



Establishing a Small Enterprise in Varkaus and  
Factors behind Success and Failure of Small Businesses

Case Study: Establishing Gun Smoke AY

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<p><b>Abstract</b></p> <p>Primary objectives of this thesis were to aid future entrepreneurs by describing the basic procedure of establishing an enterprise and the key issues to be considered during business establishment process. Second topic of this research was the key factors which lead a small business to its success or failure. These success and failure factors of small businesses were identified by conducting a qualitative research through participation of small business owners in Varkaus and neighbouring areas.</p> <p>This topic was chosen because the author himself is an entrepreneur and he believes that many of the business challenges are due to lack of information about start-up process and other required formalities for a smooth and successful start-up of a business. In addition, author was not aware of market challenges in the current business scenario.</p> <p>Outcomes of this research include a detailed overview of different stages of business establishment process, required documentation, introduction and characteristics of different business forms. The second part of research produced lists of five success factors, failure factors, potential counter strategy and suggestions from the relevant people who are already doing business in the market.</p> <p>Entrepreneurship is a great achievement which enables an individual to earn more money and respect in the society. Successful entrepreneurs create jobs and pay high taxes to support the national economy. On the other hand, being an entrepreneur could be highly risky. In case of failure, a business owner may lose all of his personal savings and business liabilities may chase him for the rest of his life. Therefore, it is really important to be well aware of business administration techniques, potential threats and challenges and well planned counter strategies.</p>			
<p><b>Keywords</b> Start-up process, Small business, Entrepreneurship, Success and failure factors.</p>			

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## 1 INTRODUCTION

This study is mainly focused on micro and small business establishment process in Varkaus, a small industrial town in the central Finland, with aim to provide support to the new business start-ups by getting familiar with the firms registration process.

Second focused area of this thesis would be identifying the factors which play crucial role in success or failure of the small businesses. This study will explore the challenges of today's entrepreneurs in Varkaus area to come up with an understanding why the micro and small businesses are failing in their survival and what are those factors which are leading the small companies to bankruptcy.

### 1.1 Background of the Research

It wouldn't be wrong to claim that micro and small enterprises are backbone of the Finnish economy and yet it is going to play an essential role in economy and the labor market during this decade. According to the surprising facts, there are over 300,000 businesses in Finland, out of which roughly 98 per cent are micro and small businesses. The number of private entrepreneurs and business owners in Finland is estimated to be around 180,000. (Yrittajat 1991)

SMEs (Small and middle size enterprises) account for over 60 % of Finland's gross domestic product and employ roughly 65 % of the labor force. It is mainly small businesses that create new job opportunities in Finland, not the big multinational organizations. Micro and small enterprises are paying tens of millions of euro into various employment schemes and taxation, the benefits of which are not that satisfactory and encouraging. (Jyrkiäinen 2012)

However, 98 % of Finnish business sector which is small and medium size enterprises are facing many challenges in there every day business. Many of these challenges are crucial. According to tax office statistics, in 2010, for about a 25 % of registered entrepreneurs couldn't secure even 14,000 € as their annual income. Subsequently, there are roughly 45,000 entrepreneurs who are

trying to make ends at a 1000 € in a month, an amount which is below the poverty line in Finland. On top of this, business owners make all statutory payments out of every euro they earn. (Jyrkiäinen 2012)

In Finland, about half of all new small enterprises end their business during the first three years of their operations. Unfortunately, this often results in bankruptcy and around 15 years of personal debt. An employee has a guaranteed minimum income to fall back in an emergency, which an entrepreneur is not entitled to. An entrepreneur has no social security, which is against the spirit of the Constitution of Finland, guaranteeing equal rights to all Finnish citizens. (Jyrkiäinen 2012)

## **1.2 Motivation behind Research and Research Topic**

The author of this report, have personally been involved in a small business and as an entrepreneur has experienced many challenges after establishing a small restaurant business in Varkaus, named Gun Smoke Restaurant which is going to be the case study in this thesis research.

During three years of business operations, Gun Smoke AY has been experiencing critical situations because of different challenges. Some of these challenges were appeared because of personal mistakes of the founders and some of challenges were totally unexpected and owners of the businesses were totally unprepared for such critical problems.

After going through the business establishment process, and after personally experiencing and handling the challenges, the researcher got opportunity to conduct a study on business establishment process in Finland and exploration of the factors which are behind success or the failure of a small business. Aim of this study is to provide an opportunity for the future entrepreneurs to get familiar with business establishment process and understanding of the main factors which may lead their business to the success or the bankruptcy.

### 1.3 Problem Definition and Objectives of Research

Varkaus is a small industrial town and municipality in the province of Eastern Finland. The municipality has a population of 22,587 (30 September 2012) and covers an area of 524.49 square kilometers of which 138.45 km<sup>2</sup> is water. The population density is 58.51 inhabitants per square kilometer. (Leonardo 2013)

Second largest employer followed by City Administration was the Enso Group (Wood processing and paper mills). Dozens of small and medium size companies are vendor of Enso group or somehow depending on this corporation.

Few years back Enso Group decided to reduce their operations in Varkaus by shutting down their production units which resulted boost in unemployed persons in Varkaus. By reducing the production, Enso Group badly affected many of small companies who were linked with their operations. As result, many of businesses shut down and their employees lost their jobs.

Besides that, now a day many of micro firms are ending their business which could appear as serious threat to the economy of Varkaus. Here, one really needs to figure out the fact that: "What are the factors behind failure of micro and small businesses in Varkaus".

Aim of this study is to help local entrepreneurs and those who are planning to enter in business market of Varkaus by providing enough information on Business establishment process, by making them familiar with the local authorities which are involved in the business establishment and other organizations which could be helpful and provide them support at the initial stage of business.

Second but main objective of this study is exploration of the factors that are mainly responsible for the success or the failure of micro and small Business in Varkaus. This part of research will enable us to understand:

- Reasons behind success and failure of small businesses
- Challenges of today's entrepreneurs
- Possible ways out for small firms to tackle their challenges and to lead their business successfully.

## **2 ESTABLISHING AN ENTERPRISE**

For better understanding of first part of research, the key concepts are being defined in this chapter. Following are the main concepts on which this study is mainly based.

- Business start up process
- Micro business
- Small enterprises

### **2.1 Business Start-up Process and Tax Registration**

On ground, entrepreneurs' may have different opinion but officially State of Finland welcomes new businesses and supports small entrepreneurs. Authorities made business start-up process easy, not complicated and quick. A company establishing process takes only 2-3 weeks. Business start up process in Finland is quite similar with start up process of other European states. There are only minor differences in business establishment process in Finland compared with start-up process in other European states. (HelsinkiBusinessHub 2011)



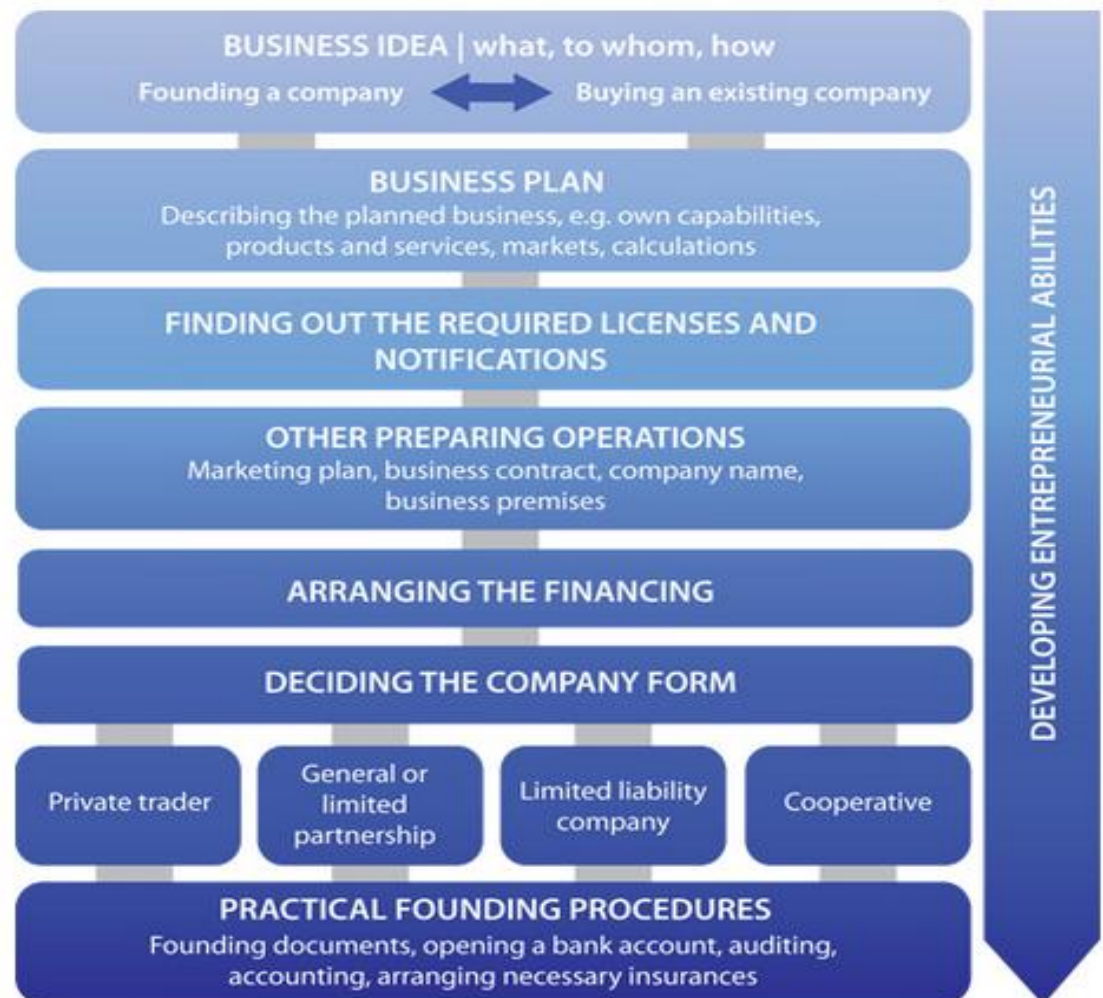


FIGURE 1. Stages of developing an enterprise. (Enterprise Finland 2013)

All New entrepreneurs who are in process of starting-up a business must have to notify the Tax Administration and the National Board of Patents and Registration of Finland (NBPR). The information is usually submitted on a start-up notification form (Y form), on the basis of which they are entered in the Trade Register maintained by the NBPR and the prepayment register, VAT register and employer income tax register are maintained by the Tax Administration.

