionally occurred in both MTs. At Metallipojat Oy, the owner who had previously been the production manager took over when the marketing manager left the firm. An experienced person outside the firm was nominated as the new production manager, an appointment which also brought a welcome change in the management of production. The temporary expert acting as financial manager was also a welcome addition to the MT composition, especially at present, as the firm aims at securing the operations during the ongoing loan arrangements. In addition, the quality manager and other team leaders participate as required in the MT meetings as less active members. At Varkauden Metallityö Oy the changes in composition have concerned both production and sales: the position of sales-engineer is still vacant, and the tasks are mainly divided between the successor and the predecessor. Thus the predecessor also participates in the MT work as a representative of the sales department, if required. The return of the former production manager for a few years has been a temporary relief, as there is a shortage of skilled personnel, but a more permanent solution is needed.

In addition to the characteristics mentioned above, the MT of Metallipojat Oy also works as a CoP, in terms of many other distinctive features of CoPs. The MT of Metallipojat Oy was initially formed spontaneously when some of the clerical employees began to meet to discuss firm issues. Contrary to what frequently occurs in larger firms, MT members took their place in the MT through their commitment to their tasks and to the firm. The MT formation did not, however, occur completely automatically. In practice, MT membership was possible only for those clerical employees who were not only entrepreneurial and committed but also in agreement with the owners on the growth orientation of the firm. However, the MT members had a common reason to meet as they were all interested in learning how to manage the business, how to deal with their own tasks, and how to achieve the goals set for the business. Since the MT as formed was not strong in terms of experience and know-how, operating together provided it with greater certainty. Expertise was partly overlapping and came from a fairly narrow area: only one MT member had work experience in other firms. The MT members wished to share all information and expertise in order to perform more effectively in the management of the firm, because their experience and knowledge were so slender. In addition, important to this community was providing feedback and allowing new ideas, experimentation, and errors. MT members had to do things by trying and learning from mistakes owing to their lack of experience. Reflecting upon one's ideas, and comparing, one's own thoughts to the thoughts of others, expanding the scheme of things, and connecting different views, were all essential from the viewpoint of learning in a community. The atmosphere in the MT was also encouraging, and allowed mistakes, which improved the learning of the team members and their business knowledge.

Although the MT of Varkauden Metallityö Oy was formed merely on the basis of the position of its clerical employees, its activity as a CoP is indicated (in addition to the factors common to both the case firms) by the regularity of the MT work, internal expertise, and high level knowledge. Efficient MT work required weekly meetings of the members, the MT work becoming a regular practice only after the successor took over as CEO. The flow of information improved sub-

stantially in the firm, and conflicts between the MT members decreased because of the regular MT work. The members agree that it is essential to meet regularly and that all functions are always represented in the meetings. In the MT are found high-level knowledge and professional skills based on experience, and the aim is that these be exploited through cooperation. The expertise in the MT is more visible since the personal conflicts subsided. This can be seen, among other things, in the better atmosphere, in the absence of recrimination, and in the more efficient processing of the firm issues. That which was learned earlier has changed as new learning has occurred, and former working methods, attitudes, and ways of thinking have been called into question and compensated for with new methods. For example, the MT discussions have improved and it is easier for the team members to interrelate and to help each other. Nowadays only time constraints or divergent viewpoints may cause disagreement between the members, but such disagreement can be handled in the MT much more equably than was previously the case.

It is arguable, whether the MTs of the case firms can be considered CoPs, or whether MTs in general can be considered CoPs. In the interviews of the MT members, however, the sense of community with its many characteristics was strongly emphasised. Even though in regard to some factors (such as shared responsibility and the formation of a community) a MT may not necessarily be completely considered a CoP, it still forms an entity which, according to the determination of a CoP, increases knowledge and expertise through constant interaction. Additionally, in MT work the members have become committed to each other and see cooperation as necessary for the management of the firm and for taking care of their own tasks. Table 14 summarises the characteristics describing MT work as a CoP in a SME family firm.

**Table 14: Characteristics of the activity of CoP in the case firms**

<b>Characteristics of the activity of CoP in the case firms</b>	
<i>Both firms:</i>	
<ul style="list-style-type: none"> <li>• solidarity</li> <li>• knowing other people personally, group identity</li> <li>• shared knowledge and information</li> <li>• real need to know what other people know, sharing know-how</li> <li>• learning together</li> <li>• common way to act</li> <li>• support of a community</li> <li>• renewal of MT</li> <li>• less active members</li> <li>• learning through participation</li> </ul>	
<i>Metallipojat Oy:</i>	<i>Varkauden Metallityö Oy:</i>
<ul style="list-style-type: none"> <li>• formed mainly by itself</li> <li>• common reason to come together</li> <li>• overlapping expertise</li> <li>• feedback</li> <li>• allowing new ideas, experiments, and mistakes</li> </ul>	<ul style="list-style-type: none"> <li>• regularity of MT work</li> <li>• internal expertise</li> <li>• high level know-how</li> <li>• understanding conflicts</li> </ul>

As a summary and a result of the above discussion, two main conclusions can be drawn, based on the two case firms and in the context of family-owned SMEs: 1) a MT helps to manage succession, and the business after it, in a family-owned SME, and 2) a MT increasingly learns to work as a community, and the learning of it can generate prerequisites for firm development.

The major findings of the study are clear. Firstly, a MT gives significant added value to a SME in a succession situation as well as to the business following it, by taking a stronger role in

developing the firm with the new manager, a stronger responsibility for the daily operations in the firm, and by allowing the successor to orient him/herself in the business. Through a MT a successor will rapidly acquire the knowledge and the skills required in business, and with the assistance of a MT the successor can orientate him/herself in his/her new tasks in the long term. In addition, a succession also brings to light perceptions of other managers which may not have been as well remarked previously (i.e. non-family members).

