COMPARATIVE CAUSAL ANALYSIS IN PROCESSUAL STRATEGY
RESEARCH: A STUDY OF CAUSAL MECHANISMS IN
ORGANIZATIONAL DECLINE AND TURNArounds

Kalle Pajunen
Tampere University of Technology
Industrial Management
P. O. Box 541
FIN-33101 Tampere
Finland
Tel: + 358 3 3115 3658
Fax: + 358 3 3115 2027
E-mail: kalle.pajunen@tut.fi

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ABSTRACT
The lack of systematic methods for reducing the complex reality has hampered many of the contributions that processual research might have produced. This paper presents a methodology for processual strategy research that offers a systematic approach for causal explanation across complex sequences of events and enables theorization about underlying causal mechanisms driving the processes. In addition, a comparative analysis of two organizational decline and turnaround processes is presented in order to illuminate how the methodology is able to generate a substantial advancement in knowledge by indicating the causal mechanisms underlying the decline and turnaround processes. The findings show that the turnaround is produced by four causal mechanisms that cumulatively and interdependently work against the mechanism of decline.
INTRODUCTION

One of the basic objectives in strategy research is to discover causes. On the one hand, we can follow the conventional view of covering-law explanations and perceive the Humean notion of “constant conjunction”, or empirical regularity, as the only legitimate way for explaining cause and effect. Cause is thus understood to be the likelihood of one happening following another and the primacy is given to the scientific laws that should enable the prediction and control of observable events. No attempts need to be made to seek out any underlying causes or generative mechanisms. On the other hand, we can choose the approach of causal realism to social scientific explanation that proceeds from the viewpoint that the world is an open system of causal processes and mechanisms. Following this approach, we seek to explain an outcome by providing an account of the processes and causal mechanisms that led to the occurrence of the outcome.

The idea that causal mechanisms should occupy a central position in social scientific explanation is somewhat explicitly presented, though rising from rather different premises (e.g. Hedström & Swedberg, 1996; Little, 1991; Mahoney, 2001; Merton, 1968, Sayer, 2000; Stinchcombe, 1991). The literature of the philosophy of science has also paid considerable attention to the causal mechanisms in both natural and social scientific explanations (e.g. Bhaskar, 1978; Bunge, 1997; Elster, 1989; Glennan, 2002; Salmon, 1984, 1998). However, the view that sees causal explanation as a constant conjunction has still the dominant position in social sciences in general and strategy research in particular.

The search for explanations that build on processes and causal mechanisms indicates that we are not satisfied with correlational analysis and constant conjunction. Instead, we are interested in revealing why and through what process an outcome was actually brought about (Salmon, 1984). As stated by Hedström and Swedberg (1996: 290), “understanding is obtained or enhanced by making explicit the underlying generative mechanisms that link one state or
event to another, and in social sciences actions constitute this link…[and] it is through abstraction and analytical accentuation, however, that general mechanisms are made visible”.

A satisfactory explanation requires that we open the black box that connects independent and dependent variables in a causal relationship (Elster, 1989; Hedström & Swedberg, 1998). In fact, there exist many correlations that assert no relation of cause and effect. Thus, mere regularities do not mean that we have found causes (Roberts, 1996; Strawson, 1985), and a constant conjunction is only something to be explained.

Process research, in particular, is concerned with understanding and explaining how things change over time and why they change in the way they do (Van de Ven, 1992). In strategy research, the processes under examination typically consist of complex sequences of events and are essentially causal because their outcomes are the consequences of the processes. Thus, explanation by causal mechanisms seems to provide a reasonable basis for processual strategy research. Indeed, as suggested by Pettigrew (1997), the aim of processual strategy research is not only to describe the case histories but also analytically to search for patterns in the processes, to compare the patterns of different cases, and identify the underlying mechanisms driving the processes (see also, Tsoukas, 1989). However, in spite of the recent contributions (e.g. Khanna, Gulati, & Nohria, 2000; Langley, 1999; Pentland, 1999; Pettigrew, Woodman, & Cameron, 2001), there is a lack of methods that simultaneously consider these central elements—causality, complexity, and comparison—related to processual strategy research and most importantly, seek to uncover the causal mechanisms that drive the processes. Therefore, this paper seeks to develop a methodology for processual strategy research that offers a systematic procedure for causal explanation across complex sequences of events in order to reveal the underlying mechanisms.

The argument of this paper proceeds through four main sections. The first section develops the suggested methodology. Specifically, I begin by shortly discussing of causal
mechanisms and basic streams of research in comparative historical analysis. This completed, I describe the data analytic techniques of event-structure analysis (ESA) and Boolean comparison/qualitative comparative analysis (QCA) as well as the idea of two-level theories. Finally, I suggest how these approaches can be linked and applied in the analysis of organizational processes and causal mechanisms. To closely demonstrate the advantages and challenges of the methodology, I apply it to analyze two organizational decline and turnaround processes in order to theorize about the underlying mechanisms in organizational turnarounds.

Therefore, the second main section describes the analytical framework needed in the analysis of the cases and the third main section reports the analysis and findings. The last section discusses research implications and future research possibilities.

FROM NARRATIVES TO CAUSAL MECHANISMS

Mechanisms

A number of social scientists and philosophers of science loosely grouped under the rubric of “realism” have given causal mechanism a central role in their efforts to define causal explanation. For example, according to Harré (1970: 125) “scientific explanation consists of finding or imagining plausible generative mechanism for the patterns amongst events.” A complete discussion of realism in social sciences is beyond the scope of this paper. However, I outline some general standpoints in order to clarify the central role of causal mechanisms in processual research.

Little’s (1998: 197–198; see also George and Bennett, in press) argumentation regarding causal realism offers us a relevant starting point. First, realists posit that there exist causal relationships between social phenomena and causal explanation is the central form of social explanation. These relationships are not constituted by regularities or laws connecting classes of social events as the covering law concept maintains. On the contrary, they are
constituted by the causal powers of various social events, conditions, and structures, as well as the singular causal mechanisms that lead from antecedent conditions to outcomes. Accordingly, a central goal of social research is to identify the causal mechanisms that give rise to social outcomes. As put by Mahoney (2001: 578), “causal analysis consists of identifying the mechanism that underlines and generates empirical regularities and outcomes”. As such, causal mechanisms involve physical, social, or psychological causal processes that do not need to refer to any particular set of empirical conditions. Thus, they ultimately cannot be seen or directly observed. We can only give robust hypotheses about underlying mechanisms (George & Bennett, in press; See also Godfrey & Hill, 1995).

According to Little (1998), hypotheses about causal mechanisms must be constructed on the basis of an account of the “microfoundations” of the processes. This necessitates intensive examination of particular cases and also working backward from the observed outcome to the theoretical mechanism in question. The value of a causal mechanism can be evaluated, among other ways, by its ability to explain other empirical findings and to suggest new empirical associations (Mahoney, 2001) or by inference to the best explanation (IBE) where one infers the truth of a hypothesis from the fact that the hypothesis would explain the evidence (Harman, 1965). Thus, for realists, a scientific theory is a description or model of underlying causal mechanisms that generate the observable phenomena.

**Narratives and Event-Structure Analysis**

Realistic standpoints have at least implicitly formed the basis of much of the research in comparative historical analysis where the main theme has been comparison of divergent historical processes in order to more generally understand patterns of stability and change (Abrams, 1982; Mahoney & Rueschemeyer, 2003; Griffin & Stryker, 2000). Griffin and Stryker (2000) have distinguished two basic approaches in comparative historical research and
labeled them “analytical formal comparison” and “interpretive comparison”. The goal of the former is causal explanation by exploiting formal logical or statistical tools and replicable analytic methods. The latter, in turn, seeks to develop a meaningful understanding of historical patterns, usually by examining entities or cases as wholes using some specific theoretical perspective. However, these are not closed categories. Rather, they can be combined or can overlap with each other. In fact, Griffin and Stryker (2000) argue that the synthesis, “causal interpretivism”, constitutes the third and probably the most productive approach in comparative history. This approach seeks causal reasoning by using methodological procedures allowing for replication along with emphasis on historical narrative. Thus, a truly synthetic approach incorporates the strengths of both explanatory and interpretive modes (Griffin & Ragin, 1994; Griffin & Stryker, 2000). The procedure presented in this study builds on this third approach, which, I believe, offers a clear contribution to processual strategy research.

Causal interpretivism is successfully applied in the analysis of historical or causal narratives that describe in chronological order what happened, why it happened, and how it happened. Thus, they are tools for combining context, sequentiality, contingency, and generalizability (Abbott, 1992; Aminzade, 1992; Büthe, 2002; Griffin, 1993; Sewell, 1996; Stryker, 1996). In this paper I consider the organizational turnaround process as a causal narrative that is an analytic construct of sequential accounts that organize events and actions into chronological order. Narratives have a beginning, a series of intervening actions, and an end that is a result of the numerous interconnections between the intervening actions (Griffin, 1992).