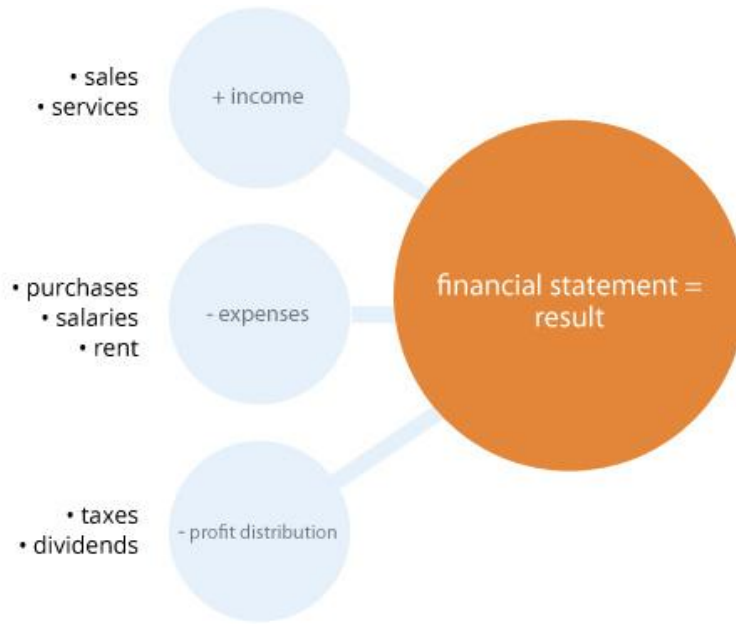


FIGURE 2. Taxation system of an Enterprise (Enterprise Finland 2013)

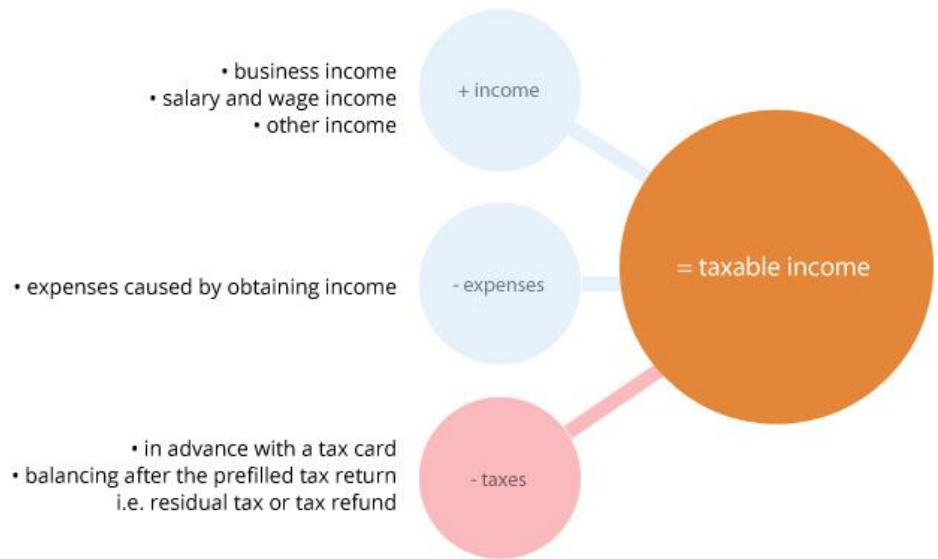


FIGURE 3. Entrepreneur’s income tax system. (Enterprise Finland 2013)

Value-added taxes, income taxes, employer contributions and other unprompted taxes are paid to the tax account. The Tax Administration will supply a tax account reference and bank account numbers for making these payments. (Enterprise Finland 2013)

## 2.2 Business Forms and Characteristics

The choice of business form is a critical decision when establishing a business. Criteria for this include the nature of the future operations of the business, the need for capital, the number of people involved in the establishment, taxation and responsibilities of founders.

In Finland, there are different forms of business types, available which are regulated by the Companies Act of Finland. An entrepreneur, national or foreigner, has number of choices to decide the form of their enterprise. These forms are not so different by business types in rest of world. These business forms have their own effects on tax liabilities, roles and responsibilities of business founders, power distribution in decision-making. It is very important to do some research to make the right choice while deciding which form of business suits you the most. The most common forms of business are the following.

- **Sole proprietorship** (Toiminimi=Tmi)
- **General partnership** (Avoin Yhtiö= Ay)
- **Limited partnership** (Kommandiittiyhtiö=Ky)
- **Limited liability company** (Osakeyhtiö=Oy)
- **Cooperative** (Osuuskunta)

(Enterprise Finland 2013).

### 2.2.1 Sole proprietorship (toiminimi)

The sole proprietorship is a popular business form due to its simplicity, easy setup process, and minor processing cost. A sole proprietor needs only register his/her name in local registration office and secure business licenses if needed, and the enterprise is ready for business.

A sole proprietor, generally known as business entrepreneur, exclusively enjoys all the benefits of the business and at the same time he/she is the ALONE responsible of all the business deeds, commitments and accountable of all the contracts. In the form of Sole Proprietorship, a sole proprietor is personally liable for all the business debts and liabilities. So, if the business gets into financial crises, creditor can take the legal action against owner of the business and can claim the recovery of dept against personal property of owner. In such a situation, sole proprietor is bound to pay the business dept by his or her own money even if business has its own identity, separate accounts and it has been registered with a separate name. Thus the founder, who is working under the name the company, is responsible for all the commitments which are committed by the company and sometime even pledge his personal wealth to fulfil those commitments. (Entrepreneur 2005)

A sole proprietor often signs business contracts in his or her own name, because under the business law, the owner of a sole proprietorship and his company do not have separate identity. Sole proprietor owners mix up personal and business property and funds according to the need of situation or for his/her personal purposes. This flexibility is not possible in other forms of business. In sole proprietorship, own does not need to practice formalities such as consultation, voting and meetings with other business partners or associated persons which are something Must-to-Do in other forms. (Entrepreneur 2005)

This form of Business does not require any of separate memo or any other kind of agreement as establishment formalities. Entrepreneur has to submit a notification form Y3 in the local registration office and that is all. No other documents are required to file.

### **Tax Implications**

Because a sole proprietorship and its owner have same identity, this made sole proprietorship's taxation very simple. The profit of a sole proprietorship is considered as income of its proprietor. A sole proprietor

reports in tax office the income, losses and expenses of business. The taxable income of a company is calculated by deducting the company's expenses from its taxable sales. (Entrepreneur 2013)

If the company is paying salaries or other taxable benefits to the entrepreneur, then all the amounts would be considered as expenses of company and would not include in the final amount of profit. Therefore, entrepreneur will pay personal income tax against these financial benefits which he received from the company. (Enterprise Finland 2013)

During the business start-up notification, sole proprietor must have to tell the tax administration an estimated annual turnover and profit of company's coming financial year. On estimated turnover, Tax Administration will calculate the advance tax.

- The Tax Administration collect company's "advance taxes" using the bank transfer forms sent by the Tax office.
- At the end of financial period, entrepreneur has to prepare a financial statement and tax return and file them in Tax office. (Enterprise Finland 2013)

### **Advantages of a sole proprietorship**

- Owners can establish a sole proprietorship instantly, easily and inexpensively.
- Sole proprietorships carry little, if any, ongoing formalities.
- A sole proprietor need not pay unemployment tax on himself or herself (although he or she must pay unemployment tax on employees).
- Owners may freely mix business or personal assets. (Entrepreneur 2013)

## **Disadvantages of a sole proprietorship**

- Owners are subject to unlimited personal liability for the debts, losses and liabilities of the business.
- Owners cannot raise capital by selling an interest in the business.
- Sole proprietorships rarely survive the death or incapacity of their owners and so do not retain value. (Entrepreneur 2013)

## **Establishment Documents**

Sole Proprietors work on their own, which means they do not need to sign any business agreement or other formal documents. The only document which they need to sign and submit is a start-up notification form Y3.

### **2.2.2 Partnership**

In business world, partnership is business relationship between two or more individuals who are committed to run a business or an enterprise together. Each business partner invests his/her resources (money, skills or expertise, labour) in the business. In return, all partners are entitled for the share in the profit according to terms of partnership agreement. In case of lose to the business; partners share the liabilities of business.

In partnership business, at the end of financial year, an annual information return must be file to calculate the income, expenses, profit, losses, etc. Generally, partnership business doesn't pay the income taxes directly. Instead, it "transfers" this liability to its partners along with the profit which they gained during the financial year. Each partner files his or her income tax return based on income earned from partnership business.

There are several types of partnerships. The two most common are the following:

- General partnership
- Limited partnerships

### **General Partnership**

General partnership is a legal form of business operation between two or more individuals. In a general partnership, the partners manage the company and assume responsibility for the partnership's debts and other obligations.

In most of general partnership businesses, each partner owns some authority and responsibility in the operations of partnership business. All partners perform their duties according to their tasks written in business agreement. In general partnership, all partners are equal representatives of the business. Whether good or bad, partners own authority to make decisions on behalf of business and results of these decisions effect equally the other partners even if they were not involve in the process of decision making. Thus, the decision of one partner can bind the rest of partners and may lead them to a big disaster. Therefore, it is very important that all partners are involved in the decision making process. (Entrepreneur 2013)

Establishing a partnership business is much easier as this type of business is not a one-man-show. Finance, labour, operations are easy to handle because more than one person are sharing the funding and responsibilities in business operation. But still, it is advisable to take enough time to think before writing and signing the business agreement. While writing down the partnership agreement, following agreements should be handled carefully:

1. Financing of the Business.
2. How the partnership profit will be shared?
3. Roles and responsibilities in business.
4. How the decisions will be made?

5. What actions may be taken if the agreement breached by any of partner?
6. How to handle a situation if a partner dies?
7. What happens if a partner wants to end the business agreement?
8. In case a partner withdraws, how and who will determine the value of partnership?
9. When the money would be paid to the withdrawing partner?

It's advisable to consult a legal expert who is experienced in small businesses to help in writing an appropriate business agreement. (Entrepreneur 2013)

### **Advantages of general partnership**

Following are some of major advantages of establishing a general partnership

- Partnership businesses are easy to establish and operate.
- Funding the business is much easier because more individuals are involved in the business with their capacity to raise funds through their personal assets and ability to borrow funds from financial institutes.
- A partnership has higher chances of success because of combination of skills of two or more individuals involved in business operations.
- Partnership businesses are cost-effective because all of its owners are, in most cases, expert in certain field of their business and are practically working for the business on daily bases. For this reason, partnership business saves some of labour costs because the owners are working them self for the partnership.
- In partnerships, partners provide moral support to each other and create great ideas for achieve their goals by brainstorming.

### **Disadvantages of general partnership**

Beside advantages of establishing business as general partnership, there are many disadvantages which need to be considered carefully before choosing this form of business. Following are some of disadvantages of general partnership.



- Business partners are liable for the actions of the other partners even if they were not involved in decision making.
- All partners are entitled for share in business profits according to their ownership of share in the partnership. What happens if one partner is giving more time to the business and the other one contributes less time and effort?
- While establishing a partnership business, partners believe to have a long term business alliance. Since decision making power is shared among partners and they are acting on behalf of each other, disagreements and disputes may appear at any stage of business. Once the partners have lack of trust on each other, survival of the business is hard to promise.
- The partnership businesses have shorter life. Partnership mostly reaches to its end if a dispute occurs between partners or if a partner decides to withdraw and terminate the business agreement.
- A partner may not make big decisions freely because of limitation in this form of business. He or she has to negotiate with other partners and make them convinced which is not always easy. This kind of limitations prevents growth of business.
- A big disadvantage of general partnership is being responsible of liability. General partners are liable for the business debts, and all kind of liabilities of partnership. For example, if partner A owns 25 % of company shares and partner B owns 75 %, in case the partnership fails, both partners will pay the debt according to the percentage of their ownership. But if the partner B is not able to pay his part of debt, partner A would be called to pay all of business debt if he/she has personal assets or ability to payoff. (how-to-start-a-business-guide 2013)

### **Limited partnership**

Second form of partnership business is limited partnership. In this form of business, there are two types of partners

- **General partner**
- **Limited partner**

In limited partnership, role of active and sleeping partners are widely different. In most cases both partners invest capital in business according to partnership agreement but financial contribution from limited partner is more than general partner. On the other hand, general partner is mainly responsible for the business and all the deeds on behalf of business. General partners in this case are main decision makers and build the policies for the business. For this reason, general partners are responsible for the business liabilities. The general partner can be either an individual or a corporation. (Allbusiness 2013)

In partnership business, limited partner has protection of limited liability. Risks for a limited partner are very low and limited to the money what he has invested in the business. Limited partner's role in decision making and business operations is limited as well. They are mainly entitled of share in profit according to their capital investment. (Allbusiness 2013)

### **Advantages of limited partnership**

Following are advantages of establishing a limited partnership:

#### **Tax benefits**

Same as general partnership, profit and loss of a limited partnership considered as income/loss of partners of limited partnership. This simple assessment of income/ loss makes the taxation process easier and less complicated if compared to the other forms of business. Both, general and limited partners file their personal income tax return according to their annual profit or loss during the business year. (Allbusiness 2013)

**Limited liability**

In limited partnership, a limited partner is not liable for the company's debt. Limited partner is responsible only of the capital investment or property that limited partner contributed in the business. It is the general partners who are liable to all kind of legal and financial liabilities of partnership. While in general partnership, profit, loss and any other legal liability distribute among all partners equally. (Allbusiness 2013)

**Limited role of limited partner**

In a limited partnership business, limited partner doesn't play any role in business operations. General partners deal with day-to-day business operations and responsibilities. Most of time, limited partners do not even need to be part of business decisions. If business is making profit, limited partner will get his/ her share of profit by doing nothing. (Allbusiness 2013)

**Low risk of dissolving business**

Limited partners can leave the business without dissolving the company as they hold very limited role in partnership and business operations. General partner may replace the limited partner after paying capital investment of limited partner and may keep the business running.

