

**Strategic Performance Management &  
Optimization of Financial Decision Making  
in Micro-Enterprise  
(Service Sector in Construction Industry)**

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<p>The aim of this product-based thesis is to create an implementation plan for a commissioning company, Lasi &amp; idea Oy. The company is a micro enterprise in balcony and terrace glazing industry. The purpose of the study is to give Lasi &amp; idea Oy guidelines to increase its revenue and profitability and reformulate its strategy. Even though the thesis is designed especially for Lasi &amp; idea Oy, it provides benefits to any companies in the same industry with the market analysis and various strategic management tools.</p> <p>This thesis is built under zipper structure where the theory and data analysis are written together. In the beginning, the knowledge base is established as a framework for the study. The tools are then examined in separated sections. The final product is the implementation plan graph. In the end, discussion and evaluation of the thesis process is addressed.</p> <p>The key tools to create the final implementation plan include financial statement analysis, Porter's five forces, SWOT analysis, Balanced Scorecard and Root Cause analysis. Data collection methodology is qualitative methods e.g. interviews, companies' internal documents and public information.</p> <p>In order to make the study more comprehensive and relevant, comparison between Lasi &amp; idea Oy, its competitors and the concerning industry is also investigated. Market mapping, market positioning and trend analysis has been utilized. Moreover, a wide range of literature sources are studied, which give a strong academic foundation to the thesis.</p> <p>After detailed cause and effect analysis followed by root-cause analysis from the lean thinking, all the remedies and recommendations are combined to create the final product which is the implementation plan for the firm.</p> <p>Overall, the outcome meets the expectations of the commissioning company. The thesis was conducted by two authors. Therefore, the whole process gave an opportunity to enhance their team-working and communication skills.</p>	
<b>Keywords</b> Strategy, Strategic Performance Management, Blue Ocean strategy, Root-cause Analysis, Financial Statement analysis, Profitability.	

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## Abbreviations

BPM	Business Performance Management
BSC	Balance Scorecard
B2B	Business to Business Sales
B2C	Business to Consumer Sales
CEO	Chief Executive Officer
COGS	Cost of Goods Sold
CPM	Corporate Performance Management
CRM	Customer Relation Management
EPM	Enterprise Performance Management
EBIT	Earnings before Interest and Taxes
KPIs	Key Performance Indicators
KPMG	Klynveld Peat Marwick Goerdeler
KSF	Key Success Factors
L&i	Lasi & idea
Oy	Osakeyhtiö-yksityinen (Limited Liability Company)
PO	Project Objective
PT	Project Task
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SME	Small Medium Enterprise
SPM	Strategic Performance Management
SWOT	Strength, Weakness, Opportunity, Threat

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## **1 Introduction**

Revenue and profitability are amongst the key continuity components for any enterprise. This thesis aims to revitalize the financial management of our case company by designing

an optimization plan. This implementation plan will describe a step-by-step guideline for the CEO in growing his revenue and profitability. Key business performance analysis tools are applied to produce the final plan.

The thesis consists of five chapters. The first chapter provides background information, project objective (PO), project scope and international aspect, benefits for the stakeholders, key concept definitions, and case company description.

The thesis follows the zipper structure; this means each topic will be studied and developed independently towards the relative results/suggestions. These suggestions then will be merged to form the result as the implementation plan.

Chapter 2 utilizes the qualitative methodology for data collection through face-to-face interviews. The chapter explains not only the theory of the data collection method but also establishes the areas of development and their causalities.

In the third chapter, a knowledge base is established as a foundation for the project. It offers theoretical description of different business performance analysis tools which are directing the thesis work in fulfilling the project objective. Theories will be followed by practical implementation of introduced tools to analyze the financial position of the case company. Each tool will provide insights that will be combined as the final implementation plan.

Chapter 4 introduces the implementation plan which is derived from merging the analysis results in the second and the third chapters. This approach is reverse engineering for customized optimization solutions.

Chapter 5 reports and expands on the discussions and conclusions. Finally, feedback from the case company and self-evaluation of the authors are also addressed.

## **1.1 Background**

The background of the thesis is divided into two parts: the project background and authors' background.

### **1.1.1 The project backgrounds**

Early stages of entrepreneurship could be known as the most critical and determining chapters for the survival of the firm, during which the leaders' business decisions would shape the future success or the failure of the entire operations.



Identifying the obstacles against the growth, understanding the financial resources needed to overcome those issues, weighting the benefits and costs of each solution and thinking on how to acquire and invest the resources in the company are the core of financial decision-making which must be considered in running the business process.

In this study, we present Lasi & idea Oy (L&i) which is a micro Finnish service-company in construction industry and more specifically in the sector of balcony glazing maintenance (Lasi & idea 2018). The company was established in 2013 (Kauppalehti 2018) and has started well for the first financial year (12.2014). Unfortunately, later the company has faced a continuous falling trend in revenue and in profit during the next 3 years as can be seen in figure 1. The company is categorized into micro enterprise due to the number of employees. According to Statistics Finland 2017, a micro company consists of 1-9 employees.

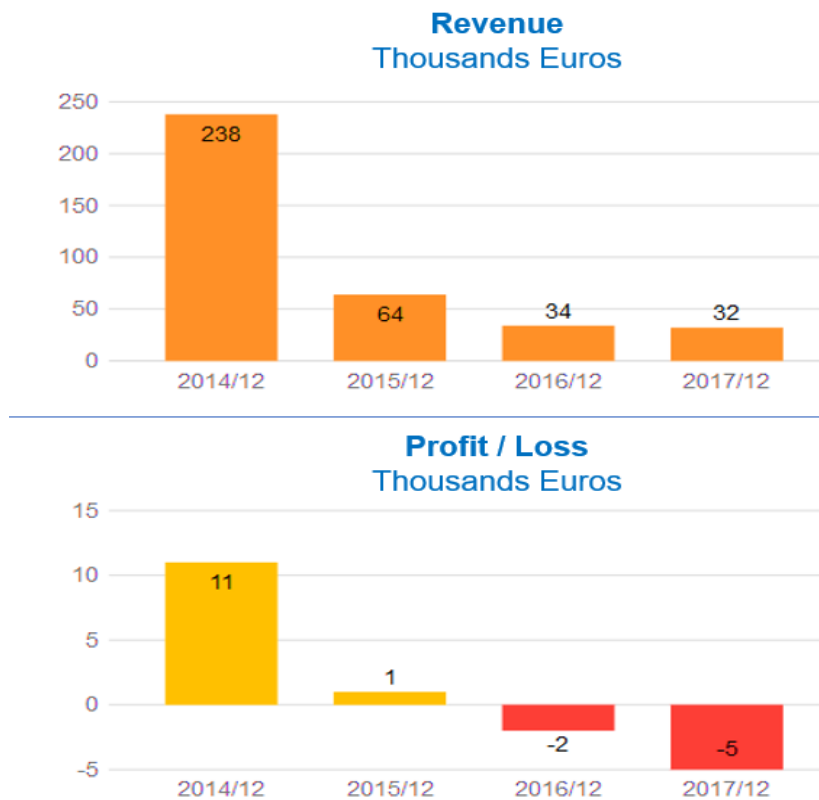


Figure 1. Overview of the annual revenue and profitability of each year in thousands of euros for the Lasi & idea Oy (Finder 2018)

The ultimate purpose of this project is to prevent further shrinkage and to restore the growth of the case company in revenue and profitability by introducing pivotal actions and reactions in management and financial decision making.

During this study, we aim to learn and advance our theoretical and practical knowledge in different aspects of business controlling, financial planning and strategy. We will also learn more about teamwork and cooperation with the representative of the commissioning company and our thesis advisor.

### 1.1.2 Authors' background

Thao Nguyen has experimented her passion for entrepreneurship for a while by running her own cafeteria in downtown Helsinki which gave her a solid understanding of entrepreneurship and its challenges in the business.

Alireza Mottaghi has been an entrepreneur for over six years in Finland running a high growth service company. He had also been involved in family businesses in Iran. As a consultancy enthusiast, Alireza would like to use his know-how in the thesis as a consultation experiment.

The thesis gives both authors an opportunity to develop deeper theoretical knowledge and practical implementation in the field.

Most importantly the choice to work as a team will allow the authors to learn more about themselves as individuals and as team players, as this project is unique in nature and volume of the work.

## 1.2 Project Objective

We aim to benefit the case company by improving its business management operations. This is done by providing guidelines and courses of actions, which the CEO can execute to achieve better monetary & non-monetary results as will be elaborated in the process.

The project objective (PO) of the thesis is to **create a strategic implementation plan for effective Business Performance Management (BPM) of the case company, focusing on the growth of profitability and revenue.**

Effective BPM for us means making sure all or almost all activities are based on a well-thought strategy in order to drive maximum profitability with minimum waste of resources. To achieve the project objective, the following Project Tasks (PT) would be implemented:

PT 1. Establish the knowledge base for effective corporate performance management.

PT 2. Indicating the internal flaws related to profitability and revenue of L&i.

PT 3. Investigating the root causes of the flaws that are recognized from PT 2.

PT 4. Establishing the solutions by weighing the different possibilities to remedy the root causes identifies from PT 3.

PT 5. Creating the implementation plan.

PT 6. Discussion and evaluation.

Table 1 below presents the theoretical framework, project management methods and outcomes for each project task.

Table 1. Overlay matrix

<b>Project Task</b>	<b>Theoretical Framework</b>	<b>Project Management Methods</b>	<b>Outcomes</b>
<b>PT 1.</b> Designing a theoretical framework for the product	Strategy, Agility, Finance and managerial accounting theories	Literature research	Conceptual image
<b>PT 2.</b> Indicating the flaws	Performance assessment, Observation, Evaluation & Analysis	Financial analysis, Qualitative research KPIs SWOT	Problem identification
<b>PT 3.</b> Investigating the roots or causes of this situation	Five forces Root cause analysis 5 whys	Financial analysis, Qualitative research KPIs SWOT	Defining the root-causes
<b>PT 4.</b> Finding remedies	Strategy, Resilience, Agility Abandonment, Customer-funded investment	Calculations, Scaling the solutions for cost & benefits SWOT	optimal choices of strategy for increase in revenue and profit
<b>PT 5.</b> Creating the implementation plan	Reformulation of Strategy	Optimization	Guidelines
<b>PT 6.</b> Discussions			

### 1.3 Project Scope

Our focus would be on the financial decision making of the firm, valuation principles (costs and benefits) of decisions related to each block of business operations, managerial accounting and business controlling. Since the revenue, as well as number of employees are small; the nature of company requires us to perform a comprehensive investigation on all steps of value chain to create the implementation plan.

We do not want to go deep into the execution of service process or dealing with suppliers, since the owner of the company has already done his bachelor's thesis about the lean thinking in execution of installation/ maintenance service.

#### **1.4 International Aspect**

The researchers are international students of GLOBBA program. Commissioning company is a Finnish Micro-enterprise aiming to grow (not only to other cities in Finland but even neighboring countries). The objective of the thesis is to help the company improve its financial capability to become ready for funding applications in future to expand.

#### **1.5 Benefits**

The most useful outcome of our work would be the growth and improvement of financial health of our case company to make it more profitable. As long-term strategy, the company needs to bounce back from the current loss trend and project a healthy performance to be appealing and eligible for investors either private entities, banks or Business Finland (formerly known as TEKES) for international and domestic expansion purposes.

Researchers have finance and accounting as their major field of studies, therefore by focusing on the strategy and financial perspectives of performance analysis, we wish to deepen our learnings and experiences in the field during this process. This will also enlarge our understanding of microenterprises operation in Finnish environment.

The manager of the commissioning company has approved the research that we recommended. He agrees that the research will bring benefits to the company in financial perspective and requires us to have a specific conclusion and recommendation.

Choosing to work as team, is a move towards authors' further self-development in life.

#### **1.6 Key Concepts**

**Balance scorecard** was invented by Robert Kaplan and David Norton in the early 1990s. "The balance scorecard recognizes that management must consider both financial performance measures and operational performance measures when judging the performance of a company and its segments." (Braun K. & Tietz W. 2015, 616)

**Business Performance Management (BPM)** Buytendijk & Geishecker (2002) define it as the evaluation of different dimensions, approaches and targets, considering the costs and benefits of each factor to excel the performance of business.

**Customer funded business** is to get the customer to fund the business in advance to pay for its operational cost. According to John Mullins, author of the book “Customer-funded business”, there are five ways to fund a business including match-maker model, pay-in-advance model, subscription model, scarcity model and service-product model.

**Financial Statements** are “accounting reports issued by a firm quarterly and/or annually that present past information a snapshot of the firm’s financial position.” (Berk J., DeMarzo P. & Harford J. 2015, 54)

**Key performance indicators (KPIs)** “represent a set of measures focusing on those aspects of organizational performance that are the most critical for the current and future success of the organization.” (Parmenter 2007, 3). Meanwhile, Raynus (2011, 126) has more comprehensive definition:

Key Performance Indicator is a performance measure or a combination of performance measures that helps in measuring progress towards long term organizational goals. KPIs are means to track the planned versus actual process performance over a period of time.

**Lean thinking** is an approach to “maximize customer value while minimizing waste. Simply, lean means creating more value for customers with fewer resources”. In business management, lean thinking helps the managers to optimize the product or service process by removing wastes in the entire value streams, which is a series of occurrence to take a product or service from beginning to customers. The purpose of lean thinking is to create an efficient process which needs less human resource, less capital and less time, and certainly results in less cost product or service. (Lean Enterprise Institute 2018)

**Root cause analysis** “is a structured investigation that aims to identify the true cause of a problem and the actions necessary to eliminate it”. The term is used to “describe a wide range of approaches, tools, and techniques used to uncover causes of problems.” (Andersen B. & Fagerhaug T. 2006, 21-22)

**Strategic Performance Management (SPM) / Corporate Performance Management (CPM)** according to Marr (2006) “is about the systematic collection of information to enable the comparison of a given situation or status relative to known objectives or goals; it enables organizations to evaluate performance.”

**SWOT analysis** “is a popular 4-box strategy analysis and strategy development framework. The acronym SWOT is derived from: Strengths, Weaknesses, Opportunities and Threats.” (Sarsby A. 2016, 3)

## **1.7 Case Company**

Lasi & idea Oy was established in 2013, operating in Helsinki Capital Region of Finland. The company offer both products and services in construction industry. Its main revenue comes from services including installation and maintenance of balcony/ terrace glazing.

At the beginning in year 2014 the company had 6 staff with a revenue of 238 thousand Euros, but the business revenue has been decreasing to 32 000€ for 2017.

During the preliminary investigation of Lasi & idea Oy business model in a qualitative interview with the owner, it was established that for expanding the business operation and growing the revenue, skilled and efficient labor force is needed to catch up with the vast amount of orders. We will analyze the financial aspects of proper solutions for this matter.

Having more labor forces would create freedom for the owner to focus on other aspects of the business such as management training of employees and networking rather than delivering the physical work by himself.

Currently the company makes sales by word of mouth, but to maximize the visibility, professional marketing is needed which will require financial resources.

It was also pointed out by the commissioning company that Business to Business (B2B) clients are the priority due to lower overhead costs and larger size of orders. This segmentation will be useful in weighing the pros and cons of solutions and action/reactions in our implementation plan.

The aim for the project is to increase the growth in revenue and profitability of the firm. Once the profit is established, it will be invested back in the company to support the business operation. Meanwhile to finance the operation, customer-funded investments can be

utilized as well, which will be explained further in the study. This approach is presented in figure 2.

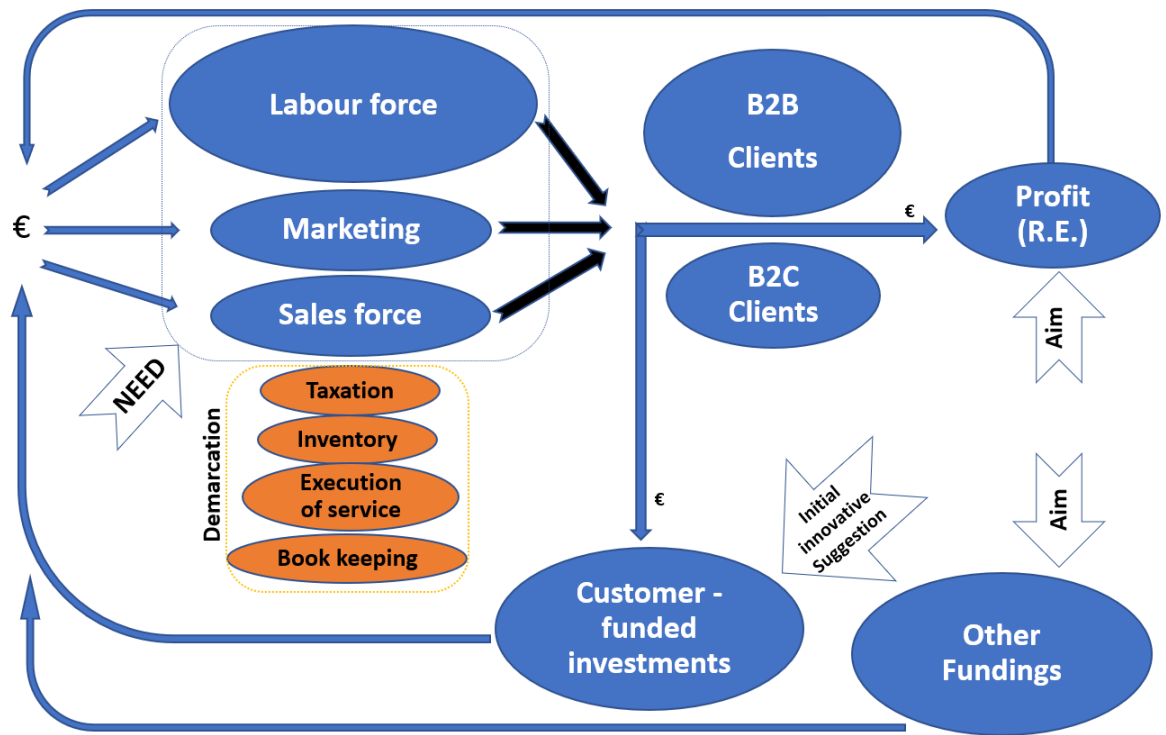


Figure 2. Needs, project scope (demarcation), aims and initial innovative suggestions according to the commissioning company business model

## 2 Project Management Method

Our methodological approach to the project is qualitative method and the usage of managerial accounting tools to analyze the current situation of the commissioning company. In our case study, qualitative methodology is better suited than quantitative methodology because it features in-depth investigations (Farquhar, 2012, 72).

The method of data collection is semi-structured interview. According to Saunders & Lewis (2012), semi-structured interview is “a method of data collection in which the interviewer asks about a set of themes using some predetermined questions but varies the order in which the themes are covered, and questions asked. The interviewer may choose to omit some topics and questions and ask additional questions as appropriate.” Interviewing gives an opportunity to have an open and deep discussion with the participants about the topics. Moreover, additional questions can be asked during the interview if necessary.

The topics of the interview for our case company, Lasi & idea Oy and competitors include the internal information, current financial position, the mission and vision of the company, strategy, business experience in the industry, nature of the industry in different economic stages from the participants point of view.

We planned to interview the company owner, employees and competitors. Owner and employees are the stakeholders of the company. As such, they are the right people to give the information for different areas of the company. The viewpoint of the potential partner or investor is also important because it helps us to understand whether Lasi & idea Oy is attractive for investment. Furthermore, each stakeholder brings their views on the current position of the firm, possible issues and even possible solutions from their perspectives to the company.

To motivate the interviewees to participate in the interview, it is necessary to explaining the value of their engagement in the data collection process at the beginning. On the other hand, the interviewers should behave professionally, be friendly, have direct and on point approach to save the interviewees' time and engage the mutual acquaintances during the interview. At the end, some sort of small gift is perhaps useful to show our appreciation for their time and input.

The key tool for data collection is face to face meeting because it is easier and more comfortable for the participants to open the discussion. In addition, face-to-face interview gives the researchers an opportunity to practice their interviewing skills and establish some



business networks. In cases that face-to-face interviews could not be possible, we have conducted a phone interview. Parallel to interviews, measurement tools and theories are utilized to evaluate the company's competencies academically.

Interview themes: business operation management, industry analysis, market overview, human resource management from the financial point of view, marketing strategies, customer segmentation, cooperation possibilities for expansion of revenue stream in the industry.

Risks in research process: reaching the respondents, the reliability of the information given because of the rivalry/ confidentiality, unclear in the objective of the questions, misunderstandings in communication/ miscommunications, inconclusive information, generalization without enough data to back up the conclusions.

Our plan B to avoid the risks is to contact the respondents in advance to reserve the time. We should have other partners and competitors in case the previous ones cancel the interviews. The interview questions should be designed concisely and clearly. The interview should be recorded if it is allowed by the interviewees. The interviewers should be objective to avoid leading the respondents. The interview questions must be tested beforehand.

To ensure the reliability and validity of the project, the interviewers must be truthful and reflect the original findings without adding their own bias or opinions, not to filter or partially pick preferable information. Saunders M. & Lewis P. (2012, 125) recommended to apply the 'reverse test' to examine whether the conclusions are believable. The 'reverse test' begins with critically questioning the validity of the theory and conclusions concerning to the findings, and then checking backward from there.

Ensuring the transparency of the project process would be achieved by clear and objective approach to the solutions with proper description of methods, sources and train of thoughts. Conclusions shall be drawn by staying away from bias and reflecting on facts rather than generalizations.

Figure 3 in the following page is a visualization of our approach to the project management.

Implementation plan for Strategic Performance Management (SPM)  
of case company Lasi & Idea OY

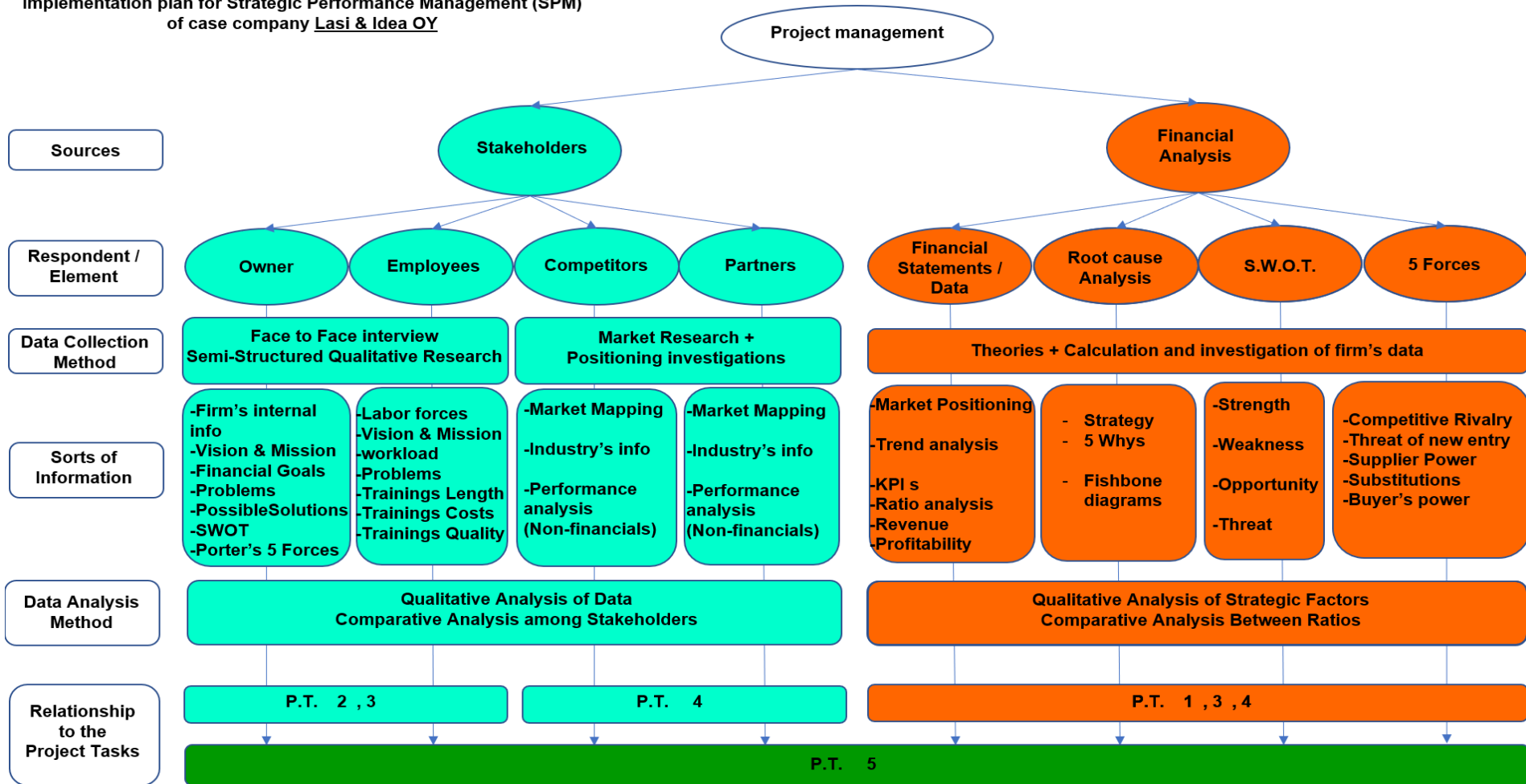


Figure 3. Project Management Method for the implementation plan of SPM – Case L&i Oy

### 3 Knowledge base for the SPM ecosystem

To conduct our project tasks, we will create a Strategic Performance Management ecosystem, meaning an atmosphere for the knowledge base which will include different models, theories and approaches related to business performance management.

In this ecosystem we will benefit from the key performance analysis tools including financial ratios analysis, balanced scorecard, SWOT, Porter's five forces, fishbone diagram and five whys to set up the project structure and to give support or challenge our findings from the qualitative interviews that will be done parallel and together with these theories.

The ecosystem in figure 3 is comprised of concepts from managerial and financial accounting.

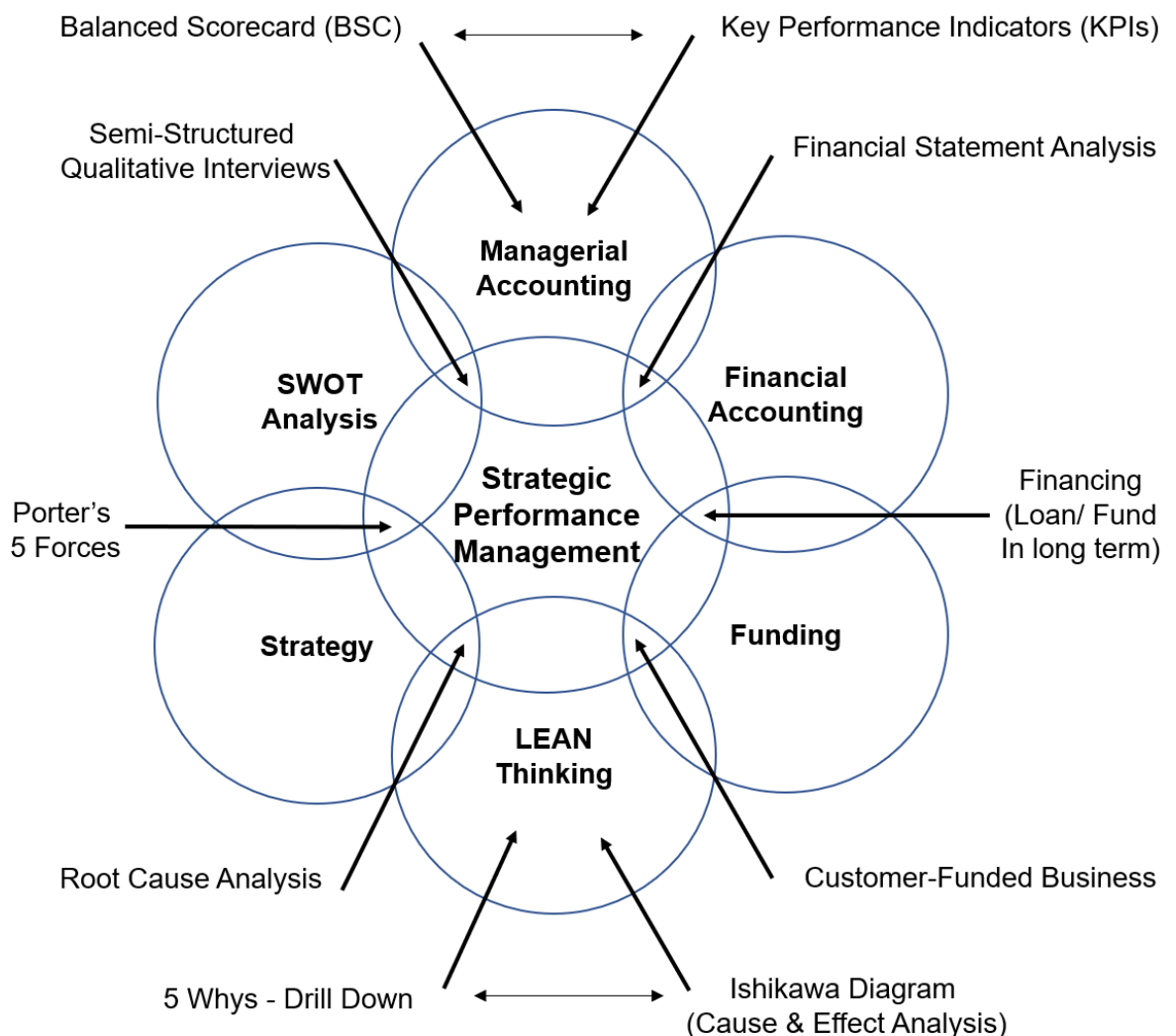


Figure 4. SPM ecosystem, its major conceptual components, showing the related tools, models and theories involved in the project

To figure out the way to increase the revenue and profitability of L&i, it is essential to understand the current business performance of the company. This step will satisfy the PT2 of this study.

For PT2 both financial and non-financial performance measures must be taken into consideration when evaluating the performance of a company's segments (Braun & Tietz 2015, 616).

At first, financial statement analysis will be conducted by calculating various financial ratios to review the financial situations of L&i between the years.

Secondly, the balanced scorecard is applied to measure operational performance. Braun & Tietz (2015, 616) emphasized the importance of the balanced scorecard by stating that "rather than focusing strictly on financial performance, the balanced scorecard includes operational performance measures that give managers a holistic view of the company's performance." Based on the balanced scorecard, organizational performance is viewed from four different perspectives including financial perspective, customer perspective, internal business perspective, and learning and growth perspective. In each perspective, potential problems are detected and improved by different KPIs (Raynus 2011, 126).

