Service firms seeking scalability

A case study about scalability of service firm start-ups

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Abstract

Background: Scalability is a research area that has attracted considerable attention in recent years. Despite the increase of interest towards this emerging phenomenon, academic literature is limited to analysis of IT and software firms. Moreover, the focus has been in the financial potential of scalable companies. The relation and possibilities of service firms to utilise scalability remains undiscovered. Scalability implies that a company can operate even without the presence of the founders, which by definition is a challenge for service firm start-ups where the company-specific capabilities are embedded to the founders' knowledge.

Purpose: This study investigates the impact of scalability on sustainable growth of service firms in their very early stages and which factors are fundamental in effecting scalable growth process.

Method: The personal and organisational factors influencing scalability were discovered by conducting case studies with service firm start-ups whose founders were interviewed to get a practical understanding of the companies' functions that could be analysed in terms of scalability characteristics.

Conclusion: Personal motivations and aspirations of entrepreneurs should be channelled towards transferring knowledge to new employees enabling for empowerment. Scalability functions as an accelerator for growth in a service firm as it facilitates the knowledge transfer. Scalability needs to be an active decision that influences the daily operations of a service firm. Offering only customised services hinders scalability hence start-ups need to seek for standardised processes that new hires joining the venture can operate with ease.

Keywords: Scalability, service firm, start-up, venture, growth

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1. Introduction

In this chapter the background of this study is funnelled down from a broader perspective to a more specific area of interest, scalability of service firms. The background description is followed by a problem discussion, which discusses the concept of scalability from which a purpose for this study is conducted. The purpose is followed by definitions useful for understanding this report as well as delimitations of the study.

1.1 Background

Many start-ups today fail to grow at a pace where their profitability either remains the same or augments and studies have proven that there is no evident relationship between growth and profits (Maister, 2003). While both scalable and non-scalable businesses can be successful and grow — it is claimed that only scalable businesses can achieve the high-growth characteristics that can in return attract venture investors (Furier, 2005).

The term "scalability" has become a buzzword attaining substantial interest since 1990s due to dotcom expansion and technologic advancements in the online world. Scalability is used within wide array of studies specifically regarding software and high-tech firms since mentioned improvements in technology rendered utilization of computers more feasible to *substitute manpower*, which in return paved the way for start-up boom in 2000s. Since the term finds it roots in telecommunication and software industry (Bondi, 2000), the definition in business setting is arguable. A few scholars tried to come up with a meaningful explanation, defining scalability in terms of ability of firms to handle growing amount of workload without necessarily increasing the number of employees proportionately. Nevertheless, the term is loosely used in various settings without clear definition whilst if using it appropriately it can have a positive impact on ventures planning for growth. Scalability of a firm presents the *opportunity for sustainable growth*. We believe that scalability and growth are two inseparable aspects in which scalability prepares the platform for firm growth.

1.2 Problem Discussion

Scalability is a research area that has attracted considerable attention in recent years. Despite the increase of interest towards this emerging phenomenon in research volume, literature remains limited to the analysis of IT and software firms only. Considerable amount of effort has been put forth for explaining scalable business models and growth schemes in IT or software-related firms due to the ease of measuring scalability on the basis of generalizability of increased revenues while employing same number of people. On the contrary, very few scholars observe the interdependence between service firms and scalability. Service industry relies on face-to-face interaction with customers, hence service firms' growth and scalability can be claimed to be more bounded by their human capital than IT firms.

We came to realize a shortage and a lack of academic research investigating scalability in service industry, and ventures more specifically. After the initial scrutinize of secondary data available, there could be found a *correlation between scalability and sustainable growth of start-up service firms*. Therefore we decided to explore the underlying factors behind scalability of service firm start-ups. Some authors argue three barriers exist that impedes firms from achieving scalability: leadership, lack of systems and structures, and market dynamics (Harnish, 2002), which can be translated into personal, organisational and external perspectives.

Breadth of previous academic research was examined in detail to find a framework upon which our findings could have been linked. We believe that firm growth denotes a fundamental cornerstone in research of scalability for two primary reasons. First, start-ups regardless of their industry achieve a scalable edge to the extent that they grow above a certain level to attain self-sufficient financial position, whereas scalable operations *provide the necessary foundation for firms to grow sustainably*. Second, administrative issues emerge during transition phase, rendering *founders' personally liable for firm's future*. It became imperative that theories about service firms alone would not be taken for granted to suggest clear propositions since those did not comprehend the wide range of sub-categories existing within growth literature.

1.3 Purpose

The purpose of this thesis is to investigate the impact of scalability on sustainable growth of service firms in their very early stages and which factors are fundamental in effecting scalable growth process.

1.4 Definitions

The following key terms will be used as a reference throughout this paper.

Microenterprise: *"An enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million"* (accounting for roughly SEK 20 million). (European Commission, 2003)

Scalability: Firms' capability to survive and grow even in the absence of founder or team of managers. In other words, a scalable business should be able to grow regardless of who the leader is or what skills that person has. (Patel, 2011)

Service firm: A firm that provides: *"activities, benefits, or satisfactions which are offered for sale or are provided in connection with the sale of goods."* (American Marketing Association)

Start-up/Venture: Start-up and venture will be used as synonyms in this paper. The definition to be used in this paper is, in addition to microentreprise characteristics (see Microenterprise), a firm with operational life of less then 5 years.

1.5 Delimitations

This study will focus on companies in the full launch and growth phase of entrepreneurial cycle (Price, 2004). The start-up firms taken into account in this paper have hence already entered the market but have not received maturity and expansion stage. Due to the organisational aspect of this study, the start-up firms were not be defined in terms of revenue but in terms of age and size i.e. with less than 5 years active operations and less than 10 people employed, in order to relate the growth of the firm to the employee skills and knowledge transfer capabilities. In addition, this study was conducted in Stockholm, Sweden were the case study companies are located.

1.6 Research Questions

As an attempt to find a meaningful explanation for the purpose of our study, following questions will be answered:

RQ1: *How can scalability serve as a platform in order for start-up service firms to achieve sustainable growth?*

RQ2: *How can personal and organizational characteristics influence scalability of start-ups service firms?*

2. Theoretical Review

This part of the thesis presents the concepts of scalability and growth on the basis of the research questions to be analysed.

