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Paper to be discussed in Recontres de St-Gall, September 1 – 3, 2014, St. Gallen, Switzerland

The rise and fall of Arktos Group Oy Ltd – Lack of leadership and crash of organization cultures or bad luck and liability of newness and smallness

Abstract

This paper is a description of a rise and fall of an innovative technology company Arktos Group Oy Ltd and its cooperation with large forest industry companies in Finland. The framework of the analysis follows Schumpeterian ideas about entrepreneurship, leadership and management. These ideas, which fit very well in the case company, will be compared with managerial leadership doctrine applied in the partners in cooperation, large forest industry companies Stora Enso Oyj and UPM Kymmene Oyj. The main research questions of this pragmatic case study are: What are the characteristics of the development process of the company? What kind of entrepreneurial and leadership characteristics will be identified among the management team? Can we identify some tensions in leading practices of Arktos and its partners Stora Enso and UPM Kymmene? Arktos Group Oy Ltd. was created by three open-minded entrepreneurs who had ambitious growth objectives and passion to renew the way of activities within the traditional industry. Innovative business model was introduced to export products to Japanese markets together with UPM Kymmene. There after they started cooperation with Stora Enso to change the environment of closed pulp factory in Kemijärvi to a site for mechanical wood processing. The turnover of the business grew from 0.2 M€ in the year 2005 to 8.6 M€ and balance sheet to 43 M€ in 2012. The number of personnel was 8 in 2005 and more than 120 in 2012. In the beginning of the year 2012 financiers demanded that the company should be reorganized. Since the reorganization program was not accepted the company went bankrupt in January 2013. Failures were made in the planning stage and managing the firm. But on the other hand the tension between leadership cultures of an entrepreneurial company and large traditional multinational corporations as well as impatience of financiers most probably had the impact on the final outcome of the growth process.

Discussion points:

1. Should the mode of action be changed from entrepreneurial leadership towards managerial leadership when the firm is increasing the number of employees very fast?
2. What kinds of specific challenges in leadership of a small firm appear in the context where the partners in cooperation are large multinational companies?
3. What kinds of changes could have improved the performance of the company?

1. Introduction

Entrepreneur and entrepreneurial team have been found to be the most important criteria when venture capitalists select businesses as their portfolio companies (e.g. MacMillan et. al. 1985; Hisrich and Jankowitz 1990). This suggestion follows the tradition of Austrian School which has recognized the entrepreneur as the person who has the central role in all economic activity. Timmons (1994) defined entrepreneurs as having the following characteristics: “They work hard and are driven by an intense commitment and determined perseverance; they see the cup half full, rather than half empty; they strive for integrity; they burn with competitive desire to excel and win; they are dissatisfied with the status quo and seek opportunities to improve almost any situation they encounter; they use failure as a tool for learning and eschew perfection in favour of effectiveness; and they believe they can personally make an enormous difference in the final outcome of their ventures and their life.”

This definition does not directly refer to any aspects of managing and leading the company. Management function is also missing from Schumpeterian approach. Schumpeter (1934) does not accept Marshallian definition of entrepreneur which suggests that entrepreneurial function is “management” as its widest meaning. He does not agree with this definition since it does not include the most important point which distinguishes entrepreneurial from other activities which is *carrying out of new combinations*. Thus he differentiates two types of individuals in the business – mere managers and entrepreneurs. However, Schumpeter considers that because of the characteristics of their “function” which is not routine work, entrepreneurs need to be leaders, too. In routine work “*there is no need for leadership*”. According to Schumpeter (1934) the specific problem of leadership arises and the leader type appears only where new possibilities (*opportunities*) present themselves.

For example Bhide (2000) lists the main roles of an entrepreneur to be arbitrageur, innovator, and coordinator, organiser, and risk bearer. Especially the role of co-ordinator and organiser include managerial components, too. On the other hand, Mintzberg (1973) lists entrepreneur role as one of the roles of a manager in his ten point list of managerial roles. He emphasizes the activity of manager as and initiator and designer of controlled change to exploit opportunities for improving the existing situation (c.f. definition Timmons above). Yukl’s (2012) list of managerial work includes nine points: 1) supervising, 2) planning and organising, 3) decision making, 4) monitoring indicators, 5) controlling, 6) representing, 7) coordinating, 8) consulting, and 9) administering. None of these refers to carrying out new combinations which is no wonder since his study focuses large businesses. It seems that the roles may change when the size of organisation changes. How does the emphasis of different activities and roles change when a firm develops from start-up stage towards a medium-sized company?

This paper is a description of a rise and fall of an innovative technology company Arktos Group Oy Ltd and its cooperation with large forest industry companies in Finland. The framework of the analysis follows Schumpeterian ideas about entrepreneurship, leadership and management. These ideas which fit very well in the case company will be compared with more general leadership doctrine applied in the partner organizations, large forest industry companies Stora Enso

Oyj and UPM Kymmene Oyj. Some aspects of leadership theory and practice will be applied in reflection of the case (c.f. Zaccaro and Horn, 2003). What are the characteristics of the development process of the company? What kind of entrepreneurial and leadership characteristics will be identified among the management team? Can we identify some tensions in leading practices of Arktos and its partners Stora Enso and UPM Kymmene?

The study could be seen as ethnographic analysis since mainly I have collected the material as the Board member of the company. The secondary data includes annual reports, minutes of the Board meetings, memorandums, emails etc. However, I have not had intention to build a study when I started in the Board and thus interpretations and conclusions cannot be methodologically justified and they most probably are biased, too. The analysis proceeds so that first I will describe the development of the company, some critical events in different accounting periods, and its organisation and management. Management decisions and critical events making will be compared with the existing literature. Thereafter I will summarize my answers to the above questions and introduce some conclusions and implications of the study.

