

Understanding top management and organizational change through demographic and processual analysis

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ABSTRACT

Top management theory has been strongly influenced by demographic studies of top management teams (TMTs), but not by research into organizational adaptation to conditions of extreme institutional turbulence. This article analyzes the transformation of a post-socialist enterprise through a combination of demographic and processual methods to develop an enriched account of the micro-processes through which top management constructed organizational change. Adding layers of narrative data and processual explanation directly addresses the well rehearsed problems in demographic TMT studies. From the findings, we propose a set of theoretical arguments that conceptualizes top management in terms of management regimes, to which TMTs are politically tied and through which they seek to realize their values and strategies in organizational outcomes.

Key words: top management team; organizational change; demographic analysis; processual analysis; management regime; Czech Republic

This article considers how senior management influences organizational change in firms operating within turbulent institutional environments. Organizations need to adjust internally in relation to their external environment (Burns and Stalker, 1961; Lawrence and Lorsch, 1967), though such adjustment may be limited by inertial tendencies (Miller and Friesen, 1984; Tushman and Romanelli, 1985) and mediated by the exercise of management discretion (Child, 1972). The adaptation of state-owned enterprises (SOEs) through strategic change and restructuring to the institutional upheaval wrought by the collapse of state socialism provides one of the most vivid cases of organizational change (Carlin and Landesmann, 1997; Frydman et al., 1993; Newman, 2000), though this topic has rarely been examined through a top management lens.

Hambrick and Mason's (1984) proposals for a research agenda to investigate the organization's 'upper echelons' triggered an influential stream of studies examining the organizational effects of the compositional characteristics of top management teams (TMTs). In this view, measures of TMT demography offer 'parsimonious' proxies for more complex social and psychological processes (Pfeffer, 1983) and have been investigated as determinants of various organizational outcomes. Thus, demographic studies show that young, less tenured and heterogeneous TMTs have the composition most likely to produce strategic and structural changes in turbulent contexts (Keck, 1997). However, demographic studies have been widely criticized for producing inconsistent findings, constructing theoretically thin explanations and decontextualizing top management through their macro-organizational methodology (Lawrence, 1997; Pettigrew, 1992; Priem et al., 1999). We argue that TMT findings should make micro-organizational sense when adjusted for context and content (Pitcher and Smith, 2001). By adding 'layers' of qualitative materials to demographic data, the descriptive explanation of the relationship between top management and organizational outcomes can be thickened, allowing a more contextualized understanding and complementary processual theorizing (Lee, 1991; Van Maanen, 1979).

The purpose of this article is to connect top management theory to issues of organizational change in conditions of institutional turbulence and thereby to provide a theoretical framework that comprehends the processual dimensions of top management. The vehicle for this is a longitudinal case study of Vols, a former SOE that, during 1990-2002, had to transform its organizational rationale and logic of

operation in order to survive in the post-socialist business environment. While demographic TMT data provide some support for the effects of Vols' top management on change outcomes, they provide little insight into why and how different TMTs sought to construct change processes. These research questions call for demographic data to be complemented with narrative materials, from which a processual explanation can be developed. The case study findings suggest the relevance of conceptualizing top management in terms of management regimes, to which TMTs are politically tied and through which they seek to realize their values and strategies. Organizational change and changes in organizational direction can therefore be theorized in terms of regime stability and change.

In this vein, the article makes contributions in three areas. First, it critically reviews TMT research as it relates to issues of organizational change in transforming societies, thereby linking these two important literatures. Second, by supplementing demographic analysis with narrative accounts of how top management accomplishes organizational outcomes – and therefore adding processual and contextual detail to otherwise decontextualized theorizing – it reveals the micro-processes that promote and inhibit the effects presumed to flow from demographic variables. Third, from this analytical work, it builds a theoretical framework that re-embeds TMTs within the wider management process, theorized in terms of how political actors reproduce and change management regimes over time.

The article starts by outlining the key issues of organizational change in the Czech post-socialist context and continues by examining demographic TMT studies relevant to managing strategic and structural change within such a context. Having explained

the longitudinal case study research design, we then describe the case enterprise and present demographic and narrative findings. The sixth section is concerned with outlining a theory of management regimes and regime change. The conclusions draw lessons for research on top management and post-socialist research.

THE POST-SOCIALIST CONTEXT AND ORGANIZATIONAL CHANGE

The post-socialist business environment is characterized by ‘institutional upheaval’ or ‘rapid and pervasive change in the norms and values that underlie and legitimate economic activity’ (Newman, 2000, p. 603). Post-socialist managers therefore faced the simultaneous problems of steering their enterprises through this environment, while transforming them into modern corporations.

The institutional landscape of Czech business was deeply affected by the adoption of the voucher method to privatize state property. It concentrated ownership in the hands of state bank-owned Investment Privatization Funds (IPFs) and minimized investment in technologically weak SOEs (Brom and Orenstein, 1994; Dlouhý and Mládek, 1994). It also unwittingly created an opaque ‘web of cross-ownership’ between political, financial and industrial players (Brom and Orenstein, 1994; Kenway and Klvačová, 1996; Spicer et al., 2000), resulting in allegations of corruption and banking scandals that affected business confidence till 1998, when market institutions like bankruptcy and corporate governance began to be enforced (Mertlík, 1998; Pavlínek, 2002).

The size of the organizational change problem can be gauged by considering the gap between SOEs and modern corporations. SOEs were adapted to command-economic

structures: bureaucratic and production-focused, with incentive systems that encouraged formal compliance. Socialist managers had little experience of competitive markets, quality assurance, human resource or strategic management (Koubek and Brewster, 1995; Kozminski, 1995; Newman, 2000; Soulsby and Clark, 1996), but developed unofficial practices, such as social networking, to circumvent the pressures of the planning system (Kornai, 1980). In contrast, post-socialist managers were expected to think strategically, act innovatively, take on responsibilities and restructure their enterprises to reflect market-economic principles (Carlin and Landesmann, 1997; Meyer and Lieb-Dóczy, 2003). Restructuring included downsizing, decentralizing and divisionalizing their enterprises and breaking off smaller independent units (Dlouhý and Mládek, 1994; Lízal et al, 1995; Zemplerová and Stíbal, 1995).