Thirdly, in addition to business performance measurement, the firm's internal and external analysis are conducted by SWOT analysis. SWOT analysis is understood as a description of the situation. Nevertheless, Mooradian, Matzler & Ring (2014, 296) argue that SWOT analysis should be also prescriptive, and eventually lead to strategy formation and actions. The analysis of strengths and weaknesses is internal analysis. Meanwhile, external analysis or environmental analysis consists of opportunity and threats. (Friend & Zehle, 2004, 85)

Fourthly, another business analysis tool, the Five Competitive Forces of Michael E. Porter, is utilized to supplement the external analysis of the SWOT. The advantage of the five forces is to help the managers to perceive the industry competition and profitability. Porter M. (2008, 3) states that nowadays competition is not only from direct competitors but also from four other forces e.g. customers, suppliers, potential entrants and substitute products.

Lastly, the important point of the industry analysis is revealing "the roots of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time." (Porter M. 2008, 4). After understanding the industry's

structure, it is easier to identify the opportunities and threats within the industry. This proves the relation between SWOT and Porter's five forces analysis.

Often time the obvious problem in business is only a superficial indication of other underlying existing issues. To properly understand and resolve the problems at surface, one must try to find the root causes. Figure 4 is a visual presentation of such situations.

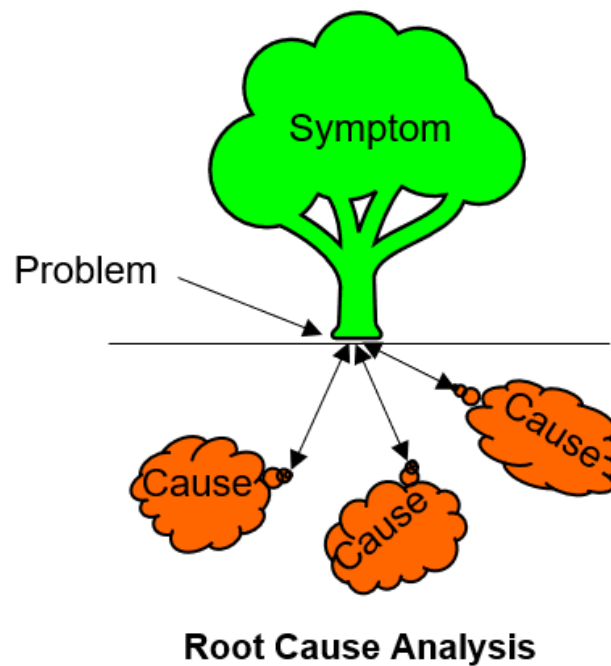


Figure 5. The obvious problems often have hidden causes

In this study, the symptom is loss of revenue and profitability. The problem has been stated as lack of proper labor force as well as lack of sales and marketing. What could be the root cause of these problems?

Thereafter the root cause analysis is carried out to recognize what drives or causes the problems. The fishbone diagram is an expression of the cause and effect; meanwhile, five whys is the technique for root cause analysis that will help the authors achieve deeper understanding of the underlying issues. These attempts are connected to PT 3 and PT 4.

### 3.1 Our iterative SPM Model

The authors are planning to have an iterative and agile approach to the tools and models to ensure a rich understanding of firm's financial position and to encase the findings in solutions and recommendations for the implementation plan as the product.

Our repetitive multi-approach ecosystem to utilize various models, is visible in figure 6.

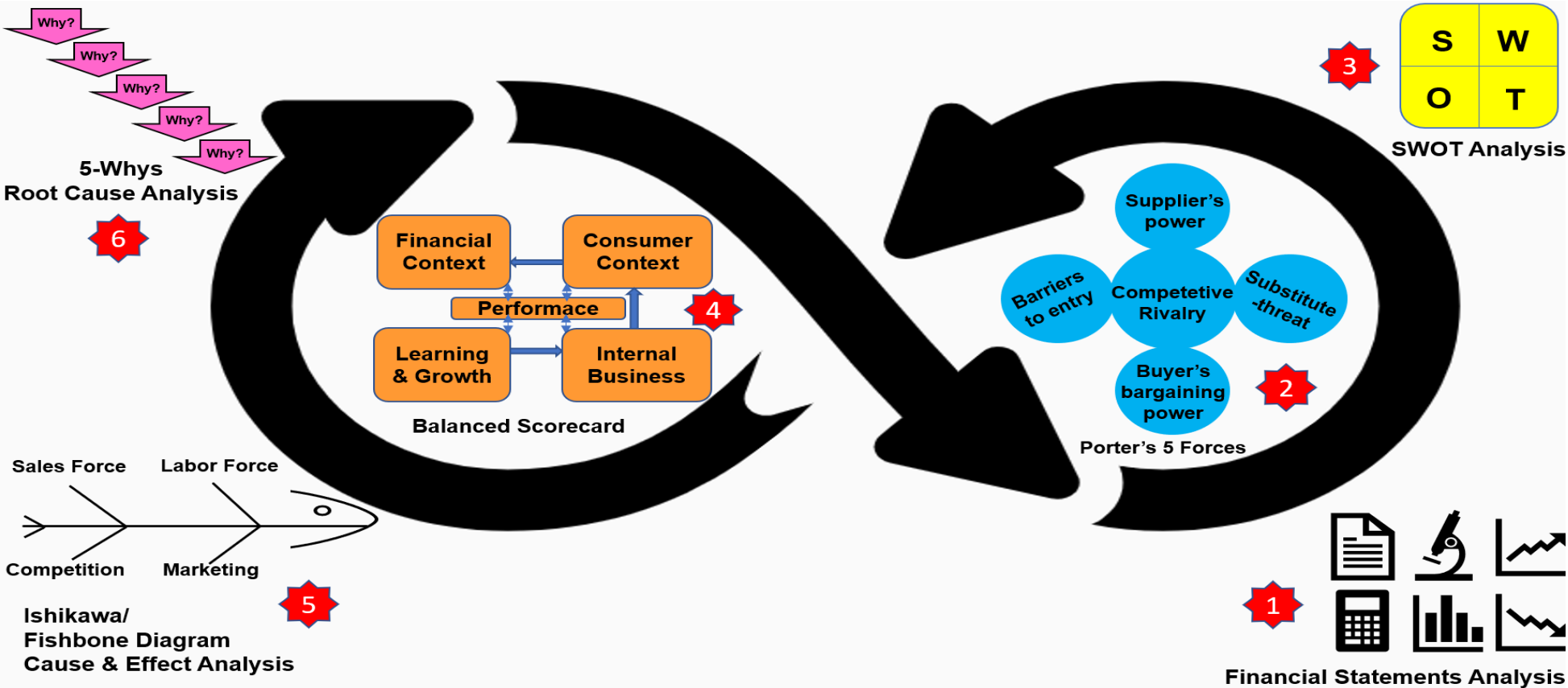


Figure 6. We envisioned this SPM ecosystem with 6 major steps to formulate and reformulate the firm's strategy, notice the iteration of agile scrums

### 3.2 Magic Matrix

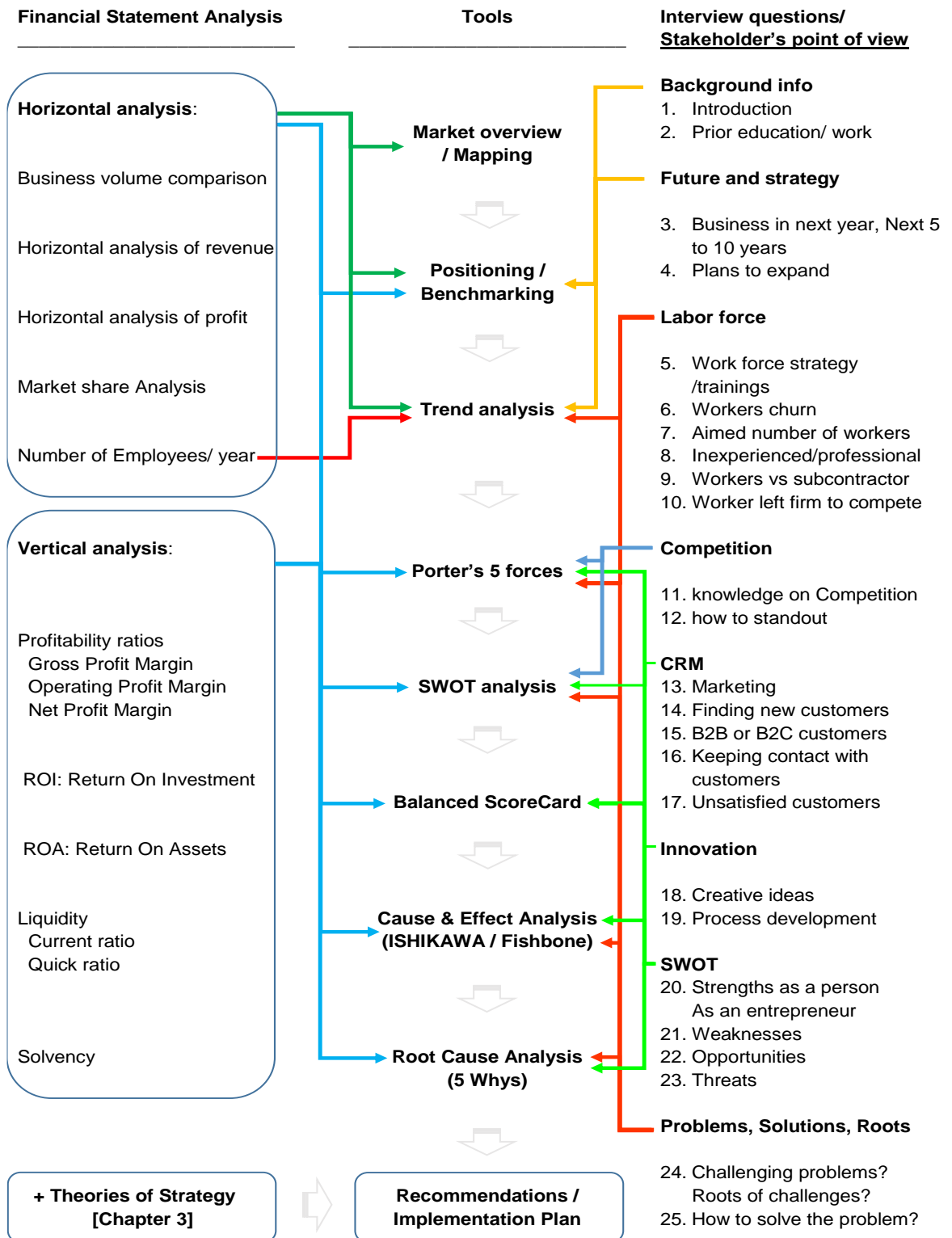


Figure 7. Magic Matrix showcase how the warp and weft of our project would connect to form a structured implementation plan

A quick guideline on relations between the various components in our SPM Eco-system.

### 3.3 Strategy

Merriam-Webster defines Strategy as the art and science of inventing and utilizing plans towards achievements of certain goals.

According to the article on “The Origin of Strategy” from Horwath (2006)

“The term “strategy” is derived indirectly from the Classic and Byzantine (330 A.D.) Greek “strategos,” which means “general.”. The Greek equivalent for the modern word “strategy” would have been “strategike episteme” or (general’s knowledge) “strategon sophia” (general’s wisdom). One of the most famous Latin works in the area of military strategy is written by Frontius and has the Greek title of Strategemata. Strategemata describes a compilation of strategema, or “strategems,” which are literally “tricks of war.” The Roman historians also introduced the term “strategia” to refer to territories under control of a strategus, a military commander in ancient Athens and a member of the Council of War.”

Horwath (2006) also adds that

“Count Guibert, a French military thinker, introduced the term “La Strategique” in 1799, in the sense that is understood today. Consequently, neither the military community before Count Guibert nor the business community before H. Igor Ansoff (Corporate Strategy, 1965), could see the strategic element in their domains clearly enough to give it a name.”

Strategy is the necessary tool for winning the competition (war). It is of utmost importance in running any business activity. it is imperative to know or at least have some ideas where we want to be? where we are now? what we have that would help us achieve what we want? What we lack which is necessary for our success? And where/ how to get the elements and qualities that we need, also what way to operate to ensure the realization of the set goals.

Strategy would give us the framework and structure for making such moves. Therefore, the knowledge and acknowledgments of facts and possible scenarios as well as the risks involved in our surroundings are vital for operation.

We present our understanding of these definitions in the following page as figure 8.



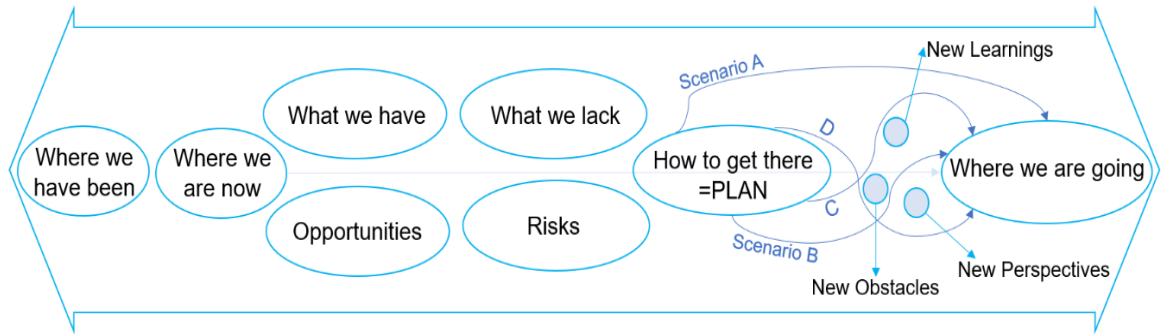


Figure 8. Simple visualized definition of strategy

### Strategic Performance Management

Strategic Performance Management (SPM) known similarly as Enterprise Performance Management (EPM), Corporate Performance Management (CPM) as explained before in chapter 1.6. is according to Marr (2006,3) (one of the world’s leading experts in the field and researcher at Cambridge University)

“The organizational approach to define, assess, implement, and continuously refine organizational strategy. It encompasses methodologies, frameworks and indicators that help organizations in the formulation of their strategy and enable employees to gain strategic insights which allow them to challenge strategic assumptions, refine strategic thinking, and inform strategic decision-making and learning.”

Therefore, to formulate and reformulate strategies, to check whether we are on the right track, whether we are still relevant to the current internal and external situations that would define our future success or failure, we need to evaluate our moves and reroute accordingly.

Preferably our knowledge, experiences, understandings and views shall improve and advance by passing of time, which would give us better means to redefine our goals and to redefine our approaches. Hence the expression “formulate and reformulate” the strategy.

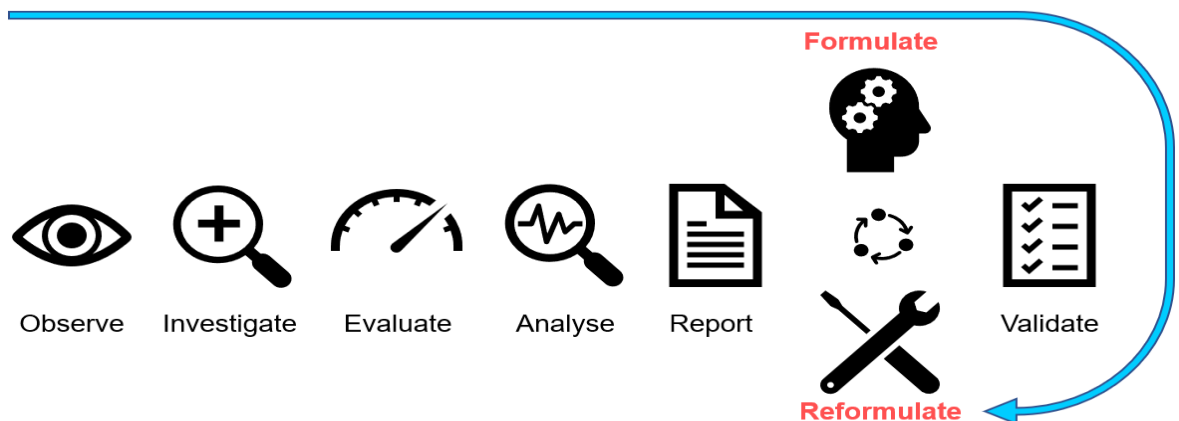


Figure 9. Strategic Performance Management (SPM)

The findings from SPM are valuable for **identifying, validating and leveraging** vital and strategical aspects of running the business as well as assessing the **risks EnRoute**.

This is possible by measuring/assessing the performance indicators which according to Marr (2006) could be tangible (like financial and other physical/number driven measures such as revenue, profit, and profitability ratios...) and intangible (like values drivers such as customer satisfaction, employee satisfaction and even brand image).

The process for measuring/assessing such scopes in business is known as strategic performance assessment. The management and processing of such scopes and creating value for advancement of the firm would be the Strategic Performance Management SPM/CPM or EPM.

Since the enterprise and corporate have somehow indication of a large organization and since our case company is rather small, we would not use CPM nor EPM.

### **3.4 Performance indicators**

According to 5th century philosopher Philolaus "without numbers, we can understand nothing and know nothing" (Boyle. 2001). This indicates the importance of measurement in evaluation of performance.

Indicators are the factors that reflect the situation of different aspects of business performance.

In order to benchmark any indicator and to compare the progression or possibly regression of business performance from various aspects, we need to measure or assess those factors.

Neely (1998) establish the reasoning for using indicators as the following:

- Check position: to establish where we are compared to other companies (internal)
- Communicate position: to communicate the situation of the company to externals
- Confirm Priorities: to highlight what matters the most
- Compel progress: measures influence people's behavior and attitudes."

Marr (2006) emphasizes on understanding the difference between assessment vs measurement as well as indicator vs measure

As explained before, performance evaluation is not only applied to tangible and numerical drivers of the firm such as financial data, market share and number of employees. The intangible values such as customer satisfaction, employee satisfaction and brand image are also included as the equally important aspects in evaluations of business performance.

Therefore, the expression “measurement” which indicates the measuring of numerical and tangible data has been replaced by the expression “assessment” to cover the intangible values as well.

Based on the same logic, instead of “measures”, it is more correct to use “indicator” to cover the values that are not easily measurable.

### **3.5 Risks involved in Strategic Performance Management:**

Marr (2006,4-10) diverts our attention also in three possible traps in applying BPM:

- The strategy trap
- The measurement trap
- The management trap”

The strategy trap notifies the importance of an as clear as possible understanding of internal and external factor during setting the strategy.

According to Grant (1998,181)

“in such a volatile world when the external is in a state of flux, the firm’s own resources and capabilities may be a much more reliable basis on which to define its identity. Hence a definition of a business in terms of what it is capable of doing may offer a more durable basis for strategy than a definition based upon the need which the business seeks to satisfy”

This concept also brings us to part 3.5. of this study about effectual vs causal rationalizations which introduces two sides of the spectrum on how to create the firm’s strategy as well as creating opportunities from ideation phase.

The measurement trap, according to Marr (2006) brings light to the fact that unless there are metrics and proper measurements of those indicators, we are not able to evaluate the performance of a business.

Therefore, choosing the right indicators and assessing what really needs to be evaluated constitute a big challenge for controllers. For example, if a firm has a very big number on

the sales revenue but still not making any profits, would evaluating the amount of revenue automatically indicate the health and success of the business? Even though the firm could have been hemorrhaging and losing more money in operations than what could have been the profit? Certainly, taking the revenue as an indicator of health would not be the right choice.

The management Trap as Marr (2006) reflects, would be the state where measurements are done incorrectly or excessively, without really analyzing the findings and utilizing the results in the strategic decision-making. More like doing some measurements just for the sake of reporting and never really applying any insights from those measurements.

Being aware of these three traps against the strategic performance management, would turn our attention towards avoiding or solving such risks in our strategy setting and in our actual application of performance assessment as well as process of performance management.

### **3.6 Competitive strategy**

In this chapter we introduce the views towards competition from Michael Porter's strategy before moving to W. Chan Kim & Renée Mauborgne's Blue ocean strategy which go hand in hand in matters of competition in business.

These are important points in setting strategy and running business operations since they can provide a broader look on what kind of path leaders are choosing for their businesses.

In other word, what kind of future destiny we are creating for ourselves based on our choices in strategy.

#### **3.6.1 Competitive strategy from Michael porter's perspective**

According to Michael Porter, one definition for strategy would be as a tool to guide the business in winning over competitors. "strategy explains how an organization, faced with competition, will achieve superior performance" (Magretta 2012, 20).

As we see from this definition of strategy, being successful and winning in business are the concepts that extremely bind with the concept of competition.

This approach to business world creates an environment with “zero-sum” nature, which according to Magretta (2012, 24) means “gain for one, becomes loss for the other”. Both parties, and multiple parties (competitors) cannot all gain from a limited pool of opportunity at the same time.

As we know the market size, the demand and customer base are finite and limited mathematically.

There are only specific number of customers for each service and product, so when there is competition over resources or over winning the market share, whatever gain a company makes, is exactly equal and same amount as the other competitors lose, since the market is of confined volume.

In such zero-sum games, all efforts to win the market and overcome the competitions would require huge portion of firm’s resource investment on knowing the competitors and trying to stay ahead of them by being the best for the customers.

Porter thinks that “competition to be the best is wrong” (Magretta 2012,23). In trying to be the best, companies must invest hugely to increase the quality of their services and/ or products that will affect the profitability of firm due to increased cost of sale. It also brings the risk and limitations due to increase in final price which can be deadly in sensitive markets and could also decrease the market share due to affordability issues for customers.

Another way to be best but with a controlled and affordable price for customers, would be to reduce the quality, or to try saving in costs which would lead to exploitation of resources, exploitation of suppliers and exploitation of labor.

These exploitations would damage the sustainability of the firm and it is also against the ethical conducts of business.

In more conscious markets, not being sustainable would be a reason for failure of businesses since the customers would not like to support such activities and would rather choose the competitors who are more sustainable.

As explained, then being best would come either by affordability or by quality and not easily with both attributes.

Porter then continues to expand that “strategic competition means choosing the path different from the others. Instead of competing to be the best, companies can- and should- *compete to be unique*. This concept is all about value” (Magretta 2012, 29.)

In competition for uniqueness, companies need not to compete against the rivals as they are creating unique values and targeting unique needs. So, the competition for fulfilling the same need in the same market would be obsolete.

Magretta (2012, 31) continues to explain that it is never only one form of competition and the firms can engage in wide spectrum of competition modes between the two extreme points, to be best vs to be unique.

### **3.6.2 Blue Ocean strategy**

W. Chan Kim & Renée Mauborgne from INSEAD institute have introduced their Blue ocean strategy in 2005 to magnify the importance of strategic positioning of firm in the market to either attract or scape the competition in business process.

Their view is quite like Porter’s perspectives as explained in the prior sub-chapter, with a little bit of arguments which will be covered towards the end of this section.

According to Kim & Mauborgne (2015) “Competition should not occupy the center of strategic thinking.” They continue to explain that competition over a finite market share will turn the business environment to a red ocean due to the fierce bleeding and rivalries among the competitors.

In the red ocean scenario, companies must survive by investing heavily in the competition, they need to put the competition in the core of their strategy to stay relevant to the market.

This would require great knowledge of competitors which would occupy big portion of firm’s resources. As well as excessive marketing investments to increase visibility and win over the market from the competitors.

There will also be fierce pricing policies to stay attractive to the buyers which in the end will sacrifice the quality of products or services of companies.

In the red ocean the suppliers and labor forces would also burn due to strict cost cutting tendencies derived from competitions.

All this indicate that deciding to do the business in a manner that others are already doing, would set us up for competitions along the way which will burn into our resources, would reduce our profitability and even likely to extremely increase the risk of bankruptcy.

“It will always be important to swim successfully in the red ocean by outcoming rivals”  
(Kim & Mauborgne 2015).

According to W. Chan Kim & Renée Mauborgne’s Blue ocean strategy, Contrary to the Red Ocean, Blue Ocean focuses on “value creation” and rather taking the emphasis away from the competition.

This way companies can break away from the limitations, operate more freely far from the fierce and bloody rivalries and invest their resources in doing business and creating value for customers rather than winning a zero-sum game against the competitors.

As Kim & Mauborgne say in their book:

“Value innovation is the cornerstone of blue ocean strategy. We call it value innovation because instead of focusing on beating the competition, you focus on making the competition irrelevant by creating a leap in value for the buyers and your company, therefor opening up new and uncontested market space.”

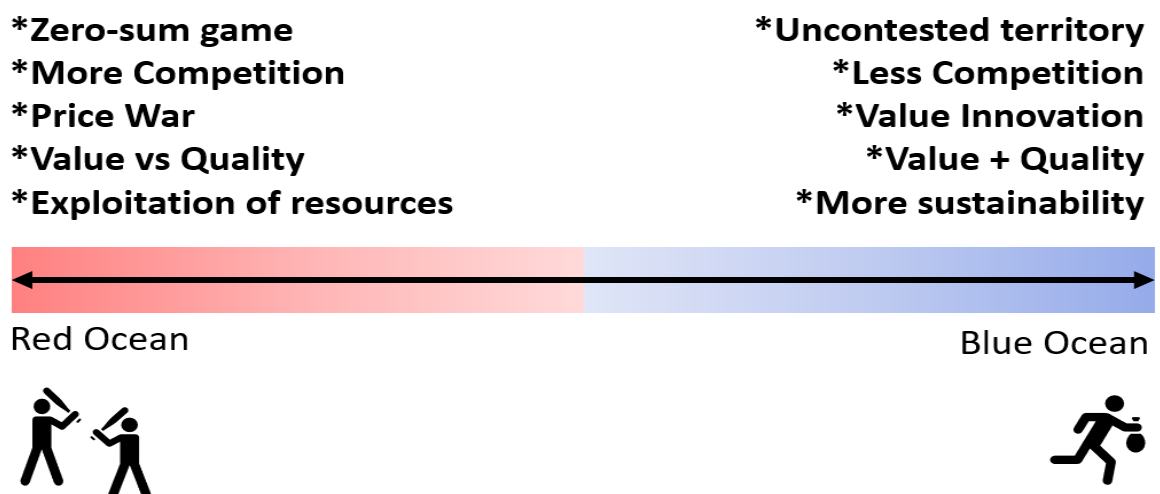


Figure 10. Our visualization of Blue Ocean Strategy from Kim & Mauborgne

Must also notice that this blue ocean, as innovative and open as it is, would not be free of risks since always with the new territories comes the unknown factors for the front runners which can be as dangerous and resource consuming as the red ocean.

### 3.6.3 Four actions framework

Kim and Mauborgne have introduced this framework to reinvent the values in companies towards creating and implementation of blue ocean strategy for their businesses.

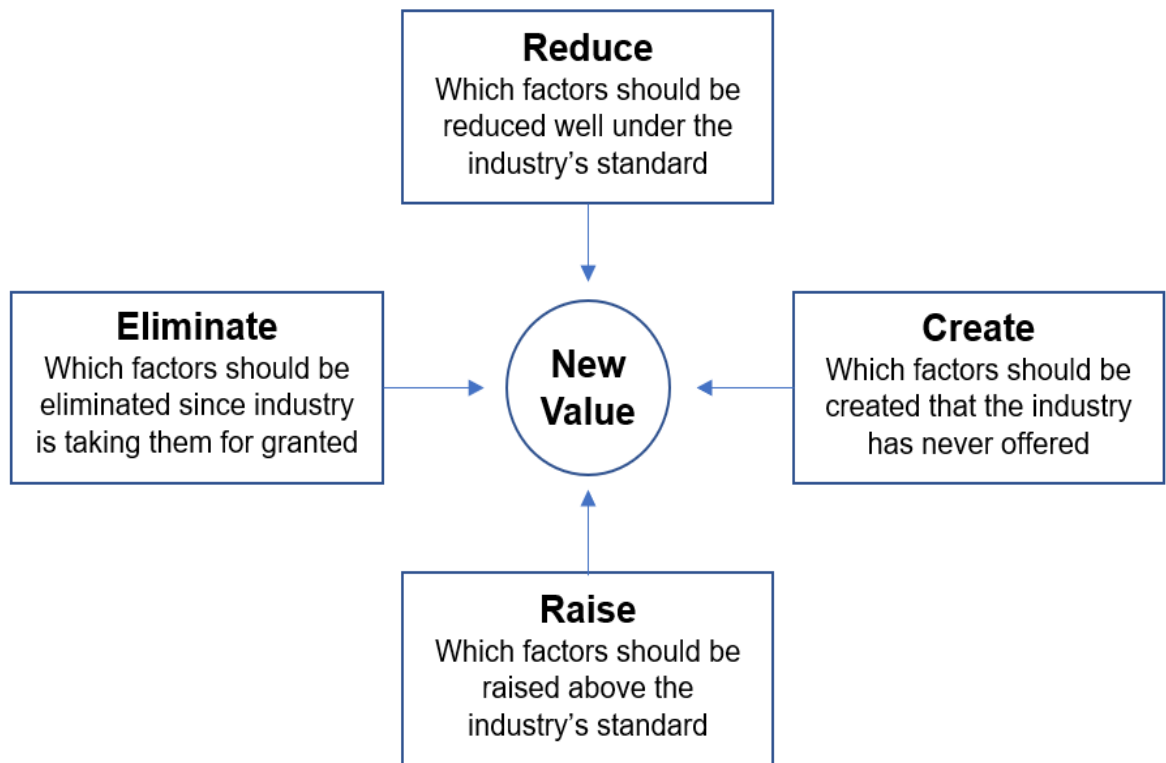


Figure 11. The four Action Framework for Blue Ocean Strategy from Kim & Mauborgne

Utilizing this framework to adjust the values for company and customers, will not only opens the horizons towards a less competitive structure of market (i.e. Blue Ocean), but also can “break the trade-off between differentiation and low cost” (Kim & Mauborgne, 2015, 31.)

It has always been assumed in traditional approaches that creating and providing different values are associated with extra costs. That is economy 101 which can be seen in pricing strategy for customized luxury items as an example.

In order “to be best” as we explained from porter’s point of view, which he thinks is the less correct form of competitive strategy, one can either raise the quality or break the price, but both could not be achieved due to fierce competition in the red ocean.

But the four actions framework could offer the opportunity of creating new or better sets of values while at the same time also giving the chance for keeping the costs at control.



We elaborate these four actions from Kim & Mauborgne (2015, 31-33) further as following:

Companies in red ocean can fall into one-solution-for-all type of approach to respond to different demand at the same time with the same product or service.

This means some features would be unnecessary and extra for some customers but regardless to the actual demands, they have been added to match with general needs in the market or just to keep up with competitions who provide the same features.

That is where elimination and reduction from the framework will help the firm to break from the cycle, be more unique and save resources at the same time which will increase the efficiency and profitability of the company while giving chance for reduction of price for end-users.

Eliminating the factors that are not really adding that much of value for the buyers nor for the company will free up resources to invest in creation of more innovative values.

Reducing the factors or better, features that has been added to overserve the customers or to sweeten the deal in attempt to be more competitive. Reduction of unnecessary additions will increase the efficiency of firm and helps with better pricing strategy which is also useful and valuable to customers.

Sometimes in order to stay in the competition and serve the bigger segments of market, as well as for cost reduction and economy of scale, some special segments of market, or some special needs of customers are to be neglected.

