

SAVONIA UNIVERSITY OF APPLIED SCIENCES
UNIT OF BUSINESS AND ADMINISTRATION, KUOPIO

**AN ANALYSIS OF AN OPERATIONAL ENVIRONMENT
CASE: JR-OILS OY**

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Abstract

A company has to be aware of its operational environment in order to remain viable. The objective of this thesis was to define and interpret the both external- and internal operational environments of JR-Oils Oy, an industrial services provider from Kuopio. The main aim of the research was to determine the strategic factors of operational environment of the company.

The collection of data was conducted as ethnography within a five month internship period during the summer of 2008. Additional data were gathered in open discussions with the management team of the company. Furthermore, Internet searches on information about the external operating environment were conducted.

The research findings indicated that the operational environment of JR-Oils is quite placid in terms of existing competition. However, it is likely that the competition will intensify as a result of pressure induced by the ongoing recession and additionally due to increasing downstream integration by some suppliers as well as due to existing and emergent rivalry.

Consequently, it was determined that JR-Oils is in a difficult situation especially if the recession continues for extended period of time. The company has to develop its strengths, i.e. professional expertise and close business relationships with its key customers in order to remain viable in the future.

Keywords

operational environment, environmental scanning, business development,

Note

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1 INTRODUCTION

This thesis is intended to be a supportive source of information for a small company which is getting started in its process of business development and active planning for future. The company to which this is created is a micro-sized organization with less than 10 people employed full-time. The planning of the future has been solely in the hands of the owner-entrepreneur which, depending of the input and capabilities of the entrepreneur can be successful or not. The company has come to a crossroads situation in terms of its relation to the market it is operating in and in relation to existing and emergent rivalry. This change in the external operating environment emphasizes the need for developing the company strategy to an active tool in the management of the business. The case company has not yet defined its operational environment. In order to enable the company to form plans for the future courses of action, it has to become aware of important factors within its surroundings.

1.1 The main objectives and the structure of the report

The main objectives of this thesis are: to concretize the composition of the case company's operating environment. Define the current situation of the company in terms of the key features in its internal and external operating environment. And then trying to identify likely future trends in the operating environment and then evaluate their possible effect on the company.

The structure of this report consists of four main chapters. In the first chapter the background information about the research and the case company is described along with methodological and structural considerations, definition of key terms and research problem. The second chapter consists of scanning and interpretation of external environment. The second chapter is divided into an analysis of economic environment, and into an analysis of the task environment. Based this information at the end of this chapter is constructed an External Strategic Factors Analysis Summary (EFAS). In the third chapter the internal operating environment is analyzed and interpreted. It is conducted based on Porter's model of Five Competitive Forces. At the end of the chapter the most important strategic factors are constructed to an

Internal Strategic Factors Analysis Summary (IFAS). The findings of the EFAS- and IFAS-tables are then condensed into Strategic Factors Analysis Summary Matrix to underline the most important strategic factors to the company. Finally conclusions are drawn upon the validity, reliability and the usefulness of the findings along with discussion about the research process.

1.2. Research problem

The mapping and analyzing of the operating environment was decided during the summer of 2008. The company had expanded as a result of increased service needs of its customers during the economic boom period of early 2000s. The management team decided that a plan for guiding the business development is needed. The company has not had any plans for its future apart from the entrepreneur's personal aspirations and dreams.

The management team decided to create a business plan where it would determine the company's current state and decide upon the desired direction and objectives for its future. This research is therefore a part of that mapping and planning process for setting a course for the company's future. It defines the context, or a part of it, in which the company exists and operates in. The information gathered is used in the company's planning and development project. Therefore the research question for this thesis can be formulated as:

“What are the strategic factors for JR-Oils Oy in its operating environment?”

1.3. Research methods and process

The research method can be viewed as ethnography. (Flick 1998 148-151) This method is used especially in the analysis of the internal operating environment. Ethnography is a qualitative and participative research method in which the researcher acts as a part of the phenomenon he/she is observing:

The ethnographer participates overtly or covertly people's lives for extended periods of time, watching what happens, listening what is said, asking questions; in fact collecting whatever data are available to throw light on the issues with which he or she is concerned. (Hammersley & Atkinson 1983 2, cited in Flick 1998 148)

This method was useful for analyzing the operating environment since the researcher has been working in the company for some time and additionally did his internship period there as well. Most of the active observation was conducted during the internship in summer of 2008 which enabled a five month period for observing the case company. In this time numerous discussions of the company took place both with the employees and with the management team and provided useful insights to be used in the analysis.

Collection and interpretation of the data was an interwoven process due to the long period of observation. Brief notes on the observations were made during the internship period and afterwards extended after further reflecting on the issues. In addition to observations made before and during the internship the operating environment was further discussed in regular management team meetings. Those meetings were de facto board meetings although they were primarily open discussions between the participants on the recent developments in everyday business. These meetings provided additional information about the operational environment. The information derived from the discussions was extended during the writing process by adding theoretical references and searching additional information on the Internet. The Internet searches were in a bigger role when the analysis of the external operating environment was conducted, although the general observations and discussions provided guidance and leads for further searches for information.

In concurrence with the observational period was started the searching for theoretical references and information. Theoretical information was used for guidance in the observations and discussions. Later on theoretical information was used to form the frame of reference to which the information derived from the observations and discussions was then included.

Some parts of the situational analysis were decided to be left out from this research. These were an in-depth analysis of the company's financial structure and an analysis

of the important technological developments. These other parts were appointed to other members of the management team of the company since those parts were within their fields of expertise and partly because this information was not wanted to be included in a publicly available thesis report. Additionally it was decided to exclude any detailed information about the customers of the company for this same reason.

1.4. Definition of terms

Enterprise:

“An enterprise is considered to be any entity engaged in economic activity, irrespective of its legal form. This includes in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in economic activity.” (2003/361/EC, Article 1)

SME:

Small and medium-sized enterprises (SMEs) can be defined on a basis of a set of generally accepted terms and conditions. According to the European Commission (2003/361/EC) a legally secure and user-friendly definition is necessary to avoid distortions in the single market. A medium-sized enterprise is an organization employing less than 250 people and generating a turnover less than EUR 50 million with a balance sheet value under EUR 43 million. Within the SME a small enterprise is an organization employing 10-49 people with a turnover or the size of the balance sheet of EUR10-49 million. A micro-sized enterprise is an organization employing less than 10 people and has a turnover or balance sheet value of less than EUR10 million.

In addition Paasio and Heinonen (1993) point out that small enterprises share typically three common qualities. Firstly, small companies hold a limited share of their market limiting their influence on volume of sales, prices, and on the development of operating environment. Secondly, small companies are usually managed by owner-managers who are actively involved in all of the managing activities of their companies. Thirdly, small companies are usually independent, not parts of larger companies enabling them with a relatively much freedom of outside control and influence.

Environmental scanning:

Environmental scanning is searching for, and taking advantage of information external to the organization (Wheelen & Hunger 2006, 73) with the objective on identification of opportunities and threats that definitely or possibly have an impact on the operations and performance of the organization. Environmental scanning is a process in which an organization embarks to in order to mitigate the element of unknown within its operating environment. In addition to the scanning of the external sources of information, (Wheelen & Hunger 2006, 115) the environmental scanning includes an analysis of the organization's internal strategic factors in order to identify strengths and weaknesses to determine the organization's potential to take advantage of the external opportunities, and minimize and prepare for external threats.

Family company:

A family company is by a definition: "A business actively owned and/or managed by more than one member of the same family". (www.entrepreneur.com/encyclopedia/term/82060.html). In Europe approximately 70% of all private sector employment can be credited to 19 million European SMEs (Rossant 2004). According to the European Observatory for SMEs (2000) there are 18,040,000 micro-sized companies, i.e. organizations employing less than 10 people; the rest of the remaining 1.2 million businesses are small and medium-sized companies. The case company is a micro-sized enterprise with less than ten people employed full time.

1.5. Introduction of the case company

JR-Oils is an industrial services company specializing in the field of hydraulics and pneumatics. The company was founded by Juha Rytönen in 1989 as an individual proprietorship. The company form was changed to private limited company in 1996 and it has operated under the name JR-Oils Oy ever since. The company's chosen industry is industrial services; it provides preventative and corrective maintenance along with resale of spare parts and new machinery (pneumatic compressors, hydraulic power units, etc.). The company is additionally providing small scaled subcontract manufacturing for metal product manufacturers.

The new millennium has been time of growth for JR-Oils Oy. The amount of personnel started to increase in 2001 when the entrepreneur hired his first employee. Consequently the amount of the staff has increased reaching 11 employed (9 full time) during the summer of 2008. The expansion of the business during the early 2000s was realized in congruence with the rapid growth experienced by the biggest customers. The year 2009 has resulted to first time ever downward pressure to the turnover as the global recession has affected the economy both internationally and domestically. The recession has hit hard the customers of the case company via deteriorated production activities of its major customers. As a result of the decreased demand of maintenance and overhaul services the company has had to lay off over half of its employees. The demand of the maintenance services of hydraulics and pneumatics will continue strong after the recession ends and the manufacturing companies continue to operate at the full capacity. The real challenge for the company is to remain functional and viable until that time.