A historical narrative, however, is not the same as a causal explanation, nor adequate for the postulation of causal mechanisms. In order to move beyond narrative to explanations, it is necessary to develop systematic methods for analyzing narratives. In this study, I exploit
event-structure analysis (ESA), associated with computer software ETHNO, which is stated to be the most developed account of how narrative can be linked to causal inference (Griffin, 1993; Heise, 1989). In organization research, Stevenson and Greenberg (1998) have successfully applied ESA in an analysis of organizational change. ESA provides a formal tool for analyzing events and reconstituting their constituent parts as a causal interpretation of complex historical processes. This method supports causal narrative by identifying the causally tied processes that constitute aggregated variables in cross-case analysis if needed (Mahoney, 1999, 2000).

ESA forces the researcher to transform a chronology of actions into a series of yes/no questions where the researcher is asked to decide if a temporal antecedent is required for the incidence of a subsequent action. Thus, it makes it possible to distinguish temporal relationships from causal inference. Moreover, these inferences are strictly replicable. The exploitation of ESA is directly joined to computer software ETHNO (See also, Griffin, 1993; Stevenson & Greenberg, 1998). The researcher using ETHNO first constructs a “raw narrative” that be can be given as a chronology of actions. This chronology is then input into ETHNO, where it is reshaped as a series of questions about causal connections between actions and events constituting the chronology. The results of ETHNO’s questions are shown as a causal diagram of the logical structure of the action underlying the raw narrative’s chronology. This diagram is the event structure representing the researcher’s deep interpretation of the causal linkages between the sequences that constitute the narrative.

The ESA diagrams also help to discover key turning points and outcomes in the multiple sequences of events that constitute a narrative. These turning points direct the causal impact of a sequence of actions and create an opportunity to change actors’ behaviors. It has to be emphasized that ETHNO does not discover causality. It is the researcher that possesses the knowledge needed to structure and interpret the narrative events. ETHNO, in turn, forces the
researcher to be precise and careful when making judgments about the relationships between events and to consider the sequence of events causally rather than chronologically. The researcher is thus better able to determine which events have no consequences at all or which may have clear effects for the future (Griffin, 1993; Mahoney, 2000; Stevenson & Greenberg, 1998).

**Two-Level Theories**

The next phase, which occupies a central position in comparative analysis, is the explicit generalization of the concrete configuration of actions. This abstraction consists of two parts. First, the researcher, as a result of deep knowledge of the case, can extract from the chronology those actions that are incidental or without any meaning in the causal path. Second, those actions that are retained for further analysis are conceptualized as instances of theoretically general sequential actions, usually by exploiting the theoretical framework. In this phase the notion of two-level theories is needed.

According to Goertz and Mahoney (2005), two-level theories propose explanations of outcomes by conceptualizing causal variables at two levels of analysis that are systematically related to one another. One level characterizes the core of the theory, containing the main causal variables and outcome variable at a certain level of aggregation, usually at a higher level that is easily remembered and processed. A second level concentrates on causal variables at a lower level of aggregation. These variables are also causes of the outcome, but their effects cannot be understood independently of their relationship with the causal factors at the higher level.

There are three possible theoretical relationships by means of which a lower-level variable can systematically relate to a causal variable of the higher level, namely causal, ontological, and substitutable relationships (Goertz & Mahoney, 2005). In the case of causal
relationship, lower-level variables represent “causes of causes”. The relationship is ontological if the lower-level variables represent the defining features or elements that constitute the higher-level variables. Finally, the relationship is substitutable if the lower-level variables are different ways or alternative means of achieving ends represented by the higher-level variables. Each of these forms of relationships offers interesting possibilities for strategy process research.

In this study, to make possible comparison on the one hand and theorizing about causal mechanisms on the other hand, I apply both substitutable and ontological views of the relationships. Substitutability is only used in order to reduce the number of variables. This simply means that a more generalized concept substitutes for several other concepts describing the same event or action. Substitutability is not needed if the narratives are highly similar, which is, however, unlikely in the social world. In the comparative approach, this reduced number of variables again forms the basic group of lower or general level concepts that represents the set of possible properties the higher-level causal variables can ontologically consist of. In sum, ESA and the idea of two-level theories are systematic tools for making sense of complex causal processes. However, they should not be used mechanistically, but rather to accompany the researcher’s methodological and theoretical assumptions and the questions asked.

Comparative Approach

While a single event-structure analysis may provide a relevant description for hypothesizing about causal mechanisms in a particular case, the comparative method is often required in order to examine differences and similarities and in so doing tendencies regarding causal mechanisms in the wider group of cases that represent the same phenomenon at a more aggregate level. The data analytic strategy Qualitative Comparative Analysis (QCA) that is
based on Boolean algebra offers a systematic tool for comparing complex cases or processes as configurations in order to reveal their patterned similarities and differences. In particular, it makes it possible to find combinations of variables that can provide evidence in favor of the existence of a certain tendencies related to causal mechanism. A detailed discussion of the rationale and logic of QCA’s is provided elsewhere (Ragin, 1987; 2000). Here I only present the basic concepts that are needed to apply it.

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

From the point of view of conceptualizing cases as configurations, QCA diverges of statistical techniques that are usually based on independent variables that are considered as independent from each other as possible. In the real world, however, X may be caused by, for example, a simultaneous appearance of the causal factors of A and B (i.e. $A \ast B = X$, where the asterisk signifies logical “and”). In this example, A and B are necessary conditions that are jointly sufficient for X. There is also a possibility that X can be caused through multiple paths (equifinality) with no necessary conditions (i.e. $A + B = X$, where the plus sign signifies logical “or”) or through more complex structures where we have both necessary conditions and equifinality (i.e. $Y \ast A + Y \ast B = X$). Indeed, one of the main advantages of Boolean comparison is its flexibility regarding causal complexity.
The simplifying logic of QCA helps in examining configurations of necessary and jointly sufficient conditions. However, when the number of cases is low or the set does not include both negative and positive cases, QCA may not provide perfect results. Ragin (1987) suggests that the most suitable number of cases in QCA is something from five to twenty. However, even when comparing only two complex cases, the combinatorial logic of QCA together with the idea of two levels of analysis gives a systematic and replicable procedure for comparison.

A General Procedure for Theorizing about Causal Mechanisms

A dilemma in processual analysis is to resolve how to practically include complexity and comparability in the same study. The combination of the above-presented techniques provides one possibility in that direction and, in particular, offers a systematic way of theorizing about causal mechanisms that generate an outcome of interest. Briefly, the basic logic of the procedure is as follows. The narratives and concrete causal event structures of particular organizational processes are elucidated and then abstracted using ESA, a predefined theoretical framework, and the idea of two-level analysis. Next, using the comparative approach, the abstracted event structures are compared and the causal mechanisms underlying the processes are hypothesized.

In further detail, the first task of the researcher is to formulate a theoretically guided analytical framework of the phenomenon and of possible factors or combinations of factors that may have an influence on the process as well as to explicate the substitutive, general concepts that are needed in moving from the narrative level of analysis to the comparative level of analysis. The analytical framework essentially guides the whole research process. However, it does not determine the findings. On the contrary, it only defines the way of seeing,
where to look and what kind of factors it may be relevant to look for. Consequently, the research process essentially consists of interplay between induction and deduction.

During and after the formulation of the framework, the researcher specifies relevant cases and starts the acquisition of research data. In this paper, I have used historical analysis (see e.g. Ventresca & Mohr, 2002) and consulted extensive company archives. This is probably the most convenient method when studying processes that extend over several years or even decades. As a result of the in-depth analysis of the research data, the researcher can construct a narrative of the process and a chronological list of events and actions that the narrative consists of. Next, the causal event structure of the narrative can be explicated by exploiting ESA and the notion of two-level theories as presented above.

After the construction of general-level event structures, the processes can be compared. How the comparison is implemented directly depends on the quality of the narratives and the proposed analytical framework. In the case of complex processes, such as organizational decline and turnarounds, it is difficult to compare the complete event structures, and this may even be misleading when the goal is theorization of the underlying mechanisms. One possibility is to divide processes into manageable parts. In that way, as will be shown in the analysis, the comparison can be implemented one phase at a time. The segmentation can be implemented by using the analytic framework, by focusing on the central turning points inductively explicated in the event-structure analysis, or by combining both alternatives, which is often the most useful choice.