INFERENCE 1: TO ADAPT TO THE POST-SOCIALIST BUSINESS ENVIRONMENT, TOP MANAGERS HAVE TO UNDERTAKE STRATEGIC CHANGES AND RESTRUCTURING SUCH AS DECENTRALIZATION AND FRAGMENTATION

TMT STUDIES, ORGANIZATIONAL CHANGE AND TURBULENT CONTEXTS

Hambrick and Mason (1984) argued that top management's impact on organizational outcomes could be directly studied through 'objective' measures of TMT demography (Pfeffer, 1983). Demographic variables take the form of *traits* – average features of a TMT – and *heterogeneity*, which measures the dispersion of individual attributes within the TMT (Lawrence, 1997; Wiersema and Bantel, 1992).

Demographic measures are assumed to act as proxies for ‘real’ cognitive and social processes. Thus the TMT’s average age proxies for low receptivity of change, lack of innovativeness, inability to make competitive moves and inflexibility (Bantel and Jackson, 1989; Grimm and Smith, 1991; Hambrick et al., 1996; Wiersema and Bantel, 1992). Organizational tenure may stand for social cohesion, high cross-organizational influence and commitment to the status quo, as well as inertia and lack of innovativeness (Bantel and Jackson, 1989; Hoffman et al., 2000; Michel and Hambrick, 1992). Team tenure may represent commitment to the status quo and low creativity (Hoffman et al., 2000; Keck, 1997; Wiersema and Bantel, 1992). TMT heterogeneity (age, organizational tenure, TMT tenure or functional experience) has double-edged implications. Homogeneity increases teamwork and consensus, while being prone to insularity, limited search capability and rejection of disruptive information (Keck, 1997; Michel and Hambrick, 1992; Murray, 1989; Wagner et al., 1984). Heterogeneity enhances cognitive resources, problem solving capacity and ability to change, but increases potential conflict and slows down decision-making (Bantel & Jackson, 1989; Hambrick et al, 1996; Keck, 1997; Wiersema and Bantel, 1992).

Although demographic TMT research has been conducted primarily in stable institutional settings, some findings are particularly germane to post-socialist conditions. Table I presents 23 key findings from eleven selected studies that relate seven TMT variables to strategic, restructuring and performance outcomes in turbulent contexts.

Table I about here

Creating strategic change. Despite rogue findings (Wiersema and Bantel, 1992), a TMT's propensity to enact strategic change and competitive action – both central to post-socialist adaptation – is related to being younger (Grimm and Smith, 1991; Wiersema and Bantel, 1992), less organizationally tenured (Finkelstein and Hambrick, 1990; Wiersema and Bantel, 1992) and more heterogeneous in terms of function (Hambrick et al., 1996; Lant et al., 1992) and organizational tenure (Hambrick et al., 1996).

Restructuring. The adoption of more decentralized internal systems is crucial to the post-socialist transformation. Bantel and Jackson (1989) found that TMTs are more likely to undertake 'administrative innovations' when they are young, less organizationally tenured and more heterogeneous in relation to age and functional expertise.

Performance outcomes. Since the voucher-privatized enterprise is dependent on internal surpluses to finance modernization, short-term and longer-term adaptation may be measured in terms of financial performance over a period. In highly integrated firms (such as Vols), return on assets (ROA) is associated with TMTs with high average and heterogeneous organizational tenure (Michel and Hambrick, 1992). Murray's (1989) found short-term adaptability – ROA and ROS (return on sales) – to be related to TMT homogeneity (age, organizational and team tenure). In constantly turbulent environments, firms performed better when TMTs were heterogeneous (organizational tenure and functional experience) and had short average team tenure (Keck, 1997). Examining new firms entering an established industry (a problem

similar to that faced by former SOEs), Eisenhardt and Schoonhoven (1989) found that they more often experienced sales growth if run by TMTs with long joint experience (team tenure) and heterogeneity of industrial experience (like diverse organizational tenure).

Recovery performance after restructuring. Complementarily, recovery from decentralizing processes – typical of post-socialist restructuring – is more likely to be successfully led by TMTs that combine short team tenure with long organizational tenure (Hoffman et al., 2000).

By a majority of 11 to 1, these findings support the following general inferences about organizational change in turbulent environments:

INFERENCE 2A: OLDER, LONG TENURED AND HOMOGENEOUS TMTs ARE MORE LIKELY TO BE STRATEGICALLY PERSISTENT AND LIMIT STRUCTURAL CHANGE.

INFERENCE 2B: YOUNGER, SHORTER-TENURED AND HETEROGENEOUS TMTs ARE MORE LIKELY TO INTRODUCE SIGNIFICANT STRATEGIC AND STRUCTURAL CHANGE.

Though findings are less consistent (7 to 4) about organizational performance, the studies support the following inferences:

INFERENCE 3A: YOUNGER, SHORT-TENURED AND HETEROGENEOUS TMTs ARE LESS LIKELY TO INCREASE ORGANIZATIONAL PERFORMANCE IN TERMS OF SALES GROWTH, ROA, ROS AND RECOVERY TIMES.

INFERENCE 3B: OLDER, MORE TENURED AND HOMOGENEOUS TMTs ARE MORE LIKELY TO INCREASE ORGANIZATIONAL PERFORMANCE IN TERMS OF SALES GROWTH, ROA, ROS AND RECOVERY TIMES

Demographic TMT studies have been criticized on a number of grounds. In addition to the empirical inconsistencies already noted (Priem et al., 1999), demographic research tends to produce many non-significant findings (West and Schwenk, 1996). Moreover, the ‘causal gap’ (Priem et al., 1999, p. 940) between hypotheses and empirical findings leads scholars to make unauthorized ‘interpretive leaps’ (Pettigrew, 1992). Paradoxically, given the attraction of theoretical parsimony of demographic research, one response to these shortcomings has been to reintroduce theoretical complexity through mediating variables (Bantel and Jackson, 1989; Eisenhardt and Schoonhoven, 1989), direct measurement of cognitive factors (Knight et al., 1999; Miller et al., 1998; Smith et al., 1994) and measures of demographic change (Boone et al., 2004; Keck, 1997; Keck and Tushman, 1993).

