Dressed for Success

- A study of Success Factors
For Small and Medium-sized Manufacturing Enterprises in Sweden

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Master Thesis LIU-IEI-TEK-A—08/00506—SE
Department of Management and Engineering (IEI)
Division of Industrial Marketing
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Abstract

The business climate of today, with increasing globalization, has resulted in structural changes in the commercial and industrial sectors. As a result, many large companies have moved their production abroad. Therefore the smaller companies have become increasingly important for growth and employment nationally. Small businesses are a significant contributor to the well-being of nations and small and medium-sized enterprises (SMEs) play an important role for Sweden, both in terms of economic contribution and employment.

Success has been discussed and investigated for a long period of time and the question is how it should be defined and measured. Many theories have been produced including different definitions and research methods. For this thesis, however, success is defined as the growth and financial performance of a firm measured in volume growth, relative change in net turnover, and value growth, relative change in equity. As a side condition, profit margins must be positive for a company to be classified as successful. This thesis hence aims to determine which factors influence the success of small and medium-sized enterprises in Sweden and how they influence the success of these enterprises.

Eleven manufacturing SMEs, seven successful and four unsuccessful, were investigated and analyzed separately and then compared with one another in an attempt to determine which specific factors contributed to their respective performance. The four unsuccessful companies were included in the investigation for comparison to be able to identify the specific factors for successful companies. The analyses resulted in the following areas: Organization, Vision and Strategy, Characteristics of the CEO, Core Competences, Recruiting, Product Development and Innovations and Market. Among these factors Vision and Strategy, Core Competences and Customer Interaction were identified as the factors that have the greatest impact on success. Additionally, two clear relations between factors could be determined, i.e. between Clear vision and strategy and Defined culture as well as a relation between Flexibility and Customer Interaction.

The conclusions are generalizable to all manufacturing SMEs in Sweden since the sample selection is representative for the target population. Furthermore, the success factors could be applied to companies abroad as well if the business climate and the conditions are similar. Whether the factors can be applied to firms that act within different SNI-codes (Swedish Standard Industrial Classification) besides manufacturing is yet to be proved.

For further research we suggest a deeper investigation, where the information is obtained from more than one source within the company. Also, the external networks of the company could be of interest to interview. Other aspects to investigate further would be potential differences between small and medium-sized firms and whether or not the results are applicable for other industries.
The list of people to thank started to fill up early and has grown to be impressively long. Some have contributed with smaller parts while others have been more involved, but we are just as thankful for each and every person’s contribution.

First of all, we would like to thank the participating companies for their time and good will, without their cooperation this thesis would have not been possible. Furthermore, we appreciate the opportunity from the CAM-board to perform this thesis and for the rewarding discussions concerning success. We owe a great deal of gratitude to Anna Öhrwall-Rönnbäck for providing help and support whenever needed.

Christina Öberg has provided us with invaluable help concerning accounting and without the help of Malin Sandström we would still be fighting the massive database. Furthermore, we would like to thank our English language consultant, Michael Martin, for making this thesis comprehensible and “Swenglish” free.

Additionally, we would like to thank our opponents, Jennie Bondesson and Fredrik Degerblom, for their extremely valuable feedback and support. Last but not least, without the support of our supervisor, Roland Sjöström, we would not have made it this far.

In retrospect, we would like to thank everyone in our surroundings that have helped and supported us throughout this project work.

Sofia Lingegård
Emma Sandström

Linköping, December 17th, 2008
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1 Departure Point

In this introduction the term Small and Medium-Sized Enterprises (SMEs) will be introduced and the importance of the SMEs will be discussed. Additionally the concept of success will be determined and general constraints for success in SMEs will be presented.

This study has been performed on behalf of the Centre for Applied Management for Small and Medium-Sized Enterprises, CAM, at Linköping University. The research realized by CAM brings together actors from the commercial and industrial sectors with actors from the University. CAM concentrates upon small and medium-sized companies and offers competence within the fields of technology, economics and management to contribute to company growth and development. (CAM, 2008)

During a brainstorming session within CAM, small and medium-sized manufacturing enterprises were discussed as well as prejudices and moreover myths about them elucidated. The result of this discussion indicated that it is not obvious which factors influence the success and growth for these companies. Therefore a decision was made to perform a study where these factors would be determined with the help of qualitative interviews and a purchased database from UC (Upplysningscentralen) containing economical data for all companies (0-499 employees) in Sweden as a starting point. (Öhrwall- Rönnbäck, 2008)

This thesis is a pre-study for CAM to base further research when continuing investigating SMEs characteristics and success. Additionally, to avoid misunderstandings, we would like to clarify that the terms enterprise, company and firm are seen as equivalent in this study. To know if a company is manufacturing or not the Swedish Standard Industrial Classification codes, SNI-codes are used. The codes divide companies into different branches and sub-groups; manufacturing enterprises have codes between10-33, see Appendix 3.

1.1 Small and Medium-Sized Enterprises

The business climate of today, with increasing globalization and rapid technological change, requires increasingly more from the firms which puts the small and medium-sized enterprises (SMEs), characterized by tight resources, in jeopardy according to Hoffman et al. (2006). Globalization has resulted in structural changes in the commercial and industrial sectors and many large companies have, and continue to, move their production abroad. Therefore smaller companies have become increasingly more important for the growth and employment according to Nutek (2007). Heshmati (2001) points out in his article the importance of small businesses as significant contributors to the well-being of nations. The article stresses the key role the small companies play in the generation of jobs. Nutek (2008) claims that small and medium-sized enterprises play an important role in Sweden, both in terms of economic contribution and employment, and according to Nutek (2001) these firms represent 59 % of the total turnover. SMEs often have a local focus for their activities and a change of focus might occur with international competition, though only 14 % of the SMEs’ export their products (Nutek, 2008). Additionally, they say that 99% of the enterprises in Sweden have less than 50 employees, see Figure 1.

Several different definitions of company sizes can be found. In this report however the definition of the European Commission will be used. According to the Commission (2003) a medium-sized
company employs fewer than 250 persons and has an annual turnover that does not exceed 50 million Euros. Furthermore, a small enterprise has less than 50 employees and an annual turnover of less than ten million Euros. A micro company has less than ten employees and less than two million Euros in turnover. This last category will no be included as a whole in this study since they differ from the others. Sandström (2003) point out that the structure and management in a micro enterprise are different and Storey (1994) argue that the level of formality is distinctly lower for enterprises with less than ten employees. We have therefore decided to exclude the firms with less than ten employ from this study.

![Distribution of employees 1996 and 2006](image.png)

**Figure 1:** Distribution of employees in SMEs in Sweden during 1996 and 2006 (SCB, 1996 & 2006).

### 1.2 The Importance of Success

The importance of successful SMEs in Sweden was discussed in the paragraph above and therefore a discussion concerning the concept of success is needed to reach a consensus regarding the meaning of the concept as well as which elements will be included. Wiklund (1998) states that a close connection between the performance of the small firm and the growth has been suggested from previous research, although he underlines that successful firms do not necessarily grow. Furthermore, the author concludes that performance has a multidimensional nature and therefore would benefit from including several elements to describe it. Wiklund (1998) argues financial performance and growth are two different aspects of performance which together reveal more information than they would separately. He concludes by saying that an appropriate strategy for small firms to improve their financial performance is to grow. Andersson (2001) concurs by saying that growth can, in a long-term perspective, lead towards profitability but will not give a short-term improvement on the profitability. Morris (1984) on the other hand, advises against expansion only for the purpose of making more money.

Peter & Waterman (1982) researched companies characterized by long-term excellence. Of the measurements they used, three were based on growth and three on measuring income from capital and sales. Their research was performed on large companies with more than 20 years experience in
their respective industry and only included the top half of the firms from each branch of industry. Additionally Peter & Waterman (1982) included innovation tendency as a measurement which means the level of continuous introduction of new leading products and general adaptation to change in the environment. After this review of theories we can conclude that growth and financial performance seem to be the appropriate measurements of success for a firm. Next step is to determine which measurements should be included in these two main concepts.

1.3 Definition of Success

For our definition of success we have taken inspiration from discussions with CAM complemented with facts from the theories to come to a definition that was mutually satisfying.

First of all, it is of great importance to discuss the definition of growth. The paper, Dagens Industri (2008), has presented their own definition for good growth as firms that increase their turnover during three years and duplicates it at bare minimum. These firms are known as gazelles and have grown organically. Levin & Weström (2003) define growth, in their report for Nutek, as an increase in the number of employees and/or growth in economical terms. They choose two different measurements; change in company turnover and change in value added over a period of time. Davidsson et al. (2001) define growth in relative or absolute terms and based on e.g. resources, turnover and number of employees. Levin & Weström (2003) stress that the change in the number of employees is a common way of measuring growth in the academic world and the change in the number of employees will therefore be included in this thesis but not as a growth definition. Instead it will be included in the analysis as a part of the overall picture. The other common way of measuring growth was change in company turnover and we have chosen the relative change in company turnover, volume growth, as one part of our definition of success.

The turnover is the company’s total sales under a certain period of time.

<table>
<thead>
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<th>Volume growth will be measured through the following data:</th>
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<td>➢ Relative change in company turnover</td>
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Secondly the measurements for financial performance need to be determined. The second measurement Levin & Weström (2003) chose for their study was change in value. Also Davidsson et al. (2001) defined growth in relative economical terms. For our study we have chosen the change in value in terms of equity, value growth, as our second part of the definition of success.

The equity consists of the capital that the owners have invested in the enterprise, the present profit as well as saved profit (stocks, balanced profit etc). The equity is a debt for the firm to the owners and this debt increases when the profit increases. (Holmström, 2005).

<table>
<thead>
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<th>Value growth will be measured through the following data:</th>
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<tr>
<td>➢ Relative change in equity</td>
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<td>(Considering the reduction caused by dividend)</td>
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For success volume, or value, growth are important but the company also needs to be profitable over a longer period of time. A company can have a good volume or value growth but still have a profit loss. Therefore we have chosen to look at the average profit margin as well to be able to classify if the company is successful or not, hence if they have a positive or negative profit margin. The profit margin shows the actual operating profits part of the net turnover, when the liquid operation surplus have been placed in a way that gives financial income.

\[ \text{Profit margin} = \frac{\text{Net profit after taxes}}{\text{Net turnover}} \]
It can be difficult to compare the profit margin for different business areas but for all companies it should at least be positive. If a company has a low profit margin it indicates that it has a low margin of safety, meaning that the company has a higher risk to receive a net loss if they have a decline in sales that erase the profit. (Bized, 2008)

As previously mentioned we will not use this business ratio to compare the different companies but rather classifying them as successful or unsuccessful according to our definition.

### 1.3.1 Financial Hygiene Factors

During two meetings with representatives from CAM (080811 & 080908), the following financial ratios were pinned down to represent financial hygiene factors, in other words financial ratios that can affect the financial performance. Theory from Holmström (2005) was used for the section that follows.

To know if the company is going to survive periods of poor profitability, the business solidity ratio is of importance. The solidity ratio elucidates the profitability and growth of the company in long-term basis and is necessary for a safe survival of the firm. The rule of thumb is that the solidity should be around 30 %, but this depends on the business trade. The solidity can vary substantially from business to business without meaning that it is good or bad. More important in comparison to the limit of solidity is the development of the firm over time. If the solidity is unchanged or higher than the previous year then the growth is turned balanced.

\[
\text{Solidity} = \frac{\text{Equity}}{\text{Total capital}}
\]

Another well used but debated financial ratio is liquidity. By the use of this ratio it is possible to determine if the company can pay its debts as well as the speed to do so. If the liquidity of a firm is poor it can lead to liquidation. There are two ways to calculate the liquidity of a firm. The first is to disregard the value of the stock which is termed liquid ratio. In the second liquidity ratio the stock of the firm is taken into consideration and is named current ratio. The rule of thumb for liquidity is that it should be at least 100 % for the liquid ratio and 150-200 % for current ratio. In our study we will look at the liquid ratio.

\[
\text{Liquid ratio} = \frac{\text{(Current assets – stock)}}{\text{Current liabilities}}
\]

The last financial ratio included in this study is profitability. This term can have several meanings but in this study we use profitability for financial performance in regards to the return of working capital. Profitability is a measurement that grades a company on how well they have utilized their resources and which return on profit the owners will receive. Return on working capital gives the return of equity and borrowed capital that the company must accumulate in order to generate profit to shareholders or payment of interest (e.g. supplier debts not included).

\[
\text{Return on working capital} = \frac{\text{(Income after financial items + interest expenses)}}{\text{average (total assets- non interest-bearing credits)}}
\]
1.4 Constraints for Success

What are the obstacles faced by the SMEs on their way to success? Several studies have been made to figure out the reasons for the weak growth observed in SMEs. Henreksson & Johansson (1999) show in their study that medium-sized firms, in this case 10-199 employees, have had a weak development and they think it is likely due to thresholds that the firms are either unwilling to cross or do not have the capacity to cross.

A study performed by Henreksson & Davis (1996) shows that the Swedish tax system, before 1991, resulted in a spread in size with less medium-sized enterprises. They also conclude that game rules and economic politics have a considerable impact on employment development and presumably also on growth. In addition, Henreksson & Johansson (1999) concluded that conditions for small firms in Sweden were unfavorable and therefore few of the smallest firms have managed to grow.

Studies from Nutek (2003 & 2005) present the factors which the small enterprises themselves thought to be constraints for growth. Small companies experience that time limitations are the number one obstacle for growth. In 2005 50 % of the small companies report this to be a rather large or very large obstacle for growth in their own company. The second largest obstacle experienced was laws and regulations. Four out of ten identified this as a large or very large obstacle. One third of the small companies considered the hard competition and poor profitability prevented the company to expand. The lack of workforce was regarded to be an equal obstacle for growth. (Nutek, 2003 & 2005)

Hermansson & Stuart Hamilton (2008) presents somewhat similar findings from a study including enterprises with 1-49 employees. Overall, 70 % of the entrepreneurs believed their companies had good opportunities for growth. The most significant obstacle for growth was considered by 30 % to be a limited workforce. The unwillingness to grow was the second most significant obstacle due to complicated legal framework and the administrative burden that increases when the number of employees augments. The third obstacle mentioned is a weak demand and at last the legal framework (Arbetsrätten).

1.5 Success Factors

Already in 1987 when Buzzell & Gale performed their study called PIMS, which stands for profit impact of market strategies, the discussion about successful companies and what they did to achieve good results was ongoing. Nowadays it is not only the results for a company that count and according to Charan & Tichy (1999) the business leaders of today are judged by their success or failure in achieving sustained and profitable growth. Another study performed just a few years earlier in 1983 resulted in the book entitled In search of excellence by Peters & Waterman (1983). This study showed that the successful enterprises mastered the basic factors such as acting (to get something done), good customer relationship, independence and entrepreneurship and the ability to stay with the business mastered. Also the PIMS study tried to explain what characteristics a company needed, but in this case to be able to attain good profitability. The most important factor identified was market share, but also factors regarding competitive position, strategy and tactics, and performance were elucidated. (Buzzell & Gale, 1987) Even if the studies were performed on bigger companies the important factors mentioned in the PIMS study and in In search of excellence can be confirmed by different studies performed on SMEs. As Andersson (2001) claims, growth needs organizing and forward planning and is not a thing that comes by itself. So for a company to reach success the factors identified by PIMS and Peters & Waterman (1983) are important in all companies, big or small.

In an enterprise it is the capability of the entrepreneur that determines whether the company succeeds or not, and if a small company is well administrated it has a lot of power and strength to compete with the big ones (Bunse & Næssen, 2002). The small size makes the company “graspable” and gives the chance to fast reforms. In an organization the leader must understand how to enlarge
the pond, how to improve productivity and how to make business development everybody’s business (Charan & Tichy, 1999). The most successful entrepreneurs do not expand their business with only the purpose to earn more money; the entrepreneur that expands for profits is usually busier with his own interests and forgets the reasons why the company exists in the first place (Morris, 1984).

According to Andersson (2001) growth is an important part of a firm’s strategies, something that the growing companies have in common. Charan & Tichy (1999) take this further and say that a company can not choose between achieving short-term goals and building for the long term because there is no standing still. If a company shall survive on a long-term basis it is important for it to have an interest in its customers’ interests and serve for serving (Morris, 1984). Short-term goals are important to have as well as an idea of how to reach those (Bunse & Næssén, 2002). But it is also important not forget to look forward, not only solve the daily problems but also have the long-term perspective. Another key part of how to lead a company successfully forward according to Bunse & Næssén (2002) is to have a well formulated and debated business concept. Due to the fact that the Swedish market is limited, many companies have internationalization as a strategy of growth.

A growing company needs to have a flexible organization so it can easily be changed when the company is getting bigger (Andersson, 2001). But Bunse & Næssén (2002) point out that the changes in the business do not have to be big and sharp, often there is a successive change, when the company adapts to the changed reality, a successful method. A good entrepreneur must have antennas and be possible to read changes in areas that possibly are not evident. After that the leader must be able to make the right conclusions of the observed signals. One of the most common failures of leadership is, according to Charan & Tichy (1999), not to adapt when strategies have begun to decay or become obsolete, or when operational excellence has begun to decline.

Several of the theories talk about which factors that are significant for a growing or successful company. Levin & Weström (2003) identified in their investigation about small enterprises six areas that affected growth:

- The age of the business manager – the older the manager is, the less likely the company will grow
- Expectations about future growth – a positive mindset gives a bigger probability to be in the group of growth
- Year of establishment – the younger the enterprise is, the bigger is the probability to grow
- The region possession – a larger city region contributes to a bigger probability for growth
- Proactivity – if the manager is proactive orientated the company has a bigger probability to be in the group of growth
- Strategic environmental work – gives competitive advantages

The central factors in Levin & Weström’s study are; the entrepreneur, the enterprise and strategies for the enterprise. Also Morris (1984) talks about factors that are significant for the growing company and the important characteristics that a growth company needs to survive. These include:

- Access to capital
- Suitable control and protection of assets
- Sufficient liquidity
- Employees that are competent and motivated
- Satisfying influence and adaptability to current and future markets
- Reasonable cost level

But it is even more interesting to see what makes a company successful, because growth is just a part of the success and Charan & Tichy (1999) found in their investigation four general qualities for successful companies:

- “They believe in and act on the idea that there is no such thing as a mature business”
• “Their growth is profitable, sustainable and capital efficient”
• “They grow because growth is in the corporate mindset, created by the company’s leaders”
• “The mindset of growth starts at the top, but must reach all the way to the bottom”

Nieuwenhuizen & Kroon (2003) identified factors responsible for the success of small industries, among them leadership and ingenuity. They explain ingenuity as a combination between the success factors of general knowledge, skills, understanding and creativity.

1.6 Model Sketch
From the discussion above we can distinguish important factors that might affect the growth and performance in a company. These factors have been grouped into two main areas, see Figure 2. External factors include location, laws and regulations, internationalization and market and internal factors include management, organization, product development and innovation as well as core competence and competitiveness.

![Model Sketch](image)

Figure 2: Model sketch illustrating the main areas which influence the success of a SME according to the pre-study.

1.7 Purpose of the Thesis
The purpose of this thesis is to determine which factors influence the success of small and medium-sized manufacturing enterprises in Sweden and how they influence the success of these enterprises. Success will be measured by:

- Volume growth:
  - Relative change in company turnover
- Value growth:
  - Relative change in value in terms of equity

*Side condition: To be classified as a successful company the enterprise needs a positive profit margin.*

1.8 Limits of the Scope
As previously mentioned the study will be performed on small and medium-sized manufacturing enterprises in Sweden only, which were given from the start by CAM.
The time period studied is between 1997 and 2006 to be sure that the factors are not occasional but have a long-term perspective. Companies liquidated during this period of time will not be included in the study since it would prove to be difficult to find relevant information concerning these companies. Additionally, firms starting up during this period of time will be excluded, since we want to investigate the companies’ performance during a longer time. To include firms that have e.g. operated for just five years would give difficulties later on when comparing the firms with one another.

Concerning management and the characteristics of the manager we will delimit the scope from behavioral science since it is a topic not included in our university education. From the literature study it has been indicated that this topic could be an important factor to consider but since the importance of the manager already is elucidated from other aspects we believe the result will not be affected significantly.
2 Frame of Reference

“It is the theory which decides what we can observe.”

This chapter discusses relevant theories which will serve as a foundation for our research model and thereby our research questions. The chapter is divided into different sections starting with an introduction to the theories and then definitions. Thereafter internal factors that influence success in a SME will be presented followed by the external factors.

Success can be divided into two different subgroups as showed in the background; growth and financial performance. Since growth makes up a large part of the concept and several studies have been made concerning growth in SMEs a major part of the frame of reference will consist of theories and discussions concerning growth. In most of the cases growth and success follow the same pattern, and this can be interpreted as an indication of the accuracy of the definition used for success in this study.

The model sketch presents the factors presented in the background and they will be supplemented as well as their description completed. From the sketch it can be concluded that there are two main groups of factors; internal and external factors. This does not necessarily imply that the external factors have nothing to do with the interior of the firm. Instead, this is a way to divide factors that include external actors as well as the firm itself. For example networks cannot exist without external actors but on the other hand they depend on the characteristics of the enterprise as well.

According to Storey (1994) three main factors influence the growth of a company; the nature of the firm itself, the background/resources of the entrepreneur and the strategic decisions taken by the owner. Ahrens (1992) suggests that many companies are successful since they have been at the right place at the right time. Additionally, he claims the companies need to be flexible and keep up when growth takes off, without loosing their main focus. Hoy et al. (1992) argue that growth is not equal among firms even if they are at the same place, or in the same industry. Storey (1994) agrees and claims that not even the small firms can be considered a homogenous sector. Some will grow to medium-size; some will seize to exist while the majority will continue in the same size. According to Storey (1994) most small firms do not wish to grow at all in regards to employment. Wiklund (1998) argues that growth opportunities exist so that firms have the resources to identify and exploit them.

2.1 Internal Factors

As abovementioned this is one of two main groups of factors identified in the background and presented in the model sketch. The five internal areas illustrated are management, organization, product development and innovation as well as core competences and competitiveness.

2.1.1 An Introduction

Every company has its own features, but there are also characteristics that differentiate small, medium and large firms. This introduction will briefly elucidate some factors that contribute to the success of a SME.

There are many different factors that can affect the success of a company and, according to Nicholls-Nixon (2005); these factors can vary from time to time depending on which stage of growth the company is at. For example it is, according to Pansiri & Temtime (2008), important how the SMEs are organized for the flow of information and the effectiveness of communication in the organization, but almost every SME can be characterized by lack of proper organizational structure and systematic
human resources management. The location of the firm plays a key role in the firm’s growth and success and according to Nutek (2003) firms in urban regions have an increased possibility to grow compared to firms in rural areas. Furthermore, Wiklund (2001) claims younger companies grow more than older ones.

The relationship between employee-employer in SMEs is often informal, with no precise definition of duties and responsibilities (Pansiri & Temtime, 2008). This can affect the success of the company both negative, and positive, and clearly, although there is no best management approach. The ability to sustain growth and high performance is difficult. It depends on many factors, e.g. competitive and economic conditions, business strategy, access to needed resources and leadership and management practices (Nicholls-Nixon, 2005). But success does not just come from having the right combination of factors and, as Wiklund et al. (2001) argue, if you want to understand growth you need a willingness to grow. Therefore we argue that this is the case for success as well, since growth is an important part of success.

Above we have listed a few factors that characterize a SME which we all believe to be important to the success of a SME. In the chapters that follow we will elaborate the theories concerning the different factors and their importance.

2.1.2 Organization and Management

Bunse & Næssén (2002) present several factors that characterize the organization in successful small enterprises:

- Distinct and clear objectives
- Open and available information that is presented regularly and fast
- Everyone has direct contact with the CEO
- The sales figures are easily accessible and the progress can be monitored without difficulty

Andersson (2001) argues that a growing company needs to be flexible to be able to change in the same pace as the changes caused by the fast growth. Ahrens (1992) agrees with him and says that the flexibility is a key issue in a growing enterprise. Therefore the factors presented by Bunse & Næssén (2002) are important in a flexible organization since short communication channels and available information facilitates flexibility.

Bruzelius & Skäravad (2000) agree with Andersson (2001) claiming that it is necessary for companies to have organizational flexibility when the changing pace expedites. Ahrens (1992) agrees with them but he also takes it a step further and says that to maintain the flexibility it is important to prioritize free resources; financial independency is necessary to be able to make the “right” decisions. Bruzelius & Skäravad (2000) also argue that project based organizations are getting more and more important since they are flexible and co-workers participate in different projects and work together no matter where they are positioned. This builds different networks within the company and according to Ahrens (1992) the networks are the organization’s mastic. He believes that the management must take this into account and build up the organization around these people and their competences and contacts. This is a way to avoid to getting stuck in routine and hierarchy (Ahrens, 1992). Taylor et al. (1990) also argue that a flexible and decentralized organization is a way to remain close to the customers.

These theories might not have to be implemented in SMEs to make them become more flexible since these firms already are quite flexible due to their small size and decentralized organization. Concerning working in projects it seems to us like a small firm will have to involve the majority of the employees for every major task the business will perform. Therefore a project-based organization seems more intriguing for large companies, but on the other hand the project-based organization could be implemented in a medium-sized firm where the number of employees can reach 250 persons. The extent to which the firms use projects as a form of work will therefore be included in the study, but with the focus upon medium-sized firms.
Andersson (2001) reasons that growing companies are controlled with soft methods such as creating a culture which makes the employees act in a desirable way. Porter (1996) argues that it is the manager’s job to teach the others in the organization about the company’s strategy, and the development of a strategy is an organizational challenge that depends on the leadership. According to Nicholls-Nixon (2005) the characteristics of strategic leadership are the creation of a vision, employment of the right people and building an infrastructure that enables opportunities for innovation and exploration to emerge. A further discussion concerning vision will be presented in the section Vision.

Bruzelius & Skärvad (2000) point out that an organic form of organization is controlled through superior goals, values and ideology which are elements in a culture. Peters & Waterman (1983) indicate the importance of the company philosophy which according to them is important for results. On the other hand they also argue the importance of simultaneously having autonomy in shop-floor activities but at the same time centralized values. This results in an organization with both centralized and decentralized parts. Again, the theories presented here might not be valid for small enterprises but could concern the medium-sized ones since they are big enough to have an organization where centralization can be a problem. Additionally, enough people would work there for the management to feel the need to take action to make sure every employee has knowledge of the company philosophy and culture.

Wiklund (1998) argues that the culture in a small firm is relatively homogenous due to the small size of the organization and that the culture is usually permeated by the vision of the entrepreneur. According to Andersson (2001) growth is an important part of the strategies and an integrated element in the long-term planning in growing companies. He claims this is the foundation for growth of a business. Since the manager both sets goals and strategies and influence the culture significantly we argue that this person is of great importance for company growth. Therefore the entrepreneur’s attitude toward growth should be investigated, which will be done in the section The Manager.

Vision

Growing companies that have a sustainable vision, an intense focus on the products and the market, pronounced values concerning product, time and economic quality and a few, distinctive operational goals have shown that they can act quickly on the market (Ahrens, 1992). A strong vision is one of the features of a growing company according to him. Bunse & Nässén (2002) argue that if the enterprise does not have a good, well formulated business concept it neither has the possibility to lead the company towards success. The fundamental values with which the firms support their vision are a few basic ones that are known through the whole company and support the employees in their everyday work (Ahrens, 1992). Long-term successful growing companies always have, according to Ahrens (1992), a vision that works as a guiding star for the enterprise. Bunse & Naessén (2002) agree with him but point out the importance of having short-term goals as well as a thought about how to reach them. According to Pansiri & Temtime (2008) most of the SMEs recognize the role of strategic orientation and long-term vision, but they put greater emphasis on short-term profits rather than building long-term competitive potential. Ahrens (1992) reasons that the vision needs to be genuine and not “just battered words.” He believes that a genuine vision is not about the company’s internal goals, but rather what it can give its customers. Pansiri & Temtime (2008) claims that it is through visionary and agile management that SMEs can develop economies to the next century.

A well-formulated business concept seems to be an import factor for success for a SME but it does not matter if you have a perfect vision if it does not have the support of the employees and is permeated in the business. Long-term planning has been mentioned several times as a condition for growth but the short-term goals are important as well, which should not be forgotten. Particularly the short-term goals, like profit, appear to be what most of the SMEs focus upon, while they tend to forget long-term competitiveness. Theories argue the importance of a genuine vision with substance which we believe to be essential for the effect. The employees must understand and embrace the
vision for it to achieve its purpose. Another important element concerning the vision is that the focus should be the customers and not the internal goals of the firm. This is in line with the importance of having long-term goals. If the SME focuses upon the profits it is likely to loose its competitive advantage. Therefore both long-term and short-term goals will be investigated as well as planning. Also, does the firm have a vision and is it implemented in the daily work? Do the employees understand the business concept? Furthermore, does the vision have the customers as a focus and not the internal goals of the firm?

**Strategy**

According to Normann & Ramírez (1993), strategy is the art of creating value in a company. It is not just about making decision for the day or plan for buying a new machine in a year; it is a question concerning how the manager creates a unique and valuable position for the company by involving the different activities in the enterprise (Porter, 1996). In other words, strategy is about how the company links together its resources, for example the organization competencies and relationships, and how it defines its business (Normann & Ramírez, 1993). Choosing the right way of doing this is, according to Stalks et al. (1992), the essence of strategy. Porter (1996) takes this a step further and claims that the essence of strategy is in the activities and how to be different compared to the competitors; otherwise it is just a marketing slogan that will not withstand competition.

According to Pansiri & Temtime (2008) most of the SMEs emphasize the operational part more than the actual strategic planning. Some of the SMEs just prepare business plans for external validation like banks and creditors and not for coordinating organizational activities. Normann & Ramírez (1993) argue that a successful company sees strategy as systematic social innovation whereas, according to Porter (1996), the success of strategy is how to do many things well and integrate among them. Normann & Ramírez (1993) continue their argumentation about successful companies and claim that successful companies do not just add value to the company by its strategy, they reinvent it. When the environment of SMEs is more dynamic and turbulent and requires managerial agility and capability Pansiri & Temtime (2008) argue that SMEs should be assisted to think and act strategically.

Generally for growing companies all have growth as an important part of their strategies because growth needs planning, for today and for the future (Andersson, 2001). Bunse & Næssén (2002) agree with Andersson (2001) and argue that it is important to look forward, not just solve the daily problems but also have a long-term perspective. But Ahrens (1992) does not agree with them. He believes that many fast growing companies have not had a strategy for growth, instead it has been their strong belief in what they are doing that have made growth a way to reach their vision. Here the point of view joins in with each other again and Andersson (2001) argues that to reach growth it is important to have clear goals and visions. Also Bunse & Næssén (2002) believe it is important to set company goals. They take it a step further and talk about making a future scenario for the enterprise. A company needs people that act in order to grow because growth does not just appear from opportunities in the company's surroundings (Andersson, 2001).

External changes can be a threat to the strategy but more often the threats come from within the company. Even the best strategy could, according to Porter (1996), be undermined by a misguided view of competition, by organizational failures or the desire to grow. Here it seems that the point of view goes apart once again, but we think that Porter (1996) does not talk about growth in the same manner as Andersson (2001) does. Interpreting it, we think that when Porter talks about the desire to grow and that it could affect the company's strategy it is more concerning the desire to grow has grown too big and it is the only important thing for the company. Additionally, they loose focus of all the other important things. It is important not to compromise or broaden the company’s strategic position and instead concentrate on deepening it. In that way the company can preserve and reinforce its strategy at the same time they go for growth. (Porter, 1996)

The theories emphasize the importance of the firm to center their attention to its strategy otherwise there is a risk of loosening focus and thereby the competitive advantage. Additionally it is said to be
significant not to widen the strategy but to deepen it to maintain and strengthen it. Therefore the fact that firms see strategic planning as something secondary is alarming since it should permeate the entire business. It is argued that growing firms have growth as an important part of the strategy since growing requires planning. On the other hand the opposite opinion is heard as well saying fast growing firms lack a strategy for growth but instead have had a belief in their work and thereby reach their vision. The conclusion here is that the two options could be possible and both are therefore important to investigate. In this study it will be crucial to investigate whether or not the firms have growth as a significant and apparent part of their strategy and if this has had any impact on their performance. Will it be possible to see a difference in the strategy for a successful versus a less successful firm?

The possibility of basing the strategies and goals on inaccuracies is mentioned as well. This could be the cause of lack of knowledge concerning e.g. the competition situation. The question is whether or not these firms have acknowledged its lack of competence and e.g. invested in a consultant or based their strategy on the knowledge they had.

The importance of clear goals and vision has also been raised as an issue. If the employees do not understand the meaning of the vision and the goals, how are they to work towards them in a good way? Again, the importance of a competent person setting the goals is clear. Based on these arguments we have found four interesting factors to investigate in our study; do the companies have a strategy for growth or is it the manager’s vision that has led them forward? Do they plan their work with their strategy in mind? Are the employees aware of the vision and goal of the company? What knowledge does the manager have about strategy?

Market strategies will be discussed as an external factor since this topic includes market, competitors as well as customers.

The Manager

Pansiri & Temtime (2008) claim that for an SME the organizational success or failure depends on the managerial competencies of the owner-managers. Taylor et al. (1990) concur by arguing that leadership and management quality are essential for high growth medium-sized companies. He suggests training for managers in strategy, marketing, financial control and information systems. The importance of a suitable management group for the growing company is discussed by Barth (2001) as well. He points out the lack of knowledge concerning how to develop the organization according to the company strategy as an obstacle for success. Further, the fear of loosing control of the company when it grows as well as the lack of qualified employees is another obstacle he mentions. It has been shown that if the company is more willing to share equity, the enterprise is more likely to grow, but normally small business managers oppose to share ownership, either with financial institutions or with other individuals, which could constitute a constraint upon the success of the business (Storey, 1994). It has been shown in a study performed by Pansiri & Temtime (2008) that also there is a significant difference between the financial performance of owner-managers who delegated responsibility and those who performed the tasks themselves; particularly routine activities. Nieuwenhuizen & Kroon (2003) performed a study which showed the relationship between the willingness to use risk experts and financial management and success for the firm. When the decision-making and organizational structure in SMEs revolves around the preferences and interests of the owner-managers (Pansiri & Temtime, 2008) this could be a crucial thing for the success of the firm.

As said in the section above, according to Pansiri & Temtime (2008), “poor management” is the most common cause of business failure. They argue that when every business operation or activity is directly or indirectly related to management it is important to identify the critical managerial factors that affect the performance of SMEs. Clearly it is difficult to determine what constitutes poor management and Pansiri & Temtime (2008, p. 252) say that “all problems of SMEs, be it marketing, operations, finance, personnel or distribution, are all essentially managerial problems”.
The important role of the manager has been discussed saying she/he affects everything especially in a small enterprise. A factor to take into consideration is the education and experience of the manager since personal characteristics will influence the company’s performance. One constraint for growth seems to be the fact that owner-managers are unwilling to let go of the control, which is necessary for the company to grow. If a company has the potential to grow but can not due to the management situation this could be a factor for failure. It is a difficult factor to investigate though, but could be passed by asking for the tasks and responsibilities of the manager and this person’s attitude towards leadership. In bigger firms like a medium-sized one, the need for a suitable management group might be required. It could be the case of a manager unwilling to employ another manager to help run the business. Also, the owner-manager, often the one that started the firm, might not be the right person to be in the leader position when the firm develops further since he often lacks the experience and skills for that kind of work. Therefore we should pay attention to the maturity of the firm as well as the owner-manager’s qualification.

Furthermore, Westerberg (2001) talks about the importance of the right manager and argues that a manager with a high tolerance for insecurity and a good level of confidence makes it easier for the company to achieve success and growth. Levin & Weström (2003) have a similar view, concluding that a positive attitude toward future growth leads to growth and that a leader with a proactive point of view gives the company a bigger chance to grow. Also Ahrens (1992) has a similar view and claims that the management in a growing company looks at the enterprise with different eyes where the profitability is the means to develop the company and not the goal. They think of growth as something positive. Pansiri & Temtime (2008) argue that it is crucial for the success of a firm that the manager has basic and strategic management skills and that the manager uses these skills to establish organizational goals and determine appropriate strategies to achieve the goals. Storey (1994) believes that the management skills can be formally taught to the entrepreneurs once the businesses has started. The managers that received training would perform better in business which can result in success.

We have already established the need to investigate the manager’s experience and education to check if there could be a connection between these factors and the firm’s performance which have been indicated in the theories. Furthermore, it has been suggested in the section above that the level of the manager’s proactiveness, level of insecurity tolerance and confidence are important. These features will not be included in this study since behavioral science is not included in our scope. However, the standpoint concerning training for the managers to improve company performance will be included since it can easily be investigated whether or not someone has taken courses and similar. This issue will be discussed in the next section where the supplementary training is presented as an important area.

To be able to forecast and make decisions under conditions of uncertainty is, according to Storey (1994), one of the central skills of the entrepreneur. In the turbulent market of today the success of the SMEs depends mostly on the ability of the enterprise manager to engage in environmental scanning activities in order to understand the behavior of and trends in the environment according to Pansiri & Temtime (2008). Even the age of the manager makes a difference. The younger the manager, the better chance for the company to grow argue Levin & Weström (2003). The ideas presented by Levin & Weström (2003) were already defined by Wiklund (1998) where he also presents striving towards sales growth, an interest in being creative in their work, and working with strategic work-task as the most important attitudinal dimensions for a manager that contribute to success.

The mix of the entrepreneur’s experience and knowledge has already been mentioned as essential for the firm’s performance. Now the age of the managers complement the view saying a younger manager gives the firm a better chance to success. These aspects can be somewhat difficult to match since a young manager can not possibly have as much experience as an older one. The age of the entrepreneur should therefore be included as a factor and compared with the experience and skill
this person holds. One interesting aspect of the responsibilities and tasks performed by the manager is not only to measure the level of control as mentioned above, but to see how the manager operates in a successful/non-successful firm and observe potential differences.

**Recruiting**

The workforce is, according to Ahrens (1992), one of the most important resources that a growing company has, Pansiri & Temtime (2008, p. 253) agree with him and states that “SMEs require few highly competent people, dedicated to the task, driven by it, working full time and very hard.” The shortage of suitable labor is mentioned as the most significant constraints for growth in a report by Levin & Weström (2003). To be able to recruit the employee that has the right education and can manage to grow with the task is a critical thing in a company that is expanding according to Ahrens (1992). However, it is not only employees with the right education that is of great importance. Pansiri & Temtime (2008) argue that to attract, develop and maintain successful individuals in a firm this is a critical element for success. This is also discussed in the next section concerning supplementary training.

SMEs usually rely on their social network to find new workers, particularly at the start-up stage, and one of the biggest challenges a small firm has is the recruitment of new employees. When the SMEs grow in size, they need a larger workforce and find themselves in the position where they need to recruit strangers for the new working positions. Therefore the ability to recruit and maintain employees outside the social network is a basic managerial skill for the manager in a SME since the performance, survival and growth of the enterprise depends on it. (Pansiri & Temtime, 2008)

According to Storey (1994), firms in general start to employ managers or supervisors when the number of employees reaches ten to twenty. Storey argues a difficulty for business owners when they need to delegate as well as the success of the firms rely on their ability to identify and motivate managers. He therefore has identified manager (non-owning) recruitment as a factor connected to success of the firm.