This is simply because most of attention in red ocean would be on getting the biggest portion of market with lowest costs.

To break from this cycle, the third aspect of the frame work known as raising would be valuable.

Rising the standard for those special demands that has been compromised so far, in the competitive atmosphere, could be addressed in Blue ocean by providing some extra features and values which were suppressed earlier.

Finally, to get access to completely untouched territories, it is necessary to innovate and generate new opportunities:

Create, refers to the actions need to be taken in order to bring completely new and innovative values, establishing new demands in the market and having the option to set the highest profit margin for those unique and never-before-offered values.

In a nut shell, here are the benefits or in better word, the values from these four actions:

Elimination and Reduction actions are very valuable in cutting costs, therefore very important for the profitability of business and for affordability of services/products for the customers.

Raising and Creating actions will increase the market share, allow us to have access to customers that have not been served in normal red ocean environment and therefore, will increase our revenue and profitability as well.

As can be seen from expanding on these four sets of values, it seems possible to root for quality and uniqueness while keeping the costs under control in blue ocean strategy.

Being different do not have to be against cost-efficiency.

We are using these principles in providing our suggestions for the final product in chapter 4 which is the implementation plan for Lasi & idea Oy.

### **3.7 Causal vs Effectual reasoning in formulating strategy**

Ideas are not enough by themselves as a measure or indication of success or as a mean to do business necessarily (unless you are in business of providing ideas as your service/product).

Ideas should add value and become actions in order to be realized as business opportunity. Same goes for transformation of ideas into business strategy in our understanding.

Formulating the business strategy could be achieved via various number of approaches.

One revolutionary categorization of such approaches has been introduced by Saras D. Sarasvathy in 1971. She conducted a 17 pages questionnaire on 10 decision making scenarios with 30 business founders in the U.S. varying from 200 million \$ to 6.5 billion \$ worth in business.

Founders were instructed to analyze aloud the process of their decision making. These observations opened some windows towards understanding the rationalization systems which would determine “what makes entrepreneurs entrepreneurial?” which is also the title of Sarasvathy’s article.

Sarasvathy aimed to assess if entrepreneurial attributes could be learned or taught rather than naturally occurring in some special subjects.

The result of this study was to identify and categorize different approaches towards problem solving as a business leader. Which can be used also in strategy setting.

Two distinct approaches were identified in the process according to Sarasvathy (2001)

- Causal/ Predictive reasoning
- Effectual reasoning

According to Sarasvathy (2001) “Causal / predictive rationality starts with a pre-determined goal and a given set of means, and seek to identify the optimal- fastest, cheapest, most efficient, etc. - alternatives to achieve a goal.”

Therefore, in Predictive/causal rationality we have a somehow clear understanding of both our perceived outcome and potentials, the missing link would be adopting the most viable system that will get us there.

The key in this approach is existence of a pre-established goal initially.

For Sarasvathy Effectual reasoning “does not begin with a specific goal. Instead, it begins with a given set of means and allows goals to emerge contingently over time from the varied imagination and diverse aspirations of the founders and the people they interact with” (Sarasvathy 2001).

This approach is not putting the final goal as a priority to begin the thought and action process but focuses rather on the means and systems people or firms possess and by giving

opportunity for innovation and creativity, and providing uncharted paths unaffected by boundaries of a predetermined target, the competencies and means would roam and direct you towards the value creation that is demanded in the market.

“-Effectual reasoning emphasizes on affordable loss while causal reasoning focuses on expected return. -Effectual reasoning is built upon strategic partnership while causal reasoning depends upon Competitive analysis. Effectual reasoning stresses the leveraging of contingencies while causal reasoning urges the exploitation of pre-existing knowledge.” (Sarasvathy 2001.)

Usually it is wise and more realistic to adopt a combination of both approaches with proper dose of each side of this spectrum, at least in different phases of business to reach maximum potential.

There is a middle ground as well which have in mind the pre-determined goal but uses touches of creativity and innovation to generate new means in order to achieve the pre-set target.

Combining the learnings from the prior sub-chapter about Blue Ocean Strategy, we understand that setting a predetermined target and focusing wholly to fulfill the achievement of that goal could be a red ocean trap.

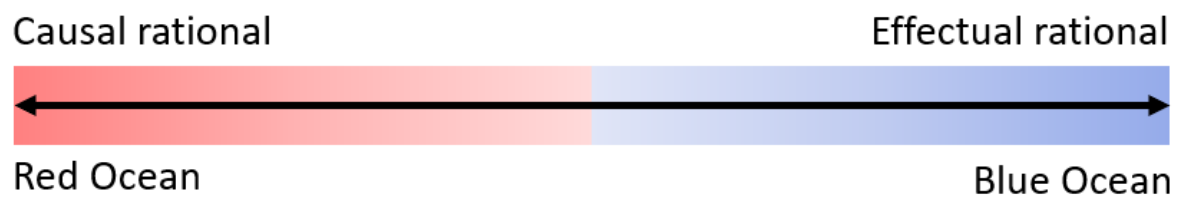
This means since the target was a product of current knowledge and understandings, then the goal by nature could be about a currently existing form of product or services and already now or very soon could be known to the competitors.

This can burn into the resources of the firm to focus on understanding and fencing competitors to survive.

Therefore, focusing on the creativity and utilizing the existing means on producing a fresher goal could bring more value by directing the resources more towards value creation than dealing with the competition.

The following figures are visualizations of our assumed relation between reasoning methods from Sarasvathy and blue ocean strategy from Kim & Mauborgne.

## Formulating Strategy



### Transformation of Idea to Marketable Opportunity

Figure 12. One possible correlation from our point of view, between Blue ocean strategy & Causal vs Effectual reasoning

According to our understanding there is a correlation between these two strategies, blue ocean and the causal-effectual reasoning. Being or positioning yourself in the red ocean correlates with causal rationalization of leaders.

Having a pre-determined goal and utilizing the existing means to achieve the said target would set us up for competition as majority of operations could be already existing and perhaps easy to mimic for rivals.

That also falls in the Michael Porter's "competitive strategy to be the best" since the goals are known and pre-defined therefore it would be just matter of different management of means to get the best result.

But Entrepreneurial mindset with Effectual reasoning is set to create change and innovate new opportunities. Therefore, pushing the firm towards the blue ocean where competition would take less of the business focus.

More detailed visualization of this correlation between strategy setting approaches can be seen in the following figure 13.

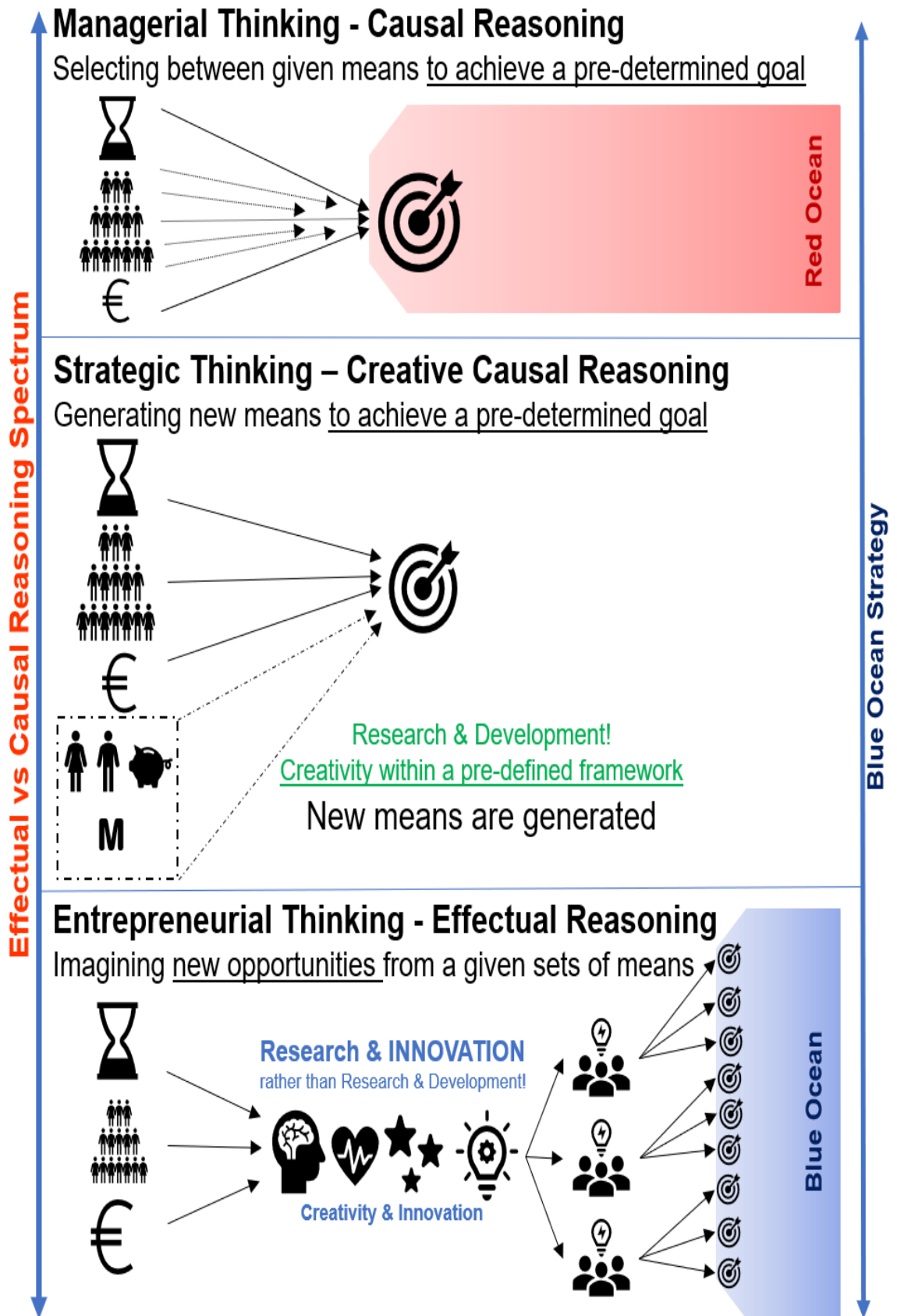


Figure 13. Combination of Sarasvathy's model with Blue Ocean strategy

### **3.8 Consultancy**

Our approach, in-line with our career goals, has been an attempt to provide consultancy to our client (case company Lasi & idea Oy) by providing as comprehensive as possible business analysis, assessing most dimensions of their decision-making process that would bring added value to the business operation of L&i which subsequently could bring sets of solutions towards better financial and non-financial performance.

Why consultancy?

Consultancy is defined by Management consultancies Association (MCA,2016) as “creation of value for organizations, through the application of knowledge, techniques and assets, to improve business performance. This is achieved through the rendering of objective advice and/or the implementation of business solutions” so giving variety of perspectives as solution. (Hodges 2017, 21.)

According to this definition, consultancy is a systematic approach due to utilization of structured knowledge and techniques for assessments, analysis and comparison as well as diagnosis and treatment of areas in business that requires improvement.

Other key factors are being objective to ensure avoidance of bias by providing a fresh set of eyes and mind to see the problems from different angles which could be not so visible to the internal members of the organizations or at least the leaders of the firm

### **3.9 Agility**

being constantly aware of the developments in the market, whether it is the shifts in demands and interests of the customers in matters of quality, design and price sensitivity is a must for all business operations.

Holbeche 2018 describes the agility in this way: “It captures an organization’s ability to develop and quickly apply flexible, nimble and dynamic capabilities.”

So, agility is all about being dynamic, being ready to react to shifts in the market and adapt to new circumstances in order to stay in control of your business activities.

It is very important to firstly be aware of the market developments, and secondly to have such a structure and strategy in the company that could accommodate the changes and surprises in the market.

### **3.10 Strategic Abandonment**

To grasp or to let go, that is the question!

Here we discuss the theory of systematic/ organized abandonment from Peter Drucker.

We start with the “resilience” as one of the most important factors of success, then the discussion evolves through the agility and buoyancy with strategic abandonment to conclude some future moves.

As entrepreneurs, often we are programmed by our innate characteristics, through our attained learnings as well as the encouragements from peers and mentors to persevere in our endeavors, to endure the hardship and to push forwards towards our ambitions, disregarding the obstacles and barriers.

In our opinion this has been THE recipe for success for as long as we can recall which of course has been undoubtedly true in many cases, keeping your ground and pushing through the unfavorable circumstances.

However, there is another side to this phenomenon that could be easily overlooked. There have been many cases in which the businesses have suffered from sticking to their rigid thinking and neglected to consider any changes.

There are different types of change in the life of a company. A successful brand for a well fought-after product might still need to bring some upgrades to their products in time to match with the market’s developments. Imagine the car factories which upgrade their cars each year by changing the appearance and adding some new features.

Sometimes companies decide to introduce new products, services or features in addition to their main/ existing operations. An example would be introduction of Digital cameras from the well-known analog camera producers such as Nikon.

Sometimes the current services or products are not profitable or required anymore, so it is imperative to adapt completely new replacements to match the needs of the market. Imagine the IBM that abandoned production of desk top computers to focus mostly in artificial intelligence and data analysis due to competition from other brands in production of computers as a tool.



Selective abandonment (with strategic approach) on specific scopes of business therefore is as important as resilience and persistence.

Abandonment is not necessarily letting go of the whole business, unless that is the best option.

It could be implemented in variety of scenarios; be it abandonment of specific approaches in running some parts of business, be it letting go of some customer-segments or abandoning the products or services that are not profitable enough, in order to focus the energy and resources of the business towards the more profitable actions.

According to Drucker (2008), "Rethinking is not primarily concerned with cutting expenses. It leads above all to a tremendous increase in performance, in quality, in service. But substantial cost savings-sometimes as much as 40 percent of the total-always emerges as a by-product".

The concept of strategic abandonment is a reminder to be agile and aware of the market as well as the profitability of each section of business operation.

It is important to have the abandonment as strategic option and after careful consideration of business data, rather than sticking blindly to the firm's rigid path, before it is too late.

### **3.11 Financial Statement Analysis**

As stated above, financial statement analysis is the very first step which is essential to be conducted in order to understand the financial position of the company. Financial statement is a financial performance report for investors and creditors to decide whether they should make investments or give loans to the concerned firm. On the other hand, financial statement analysis is also for the benefit of the financial manager of the company in financial decision making.

Financial statement includes balance sheet, income statement, statement of cash flow, statement of owners' equity (Temte 2003, 2). Balance sheet describes the financial position of the firm in at a specific point in time (Harrison, Horngren, Thomas & Suwardy, 2011, 19). There are three group of items in the balance sheet: assets, liabilities and shareholders' equity. Income statement reports the revenue, expenses and net income or net loss for the financial period, or financial year which is the same calendar year. The income statement reveals whether the business entity is profitable in that period of time.

Statement of cash flow reports how the cash is circulated in different types of activities. According to Harrison et al. (2011, 23), there are three basic types of activities such as operating activities, investing activities and financing activities. Meanwhile, statement of owners' equity shows the changes in the company's equity with its owners.

In this thesis, balance sheet and income statement of L&i from 2014 to 2017 are utilized for financial analysis. However, statement of cash flow and statement of owners' equity are not examined. As for the cash flow, the reason is that L&i so far has not had any investing and financing activities. Thus, it is not worthy examining the changes in equity between the shareholders of the company.

Two analysis techniques e.g. horizontal analysis and vertical analysis are inspected for financial statement analysis. Firstly, the purpose of horizontal analysis is to observe the trend of revenue, expense and net income of the enterprise's operation over the period of four years. Since the financial analysis helps to predict the future tendency of the performance, it is advisable to map the trend of the past three to five years (Harrison et al. 2014, 747).

The second analysis technique (vertical analysis) on the other hand displays the relationship between the elements in the financial statement by percentage of the base item (Investopedia, vertical analysis). For example, the item of the income statement can be calculated as percentage of the revenue, or an item of the balance sheet can be stated by the percentage of the total assets or liabilities.

Lastly, financial ratios are a major tool for financial statement analysis. The ratios are used to reveal the trends in performance over the year, benchmark to the industry or competitors (Collier, 2012, 113). So as to analyze the trends in performance of the case company, Collier (2012, 114) suggests that the rate of profitability, liquidity, gearing, efficiency of utilized assets, and shareholders return should be calculated.

Nevertheless, financial ratios analysis has limitations in identifying the problems. The ratios only express something wrong is going on in the business. The managers cannot tell the reasons behind or the solutions based on the ratios. The managers should consider other factors which influence the figures. Harrison et al. (2014, 772) suggest that the financial ratios should be analyzed over a period of years because one or two years are not relevant enough to represent the performance of the company. As a result, we take financial statement of Lasi & idea in five years for the financial performance analysis.

The tables below show the key financial ratio calculation of Lasi & idea. The ratios are calculated based on the balance sheet and income statement from 2014 to 2018.

Table 2. Volume of the business

	2014	2015	2016	2017	2018
<b>Net turnover (net sales)</b>	238 117,39	64 233,18	34 389,57	31 595,96	75 937,67
<b>Number of employees</b>	3	1	0	0	1
<b>The balance sheet total</b>	43 730,22	22 722,96	18 999,41	9 460,12	16 279,65

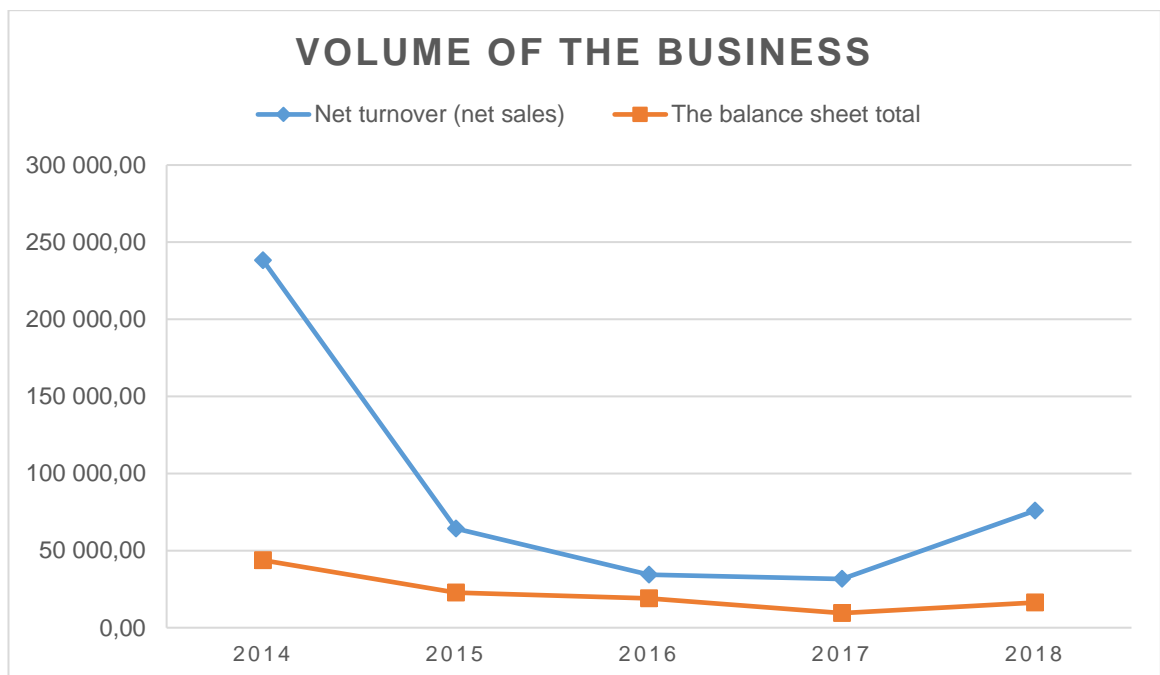


Figure 14. Volume of the business 2014-2018

The table shows that Lasi & idea has a successful inception with more than 200 000€ revenue and around 43 730€ balance sheet total. These are the highest figures during the period 2014-2018. Afterwards, the volume of business dropped dramatically after one year and was at the level of under 40 000€ until 2017. Nevertheless, the business revenue was improved with an increase to approximately 76 000€.

### Profitability Measurement

It is crucial for a business to function by earning profit. Investors are concerned about the profitability of a company in making investment decision. Profitability ratios are usually expressed in percentage. Gross profit margin, operating profit margin, net profit margin are the first three ratios to examine in profitability analysis. These ratios reveal the percentage

of each sales euro earned as gross, operating, and net profit. The higher the ratios are, the more profit the business generates.

$$\text{Gross Profit Margin} = \frac{\text{Gross profit}}{\text{Sales}}$$

$$\text{Operating Profit Margin} = \frac{\text{Operating profit}}{\text{Sales}}$$

$$\text{Net Profit Margin} = \frac{\text{Net profit}}{\text{Sales}}$$

Table 3. Profitability of the business 2014-2018

	2014	2015	2016	2017	2018
<b>Gross Profit Margin</b>	57,2 %	59,2 %	73,5 %	76,5 %	76,9 %
<b>Operating Profit Margin (EBIT)</b>	6,0 %	-13,6 %	-2,9 %	-15,2 %	0,7 %
<b>Net Profit Margin</b>	4,6 %	-13,6 %	-5,7 %	-15,2 %	0,6 %

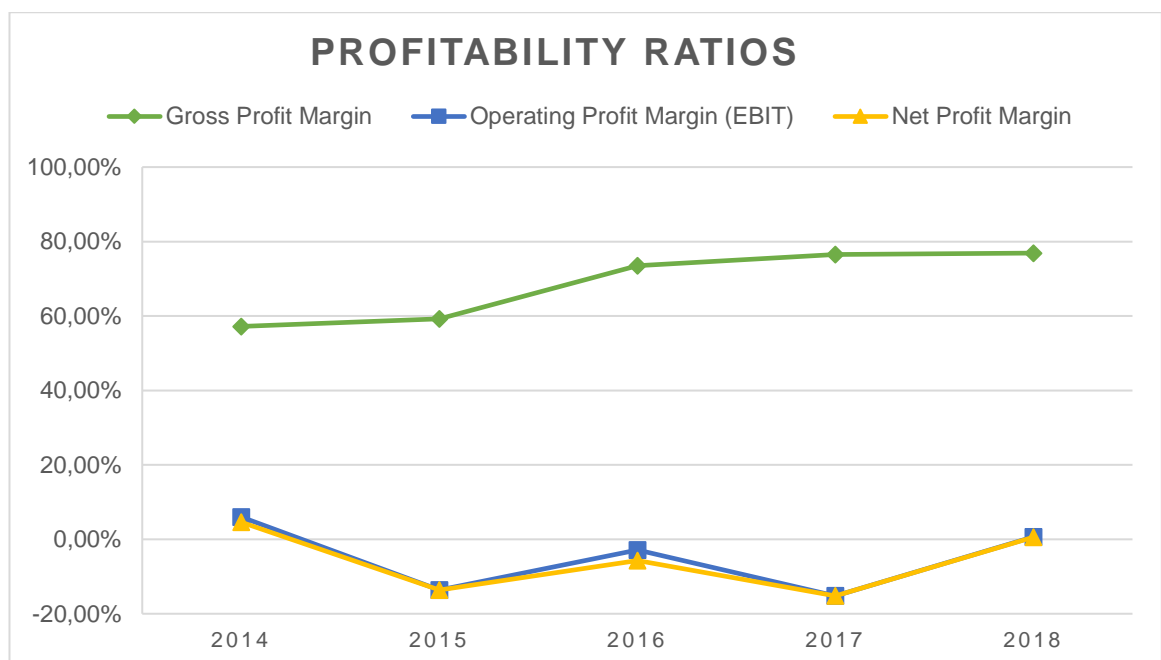


Figure 15. Profitability of Lasi & idea 2014-2018

As a service company, L&i has a fairly high gross profit margin with 57% in the first year of establishment. The percentage was growing year by year up to 76,9% in 2018. This phenomenon can be explained that the company had to buy equipment, tools, material and inventories during the first two years. As a result, the COGS was high at the beginning, which resulted in lower gross profit margin.

Regarding operating profit margin and net profit margin, L&i has had similar trend between the two ratios at the satisfactory level on the first year, negative in the next three years and poor level last year. Especially in 2015, the company had positive net profit margin even though the EBIT was -13,6%. The reason was that it received extraordinary income from selling fixed asset.

On one hand, L&i has had outstandingly high gross profit. On the other hand, the EBIT and net profit margin were unsatisfactory due to costly operating expenses.

Another set of profitability measurement is return on assets (ROA) and return on investment (ROI). ROA measures how successfully a company use its assets to make profit.

$$\text{Return on Assets} = \frac{\text{Net profit}}{\text{Average total assets}}$$

ROI measures the relative profitability of the company, which is calculated by the net profit earned by the invested capital of the year.

$$\text{Return on Investment} = \frac{\text{Net profit}}{\text{Total assets}}$$

Table 4. Profitability of the business 2014-2018

	2014	2015	2016	2017	2018
Return on Assets (ROA)	22,7 %	-26,9 %	-9,5 %	-35,7 %	5,3 %
Return on Investment (ROI)	32,3 %	-34 %	-10 %	-38,5 %	2,7 %

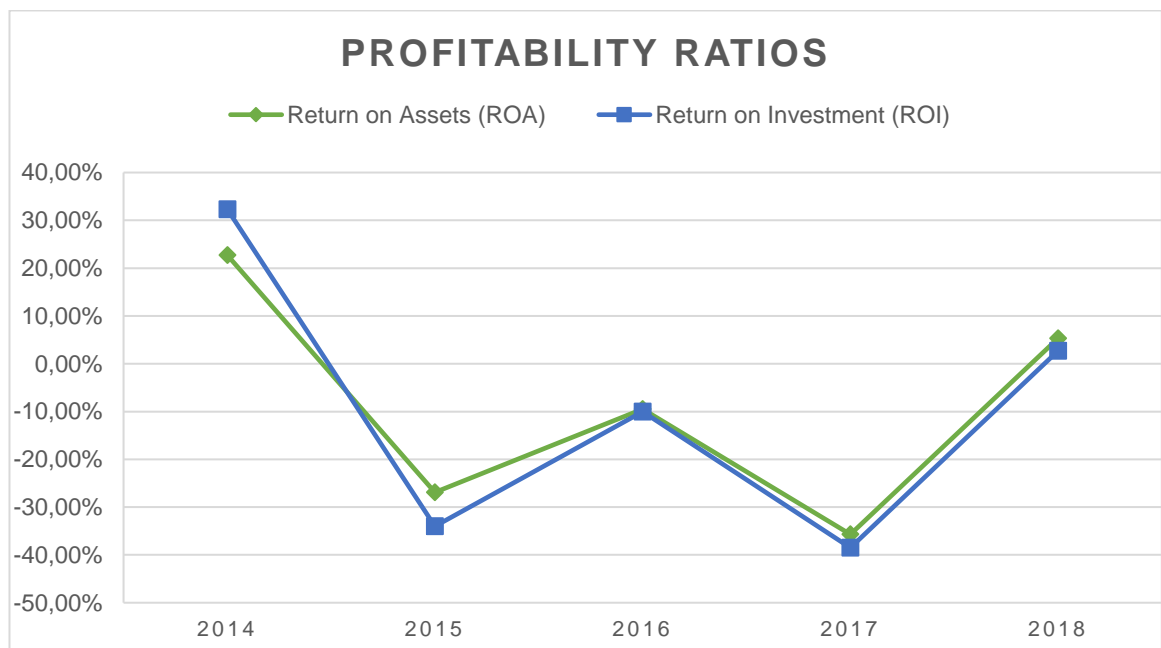


Figure 16. Profitability of Lasi & idea 2014-2018

According to Korhonen, Kujama, Paanala, Rajalahti & Toivio (72, 2013), ROA percentage higher than 10% is regarded as good, and between 5-10% is satisfactory. From the table 4, 2014 is an extraordinary year with 22,7%, however, it dropped dramatically to -35,7% in 2017 and was at satisfactory level with 5,3% last year. The same trend was happening to ROI during this period.

### Liquidity Measurement

A company's liquidity is its capability to pay short-term debt obligations. Current ratio and quick ratio are widely used to measure the liquidity of an enterprise.

Firstly, current ratio is the comparison between the current assets, which can be converted into cash, and the current liabilities (short-term debt). Depending on the industry of the business, current ratio has different interpretation. The higher the current ratio, the more liquid the firm is regarded to be. Yet a business with too high current ratio might have excessive cash or other liquid assets, which should have been used productively. (Atrill & McLaney, 2017, 219)

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Secondly, quick ratio or acid test ratio is similar to current ratio, however, it is more precise because quick ratio excludes inventories and work-in-process from the current assets.

$$\text{Quick ratio} = \frac{\text{Cash} + \text{Short-term investment} + \text{Net current receivables}}{\text{Current liabilities}}$$

Table 5. Liquidity of the business 2014-2018

	2014	2015	2016	2017	2018
<b>Current ratio</b>	1,5	4,0	2,3	3,5	1,56
<b>Quick ratio</b>	1,5	4,0	2,3	2,3	1,41

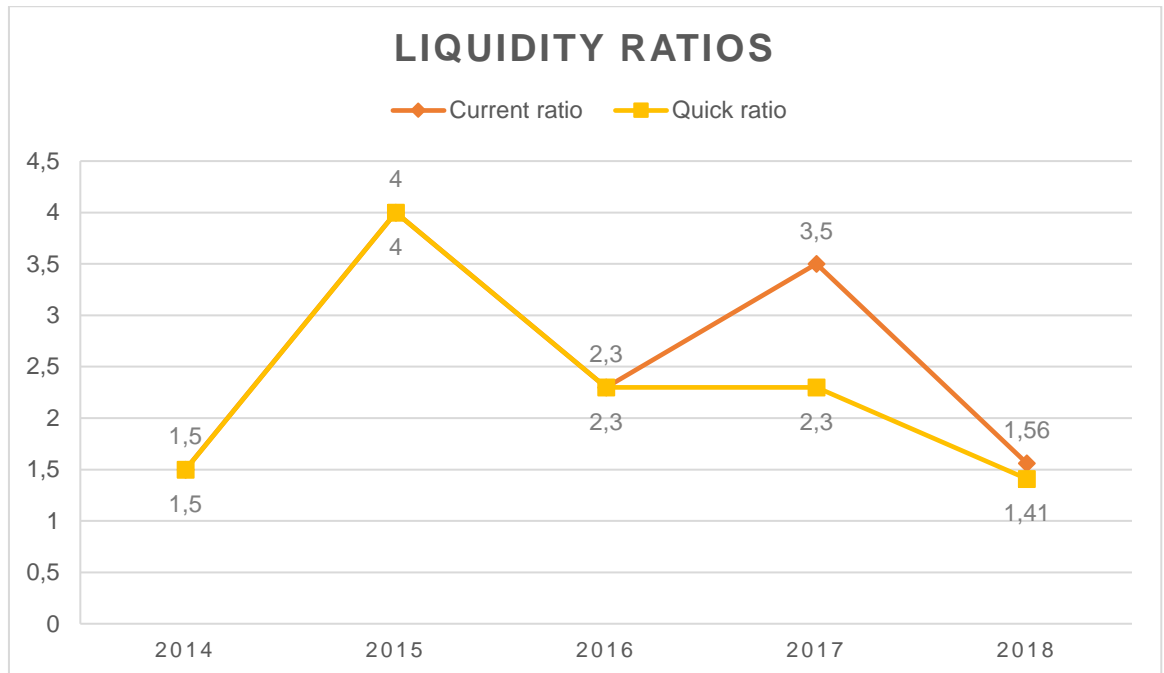


Figure 17. Liquidity of Lasi & idea 2014-2018

The figure above shows the fluctuation of current ratio and quick ratio between the years. It is said that the ideal current ratio is often between 1,5 to 2,0 (Black 2009, 218). Regarding current ratio, the beginning year performed well with 1,5 but a peak level of 4,0 in 2015. The reason of the occurrence was due to the decrease of current liabilities by five times from around 25 000€ to 5 000€ in 2015. Afterwards, the trend went down to 2,3 and rose up again to 3,5 in 2017 and ended at 1,56 last year.

