



Eurofound

# Restructuring in SMEs: Finland

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# Introduction

SME restructuring is a topic that has not been widely addressed in Finland either in public debate or research, despite the important role SMEs play in the Finnish economy: they are a source of national competitiveness and are vital employers. In 2009, there were 263,759 enterprises (primary production not included) in Finland, of which 99.8% were SMEs. Furthermore, 93.4% were micro-enterprises employing fewer than 10 people. SMEs employed 62% of the Finnish workforce (Yrittäjyyskatsaus, 2011).

When SME restructurings have been present in public debate, it has largely been in the form of business transfer, internationalisation and growth entrepreneurship. These are the topics that have gained most attention in research, even though the studies published in the field are very limited.

The importance of business transfers can be explained by the age structure of Finnish entrepreneurs. Also family businesses comprise a large part of these companies. It is estimated that the share of family businesses from all businesses is as big as 86%. Family businesses also employ 75% of the Finnish SME workforce (Tihula, 2008). A concern that has been present for a long time in the public debate of Finland is the baby boomers, ageing and retirement. Considering the huge number of family businesses in Finland and how many jobs they create, the concern has been well-grounded. The number of business transfers carried out has been lower than those that were estimated. Still, approximately 70,000–80,000 businesses in Finland are likely to go through a business transfer during the years 2007–2017 (Luukkonen and Hirvonen, 2007).

The top of the political agenda of Finland in issues related to restructurings seems to be growth entrepreneurship. Growth entrepreneurship has had a central role in Finnish policy programmes during the 2000s. Growth and international enterprises are regarded as crucial in maintaining competitiveness in the global markets. Also the media highlights Finnish success stories to promote entrepreneurship. The most recent example of a Finnish success story, Rovio Entertainment Ltd, the company behind the mega-hit Angry Birds game, has gained huge publicity. Such success from a fairly new company naturally has been an inspiration and encouragement for both policymakers and some entrepreneurs.

The third issue that has been on the table during the last decade is outsourcing and internationalisation. Understandably, outsourcing activities by SMEs threaten many domestic jobs as many people's income is at stake. Outsourcing also as a phenomenon has changed the world as a whole and the context in which businesses and countries fight to be and remain competitive. The most heated discussion seems to have subsided as internationalisation has become more of a norm and it is hard to resist.

# Relevance of different types of restructuring for SMEs

## Introduction

There are many types of restructuring events taking place in Finnish SMEs, but they are not widely studied or discussed in the media. In this study information especially related to relocations and merger/acquisitions was non-existent. Information related to outsourcing was only in the logistics context. The research available is related mainly to internal restructurings, especially to business transfers, and to business expansion, which here covers studies related to SME internationalisation and growth. Information related to internal restructurings covering topics such as reorganisation and diversification were not found.

Even though information about the different types of restructurings for SMEs is rather limited, it does not mean that these restructuring events are not present in SMEs. One of the case study companies (**Europlan Engineering Ltd**) is a demonstration of that: they have bought another SME and also have moved to a new location.

## Outsourcing

Finnish small and medium-sized firms in manufacturing and trading sectors seem to outsource their logistics operations to approximately the same extent as in most developed countries. Both domestic and international transportation, freight forwarding and reverse logistics are commonly outsourced: about 80% of companies outsource most of their transportation-related activities. As transportation is the largest individual component of logistics costs, it seems that the companies have outsourced the biggest cost-generating item of their logistics operations. Outsourcing is expected to grow in all areas, but especially in materials management, value-added services, and in IT (Solakivi et al, 2011).

## Offshoring/delocalisation

In the study by Deschryvere and Kotiranta (2008) it was found that relatively few Finnish firms have offshored tasks during the years 2001–2006 (6.7% of the firms). Their analysis is based on a Finnish weighted sample of 652 firms (of which 92% are SMEs). Service firms offshore relatively more often (7.6%) than manufacturing firms (4.8%), but the difference is not statistically significant. It is quite natural that there are differences found on the tasks offshored by the type of the company. Of the service firms 7.8% offshored services, while 1.4% offshored R&D. Of the manufacturing firms 15.6% offshored production, 6.3% offshored R&D and 2.1% offshored services.

The study takes into account the two main channels of offshoring tasks: offshore outsourcing and in-house offshoring. The means in the manufacturing sectors show that offshore outsourcing of production and R&D is two to three times more common than in-house offshoring (12.5% versus 5% for production and 4.5% versus 2% for R&D). The results seem to indicate that most of the offshored R&D tasks do not have a strategic position in the firm, as they are channelled abroad via offshore outsourcing instead of in-house offshoring. Relocating service tasks in the manufacturing sector are organised evenly via offshore outsourcing and in-house offshoring (1.2%). On the other hand, in the service sector the in-house offshoring is three times more important than offshore outsourcing (6.2% versus 2.7%). Relocating R&D in the service sector takes place mainly via offshore outsourcing (1.3%) and very rarely via in-house offshoring (0.2%) (Deschryvere/Kotiranta, 2008).

## Bankruptcy/closure

In 2010, almost 21,000 businesses closed in Finland (Table 1). These include all businesses, but taking into account the business structure of Finland, it can be expected that most of these are SMEs. Business closures represent 6.4% of the total stock of enterprise. The share has been approximately the same during the past 15 years. There have been slight changes in the figures. The financial crisis in 2007 and 2008 can be seen from the figures, as the number of business closures increased during those years.