2.1 Scalability

As this paper aims at discovering both *organizational* and *personal* influences on scalability, scalability as a definition needs to be explained more precisely. Organisational scalability can be defined as "*how well the organisation's processes and structures will work when the output of the organisation increases*" (Bergin, 2001). This is the characteristic of a company that allows for rapid growth and increased profitability thus consequently creating *correlation between growth and scalability*. The organisational scalability should be however distinguished from technological scalability which is a realized by e.g. software and online server development where scalability is related to automation of operations independent from human resources. As described in the background (see 1.1), this paper will not focus on the technological scalability but explores the organisational scalability possibilities of service firm ventures with the attempt to achieve superior future performance where increased profitability and value of the firm can be achieved (Bergin, 2001).

Should it be imperative to define what scalability means for a business; two important attributes must be accomplished. *Financial perspective* posits that variable cost per unit should diminish as revenues grow whereas *personal and organizational perspective* underlines the importance of attaining highly skilled manpower that can take the steering even in the absence of founders. However, for service firms aiming to grow in a scalable manner, challenges arise due to delegation of tasks and for the need to add more hierarchical layers.

Mass-market strategy, by the definition itself, is a decision, which aims to achieve economies of scale where operations become scalable. Differentiation and niche-strategies on the other hand focus on smaller targeted markets where the operations might vary depending from customer (Bamburg, 2006). Service firms fall most often to the latter category where the service needs to be customized from case to case. This reflects the scalability possibilities of service firms where the scalability is related not

only on operational effectiveness but also on knowledge transfer capabilities. Therefore, the scalability of service firms needs to be reflected also on more "soft values" such as motivation, implying *personal* influence on scalability.

2.1.1 Scalability Characteristics

The following characteristics that define scalability of start-up service firms were presented by Mikael Samuelsson, who has done extensive research in the field and has come up with the following, to some extent reverse, characteristics seen in Figure 1. These characteristics can be seen as a strategic decision and a trade-off between e.g. imitation and innovation where neither is negative nor positive but depended from the company profile.

Standard	Custom-made
Imitation	Innovation
Learning	Ignorance
Marginal cost	Constant cost
Focus	Multitasking

Figure 1. Samuelsson, M. (2012) *Scalability characteristics*

For a service firm the customisation is one of the most essential characteristics that can be offered to customers, which consequently influences the scalability possibilities that are often related to the standardisation of the offer. Hence, the decision between customisation and standardisation influences the scalability orientation of the start-up. In addition, as Samuelsson (2012) claimed, imitation does not have to be negative yet it can be a vital tool to scalability even for service firms who can duplicate the offering with slight changes to be able to serve a larger customer base.

A setback for start-ups is the issue that everything is new and the founders will mostly have to rely on their existing knowledge. However, average amount of time spent on a task should eventually decrease as long as it is performed repetitively as the classic learning curve effect implies for start-ups (Samuelsson, 2012). Consequently, since repetition decreases the time required to perform a task and increases the cumulative

quantity, the marginal cost of the operations decreases as well (Wright, 1936). This would lead to the assumption that experienced entrepreneurs (founders of more than one start-up) should be more likely to achieve scalable businesses which will therefore be later analysed in this paper. In relation to learning and ability to reduce costs by repetition, the idea of multitasking versus focus comes forward to understand whether the founders should focus on their individual competencies or is it a prerequisite to multitask in order to make the company grow and become scalable. It is hard to put forth an answer as right or wrong in the literature review hence throughout this paper, we will try to explore this aspect more in depth.

2.2 Personal and Organisational Aspect

Transition from being a small start-up to medium-sized company comes with an array of obstacles, not only in setting the direction of the company in terms of vision and mission but also in determining which human resource management tools are beneficial to reach those goals (Fenn, 1996). Service firms are usually not conceived as scalable for the very same reason why online businesses are; their growth is depended on the staffing and personal thus limited by tangible units (Liu, 2012). Firms become scalable to the extent that they can grow efficiently even without the existence of highly skilled partners or employees. Therefore in order to achieve scalability, the business should not require such extraordinary resources to grow but "ordinary people" should be able to take it to the next level without the compulsory supervision of exceptional leaders (Jain, 2010). From perspective of service firms, the personal and organisational aspect is therefore the key to scalable business where the human capital is the source for resources and capabilities. Therefore the following chapters will focus on the organisational perspective of service firm start-ups and their human capital (personal aspect) that influence the scalability possibilities of the ventures.

2.3 Financial Aspect

The financial aspect of scalability refers to the diminishing variable cost of additional revenues. This implies that operating margins increase as revenues of the company grow. From financial perspective, there is a thin line between scalability and economies of scale. Economies of scale refer to decreasing variable costs in correlation to company's growth, a process not necessarily ensuring increase in

operation margin. In addition, another measure for scalability is gross margin, which can be used as an accurate indicator of scalable business when cost of sales and marketing per unit together is less than gross margin (Green, 2011).

Start-ups are capable of achieving scalability to an extent where additional revenue volumes would begin to cost more, thus making it necessary to research scalable range. Once a company reaches that point, the scalability of the company should be met through investment in operations, new technologies, new distribution etc. (Mayaud, 2005), which are characteristics of technological scalability. *As this paper focuses on personal and organisational scalability, the financial aspect of scalability is left aside however not neglected as it is closely related to the resources of a venture that influence the scalability possibilities.*

2.4 Growth

Scalability is very much discussed in growth literature, which has been originated from telecommunications and software engineering (Bondi, 2000). Scalability of a firm specifies that the underlying business model has a lot potential to offer for firm growth (Zhou & Gerrit, 2009). Business model of a firm is the core strategy that turns firm's resources and capabilities through customers and markets into economic value (Chebrough & Rosenbloom, 2002). Hence firm growth could be stated as *a derivative of a successful business model*; in other words, scalability of a firm's business model could well be positively associated with firm growth.

Without continual growth and progress, such words as improvement, achievement, and success have no meaning.