As for quick ratio, Black (2009, 218) claims that the ideal quick ratio is often quoted as 1.0. It is visible that the tendency of quick ratio resembled the current ratio's trend closely because the company did not have much inventories. Especially 2014 and 2018 were the best years of Lasi & idea regarding liquidity measurement. To sum up, the company has had good control of liquidity ability. Despite that, high ratios of over 2,0 indicate that L&i excessive cash and current receivables.

### Solvency Measurement

Solvency ratios helps to measure the company's ability to pay long-term debt. In detail, they measure the ability to sell inventory, collect receivables, and pay current liabilities (Braun & Tietz, 2015, 856). In this analysis, two key indicators which are used to measure L&i's solvency are equity ratio and debt ratio.

Equity ratio explains how much the investors own the company. It replies the question “If the company goes out of business after it pays all liabilities, how much will be left for its investors?” (The Balance Small Business, 2019).

$$\text{Equity ratio} = \frac{\text{Total equity}}{\text{Total assets}}$$

Debt ratio displays the relationship between total liabilities and total assets. The ratio tells the proportion of assets financed with debt. It is stated that the higher the ratio, the more pressure the company is under to pay interest and principal. (Harrison & al, 2014, 765)

$$\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}}$$

Table 6. Solvency of the business 2014-2018

	2014	2015	2016	2017	2018
Equity ratio	31,8 %	65,2 %	63,2 %	77,8 %	45,8 %
Debt ratio	69,5 %	39,1 %	37,3 %	25,9 %	54,2 %

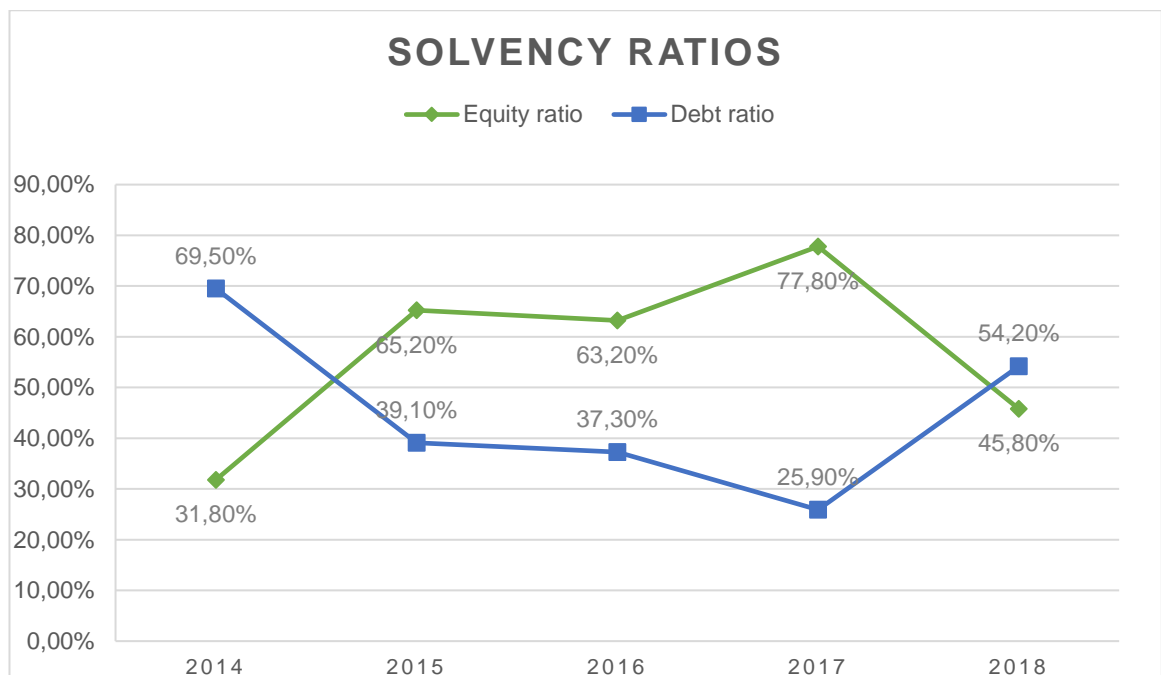


Figure 18. Solvency of Lasi & idea 2014-2018

For five years, Lasi & idea had increased its equity ratio gradually from 31,8% to 77,8% from 2014 to 2017 but dropped to 45,8% in 2018. A high equity ratio implies that L&i manager succeeded in minimizing using debt to fund the asset requirement. In contrast, debt ratio was high at the beginning and fell to 25,9% in 2017 but rose to 54,2% in 2018. A low



debt ratio indicates that L&i had low overall debt and stable business. In summary, the company's solvency was attractive to potential investors and creditors.

### **3.11.1 Benchmarking/ Positioning of firm**

Rank Xerox defines benchmarking as "a continuous, systematic process for evaluating companies recognized as industry leaders, to determine business and work processes that represent best practices, and establish rational performance goals" (Zairi, 1994, 61). In a simple way, benchmarking is way to measure a company's performance against similar-sized business in the industry (Queensland Government 2019.)

The purpose of benchmarking is to gain an insight of L&i's current financial position as opposed to competitors and the industry average. Balkonser is firstly chosen to be compare because their business resembles L&i's. Terassimaailma on the other hand has similar volume of the business with L&i. The data of the competitors and glazing industry is collected from Suomen Asiakastieto Oy. Suomen Asiakastieto Oy is a leading organization providing comprehensive updating data of Finnish companies.

The financial statement benchmark is investigated in four KPIs of the business. They consist of volume, profitability, liquidity and solvency. Glazing industry in Finland includes 366 companies, of which financial statements are available for 161 companies in 2015, 157 and 152 companies for the year 2016, 2017 respectively.

First of all, the turnover of L&i is the smallest compared to others and industry average. As can be seen from the graphic, it was a general trend of the industry that the volume decreased from 2014 to 2015. However, the business recovered slightly in 2016 and 2017 reaching 2,2% in turnover change. Especially Balkonser's turnover increased extensively in 2017 with 159,2% from the previous year 2016.

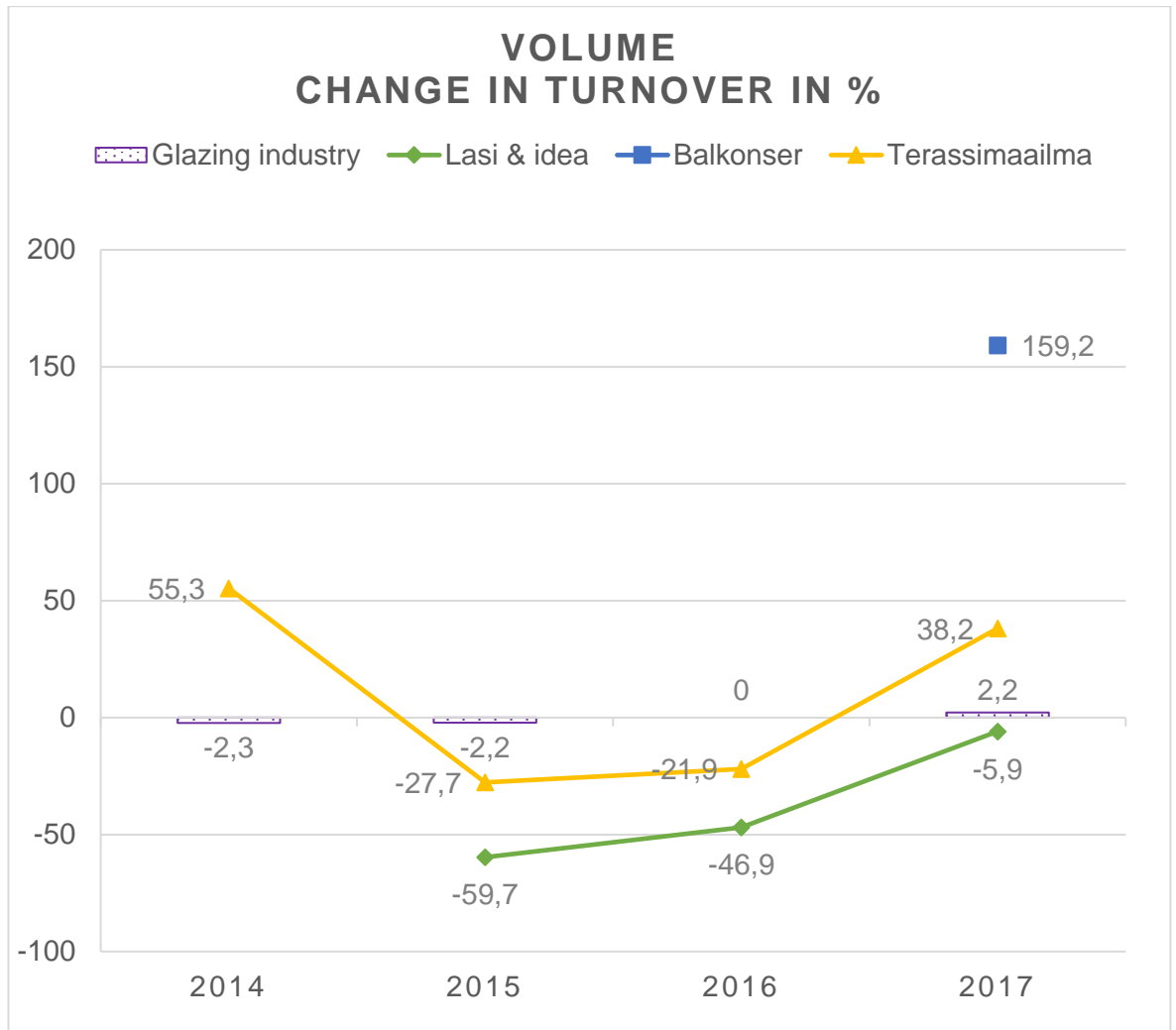


Figure 19. Volume comparison 2014-2017

Secondly, the central ratio for profitability evaluation is return on investment. The chart shows that 2014 was a very successful year for L&i with 32,3%. This was clearly higher than Terassimaailma and the average in the business line (8,1%). Afterwards, the profitability of the competitors and the glazing industry had developed slightly over the years. Balkonser's ROI steeply increased from 5,7% in 2016 to 38% in 2017. Terassimaailma also had better profitability than the industry average (11,6%) with 20% ROI. Meanwhile, Lasi & idea's ROI had been constantly negative since 2015. This indicates that the company's profitability had been very risky, which needs to be improved quite urgently.

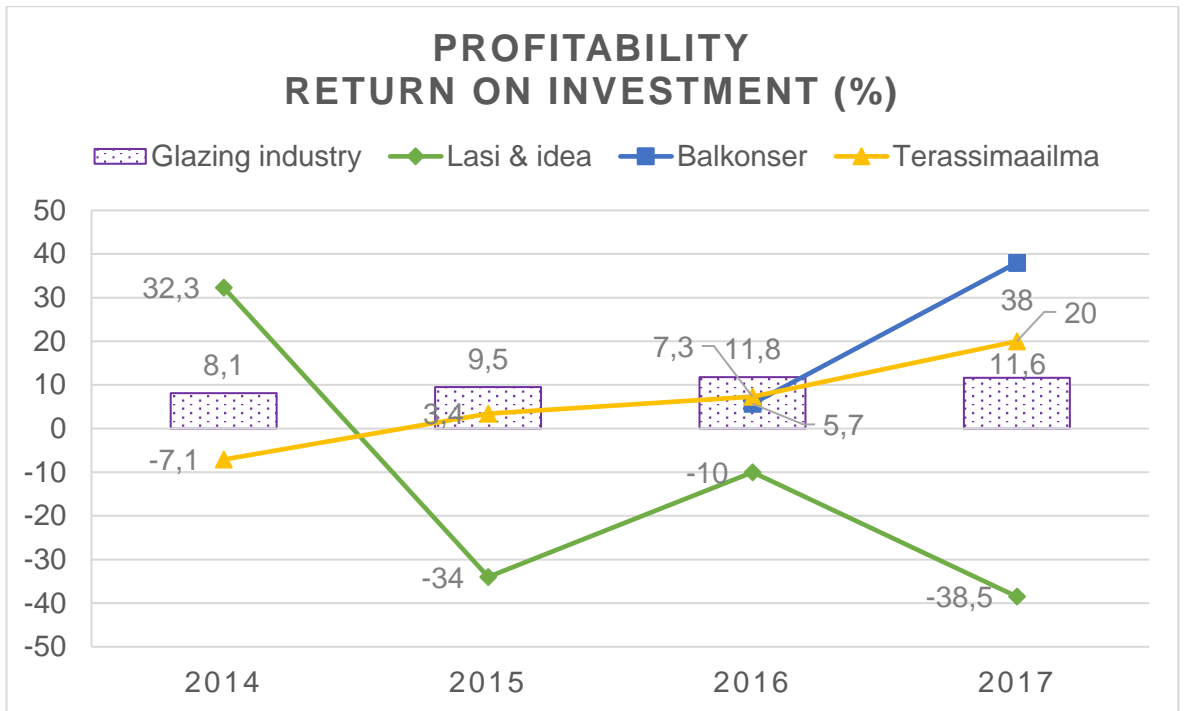


Figure 20. Profitability comparison 2014-2017

Thirdly, the liquidity comparison is measured by current ratio. Among other companies, L&i has had the best performance. Its current ratio is considerably higher than the industry average during the period. At the same time, the liquidity of Balkonser and Terassimaailma was satisfactory, which was a bit lower than the average of the industry.

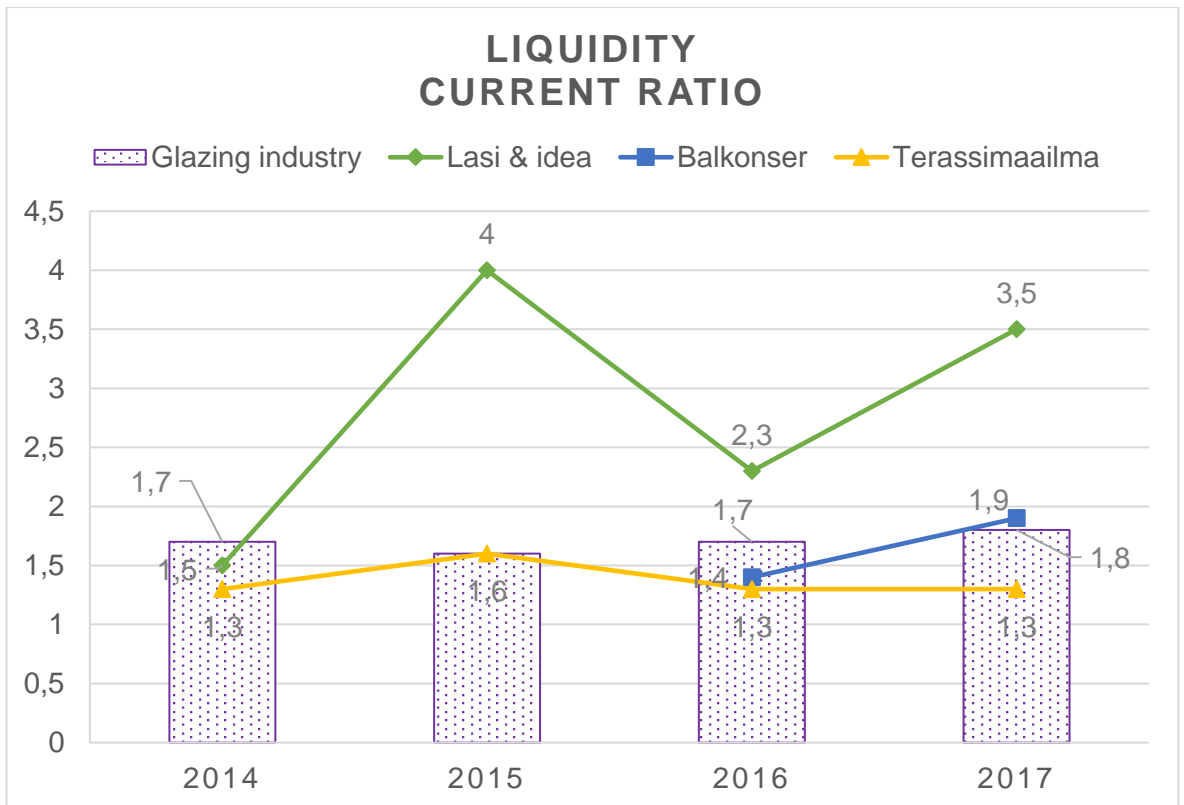


Figure 21. Liquidity comparison 2014-2017

Fourthly, the solvency is compared by using equity ratio. Similar to the liquidity, Lasi & idea has had very good solvency. The first year of the period, its solvency was lower the industry average, 31,8% compared to 46,4% respectively. Later, the equity ratio grew significantly up to 77,8% in 2017, which was much higher than the median in the line (approximately 50%). This means that L&i was exceptionally solvent in the business line.

In contrast, the competitors had satisfactory solvency. Their equity ratio was rather lower than the industry solvency average. For instance, Terassimaailma's equity ratio was between 15% to 28%. Balkonser had only 8% in 2016 but improved considerably to 30% in 2017.

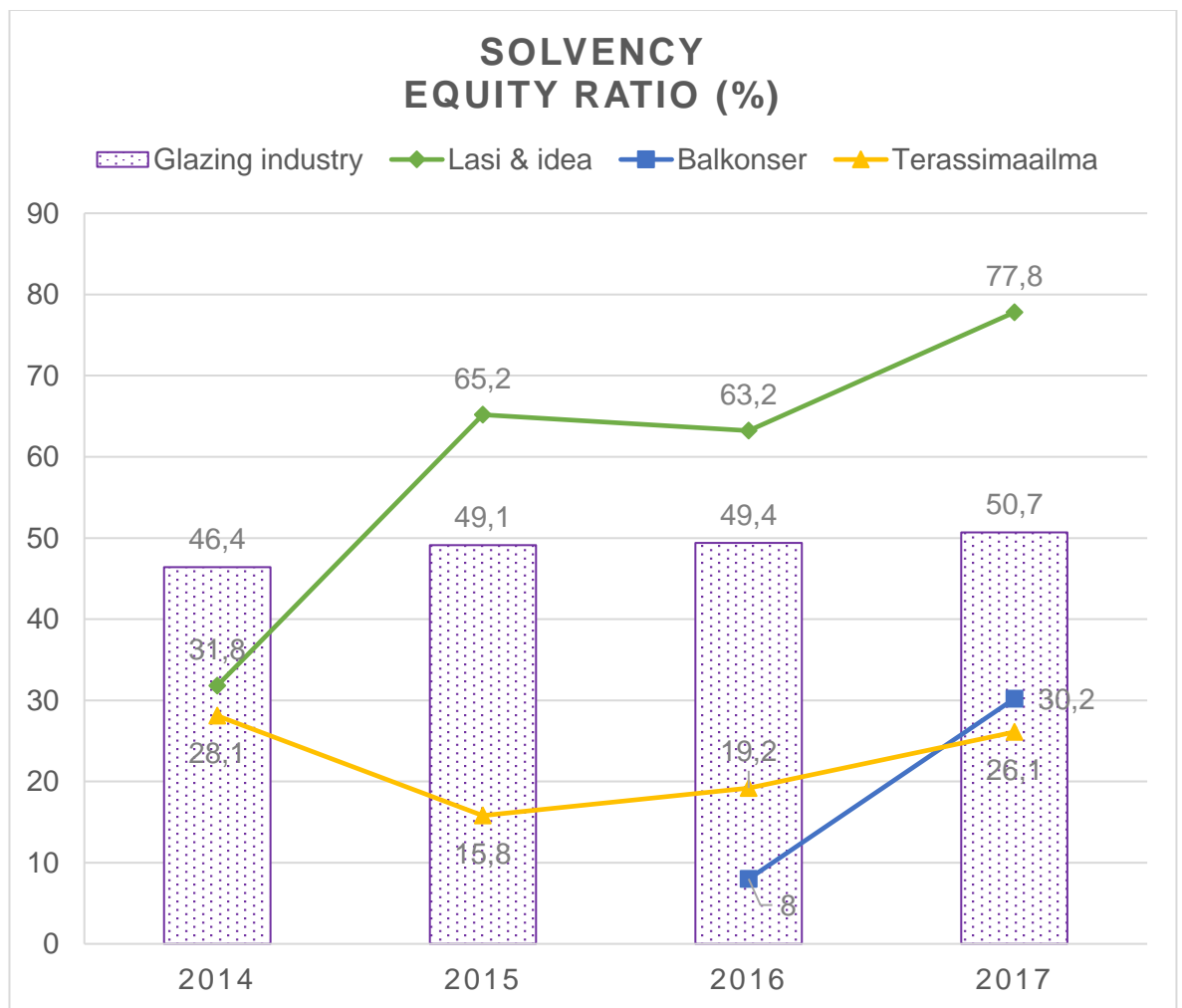


Figure 22. Solvency comparison 2014-2017

In summary, Lasi & idea has been very small in term of turnover and poorly profitable compared to the competitors and industry average. Despite that, the company had very good liquidity and solvency while Balkonser and Terassimaailma is on a satisfactory level.

### 3.11.2 Market Mapping/ Market Overview/ Industry analysis

The meaning of industry analysis is to assess the market where the company operates to get an insight of the competitive dynamics of the industry. The concerning market for Lasi & idea is balcony and terrace glazing and maintenance. Industry analysis helps the entrepreneur to understand the company's position relative to other competitors in the industry. (Corporate Finance Institute 2019.)

In this part, we first check the year-on-year growth of revenue in the construction industry, taken from statistics Finland as can be seen in the next table 7.

It shows that the industry has seen a healthy growth but must keep in mind that the data is for the whole construction industry.

Later we move forward to table 8, in which we present a comparison of the revenue, profit and number of employees for glazing industry in relevant areas of Finland between 2014 & 2017.

We have tried to separate different segments of the glazing industry: firstly, are the suppliers and producers of the materials for the glazing operation. They mostly have their revenues from selling of glasses, frames, rollers and other systems required for glazing. At the same time, they might have some small operation for installation and repairs during guarantees which could be performed either internally by their experts or could be outsourced to the other smaller installation& repair companies.

Then we have the players in installation and repairs of balcony glazing, we have separated them to three categories:

- The capital area
- Tampere area
- Other big cities (not very north of the country, as now it is not one of our potential destinations for expansions in future)

From table 8, we can easily get an overview of manufacturers, most of the competitors in installation and repair business, their Head Quarter, The volume of business, profit and employees for each year between 2014 to 2017.

Table 7. Turnover of different types of industry

Industries	Turnover			Year-on-year change	Turnover			Year-on-year change	Turnover			Year-on-year change			
	EUR 1000		%		EUR 1000		%		EUR 1000		%		EUR 1000		%
	2013	2014			2014	2015			2015	2016			2016	2017	
B MINING AND QUARRYING	1,730,437	1,661,142	-4.0	1,661,142	1,500,666	-9.7	1,500,666	1,487,146	-0.9	1,487,146	2,034,158	36.8			
C MANUFACTURING	135,093,280	130,284,373	-3.6	130,284,373	124,332,625	-4.6	124,332,625	121,792,354	-2.0	121,792,354	132,627,614	8.9			
D ELECTRICITY GAS STEAM AND AIR CONDITIONING SUPPLY	13,634,420	13,074,441	-4.1	13,074,441	12,422,194	-5.0	12,422,194	12,902,376	3.9	12,902,376	12,501,625	-3.1			
E WATER SUPPLY; SEWERAGE WASTE MANAGEMENT AND REMEDIATION ACT	2,385,930	2,451,932	2.8	2,451,932	2,491,448	1.6	2,491,448	2,806,923	12.7	2,806,923	3,001,266	6.9			
F CONSTRUCTION	28,459,840	28,998,388	1.9	28,998,388	30,269,970	4.4	30,269,970	32,786,294	8.3	32,786,294	36,234,094	10.5			
G WHOLESALE RETAIL TRADE	123,201,374	116,846,278	-5.2	116,846,278	114,116,675	-2.3	114,116,675	115,589,263	1.3	115,589,263	117,620,401	1.8			
H TRANSPORTATION AND STORAGE	22,945,799	23,108,891	0.7	23,108,891	22,530,873	-2.5	22,530,873	22,550,410	0.1	22,550,410	23,638,292	4.8			
I ACCOMMODATION AND FOOD SERVICE ACTIVITIES	5,991,156	6,048,548	1.0	6,048,548	6,138,771	1.5	6,138,771	6,473,976	5.5	6,473,976	6,975,989	7.8			
J INFORMATION AND COMMUNICATION	16,548,060	17,862,057	7.9	17,862,057	19,193,433	7.5	19,193,433	19,855,338	3.4	19,855,338	20,990,550	5.7			
L REAL ESTATE ACTIVITIES	7,624,137	8,005,031	5.0	8,005,031	8,140,792	1.7	8,140,792	9,155,605	12.5	9,155,605	10,221,155	11.6			
M PROFESSIONAL SCIENTIFIC AND TECHNICAL ACTIVITIES	13,289,725	13,253,797	-0.3	13,253,797	13,810,413	4.2	13,810,413	14,363,533	4.0	14,363,533	15,324,909	6.7			
N ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	9,929,485	10,075,843	1.5	10,075,843	10,483,130	4.0	10,483,130	11,197,570	6.8	11,197,570	12,296,794	9.8			

Table 8. Market overview of glazing industry in Finland

<b>Market Overview - glazing industry in Finland</b>		<b>2014</b>			<b>2015</b>			<b>2016</b>			<b>2017</b>		
<b>Suppliers/ Manufacturers</b>	<b>HQ</b>	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees
Lumon suomi espoo	Espoo	57 261 000	1 875 000	290	54 413 000	1 002 000	286	62 500 000	1 688 000	317	58 227 000	1 068 000	339
Riikku group Oy	Alavus				18 099 000	-198 000	92	16 222 000	631 000	97	19 744 000	1 114 000	106
Alutec	Ylivieska	10 164 000	442 000	52	11 096 000	504 000		13 432 000	771 000	57	14 869 000	521 000	
NIKA (Lasimies Oy)	Lahti	5 630 000	300 000	31	6 943 000	5 000	42	5 000 000	-1 200 000	52	9 721 000	-554 000	53
Itä-Helsingin Lasi Oy	Helsinki	3 903 000	333 000		3 791 000	-81 000		4 197 000	126 000	33	4 807 000	-268 000	30
Lasitusliike Kivijärvi Oy	Vantaa	3 286 000	352 000	20	4 438 000	370 000	26	4 351 000	641 000	28	4 578 000	538 000	33
Ritalasi Oy	Tampere	2 255 000	6 000	20	2 385 000	-146 000	20	2 644 000	71 000	19	2 663 000	74 000	21
Lukkan (Aluroll Oy)	Lahti	1 858 000	30 000	5	2 768 000	207 000	8	3 658 000	201 000	10	3 644 000	364 000	10
IKME Oy	Riihimäki	1 573 000	-40 000	7	1 749 000	8 000	9	2 127 000	29 000	9	2 486 000	-71 000	9
Skaala IFN Oy	Ylihärmä				0	435 000	2	716 000	-2 038 000	29	4 890 000	-13 276 000	29
Aki-Lasi Oy	Tampere				1 944 000	-75 000	17	1 837 000	34 000	15	1 764 000	114 000	16
<b>Capital Area-Installation &amp;/or Repairs</b>	<b>HQ</b>	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees
KYKY lasi Oy	Espoo	835 000	43 000	6	845 000	36 000	6	816 000	60 000	6	787 000	-24 000	6
Lasitustalo Uuskulainen Oy	Helsinki	369 000	-62 000		874 000	129 000		543 000	2 000		635 000	35 000	
Balkonser (Suomen parvekehuolto Oy)	Kerava							50 000	1 000	4	311 000	22 000	5
Stadin Lasi Oy	Helsinki	280 000	8 000		305 000	21 000		362 000	9 000		368 000	15 000	
Rt-Lasi Oy	Helsinki	657 000	27 000		582 000	-11 000	5		13 000			-43 000	4
JP lasitus Oy	klaukkala	601 000	36 000	3	629 000	16 000	2	378 000	1 000	2	148 000	5 000	2
Alulasi Oy	Veikkola				152 000	14 000	3	320 000	20 000		319 000	22 000	
KM- Lasi (Konemonikko Oy)	Mäntää	87 000	-2 000	1	166 000	-17 000		264 000	13 000	3	322 000	3 000	
Terassimaailma Oy	Kerava	278 000	-2 000	2	201 000	0	2	157 000	1 000	2	217 000	2 000	2
Asennus Toivonen Oy	Hyvinkää	243 000	14 000	1	201 000	8 000	1	205 000	14 000		255 000	59 000	
Linval Oy	espoo	258 000	1 000	3	226 000	-15 000		80 000	22 000		136 000	13 000	
<b>Lasi&amp;idea Oy</b>	<b>Helsinki</b>	<b>238 000</b>	<b>11 000</b>	<b>3</b>	<b>64 000</b>	<b>1 000</b>	<b>1</b>	<b>34 000</b>	<b>-2 000</b>		<b>32 000</b>	<b>-5 000</b>	
Lasibox (Oy Sifatek Ab)	Sipoo				140 000	-14 000		118 000	20 000		93 000	-6 000	
<b>Tampere...-Installation &amp;/or Repairs</b>	<b>HQ</b>	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees
Lasitalo Oy	Tampere	343 000	-129 000		873 000	43 000	7	1 234 000	51 000	8	1 689 000	80 000	9
PK-lasi Oy	Tampere	592 000	-1 000	6	545 000	3 000	5	0	2 000	4	594 000	-9 000	4
Halpalasi (Fixer A&V Oy)	Tampere							167 000	-17 000	2	337 000	-34 000	2
Glasluckan (Suomen Glasluckan Oy)	Valkeakoski				334 000	82 000	1	268 000	40 000	1	406 000	92 000	1
Ikkuna Fortuska Oy	Lempäälä	107 000	3 000	2	172 000	21 000	2	114 000	-6 000	2	154 000	19 000	2
Maakunnan Lasi Oy	lahti	1 290 000	156 000		1 372 000	173 000		2 467 000	449 000	14	2 120 000	183 000	14
Parveke-keidas Oy	Lahti				339 000	13 000		386 000	9 000		439 000	26 000	
<b>Other Areas-Installation &amp;/or Repairs</b>	<b>HQ</b>	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees
Glasek Oy	Vaasa	477 000	26 000		534 000	34 000		585 000	46 000	4	568 000	-5 000	5
Lasi-Kalle Oy	Jyväskylä	891 000	9 000	7	914 000	-37 000		850 000	7 000	6			
SV-Lasitus Oy- Kristal	Imatra				80 000	-27 000		121 000	13 000		137 000	3 000	1
Kotilasi (Rakennus ja lasi Viitanen Oy)	Turku	62 000	-2 000	1	62 000	-2 000	2	85 000	-5 000	2	137 000	24 000	
Cerdo Oy	Kouvola				132 000	8 000		204 000	23 000				