Secondly, a MT also brings new management methods to the firm and thus contributes to the development and rationalisation of the family business management. Thirdly, linking a MT to a succession process also moderates the challenges or problems arising out of the ownership transfer process. Fourthly, the succession process itself can be seen as a learning opportunity for each person involved, as well as a basis for developing MT work. In other words, the succession situation can be seen as contributing to positive learning, as opposed to being the situation to which the firm simply has to adapt itself. Finally, with a successor MT operations may become more team-like as a result of functioning as a community.

## 5.2 Contribution of the study

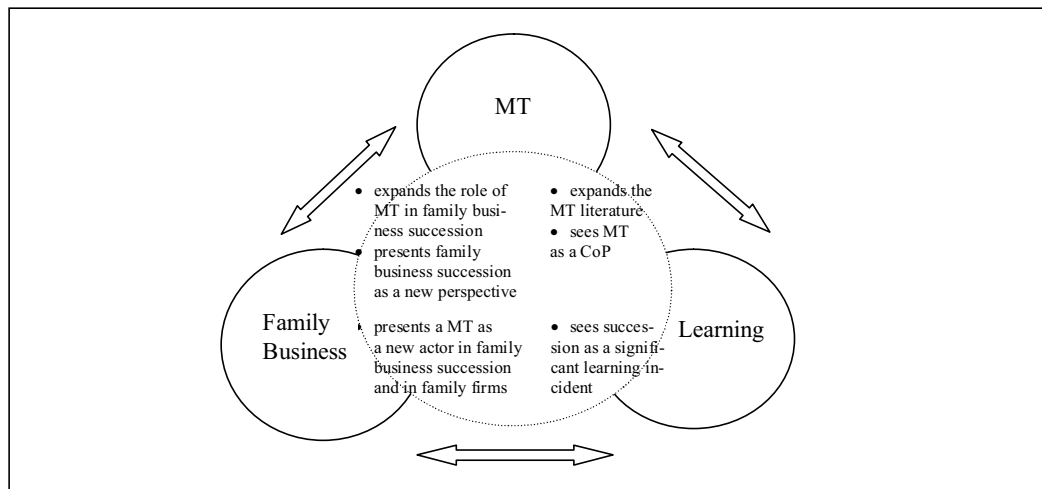
Almost all previous MT studies have been quantitative studies regarding large American companies. Only recently has the research diversified into the exploration also of European MTs and SMEs, but the amount of research in this area remains insignificant both at national and international levels. Although the critical importance of MTs to SMEs has been remarked in the literature, dissertation-level research into Finnish SMEs has been almost non-existent. Nor is there research into the meaning of MTs in family firms and in family business succession, even though a MT can bring significant added value to SMEs in a succession situation. The studies concerning MT learning are also very few in number (e.g. Leuhter 1998; Bunderson & Sutcliffe 2002; 2003; Vegt & Bunderson 2005). The contribution of this study is to examine the learning of the MTs of two Finnish SME family firms in a succession situation. The novelty value of the study lies additionally in the research method, as few qualitative MT studies have been conducted and MT learning has not been examined from the viewpoint of CoP.

This study contributes to existing literature on MTs and family business in several ways. Firstly, the study emphasises the role of a MT in managing succession in family-owned SMEs by expanding the prior research concerning family businesses. The study consequently highlights MTs as a new actor in the family business succession process and sees the absence of it as a shortcoming. The study moves away from the earlier approach and develops a more extensive perspective on the process of family business succession, since it does not focus solely on the relationship between the successor and the predecessor. Thus, although the process of succession in family-owned businesses is not a new subject to research, the linking MTs to it, undoubtedly is. The study emphasises the character of MTs as an important element of the firm resource base, capable of improving the firm performance through the abilities and resources which its members bring with them.

Secondly, the examination of a MT in the succession situation provides a new perspective not only onto the succession process of family businesses but also onto MT research. Although there is a great deal of literature on MTs, there has been unanimity on the importance of MTs, for

smaller sized firms also, research into MTs in SMEs has been exception and investigation focusing on family firms almost no-existent (e.g. Ensley & Pearson 2005 and Nordqvist 2005). The absence of studies is surprising, given the recognition of the importance of MTs in critical situations such as succession in a family firm.

Thirdly, study of MT learning in a family business and in a succession situation introduces a new view to the MT literature by its concentration upon MT learning in family-owned SMEs and by its examination of MTs as a community of practice. Because a MT may be seen as a community which comes together for concentration upon a common issue (e.g. firm performance), it has here been examined from the viewpoint of CoP, which represents a new approach to the MT discussions. Although MT learning in family business certainly seems to be an important issue in family business succession, there is also a lack of studies concerning this subject. Succession in rapidly changing business, however, requires continual learning. Social interaction and participative operation are on essential aspect of learning and in the development of expertise. According to Häkkinen (2004) socially-shared learning and the management of information in particular will be emphasised. In SMEs, for example, critical factors (both opportunities and challenges) such as succession create needs for MT work. Moreover, MT members can learn from this type of critical event, which at the same time creates opportunities for the development of MT work. Hence, the contribution of the study can be seen as a common intersection of all the factors presented above, illustrated in Figure 22.



**Figure 22: The contribution of the study**

### 5.3 Managerial implications

The study revealed that a MT has a significant role in the management of succession in a family-owned SME. The active role of a MT in the succession process helps to familiarize the successor, offers the MT members the possibility of developing their knowledge, advances the progress of the succession, releases the resources of the owners in order to implement the succession, and advances both the development of the firm and the achievement of the firm's goals. It is important to

acknowledge the views of the MT members in the operations and decisions, since these views, together with the expertise of the members, diversify the discussions and the decision-making. According to this study a MT as heterogeneous as possible would constitute an advantage. On the other hand, if the business is moderate, the MT may be more homogeneous. This conclusion is also supported by earlier studies which indicated that the heterogeneity of the MT is of advantage when it works on the solution of changing and diverse problems. Respectively, the advantages of a homogeneous MT became evident when the tasks and problems were of a more routine nature (e.g. Bantel & Jackson 1989; Hambrick & Mason 1984). A homogeneous MT may be well-founded for the start-up situation, but the expansion of the operations requires more diversified knowledge and views. It is essential to have important employees involved with the MT work, even if they hold different views. Those with different ideas, and even those regarded as being personally difficult, may bring a range of fruitful views in the MT and may thus be important in its composition. On the other hand, if the MT work suffers because of several personal conflicts, even bold changes may have to be made.