Such criticism has also led scholars to call for qualitative research designs (Bantel and Jackson, 1989; Carpenter et al., 2004; Hambrick et al., 1996; Wiersema and Bantel, 1992), such as ethnographic and case studies. Where qualitative studies have examined top management, they have identified the importance of managerial values (Pitcher and Smith, 2001), preoccupations and obsessions (Noël, 1989), power (Pearce, 1995; Pitcher and Smith, 2001), action and process (Denis et al., 2001; Pettigrew, 1987). This article combines demographic and processual methods, adding layers of contextualized narratives to compositional measures in order to explore the

relationship between top management and organizational change. The research findings highlight the theoretical importance of incorporating an understanding of top management values, politics and action in explaining how change is accomplished and which directions are followed.

RESEARCH METHODS

Design, method and analysis

This article presents data from a longitudinal case study of a former SOE called Vols¹, with which we have had a fourteen year research relationship. Our first in-depth field visit to Vols in early 1992 has been followed by seven regular but shorter revisits up to 2003. We have used a variety of methods to collect a comprehensive set of qualitative and quantitative materials about Vols' TMTs over the period till September 2002, when the enterprise was taken over.

We have interviewed forty of Vols' managers and employees, including 13 of the 22 top managers who have guided the enterprise from 1990 to 2002 and six of the nine managers to have sat as executive members of the Board of Directors (see Table II). Interviews were generally conducted in Czech with the help of interpreters, who acted as both cultural informants and research collaborators knowledgeable of project aims and methods (Soulsby, 2004). During each visit, we focused questioning on experiences of organizational and management change, each interview being iteratively linked to others to optimize the internal validity of our materials (Eisenhardt, 1989; Yin, 2003). In turn, interviews consciously built on first-order and second-order accounts (Van Maanen, 1979) from earlier visits, and, through our longitudinal logic, anticipated future visits. Our narratives therefore do not just reflect

retrospective accounts, which risk being filtered through memories, self-justification and rationalization, but also embody respondents' contemporaneous explanations of ongoing processes (Pettigrew, 1987).

The interview database for Vols comprises over 90,000 words that were collected face to face at different points during the period 1992-2003. In order to extract relevant themes from this body of materials, we used data reduction techniques (Miles, 1979; Miles and Huberman, 1984; Ryan and Bernard, 2000). From both a deductive reading of the literature and an inductive understanding of the case enterprise in its transitional context, we identified three sets of themes: TMT process (values, strategy, internal and external politics); organizational outcomes (strategic change, restructuring and performance); and changes in the business environment. We adopted a tabular technique that ranged the 44 interviews against the eight themes. By interrogating the interview transcripts, we were able not only to identify the incidence of themes and their commonality, but also to gather typical and insightful quotations that would allow our respondents voice in the reporting process.

Table II about here

We consulted official corporate and non-corporate sources to find or corroborate information about TMT characteristics and organizational outcomes. Within the field, we collected company profiles and reports, recorded non-systematic observations, collected local archival materials and made reflexive notes. Away from the field, we read non-corporate sources – such as newspapers, business and trade journals – and

contacted trade associations and government agencies like the Corporate Register and the Ministry of Trade and Industry.

From this case study database, we can generate both the demographic TMT profiles and narrative accounts that offer insight into the micro-processes of management and organizational change over time.

Demographic and outcome variables

We used three trait and four heterogeneity measures to examine TMT composition. Traits are simple averages of the TMT members' ages, lengths of organizational tenure and team tenure (we disregarded education, since all TMT members were graduates). Heterogeneity was measured using the coefficient of variation for continuous variables – age, organizational tenure and team tenure – and Blau's index of heterogeneity for functional experience, a categorical variable. Since homogeneity for all measures equates to zero, we also calculated 'average' heterogeneity (West and Schwenk, 1996).

Consonant with the post-socialist and TMT literatures, we examined three orders of organizational outcome. Strategic change is indicated by evidence of new management approaches to business, such as reorientation towards Western markets, strategic focusing or the adoption of new businesses. Restructuring was examined through employment downsizing, enterprise fragmentation and decentralization (such as divisionalization). As indicators of performance and adaptation, we adopted standard measures of sales growth, ROA and ROS and 'recovery from restructuring' was inferred from the overall pattern of performance.

VOLS' TMTs AND ORGANIZATIONAL OUTCOMES

Vols' background

Vols was founded in the village of Volna in 1948 as a strategic investment in heavy engineering. State support fuelled the rapid expansion of production capacity – its workforce reaching 5,600 in 1989 – and commensurate accumulation of social assets (Clark and Soulsby, 1998; Soulsby and Clark, 1995). In 1989, Vols had a virtual domestic monopoly in its product areas and exported much of its production for subsidized Council for Mutual Economic Assistance (CMEA) projects. Given the enterprise's importance, TMT positions were on the *nomenklatura* list and restricted to managers trusted by the Communist Party.

Using TMT and Board of Director fluctuation data for 1990-2002 (Boone et al., 2004; Keck, 1997), we can identify three periods with relatively stable TMTs interspersed by short bursts of TMT turnover (see Figure 1). We call these periods 'strategic eras', because they are not simply 'occupied' by a stable TMT but marked by internal continuity in management values and strategic priorities and separated by discontinuity between contiguous eras (Murray, 1989; Pitcher and Smith, 2001). Summaries of demographic and qualitative analyses for the strategic eras are presented in Tables III and V respectively.

Figure 1 about here

Strategic era 1 (1990-1996)

TMT demography and organizational outcomes

The TMT comprised the General Director (GD) and seven top managers from production (2), finance, strategy, investment, commerce and technical development; until 1993, six served on the Board of Directors. The entry of the personnel manager – the only change till 1996 – left team demography unaltered. Average organizational tenure was 28.5 years, average team tenure was 6.3 and average age 52. Despite functional differences, they were, save one, trained engineers. Compared with many Western findings² (Bantel and Jackson, 1989; Finkelstein and Hambrick, 1990; Pitcher and Smith, 2001) and in relation to Vols' other TMTs, this team was quite old, long tenured and homogeneous (see Table III).