Benjamin Franklin

As the quotes above advocate, growth is the essence of any venture (Price, 2004), and should be rather treated as a continuous process than a stable goal. Growth requires risk-taking and stepping out of the comfort zone, which is similar characteristics to those of an entrepreneur thus, entrepreneurship and growth can be said to be associated by the definition.

The most commonly used indicators for growth are change in number of employees and in sales (Delmar, 1997). Growth process advocates using sales as a measurement as it is highly probable that growth is driven by augmenting demand for firms' products and services (Davidsson & Wiklund, 2006). Without the increase in sales, firms are unable to retain additional employees or resources to expand operations (Flamholtz, 1986). This would propose correlation between sales and employment rate whereas for new start-ups it is possible that employment might grow before any sales occur (Greiner, 1972) due to the intensive efforts needed at the launch of the company. Over the course of this paper, each indicator will be favoured for two underlying reasons; first employment number better points out to change in start-ups and microenterprises as it is easier to visualize growth by looking at those figures. On the other hand, sales are used to indicate performance. However, when analysing scalability, emphasis will be given to how much business a new hire can generate by his/her own efforts, which in return is directly related to sales figures.

Further on, Delmar (1997) divides growth into organic and acquisition growth. Organic growth is concerned with increase in the number of employees that the firm achieves through internal growth, and contrarily acquisition growth it is growth by acquiring companies. For start-up companies, organic growth has traditionally been the most common and preferred method during the first years of operations. Acquisition generally occurs in the form of large companies integrating small but highly potent ones into their body. Since the focus of this paper is limited to start-ups, organic growth naturally becomes a more appropriate type of growth.

2.4.1 Issues with Growth

Priorities shift as firms evolve and new markets and technologies might force start-up companies make the necessary transitions as they expand in size. Founders' behaviour and performance are likely to influence how well the firm performs (Bishop, 2002). The real problem of growth is not ignorance or inability to vision the future but rather is the lack of clear tools to assure the level that firm reached. Second issue is usually about attitudes; even if managers are aware of which steps should be taken to overcome potential setbacks, they might be unwilling or better put emotionally incapable of making the moves necessary for growth. This brings back the issue of empowerment and its relationship with business growth during the growth stages of

start-ups (Altinay & Altinay , 2008). *Empowerment* is a vital tool of people management that scalability and growth literature has in common since it allows to resolve issues and handle impediments without intervention of owner-manager. In service firms there is not always a positive correlation between growth and empowerment since the type of project might determine the necessary skills required for the task, thus rendering highly skilled partners more viable to take on the responsibility. However, when speaking of profitability, empowerment decreases the cost of human capital and equips analyst group with enhanced competences ready to cope up with more challenging (Maister, 2003).

2.5 Venture Survival Characteristics

A study conducted by Statistics Sweden (Statistiska Centralbyrån, 2010) followed newly started companies in Sweden from 2005 to three years after the start. This showed that 68% of the companies were still active after three years and even though this study included both service and product based industries, only minor differences between branches could be observed.

2.5.1 Personal Perspective

Essential to be taken into account in analysing the survival possibilities are the personal factors, so called intangible resources. Determinants for growth hence include factors such as entrepreneurial capabilities of the owner-managers (Druilhe & Garnsey, 2004). Start-ups in transition stages, i.e. growing to next "level", need to apply human resource management in order to exploit the growth possibilities and entrepreneurial opportunities (Penrose, 1959). New organizational systems are claimed to be essential for sustainable growth thus affecting the growth linearly, i.e. cause-effect relation between stages. This implies a need for renewal of current practices in order to influence the future actions (Greiner, 1972). Churchill and Lewis even claim, "holding onto old strategies and old ways ill serves a company that is entering the growth stages and can even be fatal" (1983). Therefore it is the entrepreneurs' responsibility to identify the transition stage and take actions accordingly. This is related to the definition of scalability as a *continuous process* (Samuelsson, 2012), which needs to adapt to its environment accordingly.

2.5.2 Organisational Perspective

The survival of a start-up is by definition a prerequisite for scalable business and this following section summarizes characteristics proven to support survivability. According to the resource-based view (RBV) model firms achieve superior performance in relation to its competitors due to their unique resources and capabilities (Wernerfelt, 1984). For a venture this means that the owner-manager is the source of building firm-specific resources. RBV acknowledges the importance of intangible resources and tacit knowledge (Hall, 1992; Hedlund, 1994) hence the owner-manager's skills can be said to be the core for survival and scalability. Consequently, prior entrepreneurial and industry experience are proven to predict better chances of survival (Lyles, et al., 2004). Also, the extent social network of the founders positively influences the survival and exploitation of the venture (Singh, et al., 2000). Strategic choice, on the other hand, between differentiation and low cost strategy (Porter, 1980) influences the survivability in adverse directions. Low cost strategy, i.e. firms competing on price basis, projects less chances for survivability due to the weak basis for sustainable competitive advantage. Differentiation, or niche strategy on the other hand is positively associated with survival (Stearns, et al., 1995) and sustainable competitive advantage, which is a necessity for scalability.

3. Theory

The theories chosen for this paper are applied both from organizational and personal perspective in order to cover the aspects that can influence scalability of service firm ventures.

3.1 Reasoning for Personal and Organisational Perspective

Factors that have either direct or indirect effect on venture growth and create the conditions under which start-ups strive to achieve scalability can be divided into three layers: *personal, organizational and environmental.* The personal factors comprise of the motivation, attitude, background and previous experience of the founders. Environmental factors on the other hand consist of industry characteristics related to Porter's five forces (1980), which are out ventures' domain of influence. The environmental factors are therefore not the most decisive factors influencing scalability capabilities of ventures, as the effect is rather indirect. Therefore, the environmental factors of organisation will get less attention in this paper in an attempt to understand the scalability characteristics of new ventures. The firm-specific factors on the other hand are the resources and capabilities of the company, which at service firms, are often embedded in the human capital. Hence, both personal and firm-specific factors will be taken into account seriously. As can be noticed by the brief definitions, these factors are closely interrelated to each other hence effect growth in an iterative basis. Growth can be analysed among all three layers of activities. The following chapters will describe all these three layers of factors more in detail.