**Less paperwork**

Creating a limited partnership or a general partnership requires less paperwork and legal documentation than other forms of business. However, it's necessary to create a written partnership agreement along with firm registration and taxation documents should be maintained. (Allbusiness 2013)

## **Investment opportunities**

In limited partnership, general partners may attract the investors with opportunity to benefit from the share in profit of partnership business without getting them involved in day-to-day business activities.

## **Disadvantages of limited partnership**

Following are some of disadvantages of creating limited partnership business.

### **Risks to the general partners**

In a limited partnership, the general partners remain unprotected of company's liabilities. If there is more than one general partner, it is possible that general partners become equally responsible for any lawsuit against company or any negative consequence of the action made by other general partner.

If for any reason, the general partner wants to transfer his role in the company to some other contractual expert or individual, the limited partner can veto his decision if general partner's choice doesn't suit limited partner. This is because limited partner invested in the business by trusting managerial/ professional skills of general partners. Therefore, the role of general partners cannot be shifted to some other person without agreement with limited partner.

### **Legal restrictions**

Because the limited partner is protected from business liability, this makes their role limited in the management of the limited partnership business. Law forbid them to play any active role in the business even if they can help the business in a critical situation. If they become active in business operation, they would be unshielded of liability risks. (allbusiness 2013)

## **Establishment Document**

A written partnership agreement and start-up notification form Y2 are required documents to establish this partnership form of business.

### **2.2.3 Limited liability company (Osakeyhtiö)**

Limited liability Company (LLC) or Osakeyhtiö (OY) could be interpreted as a business form having combination of the advantages of the partnership and the corporation, only the best qualities of each legal entity and none of the disadvantages. Same as in Corporation, LLC serves full limited-liability protection to all of its owners, yet it provides pass-through tax status to the owners same as in partnership company. In addition, LLC provides another liability shield to the owners that protect the shareholders from any personal lawsuits in case of any financial or legal crises. List of LLC's advantages doesn't stop here! Benefits of establishing LLC goes on and on. (Dummies 2013)

The best way to understand the LLC is to consider it as a general partnership business in which partners are free to play their role in the business operations according to their expertise but all the partners enjoy the full limited-liability protection same as limited partners in limited partnership. Shareholders of LLC cannot be sued and their personal assets are secure as well in case if creditors want to recover their debt through a lawsuit. (Dummies 2013)

### **Establishment of LLC (OY)**

A limited liability company (LLC) or Osakeyhtiö (OY) in Finnish is the most common form of business by the small or medium size companies in Finland.

The first step to establish a Limited company in Finland is to constitute a Memorandum of Association, signed and registered in Trade Register (maistraatti) by the shareholders of limited company. Memorandum of Association must contain the business name, business location, headquarter,

information regarding management board, shareholders, price of shares, payment terms and conditions of shares and the fields of the business in which the company will operate. According to the Limited Liability Companies Act in Finland known as "osakeyhtiölaki", minimum Capital required to establish a Limited Liability Company is 2,500 Euros and 80,000 Euros for a Public Limited Company. (Finland, company laws and regulations handbook, 2012, 193)

### **Founders/ shareholders**

There should be at least one or more persons to establish a limited company in Finland. According to the Limited Liability Act in Finland, all shareholders have equal rights in the business unless if some special role and responsibilities have been granted to some individual mentioned in the Memorandum of Association. (Finland, company laws and regulations handbook, 2012, 193)

### **Board of directors**

According to the Finnish Companies Act, limited companies must have to establish a Board of Directors. Members of Board of Directors should be elected by the shareholders in the General Meetings. Board of Directors is mainly responsible for the administration and assigning the roles in business operations. Board of Director also monitor the business accounts and financial matters of the company. (Finland, company laws and regulations handbook, 2012, 193)

### **Restrictions**

It is stated in Finnish Companies Act that half of the members in Board of Directors should be resident of EU member states. Limited company also need to establish an operational headquarter in Finland. (Finland, company laws and regulations handbook, 2012, 193)

## **Dissolution of a limited company**

In case of financial or any legal crises, decision of ending a limited company can be taken only in the General Meeting. Board of Directors may decide how to pay off the business dept in exchange of company's assets and capital invested by shareholders. After paying off all liabilities, remaining funds would be returned to the shareholders according to the Memorandum of Association. (International Business Publication 2012)

## **Advantages of limited liability company**

Following are advantages of establishing a limited liability company in Finland.

### **Limited liability**

The biggest and main advantage of establish business as LLC is the limited liability for all of its shareholder/ owners. In sole proprietorship and both forms of partnership, the owners are responsible of business dept and liabilities which mean their personal assets are at risk all the time and the creditors may sell their assets for the recovery of business dept. LLC provide shelter of limited-liability to the owners and their personal assets are safe in case of financial crises. All they would have to lose is the value of the shares they own in LLC. (Referenceforbusiness 2014)

### **Owners' active role in business**

A big disadvantage of limited partnership is that limited partners who are protected with limited liability are prohibited by law to play any role in business operations. Limited partner's position in limited partnership is not more than an investor. But in case of LLC, all members are under protection of limited-liability and yet they are allowed to play role in business management according to their expertise. (Referenceforbusiness 2014)

### **Tax simplicity**

In most of states, LLC isn't considered a separate entity from the owner. This mean income of LLC would be considered income of owners. LLC will not pay the income taxes by itself, because profit or the losses of business will be shifted to its owners and then owner will pay the income tax on the profit which LLC made during a financial period. (Referenceforbusiness 2014)

### **Disadvantages of limited liability company**

Following are some of disadvantages of establishing a limited liability company in Finland.

#### **Newly Invented Business form**

Like most of countries in the world, LLC is a newly invented business form which was officially adapted by European states not long time ago. This means that the governing laws for Limited Liability Company are still in development mode. LLC governing laws may differ state to state because of this ongoing evolving process which may cause conflicts especially when companies are going to trade internationally. (Referenceforbusiness 2013)

#### **High operating costs**

Operational formalities of LLC/OY make it an expensive business entity. Compared to the partnership and proprietorship business, founders of LLC are obligated to establish Board of Directors and arrange the meetings of shareholders with Board of Directors as part of decision making process.

According to the Finnish Business Act, LLC must have to establish its operational headquarter in Finland which in some circumstances may cause a hike in operational cost. (Warda 2007)



## **Formalities compulsion**

Compared to Sole proprietorship and partnership business, LLC's founders have to follow more formalities which increase operational complication.

## **Establishment documents**

To establish a Limited Liability Company in Finland, entrepreneurs need to submit a Memorandum of Association, Articles of Association and start-up notification form Y1 + appendix 1.

### **2.2.4 Cooperative (Osuuskunta)**

A Co-operative is an autonomous group of individuals or companies who associated to achieve their common economical and social goals by establishing jointly owned and self-controlled business enterprise with a democratic governing structure. In Finland, co-operative enterprises are governed under Cooperative Act. (European Commission 2014)

Co-operative enterprises are claimed to be more democratic business entity because each member of co-operative has one vote which they use during decision making process to elect administrative and managerial leadership to deal with day-to-day business operations. (European Commission 2014)

## **Characteristics of co-operative**

Following are some of main features of co-operative as a business form

- Autonomous and independently governed
- Free and open association and withdrawal from co-operative.
- Democratic governing structure which allows members to use their vote during decision making. Majority of votes finalize the decisions.
- Co-operative insures equal and fair distribution of profit among all members of cooperative. ( European Commission 2013)

## **Establishment of co-operative**

While establishing a co-operative in Finland, it is essential to create a “Memorandum of Association”. Co-operative’s Memorandum of Association contains regulations and constitution of co-operative. Regulation of Association must clarify the following:

- Name of enterprise and business name
- Domicile of co-operative
- Field of business
- Accounting period
- Amount of each capital investment and method of profit sharing

(Finnish Enterprise Agencies 2013)

## **Founders**

To establish a co-operative in Finland, there need to be at least three member persons or enterprises governed by legal persons. All of co-operative’s founders have to be member of cooperative as well.

In case of Co-operative, Finnish Company Act does not restrict Non-EEA resident to be founder of a co-operative. Founder of a Finnish co-operative may be resident of any country and nationality. Only a bankrupt and legally incompetent person cannot be founder of a co-operative in Finland. (Warda 2007)

## **Capital requirement**

There is no minimum capital requirement stated in Finnish Company Act to establish a co-operative. Three or more founding members may establish co-operative by contributing any equal amount of capital investment.

## **Administration structure of co-operative**

A co-operative must have to establish a Board of Directors. Number of Board of Director's members could be between one and seven elected by other members of co-operative. If there is more than one member in the Board of Directors, a Chairperson needs to be elected by other members of board.

Generally, board of co-operative elects a Chief Executive Officer (CEO) which is not compulsory for every co-operative. Especially small sized enterprises having few members do not go for such formality because of their limited operations. A CEO is responsible of day-today business operations and business management. (Warda 2007)

## **Advantages of Co-operative**

Followings are the advantages of establishing a co-operative in Finland

### **Limited Liability**

All members of co-operative enjoys limited-liability protection same as all member of LLC and limited partners in a limited partnership. Members of a co-operative are responsible to the business debt only with the amount of capital which belongs to them. (Enterprise Finland 2014)

### **Democratic structure**

All members of a cooperative have one vote. Members of cooperative use power of their vote in electing the administration and managerial team of enterprise. Majority of votes always finalize the decision in general meetings. (Warda 2007)

### **Equality**

A co-operative insure equality among all of its members by receiving equal capital share from founding members which leads to the equal distribution of profit and other financial benefits. Involvement and role of members in business

operations may vary from each other. Some members are dealing with the major tasks and some members may assigned for easy and less complicated tasks but at the time of decision making every member has equal right to influence on co-operative related matters by using his/ her vote. (Warda 2007)

### **Education and grooming of members**

Co-operative insures grooming and personal development of its members in the field of business management. Elected CEOs, Managers and other representative of co-operative are provided with advance training and educational programs to achieve the maximum level of efficiency in their tasks. (Warda 2007)

### **Disadvantages of co-operative**

Following are disadvantages of establishing a co-operative in Finland

#### **Required number of founders**

To establish a cooperative in Finland, there should be minimum three founders with equal capital investment. In some circumstances it could be hard to gather three persons with similar social and financial interests.

#### **Decision making in many hands**

All the matters related to the co-operative need to be decided in the general meeting of members. Members exchange their arguments and practice their right to vote to finalize the issues raised in general meeting. This decision making procedure may cause delay in the matters required prompt action from the cooperative. (Warda 2007)

**Complex governing**

Finnish Co-operative Act required certain governing procedures to be maintained by cooperative enterprise; including establishing of Board of Governor, electing a chairperson of the board, supervisory board, maintaining record of general meetings and minutes of general meeting, decision making through voting from all members. (Warda 2007)

**Lack of new talent**

Cooperatives often rely on its members to hold the major operational positions to reduce operational costs of enterprise by not hiring professionals from outside. This kind of policy leads to a talent deficit in cooperatives.

### 3 CASE STUDY: ESTABLISHING GUN SMOKE AY

#### 3.1 Introduction to Gun Smoke Restaurant

In this chapter of thesis, as a General Partner of Gun Smoke Ay, the researcher will describe personal experience of establishing business as a general partnership, the role in the business development, operations and day-to-day business activities as a general partner. An overview of general partner's responsibilities would be described in the field of business development, policy making, introducing and implementation of marketing strategies.

According to the second part of research problem" Factors behind success and the failure of small businesses", the researcher is sharing the success factors and the challenges which he personally has experienced and tackled during three and half years of business.

#### Company Information

- **Company name:** Gun Smoke Ay
- **Business name:** Gun Smoke Restaurant
- **Company type:** Avoin Yhtio (General Partnership)
- **Number of partners:** 2
- **Business Address:** Käpykankaantie 3, 78850 Varkaus
- **Tel:** 0458547777

Gun Smoke Restaurant was established in Varkaus on 1<sup>st</sup> August, 2010. Two founders of the partnership; Shahzad Rasheed, a foreign student of Savonia University in Varkaus and Markku Korhonen (Mr.), a retired engineer of paper mill Stora Enso Varkaus, gathered to achieve their common goal by establishing first restaurant in Varkaus city where the customers will be served with authentic Indian Cuisine and highly consumed fast food in Finland, pizzas and kebab.