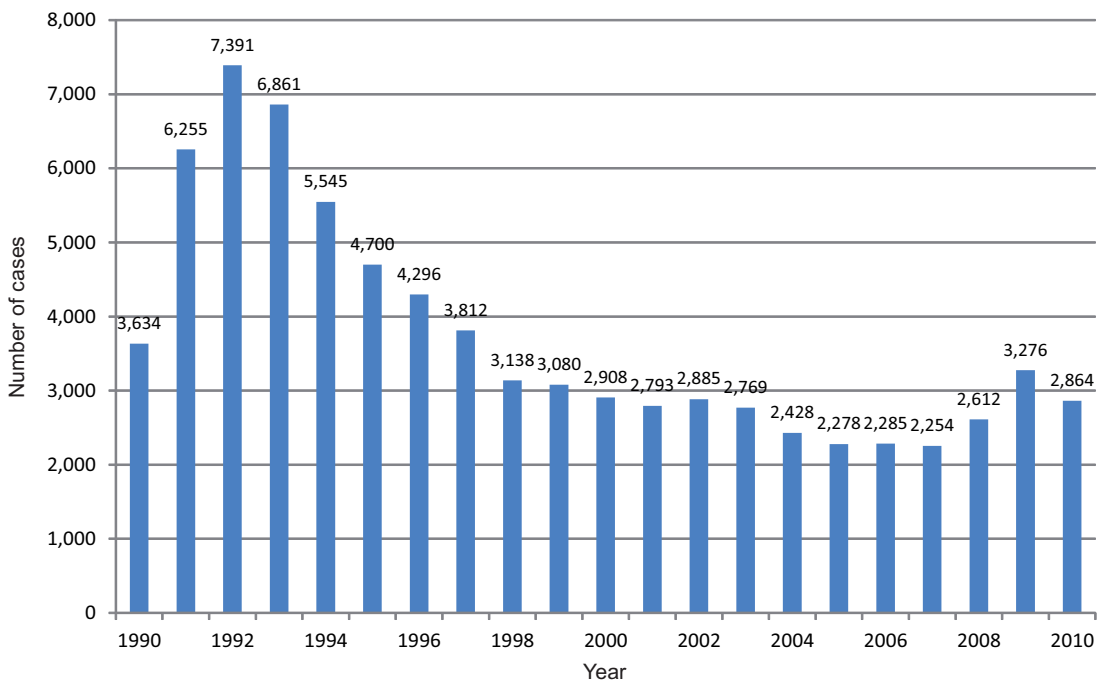
Table 1: *Business closures in Finland in 1995–2010 (primary production not included)*

	Enterprise closures	Share of total stock of enterprises, %
1995	15,059	7.0
1996	16,234	7.1
1997	15,795	6.6
1998	19,098	7.7
1999	19,638	7.8
2000	20,044	7.9
2001	19,953	7.8
2002	19,404	7.5
2003	20,156	7.6
2004	21,460	7.9
2005	20,692	7.4
2006	21,617	7.4
2007	22,525	7.4
2008	26,315	8.4
2009	25,250	7.9
2010	20,828	6.4

Source: *Official Statistics of Finland (OSF)*

The first three years are the most critical from the point of view of the survival of companies. Then nearly a third of the companies (31%) have already discontinued operation. Many companies manage to survive the first two years but the third year is crucial from the point of view of continuing business. In Finland about half of the companies are in operation after five years. When compared to international levels, the companies in Finland are rather long-lived, which has reduced the turnover and regeneration of the enterprise stock. This development may be partly due to the strong position of small family businesses, especially on local markets, which may have prevented new entrepreneurs accessing the markets (Yrittäjyyskatsaus, 2011).

Finland suffered from deep recession in the beginning of the 1990s. This can be seen in the number of concluded bankruptcy cases in Figure 1. The number of bankruptcy petitions was reduced to a third during the years 1993 to 2007, after which the amount of bankruptcies again developed an upward trend.

Figure 1: *Instigated bankruptcy cases in Finland, 1990–2010 (including primary production)*

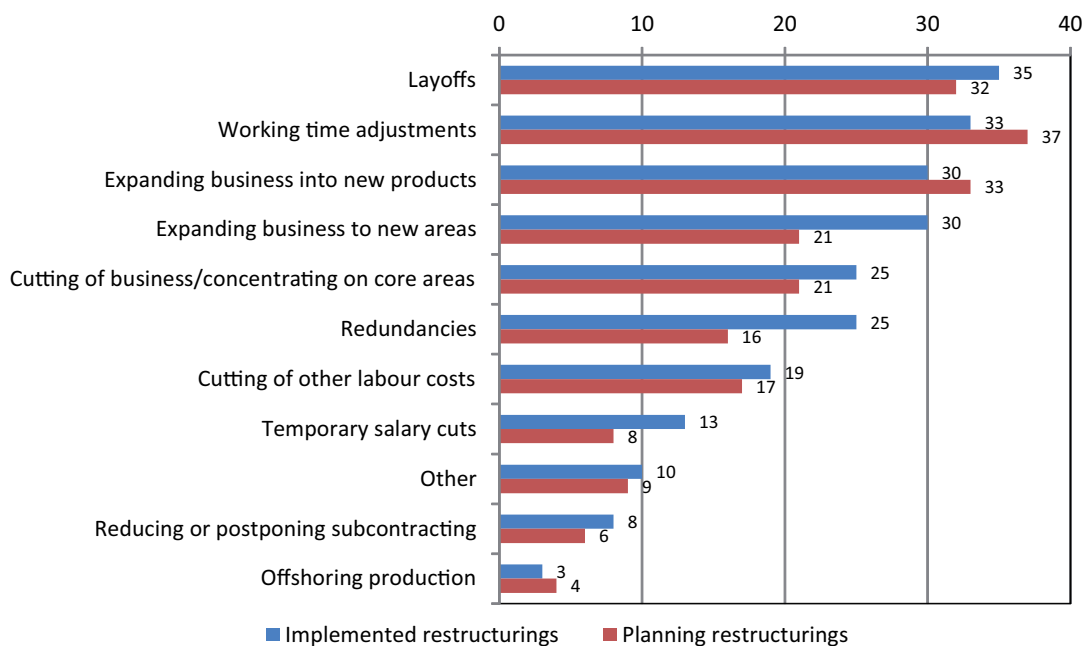
Source: *Official Statistics of Finland (OSF)*

According to Statistics Finland 2,864 bankruptcy cases were instigated in 2010, which was 13% less than during the previous year. The figures contain the companies operating within primary production. There were 55 instigated bankruptcy cases in primary production in 2010. The bankruptcies decreased on all main industries except in accommodation and food service activities. The relative share of instigated bankruptcy cases of all companies was about 1.1%. The share is considerably lower than during the peak years of the 1990s when the share was 3–4% of all companies (Yrittäjyyskatsaus, 2011).

## Internal restructuring

Even though restructuring events have not been widely studied in the Finnish SME context and they are not visible in the media, various kinds of restructurings take place in Finnish SMEs. Figure 2 demonstrates this by showing the different kinds of restructurings done and planned by Finnish SMEs. The results are based on a survey of 3,900 Finnish SMEs, collected in December 2010–January 2011. The data have been weighted to represent Finnish SMEs.

Figure 2: % of SMEs that had made or planned restructuring events



Source: *Pk-yrittysbarometri (2011)*

About a third of Finnish SMEs have had to make some restructurings due to the economic crisis, but the share has decreased from previous years. Furthermore, 8% was still planning to do some restructurings due to the financial crisis. Restructuring events have been more common in manufacturing SMEs than in service SMEs (44% versus 28%). The bigger the SMEs the more common the restructuring events have been. Also the wider the markets of the company are, the more likely it is that it has done some restructurings. Likewise, growth-oriented SMEs have had to adapt their operations more often than other SMEs (Pk-yrittysbarometri, 2011).