2. From Anaika to Arktos – vision drives the action

“Stora Enso strengthens its product range of wooden product business to get the holding of 19.46 per cent from domestic mechanical wood industry company Arktos Group. With the trade Stora Enso extends its product range with new innovative glued wood products. In addition to the developing of the business Stora Enso continues cooperation with Arktos in the wood procurement and offers the distribution channel to certain products of Arktos. Furthermore, the trade includes an agreement for starting technological cooperation in the gluing of the wooden products and in projects of maintenance and spare part services.”

This news was published in the Finnish newspapers in May 18, 2010. From the perspective of Arktos it seemed to be very good news since the financial back up of a large multinational corporation was expected to be a solution to the lack of working capital problems which company was suffering since autumn 2009. However, this trade was followed by the changes in the relationships between Stora Enso and Arktos which had impact on everyday management of the company. Later on this investment could hardly be seen as a corporate venturing effort since all the other parts of the trade than wood procurement were ignored. One year later Stora Enso together with other financiers demanded that Arktos and its investment plan should be reorganized.

Cooperation between Stora Enso Oyj - a public company operating in the fields of paper, packaging and forest products – and Anaika Group Oy Ltd. - a technology company that designed, manufactured and operated products and complete process systems of mechanical wood processing industry - was started in the beginning of the year 2008. Before the signing of cooperation agreement Stora Enso had made the decision in October 2007 to close down the Kemijärvi Pulp Mill. The agreement between Anaika and Stora Enso could be seen as an aftercare of the closure of the factory in substituting the loss of jobs by creating new employment opportunities for large part of the former workers of Pulp Mill. Leasing agreement included several covenants, for example objectives for performance and employment of 100 persons.

Anaika Group Oy Ltd background

Arktos Group Oy Ltd was founded by the name Anaika Engineering Oy Ltd in 2004. Anaika Timber Ltd Oy owned initially totally the shares of Anaika Engineering Oy Ltd. In 2004 Juhani Kukkonen and Hannu Jaatinen sold their shares in Anaika Timber Ltd and bought the total capital stock of Anaika Engineering Oy Ltd for themselves. Simultaneously Jaakko Kilpeläinen bought one third of the shares and joined the company as the Chairman of the Board. The initial focus of the company was to be a technology company which designs, manufactures and operates the mechanical forest industry, machinery, equipment and process units. Company's design and engineering activities, which included subcontracting machining for different industries, were located in Mikkeli, and laminated wood products were manufactured in Pori, Finland.

Anaika Engineering Oy Ltd defined itself as a technology business since from the very beginning the undertaking and the effort was devoted to product development based on the acquisition of industry-related intellectual property rights (IPR). The venture started a project to design and build a prototype of super-fast finger joint line. A patent application for this technology was filed during the fiscal year 2005. The holistic goal was to use the know-how in designing and manufacturing, logistics and production of machinery and equipment in the development of Wood Products Division. In order to reach this goal, negotiations with UPM-Kymmene were initialized to collaborate in glued laminated beam (lambeam) production.

In May 2005 an agreement about contract manufacturing of lambeams with UPM Kymmene was concluded. When the decision to build the plant in Pori was made the work progressed rapidly to the construction phase and the actual construction began in August 2005. Pori was selected as the site of the Mill since the sawmill of UPM Kymmene located in the region and logistically it made sense to build a factory for refining of raw materials in the immediate vicinity. The location was also optimal for the marine transport. In 2005 the premises in Mikkeli the company invested in machining tools and turning machine in order to ensure the access to fine-mechanical components of their own projects.

In 2006 the company verbalized its vision so that the firm should be a prestigious and dynamic partner and value-added producer in wood and metal product industry. During the next 5 - 10 year period, the company was seen to be proceeding intensively aiming to be the leading Finnish company with this kind of concept and business model employing about 150 people. In order to reach this vision the aim was to extend the company's value-added concept in the future so that over the next three years the value-added production volume of the firm should be fivefold. The main principles of company were dynamism, activity, readiness for change and flexibility. In 2006 President Jaakko Kilpeläinen explained the goals as follows:

"Turnover is not an important indicator for us, but the value added is vital. We believe in own activity and workings. The result should be healthy, i.e. earnings before interest and taxes should be at the minimum 10 – 20 % of sales. Our goal is that the EBIT should be 20 %. In the current situation this will require significant investments. Credibility in the eyes of financiers requires own commitment to the projects."

Mechanical engineering workshop supported the construction and implementation of wood processing activities. The workshop was designed to produce around a quarter of the products to be machinery and equipment for the own projects and about three quarters subcontracting sold to external buyers. Subcontract work permitted appropriate resources to be fully employed in the workshop. The construction of Pori Mill brought along automation design, automation systems as well as building and installation of automation as core functions in Anaika's business. In addition to these activities Anaika supplied consultation in processes, logistics and business in Russia. The target branches of industry for consulting activities included paper and cardboard industry, mechanical forest industry, shipping companies and transport businesses. This activity was taken over by Morven Oy in 2006 (Appendix 1).

At the end of the first accounting period Anaika employed 8 people. It was expected that Pori Mill would generate fivefold growth of the staff and a ten-fold increase in turnover. Several risks were connected with the exploitation of opportunity in lambeam market. In the domestic market the competition was intensive. Foreign market, especially Japanese market seemed to be lucrative but the demands for the quality were really tight. All the exporters should have JAS-certificate which was not even available in Finland. The main issue was how to train the employees to continuous quality work?