### 3.2 Business Idea

Business concept of Gun Smoke Restaurant was; to be maximum benefited by offering something which is demanded but yet not being offered in the market. Markku Korhonen was the one who came up with the idea of establishing Indian Restaurant in Varkaus and he responded.

“Years ago I got opportunity to visit India and there I tasted authentic South Asian food with its rich aroma and taste come out of spices they use in their foods. Since then, I was missing that taste and have been thinking to get the same food in Finland, which is perhaps available only on the bigger cities. That made me thinking of having an Indian Restaurant in our own town Varkaus”. (Korhonen 2013)

After coming back from India, Mr. Korhonen was missing taste of Indian food and that made him realize that we do not have any restaurant in Varkaus offering Indian food. Mr. Korhonen knew that the researcher was a business student having experience of restaurant field, which he had gained during part-time work at a Varkaus based pizza restaurant. He decided to have the researcher as his business partner because of his nationality (Pakistani) as Mr. Korhonen was aware of the fact the Pakistan and India have same type of foods, cooking methods and common spices they use in their foods.

As a business student, it was a great opportunity for the researcher to understand Finnish way of doing business by working with a local Finnish partner. It was an ideal condition to start a new business as the restaurant was going to enjoy a “competition free” market because there was no existing Indian restaurant in Varkaus and in the surrounding cities. Chances of success were high.

## **Reviewing the Business Idea**

Starting the first Indian Restaurant in Varkaus was a great but some of challenges and difficulties were visible enough to consider them seriously before finalizing the business plan. As a business student, the researcher had to critically review the possible threats and weak parts of initial business idea and the following threats were found in the initial business idea of Mr. Korhonen.

### **Acceptability**

Majority of Finnish people do not eat spicy food, while Indian food contains a lot of spices. The question to be considered was, is it a smart deal to invest thousands of Euros to establish a company based fully on ethnic food restaurant which is not suitable for majority of target group? What if majority of potential customers would not feel the Indian food suitable for their taste?

### **Trend of Market**

Most common food consumed by Finnish people is pizzas & kebabs, because of its European origin, low price, and availability everywhere. So in this situation, would the customers prefer our high priced ethnic food often?

### **Availability of Expert Workforce**

It could be very risky to start an Indian restaurant in such a country where population of South Asian immigrants is very low. This indicates the risk of unavailability of expert work force to run the business.



## **Developed business idea**

Above mentioned risks were taken into consideration which led to develop the initial business plan by adding in the menu the most demanding and highly consumed fast food by Finnish people “kebab, pizza”.

The researcher had been working in a pizzeria for two years during the studies at Savonia University. The researcher gained business knowledge from the school and same time he had been practicing his knowledge by helping his ex-employer in business development, increasing sales through better customer services and designing marketing strategies.

Finally it was decided to establish a restaurant where customers would enjoy multi-types of foods from East and West continents, including most famous Western fast foods “pizzas and kebabs” and a new taste of East “Indian Foods”. New business plan was regarded to be more reliable and attractive.

### **3.3 Business Location**

After maturing business idea, the first thing to be focused is a location for your business which determines needs of your business in the best possible way. The best location for a restaurant is the one that is easy to approach for all types of customers whether if they are pedestals or driving there on the vehicle, the one which minimizes the costs while maximize profit.

When searching a suitable place for a business, one needs to assess competition in that area of the market. In some cases, it could be good to start your business closer to the other competitors to drive to customers in one certain area of the market. There would be chances to get customers from competitors if you are offering competitive prices. But for bigger businesses where you want to capture a big share market, you will consider to pick a place where you are the only service provider of that market segment.

Location of business plays a great role in the success of any business. While finalizing premises for the Gun Smoke, many factors were considered to avoid

competition and the advantages which the business may gain based on its location. A business place was found which earlier was being used as a Grill and Burger shop. Following were the advantages of Gun Smoke's location which were considered before finalizing the location:

- It locates on Käpykankaantie, which is one of busy roads of town and entrance point of the city for people coming from Kuopio and Helsinki.
- 25 % of total Population of Varkaus lives in Kaura-aho & Käpykangas. These two areas are surrounding areas of business location.
- Rammari, one of oldest bars of Varkaus is just behind Gun Smoke. This would allow the business to get a handsome amount of sale from Rammari's customers on weekend nights.
- Siwa, a super store is located right front of the door of Gun Smoke. This is a huge convenience for restaurant and chance to get the customers who are visiting Siwa.
- No competitors in the surrounding areas. Gun smoke is only pizza restaurant for people living in Kaura-aho and Käpykangas.
- Many factories and manufacturing units are located on Hasintie which is a commercial area of the city is very close to the business location. This was another supportive edge for the restaurant.

### **3.4 Finances for Start-up**

Business idea is nothing but a dream of an entrepreneur. For turning this dream into reality, one needs huge amount of money. Perhaps funding is the most crucial part of establishing a new business. People may come up with great ideas of successful businesses but gathering a lot of money is one hurdle which prevents them to implement their ideas in real life. If the luck doesn't favor, entrepreneur may lose all of his invested equity in result of failure of business

and in most cases, owing of thousands of Euros to the creditors. Mostly people do not dare to carry such big risks.

### **Estimation of capital investment**

A rough estimation of total investment was believed to be a sum of 40,000 € which later appeared much lower than the actual invested amount. Both partners decided to invest 30,000 € from their own and rest of 10,000 € were planned to borrow as business loan from Nordea Bank.

Wrong estimation of business invest led to very serious problems and crises just is the middle of establishing and development of business. Detail of the challenges appeared because of wrong estimation are explained in the later part of this chapter.

Total costs of establishing the restaurant ended with a sum of 74,000 € which was almost double of the amount which was estimated in the beginning. Company had to take more loans and entrepreneurs had to invest all of their savings to complete the renovation and other expenses.

### **3.5 SWOT analysis**

SWOT analysis is a strategic method which is being considered as one of most effect tool to evaluate the strengths, weaknesses, opportunities, and potential threats for a new business. This method of evaluation covers both, internal and external factors which directly influence the business. SWOT analysis put the light of these factors and predicts their favorable or unfavorable effects on the business. Generally SWOT analysis is practiced before setting the objectives of business and finalizing the business plan. But many organizations perform these analyses during the ongoing projects and businesses to reset the objectives of their existing business. Things may change at any time. Competition and other threats may grow or the strength of the business may increase because of favorable factors.

Objectives of any business should be achievable. Accuracy in setting the goals of a project or business is very important and it could be achieved only if an entrepreneur is well aware of their strengths and opportunities. At the same time, well-assessed market threats and personal weaknesses would not allow you to set unachievable goals.

### **Strengths**

Business-related skills, knowledge, and uniqueness of an entrepreneur or a business team that create a competitive edge over competitors. In the case of Gun Smoke Restaurant, the following were the strengths of the partners.

- **Communication Skills**

Both partners are good communicators. They like to talk to people and make them feel that business is not the only thing between them and their customers. The researcher believes that being a good communicator is a big plus point to build the comfort level with the customers to win their loyalty for your business, products, or brand.

- **Relationship building**

The researcher is a friendly person and likes to have small talks with the customers. This kind of comfort level with the customer leads to a friendly relationship and creates a bond between business and customers.

- **Quick learning of language and culture**

The researcher is a quick learner of language and easily gets adjusted with new people, work environment.

- **Managerial and customer care experience**

The researcher had been serving in a multinational bank on a managerial post for three years where he reached after working on different lower positions of sales and marketing department. Previous work experience was a big plus for the researcher to run a new business in a properly organized and professional manner.

## **Weaknesses or limitations**

Weaknesses are characteristics of the entrepreneur that causes disadvantages for the business comparatively to the competitors operating in same market. Following were the weaknesses of Gun Smoke Avoin Yhtiö at the time of establishment stage.

- **Insufficient sitting capacity of Restaurant**

The place where we planned to start our restaurant business was a small grill with maximum sitting capacity of four dining tables for maximum 16 people. I believed this place is too small for ethnic restaurants because majority of customers of an ethnic restaurant are families or the customers come in groups with friends or colleagues. There would be no more places for sitting if there are already four different customers eating in restaurant.

- **Poor Finnish reading and writing skills**

Doing business in Finland involves a lot of documentation including different agreements, taxes, invoices, Insurance policies, policy announcements of creditors and banks, bookkeeping and so on. To understand all these documents one needs to be good in Finnish language as official correspondence language in Finland is Finnish or Swedish. Unfortunately, I focused more on spoken Finnish language like most of foreigners in Finland. At the time of business establishment, my reading and writing Finnish language was not good enough to read and understand most of official documents which was one of biggest personal weakness in me as an entrepreneur.

## **Opportunities**

Opportunities for a business are characteristics of market and external factors which are available for the business to be benefited by utilizing them to increasing business performance, sales and the final profit. Following were the opportunities for the Gun Smoke Restaurant in Varkaus:

- **Competition free market**

It was a great opportunity to us to achieve high profit by setting higher prices of Indian food as we were going to be the first Indian Restaurant in the town.

- **Restaurant location**

Our restaurant was going to be located on Käpykankaantie, which is one of main and busy road of the city. Residents of different areas of Varkaus use this road to come in the city center and then go back to their homes by using same road. One of city's entrance points for the people coming from Kuopio is few hundred meters away from our restaurant.

- **Surrounding residential areas**

Käpykangas and Kaura-Aho are two surrounding areas of Gun Smoke which are the most populated areas of Varkaus. 5000+ people out of 23,000 total population of Varkaus live in these two areas which are more than 20 % of the population. Fortunately, Gun Smoke is the only proper restaurant in these areas where people may buy the cooked and ready food. This was considered a big opportunity for our business.

- **Rammari & Siwa**

Gun Smoke Restaurant is located in front of Rammari which is a famous old night club and bar of Varkaus. On weekend nights, hundreds of customers enjoy night life at Rammari and Gun Smoke restaurant is the only place for them to buy food. Forty hours of night work during eight weekend nights in a month generate 40 % of total monthly sale.

SIWA, a small supper market is located just in the next plot. A lot of customers come to shop there and buy food from Gun Smoke Restaurant. .

## Threats

Threats are the external factors in the market which may potentially harm the business. These were the factors which were considered as threats for our business:

- **Intensive competition**

Varkaus is comparatively a small town but there were already seven to eight pizza places. Two existing pizzerias are doing business in Varkaus for more than a decade and other pizzerias have also been in the market for years. This kind of competition makes it harder for a new business to enter and survive by competing well established business rivals.

- **Unavailability of Indian spices in Varkaus**

There are many spices and ingredients required in cooking Indian food. Most of these spices are not available in Varkaus. Only way to get these spices are to shop them from Helsinki Asian shops. This limitation may cause trouble for the business in case of shortage of required spices.

- **Acceptability**

Majority of Finnish people do not eat spicy food, while Indian food contains a lot of spices. There is threat for the business in case if potential customers would not develop their taste to like spicy Indian foods.

## 3.6 Business Plan

Before registration of a new firm, a detail business plan needs to assembled. Business plan needs to be in written form which clearly answers the fundamental questions that what are the objectives of registering a new firm and how they would be achieved. Business plan should provide a clear roadmap that the business idea would be executed in real business life.

In written business plan, entrepreneurs describe the detailed business idea including their social or financial goals, profit targets, product detail including

features, prices, potential buyers and expected demand of product. Business plan also includes a self analyzed SWOT analyses to observe the success chances of the business based on the professional strength of the entrepreneurs. Entrepreneurs make fare estimation of the opportunities for the business by assessing the market where they plan to start their business. Based on same assessment, entrepreneurs write down the threats for the business, For example, how strong and how many competitors they are going to compete? Is the size of the market is big enough? Are the potential customers interested to buy the products being offered?