This methodology has not been exploited before. However, recent research has emphasized the possibilities of cross-case comparisons of formally diagrammed event structures (Abell, 2001; Mahoney, 2000). A good example of the implicit use of causal narrative for comparing event structures can be found in Skocpol’s (1979) influential work on social revolutions. Most of Skocpol’s key explanatory variables are, in fact, made up of several
causally linked processes, and the result of social revolution is itself composed of a series of causally linked events. These constituent processes provide event structure patterns that can be formally and analytically diagrammed and compared across cases (see Mahoney, 1999). Although Skocpol does not carry out a formal mapping, she implicitly compares the event structures of her cases in order to infer whether they follow a parallel causal logic. Altogether, I now turn to explicitly examine how the procedure can be used in the analysis of organizational decline and turnaround processes.

**ANALYTICAL FRAMEWORK**

Research related to organizational declines and turnarounds has received accumulating attention during the last decades. The literature focused on organizational declines has mainly examined causes of decline (e.g. D'Aveni, 1989; Hambrick & D'Aveni, 1988; Mone, McKinley & Barker, 1998), whereas the turnaround research has concentrated on examining different turnaround strategies (e.g. Arogyaswamy, Barker & Yasai-Ardekani, 1995; Barker & Duhaime, 1997; Hambrick & Schecter, 1983; Hofer, 1980; Hoffman, 1989; Robbins & Pearce, 1992). In addition, more detailed issues such as characteristics of turnaround managers and compositions of boards have received interest (e.g. Barker, Patterson Jr., & Mueller, 2001; Daily & Dalton, 1994; Goodstein & Boeker, 1991).

Despite the growing interest, however, there is no extant coherent theory of organizational decline and turnarounds and the literature is largely overwhelmed by the correlational explanations in terms of statistical relationships between singular dependent and independent variables. This distortion is critical since decline and turnaround is always a matter of process. Although research regarding stage models of organizational turnarounds has identified distinct stages that the declining firm goes through in responding to a crisis and reaching the turnaround and thereby approached the process view, phenomena in the social
world rarely straightforwardly follow separate stages. In fact, it is stated that there does not yet exist research on turnarounds that examines them truly as processes (Balgobin & Pandit, 2001; Chowdhury 2002; Shook, 1998). This view finds support when one reviews the literature. For example, Robbins and Pearce (1992) as well as Pearce and Robbins (1993) use the term “process” as a result of dividing the turnaround into two stages: retrenchment and recovery. Moreover, these “stage models” concentrate on the period of explicit implementation of turnaround actions and their contents rather than on the processes.

Altogether, there is an urgent need to explain the underlying mechanisms that drive decline and turnaround processes. Therefore, following the methodological procedure I will next provide a discussion of the substituting concepts regarding the possible events and activities in organizational decline and turnarounds as well as outline the issues an analysis focused on theorizing of causal mechanisms should concentrate on.

The stage models propose decline as the first stage in a turnaround process. This is to propose the obvious and does not tell much about the process of decline itself. Consequently, I suggest that it is necessary to consider the process of decline not as a single stage, but rather as a continuum of several causal events and actions. A starting point, though it is also a stage model, can be found in Weitzel and Jonsson’s (1989) model in which the decline is divided into five stages that follow one another: blinded, inaction, faulty action, crisis, and dissolution. The stage of dissolution is irreversible, but the four stages before it can be included in turnaround processes. The whole decline process can be sudden, more gradual, or lingering (D’Aveni, 1989). It is also possible that an organization moves almost directly from the blinded stage to the crisis. Regardless of the speed or the different stages included in the decline, it is always a process.

There always exists some reason(s) for organizational decline before the first stage is realized or the general awareness of the decline is received. However, during the decline the
reasons can change or cumulate. Thus, the initial reasons and the causal relations behind the 
deepening of the decline can only be traced by examining the organizational development far 

enough backward. The literature to date has identified several causes related to organizational 
decline, such as management errors, poor marketing, demand decline, poor quality, increased 

competition, regression, technological change, lack of economies of scale or scope, distorted 

organizational culture, inadequate financial control, high costs, failed projects, centralization, 

etc. (Bibeault, 1982; Chandler, 1990; Grinyer & McKiernan, 1990; Hoffman, 1989; Robbins & 

Pearce; 1992; Schendel, Patton & Riggs, 1976). Reasons behind or emerging during 

organizational decline can also be divided into two higher-level categories: industry 

contraction and maladjustment of a specific firm to its environment or industry (Cameron, Kim 

& Whetten, 1987; Whetten, 1987), or external and internal forces of decline. These two 

categories of causes are often examined as separate kinds, although there is a strong possibility 

that the decline results simultaneously from both industry-based and organization-specific 

problems.

Turnaround literature has in particular focused on studying the activities and strategies 

that are needed to stop the decline, not later than the stage of crisis, and then on turning the 

development of an organization around. I want to emphasize here already that there need not 

be a clear barrier between the process of decline and the beginning of the turnaround. Most 

probably, there will be interweaving mechanisms of decline and turnaround struggling with 

each other. This is, however, an area that badly requires further research.

Research on turnaround strategies has been somewhat uneven and non-cumulative in 
nature (see Barker & Mone, 1994; Pearce & Robbins, 1994; Robbins & Pearce, 1992), 
although some attempts to converge divergent aspects have been presented (Arogyaswamy et 

al., 1995; Barker & Duhaime, 1997). Disagreement has mainly been due to the confused 

relationship between retrenchment and recovery strategies (Robbins & Pearce, 1992). These
activities have also been referred to as operational and strategic (Hofer, 1980; Schendel et al., 1976) or decline-stemming and recovery (Arogyaswamy et al., 1995). I treat these concepts as interchangeable.

The controversy has centered round the question of which strategy there is stronger need for, that is retrenchment or recovery, what strategies are actually used and needed during the retrenchment and recovery, and should firms exploit both of the categories of activities equally in turnaround situations. In particular, Arogyaswamy et al. (1995) suggests that retrenchment/decline-stemming and recovery strategies are interdependent rather than purely sequential, whereas Pearce and Robbins (1994) propose that retrenchment, in the form of thoughtfully measured cost cuttings and appropriate asset reduction, is usually needed before the firm can concentrate on recovery activities, and that it matters how, when, and how much the firm retrenches. Overall, this is one of the issues that can be attempted to solve through examination of causal mechanisms.

As indicated above, previous research has mainly considered that an explicit turnaround consists of two stages. In the first stage, retrenchment activities are exploited to reverse the process of decline, stabilize operations, and restore the firm’s profitability by pursuing a combination of cost cuttings, asset reductions, divestments, production eliminations, and head count cuts. The second stage, in turn, involves changing or adjusting the business that the firm is currently engaged in. These recovery activities attempt to eliminate or cope with the causes of an organization’s decline.

There is no clear demarcation, however, between what constitutes a retrenchment strategy and what activities can be labeled recovery strategies. For example, asset reductions, which are assumed necessary for turnarounds (Pearce & Robbins, 1993), can be included in both retrenchment and recovery strategies. In the retrenchment stage, asset reductions most often include sales of stores, closures, and integration of surplus fixed assets such as plant,
equipment and offices with the aim of promoting cost cuttings, streamlining the organization, and creating badly needed revenues. In the recovery stage, in turn, asset reductions often include getting rid of over capacity and divestment of subsidiaries. I suggest that the main difference is that retrenchment or operational strategies are exploited to generate short-term cash flow and profit improvement, whereas with the focus on recovery and strategic activity, asset reductions are used to change the long-term strategic positioning and performance of the organization. Moreover, when asset divestment is an important element, asset investments may also be essential, especially in the recovery stage of the turnaround.

The extent to which these retrenchment strategies are used is seen contingent upon the severity of the firm’s decline and available slack resources (Arogyaswamy et al., 1995). Because retrenchment strategies primarily deal with the consequences of a decline, recovery strategies are needed that attempt to manage the causes of an organizational decline and raise a firm’s performance steadily to acceptable levels. Thus, retrenchment strategies of the first stage may be a necessary but not a sufficient condition for successful turnaround in most cases and recovery strategies that do not focus on the causes of decline may leave the stability achieved by retrenchment activities short-term.

Turnarounds may also include other types of activities. Top management replacements are seen as a necessary precondition for a successful turnaround (Barker et al., 2001). This can be a force that provides a necessary impulse for the needed change. Indeed, I propose that an organization may need external or internal impulses in order to obtain an understanding of the decline and crisis. Hofer (1980), for example, states that the basis for almost every successful turnaround involves replacing the old top management with a new one. The old management tends to have obsessive beliefs regarding how to run a business, and these traditions are often unsuitable for solving new problems. Of course, the change in management may be the consequence of an impulse or only one of those impulses that precede turnaround actions.
Financial support is also an important element in turnarounds and an example of a cash generation strategy that can be included in both retrenchment and recovery activities. Its purpose is to modify a firm’s capital structure in order to reduce the strain of interest and debt repayments. Financial restructuring can be divided into equity-based and debt-based strategies. The former covers dividend cuts or omissions and equity issues. The latter concerns the wide-ranging restructuring of firm debt in order to resolve existing financial distress or to avoid this by replacing an existing debt by a new contract with changed conditions (Sudarsanam & Lai, 2001).

