

Satakunta University of Applied Sciences

Outi Nieminen

STRATEGIC DEVELOPMENT IN LIFESTYLE BUSINESS

INTERNATIONAL BUSINESS AND MARKETING LOGISTICS

School of Business Rauma

2006

TIIVISTELMÄ

ELÄMÄNTAPAYRITYKSEN STRATEGINEN KEHITTÄMINEN

Nieminen, Outi
Satakunnan ammattikorkeakoulu
Liiketalous Rauma
International Business and Marketing Logistics
Marraskuu 2006
Turunen, Erja
YKL: 358.8

Avainsanat: elämäntapayrittäjä, motiivit, tavoitteet, liiketoimintasuunnitelma.

Pienyritykset ja yrittäjät ovat olleet tiiviisti esillä julkisessa diskurssissa. Pienyrityksistä onkin vuosien aikana tehty lukuisia tutkimuksia. Näiden tutkimusten lähtökohdina ovat useasti olleet pienyritysten kasvun esteiden selvittäminen ja niiden poistaminen. Kuitenkin vain murto-osa pienyrityksistä on kasvuhakuisia. Suurimmalle osalle pienyritysten perustajista henkilökohtaiset motiivit ovat ensisijaisia ja osalla on kokonaan negatiivinen asenne yrityksen mahdollista kasvua kohtaan. Tämän opinnäytetyön kohteena olivat nämä elämäntapayritykset ja -yrittäjät. Tutkimuksessa tutkittiin elämäntapayrittäjien motiiveja, asenteita ja tavoitteita. Tutkimuksen päämääränä oli selvittää miten keskeistä on yrityksen kehittäminen ja mikä on strategian ja suunnittelun rooli yrityksessä. Työn empiirinen aineisto koostui kahdesta elämäntapayrittäjän avoimesta teemahaastattelusta.

Haastatelluille elämäntapayrittäjille yrittäminen ei ollut pakon sanelemaa vaan vapaaehtoinen valinta. Heidän kokemansa taloudellinen epävarmuus ei ole kovin suuri, tämä myös lisäsi heidän riskinsietokykyään. Luonteeltaan elämäntapayrittäjät olivat hyvin itsevarmoja, motivoituneita ja innovatiivisia. He tarkkailivat ympäristöään jatkuvasti löytääkseen uusia ideoita ja mahdollisuuksia.

Elämäntapayrittäjille yritysten kehittäminen oli uusien henkilökohtaisten kykyjen parantamista ja lisäämistä. Kehitys ei siten ollut konkreettista tai kasvuun suuntautuvaa. Näiden yritysten kohdalla riittävän tulotason saavuttaminen oli ollut helppoa, eikä siihen ollut tarvittu strategista suunnitelmaa.

Toinen haastatelluista yrittäjistä oli tehnyt liiketoimintasuunnitelman. Yrittäjä koki sen olleen hyödyllinen lähinnä palveluiden hinnoittelun ja budjetin teon kannalta. Yrityssuunnitelman toteuttamisella ei ollut kannustavaa vaikutusta yrityksen perustamiseen eikä se ohjannut yrityksen käytännön toimintaa. Toinen yrittäjä uskoi, että jos yrityssuunnitelma olisi tehty, tulokset olisivat olleet niin musertavia, etteivät he olisi perustaneet yritystä ollenkaan.

Elämäntapayritysten kohdalla strateginen suunnittelu tapahtui toiminnan kanssa yhtäaikaisesti. Suunnitelman muodostuminen oli psykologinen prosessi, jossa yrittäjän tulevaisuuden visio tai aikaisemmat kokemukset korvasivat virallisen kirjoitetun strategisen suunnitelman.

ABSTRACT

STRATEGIC DEVELOPMENT IN THE LIFESTYLE BUSINESS

Nieminen, Outi

Satakunta University of Applied Sciences

School of Business Rauma

International Business and Marketing Logistics

November 2006

Turunen, Erja

YKL: 358.8

Key words: motivation, planning, business plan, and entrepreneurship

Small businesses and entrepreneurship have been strongly present in the public discussion and the topic of many researches. The focus of researches has been on finding the obstacles of growth and means to remove them. However, large amount of small business are established for various personal reasons other than business growth. These lifestyle businesses and entrepreneurs were at the centre of this study. The motivations, attitudes and business goals of lifestyle entrepreneurs were explored. The purpose of the study was to find out what is the role of development, strategy and planning in the lifestyle businesses. Empirical data were collected through two thematic interviews of lifestyle entrepreneurs.

For the lifestyle entrepreneurs having a business was voluntary and not obligatory in terms of earning a living, this also diminished the risk involved with entrepreneurship. The lifestyle entrepreneurs are observing the environment for new ideas and opportunities. They are very self-confident, innovative and self-motivated.

For the lifestyle entrepreneurs development was about gaining new skills and improving the company operations. It was not concrete or growth orientated. In these companies reaching sufficient income level was rather easy and for that strategic plan was not required.

However, one of the case companies had a business plan. For the company it had been useful in terms of defining the budget and pricing the services. The study revealed that the business plan did not have an encouraging factor for starting the business. The other company owner thought that if they had done a business plan the results might have been too intimidating and they might not have started the business.

In the lifestyle businesses the strategic planning was a mental process –the strategy formulated simultaneously with action. In this process the entrepreneurs' visions or previous experiences had replaced a written strategy.

TABLE OF CONTENTS

ABSTRACTS

1 INTRODUCTION	6
2 SMALL BUSINESS	8
2.1 Definitions.....	8
2.2 Theoretical Small Firm Typology.....	9
2.4 Small Firms in Finland.....	11
2.5 International Comparison.....	12
3 ENTREPRENEUR AND OWNER-MANAGER	13
3.1 Definitions.....	13
3.2 Typologies.....	13
3.3 Characteristics.....	15
3.4 Social Factors.....	16
3.5 Cultural Factors.....	17
4 DEVELOPMENT AND GROWTH	17
4.1 The Stage Model.....	17
4.2 Micro Model of Business Development	19
4.3 The Motivation of the Owner-manager	20
4.3.1 Davidsson's Growth Model.....	21
4.3.2 Defining Growth.....	22
4.4 Small Business Growth Options	23
5 STRATEGY DEVELOPMENT	24
5.1 Strategy Concept.....	24
5.2 Definition of Strategy	26
5.3 Porter's Three Strategic Choices	27
5.4 Strategic Planning	28
5.5 The Role of the Business Plan in Small Business.....	29
6 THE PURPOSE OF THE STUDY AND CONCEPTUAL FRAMEWORK	30
6.1 The Descriptions of the Case Companies	31
6.2 The Conceptual Framework.....	34
7 RESEARCH METHODS.....	35
8 RESEARCH FINDINGS	37
9 CONCLUSION AND RECOMMENDATIONS.....	43

BIBLIOGRAPHY48
APPENDICES

1 INTRODUCTION

In the autumn 2004 I had a chance to get acquaintance with a small wine importing company. The business was just a couple months old and I came up with an idea of creating a business plan for them. But as I presented my idea to them, they kindly explained to me they do not want to have a business plan. They did not like to bind their business operations with a plan. Earning money and business growth were not what they wanted from their business. This meeting brought up a lot of questions that I wanted to find answers to. Having a business requires a lot of hard work, what is that motivates them if it is not profits, and how the business is operated without planning? If there is not a formal plan, what is the role of strategy in these types of businesses? These thoughts were the starting point of this study.

The aim of this study is to learn out more about lifestyle business and entrepreneurs; explore their motivations, business goals and attitudes related to entrepreneurship. The main focus is to find out what is the role of development, strategy and planning in these companies.

In Finland there is about 213 300 small businesses. Less than 10 per cent of these are strongly growth-orientated businesses. There is a great deal of research done about growth and small businesses. However, the focus of these studies has been on finding out the obstacles of growth and how to get the small business to extend and employ more personnel. The presumption often being that every business is economical venture and that the owners act in economical manner. Nevertheless, big numbers of small businesses are reluctant to grow and are established for other reasons than financial ones. These are called lifestyle businesses.

There is not plenty of research done on lifestyle businesses. Even though the small businesses differ from each other they are all often research under concept of small business. Therefore this study begins from exploring the phenomenon of small business; the scope, nature and different definitions of small business are presented in the second chapter.

The most dominant characteristic of small business is the strong connection the owner-manager has to the company. The owner-manager is at the very centre of small business; the whole business is actually evolved around him. His motivations and needs have an effect on the way the business behaves. The third chapter is dedicated to owner-managers and entrepreneurs. The owner-manager and entrepreneur are often differentiated from each other. These different definitions and typologies are explored. Typical character traits, antecedent influences and cultural factors of an entrepreneur and owner-manager are also shortly looked into.

The fourth chapter deals with development and growth in small business. This is the issue where the lifestyle businesses are distinguished from the other small businesses. In general development in a business is described by using various growth models. In this study two different business development models are presented, the general six-stage model and micro-model of business development. The biggest trigger for business growth is the owner-manager's growth motivation. The motivation is determined by the owner's needs, abilities and opportunities. Small businesses define growth and development differently than the larger companies but even they cannot stay still; they also have to develop in order to survive.

Development and strategic planning go hand in hand. Strategy is the guideline for the future of the business. Strategy can be seen and expressed differently in each company. In the chapter five two general strategy perspectives, the soft-line thinking and the traditional hard-line thinking are introduced. Mintzberg's ten different schools on strategy and Porter's three different general strategies are shortly gone through.