Vols underwent limited strategic and structural change. Up to 1996, it spun off only one independent unit, compared with a typical fragmentation rate of 20-30 among heavy industrial enterprises from 1990-93 (Lízal et al., 1995; Zemplerová and Stíbal, 1995). The enterprise continued to exercise central control over strategic direction and the cost-based divisions. Its reliance on industrial machinery sales to former CMEA projects effectively postponed consideration of competitiveness in 70% of its business. Although its employment numbers diminished year on year, by 1996 Vols retained 75% of its 1989 workforce, compared with 53% for its industrial sectors.

In contrast with similar engineering enterprises, Vols consistently made a profit to 1996. After an initial collapse of sales in 1990, its sales revenues strengthened by 19.7% to 1996, compared with a 7% decline in its industrial sectors. In the absence of

reliable industry-level performance data, Vols' average ROA (4.2%) and ROS (6.3%) look respectable in the turbulent circumstances.

To what extent would the surveyed TMT studies (see Table I) have predicted this team's organizational outcomes? First, old, long-tenured and homogeneous TMTs are not compatible with managing change successfully within turbulent environments (Keck, 1997). Second, consistent with Inferences 2a and 3b, this TMT undertook limited strategic change and performed well. Overall, the TMT studies predict 15 of the 21 possible relationships ('recovery from restructuring' is not relevant) in our case study (see Table IV). Third, Inference 1 is not compatible with case study findings, since strategic persistence and weak restructuring in a turbulent, more competitive environment led to apparently adaptive performances.

Tables III, IV and V about here

The management process and organizational outcomes

By adding layers of qualitative data to the demographic findings, we can thicken our descriptive understanding of how Vols' TMT produced the specific combination of strategy, restructuring and performance outcomes. The argument turns on the TMT's espoused values and strategies and the political processes through which they were realized (Table V summarizes the qualitative analysis).

Mr. H had been appointed GD in October 1989, having successfully led an internal campaign against the incumbent GD, who had been planning to give control of one of

Vols' plants to a large regional steel maker. In January 1990, unlike many top managers with his communist background, Mr. H gained employee endorsement to continue as GD and selected a TMT that recommitted itself to maintaining Vols' organizational integrity and strategic independence. It further pledged to take care of employees and their families:

‘...top management is the engine for change, [but has]...responsibility for both Vols and Volna’ (TM1, Production, 1992)

These values required that top management optimize control and avoid foreign investors, who might be unsympathetic to these ‘Czech traditions’ (TM1, Production, 1992). The traditions included a continuing emphasis on production rather than the customer, described by MM4 (Finance, 1992) as ‘old thinking’.

Although they felt pressures to put ‘marketing, technical design and strategy to the fore’ (TM2, Investment, 1992), the top managers interpreted the post-socialist environment through ‘old thinking’, taking strategic decisions to keep the enterprise intact and jobs secure. The ‘first objective is to survive’ (TM2, Investment, 1992), ‘not to make money’ (TM5, Commercial, 1992) and ‘[to] manage the gradual reduction of workforce’ (TM4, Metallurgy, 1992). Survival required using their historical resources, including the GD’s special connections with influential people in the former Soviet countries.

Our evidence suggests that the TMT ‘consensus’ was less a consequence of homogeneity and the assumed underlying socio-psychological processes (Boone et

al., 2004; Smith et al., 1994) than *political* processes among top managers.

Respondents identified value differences within the TMT between ‘progressives’, for whom limited strategic change was a pragmatic necessity (‘an informal bridge from the past to the future’) and ‘incremental thinkers’, who were ideologically committed to securing jobs. But they agreed that ‘...we can’t push this enterprise too far too fast... We are held together by ... the need to build alliances...’ (TM3, Strategy, 1992).

One reason for being ‘held together’ was the managers’ shared sense of vulnerability, associated with either their communist past and/or the realization that their careers were tied to *this* vulnerable GD, his values and special competences.

‘This General Director is better for [the top managers]... [Their] managerial survival creates a strain towards conformity around Mr. H’ (MM4, Finance, 1992).

The TMT’s internal politics were strengthened by its relationship with ‘organizational’ and ‘external’ constituencies (Denis et al., 2001). Until the new private owners were established, the TMT’s main political problem was the continuing support of employees. The TMT’s interests, as well as its values, were tied to satisfying employees’ expectations. The first strategic era might have ended in 1993-94, when the new Board of Directors was elected, but the directors used their power to generate business with the enterprise for themselves rather than exercise corporate governance (Brom and Orenstein, 1994). Having assimilated employees’ interests and survived privatization, the TMT continued to experience a surprising (to them) degree of discretion over the enterprise’s strategic orientation.

However, the Board's inaction boosted confidence in expressing opposition within the TMT. From 1994, there was increasing disunity between the incrementalists, formed around the GD and the Strategy Director (TM3), and the progressives, led by Mr. P, the Finance Director (TM7) and the Metallurgy Director (TM4). This internal division was *not* a reflection of demographic differences. The progressives proposed greater market orientation and 'more radical decentralization' (TM7, Finance, 1996), while the incrementalists continued to adapt 'old thinking'. TM8, who became Finance Director later in 1996, recalled that the top managers were 'not able to work in a team' and that power had shifted towards the progressives.

The end of an era

Four factors coincided to end the strategic era. First, the Board's confirmation of top managers boosted their self-confidence, detached their personal legitimacy from the fate of the GD and encouraged expression of disagreement. Second, following a consolidation of ownership and the installation of a new Board in 1996, non-executive directors began to exercise their power for corporate governance. Third, the GD's authority waned as shareholder power grew, workforce power declined and former CMEA trade – his strategic source of power – disappeared. Fourth, Vols' worst financial performance in 1996 acted as a jolt to shareholders and TMT progressives alike.