The factors that would be of importance to investigate in our study are whether or not the firms have had difficulties finding appropriate workforce and in that case if this situation has acted as a constraint for growth. Did the firm have a desire to grow but could not achieve this because of recruiting issues? Furthermore, the matter of how the recruitment is conducted could be of importance, is it based on friendship (from the social network) or is the firm reaching out beyond its network to find qualified labor? Apparently, the recruitment of managers is essential. Is there a delegation issue within the firm that works as a constraint for growth or has the owner-manager succeeded in delegating and thereby motivated the new manager? We believe a key to motivation is having enough responsibility to make your own decision and the decision-making process as well as the distribution of work tasks can be of importance.

**Manpower Care**

Bunse & Nässen (2002) claim capacitating and supplementary training is important for small firms since it is essential that the co-workers master different tasks and can help each other when needed. Furthermore, Bunse & Nässen (2002) argue the importance of education and development to maintain the competence within the firm and communicate it with co-workers. Therefore supplementary training becomes a way of keeping the employees and even if the development of employees is costly for SMEs the cost often outweighed by the benefits (Pansiri & Temtime, 2008). Storey (1994) thinks that workforce training is not necessarily associated with growth but with a firm of greater size. Taylor et al. (1990) believe people are a key resource in a medium-sized company and therefore emphasize the importance of keeping a close eye on recruiting and development to avoid a lack of suitable staff. If the manager does not take time to develop the employees the business often suffers when a key employee leaves or dies (Pansiri & Temtime, 2008).
The importance of keeping the staff updated and conducting workforce training seems obvious after reading the section concerning recruitment. Since finding appropriate employees is one of the main constraints to growth according to the SMEs themselves one would think the firms would endeavor to make the employees stay within the firm. The firm invests in the employee by training and this value is lost if they have to recruit someone new. We believe supplementary training can be used to keep employees, since it gives them a way to develop and progress in their career. They probably feel they can contribute more and this gives a feeling of satisfaction. Therefore, as mentioned above, supplementary training is important for the SMEs to keep staff motivated and the firm competitive and is one factor that will be included in our study.

2.1.3 Competitiveness

When globalization breaks down the barriers between countries, the competitors multiply and reduce the value of the national firm’s market share. Then it is even more important for small companies to know what they are doing well and stick to it to have a chance to compete against big international firms. As Prahalad & Hamel (1990) claim, to reach high levels of performance and sustainable competitive advantage the enterprise needs to possess resources that are heterogeneous across the firm which are difficult to create, substitute or imitate. In other words; the company needs to know which its core competencies are. When a company transforms its key processes into strategic capabilities that bring superior value to their customer Stalk et al. (1992) talk about competitive success, to create capabilities by making strategic investments. The capabilities link together different functions in the company and the success of the firm depends on the manager’s capacity in building and managing the capabilities. Or, as Peter & Waterman (1983) argue, to reach excellence a company should keep to the business they master. In a smaller enterprise everyone is important and it is easier to talk about core persons than core competences. When the company grows bigger it can be difficult to distinguish which the capabilities of the firm are and therefore do we think that it is important that the manager makes sure that everyone know the core business in a way to reach success. Additionally, in a medium-sized company it is not sufficient to know the core business of the firm, here the discussion about core competences is of importance and something we will look further into in our study. Finally, we believe it important to investigate if core persons and core business/businesses exist and if the selected SMEs are aware of them.

How SMEs manage their scarce resources (financial, human, and material), market complexities and changes, as well as opportunities and threats in the environment is, according to Pansiri & Temtime (2008), the way to competitiveness. But, according to Kotler & Armstrong (2003), is this not enough for gaining competitive advantage. They mean that to gain advantage it is important with customer knowledge in order to design products that bring more value to the customers than similar products from the competitors do. Thus, it is not sufficient just to know your customers; a company also needs to understand its competitors. Understanding the competition is a first step in developing competitive marketing strategies that can give the enterprise the best competitive advantage (Kotler & Armstrong, 2003). Additionally they say that no one strategy is best for all companies, each company must see to their own organization and determine what is best for them, given their position in the industry and its objectives, opportunities, and resources. We argue that it can be more important for a SME than for a bigger company to have a close eye on their competitors when they are more vulnerable, but it is not enough to know the competitors. As already mentioned, being close to the customer and sensitive for their needs is a way for the SMEs to stay on the market and always be able to offer their customer an attractive product. Is this what the successful SMEs do? Consequently, we will try to map how the investigated SMEs relationship with competitors and customers look like. This will be done without integrating the actual external actors in interviews. Hence, the information will be obtained by asking the SMEs only and therefore secondary information which could be biased by their point of view.

One way to outperform the competition is with a combination of a few dimensions which were identified by Stalk et al. (1992). He talks among others about the ability to respond quickly to
customer or market demands, the ability to produce a product that unfailingly satisfies the customers’ expectations and the ability to generate new ideas and to combine existing elements to create new source of value. In other words, the company needs to have speed, be consistent and innovative and this is three factors that we will include in our study. Do the SMEs have an ability to respond quickly to changing demands? It could be so, especially if they have a flexible organization that facilitates quickly changes. Are they consistent? Hopefully, otherwise a SME would have difficulties to survive if it do not have satisfied customers that comes back to buy from them again. Are they innovative? To use what you have and make improvements to create value is a way for the SMEs to attract new customers and maintain those they already have.

We argue that for a SME it can be difficult to build the organization purely on capabilities. However, if they keep to what they are doing well, listens to their customers and are flexible, success lies closer.

2.1.4 Product Development and Innovation

Every product goes, according to Kotler & Armstrong (2003), through a life-cycle, from birth trough different stages until it eventually dies when newer products enter the market that better serve the demands of the customers. Therefore the company must be good at developing and managing new products to ensure their spot in the market. However, developing new products is risky and it is easy to fail, but the company’s future depends on its ability to conquer new markets with innovative products (Kotler & Armstrong, 2003). The SMEs have limited resources and do not compared to larger firms have a whole R&D department to focus upon development. On the other hand we believe it to be of great importance for the SMEs to keep updating their offer and make sure they give the customers what they want. Further discussion in this area will follow in section 2.4.2 concerning market strategies.

As Storey (1994) argues, renewal of customers and products affects the success of the company positively, and he continues with that the identification and innovation of a niche is a key strategy for small fast growing firms. Taylor et al. (1990) agree and identify innovation, in this case technological innovation, as a competitive advantage for medium-sized manufacturing companies. To find new-product ideas it is important to use both internal and external sources, a good way is, for example, analyzing customer questions and complaints to find new products that better solve consumer problems (Kotler & Armstrong, 2003). This topic is further analyzed in Section 2.2 – Market research.

Fast growth is often associated with the technological sophistication of the company, meaning the frequency of patenting, expenditure on R&D and employment of qualified engineers and scientists (Storey, 1994). A SME usually does not have many qualified engineers and scientists in their workforce so this can be difficult for us to investigate, but patenting is something all firms can do and it does not matter if you are big or small. So that will be a factor we will investigate as well as R&D costs. To determine the innovative ability in a firm the easiest way is to look at what they are doing different from their competitors, how they approach problem solving, their attitude towards new ideas and if they are open for new ideas and investigate those (Niuewenhuizen & Kroon, 2003). This will not be investigated in this study due to time and resource restrictions.

A product goes through different stages in the product cycle and in every stage the company should have different strategies, but it seems that the most important is that the company never “settles down” and think that their product can live on its own. It is important that the company through every stage believes in, work for and develop their product in that way they can reach success with the product. Also, we believe an ideal way for the firm to sustain continuous competitiveness is to have products in different parts of the life-cycle. On the other hand, is this really possible for a small firm with limited resources?
2.2 External Factors

Wiklund (1998) claims small firms are more influenced by their environment due to their size and therefore environmental factors are important when studying these companies. The second of the two main groups illustrated in the model sketch is the external factors consisting of; market, location, internationalization (exports) and laws and regulations. These areas of factors will be elaborated in the following section. As abovementioned, the fact that these factors are called external factors does not mean they have nothing to do with the interior of the firm. Instead they are called external factors since they involve external actors as well as the firm itself.

2.2.1 Market

In the research of Julien (1998) success in small enterprises was measured, among others, by market share and growth rate and the reasons for the success in the research enterprises were, from the market perspective, positioning and overall market strategy. Chandler & Hanks (1994) as well as Wiklund (1998) conclude that small firms often operate within niche markets and Taylor (1990) argues that the same goes for medium-sized enterprises which according to him can obtain competitive advantages through niche strategies and diversification. This argument goes hand in hand with the theories by Kotler & Armstrong (2003) saying that niche marketing is especially attractive for enterprises with limited resources. A definition of niche marketing is according to Weinstein (1994) a form of concentrated target marketing and is performed in small segments that offer business opportunities. From this discussion we believe focusing on niche marketing is a suitable approach and therefore we will concentrate on this in our study.

Niche Marketing

Kotler & Armstrong (2003) point out that a segment is big enough to attract several competitors, whereas niches only attract a few due to its smaller size. He continues saying that a company starts by operating one niche and then becomes stronger and grows. This is in line with Ahrens (1992) who argues that fast-growing companies have identified a niche market where it operates. Kotler & Armstrong (2003) identify the e-commerce as a way for small businesses to serve niche market in a more profitable way. On the other hand, they also point out the risks involved in niche marketing since the whole business can be in danger if e.g. a large competitor decides to operate the same niche. A way to avoid this scenario is, according to Kotler & Armstrong (2003), to diversify in several segments to spread the risk. A spread over several segments might not be a possibility for SMEs due to their size and limited resources; however a diversifying over a few could be possible. It is therefore of interest to investigate the number of segments in which SMEs operate. Linneman & Stanton (1991) also avert the risks with niche marketing saying that it is important to continuously look for changes in the market since timing is everything. They claim top players in a niche-market always collect data and talk to customers since knowing the market and the customers is essential. This is something we believe to be a better suited strategy to prevent risks and failure for SMEs. The need for customer relationships has become evident here and we believe this is an important success factor. This factor has already been raised in Section 2.1.4 where product development and innovation was presented. The importance of listening to the customer both concerning needs and complaints was essential in that discussion. Therefore it is of interest to see how often the firms have contact with their customers and if this contact is proactive, i.e. whether they contact the customers or the customers contact them when they need to complain. The discussion concerning market research is taken in the section called “Market research.”

Most SMEs seem to be, according to the theories reviewed, niche-market players and therefore this study should investigate if this is the case by determining the market share hold by each of the firms included in the case studies. Since the scope of this study is to determine success factors determining if firms are niche-market player or not plays an important role. This is because of the fact that “niching” is often profitable according to Kotler & Armstrong (2003). The nicher can, according to the
authors, achieve high margins due to the way they meet customer requirements in a satisfactory way. Kotler & Armstrong (2003) add that this can be used as a defense against larger competitors if the niche grows bigger and more attractive. Furthermore, the theories elucidate certain characteristics for successful niche players including e-commerce, market knowledge and customer knowledge. These factors need to be included in the study to verify whether or not the SME is a successful niche-market player which thereby helps us determine weather or not the firm is successful as a business. Also, we believe the way firms market themselves and the way they come in contact with their customers should play some role in their profits. This has not been discussed as a factor but will be included in the study anyway.

Exportation

According to Nutek (2008) SMEs often have a local focus for their activities and a change of focus might occur with international competition. Today only 14 % of the SMEs export their products (Nutek, 2008), which has already been discussed in section 1.1.

Storey (1994) claims that firms more likely to export are also more likely to grow but medium-growing firms are more likely to export than fast growing firms. Additionally, small firms are less likely to export than large firms. The author also argues that internationalization is often an important element in a firm’s growth strategies and Porter (1996) reason that globalization allows growth that is consistent with strategy. Taylor et al. (1990) agree and claim that an international market can serve as strength especially for manufacturers as long as they stay in the same global niche. The question is the same as in the section concerning diversification in several market segments to spread the risk mentioned above. Do the SMEs have sufficient resources to operate in the international market? Even if they stay in the same global niche it will require more resources, an area where the SMEs are quite restrained. Serving international market implies having the logistics and distribution channels needed to implement the strategy. In this case we figure the SMEs are in need of help, maybe from a strategic alliance to succeed. Therefore, the need to study whether or not successful firms export or not, and maybe also where they export to, is of great importance. Additionally, it is of interest to find out how this potential exportation is being implemented. Have these firms teamed up with other enterprises to be able to take advantage of the resources within the network?

Market Research

Kotler & Armstrong (2003) emphasize the importance of marketing research and argue that small businesses as well as larger ones need information concerning the market and the customers. He highlights the problem rising when managers of small businesses consider market research too expensive and complicated to implement. Kotler & Armstrong (2003) therefore suggest a light version of market research based on observing customers and competitors by reviewing the sales and collecting rival ads. We argue this is adequate and feasible in SMEs since there are obvious limitations in the budget and resources for these enterprises which do not allow any complex market research. The need for market information is also visible since the majority of the SMEs seems to be niche-market players and therefore in need of detailed information concerning their market and customers.

Wiklund (2001) claims lack of knowledge concerning market positioning and customer relations are constraints to growth. According to Storey (1994) low-growth firms seem to have the poorest understanding of their customers. Peter & Waterman (1982) emphasize that good customer understanding where the company listens and learns from their customers often results in the best ideas for new products. Therefore it is important for this study in success to include a factor investigating the market research efforts of the firm as well as factors investigating customer relationship and market knowledge. How do the successful firms perform market research? How often and who is involved?
Linneman & Stanton (1991) additionally argue that flexibility is a key issue when operating on a changing market and as a consequence firms need to be open to new ways of operating including subcontracting, strategic alliances and flexible production and operations. The need of flexibility implies to the management as well since quick changes in the market require a short change of command and decentralization (Linneman & Stanton, 1991). This could be an issue for large enterprises but for SMEs flexibility is not a problem since their size makes them flexible by nature (see Chapter 2.1.2). On the other hand some of the medium-sized enterprises could be on the verge of becoming larger ones, and therefore flexibility might already be decreasing. This makes it necessary to investigate the level of flexibility in the organization.

2.2.2 Networks

The possible need for SMEs to join in strategic alliances was mentioned in the previous section and Terziovski (2003) claims business excellence in SMEs is affected positively by networking practices. Gosch et al. (2001) talk about key success factors for performance excellence for SMEs and include a good service and delivery system as one key factor. They also emphasize the need for firms to pay attention to certain areas to achieve excellent performance and one of them is identified as having access to support and resources i.e. networking. This reasoning is supported by Hoffmann & Roman (2001) who claim that SMEs need to acquire capabilities to manage alliances at the same time as they protect their independence to be able to survive in the globalization and fast technology changes. This view is shared by Kotler & Armstrong (2003) as well who say that going alone is out of style and in this global competitive environment strategic alliances are needed. They say this goes for both large and small companies since every company is affected by globalization in some way. Kotler & Armstrong (2003) emphasize however the importance of choosing the right partner who compensates for the firms weaknesses and complement its strengths. If the alliance is successful it can have a massive impact on profits and sales and the authors claim that the firms with the best global networks will be the winning companies during the 21st century.

According to Hoffmann & Roman (2001) studies show that SMEs make use of strategic alliances to a lower extent than large firms even though one might think that it could help them overcome limited resources. The reason for this according to Hoffmann & Roman (2001) is that the SMEs want to keep their autonomy and do not know of all the success factors concerning alliances. To achieve fast and economical growth strategic alliances and joint ventures are becoming more and more popular provided external resources by synergies and mutual learning.

From the theories it is easy to draw the conclusion that all firms are requiring or will require networks to survive and perform well in the current business market climate. The question seems to be whether or not the SMEs are willing to let go of some of their independence to achieve better results? We believe alliances can enhance the results and therefore could be an interesting factor to include in the study for the comparison between successful firms and less successful ones. Since there are differences between small-sized and medium-sized enterprises it would be interesting to see whether or not the medium-sized ones are involved in alliances to a greater extent than the small ones. And does this make the medium-sized enterprises more successful than the small enterprises? Additionally, we suggest the way these networks are implemented could be of interest. Where in the company are the resources of the networks needed and exploited? Could this provide details on the weak points for SMEs?

Seeing the firms take a risk when they join networks could be the reason for them not doing so. The question is weather or not the firms are aware of the possible success factors as regard the alliances? Have they made a conscious choice not co-operating with partners or is there a lack of the appropriate partners for the particular firm? The final remark here is weather or not firm in networks are more successful than the ones that do not.
2.2.3 Location

Storey (1994) performed a study including small companies in the United Kingdom and he claims that the location of the small firm has an impact of the performance of the company. Firms located in remote rural and urban areas are the least likely to grow rapidly while firms in accessible rural areas most likely had an employment growth. Levin & Weström (2003) investigated Swedish SMEs and found similar findings e.g. location had an impact on growth and that those in the vicinity of a big city were positive. Jacobsson & Lindblom Dahlstrand (2001) claim that the origin of new technology based companies affect the growth. Clusters are created where companies interact with universities and they argue for a strengthened cooperation form in arenas between universities and the private sector.

Julien (1998) claims that SMEs have low survival rates and the suitability of the location can affect the vulnerability of the small business. Furthermore, he claims the decision concerning the location is often based on unsatisfactory analyzed information and made by one single person in a small business whereas in a larger company more people are involved in the decision combined with analysis of resources and information.

Clearly the location affects the performance and growth of the firm, yet to be discovered is whether or not in the vicinity of a big city or university matter. Also, the geographic position in Sweden, north, south, east or west, could matter, which will be another variable in our study.

2.2.4 Laws and Regulations

Continuing the argumentation from section 1.2.1 in the introduction where constraints for success were discussed we can conclude that large obstacles for success for the SMEs, according to Nutek (2005) and Levin & Weström (2003), were rules and regulations. Also Henreksson & Davis (1996) talk about obstacles and claim that the Swedish tax system used before 1991 was a potential reason for the size distribution among Swedish companies. They talk about empirical results proving the hypothesis concerning politics making it more difficult for small and new firms. The politics included taxes, labor laws and centralized salary negotiations. The most important conclusion according to the authors is that rules and economical politics play an important role for new businesses, employment and probably for growth as well. Schmidt et al. (2007) talk about the information overload and lack of awareness of where to find information about new regulations as problems for SMEs. In the research performed by Schmidt et al. (2007) regulations such as taxes was one of the most important constraints. The study also claims that over a third of the business owner in the sample would consider growing their business if there were less bureaucratic procedures.

Other regulations of concern to SMEs are the environmental aspect of businesses and Kotler & Armstrong (2003) claim it is becoming more and more common among companies to develop sustainable development policies, which are strategies both to sustain the environment and generate profits for the firm. The authors underline that sustainability is important but difficult to reach.

According to Kotler & Armstrong (2003) environmental policies pose challenges for global marketers since they vary from country to country and environmental aspects will have a greater impact on global trade. The environmental aspect of production and processes have become more and more significant for the world trade but Hitchens et al. (2003) could not find a relationship between the firm’s competitive performance and its environmental initiatives. On the other hand their results did not show that many environmental initiatives made the company less competitive than the average company. Quite the contrary, Nutek (2003) performed a study showing that companies implementing strategic environmental work had competitive advantage against their competitors. Hitchens et al. (2003) conclude by saying that to adopt environmental initiatives firms need more help than they realize.

According Kotler & Armstrong (2003) most firms of today focus on pollution prevention, while some proactive firms take the sustainability one step further and develop new environmental technologies.
They underline the importance for firms not to be short-sighted in their investment in environmental policies because even if a firm has a good environmental position today it could leave them weak in the future.

The theories and studies discussed in this chapter all concur in saying that rules and regulations have a negative effect on the business development of SMEs. The question is whether or not successful firms handle the laws and regulations differently than the less successful firms. Are there laws that the less successful firm finds more difficult to live by and the successful firms have learnt how to deal with? Is this a question of knowledge, where knowledgeable firm can act proactive and adapt to laws and regulations while enterprises with less knowledge find themselves drowning in new unexpected laws?

Despite the fact that the study by Hitchens et al. (2003) could not find any relationship between competitive performance and environmental initiatives we concur with Nutek (2003) saying that environmental policies could be important for the firm’s performance. Especially in the future since the environmental aspects are becoming stricter. It is possible that things have changed since this study was published in 2003 and therefore the factor concerning sustainable development will be included in the scope of our study. Environmental policies could e.g. be ISO 14001 standards. A company’s environmental image could possibly affect the customer’s purchasing behavior.

### 2.3 Summary of Delimitations

This summary contains the limitations raised from the frame of reference and works as a supplement to the limitations presented in section 1.7, Limits of the scope.

In section 2.1.2 concerning the level of the manager’s proactiveness, level of insecurity tolerance and confidence is discussed and it is also concluded that these features will not be included in this study since behavioral science is not included in our scope. This could cause a result with less dimensions than without the delimitation, but not incorrect results.

The concept of the innovative ability introduced in section 2.1.4, is based on comparisons with the competitors and will not be included in this study due to the time limits. This will instead be measured internally by investigating the company’s level of technological sophistication.

In section 2.2.1 the investigation concerning customers and competitors will be done through the SMEs in the interviews and therefore considered secondary information. The information will only tell the case study firm’s point of view and therefore there is a risk of the information being bias. In the analysis the information will be critically treated with this in mind to minimize that effect.
3 From Theory to Qualitative Research Model and Research Questions

In this section the theories discussed in the frame of reference will be summarized and synthesized into research questions and a research model for success factors in manufacturing SMEs. When SMEs are mentioned we refer to manufacturing SMEs from now on.

3.1 Internal and External Factors

The section concerning internal factors consists of three main topics; organization and management, competitiveness and finally product development and innovation. A summarization of these factors follows:

Organization and Management

Organization

A growing firm needs to be flexible to change in the same pace as the changes caused by fast growth. Most small firms are flexible due to their smallness but for medium-sized firms flexibility and centralization could become a problem. Therefore it is of importance to keep communication channels short and information available when working for flexibility. In medium-sized firms a project-based organization can be used to obtain flexibility.

How does the level of organizational flexibility affect the success of SMEs?

Important factors to investigate:

- Level of centralization
- Length of information-channels
- Project-based work

Vision

A well-formulated business concept is important as well as it having the support of the employees and being permeated in the business. The vision for growth should involve a customer focus and not the internal goals of the firm or else the firm could lose its competitive advantage. In line with the focus on the customers in the firm’s vision it is of importance for the company’s success to have both short- and long-term goals and plan their business.

How do successful SMEs form their vision?

Important factors to investigate:

- Knowledge of vision and goals among employees
  - Short-term and long-term goals
  - Customer centered or company centered

Strategy

Since growth needs planning the strategy should involve growth, but a company can grow without having a strategy for growth. Then to have a vision to grow is important. It is always important to stay with the strategy otherwise the company can lose focus and thereby their competitive advantage. It is also of importance to have a clear vision and clear goals and to communicate them to the employees. Additionally, setting goals and strategy involves knowledge to avoid basing them on inaccuracies.

How do successful SMEs create their strategy?

Important factors to investigate:
The Manager
The manager is responsible for spreading company culture and philosophy to the employees and needs an attitude towards growth and a willingness to let go of some control in order to delegate. Another important thing is the level of the manager’s education and former experiences since this person’s characteristics will influence company performance. A way to improve company performance is to improve the manager’s skills by supplementary training. Additionally the age of the manager can affect growth and a younger manager gives the firm a better chance to success but lack the experience an older manager could possess.

How do the characteristics of the manager affect the success of the SME?
How does a manager in a successful SME distribute and delegate the work?

Important factors to investigate:
- Age
- Education and supplementary training
- Work responsibilities

Recruiting
To be able to grow SMEs need to find an appropriate workforce. In order to dare to recruit outside the social network it is crucial to find qualified employees. Also the recruiting of the right managers is a factor connected to success.

How do the successful SMEs realize their recruiting process?

Important factors to investigate:
- Number of qualified employees
- Recruiting process

Manpower Care
Supplementary training can give the employees a way to develop and progress in their career, which could help the company to keep staff by keeping them motivated. Since the lack of workforce is a constraint this should be a priority for firms. To maintain their competitiveness it is important for the SMEs to keep the employees and motivate their staff.

How do successful SMEs motivate their employees?

Important factors to investigate:
- Possibility to supplementary training
- Maintaining the key employees within the company

Competitiveness
Companies need to know which their core competencies are and focus upon them to reach high levels of performance and sustainable competitive advantage. In a small enterprise we talk about core persons but for the medium-sized firms the discussion around core competences is important. But for every SME it is important to stay with the business they master and focus upon it. Another way to outperform the competition is to be quick, consistent and innovate.
**How do core competencies contribute to the success of a SME?**

**How does a successful SME master their business?**

**Important factors to investigate:**
- Company strengths
- Existence of core person and core business
- Knowledge about competitors
- Innovativeness

**Product Development and Innovation**

From the theories regarding product development and innovation can we summarize that developing and managing their offers are important for the SMEs to ensure their spot in the market. An ideal way for the firm to sustain continuous competitiveness is to have products in different parts of the life-cycle, because of the competitive advantage new product ideas generate. By analyzing customer questions and complaints the company can create better offer since it has a better chance to fulfill customer needs. Another way for the companies to grow is to be innovative, or in other words have a high technological sophistication which can be measured in frequency of patents, employment of qualified engineers and R&D expenses.

**How does a SMEs product development affect success?**

**Important factors to investigate:**
- Customer integration
- Patent
- Qualified engineers
- R&D expenses

Additionally four main **external factors** have been discussed, namely; market, networks, location, and laws and regulations which are summarized below:

**Market**

**Niche Marketing**

SMEs often operate within niche markets where they can obtain competitive advantage by diversification. This includes a risk and to spread the risk over a few segments could be a way for a SME to survive. To be a top player in a niche-market the company always has to collect data and talk to customers since knowing the market and the customers is essential. Therefore a successful niche player is likely to have good market knowledge and customer knowledge. Also how the firms market themselves and how they come in contact with the customers could be of importance.

**How does the level of niche marketing affect the success of a SME?**

**Important factors to investigate:**
- Market share
- Level of diversification
- Knowledge of market and customers
- Marketing

**Exportation**

Most SMEs in Sweden often have a local focus and do not export. But firms more likely to export are also more likely to grow as long as they stay in their global niche. To realize the exportation it implies having the logistics and distribution channels needed to implement the strategy. This is an area where SMEs could use networks to reach the necessary resources.
**How does the choice of the geographical market affect the success of a SME?**

**Important factors to investigate:**
- Geographical location of the customer
- Use of network to realize exportation

**Market Research**
The majority of the SMEs seem to be niche-market players and therefore in need of detailed information concerning their market and customers. SMEs have limitations in the budget and resources and cannot perform complex market research. Therefore a light version of market research based on observing customers and competitors by reviewing the sales and collecting rival ads could be used.

**How does a successful SME do the research of its market?**

**Important factors to investigate:**
- Existence of market research
- Knowledge of customer needs
- Knowledge of competitors

**Networks**
All firms are or will require networks to survive and perform well in the current business market climate. Larger firms use networks more than SMEs and the reason for this could be that the SMEs fear to lose their autonomy. When joining a network it is of great importance to choose the right partner and try to minimize the risk the joining of the network entails.

**How does a successful SME play, solo or by networking?**

**Important factor to investigate:**
- Existence of partnerships

**Location**
The location of the SME has an impact of the performance of the company. It has been determined that the vicinity to a big city was positive for the performance as well as a strong cooperation in the form of arenas between universities and the private sector. Another important factor for success could be the geographical position in Sweden and easy access e.g. close to a highway.

**How does the location affect the success of a SME?**

**Important factors to investigate:**
- Geographical position
- Cooperation with university or the private sector

**Laws and Regulations**
The economical politics and laws play an important role for new businesses, employment and probability for growth. Laws and regulations, like e.g. taxes, have a negative effect on the business development of SMEs. Information overload and lack of awareness of where to find information about new regulations are problems for SMEs. The impact of environmental issues affects the firms more and more and to be able to develop strategies both to sustain the environment and generate profit for the firm is a competitive advantage. It is of importance for firms not to be short-sighted in
their investment in environmental policies because even if a firm has a good environmental position today it could leave them weak in the future.

**How does the environmental awareness affect the success of a SME?**

**Important factors to investigate:**

- Existence of environmental policies
- Knowledge of laws and regulations

### 3.2 Research Model

Figure 3 below illustrates the connections and the interplay identified when analyzing the theories. The two main groups of factors are internal and external factors. To begin with the external factors influence the internal factors since the environment will affect the way the firm do business. E.g. the market, the competitors and the customers all affect the way the firm develop new products or differentiate exciting ones. Furthermore, the organization and management will have to adopt if the firm joins a network and have to take in consideration the need and benefits of another business as well. Just as the external factors effect the internal factors vice versa occur e.g. for networks where internal factors affect the way the alliance is carried out.

Additionally, the internal factors affect the success of the firm from the inside while the external influence the firm’s performance from without. The better the different factors interact and are suited for each other the better will the firm perform. A brilliant business concept will not immediately lead to success if the strategy does not include the customer needs. Additionally, even if the product is developed for the customer’s needs the firm will not achieve success if the organization fails and the quality is affected.

The internal factors are divided in three main areas that per se have been broken down in different important elements that affect the business. The same applies for the external factors that are divided in four main areas.
Figure 3: Research Model illustrating the success factors for a SME
4 Methodology - How the Study Was Performed

In this section the realization of the study is presented i.e. the research philosophy, study approach, sample selection, how data was collected and analyzed. Additionally a discussion concerning the quality of the study will be held to determine potential effects on the study due to short-comings.

To better explain how our methodology is composed we have used the “onion-model” which can be seen in Figure 4. According to Saunders et al (2003) different layers of research exist. A choice made in one layer will affect the subsequent layer. The different layers illustrated in the figure are; research philosophy, research approach, research design and work phases and data collection methods. The model is thought to illustrate how our methodology is constructed and give an understanding of how the different “layers” in the method is connected to each other.

![Figure 4: The "onion-model" modified from Saunders et al. (2003, p.83)](Image)

4.1 Research Philosophy

There are many different practices concerning which method, strategy and philosophy to use when performing a research study. Knowing and understand the philosophy position helps to understand the taken-for-granted assumptions that we have about the world. Having such an understanding gives us the possibility to examine these assumptions, challenge them if appropriate and behave in a different way. (Saunders et al., 2003) The two most distinguished research philosophies in the literature are positivism and interpretivism (Blumberg et al., 2005). A range of other research positions exists in between these philosophies; the most notable according to Blumberg et al (2005) is realism.

If the researcher has a role of an objective analyst with a value-free manner the literature talks about a positivist (Saunders et al, 2003). In the positivistic philosophy knowledge is developed by the investigation of the social reality through observing objective facts. After conducting research a positivist should be able to answer if the observations of the world fit with the derived fundamental laws and if generalizations can be made from the detected causalities. (Blumberg et al., 2005)

If a person has a view of the social world as something that cannot be understood by applying research principles adopted from the natural sciences the literature talks about an interpretivist. This view argues that rich insights into the complex world is lost if the complexity is reduced to a series of law-like generalizations. (Saunders et al., 2003) An objective observation of the world is impossible
for an interpretivist. The social world has a meaning for human beings and is constructed by international behavior and actions. (Blumberg et al., 2005)

The world is never as simple as a view of “black and white.” Therefore the realistic view appeared. Realism share principles of both positivism and interpretivism and is based on the belief that it exists a reality that is independent of human thoughts and beliefs. (Saunders et al., 2003) Like a positivist, a realist accepts that it is true that social sciences can rely on the research approach dominant in the natural science but it also recognizes that people themselves are not objects and therefore requires acknowledgement of the subjectivity inherent to humans (Blumberg et al., 2005).

Our research philosophy is of realistic nature, as following example will explain: In studying company performance a positivistic researcher would ideally use a set of quantitative indicators reflecting performance, such as profit sales, market share, growth or relative measure such as return on assets. An interpretivist might use financial key indicators from annual reports also but would put more emphasis on subjective assessments of performance by management and employees. Subjective assessments can result in a different picture of performance than financial indicators suggests and can even provide hints as to why a firm is or is not doing well. (Blumberg et al., 2005) This is what we try to do with this thesis, by qualitative and quantitative methods answer the purpose of the study.

4.2 Research Approach

The background attempts to describe the context of the thesis and is therefore according to Lekvall & Wahlbin (2001) of descriptive nature. On the other hand it also includes explorative parts since it gives basic knowledge concerning the thesis context to better define the problem. In the main study we have determined which the success factors are and how they interact to affect success. Lekvall & Wahlbin (2001) claim this is the nature of an explanatory study where a few explanatory variables often are chosen beforehand.

4.2.1 Research Method

Yin (1989) claims the first thing to do before deciding which research strategy or method to use is to decide the type of research questions. According to Lekvall & Wahlbin (2001) there are three types of methods:

- **Case study**: used for profound studies of cases separately and where the data is mostly qualitative, meaning data that can not be quantified.
- **Cross-section study**: used to study several objects in a quantitative way with the purpose of comparing them.
- **Time series study**: used for quantitative examining of the development of a few variables over time, while looking for a pattern.

This study is both a cross-section study and a case study but mainly a case study. The initial analysis and the sample selection for the case study will be performed as a cross-section study. This is due to the fact that the database used will include quantitative data and the objects will be compared with each other to make the selection. Thereafter case studies will be performed using qualitative data. Yin (1989) suggests a case study as an appropriate strategy when the purpose includes “how” and “why” questions. In this study we wish to determine which factors that affect success and how. This in combination with the fact that Lekvall & Wahlbin (2001) argue case studies are used for profound studies of separate cases make case studies the natural choice for the main study of this thesis.

4.2.2 Sample Selection

**Cross-section Study**

The cross-section study represents a quantitative pre-study. The database used for this initial study contains more units than our target population. Instead of the manufacturing companies with
between 10-249 employees, the database contains all firms in Sweden with 0-499 employees (56,261 enterprises). Therefore the database had to be reduced to include our target population only. Additionally, the firms chosen are the ones in the range of 10-249 employees in 1997 and 2006. Companies that had at least 10 employees in 1997 and during the ten years increased or decreased in personnel but in 2006 had at least 10 employees once again are also included in the study. The same reasoning was performed for the companies within the range of 249 employees. Also, we include a criterion making the study to comprise only the firms that have existed during all of these ten years. After these delimitations, 2,035 enterprises remained. The cross-section study was performed to select the samples for the case study. Additionally, it was used to investigate the performance of hygiene factors like solidity, liquidity and profitability.

Issues and uncertainties concerning the ability to compare the firms in the cross-section study have been considered since the laws of accounting have undergone changes during the period for which the study is performed.

Additionally, some firms in the sample selection are parts of larger corporate groups which provide them with different conditions than the other firms. This is a factor that can be deduced in the case studies but not in the cross-section study and therefore can affect the comparison between the firms.

Case Selection
There are two different types of selection; probability and non-probability sampling. By using the first method it is possible to measure the probability for each sample to be included in the selection. This makes it possible to generalize the findings to the target population. In the second method this probability will have to be estimated by qualitative assessment. (Merriam, 1994) The non-probability method is the most common for case studies according to Merriam (1994) and Lekvall & Wahlbin (2001) concur. A non-probability sampling are used in this study and the sampling is done by using criteria related sampling. Samples are selected because they meet certain criteria which have to be defined and described in the study (Merriam, 1994). Lekvall & Wahlbin (2001) refer to this kind of sampling saying it is based on beforehand chosen criteria that have been assessed as interesting for the research.

The criteria chosen for this study is divided into two groups:
1. **Volume growth** measured by relative increase in turnover.
2. **Value growth** measured in equity considering the reduction caused by dividends.

We have not made any differences between organic and non-organic growth but acquisitions and such have been mentioned under each case for an informative purpose.

The financial ratio profit margin is used to classify if the company selected is successful or not. The value is calculated as the average profit margin over ten years.

Based on the criteria and comparison between the firms chosen are in majority successful firms that are in top of either volume growth or value growth for our case studies. Some unsuccessful firms have been chosen as well as a comparison; see Figure 5 for the sample selection process. The unsuccessful firms will be chosen from the top list of value or volume growth as well. Otherwise it can be difficult to compare the companies because we think that the companies in the bottom differ too much from the successful companies. So by choosing the companies that are in the top but have a negative average profit margin we can see what they have done to reach the top and also why they have not reached a positive profit margin. Two of the selected enterprises have profit margins close to zero, and one of them is classified as a successful firm since it has a positive profit margin while the other firm is an unsuccessful firm since its profit margin is exactly zero.
Since the SNI-codes of the firms in the database are not up-to-date we have manually checked every enterprise included in the sample to determine which specific code the firm has today. The sample consists of the top seven best performing manufacturing companies as well as four unsuccessful ones.

**Sample Size**

Bryman & Bell (2007) say there is no straight-forward answer to the sample size; instead time, cost and consideration need to be addressed. Lekvall & Wahlbin (2001) concur saying there are no rules concerning the sample size in criteria based sampling since the statistical error can not be calculated. Instead they argue the number of samples depends on the purpose, approach and method of the study, saying in between a few and twenty to thirty cases are common. Lekvall & Wahlbin (2001) additionally talk about the principle of convergence, meaning to choose units successively until the results indicate that further interviews will not contribute with new information. This view is shared by Kvale (1996) and according to him the number of interviews normally is around 5-25 interviews.

In this study the samples chosen are divided into the two criteria groups presented above. To determine what the success factors are and how they affect success while considering the limited amount of time we chose to investigate 11 cases in total for this study. To be sure to get the right information we tried to talk to individuals which are knowledgeable about the company, in the majority of the cases, the manager. We tried to keep the interviews sufficiently short, usually around one and a half hour, so we would not take to much time from the interviewees.

There were chosen firms that did not want to or did not have time to participate in our study, as well as firms which had the policy not to talk about the firm’s success. Additionally, there was a category of firms that were unreachable. This forced us to choose the “next best” firm for the study instead, which could affect the result since it is a less successful company than the one originally chosen. We tried to contact the companies well ahead of the proposed interviews to minimize the reduction of cases but it was difficult to get in contact with all the companies or receive an affirmative answer. The participating firms will be re-compensated by getting the possibility to acquaint themselves with the results of the study and thereby compare themselves with other firms.
4.3 Research Design and Work Phases

This study follows the work phases presented by Lekvall & Wahlbin (2001). According to them it is important before starting an investigation to get an idea of the essential work phases included, why they are included and how they are related to one another. The different work phases and how they are related to one another can be seen in Figure 6.

Figure 6: The "U" modified from Lekvall & Wahlbin (1993, p.273)

4.3.1 Background and Purpose

The background describes the context of the study and motivates its realization. It serves as a literature pre-study to help us explore the context since we did not hold any deeper knowledge concerning this area of research. The first material was provided by our supervisor as well as some selected articles within the area. This explorative background starts of by presenting a wide scope which gradually narrows down to motivate the purpose. Throughout this whole process in defining the scope and the purpose we have been in continuous contact with the job initiators to avoid unnecessary misunderstandings and uncertainties.

4.3.2 Theory and Research Questions

A literature review relates and interprets relevant theories and studies already performed in the research area. The reviews can help drawing up guidelines for the work as well as provide research questions and appropriate methods to use. (Merriam, 1994) For our frame of reference we have synthesized and reflected over relevant theories to produce a model for analysis appropriate for our study. We have used articles, books and research studies and progressed by investigating the references found in these works. The amount of studies found was extensive but after a few weeks of literature review it became clear that the chance of finding more important factors diminished. According to Merriam (1994) the literature review should be rounded off when the same references
appear and when you do not come across any new theory of interest. We took her advice and moved on to the next step.