In the light of the results of this study it would appear to be advisable that a MT should be formed before the implementation of a succession, so that the MT work would have time to establish itself as a working method, and would thus support the succession in the best possible way. If the MT is formed simultaneously with the succession, the implementation of two major changes simultaneously hinders either the business, or the implementation of the succession, or again the establishment of the MT in the firm. The predecessor's remaining in place after the succession, as offering assistance to the successor, may enable the transfer of tacit knowledge from one generation to the next. Finally, a long-serving MT may assist in the transfer of knowledge and skills to the successor, whose need of support may also depend on his previous experience either in the family firm or in other similar firms.

The role of the MT in a small family firm is quite different from that in larger firms. For example, in both case firms, the boards formulated the main strategic plans, the MTs only making amendments to them. The main task of MTs is to take care of the operative management of the firms. This differs from the methods of larger companies, because the literature on MTs (with the exception of Lubatkin et al. 2006) identifies their tasks as strategic (e.g. Lyles & Schwenk 1992; Eisenhardt 1999; Hambrick 1987) in strong contrast to the both case firms of this study. This clear difference implies that MTs in small family firms demand attention and investigation. The role of the MT is significant in a successful succession as well as in the running of the business following a succession. It is also advisable that the firms take into account, for example, that the investors are attracted by a firm with growth potential, and with an experienced and target-oriented MT. Clearly, therefore, the mode of operation of a firm and the composition of its MT are by no means insignificant factors. For example, when an investor examines a growth-oriented firm and finds its MT composition to be homogeneous, he/she may suggest that a more experienced member be added.

Small firms should also be prepared for changes in personnel (e.g. the retirement of clerical employees) over time, and should train new members for the MT work as early as possible, whilst correspondingly, engaging the MT in the planning of a succession could also be of advantage. Discussions not only between the owners but also with the MT members may open up broader perspectives, may show the owners' trust and appreciation towards the MT, and may bring

forward changes to be implemented in the near future for 'incubation'. Thus the MT members may better anticipate the coming changes both in the MT and in their tasks. It may prove to be useful to transfer the power and the responsibility from the predecessor to the successor gradually through the MT, as was suggested by one of the case firms, especially if the successor is inexperienced. This enables the successor to gain the required knowledge and skills as the MT takes increased responsibility in managing the business. The result is important also from the viewpoint of those firms experiencing difficulty in finding a successor. The support of the MT may also be significant in situations where the successor comes from outside the owner family, whether from within the firm or not. Additionally, the practical actors should pay attention to MTs as a possible assistive aid, or as a solution for the problems connected to successions. MT work may be, to some extent, unclear also for active MT members, and they may require information on the actual tasks of the MT, and on how it should function most efficiently.

Particularly at the commencement of its work, a MT may need support from an individual or a body with wider experience (e.g. a consultant or a board), who can clarify these matters. If the MT lacks experienced persons, outside help and tight cooperation may be of utmost importance for the continuation of the business. MT meetings may invite, for example, other employees, less active members, or even outsiders to bring their views in order to assist the decision-making process. Participation in MT work and functioning as a community may, however, be one of the best possible learning situations and supports for the MT, especially if the discussion in the MT is open and regular, and if the information flows in both directions between the MT and the employees.

#### 5.4 Further research

The study has indicated that research into MTs in the context of family-owned SMEs is fruitful and opens up new research avenues. This qualitative study encourages the prospect of studying the phenomenon quantitatively in the future. In a quantitative study the role and prevalence of MTs in family-owned SMEs could be examined more widely, as could their occurrence across the range of businesses, regions, or levels of organisation. Examination of MTs in managing succession in family-owned SMEs indicates that knowledge of the succession process in the field of family business research remains limited. There are still many issues to be addressed, including the formation of a MT in family-owned SMEs, and inter-family portfolio entrepreneurship.

The formation of a MT in family-owned SMEs is a research subject of current relevance, because it is the focus of several growth SMEs. Studies of MT formation are rare, although team formation in general has been a concern of interest. Firms initiating MT work may, however, require information on the tasks and responsibilities of MTs, as well as guidance on the building of a functional MT (i.e. who will be selected to the MT and how the selection should be made) and what is the essential character of MT work. The discussion of the type of group or team (e.g. entrepreneurial teams) general occurring in family owned SMEs; and of the way in which these teams develop into MTs through active work or growth (i.e. the transformation process from working groups or teams to MTs) relates to this problem. In addition, forming a MT may also be important in the case where no suitable successor may be found within a firm, and where a new manager or a continuator for the business is brought in from outside the owning family or the firm. It would be also interesting to follow, the way in which the MT work changes over a long period of time

following either the succession or the formation of the MT, and the way in which the functions of the community have developed.

MT work in a family firm may also enable portfolio entrepreneurship inside the family which not only expands the original business with the help of a MT, but also establishes entirely new businesses, for example, for other family members, or in new lines of business. In this study, one case firm, Metallipojat Oy, was founded parallel to the original family firm, with the eldest son of the family as its CEO, assisted by a MT. Family members may be interested in continuing the family business in some other field of business, for example, in an industry more familiar to the successor because of his/her education. In such cases the same family may own several firms in several industries. In addition, with the help of a MT it is possible for the CEO to expand the business by directing his/her work contribution towards the setting up of new businesses and by delegating the management responsibilities of the original firm to the MT. Correspondingly, an entrepreneur can concentrate on the management of the original family business and allow the MT to take responsibility for the new businesses, for which the entrepreneur may have insufficient experience and knowledge. This enables the entrepreneur simultaneously to invest in the new businesses and to manage the original family firm full-time.