3.1.1 Personal Factors

Psychological factors such as motives and attitudes play a very decisive role in determining the underlying reasons for specific organizational behaviour in the early stages of a start-up where personal characteristics affect the performance of the venture (Birley & Westhead, 1994). Not all entrepreneurs start their own businesses with a sole attempt to maximize profits but also for number of other reasons ranging from socially responsible objectives to gaining independence or eliminating bureaucratic layers (Davidsson, 1989). Motivation theories argue that those who are motivated towards achieving a goal have a tendency to perform their actions in a more effective manner not only because of their high level of involvement but also for sparing more time and energy to satisfy those goals (Drucker, 1990). For this reason,

it is logical to look at the personal attitudes of entrepreneurs from a set of motivation theories we believe that go parallel to cognitive abilities of those individuals.

3.1.1.1 Motivation Perspectives

Statement "entrepreneurs are optimistic and idealistic" (Price, 2004) describes the basic characteristics of entrepreneurs that are essential to let the company to the next level and become scalable. Intrinsic motivation of the entrepreneurs is often characterised not only by the willingness, but the *must* to start a business around their idea (Price, 2004). Intrinsic motivation theory observes the time spent on a particular task where freedom to choose the task exists implying that the stronger the motivation gets, the more time will be spent on work tasks (Deci & Ryan, 1985). Many of the company founders spend considerable amount of time especially throughout the start-up and growth phases on internal structures, expansionist strategies, vision and mission (Wiklund, 1998). Achievement motivation theory (McClelland, 1961) on the other hand suggests that those who have a high need for achievement tend to take risks more easily and perform well in work task situations, a trait which is considered as one of the most essential prerequisites of becoming an entrepreneur (Laurie, 2005). Expectancy theory aims to explain why people choose certain actions over others (Vroom, 1964). Thus person's motivation will mostly be determined by the level of anticipated satisfaction he/she will get out of reaching the goals. Likewise, a person's desire to have full control over work procedures and other employees might underlie the motivation to perform that particular act (Vroom, 1964).

These motivation theories help us comprehend why people act the way they do and since one of our objectives with this thesis is to understand whether there is a difference in the drivers that are the source for founder's motivation and how it can influence the scalability and growth possibilities of start-ups, we believe motivation perspective can provide us with valuable insights.

3.1.1.2 Entrepreneurial Learning Process

Entrepreneurial learning ability of founders is one of the prerequisites for a start-up to grow scalable. Rae (2004) has developed a framework for entrepreneurial learning, highlighting the importance of external network, which is essential for entrepreneurs' learning process. The model was originally established to embrace cultural and creative industries but it is applicable to a broader set of industries. Hence, we apply it

from a service firm perspective, which also has many similarities with creative industries.

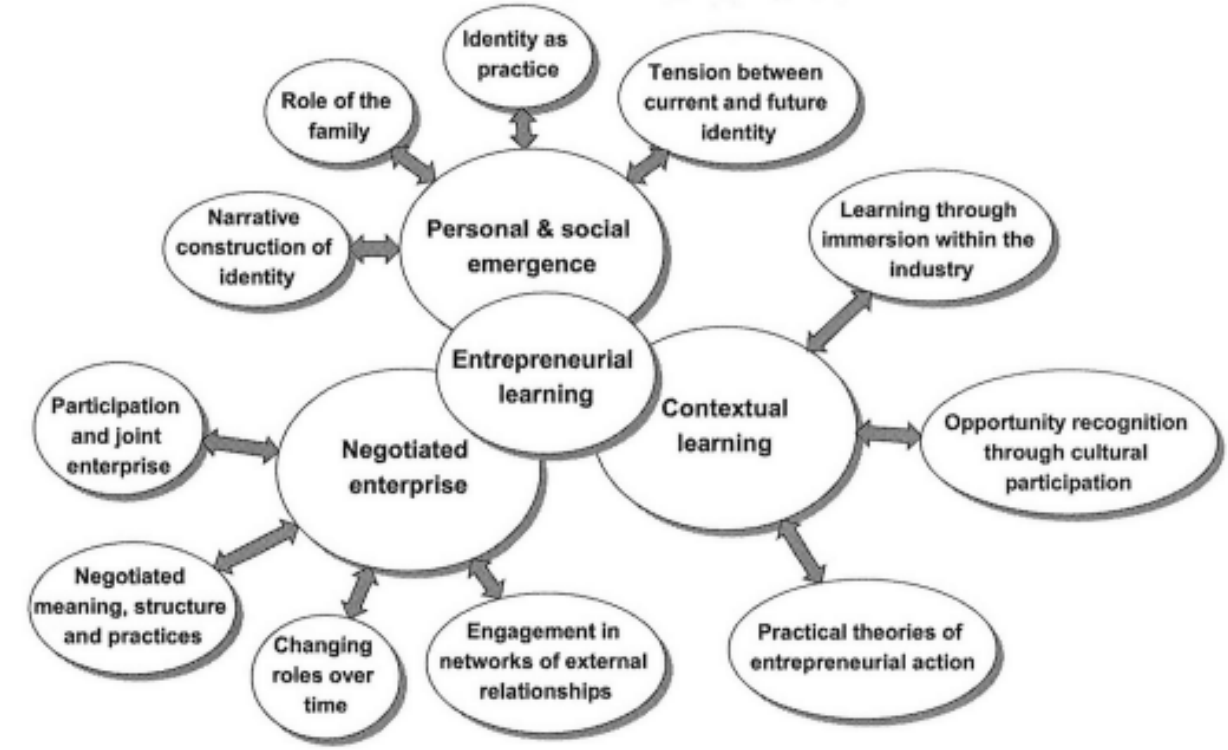

Figure 2. Rae, D. (2004) *Entrepreneurial Learning Model*, p.495

The model (see Figure 2) enables us to understand the factors influencing entrepreneurial learning that supports start-up growth and scalability possibilities related to personal traits (Rae, 2004). It creates a practical application model to approach entrepreneurial learning from a social learning point-of-view. Social surroundings, i.e. network of the entrepreneur can therefore be said to be of crucial importance for the development of the company. As seen in Figure 2, roughly half of the factors are *network* related, which implies that the entrepreneurs need to network and absorb influences from various sources to be able to enhance entrepreneurial learning capabilities. This type of entrepreneurial identity and practice development can be referred to as the founder acting as an emergent entrepreneur (Rae, 2004). For the aforementioned reasons, this thesis will explore the importance of external help and network together with the organizational capabilities to transfer this learning to the employees who join the venture during later stages.