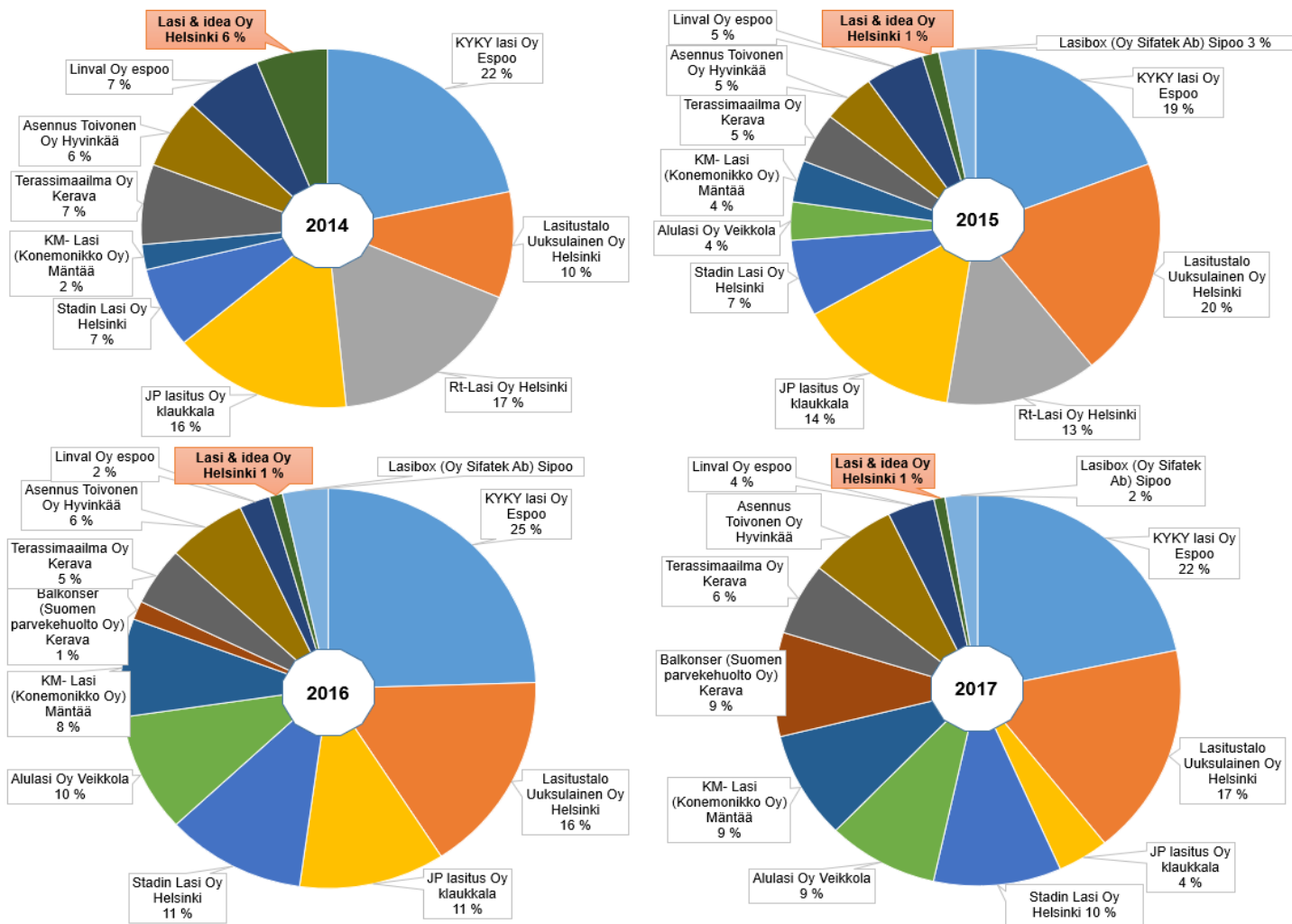


Figure 23. Market shares of maintenance and installation in capital area 2014-2017

Based on the table 8, we have the revenues of glazing installation/repair companies in the capital area, from which we can draw the market share of each player from 2014 till 2017.

As can be noticed, L&i started with 6% market share in 2014 and maintained an almost 1% for the 2015-2017 period.

The reason is reduction of revenue for L&i after 2014 due to lack of work force.

Some new players have entered the market too, like Balkonser.



		2014			2015			2016			2017		
		Revenue €	Profit €	Employees	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees
<b>Capital Area</b>	<b>HQ</b>												
<b>Installation &amp;/or Repairs</b>													
KYKY lasi Oy	Espoo	835 000	43 000	6	845 000	36 000	6	816 000	60 000	6	787 000	-24 000	6
Lasitustalo Uuksulainen Oy	Helsinki	369 000	-62 000		874 000	129 000		543 000	2 000		635 000	35 000	
RT-Lasi Oy	Helsinki	657 000	27 000		582 000	-11 000	5		13 000			-43 000	4
JP lasitus Oy	klaukkala	601 000	36 000	3	629 000	16 000	2	378 000	1 000	2	148 000	5 000	2
Stadin Lasi Oy	Helsinki	280 000	8 000		305 000	21 000		362 000	9 000		368 000	15 000	
Alulasi Oy	Veikkola				152 000	14 000	3	320 000	20 000		319 000	22 000	
KM- Lasi (Konemonikko Oy)	Mäntää	87 000	-2 000	1	166 000	-17 000		264 000	13 000	3	322 000	3 000	
Balkonser (Suomen parvekehuolto Oy)	Kerava							50 000	1 000	4	311 000	22 000	5
Terassimaailma Oy	Kerava	278 000	-2 000	2	201 000	0	2	157 000	1 000	2	217 000	2 000	2
Asennus Toivonen Oy	Hyvinkää	243 000	14 000	1	201 000	8 000	1	205 000	14 000		255 000	59 000	
Linval Oy	espoo	258 000	1 000	3	226 000	-15 000		80 000	22 000		136 000	13 000	
<b>Lasi&amp;idea Oy</b>	<b>Helsinki</b>	<b>238 000</b>	<b>11 000</b>	<b>3</b>	<b>64 000</b>	<b>1 000</b>	<b>1</b>	<b>34 000</b>	<b>-2 000</b>	<b>0</b>	<b>32 000</b>	<b>-5 000</b>	
Lasibox (Oy Sifatek Ab)	Sipoo				140 000	-14 000		118 000	20 000		93 000	-6 000	

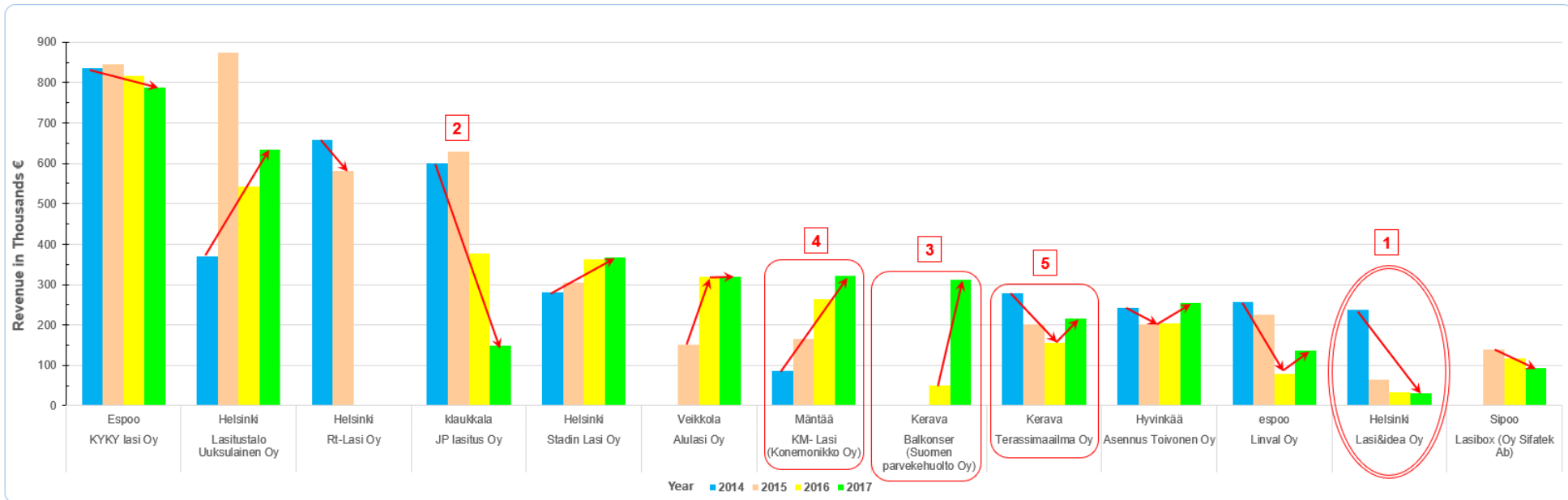


Figure 24. Revenue trend of glazing companies in Capital Area 2014-2017

Capital Area Installation &/or Repairs HQ		2014			2015			2016			2017		
		Revenue €	Profit €	Employees	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees	Revenue €	Profit €	Employees
KYKY lasi Oy	Espoo	835 000	43 000	6	845 000	36 000	6	816 000	60 000	6	787 000	-24 000	6
Lasitustalo Uuksulainen Oy	Helsinki	369 000	-62 000		874 000	129 000		543 000	2 000		635 000	35 000	
Rt-Lasi Oy	Helsinki	657 000	27 000		582 000	-11 000	5		13 000			-43 000	4
JP lasitus Oy	klaukkala	601 000	36 000	3	629 000	16 000	2	378 000	1 000	2	148 000	5 000	2
Stadin Lasi Oy	Helsinki	280 000	8 000		305 000	21 000		362 000	9 000		368 000	15 000	
Alulasi Oy	Veikkola				152 000	14 000	3	320 000	20 000		319 000	22 000	
KM- Lasi (Konemonikko Oy)	Mäntää	87 000	-2 000	1	166 000	-17 000		264 000	13 000	3	322 000	3 000	
Balkonser (Suomen parvekehuolto Oy)	Kerava							50 000	1 000	4	311 000	22 000	5
Terassimaailma Oy	Kerava	278 000	-2 000	2	201 000	0	2	157 000	1 000	2	217 000	2 000	2
Asennus Toivonen Oy	Hyvinkää	243 000	14 000	1	201 000	8 000	1	205 000	14 000		255 000	59 000	
Linval Oy	espoo	258 000	1 000	3	226 000	-15 000		80 000	22 000		136 000	13 000	
<b>Lasi&amp;idea Oy</b>	<b>Helsinki</b>	<b>238 000</b>	<b>11 000</b>	<b>3</b>	<b>64 000</b>	<b>1 000</b>	<b>1</b>	<b>34 000</b>	<b>-2 000</b>	<b>0</b>	<b>32 000</b>	<b>-5 000</b>	
Lasibox (Oy Sifatek Ab)	Sipoo				140 000	-14 000		118 000	20 000		93 000	-6 000	

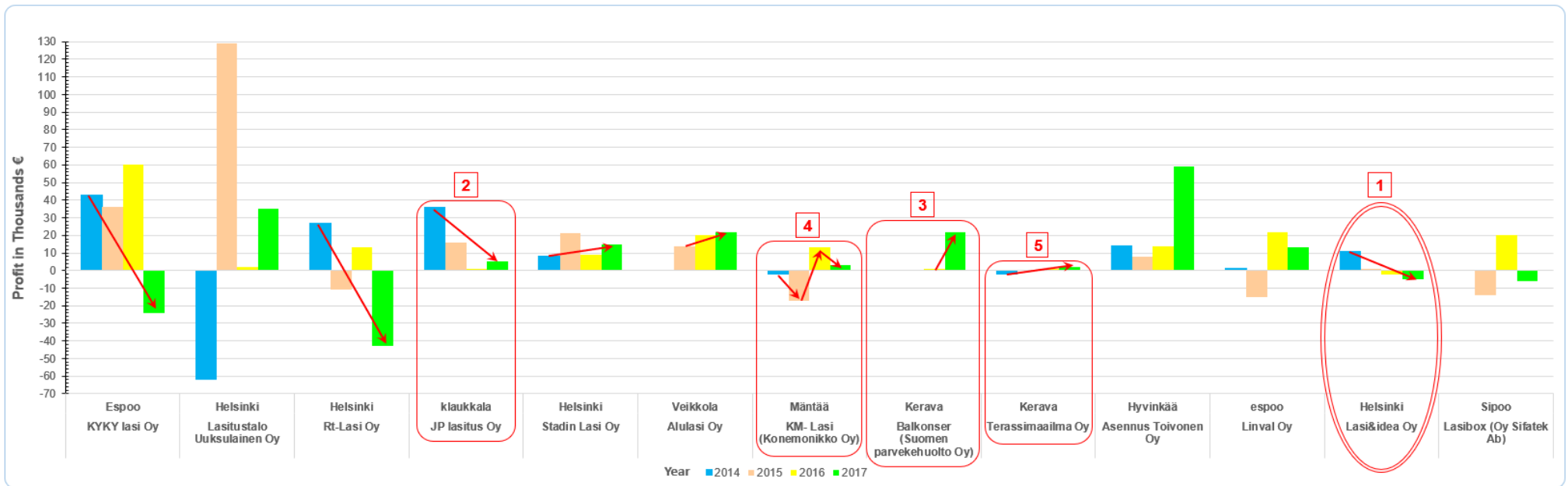


Figure 25. Profit trend of glazing companies in Capital Area 2014-2017

Figure 24 and 25 are also based on the table 8.

In order to mapping the market in capital area for installation and repair companies in glazing industry in 2014 - 2017, we have presented the figure 24, about the revenue of competitors, and figure 25 about the profitability of the competitors.

For each competitor, we have also tried to show the progression/regression of revenue and profit during this period.

Here are some clarification regarding figures 24 and 25.

Figure 24, Revenue of installation/repair competitors in Capital area:

1. L&I is numbered as case 1 with red oval line around it, as can be seen we have one of the sharpest declines in revenue among the other players in 2014-2017.
2. Number 2 is about JP lasitus Oy, which has the sharpest loss of revenue as can be seen in the graph, which led them to merge to Cover Oy later on. This is exactly why we needed this study because L6i was the second sharpest, next to the JP lasitus, which indicate the high risk of business operation coming to an unpleasant situation.
3. Case 3 is Balkonser, which shows the highest growth of revenue, that is why it was chosen as one of the firms we would like to compare our case company with, to learn from their operation.  
Unfortunately, despite many attempts, Balkonser did not agree to have an interview with us, so we have utilized the public information about the financial statement analysis and other public information based on own research.  
We would like to recommend here if in future other projects could have an interview with this company as it could open up new sources of information for the commissioning company.  
One of the reasons of such high growth in revenue is their expansion in all the major cities of Finland like The capital area, Tampere, Lahti, Vaasa...
4. Km lasi also shows a continuous growth which made it a good potential for our investigations, but they also did not agree to the interview.
5. After benchmarking the Balkonser (case number3) via the financial data and other open information, we noticed that the next interesting competitor would be Case number5, Terassimailma Oy as they have also suffered from a fall bur rose up so we would find valuable information from them.

The overall trend of revenues in figure 24, is mixed. We can not conclude a clear rise or fall of revenue for the whole market in capital area, as some has lost, and some has gained.

As for figure 25, our approach follows the same logic as figure 24, but for the profitability of companies in capital area active in balcony glazing installation and repair.

Again, we could see from figure25, that:

The overall trend of profitability is a mixture of losses and gains and does not follow any specific trend.

1. L&I experienced a loss in the profit from 2014-2017 but it was not as sharp as other competitors.
2. JP Lasitus Oy had a sharper loss of profit compare to L6i which was one of the contributing factors to their merger with Cover Oy apparently.
- 
3. Balkonser experienced a sharp growth profitability which made it a good candidate for our benchmarking comparisons in this study.
4. KM lasi was not very attractive from the profitability point of view even though they saved themselves from a negative profit in 2015 to a positive jump in 2016, but they kept losing on 2017.
- 
5. Terassimailma oy shows a small but steady growth of profit over the years in this period which confirmed our interest to have them in our benchmarking.

Table 9. Suppliers/Manufacturers' volume of the business 2014-2017

year Company	2014			2015			2016			2017		
	Revenue €	Profit €	Number of Employees	Revenue €	Profit €	Number of Employees	Revenue €	Profit €	Number of Employees	Revenue €	Profit €	Number of Employees
Lumon suomi espoo	57261000	1875000	290	54413000	1002000	286	62500000	1688000	317	58227000	1068000	339
Riikku group Oy				18099000	-198000	92	16222000	631000	97	19744000	1114000	106
Alutec	10164000	442000	52	11096000	504000		13432000	771000	57	14869000	521000	
NIKA (Lasimies Oy)	5630000	300000	31	6943000	5000	42	5000000	-1200000	52	9721000	-554000	53
Itä-Helsingin Lasi Oy	3903000	333000		3791000	-81000		4197000	126000	33	4807000	-268000	30
Lasitusliike Kivijärvi Oy	3286000	352000	20	4438000	370000	26	4351000	641000	28	4578000	538000	33
Ritalasi Oy	2255000	6000	20	2385000	-146000	20	2644000	71000	19	2663000	74000	21
Lukkan (Aluroll Oy)	1858000	30000	5	2768000	207000	8	3658000	201000	10	3644000	364000	10
IKME Oy	1573000	-40000	7	1749000	8000	9	2127000	29000	9	2486000	-71000	9
Skaala IFN Oy				0	435000	2	716000	-2038000	29	4890000	-13276000	29
Aki-Lasi Oy				1944000	-75000	17	1837000	34000	15	1764000	114000	16

From table 9. We would create a mapping (figure 26) of manufacturers of glazing industry in Finland, to analyze our opinion on the correlations between number of employees and the volume of business.

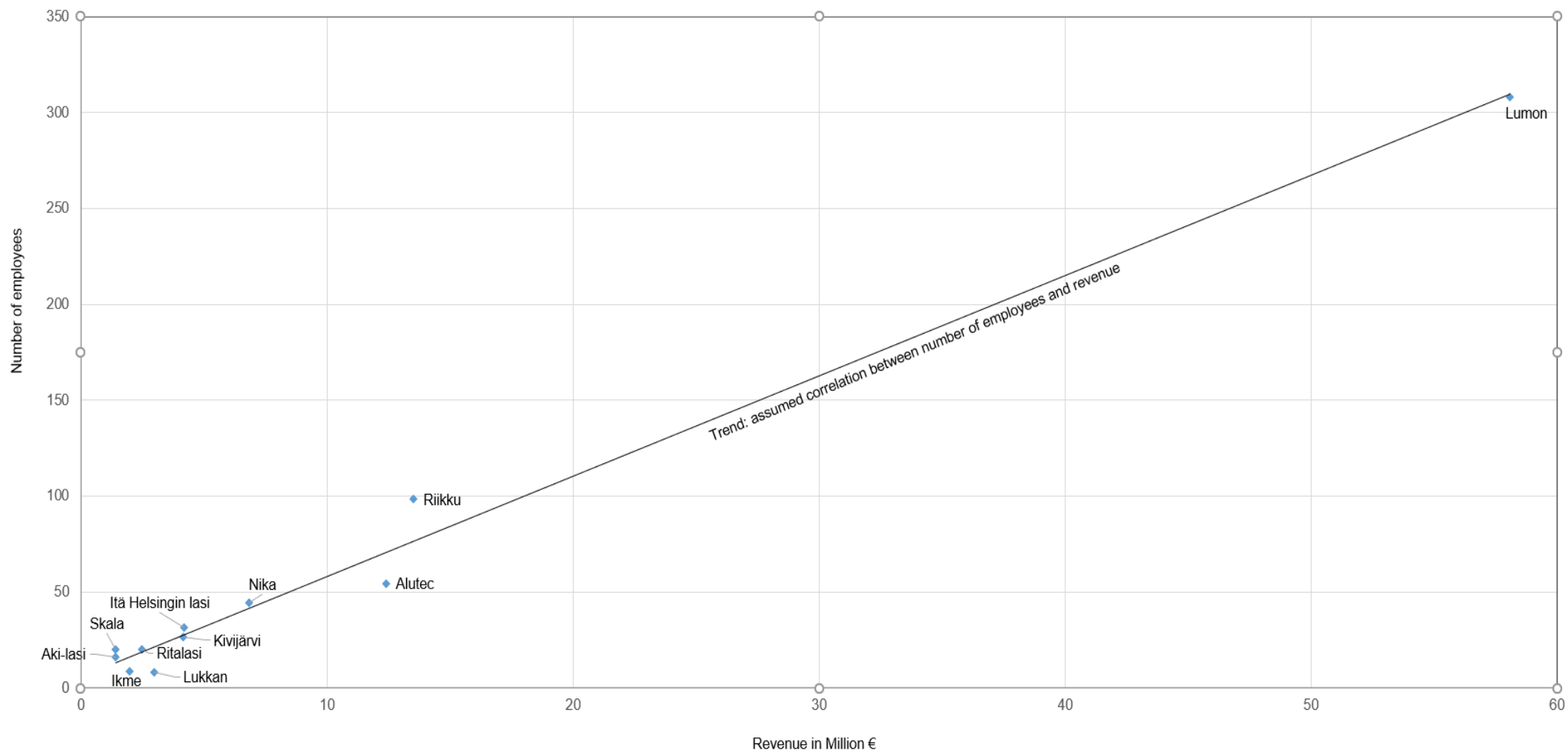


Figure 26. Correlation between number of employees and revenue of suppliers/manufacturers

		2014	
		Revenue €	Employees
KYKY lasi Oy	Espoo	835 000	6
JP lasitus Oy	klaukkala	601 000	3
KM- Lasi (Konemonikko Oy)	Mäntää	87 000	1
Terassimaailma Oy	Kerava	278 000	2
Asennus Toivonen Oy	Hyvinkää	243 000	1
Linval Oy	espoo	258 000	3
<b>Lasi&amp;idea Oy</b>	<b>Helsinki</b>	<b>238 000</b>	<b>3</b>
PK-lasi Oy	Tampere	592 000	6
Ikkuna Fortuska Oy	Lempäälä	107 000	2
Lasi-Kalle Oy	Jyväskylä	891 000	7
Kotilasi (Rakennus ja lasi Viitanen Oy)	Turku	62 000	1

		2015	
		Revenue €	Employees
KYKY lasi Oy	Espoo	845 000	6
Rt-Lasi Oy	Helsinki	582 000	5
JP lasitus Oy	klaukkala	629 000	2
Alulasi Oy	Veikkola	152 000	3
Terassimaailma Oy	Kerava	201 000	2
Asennus Toivonen Oy	Hyvinkää	201 000	1
<b>Lasi&amp;idea Oy</b>	<b>Helsinki</b>	<b>64 000</b>	<b>1</b>
Lasitalo Oy	Tampere	873 000	7
PK-lasi Oy	Tampere	545 000	5
Glasluckan (Suomen Glasluckan Oy)	Valkeakoski	334 000	1
Ikkuna Fortuska Oy	Lempäälä	172 000	2
Kotilasi (Rakennus ja lasi Viitanen Oy)	Turku	62 000	2

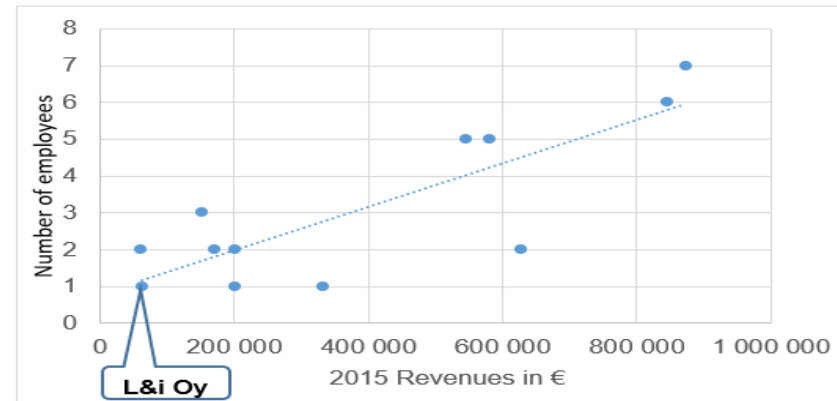
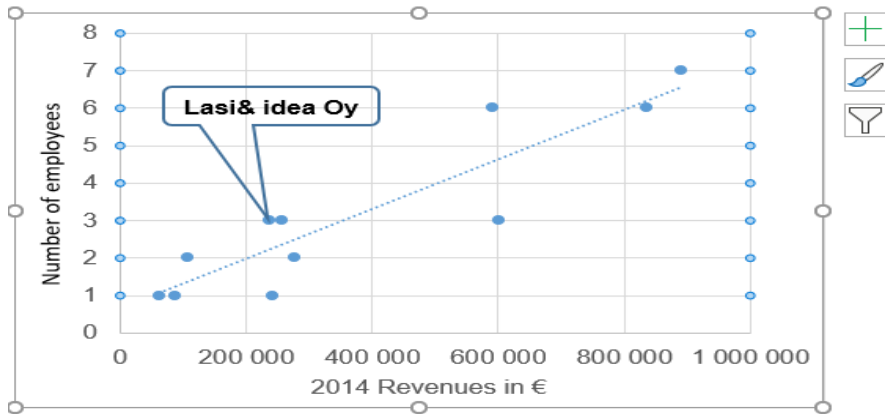


Figure 27. Correlation between number of employees and revenue of glazing companies in 2014 & 2015

		2016	
		Revenue €	Employee
KYKY lasi Oy	Espoo	816 000	6
Balkonser (Suomen parvekehuolto Oy)	Kerava	50 000	4
JP lasitus Oy	klaukkala	378 000	2
KM- Lasi (Konemonikko Oy)	Mäntää	264 000	3
Terassimaailma Oy	Kerava	157 000	2
<b>Lasi&amp;idea Oy</b>	<b>Helsinki</b>	<b>34 000</b>	<b>1</b>
Lasitalo Oy	Tampere	1 234 000	8
Halpalasi (Fixer A&V Oy)	Tampere	167 000	2
Gasluckan (Suomen Glasluckan Oy)	Valkeakoski	268 000	1
Ikkuna Fortuska Oy	Lempäälä	114 000	2
Maakunnan Lasi Oy	lahti	2 467 000	14
Glasek Oy	Vaasa	585 000	4
Lasi-Kalle Oy	Jyväskylä	850 000	6
Kotilasi (Rakennus ja lasi Viitanen Oy)	Turku	85 000	2

		2017	
		Revenue €	Employees
Balkonser (Suomen parvekehuolto Oy)	Kerava	311 000	5
JP lasitus Oy	klaukkala	148 000	2
Terassimaailma Oy	Kerava	217 000	2
<b>Lasi&amp;idea Oy</b>	<b>Helsinki</b>	<b>32 000</b>	<b>1</b>
Lasitalo Oy	Tampere	1 689 000	9
PK-lasi Oy	Tampere	594 000	4
Halpalasi (Fixer A&V Oy)	Tampere	337 000	2
Gasluckan (Suomen Glasluckan Oy)	Valkeakoski	406 000	1
Ikkuna Fortuska Oy	Lempäälä	154 000	2
Maakunnan Lasi Oy	lahti	2 120 000	14
Glasek Oy	Vaasa	568 000	5
SV-Lasitus Oy- Kristal	Imatra	137 000	1

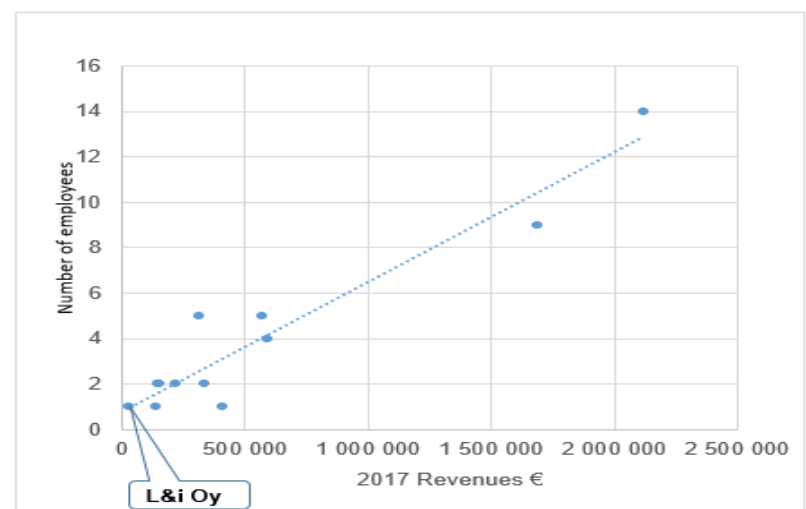
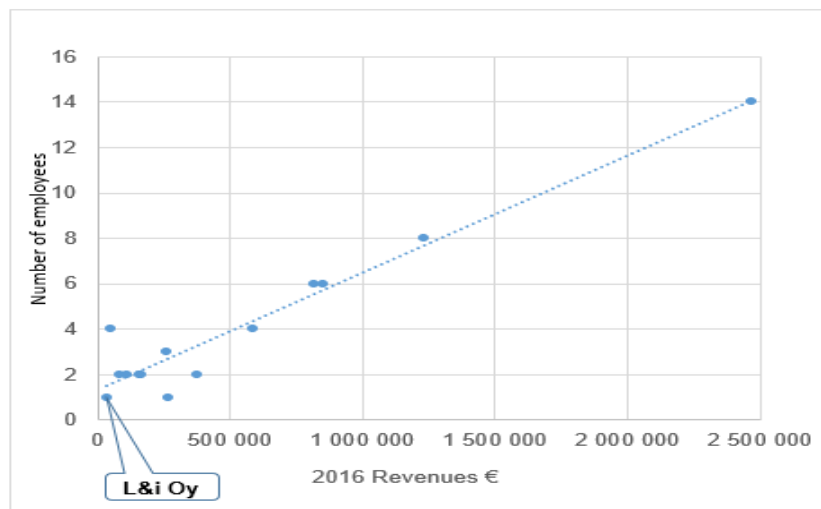


Figure 28. Correlation between number of employees and revenue of glazing companies in 2016 & 2017



Figures 26-28 showcase that both in manufacturing side of glazing industry, and among the installation and repair companies in different cities of Finland in this industry, there is a direct correlation between the number of employees and the revenue.