The most common restructuring events have been layoffs (35% of SMEs that have done restructurings) and working time adjustments (33%). For about a third of the companies the restructuring events include expanding the business into new products/services or new areas. On the other hand, a quarter of SMEs had cut their business operations or concentrated on the core areas. Among those SMEs who were planning to implement restructurings layoffs, working time adjustments and expanding the business into new products/services are the most common restructurings types mentioned. The share of the ones planning working time adjustments has risen six percentage points from the previous study (Pk-yrittysbarometri, 2011).

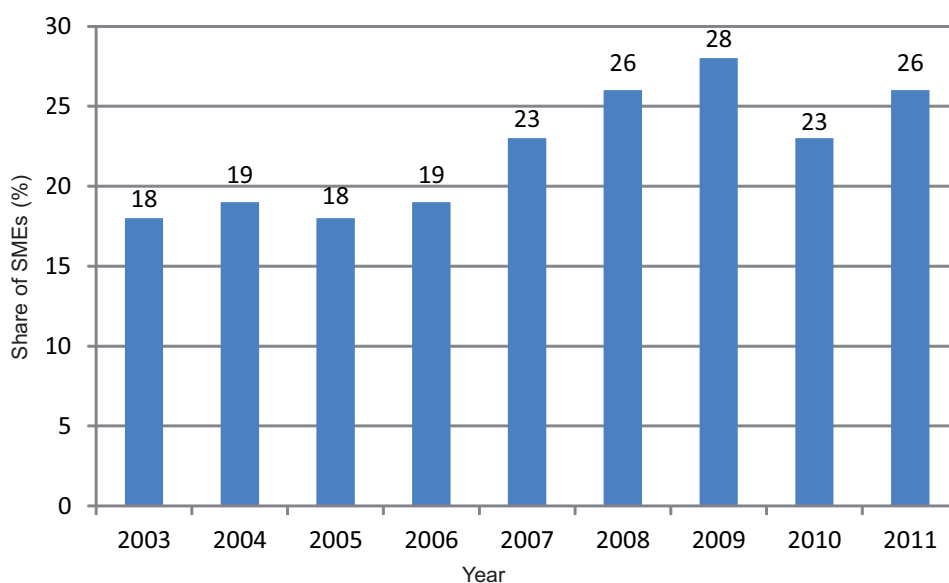
**Business transfers**

According to different studies, succession or other form of business transfer (for example, sale of business to a third party) has been an issue in many Finnish companies and it will remain one in the near future. The age structure of entrepreneurs is distinctly more skewed than salary earners. As a consequence of the ageing of the population, there are many business transfers, successions or alternatively terminations of businesses expected in Finland. Business transfers, especially successions, are long and complicated processes. One of the most critical phases of a company’s life cycle is the transfer of ownership and management. Korpela (2008), Stenholm (2003) and Heinonen (2005) state that entrepreneurs themselves do not give much consideration to business transfers, even though as they get older they will have to face the issue. This contradiction increases the pressure of achieving successful transfers. It is estimated that fewer than a quarter of companies facing a ‘forced transfer’ will survive the transfer (Stenholm, 2003). The transfer is forced in the event of the sudden death or illness of the entrepreneur (Korpela, 2008). If the business transfers do not succeed, numerous jobs will be in danger in Finland (Stenholm et al, 2007).

In Finland, there are no comprehensive statistics available of business transfers, but the information is based on the separate studies and therefore, there are differences in the figures represented. In 2003 to 2008, 16% of Finnish SMEs had executed business transfers and it is also expected that there will be a business transfer in every sixth SME in the years 2008 to 2013 (Tihula, 2008). Luukkonen and Hirvonen (2007) on the other hand suggest that there will be 70,000 to 80,000 businesses facing an ownership transfer within the next 10 years due to reasons related to ageing. Stenholm (2003) estimated that business transfers would concern approximately 7,000 companies per year until 2010. However, for different reasons, the number of completed business transfers by summer 2008 was remarkably lower than 7,000/year (Korpela, 2008). The Finnish SME barometer (Pk-yritysbarmetri, 2011) evaluates that if all business transfers estimated by Finnish SMEs took place on anticipated schedule, it would mean about 10,000 business transfers every year during the five following years.

26% of Finnish companies expected to have a business transfer or successions within the next five years (Figure 3). The total share remained at the same level during the last couple of years.

Figure 3: *Expectancy of business transfers during the next five years, share of SMEs (%)*



Source: *Yrittäjyyskatsaus (2011)*

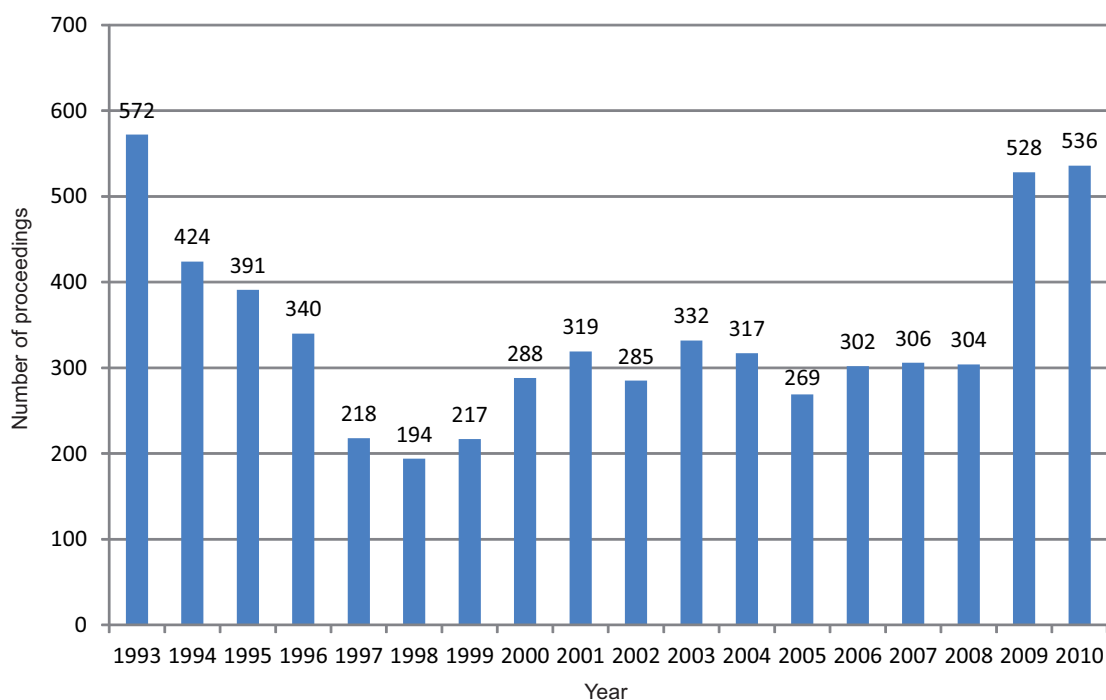
On the other hand, 61% of the respondents do not believe in the possibility of a change of ownership in their own company within the following five years. The need for business transfer is heavily dependent on the size of the company and will increase when the size grows. Only 12% of the sole proprietors identify the need for business transfer, but about a third have the need among the biggest SMEs. Sole proprietors' need for business transfer has decreased by a third during the past two years, but significant changes have not taken place in other company size classes. The change of ownership will become topical especially for the medium-sized SMEs in the manufacturing sector. There is least need for business transfers in the service sector (Pk-yritysbarmetri, 2011).