Strategic era 2 (1997-2000)

TMT demography and organizational outcomes

The new TMT lost four members and gained three much younger ones. As a result of this and three more changes up to 2000, the TMT reduced its average age by 3.5

years, organizational tenure by 5.3 years and team tenure by 0.7 years. Coming from finance backgrounds, the replacements increased heterogeneity on all measures – 34% on average.

This TMT embraced strategic and structural change. It sold off non-core production assets, reduced non-production related services and decentralized the enterprise into profit-centred divisions. Employment decreased at a higher rate, leaving the 2000 workforce at 61% of 1990 numbers compared with its industries' average of 43%. Despite outperforming industrial sector averages in sales revenue by 16% until 1998, Vols' sales dropped back to 1996 levels by 2000, while industry performance remained stable. Like its industrial sectors, Vols' profits remained weak but steady until 1999, but recorded a huge financial loss in 2000. Over the period, ROA and ROS were negative.

This TMT – younger, less tenured and more heterogeneous – is more compatible with organizational adaptation in a turbulent environment (Keck, 1997) and implemented strategic change and appropriate restructuring. Paradoxically, this produced worsening financial performances, indicating weak recovery from earlier restructuring efforts. Thus the case findings support to Inferences 2b and 3a, the majority (15 of the possible 23 relationships – see Table IV) being predicted by the TMT studies (Table D). However, like the first strategic era, Inference 1 is inconsistent with the observed relationship between strategic change and financial performance.

The management process and organizational outcomes

The new Board promoted the former Finance Director, Mr. P, to GD, and he immediately began changing the TMT's composition. He demoted the Production Director, the Investment Director and the Strategy Director, all of whom were older, more tenured and engineers. His motives, however, were not about altering the social and cognitive processes of top management. All three were political allies of Mr. H and the 'old thinking'. The Strategy Director, for example, was seen as 'an obstacle to changes' (FTM3, 1996), with a vision 'too long for other top managers and the Board of Directors' (TM4, Metallurgy, 1996). In late 1997, Mr. H was also demoted and replaced by a Marketing Director. In contrast, two of the three young entrants had been socialized in Mr P's Finance department, openly acknowledged their debt to him and were seen as 'dynamic and unconstrained [by the past]' (TM4, Metallurgy, 1998). Through the political manipulation of 'fluctuation' (Keck, 1997), Mr. P had constructed a TMT with a majority favourable to his strategic values.

Despite their radical intent, Mr. P's plans continued to resonate with the values of strategic independence and enterprise integrity, though he wrapped them in Western rhetoric to reflect strategic focus on those *core* activities that could become competitive. This new economic realism, typical of post-1997 Czech Republic, realigned financial and social responsibilities: Vols' survival as an independent enterprise was 'central to creating the [local business] infrastructure...for the good of the community' (TM7, before becoming GD, 1996).

Restructuring was actively promoted through decentralizing profit-making responsibilities to the divisions and selling off less productive and non-core activities, which generated revenues and eliminated costs and contributed to the early era

performances. Vols thereafter concentrated on manufacturing machine tools and metallurgical products. Till 1996, selling machine tools through old CMEA projects had cushioned the enterprise, giving management a false sense of successful adjustment. Led by TM4, Metallurgy, on the other hand, had increased sales revenue fivefold by controlling costs, acquiring quality standards and finding Western clients. It was the 'model' for the TMT's new values, strategies and restructuring projects.

The younger managers' 'feudal loyalty' to the GD (MM15, Public Relations, 1998) gave the GD an inbuilt political majority for his strategic vision, which seemed to be justified by financial outcomes till 1998. But the TMT's discretion to enact its values was affected by the growing 'interference' (TM10, Personnel, 2000) of ACB, a Czech bank that had acquired 56% of shares. In 1999, following weakening performance, the Board forced the GD to replace his two young acolytes with external appointments, introducing demographic changes that increased the TMT's age and heterogeneity. Although we do not know the values of these outsiders, their appointment clearly challenged the TMT's autonomy.

The end of an era

Despite the skilful construction of a TMT around the realignment of economic and social values, four factors affected its downfall. First, government and European Union pressure to rationalize steelmaking capacity weakened Vols' main domestic clients and forced it to confront global competition for machine tools without capital investment. Second, when financial performance began to decline in 1999, the TMT became vulnerable to being judged by its own economic criteria. Third, as shareholding concentrated, the Board of Directors played an increasingly powerful

role, enforcing the TMT's financial accountability as performance and prospects weakened. Its power forced external appointments that disturbed the TMT's internal consensus. Fourth, the bankruptcy of ACB in 2000 put Vols in the hands of another majority shareholder, which demanded that the TMT be reshaped.

Strategic era 3 (2001-2002)

TMT demography and organizational outcomes

Two changes in membership left the new TMT older by an average of 3.3 years, but external appointments decreased organizational tenure by 7.1 years and team tenure by 0.4 years. Overall, the TMT was 13% more heterogeneous than the previous one, though the more experienced entrants increased age homogeneity.

This TMT reasserted strategic control over the production divisions and searched for foreign partners, which could improve the enterprise's competitiveness. The TMT reversed the earlier restructuring programme, merging departments and divisions and recentralizing cost control, marketing and operations. The workforce continued to decrease though, at 54.3% of 1990 numbers, retained employment in 2002 was still 41% higher than industry averages. This TMT presided over a period of very poor performance. While sales revenue remained virtually static, ROA and ROS were on average negative and recovery from restructuring weak.

This TMT has a 'mixed' demographic profile – older, less tenured and more heterogeneous – that makes reference to Inferences 2 and 3 difficult and predictions hazardous. For example, while increased age is associated with less strategic change and restructuring, greater heterogeneity leads to opposite expectations. Overall, the

TMT studies in Table I would predict only 10 of the 23 observed relationships in our case study (see Table IV), though the findings about strategic persistence, weak restructuring and poor performance in a turbulent environment are congruent with Inference 1. This TMT illustrates well the problems of a demographic analysis that neglects contextual circumstances: unless the trait and diversity measures align in certain ways, analysis necessarily leads to inconsistent predictions.