From our frame of references we constructed a research model as well as research questions for the case study. These were more precise than our purpose and also more concrete. Another important aspect developing from this literature review was a section with limits of the scope.

4.3.3 Data Collection

For this study both secondary data and primary data have been used to answer to the questions asked. First, secondary data has been presented in the background as well as in the analysis of the database. The data obtained from the case studies is primary i.e. gathered by us from the original source.

The Database

The quantitative database has been ordered from UC (Upplysningscentralen, August 21, 2008) and thereby consists of secondary data including economical accounting information. The database contains all firms in Sweden with 0-499 employees and making the amount of information rather extensive. Therefore some modifications have been implemented; these are described above in the section concerning sample selection.

Qualitative Interviews

When the sample selection had been realized the qualitative research interviews could be performed. A qualitative interview is, according to Kvale (1996), a powerful method for obtaining information about experiences and knowledge from the interviewee. Additionally, Merriam (1994) claims that a qualitative interview is a preferred strategy for collecting information if you receive more information to a lower cost and with a better quality than using other methods. Since some of the case companies where situated far from Linköping we had to perform these interviews over the telephone.

Type of Interview

There are different types of qualitative interviews and Merriam (1994) talks about structured, semi-structured and unstructured interviews. The different types have their advantages; for a structured interview the questions and the order of the questions are decided in advance but for the most qualitative case studies semi-structured interviews are more appropriate (Merriam, 1994). Kvale (1996) agrees and claims that a semi-structured interview has an openness that allows changes of the sequence of the questions in order to follow up answers given from the interviewee. This is what Lekvall & Wahlbin (2001) call the interview guide, which contains the main areas that need to be covered in the interview and questions related to these different areas. The flexibility in a semi-structured interview makes it suitable for our investigation. For this study a semi-structured interview guide was constructed and used during the interviews. The guide include all areas of interest illustrated in the research model and detailed questions about every topic to cover all aspects of the problem.

The Question Guide

The abovementioned interview guide indicates topics and their sequence in the interview. According to Kvale (1996) the guide can contain just some rough topics that need to be covered, or more detailed sequence of carefully worded questions. In a semi-structured interview the most common is that the guide contains an outline of topics together with follow-up questions. The questions in a research study need to be translated from the theory into more colloquial and easy-going questions and a good interview question should, according to Kvale (1996), contribute to the knowledge production to promote a good interview interaction. It is important, Lekvall & Wahlbin (2001) argue, to ask the question the interviewer thinks the interviewee can answer. The
question should according to them be in a sequence that is logic for the respondent, starting with “warm-up questions” that are less sensitive and then go deeper. Good information comes from good questions. The order of the topics and questions varied significantly between the different interviews but followed a logic structure for the particular conversation. The interview guide used for the interview can be found in Appendix 1.

The Interview
It is impossible to avoid the human influence during the interview, but Merriam (1994) claims that it is possible to minimize it. The interviewer should be neutral, none judging, reflecting on the given answers and show respect for the respondent. Kvale (1996) suggests an approach where the interviewer defines the situation and introduces the topics and during the interview steers the course with the help of the question guide and afterwards debriefs the interviewee. To prepare the interviewees for the interview we provided them with the main areas of interest before the interview. Also, we had even earlier explained the purpose of the study and how the information was going to be treated. The date and time for the interviews were chosen by the interviewee but we did try to agree on a morning time since people in general are more motivated to perform an interview in the morning than in the late afternoon when the energy is decreasing. This reasoning was totally based on our own life experiences.

Ethics When Interviewing
For all the people involved in interviews it is of importance to keep a high ethical level. The received information should be used with just the purpose agreed on before the interview and not for other purposes. According to Merriam (1994) it is difficult to keep the respondents confidential and anonymous in a case study. For us it is only of interest what the companies have done, not who they are and therefore did we chose to keep all companies anonymous and a confidentiality agreement was signed before the interview to guarantee the firm’s anonymity and the use of the information strictly for this study.

4.4 Analysis and Conclusions
A strategy was developed to ensure that the result from the analysis is not just random reflections as recommended by Yin (1989), who says that the best way for case study analysis is to have general analytic strategy. The strategy is used to analyze the database and select the companies for investigation as well as analyze the different cases, both individually and separately.

4.4.1 Statistical Analysis
In addition to the statistical analysis performed to obtain the selected cases we have further investigated the financial data with the following steps:

Analysis performed on the whole population:

- A correlation between the financial hygiene factors (solidity, liquidity and profitability) and volume growth respectively value growth. This for trying to answer the hypothesis that the financial hygiene factors influence value and volume growth.
- We have investigated the distribution of the employees among the companies to see how many small respectively medium-sized firms there are in the data. In the same time we have divided the companies in small and medium sized companies to see how many small and medium-sized manufacturing companies there are in the database.
- We have investigated how the distribution of net turnover is among the SMEs in the database.
- We have investigated how the distribution is of the SMEs over the SNI-codes.
• We have investigated if there is some industry were the financial hygiene factors stands out.

• We wanted to do a cluster analysis with the financial hygiene factors to find out if the successful firms, according to our criteria, end up in the same group. This would show the successful firms have criteria in common and would also be a measurement of how good our criteria for selection are but it was not possible to realize a cluster analysis due to the fact that the financial hygiene factors correlate with one another.

• We also tried to do a cluster analysis over the distribution of SMEs to see if the definition of a SME seemed to be correct for the companies in the database but this analysis did not show anything either.

The results from these analyses can be seen in Chapter 5

When there was no correlation between the financial hygiene factors and volume and value growth (except for a small correlation in change in solidity and value growth) we did not find them relevant for our study but have kept them as an informative purpose in the cases.

To achieve a homogenous database for the analysis with the financial hygiene factors we have eliminated those companies that have had numbers that have affected the analysis in some way, in other words outliers. Therefore the number of companies varies between 1989-2010 companies in the different analyses.

Analysis performed on selected cases:

For the selected cases we have done an analysis over the volume and value growth and the change in number of employees during 1997-2006. In order to try to understand the graphs’ ups and downs we read the annual reports for 1997-2006 for all cases to detect important events for the company.

4.4.2 Qualitative Analysis

The companies in the sample will also be analyzed qualitative by the research model based on the literature review. The quantitative analysis will be made only by help of the database.

As mentioned, the qualitative analysis will follow the research model with guidance of the research questions with the aim to reach conclusions, based on the empirical data. All empirical data presented in the study is achieved from the interviews and is seen as relevant for the study and the research questions. The conclusions will answer the purpose of the study.

We have investigated 11 companies in our study, seven successful and four unsuccessful. After interviewing the seven successful companies we felt that we were close to the convergence Lekvall & Wahlbin (2001) talk about and decided to end the collection of information from successful companies. From the successful companies we determined similarities and came to conclusions. To determine which factors were specific for the successful companies we investigated four unsuccessful companies. Due to the time limit we did not have time to investigate more cases but even so we can see similarities for these.

We regret that our dataset is not big enough to allow us to find statistically significant differences between successful and unsuccessful companies but we can come to conclusions and see trends about what influences the success of SMEs.

Each company have been analyzed separately and afterwards compared to one another in a matrix, see Appendix 2 that consists of the areas in the research model broken down in the different factors. The information in each cell derives from the case studies of each company. The comparisons give the similarities and differences between the successful companies counted in percentages and the same method was used for the unsuccessful companies. We could then identify differences between the two groups and thereby conclude which factors that was characteristic for successful companies.
By using this analysis method, called cross analysis, it is possible to create a generalization even though details between the cases can still be different but a general explanation is created (Merriam, 1994). This kind of strategy, also called pattern-matching by Yin (1989), can strengthen the internal validity if the empirical factors investigated coincide with the factors found in the literature. Further discussion of the quality of the study can be found in Section 4.5. To identify how the different factors influence the success of a SME we have compared the individual conclusions from each case company with one another to see which factors that returned most frequently. These factors are the most critical ones according to this study. Additionally, we have investigated the most frequent combinations of factors and this has given another aspect of how the factors affect the success.

The information used to achieve results and conclusions derives from the period 1997-2006. Occasionally we have analyzed future scenarios in the case studies when this information has been available but this information should be seen as supplementary.

4.5 Quality of the Study

*It is of great importance to discuss the quality of the study and determine potential effects on the results due to short-comings.*

4.5.1 How Reliable is Our Study?

Reliability deals with the possibility to repeat the study and obtain the same results (Merriam, 1994). Our initial data is received from a database that has been purchased for the purpose of this study. Since the database has been constructed by professionals at UC we believe the quality of the data to be outstanding and not a source of error.

Lekvall & Wahlbin (2001) argue that the reliability will improve if the method is more standardized. By using a question guide for the case interviews we believe we have standardized the process as much as it can be done when performing interviews. Another way of improving the reliability according to Lekvall & Wahlbin (2001) is to perform the investigation more than once which we did not have the possibility to do. We needed to know if the questions were formulated in a good way so that the respondent understood them. Further discussion concerning the quality of the interviews can be found in Section 4.5.3.

Merriam (1994) claims a qualitative study will not give the same results again if you repeat it and instead of trying to get the same results when the study is repeated you should strive to get consistent results with a context and meaning. According to Merriam (1994) there exist techniques to make sure the results have a context:

- Explaining theories used and assumptions made criteria for case selection and where the data is collected. All these areas have been covered in this methodology section.
- Triangulation; using different methods for data collection and analysis. In this study, the information derives from both a quantitative database and qualitative case studies. Also, a quantitative and a qualitative analysis have been performed.
- Having independent persons evaluating the results. This process will be done by our supervisor, the job initiator as well as our opponents.
- Writing the methodology minutely so that it can be used as a manual to repeat the study. It is our ambition to produce a methodology section with satisfactory quality.

Additionally, a summary of the interview was sent to the respondent at the case company for him/her to validate the information and improve the reliability.
4.5.2 How Valid is Our Study?

Validity treats the question of whether or not the feature you intend to measure is actually measured (Lekvall & Wahlbin, 2001). According to (Lekvall & Wahlbin, 2001) there are several ways of evaluating the validity of a method:

- **Directly perceived validity:** meaning competent persons review the question guide to make sure it contains appropriate and reasonable questions. We have had our job initiators (CAM) read thought the question guide to produce thoughtful feedback.
- **Concept validity:** whether or not the results conform to the theory. If rules and regulations are said to be a great constraint to success for SMEs and this is the result of the study as well this indicated good concept validity. It is important to keep in mind the possibility of errors in the theories. We believe we have made an effort to avoid these errors by as much as possible choosing published and thereby scientifically reviewed sources of information.
- **Predictive validity:** concerns the ability to predict e.g. the future success of a firm from the results. This has not been done in this study since we primarily are interested in the firms’ performance during the period of 1996-2006.
- **Content validity:** A good content validity is achieved by including all the aspects and dimensions of the problem in the investigation. In our study we chose to look at success as both growth and financial performance to cover all parts of the problem. To make sure the question guide contributes to the content validity it was constructed by careful review of the frame of reference.

4.5.3 The Quality of the Interviews

There are several things that can go wrong during an interview and afterwards when analyzing the information from the interview. When the quality of the study is based on the quality of the interviews it is important trying to minimize the sources of error (Lekvall & Wahlbin 2001).

We used a recorder to make it possible to replay the interview and make sure that we did not miss out of or misinterpret an answer wrongly. Before using the recorder the interviewees were asked to give their approval. Another way to minimize the source of error and make the interview more efficient was to let one of us be in charge while the other one took notes to assure that no questions were left out. This method was especially use during the phone interviews since it was more difficult to conduct the interviews over phone and the one interviewing needed more back-up. This was realized by using a loudspeaker so that both of us could hear the interview as well record it.

With the help of the question guide all the interviews had the same structure which made it easier to compare the answers and achieve good reliability. The reliability of the answers can also be checked by asking “control-questions” in order to see if the respondent answers the same way both times and also to make sure no error of interpreting has been made (Merriam, 1994). We rephrased the questions if we felt the interview did not fully understand what had been asked or if we felt like not all aspects of the question had been answered. The answers were often summaries during the interview to make sure we had understood correctly.

The reliability and also the validity can be affected from a lot of things and Lekvall & Wahlbin (2001) lists some of them:

- Variable factors that can affect the respondent such as stress, fatigue, motivation. Important is for us was to keep the interview sufficiently short and ask in advance the amount of time we have at our disposal.
- If the questions are formulated in a way that make them unclear, sensitive or leading for the respondent it can lead to misunderstandings. To avoid this, the question guide has been tested in advance to make sure no such thing occurs. We have also sent our question guide
to CAM as well as to our opponents for feedback. The theories have additionally been broken
down to more concrete questions to improve the quality of the answers.

- The body language, the age and the outfit of the interviewer can affect the respondent.
  Therefore it was important that we keep a low-key body language, dress well and try not to
  use certain words and sentences.

It is almost impossible to literally write down the answers during an interview. It has therefore been
more important to get the essence of the response even though this is more subjective. To reduce
the possible errors we wrote down the answer directly after the interview and also checked the
notes with one another. With the help of the recorded material we could also check our notes to see
if we had missed or interpreted something wrong. This was of big help when performing the
telephone interviews since it was easier to miss information during these due to the fact that it was
more difficult to hear the interviewees as well as for the interviewees to here us.

An additional source of error occurred when the interviewee did not have sufficient knowledge
concerning the topics of interest. By sending a preview of the question guide before the interview we
hoped to avoid this but this not always the case. Another source of error was the fact that in most
cases only received information from one person at the company. This can have affected the
material since we only got this person’s point of view. On the other hand this was in general the
person who held all the information we needed and who had an overview of the company.

Due to that the person that had operated the company during 1997-2006 in some cases was not in
the company any more we did receive second hand information about these people in some cases
from the interviewee. This is a source of error difficult to minimize when we did not have time to
search for the person to receive the information directly from him/her.

4.5.4 Generalization

Case studies are often criticized of not being generalizable since there are too few subjects (Kvale,
1996). Yin (1989) claims a generalization of case studies to theory is possible but not to populations.
He calls this analytic generalization, when the goal is to expand or generalize theories. Kvale (1996)
also talks about analytical generalization saying the findings from one study can be used as a guide
for another study. The analytical generalization approach is used in this study since it suits our
purpose of finding a generalizable theory for SMEs.

Furthermore, Kvale (1996) discusses three parts of generalization; generalizing what is to establish
the typical and the norm, generalizing what may be in the future and finally what could be to
consider if the results can be used in another situation. The aim for this study is definitely to
generalize the results to establish a theory for the typical success factors for a manufacturing SME.
Speculations about the future of the companies are not carried out in the conclusions or
generalizations since the interest is to determine the firms’ performance during a limited period of
time and develop a model for success factors. The model on the other hand could be used as a
guideline in the future. Also, we have occasionally analyzed future scenarios in the case studies when
this information has been available. This has been done since we find it interesting and we believe
the investigated companies will appreciate this additional piece of information. Additionally, the
results could be applicable in countries with similar business climates and circumstances.
5 Synoptic Analysis of the Database

In the following chapter an analysis of the database is presented for the reader to get a deeper understanding for the material we have worked with in this project.

The analysis of the database is performed to confirm the pre-study, i.e. to explain the distribution of small and medium-sized companies and also to investigate the distribution of the net turnover among the companies. Additionally, we have tried to analyze if the financial hygiene factors depend on the type of manufacturing industry the company acts within and if some SNI-codes are more represented than others. The database consists of around 2,035 manufacturing companies in the range of 10-249 employees.

5.1 Distribution of SMEs

There are 1361 small-sized companies and 628 medium-sized in the database in 2006, see Figure 7 (1 stands for small and 2 stands for medium). Among our eleven investigated companies there are six medium-sized companies in 2006. Nutek (2008) claims, in the introduction, that 99 % of the Swedish companies consist of less than 50 employees. This is reflected in our graphs, where almost 70 % are small-sized companies.

One of our companies, Company C, had a net turnover of more than 10 MEUR in 2006 and would according to the definition for small and medium-sized companies be classified as a medium-sized company. We have chosen to see this company as a small one due to that they are closer to the limits (see Section 1.1) for small companies than medium-sized companies.

5.1.1 Distribution of Employees

In 1997 the distribution of employees is as shown in Figure 8. More than 1,400 companies have less than 50 employees. In 2006 this number has changed to 1,361 companies as mentioned above (the distribution is showed in Figure 9). The change probably occurs because some of the small companies have grown to become medium-sized.

As mentioned in Section 1.1 SME plays an important role for Sweden, for example with employment.

Among our investigated companies we have 4 companies that have grown from a small to medium-sized company.
5.1.2 Distribution of Net Turnover 2006

In 2006 the distribution of the net turnover among the companies was as shown in Figure 10. There are 58 companies that have a larger net turnover than the definition of a medium-sized company but in this context 58 is a low number, and none of our investigated companies are among them. Therefore we have chosen to include them in the graph, since it is interesting to see the variation between the SMEs in the database. The distribution has a wide spread but it can be concluded from the graph that the net turnover in a small company in general is around 10-50 MSEK and a medium-sized company has a net turnover around 100-300 MSEK. As mentioned in Section 1.1 SMEs stand for 59% of the total turnover in Sweden. The distribution of net turnover for our companies is given in chapter 6-16.
5.2 Financial Hygiene Factors

Two of our financial hygiene factors in this study have been solidity and liquidity. When doing a correlation test the only factor among our four financial hygiene factors that correlated with value growth was the change in solidity (for 1997-2006). None of the factors correlated with volume growth. The correlation between change in solidity and value growth is small, which indicates that solidity affects value growth but not to a great extent. The correlation test is found in Appendix 4. From the test can it be concluded that all hygiene factors are correlated with one another but to a varying extent. So, the hypothesis that the financial hygiene factors influence the volume or value of growth does not seem to be correct.

Solidity and liquidity are two of the most important hygiene factors in society. Investors often use them to see if the company has good economy or not, for example how good the company is at paying its debts (see Section 1.3 for more information). Therefore we have chosen to see if the solidity or the liquidity depended on which manufacturing area the company operates in. An analysis over the distribution of solidity and liquidity over the SNI-codes in the database was done; the results can be seen in Figure 11 and 12. From the graph we can conclude that there is no difference between the different manufacturing areas. For our investigated companies there has been a wide variation in solidity and liquidity. The distribution of change in return of working capital (see Appendix 5) is the same as for solidity and liquidity, there is no difference over the SNI-codes.

\[\text{Figure 11: Distribution of change in liquidity over the SNI-codes in the database}\]

\[\text{Figure 12: Distribution of change in solidity over the SNI-codes in the database}\]

5.2.1 Distribution of SNI-codes

To understand the distribution of solidity and liquidity it is of interest to know the distribution of the SNI-codes (for interpretation of the different codes see Appendix 3) in the database. We have investigated manufacturing companies that have a SNI-code in the interval 10-33 and the distribution of companies over the SNI-codes can be seen in Figure 13. Over 500 companies in the database have a SNI-code that starts with 28 (machinery and equipment) followed by over 300 companies with a SNI-code that starts with 29 (motor vehicles and trailers) and almost 200 companies that have a SNI-code beginning with 22 (rubber and plastic). So if we go back to Figure 11 and 12 we can see that where there is a hole among the staples of dots often there is no company that has that SNI-code. Among our invested companies are there two that have a SNI-code that starts with 28, two that starts with 29 and one that starts with 22.
Figure 13: Distribution of SNI-codes for the SMEs in the database
6 Case Studies - An Overall Introduction

In the following eleven chapters the investigated companies will be presented and analyzed; each chapter ends with a short concluding section. The companies have been given a letter for identification, i.e. Company A, B, C and so on until Company K. The company with the highest average profit margin is named Company A followed by the second best as Company B etc. Hence, the seven successful companies, ranked after the profit margin, are presented first followed by the unsuccessful companies, starting with Company H.

All cases follow the same pattern starting with short information concerning the selection, their ranking in the top-list followed by their specific financial hygiene factors, the number of employees in 2007, the SNI-code and the geographical area where the company is situated. Thereafter an introduction follows where we have intended to explain and describe important events during 1997-2006 that can have affected the performance. The introduction is followed by the story of the company we have received from our interviews. All information is then analyzed with the help of the qualitative research model and the research questions to reach conclusions about the performance of each company.

All case companies are, after the individual analyses, compared and analyzed to one another in a matrix to find which success factors are present. From the conclusions for every company we have determined how the factors affect success. The results can be seen in Chapter 18 as well as in Appendix 2 and 6.
7 Case Study - Company A

This interview was performed with the CEO during a visit to the company. The information in the introduction is mostly from Affärsdata (2008).

In brief:
- **Selection:** Volume growth
- **Ranking:**
  - Volume growth: 4 (2,030%)
  - Value growth: 274 (446%)
- **Average profit margin:** 47%
- **Average solidity:** 69%
- **Average liquidity:** 431%
- **Average return on working capital:** 45%
- **Employees 2007:** 216
- **SNI-code:** 28 (machinery and equipment)
- **Geographical area:** Götaland

7.1 Introduction

The company has roots in the Swedish industrial revolution and began its engineering operations in the late 19th century. Over the past 100 years the range of products and services has been developed and in the 1980’s the core product was introduced on the market.

- During 1998 the company had a good volume growth due to sale of newly developed products. With their priorities in developing products the company foresees a good volume growth the next coming years.
- In 1999 the company changed ownership and became a part of a new corporate group.
- In 2001 the company did some cost efficiency reductions and due to that foresees better results for 2002
- In 2006 the company established a sales office in Korea

During the ten-year period we have investigated the volume growth as well as the value growth which have steadily increased. During the same time the change in employees has augmented from 84 to 199, see Figure 16. The prediction in the annual report in 1998 seems to be correct according to the graphs (see Figure 14 and 15) and the focus on developing the products seems to have paid off.
7.2 The Reality of Company A

7.2.1 Organization

The company was founded in the late 19th century and had, in 2007, a net turnover exceeding 400 MSEK. Today 225 people work in the company whereof 160 in the production. The rest of the employees are office-workers.

Previously, the organization did not work efficiently. They did not have the right person in the right place and the responsibilities for each person were not defined. The new CEO has performed a reorganization that has resulted in more distinct decision paths and responsibility distribution. The directorate consists of the CEO, Sales, Production, R&D, Logistic & Purchasing and Finance. The corporate group has high demands on yearly improvement. Usually the corporate group does not interfere with the daily work. Instead the group has more interest in strategic questions and expects growth.

Working in projects is, since around a year, new for the company. Before contemplated the idea, but the employees did not know what it meant to be in a project group. Because of this, they did not take the responsibility needed and the leader of the project did not know what was expected of him. At the product development department the use of project-based work has been implemented for some years. The results depended upon which persons were included in the group, since the project plans were not followed. The length of a product development project is, at Company A, normally around 6 months but can last up to a year. Normally 5-7 persons participate in a project group. The CEO has recently developed a project plan for all departments that can be expanded for the needs of the individual project.

The company spirit consists of a go-ahead, positive atmosphere, problem-solving and the aim to be successful. Lately they have written down and formulated the company spirit in words just to be sure that the employees are aware of it. According to the CEO, the company has a strong, can-do spirit.

They do not have a key person that they can not replace. Earlier it was worse when the knowledge and information was not written down and just one person knew about it.

7.2.2 Vision and Strategy

As a part of their growth strategies they work with a four-lane matrix to identify old and new products compared to old and new customers.

Vision
Their vision consists of becoming a global market leader within their business path. In 2013, Company A shall have a billion SEK turn over.

Business Concept
Develop, produce and sell products and services based on their business path. The products shall be characterized by high quality, reliability and safety and shall be available on every important market in the world.

Personnel Idea
To recruit and offer supplementary training to committed employees that with their knowledge actively contributes to the company’s future.

Long-term Goals:
In three years grow with 50% and implement “lean enterprise” in the company. They will maintain their product/technology leadership and expand in one of their segments.

**Short-term Goals:**
On a short-term basis they work with the gold deployment process, which is a way to reach their long-term goals. The idea of the gold deployment process is that you look three years forward and set a goal, and with this process you get a picture of what the goal in three years has for consequences for this year and the next coming year. This is quite new in the company and has given their strategic work more structure, compared to when the structure was just in the head of the CEO.

The employees are informed of company’s goals and visions in monthly meetings. Later years’ focus has been to break down goals and vision into more concrete parts and assure that everyone is aware of these parts. To have a vision written down is something new for the company. Before this the employees were just informed once a year about the company’s goals and vision.

### 7.2.3 The Manager
The CEO is 42 years old, which is the same age as the old CEO when he took over the company. He has been in the company for 15 years and started his career within the company by writing his final thesis for a Masters degree in engineering there. After the final thesis he became employed in the technical customer service department through the Construction Department, until becoming responsible for the European Market in 2003 and CEO in 2006. To manage the changing responsibilities he has undergone some supplementary training, such as leadership development and integrated leadership to supplement his Master of Science in Mechanical Engineering. To keep up to date with the latest trends in the business area, he continuously reads “Kontentan” that makes summaries of business literature.

### 7.2.4 Recruiting
The level of education in the company is a good mix. They have employees at all levels, from 6 years of elementary school to Masters degrees in Engineering. Accordingly, 15 employees have a technical academic education and 2 have an economical academic education.

The CEO prefers to reorganize the organization after the people rather than the other way around. Responsibilities can be redistributed to form a new position that suits the person of interest. Often they found people to employ from students that have done their final thesis or another project at the company. Another way to find people to employ has been to use advertising in the local newspaper or “Ny teknik” (“almost every engineer reads that paper”).

At this moment they do not lack competence, but a large workforce. They work actively to fill personnel gaps when they occur.

### 7.2.5 Manpower Care
Company A has an annual development meeting with their employees to talk about the needs and interest of every person. If they find supplementary requirements they try to find suitable courses. By offering the possibility to change positions within the company, and by maintaining a positive attitude towards the employees, they maintain the employees in the company – at least, this is the belief of the CEO.

The company has an almost non-existing employee turnover. The employees leave the company if they move, start an education or retire. According the CEO it is not the same company as when he started. In previous years it was more usual to spontaneously take a coffee break with the whole
company, nowadays it is difficult just to bring together one department to have coffee, due to its size.

7.2.6 Competitiveness
The company has success factors they work with. Earlier, they had a big product focus. This in combination with an efficient production gives competitive advantages according to the CEO. The company has a good knowledge base. Their development resources are bigger than those of other companies and can give them strategic products. They are best on safety and reliability. They have world class production within turning and surface treatment which makes them strong. Nearly 70% of their production is done in-house; when they do not have the competence or enough volume they outsource the production to key suppliers. The company tries to be a strategic partner with the customer and always have strong availability of products and service.

The thing that differentiates them from their competitors is that they are unique with their global presence and multi-branding.

7.2.7 Product Development and Innovation
The products have always been produced in-house, and the company still produces and develops all their merchandise in Sweden. Once a month they have a product–board where ideas and needs from customers (that the technicians have noticed) are discussed. Accordingly, the board evaluates these needs and compares them with the company’s strategy to see if they agree with the business. Even if the new idea does not totally agree with the strategies, the company can start to produce it as a service for their customers. Company A has worked at making their product a standard and in that way receives benefits towards the competition and survival on a long-term basis. Focus is concentrated on new products. It is a constant ongoing process to offer new products to old customers (e.g. new sizes) but efforts will be made at finding new customers for the new products also.

They have today 20 active patents and receive one to two new ones each year. One employee dedicates a lot of time to the patents so they turn out well. Moreover, R&D is around 5-6% of the net turnover which is a good number for their type of industry according to the CEO.

7.2.8 Market
The company is a niche player, and has a new niche on its way up that is based on the same technique as the other products. They have started the new niche to be able to grow at the pace they want to. In their niche they have 50% of the world market share. They are market leaders with industry-standard and are e.g. big in Japan and China.

The company has around 20 competitors, who produce in principle the same products. They have three bigger competitors but the biggest among the three is one third the size of Company A, the rest are smaller than one tenth. They keep an eye on the big competitor, the rest of the competitors are not seen as a threat.

Company A has a few direct customers; otherwise they sell their product via distributors. The majority of distributors sell the product under Company A’s trademark, while one distributor uses its own trademark, and have a big market share. Without this distributor the company would not dominate the market.

The customers of Company A are spread worldwide. Even big customers stand for a small part of the net turnover, e.g. the biggest client stand for 4-5% of the net turnover.
The relationship with the customers is on a long-term basis. They were the first in the world with selling this product. Company A do not have any sales persons employed, instead it is technicians that meet the customers. The daily contact with customers is handled by the distributors. The technicians meet the end-customer together with the distributor. In Sweden it is direct-customers whom they meet more often.

Previously, customers found the company, but now they use more selective methods for hunting down prospective customers. The distributor does a personal visit and Company A provides brochures and other material. The exact procedure depends on which market is being explored, and can differ between the markets.

The business of Company A consists of 95 % export. Nearly 40% of their customers can be found in Europe, 30% in Asia and 30% in the U.S. The new segment stands for 2-3 % of the net turnover. The same product is exported to all customers. The company has their own warehouse in the U.S., and they also have direct sales, in China, in Canada and Mexico. The distributor for the European market has a warehouse in Germany to supply the whole of Europe.

The company gets to know what the customers want from traveling technicians that visit the customers. Site visits are also a good way to benchmark products from their competitors. But it is not just from customer visits that the Company gets to know what the customers are up to, another way is by reading catalogues and investigating patents.

In the company’s old niche it is difficult to do market research, because it is difficult to ask questions about the products in this niche. The most important thing is to understand the customer needs. In the new segment, the company has bought market research to see if there is a need for their product. It is a more intensive and examination oriented business where they dig up data and ask questions continuously to customers.

### 7.2.9 Networks

The company has cooperated with a lot of partners during the years. When they do not have competence they buy competence from key suppliers. They have also cooperated with a research institute in Stockholm to be on the cutting edge with their techniques. Moreover, they are also a part of two projects, one of them an EU-project, just to market themselves better and become more strategic.

When they choose distributors they first choose the country and then take help from the Swedish Trade Council for market research to find suitable distributors. The CEO thinks that the Swedish Trade Council is competent and praiseworthy.

Company A cooperates with the senior high school in the town they are situated to offer the students practical work. Every year they offer some final thesis projects and participate in courses at the nearest university. They also have collaboration with the employment office, which customize courses to Company A production. Furthermore, the company chooses the course participants. Participation in the course can lead to an employment thereafter.

### 7.2.10 Location

The company is situated so that they have good connections by train and motorway traffic. The company is quite close to bigger cities and two universities.
7.2.11 Laws and Regulations

Company A has not thought of laws and regulations or directives from EU as a negative effect on the business. Instead they have used the directives to their advantage and taken a step further to receive business opportunities.

The company was among the first in its sector to receive the ISO 9001\(^1\) certification and in 2002 they received the ISO 14001\(^2\) certificate.

One of their customers has asked for products that are environmentally friendly and sustainable, but the company has not received high demands from outside the company. The CEO thinks that if they did not have their certificates they would have noticed more of such demands.

Sustainable development is not used as a competitive advantage, due to the fact that many companies are certificated and work with sustainability. The CEO does not think that it will be more important in the future for the company.

7.3 Analysis of Company A

7.3.1 Internal Factors

Organization

The company’s spirit with the mindset to solve problems that occur, together with its can-do spirit, gives the company a flexibility that Ahrens (1992) argues is important for a growing company to have. After the reorganization, the decision paths have become more distinct and clear, and people know who to ask if something happens. These are things that can facilitate the flexibility according to Bunse & Næssén (2002).

The company did not have project based work before, at least not in a way that worked very well. Basing the business on projects will probably help the company forward, if they get it to function better. Participation in different project groups makes the employees cooperate with one another, and builds networks between the employees. Bruzelius & Skärvad (2000) claim that project based organizations are getting more important since they are flexible and teach the employees to collaborate.

The company’s spirit is also their culture which according to Peter & Waterman (1983) is important to have and that positively affects the results.

Vision and Strategy

The company has a well formulated vision, business concept and also a strategy about the recruiting of personnel. Their strategy is broken down into long-term and short-term goals.

If a company does not have a well formulated vision it can not lead towards success, according to Bunse & Næssén (2002). In Company A the vision is clear and the business concept and the personal idea are based on this vision. This gives the impression of a genuine vision that can work as a guiding star for the company. The vision is about becoming a global market leader with the business concept as a part of the vision. The vision is about what the company can give its customer and we would say that the focus of the vision is on the customers. This matches with the theories of Ahrens (1992) who

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1 ISO 9001 is a standard for quality management systems, for more information visit www.iso.org.
2 ISO 14001 is a standard for environmental management, for more information visit www.iso.org.
says that the vision should have an external focus. Pansiri & Temtime (2008) claim that through visionary and agile management a SME can develop economies for the next century, and it seems like Company A could be such a company.

The company has broken down their strategy into long-term and short-term goals. When doing this it is important to decide on a goal that is possible to reach, and in that way keep the employees’ motivation for doing their job. The strategy can be seen as a map to reach the vision and can be compared with the theories of Normann & Ramirez (1993) who say that strategy is about how the company links together its resources. Moreover, Porter (1996) claims that the success of a strategy is about doing many things well and to integrate them together. The long-term goal is about growing and how the company should grow, in other words how the company should use its resources to maintain a leader.

Bunse & Næssén (2002) argue that growth needs planning and should be a part of the strategy. This is true for Company A that has growth as an important part of their strategies and also have a plan on how to reach growth both on a long-term basis and what needs to be done on a short-term basis. According to Andersson (2001) the clear vision and goals are important to reach growth.

The Manager
The company has a quite young, dedicated CEO who has previous experience from the company and therefore can enter the post with thoughts about what he wants to change for the better. The CEO has a genuine education that he has complemented with, for example, leadership development and he continuously keeps up to date with what happens in the business. Wiklund (1998) claims that a young manager who is creative in the work and works with strategic work-tasks are dimensions for a manager that contributes to success which fit with the characteristics of Company A’s manager. Westerberg (2001) also talks about the importance of the right manager and that the manager needs to have a high tolerance for insecurity and a good level of confidence. From his years within the company the CEO has learned how the company functions in times of insecurity and how to react then. The years of experience have also given him confidence in his work, and the corporate group has portrayed their confidence in him. With this manager the company surely will continue to grow and be successful.

It is difficult to say much about the old CEO, who has operated the company towards its success. The only thing that can be said is that it seems like that the old CEO had more control since the responsibility areas were not as well defined. The information was not distributed to the employees more than once a year and they did not work in projects. So it seems like that the company was less flexible than today.

Recruiting
Levin & Weström (2003) talk about how shortage of workforce could be a constraint for growth. Company A has for the moment difficulties to find people. However, since 1997 the number of employees has been steadily augmented from 84 to 225 employees, so it does not seem that the company has had difficulties to find a workforce. But if the case is that they had difficulties before it is possible so that the company could have grown even more.

The education level at the company is mixed but it does not seem that the company has difficulties to find people with the right competence. When the company finds a person that suits the company, they try to reorganize the organization for this person. Often they recruit people that have already had some relation to the company. By doing that they assure that they have a person with the right education and dedication to do the job, and that the person can grow with the task as Ahrens (1992) claims is central in an expanding company. Pansiri & Temtime (2008) talk about the importance of
attracting, developing and maintaining successful individuals in a firm and we think the company can manage that with the help of their reorganization.

**Manpower Care**

A company with an almost non-existent employee turnover is a company where the employees enjoy working. By the development meetings the company knows which employees need or are interested in developing their competence. This goes hand in hand with the theories from Bunsé & Næssén (2002) who argue that it is important to educate and develop employees in order to maintain the competence within the firm and that the development of the employees is also important so that the personnel can master different tasks. Taylor et al. (1990) claim that in a medium-sized company people are a key resource and it is essential to keep an eye on recruiting and development of the employees to avoid lack of suitable staff. Company A is a medium-sized company growing to became bigger and it does not seem as if lack of suitable workforce or having un-motivated employees will be a constraint in their path towards a successful future.

**Competitiveness**

Company A’s strengths are that they are best on safety and reliability, they have a wide knowledge base, their production is world class, they invest money in developing their products and 70 % of the products are manufactured in-house. Prahalad & Hamel (1990) claim that a core competence is difficult to create, substitute or imitate. All companies can produce in-house, invest money in developing the products and have a world-class production but it is difficult to create safety, reliability and knowledge and these can therefore be seen as Company A’s core competencies. Stalk et al. (1992) argue that competitive success is achieved when key processes become strategic capabilities. When Company A mixes together its core competencies with its production and development of the product, they do exactly that, and they receive competitive advantages. Kotler & Armstrong (2003) claim that just to manage the resources within the company is not enough for gaining competitive advantages, the company needs to know the customers and the market as well. Company A is a strategic partner with their customers and can in cooperation with them develop products that give their clientele more value. From their technicians, the company receives information about what happens on the market. All these factors together give the company competitive advantages against their competitors, which can be seen in the characteristics that differentiates them from the competition.

**Product Development and Innovation**

Storey (1994) argues that fast growth is often associated with the technological sophistication of a company. Company C has 20 patents and receives new ones every year. They also have a person working primarily with these patents, which indicates that they find patents and innovations important. They invest 5-6 % of the net turnover in developing their old products but also in finding new ones. The company’s personnel have a good level of competence and these factors together indicate that the company has a high technological sophistication that could have helped them grow during the years and probably will help them grow in the future as well.

To develop its products the company uses the information about customer ideas and needs from the technicians. This is a good way to find new product ideas according to Kotler & Armstrong (2003). Storey (1994) argues that renewal of customers and products affects the success of the company positively. The company has an ongoing work with offering new products to old customers but has also started to identify new customers as well which help them to grow.
7.3.2 External Factors

Market

Kotler & Armstrong (2003) say that a niche attracts just a few players due to its small size. On the market of Company A there are 20 competitors in different sizes, but the biggest is just around one third of Company A’s size. The company has 50 % of the world market share and has a new niche coming up. This is in line with Ahrens (1992) who argues that fast-growing companies have identified a niche where they operate. This is what Company A has done with the new niche; to be able to grow in the pace they want to they needed the new business opportunities that they can have with the new niche. It is also a way to spread the risk if a larger competitor would enter the market, as Kotler & Armstrong (2003) claim could endanger the existence of a SME. Due to the size of Company A, the fact that the competitors are quite small, and with the new business opportunities with the new niche, it does not seem like a larger competitor could be a problem for Company A.

Kotler & Armstrong (2003) claim that a “nicher” can achieve high margins due to the way they meet customer requirements. Company A has had a high profit margin during the years and also the solidity and liquidity has been high. This is a sign that the company has found a profitable niche.

Linneman & Stanton (1991) say that it is important to continuously look for changes in the market. In Sweden the company has direct-contact with its customers but in other countries it is the distributors that have the daily contact. From the customers and the distributors the company receives information about changes on the market. But it is important for the company to continuously evaluate their distributors so they know that they have the best ones and that everyone is satisfied with the cooperation. Otherwise the company can suffer losses especially if they loose the distributor that helps them be dominating on the market.

The company has a clear external focus in their business and Storey (1994) claims that a firm that exports is more likely to grow. According to Taylor et al. (1990) an international market can serve as a strength if the company stays in the same niche. Company A exports the same product to all customers wherever they are and the company has warehouses worldwide which form a support for the business. It seems like the exportation helps Company A to be strong on the market.