Another important part of business plan is a self calculated amount of capital investment. Entrepreneurs have to explain that how they will arrange finance and what will be percentage of equity and borrowings. Finally, what would be expected monthly and annual sales and what would be the profit margin? The business plan contains calculations of profitability and financing requirements for starting up the business, it also defines factors that can influence at the business's operations, i.e. it defines risks of business activities. A well developed business plan shows how profitable business can be and what goals enterprise can achieve in the future. A business plan also helps in funding issues, since it is required for granting subsidies, start-up funds or bank loans.

### **Assessment of business plan**

After finalizing our business plan, we had to present it in the local business development office" Wäläkky Keski-Savon Uusyrityskeskus ry. Wäläkky Keski-Savon Uusyrityskeskus ry is a district body working under local government to help new entrepreneurs in establishing new business and insuring measures which are vital for success of businesses.

Before registering our firm, we had to share our business plan with Wäläkky Keski-Savon Uusyrityskeskus ry representative. We had to explain them:

- Why we are choosing this business field?
- What are our strengths and expertise to insure the success of enterprise?
- What are the opportunities and threats?
- How we will manage with finance?



- Percentage of our own equity and amount of loan?
- Survival during first non-profit year of business?
- Hiring staff from local market or abroad?

All above mentioned questions were answered and explanations were submitted in written form. Later Wäläkky Keski-Savon Uusyrityskeskus ry office made a report of their analysis on our business plan and its' success chances.

### **3.7 Business Agreement and other Documentation**

After having business plan approved from Wäläkky Keski-Savon Uusyrityskeskus ry, one to complete basic documentation for registering a new enterprise in trade register. This documentation included:

- Business agreement.
- Start-up notification form.

#### **Business agreement**

Business agreement is perhaps the most important piece of document which requires attention over each of its word, especially the terms and rules of business. The language of agreement should be clear, understandable and the common language of all signing parties.

While writing and signing a business agreement in partnership of different nationalities, it is advisable to write business agreement in English language if it suites all partners. In other case, it would be wise to take services of some lawyer and translator to translate the language of agreement into the language of the foreign partners.

Trust is the fundamental ingredient of a successful partnership. Business cannot last longer if partners have lack of trust on each other. But there is something

which could appear even more destructive and cause serious financial losses and conflicts in business. That is what we call “BLIND TRUST”. To avoid serious conflicts and business clashes, one should not trust blindly on the other partners. All the partners need to understand terms and conditions of business agreement and a regular follow up of financial matters will reduce the chances of financial mishandling.

In case of Gun Smoke Avoin Yhtiö, researcher made both above mentioned mistakes. Partnership agreement of Gun Smoke AY was written in Finnish language. At the time of signing the business agreement, researcher’s Finnish language was not good enough to understand the most of contents of agreement.

There were couple of terms in business agreement which were seriously objectionable. According to a term of agreement, any of business partner can deal the banking and financial matters on behalf of other partners without involvement of the second partner. This term of agreement enabled Mr. Korhonen to apply for the loans without willingness and permission of researcher.

According to another term of agreement, Mr. Korhonen would be alone responsible of the matters include: bank loans, company’s bank account and finance, bookkeeping, agreements with other companies, permits etc. My role in these very important matters of business was not required. This term of agreement made me distinguish from the money matters and accounts of company.

### **Start-up notification**

Second document required to register a partnership based enterprise is Startup notification form Y2. This form includes basic information of enterprise such as: Company name, business name, business domicile, business line, detail of

partners and their ownership percentage, contact person's detail for tax related and other official matters and some basic information required for taxation of business. Start-up notification form is available on website: [www.ytj.fi](http://www.ytj.fi).

In addition, other matters such as the division of responsibilities between partners and their investments, the Managing Director, the accounting period, the distribution of profits and losses, and the terms of dissolution or continuation of the partnership etc, should be settled in business agreement.

Once the business plan is assessed and approved by Keski-Savon Uusyrityskeskus ry, one needs to prepare business agreement and other related documents to submit their case in local registrar office "maistraatti". Registration office may need few days to register a new company in their record.

### **3.8 Differentiation in Name and Theme of Business**

Restaurants in Finland have their typical names and looks. In many cases, business owners give their own name to the business or the business could be open on name of some city or town. Mr. Korhonen wished to name their restaurant on his family name which, in researcher's opinion, had no attraction for the target market. It was going to be one of their common family names.

The researcher observed the glamour of Western world and Western life style among youth of Finland. They like to wear Western cowboy costumes, cowboy hats, and cowboy boots. That made him thinking to choose a name for the restaurant which brings something new in the minds of customers. Three names were short listed after making research on Western culture.

- 1) Western Restaurant
- 2) Gun Smoke
- 3) The cowboys restaurant

An online poll was launched on Facebook to ask people of Varkaus to choose a name for our restaurant and the majority of the voters voted for “Gun Smoke”. Later, this name became very famous among young people and teenagers.

### **Interior designing and Western theme**

According to the name of restaurant, we decided to give a Western look to our restaurant. To make Gun smoke a cowboy restaurant, we used very old wood for interior designing, buffalo skulls, old fashion clock, horse shoes, and a saloon door which is symbol of Western culture. Original cowboy hats and shoes were imported from America for the staff to create the resemblance with the cowboy theme of restaurant.

### **3.9 Organizational Part**

Organizational part of a newly established business is most learning part for a business student. In this part you have to cover various tasks. Such as:

- What to sell? (product)
- Whom to sell? (target market)
- How to apply marketing mix? ( marketing strategies)
- How to manage the main functions of the business?
- How to launch promotion? (sales promotions)
- How to analyze competition analysis? (SWOT analysis)
- What kind of image to create?

### **Selection of product range**

On the product selection stage, the researcher tried his best to differentiate menu by introducing new sauces, rich combination of ingredients which are not being used by existing restaurants. Indian food was also a unique product line of restaurant as Gun Smoke was the only restaurant that was offering Eastern and Western food under one roof.

## **Marketing of Gun Smoke Restaurant**

Young generation, families with young kids, and teenagers were considered as our potential customers. Younger people are the highest consumer of foreigner pizzas and kebabs. It is easier for young people to develop their taste to like foreign food. Older people are not so fond of fast food and they are not comfortable with foreign food as it is difficult for them to develop their taste.

Our target group was the young generation and today's easiest way to approach the younger people is "Facebook" where most of them spend their time. I decided to use E-marketing to reach my target market which was totally free and very effective way of direct communication with the potential customers.

Few months before opening of restaurants, I developed company's official account of Facebook. A regular and very strong connection was built with our potential customers. We kept our customer engaged in the developments process by asking them for their suggestions and expectations on different matters.

### **Sales promotions**

Different sales promotions were introduced in the beginning of the restaurant.

- 20 % discount was offered to the school kids.
- A special lunch deal was offered to the students of Savonia University. They were offered a very special discounted price on pizzas and kebab meals. pizzas@ 4€ and kebab@ 5€
- B2B deal was offered to the employees of surrounding factories. They were offered free food delivery on their work place and a special price on ordering more than 5 lunch meals.

### **Analyzing competitors**

Before starting selling at restaurant, a SWOT analysis was practiced to evaluate our strengths, weaknesses comparing with our competitors. Prices of our competitors were also considered before pricing our products.

### **Team building and staff training**

Two female students from Savonia University were hired for customer dealing and order taking. They both were able to speak Finnish language and both were skilled at customer services.

One male student was hired for assistance in kitchen. A training session of two week was arranged for all employees. We also developed a work schedule on weekly bases.

### **Documentation handling and basic bookkeeping**

This business allowed researcher to practice the accounting and basic bookkeeping knowledge which he gained at Savonia University during Business accounting courses. It was great experience to deal the accounting related issues which researcher studied during degree program.

### **Business partner's view**

It is great experience to work with a young Pakistani friend whom I met 5 years back at Savonia University. I found him honest and very dedicated to work he got during his studies.

For starting a restaurant business, I was looking for a business partner who could work on my plan. In my opinion, nobody could be a better choice than Mr. Shahzad to turn my business plan into a real operative company. He took the basic business plan far away based on his business know-how.

During last two years, his role in the business is vital. In fact, he is the man who is running the business alone. He is very efficient in performing his tasks and always motivated and devoted to grow the business.

**Markku Korhonen.**

Managing Director

## 4 RESEARCH IMPLEMENTATION

### 4.1 Background of the Research

Micro and small business sector plays significant role in the national economy of Finland. Like many other EU economies, micro and small enterprises are 98,7 % of total registered companies in Finland. According to the London Economics estimate for 2012, micro and small businesses created 45.8 % of total job in Finland. (European Commission 2013)

Despite the above mentioned facts and figures, running a small business in Finland is a big challenge. According to the national statistics, one out of every three companies bankrupt during first five years of business operations. Since 2010, averagely 2750 companies bankrupt every year. (Statistics Finland 2014)

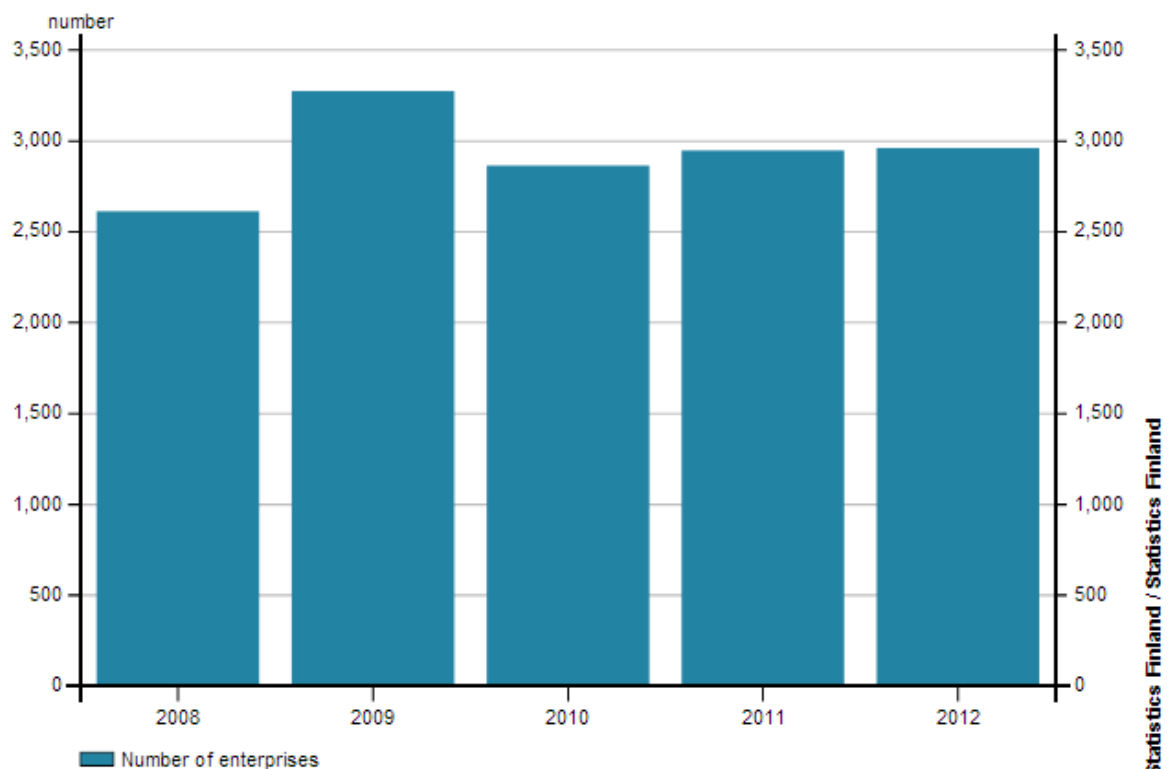


FIGURE 4. Bankruptcy of Finnish enterprises in years 2008 - 2012. (Statistics Finland 2014)



Healthy entrepreneurial community leads the society toward a welfare state and plays a vital role in the future building of the nation and the state. Numbers of bankruptcies shown in the Figure 1 are alarming and should be considered as an eye opener for the authorities of Finland and the Finnish society as well. Society and Government must have to realize that small businesses need the social and political support for their long lasting survival. There is no doubt that the micro and small businesses are in trouble and we must have to identify the challenges which lead small businesses towards bankruptcy.