Pori Mill operations were started in August 2006. After three months activity JAS certification for lambeams was received. At the beginning one of the most difficult problems was the accustoming of the employees to Japanese quality standards. That is why claims were received and according to Japanese business practices faulty deliveries were sent back to Finland. The volume of one return was substantial, namely 800 000 euros. Entrepreneurs were creative and developed new wooden products which were sawn from the B-class lambeams. The revenue from these new products like Arctic Panel was larger than the value of returned items. This exercise was useful from the perspective of learning, too. It was used in training of staff and as practical example of the outcome when quality thinking and practices were not implemented by the staff as agreed.

Simultaneously with the opening of Pori Mill new challenges, which should be taken into account in management and research and development activities as well as in the monitoring and control of company's financial status, were rising. One problem would be the equity ratio and its calculation. The premises of the firm both in Mikkeli and Pori were constructed mainly by entrepreneurs and the staff on the firm's own account. The wages and salaries allocated to the construction work should be activated to those future accounting periods when they are expected to generate revenue. However, the most problematic issue was to include the value of sweat equity of the entrepreneurs because it will not be visible as a cost in income statement or as an equity in balance sheet. The real value of real estate was clearly greater than the value of what had been recorded in the balance sheet. How could the market values of the facilities be brought out to be visible in the company's balance sheet?

Accounting period 2007 – 2008

Since the summer 2006 the firm had been interested in refining small dimension timber of Lapland and had developed technology which allows more cost effective use of raw materials in refining process. This would create competitive advantage for the business. Stora Enso's decision in October 2007 to close its Kemijärvi Pulp Mill was seen as an opportunity because of the sources of suitable raw material and the site and location with the valid infrastructure. Moreover, the personnel of the factory (220 persons) could be appropriate staff for the company even if the branch of industry was different.

Stora Enso's announcement to close factories raised confusion in media because of wide impact on employment (1100 persons totally, 220 in Kemijärvi). In December 2007 Finnish Ruukki Group made an offer to buy the factory but Stora Enso did not accept the offer because the buyer would have competed about the same raw materials (Helsingin Sanomat 21.12.2007).

Anaika Group and Stora Enso signed a letter of intent at the end of January 2008 where they agreed that Anaika Group will build an engineering workshop and laminated timber factory to the Stora Enso Kemijärvi Mill premises. The final agreement was signed at the end of April. It was planned that glulam factory will have the production capacity of 100.000 m³ and it will use small-dimension wood in its operations. The contract included objective for the employment. Kemijärvi Mill was planned to employ about 100 persons where from 80 employees in the glulam factory including sawmill and kilning functions and 20 persons in engineering works.

The implementation of the project was ensured by this agreement. The financing package which was collected included Stora Enso's support for the project by issuing convertible bond of 7 million euros. In addition to that Ministry of Employment and the Economy granted a subsidy of 5.4 million euros for the investment in machinery and equipment in Kemijärvi. This support was two million euros smaller than the applied amount. Moreover, it was agreed that Stora Enso will deliver raw material to the factory on long-term basis and it will buy the side-product woodchips of the process of the factory.

From the perspective of cooperation and contract negotiations the prospects for the summer 2008 seemed to be bright. However, the Kemijärven Massaliike ("Massmovement"), which was established immediately after Stora Enso's decision of the closure, to defend the existence of Kemijärvi Pulp Mill piled up the dark clouds for the future of Anaika Group. Not only the Massmovement but also some competitors were active in smear campaign of the company. A libel where the capabilities of the company were questioned was circulated in the Kemijärvi Pulp Mill in the beginning of 2008. Trade union had applied for environmental protection of the Mill area which was, however, not accepted by the Environmental Centre of Lapland. In addition to environmental protection, the "Massmovement" had demanded for compulsory purchase of Kemijärvi Mill area but Government did not accept the application. However, the negative attitude towards the company caused delays in different permissions. Environmental permission procedure took 16 months and permission to use soil next to the Mill area almost one year. In Pori Mill environmental permission was received in 3 months and usually the permission for soil usage takes about 2 months.

Accounting period 2008 – 2009

After agreement with Stora Enso public communication was much more demanding because of the nature of the cooperation. Instead of one main contractor (UPM Kymmene) Arktos had partnership relationship with two global forest conglomerates with thousands of employees which were listed in the stock exchange market. Thus all the information should be carefully selected and evaluated in order to avoid any impact of market information on both of the partners.

In spite of the difficulties in Kemijärvi the entrepreneurs were very passionate about their vision and continued the efforts to expand their operations and reorganize the wood procurement in Eastern Finland. The reason for reorganising wood procurement was that in the business plan presented to Stora Enso in early 2008 the estimate was that in addition to the delivery of Stora Enso Arktos will need 35 000 – 70 000 m³ more timber from other sources in order to operate successfully. In autumn 2008 UPM Kymmene decided to close paper mill in Kajaani. Even if the investment in Kemijärvi had just started, Arktos decided to offer solution to UPM in Kajaani. The main justification for this was that the entrepreneurs and UPM Kymmene had already negotiated about similar solution in 2005 simultaneously with negotiations about Pori Mill. After serious negotiations up to the spring 2009 this 10 million euros investment alternative did not proceed further.