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## APPENDICES

## APPENDIX 1

## Other previous studies by the theme

MT Theme	Author(s) (year)	Some core findings
<b>Characteristics:</b> Characteristics of MTs	Gupta & Govindarajan (1984), Michel & Hambrick (1992), Murray (1989), Vyakarnam et al. (1999), Eisenhardt & Schoonhoven (1990), Halebian & Finkelstein (1993), Wiersema & Bird (1993), Hambrick & D'Aveni (1992), Norburn & Birley (1988), Hambrick & Mason (1984), Cho et al. (1994), Papadakis & Barwise (2002), Marlin et al. (2004), Priem (1990), Daboub et al. (1995), Daellenbach et al. (1999), Carpenter & Fredrickson (2001), Sanders & Carpenter (1998), Pegels & Yang (2000), Boeker (1997), Michalisin et al. (2004), Smith et al. (1994), Lester et al. (2006)	The characteristics (e.g. intelligence, age, experience, functional backgrounds, education, and tenure) have an impact on a firm's ability to deal with internal and external information. The characteristics of the MT have an impact on their ability to perform effectively. Several studies have linked specific managerial characteristics to differences in strategic orientation and decision-making, diversification strategy and TMT fit, risk taking propensity, consensus building, strategic planning openness and overall performance, industry experiences and growth, corporate illegal activity, turnover of TMTs, commitment to innovation, and global strategic posture. Differences in demographic characteristics of the TMT and heterogeneity of managerial resources in terms of expertise and skills may explain important differences in strategic decision processes.
MT demography	Bantel & Jackson (1989), Eisenhardt & Schoonhoven (1990), Keck (1997), Michel & Hambrick (1992), Finkelstein & Hambrick (1990), Murray (1989), Norburn (1986), Norburn & Birley (1988), Wiersema & Bantel (1992), Goines (2002), Priem et al. (1999), Smith et al. (1994), Wiersema & Bird (1993), Hambrick & D'Aveni (1992)	There are plenty of relationships between executive and TMT demographics and firm outcomes. Data is easily obtainable and the relative accurate. Several critics have raised concerns that demographics-based TMT research can be conducted without direct contact with top managers, produces research with-out "emotion, drama or action", and assumes that the demographic predictors are correlated with presumed intervening that may be related to organisational outcomes primarily through other variables. There is a long tradition of TMT composition research emphasising demography.
MT size	Halebian & Finkelstein (1993), Bantel & Jackson (1989), Wagner et al. (1984), Wiersema & Bantel (1992), Hambrick & D'Aveni (1992), Carpenter et al. (2001), West & Anderson (1996), Smith et al. (1994), Katzenbach & Smith (1993), Lechter & Gemuenden (1999), Ucbasaran et al. (2001), Eisenhardt & Schoonhoven (1990), Bantel & Finkelstein (1991), Simeon (2001), Williams et al. (2005)	There has been relatively little work on the effects on team size in the research literature on TMTs, and it has typically been modelled as a control variable. However, researchers have linked team size directly to organisational outcomes. Increasing the size of a group introduces opposing forces that affect group performance differently, negatively or positively. Large groups have greater cognitive resources but they may suffer from control and coordination problems. Small groups are often ideal for decision-making and consensus is easier to achieve. MT structure is also highly related to organisation size.
<b>Firm strategy</b> Firm strategy and MTs	Lyles & Schwenk (1992), McGee et al. (1995), Cohen & Bailey (1997), Hambrick (1987; 1989), Bantel & Jackson (1989), Finkelstein & Hambrick (1990), Bantel (1993), Wiersema & Bantel (1992), Pegels & Yang (2000), Hambrick (1980), Houghton et al. (1994), Beeby & Simpson (1995), Davies (1991), Thomas & McDaniel (1990), Eisenhardt (1989b), Eisenhardt & Bourgeois (1988), Hodgkinson & Wright (2002), Weinzimmer et al. (2003)	Several studies identify significant relationships between TMT demographic characteristics and firm strategies. Strategic planning has been shown to positively influence firm performance in many studies. Most of strategy researchers argue that the MT, not only CEO, has the responsibility for developing and implementing strategies that strengthen organisational performance. The most effective strategic decision makers of the successful firms in competitive markets have fast, high quality, and widely supported strategic decision-making processes.
MT roles	Belbin (1981), Haynes (1997), Fisher et al. (1998), Fischer & Macrosson (1995), Senior (1997), Boone et al. (1998), Reuber & Fischer (1997), Carpenter et al. (2004), Likierman (2005)	Successful teams consisted of a mixture of different individuals. Relevant to the team performance are the functional roles on the basis people are often chosen to be team members. Behaviours learned in the early home can be carried over into MT behaviour. The role of a MT differs from decision-making role to coordinating role in different types of organisations.