Van Aardt and Bezuidenhoud (2002, 250) identified eight major reasons for the failure of small businesses. These reasons are poor management skills, poor recording-keeping, poor money management, little efforts to market business, poor planning, poor pricing practices, poor human resource management, business owner's inability to adapt the changing required in a business. According to Amyx (2005) "one of the most significant challenges is the negative perception towards SMEs. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Often larger companies are selected and given business for their clout in the industry and name recognition alone". Longenecker believes that "Starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises" (Longenecker, et al., 2006). Poor financial management and lack of funds have been considered one of serious challenge of micro and small business. Entrepreneurs started their limited business with very limited financing often have to shut down their business operation in case of even minor crises. This is because companies do not have enough financial back up to feed the business needs.

Despite above quoted challenges, identified by business experts from different part of globe, the researcher believes that there is much more to dig out. There

are many challenges of small businesses which are common in entrepreneurs globally but many of small business challenges may differ state to state because of political and state policies, unsupportive social behaviors, national capability to support small businesses, availability of workforce etc. To explore the accurate difficulties of Finnish small businesses, there cannot be any better source other than owners of small businesses in Finland. These entrepreneurs are actually the people who are facing many challenges at one time for survival of their enterprise. Researcher decided to conduct a research to investigate challenges of small business owner in Varkaus and neighboring towns.

## **4.2 Research Method**

This study on establishing small businesses and challenges of small businesses is exploratory and qualitative type of research. Aim of this research is to describe and highlight the challenges of small businesses in Varkaus and neighboring towns. To execute the research, researcher decided to adapt qualitative method which allows researcher to interact and interview the concerned people, record their opinions, fears and feelings of respondents. Qualitative research is: “the research about persons, lives, lived experiences, behaviors, emotions, and feelings as well as about organizational functions, social movements, cultural phenomena, and interactions between nations” (Strauss and Corbin 1998, p.11). Under qualitative research method, a questionnaire was designed to conduct a survey by interviewing the owners of small businesses in the town.

There were four major questions in the questionnaire which produced a clear picture of difficulties of small businesses and the factors playing vital role in the success or the failure of a small business in this region of Finland. Following were four main questions asked to the interviewees:

1. Please identify five factors that made your business successful.
2. Identify five most crucial factors which may lead a small business to a bankruptcy
3. What are current challenges of business and what is counter strategy?

4. What are your recommendations and suggestions to the new comers in the market and promoting authorities of small enterprises?

## **Population**

“A population is the study object, which may be individuals, groups, organizations, human products and events, or the conditions in which they are exposed” (Welman and Kruger 2002, p.46). It is often impractical to investigate all members of a population because of its huge size and limited recourses. Therefore, researchers have to pick a random sample out of population.

This study focused at micro and small businesses in Varkaus and neighboring small towns and the target population of this research was owners of micro and small businesses in this region. There are hundreds of micro and small enterprises operating in this industrial town of Finland. To execute this research, a subjective method of sampling was used to take out a sample out of population. Research sample included owners of Micro and small businesses. Some respondents were recently retired business persons and some of respondent were those who had to give up their businesses because of crucial challenges they had to face.

## **Sampling**

While selecting a sample for execution of this research, a free style technique was adapted to get a wide range of business fields, insuring representation of all small business sectors in this research project. To insure the maximum response rate, questionnaire was sent to different small business owner with reference of mutual friends of researcher and respondents. Other methods to distribute questionnaire were personal visits on small shops in Kauppakatu and other areas of Varkaus. Researcher personally explained the purpose of research and insured the privacy of respondents. Another participated group of respondents was personal customers of researcher who were requested to respond the research questions after confirmation of their occupation as a self employed person.

## Data collection

Semi structured interview method was adapted for collecting data. This method helped to identify the factors behind successful enterprises as well as factors which may lead a small enterprise to the bankruptcy. This method of research enabled researcher to study the concerns, feeling and expectations of a small enterprise's owner. This research also allowed the researcher to gather the extremely valuable opinions, suggestions and recommendation through their experience which they acquired after years of their struggle to make their business successful.

For data collection, a survey was carried out by personally visiting entrepreneurs doing small businesses in Varkaus. Survey was conducted between 15<sup>th</sup> of January 2014 and 31<sup>st</sup> January 2014. A questionnaire was used to interview the entrepreneurs. There were seven major questions in the questionnaire which were designed to gather the information of those key factors which may drive a small business to its success or the failure. Questionnaire consisted following seven main questions:

1. Background information of the enterprise and the entrepreneur.
2. What are the five factors that made your business successful?
3. What are five most crucial factors which may lead a small business to a bankruptcy?
4. What are current challenges of your business?
5. What strategies have you adapted to tackle current challenges?
6. What are your five recommendations to the new entrepreneurs for a successful start-up?
7. What are your five suggestions to local or federal authorities to motivate new entrepreneurs?

### 4.3 Data Analysis

There were total 22 respondents. To get the best results of this research, we need analysis each aspect of the questionnaire.

#### Gender of the respondents

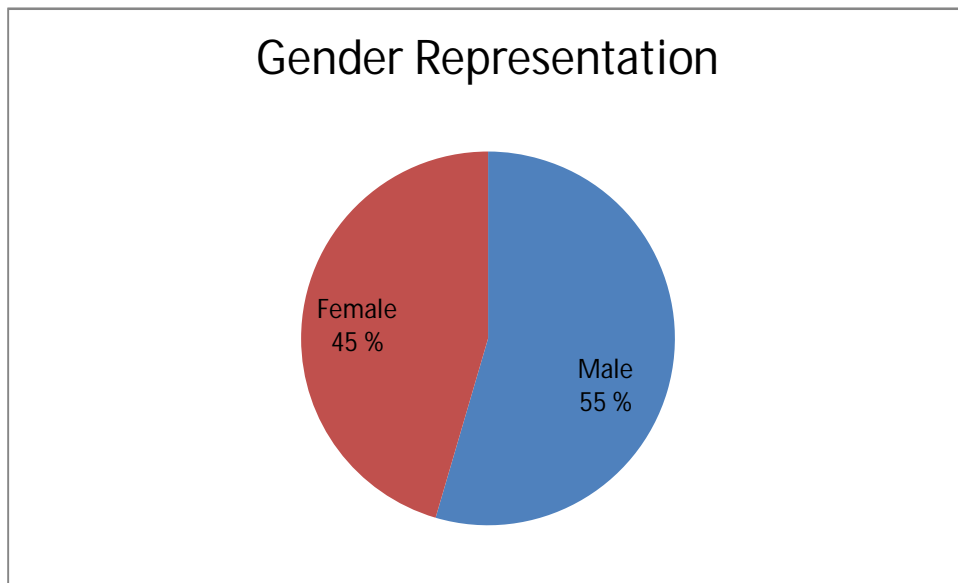


FIGURE 5. Gender representation in the research sample, n=20

Out of 20 respondents there were twelve male entrepreneurs and rest of eight were female. This shows that Finnish business women are equally active in doing business and the Finnish business market offer equal opportunities to the female entrepreneurs to establish their own business

## Age of the respondents

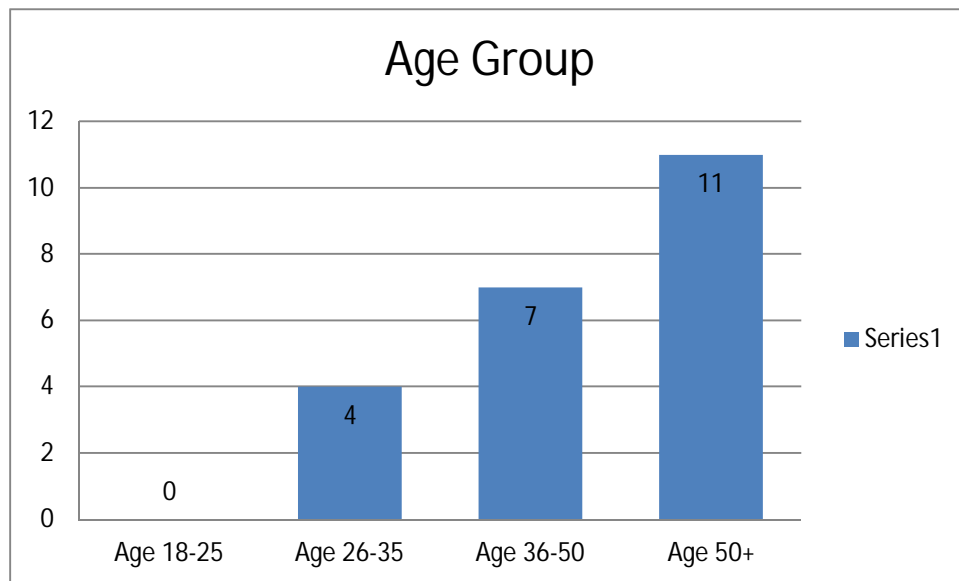


FIGURE 6. Respondents' belonging to different age groups, n=22

Age is an important factor which plays a vital role in the success of a business. It is believed that people belonging to a young age group are more energetic, passionate, and aware of advanced business tools through their studies. But on the other hand, there is a lack of several very important skills in young entrepreneurs. For example, lack of experience, lack of knowledge of the field, lack of confidence to make brave decisions, lack of discipline, lack of decision-making ability, lack of people management skills, etc. All these lacking factors play a significant role in the success of a business and could be gained only by spending some years of professional life.

In the sample of twenty-two entrepreneurs, eleven respondents are more than fifty years old and seven people belong to the age group between thirty-six and fifty. If we gather the respondents of these two groups, there would be 18 entrepreneurs out of 22, and that means 82% of total respondents are older than 36 years old.

## Business condition

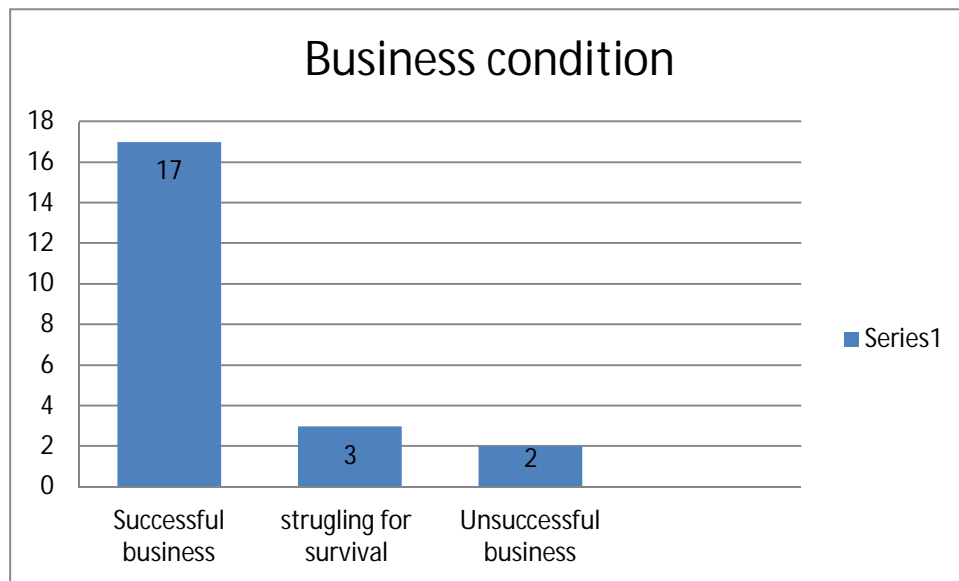


FIGURE 7. Success and failure ratio among the businesses of respondents, n=22

It can be seen in the above figure that seventeen out of twenty-two small business owners are doing their business successfully which shows the great market potential and high probability of success. Results of this survey can be a great motivation for new small business start-ups and it may encourage people to start their own businesses. Only two respondents reported their businesses as unsuccessful which is only 9 % of the sample. Probability of failure is surprisingly low in small business sector.

## Company form

Selection of inappropriate business form may create serious challenges for the company. For that reason, new businesses should consider it seriously and selection of business form should finalize after meaningful consultation.