Regardless of very poor general economic situation the lay-offs and dismissals were avoided and the operations of the company enlarged a lot and according to the plans during the accounting period. In Arktos Steel changes were made so that the workshop was moved at the beginning of December 2008 to Kemijärvi where operations started in January 2009. Wood terminal started its operation in Kemijärvi in the beginning of accounting period. Significant drawbacks in the schedule and the costs of the investment but building of sawmill and lambeam lines proceeded well. In Pori Mill finger-joint line was integrated to the production line. Moreover, wood element factory which refined B-quality lambeams started in Isojoki in March 2009.

Accounting period 2009 – 2010 and 2010 – 2011

In the autumn 2009 company made an offer to buy a saw mill in Eastern Finland and simultaneously get access to wood procurement. In this process corporate finance unit of the bank was included in order to get help in valuations and financing. The trial did not succeed but after this event financier's attitude towards Arktos seemed to be changed which had a large negative impact on financing of working capital.

In May 2010 when Stora Enso bought the shares of Arktos Director of Stora Enso Wood Products Hannu Kasurinen was appointed as the Board Member. As was told earlier with this trade Stora Enso extended its product range with new innovative glued wood products. The trade included an agreement for starting technological cooperation in the gluing of the wooden products and in projects of maintenance and spare part services, too.

Expectations about the development in the next accounting period were positive especially because of ownership of Stora Enso. It was expected that this trade will secure working capital financing of Arktos and make possible to remedy the delays and technical mistakes of sawmill line. The new owner appeared to be impatient and did not really contribute with “hands on” attitude on activities of Arktos. Instead the reporting practices were changed and Stora Enso Wood Products came as responsible division of the cooperation.

In the accounting period 2010 – 2011 Pori Mill reached the planned level of production and Kemijärvi also started test production glued wood products in the second half of the period. The small gluing line of Kemijärvi received the JAS certificate in June 2011. The development of wood products continued and four patent applications were filed. Arktos Steel continued the development of sales and productization of the dosage of the logs in sawmill and devices which are related to the rolling and sawing of the log as well as finger-joint line.

The company negotiated for the securing of the raw materials of Kemijärvi from Peuravuono Sawmill in Ivalo and Seskarö Såg in Haaparanta in Sweden. The purpose was to organise these units as part of Arktos Group but Stora Enso claimed that this will be competitive action and they did not accept the acquisitions. In order to be able to secure the availability of suitable raw material the entrepreneurs decided that their other company Morven Oy will acquire Peuravuono and Seskarö Såg and deliver raw material to Arktos. In order to avoid accusation by Stora Enso it was decided that all the products which will not be used and refined by Arktos will be delivered to Arktos which will sell them forward.

The company operated actively in the market and searched for delivery channels, among others, to Japan and Algeria. The demand for the products remained at a good level regardless of the tight world market situation.

Investments in Kemijärvi were altogether about 9.3 million euros. About half of them were financed by debt with interest and another half with equity based funds and investment support. Even if it seemed that the financing structure of the company remained at a decent during the accounting period the indebtedness of the company was increasing heavily and the firm continued to have severe difficulties with working capital, the symptom which started already in autumn 2009.

In June 2010 the financiers of Arktos Group had a meeting where they expressed their concern about delay of the investment and overrunning of the estimated budget. Especially they pointed out that the company has not been able to pay the market price of sawed products but have been searching for alternative solutions through sawing activity in Peuravuono and Seskarö. Moreover, the quality of the sawed products was criticized. The liquidity was very tight and financiers told that they will not continue financing before the company has been reorganised.

“We ask the board of the company to begin the measures to reorganise the company immediately in cooperation with all the financiers. We also ask the board of the company to make sure that all the financiers have sufficient information available to carry out the realistic saving plan.”

Accounting period 2011 - 2012

The accounting period started with the demand for restructuring the investment plan and abandoning the construction of the large gluelam timber line. The financiers demanded that the company should propose Plan B where only sawmill and small gluelam line will be operating. There was continuous lack of working capital and instead of sales efforts management was required to produce alternative plans in order to convince financiers about the capability of the firm to produce cash flow.

Despite hard effort in Arktos and its planning activities entrepreneurs were active also in Peura-
vuono and Seskarö so that these sawmills started their operation in autumn 2011. Technical
problems of sawmill in Kemijärvi accumulated and it was more than half a year behind the
schedule. However, small lambeam line got CE approval for laminated timber and was ready to
produce products sold to European markets. The factory had earlier been given authorization ac-
cording to Japanese JAS Standard.

Even if the funding was very scarce company continued all the efforts in order to get to positive
track. In the Board meeting on December 23, 2011 it was supposed that the firm will be able to
comprise a financing package in January 2012 which will secure the running of the company up
to the end of the accounting period. However, on January 17, 2012 Stora Enso gave a market re-
lease that they will write-off 11 million euros of Arktos debts and cut out financing of the com-
pany. This led to immediate lay-off of the workers in Kemijärvi, whereas Pori Mill and Mikkeli
continued their activity as previously. The company started to build reorganisation program
which would make continuation of some parts of the company possible.

Financial development of Arktos

In spite of the problems the financial development of company has been quite good in the years
2004 – 2012 (Figure 1 and 2). In 18 months accounting period 1.1.2006 – 30.6.2007 Anaika
Group generated 1.9 M€turnover and about 0.2 M€profit. Asset value of the company at the end
of the period was 7.8 M€ Turnover increased to almost 3 million euros and EBIT was about 0.5
million euros in the next accounting period. The amount of total assets was 11.2 million euros.
About 40 % increases in turnover in the following year raised it to 4.1 M€ The operating result
increased a little bit less than 60 % to 0.8 million euros. EBIT was about 0.6 M€which was 15 %
of the net turnover. The financing structure of the company strengthened during the accounting
period because the addition of the subordinated loans, received financial support, a depreciation
difference and equity which totalled significantly larger than the growth of loans from financial
institutions.