3.1.2 Organisational Perspective

3.1.2.1 Firm-Specific Factors

The firm-specific factors are those shaping the structure of the venture. Fundamental aspect that should be noted here is the distinction between resources and capabilities. Resources are inputs into production process such where for start-ups it is mostly composed of human resources, specifically entrepreneur itself. Capabilities on the other hand perform the required actions to achieve growth since those involve collaboration of a firm's resources to generate a tangible outcome. The owner-manager might be enough for the start-up to reach specific goals but team of other competent members are imperative to render high performance sustainable (Grant, 1991). Consequently, having multiple founders has proven to have a positive impact on the growth of a business, even 70% of successful ventures have had two or more founders (Price, 2004). This enables the founders to combine their resources and capabilities and to utilize them by complementing each other's skills and knowledge in order to achieve scalability

3.1.2.2 Knowledge Management and Transfer

Great deal of the knowledge a service firm start-up holds is embedded in the skills of the founders. Therefore, knowledge is the main source of resources and capabilities of a service firm venture adopting the organisational perspective of scalability. During the course of growth, founders of a company might find it challenging to transfer their knowledge and skills further to the new employees, which is after all required for scalability. As a result, organizational learning is highly dependent on the founders' ability to acquire and share knowledge with employees (Zhang, et al., 2006). Organizational learning can be defined as "renewal and refinement of strategic knowledge assets" (Swart & Kinnie, 2007). Knowledge, on the other hand, is the human capital of service firms that is ideally used to create competitive advantage and value to the company. Development of this asset, knowledge, is therefore vital for service firms' survival.

Knowledge management can be defined as "the process of systematically and actively managing and leveraging the stores of knowledge in an organization" (Laudon & Laudon, 2001, p. 357). The definition of knowledge management supports the reasoning behind why most of the studies related to knowledge management have

focused on larger firms (Hutchinson & Quintas, 2008). Knowledge management in larger firms is often standardized and actively expressed, which can be referred as *formal*, but when it comes to small-sized enterprises, *informal* way of sharing knowledge is more common. Informal knowledge management is not a codified process in contrast to formal, and therefore has not been acknowledged as a type of knowledge management previously (Hutchinson & Quintas, 2008). It has been shown that microenterprises *do* have processes to manage knowledge but the processes are highly correlated to the size of the firm, i.e. informal vs. formal knowledge management (Earl & Gault, 2003). For start-up firms, informal knowledge management can be characterized by the five following aspects: *creating knowledge, communicating and sharing knowledge ("transfer"), searching and sourcing knowledge ("acquire"), synthesizing knowledge, and applying and reusing knowledge* (Hutchinson & Quintas, 2008). Hence exploiting existing knowledge is not enough for organizational learning but firms should also pursuit learning from external sources (March, 1991). This increases the demand for founders' skills in knowledge management so that even the external assets can be transferred to other (future) employees.

Many start-ups see formality as a trade-off for flexibility, which is often a source for competitive advantage of micro enterprises (Gray & Mabey, 2005). Service firms in particular base their knowledge in creativity and innovation (Swart & Kinnie, 2007), which requires a flexible environment where structured processes are discouraged (Smith & Paquette, 2010). In relation to the working environment, Steve Jobs once said that instead of systemizing innovation, firms should "hire good people who will challenge each other every day" (2004), which consequently highlights the importance of recruitment for service firms. Accordingly, this method to enforce innovation can be done by setting nearly impossible goals that would create a challenging environment that would by means result in creation of new skills and knowledge (Smith & Paquette, 2010). Knowledge creation is hence stimulated in organisational environment and structure where ambiguity and risk are present, or even promoted (Smith & Paquette, 2010).

Another aspect to look at different knowledge management methods that suit different types and sizes of companies is the classification of *codification*, similar to formal,

and *personalization* strategy, similar to informal knowledge management (Hansen, et al., 1999). Personalization, as the name describes, is sharing of knowledge through personal interactions and relationships. However, it can include both formal (such as meetings) and informal (coffee break discussions) knowledge sharing but the key is the personal relation that creates basis for unified understanding and combines individual knowledge (Nonaka, 1994). For service firm start-ups, personalization is more preferred method due to its flexibility in selecting and sharing knowledge, which enforces creativity and innovation. However, service firms cannot afford to focus only on personalization. Codification strategy accumulates explicit knowledge that personalization might ignore, hence knowledge codification strategy enables for scalability in a service firm when large amounts of information need to be transferred. Gaining relevant service experience is a long-term process thus codification is a time-efficient method for new employees joining a start-up. Codification can be said to be a long-term effort increasing proficiency whilst personalization creates a platform for innovativeness, so in order for a service firm to gain sustainable competitive advantage, it needs to emphasize both strategies (Storey & Kahn, 2010). However, as many of the operations service firms perform need to be adapted during the process, personalization i.e. sharing tacit knowledge has somewhat stronger influence on the success of the final service (Storey & Kahn, 2010), which slows down the scalability development.

3.1.2.3 Dividing and delegating responsibilities

A risk related to company survival is the lack of division of tasks, even among the founders of the venture. According to Baron and Shane (2008) dividing responsibilities and authority according to the knowledge and expertise is essential for any new venture to be able to achieve efficiency and to avoid costly decisions. Hence, clear division of roles can be seen as a prerequisite for scalable operations.