Firm internationalization	Norburn (1987), Wiersema & Bird (1993), Mayer & Whittington (1999), Gibson & Zellmer-Bruhn (2002), Higgs (1996), Simeon (2001), Glunk et al. (2001), Heijltjes et al. (2003), Wiersema & Bird (1993), Sanders & Carpenter (1998), Athanassiou & Nigh (1999), Tihanyi et al. (2000), Knight et al. (1999), Reuber & Fischer (1997), Carpenter & Fredrickson (2001), Sambharya (1996), Carpenter (2002), Morley et al. (1996), Lohrke et al. (1999)	Studies concerning international TMTs are rare. Most studies of MTs are predominantly US-based and little is known for example about the way top management is structured and how it functions in other countries. Top management across countries differ in background characteristics and group dynamics. Cultural differences often become obvious when work is conducted by teams. Lately, several researchers have started to examine TMTs in multinational firms from different perspectives.
<b>Power, conflicts and compensation</b>		
Power in MTs	Finkelstein (1992), Smith et al. (1994), Simons & Peterson (2000), Amason et al. (1995), Glunk et al. (2001), Krishnan & Park (2003), Eisenhardt & Bourgeois (1988)	Power has not received a lot of attention from authors even though it plays key role in strategic decision-making. Power is important because it affects for example which members are influential, i.e. as the power of the CEO increases, the other TMT members become less relevant. Without power the groups tend to lack independence and necessary expertise which affects organisational outcomes.
Conflicts in MTs	Ensley et al. (2002), Amason (1996), Bantel & Jackson (1989), Amason et al. (1995), Eisenhardt et al. (1997), Fu et al. (2000), Amason & Sapienza (1997), Pelled et al. (1999), Simons & Peterson (2000), Janssen et al. (1999), Guttman (1999), Amason & Mooney (1999), Ucbasaran et al. (2001), Eisenhardt (1989b), Alper et al. (2000)	Conflict can improve for example decision quality and enhance understanding. Complex decisions are best solved in heterogeneous groups. TMT cohesion is negatively related to affective conflict and positively related to cognitive conflict. Task, substantive, and cognitive conflicts are positively related to group effectiveness and decision-making because they facilitate the exchange of information among the MT members. Affective, emotional, and interpersonal conflicts are dysfunctional.
TMT compensation	Geringer et al. (1998), Sanders & Carpenter (1998), Carpenter & Sanders (2004), Conyon & Peck (1998), Ang et al. (2002), Henderson & Fredrickson (2001), Hambrick & Siegel (1997)	TMT compensation has received only a little theoretical or empirical attention. There are a few studies concerning TMT compensation from different viewpoints such as internationalization, role of board control, compensation structure, TMT coordination needs, CEO pay gap and firm performance, and pay dispersion within TMTs. Team compensation is a way of rewarding performance in team settings, i.e. individuals are rewarded based on the performance of the team.
<b>Decision-making</b>		
CEO in MTs	Finkelstein (1992), Hambrick & Mason (1984), Pearce & Zahra (1991), Hambrick & D'Aveni (1992), Conyon & Peck (1998), Norburn (1989), Peterson et al. (2003), Bantel & Jackson (1989), Richardson et al. (2002), Halebian & Finkelstein (1993), Papadakis & Barwise (2002), Drazin & Kazanjian (1993), Eisenhardt & Bourgeois (1988)	There are many viewpoints to consider CEOs and their connection with TMTs. Firstly, organisations are a reflection of their managers and they have a strong impact on firm performance. Secondly, CEO power is variable and is likely to affect TMTs. Thirdly, large teams and teams with less dominant CEOs are more profitable in a turbulent than in stable environment. Moreover, the CEO is responsible for acting as a liaison between the MT and the board. CEO personality affects TMT group dynamics. While the important role of CEO within the TMT is acknowledged, little is known about how CEOs and TMTs interact to make strategic decisions.
MT decision-making	Eisenhardt (1999), Hambrick & Mason (1984), Miller et al. (1998), Eisenhardt & Bourgeois (1988), Korsgaard et al. (1995), Iaquinto & Fredrickson (1997), Klenke (2003), Peterson et al. (1998; 2003), Amason (1996), Amason & Mooney (1999), Amason & Sapienza (1997), Ensley et al. (2002), Roberto (2003)	Decision-making is the most important and central tasks of MTs. Routine problem solving is best handled by a homogeneous groups, but ambiguous, novel problems solving is best handled by a heterogeneous group. Strategic decision-making is of the novel, non-routine type. Fast decision makers use more information to make decisions than slow ones. Leaders of successful MTs are willing to accept criticism openly. Cognitive conflict has proved to be functional and improve the quality of decision-making. Instead, affective conflict can produce suspicion, distrust, and hostility among team members.

TMT processes	Amason (1996), Eisenhardt (1989b), Eisenhardt & Bourgeois (1988), Clark & Smith (2002), Vyakarnam et al. (1999), Dess & Origer (1987), Finkelstein (1992), Simons et al. (1999), Thomas & McDaniel Jr. (1990), Knight et al. (1999), Peterson et al. (1998; 2003), Smith et al. (1994), Ensley & Pearce (2001), Wally & Becerra (2001)	The main social processes in the TMT literature are social integration and consensus. Both top management composition and process are related to firm performance. Researchers have argued that TMT organisational tenure would affect firm strategies through its influence on the group dynamics of the TMT. In cohesive TMTs members are attracted to the group and want the group to be successful, and they therefore work harder to help the group solve problems. Cohesive groups also more likely share tacit understanding and values.
<b>Organisational outcomes</b>		
Firm growth and MTs	Kor (2003), Brush & Vanderwerf 1992, Eisenhardt & Schoonhoven (1990), Hambrick & Mason (1984), Smith et al. (1994), Vissa (2002), Thompson et al. (1996), Vyakarnam et al. (1999), Wein-zimmer (1997)	Many studies pay attention to the important role of a MT for firm growth and a strong association between firm growth and TM has been found. A combination of size, heterogeneity, and joint experiences within the TMT was most closely associated with firm growth. Experience at multiple levels of analysis (team, firm and industry) and participation in TMT affect growth. However, the empirical results are mixed and according to some studies some team-starts have not achieved significantly higher growth. An entrepreneur's ability to build a strong and effective team is found to be one of the key issues of growth.
Team performance	Partington & Harris (1999), Katzenbach & Smith (1993), Hambrick (1987; 1997), Pearce & Herbig (2004), Mooney (2005), Hambrick (1995), Eisenhardt & Bourgeois (1988), Eisenhardt (1989b), Smith et al. (1994), Alderson (1993), Pelled et al. (1999), Fu et al. (2000), Leuchter (1998), Bunderson & Sutcliffe (2002; 2003), Shanley & Correa (1992), Kakabadse et al. (1993), Scott & Ties-sen (1999)	Team performance can be considered from a plenty of perspectives. Efficient team working has seen to contribute to greater creativity, productivity, commitment and participation in a diversity of large and small firms. Well-performing teams under uncertain conditions are highly coordinated and flexible. Together well working TMTs react faster, flexible, productive and efficient than less integrative ones. Members of the successful TMTs shared the leader's value and goals, hold complementary skills, and had compatible personality traits. Those can be found at firms that create stimulating and adaptive career paths and offer wide content as well as functional and geographic spans. Team performance is better when team members participate in setting performance targets.
<b>Innovation and environmental effects</b>		
Innovation in MTs	Bantel & Jackson (1989), Hambrick & Mason (1984), Finkelstein & Hambrick (1990), Wu et al. (2002), Daellenbach et al. (1999), Clark & Smith (2002), West & Anderson (1996), Lyon & Ferrier (2002), Camelo-Ordaz et al. (2005), Auh & Menguc (2005b)	Innovation in MT discussion is rare. More innovative firms are managed by more educated teams who are diverse with respect to their functional areas of expertise. TMT composition and process are important predictors of organisational innovation. TMT characters and compositions have strong impact on organisational learning and innovation. More heterogeneous MTs appear to achieve better results with innovation strategies than less-heterogeneous teams.
Environmental effects	Iaquinto & Fredrickson (1997), Hale-blian & Finkelstein (1993), Üsdiken (1992), Wiersema & Bantel (1993), Isabella & Waddock (1994), Bantel (1993), Keck (1997), Sutcliffe (1994), Wang & Chan (1995)	Environment has included as a moderating variable in a few MT studies. Firms in an industry with an unstable environment exhibit significantly more agreement than their counterparts in a stable industry. Environmental complexity was found to relate negatively to firm performance. Large teams and teams with less dominant CEOs are more profitable in a turbulent environment. Changes in environmental context seemed to affect organisational choices about background characteristics of TMTs. Size effects were also found for the average age of MTs. The key determinants of turnover within the TMT are environmental. The complexity of the firm's environment has a significant influence on planning formality.
Other studies	Cakrt (1993), Drazin & Kazanjian (1993), Longenecker (2001), Scott (2002), Kakabadse et al. (1995), Paul et al. (2002), Lessem & Baruch (2000), Romme (1995), Flood et al. (1997), Hall (2001), Carmeli & Tishler (2006), Carmeli (2006), etc.	MTs have been examined also from the viewpoints such as virtual teams, team development and building, internal and external leadership of TMT, TMT training, recruitment of TMT, theory testing (Belbin's team-roles), international joint venture leadership teams, TMTs and pioneering, TQM in TMT, MTs in education and schools, managerial skills of TMT etc. However, studies from these viewpoints occur only occasionally.