We cannot determine the causality of this correlation, as whether more revenue leads to more employees, or more employees would lead to more revenue.

More employees would give the firm the chance to handle more projects and make more money, and more revenue would require more work force to deliver the orders, but at this stage, determination of causality is out of the scope of our thesis.

However, the correlation is a direct and positive one, meaning we can assume having more force could lead to more revenue in our case which would bring us to our recommendations for the case company.

We suggest them to train more dedicated and reliable work force to handle different aspects of business operation and to free up the CEO's time so he can focus on mostly strategies and networking for securing the big picture of the firm towards success.

### **3.12 Porter's Five Competitive Forces**

Porter's Five Forces is a competitive analysis tool which was invented in 1998 by Michael Porter. According to Magretta J. (2012, 1), Michael Porter has been after questions in business, e.g. why are some companies more profitable than others? Why are some industries more profitable than others? Why are some countries or regions more successful in a specific industry than others? This has become the main drivers for Michael Porter to figure out the answers to those questions. In our point of view, understanding the profitability of an industry is very important before making investment into the market; or if the company is already operated in the industry, it is necessary to discover whether the new products, services or business are potentially profitable.

Porter emphasizes that "The real point of competition is not to beat rivals. It's to earn profit" (Magretta, 2012, 36). His research provides an important insight into competition. With the Five Forces analysis, the business operator can gain an immediate understanding how the industry functions and the key influencers of the industry's profitability.

The figure below illustrates five forces which shape the competitiveness and the profitability of an industry. They consist of the threat of new entrants, the threat of substitute products or services, the bargaining power of buyers, the bargaining power of suppliers and the rivalry among existing competitors. Following is the explanation of each forces and their relationship to the industry profitability.

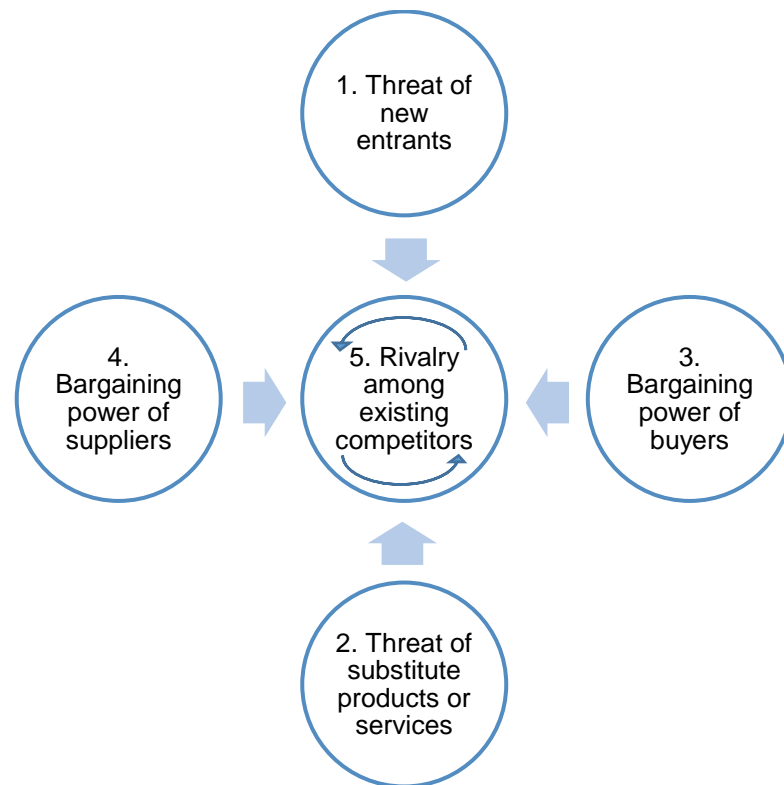


Figure 29. Industry structure: The five forces from Michael E. Porter

The first impacting factor is the threat of new entrants. The easier it is to enter a new market, the more competitive that market becomes. In other words, entrance barriers make it tough for the newcomers to step into the industry, so there will be less competitors in the industry to compete for the market share. Thus, entrance barriers play an important role in investment decision-making for the new entrants

There are many kinds of entrance barriers which needs consideration, for instance, economies of scale, switching costs, network effect, capital investments and government policies.

The second threat is from the substitute products or services. Magretta (2012, 46) defines substitutes as “the products or services that meet the same basic need as the industry’s product in a different way”. Why are substitutes considered as threat?

Bargaining power of buyers is the third force building the industry structure. Buyers/customers are likely to force price down or demanding more added value to the paid products/services.

Fourthly, the bargaining power of suppliers is the force that reduces the industry profitability. In some industry, the limited number of suppliers is a threat because they can take advantage of their influence to charge higher prices.

Finally, the rivalry among the competitors in the industry is a significant force in the competition. When there are many competitors, the rivalry becomes intense and rough. Companies earn less profit because they tend to lower the prices or invest their resources more in R&D or marketing.

Magretta J. (2012, 40-41) demonstrates how the five forces influence the profitability of the market with equation: **Profit = Price – Cost**

THE FORCE		IMPACT		WHY
IF threat of entry	↑	Profitability	↓	because (Prices ↓ Cost ↑)
IF supplier power	↑	Profitability	↓	because (Cost ↑)
IF buyer power	↑	Profitability	↓	because (Prices ↓ Cost ↑)
IF substitutes	↑	Profitability	↓	because (Prices ↓ Cost ↑)
IF rivalry	↑	Profitability	↓	because (Prices ↓ Cost ↑)

Each force has their power in determining the profit of the industry because they have direct impact on the price and cost of the products/services. As can be seen, the stronger the force, the less the profitability is.

### 3.13 SWOT Analysis

In this thesis, the objective of SWOT analysis is to gain an overall understanding of the firm (internal analysis). SWOT consists of strengths, weaknesses, opportunities and threats analysis. Additionally, opportunity and threats analysis (external analysis) is a foundation to enhance the strengths and reduce the weaknesses. Eventually, SWOT analysis gives the managers a general perception of the company's position and the concerning industry, and further strategic planning.

According to Friend & Zehle (2004, 86), each elements of SWOT analysis are relevant and interrelated with all the others. Following is the chart of SWOT analysis illustrating the interrelation.

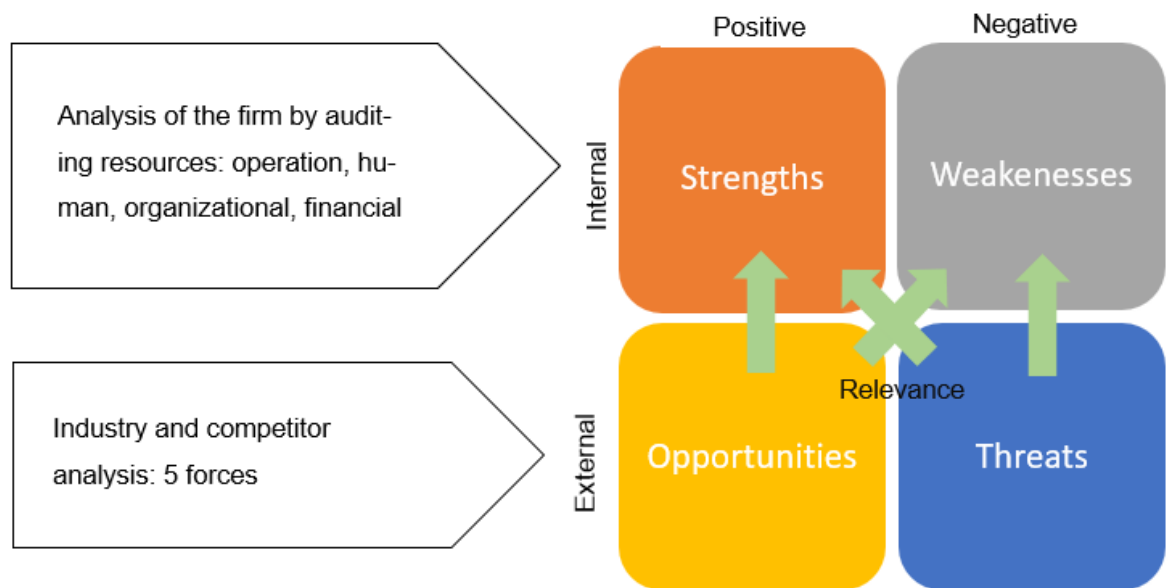


Figure 30. SWOT analysis (adapted from Friend & Zehle, 2004, 86)

The strengths & weaknesses analysis should be considered in the context of opportunity & threats and vice versa. The former analysis is to address the firm's strengths and weaknesses in key areas such as organizational operation, human resource, financial performance, product quality and so on.

The later analysis is also regarded as environment analysis which Friend & Zehle (2004, 86) recommend conducting by variety of tools e.g. PEST analysis, 5 forces, competitor analysis, KSF analysis, industry life cycle. Despite that, we demarcate the environment analysis by conducting five forces analysis because it covers five distinct categories which determine the industry competitiveness and profitability. Based on that, it is easier to point out the opportunities and threats from the market and competitors.

In addition, it is crucial to keep the SWOT analysis focused and effective. For that reason, strengths are only counted as they can exploit an opportunity and oppose a threat (Friend & Zehle, 2004, 86). Similarly, weaknesses are considered when they hinder opportunities and relate to the threats.

Magretta (2012, 39) argues that SWOT analysis is a weak tool because there are not any coherent economic principles, which results in random lists of items in the SWOT table.

As a result, SWOT analysis is likely to be biased and subjective. On the contrary, Hollensen (2015, 247) states that SWOT can be of full benefits when:

- Being focused: In Hollensen's opinion, SWOT should be focused at different levels in the firm or on specific product. Afterwards, it can be combined to create a complete SWOT for the entire firm. Nevertheless, a single SWOT is also feasible if the firm is small and has only one product (Hollensen, 2015, 248). Accordingly, it is adequate to conduct one single SWOT for Lasi & idea.
- Collaborated with other functional areas: the SWOT analysis should cover many areas across divisions of the firm such as product development, finance, quality control, sales, advertising, and customer service, etc.
- Issues research from the customer's perspective: the SWOT analysts should appraise the issues based on the customer's outlook. For instance, what the customers think of the company's brand, products, customer service? How they perceive the price-quality relationship?
- Separated internal issues from external issues: internal issues are strengths and weaknesses while external issues are opportunities and threats. External issues always exist independently from the firm.

In accordance with the interview (Huikko 23 January 2019), we point out the main issues of the company in the SWOT chart below.



Figure 31. SWOT of Lasi & idea

In the context of opportunity, L&i's strengths elevate the opportunities in entering blue ocean market (maintenance service) and expanding geographically because the company has built a good reputation with current customers. Even so, the weaknesses are likely to suppress the opportunities. Therefore, it is crucial for L&i to overcome the weaknesses by improve its profitability and internal business.

In the context of threats, the company's advantages additionally reduce the potential threats. Lumon is currently a market leader in glazing industry. What makes Lasi & idea different from its competitors is due to its quick reaction, flexibility and creativity. By enhance the strengths, L&i is able to cope with the threats of big companies' entrance into new market.

### 3.14 Balanced Scorecard

The balanced scorecard (BSC) was invented in 1990s in the research sponsored by Nolan Norton Institute, the research arm of KPMG. David Norton, CEO of Nolan Norton, and Robert Kaplan, academic consultant, are the father of the balanced scorecard. (Kaplan & Norton, 1996, vii).

Since the starting of Information Age in the late 20<sup>th</sup> century, the competitive environment for both manufacturing and service companies has increased critically. The excellent management of financial assets and liabilities is no longer enough. The success of a business

is also impacted by the customer relationship, innovative products and services, internal development with human resources, process capabilities and data system management.

Due to the nature of the Information Age, traditional financial report and measurement are not enough. The measurement should be expanded to intangible and intellectual assets and capabilities (Kaplan & Norton, 1996, 7). Therefore, the creation of a new measurement tool for both tangible and intangible performance is demanding. Balanced scorecard is one of the key measurement tools for any companies in Information era. It not only retains financial measurement but also adds other perspectives including consumer context, internal business and learning & growth.

Following is the figure illustrating the affecting relationship between the company's strategy and all four perspectives.

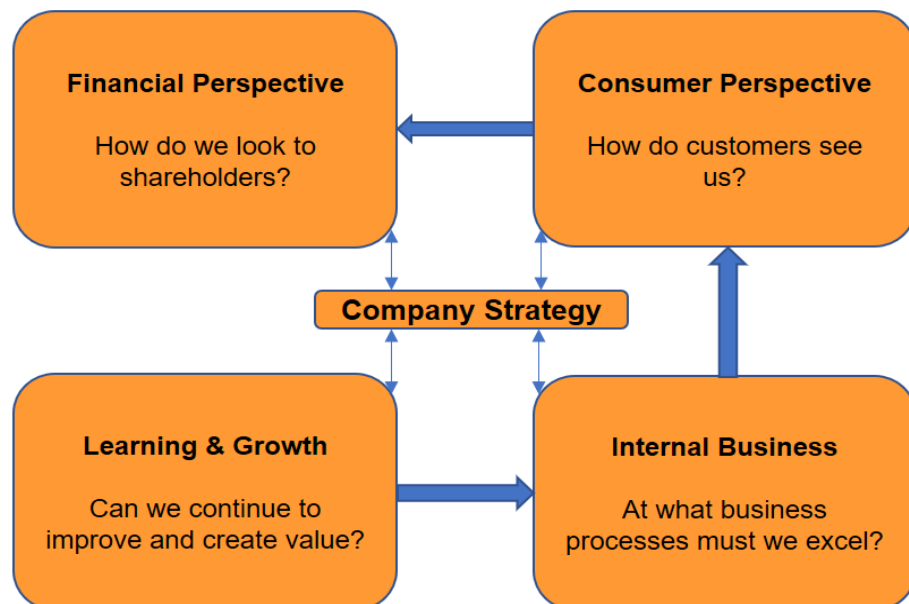


Figure 32. The four perspectives of the Balanced Scorecard (adapted from Braun & Tietz, 2015, 617)

The Financial perspective with the question “How do we look to shareholders?” encourages the manager to maintain the profitability of the business. It is very important for the shareholders to see the company’s profitability growth. Braun & Tietz (2015, 618) suggest that the profitability can be boosted by decreasing expenses, increasing revenue and productivity.

From the Customer perspective, the company’s performance is evaluated by answering the question “How do customers see us?” about price, quality, sales service and delivery

time. Braun and Tietz (2015, 619) also emphasize how customer satisfaction are critical for the financial achievement by stating “Customer satisfaction is a top priority for long-term success. If customers aren’t happy, they won’t come back”.

The Internal Business perspective investigates the company’s internal operation based on three factors such as innovation, operations and post-sales support. Those factors help the manager to answer the question “At what business processes must we excel to satisfy customer and financial objectives?” (Braun & Tietz, 2018, 619).

On the other hand, the Learning and Growth perspective assesses the question “Can we continue to improve and create values?” The answer lays in the personnel development, which is a foundation for the success of other perspectives. Niven (2002, 16) emphasizes how essential the Learning and Growth perspective by regarding it as the roots of a tree, “that will ultimately through the trunk of internal processes to the branches of customer results, and finally to the leaves of financial returns”.

There are three factors accountable for the learning and growth perspective: employee capabilities, information system capabilities and the company’s “climate for action”, which is whether the corporate culture supports the personnel communication, ethnics and employee growth, etc. (Braun & Tietz, 2015, 620).

Apart from being a performance measurement tool, BSC is additionally a strategic management system. According to the BSC inventors, the BSC helps the executive management team translate the business’ strategy and missions into tangible objectives. The tool is used to manage the execution of the strategy in long run. Kaplan & Norton (1996, 10) created a Strategic Framework for Action with four steps:

- Clarify and translate vision and strategy
- Communicate and link strategic objectives and measures
- Plan, set targets, and align strategic initiatives
- Enhance strategic feedback and learning



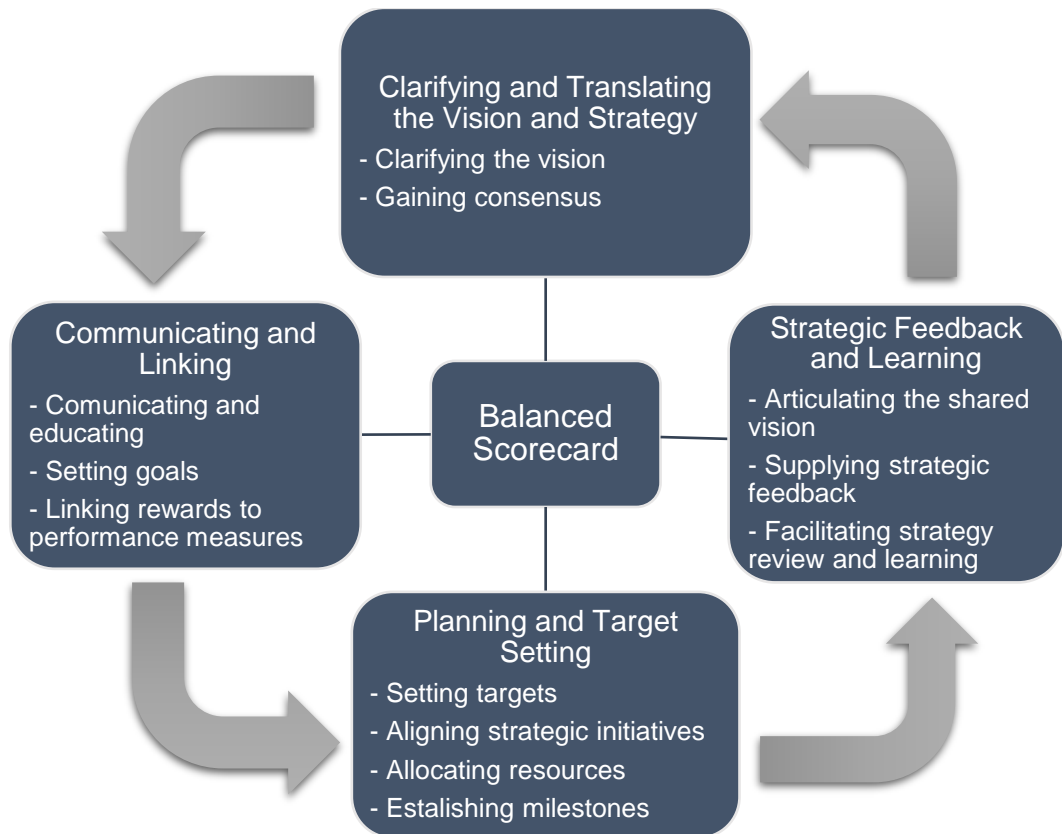


Figure 33. The Balanced Scorecard as Strategic Framework for Action (adapted from Kaplan & Norton, 1996, 11)

This Strategic Framework for Action will be later a valuable guide for build the final implementation plan for Lasi & idea.

In reference to the literature, KPIs are important in expressing the business performance of the business. On this point of view, Lasi & idea has had a poor performance on financial perspective. The profitability measurement ratios reveal that this company is not attractive to potential investors and its customers. Poor financial performance also creates untrustworthy to the customers. As a result, improving the financial performance or especially profitability is the very first goal that L&i should take into consideration.

The common key indicators for customer satisfaction include average customer satisfaction rating, percentage of market share, increase in the number of customers, number of repeat customers, rate of on-time deliveries (Braun & Tietz 2015, 619). At the moment, L&i does not have any thorough customer satisfaction measurement system. However, business customers (estate landlord) and residents can write their feedback through Kanban Tool or survey conducted by the landlord. Meanwhile, private customers can give their feedback through online form on L&i webpage or verbally to L&i installers.

Regarding the rate of one-time deliveries, the company's sellers inform the delivery time after confirming from the manufacturer. Still there has been cases that L&i failed to deliver on-time, as such, it is imperative to develop a questionnaire for customer satisfaction inquiry.

As for internal business perspective, Lasi & idea has been innovative in its balcony glazing maintenance process. From the result of the interview (Huikko 23 January 2019.), it was said that LEAN appraisal was applied to evaluate the process efficiency. The process was improved resultantly from two weeks to two days to finish one balcony glue maintenance.

In addition, internal operation and project management were advanced with Kanban Tool, a visual project management solution. It is in fact an online board for business to increase team work more efficiently, visualize workflow, and analyze the business with Kanban metrics (Kanban Tool 2019.). The time-saving tool indeed enhances the collaboration between the team members, stakeholders of L&i. The tool users can easily follow the project flow diagram without calling for information inquiry.

Last but not least, as the enablers of all other measures on the Scorecard, Learning & Growth perspective cannot be overlooked (Niven, 2002, 16). So far L&i has not applied any KPIs to measure this perspective. In spite of that, CEO of the company mentions in the interview that he aims to set up organizational culture for L&i (Huikko, 23 January 2019.).

### **3.15 Root Cause Analysis**

According to Washington State Department of Enterprise Service, root cause analysis is defined as "a systematic process for identifying "root causes" of problems or events and an approach for responding to them". The principle of root cause analysis is not only to cure the symptoms of the problems but also to focus on investigate why the potential problems occur and prevent them from arising. As such, root cause analysis can be either proactive or reactive approach to the context.

There are many kinds of tool, process and philosophies to conduct root cause analysis. Nevertheless, in this research the authors use fishbone diagram combined with 5-Whys technique to perform the root cause analysis. They are simple and quick problem-solving technique. In addition, this technique is compatible for qualitative data collection method which is conducted by interviews.

Fishbone diagram or Ishikawa diagram is one of the tools in measurement phase of Lean Six Sigma. The diagram is also named as cause-and-effect diagram, which is an illustration to visualize the factors leading to a result or problem (Shaffie & Shahbazi, 2012, 76).

Ishikawa diagram is the work of Kaoru Ishikawa, quality expert from Japan (Wirtz, Chew & Lovelock, 2012,447.)

The fishbone helps to identify not only the genuine causes of the result/problem but also the impact and the ease of implementation for each cause.

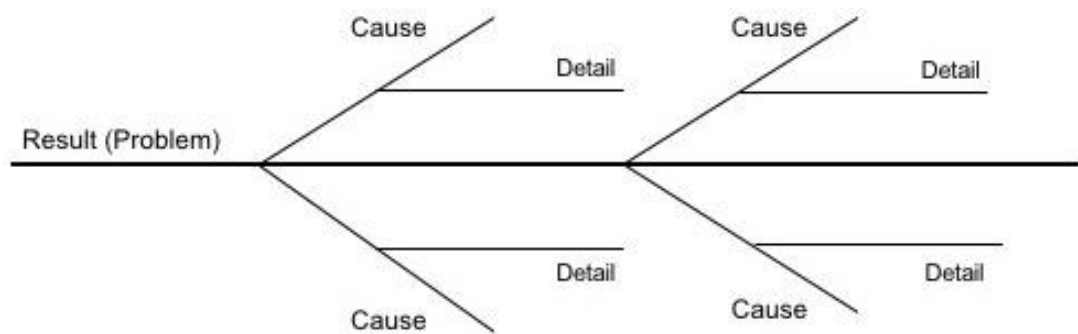


Figure 34. Fishbone diagram (adapted from Raynus 2011, 213)

The diagram starts by stating the result or problem. Afterwards, the major categories that cause the problem are listed. Within each major category, detail factors and sub-factors are identified.

Figures 35 and 36 are giving us a detailed explanation of factors contributing to the problems in our case company.

Figure 35 Ishikawa's Cause and Effect analysis: Causes and sub-causes of low revenue of L&I, categorizes the factors as internal (on the top part of the fishbone) and the external effects (on the lower part of the fishbone).

We can see the cause and effect of each factor which lead to low revenue volume for L&I.

Figure 35 Ishikawa's Cause and Effect analysis: Causes and sub-causes of low profitability of L&I, expand the causes and effects of the operation that leads to the low profitability of our case company.

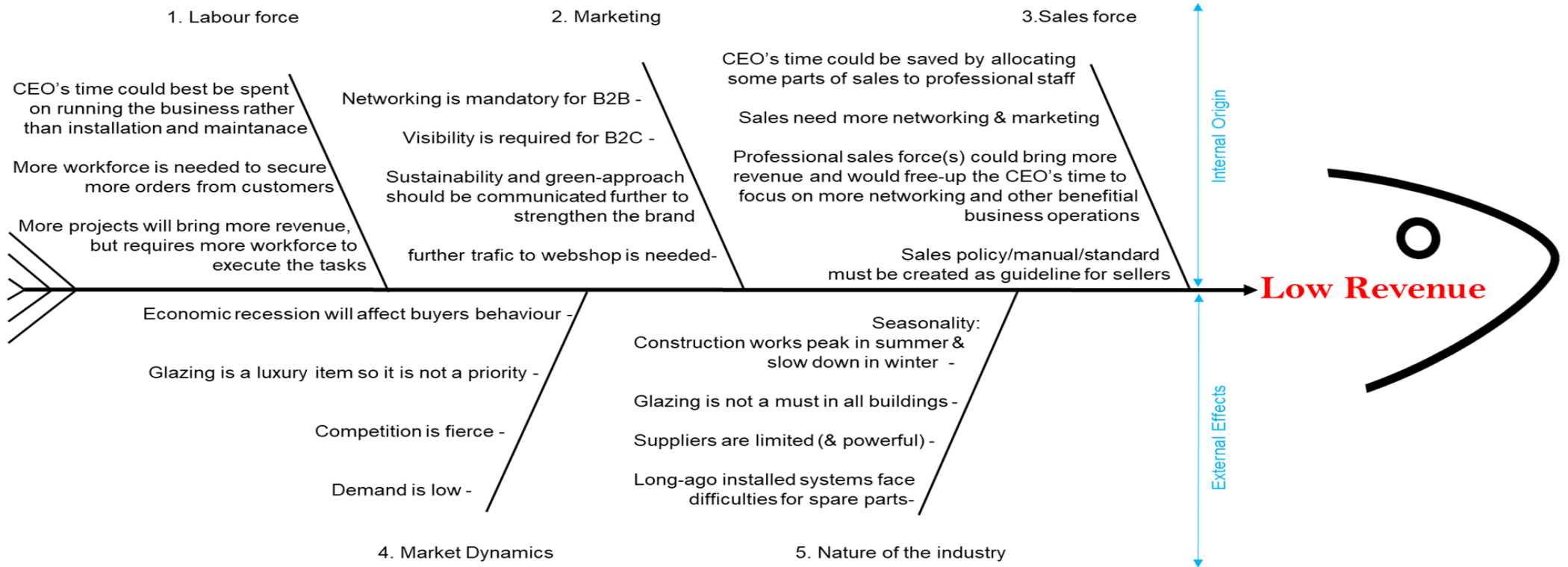


Figure 35. Ishikawa's Cause and Effect analysis: Causes and sub-causes of low revenue of L&I

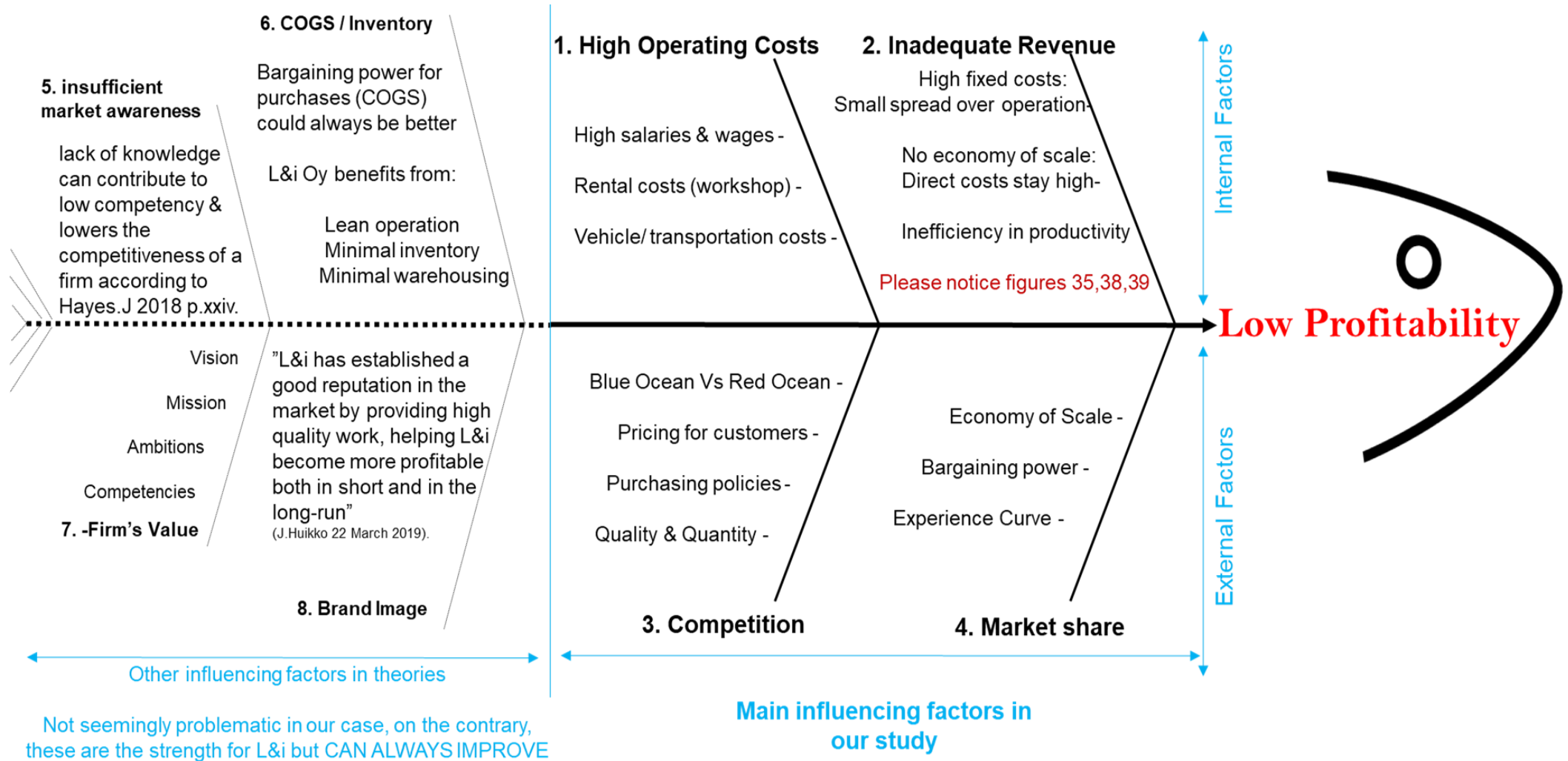


Figure 36. Ishikawa's Cause and Effect analysis: Causes and sub-causes of low profitability of L&i

As a less formal approach to root cause analysis, the five whys technique is a practice of asking why five times (Raynus 2011, 216). In the Six Sigma methodology including Define, Measure, Analyse, Improve and Controlling phases, the five whys technique is also used in the Analyse phase. Compared to other root cause analysis methods, which require advanced statistical technique such as Pareto analysis, or Hypothesis Testing, the five whys technique is simpler to conduct without statistical analysis. The layers of symptom are discovered by asking “why” repeatedly.