Maister (2003) names one of the main barriers impeding growth, as *systematic underdelegation,* which consequently reduces firms' profitability. This is an issue of delegating responsibility to juniors from seniors in larger service firms. Regarding start-ups, issue gains more significance when the firm decides to employ additional people to join the team of founders who retain the knowledge basis. Systematic underdelegation reduces profitability since the cost of founders/seniors performing the

task is higher versus new employees/juniors who are responsible for the project. Moreover, this cause long-term loss of skilled labour since the newcomers won't get educated by superiors enough to possess necessary skills to perform tasks effectively, tasks that could be underpin firm's growth and achievement of scalable operations. Not only does it reduce the motivation of the new employees but also of the founders' since they will still have the burden of doing most of the work. Foreseeable consequences would be experience of frustration due to slow growth. Systematic underdelegation reflects the reluctance in the part of founders to invest their time in coaching due to its high cost (Maister, 2003). For a start-up striving for growth and scalability, the underdelegation issue needs to be frankly addressed and see past the short-term costs related to underdelegation elimination.

3.1.2.4 Recruitment

Underdelegation, as mentioned above, is thus associated with the transition phase during which the company is growing in terms of the people employed. Moreover, knowledge transfer is of vital importance to be able to benefit from the additional people working at, and for, the venture. Often new ventures face the obstacle to attract people to join the start-up hence the recruitment opportunities depend on the founders' social network (Baron & Shane, 2008). This simplifies the recruitment and knowledge transfer process since the founders know fresh employees either personally or via their networks' recommendations. As a result, it enhances the credibility of believing in the qualifications of the people (see 3.2.2). Knowing people in person is an effective filter for the recruitment activity where the founders are already familiar with the skills and capabilities of the employees. It also renders founders aware whether those employees are good match for the venture and can contribute to taking the company to the next level with their diverse skills and expertise.

Despite the importance of finding the most suitable people to join the venture team from the very beginning, the founders often face the issue of financial constraints when employing people. Despite the proven correlation between the number of employees in a start-up and its success probabilities, a plausible option for new ventures is to hire only on part-time basis, often due to the lack of financial resources (Baron & Shane, 2008). It can be argued whether it is a scalable option to hire part-

time employees arising from disadvantages associated with the temporary or part-time jobs. Hiring a person for a part-time position demands managerial skill and time of the founders. Not only do they have to acknowledge the fact that employees might have other priorities and will not devote 100% of their time to the company (like the founders do) but also that the employee's level of commitment and motivation should be kept at the highest level (Samuelsson, 2012, (Baron & Shane, 2008)). The commitment of the employees in early stages of a venture can be achieved by offering them a stake of equity in the firm. This is a costly option, which requires commitment from the founders' side as well as an indication of trust to the new employee. Commitment increases as well as motivation when employees have a personal risk at stake. Hence, growing organically by hiring new employees to join the venture requires careful selection of people in order for the company to grow towards a common vision.

3.1.3 External Factors

Another important construct for resource perspective are the network resources. Due to financial constraints, start-ups might be willing to cooperate more with networking organisations and business incubators to be able to receive advice and contacts as to improve crucial knowledge and capabilities (Higgins, 2006). There has been found a positive correlation between inter-organizational alliances and microenterprise growth (Powell, 1996). Given the limited financial capital, networking capabilities and resources become fundamental in the beginning of a start-up to stimulate growth and lay out a platform for scalability.

All in all, albeit resource-based view can help highlight how small-sized service firms utilize their internal resources in their strategies, it is not sufficient to explain on its own how microenterprises grow in general. Environmental determinants and individual characteristics could become decisive in shaping scalable growth. As Michael Porter wrote: "The competitive value of resources can be enhanced or eliminated by changes in technology, competitor behaviour, or buyer needs which an inward focus on resources will overlook" (Porter, 1991, p. 102).

The importance of intangible resources is even more during the transition phase, which requires access to skills, information and knowledge, which can be

strengthened by having good relations with business partners and alliances (Lichtenstein & Brush, 2001). The owner-managers can therefore try to benefit from shared knowledge available through their network, which consequently predicts better survival of the company (Singh, et al., 2000). Possibilities for growth should therefore be exploited not by creating codified templates but by enhancing network capabilities to solve difficulties (Lichtenstein, 2000). For a start-up it is likely that changes need to be done across all the activities, which requires owner-managers' ability to absorb and transfer knowledge from their network (Aldrich, 1999; Cohen & Levinthal, 1990). Consequently, it can be said that entrepreneurial functions needed for growth are embedded in founders' abilities to benefit from network connections (Cantwell, 2002) and the role of the entrepreneur is to interact with this knowledge environment where information can be retrieved and perceived (Dutta & Crossan, 2005). In relation to the characteristics of scalability (see 2.1.1) network exploitation can accelerate the learning process necessary for scalable business. Networking might bring about inspirations of how others (competitors) organize their businesses. Hence the founders can either imitate successful business models or locate the windows of opportunities in the system to exploit and innovate.

Knowledge capacity can be acquired and renewed by means of social relations and networking, also called as bonding and bridging (Newell, et al., 2004). Human capital is thus the essence for absorbing social capital, which implies that further on knowledge is directly related to organizational structures and relationships (Jones, et al., 2007). For the transition stage in organizational growth this means that knowledge embedded in the start-up, and especially in its owner-managers, needs to be transferred to the employees to let space for growth. Hence, the owner-managers' capability to exploit these so called soft resources requires delegation of responsibilities to new employees so that the knowledge can pervade into other parts of the organizational structure, even become institutionalized (Newell, et al., 2004) that effects scalability. In addition, to be able to achieve growth, the owner-managers capabilities to solve problems out of the frame of reference and throughout all the operations is crucial in the crisis stages to get the company to the next level (Macpherson, 2005).

To conclude, owner-managers' capabilities of absorbing knowledge and further conveying it to new employees are crucial for future scalability of the firm. Despite the underlined impact of environmental factors on the start-up growth, many of the characteristics associated with those factors do not match the scope of this paper, such as rivalry in the market. As a result, environmental factors will not be scrutinised in depth nor given priority yet cannot be neglected in the analysis of the findings.

4. METHODOLOGY

This chapter will start by summarizing main key points of methodology used and go further in detail through explaining why specific research methods are preferred over the other available options as well as the choice of methods and units of analyses. Moreover chosen samples will be introduced and quality of research design will be evaluated in detail.