All companies need to know their customer, and also the market, to be able to offer a product that satisfies the customers. Company A collects information from their technicians that visit the customers. In that way they also receive information about competitors. This is, according to Kotler & Armstrong (2003), a good way for SMEs to conduct market research economically. It is also a good way to use the need from the customers to make products that better suit the clients, which as Peter & Waterman (1982) claim is important for the company’s results.

Wiklund (2001) argues that constraints on growth are lack of knowledge concerning market positioning and customer relation. For Company A this is not a problem, they have good knowledge about their position on the market and as said above good customer knowledge. Linneman & Stanton (1991) claim that a company needs to be flexible to be open for new ways of operating in a changing market. A company that is flexible (as already discussed under organization) could probably change their processes to better suit the market if there was a need.

Networks

The company has always been networking with different partners during the years. This could, according to Terziovsiki (2003), have affected the company’s success positively. Gosch et al. (2001) claim that a firm needs to pay attention to certain areas in order to achieve excellent performance. Company A has solved this by looking for strategic alliances such as their cooperation with key
suppliers and the research institute to strengthen their position. This they have done as such for several years, which seems to have paid off. The cooperation with the research institute is also for keeping their technology at the front edge which is supported by Hoffman & Roman (2001) who claim that SMEs need to acquire capabilities to survive in the globalization and technological changes.

Company A also cooperates with the senior high school and the university, which is a good way to find new competences for the company. Another strategic cooperation is with the employment office that custom-makes courses for the company, courses that can lead to an employment for those that participate. All these things are examples on what the company does to strengthen its position with respect to the competitors but also to strengthen the company from within with dedicated and competent persons. Kotler & Armstrong (2003) emphasize the importance of choosing alliances that complement the company in the best way. It seems like Company A has found these alliances.

**Location**

It does not seem as if the company is affected by its location. It is not situated near a big city but quite close to medium-sized cities. The company has collaboration with a university and this, in accordance with Jacobsson & Lindblom Dahlstrand (2001), could affect the growth. The location has, according to Levin & Weström (2003), an impact on growth.

**Laws and Regulations**

The theories say that many companies see laws and regulations as constraints for growth. Company A does not think that laws and regulations are a problem and instead they have used them as business opportunities. Probably, the company has no problems with finding information about new laws and regulation, something Schmidt et al. (2007) claims many SMEs find bothersome. Using the directives as business opportunities can be one of Company A’s success factors.

According to Kotler & Armstrong (2003) environmental policies are becoming more common and have a greater impact on global trade. Company A does not think sustainability work will be more important in the future and maybe it is like Hitchens et al. (2003) argue that there is no relationship between a firm’s competitive performance and its environmental work. But for many companies sustainability development is becoming more important for their marketing. Maybe Company A should use environmental work more as a competitive advantage so that customers do not miss them in the competition. In any case the company has the ISO 14001 (and the ISO 9001) which is a step towards sustainable development.

**7.4 Conclusions: Company A**

This company has had a volume growth at 2,030 % during 1997-2006 and the average profit margin for these ten years is 47 %. The profit margin is positive and therefore Company A is classified as a successful company. During the same time the company has had a value growth on 446%. The company’s success probably comes from the company spirit, the clear vision and a strategy that is based on the company’s internal resources, motivated personnel, and the company’s competitive advantage. Other factors that can have affected the company’s success positively are their technological sophistication, an attractive niche, strategic alliances and their view of laws and regulations as business opportunities.

Factors that can have affected the company’s success negatively according to the theories are that the company was less flexible with the old CEO, they did not have a functioning project-work, they may have lacked workforce and they do not work with sustainable development.
8 Case Study - Company B

This interview was performed with the sales manager during a visit to the company. The information in the introduction is primarily from Affärsdata (2008).

In brief:
- Selection: Value growth
- Ranking:
  - Volume growth: 26 (890%)
  - Value growth: 6 (9075%)
- Average profit margin: 6 %
- Average solidity: 43 %
- Average liquidity: 158 %
- Average return on working capital: 24 %
- Employees 2007: 91
- SNI - code: 23 (other non-metallic mineral products)
- Geographical area: Götaland

8.1 Introduction

The world’s leading producer and supplier within their business. In five years they have gone from 60 to 300 million SEK in net turnover. From 1997 the company has had a continuous growth both in volume and value. During the same time the number of employees has gone from 12 to 69, see Figure 19.

- In the end of 2001 the company moved in to new built office and production facilities.
- During 2002-2004 the company had a stabile growth.
- In 2005 the company introduced an updated version of their products. They moved in to a bigger production facility to manage the fast growing business.
- In 2006 the company introduces a reformed business concept that is more efficient and cost reducing. Another introduction of a newly developed product is realized. The company has also acquired a sales company in North America and another one in Germany. The owner structure has changed during the year and the ownership is now distributed over three partners, with the founders of the company owning 56 %.

From a closer look at the annual report and the graphical description (see Figures 17 and 18) we can conclude that the company has been successful for several years, but it was when Company B introduced the reformed business concept in 2005 that the business took off.
8.2 The reality of Company B

8.2.1 Organization

The company was founded by a family in the 80’s and the members of the family are still engaged in the company but not in leading positions. There are 180 employed in total in the company, 60 of them in associated companies and 120 in Sweden whereof 40 are in the production. The subsidiary companies are just selling (plus service and warehouse) companies. The structure of the organization has been under continuous change and they have not had the time to structure it. Instead, focus has been on other parts of the business. If the structure is not so static more things happen and people take more responsibility says the sales manager, but there is a risk that something falls between the chairs.

Due to the fact that it was, from the beginning, a family-owned company the company strives to maintain that atmosphere with an informal touch and work for everyone’s wellbeing. They have a positive attitude towards their personnel and try to fulfill people’s needs so that they can progress inside the company. The working environment is friendly with a central place for the coffee-breaks and window-doors to every office so you can shut the door but not shut out someone. The decisions paths are short, sometimes too short and decisions are made without analyzing all consequences. There is a constant conversation in all directions between the employees.

The company has used a project based work method for a long time and usually it is development work that is project based. But also business fairs are projects based. A development project can last up to two years and business fairs around three months and up to 10 persons are involved in the projects. The project leader does not have a special project education but is an individual that has been involved in many projects at the company and has a good general view.

The founder of the company is a key player. He is a real innovator and is still active in the company but his competence is now spread among the employees. The turnover of employees within the company contributes to many contact areas towards the customers which also lead to spreading the knowledge.

8.2.2 Vision and Strategy

They have no clear strategy but innovations and working business solutions are their core business according to the sales manager. They have a conscious concentration on growth and want to be dominant in the market. The market is immature but because the company’s resources and capabilities are restricted it affects the growth. The company has taken some other ways and has partnerships with companies with a close-at-hand business and is selling a more concept-based offering. The co-operations have been a part of the growth strategies.
The long-term goal is to be dominant in the market in five years. Goals on the short-term basis were previously nothing the company had written down. However, a year ago the new sales manager thought it was necessary for the company to have concrete goals broken down for each department. Especially when so much is happening all the time it is important to know what everyone is doing. This work is different at each department, but at least they have short-term goals now. The only department that has had short-term goals during a long time is the production department.

The vision of Company B is the same as the strategies, i.e. to become dominant, and the focus is clearly external. The sales manager can not say if the vision of the company and the goals were known among the employees before, but now they have meetings every sixth months where these are intermediated.

8.2.3 The Manager
There has recently been a change in the CEO- position and the new CEO has just been in the company for a few weeks. The new CEO is around 50 years old, has a Master of Science and comes from a position as a CEO in a big corporate group. The old CEO was in charge from 2004 – 2008 but had been working in the company from 2003. Today the old CEO is 57 years old and has experience from working with smaller growth business.

8.2.4 Recruiting
The recruiting of employees depends on which position needs to be filled. For the position as a CEO usually a person from outside the company is recruited. Otherwise it is more internally restructuring. They also advertise for people in newspapers and on job searching web pages or use their contact network. They do not think that they have a lack of competence, but sometimes the recruiting of personnel take longer time than expected.

The company has a lot of engineers employed, both with a Master of Science degree and Master of Business Administration.

8.2.5 Manpower Care
There has always been a low turnover of employees but different from earlier years recent year has had many new employments. During the performance appraisal every employee has once a year a discussion over what that person wants and needs is held. If a need is found the company tries to put together a course in-house or by external help. There is always some supplementary training course ongoing in some part of the company.

The employees also receive contribution for health care and have opportunities to get massage. Moreover there is a gym at the company. Another way to actively motivate the employees is to arrange festivities for all the company.

8.2.6 Competiveness
The company is really good at innovations that lead to new technologic solutions, according to the sales manager. They also have an eye for business opportunities and focus is on the deal. They sell a concept, a solution with additional products, and this is what distinguishes them from their competitors whom are more traditional producers.

8.2.7 Product Development and Innovation
Their product entered the market 16 years ago and has under that time been improved and developed periodically and still they improve their product and concept continuously.
The business has been expanded over the years, for example they did not find a sufficient supplier for one of their components and therefore they started producing it by themselves. They also have additional products to offer their clients. The company has around 50 patents and applies for new ones every year with the budget for R&D around 10% of the net turnover.

### 8.2.8 Market

The company is the market leader in all markets for example they have 90% of the Swedish market and over 50% of the US market. They do not enter a new market if they can not get at least 50% of market share in a short-term. They have many local competitors and there are also competitors that produce substitutes but not the same product. The company’s customers are spread all over the world with the most of them situated in Europe, North America and Asia. They have 85% exportation and the company has been exporting since day one.

The company has two business areas, whereof the oldest stands for 80% of the net turnover. The newer area is almost three years old and is the fastest growing one. They have a new area coming up but the business has not started to take off yet. They have a business solution with an additional product that works as aftermarket for the first product.

Their customers are regional contractors and the distributors are the company’s middle hand to contractors outside Sweden. The distributors have other products but no one that competes with Company B’s product. Company B has a lot of small customers, and usually they sell to few-man-companies. No client is dominating. The U.S. market is the individual largest one and there they have one dominating client. Due to that they often sell to few-man-companies it results in that they have a lot of customers in Sweden. In other countries they use distributors which on the paper are just one customer. The customer relationships the company has via their distributors are under continuous evaluation. The company has long and also considerable shorter customer relationships.

They use different channels to marketing themselves towards their customers. They always try to be present in person at big fairs all over the world. Traditional advertising are used to make possible clients conscious about them. In other countries it is the distributor that has the direct contact with the customers. The company also has different forms of collaborations in forms of sponsorship, lectures and training-courses to marketing themselves.

From the distributors they get to know, in some part, what the customers’ needs are. The company offers training for their products and this is a good forum to become aware of customers needs also. They are good at listen to what the customer wants but also use their own ideas. With help from their distributors they keep an eye at the competitors. Another way to know what the competitors are doing is to look at patent requests or if someone is trying to intrude on their patents.

The company does their own market research. If they know that there is a need but want to receive more details about the market they use a model they say is similar to Porters five forces. Sometimes they have used the Swedish Trade council when entering a new market but with a mixed result, in some countries it work without problems and in some the collaboration does not work. Now they use external consultants in interesting countries. Another way to reach out to customers is to use the channels of rental companies they already cooperates with and sell trough them.

### 8.2.9 Networks

The relationships with suppliers are important for properly functioning equipment. Alliances and agreements with international companies within similar business areas are important for business
and for lobbying. The company is also a part of a bigger contact network in an industry association. There is always more collaboration that could affect business in a positive way and the company works actively to find new collaborations and to strengthen the already existing ones. The need for collaborations has augmented since 1997 due to the internationalization of the company. The recent five years’ collaborations have been a part of the company’s growth strategies.

They have a close relationship with a university there they participates in different projects, for example to develop their business concept or products.

The logistics are handled by external transportation firms. Now they cooperate with two major ones, one from a “several year’s” collaboration as well as a new one. The contracts with the transportation firms are evaluated continuously. Some of their national customers have their own contracts for transportation.

8.2.10 Location
Company B is located relative near several bigger cities, close to the motorway and has an airport and a university in around one hour way from the company. The location does not affect the recruiting of personnel and the company always has a group of persons that are interested to work for the company, according to the sales manager. At the head office they have a training academy for their products which they run around 15 times a year. Finally they say it is good to be located near an airport.

8.2.11 Laws and Regulations
The sales manager with whom we have spoken with thinks that Sweden is at the front edge when talking about laws and regulations. A company that follows the Swedish system is ahead compared to laws and regulations from the EU. The company always tries to be at the front edge. In the U.S. market, the customer demands more due to the fear of receiving legal actions or other consequences.

The company does not have ISO-9001 or ISO-14001 certification. They have prepared for the certification for ISO-14001 but it is nothing that the customers ask for. If they would certify the company would it be only for marketing.

According to the sales manager Company B’s products are more environmental friendly than their competitors. The company tries to develop products that are ergonomically and more environmental friendly for the user because this gives competitive advantages.

8.3 Analysis of Company B

8.3.1 Internal Factors

Organization
There are no clear responsibility areas in the company, instead the areas flow into one another. Then there is a risk for overlapping or that something is missed. This can have its advantages and disadvantages, but when it is positive it gives flexibility. Andersson (2001) and Bruzelius & Skärvad (2000) argue that a company needs to be flexible to be able to change with growth. Company B has during the last years grown fast and the flexibility has thus meant that people take responsibility for more things even if it was not their responsibility from the beginning. Even if the organization is not structured to 100 % they get the job done. But it is not good if the organization is not structured
under a long time, if they miss something important or a decision is made without further thoughts it can have bad consequences for the company’s success.

The company has an informal atmosphere and strives to ensure that all employees feel important for the company. If a person wants to progress within the company the management helps with the process. The company has also tried to get a friendly working environment which can help to motivate the personnel to do a good job and enjoy the working day. This helps the company to receive a company culture which according to Peter & Waterman (1982) is important for the results of a company. It can also be seen like the company is controlled with the soft methods Andresson (2001) talks about. Either way it is important for the company’s outcome. These factors in combination with the short decision paths within the company gives the characteristics Bunse & Naessén (2002) says are central in a successful SME.

Ahrens (1992) claim that networks within a company can be seen as the company’s mastic. One way to get these networks is by working in projects where different persons are involved. Company B has had project based work for some years, usually for development work, where up to 10 persons are involved. This implicates that the people involved in the projects gets to know different person and learns to cooperate with everyone. According to Bruzelius & Skärvad (2000) is project based work getting more important for a growing company and it contributes to its flexibility,

**Vision and Strategy**

The strategy in the company is to be dominant on the market and to grow. To be different from the competitors the company has collaboration with close at hand business so they can offer their customers a concept and not just a product and these collaborations have also been a part of their strategies. How a company links together its resources is according to Normann & Ramirez (1993) what strategy is about. In Company B’s case it seems like they have linked together different resources in a good way so they can offer their customers more value. The company also has growth as a part of their strategy which Andresson (2001) claim important for growing companies when it needs planning. He also says that to reach growth is clear goals and visions of importance.

Previously, the company did not have short-term goals except for the production department. There it has been a change and hopefully will move more people feel that they work towards the same goal. The long-term goal for the company is to be dominant on the market in five years and according to Bunse & Nasen (2002) is success strategy about planning for the future.

The vision often is the guiding star in a company and the strategy is the mean to reach the vision. Company B’s vision is the same as the strategy which could be negative. Ahrens (1992) argues that a vision needs to be genuine and have an external focus. This is true for Company B’s vision. It is simple and has a focus on the market. But to have the same strategy as vision could be negative for the company. It would be better if they kept the vision and reformulated the strategy to be a map for the company so it could reach its vision.

**The Manager**

It is difficult to say much about the managers in Company B due to the little information we have about them. But what can be said is that the old CEO was quite young and had experience from growing companies. He knew the company before taking the position as a CEO which can be positive because then he knew how the work was done but he did also know areas he thought should be improved. Wiklund (1998) says that a younger CEO gives the company bigger chances to grow and if the manager is for example striving towards sales growth it contributes to the firms success which could be the Company B’s case. The old CEO had an interest in changing and growth and got the
company to grow fast in little time. The new CEO also has good experiences which can help the company to maintain its success.

**Recruiting**
The education level at the company is high and it does not seem like they have problems finding persons to employ. By recruiting internally the company already knows the employees, its competence and how they fit into the group. To find the person with the right education and dedication can be a critical thing for a company that wants to grow according to Ahrens (1992) and by this internal recruiting we think that they can avoid uncertainty. Usually the company recruits CEO’s from outside the company which can be negative in the way that then they do not know the business, but also positive because by coming from outside the company they enter with new eyes on the business and are not afraid for changes that a person from within can be afraid of doing. Storey (1994) claims that the recruiting of managers can be a factor connected to the success of a company.

**Manpower Care**
The fact that the company always has had a low turnover of employees indicates that the personnel generally enjoy working for the company. Of course it can mean that the employees are lazy and do not care for the jobs they perform, but more truly is that the employees feel that they are important for the company and that the company invests in their employees. One thing that shows that they invest in their employees is that they offer all personnel supplementary training if interests or needs exist. Another thing that the company does to keep the personnel motivated and with good health is by the festivities and the contribution the company offers their employees. Supplementary training is a way of keeping employees according to Pansiri & Temtime (2008) and it is also important for maintaining the competence within the firm argues Bunse & Naessén (2002).

**Competiveness**
Stalk et al. (1992) talk about a few dimensions to combine to outperform the competition. Company B has combined their innovation ability, their feelings for the market and focus on demands from the market into a solution that brings more value to the customers and that often leads to new technologic solutions. The innovation mindset in combination with the eye for business opportunities is one of the company’s strengths and when it is difficult to create or imitate for the competitors it is the company’s core competencies according to Prahalad & Hamel (1990). It is from their core competencies the company develops their business and this is according to Peter & Waterman (1983) is important to reach excellence, by keeping to the business the company masters.

The company has a key person in the founder and he is still in the company but his knowledge is spread among the employees according to the sales manager. We believe that when this person leaves the company it will suffer. This could possibly be not as much if his knowledge was not spread among the employees, but still it is difficult to know how much he affects the daily business and how much his innovativeness works for the business today. So for now he is labeled a core person in the company.

**Product Development and Innovation**
As Kotler & Armstrong (2003) argue, for every product that goes through a life-cycle, Company B has gone through its life-cycle and under the years have developed to better suit the customer’s needs and expectations. The company has also introduced complements to their products on the market and in that way expanded their business. In a way they have by doing that gone from their core business but on the other hand the company has used their core product and the innovation ability to offer a good complement to its product which gives more value to its customers and a competitive advantage for the company towards their competitors. To have technological innovation gives
competitive advantages according to Taylor et al. (1990). From the value and volume graphs for the company we can see that during later years the company has had quite a fast growth which could be explained by the technological sophistication (patents, R&D, qualified personnel) of the company according to Storey (1994) in combination with the development of the product.

8.3.2 External Factors

Market
The fact that the company is a market-leader makes them strong against possible competitors that enter their business area. Probably this will not happen, at least not in Sweden, where they have 90% of the market share and it seems unlikely that it would happen in the U.S.-market also. Fast-growing companies in the opinion of Ahrens (1992) have identified a niche where they operate and this seems to be true in Company B’s case.

The company has also spread the risk with “niching” as Kotler & Armstrong (2003) argue is important. They operate in two areas with a third coming up and always look for changes in the market by, for example, being present at business fairs and keeping an eye on new patents that arrive. By doing this the company never stands unprepared for market changes. Linneman & Stanton (1991) claim timing is everything and therefore it is important to always look for changes in the market. The clientele is big and no customer is dominating, except the U.S.-market, which can be seen as another way to spread the risk with “niching.” The said company does not have a local focus, instead they aim for worldwide. This mindset, to be global, will help them to grow according to Storey (1994).

All companies need to know the market and their customers. Company B uses different methods to obtain this knowledge. From their distributors they get a lot of information about the customers but also the competition. If a company lacks knowledge about the market, the competitors and its customers it can be a constraint to growth as per the theories of Wiklund (2001). To have a good customer understanding implies according to Peter & Waterman (1982) to listen and learn from the customer. The company provides an academy for their customers for increased interaction between them, including mutual interchange of ideas and thoughts which is important and a good way to marketing the company. The company mixes the customers needs and demands with their own ideas which can be a winning concept.

Kotler & Armstrong (2003) emphasize the importance of marketing research and that all companies, small or large need information about the market and the customers. Company B takes external help to learn about a new market but they also perform their own research to learn more about the demand from the market. This combination seems to work very well and they seem to know what to do with the information they achieve from research.

Networks
Kotler & Armstrong (2003) argue by choosing alliances that this compensates for the company’s weaknesses and complement its strengths. By choosing strategic alliances that are successful it can affect the company’s profit positively. Company B has all possibilities with the alliances and relationship with suppliers they have to grow and be in the front-edge with their products. It seems likely that the company is aware of all the possibilities they can achieve success with the right collaboration especially when they have it as a part in their growth strategies. This can surely be one of their success factors. They are also aware of the importance of having good distributors. The company would have difficulties to export in the same extent if they did not have the distributors. To have good contact with the distributors is important for the business. Terziovski (2003) claims that business excellence is affected positively by network practices and Company B’s network with its
distributors could contribute to the performance of the business. Another way the company affects its business positively is by the collaborations for marketing themselves by sponsorship, lectures and training-courses.

To contract external actors for handling the logistics, which the company continuously evaluates, assures the company that the deliveries of their products will function without difficulties. This is a key success factor for excellent performance as per the theories of Gosch et al. (2001).

Location
The company is situated near bigger cities which according to Levin & Weström (2003) has a positive impact on the growth of a firm. By being located in the vicinity of a university, the company uses this to its advantage and has a close collaboration with different departments at the university. Jacobsson & Lindblom Dahlstrand (2001) say that the origin of new technology based companies’ affect the growth and that clusters are created where companies interact with universities. From the university the company can receive both workforce and competence which can help them to be in the frontline of the technology. The company is easily accessible and according to Storey (1994) this can lead to employment growth. The company always has people interested in the company and also by looking at the graph for the distribution over employees the recruiting of new personnel has been positive the last years, so it seems that the reality and the theories match up with each other.

Laws and Regulation
According to Nutek (2005) and Levin & Weström (2003), laws and regulations are a large constraint to the success of a SME. Company B does not see laws and regulations as a constraint and instead they see it like a positive thing that can help them to remain at the forefront. To have this attitude, and see laws and regulations as business opportunities could help the company to receive competitive advantage and could be one of this company’s success factors.

The thoughts the company has about developing products that are ergonomically and environmentally friendly can give them competitive advantages in the opinion of Nutek (2003). If the company certifies for ISO certifications, it also can give them marketing benefits.

8.4 Conclusions: Company B
This company has had a value growth at 9,075 % during 1997-2006 and the average profit margin for these ten years is 6 %. The profit margin is positive and therefore Company B is classified as a successful company. During the same time the company’s volume growth has been 890 % which make this a company that has been successful both on value growth and volume growth. It has also been a company that has gone from being a small company to a medium-sized company. The success probably comes from a decentralized organization with an informal atmosphere, motivated employees that are developed with supplementary training and a strategy with clear goals and growth as a part of it. Other factors that can have affected the company’s success positively are their core competencies, product complements, market leadership in combination with the high level of exportation, the knowledge of the market, the collaboration with university and other partners and to see laws and regulations as business opportunities.

Factors that can have affected the company’s success negatively are that the vision is the same as the strategy, the lack of short-term goals, the lack of clear responsibility areas and the fact that they are not certificated according to ISO.
9 Case Study - Company C

This interview was performed with the CEO during a visit to the company. The information in the introduction is mostly from Affärsdata (2008).

In brief:
- Selection: Value growth
- Ranking:
  - Volume growth: 20 (1,004%)
  - Value growth: 4 (24,597%)
- Average profit margin: 4 %
- Average solidity: 13 %
- Average liquidity: 100 %
- Average return on working capital: 13 %
- Employees 2007: 39
- SNI - code: 28 (machinery and equipment)
- Geographical area: Svealand

9.1 Introduction

The company was founded in the late 1940’s and supplies the worldwide market with its products and services. The company is a strong global player in its industry which sets standards worldwide and helps its clients to fulfill their promises.

- During the fall of 1999 the company moved in to new modern office facilities. After a reorganization all the employees of its associated company are now a part of Company C.
- In 2000 the company took important market shares and became the market leader. To be able to manage the growth, new competences joined the company.
- During 2001-2002 the company suffered from a decreasing inflow of orders but maintained its leader position. In 2001 the company introduced a new product at the market.
- In 2003 the selling of the new product exceeded the budget with 80% but due to devaluations in the stock the company had a negative result. Also in 2004 the selling of the new product exceeded the budget and a strategically important order was received.
- In 2005 the selling of the new product accelerated and exceeded the budget heavily but due to the recruiting of new personal the company managed the expansion. A large strategic order was thereafter received.
- Also during 2006 the company exceeded the budget with their product. Three new smaller products were introduced to the market.

From the annual reports during the 10 years we have investigated we can see in the graphs (see Figure 20-22) that the introduction of a new product has been important for Company C’s growth and surely for its position as market a leader.
9.2 The reality of Company C

9.2.1 Organization

In 1963 the company started to develop and manufacture special machinery for the industry it acts within. There are 45 people working at the company whereof five work in the production department and four in material support.

The company has grown significantly over the past years but the old organization has not been adopted to cope with this growth. The previous CEO had an extensive operative focus and took all the decisions, even customer relations. The new CEO is establishing a clearer organization and recruiting new managers for the key positions. A new organization has been established this year where each head has a clear responsibility and employees are more empowered to take decisions themselves.

The supply chain consists of about 100 customer projects per year. The customer project length is around 12 – 16 weeks long, from initiation to conclusion. The process is well documented but there are no project managers appointed for each project. From the 1st of December each project will have a project manager appointed to increase the efficiency and ensure that all tasks in a project have clear ownership.

The company culture is informal and the efficiency is high. The employees are good at what they are doing, work hard and take plenty of responsibility. It is important to solve a problem, but it does not necessarily have to be the finest solution. The employees are characterized by their efficient means of working and the business culture has been formed as such from the beginning.

9.2.2 Vision and Strategy

Company C’s business concept is to be the global leader in the design and manufacturing of advanced technology products for its business industry. The internal business idea is to master quality and improve lead time.

Growth has always been, and still is, an important part of the company’s strategy. The goal is to double the net turnover and the profit within four years. To set goals on a four year basis is, according to the CEO, an adequate time horizon and therefore the goals are reachable. The CEO has tried to set goals on both the company and group level and wants to establish a structure for each
department with their goals and business ratios. The short-term goal for the company is to survive through 2009.

The strategy for the company is to lead the transformation of its business market and maintain the product leadership as well as increase customer intimacy and operational excellence. One important aspect for the company is to reduce the incomplete deliveries and only deliver complete products.

Earlier the company had financial goals such as profit, but the goals were not broken down into concrete partial goals. The employees did not know who was contributing with what to reach the goals. By the help of monthly meetings the CEO now works to communicate the company’s goals and vision to the employees, which is important according to him for the betterment of the company.

The company’s vision is, in combination with their core competencies, products and services together with their customers and partners, working to improve the efficiency and profitability for the industry. The vision stands for good quality. Currently the focus of the vision is mostly internal but the customers are included as well. “The customers are an important part of everything” is stated by the CEO.

9.2.3 The Manager
The company recently changed the CEO and the new CEO has only been within the company for seven weeks, at the time of the interview. He has a Master of Business Administration and 15 years working experience from a larger company. The previous CEO had been in that position for 9 years and was 30 years old when he started his career at Company C. He had a high school diploma and the CEO position at Company C was his first chief position. He practiced a trial and error approach in his work.

9.2.4 Recruiting
The recruiting was earlier managed by recruiting companies, but the new CEO wants to recruit more through contacts or recommendations. The level of education is quite low and the majority of the employees do not have a higher education. Four of the employees have a Master of Science degree. The company does not lack any competence but the CEO would like to have an advanced quality manager to strengthen their competiveness and become the market leader. Other desirable competences are project leaders and people for the support department.

9.2.5 Manpower Care
The employee turnover is low at the company. Salaries are not high compared to the industry but people seem to enjoy working at the company. Once a year a performance appraisal is performed with every employee, in which the competence of each employee is discussed as well as a need for supplementary training. Training is performed principally on demand from the employees. All personnel competence development is documented. Another way to motivate the employees is by offering activities outside working hours e.g. a dinner party when the old CEO quit.

9.2.6 Competiveness
According to the CEO one of the company’s strong points is that it has the best technical product compared to their competitors. They are the fastest, most reliable and the smallest actor on the market and can adapt the product to some extent to the customer’s needs. Compared with the competitors they have the most expensive product, but the technical solution is better and the product has a smaller size.
9.2.7 Product Development and Innovation

In Sweden the market for the product is mature and they have sold the product since the 1960’s, but in the rest of the world this business is on its way up. The company has a wide variety of items due to their standardization of commodities to receive economics of scale. To some extent the company does offer service of their product, but the focus has been on selling the product and the spare-parts. According to the CEO the company has not performed well with aftermarket products. Instead the products have been the most important, not the business around it and therefore they need to focus more on the products already installed.

Company C’s products have been developed over the years and they have patents on some parts of the product. In total the company has nearly 15 patents. Less than 5 % of the net turnover goes to R&D and the development and construction of the products are the design-team’s responsibility.

To some extent they develop the product in customer projects and the company wants to work closer to the customers to better understand their needs. Up to this point the company has not put much effort in following-up their products to understand why some products work better than others.

9.2.8 Market

Currently Company C’s product has its largest market in Scandinavia and the Netherlands but there are new potential markets. The market, overall, is very large but at the same time underdeveloped. Today the company has a 60 % global market-share and a good position in the market. The business opportunities come in trends and currently they do not have many competitors. There is one competitor in the U.S. that was previously a part of this company.

The company’s customers come from all corners of the word but as mentioned before the most important markets are Scandinavia and the Netherlands. The company sells 30 % via agents, 60 % to machinery producers and 10 % directly to the customers. According to the CEO agents are good for a mature market and direct selling is good for an immature market. The largest customer for Company C corresponds to 20 % of the net turnover but Company C is the main supplier so the relationship between them is really good. Usually the relationships between Company C and its customers are good and durable.

Earlier the customers came to the company for products and support, but now the company works to be more offensive and thereby grow more. The marketing is mostly realized trough agents. The agents do not work towards end-customers and therefore Company C works to create a need with the end-customer to be able to grow. It is the agents’ responsibility to find out which needs the customers have. The company has not done any market research before but now they have a need to investigate which customers could be interesting for the company.

9.2.9 Networks

Aside from the cooperation the company has with agents and suppliers, the company does not have any collaboration partner except for handling transportation and other logistic matters where they use larger transportation companies. Sometimes the company cooperates with a customer to develop the product. They do not have cooperation with a university but acknowledge the advantages with a technical collaboration from a university to be able to maintain their technical leadership.

9.2.10 Location

The company is located close to a big city, a motorway, an airport and a university. The CEO has no particular opinion concerning the location.
9.2.11 Laws and Regulations

The company tries to keep up to date with changes concerning laws and regulations, but finds it difficult to keep an eye on it all. In a small company it is not reasonable to have full-time worker for monitoring changes, according to the CEO.

In 2009 the company is planning to realize an ISO 14001 certification due to marketing reasons and customer demands. The company has had an ISO 9001 certification since 2007 and plenty of work is therefore already done to receive the next certificate. Certification is about perception, showing the smaller company’s professionalism, states the CEO.

The company does not have sustainable development as a part of its strategy. In the production no dangerous material is used. The company does try to have an environmental friendly approach concerning transports and travelling.

9.3 Analysis of Company C

9.3.1 Internal Factors

Organization

The previous CEO had all the responsibility and took all decisions, in other words he had a high level of control which indicates that the company did not have the flexibility a growing company required to be successful, according to Ahrens (1992). The new CEO has made changes and works to make the organization more flexible and with a low level of control which probably will be beneficial in the future since markets are changing as Andersson (2001) claims. The company views every business deal as a project and Bruzelius & Skärvad (2000) denote that a project based organization provides flexibility to the company. Even though the control level has been high, the company is flexible to some extent and will be even more flexible with the changes the new CEO is implementing.

Andersson (2001) argues that a growing company is controlled with soft methods. Often the business culture has such a soft method. Company C has a genuine culture that has been built up during a longer period of time. It is characterized by informality, taking responsibility and efficiency. Having a company culture is important for the company’s results according to Peter & Waterman (1983). Therefore, even if the company had a CEO that needed to have control over everything the business culture could have helped the company forward.

Vision and Strategy

Bunse & Næssén (2002) argue that a company can not reach success if it does not have a well formulated business concept. Company C has a short easily remembered business concept with an internal addition. The company also has a clear vision that is based upon the resources the company has, which according to Ahrens (1992) can give long-term success. He also claims that the vision should be related to the customers and what the company can provide them. Company C has integrated their customers in the vision and talks about how to make the industry more profitable which, per se, can affect the customers positively.

The company’s strategy concerns growth and how to double the volume within four years. Another part of the strategy is to reduce the number of incomplete deliveries; this focus was introduced by the new CEO. To have growth as a central part of the company’s strategy is according to Andersson (2001) important since growth requires planning. Moreover, it is also essential to have goals and the company has had financial goals throughout, but lately these have been broken down into more concrete sub-goals providing the employees with information concerning how their work contributes
to the company’s growth. Bunse & Naessén (2002) say that it is important with long-term and short-term planning as well as a plan to reach the goals, which we think this company has.

The Manager
The new CEO has an adequate education, good experience and knowledge from his previous position. The previous CEO did not possess the kind of education recommended for managing a company according to the theories but he was dedicated to his job and continuously learned during the time spent there. A good level of confidence could help the company towards growth by the opinion of Westerberg (2001). On the other hand Bansiri & Temtime (2008) argue that it is critical for success to have basic and strategic management skills. This could be the reason the company did not grow until the last years in the investigated period. The CEO had to learn and develop his management skills.

Recruiting
The company has, according to the CEO, the workforce it needs but he would like to have a quality manager, project leaders and support personnel. Changes and other job positions could be required to be able to grow and take the company towards success. The workforce is according to the theories the most important thing a company has and, according to Levin & Weström (2003), lack of suitable personnel is one constraint for a company’s growth.

By recruiting from contacts or recommendations the manager will know that he receives the right person for the company, somebody that fits in and is dedicated to do the job which Ahrens (1992) claims is critical for a company that wants to be successful.

Manpower Care
A low personal turnover indicates that the employees enjoy working at the company. This can be due to the supplementary training the company offers to its employees if they are interested. The supplementary training does not only work as a motivation but often leads to options to enable the employee to hold more work tasks and have a higher level of cooperation which Bunse & Naessén (2002) claim important for a small company. Documenting the development of the employees and continuously having performance appraisals are ways to see what changes are needed and if the company lacks any competence.

Competiveness
A core competence is difficult to create, substitute or imitate according to Prahalad & Hamel (1990). The CEO says that the company’s strength is their technical solutions. A further strength is the relatively small size and productivity of the company, in other words the flexibility. Moreover, the customers have confidence in the company. All this is difficult for another actor to imitate or create and can be seen as the company’s core competences. But having core competences does not imply that a company is competitive. To receive competitive advantages Kotler & Armstrong (2003) indicate that a company needs to have customer knowledge that results in products with more value for the customers and also to have an understanding for the competition. Company C has developed a product with a solution different from the competitors; it is smaller and has a better technical solution. The company can also adapt the product after the customers’ needs. All this shows that the company has an understanding for the market which makes them competitive.

Product Development and Innovation
Kotler & Armstrong (2003) argue that to find new-product ideas it is important to use both internal and external sources. Company C develops to some extent the product in cooperation with its customer but more often it is the design-team that has the entire responsibility for developing the product. Through the cooperation with the customers the company receives information concerning
customer needs and hopefully the finished product can thereby bring more value to the client. If this cooperation is extended this could give the company more competitive advantages in the future.

The company has developed its product over the years, which has resulted in some patents. Moreover, they also invest some of the net turnover in R&D expenses. This is often associated with a firm’s technological sophistication according to Storey (1994) who also says having high technological sophistication affects the growth positively.

Storey (1994) argues that renewal of customers and products affect the success of a company positively. If the company starts to work more with the aftermarket this could be a way for the company to grow more and renew the customers received value.

### 9.3.2 External Factors

#### Market

The company’s product has most market shares in Scandinavia and the Netherlands with new small markets to come. Consequently, even if the market is large it can be seen as a niche due to the fact that it is underdeveloped. Kotler & Armstrong (2003) claim that a niche attracts relatively few competitors. In Company C’s niche there are only a few players and the company is the market leader. Kotler & Armstrong (2003) also argue that a company should spread the risks over more than one segment. Company C has the largest market share so it can be difficult for another actor to enter the segment which can be seen as one way to spread the risks. The other is that the customers for Company C are spread all over the world which is also a way to spread the risks.

The agents have the responsibility to find information concerning customers’ needs but the company also works towards end-customers to create and listen for needs and demands there. To continuously look for changes in the market is important for a growing company according to Linneman & Stanton (1991).

The company’s exportation level is quite low since it generally exports to Scandinavia and the Netherlands, which are markets similar to the Swedish culture. But even so, the company does export and companies that export are more likely to grow according to Storey (1994). If the company should export in a larger extent they would export the same product currently under export, which seems could be positive for them according to Taylor et al. (1990) who claim that an international market can serve as a strength, especially if the company stays in the same niche.

The company has not done any market research before but has begun to perceive the need for one. For that matter, an easy way to conduct market research is to listen to customers’ needs and complaints according to Kotler & Armstrong (2003).

#### Networks

The company has collaborations with agents and suppliers which are important for the business, but they cannot be seen as strategic alliances. When the company develops products in cooperation with customers it is more of a strategic alliance. The company has chosen to cooperate with someone that complements its competence, which according to Kotler & Armstrong (2003) is important for a successful alliance. Even if the company is close to a university there is no collaboration between the two parts. This lack of collaboration could be due to shortage of time to develop such collaboration. If the company started to cooperate with the university it could be helpful for maintaining its technical leadership. To recruit a person with technical expertise could be expensive and through an alliance with the university the company could overcome these limited
resources. This could lead to e.g. mutual learning, which Hoffman & Roman (2001) argue is a critical success factor in alliances.

The company also has cooperation with logistic partners that handle all transports. This is a good way to assure that the deliveries work without any problem from the company’s side and according to Gosch et al. (2001) the company’s success can be affected positively with good delivery systems.

**Location**
The company is well situated and the CEO had no particular remarks concerning the location. The region provides the needed workforce and it is easy to visit the company for customers. The vicinity to a university can give the company advantages if it chooses to use the competence the university holds. The vicinity to a big city can affect the growth positively according to Levin & Weström (2003) which can help spring this company forward.

**Laws and Regulations**
The CEO thinks it is difficult to keep updated with all laws and regulations and would gladly have someone that worked with it full-time. If Company C can not keep the company updated with changes it can become a constraint for growth in the opinion of Schmidt et al. (2007).

The theories talk about the interest among companies to develop sustainable development strategies. Company C has not worked much with sustainability which could be because it does not have any dangerous materials in their production. But they are getting the ISO 14001 certificate which is a step towards an environmental policy that will help them expand their business. Nutek (2003) claims that a company that has strategic environmental work has a competitive advantage over its competitors.