Due to its convenience, five whys is most useful for problems involved human factors, as well as in day-to-day business activities without a Six Sigma project (ISIXSIGMA, 2019). The five whys technique is a supporting tool for fishbone diagram. First of all, the real causes are identified and put into the diagram corresponding to categories. Later, the five whys is applied to drill down to the real root causes of the problem.

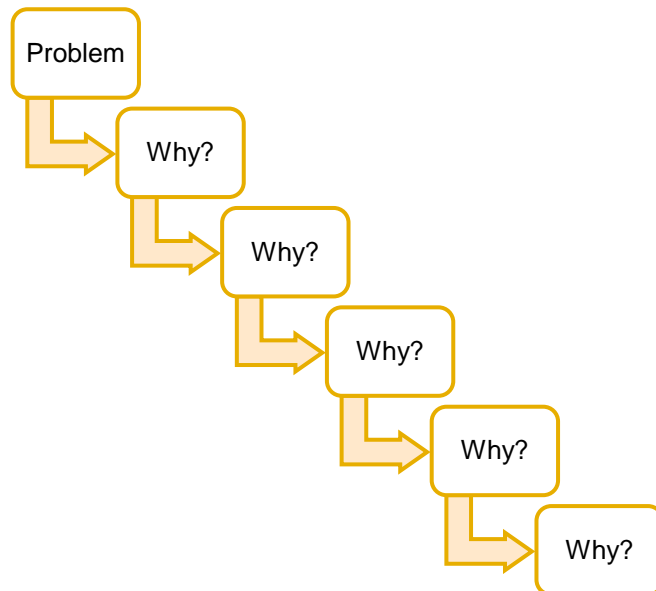


Figure 37. Root Cause Analysis Technique: The Five Whys

After opening the contributing factors to low profitability and low revenue for L&i by cause and effect analysis from figures 35 and 36, we will move on to examine further and drill down in order to find the root causes of our low revenue and low profitability.

For root cause analysis via the 5-whys approach, we only consider the internal factors, meaning the factors that have their origin within the firm because those are the factors we have most control over and we could fix, rather than the external factors that could be more difficult to change at this stage.

Figures 38 – 42 are the detailed results of drilling down for root cause analysis via the 5-why method of lean thinking.

Revenue is low

Why?

→ Limited capacity to take more projects

Why?

→ **labour force** is lacking in the firm

→ **Why do we need more workers?** →

- To perform the **installation/repair tasks**
- To perform **administration tasks**
- To handle **marketing, branding and communications**
- To handle **Sales, purchasing and orders**
- All these would free up the CEO's time to focus on areas he is more needed to expand the operation and make sure everything is running smoothly

→ **Why we do not have enough workers?**

- Not enough Skilled & reliable workers in the labour market
- Not enough resources to pay for the workers

Why?

→ Not enough Business volume/ customer

Why?

- Not enough marketing
- Not enough sales/ sales forces
- Not enough labour force to reply to orders even when there is enough customers (e.g. in high seasons or from networking)

The patterns/ trends examined in our study, suggests that there is a correlation between number of employees and volume of business => Figures 26 - 28

### Recommendations/ Solutions:

Subcontractors:

- ⇒ Less responsibilities for L&i Oy
- ⇒ Risks in
  - ⇒ Commitment in delivery of vision & mission
  - ⇒ Rivalry, loss of customers/ market share

Employing:

- ⇒ Training multiple workers at the same time for efficiency
- ⇒ Training constantly
  - ⇒ Keeping the current workers up to date
  - ⇒ Ensuring the sufficiency of workforce
- ⇒ Training both about the technics as well as values, customer service, mission and vision of the company => **Protocols, Guidebooks**

⇒ Increase the revenue to afford the costs for more work forces:

⇒ Customer-funded Investments/ revenues:

Maintenance packages (yearly, 5 years period...)

⇒ Diversification of sources of revenue

- ⇒ Side services/products
- ⇒ Installation of new systems
- ⇒ Repair of old systems
- ⇒ Spareparts

Figure 38. Root cause analysis of low revenue (1)

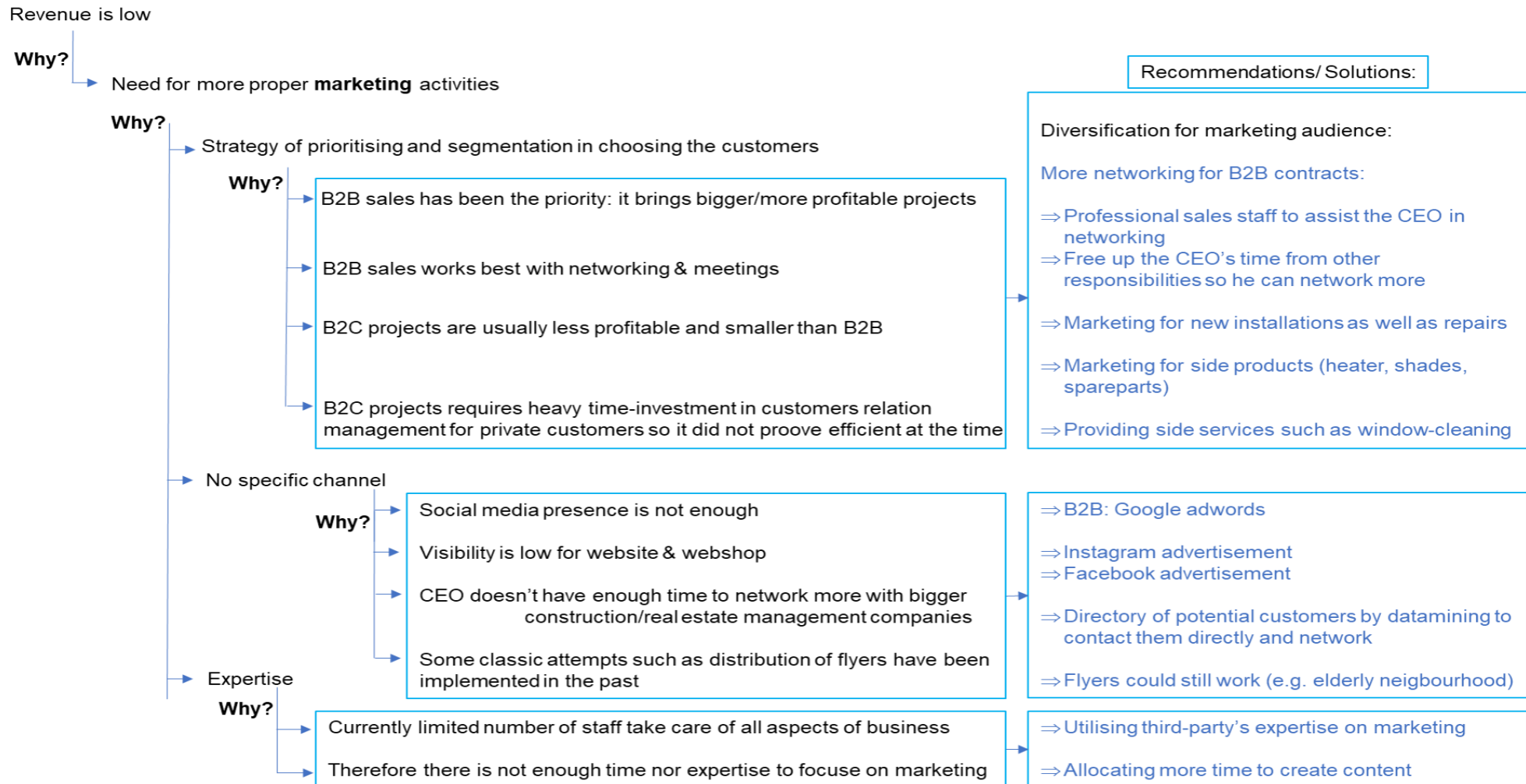


Figure 39. Root cause analysis of low revenue (2)



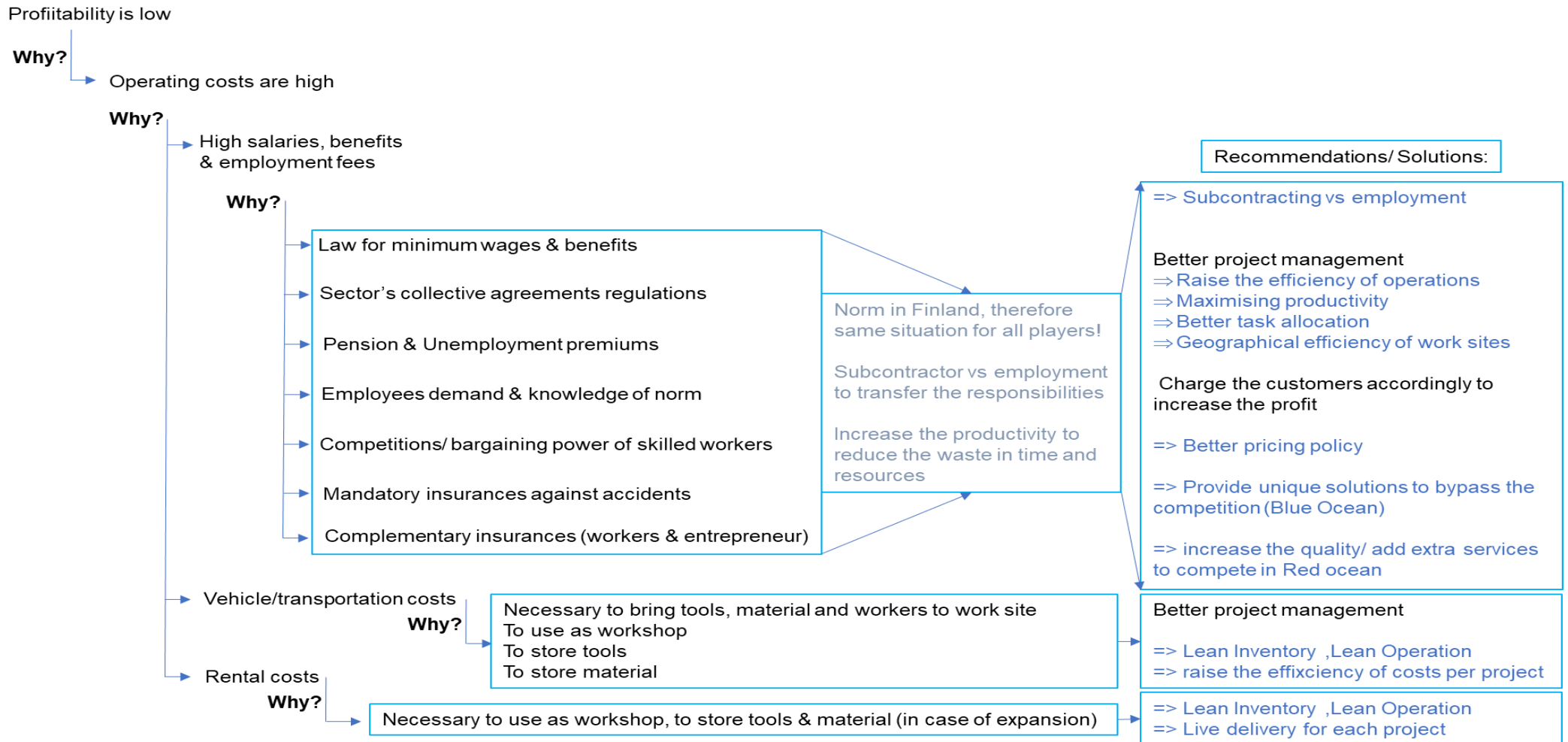


Figure 40. Root cause analysis of low profitability (1)

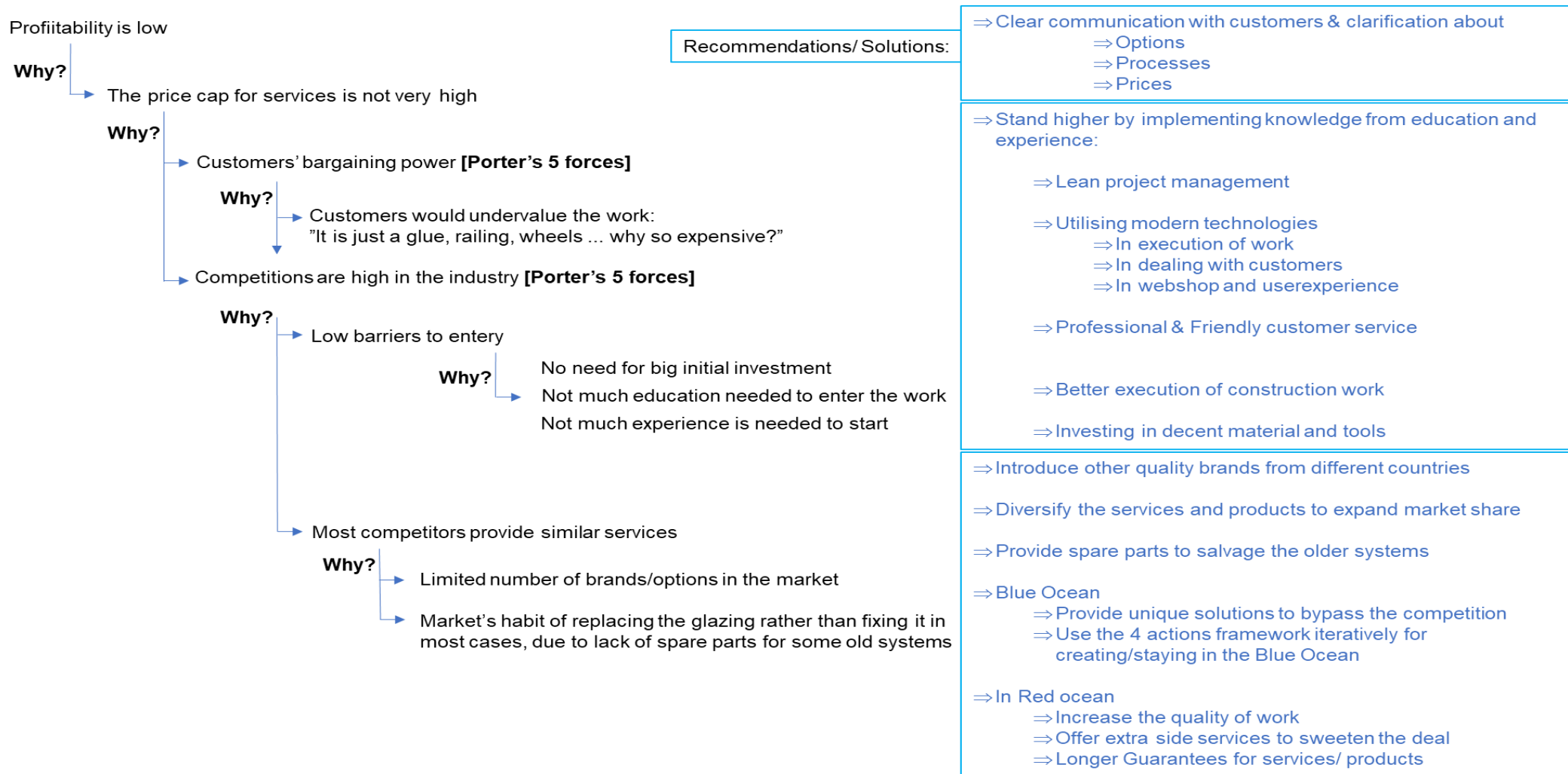


Figure 41. Root cause analysis of low profitability (2)

Profitability is low

Why?

Low influence on/ in the market

Why?

Low bargaining power in **pricing** for the customers  
in **purchasing** the material

Why?

Intense competition &

Lack of **Economy of scale**

Why?

Small **market share**

Why?

Revenue is low

Effects of better market share:

\*Better experience curve:

- \*More execution experience (higher productivity)
- \*Better knowledge on - Dealing with team members  
- Customer service

\*Economy of scale:

- \*Bigger purchases gives bargaining power for material
- \*Bigger projects could increase the efficiency of operation  
by saving time in routine processes

"Either be number 1 or number 2 or get out" Jack Welch CEO of GE.

Recommendations/ Solutions:

⇒ Diversify the services/products to expand market share

⇒ Provide spare parts to salvage the older systems

⇒ In Blue Ocean

Conquer uncharted markets,  
fulfill special needs  
to increase the market share, influence & bargaining power:

⇒ Provide unique solutions to bypass the competition

⇒ Use the 4 actions framework iteratively for  
creating/staying in the Blue Ocean

⇒ In Red ocean, win more share:

⇒ Increase the quality of work

⇒ Offer extra side services to sweeten the deal

⇒ Longer Guarantees for services/ products

⇒ Special pricing offers for bigger projects

⇒ Lower prices for customers that bring serial projects

Figure 42. Root cause analysis of low profitability (3)

## 4 Implementation Plan

In this chapter we combine all the findings, solutions and recommendations from the past chapters to create a simple and clear implementation plan (figure 43.) in order to increase the revenue and profitability of our case company.

The implementation plan is not only a check point for following our specific suggestions, but a model and a way of thinking. Our goal is growth of the company both in financial and non-financial aspects of the business.

Having in mind all the strategies and strategic approaches towards this goal, we believe that following these processes would refresh the readers' mind to better observe, analyze formulate and reformulate their future strategies towards a better financial decision making.

Implementation plan in a nutshell:

We Start from the bottom as the foundation of a firm based on its learning and growth opportunities.

In chapter 3, via the trend analysis of industry, we found out the correlation between the revenue and number of employees.

We also explained that utilizing subcontractors for handling the tasks could decrease the responsibilities for L&i but the risks are much higher in delivery of value and qualities compared to the employees that are trained for internalization of operations.

Therefore, the first step is to train more dedicated and reliable personnel to carry on the installation, fixing, sales and administration.

This will free up the CEO's daily schedule and reduces the work pressure on him, so he could focus more on keeping the whole process smooth and growing.

These steps would contribute to the first and second part of the implementation plan, the learning and growth as well as the internal business.

Next step is to engage more customers. To do so, it is necessary to focus on communication of values with external stake holders such as customers, suppliers and real estate management firms for optimum networking.

This could be done by create the customer-centric values for the company and implement those values in every stage of the customer journey.

It is also important to increase the visibility of the brand by allocating enough time and resources for marketing endeavors such as social media engagements, Google AdWords and search engine optimizations for further directing of web traffic to the website and the web shop which will strengthen the presence in the market.

Final step is to consider the blue ocean strategies, four action frame work and other competitive strategies to come up with unique ways to gain market and revenue from new and specific needs in the environment.

We have suggested providing specific components and fixing the specific systems which other competitors cannot have the competency to handle.

To grow the revenue, we have also mapped the market situation in other cities in Finland, so one option would be to be present in more geographical locations to gain more market.

Also, other countries could be a good potential for expansion, but both these expansions require further studies.

For our innovative suggestions to grow the revenue, we have recommended the Customer-funded incomes from John Mullin, by which we suggest the L&I to have subscription models for bigger firms with many residential/commercial buildings to offer yearly or 5 year packages for inspection, cleaning, maintenance and upkeeping of the balcony glazing systems.

This way the revenue comes first, give a boost to the firm's cash flow and some projects for the future would be secured and guaranteed.

The more detailed visualization of such steps and strategies are presented in the figure 43.

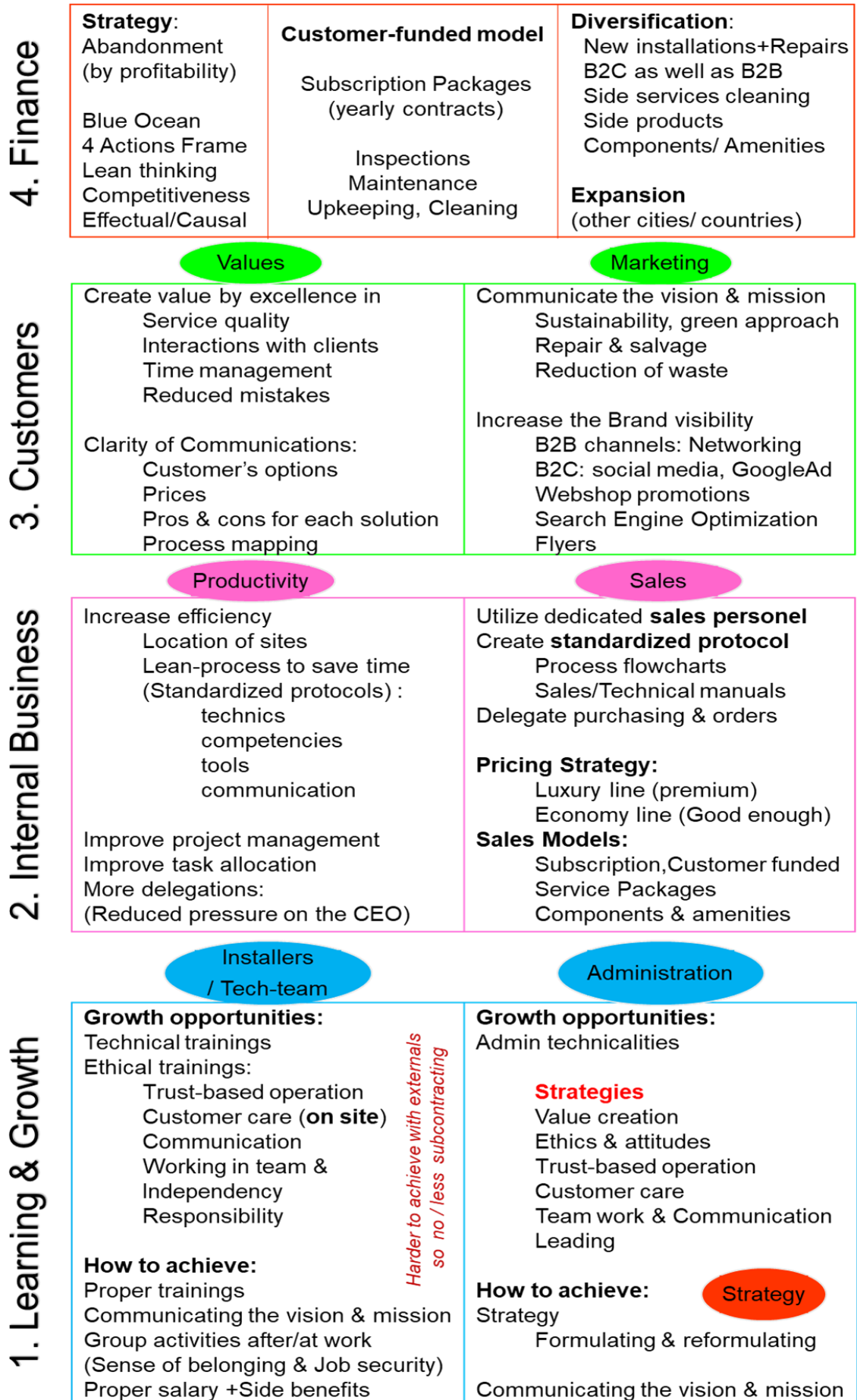


Figure 43. BSC-based Implementation plan for L&i, Combination of all recommendations

## **5 Discussion and evaluation**

This chapter discusses the feasibility of the final product and the challenges of the thesis process. In addition, it gives the ethical viewpoints and future development for the project. Final part of the chapter is the feedback from the commissioning company.

### **5.1 Product assessment**

The fruit of the thesis is the implementation plan. The plan is built in a chart to so that it looks simple and easy to follow. The comprehensive appearance of the plan enables the managers to review the plan quickly when necessary. It is very convenient to review, keep track on the plan, and focus on the goals of the business. The product can be regarded as a mission & vision reminder for L&i's CEO.

The implementation plan is also as a strategic action plan for Lasi & idea. The whole business operation plan is pictured in the chart. The ultimate advantage of the plan is to provide a clear blueprint for this year and the next coming year. Notwithstanding, the usage of the product is only temporary. As a result, the company managers can use the plan as a template to design an updating version in order to suit the goals of the business.

### **5.2 Validity and reliability**

To ensure the validity and reliability of the thesis, all data were collected from trustworthy sources. Literature are sourced from latest sources. Data for the financial statement analysis is acquired accurately from Suomen Asiakastieto Oy, a reliable financial statistics organization.

Qualitative data collection method was handled objectively as much as possible. All the findings from theoretical framework, financial statement analysis, interviews support and do not appear contradict each other.

### **5.3 Thesis process and own learning assessment**

The project is conducted by two authors, so the achievement of the project is not only the product but also the team working skills.

Behavioral learnings and self-development of the authors by taking on the challenges of a teamwork, has been one of the important goals of this project.

Along with the benefits to the company and theoretical learnings of the business field, we got to learn about ourselves as individuals and as equal members of a pair-work.

We have learned about the importance of open communication throughout the whole process. We have also learned the importance of respecting each other's approaches and individual ways of work.

Authors created an open space for each other to express theoretical points of view, and a safe environment to have scientific discussions about different theories and findings for a better and deeper understanding of topics.

During the thesis process, the authors studied a large amount of literature, and gained deeper knowledge about financial statement analysis, strategic management and business performance evaluation tools.

We had the luxury of being able to talk more about all these topics and make it clearer for ourselves individually as well as for each other as partners.

Owing to the support and corporation from the commissioning company, it is quite easy for the authors to access to the necessary data. The CEO of L&i was willing to answer all the questions from the authors. This contributes to the favorable outcome of the thesis.

Because the project is carried out in a team, it is inevitable that there are disagreements between the team members during the process. It is challenging but turns out to be a genuine opportunity for the authors.

Before starting the process, we were familiar with all the benefits of having a partner in carrying out such an important project, both for personal advancement and for a better result for the commissioning company.

Authors were also familiar with the risks of having a teamwork for such a project that lasts around a half a year.

Knowing the risks and upcoming challenges of a teamwork, we were more than happy to take on this journey and not only accept the challenge but improve ourselves in dimensions that would not have been possible to achieve, had we ran the project individually.



Authors wanted more than just a project done for educational institute as part of a degree program and a result for the company.

Not only the project shall be beneficial, usable and of high quality for the commissioning company and for Authors' own theoretical /practical learning of business models, But the behavioral learnings that comes from this opportunity were priceless and extremely valuable.

A team is not just a gathering of people, in a team there is purpose and goal, vision and mission.

As it is usual in many team-works to go through the four stage of self-discovery and common discoveries among the members, we experienced these following phases:

known as the Tuckman's group development stages (Tuckman, Bruce W.1965.)

1. "Forming
2. Storming
3. Norming
4. Performing"

Authors formed a team and initially communicated the expectations, goals, commitments and started the journey.

Somewhere around the completion of two third of the project, authors started to have tensions and conflicts regarding the commitments and quality of the work.

This happened relatively late compare to our other experiences perhaps because we were more experienced at this point, having some backgrounds in being entrepreneurs and dealing with teams. Plus having high respects towards each other as co-authors.

Authors tried to manage the conflicts and lack of communication, on their own. It was not completely successful attempt so the thesis advisor was informed in a professional and honest manner so we could acquire further guidance.

One important learning in professional life for authors has been to not hide the issues, try to resolve them openly, communicate and ask for help when necessary.

At the end the storming part has passed, authors entered into the norming and performing phases which means the project moves forward and authors were performing the tasks they should have accomplished.

The authors have learned the importance of transparency in communication and compromises to keep the motivation high and make the deadlines better in future.

Going through these phases also means that we were not able to keep our deadline. Very important learning was to set more realistic deadline and set them together as co-authors.

Being overly nice and reactive in decision making for project management from both authors might work in short run, but in long run it drove us into problems with time management.

Setting unrealistic deadlines and informing the stakeholders about them results in excessive stress for all involved and not meeting the deadline will confirm our poor time management as team.

Learning the importance of a balance between the quality, time management and opportunity costs is of a high value, as authors better to meet the deadlines with better project management, rather than sacrificing time to pursue the perfection as can be seen in Figure 44.

Theoretically authors were completely familiar with these concepts, but it was a great learning experience to feel them more realistically during this project.

Even though communication is a very important factor in going through the phases of group development, it is imperative to realize that communication is not the only factor.

Authors have realized also that ability to keep the motivation high and support each other not only in a friendly manner but also in a more professional way can help with the storming phase.

Another important factor in multicultural teams are the cultural influences. As it is not in the scope of this project, we recommend the readers to check on [The G.L.O.B.E. project](#), [Cultural Dimensions of Hofstede](#) and the [cultural triangle of Richard D. Lewis](#) for further inspiration in working in multicultural environment. Figure 44 tries to show the cultural dynamics of this teamwork very briefly.

At the end we are truly content with all the learnings from this process and will make sure to remember and apply them in our professional and personal lives.

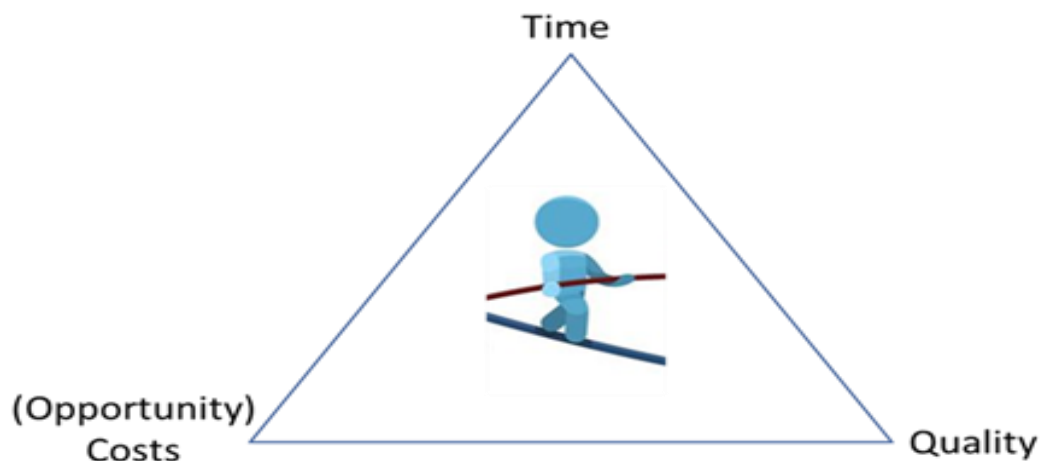
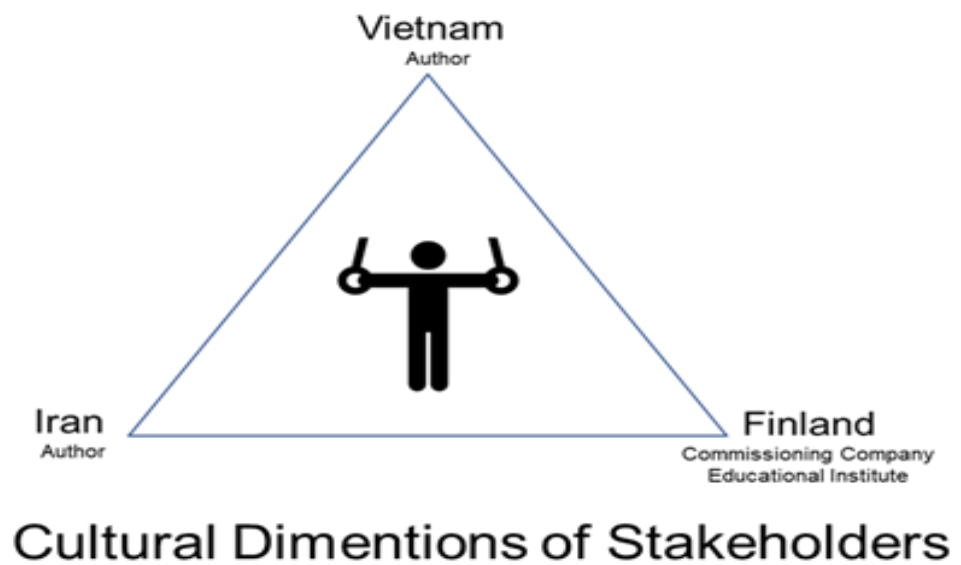


Figure 44. Learnings from working on the project as a team

#### 5.4 Future development

Due to the limitation of the project scope, certain further research should be developed to make the implementation plan practical. The product of thesis is to suggest the next steps for Lasi & idea to improve its profitability. The authors suggest that the company should elaborate detailed strategic action to increase the profitability. Furthermore, budgeting is

essential to evaluate the feasibility of the plan. Finally, the plan can be applied to different departments of the business when L&i grows bigger or expand to other cities.