4.1 Summary of Methodology and Purpose of our Research

Yin (1989) claims that the selection of research method becomes reasonable based on the research question posed. Previous researches have not touched upon the link between scalability and service firm phenomenon. Therefore it presented us with the opportunity to a certain extent contribute to academic literature.

The purpose of this paper is to pin down to what extent scalability assumes an influential role for service firms to achieve sustainable long-term growth in a scalable form as well as the major individual or organizational factors influencing this process. The intention is to decide on the most suitable research method that will yield the best outcomes to answer the research questions.

We adopted a deductive approach where theoretical perspectives and research questions are developed first, followed by a research strategy to test the validity of problems (Saunders, et al., 2009). Consequently, unlike emphasized by induction approaches, there will be no attempt to build new theories. It is widely accepted in academic literature that deduction is a good fit for collecting qualitative data (Yin, 2009).

Study of scalability has a relatively limited scope within service firm literature. Since we are looking at the firms with less than ten employees, a representative sample of primary three firms that fit mentioned criteria and one confirmatory firm was chosen. What is more important than the size of sample is to ensure whether those firms are representative of the scalability phenomena we are researching.

Research questions have distinct forms, each of which requires research method adoption (Yin, 2009). Our research questions focus on “why” questions which have

an explanatory style in the sense that such human factor as individual motivations and backgrounds play a significant role in affecting the future well-being of start-ups. Resulting from small firm structure and narrow research questions, we decided upon using four firms in our thesis. Furthermore, interview was chosen as the most accurate method that would allow asking open-ended questions in an informal environment. We will deal with qualitative data due to emphasis on human factors and in accordance with the research objectives, scope was traded off in favour of detail, hence leaving us with no reason to conduct surveys. Surveys are utilized to analyse large group of inter-related data sets where qualitative methods remain insufficient. Inadequate academic material about scalability diverted our efforts towards analysing growth in order to understand the link better.

Our initial goal when determining research questions was not to support any kind of scientific realism or statistical calculation because we deal with interactions of human subjects. This presented an additional justification for including qualitative questions within interviews since quantitative data enables analysis of vast amount of data easier and draws conclusions. Hence statistical concerns will be kept out of scope.

To conclude, by applying a qualitative interview-based data collection and using two analytic techniques within data analysis (see 4.8) we are aiming to investigate issues that have better implications and relevance to our research questions.

4.2 Type of Research Questions

Our research questions require us to find out what is actually happening, asking questions and assessing new insights. When one is unsure about the nature of a problem, using an exploratory study helps clarifying comprehending the big picture (Robson, 2002). Therefore, this paper explores a rich theoretical framework via secondary data collection, which is followed by explanatory research to understand causal relationship between scalability, service firms and growth. Explanatory research studies a situation or set of cases to establish relationship among various factors (Saunders, et al., 2009). Hence, underlying logic boils down to our initial research questions attempting to answer “how” questions which renders adoption of case study method to pin down operational links throughout the growth period of firms.

4.3 Data Collection

When considering how to formulate an answer to our research questions, it didn't take us long to realize the need to make use both secondary and primary sources for various contexts. Following sub sections will briefly talk about why we have specifically chose those types. Unless mentioned otherwise, academic explanations refer to (Saunders, et al., 2009).

4.3.1 Using Secondary Data

Flow of our research method followed two different chapters; first of which was concerned with defining key concepts and identifying theories relevant to both scalability and service firms. Therefore, first part of the thesis employed secondary data by which we were able to enhance understanding of important phenomenon. The main purpose of adopting secondary data was to take full advantage of copious amount of literature that has already been published and officially approved by academic review committees.

4.3.2 Collecting Primary Data

Second part of the thesis scrutinized founder/entrepreneur's personal experiences and issues faced during growth stage of start-up service firms, for which we focused in collecting only primary data. The primary data was gathered through informal semi-structured interviews with key employees in start-ups who were either founders or individuals holding office since the early stages of the firms. Investigated sample was composed of three service firms that are in the early stages of growth, comprised of not more than ten full-time employees and an additional sample firm operating with products. We decided upon which firms provide the best reliable information after carefully considering the number of employees, similarities in business models and their growth paths, whether those employed a scalable vision and last, our ability to readily gain access to people in those firms.

4.4 Qualitative vs. Quantitative Research

In order to adopt a particular methodology or strategy, one must be precise regarding the goals and objectives of the research at hand. Before digging more into detail we thought it was in our best interest to briefly explain the key discussion questions proposed by Silverman that underlines our motivation in favouring qualitative research over quantitative methods (Silverman, 2010):

- *What is our goal, what are we trying to achieve through opting for a specific method?*
- *Which method (qualitative-quantitative) will yield better results for learning?*

Our research deals with the question how new service-firm start-ups gain scalable growth while entrepreneurs sort out the obstacles and challenges when transforming the structure of the firm. From this sense, it is necessary to pin down their inner feelings and motivations, which is hard to derive from method employing quantitative data; instead can be reached by means of such qualitative methods as interviews. Semi-structured in-depth interviews will be utilized in order to check over interactions among people within a limited sample as an attempt to validate details.

4.4.1 Qualitative research

Qualitative research differentiates from quantitative research in the way in which it helps researchers understand which dataset is fundamental in analysing collected data in the most accurate way. As the concepts get more ambiguous and difficult to grasp, quantify ability of data becomes less viable (Dey, 1993). Qualitative data are associated with such concepts and models that permit exploration of a subject in detail thanks to its richness in content and attention to details rather than statistical analyses (Robson, 2002).

One of the key features of qualitative analysis that determined us utilizing it is the fact that research question is concerned with *how* people think and feel about the topics of concern to the research. This study focuses on the question "*how*" instead of "*what*" and we believe qualitative data is more suited to provide us with answers to questions relevant to our research topic and to questions we are interested in. Profundity is another aspect in our list through which we will be capable of gathering more detailed information from fewer respondents by applying case study research with four start-ups.

4.5 Case Study Approach

The following section describes why a chosen method was selected and it is based on findings of Yin (2009) unless otherwise stated.