Strategic planning can be formal or informal. In a small business formal and visible strategic planning takes a form of a business plan. At the end of the chapter five findings of previous studies made on the role of the business plan in a small business are gone through. There was not to be found a research on strategic planning in a lifestyle business.

In order to find out more about the lifestyle businesses two owners of lifestyle businesses were interviewed. The first one was small wine importing company and the second one was self-employed person who is providing various training services related to labour markets. The results are presented in chapter eight and in the last chapter nine these findings are analyzed. Conclusions are drawn and recommendations presented.

2 SMALL BUSINESS

2.1 Definitions

There is no single and precise definition for a small business due to the diversity of businesses. In defining what a small business is both quantitative and qualitative definitions have been used. The quantitative definitions are based on size, while turnover or employment is used as measuring units. The small businesses have been divided into five groups based on the sizes. These groups are self-employed-, micro-, small-, medium sized and large businesses.

In year 2003 the European Commission adopted a new definition of micro-, small- and medium-sized enterprises. According to this definition micro-enterprises have less than 10 employees and a threshold of 2 million for the turnover and the balance-sheet total. Small enterprises on the other hand have between 10 and 49 employees and a turnover threshold and the balance-sheet total is 10 million. Medium-sized enterprises have between 50 and 249 employees. The turnover threshold is 50 million and the threshold for the balance-sheet total to 43 million. (European Union 2003.)

The focus of the qualitative definitions lays on the characteristics that distinguish small businesses from larger corporations. One well-known definition that uses qualitative attributes is The Bolton Report (1971). According to this report a small business has a relatively small market share, is managed by its owners or part

owners in a personalized way and does not have an organized managerial structure. The small business is independent because the owners/managers have control of the activities of the business. (Vesalainen 1995, 18.)

2.2 Theoretical Small Firm Typology

Vesalainen (1995, 89) presents a theoretical view on categorizing the small businesses. He uses the concepts of accumulated resource base and strategic business orientation for defining two-dimensional small firm typology. The strategic orientation describes the behavioural aspect differentiating the small firms from each other. The two extreme options of strategic business-orientation are conservative- and entrepreneurial-orientation. The strategic orientation is comparable to the overall cumulative resource base. This way it is possible to define four theoretical types of small firms. The first one is called the craft-orientated small firm, which is a combination of weak resource base and conservative strategic orientation. The second one is the entrepreneurial small firm as a combination of weak resource base and entrepreneurial strategic orientation. The third type is a combination of entrepreneurial strategic orientation and strong cumulative resource base and it is labelled as a mature small firm. The last type is a combination of conservative strategic orientation and strong cumulative resource base and it is called a conservative firm. In this typology the differences are assumed to be clear and ideal in each type.

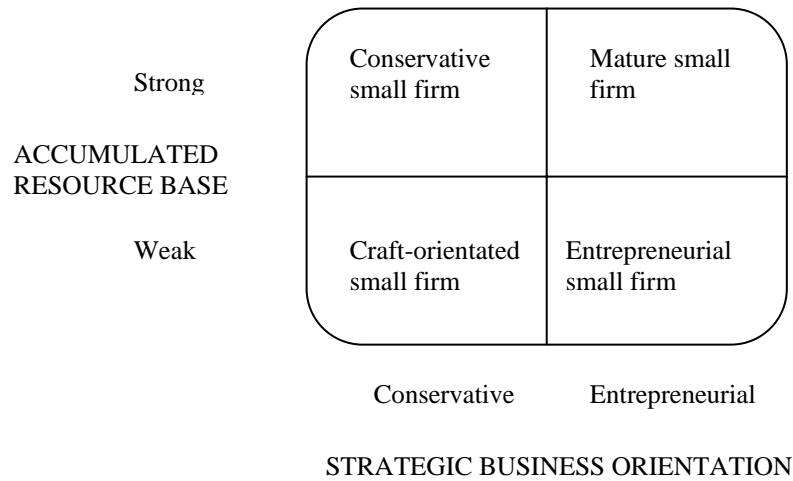


Figure 1. A theoretical small firm typology. (Vesalainen 1995, 89)

2.3 Distinctive Features of Small Businesses

The small companies are not just smaller versions of the bigger ones but their way of doing business is fundamentally different. Although small business sector is not homogenous, all the small businesses have some common features. (Burns 2001, 7.)

Due to the size small businesses also have a small market share. Small businesses have little influence on the price or on the numbers of goods sold. They cannot buy large quantities or take advantage of quantity discounts why they have to sell for higher price and they become less competitive. Small companies compensate this by specializing and creating a niche market. (Burns 2001, 7.)

Small businesses have limited customer- and product base, which can create uncertainty and vulnerability. If for example a small business would lose only one or two of their customers this may lead to serious consequences and the business may well fail. They are very dependent on customers' prompt payment, if one or two customers do not pay their bills on time it can cause serious problems for the firm. (Storey 1994, 7; Burns 2001, 7.)

The most dominant characteristic of a small firm is the close connection the owner-manager has to the firm. The relationship between the business and the owner is much tighter than it is between the shareholders and the large firm. The way of management, why and how the decisions are made is influenced by the characteristics, behaviour and personality of the owner-manager. As the owners identify closely with their businesses it may lead to a lack of necessary objectivity. (Storey 1994, 7; Burns 2001, 7.)

Normally in the small business there is no need for formal systems and procedures. The advantage is the overall view of management and ease of communication. Negative factor in small businesses is above-mentioned dominant position of the entrepreneur. It can create a person centred culture and it is known that micro firms have often a culture of individualism and they suffer from anti-participation. (Bridge, O'Neill & Cromie 2003, 230-233.)

Many small business owners have acquired most of their business knowledge in the job. They have been in the job a long time and may therefore have deep experience, but not necessarily a broad one. (Bridge et al. 2003, 230-231.)

The small business owners invest their personal money in the business. Therefore there can be reluctance to spend this money on anything that is not necessary. The investment decisions are in fact based on the owner's feelings on what is right. In some cases it might be difficult to find outside finance. (Bridge et al. 2003, 230-233; Burns 2001, 7.)

2.4 Small Firms in Finland

In the end of year 2005 there was 237 000 companies in Finland. The amount has been increasing steadily since 1995. Very small firms dominate the enterprise structure in Finland. In 2005 93,1% of all enterprises had less than 10 employees and throughout the whole year 70% of these were employing less than 2 people. The amount of sole traders is a significant 61% of all entrepreneurs. (Yrittäjyyskatsaus 2006, 13, 19, 41.)

Men are more active in starting companies than women. Men are entrepreneurially most active during the age of 25 years to 34 years. The difference between men and women is particularly high for the age group 25-34 years of age, where men are 2.4 times more active than women are. The entrepreneurial activity in Finland is opportunity driven and largest share of small firms operate in service sector. The entrepreneurs formed 9 percentages out of total employment in the end of 2003 in total 213 000 (excluding farmers). The majority of entrepreneurs, 58 % are sole-traders, which do not have employed work force. (Arenius, Autio & Kovalainen 2004, 26–30.)

2.5 International Comparison

Small firms are vital and growing part of business in all countries. They dominate many service sectors and are important providers of employment. In European Union countries they account for 65 percent of turnover. (Burns 2001, 16.)

Finland has participated in gross national research project called Global Entrepreneurship Monitor. This research describes and analyses entrepreneurial processes in wide range of countries. This study revealed that the amount of companies is much smaller in Finland than in other European Union countries. In Finland there are 41 enterprises per thousand inhabitants, while the average in European Union is 53. Especially in the service sector Finland is behind in the EU average. In 2003 6.9% of the adult population was either thinking of starting or running a new business in Finland. Out of the 31 participating countries in Global Entrepreneurship Monitor, Finland ranks fifteenth in the total entrepreneurial activity level. Among the 17 European countries, Finland is the number five. (Arenius, Autio & Kovalainen, 2004.)

3 ENTREPRENEUR AND OWNER-MANAGER

3.1 Definitions

Some researchers make a difference between the entrepreneur and the owner-manager. The key difference between them derives from their motives. There is no single definition for entrepreneur, but most often an entrepreneur is seen as a person who is highly innovative and creative. An entrepreneur is able to spot or create an opportunity and raise the money and the resources needed to exploit that opportunity. He is also accepting a high degree of risks and uncertainty associated with executing the plans. (Burns 2001, 5-6; Barrow 1993, 14.)

The owner-managers own the small firms they manage. One example of these is the sole traders. Whether a manager (or several) is defined as owner-manager or not depends on the degree of control he or she has over the operations in the firm. Owner-managers have significant control over the day -to -day basis operations in the firm. They also pursue toward personal goals and try to fit the business into family lifestyle. Maintaining desired lifestyle is more important than the business growth. Entrepreneurs are more often described according to their character and actions and they are considered to be more innovative than owner-mangers. Therefore it can be said that owner-managers do not need to be entrepreneurs. (Deakins 1999, 201; Burns 2001, 6-7.)