Altogether, building on the previous theory, I suggest that an analysis focused on theorizing about underlying mechanisms in organizational decline and turnarounds should concentrate in particular on (1) forces of decline leading to crisis (both initial and emerging, as well as internal and external); (2) events and actions that lead to general awareness of the decline/crisis; (3) events and actions that initiate or trigger the explicit action against the decline; (4) explicit triggering events that lead to retrenchment results; and finally (5) those events that trigger the recovery results and lead to a successful outcome.

Indeed, it is likely that the whole complex decline and turnaround process consists of a concatenation of mechanisms or several sub-mechanisms. In the analysis, I concentrate on how and through what events and actions the above five issues are or are not realized. Moreover, I suggest a set of theoretically derived general-level or substitutive concepts that describe different events and actions likely to occur during the process. Table 1 pulls together those concepts and their general codes. This list can also be inductively supplemented after the analysis of event structures. The asterisk after the general codes in Table 1 indicates that the abstracted concept was introduced after the construction of the concrete event structures.
ANALYSIS

Boundaries of the Cases

Detailed descriptive accounts of the historical narratives precede the conventional use of ESA. Unfortunately, this design, especially in the case of comparative research, is rarely possible in the article format publications. Thus, I only describe briefly the boundaries of the cases and then directly present the events and construct the event structures.

The first case is the decline and turnaround process of the Walkiakoski Paper Factory which extended from 1921 to 1934. The reason for choosing the first and last year is rather straightforward. On the one hand, the political and economic turbulence in the aftermath of the First World War was stabilized in 1920. The production processes and trade relations of Finnish companies had returned to almost normal. Similarly, the business environment for the basic functions of the Walkiakoski Paper Factory, in general, was stable. On the other hand, the main justification for finishing the narrative in 1934 is that Walkiakoski merged in that year with United Paper Mills (UPM) and ceased to be an independent company. Another reason is, of course, that the firm had gone through the decline and turnaround process and, moreover, had survived the Great Depression at the beginning of the 1930s. In fact, the financial and production results of Walkiakoski during the years 1931—1934 reinforce the conclusion that the turnaround had changed the basic structures of the firm which had served to support the resistance against and recovery from the depression. Such a merger with another firm could in some cases be interpreted as a consequence of an unsuccessful turnaround. However, in the case of Walkiakoski, the merger was formed because Walkiakoski was attractive from the financial and production point of view.

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

I had access to all archival material of the respective companies including the minutes of management meetings as well as company and managerial correspondence (Archive references are presented in Appendix C). Moreover, I was able to draw on various secondary sources including the company histories (Hakkarainen, 1993; Juva, 1957; Lehto, 1996; Nordberg, 1980, 1998). By means of an intensive analysis of detailed material, it was possible to produce credible accounts of the events and the development of the individual firms during the periods under analysis (See Ventresca & Mohr, 2002). Appendices A (Walkiakoski) and B (UPM) present in chronological order the events leading from the beginning of the decline through the crisis and back to success. Following the procedure offered by ESA, I was able to modify the event chronologies to the causal event structures presented in Figures 1 and 2.

**Walkiakoski**

Starting with the Walkiakoski process, the diagram shows 49 events and actions in a causal and, naturally, chronological order. Following the logic of two levels of analysis, each event is
substituted in Appendix A by a general concept offered in Table 1 in order to facilitate the comparison. Of course, another similar-looking diagram with the general concept could also be drawn. In the following discussion the general concepts that substitute for case-specific concepts used in the diagram are given in italics.

The causal diagram clearly depicts one external (EFD/ QC1) and two internal (IFD/ SAT, EP1) initial forces for the organizational decline. At the beginning of the process, the members of the organization and especially its owners were satisfied with the current performance and insisted on huge dividends (IFD/ IO). None of the required steps were taken to develop the factories and products, although the customers continuously complained about the poor quality of the paper and problems with accurate deliveries. At the same time, the general conjuncture in the pulp and paper markets was weakening.

The complaints of customers, and finally the explicit financial difficulties, made the CEO aware of the decline (IAD/ SD). This was the first of the two main impulses which created the general awareness of the decline and initiated resistance to the crisis. The other main impulse was the external reaction of a creditor (ERD/ CR). This event together with the main owners’ financial difficulties led to a change of ownership and changes on the board of directors (MC/ NC, WS). The changes on the board were a clear turning point in the process leading to the evaluation of the firm’s production strategy (ERS/ RS1) and overall situation (ERS/ CS), as well as implementation of the first asset divestments (RA/ AD1).

As a result of the evaluation, a deeper understanding of the crisis (UC/ UC) was finally obtained. This led to the explicit action as a form of cost-cutting actions (RA/ CC1) and a loan application (FS/ ES1), but also to managerial disharmony (OD/ MD1, BD) followed by changes in the top management (MC/ MC1). The change of CEO deepened the operational restructuring (RA/ OR), contributing to the positive results received from the retrenchment
actions (RE/ RE). The new CEO also suggested a new direction for the firm’s production (ERS/ RS2). However, the strategic decision to radically change the firm’s existing production structure (RD/ RD1) was not made until the financial support had been arranged (FS/ ES2) and, more importantly, external pressure had emerged in the form of declining newsprint prices (EPD/ EP2). Fortunately, a general agreement of the production quotas soon relieved the external pressure (ESR/CS1).

The firm had now reached a rather stable situation. The first initial force behind the decline, incompetent management and ownership, was eliminated and the decisive recovery decision was made that answered the initial external reason for the decline. However, no clear solution had been found for the second initial internal reason for the crisis, that is, the inadequate quality of the paper. Although the financial situation improved as a result of the retrenchment actions, the firm still received complaints about quality (IFD/ QC2). Some investments were made to improve the quality (RD/ IQ1), but evidently the efforts were not sufficient since the criticism continued (IFD/ QC3). Complaints about quality, together with declining prices and diminishing order volume (EPD/ EP3) that were partly a result of the disintegration of the cartel agreement (EPD/ CD), led to a peaceful change of CEO (MC/ MC2), further financial support (FS/ ES3), and finally investment in new machines (RD/ IQ2) that clearly improved paper quality (RR/ QI1).

The recovery strategy was further supported by the acquisition of new machineries (RD/ RD3) and the founding of a paper converting company (RD/ RD4). External support for the recovery was received from UPM, which became the main owner of the firm (ESR/ UPM2). The chain of events that led to UPM’s ownership started after the firm had received clear retrenchment results (ESR/ UPM1) and the required equity issue had been implemented (FS/ SI). Moreover, the Bank of Finland promised support for the investments necessary (FS/ BF).
The cooperation with UPM started in favorable circumstances—just before the Great Depression (EPD/ EP4). The cooperation made possible, in response to the depression, bigger cuts in wages and in numbers of employees than would otherwise have been possible (RA/ CC2). In spite of the depression, the firm also continued its recovery strategy by investing in research and development (RD/ RD5) and in a new paper machine (RD/ RD6). These investments were clearly supported by the cooperation with UPM. The ongoing recovery actions, cost cutting in the face of depression, and external recovery impulses—in the form of cartels, decreases in custom duties, and currency devaluations (ESR/ CS2, ES4)—led to explicit recovery results (RR/ RR1, RR2) and finally to the merger with UPM.

**UPM**

The causal event structure of UPM is presented in Figure 2. This also depicts one external (EFD/ OB) and two internal (IFD/ EB, IS1) initial causes for the organizational decline. However, one of the internal forces (i.e. IS1) can also be seen as an initial consequence of the main internal reason: the CEO’s (Walden) overly expansive business strategy (IFD/ IR, IP1, MI1, FI1), which realized through several actions and events and was supported by the main creditor (KOP) and majority of the owners (IFD/ FS1, SI1). This strategy might well have produced successful outcomes in some other environment, but during the explicit overcapacity in the world’s pulp and paper production and an unfavorable business cycle, it created existence-threatening problems.

![Insert Figure 2 about here](image-url)

The first explicit impulse to resist the decline came from abroad. The CEO and other managers were well aware that UPM’s Italian subsidiaries were making a loss, but not until the top management received a detailed analysis of the performance of these units was it suggested that they should withdraw from Italy in order to avoid catastrophic consequences (IAD/ IS2). A
second and more important impulse against the deepening decline, which was already showing in the financial statements, came from outside the organization when the main creditors refused to give additional financing (ERD/ CI1). Altogether, the general awareness of the decline had been reached. Indeed, the financial situation became so acute that the creditors decided to found a holding company and to set up a working committee for taking over UPM (ERD/ HC) before allowing the needed financial support (FS/ FS2) for keeping the firm as a going concern.