2. EXTERNAL ENVIRONMENT

External environment is the surrounding world in which a company operates in. It consist of variables, i.e. opportunities and threats that have a strong short term influence on a company and conversely cannot usually be affected a company, at least within a short time frame. (Wheelen & Hunger 2006, 11) The external environment creates the frame of reference in which companies exist.

In this chapter the external operating environment is defined, scanned and analyzed. It consists of two main subchapters; a broad analysis of the societal environment, and an analysis of the task environment. The majority of the data gathering was conducted via Internet since it is the easiest source for searching information about global, domestic and regional economies.

2.1. Societal environment

The analysis of the societal environment is focused on defining the economic environmental forces (Wheelen & Hunger 2006, 73) since they bear the biggest influence on the performance and operating conditions of the case company. It was decided to leave out the other main forces of the societal environment from this scanning. The ones left out of the analysis are political-legal, sociocultural, and technological forces. Technological forces are already monitored by the company in course of the daily business and therefore were seen unnecessary to be included in the analysis. Political-legal forces were mostly excluded as well since they are not of strategic importance from the case company's perspective.

Following section is dedicated for outlining and interpreting the economic factors both within the immediate task environment and on a broader scale of the overall economy both globally, domestically, and regionally. The scope for the mapping of the economic forces should be broadened outside the immediate economic environment as the supply chains including the operations of the case company are often international. Therefore the reviewing of the external environment on a larger scale than only the domestic economy enables a better view of the possible causes and developments in turbulent times. The chapter begins from a global perspective and subsequently concentrates on the scope of the Finnish economy. Finally the North Savo region environment is evaluated as an operational environment.

Business organizations need to learn to tolerate and respond to environmental uncertainty. Environmental uncertainty refers to: "...the combination of the degree of complexity and the degree of change in an organization's external environment". (Wheelen & Hunger 2006, 72) The uncertainty in the external environment hinders the company's ability to predict the likely developments of that environment, concurrently the uncertainty complicates the generating of long-term plans. According to Wheelen and Hunger (2006) a strategic fit must exist between the company and its external environment; the exchange relationship has to function in a balance between the environmental needs and offerings, and the company's needs and offerings.

A company has to scan its external environment in order to be successful. The environmental scanning must be carried out before a company can effectively engage

in strategic planning process (Wheelen & Hunger 2006, 73) “Monitoring the marketing environment is a key component for new venture success.” (Timmons 1985, Histrich & Peters 1989, Stevenson et al 1989, cited in Peters & Brush 1996, 81) The process for scanning and gathering of market information about events, trends, and changes external to the business is the activity of environmental scanning. The information gathered from environment includes data on the immediate environment such as suppliers, buyers, and competitors; additionally information is gathered about the environment in general, i.e. information about national, global, economic, sociocultural, and technological trends. (Fahey and King 1977, cited in Peters & Brush 1996, 81) The environmental scanning must be carried out prior to the strategy formulation process of a company since it provides the management with a tool for avoiding strategic surprise and provides a higher probability for a long-term viability. (Wheelen & Hunger 2006)

The environmental scanning in this case analysis is initiated with an overview of the progressions within the economic environment since it affects the most heavily the short term success of the case company.

2.1.1. Global perspective

The year 2008 presented the world with a challenge, a crisis of potentially unprecedented proportions. The crisis has been claimed to bear a similar or even worse effect on world economy than The Great Depression did in the 1930s. (McMorris 2008) The global economic growth has reduced to a recession; indications of reaching the bottom of this economic downturn are being constantly scanned, predicted and revised although due to the difficult and uncertain economic situation the overall accuracy of the forecasts have not been as conclusive and accurate as they should have been. International Monetary Fund (IMF) predicted in 28th of January 2009 the world GDP growth to decrease to ½ per cent when measured by Purchasing Power Parity, and turns negative if real exchange rates are applied; a sharp 1 ¾ percentage point drop from the growth predictions made in November 2008. (IMF 2009) As a response to a threatening There are few critical voices that have been correct in retrospect, and had raised a question prior to the downturn of the

sustainability of the economic rocketing experienced in late nineties and early 2000s (Baker 2002, Roubini 2007, Kennedy 2009)

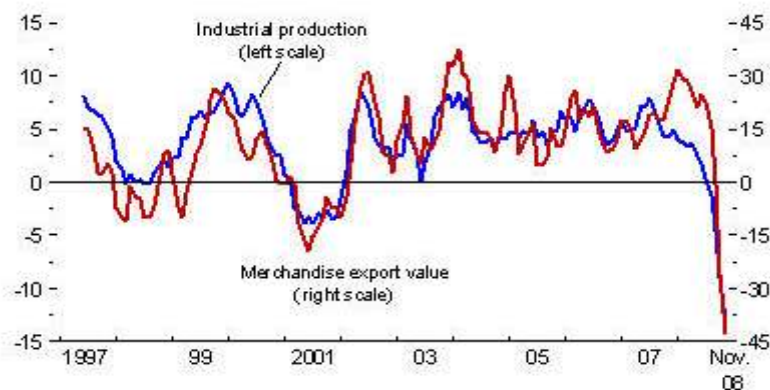
The strong growth in the world economy during the most of the 21st century started to show signs of slowing down in the two final quarters of 2007. The U.S. economic growth slowed to 2.2 per cent in 2007 from 3.0 per cent in 2006. This slowdown was mainly accounted to the major correction in the housing market. The European economic development continued at a reasonably steady pace for the year 2007 and expanded 2.6 per cent in total as a result of robust domestic demand, steady growth and buoyant investment in spite of growth of uncertainty in the banking sector. However the growth began to decelerate in the final quarter of the year and slowed to 1.5 per cent in the whole of euro area. Additionally European business and consumer sentiment began to deteriorate as a result of the concerns in financial sector and rising oil prices; some of the smaller economies, Austria, Netherlands, Switzerland and Sweden however did not experience the same slowdown and continued to grow steadily. (IMF 2008)

In this instance the economic boom showed the first implications of a possibility for a change in growth trend. The financial sector indicated a growth in uncertainty within the financial market; especially the U.S. subprime mortgage industry signaled turbulence in concurrence with a downward shift in general indicators of economic activity. This same change in growth trend occurred in the other triad regions in addition to the U.S, namely in Japan and Europe. (IMF 2008)

The world economy decelerated further as the year 2008 progressed. The globally slowing demand and the turbulence in the financial market continued hindering the availability of financing along with the inflationary pressures induced by the continuing boom in the energy, food and commodity prices. Alongside the rising commodity prices the consumer and business sentiments continued to plummet. The North American economies continued to slow down and show signs of a developing recession.

The economic situation did not indicate a significant change until the beginning of the year 2006. The North-American housing market that had enjoyed a growth in the cost of housing in excess of 30 per cent over the general rate of inflation during the 1997–

2002 period creating a bubble that would have severe effects on the economy both in the U.S. and additionally bear a negative influence on global economy.(Baker, 2002) In the U.S. the housing bubble had began to burst in 2007 initiating a plunge for the housing market; the much debated sub-prime mortgage industry and the sub-prime-mortgage-backed securities acted as a spearhead for the beginning of the financial crisis. The accelerated increase in cost of housing in the U.S. that had begun in the mid-nineties (Baker, 2002) had caused a significant bubble, fuelled in the recent years by significantly low interest rates after the recession of 2001 leading eventually to a state of oversupply in the U.S. housing market. Most of the housing boom was financed by a stock bubble, a simultaneously there was developing bubble within the housing market, as the wealth of people had increased due to extraordinary run-up in stock prices (Baker 2002) which in turn caused people to take more debt against the increased value of their assets. In the beginning of the 2007 the credit defaults in the U.S. housing market started to increase and the resulting market reaction marked the start of the downturn. The price levels could not be sustained and the bursting of the housing bubble had started. “In the case of the housing bubble, a sharp decline in homeowners’ equity and a resulting wave of mortgage defaults could leave much of the financial system in a precarious position, especially in the wake of several large corporate bankruptcies.”(Baker 2002, 16).



Sources: Haver Analytics; and IMF staff estimates.