3.2 Typologies

Many researchers have made classifications and typologies of entrepreneurs, most of them based on differences in behaviour. Differentiating between the types of entrepreneurs may help to understand the main factors of a successful business. Widely used classification is the one that divides entrepreneurs into craftsmen, opportunists and managers. Craftsmen usually have only basic education and no formal management experience, while opportunists have more experience, higher education and are also more often growth orientated than craftsmen. Speaking of

the managers we can say that their main goal is to build an organization and maintain the growth and the structure of the firm. (Kallio 2002, 55; Burns & Dewhurst 1996, 48.)

Scase and Goffee (1980, 23-24) differentiate between four types of business owners: the self-employed, small employers, owner-controllers, and owner-directors. The division above is based on the business-owner's role in the company. This role is a useful indicator of the business -nature, as it tends to reflect e.g. size of the labour force and the level of trading. Therefore this division has a general applicability, which any single quantitative measure lacks. The different types of employers are defined as follows:

A self-employed work alone and formally does not employ personnel. This type is often dependent of the family members' contribution.

Small employers work alongside their employees but in addition take care of the administrative and managerial tasks.

Owner-controllers do not work alongside their employees but are instead alone responsible for administration and management.

Owner-directors control enterprises with developed managerial hierarchies so that administrative tasks are delegated to the executive director and other personnel.

In addition to the above typologies lifestyle entrepreneurs have been separately defined. A lifestyle entrepreneur is someone who starts a business not primary for financial rewards but for lifestyle reasons. Lifestyle entrepreneurs are usually after some kind of payoff such as working when they want and with people they like and in a right location. Others become lifestyle entrepreneurs because of family reasons. The main difference between a lifestyle entrepreneur and an entrepreneur is the degree of focus on money, on sales growth and on expansion. The most common motivation of a lifestyle entrepreneur is a desire of independence. This includes the desire to work for themselves and run a business

that would fit their lifestyles and ages. The lifestyle entrepreneurs are also broadly categorized into three following groups. (Rodriquez)

Burned-out Mid-Careerists are those who have worked several years as employees and have a certain amount of savings or other assets. However, they are not happy with their lifestyle. They may be looking for possibilities to do things in their own way, explore a different side of themselves or simply be entrepreneurial. They desire to change their lives by creating their own businesses. (Rodriquez)

An entrepreneur with special lifestyle needs. The main need for entrepreneurs in this category is to have flexible schedules and freedom to choose the work location. They often have young children, ailing parents or disabled family members. They may also be suffering from health problems that prevent them from working full-time. Entrepreneurs that work at home also belong to this category. (Rodriquez)

Laid-off downsized or fired entrepreneurs. Some people, facing termination, pay cut or job loss, may find that setting up a business is a good alternative. The changes in their job circumstances force them to rethink their lives and make changes. Lifestyle entrepreneurs see the loss of their job security as the opportunity to finally do what they really have wanted to. (Rodriquez)

3.3 Characteristics

Entrepreneurs and owner-managers have been analyzed various different ways. One very common approach is to analyze their character traits. Character traits are not stable and can change over time. Thus the relevance of character trait analysis is also criticized. But as the small businesses are concentrated around the owner-manager naturally his or her personality and motivations influence the way the business behaves. For this reason knowledge on character traits is valuable in analyzing the behaviour of a small business. (Bridge et al. 2003, 59-60.)

Psychologists have identified characteristics that are typical for all types of owner-managers. First of all owner-managers have major need for independence, which means that they like to do things their own way and to use their full potential. Owner managers are also believed to have high internal locus of control, meaning that they need to have high control over the environment and over their own success and destiny. (Burns 2001, 27; Huuskonen 1992, 70.) Need for achievement is also high among owner-managers. Achievement has different meaning to different people for example for others money is the achievement but others regard money as a mere signal of an achievement. The owner-managers are believed to have high tolerance of risk. However, it is not certain whether risk tolerance is a personal trait of owner-manager or not. Risk belongs to managing a business in general. Nevertheless owner-managers need to have the ability to live with uncertainty and take measured risks. (Burns 2001, 27; Huuskonen 1992, 70.) Entrepreneurs have all the above-mentioned character traits but they are also believed to be highly opportunistic, innovative, and self-confident and self-motivated (Burns 2001, 27).

3.4 Social Factors

In addition to above mention the character traits numerous social factors influence on the individuals' propensity to behave entrepreneurially. Such factors are family, social background, education, religion, culture and general experience (Carson 1995, 53). These factors also influence on the values, attitudes and behaviour of the entrepreneur. The research in this area is highly contradictory and confusing. The influences of these factors are difficult to prove or disapprove, as there are too many variables to consider. The factors that have proven to have an influence are education, family background and employment. (Burns 2001, 33.)

There seems to be a positive correlation between the entrepreneurial activity and the level of education. According to Global Entrepreneurship Monitor 2004 individuals that have a post secondary degree are entrepreneurially more active, than those who have a secondary degree or other secondary education. Most

people that start a business are currently employed elsewhere. (Zoltan, Arenius, Hay & Minniti 2004) Unemployment and necessity to entrepreneurial activity are higher in low-income- than in high-income countries as in the first mentioned countries the lack of opportunities and the welfare system force people to self-employment. (Zoltan et al. 2004, 30.) The family also has an influence on the entrepreneurial activity. Persons whose parents are entrepreneurs are more likely to start-up a business. Thus they also have prior experience and knowledge in entrepreneurship (Kauppa- ja teollisuusministeriö18/2001, 30.)

3.5 Cultural Factors

The surrounding culture has an impact on people who are about to start a new business venture. These impacts can be divided into push and pull factors. The pull factors are for example general positive attitude for entrepreneurship, rate of technological innovations and prevailing economical conditions. The most significant push factor is unemployment. Fear of redundancy and salary decreases may lead persons to start a business. Push and pull factors may also have simultaneous effect. (Huuskonen 1992, 84.)

4 DEVELOPMENT AND GROWTH

4.1 The Stage Model

There is no single model for describing the business development. Various growth models have been developed to describe how changes occur in a firm over time. The business life-cycle provides a supporting structure for researching a small business development. The life-cycle models could also guide entrepreneurs in business management. In general these models have six phases: start-up, survival,

success, takeoff, maturity and decline/termination phases. (Kallio 2000, 106; Burns & Dewhurst 1996; Churchill & Lewis 1986.)

Start-up

In the start-up phase the goal of the company is to stay alive. The biggest challenge is to obtain customers and deliver the products and services. If the firm has an organizational structure it is often simple, the owner does most of the work himself. There is no or a low level of planning. The start up phase is critical and in most of the cases the companies never reach sufficient customer base to become viable. (Churchill & Lewis 1986.)

Survival

The start-up phase is followed by a survival phase. At this stage the key issue is to move from plain existence to breaking even. The organization is still simple, with limited number of employees. It may have some formal systems but the key factors are the same as in the start-up phase. The system development is still minimal and the only formal planning relates to cash forecasting. Companies can remain in this stage for a long time. Once the business is standing it rarely grows and static stage is normal. (Churchill & Lewis 1986.)

The Success

Later on when the company has sufficient amount of customers and sales, it has two strategic options: to expand or keep the company stable and with a profitable status quo. (Churchill & Lewis 1986.)

Takeoff

The key issues in the takeoff phase are the company growth and finance. Growth is defined for example as movement of the business into bigger premises, employing more staff, increases in turnover. This stage requires capital, customers, management skills and risk taking. (Bridge et al. 2003, 202.)

Maturity

The concerns of the company in this phase are how to consolidate and control the financial gains brought by growth and simultaneously maintain flexibility and

entrepreneurial spirit -the advantages of small size. In this phase the company has financial and human capital and it is characterized by formal managerial and operational procedures including strategic planning, management and standard budget and cost systems. (Churchill & Lewis 1986.)

Decline/ Termination

Here the business is losing its market share, profitability and ability to sustain at the previous level. Decline can occur after any stage but if the problems occurred are acknowledged this does not always have to lead to termination. The business needs confidence, finance, customers and review of the situation. Termination can be any type of closure. A business is terminated if sold and absorbed into another or if better opportunities occur elsewhere. The business is also terminated when the owner retires. (Bridge et al. 2003, 203.)

4.2 Micro Model of Business Development

The stage models have a general macro approach on company development. However, not all the firms move from each phase to another according to the above model. Most firms stay in the start-up and survival stage. So-called micro-model explains the small firm development within the start-up and survival phase. These two phases include different sub-phases and the business development on a micro level is not linear. A firm can face different types of crisis, which may lead to unstable development. In conclusion small firm survival can be a long process. (Kallio 2000, 196-197.)