### 9.4 Conclusions: Company C

This company has had a value growth of 24,597 % during 1997 -2006 and the average profit margin for these ten years is 4 %. The profit margin is positive and therefore Company C has been classified as a successful company. During the same time the company’s volume growth has been 1,004 % which makes this a company that has been successful both on value growth and volume growth. The success probably comes from the company’s flexibility, a genuine company culture, a clear vision and growth strategy and its technical solutions. Other factors that can have affected the company’s success positively are their technological sophistication, cooperation with customers and the location.

Factors that can have affected the company’s success negatively are that the previous CEO had a high degree of control and not much experience of managing a company. Also, the market in Sweden is mature and not expanding and that the company has not taken time to search for more strategic alliances.
10 Case Study - Company D

We performed two interviews to obtain enough information concerning Company D. First, an interview over the telephone with the CEO of the corporate group was done. After this interview we still lacked information concerning the period 1997-2006 and decided, with the advice from the CEO, to interview one of the plant managers who worked at Company D during some of this period (also over telephone), even though she had another position at that time. The information in the introduction is primarily from Affärsdata (2008).

In brief:
- Selection: Volume growth
- Ranking:
  - Volume growth: 17 (1 113 %)
  - Value growth: 176 (742 %)
- Average profit margin: 4 %
- Average solidity: 49 %
- Average liquidity: 133 %
- Average return on working capital: 8 %
- Employees 2007: 142
- SNI - code: 18 (printing and reproduction of recorded media)
- Geographical area: Svealand

10.1 Introduction

In 2000 the company had two plants and one rented in three different locations. The costs for new equipment are high and the whole capacity was not made use of during that year. The next year showed that the income was stable and covering of capacity was good. At the time, the value growth started to increase more, see Figure 24. In 2002 changes were made in the corporate group structure and a name change was performed. In 2003 some major projects were realized e.g. business development and organizational development. Significant investments in new equipment and facilities were realized during 2004 and only two facilities were in order causing high covering and hard working employees at the remaining two. Also, only operating with two plants caused a decrease in the result. During 2004 the value growth stabilized. A significant order lasting several years was signed in 2005 which gave good covering in capacity. This can be seen in the Figure 23 where the turnover increased during 2005 and 2006. The significant order also had an affect on the number of employees in 2005/2006 which is illustrated in Figure 25. The corporate group changed owner bringing a new CEO. In 2006 the third facility was sold and the sales organization was centralized. The reason for the value not growing in the last years could be the cause of major investments.
10.2 The Reality of Company D

10.2.1 Organization

Company D has 140 employees divided on the two plants, A and B, whereof both have their own plant manager. Under the plant manager there are two more levels before the production staff in one of the plants while the other has one level less. This is because one of the managers had skills to fill two positions. Plant A has 56 employees of which 11 are salaried employees, while the rest work for Plant B and 9 of them are salaried employees. The education levels are in general low, but the CEO has a Master of Science degree and the plant managers have a background in project leadership and engineering respectively.

The organization before 2005 was characterized by detail control from the top. The previous CEO made all decisions and every issue had to be processed by him. No one else dared to make a decision of their own. In the current organization efforts are made to make the organization flatter. The sales organization has changed in the opposite direction since 2005 since this part of the organization has gone from being close to the plants while it is now a central department with one marketing director for the whole corporate group. The current plant manager says they worked closer and tighter before and the decisions channels were shorter. Now a sales person can not make decisions when meeting the customer but rather report to a central planning function which is responsible for distributing the work.

For the corporate group the responsibility for decisions is being pushed down in the levels and the different managers (for production, economy, staff etc.) in the corporate group have mandates to make decisions. The CEO believes there are all conditions for work leaders to make decisions, since the production is constantly running and the managers do not work all the time. Systems of rules with job descriptions and mandates makes it is evident who does what according to the CEO. He also emphasizes that it is ok to make an incorrect decision since they encourage assuming responsibility. The organization does not have any key persons upon which the activities rely and could not function without. The CEO claims that if these kinds of key persons would exist, “it would be a fundamental fault in our company culture.” The corporate group has made an effort to create a company culture since this is of great importance when they buy and sell companies regularly. The culture includes common values and the emphasis is on informality.

Company D works in both small and large projects depending on the content. Expansions and changes in the equipment have occurred several times and these changes have been operated as projects with 3-5 people and lasting from six months to a couple of years.
10.2.2 Vision and Strategy
For Company D it has been a conscious choice to grow, and the most significant factor for explaining the development, according to the plant manager, was the arrival of a new major customer. The vision before 2005 was to expand in the Nordic countries but this goal was not established among the employees. The current vision is formulated as trying to be best in a borderless market with a geographical expansion outside Sweden and offer a wider range of products and services.

Before 2005 a good result in the annual reports was what counted. The goals were set on a company level only. After 2005 the follow-up of goals has improved with separate goals for both the production and the economy, and the results are reported every month for a follow-up. The current strategy for the corporate group is to continue to develop and more than double the turnover until 2012. This goal has been broken down and communicated within the group at an information meeting. This meeting normally occurs once every year.

10.2.3 The Manager
The CEO of the corporate group, as well as for Company D, is 47 years old and has worked for the corporate group since 2000. In 2005 he also became the CEO of Company D. He has a Master of Science degree and has extensive experience in production, purchasing, logistics and sales from an adjacent industry. He has on several occasions received supplementary training. The previous CEO for Company D had had that position for 18 years and left in 2005, after the major order was won. He listened to the people he trusted and then took the decisions on his own. The current plant manager describes it as “a one man show.” His way of running the company has been described above.

The plant manager for Plant A started working in the company in 2001 as project leader, before advancing to plant manager in 2008. The previous plant manager had the position 2003-2008. He had no academic degree, while the current plant manager has one year in a technical university.

10.2.4 Recruiting
Operators are generally recruited via contacts and rarely by advertising. Internal recruiting and recruiting firms are common ways of finding people for salaried positions. The company does not lack any competence at the moment but the CEO emphasizes the need for fresh ideas. In general the education levels are low with approximately two people at each plant who have academic degrees, e.g. the plant manager for plant B who has a Master of Science.

10.2.5 Manpower Care
The employee turnover is low both for the production staff and the salaried employees. The CEO does argue this is both positive and negative. The positive side is that the employees probably like working at the company, but the downside is the lack of new employees with new fresh ideas. Performance appraisals exist but very little supplementary training. Since 2005 the corporate group makes employee surveys every other year. Internal recruitment and a relatively high level of wages keep the staff motivated.

10.2.6 Competitiveness
The corporate group has several facilities with a spread in geography which gives flexibility. The CEO believes their high capacity and high precision in delivery are strengths, as well as their strong owners. Also, being a big corporate group provides benefits when dealing with suppliers since the group gets good deals. Furthermore, their strong customers imply less sensitivity to market fluctuations than having smaller customers. The things that make the group different from its competitors are according to the CEO, above all their geographical positions, the range in the product offers and their strong owners.
The company’s strengths are, according to the plant manager, committed employees, the ability for innovation and working close to the customers. Competitors in this industry traditionally carry out the daily work and work with some particularly customer, without thinking in a wider perspective. The former owners of Company D had another vision and were open to development and instead turned to new markets, found new customers and new possibilities.

10.2.7 Product Development and Innovation

A product council is used in the corporate group to generate new ideas for sources of income. The product council consists for different competences within the corporate group and the ideas are viewed from a customer perspective to see how to develop the offer. The group does not have any patents and no budget is specifically done for the R&D. The product development at Company D has always been customer initiated and an idea from customers is discussed between Company D and its suppliers to reach a new product.

10.2.8 Market

The corporate group acts in 8 different segments but Company D only produces mainly for one segment at each plant. The market has been characterized by growth, tight price competition and several competitors, especially in the segments in which Company D acts. The group is the Nordic market leader but still 85-90 % of the customers can be found in Sweden. The export started in 2001 and Company D has 5-6 competitors in about the same size range.

The total number of customers is 50, and they are significantly smaller than the one dominating customer Company D has. The customer relationships are in general long and three are actually 20 year-old co-operations. The major customer Company D obtained during their period of growth is still the most important, with 20-30 % of the turnover. The company would still function without this customer but it would require changes in the production planning and also some resignations. This major order was obtained with the help of both luck and credibility. The customer usually used another supplier but during technical problems at the supplier’s facility the customer turned to Company D. When the customer was suppose to renew its contract with the supplier it chose to sign a contract with Company D instead since its deliveries could be trusted.

The sales organization is as above mentioned detached from Company D and serves the whole corporate group. The plant manager refers to this as “loosing a bit of attachment with reality” meaning the communication is more difficult and if a seller promises something to a customer it might not always be possible to implement in the production.

The numbers of customers on the Swedish market are limited, hence the sellers are able to regularly pay a visit to all of them. Besides the customer visits, initiated by the sellers, the sales persons also try to be present in forums attended by the customers, such as different fairs. This close contact with the customers has proven to be important for new product ideas and customers demands. Additionally, customers provide information concerning the competitors. Suppliers and new equipment purchases by the competitors are also channels for this kind of information. Market surveys have also been performed by the corporate group to investigate the position of the brand and to make improvements in the different segments to keep the position as a market leader. These investigations have been performed by consultants, and also sometimes by the Swedish Trade Council.

10.2.9 Networks

The present cooperation is realized with the customers concerning product development and the collaborations with the suppliers about technical developments. Among the suppliers the options are
limited since there is only a couple to choose from in each business area. The important criteria for the supplier choices are mainly upon price and quality. Cooperation with competitors exists in the cases when the competitors can not themselves provide the whole solution for a customer and ask the corporate group to help providing everything. In these cases it is still the competitors who have the main responsibility for the delivery. The group participates in career fairs at universities and also works with schools focusing on this industry offering competence and work practice. Furthermore, the logistics are taken care of by an external logistics firm.

10.2.10 Location
The company is located in a medium-sized city close to a major airport and a big city with a university. The CEO and the plant manager have noting to say about the location.

10.2.11 Laws and Regulations
Laws and regulations have not prevented growth or profitability for the company according to the plant manager but they are something to keep in mind for every decision. The environmental regulations are continuously monitored by a consultant and via industry organizations. Customers required an ISO 14001 certification which was executed in 2007. Additionally, the company has an ISO 9001 certification, which has reduced costs and increased the profitability.

10.3 Analysis of Company D

10.3.1 Internal Factors

Organization
Andersson (2001) argues that an organization needs to be flexible to be able to change with changes in the market. This is exactly what Company D did in 2005 when they won over a major customer from a competitor. This is further discussed under Market. On the other hand, the high control level practiced by the previous CEO was anything but flexible since he had to be involved in every decision. This also made the organization centralized around him which Bunse & Næssén (2002) claim is the opposite of a successful organization.

Several changes were made when the company was bought by the group in 2005 and a new CEO assumed the position. The responsibility was pushed down in the organization giving the different manager to make decisions.

Decision making between the plant and the sales organization were short before 2005 when a centralized sales organization was constructed. This was probably done to coordinate the sales for the whole group but the plant manager feels disconnected from the market which can lead to lower flexibility level since the plant no longer have direct contact with the market.

Project based work is mostly done when changes in the equipment have to be performed. On the other hand the product council, discussed under market, is a type of project work where people from different parts of the organization participate. Bruzelius & Skäravad (2000) argue projects make the organization more flexible and Ahren (2001) says projects create networks and competences which can prevent the work from becoming too much of a routine. Since the new CEO thinks the organization is in need of new input maybe more project based work could be one way to adjust this.

During the era of the previous CEO the company circled around him, he was the centre point and everything went through him. Wiklund (1998) argues that the culture is usually permeated by the vision of the entrepreneur and in this company this seems to be the case. Furthermore, Andersson (2001) reasons that companies are controlled by e.g. creating a culture which makes the employees
act in a desirable way. In this case it seems like the employees had a very small possibility to act at all without the involvement of the CEO.

**Vision and Strategy**

Before 2005, when the previous CEO was still in the race, the vision was to expand in the Nordic countries, hence there was an international focus and a willingness to grow which Ahrens (2002) says is an important part of growth. On the other hand the goals were not communicated well to the employees in the way Ahrens (2002) advises and the goals were set on a company level. Bunse & Naessén (2002) who claim short-term goals are as important as long-term ones and in this case only the long-term annual accounts were counted for.

After 2005 and the change of the CEO, changes were made in the way goals were set, e.g. separate goals for different departments with follow-ups every month. The company strategy has growth as an important part and the goals are broken-down into short-term goals which have been communicated to the employees. Furthermore, the vision also includes growth and according to Ahrens (2002) this should then be the best option, with growth included in both the vision and the strategy.

**The Manager**

Clear differences in leadership styles can be seen between the previous and the current CEO. Firstly, the current CEO has another focus, he has to think in the best of the whole corporate group while the previous CEO only had to focus on Company D. Focusing on more than Company D would probably have been impossible for him since he needed to be in control of all details and took all decisions himself. The current CEO has an academic education and extensive experience which is important for managers according to Taylor et al. (1990). Right before the corporate group and the current CEO took over in 2005 the company scored a significant order which increased the turnover drastically. The new CEO can therefore not take the credit for the order, but for continuing to increase the performance of the company. This was probably a coincidence since the order went to company due to technical problems at a competitor which gave the company a chance to show what they got. A further discussion will follow under *Market*.

The previous CEO was in control of every detailed decision making his control level very high. This behavior is discussed by Storey (1994) saying that managers who want to control everything are a constraint to company growth. Contradicting, he did not leave until after the new order was won, meaning his leadership style did not have a negative affect on growth, but rather a positive. Finally, it can be sad that the previous CEO was a center point that had to clear all decisions, i.e. the company was totally dependent on him. This did not have a negative effect on growth since the company scored a big order during his time. On the other hand, he made himself into a key person the company depended on to a high degree.

**Recruiting**

The recruiting is done with the help of recruiting firms and internal recruiting showing that the company does not only rely on the social networks for recruiting. On the other hand this company is way past the stage when the manager has to start looking outside is social network to find qualified employees, which can be the problem for small firms according to Pansiri & Temtime (2008). The company has a small percentage of employees with an academic education but Pansiri & Temtime (2008) claim dedication, drive and hard-work in combination with competence is important for employees. Dedicated employees is one of the company’s strengths according to the plant manager, see *Competiveness*. 
Manpower Care

The low employee turnover indicates that the employees enjoy working at the company. The information from the plant manager, saying committed staff is a strength, supports this indication. A relatively high level of wages probably helps keeping the staff motivated. From the CEO we get the impression that the employees enjoy working at the company a little too much since he is requesting new employees with new ideas. On the other hand supplementary training can motivate staff and gives them fresh ideas and new perspectives. So the solution here might not necessarily be to hire new people but to offer supplementary training to the current employees. This would be in line with Bunse & Nässén (2002) who claim supplementary training is important to learn new way of thinking and help each other.

Competitiveness

When talking to the CEO, he easily pointed out the strengths of the company as flexibility, geographical position and strong owners. According to Prahalad & Hamel (1990) a core competence is hard to copy and flexibility and strong owners fall into that category while the geographical position is easy for a competitor to copy if it has the resources. Flexibility is something that can be used to respond quickly to customer demands which Stalks et al. (1992) say is one way of outperforms the competition. The authors also indicate the importance of knowing what core competences are in this company, which seem to be the case at least for the CEO. The plant manager mentions committed employees, the ability for innovation and working close to the customers as strengths. All three can be seen as core competences. Although working close with the customers might not be the case any longer since the sales organization is no longer connected to the production plant and Company D is basically a production facility.

Product Development and Innovation

The product development is done in a product council and since this is a mixed group with people from different parts of the organization this seems like a good forum for discussing new ideas since everyone have can evaluate the product from different perspectives. Also, the production representative can for instance answer if this is possible to manufacture already in an initial state before more time and effort is spent on the proposal. The company has realized that the supplier is a part of a well functioning solution and therefore has involved the supplier already in the development state. The product development is initiated by customer questions and demands which is what Storey (1994) claims is exactly what to do to find new product concepts. Also, when a product derives from customer requests, this means that it already has a demand and the launch will be less of a gamble.

Storey (1994) also argues for fast growth due to technical sophistication, but the characteristics he searches for are not all found at this particularly company. The education levels are in general low, the company has no patents and there is no budget staked out for the R&D. These are all characteristics with which Storey (1994) describes technical sophistication.

10.3.2 External Factors

Market

Company D is a niche marketer that acts in different segments and after it was purchased by the corporate group it can now provide products for even more segments. The turnover increased dramatically the year the company was bought by the corporate group but the increase is more likely to depend on a significant order coming in during that year. The company gained this order since it could be flexible and solve the customer’s problem fast. Thereby the company used its core competence as a competitive advantage.
The company is slightly dependent of one major customer. They would survive without this customer but major changes would have to be made. Also, they now have the corporate group as a back-up. But the fact remains that this is the customer that in 2005 signed a contract reaching over several years with the company and without this order the company would not be on our ranking list of volume growth. Therefore, to be classified as a growing company this firm is dependent on this particularly customer. Also, the company only operates in one niche but on the other hand it covers more than one segment which can be seen as a way of spreading the risk like Kotler & Armstrong (2003) argue is important.

The importance of good customer relationships have been discussed in the theory by Linneman & Stanton (1991) and Company D have several that are 20 years old. This does not imply that it is a good relationship, but considering the length of them the customers would have chosen a competitor by now if the relationships were bad. Having the sales organization detached from the plant making the decisions channels longer and the communication harder could cause less satisfied customers since the sellers can promise something the plant can not produce. In this way the important customer relationship could deteriorate. The plant manager says she can feel the gap between the plant and the customers increase making them loose the contact with the customers. It is important here that the plant manager and the sales organization communicate so that the long customer relationships maintain intact.

Company D exports but only to the Nordic countries and the main focus is still Sweden, as indicated by Nutek (2003) which say SMEs often have a local, in this case national, focus. But the Nordic focus was a part of the strategy which according to Storey (1994) is a common strategy for growth.

The company has a proactive way of communicating with the customers. The sellers initiate meetings and also try to be present in customer forums. This kind of proactiveness is discussed by Linneman & Stanton (1991) as an important part to keep customer relationships good. The customers provide the sellers with new ideas for products and completing demands. It is also the customers as well as the suppliers who are the company’s best source of information concerning competitors. This could be the kind of light version of market research Kotler & Armstrong (2003) think is suitable for smaller companies. Nowadays the company has the resources of the corporate group as well and they performs market surveys. Another thing that needs to be discussed is that this company is willing to take chances and is not afraid to try something new. Without this thinking it would probably not had won over the major customer in 2005.

Networks
This company has been networking with several different actors in several different areas. These collaborations all bring something to the companies’ resources which Gosch et al. (2001) claim is a way to perform well. The work with customers helps them develop new concepts and the supplier network provides technical solutions for these concepts. Further, cooperating with competitors means exposure to maybe a new customer; on the other hand the customer already has a relationship with the competitor so if the solution is satisfying the customer will be satisfied with the competitor offering the whole solution. Therefore it is hard to say if this is beneficial for Company D in any other way than an occasional sell when the competitor need it. The question is if the company really should let a competitor take the credit of their work. Hoffman & Roman (2001) say networking is a good way of acquire capabilities but also protect ones independence. In this case the company is not dependent of the competitor to survive since this process only occurs occasionally, on the other hand Company D probably should pay attention to the competitors’ use of the product and protect their core competence.
The company’s work in schools and at career fairs can be seen as a proactive measure to early wake the attention of the industry. This is another way of acquiring capabilities in line with the theory by Hoffman & Roman (2001).

**Location**

The company has a great location according to Levin & Weström (2003) since it is situated close to a big city. Also, the vicinity to a university and the fact that interaction is taking place is an advantage according to Jacobsson & Lindblom Dahlstrand (2001). Since the company did not feel that the location had affected the performance in anyway no further analysis will be done.

**Laws and Regulations**

The information overload Schmidt et al. (2007) talk about when it comes to regulation has in this company been solved by working proactively with an external consultant who continuously monitors the changes. Also, information is received via industry organizations. In this way the company avoids the overload and will only be presented with the regulations concerning there business. Also, since a professional is in charge it is more likely that the alert will be done in good time for the company to act accordingly.

The company has an ISO certification both within quality and environment. The last one was performed as a demand from the customers and is therefore in line with Kotler & Armstrong (2003) saying environmental policies can generate profit. Without the certification the customer could have chosen a different supplier.

**10.4 Conclusions: Company D**

Company D has a high volume growth of 1113 % and a relatively high value growth of 742 %. Additionally, the average profit margin is 4 % and the company is therefore said to be a successful company. The incident that resulted in this increase in turnover was the gain of a major long-term contract with a new customer. This recruiting was possible because of the company’s core competences flexibility and working close to the customer. The company also has a high degree of networking which could have played a role there to make the customer aware of the company.

On the other hand, the company shows signs of less successful behavior as well including the high level of control from the previous CEO with a centralized organization and no delegation. The vision had a growth focus but goals were set on a company level and not communicated well to the employees. It is likely that the leadership style of the previous CEO would not have been compatible with the growth of the company and this is partly supported by the fact of the changes that has been done by the new CEO since 2005.
11 Case Study - Company E

This interview was performed with the CEO of the corporate group during a visit to one of the plants. The information in the introduction is primarily from Affärsdata (2008)

In brief:
- Selection: Volume growth
- Ranking:
  - Volume growth: 12 (1 487%)
  - Value growth: 75 (1 367%)
- Average profit margin: 2 %
- Average solidity: 25 %
- Average liquidity: 92 %
- Average return on working capital: 12 %
- Employees 2007: 67
- SNI - code: 25 (fabricated metal products)
- Geographical area: Götaland

11.1 Introduction

The company was founded in the 1960’s. Between the mid 1990’s and 2007 the firm was owned and run by four people who joined the company one by one during this time. In 2007 the firm was purchased by one of the leading corporate groups within this business, but still acts as a fairly independent unit.

- In 2002-2003 the company changed their business and expanded their resources such as properties, machinery and staff. This was done to prepare for future market needs.
- In 2005 two neighboring properties were purchased to create possibilities for expansion.
- In 2006 a company within the same business was purchased.

From 2003 the company’s value growth was radically increased, see Figure 26. At the same time the number of employees increased, see Figure 28. The annual turnover started to increase already back in 2002, see Figure 27. This positive development is likely to be connected with the change in business as well as expansion in resources enabling the firm to produce more.
11.2 The Reality of Company E

11.2.1 Organization

Company E was bought by a big corporate group in 2007 and we spoke to the CEO of the corporate group when investigating Company E. The corporate group is one of the leading manufacturers in Europe in its business area with 1,500 employees worldwide and 140 in Sweden of which 70 work for Company E. These 70 employees are divided into 62 people working within production department and 8 salaried employees. Company E was purchased by the corporate group since the group felt it could not perform better than Company E and the solution was to integrate the company into the corporate group.

According to the CEO, Company E acts as a satellite inside the big corporate group and has a high degree of autonomy to preserve the characteristics which made it successful to begin with, like the entrepreneurial spirit and the organizational flexibility. Instead the corporate group tries to apply some of these success features to other parts of the group. After the merge with the corporate group, Company E now has a common organization with another adjacent production plant. The two production plants still have one respective plant manager.

The decision making pathways were short and in principle it was the four owners who made decisions and the rest of the employees worked in the production department. Company E had no formal rules of the game, the gap between the management group and the production team was extremely small and the atmosphere was informal and familiar. The most important factor was to deliver good customers service and the work had a very entrepreneurial focus through which the communication-and decision making channels were short. Everything was organized to be able to provide the best customer service and flexibility as possible. The decisions were made at meetings with the customers without the need to get approval from someone back at the company. The current CEO has looked into key employees at the company and tried to widen the scope of the employees’ knowledge concerning important areas in the business. The former owners had everything under control but the knowledge was not widely spread in the company.

11.2.2 Vision and Strategy

The company started in the 1950s and acted in the same business area until 2001 when a strategic revaluation of the company was made resulting in the conclusion that something had to be done to make the company grow. This change, to another business area gave Company E an annual turnover eight times larger than before. The owners’ mission was to produce success in this business area and
work extremely hard for 5-6 years (from 2002) and then sell the company. This would be accomplished with excellent customer support.

The short-term goal was to fill the production capacity while the long-term goal was to develop a successful firm to sell in 5-7 years. These goals were well-founded with everyone. In 2001 the company produced many trading products. Nowadays the strategy is to grow 6-7 % annually and still be profitable. Every 6th week an information meeting is held to inform all the employees about financial goals and the budget. Every week the last weeks results are posted to keep everyone updated.

11.2.3 The Manager
The current CEO is in his mid-fifties and has been working in the corporate group since 1995 as economy-and administrative manager and production manager before obtaining the positions as vice CEO and CEO. His educational background includes a business degree as a Graduate Economist and on his own initiative supplementary training in financial management. His work experience includes several years in two other types of business areas with similar work responsibilities.

The four former owners all had an extremely entrepreneurial focus and drive. They had experience from a different business sector but still had very good knowledge about this particular industry as well. The new CEO describes them as verbal, very capable, curious and research driven. He concludes saying that these capabilities and the fact that their work was 95% customer driven created a good understanding for the customer needs and easily created confidence with the customers. Their educational backgrounds consisted of one technical designer, one with a business degree, one high-school engineer and one with a regular high-school diploma. They knew the business area very well and they were very well informed about important aspects such as prices and customers. During the period of time when they owned Company E they were 50-60 years old except for one who was in his mid forties.

11.2.4 Recruiting
Most of the employees have a high school diploma and the current CEO claims it was the interest and motivation that led the company forward. He describes the employees as very ambitious and forward thinking.

A new operator in the production department is usually recruited through contacts, summer jobs and in-house recruitment. Office-workers are also recruited through contacts or sometimes by headhunting. If a specific position needs to be filled an advert is sometimes posted in the local paper and in some national papers where many people in the target population can be reached.

11.2.5 Manpower Care
The employees can be divided into two groups; those who stay a longer period of time and those who only stay a shorter period of time. This last group consists of young people who work there before university or those simply needing a temporary job. It is the group working in the production department that has led to a higher turnover of employees. This taken into account, the estimation according to the CEO is that people in average stay around 10 years at the company.

Supplementary training, i.e. work related courses, are offered if there is a need and interest among the employees. Performance appraisals are performed every year to discuss individual goals and company goals. This is when the need for supplementary training is briefed.
11.2.6 Competitiveness

The company’s success concept according to the current CEO included the possibility to hire exactly the people they wanted and they offered higher wages than average for this business area. They purchased the best technical equipment which resulted in shorter lead time and a low cost per item; in fact the prices were in general 10% lower than the prices of their competitors. Additionally, they always tried to be one step ahead and think for the customers as well as provide excellent customer service. The four owner-managers can be seen as key persons for the company because the success was attached to their drive.

11.2.7 Product Development and Innovation

In the beginning of their growth period, the company made almost identical products as other firms. The company did not have any patents or any R&D but the owners were very interested in development and were keen on the needs of the customers through which they tried to find solutions. Therefore more and more specialized products were produced.

11.2.8 Market

Company E has five different segments within the business area but the production is in general the same for all of them. Company E only served the Nordic market as well as Belgium and Luxemburg and to transport their products they had a deal with a local logistic company for shorter journeys and used larger logistical firms for longer transportations. Accordingly, 70% of the customers can be found in the Nordic countries, 18 % in Great Britain and 12% in Belgium and Luxemburg.

The reason for the company’s huge growth spurt was a contract with one big Nordic customer who, at the time, represented nearly 80-90 % of the turnover. Nowadays this customer stands for 30 % of the company turnover. This important contract was made possible by recruiting a salesman with excellent relations with this particular customer. Additionally, the company had two more European customers of importance. Large customers are the key for this kind of business to function and another way to recruit customers is to take over customers from other firms, which is exactly what was done two years ago when a competitor liquidated its activities.

The contact with the customers was mainly handled by the management group, which systematically travelled to visit the customers. The owners were very verbal and had a good way with the customers to create confidence. Therefore most of the selling was done through person-to-person contact with the customers. Customers also contacted the company but it all relied on creating a relationship with the customer. Even today this is how it is being done to sell the products.

One of Company E’s competitors was the corporate group in which it is now a part of. Otherwise there are some smaller firms in Sweden. After the purchase the corporate group acts basically alone on the Nordic market but hey are careful not to exploit their position because then it is only a matter of time before a new smaller competitor emerges to compete.

New customer needs and requirements come directly from the customers and they are discussed directly with the customers to produce the best possible solutions.

Information concerning the competitors is obtained mainly from the customers. There are some minor competitors but they do not pose a threat since they lack the customer contacts that were characteristic for Company E.

11.2.9 Networks

In the beginning when Company E started to expand they bought products from suppliers and then sold the products to customers and thereby grew a large network and knowledge of customer demands and needs. When this was completed they invested in their own machinery and started to
produce themselves. Cooperation with some suppliers of special material was kept to be ahead in
the technical development. Additionally, they had cooperation with other research facilities to stay
on the leading each of product development.

11.2.10 Location
The area has, according to the municipality, good communication alternatives to the major cities in
Sweden, a university and smaller airport within an hour. No major highway passes the town but the
highway is reached within half an hour. The CEO did not think the location had affected the
performance of the company.

11.2.11 Laws and Regulations
Company E is ISO 90001-certified since 2001 in order to achieve internal structure and efficiency. An
ISO 14001 certification was also realized in 2001 on the demand of the customers and the general
environmental trend. Furthermore, Company E has hygiene standards, also demanded by customers.

11.3 Analysis of Company E

11.3.1 Internal Factors

Organization
Already the fact that Company E was bought by its competitor who then decided to keep Company E
as a satellite within the big group and even implement some of its characteristic features in the
Corporate group says a lot about how well Company E has performed as an organization.

Company E only had two levels in the organization, the four managers and the production team. This
makes the communication channels short and everyone has direct contact with the managers, which
is something Bunse & Næssén (2002) recommend for a successful small firm. Furthermore, the
customer service and the flexibility is worth mentioning since it has permeated the organization. One
way the flexibility has come to light was the way decisions were made at the customer meetings
without any lead time caused due to the seller going back to the company to discuss the contract
before giving the customer a definite answer. This way of working probably also created a trust
between the customer and the seller. Flexibility is important according to Andersson (2001) to be
able to change with the market, which is the case in this case was essential since the company was absolutely
customer focused. This focus was probably possible thanks to the company culture being informal,
familiar and everyone felt involved in the vision. The culture as a way of steering the company
against one goal is discussed by Andersson (2001) and is supported in this case.

Vision and Strategy
In 2001 a strategic decision was made to change the orientation and business area and this decision
was essential for the development of the company. The managers wanted the company to grow, and
grow fast for that matter, so that they could, within 5-6 years, sell it. This long-term vision is
according to Ahrens (2002) important for long-term growing companies, also the customer focus
included in the vision, which is the case here. Another key point is that the vision has the support of
the employees, which it seems to be the case. The vision had been communicated to the employees
and the organization was familiar indicating that everyone knew what was going on in the company.

The strategy to support this vision was divided in a long-term goal to make the company successful
and grow and a short-term goal to fill the production capacity. Hence, growth was very important in
the strategy, which is supported by Andersson (2001).
The Manager

The current CEO has an academic degree and experience from a different part of a company. However since he did not become the CEO until 2007, one year after our investigated period ended, we will focus more upon the information we received about the former owner-managers. Already being four owner-managers makes the responsibility and control spread among at least four people, which according to Storey (1994) is an advantage since not letting go of control is a constraint for growth. Furthermore, Barth et al. (2001) point out the importance of a suitable management group and these four seem very suitable considering their qualities; knowledge concerning the industry, understanding the customer and very communicative. The four managers had varying education levels from high-school to academic degrees but it is likely that they, during their working years, had come in contact with the important areas Taylor et al. (1990) mention; marketing, strategy, financial control and information systems. Furthermore, three of them were in their fifties and sixties and the forth was in his forties during their time at Company E. This is not consistent with Lewin & Weström (2003) who claim that a company with younger managers is more likely to grow. On the other hand the same authors also argue that if the manager has a positive attitude towards growth this leads to growth and in this case all four managers were very growth oriented.

Recruiting

The fact that the current CEO describes the employees in very positive terms and says they lead the company forward thanks to interest and motivations corresponds very well with Ahrens (2002) who argues that the workforce is one of the most important resources a company has.

Levin & Weström (2003) present the difficulties to find workforce as a constraint for growth. In this case finding workforce does not seem to have been a problem as the current CEO is even mentioning that it was possible for the managers to hire anyone they wanted. Also, the recruiting has been performed outside social networks both regional and national, meaning that relying solely on social networks as a means of finding employees has not been a constraint like Pansiri & Temtime (2008) argue is a normal problem for small business.

Manpower Care

There is an explanation in the relatively high employee turnover, namely there are two kinds of employees; those who work a longer period of time and those who see the work as temporary, mostly young people. Considering also that the current CEO praises the employees for their dedication and interest, it is likely that the employees enjoy working at Company E.

The employees are paid higher wages than the average, something that probably has an impact when finding staff, as well as keeping them. Another way of keeping staff is to provide supplementary training according to Pansiri & Temtime (2008). This has been done at Company E if the need and interest has been there, which can be interpreted as not on a regular basis. To discuss individual performance and educational needs, performance appraisals have been realized once a year. At these meetings complaints and requests can hopefully be discussed to avoid having dissatisfied employees.

Competitiveness

Having the resources to hire the best people and offer them higher wages than the average is a strength but not a core competence according to Prahalad & Hamel (1990) since these strengths easily can be copied by any company with resources. The same goes for purchasing modern equipment. The way in which they were innovative and the state of their customer service, on the other hand, are core competences. These strengths were based on competence and knowledge
about the industry and the customers as well as being excellence sales persons. Also, the organization flexibility is a third core competence.

Product Development and Innovation
At first the company did not have any product development but by acting as a distributor they obtained the ever so important customer contact. This led to their knowledge of customer demands and needs and thereafter could start producing themselves. Storey (1994) argues it is by analyzing customer questions and demands companies can find out ideas for new products and this is exactly what happened in this case. By offering products produced after customer demands the company was able to take over customers from their former supplier. This was done without the technological sophistication that Storey (1994) talks about. Company E did not have any patents or R&D departments; instead it had owners with drive who listened to the customers.

11.3.2 External Factors

Market
The corporate group is the leading manufacturer in this business area in Europe and Company E has five different segments which, according to Kotler & Armstrong (2003), is a good way of spreading the risk when being a niche player. The big customer that launched the company’s growth was obtained by recruiting someone who already had a great relationship with this particularly customer, showing how incredibly important it can be to have good customer relations. In this case the company did not really have any sales in these segments before this customer and having a big reference customer to show as an example for potential customers was beneficial. How things were done at Company E support the theory by Linneman & Stanton (1991) whom argue that customer relationships become more and important for companies and also the importance of being proactive in the way customers are contacted. This can also be said for Company E where the managers travelled around and visited the customers systematically. Meanwhile customers also contacted the firm but that was dependent on an existing relationship.

The company is still quite dependent on one main customer indicating the vulnerability of the whole concept. Therefore it is of importance for the company to continuously scout the market for new ideas and competitive products to avoid another company appropriating customers. The company obtains most of its market information via the customers another source could complement this information. Wiklund (2001) emphasizes the importance of market knowledge and so far Company E seems to have provided the customer with what they want but it is now important to keep the company alert even though the major competitor is now the owner. If the company would lose its flexibility, which according to Linnemann & Stanton (1991) is a key issue, due to the being owned by a large, less flexible corporate group it would loose a big part of its competitive advantage.

Company E has an international market with a Nordic focus. Internationalization was not a specific part of the strategy as Storey (1994) claims is usually the case. It seems more like a coincidence that the first big customer actually was outside Sweden. External logistic companies were used for transport, a further discussion concerning the network can be found under the heading Networks.

The company obtained most of the information concerning the market, both customer demand and needs and competitors information, via the customers with whom they had an excellent relationship. The current CEO made it clear it was the vicinity to the customers, the knowledge about them and the flexibility that were the main strengths of the company. Wiklund (2001) talks about lack of market knowledge as a constraint for growth and, according to his theory, Company E did everything according to the book. Also, the flexibility has been discussed in the previous theory section where in accordance with Linneman & Stanton (1991) management and production flexibility are important.
Company E definitely had the management flexibility since the managers were the ones with customer contact and therefore had the possibility to decide then and there if the deal was going through or not.

Networks
Networking has been an important part of the company’s development since they started out as a distributor and built extensive networks with customers providing them with information regarding demands and needs. Thereafter they started their own production and supplied these customers with their own products. Some of the networks with the supplier were kept to provide information concerning technological development. Networking has hence played an important role the whole time even though the purpose and the competence reached by the networks have changed over the time. This is in line with Gosch et al. (2001) whom claim networking is needed to get support and resources.

Furthermore, the local logistics partner played a big role in the company’s delivery time since the company could trust this local actor which they had cooperated with over a long time. Only when it concerned longer trips another, more global active actor, was used. A trust was built between Company E and the local logistics company, once again showing the importance of good relationships.

Location
The company is situated without the vicinity to a bigger city even though a medium-sized city with a university can be reached within an hour. Therefore the theory by Levin & Weström (2003) about the vicinity to a big city has a positive affect on growth did not have any support for this case. On the other hand a university is situated rather close, matching the theory of Jacobsson & Lindblom Dahlstrand (2001) claiming the vicinity to a university can be beneficial. This does not seem to have any significance here since no cooperation with the university has taken place nor has the firm recruited from the university, but instead recruited locally. Furthermore, the company has recruited both regionally and nationally, meaning there has been workforce in the region as well.

Laws and Regulations
The company has realized ISO certifications and another norm due to customer demands, implying the customer would have gone elsewhere if the company did not meet their requirements. This proves the theory by Nutek (2003) which is about environmental policies as important for competitive advantages. In this case getting the ISO certifications might only have been a competitive advantage in the beginning since if this is a customer requirement it is likely that all companies in the industry will follow suit and in the end this will not differentiate them anymore from an ensuing standard. It can be said that the company adapted itself to market demands and the regulation became a competitive advantage, at least in the beginning before the certifications became mainstream.

11.4 Conclusions: Company E
The company has had a volume growth of 1,487 % and a value growth of 1,367 % which means it is highly ranked on both criteria. In addition, the average profit margin during 1997-2006 is 2 %, for which the company is therefore classified as a successful company.

The success is probably due to the innovativeness and the flexibility in the organization and in the management resulting in excellent customer service, fast decisions and customer trust. Also, the managers had good market knowledge and a strong growth focus and drive making both the vision and strategy focus on growth. Furthermore, networks have played an important role for the company to get where it is today. On the other hand, the company was quite exposed depending so
much on one major customer and without any technological sophistication the customer relationship was the key factor for keeping it.
12 Case Study - Company F

This interview was performed over telephone with the CEO of the company. The company performs contract work and therefore has no product development of its own, hence there is no section concerning Product development and innovation in the following information. The information in the introduction is mostly from Affärsdata (2008).