Figure 1. *Growth in Global Industrial Production and Merchandise Trade (Annualized three month percentage change) (IMF 2009)*

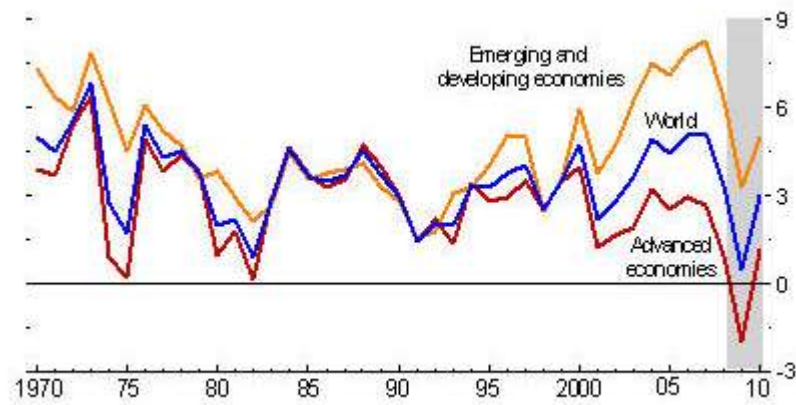


Figure 2. *Global GDP Growth (percent change)* (IMF 2009)

The situation in Europe is similar to the U.S. and Asia; the financial crisis and economic recession has taken its toll on both advanced and emerging Europe. This is due to the global nature of the current recession. Moreover, as the European economies are strongly linked regionally as well as globally, the recession hit hard several regions. “The economic downturn has become a global, synchronized recession. Tighter financial conditions, falling wealth, and greater uncertainty have triggered a sharp decline across all types of demand. This drop in demand has sparked an unprecedented collapse in trade (Figure 1. and 2.): euro area exports have dropped by an annual rate of 26 percent in the last quarter of 2008.” (Zoli, 2009)

2.1.2. Domestic perspective

The economic turbulence reached Finland in the last half of 2008. The Finnish economy is highly dependable on its exports industry. In recent history, namely in the post-war era, the engineering-, paper- and technology industries have been the strong points and the spearhead of the Finnish economy and its growth. (Statistics Finland 2009) Now these are the industries that have received most critical economic blow.

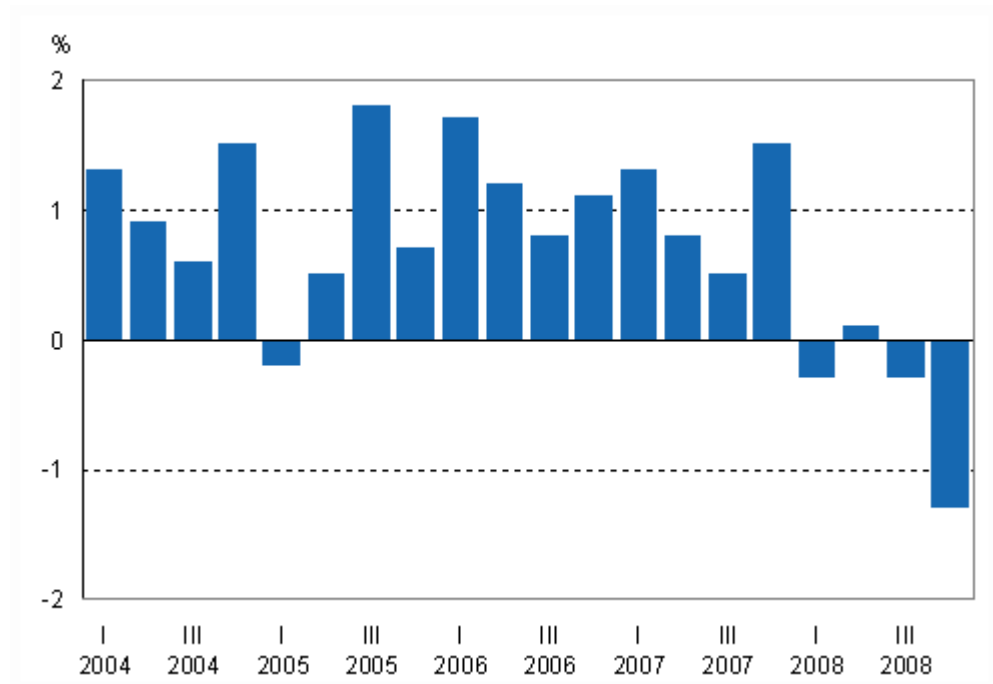


Figure 3. *Changes in volume of GDP from previous quarter 1/2004-4/2008*
(Statistics Finland 2009)

The Finnish statistics centre declared based on the statistics of the Finnish national board of customs that based on value, the exports have declined by 35 per cent in the first quarter of 2009 when compared to the first quarter of 2008, a significant drop since the steepest decline in the preceding recession in the early 1990s was measured in the second quarter of 1991 to be 20 per cent. (Savela, 2009) On the other hand, the value of the imports decreased accordingly since a significant quota of the imports come in the form of raw materials and semi-finished products that are used to manufacture products for export market; since the exports- and manufacturing industries have significantly lower rate of activity, the value of the imports to Finland declined 31 per cent in the first quarter of 2009 in comparison to the first quarter of 2008. (Savela, 2009)

As the level of output is decreasing, the demand for imported raw materials and semi-finished products is decreasing as well. As the volume and value of exports decline, the imports decline as well decelerating the economic growth and the material welfare of the population. The cycle, therefore leads to the cooling down of the whole Finnish economy.

2.1.3. Regional environment, North Savo region

The most significant operational environment for the case company is the Kuopio-North Savo region. It incorporates the majority of the clients and therefore has the most direct and immediate impact on the performance of the company. Additionally, given the size of the company and the services it is providing, it is the optimum size for the rational operating environment, at least for the time being. The Eastern part of Finland along with the rest of the country currently struggling as the export-driven Finnish economy is stalling. The case company is operating in the field of industrial services, industrial services for firms that are strongly connected to international markets of their chosen fields; fluting, metal engineering and –manufacturing, chemical products, forestry and timber products manufacturing for instance. As a result of the international economic slowdown the companies that are directly linked to and a part of international supply chains experienced the recession among the first ones, although the speed and the scale of the current slowdown is such that it did not take long before the whole of the business sector was in a state of almost complete standstill from the perspective of the case company.

A joint report of Ministry of Employment and the Economy and Employment (TEM), and Economic Development Centers (TE-keskus) on the regional economic outlook for the years 2009 and 2010 (Nieminen 2009) holds that albeit of the rapid slowdown of the economy, in comparison the Kuopio region has suffered less than the surrounding municipalities. This is according to the report due to the relatively diversified structure of economy. Privately funded long-term investments in addition to both privately and government financed construction- and infrastructure projects will likely soften the slowdown experienced in the business sector. The pull-factor of the region as the leading business center in Eastern-Finland is accentuating in the future for e.g. large retail groups such as IKEA and Ikano –shopping center and will attract more private investment to Kuopio area. The metal and engineering industries have experienced the current recession early due to its dependence to exports.

In contrast to relatively little affected Kuopio region, the rest of the North Savo has been affected more severely. As a result two (Varkaus, Northeast Savo) out of five economic regions in North Savo have been claimed as regions for abrupt structural change (Nieminen 2009). This abrupt downward shift has been a result of a relatively

small diversification of the economic structure and for a strong emphasis on exports industries such as paper, pulp, and metal and engineering industries. These regions will be in exceedingly difficult situation especially if the recession is prolonged.

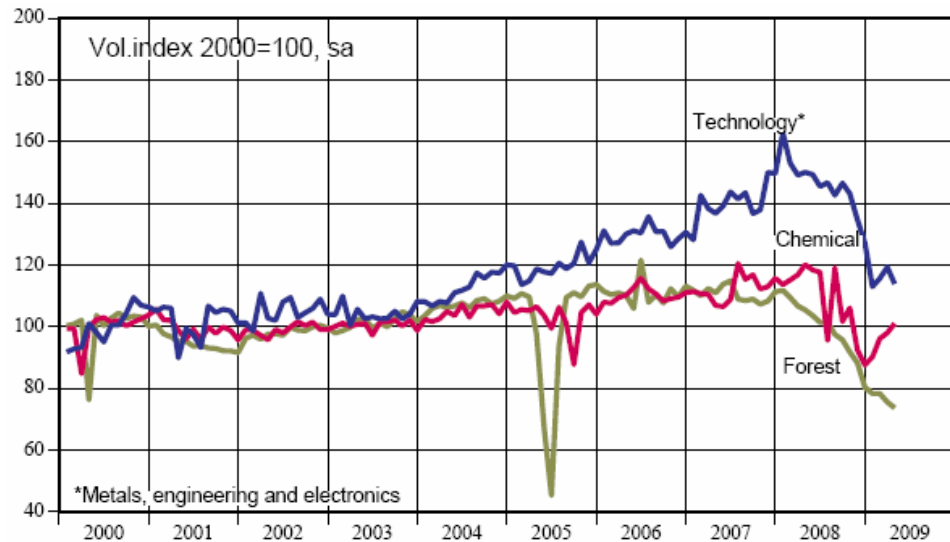


Figure 4. *Manufacturing production in Finland* (EK 2009)

The Eastern Finland cannot exist separately of Finnish economy. The industries presented in graph 2 give a fair representation of the grim situation in Finnish economy as well as the situation in local Northern-Savo region. The Technology-, Chemical-, and forest industries are strongly present in Eastern-Finland, those traditionally strong industries are currently struggling and it has carried an impact on the regional economy on a large scale. Many manufacturers from various industries have had to lay off their labor force (Bella boats ltd, Hydroline Oy, Savon Sellu/Powerflute plc, Junttan Oy, etc.) to adjust their production according to the market situation, i.e. cut down the intermittent overcapacity.