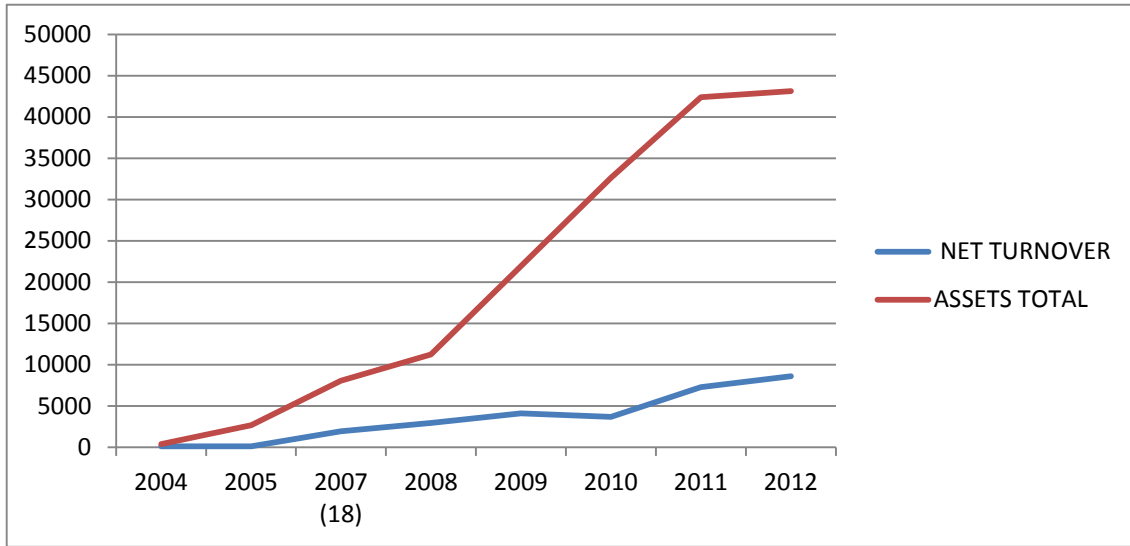


Figure 1: The development of turnover and total assets in Arktos Group Ltd Oy in 2004 – 2012

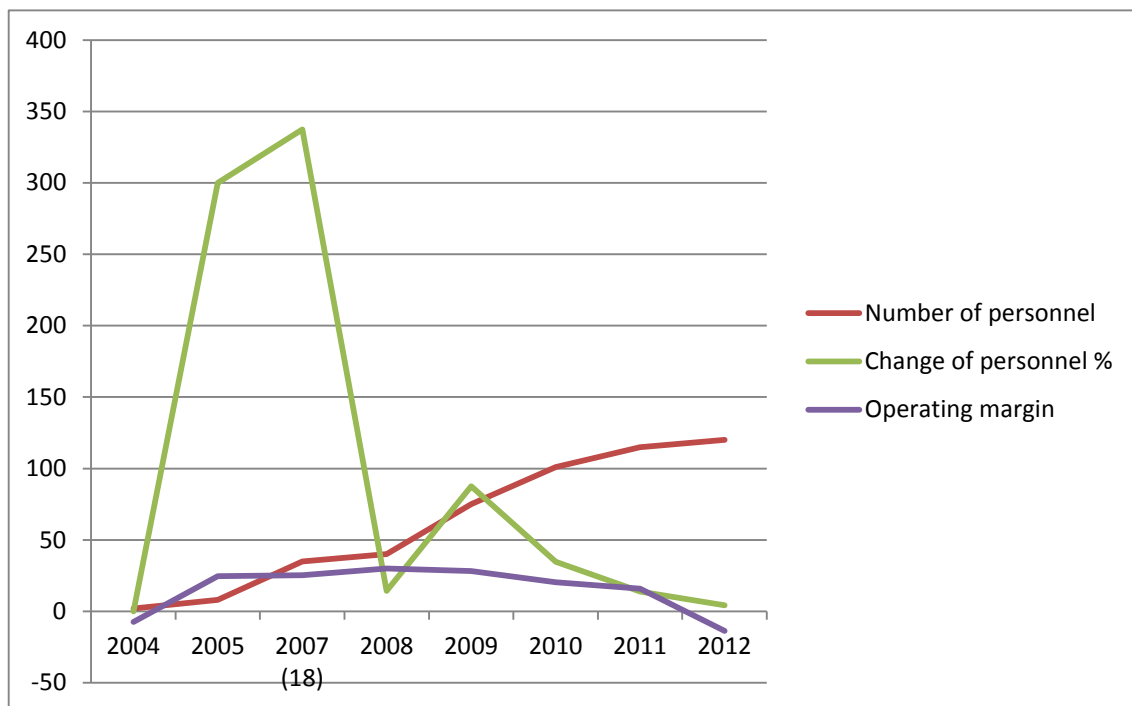


Figure 2: The development of the number of personnel, operating margin and the change of personnel in Arktos Group Ltd Oy in 2004 – 2012

During the accounting period 2009 – 2010 UPM Kymmene reduced the sales in Japan which led to temporary layoff of Pori Mill personnel. Thus the turnover decreased by 10 % to 3.7 M€ and operating result to 0.3 ME. Arktos increased investments in productization and development of sales and closed the sales and distribution contract with Stora Enso in its main market areas.