In brief:

- **Selection:** Volume growth
- **Ranking:**
  - Volume growth: 16 (1 269 %)
  - Value growth: 99 (1 024 %)
- **Average profit margin:** 2 %
- **Average solidity:** 29 %
- **Average liquidity:** 138 %
- **Average return on working capital:** 7 %
- **Employees 2007:** 14
- **SNI - code:** 25 (fabricated metal products)
- **Geographical area:** Götaland

### 12.1 Introduction

Company F was founded in the 1980’s by two brothers that first had the business as a hobby during their spare time. Later, the customers realized their know-how and in 1990 the two brothers started to work full-time. Company F started its business in the countryside but power supplies were not sufficient and they moved into town. In 2000 the company enlarged the facilities and in 2006 another building was purchased. In 1998 the net turnover decreased drastically which led to cost reductions. In 1999 the company had broadened its clientele and the company foresaw a positive development in net turnover and profit results due to the increased demand.

From the annual reports we can not receive much information concerning events during the 10 year period of interest, but we can see that in 1998 the company had a tough year which lead to a decrease both in volume (see Figure 29), value (see Figure 30) and number of employees (see Figure 31). Since then the company has steadily grown and been able to enlarge its business.

![Figure 29: Change in turnover 1997-2006 Company F](image)

![Figure 30: Change in equity 1997-2006 Company F](image)

![Figure 31: Change in number of employees 1997-2006 Company F](image)
12.2 The Reality of Company F

12.2.1 Organization
The company produces contract work on demand. In 1993 four persons worked at the company and they bought their second CNC machine. Now they are 17 employees working at the company with a much larger machinery park.

The work is individual but if there are some problems there is a discussion between the employees and one of the two brothers. When they receive an order the CEO analyzes how to manufacture the product, and occasionally discusses the best solution with his brother. The company produces everything after customer needs and demands, in other words on contract. A problem the CEO has is that the employees do not want to take much responsibility and they do not show much interest for the industry. The business culture is informal and the decision paths are short. Usually the decisions are made over a coffee-break.

12.2.2 Vision and Strategy
The most important thing for a small company is its personnel according to the CEO. Two years ago the strategy was to employ 20 employees in the company. They hired an operation manager with the thought that he could be in charge of sales, quality and administration. In this way the CEO could spend more time focusing on customer relationships. But it did not work out and for the moment they are not searching for someone new to fill the position. Earlier the strategy was and still is to get the company more independent from its owners and in the future would be self running or have the possibility to sell. They are not actively thinking about selling but still the thought is there. Another part of the strategy is to increase the customer circle. Every month they have a meeting with all employees where important things are discussed and these meetings provide the employees with information concerning the company’s goals.

The business concept they have read: The company wants to assist their customer with working, construction and product adjustment to reach better and cheaper products.

12.2.3 The Manager
The two brothers are 45 and 50 years old respectively; one of them is a constructor and the other one a handicraft teacher. They have not had any supplementary training but have learned to manage the business through interest and commitment. The constructor has worked with administration but tries to focus more on the customers now. His brother’s responsibility areas are the personnel, quality and production.

The hardest thing with being a company owner, according to the CEO, is the responsibility over the personnel - “sometimes it is like being a family father.”

12.2.4 Recruiting
The employees are IT-technicians or workshop trained. The work has quite a high degree of technical complexity and therefore the company looks for technicians whom they can teach the workshop procedures. It is difficult to find workforce and therefore the company has recruited personnel from Poland and Bosnia. This can lead to languages difficulties but the company tries to be flexible so that the employees can attend language courses in Swedish. The company also tries to recruit through workshop-practice and educations in technical professional training.
12.2.5 Manpower Care
The company has offered all employees the possibility to attend a course in carving processing and also courses in CAD/CAM. Twice a year the company organizes some festivity so the employees can meet outside of work. They tried to let the employees come with examples of common activities but few initiatives were taken. Therefore it is the CEO who organizes the festivities.

12.2.6 Competitiveness
The company’s strengths are according to the CEO its understanding of the details, and for this the CEO’s constructor knowledge is crucial. When he meets the customers it gives them reliance. Flexibility is also one of the company’s strengths, they can readjust their production and if a customer calls today they can receive the product tomorrow. They are relatively similar to their competitors but they move within different customer circles and different sizes of machinery.

12.2.7 Market
The company works within a broad range of technical customers from looms to vehicles producers. Company F has around 50 customers whereof 10 stand for the majority of the deliveries. They have competitors in the same town but they do not fully compete in the same customer circle or with the same products. Within Sweden they compete on price and quality. The CEO does not believe knowledge concerning the market share is of importance for the company.

Company F started to export for 5-6 years ago and now the company exports to Germany, Norway, Sweden and Denmark. The most important market is Sweden and here the company has 99 % of its customers.

12.2.8 Networks
The company cooperates with suppliers and other partners. With some partners they have a close cooperation. Together they process the product design and manufacturing so they can deliver a finished product to the customer who then does not need to ship around an almost ready product to different production facilities. Sometimes Company F has the contact with the customers and subsequent partners.

To handle transport concerns, the company usually contracts a larger transportation company, but often it is the customer that is in charge of the transport and decides which transportation company to use.

12.2.9 Location
The company is located near the motorway, quite close (around one hour) to a university, a bigger city and a smaller airport. The managers do not think that the location affects the business, even if it is difficult to find workforce it does not imply that it would have been easier in another town.

12.2.10 Laws and Regulations
According to the CEO there have always been regulations and they are not getting easier over the years. He thinks that there are several of restrictions and that all of this takes plenty of time. It feels meaningless to do all that paperwork when it seems like nobody cares, he says. For some laws and restrictions they have taken help from outside the company. Company F is a member in “Företagarna” and from this organization they receive information concerning new laws and regulations.

Since 1997 the company has an ISO 9001 certificate. This was done since they believed this would be a demand from the industry in the future. He is not sure if the certification has been a competitive
advantage but it can not be ruled out. To certify the company according to ISO 14001 is not something that is interesting for the company even if the step to receive the certificate is small. He does not see a need ISO 14001 certify the company when they do not particularly work with chemicals.

12.3 Analysis of Company F

12.3.1 Internal Factors

Organization

The company only has two levels; the two brothers that own the company and the workers. This implicates that the employees are close to the CEO and this gives flexibility. The positive thing with two levels is also that the information is easily distributed to everyone. A flexible company where everyone can have direct contact with the CEO, where the information channels are short and information is easily available is a successful organization in a small enterprise according to Bunse & Næssén (2002). It is also a way to remain close to the customers according to Taylor et al. (1990) which is important for Company F when almost everything the company produces is after customer needs and demands. The fact that the company has a high degree of individual work can be a constraint to the company’s growth. According to Ahrens (1992) networks are an organization’s backbone and by encouraging more group work the company can receive more interest from its employees and in that way achieve more interested employees who take responsibility.

Vision and Strategy

We believe that the company has both a long-term goal, making the company more independent and increasing the customer circle, and a short-term goal, expanding until the company holds 20 employees. By hiring an operations manager they also had an idea of how to reach their goals which is important according to Bunse & Næssén (2002). They also delegated the responsibility which is an important part in managing a company. Even if it did not out we believe by having these thoughts it will help the company to expand their business, or as Andersson (2001) argues; growth needs planning for today and for the future and this was what the company tried to do. But it is not enough with just thinking when talking about a long-term basis. They were on the right track but why it did not work is difficult to know, maybe the owners were not ready to give away some of the responsibility. Another possibility is that the operation manager did not perform the work in the same way that the manager had thought he would. Storey (1994) argues that it is difficult for business owners to delegate and their success relies on their ability to find the right manager. Maybe this person was not right for the company but hopefully the company will try again to find someone that suits them.

The company’s business concept is easily remembered by the employees as well as for the customers and it is based on the company’s core competences. It focuses on creating value for the customers, and these three things together form a genuine vision according to Ahrens (1992).

The Manager

The two brothers have the right education for their jobs, but according to the theories may not be sufficient for managing a company. Even if they do not have the right education and not are supplementary trained in running a company they have led the company to growth through commitment. However, if they have had more training in developing an organization the company could have grown even more because an obstacle for success can, according Barth (2001), be the lack of knowledge in how to develop the organization. Additionally, Pansiri & Temtime (2008) claim that there is a difference between the financial performance of owner-managers that delegate
responsibility and those who do not. Some responsibilities, such as personnel questions, are difficult to delegate but the workload for the owners would be easier if they delegated more, and at the same time showed their trust in their employees.

**Recruiting**

Ahrens (1992) claims that being able to recruit people with the right education that will grow with the task is important for a company that wants to expand. For Company F it is not of importance that the employees have exactly the right education, instead they look for technicians that they can teach the production methods. This can mean that it is not the education level that is important but instead to be able to recruit personnel that have an education that contributes to the company’s development. To recruit people e.g. from workshop practices also assures the company that the person they employ is dedicated to their work, which is a critical element for success according to Pansiri & Temtime (2008).

According to Levin & Weström (2003) the lack of suitable workforce is a constraint to growth. To manage the difficulties to find workforce the company has imported personnel from outside Sweden. This is a good way to finding competent workforce and also shows that the manager is not afraid of recruiting people from outside the social network which, according to Pansiri & Temtime (2008) is essential for a company that wants to grow.

**Manpower Care**

To assure that the employees have the right competence and can manage different work tasks, which is important according to Bunse et al. (2002), Company F has offered all employees supplementary training. By doing this the manager knows that everyone has the education required and that employees can help each other if needed. Pansiri & Temtime (2008) say that competent, dedicated people is one of the most important resources a growing company has and it is importance not only to offer supplementary training but also other activities so the employees feel that they are important for the company. If the employees are not motivated it is likely that they do not perform their best and there is a risk of them leaving the company. One thing Company F does to motivate their employees is to organize festivities twice a year so they can meet outside of work and socialize.

**Competitiveness**

The CEO’s knowledge from his time as a constructor is an important factor for the company and its business. This knowledge contributes to confidence from the customers and the company can produce products that satisfy the customer’s expectations which create value. This in combination with the company’s flexibility gives a competitive advantage. The way in which SMEs manage their scarce resources in the most profitable way is important according to Pansiri & Temtime (2008) to reach competitiveness and also a way to outperform the competition according to Stalk et al. (1992).

The understanding the CEO has for the detail and the company’s flexibility is the company’s core competencies since they are difficult to imitate, substitute or create which is Prahalad & Hamel (1990)’s definition of core competencies. Additionally, the CEO with his extensive knowledge can be seen as a core person in the company. If they want to sell the company in the future it is of importance that they distribute this knowledge among the employees.

**12.3.2 External Factors**

**Market**

The company has spread its risk and operates over several areas which is important according to Kotler & Armstrong (2003) to avoid putting the business in danger if a larger competitor enters the market. They have diversified their business from the close competitors and in that way made the
company profitable. The company has around 50 customers and 10 of them correspond to the majority of the net turnover which is also a way to spread the risk.

Kotler & Armstrong (2003) suggest a light version of market research based on observing the market. For Company F, which does not practice any kind of market research, this could be an easy way for them to learn more about customer needs and competitors.

The company exports but only on a small scale to countries nearby. Even if the company does not export on a large scale, the exportation can help them to strengthen their position according to Taylor et al. (1990), but only if they stay in the same niche. Storey (1994) claims that exportation is a way for a company to grow. The company’s strategy is to become larger and exports can be a means to realize their strategy. The company started exporting 5-6 years ago. By analyzing the graphs over value and volume growth, see Figure 29-30, which has steadily increased during these years, it seems that exports have not affected the performance negatively.

Networks
Gosch et al. (2001) say that having a good delivery system is a key factor for a company’s success. Company F has solved this by contracting an external actor and in that way assured that the company always can perform well concerning transportation.

The cooperation with their partners can be compared to the thoughts of Kotler & Armstrong (2003) saying that choosing a partner that completes the company’s strengths can have a massive impact on its profit. By using the cooperation the company can offer more value to its customers which probably strengthened the possibilities compared to competitors that do not have similar collaborations.

Location
It does not seem like the company’s location has affected its growth to a large extent. During these 10 years the company has not grown in number of employees which can have a relation with the difficulties to find a competent workforce. If the company had been located in a bigger city there is a possibility that the growth could have been more significant. Storey (1994) claims the performance of a company can be affected by its location. Additionally he says that small firms in urban or rural areas are likely to grow the least which could be the true in this case.

Laws and Regulations
As Nutek (2005) and Levin & Weström (2003) have stated, laws and regulations are obstacles for the success and of Company F. Moreover we argue that all restrictions and the time they are taking surely affect the business in a negative way. According to the CEO the laws and regulations take time and do not give anything back and as Schmidt et al. (2007) say, if there were less bureaucratic procedures more SMEs would consider growing, which could be the case for Company F.

12.4 Conclusions: Company F
This company has had a volume growth at 1,269 % during 1997-2006 and the average profit margin for these ten years is 2 %. The profit margin is positive and therefore Company F is classified as a successful company. During the same time the company’s value growth has been 1,024 %. The success probably comes from the company’s core competences, the flexible organization, the homogenous business concept and the dedication of the owners. Other factors that can have affected the growth positively are the company’s will to grow, that they have imported personnel to manage their problems of finding workforce and that they have cooperation with some partners to offer the customers a finished product.
Factors that can have affected the company’s success negatively are that the employees work individually, the unsuccessful attempt to delegate an operations manager and the negative attitude towards laws and regulations.
13 Case Study - Company G

This interview was performed over telephone with the CEO. The company performs contract work and therefore has no product development of its own, hence there is no section concerning Product development and innovation in the following information. The information in the introduction is mostly from Affärssdata (2008).

In brief:
- Selection: Value growth
- Ranking:
  - Volume growth: 1810 (-7, 0 %)
  - Value growth: 18 (4403 %)
- Average profit margin: 0,6 %
- Average solidity: 11 %
- Average liquidity: 77 %
- Average return on working capital: 8 %
- Employees 2007: 20
- SNI-code: 28 (machinery and equipment)
- Geographical area: Götaland

13.1 Introduction

During 1999-2001 Company G made a profit and had a large demand for their products. In 2002 a recession in the industry had a negative impact on the results. The decrease in turnover is illustrated in Figure 34. A liquidity problem occurred in 2002 due to an increase in binding in capital in trade debtors. During this year measurements were taken to reduce the internal costs. The liquidity problems continued during the period between 2004 and 2005, but in 2006 an action plan was launched to deal with the liquidity problem. That year the turnover increased slightly (Figure 34) and the value had a dramatic amplification, see Figure 32. The number of employees has been quite stable over the years which can be seen in Figure 33.

Figure 32: Change in equity 1997-2006 Company G

Figure 33: Change in number of employees 1997-2006 Company G

Figure 34: Change in turnover 1997-2006 Company G
13.2  The Reality of Company G

13.2.1 Organization

Company G started in the 1960s and performs subcontracted work for various industries. The company has 20 employees whereof 15-16 work in the production department. Most of them have an industry background and a workshop education. Approximately three of them are certified in their special area, an educational service the company buys from a recruiting and education firm. Among the salaried employees two half-time employees take care of the economy such as accounting and the billing processes. An engineer is employed for production planning.

The three partners make decisions together, especially if the decision concerns all their work areas. The borders between the areas of responsibility are not completely defined and e.g. the three partners make mutual decisions concerning prices and production planning. Discussions concerning production planning are often done by asking someone from the production whether of not there is time for such and such order.

The atmosphere at the company is characterized by informality. Being a smaller company implies a variation in work tasks which the CEO says everyone appreciates. Also, the employees have access to the machinery and the equipment after work hours which the CEO argues says a great deal about the trust and familiar atmosphere at the company.

13.2.2 Vision and Strategy

The vision has been to make the company as profitable as possible, make sure the employees like to work at the company and to make it a safe place to work at. Since the CEO soon will retire he believes it is of interest to work to get new young people that can keep the business running. Another alternative they have been thinking of is the possibility to sell the company. The vision and goals are something everyone is familiar with since they work and live so close together according to the CEO. Everyday at the breakfast meeting the schedule for the day is discussed so that people know what needs to be done.

The strategy has consisted of obtaining more customers, primarily by using a job service presenting them with potential customers and their needs. The customers are presented to the company in the form of emails including product descriptions and the next step is to submit an offer to the customer. According to the CEO the way in which new customers are added has been a way of long-term planning, to continuously have customers.

The company has no great ambition to grow since the CEO believes the current level to be just enough.

13.2.3 The Manager

The CEO has worked for the company in two sets; firstly for 10 years in production department and after some years in another larger firm he returned 20 years ago and took over the activities together with two others; all three are today’s partners.

The CEO is in his mid-sixties while the two other partners are a bit younger. The two partners have specialized in one business area each since they have deep technical knowledge within these areas. The CEO focuses upon customer relationships and sales.
13.2.4 Recruiting
For the last few years the workforce has not changed and the need for recruiting has been non-existing. When there was an existing need for recruiting this was usually done through the workshop education program found in the same town as the company. Most of the people they hired had already done their work practice at the firm. As a complement, the employment service (Arbetsförmedlingen) was used. For the moment the company does not lack any competence, but the CEO indicates the need for younger employees from the outside.

13.2.5 Manpower Care
The company uses an education and recruiting firm that provides supplementary training for the employees. Some of the certified production workers have obtained their education through that firm.

13.2.6 Competitiveness
The strengths of the company are broad competence and good mechanical equipment which makes it possible for the firm to produce advanced products. This, in combination with their flexibility to adjust the equipment for different orders makes them stand out from the competition according to the CEO. Usually the competitors do not have the same flexibility in combination with this broad competence.

13.2.7 Market
Company G has two different market segments which stand for approximately 50 % each. They produce for other firms in different industries but the products produced are within the same two segments. The majority of the customers can be found in the near region of the company. Additionally, customers can be found in Sweden, Norway and Germany. The German customer was previously based in Sweden but kept using Company G as a subcontractor even after the business was transferred abroad. In the region there are not that many competitors and the existing ones do not possess the same kind of broad competence as Company G. Competitors from the Baltic countries usually compete with price producing less advanced products.

Company G works mainly with three different kinds of industry, but the CEO does not have the knowledge concerning the market shares. Company G annually reviews its customers. The CEO refers to the amount of customer as “pretty big,” but the 10 biggest do not correspond to even half the turnover. Some of the local customers have been customers since the beginning and in general the company has long customer relationships.

In most cases the main contact with the customers is when it is time of order placement concerning e.g. lead time. Customers sometimes pay visits to the company to view the equipment and the machinery to find out more of the quality system and the internal controls during manufacturing. No marketing is practiced since the job service “match mail” is believed to be enough.

13.2.8 Networks
The logistic arrangements are carried out by a bigger transportation firm or a local taxi firm depending on what is being shipped and how far. Some customers have logistic firms and come to collect the goods themselves.
Besides many years of cooperation with the recruiting and education firms for supplementary training and work practice the company has had collaboration with the work shop education in the region, which was closed down ten years ago.
13.2.9 Location
The company is situated in a smaller town but has a relative vicinity to three medium-sized towns with universities. The closest town, where a smaller airport can be found, is situated within half an hour. The CEO is not pleased with the location of the company saying it has not benefited their transports of goods. Additionally, he describes the public transportation as pretty bad.

13.2.10 Laws and Regulations
Company G works after the ISO 9001 principles but does not have an ISO 9001 certification or an ISO 14001 since it has not been a demand from the customers. The company has hired someone externally to handle work environment and union related questions, since they do not have time to do it themselves.

13.3 Analysis of Company G

13.3.1 Internal Factors

Organization
The company basically only has two and a half levels in the organization; the three managers, the production staff and in between two employees responsible for the administration and a product planner. This implicates short communication channels where everyone has direct contact with the CEO, which is what Bunse & Naessén (2002) argue is important for a successful company. The feeling of decentralization is strengthened when the company culture is discussed since it is characterized by informality and a familiar atmosphere. Wiklund (1998) claims that the culture in a small firm is relatively homogenous, which definitely seems to be the case at Company G. The employers trust the employees since they give them access to use the equipment on their spare time, which indicates a well functioning working atmosphere where the culture has become the soft control which Bruzelius & Skärvad (2000) argued for.

Vision and Strategy
The CEO says they do not have a great ambition and instead the company vision has been to make the company as profitable as possible, make sure the employees like to work at the company and to make it a safe place to work at. This vision has a clear internal focus and lacks the customer focus Ahrens (2002) argues is important for a company. On the other hand the employees seem to be well informed about the vision and the short-term goals which are in line with Ahrens (2002) argument about including the staff.

The strategy talks about obtaining more customers which could be either a way of growing or just a way to obtain new customers to keep the level of customers constant. This is not enough for the strategy to be said to have a customer focus, since it should then focus on how to provide more value for the customer. The new customers are contacted in a passive way by a job service so the strategy does not include active search for customers. Either way, Andersson (2001) argues it is of importance to include growth in either the strategy or the vision for the company to grow and this company fulfills this criterion, even though it might be in a slightly passive manor. The planning in general seems to have a more operational focus than a strategic one, which is common among SMEs according to Pansiri & Temtime (2008) even though they should focus more on the strategic part to grow. In this case this could be because of the age of the CEO and the fact that he is already planning for retirement, which therefore does not make long-term strategic planning.
The Manager
The fact that the CEO has not started the company and lived with it ever since could be an advantage according to some of the theories discussed. Storey (1994) e.g. points out the risk of the owner-manager wanting to control everything thereby hinders the growth of the company. This unwillingness to let go of some control and delegate is here avoided in two ways. Firstly, because of the CEO not being the founder of the company. He has work in the production department and then before becoming the CEO worked at another company. This might have given him perspective of the company’s actions and the way things work there. Secondly, he took over the company with two others and all three have important roles as co-managers. Therefore, in a way it was delegated from the beginning and the control level has not been an issue at this particularly company. This is confirmed in the way the areas of responsibilities are divided, each partner focuses on one business area while the CEO manages the customer relationships and the sales.

The CEO has a technical workshop education from the beginning and worked with technical service during his time away from the company. This implies he has not had any management education, but has used his technical knowledge as a guide for managing. This is the opposite of what Pansiri & Temtime (2008) argues is important for a manager to be able to set goals and strategies. Furthermore, the CEO does not have any desire to make the company grow since he feels the current level is just enough. This way of thinking contradicts the theory of Levin & Weström (2003) who argues a positive attitude to growth leads to growth. The same scenario occurs when discussing the age of the CEO. It has been argued by Levin & Weström (2003) that the age of the manager is of importance for company growth. In this case the CEO is in his mid-sixties and the partners in their fifties, concluding all of them more than middle-aged giving no support to this theory.

Recruiting
The workforce is one of the most important resources a company has according to Ahrens (2002) and this is something this company truly believes in. The employees are included in the everyday meetings concerning the business and the employees’ well-being is a high priority. Pansiri & Temtime (2008) claim small companies have a tendency to recruit within their social networks which in one way has been the case here as well. New employees have for most of the time been recruited after they have done their work practice at the company, and then ended up in the company’s network. The company has the benefit of having a education program in the town matching their competence needs resulting in no lack of finding qualified staff which otherwise is a common problem for SMEs according to Ahrens (2002). The company has not recruited any new employees for a while, probably due to that the CEO is content with the level on which the company is currently located.

Manpower Care
The company provides supplementary training when needed which is an important way to keep the employees according to Pansiri & Temtime (2008). Also, the employees have the benefit of using the equipment during their spare time and this could definitely be seen as manpower care.

Competitiveness
A high level of flexibility and a broad competence are described to be the company’s strengths and also something the competitors do not achieve as good. This in combination with the fact that these strengths are not easy to copy, since they are a part of the organization and the competence of the employees, make them core competences according to the definition of Prahalad & Hamel (1990). This also implies that the company is well aware of the competitors’ competence level and capacity, something important for being competitive according to Kotler & Armstrong (2003).
13.3.2 External Factors

Market
Company G is a small firm that has found its niche in producing relatively advanced components to several different kinds of industries. The two different business areas or segments can be seen as a way of spreading the risk in the way Kotler & Armstrong (2003) talk about. The CEO is not worried about larger competitors since a big part of the firm’s competitiveness lies in the flexibility in the production, a flexibility that is impossible for a larger firm. However there are still the smaller competitors. The CEO mainly talked about the regional ones, which gives an indication of a local market focus. This is in line with Nutek (2008) claiming SMEs often have a local focus. On the other hand competitors in the Baltic countries were discussed during the interview as well, saying they compete with price reduction and less advanced products. Therefore these competitors are in the same segment but do not necessarily pose a threat at the moment since they do not offer the quality and technology required for some of Company G’s customers.

Company G does act internationally but mainly in Sweden and Norway. The German customer is more a coincidence than strategic work since it was not an international company at first. Internationalization in itself is not a part of the strategy and the company seems to have a local focus especially in regards to the competitors. This has already been discussed above. The company uses a logistic firm for non-regional transport which is discussed under Networks.

Company G lacks the proactive way of approaching customers, collect data and talk to the customers that Linneman & Stanton (1991) argue are important for the relationship. Instead Company G main contact with the customer is when the order is placed and no marketing is done since the method using match mails is believed to be enough. Occasionally customers visit the company to find out more about the production process. This way might be the way that works for this particularly company, also performing subcontract work plays a role in the customer relations. Furthermore, the company has a lot of customers and the 10 biggest ones do not correspond to a majority of the turnover. Consequently the risk is spread between several customers and no customer dependence is found indicating this way of working suits this company even though it does not correspond to the theories.

Wiklund (2001) argues that lack of knowledge concerning market positioning and customer relationships is a constraint for growth. According to this theory this company is not in a good position to grow. But the thing is that even though Company G does not have close relationships with its customers the relationships are long and some of the customers have been with them since the start, indicating the customers do not wish for a closer relationship. This could be due to the fact that the company is performing subcontracting work and a closer relationship is not important in that kind of process. The company on the other hand does have knowledge concerning the competitors’ competences and capacity. Linneman & Stanton (1991) speak of the importance of flexibility when acting on a changing market, including production, which is somewhat of a core competence for this company.

Networks
The company does not have an extensive network but this could be due to the fact that the firm performs subcontracted work and is not in need of the same extent of external contact to perform well. The existing logistic partners, one international and one regional show that the firm is focusing on what they do well and leave the transport to a partner. This kind of thinking is important according to Gosch et al. (2001) for the performance of the firm. Also, the collaboration with an education firm to further develop the skills of the employees shows the will to perform well and keep
up with the competition. Especially important is this partner since a big part of the firm’s competitiveness is found in the competence of the employees.

**Location**

The company does not have the perfect location according to the literature. Levin & Weström (2003) argue that the vicinity to a big city is something positive. The company lies close to at least one medium-sized city where a university can be found as well. A big city has universities and competent work force but this could probably be found in a medium-sized university city as well, but to a smaller degree. The already mentioned collaboration with the education firm talks for the location, but on the other hand a similar firm can probably be found elsewhere. The fact remains that the CEO is not pleased with the location indicating the previous reasoning does not really stand in this case.

**Laws and Regulations**

This company claims to work by the principles of ISO 9001 but has not taken the step to go through with a certification. The ISO 14001 certification has not been demanded by the customers and therefore not implemented by the firm. This is probably since these certifications are lengthy procedures which require a lot of time and effort. This could be seen as a short-term thinking from the company’s side since the customer demand could change and requirements of certifications could become a reality. This kind of short-term planning is discussed by Kotler & Armstrong (2003) saying companies often think in a short-term perspective, e.g. pollution prevention but not sustainability. They point out that changes that companies make now can be a competitive advantage in the future. Based on that argument it seems like the company thinks in a short-term perspective, but on the other hand the CEO claims they work after the principles today and in that case the effort to certify the company should be bearable in case the customer changes their requirements.

**13.4 Conclusions: Company G**

This company has a value growth of 4,403 % during 1997-2006 and the average profit margin is 0, 6 %. This is not a big margin but it is positive and therefore is this company classified as a successful company. Furthermore, the volume growth during these years is negative (-7.0 %) which probably is due the fact that the CEO has no ambitions for growth and also because of the lack of long-term strategically planning, a clear operational and internally focused vision.

The factors that made the company go as far as it actually has are likely the decentralized organization with shared responsibility among the owner-mangers and the company’s core competences which have given it competitive advantages.
**14 Case Study - Company H**

This interview was performed over telephone with the CEO of Company H. The information in the introduction is primarily from Affärsdata (2008).

**In brief:**
- **Selection:** Value growth
- **Ranking:**
  - Volume growth: 1496 (20 %)
  - Value growth: 15 (4955 %)
- **Average profit margin:** 0 %
- **Average solidity:** 21 %
- **Average liquidity:** 154 %
- **Average return on working capital:** 2 %
- **Employees 2007:** 140
- **SNI-code:** 21 (basic pharmaceutical products and pharmaceutical preparations)
- **Geographical area:** Götaland

### 14.1 Introduction

In 1998 the CEO resigned after several years of loss and the corporate group presented a restructuring of the organization where 20 positions were cut, see Figure 36. During 1999 the cost of raw material increased and a new CEO, production manager and maintenance manager started and investments for efficiency were done. In 2001 the company showed a profit for the first time in several years. A capacity increase made it possible to decrease the use of external production by 80%. That year the value increased significantly (Figure 35). Long-term strategic planning started in 2002 due to good results. Rationalizations were performed to reduce the energy consumption in the company and changes concerning the company’s impact on the environment were started. During 2003 a quality education for the employees reduced the reclamation costs and a new warehouse was built to reduce the logistic costs. This could have caused the reduction in value shown in Figure 35. In 2004 a cost optimization of the raw material costs was executed and the market shares are increased. After several years of accounting for losses the company’s result turned into profit in 2004. This could have led to that the value started to increase in 2005 and continued to do so in 2006 (Figure 35). The two last years the environmental focus has increased, e.g. a life cycle analysis is performed to investigate the CO2 production from supplier to customer for the company’s product. The turnover has been almost the same for the whole period, see Figure 37.

![Figure 35: Change in equity 1997-2006 Company H](image)

![Figure 36: Change in number of employees 1997-2006 Company H](image)

![Figure 37: Change in turnover 1997-2006 Company H 2006 Company H](image)
14.2 The Reality of Company H

14.2.1 Organization
Company H has, since 1989, been a part of a large corporate group with 12,000 employees, while only 150 work for Company H. A total number of 120 of them work in the production department and have a high school degree while the remaining 30 are salaried employees and have different levels of education from high school to academic degrees. The CEO describes the company as an old industrial company where the culture is in the walls but he has a hard time defining the characteristics of the special atmosphere.

The management group consists of 8 people of which three are women. A management meeting is held every month where the chairmanship circulates in the group to make the responsibility as delegated as possible. This is something that is implemented by the current CEO and has been the way these meetings are held for six years now. Every week an informal meeting is held for those in the management group that can participate. ISO-certification processes, investments processes and development are all performed in project work. The projects differ in size and in length from two months to a year.

14.2.2 Vision and Strategy
The company vision is to increase the volume with 15 % compared with the level in 2008 up to 2010. An action plan including investments and changes in volume on different markets has been made to reach the vision. In 2001 improvements of the foundation for evaluating profitability for products and market potentials were performed. Since 2005 the strategy of the firm has consistently included a clear sustainability focus concentrating of not leaving an impact on the climate, being CO2-neutral.

A meeting with the employees is performed once a year to inform them about company goals. The rest of the time these goals can be found on the intranet and the screen savers of all computers, which consists of an info sheet presenting company news.

14.2.3 The Manager
The CEO has an engineering degree which he has complemented with business and statistic courses. He has a broad experience working with e.g. economy and production for adjacent industries. Additionally, he has had supplementary training in leadership. He has had the position as CEO since 2001 and is in his sixties. The responsibilities of the CEO have changed over the years from focus on economy and staff related questions to efficiency issues and lately end customer contacts and climate neutrality.

14.2.4 Recruiting
Recruiting is done using the employment office (Arbetsförmedlingen), ads in papers and on the web and for some salaried employee positions, headhunting is used. The company has a lack of one area of profession which has caused a lack of specialized competence. Instead less qualified people have been hired and then trained within the firm.

14.2.5 Manpower Care
The employee turnover is low but in 2001 the short-run absence due to illness was particularly high, 10.8 %. The management realized this was not due to illness but to lack of well-being at the work place and measurements were taken to make things right. More delegation of decisions was done and actively listening to ideas from employees. This resulted in a decrease of the absence to 3 % in 2004, a level they have maintained since.
To motivate the staff 5 % of the profit is given back to the employees as a bonus and a party is thrown to celebrate. Every year all employees are invited to a Christmas party. Supplementary training exists but the CEO calls it a balancing act since educated employees sometimes leave and then the training is lost for the company.

14.2.6 Competitiveness
According to the CEO unique technical improvements in the material have resulted in a gain in the product functionality, which the competitors do not have. Also, effort has been put into making the product as sustainable and climate neutral as possible, pioneer work for this industry. Furthermore, Company H has excellent technical service.

14.2.7 Product Development and Innovation
Since 2001 two major changes in the product development have occurred. Firstly, a change in the material improvements for the functionality of the product was made. This happened in 2003 and caused an increase with 23 % of the net sales. The second change was to minimize the effect on the climate influence of the product. This work started in 2005 and Company H is the only one in its industry with this certification. The CEO says their large customers are difficult to influence to change but that the interest is constantly growing. The environmental work has been performed in Company H but product development is a central function within the corporate group.

14.2.8 Market
The company has acted internationally from the start with different market shares on each market. The market share for Europe is about 5 %. The company has its own sales offices in the majority of the European countries. The number of customers is about 250 and 99 % of them act in the same industry in Europe. Some customers dominate in some countries, e.g. one customer corresponds to 12 % in one country and another stands for 6 %. The rest of the customers are significantly smaller. The company has 8-10 competitors where 5 of them can be found in the Nordic countries. The competitors in South America and Asia are cheaper with good quality but from an environmental perspective the CEO describes their products as a catastrophe.

Company H tries to keep their customer relationships long since they have the philosophy is that “you do not fool someone you have a relationship with.” Sellers and technical service have customer contact, as well as the production department, the economy department and the CEO. They have tried for the past 8 years to get as many contact areas as possible in the organization as well as with the customer’s organization. Customer visits are regularly done where products improvements and sustainable development are discussed. Traditionally only the customers have been targeted by marketing but now they take it one step further and pay visits to the subsequent customers of their customers as well. The CEO has visited the customers of their customers to win them over by discussing e.g. CO2 neutrality. These visits have resulted in several new agreements. Every other year a survey is sent out to the customers to measure how Company H stands in the competition against competitors and itself.

14.2.9 Networks
The company has been working with its suppliers to reduce the use of raw materials. Also, the company has an on-going cooperation with a nearby university concerning climate issues since the company is somewhat of a pioneer in its industry. The logistics is done by a number of large logistic firms. Already requirements about filling the trucks to the max before transport have been executed for efficiency. More changes are going to be made in these arrangement with requirements of e.g. eco-driving to match the sustainable profile of the product.
14.2.10 Location
The CEO does not think the location has in any way affected the performance of the company. The company is situated in a small city but is half an hour from a medium-sized one. The region has a small airport and good train communications, as well as a technical university.

14.2.11 Laws and Regulations
The company has both ISO 9001 and ISO 14001 certifications since before 2001 and these certifications were done to keep up with the competitors. In general the company works a lot with climate related issues and tries to produce a product that is climate neutral from the suppliers to sales.

14.3 Analysis of Company H

14.3.1 Internal Factors

Organization
A decentralized organization is a characteristic for a successful company according to Bunse & Nässén (2002) and the fact that the chairmanship in the management group circulates indicates that this company is working with this issue and obviously made progress. Another important part according to the same authors is the need for available information and the regular meetings in the group facilitates a spread of information. Furthermore, project work is performed within different areas in the company and this creates networks within the organization and makes it more flexible according to Ahrens (2002).

Several theories discussed the importance of a defined culture that is communicated to the employees and in that way it can be a way of steering everyone in the same direction (Andersson, 2001). The CEO claims the company is old and the culture is in the walls, but at the same time he could not describe it or say what its characteristics were. Therefore it does not seem like a well thought-out culture that can offer any soft control.

Vision and Strategy
The company’s current vision has an internal focus. The vision has then been broken down into an action plan were the focus is upon investments and sales volumes; this is clearly an internal focus as well. Ahrens (2002) believes the vision should have a clear customer focus but in this case the focus is the opposite, but it has the long-term planning he seeks. Additionally, the vision has been broken down into short-term goals which Bunse & Nässén (2002) claim is important. It is not enough though to have goals, they need to be communicated to the employees according to Ahrens (2002) and this has been done in several ways at this company with yearly meetings and screensavers. But the question is how much the employees pay attention to screensavers they see every day, even if the information changes.

The strategic planning is important according to Pansiri & Temtime (2008) and in this case growth and environmental issues seem to be the main focus. Growth as a part of the strategy is believed by Andersson (2001) to be an important part of the strategy. The environmental aspects will be further discussed under Laws and Regulations.

The Manager
The CEO seems to work with different areas depending on where the focus needs to be centered. Lately he has focused on environmental issues and is trying to sell this new concept to the customers.
This is a way for the company to differentiate and a possibility to find new customers and in the prolongation a way to grow. Therefore it can be seen as if the manager has a positive attitude towards growth which Levin & Weström (2003) argue is important for a company to grow. They further argue that a younger manager has a positive affect on growth but in this case the CEO is in his sixties so that theory is not supported here either.

The fact that he has taken supplementary training in leadership indicates he has management skills which according to Pansiri & Temtime (2008) is necessary to set goals and strategies. The way the management group meetings function where the chairmanship circulates is a good example of a CEO who can delegate and does not have a high level of control since he is willing to share some. Too much control can be a constraint to growth according to Storey (1994) and in this company it does not seem to be the case.

**Recruiting**

Recruiting employees with the right education is crucial according to Ahrens (2002) and in this company finding qualified employees has been a problem but it has been solved by the use of supplementary training. Hence, it has not been a constraint for growth. The recruiting has been done outside the social network which Pansiri & Temtime (2008) see as positive since it makes it easier to find a qualified workforce.

**Manpower**

The use of supplementary training has already been discussed above as a way to educate employees to the preferred knowledge level. The CEO has a mixed attitude to supplementary training in general since employees sometimes leave and take with them the training they have received. Ironically Pansiri & Temtime (2008) claim supplementary training is a way of keeping staff since it makes them more motivated. There seemed to be a problem with motivation among the employees in 2001 when the short-run absence was high. A praise should be made to the management who took measures to work the problems out. This supports Pansiri & Temtime (2008) who argue that delegated responsibility result in better financial performance, apparently this can be done by increasing the motivation of the employees and thereby their well-being resulting in a lower cost for short-run absence. The bonus and party which come with a profit surely has a positive affect and help the motivation up among the employees.

**Competiveness**

The functionality improvement as well as a more sustainable product is something the competitors could copy even though it would probably include extensive work. If it can be copied easily it is not a core competence according to Prahalad & Hamel (1990). The company’s strength is now that they are the first with the environmental focus since the trend goes towards sustainable development; so far the customers are interested but it takes time for them to change too. The company also claims to have excellent technical service, and this can be seen as a core competence since the service requires good customer relationships and competent employees. Also, one dimension to outperform competition is, according to Stalk et al. (992), to respond quickly to customer needs and this would be included in the service.

**Product Development and Innovation**

The company continuously develops their offer and even tries to be ahead of the market with the climate neutrality. If this will be a customer demand in the future, as the trend indicates, this proactive way of developing the product could in the future provide the company with a major competitive advantage. According to Kotler & Armstrong (2003) reinventing the products and providing new products is a way to keep the market position and this is what the company has done even though the market does not seem to be ready for the change yet.
The product development is generally performed within the corporate group and therefore the company does not have any patents or any R&D budget making their technological sophistication low according to Storey (1994). On the other hand it is not fair to give the company that stamp since as mentioned the group is responsible for that part of that activity.