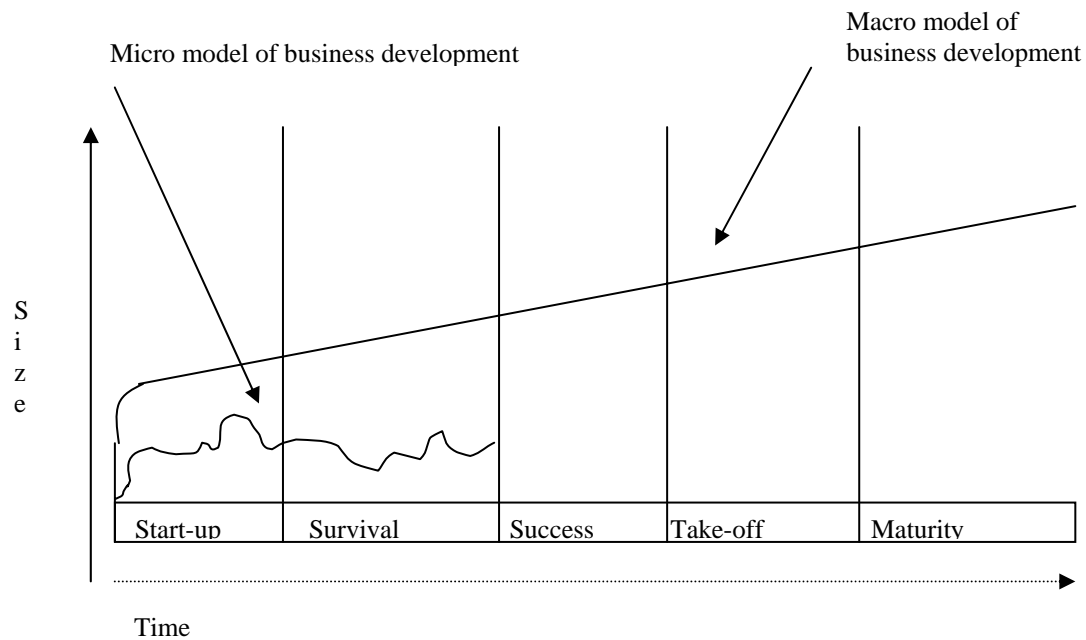


Figure 2. Micro-model of business development (Kallio 2000, 197)

The fragmented time axis illustrates that the micro-model of development can be equal to the macro model. The upper curve illustrates the macro model development where the business size is expected to grow over time. The lower curve describes the micro model of business development. Inside this there are sub-phases. A micro firm can stay in one single macro phase during the whole existence. (Kallio 2000, 196-197.)

4.3 The Motivation of the Owner-manager

Within the growth theories lies an assumption that people act in an economic manner. The goal is to maximize the profits. However this may not be relevant in the context of small business. There are different motivations for an owner-manager to start a business. These motivations are classified into growth- and non-growth motives. Further on the business are divided into growth oriented

businesses or lifestyle businesses. These two types of businesses are described as follows.

Growth business

Growth businesses are set up with growth intentions. The goal of the entrepreneurs is to increase the market value of the business. Growth businesses focus on their core competencies and are constantly obtaining and refining new information. Constant change and insecurity are typical features for the external environment and in order to prosper the growth orientated businesses need to be innovative, good to identify opportunities and willing to take risks. In Finland only approximately 8 percent of small and medium sized enterprises are strongly growth orientated. (Vesalainen 1995, 17; Burns 2001, 9 -10; Pk- barometri kevät 2005, 22–25)

Lifestyle business

This kind of business is run by an individual because this facilitates and is a part of the lifestyle that the owner wants to have. The lifestyle firms are not set up to grow, the basis of the business is important in itself. Lifestyle firms are focused in local markets, which have limited growth opportunities to the begin with. In comparison to the growth-orientated firms the lifestyle firms are significantly older. (Burns 2001, 9 -10; Bridge 2003, 186; Kauppa- ja teollisuusministeriö 2001, 110.)

4.3.1 Davidsson's Growth Model

The motivation of the owner is the biggest trigger for growth. According to Davidsson (1990) this growth motivation depends on the perceived ability, need and opportunity. As illustrated in the figure below, the growth motivation is a result of how the entrepreneur perceives the reality. Therefore, circumstances that are not considered may have an effect on actual growth. Misjudged opportunity for example, may create growth motivation but won't bring desired growth. Abilities, needs and motivations are divided into objective and subjective ones. Objective abilities are for example education and large previous experience.

Objective need factors are firm size and age. Market size and growth, entry barriers, access to labour and capital are indicators of actual opportunity. Entrepreneurs need for growth depends on the level of satisfactory income and desire of achievement. Perceived ability is about entrepreneurs' self confident; it tells how self-confident the entrepreneur is.

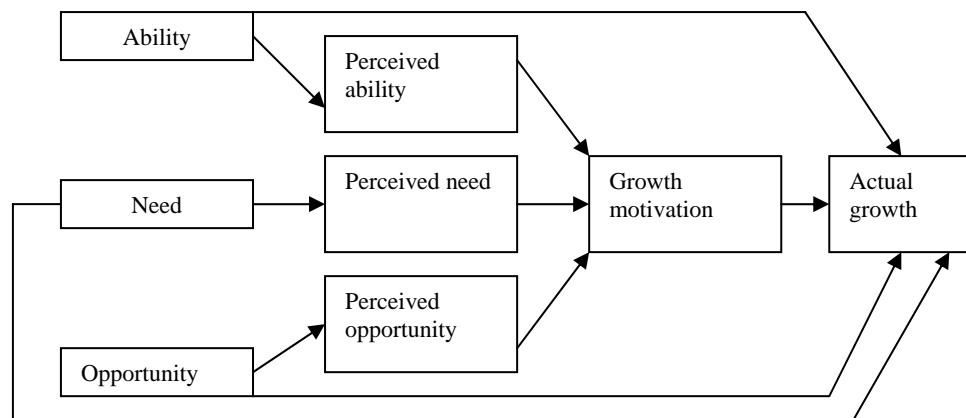


Figure 3. A model of determinants of small firm growth (Davidsson 1990, 2).

4.3.2 Defining Growth

Larger businesses define growth and development in terms of staff-, profitability- and turnover increase. Small businesses use different terms of definition. Growth and development are measured with the number of orders or contracts. Since they operate in niche markets the market share is not seen as a relevant measurement. Important notion is also that the small business owners do not use employment as a measure of growth. (Gray 1997, 21.)

Small business owners associate growth with many unattractive qualities. New employees are regarded as additional costs, not investments. Growth is also often related to a possible loss of control and independence. As the business grows the

owner-managers are afraid that their reliance of others would increase. (Gray 1997, 20-23; Burns & Dewhurst 1996, 40.)

As mentioned previously only few small firm are growth orientated with intentional competitive and growth plans. Most self-employed business owners and small family firms do not use external capital or employ labour force. These lifestyle companies only exist to provide acceptable income and support the lifestyle of the owner-managers. However, even the lifestyle businesses have to develop to a certain size in order to survive and provide wanted income level. (Burns & Dewhurst 1996, 40.)

4.4 Small Business Growth Options

The small businesses have three choices when it comes to growth related options. First of them is company's choice *not to pursue growth*, not even when the external environment would offer these opportunities and they would not have to change their operations. By choosing this option the company avoids extra bureaucracy and there would not be any need for management development. However, maintaining flexibility would become even more important competitive factor. The second choice is *to continue business as usual* but try to take advantage of emerging opportunities. This also means gradual transition from small to medium size enterprise. This option also creates pressure on management development. The third choice is *active expansion to new areas*. Typical features for active growth businesses are creativity, active visualization and dynamics. (Leppäaho 1992, 134.)

5 STRATEGY DEVELOPMENT

5.1 Strategy Concept

Strategy is very complex concept. There are two general perspectives in strategic thinking, the traditional also called hard line thinking and to the soft line thinking. The traditional strategic thinking is normative in nature and is aiming solely on success and profitability of the company. It is characterized by hard facts, formal process and analytical solution. According to traditional strategy thinking the future of the organization can be planned and operations controlled. The planning consists of sequential steps including plan for implementation and company development. From this point of view the company is an active shaper of its environment. (Näsi 1991, 31-32.)

The soft line thinking is newer approach on strategic thinking with stronger emphasis on the role of people and the impact of the leader is taken into account. The leader is seen as a visionary that interacts with the surrounding culture and both the leader and the environment are seen as active players. Unlike the traditional thinking the soft line thinking is more descriptive in nature concentrating more on how things are done, not on how they should be done. (Näsi 1991, 56-57.)

The traditional approach on strategy was developed in context for larger industrial companies where management is hierarchical and multi- divisional. Therefore this approach does not suit directly for smaller businesses. The soft line thinking also takes the distinctive features of small and service businesses into account. (Näsi 1991, 49.)

Mintzberg classifies the strategy perspectives to ten schools of thought. These schools are *design*, *planning*, *positioning*, *entrepreneurial*, *cognitive*, *learning*, *power* and *cultural school*. These perspectives can present different processes of strategy formation or different parts of the same process. (Mintzberg, Lampel, Quinn & Ghoshal 2003, 22-27.)

The design school considers the strategy as a process of conception. Meaning that, a strategy formation is about achieving the essential fit between internal strengths and weaknesses and external threats and opportunities. For *the planning school* a strategy is a result of highly formal process that can be divided into distinct steps, delineated by checklists and supported by techniques. According to the third perspective *the positioning school* a strategy is reduced to generic positions that are selected after formalized analyses of industry situations. These three first schools are prescriptive; they tell how strategies should be formed and not necessarily how they actually do form. (Mintzberg et al. 2003, 22-27.)

The entrepreneurial school is presenting different approach to the previously mentioned ones. The entrepreneurial school centres the process of strategy formation on the entrepreneur. The whole process is based on intuition, experience and visions of the entrepreneur. The strategic perspective of a business is then a personal construct of the leader. The central concept is the vision as mental representation of strategy. In this sense the vision is both inspiration and a guideline for managing the business. (Mintzberg et al. 2003, 22-27.)