### Business restructuring proceedings

In Finland an attempt has been made to regulate the financial situation of companies which have ended up in difficulties. The Restructuring of Enterprises Act came into force as a consequence of the economic depression of the 1990s in 1993. Restructuring proceedings are an alternative to bankruptcy proceedings against companies struggling with financial difficulties. The purpose of the proceedings is to rehabilitate a viable business and thus avoid, for example, the loss of jobs. There were about 300 business restructuring proceedings annually in 2000–2008 in Finland (Figure 4).



Figure 4: *Business restructuring proceedings in Finland, 1993–2010 (including primary production)*



Source: *Official Statistics of Finland (OSF)*

There was a steep increase in the numbers in 2009 and 2010. The record figures of the year 1993 were almost reached. In 2010, 536 business restructurings, of which nine businesses operate in primary production, were instigated. The companies in restructuring proceedings employed 5,050 persons. The number of companies in the restructuring proceedings increased in construction, accommodation and food service activities and transportation. The amount of restructurings decreased in manufacturing and within most of the service industries (Yrittäjyyskatsaus, 2011).

## Business expansion

Enterprise growth has been an interest in research for decades. During the past 10 years it has also gained more and more focus in policy discussions. In Finland, there were 668 growth enterprises<sup>1</sup> in 2010, which represents 4.4% of all enterprises employing at least 10 people. Growth enterprises created more than 50,000 jobs in 2007 to 2010. Of all Finnish growth enterprises 98% are SMEs and 2% large enterprises employing more than 250 people. Among enterprises employing fewer than 10 people 11% can be defined as growth enterprises (Kasvuyrityskatsaus, 2012).

There are not any significant differences between growth enterprises and other enterprises. Typically, growth enterprises are younger and smaller than other firms. The following characterise Finnish growth enterprises (Kasvuyrityskatsaus, 2011):

1. More than half of growth enterprises are under 10 years old. Growth enterprises with 15 years or more account only for 24% of all growth companies.
2. Growth enterprises are relatively small; nearly 60% of growth enterprises have fewer than 20 employees.

<sup>1</sup> The Finnish Growth Enterprise Review 2012 applies the OECD and Eurostat definition of growth, according to which the initial number of employees in a growth enterprise is at least 10 people, with annual growth in the company's employment averaging more than 20% over the three-year period (Kasvuyrityskatsaus, 2012).

3. Around 70% of growth enterprises operate in the service sector.
4. Growth enterprises are all around Finland; growth is not always dependent on location.
5. Growth enterprises are less international; they are less likely to have foreign activities but are more likely to be foreign owned.
6. Growth enterprises are knowledge-intensive; on average the personnel of growth enterprises is well educated.
7. Growth enterprises are publicly funded; around half of growth enterprises have had public funding in the last three years.
8. Growth enterprises have accessed venture capital more than other companies.

Global Entrepreneurship Monitor (GEM) studies the growth expectations of early-stage and established entrepreneurs. In Finland entrepreneurs have remarkably low growth expectations. The Finnish rate of high-growth entrepreneurs is noticeably lower than in other Nordic countries. In 2002–2010 approximately 5.5% of every early-stage entrepreneurially active individual had high growth expectations. The share of entrepreneurs with high growth expectations in 2008–2010 was lower than in the beginning of the 2000s (Stenholm et al, 2011). About half of Finnish enterprises have moderate growth expectations (Sorama/Saarakkala, 2009). The continuously low growth expectations create challenges for the development of Finnish employment.

There are some differences in figures related to international activities of the enterprises. According to the Ministry of Employment and the Economy, about 23% of Finnish enterprises are engaged in exports. Of these 5% are growth enterprises (Kasvuyrityskatsaus, 2012). According to GEM around 30% of Finnish enterprises are engaged in exports. In all GEM countries the corresponding share is around 50%. Finnish entrepreneurial activity is one of the least internationalised among its Nordic, innovation-driven and global counterparts (Stenholm et al, 2011). The vast majority of the SMEs is still oriented towards Finnish markets. 82% of SMEs do not see any need to increase international activities and only 4% consider the international markets significant (European Commission, 2007).

Larger SMEs tend to be more internationalised. This is valid not only in Finland, but can be seen across the EU27. For example, 17% of Finnish SMEs that have 1–9 employees are exporters, whereas among SMEs that have 50–249 employees, the corresponding figure is 54% (European Commission, 2007). Especially SMEs operating in transportation and manufacturing are interested in developing exports.

# Drivers of restructuring

Strategic change takes time. These processes are the results of many inter-related factors. Some are enabling the process and some are hindering it. Macro-economic conditions, for example, have a strong influence on both behaviour and change processes in SMEs.

## Bankruptcy/closure

From an economic viewpoint, losses come mainly in two forms. First of all, in companies that are viable and could still have a future, no successors are found. Second, sometimes some companies that are continued even with the support of public instruments should have been closed a long time ago. It has to be remembered that bankruptcy is a normal part of business life and bankruptcies do not have to be a sign of economic crisis. Some companies succeed and some do not. Business cycles take care that new successful companies are born while obsolete and outdated companies face closure. According to the GEM 2010 research, a quarter of Finnish SMEs face closure because of their unprofitability. A tenth of all closures are bankruptcies (Aaltonen/Heinonen, 2008). When compared to other countries, retirement comes up as the reason for ending a business more often in Finnish SMEs than in SMEs from other countries. In fact, retirement is the second most common reason for closures in Finland after other personal reasons (Yrittäjyyskatsaus, 2011). Also the economic crisis plays a role in business closures. This can be seen in the number of business closures presented in Chapter 1.