## APPENDIX 2 Empirical studies of management team composition

Author(s) (year)	Compositional variables	Core Findings
Bantel & Jackson (1989)	Average age, average organisation tenure, average education level, age heterogeneity, organisation tenure heterogeneity, educational and functional background heterogeneity	Age and age heterogeneity is not associated with innovativeness, organisation tenure is neither associated with the adoption of innovations, nor innovation and heterogeneity of educational specialists, educational level is positively associated with the level of innovation.
Barsade et al. (2000)	Individual trait positive affect, affective diversity measured through heterogeneity in trait positive affect at individual/team level, mean (group) level trait positive affect, group positive culture	Greater affective fit between a team member and the group is related to more positive attitudes about group relations and perceptions of greater influence within the group. There is a negative relationship between a team's diversity in trait positive affect and both the CEOs' use of participatory decision-making and financial performance.
Boone et al. (2003)	Locus-of-control composition: team average loc, heterogeneity loc	Teams with a high internal loc-score collect more information and make more informed decisions when the within-team loc spread is low, and when the team operates without a leader.
Cho et al. (1994)	Average educational level, average TMT tenure, firm tenure heterogeneity, functional and educational heterogeneity	Strong relationship between TMT characteristics - average educational level, average tenure, and three forms of heterogeneity - and the competitive behaviour.
Clark & Smith (2002)	Years of experience of the team, level of education	TMT education level, social integration, internal networks, and external networks associated with increased organisation-level innovation.
Elron (1997)	Cultural heterogeneity (cognitive and social cultural heterogeneity) (nationality of TMT members)	TMT cultural heterogeneity is positively related to the level of issue-based conflict the team experiences and to TMT performance.
Ensley & Amason (1999)	Functional heterogeneity, educational heterogeneity, educational speciality heterogeneity, skill heterogeneity	TMT heterogeneity has negative direct effects on new venture performance; new ventures in more volatile task environments need a TMT with a more diverse set of skills.
Glunk & Heijltjes (2003)	Organisational tenure homogeneity, age homogeneity	Changes in TMT have an impact on performance in the sense that executive exits are more advantageous than entries, it remains unclear what the nature of the changes in team composition is.
Goll et al. (2001)	Mean and heterogeneity of age, managerial tenure, education; business degrees, functional diversity, TMT size, firm size	Greater tenure affected positively to the search for alternatives, heterogeneous groups (age and functional background) bring views to the decision-making, age has positive relationship to firm performance and tenure has negative relationships, teams with greater education contribute to better performance, demographic characteristics influence ideology, ideology influences firm performance and demography influences firm performance.
Hambrick & D'Aveni (1992)	Average organisation tenure, functional experience, organisation tenure heterogeneity	Compared to survivors, bankrupts had lower and declining average team tenures over a 5 pre-bankruptcy period, and core functional expertise over time, survivors and bankrupts did not differ on organisation tenure heterogeneity.
Heijltjes et al. (2003)	Extent of national diversity (foreign board members, percent of foreigners in the team)	The national diversity of TMTs in Sweden and the Netherlands has not progressed to the same level as the internationalization of the firms at large.
Hendriks et al. (2002)	Heterogeneity in: average age, organisational tenure, functional tenure, team tenure, internal locus of control	The more similar TMT members are with respect to functional background tenure and personality, the better the observed returns on assets of the firm.
Michel & Hambrick (1992)	Organisation tenure, organisation tenure heterogeneity, functional homogeneity, functional expertise	Organisation tenure is associated with the amount of interdependence between firm units but not with performance, TMTs with high unit interdependence had more functional expertise, high interdependence firms had higher organisational tenure variety TMTs, TMTs in high interdependence firms had more heterogeneous functional backgrounds.
Murray (1989)	Temporal (age, team and organisational) and occupational heterogeneity	Temporal heterogeneity enhances long-run performance, but not short-run performance. No effects of occupational variety.
Simeon (2001)	TMT size, average TMT tenure, TMT tenure	The complexity resulting from the choice of a diversification strategy is accompanied by the use of larger TMT (size) and longer average team tenures.
Simons (1995)	TMT dissensus, educational and functional heterogeneity	TMT compositional diversity must be supported by a debate process to have a positive performance impact. Educational and functional heterogeneity had a positive impact on delta profit when TMT capitalized on difference through debate, and a negative impact when groups did not.