Management process and organizational outcomes

This era was strategically different from the second era, but it failed to acquire political stability because of its inherited problems and the external politics associated with its new owner. Under pressure from the government, AXY bank reluctantly took on ACB's majority shareholding in Vols and appointed a new Board of Directors, which affirmed Mr. P as GD, but insisted on more experienced top managers in order to regain control after the disastrous results of 2000.

The TMT realized that Vols' financial performance and competitive weaknesses demanded further adjustments to its values and strategies. Any claims to strategic independence, enterprise integrity and social responsibility became secondary in the search for a foreign investor, which could secure access to Western markets, make capital investment and offer Vols temporary shelter from direct global competition.

‘...Vols is too small [to compete] in the... [global] industry, so we want to re-create some of the benefits of partnership and consortia’ (TM4, Metallurgy, 2000)

But 'AXY [historically a 'trade' bank] had no interest in an engineering company' (TM11, Commercial, 2003) and refused to settle Vols accumulated debts, lend money for investment or support joint venture proposals (TM10, Personnel, 2003). Without such support, the TMT resorted to strategic pragmatism, exercising tighter control to keep the enterprise afloat. It reduced divisional autonomy, merged more sections, sold off more property, outsourced more services, sacked white-collar staff and narrowed the product range. Unfortunately, our materials during this period deny us deep access inside the management process, but interviews in 2000 and 2003 reveal a TMT without strategic direction. AXY's strategic disinterest reinforced the TMT's defensive tactics as a means of managing organizational decline. AXY sold its shares in September 2002.

Management process, inconsistency and complexity

TMT demographic measures offer interesting analytical reference points (e.g. homogeneity suggests consensual commitment to the status quo) for understanding Vols' organizational outcomes but, unless these 'variables' are located within a thicker descriptive account, they become theoretically incidental. For the first two strategic eras, the TMT Inferences predict strategic-structural change and performance outcomes well but *independently* (see Table IV), while the mixed demographic profile of the third era underscores why, when context is omitted, empirical inconsistency is a 'normal' feature of TMT studies. To explain how TMTs produce the complex realities (i.e. the empirical 'inconsistencies') of strategic change, restructuring *and* performance outcomes, we need to add layers of qualitative data and processual explanation. In doing so, 'interpretive leaps' (Pettigrew, 1992) are replaced by

empirically grounded explanation that gets inside the ‘black box’ of TMT demography (Lawrence, 1997).

THEORIZING TOP MANAGEMENT PROCESS

We infer three important aspects of top management from the analysis of the case findings. First, the *content* of top management is as important as its composition. It matters what top managers believe because their values frame how they make sense of the organizational environment and their ensuing actions. Second, the *contextualized* nature of top management is difficult to capture in demographic measures. Third, top management is a *political* as well as socio-cognitive process. Top management enacts outcomes by engaging with other power-holders. These inferences can be meaningfully explored by conceptualizing top management in terms of management regimes.

A management regime is a socio-political order in which values and strategies are constructed, enacted and reproduced by top management in its relations with other power-holders, giving the management process relative stability over time. Top management, as the most influential group of actors, makes sense of its environment through its values and seeks to enact an organizational ‘reality’ that reflects them. The TMT’s discretion to shape organizational outcomes is constrained by the business environment that its decisions enact (Weick, 1995) and by the demands – influenced by their perceptions of the business environment – of powerful organizational and external constituencies (Denis et al., 2001; March, 1962). Below, we induct from our case findings a set of theoretical arguments to explain first the processes that sustain management regimes and, second, those that change them.

Sustaining regime stability

Three processes reproduce a regime and prolong a strategic era. First, regimes develop stability when TMTs sustain *internal team consensus* around a ‘shared’ (or uncontested) view of organizational reality. The case study offers a number of examples. Team membership can be manipulated through the politics of fluctuation, i.e. selecting and deselecting members to create a balance of values (second era). Team consensus is also likely when leaders can create conditions of expedient loyalty (e.g. when expressions of dissent are not in members’ self interest – first era) or personal loyalty (second era). Finally, team consensus is bolstered by ‘evidence’ of strategic success (first era and early second era).

Second, the reproduction of regimes is likely when the TMT can sustain *external political control* over other power holders. This can be achieved when constituencies either lack the power to challenge (employees after 1996) or exclude themselves from the management process (Board of Directors from 1993-1996). The TMT can also absorb potentially competing external interests within its own ‘reality’ (employees in first era) or negotiate a compromise ‘reality’ with other constituencies (Board of Directors in second era). The perception by powerful constituencies that organizational outcomes realize their values may also bolster external consensus with the regime (employees in first era; Board of Directors in first and second era).

Third, management regimes are more likely to be stable when organizational outcomes satisfy the expectations of the main political actors. This explains, for

example, why the first management regime endured despite its poor strategic and structural fit with post-socialist conditions.

Changing management regimes

Similarly, three processes challenge extant values and strategies and produce the conditions for regime change. First, management regimes become precarious when *internal TMT conflict* disrupts team consensus. This is likely when externally imposed membership changes affect the balance of values (end of second era) or when existing loyalties change, shifting internal power to a clique representing an alternative 'reality' (end of first era). Dissensus is also likely when actions and fluctuation highlight dissimilarity between (end of first and second eras) and/or suspicion of colleagues (end of second era). Internal disagreement may be exacerbated when the values of dominant clique are undermined by inconsistent organizational outcomes (end of first and second eras).

Second, regimes are likely to change when processes upset the negotiated settlement between the TMT and other power-holders. Disagreement is likely when the rebalancing of power between constituencies alters the values represented in the management regime (decline of employee and rise of ownership power). Shifts in the values and interests of a powerful constituency may promote regime change by introducing new political expectations into the top management process (emergence of a majority owner or changing ownership during the second era). External dissensus may also result when latent 'unbridgeable' differences between the TMT and a powerful constituency are manifested (owners at the end of the first and third eras)

and, more generally, when organizational outcomes no longer satisfy constituency values (owners at the end of the first era).

Third, management regimes are threatened when there is a *perceived discrepancy* between organizational outcomes and the expectations of one or more constituencies. Either sudden (end of the second era) or gradual realization (end of the first era) of poor performance, for example, may provoke disagreement and opposition (e.g. withdrawal of resources) within the management process, creating direct or indirect pressure on the TMT to reassess its values and strategies.