The strong external reaction to the crisis initiated the explicit actions against the decline, but it did not immediately produce radical improvements since the same powerful CEO continued to lead the organization. However, the withdrawal from Italy was clearly boosted (RD/ WI1) and investment in a board machine was delayed (RA/ DI1), though causing strong managerial disagreement inside the organization (OD/ MD1). Unfortunately, these actions did not ameliorate the acute financial distress and the firm was again forced to apply external financial support (FS/ FS3, ML).

The working committee promised to guarantee the loan only if the main creditor was allowed to make a thorough examination of the firm’s situation (ERS/ CE). The CEO first prevented the examination (OD/ WP), but was later forced to accept it (OD/ VW). After a few months, the detailed results of the examination revealed the severity of the crisis and indicated the necessity of urgent reconstructions (UC/ UR). In spite of the explicit facts, the CEO wanted considerable dividends (OD/ MD2). Finally, the management disagreements and the creditors’ examination led to the CEO’s resignation (OD/ CR, MD3). As his last action, however, the old CEO decided to continue the interrupted board machine project (IFD/ MI3), which caused further problems. The change of CEO (MC/ MC1) basically eliminated the main initiator of the internal problems and finally opened the organization to more explicitly work against the
decline, even if some retrenchment activities were already implemented after the creditors’ intervention. Altogether, the forces of decline still existed in the organization.

The new CEO started by outlining a new organizational order (ERS/ HO, CP) and considering how to reconstruct the organizational functions and governance structures (RD/ RD, PU1, AS, ADP) — that is, he concentrated on recovery actions. However, the CEO also realized that clear asset reductions had to be implemented (RA/ AR) in order to receive liquid money. Altogether, these actions did not prevent the financial deficit from increasing (IFD/ NI). Thus, the Bank of Finland reacted again and decided that UPM had to increase its share capital and that it was not allowed to implement anything other than small maintenance investments (ERD/ CI2). This impulse led to the decision of share issue and further loan of the bank (FS/ FL, SI2) as well as first emergency agenda (RA/ EA1), which included: employee reductions, material savings, delaying investments, finishing unprofitable production, concentration on profitable qualities, diminishing the stocks, and streamlining the work procedures. Retrenchment actions and further investigations (RA/ PD) were also started and liquidations in Italy (RD/ LI) continued but they did not produce immediate results and during the following months the situation became even worse (IFD/ CC). Therefore, even extraordinary measures were declared to be acceptable in order to improve the firm’s situation. Finally, a new emergency agenda was presented (RA/ EA2). At this time the retrenchment actions together with the share issue and a modest loan (FS/ FS4) produced clear, positive, effects (RE/ RE1).

After the situation had stabilized, in order to ensure the future successful performance of the firm, a new investment plan was presented (ERS/ IP2). It was followed by a major strategic decision to acquire a new paper machine (RD/ MI4). At the same time considerable foreign asset divestments were implemented (RD/ FA). Evaluation of the firm’s strategic goals then continued (ERS/ ES) leading to new investment plans (ERS/ IP3) and introduction of the
profit units’ allowance system, which made the units more autonomous (\textit{RD}/ \textit{PU2}). Important strategic decisions were also investment in thermomechanical pulp production and a cooperation agreement with Haarla Corporation (\textit{RD}/ \textit{TP1}, \textit{TF}, \textit{TP2}, \textit{CD}).

These recovery measurements were, however, interrupted by worldwide depression (\textit{EPD}/ \textit{WD}). As a first reaction, financial support was applied (\textit{FS}/ \textit{FS5}) for ongoing investment projects, some investments were delayed (\textit{RA}/ \textit{DI2}), and investigation of the firm’s crisis vulnerability was implemented (\textit{ERS}/ \textit{CV}). The last measure was followed by an economy campaign (\textit{RA}/ \textit{EC}) and a share issue (\textit{FS}/ \textit{SI4}). These internal evaluations and retrenchment actions together with the above recovery actions, acquisition of Haarla (\textit{RD}/ \textit{RH}), and finally external support (\textit{ESR}/ \textit{DF}, \textit{EP}) led to positive production and financial results (\textit{RR}/ \textit{RR1}). Thereafter, the investment program continued (\textit{RD}/ \textit{IP4}) and finally after a prosperous year, a new investment plan was launched that became a cornerstone of UPM’s success in the 1980s and 1990s (\textit{RR}/ \textit{MI5}).

\textit{Comparison and Suggestion of the Causal Mechanisms}

The event structure analyses can be simplified for comparative purposes by using the logic of the ontological form of two levels of analysis and the analytic framework. Consequently, as suggested in the framework, the focus is on (1) forces of decline, (2) events/triggers that led from the blinded level to general awareness, (3) events/triggers that led the organization from awareness to explicit action, (4) events/triggers that led to explicit retrenchment, and (5) events/triggers that led the recovery results and finally to the successful outcome.

In the case of Walkiakoski the following points can be made. (1) The organizational decline was caused by both internal (\textit{IFD}) and external reasons (\textit{EFD}), although the former had a stronger influence, and latter reinforced by emerging organizational disagreements (\textit{OD}) and external pressures (\textit{EPD}). (2) The transition from the blinded level in decline to the general
awareness of the decline required two impulses, one internal (IAD) resulting from the customers’ complaints, and one external as a reaction of the creditor (ERD). (3) The transition from the general awareness to explicit actions was triggered by the changes on the board (MC), evaluation of the firm’s strategic situation and future possibilities (ERS), and understanding of the severity of the crisis (UC). (4) Although the first retrenchment actions started during the evaluation, the above events were needed to trigger the correct retrenchment actions (RA), the application of financial support (FS) and the change in the top management (MC). Together, these events led to the explicit retrenchment results. (5) The explicit actions leading to the first recovery decisions (RD) were triggered by the insight of the new CEO (ERS) and financial support (FS). The thorough implementation of the recovery strategy and the achievement of recovery results were further triggered by retrenchment actions (RA), additional financial support (FS), and external support (ESR) as forms of trade policy and cooperation.

In the case of UPM, (1) the decline was caused by internal (IFD) and external (EFD) reasons, the former having the main influence, and reinforced by emerging organizational disagreements (OD) and external pressures (EPD). (2) The transition from the blinded level to general awareness of the decline was triggered by internal signals (IAD) from the foreign subsidiaries and by the external reaction of the creditors (ERD). (3) The transition from awareness to the explicit actions was hindered by continuous managerial disagreements also deriving from the initial forces of decline, but finally the creditors’ inspection (ERS), deepened understanding of the severity of the crisis (UC), and the change of CEO (MC) triggered the organization to take explicit action against the crisis. (4) Some modest retrenchment actions were implemented after the creditors’ intervention, but the determined retrenchment (RA) leading to the explicit results required that the new CEO further evaluated the situation (ERS), that the creditor again reacted to the poor situation (ERD), and that the firm received additional financial support (FS). (5) The explicit recovery actions (RD) leading to recovery results
followed the CEO’s visioning (ERS) and started at the same time as the determined retrenchment or even earlier. However, the implementation of the recovery strategy was interrupted twice: during the intensive retrenchment and during the worldwide depression. Moreover, retrenchment actions (RA) as well as financial (FS) and external support (ESR), during and after the depression, assisted the implementation of the recovery strategy and finally the realization of the recovery results.

The above five combinations of causes form the suggested causal mechanisms underlying the processes. A comparison can now be implemented one mechanism at a time using Boolean logic as presented in Table 2. First, the results show that in both cases the decline was jointly caused by two necessary causes that can be proposed as forming the mechanism of the initial decline which was further enforced by emerging external and internal reasons. Altogether, the mechanism of decline that drove the organizations to the crises and formed the counter force for the turnaround activities was generated through similar elements in both cases.

Second, the internal signals of poor performance and the strong external reactions were the jointly sufficient factors that pushed the organizations from the state of blinded decline to the state of general awareness of the decline. Thus, they can be ontologically seen as the defining features forming the mechanism for general awareness. Third, after reaching the general awareness, both organizations needed a change in management, understanding of the severity of the crisis, and an evaluation of the organizations’ strategic situation and future possibilities before the implementation of the determined turnaround actions became possible. Thus, the combination of the above necessary features formed the sufficient mechanism that was needed to generate explicit action in both cases.
Fourth, in the case of Walkiakoski, the retrenchment results were created by the combination of retrenchment actions, financial support, and management change. In UPM, retrenchment results were produced by the combination of retrenchment actions, financial support, further evaluation, and an external impulse. Accordingly, the mechanism generating retrenchment is a good example of equifinality where the same general outcome is produced by different, sufficient combinations of lower-level causes. In fact, only the retrenchment actions and the financial support acted as necessary causes in both cases. However, the missing and diverging factors were present in the preceding mechanisms driving the processes.