Tihanyi et al. (2000)	Average age, average tenure, average elite education, average international experience, tenure heterogeneity	Lower average age, higher average tenure, higher average elite education, higher average international experience, and higher tenure heterogeneity are associated with higher international diversification.
Wagner et al. (1984)	Age heterogeneity, organisation tenure heterogeneity	Dissimilar members in age from the rest of the team are more likely to turnover; organisation tenure heterogeneity is positively related to team turnover.
Wally & Bercerra (2001)	Average measures for TMTs: organisational tenure, education, managers in core functions, international experience, change in geographic diversification and global diversification	Greater TMT organisational tenure was positively associated and TMT core functional specialization negatively associated with increases in international diversification, TMT's cognitive perspectives influence the change in international diversification, there were no association between education and strategic change.
Wiersema & Bird (1993)	Age heterogeneity, heterogeneity in team tenure and organisation tenure	Age and team tenure heterogeneity is positively related to team turnover, organisational tenure heterogeneity is not associated with team turnover.



## APPENDIX 3

## Previous studies of management teams and firm performance

Authors	Teams #	Industry sector	Core findings
Amason & Mooney (1999)	44	Public	Mutuality is negatively related to affective conflict. Significant negative correlations between performance and openness were found. It indicates that in better performing firms the decision-making norms within the TMT are less open and tolerant. Past performance appears to be strongly and negatively related to affective conflict. When performance has been low, affective conflict is likely to be high, and vice versa.
Bantel & Jackson (1989)	199	US banks	More innovative banks are managed by more educated teams (with more educated managers) who are diverse with their functional areas of expertise and backgrounds. These relationships remain significant when organisational size, team size, and location are controlled for.
Cannella & Hambrick (1993)	96	acquired firms from different industries	Providing one or more executives with TMT status in the newly combined firm leads to better post acquisition performance.
Carpenter (2002)	199	Standard and Poor's 500 (S&P500)	Positive relationships between TMT educational, functional, and tenure heterogeneity and performance are contingent on complexity, as indicated by a firm's international strategy. Such relationships are clearly stronger in short-tenured TMTs.
Collins & Clark (2003)	73	High-technology	HR practices lead to higher firm performance through developing and reinforcing employee-based resources. A set of specific network-building HR practices was related to the valuable firm resource of TMT social networks. Network-building HR practices led to high firm performance through the practices' effect on the external/internal TMT social networks.
Eisenhardt & Schoonhoven (1990)	92	New US semiconductor firms	The combination of size, heterogeneity, and joint experience within the TMT was most closely associated with firm growth; competition at founding did not affect firm growth; innovative technical strategies had no lasting impact on growth; founding environment affects the growth of young semiconductor firms.
Eisenhardt (1989b)	12 (Bourgeois), 6 (Brown)	High velocity firms	Fast decision makers use more, not less, information than do slow decision makers. The former also develop more, not fewer, alternative, and use a two-tiered advice process. Fast decisions based on this pattern of behaviours lead to superior performance.
Ensley & Amason (1999)	88	Inc. 500	TMT heterogeneity has negative direct effects on new venture performance. New ventures in more volatile task environments need a TMT with a more diverse set of skills.
Ensley & Pearce (2001)	88 TMTs 70 new ventures	Inc. 500	Group processes leading to the development of shared strategic cognition are more important than the outcome of shared strategic cognition in terms of predicting organisational performance.
Ensley et al. (2002)	70	Inc. 500	TMT is cohesion is negatively related to affective conflict and positively related to cognitive conflict. TMT cohesion is positively related to new venture growth.
Ensley et al. (2004)	66	Inc. 500	Environmental dynamism has a positive moderating effect on the relationship between transformational leadership and new venture performance, and a negative moderating effect on the relationship between transactional leadership and new venture performance.
Finkelstein & Hambrick (1990)	100	Computer (35), chemical (35), and natural gas (30)	MT tenure has a profound influence on organisational outcomes: strategic persistence, strategic conformity, and performance conformity; long-tenure teams do not engage in as much strategic experimentation and change as short-tenure teams; long-tenure teams tend to pursue imitative strategies directly in line with industry trends, short-tenure teams tend to pursue novel strategies that deviate widely from industry patterns.
Gilley et al. (2002)	94	Manufacturing	Risk taking was found to be a strong positive influence on firm performance.
Goll et al. (2001)	645 firms	Manufacturing	Demographic characteristics influence ideology, ideology influences firm performance and demography influence firm performance.
Haleblian & Finkelstein (1993)	47	Computer (26) and natural gas distribution (21)	Positive relationships between the size of MT and firm performance, and negative relationships between CEO dominance and firm performance (more in the computer industry than in the natural gas industry); large teams and teams with less dominant CEO were more profitable in a turbulent environment (computers) than in stable environment (gas).
Hambrick & D'Aveni (1992)	57	manufacturing, retail, transportation	Average TMT tenure and functional experience in marketing, operations, and R&D were lower in bankrupts than in survivors. Deterioration of the TMT seemed to be a central element of the downward spiral of large firm failures.
Hambrick & Siegel (1997)	64 firms	Technologically intensive industry (public)	Executive pay dispersion is more detrimental to the performance of high-technology than low-technology firms.
Iaquinto &	65 firms	Paint and	The level of TMT agreement positively related to organisational performance.