CONCLUDING COMMENTS

The contemporary state of top management theory is largely the consequence of research studies designed to explore the upper echelons agenda, which conceives of top management as influencing a variety of organizational outcomes through social and psychological processes, such as integration, conflict and cognitive diversity (Hambrick and Mason, 1984). Following its exponents' recommendations, most TMT studies have adopted demographic methods, which have, however, proven to be empirically, methodologically and theoretically problematic. Critics have highlighted the decontextualized and disembodied nature of top management in such research, as well as the empirically inconsistent findings that have drawn TMT scholars into theoretically unsubstantiated inferences. The findings reported in this article confirm the state of demographic TMT research: while it predicted well (if not consistently) some of our results, there were too many irreconcilable findings to be comfortable with demographic data alone.

From our longitudinal case study, we therefore added narrative materials about management process to the demographic measures of TMT composition. Research that combines distinctly different methods can be a rewarding way of both improving the quality of data and developing theory (Jick, 1979; Lee, 1991; Pitcher and Smith, 2001). The qualitative case data allowed us to thicken our understanding of the micro-processes of top management that brought about the observed associations between TMT and outcome ‘variables’ and assemble theoretically plausible explanations for what show up in demographic analysis as empirically inconsistent findings. The main consequence of combining narrative materials and demographic data has been to reveal the political processes involved in the management of organizational change.

Our theoretical contributions are captured in the theory of management regime reproduction and change, which was inducted from the longitudinal case findings and responds to the established criticisms of upper echelons theory (Lawrence, 1997; Pettigrew, 1992; Priem et al., 1999). First, this theory reinforces the importance of the organizational context in which top management action takes place. A TMT operates through the regime that it constructs in its internal dynamics and its external relationships with other power-holders. In turn, the regime it creates – its prevailing values and strategic priorities – is a context, which constrains what can be sought and how outcomes can be accomplished. Second, in this theory a TMT is characterized by the values and strategies it espouses and seeks to realize within the organization. In our view, an explanation of how top management accomplishes organizational outcomes requires understanding the internal situational logic; imposing the theorist’s own preferred explanation (e.g. social and cognitive features of top management) denies rather than explores the role of top management.

Third, our approach sees regimes as processes not structures; they are defined, negotiated, reproduced or changed *over time* through the actions of internal and external powerful agents. We argue that political motive and process take precedence over the social and cognitive process in explaining regime stability and change. Drawing from our empirical findings, we have delineated a number of propositions about how the micro-processes of top management sustain and change regimes. In short, in relation to the prevailing theoretical orthodoxy based on demographic TMT studies, this article *re-contextualizes* top management, *re-embodies* top managers in terms of their values, strategies and motives and focuses on the internal and external *processes of management politics* as constructive of organizational stasis and change.

Our findings also have relevance for the emergent understanding of organizational change in transforming societies, and hence for the theory of organizational change in general. Neo-liberal economists and institutionalists used to debate whether post-socialism has evolved through rapid transformational change or path dependent incrementalism (Murrell and Wang, 1993; Spicer et al., 2000; Stark, 1992), but research has increasingly shown this to be a simplified distinction. Peng (2003) has suggested that institutional transition goes through two phases. Strategic change in the first phase is slowed down by the reproduction of old networking practices that compensate for newly installed but malfunctioning market-economic institutions; after a ‘point of inflection’ when market-economic institutions take effect, the transformation speeds up as social actors engage with market rules. Our findings provide micro-level support for this phasic view of economic transformation and strategic change, by indicating how the point of inflection affects top management

processes through changing both TMT perceptions of the environment and the strategic stance adopted by powerful institutional agents. Newman (2000) argues that conditions of ‘institutional upheaval’ have the counter-intuitive effect of inhibiting organizational change, while Western-derived organization theory links survival in turbulent circumstances to radical internal change. This article’s findings also suggest a perversity in explaining organizational change in transforming societies, demonstrating that radical institutional change may have quite different effects from ‘radical’ changes in an institutionally stable business environment.

Studying management and organizational change in radically transforming societies opens up the possibilities of developing new theory. This is partly because such contexts entertain new phenomena that demand explanation. But more importantly, rapidly changing and fluid contexts make ‘normal’ aspects of social and organizational life – usually concealed through their taken-for-grantedness – more visible for observers and respondents alike. In this latter case, theoretical arguments inducted from empirical observation in transforming societies should not be treated as exceptional or idiosyncratic, but encourage application and testing in less transformational contexts. In this spirit, we call for future research that refocuses attention on the processual aspects of top management and organizational change in institutionally stable societies, as well as other forms of emerging economy that have not hailed from socialist origins.

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¹ Names have been changed to realize promises of confidentiality.

² Given the cross-cultural problems of assessing the 'meaning' of management characteristics, we prefer to compare changes between the different TMTs in the enterprise.

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Table I. Findings from selected TMT studies

Demographic factor	Relationship	Organizational outcome	Key studies
1 Average age	negative	Propensity to change strategy Administrative innovation	1) Grimm & Smith, 1991 2) Wiersema & Bantel, 1992 Bantel & Jackson, 1989
2a Average organizational tenure	positive	Strategic persistence Post-restructuring recovery [decentralizing organizations] Financial performance (ROA) [high interdependence firms]	Finkelstein & Hambrick, 1990 Hoffman et al., 2000 Michel & Hambrick, 1992
2b Average organizational tenure	negative	Propensity to change strategy Administrative innovation	Wiersema & Bantel, 1992 Bantel & Jackson, 1989
3a Average TMT tenure	positive	Propensity to change strategy * Sales growth [in newly entered markets]	Wiersema and Bantel, 1992 Eisenhardt & Schoonhoven, 1990
3b Average TMT tenure	negative	Post-restructuring recovery * Financial performance (ROA) [continuous turbulence]	Hoffman et al., 2000 Keck, 1997
4a Age heterogeneity	positive	Administrative innovation	Bantel & Jackson, 1989
4b Age heterogeneity	negative	Short-term adaptability [ROA, ROS]*	Murray, 1989
5a Organizational tenure heterogeneity	positive	Propensity to make competitive moves Financial performance (ROA) [high interdependence firms]	Hambrick et al., 1996 Michel & Hambrick, 1992
5b Organizational tenure heterogeneity	negative	Short-term adaptability [ROA, ROS]	Murray, 1989
6a TMT tenure heterogeneity	positive	Financial performance (ROA) [continuous turbulence]	Keck, 1997
6b TMT tenure heterogeneity	negative	Short-term adaptability [ROA, ROS] Sales growth (in newly entered markets)	Murray, 1989 Eisenhardt & Schoonhoven, 1990
7 Functional(and occupational) heterogeneity	positive	Strategic reorientation Propensity to make competitive moves Administrative innovation	Lant et al., 1992 Hambrick et al., 1996 Bantel & Jackson, 1989

N.B. This table reports only statistically significant findings.