It can be said that the reasons for firm failure stem from the inability to adjust to new circumstances and changes in the context of the company. Firms are often unprepared for sudden drastic changes in their business environment, although being prepared would not hurt but actually help if crisis comes (Pasanen, 2005).

Bad management is often seen as one of the central reasons for firm failure in Finland. Although drastic changes in business environments might often be the triggers for failure, with good management and thorough planning, a company is less likely to go under. If management is incompetent, inadequate or inexperienced, failure takes place more easily. Bad financial conditions have also often to do with bad management as these kinds of conditions often reflect a lack of planning. Poor management and lack of financial management often go hand in hand (Saarikko, 2009).

In addition to poor management and unfavourable macro-economic conditions, lack of previous experience as an entrepreneur, lack of marketing skills, no use of business advisors, dependence on one or a few big customers, a small amount of services and inadequate financing were mentioned as the most common factors associated with SME failure by 12 interviewees in a study by Pasanen (2005).

In Finnish restructuring firms a common reason for failure is the lack of risk management. In many cases, instead of carefully managing the business and diversifying risks, companies tend to 'put all their eggs into the same basket' and practically count on gambling. When one project ties up the firm's assets and when turnover becomes dependent on one customer, the firm's tendency to end up in a crisis when turbulent times come grows higher, as naturally such a company is prone to crisis (Saarikko, 2009).

## Business expansion

Innovations are important for the growth of the company, but they alone cannot explain success. In Finland, many SMEs explain success as the result of a changed business context, shorter life cycles of products and the ability to anticipate and predict the future. Of course, success also takes luck and hard work and being in the right place at the right time. Traditionally, Finnish SMEs have also put strong faith into technical aspects such as equipment and information systems and it seems that it is still interwoven in the Finnish way to do business. The most important source of innovation for SMEs in Finland is customers. Forecasting customer needs, listening to what they have to say, solving the needed

problems and in the end fulfilling the customers' needs is the basis for innovation most of the time. An innovative working atmosphere, a skillful workforce that is motivated and takes initiative and a team that has broad expertise and always looks ahead are also considered important sources for innovation (Lehtoranta/Uusikylä, 2005).

The motivation of the entrepreneur is also crucial for business expansion. Entrepreneurs that describe themselves as growth-oriented also grow their business the most. The connection between growth orientation and growth shows that growth does not happen by chance, but is a result of goal-oriented and committed work to grow the company. For both faster- and slower-growing companies, the ability and willingness to bear risk were some of the most crucial factors in making the company grow (Mäki-Fränti, 2006).

The drivers that lead SMEs to either outsource or internationalise in Finland are not much different from other countries. Outsourcing and internalisation serve as means to generate growth that could not be achieved in home markets. With small and open economies such as Finland, this is especially the case (Törnroos, 2002). Other reasons for internationalisation are specialisation and benefits of scale that come with it and the need to be close to customers. All in all, the number of foreign operations among Finnish SMEs has increased (Larjovuori et al., 2004). Among Finnish SMEs many 'born globals'<sup>2</sup> can be found, but most firms still internationalise in a rather traditional manner.<sup>3</sup> Research findings show that the most crucial driver for the traditional, cautious and risk-averse type of internationalisation of Finnish family-owned SMEs is a strong will to act as a servant of the firm – in other words, the need to be loyal to the family, to recognise opportunities at international fairs or through random orders, to focus solely on one partner on international markets and the inability to give entrepreneurial freedom to this foreign partner (Kontinen, 2011).

## Conclusion

Strategic changes can seldom be traced to single events. Rather, they are the results of complex processes (Pasanen, 2005). In the short term, it might usually seem that when changes in the business environment occur, companies rely on reactive tactics. As uncertainties arise companies rely often on defensive ways to make it through the turbulence. Companies often seek to cut personnel costs, make decisions concerning products and markets and redefine internal tasks. In the longer run, however, this is not the case. In these changed business environments, companies are often able to bring forth new ways of doing things and new ideas. Companies with owner-managers often cope with uncertainty based on experience rather than new calculation and excessive planning (Pasanen, 2005).

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<sup>2</sup> Young firms internationalising rapidly after inception to multiple global markets, in most cases with the strong ambition to go international even before start-up.

<sup>3</sup> Internationalisation theory suggests that firms first build up a solid domestic market and in later phases of their life cycle enter international markets in stages – that is, first markets that are geographically and culturally closer and then those further away, as well as first imports/exports and later on investments.

# Distinctive characteristics of restructuring in SMEs

## Anticipation, planning and preparation of restructuring events

### Internal restructuring

Business transfers, especially generational transfers, are complex and difficult processes. On average, it takes five to 10 years from the beginning to complete the succession process. These processes are loaded with moral, social, financial and other issues that are difficult to deal with and therefore are often happily avoided. It is understandable that many times, the planning and implementation processes are begun too late. The reality is that when this happens, the risk for the failure of the succession process increases drastically (Stenholm, 2003). Findings show that most Finnish entrepreneurs are not prepared for business transfers; in fact many entrepreneurs in the service sector see ceasing the business as the only alternative after they retire (Luukkonen and Hirvonen, 2007). Another matter that speaks volumes about Finnish SME owners' preparedness for business transfer is the fact that most entrepreneurs find that business transfer is not a relevant issue and really no problem at all. However, when the age structure of Finnish entrepreneurs is considered, it becomes quite clear that such laid-back attitudes are not well grounded by any means (Malinen, 2004). In spite of the common unpreparedness and the fact that a large part of businesses end their operations as the owner-manager retires, many entrepreneurs have offered their business to their competitors and others in the quest for a successor (Luukkonen and Hirvonen, 2007).

The business transfer process in SMEs can be divided roughly into four categories: the waking up phase, preparation phase, transfer of ownership phase and the takeover phase. The waking up phase may be triggered by old age (Malinen, 2004), sickness or succession processes among relatives or peers. At this stage the possibility of succession is considered seriously for the first time. In the preparation phase different forms of ownership transfer are considered. In the third phase, namely the transfer of ownership phase, the actual plan for ownership transfer is made. It is also decided if the ownership transfer will be generational or if an outsider will take ownership of the company. In the takeover phase, everything revolves around cold, hard decisions and sentimental aspects are not considered anymore (Hirvonen, 2008).

### Business expansion

Seeking growth, new ways of doing things and new opportunities is normal for growth firms. These firms also seek to distinguish themselves from competitors and to make the most out of changes related to their business activities. In the midst of these kinds of actions still risks are calculated and unnecessary risks are avoided (Kuuluvainen et al, 2008). Growth firms differ also in resource acquisition compared to non-growth firms. Resource acquisition happens mostly in the form of increasing investments. Recruitment of key personnel and gaining new owners are also crucial and do happen but they do not seem to be as common as investing in physical capital such as machinery and financial resources (Kuuluvainen et al, 2008).