The economic turbulence and the all-inclusive slowdown in both global and regional economic activity are impacting the case company severely. As the level of production within the case company's clientele continues to decrease threatening the demand for its services, the pressure on the case company continues to increase. This leaves three possible courses of action: it has to expand its client base in order to compensate for the diminishing demand; it needs to cut down its expenses in order to attain equilibrium with its cash inflows. If neither of the above mentioned adjustments

can be executed effectively – separately or combined – the only remaining option is to wither to a bankruptcy unless the global and Finnish economy starts to strengthen soon. According to the case company's managing director, at least year 2009 can be expected to be significantly worse compared to the preceding year. Developments of 2010 cannot be predicted either.

2.2. Task environment

The case company is specializing in industrial and to lesser extent mobile hydraulics and pneumatics. The competitive situation varies depending of the definition of the industry since the applications utilizing hydraulics and/or pneumatics range from simple hydraulic cylinders to highly sophisticated systems responsible for providing hydraulic or pneumatic power for a whole industrial manufacturing plant, just to name few. For instance, almost every construction machine uses hydraulics to move both its front end loader and back loader; a freight truck designed to move fresh food supplies utilizes a refrigeration system based on a mobile pneumatic compressor technology; a metal product manufacturing company usually has both a compressed air system and hydraulic system in its facilities which is used in operating different machines in manufacturing process, or might just as well have multiple systems for various uses; hydraulics and pneumatics provide force for machines and systems that are used in a myriad of applications. Therefore it is pertinent to further define the prevalent task environment, i.e. the industry that the case company currently operates in.

The analysis of the task environment is conducted according to Porter's model of Five Competitive Forces (Wheelen & Hunger 2006 82, Recklies 2001). Based on the model the task environment is divided into categories in terms of competitive forces that bear an effect on a given industry. The categories are: threat of new entrants, rivalry among existing firms, threat of substitute products or services, bargaining power of buyers, and bargaining power of suppliers. (Wheelen & Hunger 2006, 83-85) In the following section competitive forces, their characteristics and influence on the operations and existence of the case company, will be considered and evaluated. At the end of this section the most important external strategic factors are constructed to an External strategic factors analysis summary (EFAS) (Wheelen & Hunger 2006, 98). This approach was chosen since an analysis made in accordance with Porter's Five

Competitive Forces (Wheelen & Hunger 2006, 82) provides a reasonably simple and well categorized description of the task environment. External strategic factors analysis summary provides a useful tool for presenting the most important findings in easily readable way and adding to the informational value by encompassing the relative importance of each individual factor in relation to other strategic factors.

2.2.1. Threat of new entrants

A company has to monitor the possibility of new companies entering to the industry and starting to compete with the established companies. The threat of new entries to an industry is high if the given industry has low barriers to entry, i.e. an obstruction affecting negatively on the feasibility of a market entry for a new competitor. (Recklies 2001, Wheelen & Hunger 2006 83) The entry barriers can be e.g. needed economies of scale for a viable market entry, high initial investments, high switching costs for customers, the closeness of business relationships between the customers and existing rivalry. (Recklies 2001)

The case company's chosen industry: hydraulic and pneumatic maintenance and overhaul, is both easy and difficult to enter. This holds true when considering the case company's area of expertise within the industry; the corrective and pre-emptive maintenance of industrial hydraulic- and pneumatic systems, machinery, and parts. The industry entry can be considered both a difficult and easy task for a start-up enterprise since the applications using hydraulics vary from simple straight-forward cylinders and valves to highly complex systems, incorporating a myriad of parts and machinery of variable age, size, sophistication and complexity. Therefore it depends on the knowledge base and resources of the newcomer what impact on the market it potentially brings.

The competitive situation is likely to change in the near future. The case company and its established competitors have operated in this field for two decades or more. According to the managing director of the case company, the customer relationships have been moderately vested for years and there has not been much competition albeit occasional turf breaches which, until recently, have not resulted in any significant conflicts in terms of competitive maneuvering or shifts in the business relationships. The somewhat entrenched business relationships – from the case company point of

view – have in recent years started to grow more turbulent due to three distinguishable reasons which all bear varying consequences for the case company. Firstly, the largest clients of the case company has expanded its operations exponentially during the past decade and as a result has captured interests of other companies to offer their services for them; some of the prospective competitors are small in size and some are international companies. This poses a threat for the case company since it does not have the resources to engage in head-to-head competition with considerably larger companies that can offer the same services and more; the probability of occurrence of a larger industrial service company taking over service needs of a significant client can be presumed to be medium and its probable impact would be most likely high changing the competitive situation completely. Secondly, some of the suppliers of the case company and its established competitors are likely to have aspirations to integrate downstream and start providing similar services. This scenario is currently happening and can be expected to have a high probability of occurrence along with medium to low probable impact on the company, yet it remains unclear how and on what volume and concept those suppliers have planned to enter the market. According to the managing director of the case company the competitive situation is currently, especially due to the bleak economic situation, static and should not change until an upward shift in economy is reached. Finally the structural change of the Finnish metal-, forestry-, and engineering industries has the possibility to cause new entrants to enter the market or the existing companies to start to behave more aggressively as the overall size of the market, i.e. the amount of the customers is decreases along with increasing level of demand for technical competence.

Regardless of the relatively stable business relationships, entry barriers to the market are virtually nonexistent. The companies operating in the area of Kuopio and Northern-Savo region are small in size and the market itself is diffuse and not easily definable, at least when speaking of small business sector which is the main area of activity for the case company and its competitors. The entry barriers present themselves in the form of the feasibility, or lack thereof, from the point of view of a large or medium sized industrial maintenance firms to penetrate the market since there are limited amount of prospective customers suitable for their purposes in this region.

2.2.2. Rivalry among existing firms

According to Wheelen & Hunger (2006, 84) within most industries corporations are mutually dependent; a competitive action inspires a competitive reaction. The case company has operated in reasonably stable environment without high levels of competition. The current rivalry can be quite reliably defined since new companies have not entered on a large scale to the market in recent years. The following chapter includes a roster of companies forming the core of competition within the area of activity and industry of choice for the case company.

2.2.2.1. Competitors within the area of activity

Paineteho Oy, Kuopio, Joensuu (operates in mainly in Eastern and Northern Finland)

Turnover: EUR 4,201,000 (2008)

Employees: 28, a family company.

Paineteho Oy is the biggest competitor in the Kuopio region given the mode of its maintenance operations. This company overtook the hollow conductor subcontract manufacturing deal with Hydroline Oy from JR-Oils Oy in September 2008. The company provides hydraulic and pneumatic equipment and maintenance mainly for industrial customers. It offers similar services than the case company. The company is specialized in tailored pneumatic compressors, hydraulic power units and modifying forklifts. This company is currently the biggest competitor due to the fact that both companies are situated in the same city. (Inoa 2009, Paineteho 2009)

Tehohydro Oy, Lappeenranta (operates mainly in Kymenlaakso and South-Karjala region)

Turnover EUR 2,500,000 (2008)

Employees: 10, a family company.

Tehohydro offers similar service selection in comparison to the case company, although has some additional diagnostic and laboratory services that are not included in the services of the case company. Tehohydro considers its area of activity currently to be Kymenlaakso and Southern Karelia regions. This company is both a rival and a supplier to the case company; however the rivalry aspect is currently limited since the areas of activity of these two companies have not been overlapping in the past. This

situation can possibly change due to the overall economic situation, a strategic choice or developments in the industrial services sector. (Tehohydro 2009)

RP-Teollisuuspalvelut Oy, Iisalmi

Turnover: EUR 417 000 (2008)

Employees: 5

RP-Teollisuuspalvelut provided originally maintenance services for Olvi Oyj plant in Iisalmi. The company has expanded its operations to other industrial services as well. The company is not currently a distinct competitor of the case company, however due to close proximity and shared area of activity it is likely that these two companies are already competing for same customers. (Inoa 2009, RP-Teollisuuspalvelu 2009)

Jokihydro Oy, Joensuu

Turnover EUR 1,630,000 (2008)

Employees: 4

Jokihydro specializes in hydraulics and pneumatics. The company operates Joensuu region and therefore it does not currently share the area of activity with the case company. The service selection however is, for most part, identical with JR-Oils. These two companies are not currently competing head-to-head, however the situation might change if the areas of activities change in which case these two companies become competitors. (Inoa 2009, Jokihydro 2009)

PMC Polarteknik Oy Ab, Vantaa (a branch office in Kuopio)

Turnover: EUR 89,000,000 (2008)

Employees: 369

Polarteknik is one of the biggest suppliers of the case company. It additionally provides maintenance services for its products making it a competitor of the case company. The competition aspect in the business relationship has been so far limited since Polarteknik has not had a significant maintenance and overhaul functions in Kuopio region. This situation has been unchanged for few recent years and currently there is no evidence that the status quo would change. Nonetheless it is a possible scenario and if it is realized it will most certainly bear a considerable effect on the case company since a majority of the spare parts used in business activities are coming from Polarteknik. Polarteknik has physical presence primarily in southern and western