Company invested 11 M€ in Kemijärvi factory and thus the amount of total assets arose to 32.6 M€

Starting of sales from Kemijärvi raised the turnover significantly to 7.3 M€ in 2011 which means that the turnover nearly doubled compared to the previous accounting period. The operating result was 0.5 million euros and EBIT 0.4 million euros. Even if Store Enso withdraw its support from the business and personnel of Kemijärvi were laid off in January 2012 the turnover increased by 18 % to 8.6 M€. The adjustment to the lower level because of reorganisation caused about 2 M€ costs during the period January - June 2012 which was ironically the gap in working capital of the company. Thus operating margin turned to negative.

The highest level of employment in the beginning of 2012 was 120 persons (Figure 2). In 2005 the firm employed 8 persons. Thus the covenant of employment was almost fulfilled in 2012.

Strategy of Anaika

At the start-up stage the cooperation with UPM Kymmene was planned so that the aim of Anaika Group Ltd Oy was to engage in the contract production and to increase the refinement value together with its partners. Anaika Engineering acted as a supplier of technology in these projects. The business strategy of Anaika was based on the values of the firm. Value-added was really important part of the values of the company. Growth was not an intrinsic value for Anaika but on the other hand, the development usually requires adequate growth, especially in a competitive market. The strategy also highlighted the contribution to the quality.

Anaika Group Oy Ltd.'s strategy was based on its versatile ability in wood product technology and engineering and manufacturing of metal products. The strategic direction of the venture was derived from this know-how where automation, engineering and workshop activities and wood processing are integrated. The competitive advantage of Anaika consisted of the above-mentioned functions as well as the expertise and knowledge in logistics.

In defining the competitive advantage a clear vision of the economic benefits of the customer was important. *"A key customer benefit may be that the buyer will manage to avoid the financial risk of the investment. The partner's value added will increase without a need for investment."* At that stage the company's strategy could be regarded as agile, too. As the President said the policy was to *"Live in the market and to be ready for changes."*

Human resources strategy of Anaika was based on highly motivated key personnel and self-sufficiency in the core competencies and operations. The core skills of the staff include electrical installation and design, 3D design and production engineering, logistics planning and execution, automation design and installation, civil engineering and building construction. Anaika recruits skilful and good people for responsible project tasks. This goal was supported by the aggressive bonus scheme.

Transformation from Anaika to Arktos – changes in strategy

The plans to establish a new unit to Kemijärvi demanded for changes in strategy. Running of Pori Mill was based on wide cooperation with UPM Kymmene which owned the raw material and took care of the export of the products. It was obvious that Pori Mill should continue as previously since activity was profitable and the contract with UPM Kymmene was valid up to the summer 2013.

The strategy of Arktos Group in Kemijärvi could not be totally based on value-added to its partners but it should include own distribution and sales, too. Company should be transferred more towards mechanical wood processing which was very traditional branch of industry. However, the strategy of Arktos was based on high level knowledge of technology which allowed it to use the raw material which usually was not acceptable in production. The diameter of the used logs could be smaller and moreover, company's own finger-joint line made possible to reduce the waste in production substantially. These measures were planned to reduce production costs substantially.

Another strategic decision was to build the factory by own forces. That is why the engineering workshop was transferred from Mikkeli to Kemijärvi. When the start-up of building Kemijärvi Mill was delayed because of waiting of permissions and financing decisions Arktos loosed a deal about the sawmill line. On the other hand, the beginning of recession meant that the amount of the used machinery was increasing in the market. Thus it was decided to buy second-hand machinery which could be used as the part of the investment. Later on it was discovered that this decision was a critical failure since one reason for the delay in starting the production was the misfit of sawmill machinery. However, at this stage the decision was affected by the fact that the received support from Centre for Economic Development, Transport and the Environment was 2 M€ smaller than applied which caused the need to save in investments.

One part of the strategy was the need to secure the availability of suitable timber. Partly this could have been ensured by cooperation with Stora Enso since the sorting of logs in Kemijärvi Mill was one of the tasks of Arktos. But on the other hand, the prices charged by Stora Enso were market prices and the entrepreneurs thought that they could be capable to organize suitable and cheaper raw material. In addition to above mentioned efforts, Arktos was involved to the restructuring of mechanical wood industry in East Finland including different locations like Hamina/Kotka region, Kajaani, Lieksa / Nurmes region, and Varkaus. All these efforts demanded for time resources of lead entrepreneurs.

Organization and Management

Before the purchase of Kemijärvi Mill four functional units were included in Anaika Group which was established by Anaika Engineering Ltd. in 2006 (Appendix 1). Anaika Engineering's line of business was the engineering activity which was mainly located in Mikkeli. Anaika Seikku produced lambeams in Pori and Anaika Automation took care of automation design and installation. Anaika Consulting was a consulting unit which was merged in 2007 with Morven Oy owned by Jaakko Kilpeläinen and Juhani Kukkonen. Morven Oy specialized in the logistics and

process consulting and operations in Russia. Since this company was not an integral part of Anaika Group consulting was not any more a function in Anaika Group.

The organization was not changed before the decision to build up activities in Kemijärvi. Building a new factory in Kemijärvi called into play an own sales activity which was not possible under the name Anaika. The decision to establish Anaika Engineering in 2004 was accompanied by the agreement that the company does not use the name when it sells wooden products in the market. Pori Mill did not break this term because the products were sold by UPM Kymmene. That was why starting own sales of wooden products demanded the change of the name of the company. This problem was solved in May 2008 by changing the name to Arktos Group Ltd.