14.3.2 External Factors

Market
The company has always acted internationally contradicting Nutek (2003) saying SMEs often have a local focus. Company H acts on a large market but has since 2005 found a niche offering an environmental choice. They use target marketing to reach its customer which is one of the characteristics for a niche player according to Weinstein (1994). Not one of the large competitors have yet focused on the environmental issues in the extent that Company H has, they see themselves as pioneers. There is a risk that larger competitors could take over the segment but the risk decreases if the large corporate group Company H belongs to is counted in to the equation. The fact remains that the market share only is 5% in Europe and neither Company H nor the corporate group has a firm grip on this market.

Half of the competitors are situated in the Nordic countries meaning they have approximately the same conditions for producing. The competitors in South America and Asia can on the other hand produce cheaper products with the same quality. This is definitely a major threat, but on the other hand these competitors have not yet embraced the environmental focus meaning they are not a threat in this niche right now, but as soon as this niche becomes very profitable the competitors will probably be there as well.

Company H emphasizes its belief in long customer relationships since they create trust. These relationships are built by having several contact areas in both their and the customers organization. Thereby the relationship is not dependent on one person in each organization and is therefore more likely to stay good even if an organization looses this key person.

In this case you can definitely talk about a proactive behavior from the company in its way of contacting customers. They not only contact their customers but also the customers’ customers to try and influence them to put pressure on their suppliers to buy environmentally friendlier products. Linneman & Stanton (1991) argue the importance of looking for changes in the market to prevent risks. In this case the market does not change as fast as the company wants it to and is therefore trying to change the market to increase the demand for their climate neutral product. Finally, it can be said that the company has good knowledge about their market positioning and have good customer relations, which otherwise can be a constraint to growth according to Wiklund (2001).

Networks
The interaction with the university concerns climate issues since the company has long-going work in this area. This could help the company attracting future employees since the students become aware of the company and also might remember their proactive way of working.

The environmental work influences all contacts and a reduction of raw material has been performed in cooperation with the suppliers. These are the networks the CEO mentioned and since Hoffman & Roman (2001) argue that networking is a way of requiring capabilities it is probably important to remember that this is not a small company but a medium-sized one with the support of a large corporate group. Therefore the need of requiring external resources probably is lower than for a small company without any back-up from a group.
Location
Levin & Weström (2003) argue that the vicinity to a big city is a positive thing for growth, but in this case there is only a medium-sized city nearby. The CEO claims the location has not been affecting the performance but indirectly it has because the company has had difficulties finding qualified employees in the region. The vicinity to a university can be positive if there is an interaction according to Jacobsson & Lindblom Dahlstrand (2001) and in this case there is. Further discussion concerning the interaction is discussed under the section Networks.

Laws and Regulations
Compared to the current environmental work, which feels proactive, it seems like the decisions to get the ISO certifications were more a way to stay in the competition than to keep up. A clear change can be seen since the company took a conscious decision to focus on the environmental issues. Nutek (2003) claim environmental policies can be important for the company’s performance and this is still to be proved in this case. Kotler & Armstrong (2003) argue that when a company acts on a global market the environmental issues become more significant and this could be the case here since the corporate group is a global actor. The logistics are performed by an external firm, but Company H has certain requirements such as the filling the trucks completely for efficiency. More requirements are coming and this shows that the firm thinks about their whole offer through an environmental perspective.

14.4 Conclusions: Company H
Company H has had a significant value growth of 4,955 % but has not grown particularly in turnover, the volume growth is 20 %. The average profit margin is 0 % and can therefore not be characterized as a successful company. This is probably an industry where the profit margins are low due to a mature product with similar features among all the competitors. Since the company focused on a sustainable product and became a niche marketer, the results have become better. The company has probably realized the need to differentiate and the environmental focus can be a competitive advantage in the future but right now the product is ahead of the customer demands. The way the organization is working and the way the CEO operates give the company good foundation to be successful, but the vision has an internal focus and the product development has not been in phase with the customer demands.
15 Case study – Company I

This interview was performed over telephone with the CEO of the company. The information in the introduction is primarily from Affärsdata (2008).

In brief:
- **Selection**: value growth
- **Ranking**:
  - Volume growth: 1321 (34%)
  - Value growth: 9 (6453%)
- **Average profit margin**: -0,5 %
- **Average solidity**: 16 %
- **Average liquidity**: 96 %
- **Average return on working capital**: 2 %
- **Employees 2007**: 26
- **SNI - code**: 27 (electrical equipment)
- **Geographical area**: Svealand

15.1 Introduction

Company I was founded in the 70’s and is since 1997 a member of a corporate group. The head office, sales office and construction and production departments are located in Sweden.

- In 1998 the company’s inflow of orders increased which lead to a 45 % augmentation of the company’s net turnover.
- In 2000 the net turnover increased with 36 % and this in combination with more efficient activities and organization augmented the profit by 190 %.
- During 2001 - 2004 the demand from the market was low and cost reductions were made. In the end of 2004 the demand started to increase again and organization made a face-lift.
- In 2005 and 2006 the net turnover changed and the company had a positive volume growth. Improvements in the method of working were made which had lead to more customer visits and contracts and also a gain in efficiency.

From the graphs (see Figure 38-40) and from the annual reports we can see that during the hard years with decreasing demand the company suffered from negative results and this was likely due to the crack of the dot-com bubble.
15.2 The Reality of Company I

15.2.1 Organization
The company is since 1997 a part of a larger corporate group that by then owned 60 % of Company I. When the founder quit in 2005, the corporate group bought the rest of the company so today Company I is a subsidiary company.

When the new CEO started in 2005 he introduced some changes in the company in which he,
- Created a separate function for service
- Outsourced some production and started focusing on building only systems.
- Made the transition from an industry company to a knowledge-based company.
- Started improvement work to develop the quality work at the company.

In the directorate the new CEO has changed the way of working but not the people. Earlier the management group received information concerning what had happened but now they are informed about needs and how to make the business profitable.

There are 28 employees at the company; 50 % of the employees work in the production department and 50 % are salaried employees. The number of employees decreased when the corporate group entered the company and the development department moved to the headquarters. The decision paths are short and the atmosphere is quite informal. The CEO wants to create a better company culture; many of the employees have different backgrounds, languages and cultures and then it is important according to the CEO to have a good company culture to gather everyone. Currently the employees think of “us and them” when talking about the company and the corporate group.

Since 2005 the company has worked with improvement projects (e.g. develop a new tool) and operation projects (e.g. develop the company culture). Earlier, the company only worked with improvement projects in the production.

15.2.2 Vision and Strategy
The company does not have a history with strategic work; instead the business followed its path without any deeper thoughts. The organization was operated by dedicated persons and it was not always well thought-out. Currently the company is a respected knowledge-based company that wants to keep old customer and to find new ones. They do not have an interest in employing more people but instead increase the net turnover with 50 %.

Company I have had committed people and who have not been afraid to reach the shown possibilities and in that way the company has managed to grow. The company has not had business goals or a vision to work towards in the past, but now they have function-goals and a formulated and written vision. Additionally the company has gone from having a technical and product focus to becoming more customer-focused.

With monthly meetings and information tables the company tries to reach out with the goals and vision for the company to every employee.

15.2.3 The Manager
The founder of Company I had been in the company for 30 years when he quit in 2005 and the current CEO took over. The founder was over 60 years old when leaving and the new CEO is now 44 years old. The current CEO has 20 years of experience from different positions within a larger
corporate group. The founder had a general technical education and was a real entrepreneur who had many contacts in the industry.

15.2.4 Recruiting
The most important thing to consider when to employing a new person is, according to the CEO, the personality of the person, the new employee needs to fit in. The company temporarily hires employees to the production department from staffing companies and the employees can later on receive an employment if they fit into the company’s culture. To recruit to the sales department the company uses its network or a recruiting firm. The company does not lack in competence but look for dedicated, younger people to employ and gladly women. Most of the employees are vocational trained.

15.2.5 Manpower Care
The company has a low turnover of employees. Earlier, Company I offered supplementary training within the company, but now offers supplementary training via an external actor. The directorate was before more chiefs than leaders but now that has changed and all of them have participated in a leadership course. To keep the personnel and motivate them, the company organizes festivities but also includes the employees more in the business with monthly meetings and gives them concrete goals to work towards.

15.2.6 Competitiveness
The company’s strength is according to the CEO the quality and price of the products, and their knowledge and competence; they have a good understanding of the customer needs and ask the right questions. In Sweden they are among the best according to the CEO. The company also has a large sales organization compared to the industry. Compared with their competitors they are a large company with a broad product range and which offers a customized solution for their customers. Company I is a well-known, reliable and a mature company in the market.

15.2.7 Product Development and Innovation
Company I produces systems that are adapted to customer needs. Different clients have different standards and demands. The products are under continuous development and there are always new solutions. All R&D is managed from the corporate group.

15.2.8 Market
Company I is active in five different business areas with different products. They have different market shares on different markets. On one market they are leaders with 50-60 % market shares while they are a very small actor on another market and growing on a third (today 5-6 % of the market share). The other companies in the same business areas are considerable smaller according to the CEO.

The company sells its products to other industries. They have 20 customers that correspond to the majority of the net turnover. Overall the company has plenty of customers. To larger customers they sell customized products with support and service while smaller clients buy more standardized products, which do not require the same support. The longest customer relationships are within the Swedish industries.

Earlier the customers came to the company and some customer visits were done by the sales personnel. Now the salesmen are out and visit the customers more actively. The salesmen are the
most important channel in reaching out to the customers. The company has also marketed themselves at fairs and have seek-optimized their webpage to further reach out to its customers.

From other suppliers and customers the company gets an idea over what needs the customers have and from the customers the company learns about what the competitors do.

Company I exports to the Nordic countries and to the Baltic States through the corporate group. Outside Sweden the sales of the company’s products are realized via a partner. Sweden is the most important market and also the largest and here the company performs direct selling. Of the total sales 60-70 % are sold in Sweden while 35 % are sold to the Nordic countries and 5 % to the Baltic States. The company has exported over 10 years and all the transportation is performed by a logistics partner that buys all their transports.

15.2.9 Networks
The company cooperates with logistics firms, sales partners and also has outsourced some of the production. With some customers that require service 24 hours a day every day the company has service agreements.

Networks are important and provides good collaboration partners, says the CEO. The company does not cooperate with any university due to lack of time.

15.2.10 Location
The company is situated near motorways, airports, bigger cities and a university. It is easy for customers to visit the company and there is a plenty of workforce nearby.

15.2.11 Laws and Regulations
The labor legalization is the law that affects the company’s business the most. One directive from the EU has also affected the company. Changes according to this directive were necessary but expensive to introduce and not something the customers requires.

The company is ISO 9001 certified since 1993 but does not have an ISO 14001 certificate since no customers demand it. They certified the company due to the fact that larger companies started to demand this certificate. The company has, instead of ISO 14001, an environmental policy for garbage treatment and dangerous materials. Additionally, the company tries to continuously lower their energy consumption and has efficient facilities. This is a way to lower the costs for the customers and it is also good for marketing reasons.

15.3 Analysis Company I

15.3.1 Internal Factors

Organization
Since the new CEO started, the company has gone through some changes which seem to have affected the company’s performance in a positive way, for example the value graph for the company (Figure 38) that increased with over 100% from 2005 to 2006. The employees are more involved in the company, receive and are a part of the information distributed. These factors in combination with the informal atmosphere at the company give a decentralized organization. These characteristics are factors that according to Bunse & Næssén are important in a successful company. The decentralization with an informal atmosphere is also a sign of flexibility which Andersson (2001) claims is important for a growing company. This way to manage a business creates a culture where
the employees feel important for the company which is for example a good ground for successful projects. On the other hand, the fact that the company lacks a well formulated company culture could be negative. They are aware of it and work to develop the culture but if it is not homogenous through the company it can lead to bad results.

**Vision and Strategy**

The company did not have a formulated strategy and only followed old paths. The company was operated by dedicated persons that were not afraid of challenges which helped the company forward. Possibly having a well formulated strategy and vision is not the most important thing, but rather to have the right people. If a person is not motivated to do a good job it does not matter if the company has well formulated strategy and vision since the work is not done with the right dedication. Another option is that a company could be successful to a certain limit without a strategy but when it grows larger it needs a strategy to avoid loosing focus. This can be compared with the theories of Bunse & Naessén (2002) claiming that a company that does not have a well formulated business concept does not have the possibility to reach success. Additionally, Ahrens (1992) says that to be successful on a long-term basis a company needs to have a clear vision. The new CEO has formulated a strategy and vision for the company and formed a knowledge-based company, meaning the company has good potential of growing in the future as well. According to Porter (1996) the manager can, by the strategy, create a valuable position for the company. Therefore it is important that the company now has a strategy and that the CEO continues developing it to make sure that the employees are aware of the company’s strategy and vision.

**The Manager**

By contracting the new CEO, the company now has a young, skilled person that enters with competence from his previous work. He sees the business with new eyes which seems to have been positive for the company. The founder had 30 years within the company including plenty of contacts and competence, but also a blindness for his own company. This could have been a constraint to the firm’s success but a new CEO with fresh ideas and new eyes gives the company a better chance to grow. Also, a younger CEO is positive for the growth of a company according to Levin & Westrom (2003). Pansiri & Temtime (2008) argue that basic and strategic management skills and how these are used is crucial for a company’s success. The knowledge and competence the new CEO has from his previous position will surely affect the company’s success if he uses them right.

**Recruiting**

According to Pansiri & Temtime (2008) a SME requires competent and dedicated people. The workforce is an important resource for a growing company and by contracting employees, Company I have assured that the people they later on employ will fit into the team. By doing this the manager knows that he can build up the organization with employees that are dedicated to do a good job which enables opportunities for the company. Nicholls-Nixon (2005) argues that these are characteristics of a strategic leadership. The manager has also shown that he can recruit from outside the social network which is important for the development of the firm and as Pansiri & Temtime (2008) say, the survival and performance of a SME depends on it.

**Manpower Care**

The new CEO has worked a lot with including the employees more in the business and in that way the employees are more motivated to do their job, and know why they do it and are not just told what to do. To assure that the personnel have the right competence the company offers supplementary training which is in line with the thoughts of Bunse et al. (2002) who say that education and development of the employees are important for the firm’s success.
**Competitiveness**

The CEO claims that the quality and price of their products is one of the company’s strengths. The quality and price are then probably better than the option from the competitors at the moment but this can quite easily change and therefore these features cannot be seen as core competence but more as competitiveness that they could lose. Additionally, he says that the other strength the company has is the knowledge and competence within the firm. This is something that is more difficult for the competitors to copy in some way and a strength that is difficult to create or imitate is a core competence according to Prahalad & Hamel (1990). The company’s broad product ranges in combination with their competence make it possible for the firm to offer a customized product to the customers which bring them superior value. Stalk et al. (1992) argue that by combining capabilities the company can create competitive success which will give them a competitive advantage. Prahalad & Hamel (1990) also talk about the importance of knowing which core competencies are within a firm and the CEO has clearly knowledge about them and has utilized them to give the company competitive advantages.

**Product Development and Innovation**

The company has not developed new products but they have developed the original product continuously which is important according to Storey (1994) who says that renewal of a product affects the success of the company positively. It can be risky to develop a new product but by improving the original product after customers needs the company can offer their client a product that better solves their problem. By doing this the company ensures their spot in the market that according to Kotler & Armstrong (2003) is important for a company’s future.

**15.3.2 External Factors**

**Market**

Company I is a relatively small company but operates in different segments with different products and has many customers whereof 20 correspond to the majority of the net turnover. This is a way to spread the risks according to Kotler & Armstrong (2003), which is important for security of the company if a large competitor would enter the same niche. The fact that the company sells customized products and offers some of their customers support and services is a good way to meet customer requirements that Kotler & Armstrong (2003) claim is important for being profitable in “niching.” To be able to customize products the company needs to be aware of customers needs and have knowledge of the market. From their salesmen the company receives information concerning customer desires, and from the customers they learn about what the competitors do. The salesmen receive good customer understanding that often results in new products according to Peter & Waterman (1982). Wiklund (2001) argues having knowledge about the market and the customers is important for the growth the company.

Company I acts internationally and has done so over the last ten year but still the main focus is Sweden followed by the Nordic countries. The Nordic countries are quite similar to Sweden which can be seen as a way to avoid too much risk and prioritize safety. But still they have an international focus which Storey (1994) claims is a factor for growth. The company exports the same product to all markets which can serve as strength according to Taylor et al. (1996)

**Networks**

By using an external actor for transportation the company has assured that the logistics work without problems, at least from the company’s side. To handle all transports can be difficult for a smaller company. The service agreement the company has for certain customers is an example of a good collaboration. These two collaborations, good service and delivery systems are according to Gosch et al. (2001) success factors for a SME. The fact that the company believes networking is important is
good and if it uses the collaboration in a good way it could lead to competitive advantages and Hoffman & Roman (2001) claim that strategic alliances is a success factor. The fact that they do not cooperate with a university could be negative since from collaboration with a university the company could achieve knowledge they do not have or that they want to improve. This can be compared with the thoughts of Kotler & Armstrong (2003) who say that a company should choose a partner that compensates for the weakness the company has and completes its strengths.

**Location**

With the location the company has it has all the possibilities of growing, finding more employees and easily inviting customers to visit the company. This vicinity to a bigger city affects growth positively according to Levin & Weström (2003). To be close to a bigger city can also be good for the survival of the firm stated by Julien (1998).

**Laws and Regulations**

The company has taken a few steps towards developing a sustainable strategy. If they use the strategy in marketing of the company it can give them competitive advantages according to Nutek (2003). Even if Hitchens et al. (2003) do not think that environmental initiatives have a relationship with a firm’s performance we believe that this question will become increasingly important the coming years.

Schmidt et al. (2007) have shown in their research that more SMEs would consider growing if there were less bureaucratic procedures. When the company says that the labor legalization is the law that affects the business the most it can be interpreted that with less bureaucracy the company would consider growing on a larger scale. It can also be that it is expensive to employ new persons due to taxes which Schmidt et al. (2007) found to be a constraint to growth in SMEs.

**15.4 Conclusions: Company I**

This company has had a value growth at 6,453 % during 1997-2006 and the average profit margin for 10 years is -0.5 %. The profit margin is negative and therefore Company I is classified as an unsuccessful company. Furthermore, the volume growth has only been 34 % during these years which probably is due to the tough years from 2001 to 2004 but also that the company has not had a vision or strategy to follow. The control level was high and the CEO had been there for 30 years but did not have experience before to manage a company. Other things that could have affected the company’s success negatively are the low international level, the fact that the employees were not involved in the business, the non-existing company culture and non-existing collaboration with a university.

The factors that made the company go quite far anyway and have a good value growth are likely the re-organization in 2005, the network around the previous CEO, how the company recruits people, the customized product and the company’s core competences which have given it competitiveness.
16 Case Study - Company J

This interview was performed with the CEO over the phone. The information in the introduction is primarily from Affärsdata (2008).

In brief:

- **Selection**: Value growth
- **Ranking**:
  - Volume growth: 400 (14, 7%)
  - Value growth: 11 (5600%)
- **Average profit margin**: -7 %
- **Average solidity**: 15 %
- **Average liquidity**: 142 %
- **Average return on working capital**: -15 %
- **Employees 2007**: 45
- **SNI-code**: 20 (chemicals and chemical products)
- **Geographical area**: Götaland

16.1 Introduction

Company J became a part of a corporate group in 1998 and in 1999 major changes were done in the organization with e.g. an administration of their own as well as new shift working in the production department. This led to an increase in the number of employees, see Figure 42, as well as an increase in turnover (see Figure 43). Increasing prices on raw material and stable prices on the finished products made the company account for a loss. During 2000-2004 high prices on raw materials made the company declare a loss during these years. In 2005 the company was sold and then made into a joint venture between the buyer and another firm. Company J is now a contract worker for the corporate group and does not own any raw materials or finished goods. A loss was accounted for during that year as well due to high raw material prices. Furthermore, that year there was a value growth which continues during 2006 as well, see Figure 41. In 2006 the turnover decreased (Figure 43) as well as the loss due to the new way of working. The company has been more incorporated into the joint venture and the factory has gone through restructuring and downsizing by six employees.
16.2 The Reality of Company J

16.2.1 Organization

Currently 46 people are working at the firm whereof 24 of them work in shifts of six teams all year around. Company J has separate departments for logistics, maintenance, quality and HSE (Health, Security, and Environment) and economy and administration. Within the organization, 10% of the employees are engineers and two are economists. In the production department, the employees have some technical base and supplementary training. The CEO describes the company as one big family where everyone knows everyone, work together and helps each other when needed.

In theory the firm has clear areas of responsibility but in practice there are grey zones in the limits between the different areas. Company J has managers for the different areas such as production, maintenance, administration, logistics and quality. The different areas overlap in responsibilities and the managers help each other. The role of the CEO is to support and help everyone. So far this organization has worked well for the firm but the CEO implies that if the firm would have to face a crisis, this way of working can cause difficulties.

The management group includes four people (managers for maintenance, administration, logistics and quality) as well as the CEO who has knowledge concerning the production. Management meetings, where the involved people try to solve problems and make mutual decisions, occur once a month. The managers have the mandate to make decisions even without the involvement of the CEO.

The average age being high within the firm has made the CEO concerned about key people in the organization. Some of the managers are very versatile and some of the operators hold an immense competence. These people can be replaced but as the CEO emphasizes, not without difficulties. Some documentation is done to keep the knowledge within the firm but everything can not be documented. As a measure new employees have already been hired to work parallel with the operator to learn from them.

Due to the industry in which the firm acts all kinds of changes need to be risk assessed and this process is performed in project groups. These groups consist of 3-6 people and the projects last in general 5-6 months but some of the major projects have stretched over a year.

16.2.2 Vision and Strategy

The vision has changed during the past ten years and the CEO cannot recall the vision they had before 2005, since it was not put on paper or communicated. From 2005 until 2007 the vision was mostly focused on getting by since the industry is highly exposed to competition. Recently a vision and values have been communicated from the owners and the current vision is to “think differently every day to create a brighter and more active future as the leader within ...” and then the products are mentioned. This vision was first stated in 2005 and is built on four values within the firm; trust, commitment, HSE and cooperation. Since the industry is very sensitive to market fluctuations the focus during the most recent years has been upon keeping up with the competition.

The CEO hopes the employees are aware of the vision. He thinks they know it fairly good and the purpose of the vision. Efforts have been made with posters and signs as well as meetings to inform everyone. Recently an employee survey has been realized to among other things look into the knowledge concerning the vision. The result has not yet been analyzed.
The firm does not have a clearly committed strategy. The CEO claims this is due to limitations in the business cooperation, but the firm is working hard with market issues to reach the vision. The vision and the values are guidelines upon which the firm works. Goals in the production are set on an annual basis, based on financial ratios. More recent softer goals have been set concerning employees etc.

16.2.3 The Manager
The CEO/Location Manager has been working in the same industry since the 1970s and at this particularly company since the late 1970s. He is in his sixties today and has a Master of Science degree complemented on his own initiative with shorter production and leadership courses.

The management group includes four people (managers for maintenance, administration, logistics and quality) as well as the CEO who has knowledge concerning the production department. Management meetings, where the involved people try to solve problems and make mutual decisions, occur once a month. The managers have the mandate to make decisions even without the involvement of the CEO.

16.2.4 Recruiting
In general it has been difficult to find people with the right education and instead they have hired people with a technical background which has been complemented with necessary knowledge concerning the processes in the production department. Salaried employees were found by putting out ads, but now they use a recruiting firm for all kinds of positions.

16.2.5 Manpower Care
Performance appraisals, where personal needs and performance are discussed, are held each year with every employee. The employee turnover is low at the company and to motivate the employees some activities are being arranged for the employees, as well as free fruit and free occupational health service.

16.2.6 Competitiveness
According to the CEO the company’s strength is the flexibility. They compete against larger facilities with more employees and bigger volumes. Instead Company J can adopt fast to customer requirements, which according to the CEO would not have been possible if the company did not have the competent employees it has today.

16.2.7 Product Development and Innovation
Company J produces a commodity product where the development changes are minor. The product development is realized within the corporate group and the changes done are mostly details. The product concept is old on a stable market. Some older patents exist within the corporate group.

16.2.8 Market
The corporate group is the market leader within the industry and hold 25 % of the market shares. 20 % of the customers can be found in the Nordic countries and the rest in east European countries like Poland and Ukraine. Even though the corporate group is leading in Europe, Company J is the smallest production facility volume-wise. There are approximately 10 competitors in the industries, all large companies.
The product is sold in two different ways; either in large volume sold in bulk and corresponding to 80% of the sales or smaller volumes sold on loading pallets and corresponding to the remaining 20%. The customers are other industries that refine the product before selling to end customers. Company J has roughly 25 customers and ten of them correspond to 80% of the turnover. The customer relationships are in general long but the customers change in organization and company structure over the years due to merging resulting in the same customers in a different composition and level of complexity.

Marketing is done by visiting the customers and when a new market is targeted they use distributors to enter. Additionally, sales persons working from home visit customers and technicians provide service with the applications.

16.2.9 Networks
Every year a nearby university pays study visits and during the summer period students work in the production. Additionally, collaboration with the municipality is on-going to create a professional training school. So far, Company J has a passive role in the projects but hopes to receive students for work practice later. Furthermore, the company has acted as a sponsor in environmental work in regional schools.

The regional logistics are managed by Company J itself while longer transports are booked via the logistic department in the corporate group to benefit from favorable deals with cooperation partners. Additionally, distributors are used when entering new markets.

16.2.10 Location
The company is located in a medium-sized city with good communications to several larger cities, whereof two is located within an hour and one has a university. The location is close to a port and several logistics firms are based in the city.

As mentioned previously, Company J has had trouble finding qualified employees due to their geographical position in a town where this type of industry is not common. Apart from this the CEO finds the location to be strategically beneficial considering the location of the customers. Visits from customers occur occasionally, something the CEO encourages arguing the importance of creating relationships and the mutual understanding of the production of one another.

16.2.11 Laws and Regulations
The company experiences no particular difficulties concerning laws and regulations. The quality manager is responsible for tracking changes in the regulations concerning the industry. The company was certified according to ISO 9001 and ISO 14001 in 1993 and 2000 respectively. ISO 9001 was customer demanded but it has also brought benefits to the operations with the controls necessary to keep the certificate.

16.3 Analysis of Company J

16.3.1 Internal Factors

Organization
The areas of responsibility are clearly defined in theory but in practice there are grey zones. On the other hand, it is a small company and if there is any hesitation concerning who is doing what the company is not large so employees can simply go ask each other. This way of working could cause
double-work or that certain tasks falls in between what people think are their responsibilities and in time of a crises or stress mistakes are likely to occur.

Regular management meetings indicate good communication where information is spread to different parts of the company. This is important according to Bunse & Naessén (2002) for flexibility, although this is a small organization which automatically makes them more flexible than bigger companies. Flexibility is also favor by project work according to Andersson (2001) and in this company project based work is used when performing risk assessment. The projects are long and include 5-6 people. During that time the networks between different parts of the organization according to Ahrens (2002) still consists of different departments even though it is in this case is a small organization.

The culture is described to be very informal and familiar where everyone helps each other. This seems like a culture that has grown with the company and not developed for communication to the employees. Andersson (2001) talks about how a culture can make the employees act in a certain way and in this case it seems to be to help each other and thereby the company can reach its goals.

**Vision and Strategy**

During the years investigated the company has not had a clear vision; the only thing that has been said is that the company is going to try to get by in the competition. This is not a vision for a company long-term successful growing companies according to Ahrens (2002) who believes the vision should be a guiding star. Lately the company has improved in their vision concept and it now talks of being the leader in the industry and being active. Becoming a leader is a long-term goal which Ahrens (2002) looks for. Additionally, the “active future” can be interpreted as actively seeking customer and thereby a customer focus, but this might be reading a little too much into the vision. A customer focus is a third thing Ahrens (2002) looks for in a successful vision. He further states that fundamental values should be communicated to the employees. The vision is supported by four values so the first point is fulfilled; concerning the second one the CEO thinks everyone is aware of the purpose of the vision.

The company lacks a clear strategy and focuses more upon the production and market issues, which is exactly what Pansiri & Temtime (2008) talk about when saying most of the SMEs emphasize the operational part more than the actual strategic planning.

**The Manager**

Long experience and leadership courses indicates he has the management skills that Pansiri & Temtime (2008) argue are important for setting goals and strategies. This is supported by the way the responsibility is delegated to different managers who are responsible for different areas and also have mandates to take decisions show that the control level of the CEO is low, in other case it could have been a constraint to growth according to Storey (1994).

The CEO emphasizes that the goal mostly has been to get by and growth does not seem to be a goal. Therefore it can be said that he does not have a positive attitude towards growth which Lewin & Weström (2003) claim leads to growth.

**Recruiting**

The company has had difficulties finding a qualified workforce which according to Ahrens (2002) is a constraint for growth. On the other hand the company has solved the problem by supplementary training in the company which takes time but probably not so long that it, in a long-term perspective, would be a constraint to growth.

Ads and more recently a recruiting firm have been the channels the company has used to reach out and find new employees. This is in line with Pansiri & Temtime (2008) who emphasize the importance of looking beyond the social network to find qualified employees.
Recently the CEO has hired younger employees to work parallel with employees that will soon retire. This is a way to keep the knowledge within the firm.

**Manpower Care**

The low employee turnover in combination with the high average age indicates that the employees enjoy working there and also that not that many new and young people have been recruited because there has not been a need to fill any gaps until recently. Supplementary training, to make up for the fact that qualified people have been hard to find, has already been mentioned under *Recruiting*. During annual performance appraisal the need for supplementary training is discussed and this is important since Pansiri & Temtime (2008) claim supplementary training is a way to keep employees motivated. The CEO mentions other measures to increase the well-being among the staff and considering the low employee turnover it seems to be working.

**Competitiveness**

The CEO mentions the flexibility as the company’s strength. Thanks to its flexibility the company can adopt to customer requirements in a way its larger competitors can not. It is the competent employees that make this possible and this kind of flexibility is not easy to copy for a competitor and therefore it is a core competence according to Prahalad & Hamel (1990). Some of these competent employees will soon retire and measures have been taken by the CEO to keep the knowledge within the firm, read more under *Recruiting*. This makes the company somewhat vulnerable since loosing one of these key people would be difficult.

**Product Development and Innovations**

From the information received it seems like product development is not the priority in this type of industry. This is because the concept is old and the product is sold to industries which refine it further, so the product development is probably more critical in this next step. Consequently, the level of technical sophistication discussed by Storey (1994) is not relevant in this case. The changes that are made on the product are done on a corporate level and Company J is not involved in this process.

16.3.2 **External Factors**

**Market**

A niche marketer acts in a small segment with concentrated target marketing according to Weinstein (1994) and in this case the company sells a standard product which has no particular features compared to the competitors. Accordingly this, in combination with selling the same offer to several types of industries with the same quantity, as the only differences and together with the corporate group holding a mere 25 % of the market implies that Company J is not a niche marketer. The theories discussed concerning marketing are focusing on the niche marketer, but it can also be interesting to see if these theories apply to a non niche marketer as well.

Selling to different types of industries makes a spread of the risks in the way Kotler & Armstrong (2003) argues for, but on the other hand the raw materials are the same for all markets so if prices increase it affects the costs for all products sold. The company acts on an international market, generally focusing on the Nordic countries and some other countries in the north of Europe. Nutek (2008) claims SMEs often have a local focus which is not the case here, on the other hand the company is a part of a corporate group and with resources within the group and internationalization is probably easier than for a small company on its own.

The company has a smaller amount of customers and 40 % of them correspond to 80 % of the turnover, meaning the risk is spread among almost half of the customers in different industries. The
customer relationships are long and even though it is the same customers their organization changes with e.g. merging. Since the market is said to be mature and the product is not being developed that much, the company can not differentiate and therefore these relationships are important since they are the only things that keep the customers buying from them. The sales people pay visits to customers and so do technicians to provide service to the customers. The sales visits can be defined as proactive work since it is the company who contacts the customer and not the other way around.

**Networks**

Cooperating to create a school where students get the competence needed in the company can be seen as long-term investments in potential future employees. This is a way to get access to workforce resources or at least to make the “resources” aware of the existence of the company. Creating awareness is also done by visiting regional schools and visits from the nearby university. Longer transports are done by logistics firms that are booked through the corporate group to get a favorable deal. This is another example of the benefits the company gets by being a part of a large group. It is also an example of how a company acquires capabilities by involving an external part in the way that is described by Hoffman & Roman (2001). A second example of this is the distributors the company uses when entering new markets. They probably already have the important connections and deals needed to succeed. Also, it would probably be too expensive for the company to start sales offices of their own everywhere.

**Location**

The company is situated close to several bigger cities which according to Levin & Weström is positive for growth. On the other hand the company has had difficulties finding qualified employees in the area, which contradict this theory. The company is within an hour from a university and has interaction with it which support Jacobsson & Lindblom-Dahlstrand’s (2001) theory concerning growth and university interaction.

The CEO is pleased with the location from a transportation point of view. The area seems to have good communications and being a base for several logistics companies give the company a selection in the partner they choose. A further discussion is found under **Networks**.

**Laws and Regulations**

The CEO does not believe the laws and regulations have caused any particular difficulties which is the opposite of what Lewin & Weström (2003) claim. The quality manager monitors changes in regulations. Schmidt et al. (2007) claim lack of awareness of where to find information in the overload of information about laws is a constraint for growth. In this case the CEO seems to have full confidence in the quality manager and it is probably a good thing to give this to someone who has the competence as well as to actually make someone responsible so that it is not something everyone does if there is any time left. The risk is then that it never gets done.

The company has ISO certifications and ISO 9001 was required by the customers but then provided benefits within the company as well. This is an example of a regulation that, instead of a constraint, has proved to be something positive for the business.

**16.4 Conclusions: Company J**

Company J has had a significant value growth of 5,600 % during 1997-2006 but only with 14.7 % in volume. Also, the average profit margin is - 7 % and therefore this company must be characterized as a non-successful company. This could be due to a combination of different factors. It is a small company on a mainstream market selling a standard product. This makes it hard to compete especially since it has the smallest fabrication plant on the market. Also, the company lacks a vision and a clear strategy making the company focus on the everyday work and does not have any long-term planning. Difficulties finding qualified employees are an additional constraint for this company.
On the other hand, the company has features that, according to theories, have a positive impact on performance; a culture, project-based work and delegation in the organization. Accordingly, either the negative factors have taken over, or these are not performed as much as necessary thus resulting in the current state of Company J.
17 Case Study - Company K

This interview was performed with the financial manager over the phone. The information in the introduction is primarily from Affärsdata (2008).

In brief:

- **Selection**: Volume/Value growth
- **Ranking**:
  - Volume growth: 2 (3833 %)
  - Value growth: 3 (27782 %)
- **Average profit margin**: -25 %
- **Average solidity**: 33 %
- **Average liquidity**: 122 %
- **Average return on working capital**: -9 %
- **Employees 2007**: 125
- **SNI-code**: 25 (fabricated metal products)
- **Geographical area**: Norrland

### 17.1 Introduction

For several of the years included in the studied time period the company has accounted for a loss (1999, 2001 and 2003), while the value (Figure 45) and the turnover (Figure 44) have continued to grow apart for some occasional dips.

In 1998 the company had one main product in different versions and with applications but a complete product program was launched. Market cooperation with distributors in Europe and market research had been performed in several countries. The following year 45 % of the stock was bought by a venture capital company and the value increased (Figure 45). In 2001 the company cooperated with a partner for product development. A new CEO started in 2002 and there were changes made in the organization. Additionally, the range of products was widened. In 2003 the exportation increased by delivering to several new markets and the net turnover consequently increased (Figure 44) as well with the number of employees (Figure 46). Also, new innovations were presented and a new issue was performed.

A second new issue was executed in 2004 and the company was purchased by a corporate group, thereafter the value increased. This created synergies in production, administration and sales, as well as an increase in international sales. These synergies caused a cut of staff (Figure 46). In 2006 the corporate group announced a potential sale of Company K but then decided the following year not to go through with it. In 2007 a long-term strategy for product development and design was pronounced for new generations and improvements of existing products.
17.2 The Reality of Company K

17.2.1 Organization

The company was started in 1997 by an entrepreneur who patented the technology and after some years resigned from the CEO position but still works as a consultant within the firm. He is an important lobbyist and is a big part of the company’s soul. But even so, he is not irreplaceable according to the financial manager. The company was bought by a corporate group in 2004 and since then the level of independence has varied. First, it was decided there would only be a production facility but since the company was a big part of the group the organization changed again and now the company has all the different departments again.

Company K was purchased by a corporate group in 2004. This group has 170 employees and is the market leading in its industry. Since the purchase Company K has had varying levels of independence but in 2007 the management group was recreated and all the departments as well as the production department are now located in the same area again. Company K has 125 employees whereof 50 of them are in the production department. During periods with heavy work load up to 30 extra people are occasionally hired. The production team has work shop education complemented with supplementary education at the company. The salaried employees have varying education; some have engineering degrees while others have a lower technical education or economy degrees.

The board and the CEO have the uttermost responsibility but the management group has the mandate to make decisions on their own. The areas of responsibilities are clear according to the financial manager and the uttermost responsibility lies in the board and the CEO but the members of the management group can make certain decisions depending on the nature of these decisions. The management group has meetings every other week.

The financial manager argues there is an entrepreneurial spirit within the firm allowing ideas from everyone to be heard and valued. Also, the culture can be described as open and a bit unorganized, which according to her has a backside to it when the different departments do not know what is going on in other areas of the company. The ad hoc way of working is commonly practiced. The work is largely project based, mostly within the R&D department. The lengths of the projects vary from two months up to two years including 5-10 people, depending on the nature of the project.

17.2.2 Vision and Strategy

There is no vision on record and hardly a strategy either. The focus is mainly internal. Since not even the management group is totally sure of the content of the strategy it has not been communicated to the employees. However, goals for the production group are set every week and month.
The strategy is growing by internationalization. The problem for Company K has been the lack of a functioning management group since it was located elsewhere before. Therefore no real short-term goals were set and there were also a shortage in the long-term goals according to the financial manager. The current focus of the goals is now to increase the turnover and the profit.

17.2.3 The Manager
There has been turbulence in the company essentially since 2004, but even before that due to disagreements on the owner level on how the company should be run. Several different people have had the CEO position during these years, all from different industries but very well educated. Generally they have been in their late forties or early fifties. Currently the company does not have a CEO since the new person still has not taken up his duties. The last CEO only stayed for one year at the company.

17.2.4 Recruiting
With regular intervals there is a need to recruit and the budget does not cause constraints in the recruiting process. For the employees in the production group, recruiting is mostly done through contacts or ads while salaried employees are found with the help of recruiting firms, headhunting, contacts or ads.

The economy manager expresses a wish for a human resource person at the company but at the same times concludes that the company is too small for that kind of resource.

17.2.5 Manpower Care
The employee turnover is low, except for the CEO position. Possibilities for supplementary training are available if there is a need and an interest. Every year performance appraisals are performed to discover e.g. needs for education.