The turnarounds, however, would not have been successful without the mechanism that finally led the organizations to the recovery results. In both cases this mechanism consisted of evaluation and planning, implementation of recovery actions, further financial support, additional retrenchment actions, and external support. Consequently, in both cases the proposed sufficient mechanism to recovery consists of five defining features, two of them being the necessary conditions that were also generating the retrenchment results in both cases.

As a result, building on the findings of the above analyses and the comparison, Figure 3 depicts a scheme of the mechanisms driving the organizational decline and turnaround processes. It includes the mechanism of decline and the four necessary mechanisms that cumulative and interdependent work against the decline and finally generate the successful turnaround. On the one hand, each of the mechanisms is composed of a combination of defining features that are jointly sufficient to activate the mechanisms. On the other hand, the existence of the mechanism that drives the organization to the state of general awareness of the decline is assumed to be necessary for the existence of the mechanism that drives it to explicit action, and that mechanism in turn precedes the mechanisms that drive the organization to retrenchment and recovery. Altogether, the successful organizational turnaround is sufficiently
generated through the activation of four necessary mechanisms acting against the mechanism of organizational decline.

**DISCUSSION**

In social sciences in general and in strategy research in particular, the process approach has offered a promising methodological alternative or complement to correlational analysis. However, the lack of systematic methods and data analytic techniques for reducing the complex reality that the researcher inevitably faces has hampered many of the contributions that processual research might have produced. Another noteworthy deficiency has been the limited discussion of alternative logics of explanation and of what can or should be explained in processual analysis.

In the current research, I address these concerns by offering a methodology for causal explanation across complex sequences of events in order to reveal the underlying causal mechanisms that, when activated, generate outcomes and in some cases empirical regularities. The suggested methodological procedure and the analysis of the organizational decline and turnarounds demonstrate how the explanation with mechanisms truly takes advantage of the possibilities processual data offer, thus providing a robust basis for causal explanations that go beyond correlation. Moreover, the study advances our understanding of organizational decline and turnarounds by providing a description of causal mechanisms that drive the decline and turnaround processes.

Accordingly, as a most important implication for future researchers, this paper provides a formal methodology for processual analysis that is oriented toward the above-described causal and comparative reasoning. While this is not the first study to introduce the data analytic technique ESA as a systematic tool for identifying the causal structure of an organizational process (Stevenson & Greenberg, 1998), this is the first study that accommodates the
comparative element (Ragin, 1987) and the notion of two-level theories (Goertz & Mahoney, 2005) in the causal event-structure analysis. Most importantly, the idea of explanation with causal mechanisms is explicitly introduced in processual strategy research.

The methodology provides a valuable addition to the methods used in strategy and organization research by incorporating interpretative and explanatory modes of analysis. On the one hand, the use of in-depth qualitative data in event structure analyses makes it possible to consider closely contextual influences and contingencies peculiar to each process and in so doing identify the mechanisms and their constitutive components that generate the outcomes. On the other hand, abstraction of the event structures by means of the idea of two-level theories and comparison of the abstracted event structures using Boolean comparison support explicit reasoning regarding similarities and differences of mechanisms. As result, it becomes possible to identify tendencies among the mechanisms producing the same phenomena in a more abstract level.

The systematic structure of the methodology allows the researcher to replicate exactly each phase of the study, thereby increasing the internal validity of the analysis. The methodology also makes possible replications by using different data sets in order to further confirm the mechanisms identified. However, since strategy research is never conducted in experimentally controlled conditions, replications cannot provide conclusive verification or falsification of the causal mechanisms proposed (see Tsang & Kwan, 1999).

The analysis of the organizational decline and turnaround processes showed in practice how the methodology is able to generate a substantial advancement in knowledge. Even though earlier research has identified different reasons for decline and singular strategies and actions that can be implemented during an explicit turnaround as well as simple stages that organizations are assumed to go through during turnarounds, the causal process itself, that is the way in which events cause other events and how the combinatorial and cumulative
influence of different causes finally generates the outcome, has remained unexplained. Thus, the suggestions concerning how the five mentioned causal mechanisms work and finally generate the outcome of interest offers a significant contribution to our understanding of organizational decline and turnaround processes.

In particular, the ideas proposed in this paper explicitly show how the turnaround is not a matter of a single cause or a result of several independent and unrelated variables. Instead, the turnaround is argued to be a matter of the cumulative and interrelated influence of four different causal mechanisms that work against the mechanism of decline. An organizational turnaround usually concretizes during the phase of explicit implantation of turnaround activities. However, as this study shows, this phase is not possible without the mechanisms that drive the organization to the states of general awareness and explicit action. Thus, our understanding of decline and turnarounds would remain decisively incomplete if the different causal mechanisms driving the processes were not identified.

The analysis has also clearly demonstrated that the mechanism is not a single variable, but rather consists of a combination of defining features that are jointly sufficient to activate that mechanism. Thus, explanations that are based on identifying causal mechanisms avoid the danger of the overdeterminism of stage models (Stubbard & Smalley, 1999) and better incorporate the multiple causation, which can be seen as a predominant condition in the complex social world. Accordingly, as the analysis of the decline and turnarounds illustrates, the same defining feature may have a function in different mechanisms producing different outcomes and that the same general level outcome can be produced by different combinations of causes. These findings are consistent with a basic idea of causal complexity, namely that a single cause rarely operates in isolation, while the realized effect is usually the joint result of a combination of different causes.
These notions help us to clear up, among other things, the confusion around the retrenchment and recovery strategies (see Barker & Mone, 1994; Pearce & Robbins, 1994). For example, in this study the activation of the causal mechanism that finally drove the organizations to explicit recovery required the same defining features that were needed in the activation of the mechanism generating retrenchment. Moreover, in the case of Walkiakoski the mechanism that produced retrenchment results and the mechanism that drove the organization to successful recovery were somewhat sequential, but in the case of UPM they acted for the most part simultaneously. Altogether, both of the mechanisms were necessary in the elimination of the causes and consequences of the organizational declines. Thus, a successful organizational turnaround is not a matter of separate retrenchment or recovery activities. On the contrary, turnaround is seen as cumulative and interdependently produced by causal mechanisms that are activated by combinations of causes, which also include explicit retrenchment and recovery activities.

Although this paper has provided an account of the issues related to explanation by causal mechanisms in processual research in general and organizational decline and turnaround research in particular, there is a need for future study in several fronts. As regards to causal mechanisms, the close connection with realism and philosophy of science on the whole needs further considerations. Also the role of organizational actors in causal mechanisms requires clarification. In the context of organizational decline and turnaround literature, since this study has analyzed only two cases, future researchers could study a wider set of cases, apply fuzzy-sets methods (Ragin, 2000), and employ replications. Of course, the field of strategy process research includes almost infinite number of other processual phenomena in which the methodology could provide new insights. Altogether, I hope that the ideas presented here provide useful guidance for future research in explaining and challenging outcomes and
empirical regularities established by correlational analyses as well as will encourage the examination of various issues previously avoided.