When the name was changed the organization was changed to include Arktos Steel as an engineering unit and Arktos Wood as a unit concentrating on mechanical woodworking industry. But administratively the activities were distributed in four units which were Pori Mill, Kemijärvi Lambeam, Kemijärvi Sawmill and Kemijärvi Engineering. In addition to that small sales and product development unit was running in Isojoki but after one year activity this branch was closed in 2010 and the activities were transferred to Mikkeli.

Ownership and people

Anaika Group Ltd Oy was owned by Hannu Jaatinen, Juhani Kukkonen Jaakko Kilpeläinen who had equal shares. The owners formed also the management team of the firm. Juhani Kukkonen was the CEO and Jaakko Kilpeläinen acted as the President and as the CEO of Morven Ltd. The board consisted of the owners of the company and one external member Professor Markku Virtanen.

The strength of the management team was its rich experience in the fields of Anaika's operations. The cooperation of Juhani Kukkonen and Hannu Jaatinen in wood products industry began in 1994 when they established Massive Wood Oy, which was merged to form Anaika Timber in 1998. They had experience of Japanese market, and lambeam production while working together in Anaika Components Oy. They bought together the Anaika Engineering Oy from Anaika Timber Oy.

President, M.Sc. Techn. Jaakko Kilpeläinen was an expert in logistics who prior to joining the company in the autumn 2004 was CEO of Oy Saimaa Lines Ltd. Accounting was outsourced to the small accounting firm and auditing of the accounts was taken care by the auditors of Ernst & Young.

After closing the deal with Stora Enso in 2008 no changes were made in the composition of the Board but in February 2009 Morven Oy bought out the shares of Hannu Jaatinen. He left the company and a professional board member Matti Nevalainen substituted him in the Board. He left the Board in May 2010 when Stora Enso bought one fifth of the company. As described above Hannu Kasurinen from Stora Enso was assigned as a member of the Board when Stora Enso became as an owner.

CEO Juhani Kukkonen was mainly responsible for overall management and technical development whereas President Jaakko Kilpeläinen took care of strategic planning and was also responsible for direct international activities of Arktos Group. At the end of August 2010 Jyrki Rusinen who had wide experience of mechanical wood processing line design and manufacturing was appointed as Technology Manager of Arktos Group Ltd Oy's engineering division Arktos Steel. The special responsibility area of Rusinen was log sorting and saw line systems which had caused problems previously.

Reflections of the case

Arktos was referred in publicity to be an entrepreneurial technology company. This image was quite evident at least before Kemijärvi project. Slaughter (1996) listed seven steps for building an entrepreneurial organisation:

1. Hire self-motivated people
2. Help others be successful
3. Create clarity in organisation – clarification of purpose, structure and measurements
4. Determine and communicate your own values and philosophies
5. Provide appropriate reward systems
6. Create an experimental learning attitude
7. Celebrate your victories

In hiring of people the leaders of Arktos all the time emphasized motivation and willingness to perform well and produce high quality products. As was described the claims made by Japanese buyers were used as the vehicle to train workers to make better quality. This could be seen as one way to help these people to be successful and creation of experimental learning attitude. Up to the point where the firm still was working under the name Anaika Group, the purpose, structure and measurements of the organisation were clear (Appendix 1). However, Kemijärvi project as well as different actions to master wood procurement made the image of the company fuzzy. At this stage company also loosed its determination and communication was distorted because of the huge emphasis of Kemijärvi project. Reward system most probably was at the average level since turnover of workers in Mikkeli and Pori was quite low because of the introduced bonus system. Achievements of milestones were also celebrated and workers got appreciation. This was especially evident in Pori where different shifts had their production objectives which were followed continuously and reaching of goals was highly appreciated.

Kuemmerle (2002) listed five typical characteristics for a start-up firm

1. Prepared to have powerful enemies
2. Patience to start small
3. Shift strategies quickly
4. Are you a closer?
5. Stretching the rules

In Arktos Group Oy Ltd. we will find most of these characteristics. Obviously the entrepreneurs had patience to start small. Later on when they made some efforts to organize wood procurement, they certainly knew that they will get also some powerful enemies. When Stora Enso did not accept the acquisition of Peuravuono and Seskarö sawmills they stretched the rules and closed the deals for their other company Morven Oy. Shift of strategies quickly was not so evident in this case, even if the entrepreneurs were very alert to new opportunities.

The above points are typically entrepreneurial and reflect the characteristics and capabilities to start and run new businesses. Schumpeter (1934) describes the entrepreneurial role by saying: “*Carrying out a new plan and acting according to customary one are things as different as making a road and walking along it.*” Even if the turbulent development has accustomed us to the appearance and carrying out of innovations in fast developing fields such as information technology, the traditional branches of manufacturing have their own ways of operation. In this kind of branches and in growing businesses the entrepreneurs should be able to act according to customary plan, too. James M. Anderson, “Be nimble in pursuing opportunity –

Leadership competencies and Arktos activities

When we evaluate leadership and management of Arktos we could start with list of leadership competencies by Mendenhall et. al. (2013). They consider that leadership competencies include the following points:

1. Vision
2. Business expertise
3. Organising expertise
4. Relationship Skills
5. Organizing expertise team building and networking
6. Traits
7. Cognitive: Managing uncertainty

The vision of the company at the very beginning was quite bright – they wanted to take advantage of the lower costs of the smaller dimension raw material. The goal was to be the leading company in this business in Finland. In searching this solution the entrepreneurs – and also the Board in some extent - loosed their focus on the most important task which was start-up of high quality production in Kemijärvi. They put too much faith in their capability to run up the process similarly as they did in Pori Mill.