Finland although it has premises in Oulu and Rovaniemi as well. The closest locations are in Kuopio and Jyväskylä. (Inoa 2009, PMC Polarteknik 2009)

Simetek Service Oy, Siilinjärvi

Turnover: EUR 354,000 (2008)

Employees 5

Simetek Service Oy is a fully owned subsidiary of Simetek Works Oy. The company is located in Siilinjärvi and operates primarily in neighboring municipalities of Siilinjärvi and Kuopio in terms of industrial services production. The main customer of Simetek Works Oy and Simetek Service Oy has been originally Yara Suomi Oy (previously Kemphos Oy) in Siilinjärvi, according to the managing director of JR-Oils Oy. Simetek Service operates in the same region providing many same and similar services as the case company. (Inoa 2009, Simetek Oy 2009)

Servicepoint Kuopio Oy, Kuopio

Turnover: 1,593,000 EUR (2008)

Employees: 14

Servicepoint Kuopio Oy is a subsidiary of Kuopion Konepaja Oy. It specializes in Industrial services, maintenance and modernization projects of assembly lines. This company operates in the same region as does the case company which makes it a head-to-head competitor. Servicepoint Kuopio was founded in 2006 to manage the maintenance functions of the (Inoa 2009, Servicepoint Oy 2009)

Maintpartner Oy, Helsinki (head office)

Turnover: EUR 69,893,000 (2008)

Employees: 899

Maintpartner was originally a part of Fortum plc and was detached from the parent company to an independent company in 2006. It has reached its current form by a series of mergers and acquisitions of SMEs specializing in industrial services. These acquisitions have resulted in one of the largest industrial services corporation in Nordic countries. Maintpartner operates in Finland and Sweden and it has premises in 26 locations throughout Finland excluding Northern part of the country. The nearest locations with regard to the case company are Lapinlahti and Varkaus which are both less than 100km from Kuopio. This poses a threat to the case company since Maintpartner is a large company specializing in industrial maintenance services

ranging from individual projects and work orders to full maintenance partnerships and outsourcing. The company does not operate currently in Kuopio region; however there are some large industrial manufacturers within this area and it is likely that Maintpartner offers its services here as well. (Maintpartner 2009)

KP-Servicepartner Oy, Siilinjärvi (multiple locations in Finland)

Finland

Turnover: 7,040,000 EUR (2008)

Employees: 100

KP-Servicepartner is a privately owned family company specializing in mechanical maintenance of processing industry. The company implements service the partner concept of ABB belonging to the service partner network cooperating with ABB. KP-Servicepartner Oy has been growing robustly for the last 5 years measured by turnover (EUR 0.8 million in 2004 – over seven million euro in 2008) and it employs approximately 100 people in its 10 locations. The company specializes in outsourcing contracts of mechanical maintenance activities of industrial plants. The company is operating in Siilinjärvi where it is managing the maintenance of Lujabetoni Ltd. making it a notable competitor for JR-Oils Oy. KP-Servicepartner poses a threat to the case company on the basis of the location of its operations and additionally since it is specializing in complete outsourcing contracts of industrial plants which enable it to bid for maintenance activities of the case company's current customers. In addition KP-Servicepartner has access to support services of a multinational company amplifying its base of competence. Given the aggressive rate of recent expansion of KP-Servicepartner it should be taken into consideration that the company will likely aim to continue its expansion and obtain maintenance outsourcing contracts within the case company's area of activity. (Inoa 2009, KP-Servicepartner Oy 2009)

In addition to these mentioned competitors there are companies that offer similar or close to similar services compared to the service selection of the case company. They can be considered to be competitors although the services that those companies provide are only marginally comparable to the services of the case company. This is once again due to the wide range of applications and industries utilizing hydraulics and pneumatics.

Competition can be expected to intensify for a number of reasons. The ongoing recession is putting a stress on manufacturing industries and changes the operating field. Long-term business relationships will be tested as competing service providers expand their operations to case company's area of activity.

2.2.3. Threat of substitute products or services

Threat of substitute services can be estimated to be moderate. Various metal industry subcontract manufacturers and importer-suppliers, along with the established rivalry are offering additionally industrial services. Substitute products appear to be different but provide a product that satisfies the same need than the original product. (Wheelen & Hunger 2006, 85) They can provide their customers with the needed products and offer additional maintenance contracts for the equipment. This trend has presented the case company with a challenge since it is often difficult to sell only maintenance services because the equipment manufacturers often aim to sell their products as a complete system incorporating the maintenance function as well. This trend seems to be quite popular within the companies of engineering industry, although not all of the buyers want to purchase the maintenance services along with the equipment and preferably utilize their trusted maintenance services providers. This can be counted as an opportunity for the case company.

The services provided by the case company will be needed in the future as well. Hydraulics and pneumatics will be used also in the future, the use of computers and sophistication of the systems will increase and change the demands of the maintenance work. However, substitute products that would take away the whole demand of the products and services provided by the case company are not likely to be introduced in the foreseeable future.

2.2.4. Bargaining power of buyers

According to Wheelen and hunger (2006, 85) buyers are in a good position to bargain if their purchases incorporates a large share of the seller's sales, the buyer has the ability to produce the same product or service, substitute products or services are

easily available, switching costs to other suppliers are low, seller's product contributes a significant portion of the buyers production costs or the profit margins are low sensitizing the buyer to switching to lower priced substitutes, or the seller's product is unimportant in comparison to the features of the production output of the buyer. The case company provides services to industrial services buyers, e.g. maintenance supervisors and production asset management supervisors in large and medium-sized companies; the buyers in smaller companies are often foremen and entrepreneurs.

Buyers, i.e. the customers of the case company can be divided into three distinct categories. The first group consists of the key customers, a handful of long-term business relationships usually with medium-sized to large companies generating the majority of the revenue for the company. These key customers are in the best position to bargain and influence the case company's pricing decisions due to their importance in terms of work load and revenue to the case company. Additionally the different forms of maintenance services that the case company is offering to these companies are most often not threatening to their production activities although sometimes that can be the case as well. Nevertheless these A-group customers have more influence on the case company since they provide a large quota of the revenue for the case company; their wishes and requests are more easily adhered to in hope for continued business relationship.

The second group of customers includes regular business relationships and interaction with small to medium-sized companies. These business transactions are generating revenue, however, not on a sufficient scale in terms of volume to be adequate on its own. Although it can be argued that if the case company can develop its processes towards increased automation and efficiency and expand its area of activity, this B-group can have a more significant contribution to revenue generating activities. At this point however they often tend to consume case company's resources.

The third group of customers consists of a vast amount of various kinds of companies and individuals that consume time and resources without a significant contribution to revenue or turnover. These C-group customers are hindering the performance of the company by consuming the time needed for serving the A and B group customers.

All of the above mentioned customer groups are generating a contribution to case company's turnover. Some of the customer relationships are more significant, i.e. they produce a more significant share of turnover. These buyer relationships can be divided in two categories according to standard Pareto rule (Waters 2003, 274), i.e. 20 per cent of the customers bring 80 per cent of the sales and turnover. The principle of the vital few is reality in everyday business of the case company and additionally a state of affair from which the company has been trying to release itself from, according to the managing director. However, it has been difficult to attain new key customers since the existing key relationships have evolved over a long period of time and has been directly linked to the personal characteristics of the owner-manager of the company.

Bearing in mind that the case company is micro-sized and therefore does not hold much power over its customers, the case company has always been in a situation where it has had to comply with most of the requests of its customers. Therefore it can be said that the bargaining power of the customers is strong, however this is only part of the truth; the business relationship between the key customers and the case company has been symbiotic and the long-term personal and professional relationships with the representatives of the key customers contribute to more equal business relationship as well. This way of doing business has been dominant in the case company so far and has worked satisfactorily. Additionally the case company offers a service which is predominantly needed on exceedingly short time-frame, meaning that if a machine breaks down and the production of a factory will be seriously hindered as a result, on those occasions when the response time to work order is a high priority the bargaining power of the customer is diminished. It should be noted though that even if the case company is in better position to bargain in these occasions the long-term relationship practically prevents from exploiting the opportunity to e.g. raise prices; if continued business relationship is a priority, a mutual respect is required.

2.2.5. Bargaining power of suppliers

Bargaining power of the suppliers indicate the relative power for a supplier or suppliers to decide on product prices. (Wheelen & Hunger 2006, 85) According to managing director of the case company the relationship to suppliers has been slightly

problematic. The main suppliers of the company are industrial products wholesalers, namely spare parts suppliers. Since the majority of the turnover for the case company is currently generated from maintenance and repair activities, the suppliers are in a prominent role of the service production. The case company utilizes a variety of suppliers for different purposes depending on the need of spare parts and also depending on the parts and products themselves. According to the managing director it has been a conscious choice not to form contractual reseller relationships with the suppliers in order to provide as much room for competitive maneuvering as possible, i.e. not wanting to tie the company to any supplier too closely. In addition the suppliers which would be viable choices for contractual partners have standing supplier contracts already in effect within the region and have policies and contractual agreements with their regional resellers preventing additional resale agreements even if the case company would seek to form such agreements.