* Results that contravene hypotheses

Table II: Profile of interviews (1992-2003)

	1992	1993	1995	1996 (twice)	1998	2000	2003	Totals
TMT (TM1-TM13)	6	1	1	4	1	1	3	17**
Board of Directors*		5	1		1			3
Middle managers (MM1-MM18)	9	1		5	1	1	1	18
Non-management employees (E1-E6)	2		2	2				6
Former TMT members (FTM1- FTM3)				3				3
TOTAL	17	2	3	14	2	2	4	44

* All interviewed Board Directors are included in the TMT count

** 13 different individuals

Table III: TMT analysis of strategic eras

	I. 1990-96	II. 1997-2000	III. 2001-2002
<i>TMT traits</i> [†]			
TMT size	8	7	7
Average age	52.4	48.9	52.2
Average organization tenure	28.5	23.2	16.1
Average TMT tenure*	6.3	5.6	5.2
<i>TMT diversity</i> [†]			
Age heterogeneity	0.11	0.19	.08
Organization tenure heterogeneity	0.2	0.4	0.7
TMT heterogeneity*	0.88	1.11	1.22
Functional heterogeneity	0.55	0.65	0.69
Average heterogeneity	0.44	0.59	0.67
<i>Strategic change</i>			
Degree of reorientation	Strategic persistence: social and production orientation	Reorientation: shift towards economic-oriented models	Retrenchment: slowdown and central control reinforced
Undertaking of competitive actions	Important dependence on non-competitive markets	Corporate reorientation to Western markets	Search for shelter from Western partners
<i>Restructuring outcomes</i>			
Decentralization	Slow move to cost-centred divisions	Rapid move to profit-centred divisions	Recentralization of manufacturing and administration
Fragmentation	One small unit	Sell off non-core production assets (and social units)	Continue selling off non-core assets
% change in employment [†]	-3.6%	-4.6%	-5.6%
<i>Economic performance</i> [†]			
% change in sales revenue over period	-0.2	0.2	0.01
Return on Assets	4.2%	-1.4%	-0.2%
Return on Sales	6.3%	-1.8%	-0.2%

* Team tenure measures reflect the discontinuity of membership associated with the unusual events of 1989

[†] All statistics are averages over the number of years in the strategic era

Table IV: Demographic expectations and Vols' strategic eras

		Support for	No support
Strategic Era 1 Outcomes			
1.	General strategic persistence and minimal competitive conduct	7	1
2.	Little evidence of adopting new administrative or organizational structures	4	0
3.	Relatively high ROA and ROS, but sales decline	4	5
Total for SE1		15	6
Strategic Era 2 Outcomes			
1.	Undertakes strategic change, reorientation or competitive action	7	1
2.	Adopting more decentralized organizational structures; some fragmentation	4	0
3.	Low ROA, ROS, sales growth; weak recovery	4	7
Total for SE2		15	8
Strategic Era 3 Outcomes			
1.	Strategic retrenchment, seeks foreign cooperation	3	5
2.	Reversion to centralized control	2	2
3.	Relatively low ROA, ROS, sales growth; weak recovery	5	6
Total for SE3		10	13
TOTALS ACROSS 3 STRATEGIC ERAS		40	27

Table V: Qualitative analysis of strategic eras

	1990-1996	1997-2000	2001-2002
Value characteristics			
<i>Nature of enterprise</i>	Integrity of 'whole' Vols; strategic independence	Integrity of 'core' Vols; strategic independence	Integrity of defendable Vols
<i>Employees</i>	Employee security is central	Employee security is important	Employment security is secondary
<i>Corporate identity</i>	Community conscience and strong local identity; the Czech way	Community conscience Czech identity	Identity secondary to survival
<i>Basic values</i>	Traditional engineering values (old thinking)	Economic realism (financial values)	Economic values prevail
Strategy characteristics			
<i>Production</i>	Maintain production levels; continue CMEA cooperative projects	Sell non-core economic units	Reduce product range and costs
<i>Employment</i>	Optimize employment levels; protect threatened production activities	Controlled reduction in employment	Reduce indirect labour
<i>Autonomy</i>	Assert independence	Maintain independence	Seek foreign partners
<i>Structure</i>	Minimize structural change to maintain integrity	Divisions as profit-centres (delegate responsibility)	Regain control of plants
<i>Markets</i>	Exploit existing Eastern contacts	Reorient to Western markets	Seek Western markets
Power characteristics			
<i>Internal power</i>	Politics of consensus around Engineering values; rising internal dissensus	Politics of fluctuation; Finance as political centre of new economic realism	Finance as power centre but lacks coherence
	GD as symbolic head	GD as feudal leader – with strong power to achieve things	Weakening GD lacks leadership
	Loyalty to GD: fear of vulnerability	Dynamic young managers loyal to new GD and new economic realism	External experienced managers to regain control
<i>External power</i>	No 'external' challenge; Weak and inexperienced Board	Concentration of ownership and rise of Board power	Indifferent owners
	Initially strong employee constituency	Strategic challenge to TMT	No strategic support
	Social network of former CMEA partners	Decline of <i>nomenklatura</i> power: loss of power over clients	Increasing resource dependency

Figure 1. Vols' Strategic Eras