The cognitive school sees the strategy as a mental process. This school analyses the cognitive factors such as information processing, knowledge structure mapping and concept attainment in strategy making process. *The learning school* argues the strategy is an emergent process and forms as the people in the organization learn from previously handled situations. Therefore strategist can be found throughout the organization and the strategy formulation and implementation are intertwined. This perspective argues that the traditional strategy formulation does not always correspond to what actually happens in the organizations. Successful strategies are not necessarily results of formal planning but an outcome of variety of little actions and decisions of many people. Therefore the strategy formulation and implementation should not be handled as separate items. (Mintzberg et al. 2003, 22-27.)

The power school sees strategy formation as a process of negotiation conducted as the organization confronts their external environment. *The cultural school* has opposing view, according to that the strategy formation is a social process rooted

in culture of the organization. On the other hand according to *the environmental school* the strategy formulation is a reactive process, answering to the changes in the company's external environment. *The configuration school* defines strategy formation as a process of transformation where the organization goes through different episodes and forms of strategies. It is combining the different aspects of the pre-mentioned schools. (Mintzberg et al. 2003, 22-27.)

5.2 Definition of Strategy

Mintzberg presents five different definitions for strategy as a plan, ploy, pattern, position and perspective. Strategy as a plan is a consciously intended course of actions that guideline the future. From this point of view strategies are developed consciously and purposefully. Strategy can be seen as a ploy, intended to win the competitor. Strategy can also be a pattern of consistent actions over time, whether or not intended. Strategy as a position means locating the organization in the surrounding environment. It reflects decisions to offer particular products or services in particular market. Strategy as a perspective is a way to perceive the world. This definition suggests that the strategy is abstract concept, an invention of someone's imagination. (Mintzberg, Ahlstrand & Lampel 1998 5-6.)

In a common language strategies are often defined as plans for the future and patterns from the past. When thinking about strategy we often refer to formal plans and pronouncements. Mintzberg says that an organization can have a pattern or realized strategy without knowing it or making it explicit. (Mintzberg et al. 2003, 3-8.)

Strategies are always related to company competitiveness and creation of competitive advantage. The strategy also facilitates learning and company development. Strategy is about securing the company's future. Strategy is created for the people in the company and its purpose is to direct their actions. (Hakanen 2004, 17; Kallio 2002, 111.)

5.3 Porter's Three Strategic Choices

Competitive environment of the small businesses is challenging and the risk of failure is high. Therefore developing sustainable competitive advantage is vital also for small businesses. Michael Porter (1985) has identified three types of generic strategies that can be pursued by almost any type of a firm. These strategies are cost leadership, differentiation and focus.

Cost leadership. When choosing this strategy the firm decides to be the low cost producer in the industry. The premise is that costs can be reduced for example through economies of scale. Unfortunately small firms and self-employed persons cannot take advantage of cost leadership as their size prohibits taking advantage of economies of scale. Products of the company exploiting cost leadership strategy are standardized and suitable for mass production. Usually these companies also have high market share. (Porter 1985, 12-13.)

Differentiation. The company creates competitive advantage by offering products and services that the customers perceive to be unique or different. The basic assumption is that the customers are willing to pay a higher price of the product or service that is different from the competitors' ones. (Porter 1985, 14.)

Focus. The focus strategy applies cost leadership or differentiation strategy to a narrow market segment. Companies that target to a specific and small niche in an industry may use the focus strategy. The niche can be for example a buyer group or geographical market with specific tastes. The basic idea of focus strategy is to differentiate the activities in the way that creates competitive advantage. (Porter 1985, 15.)

Small firms generally choose to differentiate their product and service and/or segmenting their market and creating a market niche. The niche strategy offers smaller firms a better chance of survival. The key is to identify the unique benefits that the product or service offers to the potential customers. Differentiation includes finding out the unique elements of marketing mix, specializing in customers and products instead of production and emphasizing on

quality and the strengths of small businesses such as flexibility, innovation and personalized service. The niche strategy is most effective when aimed at small market segment. (Burns & Dewhurst 1996, 5, 58.)

5.4 Strategic Planning

The planning in a company can be either formal or informal. Formal planning is defined as long-term rational decision-making and it should lead to creation of a formal strategic plan. A formal strategic plan constitutes on a clear mission statement, collection and analyses of all relevant information, a hierarchy of goals and objectives, the formulation of options and selecting strategies, translation of plans into actions, and accurate control mechanisms to monitor the progress and indicate corrective actions where needed. (Hall 1995, 74.)

Informal and unarticulated strategic planning is based on the intentions, experiences and intuition of the entrepreneur. When analyzing the strategy work in small businesses, it is difficult to define the line between formal an informal planning. The degree of formality is difficult to measure as what is perceived to be formal depends on each individual. For example self-employed persons can create a plan in their minds by following the structures of formal strategic planning but without writing anything on the paper. Defining the strategic planning process as informal may be result from defects in research methodologies. Observations of the entrepreneurs every day activities are unlikely to include the entrepreneur's intentions or cognitive orientations. It is difficult or even impossible to identify unintentional behaviour. Therefore it is hard for the researcher to understand what are the firm's strategy and invisible plans. (Kallio 2000, 103; Kallio 2002, 170) Also even when strategies appear to be deliberate, cultural and psychological influences may affect the rationality of the process. When formulating a plan perceptions are unlikely to be completely objective. (Hall 1995, 76.) As defining the formality of business planning is highly complex, in context of small business, strategic planning is regarded to be formal if it leads to a written business plan (Kallio 2000, 96-97).

5.5 The Role of the Business Plan in Small Business

A common business plan includes an executive summary, introduction, company history, mission and objectives, description of products and services, marketing strategies, organization structure, financial plan/budgets and production/operation plans.

Researches on the value of pre-start-up planning have lead to mixed results. Some studies have shown positive linkages between planning and performance but in others relationship has not been found or it varies by the industry.

Commonly is agreed that a business plan has symbolic value for the business as it legitimizes the business and it can be used to persuade investors and financiers. Consequently, business plan positively impacts on the amount of external finance raised. These funds also have positive effect on business survival. The process of creating a business plan also functions as a method of learning and prepares for start-up. However, after launching the business the business plan is often forgotten, thus no additions or changes are made and it is rarely shown to anyone else except the bank manager. The biggest role of the business plan is to give a final push on decision to start a business. (Kallio 2000, 195.)

A business plan can also enhance post-start-up efficiency as less time is spent working out the details after the start-up. A systematic gathering of information might also prevent mistakes in future. It helps to keep the business on a desired course and provides a benchmark for measuring the business performance. (Barrow 1993, 168; Castrogiovanni 1996, 806.)

On the other hand the role of the business plan in managing operations and securing the survival of the company is highly criticized or the impact is considered limited (Kallio 2000, 195). Studies show that strategic planning is not common among the small businesses and that this is not proven to have a negative effect on success and survival of the business (Hall 1995, 75). According to the interview conducted among the founders of 100 companies on the 1989 inc. 500 list, the fastest growing companies in the United States entrepreneurs spent little

time on making the initial business plan, 41% had no business plan at all, 26% had just rudimentary plan, 5% had made financial projections for investors and only 28% wrote up a complete plan. (Bhide 1994, 152.)

However, when analyzing the value of strategic planning for small companies the, problem is that the owners may be reluctant to admit they do not plan formally. This is because of they fear that not having a formal plan might create bad company appearance. (Hall 1995, 78-79.) Castrogiovanni (1996, 806) also points out that in some firms a business plan is done, simply because assumed it should be done. Successful companies are believed to have a business plan and their practices are sometimes imitated.

The most common reasons discovered for the lack of business plan are short of time and skills. Owner-managers regard planning too extensive and unnecessary in unpredictable conditions. In the fast changing environment and niche markets, the ability to adapt is more important than careful planning, or it has value when done simultaneously with action. (Shrader et al. 1989, 52; Bhide. 1994, 152.) Also if the starting business does not have to raise funds and the owner understands what she or he is about to do, then the process of writing the business plan may not be needed. In these cases the strategy is in the head of the small business owner and it is needless to write it down. (Bridge et al. 2003, 236.)

6 THE PURPOSE OF THE STUDY AND CONCEPTUAL FRAMEWORK

This study sprung from the interest to understand lifestyle entrepreneurs, to find out what are their motivations, goals and attitudes related to entrepreneurship. Further on the scope of the study was extended to include concepts of development, growth and strategy.

6.1 The Descriptions of the Case Companies

In the centre of this study are two lifestyle businesses - a wine importing company and a self-employed. Both of the case companies are shortly described below.

Case Company 1

The first case company is a wholesaler and importer of high quality Hungarian wines and gourmet food. The company was established in 2004 and is owned by equal partners. The owner couple is currently working part-time in their company, along with their daytime jobs. They start to work full-time in their company after their retirement in the autumn 2006 and they do not have any previous experience on entrepreneurship. The starting capital of the company consists mainly of the owners' own savings and a small bank loan. They have rented warehouse space and work in cooperation with a logistic company. The company is not employing anyone, but they are using outside bookkeeper. This way they can be sure that all the financial issues are done correctly and the regulations are fulfilled.

The company is situated in Turku and the market area is South West of Finland. The operating environment for the company is extremely challenging. In Finland the government has monopoly for selling alcohol products for individual consumers. Wine and strong alcohol can only be sold in Alko. For a small wine wholesaler and -importer it is practically impossible to get their products on the shelves of Alko. The competition between the wine importers is fierce and only fraction of potential products gets selected. The government also requires a guarantee fee and certain amount of sales for the selected products. For this reason market is dominated by few large companies.