## Managing restructuring

### Outsourcing

When it comes to internationalising, the most crucial question for companies, and especially their managers, is how new business models are managed. In the search for new partners, companies often make themselves lucrative partners by defining their core competence quite narrowly. The interesting part is that the partners found also have some similar competences to the companies themselves, meaning that partners are not often wholly complementary, but rather that there are overlaps. In some cases this might not be the most desirable outcome of a partner search. Thus, SME managers need to have skills and capabilities in selecting partners and managing partnerships (Nummela et al, 2004).

### **Internal restructuring**

As strategic changes occur, companies need to look after keeping and changing routines and developing tactics that help survival in the short term (Pasanen, 2005). Finnish evidence confirms the finding that efficiency-oriented actions are vital in reorganisations. A relationship can be found between long-term success and reorganisation actions. Some efficiency-oriented actions that help companies in the long run are improvements of operational efficiency and marketing efficiency (Laitinen, 2008). When companies focus in their reorganisation plans on concentrating on core business, improve planning of systems, invest in marketing 'but include less submission of equity' the likelihood of a successful reorganisation increases (Laitinen, 2009).

### **Business expansion**

Findings suggest that growth firms usually search for new business opportunities. Growth firms create new combinations from existing resources (e.g. new products or new managerial routines) or acquired new resources in order to seize promising opportunities (Kuuluvainen et al., 2008). Investing in R&D seems to be important for developing new products and services. The majority of growth companies invested in R&D activities at least as much as companies in the field on average. In Finland the focus of R&D activities is on developing services and products, but developing personnel has also become important, especially in knowledge-intensive sectors. Developing personnel is the most crucial focus of R&D activities (Sorama/Saarakkala, 2009).

Typically a family-owned Finnish SME's internationalisation process follows the following pattern:

1. Discovery of an international network relationship.
2. Formation of a trust relationship.
3. Formation of an international perspective.
4. Creation of new network relationships (Kontinen, 2011).

SMEs often serve as subcontractors to larger companies; about half of the exports of SMEs are indirect export. Finnish SMEs' exports have been more strongly focused on Finland's neighbouring areas, such as Baltic countries, Sweden and Russia, compared to larger companies. In SMEs the know-how related to internationalisation and exportation is considered to be a critical success factor (Pk-yritysten toimintaympäristö ja kehitysnäkömät, 2003).

## **Actors involved**

### **Internal restructuring**

The employees at a workplace will elect a shop steward to represent them. The shop steward serves as a local negotiator, conciliator and channel of communication between the employer and the employees. The shop stewards also act as a link between the company and the trade union. Shop steward's role is very important when there are codetermination procedures taking place in the company. The scope of codetermination negotiations includes:

- changes in work organisation that substantially affect the status of staff;
- any service arrangements that materially affect the staff;
- the principles and plans for staff development and equal treatment as well as for internal communications at the workplace;
- any reduction to part-time employment, layoffs or dismissals implemented for reasons of economy or production;

- the criteria for using agency workers;
- the reasons for assigning business operations, together with the timetabling and consequences of such a measure.

Works councils do not seem to be present in Finnish SMEs. The case study companies had never heard about work councils, so even the concept is unfamiliar.

### **Business expansion**

According to the study by Larjovuori et al (2004), 61% of SMEs had used external experts, mainly consultants, to help plan internationalisation. Publicly supported marketing services were also commonly used, such as shared exhibition stands and fact-finding trips. It was also considered useful to have joint projects with other Finnish SMEs to develop internationalisation and gain ground in the global markets.

# Main challenges and constraint facing SMEs in restructuring

## Internal restructuring

Some estimates show that 40% of Finnish businesses that are about to face a business transfer do not know who the successor will be. It must be remembered that 90% of Finnish businesses are micro-sized, so business transfers are a highly challenging and topical area for these businesses (Luukkonen and Hirvonen, 2007). A good way to pursue better results in the succession process in all its aspects, including fiscal, financial and emotional issues, is long-term planning (Malinen and Vento-Vierikko, 2001). Sometimes things happen that delay the business transfer process, but most are completed. Delays can occur because transfer plans and existing conditions have drifted apart, but if business routines are maintained and the transfer is put on hold, then delays will not threaten the transfer process. The reality is that during the transfer process, people's goals and values are still subject to change and the basic decisions and assumptions that are recorded in the initial plan are often questioned (Hytti et al, 2011) to the divergence between business transfer plans and existing conditions.

The most likely problems in the business transfer process have to do with finding the right successor, estimating the company's value and settling the costs of succession (Tihula, 2008). In fact in one Finnish study entrepreneurs stated that finding a successor is the main challenge in the transfer process. Almost half of the entrepreneurs who took part in the study mentioned estimating the company's value as one of the three main challenges in business transfers. Knowledge transfer was also mentioned as a big challenge (Luukkonen/Hirvonen, 2007). The transfer of relationships and networks have also been mentioned as difficult matters in Finland. Finance, taxation, inheritance and managerial issues are some of the big obstacles to overcome in succession processes (Malinen and Vento-Vierikko, 2001). Findings show that in the context of family businesses, the main reason for failure in the transfer of the business can be traced back to the highly emotional and complex process of transferring both ownership and management to the next generation and the inability to manage this process (Tihula, 2008). In addition, many successors lack high-level education and formal training and have limited experience, as they may only have worked in the family's business (Malinen, 2001). These issues naturally create challenges and only confirm the need for training and consultation in succession processes.

## Business expansion

Although Finland has growth companies and some success stories hail from Finland, it has relatively few growth companies, both in number and quality. Finland seems to have good conditions for companies to operate and grow, but for some reason growth has been quite modest. The low rate of Finnish growth entrepreneurship is often reasoned to be a result of the low motivation level of Finnish SMEs to grow. However, business for most SMEs is based on a foundation that really does not support or require growth. Most Finnish businesses simply feel that they are already big enough. Also the majority of Finnish entrepreneurs are lifestyle entrepreneurs, which in turn means that the opportunities to do meaningful work and be their own bosses are far more important than making lots of money (Varamäki et al, 2007). The low motivation of Finnish SMEs to grow is actually quite surprising, as normally growth and export-oriented entrepreneurship is quite common in countries with developed innovation and economic systems. This low motivation has consequences for growth for the entrepreneur: as risks and the amount of work increase, more workforce needs to be hired, more capital is needed, the company is harder to manage, the atmosphere of the workplace changes as new employees join the team and the workforce is harder to dismiss (Sorama/Saarakkala, 2009).