Although this implementation plan is designed for the commissioning company, it is possible to apply it other companies as a model. The plan is based on balance scorecard, a strategic tool. Thus, managers only need to modify the plan to fit their companies.

## **5.5 Feedback from the commissioning company**

We would like to extend our profusions of gratitude towards the owner of the commissioning company for giving us the opportunity to work on this project, for providing us with his valuable time, advices and unconditional cooperation throughout the whole process.

During our many meetings we have received several feedbacks which we did our best to implement as we progressed, here is a direct quotation of the feedback for the final version of our work.

“Hello

I will try to sum up how I have experienced the journey, from Lasi & idea´s behalf of making this thesis.

Alireza and Thao have been working on a thesis” Strategic Performance Management & Optimization of Financial Decision Making in Micro-Enterprise (Service Sector in Construction Industry)” for case company Lasi & idea.

Schedule of the thesis has seen some difficulties. Promising start faded into slow progress, as the most suitable direct competition was unwilling to arrange time for interview, despite several tries. Also, some time thesis authors did not find common ground on what is an acceptable quality, resulting to go too deep and too broad into the topic. As a Project the deadlines should be considered more important in future. I am happy to conclude things that could have been better in just few sentences.

The positives.... The passion shown towards the topic and the level of quality compensated delayed progress. I recon the thesis material, one of the best I have read. The complex and broad topic was integrated very nicely in tools that are clear, simple and totally usable. I am delighted how the authors managed to integrate also familiar LEAN tools like Ishikawa and root cause analysis.

Authors presented the thesis, explaining carefully the background and why theory was relevant to the topic. The tools selected were also opened up neatly and how the theory were integrated in the analysis and tools. The knowledge of the market, competition, theory selected, and the level of quality and passion exceeded my expectations.

We are more than enthusiastic to try out the tools and analysis and to find out the possible benefits.

I have been involved in few student projects with Haaga-Helia before. This was by far the most rewarding to Lasi & idea.” Juhana Huikko (L&i Oy) May19th 2019.”

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## Appendices

### Appendix 1. Balance Sheet of Lasi & idea Oy 2014-2018

<i>Lasi &amp; Idea Oy</i>											
<i>TASE VASTAAVAA</i>		31.12.2014		31.12.2015		31.12.2016		31.12.2017		31.12.2018	
<b>PYSYVÄT VASTAAVAT (NON-CURRENT ASSETS)</b>											
Aineelliset hyödykkeet (Tangible assets)											
Koneet ja kalusto (Machinery and equipment)											
	Kuorma- ja pakettiautot (alv)	4 566,53		3 424,90		2 568,67		1 926,50		1 444,87	
	Muut koneet ja kalusto (alv)									1 017,88	
<b>Aineelliset hyödykkeet yhteensä</b>			4 566,53		3 424,90		2 568,67		1 926,50		2 462,75
<b>PYSYVÄT VASTAAVAT yhteensä</b>			<b>4 566,53</b>		<b>3 424,90</b>		<b>2 568,67</b>		<b>1 926,50</b>		<b>2 462,75</b>
<b>VAIHTUVAT VASTAAVAT (CURRENT ASSETS)</b>											
Pitkäaikaiset saamiset (Long-term receivables)											
Muut saamiset (Other receivables)											
	Maksetut vuokravakuudet	2 529,60	2 529,60	440	440	440	440	440	440	0,00	
<b>Pitkäaikaiset saamiset yhteensä</b>			<b>2 529,60</b>		<b>440</b>		<b>440</b>		<b>440</b>	<b>0,00</b>	
Lyhytaikaiset saamiset (Short-term receivables)											
Myyntisaamiset (Trade receivables)											
	<b>Myyntisaamiset</b>		<b>11 657,36</b>		<b>13 615,34</b>		<b>9 673,99</b>		<b>3 602,00</b>		<b>2 334,35</b>
Lainasaamiset (Loan receivables)											
	Saamiset työntekijöiltä		0			0		1 094,09			
	Saamiset osakkailta ja omaisilta										119,00
<b>Muut saamiset (Other receivables)</b>											

	<b>Verotilisaamiset</b>	<b>6 200,39</b>		<b>0,01</b>		<b>1 100,17</b>		<b>906,6</b>		<b>476,04</b>	
	Muut saamiset					722,39	1 822,56	31,29	937,89	642,26	<b>1 118,30</b>
	<b>Siirtosaamiset (Receivables carried forward)</b>										
	<b>Menoennakot (Prepaid expenses)</b>										
	Työnantajan pakolliset vakuutusmaksut (siirtosaamiset)	2 517,64		0							
	Tuloverot (siirtosaamiset)			395,42		1 945,44		0			
	Muut menoennakot (siirtosaamiset)	122,72	2 640,36	232,18	627,6	136,54	2 081,98	134,15		165,06	
	Lyhytaikaiset saamiset yhteensä		<b>20 498,11</b>		<b>14 242,95</b>		<b>13 578,53</b>		<b>5 768,13</b>		<b>3 736,71</b>
	Rahat ja pankkisaamiset (Cash in hand and at banks)										
	<b>Rahat</b>										
	Käteisvarat	0	0								
	<b>Pankkisaamiset</b>										
	Pankkitili FI32 5780 5520 0379 16			3 748,59							
	Pankkitili Holvi DE85512308006530938474	0,00	16 135,98	866,52	4 615,11						
	Pankkitili Holvi FI7379977997221051					2 412,21		1 325,49		10 080,19	
	Rahat ja pankkisaamiset yhteensä		<b>16 135,98</b>		<b>4 615,11</b>		<b>2 412,21</b>		<b>1 325,49</b>	<b>10 080,19</b>	
	<b>VAIHTUVAT VASTAAVAT yhteensä</b>		<b>39 163,69</b>		<b>19 298,06</b>		<b>16 430,74</b>		<b>7 533,62</b>		<b>13 816,90</b>
	<b>VASTAAVAA YHTEENSÄ (TOTAL ASSETS)</b>		<b>43 730,22</b>		<b>22 722,96</b>		<b>18 999,41</b>		<b>9 460,12</b>		<b>16 279,65</b>
	<i>Lasi &amp; Idea Oy</i>										
	<b>TASE VASTAAVAA</b>		<b>31.12.2014</b>		<b>31.12.2015</b>		<b>31.12.2016</b>		<b>31.12.2017</b>		<b>31.12.2018</b>
	<b>OMA PÄÄOMA (EQUITY)</b>										
	<b>Osakeyhtiö</b>										
	<b>Osakepääoma (Share capital)</b>										
	<b>Osakepääoma</b>		<b>2 500,00</b>		<b>2 500,00</b>		<b>2 500,00</b>		<b>2 500,00</b>		<b>2 500,00</b>

<b>Osakeyhtiö yhteensä</b>			2 500,00		2 500,00		2 500,00		2 500,00		2 500,00
<b>Yhteiset oman pääoman tilit</b>											
<b>Edellisten tilikausien voitto/tappio (Retained earnings/losses)</b>											
	<b>Edellisten tilikausien voitto/tappio</b>		<b>0,00</b>		<b>10 828,77</b>		<b>11 331,40</b>		<b>9 418,66</b>		<b>4 513,90</b>
<b>Tilikauden voitto (tappio) (Profit/loss for the financial year)</b>											
	<b>Tilikauden voitto/ tappio</b>	<b>10 828,77</b>		<b>502,63</b>		<b>-1 912,74</b>		<b>-4 904,76</b>		<b>434,75</b>	
	Yhteiset oman pääoman tilit yhteensä		10 828,77		11 331,40		9 418,66		4 513,90		4 948,65
<b>OMA PÄÄOMA yhteensä</b>			<b>13 328,77</b>		<b>13 831,40</b>		<b>11 918,66</b>		<b>7 013,90</b>		<b>7 448,65</b>
<b>VIERAS PÄÄOMA (LIABILITIES)</b>											
<b>Pitkäaikainen (Long-term)</b>											
<b>Lainat rahoituslaitoksilta (Loans from financial institutions)</b>											
	Rahoitusyhtiölaina 1	5 433,37		3 972,98							
<b>Pitkäaikainen yhteensä</b>			<b>5 433,37</b>		<b>3 972,98</b>						
<b>Lyhytaikainen vieras pääoma (Short-term)</b>											
<b>Lainat rahoituslaitoksilta (Loans from financial institutions)</b>											
	Rahoitusyhtiölaina Pohjola Pankki Oyj						2 408,56		732,72		0,00
<b>Ostovelat (Trade payables)</b>											
	Ostovelat	2 030,68		440,13		1 079,57		883,25		278,58	
	Osamaksuvelat Elisa Oyj Lumia 1020			132,86							
	Osamaksuvelat Elisa Oyj Samsung Galaxy			106		21,21					
	Osamaksuvelat Huawei Mate 10 pro harma							0		401,36	
	Osamaksuvelat Huawei Mate 10 pro sininen									429,04	
<b>Ostovelat yhteensä</b>			<b>2 030,68</b>		<b>678,99</b>		<b>1 100,78</b>		<b>883,25</b>		<b>1 108,98</b>

<b>Muut velat (Other liabilities)</b>									
	Ennakonpidätysvelka	1 202,91		1 116,74					
	Sosiaaliturvamaksuvelka	194,74		132,73					
	TyEL-velka								368,68
	Arvonlisäverovelka	10 038,01		2 546,19		2 054,64		830,25	3 369,33
	Velat työntekijöille	1 037,81		0					1 457,83
	Velat osakkaille	-205,25		443,93		1 516,77		0	
	Muut verotilivelat								642,26
	<b>Muut velat yhteensä</b>		<b>12 268,22</b>		<b>4 239,59</b>		<b>3 571,41</b>	<b>830,25</b>	<b>5 838,10</b>
<b>Siirtovelat (Accrued expenses)</b>									
	Lomapalkkamenot (siirtovelat)	6 992,42		0					
	Eläkevakuutusmaksut (siirtovelat)	1 304,09		0					
	Sosiaaliturvamaksut (siirtovelat)	149,64		0					
	Työnantajan pakolliset vakuutusmaksut (siirtovelat)	92,29		0					
	Tuloverot (siirtovelat)	2 130,74		0					
	<b>Siirtovelat yhteensä</b>		<b>10 669,18</b>		<b>0</b>		<b>0,00</b>	<b>0,00</b>	<b>1 883,92</b>
	Lyhytaikainen vieras pääoma yht		<b>24 968,08</b>		<b>4 918,58</b>		<b>7 080,75</b>	<b>2 446,22</b>	<b>8 831,00</b>
	<b>VIERAS PÄÄOMA yhteensä</b>		<b>30 401,45</b>		<b>8 891,56</b>		<b>7 080,75</b>	<b>2 446,22</b>	<b>8 831,00</b>
	<b>VASTATTAVAA YHTEENSÄ</b>		<b>43 730,22</b>		<b>22 722,96</b>		<b>18 999,41</b>	<b>9 460,12</b>	<b>16 279,55</b>

## Appendix 2. Income Statement of Lasi & idea Oy 2014-2018

<b>INCOME STATEMENT</b>	<b>TULOSLASKELMA</b>	<b>2013 - 2014</b> (3.7.13- 31.12.14)	<b>2015</b> (1.12-31.12)	<b>2016</b> (1.12-31.12)	<b>2017</b> (1.12-31.12)	<b>2018</b> (1.12-31.12)
<b>REVENUE</b>	<b>LIIVEVAIHTO</b>	238 117,39	64 233,18	34 389,57	31 595,96	75 937,67
Other operating income	Liiketoiminnan muut tuotot		2 385,72	1 263,12	1 440,20	1 002,46
Material, supplies and goods	Aineet, tarvikkeet ja tavarat	97 258,12	24 513,02	8 942,55	6 786,20	17 428,51
Outsourced services	Ulkopuoliset palvelut	4 719,32	1 690,50	160	650,07	128
Material and service in total	Materiaalit ja palvelut yhteensä	-101 977,44	-26 203,52	-9 102,55	-7 436,27	-17 556,51
Personnel expenses	Henkilöstökulut					
Salary and wage	Palkat ja palkkiot	68 480,58	17 645,97	5 965,17	9 466,23	36 352,53
Personnel side expense	Henkilösivukulut					
Pension expenses	Eläkekulut	12 498,09	2 053,19	2 283,08	2 576,67	4 525,75
Other personnel side expenses	Muut henkilösivukulut	5 526,63	1 247,21	998,62	280,39	614,19
Personnel expenses in total	Henkilöstökulut yhteensä	-86 505,30	-20 946,37	-9 246,87	-12 323,29	-41 492,47
Depreciation and reductions in value	Poistot ja arvonalentumiset					
Depreciation according to plan	Suunnitelman mukaiset poistot	1 522,18	1 141,63	856,23	642,17	820,93
Depreciation and reductions in value in total	Poistot ja arvonalentumiset yhteensä	-1 522,18	-1 141,63	-856,23	-642,17	-820,93
Other operating expenses	Liiketoiminnan muut kulut	-33 550,32	-33 823,37	-17 490,63	-17729,19	-16 534,07
<b>OPERATING PROFIT (-LOSS)</b>	<b>LIIVEVOITTO (-TAPPIO)</b>	14 322,15	-8 895,19	-1 043,59	-5094,76	536,15
Financial income and expenses	Rahoitustuotot ja -kulut					
Other interest and financial income	Muut korko- ja rahoitustuotot	0,25	8,55	1,03	73,25	3
Interest and other financial expenses	Korkokulut ja muut rahoituskulut	-589,89	-483,25	-474,76	-274,67	-104,4
Financial income and expenses in total	Rahoitustuotot ja -kulut yhteensä	-589,64	-474,7	-473,73	-201,42	-101,4
<b>INCOME BEFORE EXTRAORDINARY ITEMS</b>	<b>TULOS ENNEN SATUNNAISIA ERIÄ</b>	13 732,51	-9 369,89	-1 517,32	-5 296,18	434,75
Extraordinary income	Satunnaiset tuotot		10 000,00			
<b>INCOME BEFORE CLOSING ENTRIES AND TAXES</b>	<b>TULOS ENNEN TILINPÄÄTÖSSIIRTOJA JA VEROJA</b>	13 732,51	630,11	-1 517,32	-5 296,18	434,75
Income taxes	Tuloverot	-2 903,74	-127,48	-395,42	391,42	0
<b>PROFIT (LOSS) FOR THE FINANCIAL PERIOD</b>	<b>TILIKAUDEN VOITTO (TAPPIO)</b>	10 828,77	502,63	-1 912,74	-4 904,76	434,75

### Appendix 3. Balkonser key financial ratios

#### Company ratios

Accounting period	31.12.2016	31.12.2017
<b>Volume</b>		
Turnover EUR 1000	50,0	311,0
Change in turnover in %		159,2
Turnover/person EUR 1000	30,0	62,2
Added value, in thousand EUR/person		
<b>Profitability</b>		
Operating margin (EBITDA) in %	14,0	14,5
Operating result (EBIT) in %	2,0	9,6
Net result in %	2,0	7,1
Return on investment in %	5,7	38,0
Return on total assets in %	4,8	31,2
<b>Liquidity</b>		
Quick ratio	1,3	1,8
Current ratio	1,4	1,9
<b>Solvency</b>		
Equity ratio in %	8,0	30,2
Net gearing	9,8	-0,2
Relative indebtedness in %	39,2	33,8
<b>Working capital</b>		
Working capital ratio in %	15,0	0,6
Inventories/turnover in %		2,9
Sales receivable turnover in days	76	11
Accounts payable turnover in days	51	56



## Appendix 4. Terassimaailma key financial ratios

### Company ratios

Accounting period	31.12.2014	31.12.2015	31.12.2016	31.12.2017
<b>Volume</b>				
Turnover EUR 1000	278,0	201,0	157,0	217,0
Change in turnover in %	55,3	-27,7	-21,9	38,2
Turnover/person EUR 1000	139,0	100,5	78,5	108,5
Added value, in thousand EUR/person	30,0	25,0	13,5	17,0
<b>Profitability</b>				
Operating margin (EBITDA) in %	0,0	4,5	7,0	5,5
Operating result (EBIT) in %	-0,4	1,0	1,9	2,8
Net result in %	-0,7	0,0	0,6	1,4
Return on investment in %	-7,1	3,4	7,3	20,0
Return on total assets in %	-3,1	2,2	5,5	12,2
<b>Liquidity</b>				
Quick ratio	0,9	1,2	1,1	1,0
Current ratio	1,3	1,6	1,3	1,3
<b>Solvency</b>				
Equity ratio in %	28,1	15,8	19,2	26,1
Net gearing	-0,6	4,0	2,4	0,6
Relative indebtedness in %	8,3	23,9	27,4	15,7
<b>Working capital</b>				
Working capital ratio in %	-2,5	5,5	6,4	0,0
Inventories/turnover in %	3,2	3,5	3,2	3,2
Sales receivable turnover in days	1	24	46	22
Accounts payable turnover in days	33	30	56	50

## Appendix 5. Industry ratios

### Ratios of the line of business

Line of business 43342 Glazing (366 pc.)

Year	2014	2015	2016	2017
Companies in the line	173	161	157	152
<b>Volume</b>				
Turnover EUR 1000	327,0	351,0	358,0	358,0
Change in turnover in %	-2,3	-2,2	0,0	2,2
Turnover/person EUR 1000	104,2	112,5	122,5	125,0
Added value, in thousand EUR/person	46,0	46,1	49,6	54,3
<b>Profitability</b>				
Operating margin (EBITDA) in %	6,6	6,9	6,8	7,3
Operating result (EBIT) in %	3,7	4,2	3,9	4,4
Net result in %	2,9	3,8	3,5	3,2
Return on investment in %	8,1	9,5	11,8	11,6
Return on total assets in %	6,8	7,8	8,9	10,0
<b>Liquidity</b>				
Quick ratio	1,2	1,2	1,3	1,6
Current ratio	1,7	1,6	1,7	1,8
<b>Solvency</b>				
Equity ratio in %	46,4	49,1	49,4	50,7
Relative indebtedness in %	22,2	19,9	19,9	17,6
<b>Working capital</b>				
Working capital ratio in %	7,1	8,0	7,7	8,8
Inventories/turnover in %	5,3	6,2	5,6	5,8
Sales receivable turnover in days	22	23	26	25
Accounts payable turnover in days	32	32	38	37

## **Appendix 6. Company interview**

**Interview Questions – Lasi & idea Oy – Juhana Huikko**

**23.01.2019**

### **Background info**

1. Could you shortly introduce your company?

Lasi & idea is a maintenance company, fixing broken balcony glazing, one niche in the market is glue maintenance, which is the main source of our profit.

The adhesive between the glass and the aluminium is loose and becomes dangerous, and it is not possible to open them anymore.

2. What is your education and working experience background?

I have been an entrepreneur since I was 21 years old. My first company is a land survey company. After selling my company, I got into selling DV window business. Afterwards, I started to work for JP lasitus in 2008. The company is a retailer of Cover Global Oy.

I studied in high school in the USA, and Haaga Helia University of Applied Sciences for bachelor's degree in logistics. The education in Haaga Helia helped me to update the view on business and meet valuable people.

### **Future and strategy**

3. How do you see your business next year? Next five years? Next ten years? Do you plan to expand your market regionally, nationally or globally?

We are going to expand to Tampere this year and Tallinn next year. In 5 years, Lasi & idea aims to become one of the top companies providing solutions for fixing outdoor glazing systems to B2B & B2C in Finland and hopefully in Baltics.

Financial goal is to double revenue in 2 years and around 1,5 million in 5 years with 20-30 personnel including administration board.

### **Labor force**

4. What is your strategy for work force? Have you trained unexperienced workers? Have you ever hired skilled workers or subcontractors?

Every new person who gets into the company need to provide the service the company want to deliver to the customers. It takes a little bit of time to get there. For a new person, the first project is always a learning one. In this case, financial backing is necessary because he would not bring the exact income as the experienced worker would.

Subcontractor is used in building new glazing but not in maintenance.

5. How can you make sure that the workers want to stay in the company?

We try to create the possibility for their careers. We are willing to reward or increase their salaries and other incentives.

### **Competition**

6. Could you tell about your competitors? Is there competition in the market?

Our direct competitor is Balkonser and KM lasi. I have contacted them for cooperation. Balkonser is brand new company and follows what we have brought to the market. While KM lasi is old-fashioned but they have done good job with their customers. However, their market is in Tampere.

### **CRM**

7. Which marketing channel do you pay more attention?

We mostly contact the landlord of the houses (isännöitsijä) and maintenance service companies for getting big projects because we have tools and equipment for big projects.

8. How do you find new customers?

Our customers approach us mainly by word-of-mouth because Finnish market is small, people know each other in the industry. We also have advertising on Facebook, Google. Another way is to visit potential new customers.

9. How do you keep contact with the current customers to get more work?

We meet them often enough to ask what we can do to develop and offer solutions to improve our business

10. How do you handle with unsatisfied customers?

The most important thing is to act quickly and immediately. In case if it is not our fault, we still try to solve the situation because the customers cannot always see where the problem comes from. We try to develop in a way that next time we will take it into consideration so that somehow nobody can do the same mistake which is bound to our offer.

### **Innovation**

11. What is the most creative idea that you bring to your company?

Gluing process is improved efficiently with less lead time from 2 weeks to 2 days. Many customers complained about the long lead time before.

12. Have you developed your working process? And how?

By LEAN perspective, we have introduced an online tool as Kanban board, a project management tool for us and communication channel for all the stakeholders or involved parties.

## **SWOT**

13. What are your strengths in the business as a person and as an entrepreneur?

One of my strength is strategy. I have ideas to challenge the existing things in many cases. I get along with people quite well.

As a small company, we are flexible and react quickly to market demand and creative with new ideas, customer-oriented, innovative.

14. What are your weaknesses?

I myself need to be more organized, gain more skills in investment, acquisition and how to get working capital, learn how to cooperate with competitors.

Lack of monetary resource and labour force are the biggest issues. We don't have financial resources to just spend half year on training people or trying new adventure or experiments.

15. What are the opportunities that your company has?

The market is new, so there is possibility to create the new rules for the market by showing example. It is likely to be blue ocean because there is not that much competition yet in maintenance, but it is opposite in installation. It is also bound much in the economics. The maintenance is more constant because when the problem comes, it is necessary to deal with.

Internationalization is another opportunity because openable glazing system is Finnish invention. It is increasingly installed all over the world. Therefore, in the next coming years, there are demand for maintenance.

16. What are the threats?

Big companies who want to start multi brand maintenance are threat for small companies.

## **Problem, Solutions, Roots**

17. What is the most challenging problem? What is the reason?

The whole maintenance service in balcony glazing is quite new. First of all, there is no single big company in Finnish market who is doing all types of brand maintenance. It is hard

to find people who are willing to learn and do things in their ways. Their workers are familiar with one type of glazing system and not ready to jump into fixing immediately without the instruction.

18. How do you solve the problem?

Since we have tried to bring in new system and new thinking to this construction industry. It is challenging to find a new person to fit into our system. It is the most important thing for us that the person is willing to sit in the company and understand how we want things to be done and make sure to keep the customers in our mind during our work. This takes longer than the technical skills.

## **Appendix 7. Company interview**

**Interview Questions – Terassimailma Oy – Timo Hirvonen**

**28.01.2019**

### **Background info**

1. Could you shortly introduce your company?

The company was established at the beginning of 2006 with one personnel. Main service is terrace glazing, balcony glazing, and railing.

2. What is your education and working experience background?

It is not necessarily to have any education to work in the industry. I had been working in another company for 8 years. After that, I founded his own company.

### **Future and strategy**

3. How do you see your business next year? Next five years? Next ten years? Do you plan to expand your market regionally, nationally or globally?

Not regionally because we have enough work in metropolitan area. This glazing industry is seasonal. In wintertime, it is quiet. When the weather gets warm, people start to think about terrace and balcony glazing.

Aim of the worker number

To have more competent workers. However, it is difficult to find the installers because the competent workers have their jobs already. It is very difficult to find at the moment. There is a lot of work available but finding competent workers is problematic.

### **Labor force**

4. What is your strategy for work force? Have you trained unexperienced workers? Have you ever hired skilled workers or subcontractors?

In summertime, when there is a lot of work. We end up work overtime, and try to do as much as we can. It is a pity when advertising is paid, but it is not possible to do all the work.

5. Have you tried to use the human resource agent to help you to find the workers?

We have tried but it did not succeed. The work is quite heavy like lifting the glass to the roof, so it is quite demanding job and requires special workers.

6. Are you more willing to pay for inexperienced or professional workers?

I am willing to hire professional workers. On the other hand, good person who wants to learn is also an option, but it takes at least half year to learn, but then he may leave, and I

end up only teaching him. It is risky in the situation that he learns and then leave, so we have to pay what he wants otherwise. It is not possible to subcontract if the company sign the contract with the customers. The company has to have its own workers.

7. Have you encountered any case that the worker had learned from you and then left to establish his own company?

There is no such case happened, but he learned and left for another company for better salary and better opportunity in big company who does a kind of inside glazing job in quite season such as sauna glazing.

8. How can you make sure they do not steal your customers?

Such situation has not happened.

### **Competition**

9. Could you tell about your competitors? Is there competition in the market?

Hard business with intense competition. Competitors try to offer cheaper prices.

10. How do you differentiate yourself from the competitors?

High quality work so that we get good reputation. That is our principle. There are some companies having bad operation. After the installation, problems may come up, and the customers call but nobody comes to fix the problem. Therefore, post customer relationship is very important.

### **CRM**

11. Which marketing channel do you pay more attention?

Google advertisement. It is the best.

12. How do you find new customers?

Google advertisement and recommendation from other customers, but mostly from Google advertisement.

13. Do you focus more on B2B or B2C customers? Which one is more important?

We also have business customer. Both are equally important. However, about 70% is private customers.

14. How do you keep contact with the current customers to get more work?

The only way to do good quality and satisfy the customers.



15. How do you handle with unsatisfied customers?

Try to come to solve the problem and explain the situation even though it is not the company fault. Keep the customers satisfied and happy. Try to think that customers are always right.

### **Innovation**

16. What is the most creative idea that you bring to your company?

I am not able to tell.

17. Have you developed your working process? And how?

I am not able to tell.

### **SWOT**

18. What are your strengths in the business as a person and as an entrepreneur?

Peaceful, certain, steadfast, competent, professional skills, high quality product and responsible work.

19. What are your weaknesses?

I don't like accounting job. Paper is always lost somewhere. I have accountant to do bookkeeping but the bill payment and making offers for customers usually make him to work long day.

20. What are the opportunities that your company has?

It would be better if we can find professional skilled workers. Then revenue will improve and also profit will improve.

21. What are the threats?

In dark time, people start to think if they have money because terrace glazing is not an important thing. The industry is dependent on the economics. Terrace is luxurious thing to think of.

### **Problem, Solutions, Roots**

22. What is the most challenging problem? What is the reason?

Work force is the most challenging issue. Wintertime is the quiet season, and there is too much work in summertime.

23. How do you solve the problem?

I will ask my friends or acquaintances to come for work.

## **Appendix 8. Company interview**

**Interview Questions – Lasi & idea Oy – Mohanad Osman**

**16.02.2019**

Mohanad does not have any experience in the industry. He has worked for Lasi & idea for 8 months.

### **SWOT of the company**

#### 1. Strengths

The company has a very strong personality leader. Juhana is an energizing and inspiring, motivating, and knowledgeable boss who knows both business and technical work

#### 2. Weaknesses

No storage for the stuff, tools. It is annoying to gather or collect all the necessary equipment and tools.

#### 3. Opportunity

The company is likely to get more and more work or customers because we have stable high-quality work, which brings good reputation for the company. Lasi & idea will become more popular due to the expansion to other areas of Finland.

#### 4. Threats

Price competition between competitors. The company should improve the operation. Don't stay at the same point but move forward continuously. We do not have enough worker to finish big project, which makes us lose the potential projects to the competitors.

The company is dependent on one person (Juhana). If Juhana is on vacation, the work is delayed. Lasi & idea should have more skillful person like Juhana to keep the business continue.

### **Training**

#### 5. Do you get enough training before you started working alone?

3-month training at the beginning is enough but still needs more and more training to get familiar with different types of balcony glazing system.

Experience gains by time.

#### 6. What is the method of training?

At the beginning, I work with Juhana and learn from him.

#### 7. Do you know the Lasi & idea mission and vision?

Grow the company, big and famous company

Good quality the company

### **Customer service/interaction**

8. How do you react with the customer feedback or complaint?

Nice to the customers and always fixing their problems.

The character of the job is working in people's house. We meet different people every day, so we need to be very clear and polite.

### **Problems**

9. What problems have you had or seen in the operation of Lasi & idea?

Kanban Tool system is pretty good, but it is difficult for me to use it. I need to learn to use it because it is very convenient for us.

When the company expands, it's necessary to have office, and better moral workers because we work in people's houses.

Sometimes the balcony is full of thing, so I have to empty the balcony. We need to remind the customers to do it. We need to be more precise with our schedule.

As for me, I try to be independent (good mindset) because it is not good to call Juhana all the time. I need to solve the problem by myself first rather than waiting for Juhana.