The company is not selling their products in Alko stores, but individual customers can order their products by cases through Alko. The company is mainly selling their products directly to the restaurants. Marketing is based on personal contacts with the customers and they are currently creating networks amongst wine clubs, restaurants and other businesses in general. The company also invests on Internet

as a marketing tool and they have well-planned and designed web pages. Orders can also be placed via Internet.

The mission of the company is to make quality Hungarian wines known in Finland. Before Hungarian wines sold in Finland have mainly been cheaper low quality wines.

Due to the fact that the owners are an elderly couple and they will work in the company after retirement. They have planned to have the business for about 10 years, after that they will consider selling or closing the business.

The Case Company 2

The other person interviewed is a self-employed. She is 37- years- old and has a university degree on social sciences. Her company provides various short preparation courses, coaching and theme lectures for ones seeking employment. The service is directed to Employment Service Agencies, educational establishments and for individuals that seek employment. All the services are related to labour market and the end-users for this service are the persons seeking employment. Currently the self-employed is also working as a teacher in polytechnic and she has a degree in teaching Internet based learning.

The field of activity in Finland is financed by public administration. Before The Employment Service Agencies produced courses and coaching for employment seekers themselves but nowadays these operations are out-sourced and purchased from private service providers. The purchasing decision is based on open competitive bidding. However, the selection criteria are varied and not public information. The timeframe, quantity and nature of services purchased depend on decisions and budget of the government.

The company's external environment is very challenging. The competition in the field of business is fierce. There are many providers of this kind of service and there are no formal qualifications required. The size of the companies varies from

one-person companies to very large organizations. The competition has changed during last the few years. Compared to the situation in the turn of the century, there is nowadays much more companies providing this type of services and the competition is largely based on price.

The company is established in 2004. The current business is the owner's second one. The line of business and the services were almost the same in both companies. The first company was established in 2000 and operated for two years until 2002. After that the self-employed decided to go back to work. She was employed for two years until 2004 when the current business was established. The self-employed has years of wide experience from the field of business, she has been both an employer and a recruiter. No external finance has been used when starting the business, she has an office at home and invests mainly constitute of electronic equipment. These are financed from cash flow. The company mission is to produce reliable high quality service. The company does not have a clearly stated vision.

6.2 The Conceptual Framework

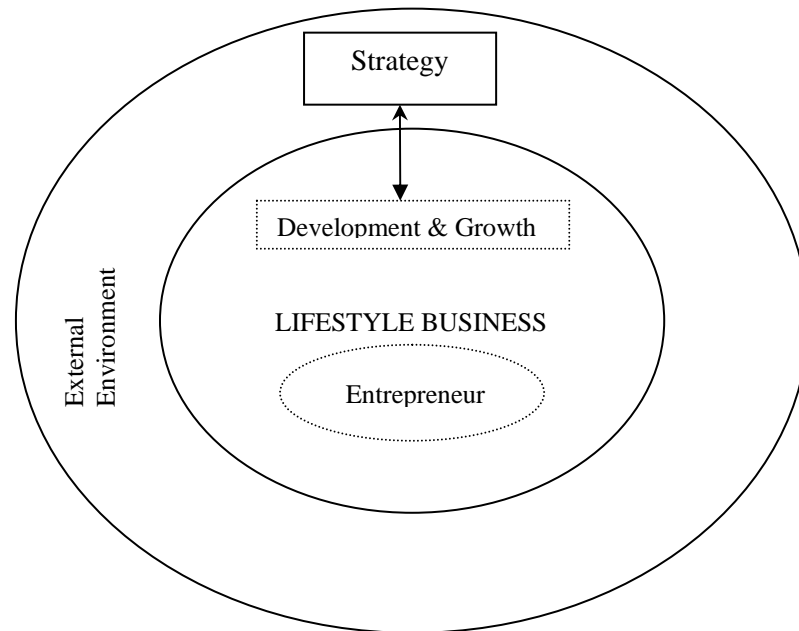


Figure 4. The Conceptual Framework

The entrepreneur/owner-manager is at the centre of lifestyle business, he or she is the business and they cannot be separated. The entrepreneur's/owner-manager's motives, needs and personality influence on everything in the business. The external environment of the two case companies is very challenging. They both are small players amongst big competitors and the company requires extensive amount of work. The owners of the wine importing company are close to retirement and are currently running the business along the full-time jobs and the self-employed is running her second business. Therefore the question of their motivation for running the business is particularly interesting.

According to the theory presented in the first part of the study, lifestyle businesses are established because of having a business facilitates entrepreneurs'/owner-managers' desired lifestyle. These businesses are not growth motivated but they still need to provide sufficient income for the owners. In order to do that certain level of development and growth is necessary. Based on this argument a

presumption that development and growth is included also in the lifestyle business is made. The question lays on what is the nature and role of development and what are the limits of growth in lifestyle business.

Development and strategy are closely related concepts. Decisions made on development are strategic in nature. Furthermore as strategy can take various forms, it can be formal or informal and intended or unintended; hence there is most likely a strategy also in a lifestyle business. The questions to be answered are how strategy is formulated and what the role in the company is. In case there is a formal business plan does it affect on business success and survival?

7 RESEARCH METHODS

Quantitative and Qualitative Research

Quantitative research methods are frequently used for explaining a business behaviour and survival. In quantitative small business research demographic variables such as age, education and gender are used as explaining factors. In comparison to quantitative approach, the qualitative approach is more suitable for acquiring intimate and authentic knowledge on small businesses. Qualitative research seeks meaning and understanding for the taken actions and beliefs. It deals with thoughts ideas, concepts, beliefs, goals, needs and desires. These issues would be hard to capture in quantitative survey as more in-depth questioning and responses are required. The qualitative approach also provides easier access to the information than quantitative approach and the data collection is rather simple. Qualitative methodologies have been criticized because they are not well suited for generalization. As a rule generalizations beyond the selected sample cannot be done. Analysis and interpretation of the data is also demanding and difficult. (Gummerson 2000, Kallio 2000, 35-36)

Case studies

Case studies are form of qualitative descriptive research. The case study looks at an individual or small participant group and the conclusions are only drawn from that participant or group and only in that specific context. A case is not studied primary to understand other cases; it is done to understand this one case. When focusing on a single case the researcher does not attempt to discovery a universal, generally applicable truth but emphasis is placed on exploration and description. Description attempts to answer questions what or who. Exploratory research is concerned with identifying the real nature of research problem and may lead to formulation of relevant hypothesis for future studies. Causal research tends to ask why and identify factors, which underlie entrepreneurial behaviour. (Kallio 2000, 33.)

Validity is the extent to which researchers are able to use their method to study what they had sought to study rather that studying something else. The reliability means that two or more researchers studying the same phenomenon with similar purposes should reach the same conclusion. (Gummersson 2000, 91, 93.)

Methodologically the research was conducted as a qualitative case study. The data were collected with two thematic interviews. A thematic interview is one type of interview where specific pre-selected themes are discussed about. The interview can include both open and closed questions. Overall the structure of thematic interview has a lot of latitude. The interview resembles normal discussion where new interesting topics can arise and lead to additional questions that were not anticipated. The difference between unconstructed and thematic interview derives from the pre-selected themes. The thematic interview is a good method when there is no exact theory on the issued research and possible new viewpoints are actually searched. (Routio 2005; Vuorela 2005, 39-40.)

Two interviews were conducted one with the chief executive of the wine importing company (latter on referred as CEO) and other with the self-employed who owns a training company. The interview with the CEO of the wine importing company lasted 1 hour and 45 minutes and the other interview with the self-

employed was 1 hour long. The interviews were recorded. The outline of the interviews is added in appendices. (Appendix 1)

8 RESEARCH FINDINGS

Defining the Case Company 1

The company fulfils many typical characteristics of the small firm. First of all the company and the owners cannot be separated, the owners are the company. The owner-managers long-time interest and passion are quality wines and gourmet food. Establishing the company has made it possible for them to do what they have planned and dreamt for long time. Having a company is also positively exiting and risk is something that simply belongs to entrepreneurship. According to the CEO of the company: *“It is better to take a risk than regret it latter.”*

During the whole interview the CEO speaks very emotionally about the business and he takes everything related to it very personally. This can be concluded from the following statement of the CEO: *“We are going forward with the heart and soul in this business. In Finland, Hungarian products do not have very good reputation and therefore heart has to be twice more involved in the business.”*

As small companies in general the case company cannot influence much on the prevailing market condition. As mentioned before the external business environment in Finland is extremely challenging for small wine importing company and they just have to accept the rules and current market trends. Still they are persistently trying to change the prevailing negative attitudes about Hungary and Hungarian products. Their biggest fear is that if they do succeed in their mission, some bigger company comes and collects the profits. According to the CEO that is the risk they just have to accept.

Development and Growth in the Case Company 1

The company is currently in the start-up phase. The biggest concern at the moment is how to generate sufficient profits to cover the expenses. According to the CEO: " *For us Profitability is not important; profits only need to be big enough to keep the business going.*" Working in the field of wine and gourmet food and making Hungarian products known in Finland is already reward for the owners. The profit gained comes second on the list of priorities.

The owners want to keep the business operations on a size that is easy to control and does not require extra personnel. The development of the company has to stay inside these limits. " *For example growth through employment would change the character then it might not be rewarding anymore.*" says the CEO on business growth.