Most innovations from Finnish firms are born in the process of identifying customer needs and market niches (Oksanen/Rilla, 2009). However, commercialising innovations can be highly challenging and troublesome, especially for small companies. Even large companies with large amounts of resources struggle in creating markets for new products and find it challenging to assure consumers, financiers and others, so one can only imagine what is it like to be



a small firm trying to make it with a new innovation. Commercialising an idea and gaining credibility and acceptance on markets is not the easiest road to travel for companies that are more or less pioneers (Oksanen/Rilla, 2009).

Internationalised SMEs identified know-how as one of the weaknesses of their businesses. At the same time, they identify knowledge of customers and markets, acquisition of the market information and know-how related to business networking as the most important areas for development. In addition, the financing alternatives to internationalisation were not widely known among the SMEs. Finnish companies would also like to improve the management of their contracts and in customer-oriented salesmanship and negotiation skills. Evaluating the costs of internationalisation is challenging and for most of the companies the internationalisation will be more expensive than expected (Larjovuori et al, 2004).

In Finland growth companies are found in all geographic areas, and in that sense choosing a certain location is not a requirement for growth. However, most of the growth companies are located in metropolitan areas and most growth companies can be found in university areas. Regions play an important role in growth, as the operation environments naturally influence business. An interesting finding is that many growth companies, no matter where they are located, face shortage in manpower (Sorama/Saarakkala, 2009). Finding the right people for the team is not always easy.

# Business support from public and private sources

## Supply

When it comes to public support, its function is to ensure favourable conditions and an encouraging climate for growth companies to operate and grow (Heinonen, 2006). Public support has been most effective in those companies whose phase of fast growth has not yet started. In these cases public support seems to increase the companies' probability of ending up in the category of fast-growing companies. Naturally, for those companies that are already growing, public support gives an extra push to grow (Kasvuyrityskatsaus, 2011). The main public sector actors that offer support for SMEs are Tekes, Finnvera, Finpro and regional EED (employment and economic development) centres (Heinonen, 2006), which all are part of the Ministry of Employment and Economy. There are also other actors who provide support for SMEs; for example the Ministry for Foreign Affairs offers support in export related issues.

Tekes, the Finnish Funding Agency for Technology and Innovation, is an important source of support for many SMEs. Altogether 11% of Finnish growth companies have received support in the form of loans and direct support from Tekes for R&D activities. Among non-growth companies, the rate of support from Tekes is lower, namely 8%. From those companies supported by Tekes, 7% are growth companies. Of those companies that have not received support from Tekes, 5% are actual growth companies (Kasvuyrityskatsaus, 2011).

Finnvera is a Finnish state-owned financing company that 'offers financing solutions for start-up, growth, internationalisation and export' (<http://www.finnvera.fi/eng>). Finnvera loans and securities have been received by 16% of growth companies. However, as there are so many firms that have received support from Finnvera, only 6% of Finnvera supported companies are growth companies, whereas among those companies that have not received Finnvera-support, the amount of growth companies is 5%. It seems that just like in the case of Tekes, Finnvera's support is a key factor in those companies that in the end are more likely to succeed (Kasvuyrityskatsaus, 2011). The difference that the Finnvera loans make does not seem to be as drastic as it could be.

EED centres provide support for SMEs regionally in the form of training, financing, development and advisory services. More precisely, EED centres provide SMEs with development and training programmes such as training of key personnel, information services, help in personnel recruiting, consultation and advisory services. In order for SMEs to invest in internationalisation and fixed assets, sometimes EED centres also grant subsidies for firms (Heinonen, 2006).

The Finnish diplomatic and consular missions abroad, Finpro at home and the Ministry for Foreign Affairs are Finland's providers of export support services. Finpro's focus is on the capacity-building elements, whereas the overseas network works on reducing barriers to new markets. Finpros's activities include export promotion, speeding up internationalisation of Finnish firms and cooperation with other organisations that share the same goals. Such organisations are Tekes, Finnvera and the national technology agency. The Finnish overseas network's function is to provide 'public services related to export promotion and internationalisation' for Finnish companies. The network is geographically wide as it has 100 service points around the world with Finnish staff (BIS, 2010).

As stated before, SMEs receive support not only from public sources, but private sources as well. Growth companies in Finland have received equity financing more often than other companies. When comparing growth companies who have received equity financing with those who have not, it can be seen that growth companies that have received equity financing grow more rapidly (Kasvuyrityskatsaus, 2011). Some of the Finnish capital investor organisations are Suomen Bisnesenkelit ry (<http://www.ledi.fi>) and The Finnish Venture Capital Association (<http://www.fvca.fi>) (Luukkonen/Hirvonen, 2007).

The Ministry of Employment and Economy has the main responsibility in coordinating business transfers. It has financed different projects related to business transfers, mainly through local EED centres. EED centres finance different types of projects through which most of the regional business transfer services have been financed. Training for exiting entrepreneurs has mainly been organised through these kinds of temporary projects. Various kinds of seminars, courses, training and consulting have been provided. Due to this the availability of training has varied a lot. In reality, there is no established permanent training for exiting entrepreneurs and successors in Finland (Luukkonen and Hirvonen, 2007).

In addition to EED centres, provincial federations have financed parts of regional business transfer services, but there is a huge variation across Finland. Business transfers are considered to be important in some municipalities, but in other parts, not much attention has been paid to them. Therefore, there is no consistent concept across different municipalities and sub-regions available for business transfer support (Luukkonen and Hirvonen, 2007).

Closures have gained less attention than formations of new companies, and for entrepreneurs going through business closures there are less support services than for start-ups. This is interesting because, for example, the amount of the administrative work that comes with closure surpasses the work that comes with starting up a business.

Naturally, there are also private organisations offering services for businesses. These include associations for entrepreneurs, consultants, accounting and legal firms, private banks, financial institutes, insurance companies, private investors and business brokers.

## Demand

### Business transfers

Apart from carefully planning the succession processes, training courses on business transfers have also been helpful for entrepreneurs and their families, as experts bring insight, consultation and alternative solutions into the existing situation (Malinen/Vento-Vierikko, 2001). As family business transfers, and indeed other transfers, are all different from each other and far from homogeneous, there is a need for transfer situations to be addressed individually when consultation is given (Malinen, 2001).