The company is only 10 years old and the financial manager thinks it is an exciting company to work for with possibilities to change roles within the company, possibilities for supplementary training and an attractive wage level. Also, activities are arranged for the employees on the initiative of the company or the employees themselves. Furthermore, a compensation for sport activities is offered.

17.2.6 Competitiveness
The company’s strength lies in the unique technical solution which is the best and safest solution according to the financial manager.

17.2.7 Product Development and Innovation
The product development is assumed from customer needs and includes improvements, applications or requests for another kind of product that would fit into the company’s product range. The company has roughly 20 patents and new ones are continuously added. All the products are founded on a few patents representing the core technology. The cost for the R&D corresponds to around 12% of the total net turnover, but only 5% for pure development.

17.2.8 Market
Company K has three different business areas in different sizes but it is the same technology that provides products for all three. The company does not sell to the end customer and there are two reasons for selling new products; either the customer grows or the company enters new markets. A product lasts 6-7 years if it has had the right service. In some European countries Company K is the only company who satisfy the requirements and therefore the market share there is large. In Sweden they are the only one fabricating this product. In the whole of Europe they have four competitors.
The most important market historically has been Sweden and Norway, corresponding to a current market share of 40%. There are around a total of 6 customers of which half of them are in Sweden. The customers are mainly global companies and only one of the customers has been with the company since the start. A very close relationship with the customers is provided especially with the help of the service organization which has continuous contact with customers.

Industry fairs are an important forum for reaching the customers. Another way has been to find big potential customers and visit them. Very little market research has been done since the company has a close relationship with the customer and feels like all the needs are picked up that way. Information concerning competitors is found on fairs and via customers.

17.2.9 Networks
The company uses subcontractors for some development work when there is one that performs better than the company or when such a small volume is needed for producing it in-house. Several of these subcontractors have been partners since the beginning. Cooperation with a technical university is on-going for technology development. Furthermore, the company has distribution partners on all prioritized markets, but some customers transport the products themselves.

17.2.10 Location
The company is located in a medium-size city near a port, an airport and a highway. There is no large city close by but the city has a campus area with two universities represented as well as a school for professional training.

The location has not been a central factor for the company’s performance, but the cost for transport could have been less if the company had been situated closer to a big city where most of the customers are situated. But the location can also be seen as an advantage since the employees stay longer due to lack of other possibilities.

17.2.11 Laws and Regulations
Chemicals are used in the production and it is of importance to control the emissions. The company does not have any ISO certifications because this has not been a requirement from the customers. On the other hand the internal structure includes controls.

17.3 Analysis of Company K

17.3.1 Internal Factors
Organisation
This company is young and this study gives the whole story from the start until now. In general it seems like the past years have been very up and down and the company has not really managed to settle. Firstly, the responsibility is delegated to the management group who has had the mandate to make decisions. This indicates a will to decentralize the organization which Bunse & Næssén (2002) argue is important for a successful company. On the other hand this does not seem to have worked out to the best since the areas of responsibility are unclear and the different departments do not know what the others are doing. The culture is very open and encourages people to speak their mind. It is however also an unorganized organization with no clear areas of responsibility and the ad hoc way of dealing with things shows that there is a lack of the distinct and clear objectives that Bunse & Næssén (2002) request.
Project based work is used to a large extent which Bruzelius & Skärvad (2000) argue is important to be flexible, a characteristic needed to keep up with changes in the market. On the other hand, the question is whether this company needs more flexibility. Perhaps it is structure that this organization requires the most.

**Vision and Strategy**

The overall problem for this company has been the lack of a functioning management group which can set the vision, strategy and goals. According to Ahrens (2002) a long-term successful company has a vision as a guiding star and in this case not even the management group seems to know the vision or the strategy. Short-term goals for the production department have been set and this supports Pansiri & Temtime (2008) who say SMEs mostly have a short-term focus. Besides the production goals no short-term goals have been set nor any long-term ones. Also, the ad hoc way of working mentioned under *Organization* shows the lack of strategic planning which Pansiri & Temtime (2008) claim is important for SMEs. The company needs to rise from the everyday work to think about its future.

**The Manager**

Analyzing the CEO of this company is not possible since the person in this position has been changed several times over the years. A probable reason for this is the fact that the owner can not seem to agree about how the company should be run. Also, the management group has not been located at the company so daily contact has not been there.

The founder had the CEO position in the beginning but stepped down realizing he wanted to focus on development. This was probably a good call since Storey (1994) says the owner-manager can be a constraint to growth both in not letting go of any control and not having the managerial skill needed.

**Recruiting**

The recruiting is done in several different ways and this probably helps the company finding qualified employees. Ahrens (2002) claims that recruiting employees with the right education is crucial and the financial manager does not mention any problem in that area.

**Manpower Care**

Taylor et al. (1990) claim the workforce is a key resource in a medium-size growing company and that it is of importance to avoid a lack of suitable staff with e.g. recruiting and development. This company fits into the category and it offers supplementary training when there is a need that is e.g. discovered during a performance appraisal. As discussed earlier the organization is unorganized which can result in one department offering training to employees in an area that is already represented in the company without them knowing.

The unorganized organization, lack of knowledge among the departments, etc. are reasons for the company to hire someone who can be in charge of the human resources. This has already been suggested by the financial partner and it would probably provide the organization help structuring its human resources which it seems to need.

Furthermore, the financial manager talks about the company as an exciting work place where people can try different roles in the organization. This is probably motivating for staff and also a way of keeping the staff since they do not need to change company to change position.

**Competitiveness**

This company relies very much on its patents which is also its core competence. The whole company is built around them and they can not be copied, which is a key point according to Prahalad & Hamel (1990) when it comes to core competence.

Furthermore, the founder has been a key person, without him the company would not have existed since he has all the patents. On the other hand this knowledge is now spread in the organization and
he is not irreplaceable anymore, but still important for the company spirit as mentioned before. Therefore he can still be seen as, if not a key person, one of great importance.

**Product Development and Innovation**

The product development has its starting-point in customer demands that are analyzed which is exactly in line with Storey (1994) who claims that this kind of analysis leads to new products. The company has a high degree of technological sophistication according to the theory by the same author since patents make up the core competence as new ones are continuously taken out which goes in combination with a specific budget for R&D employed engineers.

**17.3.2 External Factors**

**Market**

In this case it is not obvious to decide whether or not this company is a niche marketer or not. It acts on a market and has a smaller number of competitors; however this company provides a different technical solution. Also, the requirements on some geographical markets have changed making Company K the only one who satisfy them. This has made the company a niche player on those markets. This niche will be a mainstream market when the competitors have figured out a solution of their own to compete with, but for now Company K is alone in its niche thanks to its patents.

The product has a long life-length which makes it important for the company to take care of its aftermarket during those 7 years the product needs service. This is provided by the service organization who builds the customer relationships. It is important to keep good customer relationships so that the customers buy from the company when the product needs to be changed. Linneman & Stanton (1991) emphasize the importance of good customer relationships and Company K seems to have realized the importance as well. The authors also argue the importance to talk to customers to look for changes in market demands and this is done by the company in the form of customer visits and fairs.

Since the number of competitors is low the company has the possibility intensely monitor the competitors, but this goes for the competitors as well. Information concerning the competitors is today obtained via the customer relationships, which is one more reason to keep them as good as possible. Also, competitive products are bought to investigate the techniques. This is probably a way to see how far the competitors’ techniques have evolved and how far they have left before they reach the same level as their own patents.

**Networks**

Apart from the already mentioned university cooperation, the company has partners in two different areas. Firstly, some development work is outsourced to contractors and this is a way to acquire capabilities that can not be found within the company according to Hoffman & Roman (2001). Logistic capabilities are required from logistics firms or are performed by customers. In this way the company can focus upon its core processes.

**Location**

Interaction with a university is positive for growth according to Jacobsson & Lindblom-Dahlstrand (2001) and in this case the purpose of the cooperation is for technical development. Two universities and a school for professional training could provide qualified work force for the company in the future and could therefore have a positive affect on the company’s performance. The fact that the company is situated far from their customers increases the transport costs is a disadvantage with the location but the remote location makes the employees stay longer at the company.
Laws and Regulations
Any negative affect of legislation on the performance has not been mentioned even though the company acts in an industry where chemicals are used. The laws regulating the use of these chemicals are then probably just accepted as conditions. The company does not have any ISO certifications since this is not a requirement from the customers. Kotler & Armstrong (2003) call this behavior short-sighted and think that companies need a long-term environmental plan to be able to meet future demands. The financial manager refers to the company’s internal controls as enough, but judging from what has been discussed concerning the level of organization structure a certain hesitation appears if this is really the case.

17.4 Conclusions: Company K
Company K has top positions in both volume (3,833 %) and value growth (27,782 %) and would be classified as a successful company if it was not for an average profit margin at -25 %. This shows that it is in fact not a successful company. The turnover has increased since the company has a patent that provides significant market shares and the products have continued to develop. Also, the long-lived product requires service which provides an important aftermarket. The weaknesses in this company are the unstructured organization, the lack of a functioning management group, frequent changes of the CEO and no clear vision or strategy.
18 Overall Conclusions

This chapter includes the conclusions from our study starting with an introduction with the results from the database analysis followed by the conclusions from the cross-section study and the case studies. Thereafter, the new and improved model of analysis will be introduced as well as the generalization. Finally, sections concerning our reflections and suggestions for further research will be presented.

18.1 Introduction

The majority of the successful companies that have been investigated are highly ranked for both volume and value growth. Among the investigated companies, seven are situated in Götaland, three in Svealand and the remaining company is in Norrland. This conclusion falls out naturally considering more people live in the south. Additionally, the results show that not all the factors presented in our qualitative research model have been critical for success in our investigated companies.

18.2 Conclusions from the Database Analysis

The analysis of the database refers to the background of the study and it can be concluded that there are more small companies than medium-sized companies in Sweden. In 1997 there were more small companies than in 2006 and almost 50 small enterprises have become medium-sized companies during this time. Small companies have a net turnover around 10-50 MSEK and medium-sized companies around 100-300 MSEK. The hygiene factors do not correlate with the definition of success, except for solidity that has a low correlation to value growth. The financial hygiene factors are not affected by the industry type but most of the SMEs in Sweden have a SNI-code that starts with 28 (machinery and equipment), 29 (motor vehicles, trailers and semi-trailers) or 22 (rubber and plastic products).

18.3 What Factors affect Success?

From the cross-section study, see Appendix 2, where all factors were investigated, we can conclude that there are factors that are found in both successful and unsuccessful companies and we therefore call them general factors. These factors are presented in Appendix 6. There are also specific factors for successful companies, i.e. the majority of the successful companies encompass the factors while the majority of the unsuccessful companies do not. For the summary of results see Appendix 6. The factors can be divided into seven different groups with a varying number of items in each group, which are shown below.

Organization
- Not part of corporate group
- Defined culture
- Clear areas of responsibility

Vision and Strategy
- Clear vision with growth focus
- Clear strategy with growth focus
- Vision and strategy communicated to the employees
- Long-term goals

The Manager
- Positive attitude towards growth
Recruiting
- Find qualified employees

Competiveness
- Two or more core competences
- Flexibility

Product Development and Innovation
- Customer initiated product development
- Customized products
- Technological sophistication

Market
- More than one segment
- High export level
- Use marketing, mostly via distributor

18.4 How do the Factors affect Success?

To answer the “how”-part of the purpose we have determined critical success factors and some relationships between four of the success factors. To further determine how these factors affect the success of a company we believe more extensive research is required. The factors below are concluded from the case studies by comparing each case company with one another to see which critical factors that returned most frequently. We have also investigated the most frequent combinations of factors which has given another aspect of how the factors affect the success.

The critical success factors which have a greater positive impact on success are:

- **Vision and Strategy**: is clear and with a focus on Growth.
- **Competiveness**: is a core competence in general, specifically flexibility.
- **Customer Interaction**: e.g. sales and product development.

Additionally, the factor “Extensive networking” was an important factor for the firms that actually had extensive networks. The reason this factor did not derive from the cross-section study is that the majority of the successful companies did not have extensive networks. From the case studies two clear relations could be determined.

Firstly, the relationship between the factors “Clear vision and Strategy” and “Defined Culture.” This could be because the CEO of a company with a clear vision and strategy knows what he/she wants to reach and how this is going to be reached. A culture can be used to guide the employees to work together to reach the same goal, in this case the vision and the strategy. It is likely that a successful CEO uses all possibilities to obtain success, hence both vision, strategy and a defined culture.

Secondly, a relation between “Flexibility” and “Customer Interaction” has been discovered. To interact with the customer the company needs to be prepared to adapt somewhat to reach a good relationship. If the customer interaction includes e.g. service, the company has to be able to provide the service when the customer has a need for it. This sort of adaption calls for a certain dimension of flexibility.
18.5 New and Improved Analysis Model –Dressed for Success

In the conclusion we listed the factors we have found that have an impact on the success of SMEs. The base of the revised research model, as illustrated in Figure 47, contains the general factors that have been found in both successful companies as well as in the unsuccessful companies. For further information see Appendix 6. The next level presents the “what factors” which are basic factors specific for the successful companies. The “how factors”, presented in the top level are factors that have the most prominent impact on the performance of the successful companies, so called key factors. In this study it has not been concluded whether or not the factors need to be in combination with each other to achieve success.

![Figure 47: Revised research model](image)

18.6 Generalization

The conclusions are generalizable to all manufacturing SMEs in Sweden since the sample selection is representative for the target population. They satisfy the definition of SMEs and have a similar distribution of SNI-codes as the manufacturing SMEs in Sweden. Furthermore, the investigated companies are situated in different geographical areas which imply that they have different conditions for undertaking business. To completely correspond to the target population the selection should have included more small firms than medium-sized firms, but since several of the investigated cases are firms that have grown from small to medium-sized enterprises the selection is still representative. Furthermore, the success factors could be applied to companies abroad as well if the business climate and the conditions are similar. Additionally, we believe that the conclusions can be used as guidelines in the future for manufacturing SMEs based on the aforementioned generalization aspects as well as the fact that the investigated period spans over ten years. This time span implies that the factors are not occasional, but have a long-term perspective.
If the factors could be applied to firms that act within different SNI-codes besides manufacturing is yet to be proved. We believe this is the case, but it is a question for further research to decide.

18.7 Reflections

The timing for this study could have been better considering the financial crisis that has swept across the world, Sweden included. This has resulted in negative responses from several companies when we have asked for an interview. They were completely focused on saving the business.

If the time limit and the scope had permitted personal visits at every investigated company we believe we would have received information with a higher quality. In fact, the personal interviews that were performed permitted a deeper understanding for these particular companies. Additionally, we believe that interviews with more than one person at each company would have provided a more balanced picture. Realistically however, we doubt this would have been feasible since it was hard enough to convince one person at the company to give us time for an interview.

18.8 Further Research

For further research we suggest a deeper investigation where the information is obtained from more than one or a couple of sources at the company. Also, the external networks of the company could be of interest to interview, such as customers and partners. Another aspect to investigate further would be potential differences between small and medium-sized firms to see if the factor combination is different. Another question to seek an answer to is if the result is applicable for other industries. Finally, as abovementioned, more extensive research is needed to determine all aspects of the “how”-part of the purpose.
19 Bibliography

19.1 Printed Sources


19.2 Internet Sources


19.3 Database

UC AB. Contact Pia Hammarqvist; pia.hammarqvist@uc.se 2008-08-21.

19.4 Interviews

CAM (080811 & 080908) – Gunnar Almesåker, Ronny Mårtensson & Anna Örhwall-Rönnbäck
Company A – CEO – 081013 at 12.00 – 14.30 (lunch included)
Company B – Sales Manager - 081023 at 9.00 – 11.00
Company C – CEO – 081020 at 9.30 – 11.00
Company D – CEO & Plant Manager – 081024 at 9.00 – 10.15 and 081027 at 11.00-12.00
Company E – CEO – 081015 at 10.00 – 11.30
Company F – CEO – 081112 at 11.00 - 12.30
Company G – CEO – 081028 at 10.00 – 11.30
Company H – CEO – 081114 at 10.00 – 11.45
Company I – CEO – 081030 at 10.00 – 11.30
Company J – CEO – 081104 at 9.00 – 10.30
Company K – Financial Manager – 081021 at 15.00-16.15
Appendix 1

Interview Guide

Organization and Management
*The important role of the manager*
Berätta lite om dig själv.
- Hur gammal är du?
- Hur länge har du jobbat här? Vilken tjänst/er?
- Hur ser din utbildning och erfarenhet ut?
- Har du varit på vidareutbildning? Kurser?

Organization
Hur många arbetar här? Inom vilka områden?
Stannar folk vanligtvis en längre eller en kortare tid?
Vilken utbildning har de anställda?
Har ni ingenjörer anställda?

Recruiting
Hur sker rekrytering?
- Var letar ni personal? Ams, vänkrets?
- Saknar ni någon kompetens?
- Om ni haft tillgång till den, hade det påverkat utvecklingen av företaget?

Supplementary training
Hur motiverar ni personalen? Vidareutbildning, kurser, ansvar etc?
Arbetar ni aktivt för att behålla personalen? Hur?
Finns det en medveten företagskultur?
- Hur utvecklades den?

HUR är ansvaret fördelat?
HUR ser beslutsvägarna ut?
Om ett beslut om marknaden ska tas, vilka beslutsvägar finns? (Kan en säljare själv fatta beslut?)
Var finns informationen ett beslut, försäljningssiffror etc? Vilka har tillgång till informationen?

Arbetar ni i projekt?
- Sen när använder ni projektbaserat arbete?
- Vilka uppgifter är projektbaserade?
- Hur många är involverade?
- Hur långa är projekten?
- Har ni märkt någon förändring sen ni började? (Effektivare arbete, bättre produkter etc.)

Strategy och vision
Vad har ni för strategi?
- Ingår tillväxt som en del av strategin?
- Ingår långsiktiga och kortsiktiga mål?
- Vilket fokus har strategin och målen?
- Finns det en vilja att växa? Vill ni expandera?

Har företag en vision?
- Vad går den ut på?
- Finns fokus på kund eller ligger fokus internt?

Känner alla anställda till visionen och målen?
- Hur förmedlas de?

**Product Development and Innovation**
Vad producerar företaget?
Hur utvecklades produkten/produktarna?
Hur utvecklar ni produkter idag?
Hur gamla är era produkter?
Har ni några patent och i så fall hur många och för vilken produkt?
Hur stor är budgeten för FoU (i % av omsättningen)?

**Core Competences and Competitiveness**
Vilka är företagets styrkor?
- Vad är företaget riktigt bra på?
- Vad skiljer er från andra företag i samma bransch?

Finns det någon person i företaget som ni inte skulle kunna ersätta, en nyckelperson med mycket kunskap och erfarenhet?

**Market**

*Niche marketing*
Vilken bransch verkar ni i?
Hur stor är er marknadsandel?
Hur många konkurrenter har ni?
- Tillverkar de exakt samma produkter?

Vilka är era kunder?
- Verkar ni på flera olika segment/marknadsområden?
- Säljer ni till andra företag eller till slutkund?
- Hur många kunder har ni och står vissa för majoriteten av omsättningen?
- Hur långa är era kundrelationer?
- Hur ofta har ni kontakt med kunderna? Vem tar kontakten? Vad avhandlas?

Hur marknadsför ni er mot kunderna?
- Vilka kanaler använder ni för att nå ut till kunderna? (reklam, säljare etc)
- Säljer ni via Internet?

**Market research**
Hur tar ni reda på vad kunderna vill ha?
Hur tar ni reda på vad konkurrenterna håller på med?
Utför ni marknadsundersökningar?
- Hur går de till?
- Vilken information vill ni få?
- Saknar ni info om något?

Om företaget inte utför marknadsunderökningar, vad beror detta på?
- Finns det ett behov av marknadsundersökningar?
• Finns det någon information som företaget saknar?

Exportation
Var finns era kunder?
• Lokalt i regionen
• I Sverige, Europa eller världen?
• Vilka länder rör det sig om? (%-satser)
Exporterar ni samma produkter till alla? (I samma nisch)
Hur länge har ni exporterat?
Hur hanterar ni transporter och logistik? Samarbetar ni med någon?
Samarbete vid marknadsföring i andra länder?

Om företaget inte exporterar:
Finns det planer på att börja exporterar?

Networks
Har ni några samarbetspartners?
• Vad ingår i samarbetet?
• Hur länge har samarbetet pågått?
Behövs något mer samarbete?
Hur väljer ni samarbetspartners? Några kriterier?

Varför samarbetar ni inte med någon?
• Behövs det inte? Vill sköta sig själva?

Har behovet av en samarbetspartner förändrats sen 1997?

Location
Vi vet var de är lokalisade. (var i Sv, stor stad, universitet, motorväg, etc)
Tycker du att företaget har ett bra läge och i så fall varför (Nära motorväg, stor genomfartsled, skyltar, attraktivt område med flera företag)
Påverkar ert geografiska läge kontakten med kunderna?
• Kommer kunder och besökare er? Är det lätt för dem att hitta hit?
• Om kunder inte kommer hit, är det ni som besöker dem?
• Behövs ingen direktkontakt? Sker all kontakt via telefon, mail etc. ?

Samarbete ni med något universitet?

Laws and Regulations
Hur tycker ni att lagar och regler påverkar verksamheten?
• Vad är det som påverkar och hur? (skatter, etc)
• Skillnad mellan 1997 och 2006?

Hur får ni tag i information om ändringar i lagar eller nya lagar?

Arbetar ni aktivt med miljöarbete?
• Hur sker arbetet?
• Har ni ISO 14001?
• Påverkar miljöarbetset design, produktion, transport, emballage etc?

Ingår hållbar utveckling i er strategi?
• Vad innebär detta?
• Har ni långsiktiga och kortsiktiga miljömål?

Hållbar utveckling som konkurrensfördel:
• Efterfrågar kunderna hållbar utveckling, och miljövänliga produkter?
• Har ni märkt någon förändring sedan 1997?
• Kan ni konkurrera med hållbar utveckling och miljövänliga produkter?
• Tror du detta kommer bli viktigare för er i framtiden? På vilket sätt?
## Appendix 2 – Cross Section Matrix

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<td>informal, high efficiency, take responsibility</td>
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<td>Common values and informalit y.</td>
<td>Informal, flexible and involving.</td>
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<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Number</td>
<td>many smaller (the biggest one 1/3 of company A)</td>
<td>many</td>
<td>few</td>
<td>few</td>
<td>few</td>
<td>-</td>
<td>-</td>
<td>Many</td>
</tr>
<tr>
<td>Size</td>
<td>smaller</td>
<td>-</td>
<td>Lager</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>smaller</td>
<td>larger</td>
</tr>
<tr>
<td>Offer</td>
<td>in principle the same</td>
<td>substitutes but not the same product</td>
<td>cheaper and bigger</td>
<td>Similar but less innovative.</td>
<td>Similar but less innovative.</td>
<td>Less advanced products to a lower price.</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Customers</td>
<td>many</td>
<td>many</td>
<td>many</td>
<td>many</td>
<td>many</td>
<td>few</td>
<td>many</td>
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</tr>
<tr>
<td>Number</td>
<td>many</td>
<td>many</td>
<td>many</td>
<td>many</td>
<td>many</td>
<td>few</td>
<td>many</td>
<td>Many</td>
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<td>no</td>
<td>no</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>no</td>
<td>No</td>
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<td>B2B</td>
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<td>yes</td>
<td>yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>yes</td>
<td>Yes</td>
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<td>Dominating customer</td>
<td>no</td>
<td>no(one in the US)</td>
<td>20% of net turnover</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Length of relations</td>
<td>no</td>
<td>long and short(distri)</td>
<td>long</td>
<td>Long</td>
<td>Long</td>
<td>Long</td>
<td>long</td>
<td>Long</td>
</tr>
<tr>
<td>Dominating customers on some geographic markets.</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>Long</td>
<td>Long</td>
<td>Long</td>
<td>Long</td>
<td>Long</td>
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<tr>
<td>Sales channels</td>
<td>direct and distributor</td>
<td>direct and distributors</td>
<td>direct and distributors</td>
<td>Direct</td>
<td>Direct</td>
<td>Direct</td>
<td>Direct</td>
<td>Direct</td>
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<tr>
<td>----------------</td>
<td>------------------------</td>
<td>------------------------</td>
<td>------------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Marketing</td>
<td>brochures, other material, distributor</td>
<td>mostly through agents</td>
<td>Visits and fairs.</td>
<td>The same as before</td>
<td>visits</td>
<td>no</td>
<td>None</td>
<td>Visits and customers</td>
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<tr>
<td>Info about customer needs</td>
<td>technician</td>
<td>Training course</td>
<td>from agents</td>
<td>Customers</td>
<td>Customers</td>
<td>Customers</td>
<td>Customers</td>
<td>Customers</td>
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<td>yes</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
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<td>detail about the market</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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<td>yes</td>
<td>yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>yes</td>
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<tr>
<td>logistic partner</td>
<td>yes, distributor</td>
<td>yes</td>
<td>yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>no</td>
<td>No</td>
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<td>no</td>
<td>No</td>
<td>No</td>
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<td>service partner</td>
<td>development partner</td>
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<td>no</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>yes</td>
</tr>
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<td>more needs for network</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>yes</td>
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</tr>
<tr>
<td>Cooperation with</td>
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<td>yes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>No</td>
<td>no</td>
</tr>
<tr>
<td>Cooperation with</td>
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<td>yes</td>
<td>no</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>no</td>
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<td>university/school</td>
<td>Employment office, high school, EU-project</td>
<td>Competitor</td>
<td>ISO9001</td>
<td>ISO14001</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>------------------------------------------</td>
<td>------------</td>
<td>---------</td>
<td>---------</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooperation with other actor</td>
<td>yes</td>
<td>no</td>
<td>Competitor</td>
<td>or</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>outsourced production</td>
</tr>
<tr>
<td>Location</td>
<td>none</td>
<td>good</td>
<td>none</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>none</td>
</tr>
<tr>
<td>Opinion about the location</td>
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<td>good</td>
<td>none</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
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<td>Proximity to town (&gt;20 000 inhabitants)</td>
<td>1 hour</td>
<td>15 min</td>
<td>15 min</td>
<td>1h</td>
<td>1h</td>
<td>1h</td>
<td>1 hour</td>
<td>30 min</td>
</tr>
<tr>
<td>Proximity to university/collage</td>
<td>1 hour</td>
<td>45 min</td>
<td>15 min</td>
<td>1h</td>
<td>1h</td>
<td>1h</td>
<td>1 hour</td>
<td>30 min</td>
</tr>
<tr>
<td>Visits from customers</td>
<td>-</td>
<td>often</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Laws and regulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact on enterprise</td>
<td>positive, business opportunities</td>
<td>difficult to keep an eye on everything</td>
<td>-</td>
<td>External consultant</td>
<td>None</td>
<td>Negative from &quot;Företagarna&quot;</td>
<td>None specific</td>
<td>None</td>
</tr>
<tr>
<td>Way of finding this information</td>
<td>-</td>
<td>actively</td>
<td>as good as possible</td>
<td>External consultant</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ISO9001</td>
<td>yes</td>
<td>no</td>
<td>2007</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>1997</td>
<td>No</td>
</tr>
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<td>ISO14001</td>
<td>yes</td>
<td>no</td>
<td>in 2009</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>no</td>
<td>No</td>
</tr>
<tr>
<td>Sustainable development as competitive advantage</td>
<td>no</td>
<td>to some extent</td>
<td>no</td>
<td>No</td>
<td>No</td>
<td>no</td>
<td>No</td>
<td>Yes</td>
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<tr>
<td>SNI</td>
<td>29</td>
<td>26</td>
<td>29</td>
<td>22</td>
<td>22</td>
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<td>28</td>
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### Appendix 3 SNI-Codes

<table>
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<tr>
<th>SNI-code</th>
<th>Description</th>
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<tbody>
<tr>
<td>10</td>
<td>Manufacture of food products</td>
</tr>
<tr>
<td>11</td>
<td>Manufacture of beverage</td>
</tr>
<tr>
<td>12</td>
<td>Manufacture of tobacco products</td>
</tr>
<tr>
<td>13</td>
<td>Manufacture of textiles</td>
</tr>
<tr>
<td>14</td>
<td>Manufacture of wearing apparel</td>
</tr>
<tr>
<td>15</td>
<td>Manufacture of leather and related products</td>
</tr>
<tr>
<td>16</td>
<td>Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials</td>
</tr>
<tr>
<td>17</td>
<td>Manufacture of paper and paper products</td>
</tr>
<tr>
<td>18</td>
<td>Printing and reproduction of recorded media</td>
</tr>
<tr>
<td>19</td>
<td>Manufacture of coke and refined petroleum products</td>
</tr>
<tr>
<td>20</td>
<td>Manufacture of chemicals and chemical products</td>
</tr>
<tr>
<td></td>
<td>Manufacture of basic pharmaceutical products and pharmaceutical preparations</td>
</tr>
<tr>
<td>21</td>
<td>Manufacture of rubber and plastic products</td>
</tr>
<tr>
<td>22</td>
<td>Manufacture of other non-metallic mineral products</td>
</tr>
<tr>
<td>23</td>
<td>Manufacture of basic metals</td>
</tr>
<tr>
<td></td>
<td>Manufacture of fabricated metal products, except machinery and equipment</td>
</tr>
<tr>
<td>24</td>
<td>Manufacture of computer, electronic and optical products</td>
</tr>
<tr>
<td>25</td>
<td>Manufacture of electrical equipment</td>
</tr>
<tr>
<td>26</td>
<td>Manufacture of machinery and equipment n.e.c.</td>
</tr>
<tr>
<td>27</td>
<td>Manufacture of motor vehicles, trailers and semi-trailers</td>
</tr>
<tr>
<td>28</td>
<td>Manufacture of other transport equipment</td>
</tr>
<tr>
<td>29</td>
<td>Manufacture of furniture</td>
</tr>
<tr>
<td>30</td>
<td>Other manufacturing</td>
</tr>
<tr>
<td>31</td>
<td>Repair and installation of machinery and equipment</td>
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</table>
## Appendix 4 Correlations

<table>
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<th>change_solidity</th>
<th>change_liq_ratio</th>
<th>change_retnworkcap</th>
<th>Value_growth</th>
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<td>change_solidity</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.174(***)</td>
<td>.006</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>change_liqratio</td>
<td>Pearson Correlation</td>
<td>.174(***)</td>
<td>1</td>
<td>.002</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>change_retnworkcap</td>
<td>Pearson Correlation</td>
<td>.006</td>
<td>.002</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value_growth</td>
<td>Pearson Correlation</td>
<td>.106(***)</td>
<td>.005</td>
<td>-.006</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed)

<table>
<thead>
<tr>
<th></th>
<th>change_solidity</th>
<th>change_liq_ratio</th>
<th>change_retnworkcap</th>
<th>Volume_growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>change_solidity</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.174(***</td>
<td>.006</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>change_liqratio</td>
<td>Pearson Correlation</td>
<td>.174(***</td>
<td>1</td>
<td>.002</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>change_retnworkcap</td>
<td>Pearson Correlation</td>
<td>.006</td>
<td>.002</td>
<td>1</td>
</tr>
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<td></td>
<td>Sig. (2-tailed)</td>
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<tr>
<td>Volume_growth</td>
<td>Pearson Correlation</td>
<td>.006</td>
<td>-.022</td>
<td>-.005</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
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</table>
Appendix 5 Distribution Return on Working Capital
Appendix 6: Extensive Results from the Cross-Section Matrix

Firstly, an introduction of general results are presented followed by two sections; internal and external factors. Each sub-group of factors are first presented in a more extensive way and then concluded. Some of the conclusions are followed by the term “unique” in brackets, meaning these particularly factors are unique for the successful companies while the other factors, general factors, can be found in all the investigated companies.

Introduction

- The successful companies have five different SNI-codes among them, but number 28 and 29 each appear twice.
- The majority of the successful companies are ranked at maximum 100 for both volume and value growth.
- Half of the successful companies are medium-sized.
- Two of the successful companies are contract workers.

Internal Factors

Organization

- As an introduction, the majority of the successful companies were not part of a corporate group in 2006. This can be compared to the 100 % of the unsuccessful companies which did belong to a corporate group the same year.
- Decentralization is a characteristic for all the investigated companies and most of them also have short communication channels.
- All of the successful companies have defined culture that is describable, but this is only the case for half of the unsuccessful. Informality is a feature for the cultures in both groups.
- Project-based work exists in half of the successful firms.
- The majority of the successful firms have employees with academic degrees, but only 28 % of them have several employees with academic degrees. For the unsuccessful firms, 75 % have employees with academic degree but the number in every company is unknown.
- Clear areas of responsibility are the reality for the majority of the successful firms while the share among the unsuccessful is 25 %.

Successful companies
- Are not parts of a corporate group (unique)
- Are decentralized and have short communication channels
- Have a defined culture (unique)
- Have employees with academic degrees
- Have clear areas of responsibility (unique)

Vision and Strategy

- 85 % of the successful companies have a vision while only half of the unsuccessful have a vision. A focus on growth is included in 83 % of the visions in the successful
companies and in the majority of the successful cases the vision has been communicated to the employees.

- All of the successful companies had a strategy, while only half of the unsuccessful companies had a vision. Nearly 85% of the strategies had a growth focus and the majority of them had been communicated to the employees.
- The majority of the successful companies have short-term goals and among the unsuccessful all the companies have short-term goals.
- Most of the successful companies have long-term goals while most of the unsuccessful firms lack long-term goals.

Successful companies
  - Have a vision that includes growth and it has been communicated to the employees (unique)
  - Have a strategy with a focus on growth and it has been communicated to the employees (unique)
  - Have short-term goals
  - Have long-term goals (unique)

The Manager
- Among the CEOs for the successful companies, most are younger than 60. The biggest group is the 50+-group followed by the 40+-group. For unsuccessful companies half of the CEOs are over 60 years old.
- The majority of the CEOs in successful companies have not had any supplementary training while half of the CEOs for unsuccessful firms have had it.
- All investigated firms have CEOs with solid experience.
- In half of the successful companies the CEO had a high level of control.
- Among the CEOs in the successful firms 71% had a positive attitude towards growth, while the same number in the unsuccessful firms was 50%.
- The majority of the successful firms had CEOs without academic degrees while the result was the opposite in the unsuccessful firms.

Successful companies
  - Have younger CEOs than unsuccessful companies
  - Have CEOs with solid experience
  - Have CEOs with a positive attitude towards growth (unique)

Recruiting
- All successful and unsuccessful firms use external recruiting in some form.
- Only 14% of the successful companies had difficulties finding qualified employees, while the number for the unsuccessful companies was 50%.

Successful companies
  - Use some form of external recruiting
  - Have no difficulties finding qualified employees (unique)
Manpower Care

- The majority of the successful enterprises provide supplementary training, while the unsuccessful firms all provide it.
- Most of the successful enterprises have low employee turnover, but among the unsuccessful firms all have low employee turnover.

Successful companies
- Provides supplementary training
- Have a low employee turnover

Competitiveness

- All of the successful companies have two or more core competences while the number is 25% for the unsuccessful companies.
- The majority of the successful include flexibility in their core competences while the same number for the unsuccessful companies is 25%.
- Half of the investigated firms have a core person in the organization.

Successful companies
- Have two or more core competences (unique)
- Have flexibility as a core competence (unique)

Product Development and Innovation

- All of the successful companies with product development (excluded the contract workers) have customer initiated product development. The number among the unsuccessful companies is 25%.
- The majority of the successful companies have patents while only 25% of the unsuccessful have patents.
- The majority of the successful companies have a specific R&D budget and the number for unsuccessful firms is 25%.
- Patents, R&D-budget and academic degrees among the employees give the successful companies technological sophistication. This is not the case for unsuccessful firms.

Successful companies
- Have customer initiated development (the majority of them have development) (unique)
- The majority of the successful firms have patents, specific R&D-budget and academic degrees among the employees and thereby technological sophistication (unique)

External Factors

Market

- All of the successful companies are niche marketers while the number is lower among the unsuccessful companies.
- In general the successful companies (70%) have spread the risk over more than one segment while this only is the done by half of the unsuccessful companies.
• All of the successful companies make customized products while only a half of the unsuccessful companies do it.
• All of the companies act internationally, but among the successful only 14 % do it at a low level while half of the unsuccessful have a low level.
• It seems like successful companies in general have more competitors but there is not enough data to draw any conclusions, it could be so that it is more competition on their markets.
• 29 % of the successful companies had competitors that made cheaper or less advanced products
• Most of the companies have many customers and the number is slightly higher for successful companies.
• None of the companies produce for end-customers instead all of them produce for other industries.
• Half of the unsuccessful companies have dominating customers. For successful companies this number is slightly lower.
• All of the companies have long customer relationships.
• The majority of the successful companies use direct sales channels, 43 % of them use both direct sales channels and distributors. Among the unsuccessful companies all use direct channels and only 25% use distributors as well.
• 71 % of the successful companies use marketing (60% through distributors). The unsuccessful companies market their product through customer visits.
• The successful companies use two ways of finding information about customers; the majority use the customer themselves and 29% get information from distributors (indirect from customers). All of the unsuccessful companies get this information from customers.
• The majority of the successful companies do not use market surveys and this is even less among the unsuccessful companies.

Successful companies
- Are niche players
- Have spread the risk with “niching” over more than one segment (unique)
- Make customized products (unique)
- Export on a higher level (unique)
- Produce for other industries
- Have not many dominating customers (unique)
- Have long customer relationships
- Use direct sales channels
- Use marketing, primarily via distributors (unique)
- Find information about customers mostly through customers
- Do not use market surveys to a large extent

Networks
• All companies have a logistic partner.
• Of the successful companies 43 % have a sales partner and only 25 % of the unsuccessful companies.
• Half of the unsuccessful companies use a service partner where just 29% of the successful companies use one.
• The majority of the successful companies do not have a development partner whereof the majority of the unsuccessful companies use development partners.
• According to the majority of the companies they do not need more networks.
• 43% of the successful companies cooperate with schools and universities, which is also true for the majority of the unsuccessful firms as well.
• The majority of the successful companies do not cooperate with other actors and the same goes for the unsuccessful firms.

Successful companies
  – Have a logistic partner
  – Do not use service partners (unique factor)
  – Have no development partners (unique factor)
  – Have enough networks
  – Cooperate with other actors (unique factor)

Location
• The majority of the successful companies have no opinion about the location, 28% are not content. Half of the unsuccessful companies have no opinion.
• All of the companies are within an hour to a city (>20,000)
• Every company has a university within an hour.

Successful companies
  – Have nothing to say about the company’s location
  – Are close to a city
  – Are close to a university

Laws and Regulations
• 50% of the unsuccessful companies do not think that laws and regulations have affected their performance. For the successful companies the distribution is equal between no affect, good and bad.
• The successful companies find information about laws and regulations internal and external with equal distribution.
• 43% of the successful companies have both ISO 9001 and ISO 14001; the majority have ISO 9001 certification. Among the unsuccessful companies 50% have both and 75% have ISO 9001 certification.
• None of the successful companies have sustainable development as a competitive advantage.

Successful companies
  – Find information about laws and regulation internally and externally
  – Have ISO 9001
  – Have not used sustainable development as a competitive advantage
We can also detect a general trend concerning the first name of the CEOs; their names seem to begin with a J...