Some of the bigger suppliers have integrated downstream and started to offer the same products and services directly to some customers of the case company. It is a problem for the case company since it cannot compete equally with its own suppliers without eating away its own profitability. This trend of downstream integration is a threat to the case company. The severity of this threat is yet to be determined; however it is likely to have a reasonably high probability of occurrence given the growth aspirations of the Kuopio economic region. As the economic region becomes larger containing increasing amount of lucrative companies, it is likely that at least some suppliers want to have more active presence in this area. If it occurs the competitive situation intensifies extensively. Bearing in mind the supplier relationship to the case company these supplier-competitors could play the case company out of business e.g. by changing their pricing policies with the case company.

2.3. Summary of external strategic factors (EFAS)

In this chapter is summarized the most important factors and trends from the case company's perspective. The External strategic factors analysis summary (EFAS) (Wheelen & Hunger 2006, 98) is tool for summarizing and evaluating the relative influence of individual environmental issues. In the following table (Table 1.) is summarized the most important external strategic factors of the case company. The

left column presents 10 most important external factors, five opportunities and five threats, influencing the company within the near future. The second column indicates the given weight of each individual factor scaled between 0 (the least important) and 1.00 (the most important) with the sum of all rows equaling to 1.00. The third column indicates the importance of each factor on a scale of 1 (the least important) and 5 (the most important). The fourth column indicates the weighted score of the second and the third column. “The total weighted score for the average firm in the industry is always 3.0.” (Wheelen & Hunger 2006 98, 130, 141)

The table (Table 1.) indicates that the most important external opportunity to the company is the scale of usage of hydraulics and pneumatics, both in business and private sector. The most important threats are intensifying competition escalated by various suppliers’ aspirations to integrate downstream. Additionally the economic recession adds to the element of uncertainty and should be pointed out as a significant threat to the company. It should be noted that the threats outweigh the opportunities highlighting the fact that the case company is in a precarious situation at least from external point of view. The total weighted score of 2.20 indicates that the case company is currently responding to external opportunities and threats below the average of the industry. However, it is difficult to judge whether or not this is truly the case since comparisons between competitors cannot be reliably made. The weighted total score is therefore more an educated guess made by the researcher based on discussions with case company’s owner-manager and monitoring the overall actions of the company.

External Strategic Factors Analysis Summary				
External Strategic Factors	Weight	Rating	Weighted score	Comments
Opportunities				
The scale of usage of hydraulics and pneumatics	0.15	3	0.45	Both in industry, agriculture, public sector, and in private usage
Current low profile of the company in the operating environment	0.05	3	0.15	Can be expected to have a potential for growth in business opportunities since the
Shifts in competitive situation due to the recession	0.05	2	0.10	The active and efficient companies can attain significant market shares.

Outsourcing needs of large companies	0.05	2	0.10	Opportunity to attain outsourcing contracts if detected and exploited efficiently.
Market life cycle stage	0.05	2	0.10	Industrial services and maintenance is relatively young as an individual business.
Threats				
Low market entry barriers	0.10	1	0.10	Depending on the business concept
Vertical integration of the suppliers	0.15	2	0.30	Difficult to compete. Is already happening to some extent.
Supply of skilled and/or suitable labor	0.10	2	0.20	A challenge for all the companies in the near future as 'baby boomers'- generation retires from work life.
The effects of the recession to the company and to the industry	0.10	3	0.30	Key customers operate in industries that require economic growth.
Intensifying competitive situation	0.20	2	0.40	The economic situation along with growth aspirations of the rivals will result to competitive turbulence. Some suppliers aim to start service production.
Total	<u>1.00</u>		<u>2.20</u>	

Table 1. (*External Strategic Factors Analysis Summary*, Wheelen & Hunger 2006, 98)

3 INTERNAL OPERATING ENVIRONMENT

This chapter discusses the internal operating environment of the case company. It incorporates the main internal functions of the case company and additionally some that have not yet been actively used, e.g. marketing. The chapter consists of eight subchapters and one summarizing subchapter in which the most important internal factors are pointed out.

3.1. Corporate structure

The organization of the case company is still quite small, a micro-sized enterprise. It has been operating nearly twenty years, although if the sole proprietor stage of its history is not taken into account, the age of the company is cut to almost half. Furthermore, if the time when the company has been active and employed more than one person fulltime, i.e. the actual time when the company has had a structure is cut

down to seven years. Considering the period, the company has consisted of more than one person; the organization has increased its size, in terms of the amount of employees, from one to nine in 2008. However, the company is still a micro-sized and does not therefore have a formal structure. "...has no functional or product categories and is appropriate for a small entrepreneur-dominated company." (Wheelen & Hunger 2006, 114) The hierarchical relationships and information flow within the organization can best be characterized as a simple organizational structure (Wheelen & Hunger 2006 114, Mintzberg 1979 306), because the operational activities are manageable by one responsible person. This structure is common in small entrepreneur-dominated companies. (Mintzberg 1979 306) However, since the company is striving for growth in the future, the organizational structure is likely to change to fit the needs of the business; one person cannot manage all the different aspects of the day-to-day operations let alone focus on issues that are beyond operational level, i.e. planning for future actions.

Some references of structural diversification are present already in the company. The overall size, although not significant yet, is increasing the level of stress on the owner-entrepreneur hindering the overall performance of the company. This can be considered to be a weakness since the structure highlights the role of the entrepreneur, considering that he is making basically all the significant decisions in the company. This has created a bottleneck situation in terms of the risk if the entrepreneur suffers an employment accident or becomes ill, or otherwise is not able to perform as well as he should. If this scenario occurs the failure of the whole organization is highly probable.

The company's organization has recently started to shift towards functional structure. The expansion of the operations and the increase in amount of employees has generated a need for the company manager to delegate some of his duties to other employees. Majority of the financial administration including payroll and accounting, are being handled by an employee. This part of the administrative activities has not been a part of entrepreneur's tasks since the beginning. In addition to the accounting and payroll organization has employed an engineer to carry out the design work necessary for the production needs of the company. One lower level manager is employed to watch over the daily activities on operative level and handle the initial contact with the customers and suppliers along with the entrepreneur. These different

functions of the company's organization differentiate it from being a purely simple structure organization, however the informality of the structure and the overall control that the owner-entrepreneur is exercising on all levels of the organization's daily activities, due to the small size of the company, point more to the direction of simple structure than functional structure. Nevertheless, aspects of both types of organizational structure are present.

3.2. Corporate Culture

The corporate culture derives to some extent from the values and mission of the company, as the specific way of doing things, an inherent set of values associated among the staff of an organization. (Wheelen & Hunger, 2006) The corporate culture as a set of shared values, expectations, and beliefs of the underlying character of the company, define the image of the company and enables it with a sense of identity.

The case company has an emphasis on customer service. Orientation to high level of customer service, the willingness to "go an extra mile" for increased customer satisfaction is present in the company's activities and it derives itself from the values of the entrepreneur. Since the company is operating primarily on service business and the nature of the customer contacts are predominately personal, the level of customer service has a strong effect on the way the company is seen and experienced by the customer. Furthermore, due to the small size of the company and the highly personal style of managing, working, and involvement on general issues from the behalf of the entrepreneur has resulted to extensively close business relationships. This notion can further define the company's role as an extension of the manager which, to some extent.

The small size and relatively short history of the company as an employer exerts an influence on the sense on communicating and sharing the corporate culture. The case company has had employees less than a decade; the corporate culture has not been attempted to define nor taken into consideration before. Some consistency can be seen in the way the daily activities of doing business are carried out, however the majority of the corporation's cultural values have not been communicated with most of the staff, mostly because of the lack of knowledge on the issue. The use of corporate

culture as an asset for generating and enhancing the company's identity and the sense of togetherness has not been used actively or purposefully, albeit the prerequisite extracurricular activities of Finnish business culture, i.e. sauna-evenings, ice fishing, etc., where corporate culture has been under construction and refining, in terms of team spirit a sense of togetherness.

3.3. Marketing

The company has not marketed actively its services. The customers have contacted the company and presented their issues and problems, after which the company has provided the service and resolved the problem. The main reason for this, according to the managing director, is that there has not been need for marketing in the past since the amount of work has been sufficient regardless. This type of reactivity has been a governing modus operandi in the business operations leaving the marketing to background position; the need for actively pursuing new customer contacts and expanding the business has been non-existent thus far.

The passiveness in marketing activities derives from the original purpose of the company, to employ and provide livelihood, i.e. the business has originally started from a need and want to employ oneself. The company has expanded as a result of emergent demand for the type of services that it provides, not as a result of actively pushing the products and services to prospects and existing customers. This has resulted to a situation where the company and its services are known and trusted well within the parties that have been in contact with the company, and are reasonably unknown amongst the rest of the prospective customers.