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REFERENCES


## APPENDIX A

### Chronological Events of the Walkiakoski’s Decline and Turnaround Process

<table>
<thead>
<tr>
<th>Description of the action</th>
<th>ETHNO code</th>
<th>General code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance satisfies owners and managers. Huge dividends.</td>
<td>SAT</td>
<td>IFD (Initial internal force of decline)</td>
</tr>
<tr>
<td>Continuous customers' complaints about the quality of paper become general.</td>
<td>QC</td>
<td>IFD</td>
</tr>
<tr>
<td>Owners demand huge dividends. <em>Incompetent ownership</em>.</td>
<td>IO</td>
<td>IFD</td>
</tr>
<tr>
<td>CEO finds alarming signs in financial numbers.</td>
<td>MC</td>
<td>IAD (Internal awareness of decline)</td>
</tr>
<tr>
<td>Explicit signs of decline.</td>
<td>SD</td>
<td>ERD (External reaction to decline)</td>
</tr>
<tr>
<td>The creditor (PYP) does not accept the dividends.</td>
<td>CR</td>
<td></td>
</tr>
<tr>
<td><em>Creditor remarks the situation</em>.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HOP (a commercial bank) becomes the main owner.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>New chief</em>, Wegelius, to the board.</td>
<td>NC</td>
<td>MC (Management change)</td>
</tr>
<tr>
<td>Decision to sell land and forest because lack of funds.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Asset divestment</em>.</td>
<td>AD</td>
<td>RA</td>
</tr>
<tr>
<td>Wegelius suggests newspaper production extension, no decision.</td>
<td>RS</td>
<td>ERS (Evaluation of recovery strategy)</td>
</tr>
<tr>
<td><em>Recovery suggestion</em>.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wegelius recruits Walden to bring new managerial input to the board. <em>Walden starts</em>.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Walden tries to instruct new accounting and reporting systems in order to clarify what is the firm's situation.</td>
<td>CS</td>
<td>ERS</td>
</tr>
<tr>
<td>Walden urges that they have to thoroughly examine how to improve the production and avoid continuous losses. They cannot wait positive changes in conjunctures. <em>Understanding the crisis</em>.</td>
<td>UC</td>
<td>UC (Understanding of the crisis)</td>
</tr>
<tr>
<td>Decision to apply for a considerable loan for the reparations. <em>External support</em>.</td>
<td>ES</td>
<td>FS (Financial support)</td>
</tr>
<tr>
<td>Walden expresses dissatisfaction to the management's work. <em>Managerial disharmony</em>.</td>
<td>MD</td>
<td>OD (Organizational disagreement)</td>
</tr>
<tr>
<td>Continuous financial difficulties. Walden suggests a detailed <em>cost cutting</em> and dismissal program.</td>
<td>CC</td>
<td>RA</td>
</tr>
<tr>
<td>Walden decides to reorganize the top management of the firm by discharging three managers including the CEO.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management change.</td>
<td>MC</td>
<td>MC</td>
</tr>
<tr>
<td>Still <em>quality complaints</em>.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Needed improvements without total realization.</td>
<td>QC</td>
<td>IFD</td>
</tr>
<tr>
<td>Board of administration disagrees of the new CEO's competence. <em>Board disharmony</em>.</td>
<td>BD</td>
<td>OD</td>
</tr>
<tr>
<td>The new CEO, Christiansen, improves the reporting systems and seeks effectively the most economical ways of production. <em>Operational restructuring</em>.</td>
<td>OR</td>
<td>RA</td>
</tr>
<tr>
<td>Christiansen suggests a reorganization and extension of the sulfate production that would change the production direction of the firm.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Recovery suggestion</em>.</td>
<td>RS</td>
<td>ERS</td>
</tr>
<tr>
<td>First attempt to sell stocks to the <em>UPM</em>.</td>
<td>UPM</td>
<td>ERS</td>
</tr>
<tr>
<td>Positive production results, no urgent need for a new loan. <em>Retrenchment effects</em>.</td>
<td>RE</td>
<td>RE (Retrenchment effects)</td>
</tr>
<tr>
<td>A new big loan for extensions and reparations. <em>External support for recovery</em>.</td>
<td>ES</td>
<td>FS</td>
</tr>
</tbody>
</table>
Appendix A continues

<table>
<thead>
<tr>
<th>Event Description</th>
<th>Code</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>A new big loan for extensions and reparations.</td>
<td>ES2</td>
<td>FS</td>
</tr>
<tr>
<td>External support for recovery.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Declining newsprint and sulfate pulp prices. External pressure.</td>
<td>EP2</td>
<td>EPD</td>
</tr>
<tr>
<td>Decision to convert sulfate pulp to craft paper, and strongly diminish newsprint</td>
<td>RD1</td>
<td>RD</td>
</tr>
<tr>
<td>production. The main recovery decision.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scandinavian and Finnish agreement of production quotas. Cartel support.</td>
<td>CS1</td>
<td>ESR</td>
</tr>
<tr>
<td>Investments to improve the quality and ability to answer the customers' wishes.</td>
<td>IQ1</td>
<td>RD</td>
</tr>
<tr>
<td>Scandinavian craft paper cartel disintegrates.</td>
<td>CD</td>
<td>EPD</td>
</tr>
<tr>
<td>Prices and orders are declining. External pressure.</td>
<td>EP3</td>
<td>EPD</td>
</tr>
<tr>
<td>Quality problems. Quality complaints.</td>
<td>QC3</td>
<td>IFD</td>
</tr>
<tr>
<td>Christiansen proclaims to leave the firm. Management change.</td>
<td>MC</td>
<td>MC</td>
</tr>
<tr>
<td>PYP gives more credit.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in new machines to improve the quality.</td>
<td>IQ2</td>
<td>RD</td>
</tr>
<tr>
<td>Decision to increase equity capital by share issue.</td>
<td>SI</td>
<td>FS</td>
</tr>
<tr>
<td>The Bank of Finland becomes the main creditor and promises to support Walkiakoski.</td>
<td>BF</td>
<td>FS</td>
</tr>
<tr>
<td>UPM and its owners become the main owner as a result of the stock issue.</td>
<td>UPM2</td>
<td>RD</td>
</tr>
<tr>
<td>Customers report that the quality has improved.</td>
<td>Q11</td>
<td>(Recovery results)</td>
</tr>
<tr>
<td>Investing a soda boiler to sulfate factory to improve the craft paper production.</td>
<td>RD3</td>
<td>RD</td>
</tr>
<tr>
<td>Worldwide depression.</td>
<td>EP4</td>
<td>EPD</td>
</tr>
<tr>
<td>Decision to found a paper converting company.</td>
<td>RD4</td>
<td>RD</td>
</tr>
<tr>
<td>Considerable employees and wage cuts because of the depression and cooperation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>with UPM. Cost cutting.</td>
<td>CC2</td>
<td>RA</td>
</tr>
<tr>
<td>Decision to invest on research and development.</td>
<td>RD5</td>
<td>RD</td>
</tr>
<tr>
<td>Decision to take a loan with UPM and invest to a new paper machine in order to</td>
<td>RD6</td>
<td>RD</td>
</tr>
<tr>
<td>increase the quality of papers.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scancraft is founded and Walkiakoski becomes a member. Cartel support.</td>
<td>CS2</td>
<td>ESR</td>
</tr>
<tr>
<td>Customs in England decrease and Finland's mark devaluates. External support.</td>
<td>ES4</td>
<td>ESR</td>
</tr>
<tr>
<td>Positive production and market signals. Customers satisfied. Recovery results.</td>
<td>RR1</td>
<td>RR</td>
</tr>
<tr>
<td>Prices increase. Recovery results.</td>
<td>RR2</td>
<td>RR</td>
</tr>
<tr>
<td>Walden suggests that UPM and Walkiakoski should merge.</td>
<td>MER</td>
<td>RR</td>
</tr>
</tbody>
</table>
## APPENDIX B