The owners do actively take advantage of emerging opportunities. The CEO estimates that their business has by now used only around 10 percentage of the total potential. In the future more attempts will be put in gaining bigger profits and overall development of the company. They are already actively creating networks and finding new clients, they are for example marketing their business to Finnish tourist visiting vineyards Hungary. They have plenty of good ideas but the 10-year time-limitation for the existence and according to the CEO in this business it is very short time and big growth would not even be possible.

Strategic Development in Case Company 1

The company does not have written business plan. They feel that written plan is not necessary for their scale of business and that it would not have any added value or benefit for their company at the moment. The CEO also has extensive experience on large enterprise, where the strategic planning has been highly formal therefore he would have the knowledge to do a formal plan but they have intentionally wanted to avoid formality. The CEO comments: " *Having a formal plan would change the nature of the business and fulfilling the plan would*

become and end in itself. The love towards the job would disappear if one has to follow preset paths.”

According to CEO, if they want to use all the potential the business has creating more formal strategic plan might become in question in the future. However, he also pointed out that if they would have made a business plan, where they would have analyzed the market thoroughly before launching the business, they may never have started the business in the begin with. The problems would have perhaps appeared to be too big and difficult to solve and the amount of work required too exhaustive. But now they are happy for not knowing it all beforehand, the rewards gained from having the business out weight the problems.

The CEO values highly spontaneous decision-making and the freedom to do what he feels the best at each moment. Planning and working is simultaneous. There is no need for formality in communication wise as the company includes just the owner couple. They screen and analyze opportunities quickly and focus on most promising one. The CEO describes the planning process as follows:

”A small business does not have resources or time to make plans, like bigger companies do. A small business cannot try two many different ways, it has to choose quickly the most potential one. The company has a plan only for one month at the time and even that is not written down. Only some ideas, if not right away fulfilled are written down on a notebook for the future and meetings marked in a calendar.”

Defining the Case Company 2

The second case is a self-employed. The current company is the owner’s second one. When being self-employed the first time between years 2000 to 2002, it was something to do between the jobs and she did not have particular desire to really be an entrepreneur. This attitude changed while she was employed. She tells that:”
I am very innovative and creative person. It is very important for me to use these

qualities also in the work-life. When I was working for someone else the freedom of doing disappeared. There were not enough possibilities to create and plan. And as the contract expired I decided not to continue in the job but instead setup the business again and this time for good.”

During the first business the self-employed adopted, what she calls as entrepreneurial style of thinking and working –for her it is important to get paid for work done not by the hours spent at work. She also does not make clear distinction between work and free time. For that reason she feels that being an entrepreneur is the best option for her. According to the self-employed:” *The best thing in entrepreneurship is that you are your own boss and I do not have to take responsibility for someone else's work. The company and it services are profiled around me -I am the company.”*

The self-employed has very neutral attitude towards risk:” *I have always taken risk also when employed. We all have to live taking risks in the jobs.”* However, she also recognizes that it is easy for her to be an entrepreneur because she is not the sole breadwinner in the family. Thus possible setbacks in the business are not a disaster for the whole family.

Development and Growth in the Case Company 2

The second company has operated two years by now. During this time there has been both good and bad times. Nonetheless, the current situation is good. According to the self-employed:” *The company provides a livelihood and that is enough”*. The biggest difficulty of the business is that the services are bought once a year and if there is no demand the situation can be devastating for the business. The business life cycle is very unpredictable and after a period of success the business can very quickly return to the start-up phase.

However, there is no desire to strengthen the company position by expanding into new areas or employing outside workforce. The self-employed says that:” *The company is not at all growth orientated. It will always stay as one-person*

company". If there is a need for skills that the self-employed do not possess she could cooperate with other service provider and in that case there would be clear cut division on who is doing what. That is a way to ensure that the quality of the services stays excellent and she can be proud of what she is doing. In order to ensure a good the position in a future, the self-employed is constantly looking for new ideas, evaluating her skills and the need for further self-development.

For the self-employed it is very important that the work she does is in the line with her personal values. If the demand in the future would require her to change the service in a direction that is against these values she would refuse to do it. She would rather terminate the business and go back to work, for her that is always an option. Being an entrepreneur is not a value as such.

Strategic Development in the Case Company 2

The entrepreneur's first company was established very spontaneously and the operations were not planned before hand. Things were learned through mistakes. The main goal then was to earn a living, this company was not meant to be long term and she was looking jobs simultaneously. For these reasons the self-employed refers to her first company as a practice company.

When setting up a business for the second time she decided to plan everything more thoroughly. She explained that: " *During the existence of the first company I learned that I have to be more serious towards the buyer and create more entrepreneurial style of working. I look for credibility and reliability, also through education.*" Therefore right after starting the business she took a degree in entrepreneurship and contracted an advertising company. Nowadays she is also systematically creating networks and keeping contacts with the cooperating companies.

During entrepreneurship course a business plan for the company was conducted and at the end of the course a board of examiners evaluated it. According to the evaluation the scope of services provided by the company was considered too

narrow and therefore the company would not be profitable. Despite the negative opinions of the others the self-employed decided to carry on with the original plan. Later on she discovered that the demand for the services was bigger than estimated and the inquiries of the service were received from unexpected quarters. The core product of the company in the beginning was preparation-courses and coaching for unemployed persons, but later on the service was extended to include currently employed persons. A large part of the company turnover is coming from latter mentioned services.

According to the self-employed the most useful aspect in a business plan was creating a budget. During the process she had to go through the pricing and possibilities for investments. The biggest investment decisions are related to self-development e.g. what courses are worth taking. Since then she has been conducting a budget yearly. The timeframe in the business plan was five years till the year 2009. The company reached the target set already during the ongoing year, three years earlier than planned. Therefore she is planning to update the business plan at the end of year 2006 or in the beginning of 2007.

Planning the business operations for longer than one year at a time is rather difficult as the services are bought once in each budget year. The nature of services demanded also changes depend on the political trends and guidelines. Therefore planning is only possible in the short run. The company is differentiating from the competitors by being a solid company offering excellent service. The self-employed is very strict about the work done:” *Each job done needs to be a promise for new one and I do not forgive myself for doing low quality work.*”

9 CONCLUSION AND RECOMMENDATIONS

Both case companies and their owners fulfil the typical characteristics of lifestyle entrepreneurs. The personal reasons are much more important than business growth for both interviewees. The self-employed see the business as a possibility to do what she is good at. Having a business is also more rewarding than being employed by someone else. The own company gives more freedom. For the owners of the wine-importing company a business of their own makes it possible to do what they have always wanted to. The both interviewees have high need for independence and it is important for them to make the decisions their own.

A lifestyle entrepreneur has characteristics typical for entrepreneurs with growth intentions. For example the self-employed is constantly innovating, observing the environment for new ideas and obtaining new skills. On the other hand the operations of the wine-importing company are guided by the owners' strong vision. Both interviewees are highly self-confident, innovative and self-motivated.

Both of the interviewees have really high tolerance of risk. The self-employed saw risk as something included in every job in today's work life and cannot be avoided. Her attitude towards the future is very positive. For the owners of the wine importing company risk and uncertainty are something that keeps life interesting and having a business more positively challenging. However, it needs to be kept in mind that they do not have to anymore earn their living from their business. The self-employed is earning her living at the moment from the business but it is her free choice by no means obligatory. In that sense being an entrepreneur can appear easier for the lifestyle entrepreneurs than for other entrepreneurs.

The nature of business in each case company is very different. The self-employed's service is based on knowledge and is invisible, unlike the products of the wine-importing company. The self-employed do not have any formal ties to her company and she can terminate the business by simply deciding so without

defeats. To sum up, in a sense the self-employed is even more purely a lifestyle entrepreneur than the owners of the wine-importing company.

The lifestyle entrepreneurs believe strongly in the business and positive attitude drives them forward. They are not growth orientated but it does not mean they stay still or lack ambition. For them growth is not measured by bigger turnover or number of employees. Profits earned are secondary and development of the companies is more invisible. For the self-employed development is about gaining more abilities hence being able to do the work even better. For the wine importing company the development is getting the business to function as good as possible without growing the actual size.

Planning in the company is defined to be formal if they have a written business plan. The case companies differ in this aspect. The wine importing company does not have a written business plan and the self-employed has made one. Based on Kallio's argument the strategic planning of the self-employed could be defined as formal and in the wine importing company as informal and invisible. However, the self-employed conducted the business plan right after starting the business and it has not been updated since nor has it been guiding the decision-making. Therefore even self-employed's strategy formation cannot be automatically defined as formal.

In both case companies the planning is mental process done simultaneously with implementation. For them it is more important how things are done not how they should be. Strategy in each case company is closest to what Mintzberg defines as a pattern of intended and unintended actions over time.

In addition to these similarities there are also slight differences between the companies. In the wine-importing company their vision is very strongly guiding their decision making. If looking at the Mintzberg's classifications on strategic thinking the characteristics of the entrepreneurial school are the most prevailing ones in this company. In the company the owner-managers are at the centre strategy formation and their vision has replaced a formal plan. However,

determining whether the structures of formal planning are used unconsciously or not, more knowledge on psychological processes would be needed.

The self-employed wide experience and information from the field of business she is operating in and the decisions are largely based on the previous experiences. The strategy formation is a combination of characteristics of Mintzberg's learning school and environmental school.