There are three reasons for why the company has started to look for more active approach on its marketing activities and promoting its services. Firstly, the need for marketing the services and increasing the awareness and publicity has emerged just recently due to a sudden and unforeseen shift in the competitive situation. The company had expanded and increased its turnover steadily for the last decade resulting to more business activities, more complex organizational structure, and therefore to increased expenses. In the autumn of 2008 one of the cornerstones and a significant reason for the recent growth of the company, the subcontract manufacturing contract

to a large equipment manufacturer was lost to a local competitor and will cease in the beginning of 2009. This sudden change called for a strong reaction and securing the survival of the company; as a result the employees designated to the subcontract manufacturing activities had to be laid off in order to streamline the organization to meet the change in operational climate. Secondly, in addition to the change in the internal business environment, the overall shift of the growth trend in the regional, national, and global economy attributable to the international financial crisis has resulted to a decreased overall demand which has had its effect on the clients of the company as well. Thirdly the company has formed a management group which has initiated a project for mapping a route for business growth and for the overall development of the company and its long term growth; the executive team has emphasized the need to increase the awareness of the company and to emphasize the proactive take on conducting the business and managing the customer relations, both prospective and existing.

3.4. Finance

The owner-entrepreneur has maintained the primary objective for the company to remain financially sound and solvent. The company has not had formal financial planning to support or to guide the decision making in the operations or planning for the future. The small size, simple structure, and straight forward operations without a regular need for outside funding are some of the reasons why there has not been virtually any formal financial planning. The only tool which is currently used on regularly is a simplified cash flow statement that is prepared on a weekly basis; the cash flow statement consists of regular cash inflows and outflows that are incorporated to cash in bank, accounts receivables and accounts payables, employer's contributions to social security, and prepaid taxes. The information of the cash flow statement is used to monitor the level of solvency and it has a one month time scope due to the terms of payment in the accounts payables, and –receivables which are normally less than 30 days. Additionally, the way that the business has been conducted has included that the There are not budgeted cash flow statements, income statements, or balance sheets which could be used to set objectives, to predict and to monitor the performance of the company. The level of predictability in terms of forecasting the demand and the business activity is low due to the reactivity and the

limited availability of information about the service needs of the area of activity for the services that are offered by the company. The lead-times are relatively fast, normally a few days and the customers' need for service arises on a short notice for maintenance and repairs; therefore without a regular interval operations such as service contracts the level of predictability cannot easily be extended outside the one month time frame. However, budgeting and setting financial objectives to enable the monitoring of business performance should be considered as a top priority in the company since it seeks to expand its operations; the expansion has to be assessed according to objectives set in a strategy. The strategic planning has been initiated just recently; the financial performance and the development of the business will be monitored more closely in the future.

3.5. Research and Development

Research and development is an important part of remaining competitive. In the case company research and development is carried out incrementally in concurrence with the work routines and the services provided for the customers. Although, there are not any research and development programs active at the moment, or haven't been in the past either, the informal research and development comes in the form of refining the provided services every time a service technician executes work for a customer through increasing experience and knowledge. There is not any form of documentation procedures active in order to gather collective knowledge of the work or business activities to be utilized in developing processes and the overall organizational efficiency. Some kind of procedure or principle on reporting new developments during serving the customers would be recommendable.

3.6. Operations and Logistics

Short operating timeframe characterizes the nature of the conventional, daily operations. The following is a description of the usual rotation of the tasks involved in the value generating activities of the company. It is structured in chronological order for clarification of the usual chain of actions.

(1) The managing director or the foreman receives a work order from a customer, inquires details and more information about the problem, of the needed equipment, and the urgency of the situation. (2) After that the case is delegated further to a mechanic, or the managing director or foreman handle the situation by themselves, go to location and fix the problem. (3) After which the person who executed the work will register a letter of transmittal and deliver it to be processed in the company's (4) invoicing, and to be sent to the customer. (5) The person responsible for monitoring the bank accounts and financial accounting will pass the disbursement into books.

Written above is the usual value chain from the beginning to the end when a normal transactional work orders are in question, meaning the maintenance and repairs that are in the core of the company's daily activities. The process does not include in this example the preparing an offer to the customer which would be the case if offer request would be received. Additionally, if the work order requires CAD-design work, it is usually carried out after the mapping of the task, prior to the actualization of the work order. The whole process is usually gone through less than one month depending of the nature of the order, in majority of the situations the customer response time from an order to execution is less than a week, invoicing included. The strengths of the small, simple organization include the leanness of the operations and the immediate response to the customer; if urgent, a company representative can be sent to location, depending on the distance, within less than an hour's notice.

The small size of the company and the primary field of activity of corrective maintenance of industrial equipment, and construction machines allow the company to deliver value to its customers with short response times and with a sufficient efficiency. However, there are deficiencies in the reliability of the service which are not all within the influence of the company; the wide range of the work orders and the heterogeneity of the customers result to a large amount of needed spare parts which in some cases have a significantly long inventory turnover time. This leads the inventory to incorporate parts that most reliably will be consumed in the regular business activities. However, as a consequence of the incremental nature of the individual work orders and the need for short customer response times lead to small orders from the suppliers which in turn increase the costs in terms of dispatching charges and the time spent on ordering the spare parts. Small size of the organization is therefore both strength and a weakness for the company; the economies of scale and the decreased

costs of sales are difficult to attain considering that the company is primarily in the service business, however, the small size of the organization and its operations provide the customers of the company shorter response times and increased level of service. The optimization of the logistics, both inbound- and outbound-, should be considered thoroughly to ensure the best utilization of the resources; excess inventory should be avoided if possible. The operations and logistics are in the epicenter of the business activities; they are the most visible part of the company to its customers since it provides soft services (Erramilli, 1990, cited in Ball et al, 2008) company in sense that the services for most parts cannot be produced without the presence of the provider.

The operations of the case company have been integrated in the same facilities in the June of 2007. The company used to have its production facilities in Kuopio and its office in Toivala, 10 kilometers north from Kuopio, where the invoicing, accounting, and payroll in addition to processing of the bids and other administrative activities were handled. In terms of managing the operations and the overall business activities, there has been a significant improvement due to the incorporation of the administration facilities to the same location with the other activities as well. It has carried a positive impact on the corporation culture by enhancing the sense of togetherness and increased efficiency in terms of more effective communication and information sharing among the staff. The management team has formed an opinion that it should have merged the office and the production facilities even earlier.

3.7. Human Resources Management

Human resources carry high importance for a small company due to the increased relative importance of an individual employee. Human resources are managed on need basis without a connection to any *a priori* planning or programs. The business and operations have been planned as the demand has developed, reactively in small parts. There has not been a plan according to which the number of employees in the company has been expanded, instead as the work orders have increased and the demand from the customers has increased, the case company has decided to recruit additional workforce; to meet the needs of the service demand of the customers.

The method of seeking the potential employees used to date is the word of mouth from the peers, customers and associates from who the manager has heard of an employee seeking work. In this way the manager has had the opportunity to gather information about the prospective employee from his contacts before the job interview. This approach to recruitment has resulted to both successes and to failures and it carries the same risks than other forms of recruiting; it is exceedingly difficult to know whether or not the person hired for a job will fit in the organization, does he/she have the desired knowhow and personal qualities that are required to be successful in the work. The recruiting of a new employee is always a bigger risk for a small organization, especially for a company that is operating in a labor intensive market, the wages are a large expense and given the small amount of employees, each employee is a relatively large item of expenditure. This emphasizes the need to examine the prospective employee's applicability to the intended work. In a small company employees are assumed to possess knowledge of little bit everything of the given field of business, they should be more or less *jacks-of-all-trades*, and therefore, it can be challenging to find suitable characters to be employed. It is not economically viable to hire specialists of a narrow field of expertise since the company cannot offer enough work activities due to a relatively varied business field, flexibility and willingness to learn and absorb new information; a certain kind of entrepreneurial quality is preferable for a new employee. The recruiting and keeping skilled employees is going to be one of the most significant challenges for both small and large companies when the natural reduction in work force due to the demographic change will cause a labor shortage. The case company has to prepare for this the best it possibly can to enable the business to continue in the future as well.

3.8. Information Systems

The case company utilizes a small information system in its daily activities. The software in usage is not considered as enterprise resource planning application (ERP) since its main attributes include financial accounting, invoicing, and materials management. The information system has been updated to an updated version recently; the integration and learning process for the efficient utilization of the system is in progress making it a weak point in terms of organizational efficiency and it can possibly hinder business activities. However, this application can be viewed as an

improvement to the management of business information since all the aspects of the business activities that are currently managed with the computer software use the same database and the information flow has improved as a result of this investment to IT infrastructure, meaning setting up of a network around a server for the company. The tracking of the work in progress and the completed work orders are easier improving the monitoring of the overall situation on any given moment.