### Chronological Events of the UPM’s Decline and Turnaround Process

<table>
<thead>
<tr>
<th>Description of the action</th>
<th>ETHNO code</th>
<th>General code</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO Walden's expansive business strategy</td>
<td>EB</td>
<td>IFD (Initial internal force of decline)</td>
</tr>
<tr>
<td>Overcapacity in industry and an unfavorable business cycle</td>
<td>OB</td>
<td>EF (Initial external force of decline)</td>
</tr>
<tr>
<td>Considerable subventions for Italian subsidiaries</td>
<td>IS1</td>
<td>IFD</td>
</tr>
<tr>
<td>A new newsprint machine comes into operation. Decision to stop the other.</td>
<td>IR</td>
<td>IFD</td>
</tr>
<tr>
<td>Walden introduces a major investment plan consisting of three new machines.</td>
<td>IP1</td>
<td>IFD</td>
</tr>
<tr>
<td>The main creditor (KOP) arranges financial support for investments.</td>
<td>FS1</td>
<td>IFD</td>
</tr>
<tr>
<td>Share issue is implemented. A new foreign investment suggestion.</td>
<td>SI1</td>
<td>IFD</td>
</tr>
<tr>
<td>The analysis of Italian subsidiaries recommends withdrawing from Italy.</td>
<td>IS2</td>
<td>IFD</td>
</tr>
<tr>
<td>Decision to construct a board machine and order a new sack paper machine. Major investment.</td>
<td>MI1</td>
<td>IFD</td>
</tr>
<tr>
<td>KOP and the Bank of Finland realize the acute financial distress and refuse to give additional financing. Creditors' intervention.</td>
<td>CI1</td>
<td>ERD (External reaction to decline)</td>
</tr>
<tr>
<td>Creditors found a holding company and working committee that would take over UPM. The KOP's CEO Virkkunen becomes the chair. Also a share issue is required.</td>
<td>HC</td>
<td>ERD</td>
</tr>
<tr>
<td>The holding company allows the needed financial support.</td>
<td>FS2</td>
<td>FS</td>
</tr>
<tr>
<td>Decision to delay the investment program and construction of the board machine.</td>
<td>DI1</td>
<td>RA (Retrenchment action)</td>
</tr>
<tr>
<td>Withdrawing from Italy begins.</td>
<td>WI1</td>
<td>RD (Recovery decision)</td>
</tr>
<tr>
<td>Managerial disagreement over the board machine investment.</td>
<td>MD1</td>
<td>OD (Organizational disagreement)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description of the action</th>
<th>ETHNO code</th>
<th>General code</th>
</tr>
</thead>
<tbody>
<tr>
<td>The share issue is delayed, the maturity date of loans is extended.</td>
<td>ML</td>
<td>FS</td>
</tr>
<tr>
<td>A big loan is suggested that needs KOP's guarantee. Need for financial support.</td>
<td>FS3</td>
<td>FS</td>
</tr>
<tr>
<td>The CEO of KOP guarantees the loan if the creditor is allowed to make a thorough examination in the firm.</td>
<td>CE</td>
<td>ERS (Evaluation of recovery strategy)</td>
</tr>
<tr>
<td>Walden prevents the examination.</td>
<td>WP</td>
<td>OD</td>
</tr>
<tr>
<td>Virkkunen forces Walden to accept the examination.</td>
<td>VW</td>
<td>OD</td>
</tr>
<tr>
<td>The investigation reveals the harsh nature of the situation and suggests urgent reconstructions. Understanding received.</td>
<td>UR</td>
<td>UC (Understanding of the crisis)</td>
</tr>
<tr>
<td>Managerial disagreement between the CEO and the working committee over the dividends.</td>
<td>MD2</td>
<td>OD</td>
</tr>
<tr>
<td>The CEO Walden announces that he resigns after the next year.</td>
<td>CR</td>
<td>OD</td>
</tr>
<tr>
<td>Managerial disagreement over the CEO election.</td>
<td>MD3</td>
<td>OD</td>
</tr>
<tr>
<td>Walden continues the major board machine investment.</td>
<td>MI3</td>
<td>IFD</td>
</tr>
<tr>
<td>New CEO Hakkarainen starts. Management change.</td>
<td>MC1</td>
<td>MC (Management change)</td>
</tr>
<tr>
<td>Hakkarainen outlines a new organizational order.</td>
<td>HO</td>
<td>ERS</td>
</tr>
<tr>
<td>A plan for the development of R&amp;D functions.</td>
<td>RD</td>
<td>RD</td>
</tr>
<tr>
<td>CEO states that they have no other choices than to considerably cut the expenses and seek profitable areas of production.</td>
<td>CP</td>
<td>ERS</td>
</tr>
<tr>
<td>Restructuring process of the accounting system starts.</td>
<td>AS</td>
<td>RD</td>
</tr>
<tr>
<td>ADP system is introduced.</td>
<td>ADP</td>
<td>RD</td>
</tr>
<tr>
<td>Wide asset reductions.</td>
<td>AR</td>
<td>RA</td>
</tr>
<tr>
<td>Introduction of the profit unit organization structure.</td>
<td>PU1</td>
<td>RD</td>
</tr>
</tbody>
</table>
Appendix B continues

Managers found no needed improvement in financial and production results.  

The Bank of Finland refuses future big investments.  

Creditors' intervention.  

A new share issue is decided to implement.  

The Bank of Finland and KOP provide further loan.  

An emergency agenda is introduced. Includes heavy cost cutting.  

A liquidation decision in Italy.  

The situation has even weakened. The firm is near to the crisis of confidence and the reasons are purely internal.  

A new emergency agenda. Includes all possible asset reductions and cost cuttings.  

An investigation in order to solve the production difficulties of the new board machine.  

The Bank of Finland accepts loans for profitability investments.  

The situation is stabilized but further improvement needs more investments.  

Retrenchment effects.  

An investment plan including a new paper machine is accepted.  

Decision to acquire a newsprint machine to Jämsänkoski. Major investment.  

Considerable foreign asset reductions.  

A merger with Haarla is suggested. Only a cooperation deal is done.  

Evaluation project of the firm's strategic goals.  

Suggestion to acquire a new board machine to Simpele and paper machine to Kaipola. Investment plan.  

Suomen Talkki firm is bought.  

An experimental plant of thermomechanical pulp production starts.  

Introduction of the profit units' allowance system.  

Signs of world depression become explicit.  

Decision to apply a considerable loan from abroad. Financial support.  

Some investments are delayed.  

Investigation of the firm's crisis vulnerability.  

A new share issue is suggested. The Bank of Finland is asked to help for arranging credits.  

An economy campaign is launched.  

The acquisition of Raf. Haarla.  

Thermomechanical pulp plant is ready.  

Three devaluations of the Fmk in 1977/78.  

Depression turns to the economic prosperity.  

Positive market and financial signals. Recovery results.  

Investment program continues.  

A major investment plan is suggested and starts.
APPENDIX C

Archival References

*UPM-Kymmene Central Archives*

The archives of the Walkiakoski Paper Factory

- Records of board and managers meetings 1920–1934 (includes appendixes)
- Annual reports 1920–1934
- Company correspondence 1920–1934
- Personal correspondence of the CEO Walden 1927–1930
- Financial statements and other internal documents 1920–1934
- Records of the UPM and Walkikoski’s combined board meetings 1932–1934

The archives of the United Paper Mills

- Records of managers meetings 1963–1975 (includes appendixes and other internal documents)
- Annual reports 1962–1980
- Records of administrations meetings 1963–1968 (includes appendixes)
- CEO Hakkarainen’s correspondence 1970–1973
- CEO Hakkarainen’s notes 1969–1972
- Virkkunen’s and CEO Walden’s correspondence 1967–1968 (includes internal documents, e.g. the KOP’s credit information department’s report)
- Financial statements 1963–1980

*The archives of the Central Association of the Finnish Forest Industry*

- Correspondence with the UPM 1970–1980
Fig. 1. Causal Event Structure of the Walkiakoski’s Decline and Turnaround Process
Fig. 2. Causal Event Structure of the UPM’s Decline and Turnaround Process
Fig. 3. Causal Mechanisms in Organizational Decline and Turnaround Process

Mechanisms:
1. Decline
2. For general awareness
3. For explicit action
4. For retrenchment
5. For recovery

Walkiakoski
UPM

IFD * EFD * OD * EPD
IAD * ERD
MC * UC * ERS
RA * FS * ERS * ERD
RD * ERS * FS * RA * ESR
RA * FS * ERS * ERD
RA * FS * MC
MC * UC * ERS
IAD * ERD

Time / causality  →  Outcome
### Table 1. General Level Concepts

<table>
<thead>
<tr>
<th>General substitutive concept</th>
<th>General code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal initial force of decline</td>
<td>IFD</td>
</tr>
<tr>
<td>External initial force of decline</td>
<td>EFD</td>
</tr>
<tr>
<td>Organizational disagreement</td>
<td>OD</td>
</tr>
<tr>
<td>Internal awareness of decline</td>
<td>IAD</td>
</tr>
<tr>
<td>Retrenchment action</td>
<td>RA</td>
</tr>
<tr>
<td>Financial support</td>
<td>FS</td>
</tr>
<tr>
<td>External reaction to decline</td>
<td>ERD</td>
</tr>
<tr>
<td>Evaluation of recovery strategy</td>
<td>ERS*</td>
</tr>
<tr>
<td>Understanding of crisis</td>
<td>UC</td>
</tr>
<tr>
<td>Management change</td>
<td>MC</td>
</tr>
<tr>
<td>Recovery decision</td>
<td>RD</td>
</tr>
<tr>
<td>Retrenchment effects</td>
<td>RE</td>
</tr>
<tr>
<td>Recovery results</td>
<td>RR</td>
</tr>
<tr>
<td>External pressure to decline</td>
<td>EPD</td>
</tr>
<tr>
<td>External support for recovery</td>
<td>ESR*</td>
</tr>
</tbody>
</table>
Table 2. Results of Boolean Comparison

<table>
<thead>
<tr>
<th>Mechanisms</th>
<th>Conjuncture of necessary causes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walkiakoski (W): IFD * EFD * (OD * EPD) + IFD * EFD * (OD * EPD)</td>
<td>1</td>
</tr>
<tr>
<td>UPM (U): IFD * EFD * (OD * EPD)</td>
<td></td>
</tr>
<tr>
<td>W: IAD * ERD + IAD * ERD</td>
<td>2</td>
</tr>
<tr>
<td>U: IAD * ERD</td>
<td></td>
</tr>
<tr>
<td>W: MC * UC * ERS + MC * UC * ERS</td>
<td>3</td>
</tr>
<tr>
<td>U: MC * UC * ERS</td>
<td></td>
</tr>
<tr>
<td>W: RA * FS * MC + RA * FS</td>
<td>4</td>
</tr>
<tr>
<td>U: RA * FS * ERS * ERD</td>
<td></td>
</tr>
<tr>
<td>W: RD * ERS * FS * RA * ESR + RD * ERS * FS * RA * ESR</td>
<td>5</td>
</tr>
<tr>
<td>U: RD * ERS * FS * RA * ESR</td>
<td></td>
</tr>
</tbody>
</table>