The research revealed that the owners of the wine importing company would not have launched the business, if they had conducted a business plan before starting the business. The information gained would have been too intimidating. The self-employed conducted a business plan as a part of an entrepreneurship degree. The evaluation of it was rather devastating and it led to understand that the business would not be profitable and the survival of the business was severely doubted. The reality turned out to be different. In these case companies the business plan did not or would not act as an encouragement for starting the business.

For the self-employed the most useful aspect of a business plan was conducting a budget and pricing of the services. The business plan was useful in terms of operational management of the business. The owners of the wine importing company might create a business plan later on in the future depending on the development of the business. This brings up a question; what business stage is the optimal time for conducting the business plan? Instead of doing it before launching the business perhaps it would be more beneficial to do it afterwards when business is already operating. Then the business plan would not hinder starting the business but would perhaps help solving the problems of already existing company.

Overall the self-employed has more positive attitude towards strategic planning. Having a business plan had more positive aspects than negative ones. It legitimated the business and facilitated learning and development –aspects that she highly valued. The results are similar with the previous findings presented earlier on in the study. On the other hand the owners of the wine importing company spoke very negatively on creating a business plan. The difference may

derive from different kind of back rounds. The owners of the wine importing company had worked many years and it could be sensed that they valued working and gained experiences where as the self-employed also appreciated education.

One presumption made earlier on this study was that even lifestyle businesses need to develop to a certain size in order to survive and provide wanted income level. This level in the case companies is very low. The owner's of the wine importing company do not need to earn their living from the company it is only important that the company does not create losses. They do have capital tied up in their business but the amount is not significant. Actually, for them the business is more a hobby than economical business venture. The self-employed did not need any external loan when starting the business nor has she made any big investments. Therefore reaching the sufficient income level is rather easy and in that sense there is no need to create a strategic plan before hand, strategy formulates simultaneously with action.

When starting the research process, the thoughts on strategy, development and growth were rather strict and formal - thus the topic was approached with economical point of view. These ideas altered little by little during the research process and it became clearer that the traditional economical approach alone is not the best one. Combination of sociological, economical psychological approaches would have been more suitable for researching lifestyle entrepreneurship.

The lifestyle businesses were particularly strongly connected to the entrepreneur and this posed some difficulties for the interviews: when asked questions that might have shed a negative shadow above the company, the entrepreneurs took a defensive position. Therefore it would have been good to combine observations of every day activities with the interviews. That way more holistic picture of the companies could have been done. These observations would have also been a good way to find out more on the strategy formation in the companies. Now the mental process in strategy formation left unsolved.

However this research gave very positive view on entrepreneurship. The entrepreneurs were lucky to be able to do what they want and are good at. Work

can be rewards as itself and business can be successful even though it is not growing. What is regarded successful business depends on each entrepreneur.

BIBLIOGRAPHY

- Arenius, P; Autio, E & Kovalainen, A. 2004. Global Entrepreneurship Monitor: 2003 Finnish executive report. Helsinki University of Technology. Espoo.
- Barrow, C. 1993. *The Essence of Small Business*. Hertfordshire: Prentice Hall International Ltd.
- Bhide, A. 1994. How entrepreneurs craft strategies that work. *Harvard Business Review* March-April 1994
- Bridge, S; O'Neill, K & Cromie, S. 2003. *Understanding Enterprise, Entrepreneurship and Small Business*. Second Edition. Palgrave Macmillan.
- Burns, P. 2001. *Entrepreneurship and Small Business*. Palgrave Macmillan.
- Burns, P & Dewhurst, J. 1996. *Small Business and Entrepreneurship*, second edition. London: Macmillan Press Ltd.
- Carson, D; Cromie, S; McGoovan, P & Hill, J. 1995. *Marketing and Entrepreneurship in SMEs An Innovative Approach*. Hertfordshire: Prentice Hall International Ltd.
- Castrogiovanni, G. 1996. Pre-startup planning and survival of new small businesses: Theoretical Linkages. *Journal of Management* Vol.22, No.6, 801-822
- Churchill, N. C & Lewis, V. L. 1983. The five stages of small business growth. *Harvard Business Review*, May-June, No 3, 30-50.
- Davidsson, P. 1990. Continued Entrepreneurship: Ability, Need, and Opportunity as Determinants of Small Firm Growth. Umeå University FE-publikations No. 120. Umeå University
- Deakins, D. 1999. *Entrepreneurship and Small Firm*. Second edition. Berkshire: McGraw-Hill.
- Definition of Micro-, Small- and Medium-Sized Enterprises. Activities of European Union. Summaries of Legislation. [Online]. European Union. Available at: <http://europa.eu.int/scadplus/leg/en/lvb/n26026.htm>
- Gray, C. (1997). Managing Entrepreneurial Growth: A Question of Control? In Deakins, D; Jennings, P; Mason, C. (ed.). *Small Firms: Entrepreneurship in the nineties*. London: Paul Chapman Publishing Ltd.
- Gummesson, E. (2000). *Qualitative Methods in Management*. California: Sage Publications, Inc.

- Hakanen, M. 2004. PK-yrityksen strategiatyö. Menestystekijöinä tieto, luovuus ja oppiminen. Helsinki: Multiprint Oy.
- Hall, G. 1995. *Surviving and Prospering in the Small Firm Sector*. London: Routledge
- Huuskonen, V. 1992. Yrittäjäksi ryhtyminen. Teoreettinen viitekehys ja sen koettelu. Turku: Publications of Turku school of economics and business administration. Series A-2:1992.
- Kallio, J. 2002. Pienyrityksen kehittymisen tiet. Helsinki: Tietosanoma Oy.
- Kallio, J. 2000. From Unemployment to Sustainable Self-Employment? An Analysis of the Survival of New Independent Micro Firms Established by Unemployed Former Start-Up Training Programme Participants in Scotland. Turku: Publications of Turku school of economics and business administration. Series A-9:2000
- Leppäälho, M. 1992. Pienyrityksenstrategisen kehittymisen vaihtoehdot. In Jahnukainen I. (ed.). *Uudistuva pienyritys*. Jyväskylä: Weilin+Göös, 123-135.
- Mintzberg, H; Ahlstrand, B & Lampel, J. 1998. *Strategy Safari. The Complete Guide Through The Wilds of Strategic Management*. Pearson Education Limited.
- Mintzberg, H; Lampel, J; Quinn, J; Ghoshal, S. 2003. *The Strategy Process. Concepts, Contexts, Cases*. Pearson Education Limited.
- Näsi, J. 1991. *Areas of Strategic Thinking*. Helsinki: Kp Snellman Oy.
- Pk-yritysbarometri kevät 2005.[Online] Finnvera Oyj & Suomen Yrittäjät ry [19 Nov 2006] Available: <http://www.finnvera.fi/upload/yrityspbarometrivaltak.pdf>
- Porter, M. 1985. *Competitive Advantage. Creating and Sustaining Superior Performance*. New York: The Free Press
- Rodriguez, G. Making a Profit Out of Passion: Lifestyle Entrepreneurship. [Online][15 Nov 2006] Available at: <http://www.powerhomebiz.com/vol100/lifestyle.htm>
- Routio, P. 2005. Interrogating Methods [online] [23 Nov 2006] Available: <http://www2.uiah.fi/projects/metodi/164.htm#teemahaas>
- Scase, R. & Goffee, R. 1980. *The Real World of The Small Business Owner*. London: Groom Helm Ltd.
- Shrader, C.B, Mulford, C.L & Blackburn V.L.1989. Strategic and operational planning, uncertainty and performance in small firms. *Journal of Small Business Management* 10/1989
- Storey, D.J. 1994. *Understanding The Small Business Sector*. London: Routledge.

Uusien yritysten taustat ja syntyprosessi. Kauppa- ja teollisuusministeriön tutkimuksia ja raportteja 18/2001.

Vesalainen, J. 1995. The Small Firm as an Adaptive Organization: organizational adaptation versus environmental selection within environmental change. Vaasa: University of Vaasa.

Vuorela, S. 2005. Haastattelumenetelmät. [Online] In Ovaska, S., Aula, A. & Majaranta, P. (ed.) *Käytettävyystudkimuksen menetelmät*. Tampereen yliopisto, Tietojenkäsittelytieteiden laitos B-2005-1.[23 Nov 2006]
Available: <http://www.cs.uta.fi/usabsem/luvut/3-Vuorela.pdf>

Yrittäjyyskatsaus 2006. [online] Kauppa- ja teollisuusministeriön julkaisuja 28/2006 [19 Nov 2006] Available: http://ktm.elinar.fi/ktm_jur/ktmjur.nsf/

Zoltan, J; Arenius, P; Hay, M & Minniti, M. 2004. Global Entrepreneurship Monitor 2004. Executive Report. London Business School Babson

APPENDIX 1

THEMATIC INTERVIEW OUTLINE

1 THE BUSINESS & OWNER

- Background
- External environment
- Motives and goals
- Mission & vision
- Views on entrepreneurship (risk)

2 GROWTH

- Attitudes and opinions
- Defining growth
- Defining success.

3 DEVELOPMENT

- Future of the company
- What and how?



4 STRATEGY IN THE BUSINESS

- Role of planning
- Formality

5 BUSINESS PLAN

- Have you conducted a business plan?
- Role of the business plan in the company.