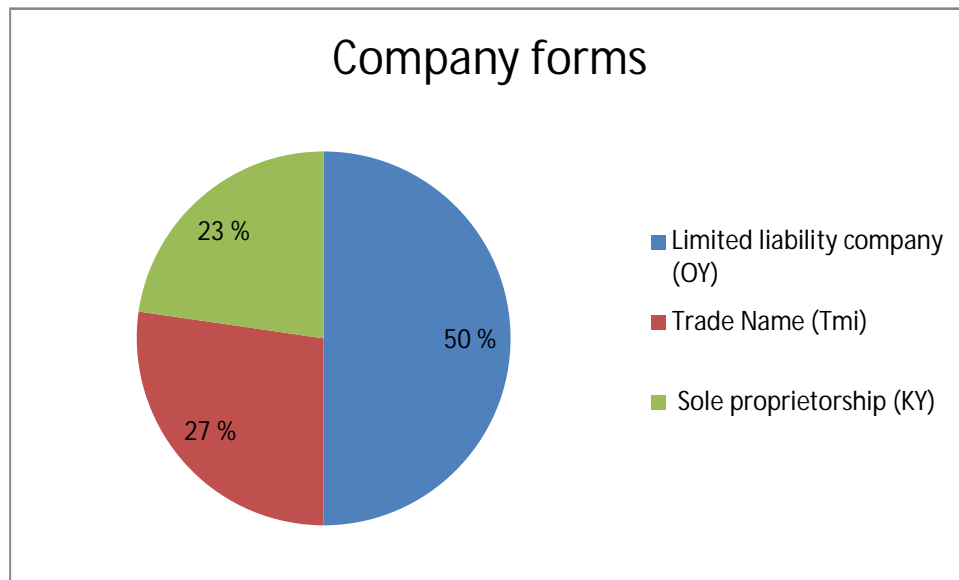


Figure 8. Division of different forms of businesses by the respondents, n=22

In the sample of 22 small business owners, 50 % of respondents believed Limited Liability Company form best available option. This shows that the majority of small business owners running their company as LLC and new start-ups may consider to study this business form with detail to be aware of advantages and disadvantages of this form of business.

### **Success factors of small business**

There are many sources to identify the challenges of small business sector but the most appropriate way to identify the success factors in a specific business market is to ask the people operating in that market and doing their businesses successfully. In this case, small business owners in Varkaus and neighbouring areas were asked through a questionnaire to identify five factors which in their opinion are the most significant for success of a small business. Following are five most selected factors by the respondents:

- 1. Personal business expertise**
- 2. Reliable/ professional workforce**
- 3. Business location**
- 4. Competitive/ low prices**
- 5. Marketing and selling skills**



## **1. Personal business expertise**

Business skills are essential for success of a small business. Success of micro and small businesses rely on the business expertise and experience of entrepreneur. Probability of failure of business is high if the entrepreneur has poor business administration skills and lack of experience. That is why, it is highly recommended by the business experts that entrepreneurs must equip themselves with training and knowledge of their field before they step in the market.

significance of personal business expertise could be measured by results of the survey conducted for this research. 20 out of 22 respondents believe that business expertise of entrepreneur is the key success factor for a small business. Therefore, people who are planning to start their business are advised to gain knowledge and minimum 3-4 years practice of their field before they start their own business.

## **2. Reliable/ professional workforce**

It is believed by many business persons that trustworthy and professional employees are asset of every business. Devoted and loyal workers play vital role in success of a business. Therefore, it is really important to develop a team of skilled and professional employees. It is true that more workers means more expenses for the business but employees pay off their salaries in most of cases through their services and by expanding the sales revenue of the business.

Results of the survey show that second most important success factor for a small business is professional employees. 18 out of 22 respondents considered workforce as second most important success factor for a small business. In most of the cases, entrepreneurs have to give up their businesses if there is shortage in the skilled workers and the businesses are not getting the right persons for the job.

### **3. Business Location**

Business location is very critical factor which requires meaningful working on it. Small businesses are directly interacting with the customers and for that reasons they need to be very careful while deciding the business location. There are many factors to be considered, for example, easy access for the target customers, transportation, neighbourhood, competition, premises costs, scop for future expansion.

According to the entrepreneurs interviewed for this research, business location is third most significant factor for the success of a small business. 16 out of 22 respondents voted for this factor and identified it as a critical success factor for the success of business in this market.

### **4. Competitive/ low prices**

Competitiveness is another important factor for a successful business, especially when the business is new in the market. Competitive and low prices are suggested by the local entrepreneurs and they considered it one of five most critical factors required for success of a small business.

### **5. Marketing and selling skills**

Business communication and selling skills are really important for the small business owners. Since most of small business owners are involved in business personally, they need to be really good at marketing and selling. They need to be equiped with marketing communication techniques and customer services skills.

### **Factors which may cause failure of small business**

Interviewees were asked to identify the five most crucial factors which according to their opinion may lead a business toward its failure. Following were five most critical factors reported by respondents:

- 1. Low demand/ small target market**
- 2. Lack of sufficient capital**
- 3. Lack of business knowledge / training**
- 4. High competition**
- 5. Unavailability of workers**

### **1. Low demand/ small target market**

20 respondents (91 % of total) mentioned Low demand as the most crucial factor which may lead a business to a definite bankruptcy. These results suggest a proper assessment of market potential and demand of products or the services offered by a new business. Business established based on poor market assessment often pay huge costs.

### **2. Lack of sufficient capital**

Majority of small businesses are established with little funds, mostly funded by entrepreneur's personal savings or with financial help of friends and family. Investors are not interested to invest in this sector, instead they prefer to invest on big projects of well recognized and well established companies. Probability of lacking of funds are always high in small and micro businesses because the small businesses rely on the financial capability of entrepreneur or some other individuals attached with business. In case of any unexpected financial crisis, small businesses often bankrupt due to insufficient financial reserves of company.

19 respondents (86.3 % of total) in the sample of small business owners believe that lack of financial reserves may cause failure of a small business in case the company face any crisis which requires a big amount of money to be handled.

### **3. Lack of business knowledge and training**

Sixteen respondents (72.7 % of total) agreed on Lack of business knowledge and training as 3<sup>rd</sup> most critical element which may lead a small business to the serious challenges. Entrepreneurship is not a smooth road and the situations may appear even more worst if the the entrepreneurs have no practical experience and formal education of the field in which they have invested their money to establish their own business. Professional training and practical experience is something MUST for the success of a business.

### **4. High competition**

Accoeding to Prof. Yochi Slonim “ No matter how small, how stupid, how ugly, how unprofitable the business is, competition will come the moment they will see some money”. Equation of high competition and small market is too dangerous especially for a small business. To avoid this threat to your company, it is really important to start business with an unique product which has high demand and low competition. 11 out of 22 respondents stated that cometition is one of five most crucial factor which may ruin a small business.

### **5. Unavailability of workers**

Small businesses often fails because of unavailability of workers. Employees are always interested to join big companies for better salaries and future growth. They get their early trainings from a small business and once they are trained and are in position to help their small employer, they often receive call from a bigger company operating in same business field. Thus, the employee join the bigger businesses by putting their small employer in trouble.

### **Current challenges of small business**

It should be very important for the new start-ups and the concerned authorities to understand what are the challenges of small business in the current market scenario. New business owners who are going to establish their business in this

market area may develop better strategy if they are aware of the problems being faced by existing small businesses. Similarly, the authorities which are responsible to promote entrepreneurship, would be in a better position to help small business sector if they know what are the hurdles of micro and small businesses in the market and what are the factors which are causing raise in bankruptcy rate of micro and small businesses.

After identification of success factors, business failure factors, entrepreneurs were asked to mention five challenges which their businesses are facing today. These five challenges are quite similar to the factors which they identify earlier as failure factors of a small business.

- 1. High competition**
- 2. High operational costs ( including raw material, salaries, transportation etc.)**
- 3. High taxes / insurance fees**
- 4. Unavailability of skilled workers**
- 5. Low demand / small market**

Sixty percent of respondents ranked competition as the biggest challenge of their business in current market scenario. According to economics law, if many companies are doing business in same field it will increase the competition in the market which later cause raise in the supply of their common product. If the supply is high and the demand is low, it will force the suppliers to sell their product at low profit margin which sometime makes the business unprofitable. High operational costs are the 2<sup>nd</sup> challenge being faced by entrepreneurs. 11 respondents (fifty percent of total) mentioned high costs as 2<sup>nd</sup> most critical challenge their business is facing today. Followed by high operational costs, high state taxes and other insurances fees are the 3<sup>rd</sup> challages in the list developed by the answers of respondents. Local entrepreneurs believe that there is great shortage of skilled manpower and unavailability of professional workers is one of most serious challenges small business sector is facing today. Low demand and small market size ranked 5<sup>th</sup> and last challenge in the list of five most crucial challanges of today's small businesses.

## **Strategies to counter the challenges**

When small business owners were asked about the strategies they apply to counter their challenges, the following are most commonly adapted counter strategies mentioned by respondents.

1. Achieving loyalty of customers
2. Marketing campaigns
3. Offering lowest prices in the market
4. Equipping staff with training and advance selling techniques
5. Improved quality and reliability of product

### **1) Customer loyalty**

86.3 percent of total respondents mentioned that winning customer loyalty as the most effective counter strategy to tackle multiple challenges their businesses are facing today. Customer loyalty is hard to achieve. It could be gained through consistent quality services which satisfy the needs of customers and through building such emotional relation which creates feeling like customer is being treated more than just a customer.

Since the markets are getting shrink and competition is getting higher in every field, the businesses are diverting their focus more and more on customer and customer relationship. It is easier to retain old customers than getting the new ones. Loyal customers insure the sales of a company and they are, in most cases playing role of a free ambassador and promoter of the business.

### **2) Marketing campaigns**

Respondents indentified marketing as their second most commonly practice strategy to deal with challenges such as low demand, small market share, introducing their new products and sales promotions and discount offers. Marketing campaigns are launched through newspapers, local radio, printed

brochures and leaflets, E-marketing and social media. Effective marketing may boost the sales and enable the company to get bigger slice of market share.

### **3) Competitive pricing**

To deal with the competition in the market, 50 % of total respondents mentioned low and competitive prices as counter strategy. High competition in the market force small businesses to sell their product at low margins and this cause low profitability of small businesses.

### **4) Staff training and advance selling techniques**

Entrepreneurs in the sample mentioned that staff training and equipping them with latest selling techniques is an effective way to achieve satisfaction of customers and providing them the best information about their product. Skilled and trained staff elevates the services level and generates high revenue for the company.

### **5) Improved quality and reliability of product**

Nine respondents mentioned that improving quality and reliability of product helps to tackle the challenges such as low sales, poor customers response, decrease in demand etc. Research & Development is really important to maintain quality and features of a product according to the advancement of market and expectations of customers.

## **5 CONCLUSIONS AND RECOMMENDATIONS**

In this very last chapter of study, discussions and results of research would be concluded and summarised. Suggestions in this chapter are mainly based on learning of researcher and the suggestions gathered from the small business owners through questionnaire.

### **5.1 Conclusions**

All entrepreneurs included in the sample of this research are facing various challenges, which according to their own opinion are very crucial and may cause failure of a small business. If these challenges are not addressed and handled in a proper way, regional and national economy would have to face more bankruptcies in micro and small business sectors. Researcher believes that the foundation of business laid on crucial business blunders would lead to a definite failure of business which is huge loss for both, the entrepreneur and the national economy. Therefore, both parties need to insure solid grounds of a start-up.

Newborn businesses need support of government and society in the early phase of business. Government must have to realize the importance of small business in both terms, generation of revenue and jobs creation. Successful small businesses insure a healthy national economy. On the other hand, society also needs to realize the significance of small businesses and role of entrepreneurs. Entrepreneurs need recognition and appreciation for taking bold decision of investing all their money to establish their own business which later allows jobs to the other members of society.

Participants of this research were asked to identify the factors which made their business successful. Following are the five success factors reported by the owners of small businesses in Varkaus: Personal business expertise, reliable/professional workforce, business location, competitive and low prices, marketing and selling skills.



According to the findings of this research, High competition, high operational costs (including raw material, salaries, transportation etc), high taxes / insurances fees, unavailability of skilled workers, low demand / small market are five most crucial challenges small businesses are facing today. Out of these five challenges, three challenges are common in the list of the five most crucial challenges which may lead a small business to the bankruptcy. These are alarming facts of today's market condition. Future start-ups must need to consider these challenges before stepping in the market. On the other hand, authorities need to play their role to reduce the risk level of challenges being faced by micro and small businesses in this region.