The information systems are currently concentrated on operating and controlling the internal operating environment in terms of managing and monitoring the flow of material and cash within the organization. The management of information external to the organization is not conducted or gathered in a systematic manner. There are three main reasons for the lack of systematic competitive intelligence: limited resources for gathering information from outside sources; diffuse market, i.e. small companies which generate information on a limited scale or do not produce information to available public channels; finally, the owner entrepreneur is used to manage the information received from his personal sources which when not shared hinders the flow of information through the company. Due to the fact that the case company is a small or micro-sized, the reasonable level of effort and resources that can be used to searching and assessing information outside the company should be considered. Nevertheless the gathering and assessing of the market information should be an integral part of the planning and monitoring of business opportunities and threats in the future of the business. (Hill and Jones 2001, 149)

3.9. Summary of internal strategic factors (IFAS)

In this chapter is summarized the most important internal factors from the case company's perspective. The Internal strategic factors analysis summary (IFAS) (Wheelen & Hunger 2006, 130) is tool for summarizing and evaluating the relative influence of individual environmental issues. In the following table (Table 2.) is summarized the most important external strategic factors of the case company. The left column presents 10 most important internal factors, five strengths and five weaknesses, influencing the company within the near future. The second column indicates the given weight of each individual factor scaled between 0 (the least important) and 1.00 (the most important) with the sum of all rows equaling to 1.00.

The third column indicates the importance of each factor on a scale of 1 (the least important) and 5 (the most important). The fourth column indicates the weighted score of the second and the third column. “The total weighted score for the average firm in the industry is always 3.0.” (Wheelen & Hunger 2006 98, 130, 141)

The table (Table 2.) indicates that the most important internal strength for the company is the knowledge base of the owner-entrepreneur. However, it can be counted as one of the biggest weaknesses or internal threats to the company as the most of the expertise is in the hands and head of one individual. In the case of a work accident the existence of the whole company would be in jeopardy. One other strength of the case company is its ability to reach short response times when needed; the entrepreneur has set the development of quick response times one of the most important areas to be addressed. The most notable weaknesses in addition to the dependence of the entrepreneur are the lack of focus and lack of knowledge on business development. The effect of these factors should be mitigated in the near future.

The total weighted score of 2.40 indicates that the case company is currently responding to external opportunities and threats slightly below the average of the industry. However, it is difficult to judge whether or not this is truly the case since comparisons between competitors cannot be reliably made. The weighted total score is therefore more an educated guess made by the researcher based on discussions with case company’s owner-manager and observing the overall actions and behavior of the company.

Internal Strategic Factors Analysis Summary				
Internal Strategic Factors	Weight	Rating	Weighted score	Comments
Strengths				
Owner-manager's technical knowledge	0,15	3	0,45	Key to success and base for performance of the company
Short response times to work orders	0,05	3	0,30	Imperative for continuity of the business

Long-term, stable business relationships	0,05	4	0,20	Threat of strategic myopia and resulting lack of awareness for what is happening in the task environment.
Young age-structure	0,05	2	0,10	Potential for long term development if their knowhow is developed correctly along with minimizing the employee turnover.
Good premises	0,05	2	0,10	Is a good foundation for expansion of the operations
Weaknesses				
Lack of business development knowledge and low willingness to take risks.	0,10	3	0,30	Hinders the overall efficiency for exploiting the business opportunities.
No Focus	0,15	1	0,15	Resources are scattered decreasing the efficiency of the company. Obstacle for long term planning.
Lack of documentation	0,10	2	0,20	The transfer of knowhow is slow and difficult.
Small size of the organization, no economic buffers.	0,10	2	0,20	The company is more vulnerable to financial and competitive risks. Increases the bargaining power of the suppliers and customers.
Dependence on owner-entrepreneur	0,20	2	0,40	The employees do not have enough knowhow to meet the requirements of the all the customers. Entrepreneur's participation is paramount.
Total	<u>1,00</u>		<u>2,40</u>	

Table 2. (Internal strategic factors analysis summary) (Wheelen & Hunger 2006, 130)

3.10. Summary of key strategic factors (SFAS)

This final table (Table 3.) draws together the most important strategic factors from EFAS (Table 1.) and IFAS (Table 2.) tables into a one table, strategic factors analysis summary (SFAS). It is constructed in a similar way as in the first two tables (Table 1. and Table 2.). The selected strategic factors are presented in the first column. The second column indicates the given weight of each individual factor scaled between 0 (the least important) and 1.00 (the most important) with the sum of all rows equaling to 1.00. The third column indicates the importance of each factor on a scale of 1 (the least important) and 5 (the most important). The fourth column indicates the weighted score of the second and the third column. “The total weighted score for the average firm in the industry is always 3.0.” (Wheelen & Hunger 2006 98, 130, 141) The fifth column presents the researchers view on the duration of influence of each factor between short-term (less than a year), intermediate-term (one to three years), and long-term (three years or more).

As an enterprise the case company is in many ways in a difficult situation. The economic boom of the early 2000s is long gone as the global, domestic, and regional economy dwells in one the most severe economic slowdowns in the post-world-war period. As companies adjust their expenses to maintain their profitability, the support functions such as maintenance are the first ones to be outsourced providing an opportunity for industrial services companies. This is one of the biggest opportunities for the case company and it should be emphasized in planning and realizing business development. The changing competition and the structural change of the Finnish engineering and manufacturing industries will change the business environment and should therefore be responded to enable better chances for survival in the future.

The case company’s operating is highly dependant of its owner-entrepreneur. If the company is intended to continue doing business for more than a decade this is the most important factor to be dealt with in order to make it possible. This dependence must be narrowed and eventually the company should be developed to operate as an organization which can operate and continue business even after the original entrepreneur is no longer involved on a daily basis. In concurrence with the overall development of the case company, the focus of the business should be determined and

given a strong emphasis when planning for the future; the company does not have the resources to develop many different types of businesses.

Strategic Factors Analysis Summary - SFAS							
Key Strategic Factors	Weight	Rating	Weighted score	Duration			Comments
				Short	Interm	Long	
Owner-manager's technical knowledge (S)	0,10	3	0,30			X	Key to success and base for performance of the company
Dependence on owner-entrepreneur (W)	0,15	2	0,30			X	The employees do not have enough knowhow to meet the requirements of the all the customers. Entrepreneur's participation is paramount.
Small size of the organization, no economic buffers. (W)	0,15	2	0,30	X			The company is more vulnerable to financial and competitive risks. Increases the bargaining power of the suppliers and customers.
No Focus (W)	0,10	3	0,30		X		Resources are scattered decreasing the efficiency of the company. Obstacle for long term planning.
Outsourcing needs of large companies (O+T)	0,10	2	0,20			X	Opportunity to attain outsourcing contracts if detected and exploited efficiently
Shifts in competitive situation due to the recession(O+T)	0,10	3	0,30		X		The active and efficient companies can attain significant market shares.
Supply of skilled or suitable labor (T)	0,20	2	0,40		X		A challenge for all the companies in the near future as 'baby boomers'-generation retires from work life.
Intensifying competitive situation (T)	0,10	3	0,30			X	The economic situation and growth aspirations of the rivals will result to competitive turbulence. Some suppliers aim to start service production.
Total	1,00		2,40	-	-	-	

Table 3. (Strategic factors analysis summary matrix) (Wheelen & Hunger 2006, 141)

4 DISCUSSION AND CONCLUSIONS

The case company is in a challenging position. It has many of the handicaps and disabilities shared by most of small companies in its industry; it lacks in resources both tangible and intangible resources making all the more difficult to initiate its aspirations for growth. Small companies, especially ones that are both owned and managed by the same people with a certain modus operandi, often have difficulties in generating a needed momentum for generating, maintaining and controlling growth. However, if business expansion is desired, then the company must be prepared to take calculated risks.

Generating the needed momentum for a sufficient change in the prevalent business practices is a difficult task. Overcoming the resistance to change might not be easily attained, especially since the change requires a modification of the corporate culture and processes especially and additionally since the things have been done in a certain way for two decades. However, the necessity is often the motivator and the facilitator of change; the raging recession in the economy and the resultant collapse in industrial activity emphasize the urgency for development and evolution. In layman's terms the company is in a "Do or die" situation.

The opportunity for the case company is in increasing its visibility within its area of activity. Communicating with prospective and existing customers has to be included as an integral part to the business processes. It should be strived for bearing in mind the specialized field of activity. The traditional modes of advertising in the mass media, meaning newspapers, radio, magazines, etc., can be expected to yield a relatively low return in terms of increased business activities and new customer contacts. Focused communication is likely to yield better results.

The objectives of this thesis are mostly achieved. The main objective was to define the operational environment that influences the company's daily existence. Since that definition has not been made before, this research and its findings will most certainly help the case company to be more aware of its surroundings and continue to develop tools for scanning and analyzing of the environmental information. However, the

scanning and interpretation could have been more thorough. Therefore it can be argued that the inclusion of the analysis of both internal and external operating environments to this same thesis research has not been wise. It has to be admitted that each subchapter of the main analysis chapters could be a topic for a thesis. Nevertheless, once the overall size of the case company and its operations is taken into account it makes more sense to include two large categories into this one analysis. Furthermore, an introductory overview of the important environmental factors is a good starting point for further analyses of the subject for the company.

It should be noted though that the findings of this research are based largely on personal judgment of the researcher. Therefore the reliability of the findings is not as high as it should be. However, the informational value to the case company exists nonetheless.

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