Fredrickson (1997)		coatings and forest	Organisational size was negatively related to agreement, but past performance exhibited no association. TMT agreement influences performance, not the reverse. Firms in an industry with an unstable environment exhibited significantly more agreement about the process than did their counterparts in an industry whose environment was stable.
Isabella & Waddock (1994)	39	Banking (simulation)	Beliefs about the environment and a strong team orientation were critical determinants of TMT certainty, while actual environmental volatility and consensus within the TMT were not; the research explored the positive relationship between TMT certainty and organisational performance.
Keck (1997)	76	58 cement 18 mini-computer	The environment in which the team operates conditions the effect of the MT on financial performance. Team effects may vary over time or that start-up firms have a different link between TMT and firm performance than established firms.
Kilduff et al. (2000)	35 firms	Simulated firms	There was no evidence for effect of demographic diversity on measures of cognitive diversity in dm-teams. High performance teams tended to reduce the degree of ambiguity over the course of the simulation, even though they tended to start out with high interpretative ambiguity. The opposite pattern was in low-performing teams. Teams with improving performance tended to exhibit decreasing diversity across the range of cognitive variables, suggesting a growing consensus among the members of high-performing teams.
Kor (2003)	73 firms	Technologically intensive industry	Experience at multiple levels of analysis (team, firm and industry) affects organisational growth.
Krishnan & Park (1998)	76	Fortune 500	TMT change has a positive effect on performance in downsized firms. There was, however, no direct or curvilinear relationship between downsizing and organisational performance.
Krishnan et al. (1997)	147	Mergers statistical review (acquisition)	Complementary backgrounds have a positive impact on post acquisition performance in related and unrelated acquisitions. Complementarity is negatively related on TMT turnover among acquired managers, suggesting that differences in functional backgrounds are more easily integrated into the new organisation. TMT turnover among acquired managers is negatively related to post acquisition performance.
Litz & Folker (2002)	307 firms	Retail hardware	Stores characterized by greater MT gender-balance reported superior profitability.
McGee et al. (1995)	210 firms	High-technology	New ventures, whose MTs possessed the most experience were more successful in their cooperative activities chosen to support the strategy.
Michalisin et al. (2004)	81	Classroom simulation teams functioning as the TMT of airlines	TMT cohesion is significantly associated with superior returns during the second half of the simulation.
Michel & Hambrick (1992)	134	Multiple lines of industries	TMT characteristics are related to diversification strategy and firm profitability, sales growth, innovation, and executive turnover.
Morley et al. (1996)	25	US multinationals operating in Ireland	Demographic and team process characteristics were found to have both direct and indirect effects on sales growth.
Murray (1989)	84	Food (58) and oil (26) companies	Dominant function diversity was negatively related to short-term performance, especially under high competition; dominant function diversity was positively related to long-term performance under high competition; TM characteristics within the oil industry were much more closely related to performance than in the food industry.
Schwenk (1993)	60	24 oil 21 chemical 15 computer	CEO, TMT tenure and firm experience are positively associated with self-serving attributions (taking credit for positive outcomes and laying blame on the environment for negative outcomes), which are, in turn, associated with lower subsequent financial performance. Tenure and firm experience are not directly associated with poor performance. More extensive managers experience in a firm tend to identify more strongly with the firm and with current strategy and therefore attribute negative outcomes to external causes.
Simons (1995)	57	Electronic component manufacturing	A debate process to have a positive performance impact must support TMT compositional diversity. Educational and functional heterogeneity had a positive impact on delta profit when TMT capitalized on difference through debate, and a negative impact when groups did not.
Simons et al. (1999)	57	Manufacturing	Debate increased the tendency for diversity to enhance TMT performance. Debate-by-diversity interactive effects were strongest for more job-related diversity. Decision comprehensiveness partially mediated these interactive effects. The positive interactive effects of debate and diversity on performance were a particularly critical finding. For diversity to benefit a company's bottom line there must be a process by which the positive aspects are brought to bear. Team process may act as

			moderator of TMT diversity effects.
Smith et al. (1994)	53	High-technology	TMT's demography indirectly related to performance through process and process directly to performance, although direct effects of team demography on performance were also found.
Vissa (2002)	470 firms	Software	TMT's external network density is an important driver of venture growth performance. Strategic consensus within the team positively moderates the relationship between external network density and venture growth performance.
West & Schwenk (1996)	65 firms	Machine tools (39), electronic components (26)	Positive relationships were hypothesized to exist between TMT consensus on goals and means, demographic homogeneity and firm performance. These relationships would be stronger in a stable industry than in a dynamic one.
Wiersema & Bird (1993)	40	Japanese TMTs: banking, consumer electronics, food processing and retail sales	Heterogeneity on age, team tenure, and the prestige of the university attended were significant correlates of team turnover. The findings were stronger than those of comparable studies in the US. Japanese group exhibited significantly greater homogeneity in demographic characteristics.



## APPENDIX 4 Table of the interviewees

**Empirical research: table of the interviewees**

Interviewees:	Interview 1	Interview 2	Interview 3	Position in the firm
<b>Metallipojat Oy</b>				
Olavi Miettinen	25.10.2004 (2h)	13.9.2005 (1h)	18.10.2006 (45min)	CEO, owner
Jani Miettinen		29.9.2005 (40min)	19.10.2006 (45min)	Sales/production, owner
Jorma Tiainen		29.9.2005 (40min)	12.10.2006 (45min)	Sales/marketing *)
Katja Kankaanmäki		10.11.2005 (30min)	18.10.2006 (30min)	Office manager *)
Paavo Miettinen	1.11.2006 (1,5h)			Founder, ex-owner
<b>Varkauden Metallityö Oy</b>				
Mikko Ojala	7.6.2005 (40min)	26.8.2005 (1,5h)	8.11.2006 (40min)	CEO/sales
Aada Taipale		22.9.2005 (1,5h)	*)	Sales engineer
Mika Kilpi		22.5.2005 (1h)	4.12.2006 (40min)	Production engineer
Kalevi Huovinen		22.5.2005 (45min)	4.12.2006 (30min)	Shipment manager
Ahti Tuhkanen		6.10.2005 (1,5h)	4.12.2006 (35min)	Production manager
Erkki Ojala	8.11.2006 (1h)			Founder, owner, director of the board

\*) no longer in the firm



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