Findings show that, for example, in Central Ostrobothnia, Finland, entrepreneurs that had been looking for a successor have used the Federation of Enterprises for connections and also used advertisements. Common needs among entrepreneurs regarding business transfers are the need for more information on transfers and expert help in matters such as taxation, financing, legislation, etc. A solution to these needs that many entrepreneurs would warmly welcome could be a neutral party that would help with issues regarding business transfers (Luukkonen and Hirvonen, 2007).

### Business expansion

When it comes to services for SMEs, growing companies tend to rely on monetary support and loans from Finnvera, a Finnish state-owned financing company, as SMEs with slower growth tend to use business advisory services instead (Mäki-Fränti, 2006).

# Outcome of restructuring events

## Organisational outcomes

### Outsourcing

Solakivi et al (2011) studied logistics outsourcing and its linkage to financial performance of the company, but did not find statistically significant relationships.

### Internal restructuring

Statistically, Finnish firms are more likely to make it through turbulent times when the entrepreneur is a woman or a married couple, debt remission rate is high, inventory rates are low, the number of creditors is small, the firm employs only a couple of part-time employees and the firm has handled all its payments flawlessly (Laitinen, 2009).

### Business expansion

What is interesting is that in the short term, innovative firms are not proven to be any more successful than non-innovative firms; in fact, the truth might even be the opposite (Heimonen, 2012). Growth firms both in rural and urban areas share this common characteristic; they are not as overly innovative as one could imagine (Heimonen, 2012).

There is no statistical correlation between investing in R&D and company growth. It seems more like investing into R&D might have more of psychological than financial relevance for growth. Also, strategic planning has no direct influence on growth. Strategic planning however can result in competitive advantage and it increases the commitment of employees and thereby can improve a firm's performance (Sorama and Saarakkala, 2009).

## Employment effects

Offshoring measures of Finnish SMEs have an impact on domestic employment. However, it seems that at least partly the impact might be quite contrary to what one could imagine. Offshore outsourcing of services in both service and manufacturing sectors affects employment positively. However, offshore outsourcing of production in the manufacturing sector has a stark negative effect on domestic employment. When it comes to offshoring R&D, the likely effect on domestic employment is positive, whereas sourcing R&D in-house has an inverse effect. Overall, in-house offshoring or services has an expected positive effect on domestic employment, except for the service sector (Deschryvere/Kotiranta, 2008).

# Conclusions and policy issues

Various kinds of restructurings take place in SMEs, but information about these is not widely available. The small size of the company seems to create both advantages and disadvantages for the business activities. SMEs have better capabilities to react and adapt faster to the changes in the business environment compared to larger companies. However, due to limited resources, SMEs do not spend much time on planning future activities. For example, studies revealed that SMEs often do not plan business transfer processes carefully enough and are also lacking risk strategies. These might cause some challenges for the business or even lead to the company's failure.

The restructuring events taking place in SMEs are dependent on the economic situation worldwide and the development of society. In Finland, the economic crisis in 2007–2008 can be seen in the increase in the numbers of business closures and bankruptcies. The most frequent ways for Finnish firms to restructure in times of crisis are debt restructurings, management changes and strategy changes. As crisis comes, those companies that make it through the turbulence resolve the issues that are causing trouble in the first place. Those that end up closing their businesses do not see the point of going through the difficulties and resolving troublesome matters. Companies that make it through restructurings successfully often also focus on the core of their business. Firms that are successful in restructurings stand out in many ways, for example in showing the importance of open and honest communication between administrators, external stakeholders and top management (Saarikko, 2009).

Growth is seen as vital for economic development and it has gained a lot of interest both in research and policy discussions. Stories of successful growth enterprises and entrepreneurs are presented in the media. The differences between growth-oriented and non-growth-oriented companies traces back to attitudes. However, in Finland as in most countries, the situation is that all SMEs that want to grow internationally eventually will not. Only a few can achieve true growth in new challenging markets. There are also many companies that might wish to grow internationally, but due to contextual barriers decide to seek growth on domestic markets. From the policymakers' perspective, the most attention is drawn to SMEs that have international growth potential, although often the very companies that are not too growth-oriented form the basis of the economy. However, for policymakers supporting the internationalisation of SMEs, it is not an easy task since recognising potential international success stories tends to be complicated (Nummela et al, 2005). Finnish SMEs that think of themselves as successful companies on international markets often also believe in meeting and satisfying customer needs quite well (Kjellman et al, 2004).

During the 2000s Finnish policy programmes on entrepreneurship have especially focused on promoting start-up entrepreneurship, supporting business transfer and successions processes, improving conditions for growth entrepreneurship, developing business services and strengthening innovativeness and business know-how. The public service offered for entrepreneurs is wide-ranging but quite scattered and complex. The public business support services cover everything from services by the authorities (tax administration, National Board of Patents and Registration of Finland) to policy actions and financing, consultation, training, research and development and incubator services offered by national and regional actors. An attempt has been made to collect information about public and even private service supply under the Enterprise Finland -web portal (<http://www.yrityssuomi.fi/web/enterprise-finland>). Likewise, there are numerous guides available in electronic form for entrepreneurs. Even though the awareness of the support services available has increased, they are still not exploited to their full potential. Sometimes public services, especially their application processes, are considered by the SMEs to be too bureaucratic and time-consuming. Therefore, there should be a clearer structure for the organisation of public services and simpler application processes. Enterprise Finland acts as a single point of contact, but it needs to be better promoted.

Regarding internationalisation, there is a need to increase the capabilities of SMEs to internationalise but also to increase their desire for growth and internationalisation. In Finland, there are many SMEs that are rather successful and steady, but they are not willing to grow or internationalise. One critical area for growth enterprises is capital investments, which have developed weakly during the last few years. The central challenge is a sufficient political will and courage for the development of the setting for growth entrepreneurship (Kasvuyrityskatsaus, 2011).

The results of the SME barometer revealed that surprisingly many of the entrepreneurs who thought that they were finishing their business in the near future still continued their operation longer than they expected. Therefore, from the point of view of employment, it could be wise to support more actively than before enterprises that have drifted into difficulties in order to avoid unnecessary lay-offs. Changes, for example, in bankruptcy legislation and in the social security of entrepreneurs, could increase entrepreneurs' willingness to take risks, which seems to have remained too low from the point of view of the whole Finnish economy (Mäki-Fränti, 2006). It has been proposed, for example, that the waiting period for entrepreneurs before payments of illness benefits begin should be shortened from the current nine to four days. Another example is related to tax benefits. Entrepreneurs receive a tax benefit if they hire someone to care for the sick child of an employee, but the same benefit does not apply if the person was hired to care for the entrepreneur's own child. It has been considered that the issue of tax benefits to support the care of sick children is one of the most important proposals that would affect women entrepreneurship.

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