Even if CEO was very much oriented to operative running of the factory, technical difficulties caused delays and cash flow was insufficient to generate enough working capital. Simultaneously the negotiations with different stakeholders and alternative plans needed a lot of time resources of the management team. Schumpeter (1934) describes entrepreneurial leadership as follows: “*For economic life every step outside the boundary of routine has difficulties and involves a new element. It is this element that constitutes the phenomenon of leadership.*” It could be that the leaders ignored the routine work within factory and acted more under the mode *entrepreneurial leadership* than *managerial leadership* which would have been needed in this situation (c.f. Schumpeter, 1934; Yukl 2012). The Chairman of American Red Cross David T. McLaughlin

proposes as his advice that keeping the board focused on the two or three issues will affect the future of enterprise (Yaverbaum, 2004). Thus the whole board should be seen as responsible for the failure and loss of focus in 2010 – 2011.

When the operations in Mikkeli and Pori were started team did not have business or organising experience as a team even if they had been previously acting as entrepreneurs and in managerial positions. On the other hand, this may have had even a positive influence on their behaviour since they did not fear risk taking. Both CEO and President had traits connected with leadership by Judge et. al. 2002. However, President Jaakko Kilpeläinen was clearly a person with high level of extraversion. He was mainly responsible for business negotiations and organising both domestic and export sales. The tolerance of risk of both entrepreneurs was high and they were capable to manage risks well.

Discussion and conclusions

The entrepreneurs made a conscious decision to keep the organisation as thin as possible. Most probably this decision was a failure since operations were run simultaneously in several locations and no clear responsibilities were allocated to different operations. A lot of energy was used in order to analyse the investment in different locations. Partner co-operator organisations most probably experienced the efforts of Arktos as a threat to their own strategies and policies. As Payne in Yaverbaum (2004) suggests, many big companies don't just know how to deal with an entrepreneurial company. As far as Arktos was dealing with Treasury of Stora Enso no problems existed in negotiations since their concern was not in operational issues. When the responsibility was transferred to Division of Wood Products comparison to their business concepts and models were made and the measures of Arktos were not understood and supported.

Based on my own experiences it is difficult to connect the dimensions of management incompetence proposed by Hogan and Kaiser (2005) with the entrepreneurs of Arktos. It could be argued that their long-term weakness was fanciful plans of the future. However, it is not so unusual that the delays will take place building of new factories. Arktos had to cut down its investment plan by abandoning large lambeam line in Kemijärvi. The justification of this decision by financiers was rather odd since it would have meant reduction in future cash flow.

If we think about the development and activities of the company it may be concluded that Jaakko and Juhani were all the time carrying out new combinations and acted entrepreneurially. Pori Mill and its success show that they have entrepreneurial kind of leadership as pointed out by Schumpeter (1934). They clearly had keenness and vigour on what they were completing. Schumpeter (1934) tells that: *“He “leads” the means of production into new channels. But this he does, not by convincing people of the desirability of carrying out his plan – the only man he has to convince or to impress is the banker who is to finance him- but by buying them or their services, and then using as he sees fit.”* In case of Arktos the entrepreneurs were not finally capable to convince their financiers about their capability to carry out their plans. Partly the failure of Arktos was lack of managerial leadership but in the game of large multinational forest companies the firm suffered most about liability of newness and smallness.

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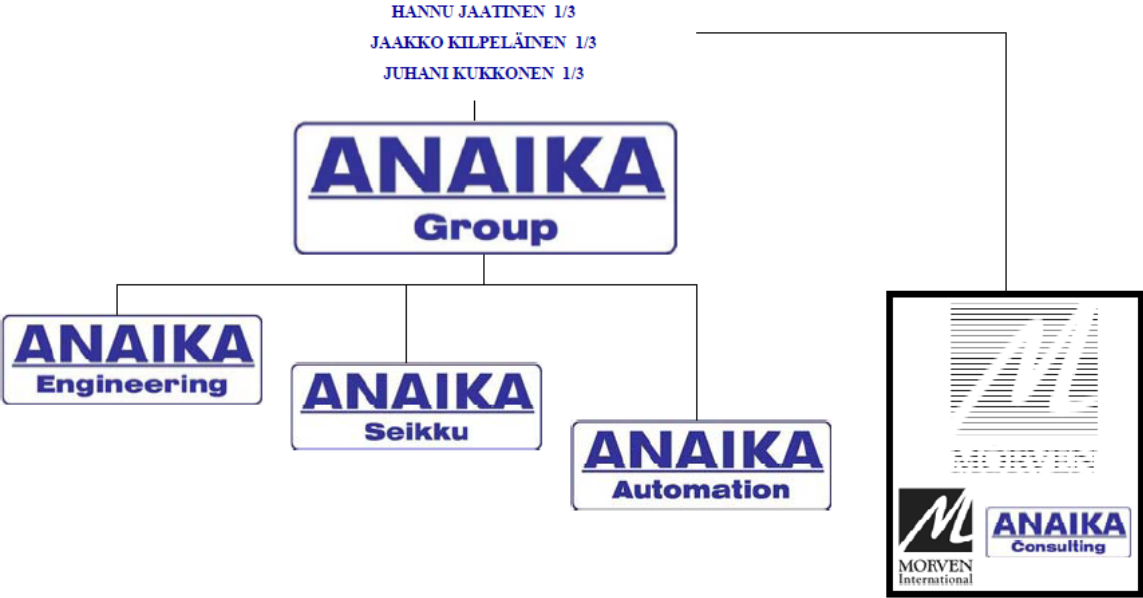


Figure 3: Anaika Group Ltd Oy's organizational structure (1.7.2006 onwards)