Most of small business owners sampled for this research identified different strategies to handle the above mentioned challenges. Some entrepreneurs believes that selling at low price, offering discounts and launching sales promotions may drive them out of crises. Some respondents are more focussed of improvement of services and quality of their product. Some of them mentioned effective marketing as a way to get out of challenges they are experiencing in current market scenario. Training of staff is also being considered by local entrepreneurs as one of most effective strategy to tackle the challenges.

## **5.2 Recommendations**

Finally, based on findings of survey and literature reviewed for this study, the researcher humbly proposes the following recommendations and suggestions to the future entrepreneurs and the concerned authorities responsible to promote entrepreneurship.

1. Competition is reported as a top challenge for most of small businesses, especially small sellers and producers. This is mainly because of poor market analysis and lack of information of actual demand. Another reason of high competition in the market is duplication of existing businesses in the market. Duplication causes trouble for both, the new company in term

of high competition and the existing businesses in terms on low demand and shrunked market.

On base of above analysis, new start-ups need to be innovative. They need to come up with new ideas, something new which is not being offered in the market. Newly innovated product or service will make them leader of their field and chances of success would be much higher than copying and competing existing and well established competitors.

2<sup>nd</sup> suggestion to the new start-ups is the ensuring the meaningful and a clear differentiation in favour of potential customers. They need to work effectively on Points-of-Difference (PODs) and Points-of-Parity (POPs) to create the reasons for the customers to do the business with them by ignoring the existing competitors. An effective, meaningful and clearly visible differentiation may elevate chances of survival in an intensive competitive market.

Local authorities may play their role to control the duplication of business by assessing the actually condition of demand and available supply. Let's assume that there is demand of 1000 breads in a small market and bread producers are supplying 1200 breads. This means that there is surplus in supply and bread producers are suffering with lose of 200 breads. If the authorities are aware of this surplus in supply, they should divert the new start-ups to some other sector where demand is higher and supply is low, instead of letting the new start-ups jump in the sector where competition is very high and chances of survival are low.

2. Compulsory entrepreneurial training for new businesses and for advancement of existing small businesses should be arranged by local authorities. Having a business idea and funds to invest should not be considered EVERY THING you need to establish a company. Administration of a business is not less than an Art. Entrepreneurs must need to learn how the administration side of business works and how to utilise the resources (product, skills, finance, human resource,

government aid, customers' willingness to buy a product) in the best possible way.

These training seminars should be offered to the existing businesses for their advancement and equipping them new techniques of boosting profit margin through advance selling and marketing strategies. These trainings may rescue the struggling businesses and provide them way out of their challenges which are fix-able through improved working policies.

3. Higher taxes and high operational costs are one of most serious challenges of small businesses in Varkaus and neighbouring towns. These operational costs include high salaries, high costs of raw material, expensive power and other utilities required for a business etc. Majority of small business owners believe that salaries of employees are too high and this is the major cost which is hammering their businesses. 2<sup>nd</sup> major cause of high cost is identified as high VAT and income taxes which raise the prices of raw material and reduce the profit left for business owners.

Failure of an enterprise will cause unemployment of the employees who were working for the sinking business. In addition, the entrepreneurs would be dependent on social aid of government. Other aspects of failure of a business include end of VAT generation, end of income taxes, increase in unemployment rate, raise of frustration among society and reduced motivation for the new start-ups.

To avoid all these damages to the national economy, authorities may consider of introducing a subsidizing program for the small businesses which are in the initial phase of development and those who are struggling for their survival with low amount of profits. Authorities may contribute in the salaries of employees or such businesses which are not generating profits equal to the average income level. Such poor businesses could be aided with lower income taxes. These kinds of aids will elevate the confidence level of entrepreneurs and small business owners can come

out of financial challenges with such supportive policies from the government.

4. Experience is the key factor in success of small businesses. Capability of hiring well paid professional workers is low among small businesses. Therefore, in most cases, small and micro businesses rely most on their founders. If the entrepreneur is experienced and is master of his or her field, chances of the success of the business are high. In other case, company must have to hire professional people to achieve the business goals. It is recommended to the future entrepreneurs to gain the minimum four years of experience in the same field in which they are going to establish their own business.
5. Training of staff is important for success of a small business. But it is often expensive and small business owners do not pay for such formalities. The Federation of Finnish Enterprises (Union of Finnish entrepreneurs) can solve this big issue by conducting once a year free training session for the employees of small enterprises in each city. Federation of Finnish enterprises may hire a trainer and the city administration may provide free premises to conduct the training session. This will definitely help the small enterprises and ultimately local and national economy would be benefited with this given support to the small business sector.
6. A group of respondents suggested that city administration needs to work effectively to improve the image of the city as developing and progressive town. People will move to the other cities If the authorities are not creating job opportunities and other attraction for the people living in this town and the residents of neighbouring villages who come to work here and buy their grocery and other stuffs from Varkaus. Situation would be worst if the big businesses fly away and people of this city become unemployed. Therefore, local municipality officials need to consider this suggestion seriously as this is fear of the people living in this town and they would be directly affected in case people move to the other cities for better opportunities for their earnings.

7. Some entrepreneurs suggested an active contact between small businesses and the local authorities. Local entrepreneurs believe that they do not receive enough support from local authorities and the relation between these two parties needs to be improved for development of small business sector. Researcher suggests that the city administration needs to address concerns of local entrepreneurs and a department should be constituted for aid and development of small business sector.
  
8. Some of respondents are concerned about security of their business premises. All over the world, small and micro businesses rely on state provided security. Because of poor security, small businesses are victim of crime such as robbery, theft and physical violence. More security cameras installation and active patrolling of police may reduce the crime against small businesses. Entrepreneurs should also install a personal camera to secure their business premises and to produce evidence against criminals.

Researcher strongly believes that failure chances of small businesses could be decreased and probability of success could be increased if the future entrepreneurs and concerned authorities consider the above written suggestions based on existing literature and the findings of survey conducted in this research.

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**APPENDICE**

## Appendix 1. Questionnaire, English version.

Company \_\_\_\_\_

Name of the respondent \_\_\_\_\_

Gender  Male  Female

Age Group  18-25  26-35  36-50  50+

Type of the company \_\_\_\_\_

Age of the company \_\_\_\_\_ Number of employees \_\_\_\_\_

Business is successful  Struggling for survival  Unsuccessful business

Please identify five factors that made your business successful

1. Personal business expertise
2. Good financial management
3. Reliable/ professional workforce
4. Marketing / selling skills
5. Competitiveness/ low prices
6. High demand/ availability of customers
7. Business location
8. Availability of sufficient capital
9. Competition free market / low competition
10. Product range and variety more than competitors
11. Acquiring advance business knowledge and techniques
12. Others, What? \_\_\_\_\_

Five most crucial factors which may lead a small business to a bankruptcy

1. Lack of sufficient capital
2. Lack of business knowledge / training
3. Unavailability of workers
4. High competition
5. Insecurity of entrepreneur(s)
6. Low demand/ small target market
7. High operational /material costs
8. High interest rate of credit
9. High rent of commercial properties
10. High state taxes / insurances / other duties
11. Political risks
12. Other, what? \_\_\_\_\_

Identify the current challenges of your business

1. Lack of sufficient capital
2. Lack of business knowledge / training
3. Unavailability of skilled workers
4. High competition
5. Insecurity of entrepreneur(s)
6. Low demand/ small target market
7. High operational /material costs
8. High interest rate of credit
9. High rent of commercial properties
10. High state taxes / insurances / other duties
11. Political risks
12. Others, what? \_\_\_\_\_

What strategies have you adapted to tackle current challenges?

1. Improved communication
2. Capital/ financial development
3. Relationship building
4. Achieving loyalty of customers
5. Offering discounts / sales promotions
6. Marketing campaigns
7. Offering lowest prices in the market
8. Equipping staff with training and advance selling techniques
9. Improved quality and reliability of product
10. Improved the availability of products and services
11. Improved after-sales services
12. Improved public relations
13. Improved advertising
14. Just accepted/ unable to handle current challenges
15. Others, What \_\_\_\_\_

What are your five recommendations to the new entrepreneurs for a successful start-up?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

What are your five suggestions to local or federal authorities to motivate new entrepreneurs?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

**Thank you for your co-operation!**

## Appendix 2. Questionnaire, Finnish version.

Yritys\_\_\_\_\_

Yritysmuoto\_\_\_\_\_

Yrityksen ikä \_\_\_\_\_ Työntekijöiden määrä\_\_\_\_\_

Yritys on menestyvä  Kamppailee olemassa olostaan  Yritys ei menesty

Vastaavan nimi\_\_\_\_\_

Vastaavan koulutus\_\_\_\_\_

Sukupuoli  Mies  Nainen

Ikäryhmä  18-25  26-35  36-50  50+

### Valitkaa viisi asiaa, jotka tekevät yrityksestäne menestyvän.

1. Henkilökohtainen yritysosaaminen
2. Hyvä varainhoito
3. Luotettavat/ ammattitaitoiset työntekijät
4. Markkinointi/ myyntitaidot
5. Kilpailukyky/ edulliset hinnat
6. Suuri kysyntä/ Asiakkaiden löytyminen
7. Yrityksen sijainti
8. Saatavilla on riittävästi pääomaa
9. Kilpailu vapailla markkinoilla/ vähäinen kilpailu
10. Tuotevalikoima ja vaihtelevuus parempi kuin kilpailijoilla
11. Hankkimalla etukäteen liiketoiminnan tuntemusta ja tekniikoita
12. Muu, mikä? \_\_\_\_\_

### Valitkaa viisi tärkeintä tekijää, jotka saattavat johtaa pienyrityksen konkurssiin.

1. Riittävän pääoman puute
2. Liiketoiminnan tuntemuksen puute/ koulutuksen puute
3. Ammattitaitoisten työntekijöiden puute
4. Kireä kilpailu
5. Yrittäjien epävarmuus
6. Vähäinen kysyntä/ pieni markkina-alue
7. Korkeat toiminta-/ materiaalikulut
8. Korkeakorkoinen luotto
9. Liikekiinteistöjen korkea vuokra
10. Korkeat verot/ vakuutukset/ muut kulut
11. Poliittiset riskit
12. Muu, mikä? \_\_\_\_\_

### Mitkä ovat yrityksenne nykyiset haasteet?

1. Riittävän pääoman puute
2. Liiketoiminnan tuntemuksen puute/ koulutuksen puute
3. Ammattitaitoisten työntekijöiden puute
4. Kireä kilpailu
5. Yrittäjien epävarmuus
6. Vähäinen kysyntä/ pieni markkina-alue
7. Korkeat toiminta-/ materiaalikulut
8. Korkeakorkoinen luotto
9. Liikekiinteistöjen korkea vuokra
10. Korkeat verot/ vakuutukset/ muut kulut
11. Poliittiset riskit
12. Muu, mikä? \_\_\_\_\_

### Millaisia strategioita olette omaksuneet nykyisten haasteiden voittamiseksi?

1. Kommunikaation kehitys
2. Pääoman/ talouden kehitys
3. Suhteiden rakentaminen
4. Asiakasuskollisuuden saavuttaminen
5. Alennuksia / myynninedistämistä
6. Markkinointikampanjoita
7. Tarjoamalla markkinoiden alhaisimmat hinnat
8. Työntekijöiden varustaminen koulutuksella ja kehittyneillä myyntitekniikoilla
9. Tuotteiden parempi laatu ja luotettavuus
10. Tuotteiden ja palvelujen parempi saatavuus
11. Parannettu myynnin jälkeinen palvelu
12. Parannettu suhdetoiminta
13. Parannettu mainonta
14. Haasteiden hyväksyminen/ haasteita ei pystytä käsittelemään
15. Muu, mikä? \_\_\_\_\_

### Mitkä ovat viisi suositustanne uusille yrittäjille onnistuneen yritystoiminnan aloittamiseen?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

**Mitkä ovat viisi ehdotustanne paikallisille tai kunnallisille viranomaisille uusien yrittäjien motivoimiseksi?**

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

**Kiitos yhteistyöstä!**