A case study is a suitable method when the research aims at holistically explaining "why" and "how" some contemporary event works (Yin, 2009). This paper explores the growth of service firm start-ups and how they can become scalable. The research question is hence formulated to answer a "how" question, which implies that the result will be, in comparison to "why" questions, more explanatory. Case study is similar to historical analysis with the difference of adding direct observations of the situation and interviews with the key persons, where the researches will not interfere and manipulate the behaviour of the persons involved. The variety of methods used in a case study increase its validity hence various sources of information were used in this study to get as realistic picture of the situation as possible and in order to obtain a rich collection of evidence. A suitable definition of a case study for this paper was presented by Schramm (1971, p. 12): "The essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result". This definition leads us to the essence of this study; to understand the factors influencing scalability of start-ups and additionally, why some won't succeed.

This case study will be limited to qualitative research, in the form of interviews and documentation, due to the nature of the firms explored. Studying start-ups on the verge of growth limits the setting of quantitative research as the aim is to understand in depth how sample ventures function.

In designing whether to do a single- or multiple-case study, we critically evaluated the distinction and benefits of both options. We came to a conclusion that a multiple-case design suits better the purpose of this thesis for the following reasons. First of all, multiple-case study allows for combination of cases and results thus it can be regarded as more comprehensive method compared to single-study (Herriot & Firestone, 1983). Single-case is more suitable method when the event studied is unusual or extreme, which does not reflect the research question of this paper where the emphasis is on finding general characteristics for scalability of start-ups. However, multiple-case study requires more resources, especially time wise, but the benefits of a multiple design for the intention of this paper outweigh this drawback.

The start-ups to be examined were selected with the assumption of finding similar results, hence using literal replication, where a suitable sample size is three to four companies. The research questions were therefore designed in accordance to the theoretical framework and states the phenomenon likely to be found, i.e. the scalability factors. The number of sample companies required is not a statistical measure for a qualitative multiple-case study, but more of a judgmental decision by the researchers of the certainty and validity of the results. However, even a two-case study will already be more likely to result in the possibility of direct (literal) replication than a single-case

.

Even though the design is called multiple-case, the cases are treated as separate entities, which are compiled into one study once the individual cases are explored to be able to draw cross-case conclusions. Over the course of this paper, chosen method of multiple-case study adopts a holistic approach.

Case study does not portray routine procedures, which demands flexibility and uncertainty tolerance from the researchers. This puts a lot of emphasis on the interview skills of the authors of this paper to be able to array valid information. As the course of actions might change during the case studies, the researchers need to be aware of the increased risks of bias and adapt to the new situation by interpreting the immediately the information received.

As we learned and gained valuable insights about diverse set of theories and ways to generalize results, we came to the conclude that additional number of start-up firms would validate our research by presenting data from distinctive industries not only service firms but also those span from service companies to high-tech start-ups. Even so, scale of case-study method had to be limited due to time constraint and reliability issues. Yin explains in his book that few case studies end up exactly as planned for which minor changes is inevitable including the need to identify a new case for study (Yin, 2009). Consequently, the main reason for selecting four companies was an attempt to assign validity and generalizability to our findings for suggested research questions without deviating from an unbiased perspective. What should be specified here is the difference between iZettle and the rest of chosen case companies in terms of industry focus and offerings. iZettle is a product-oriented firm specialized in a

high-tech solutions; contrarily other firms provide services to their clients either in customized or standardized forms. More details will be reviewed in validity and reliability section (see 4.8)

4.5.1 Unit of Analysis

This study presents delicate complexities in the sense that firms can be analysed from different point of views, depending on which unit of analysis is chosen. Previous studies have used breadth of units to analyse those research questions depending on goals and interests; yet three common units found interest in academic literature. Following subsections describe briefly what these units refer to and rationale with our choice of units based on academic descriptions (Saunders, et al., 2009).

4.5.1.1 Individual unit of analysis

All business activities are supervised by either an individual or a group of individuals, and for start-ups this places the entrepreneurs in the heart of decision-making. Those decisions revolve around setting goals for expanding the activities, adding new services, maximizing financial profits, not to mention the non-economics personal preferences such as gaining independence. Motivation perspective of firm growth, which will be explained later in the chapter, revolves around individuals and their actions. Founders of start-ups are the most decisive determinants of firm's future, leaving them many initiatives to choose among unlike in a multinational organization where anyone, regardless of the status, can be easily substituted.

4.5.1.2 Activity unit of analysis

This perspective is concerned with a particular business activity or a set of business activities. It might comprise a specific product line or better said certain pieces of total operations which compose the entire business. It is mostly compatible with the resource-based perspective of firms where bundle of resources when utilized and deployed together help companies foster, grow and expand. Activity unit of analysis was regarded unsuitable to be one of the core elements of our case-study approach. Since the target sample consisted of a limited range of service firms employing less than ten people, the effect of single units on growth or scalability remains relatively constrained. Large corporations would be a better fit for analysing unit activities when looking at cross-departmental interactions. The cases focus on both individuals and firms due to nature of research questions. What is more but not least is that our

research questions were not designed to generate explanations to inter-departmental dynamics or their effect on service firms' growth. We couldn't find a logical connection between a single business division and its probable contribution to scalability.

4.5.1.3 Governance Structure

Governance unit of analysis takes into account how managerial problems are dealt during a firm's growth process throughout the stages of development, hence making it a viable method to study microenterprise dynamics.

Yin (2009) claims that the selection process begins as soon as the research questions are finalized and claims that proposed questions should favour one unit of analysis over another. Although we don't possess too numerous questions, we opted for using individual and governance units of analysis for two primary reasons:

- *Small size of start-ups* that gives founders vast ample responsibilities and power. Their actions and decisions determine whether firms survive, grow or fail. It becomes the most suitable performance indicator (Saunders, et al., 2009) .
- *Nature of scalability* incorporates growth so that firms can employ more skilful people to handle multiple tasks. This phase presents its administrative challenges along in the form division of labour, introduction of codified rules, office relocations and so on. Those are well beyond the control of single individual; hence render utilization of governance structure as the second unit of analysis.

4.5.2 Sample Selection

The start-ups chosen for this paper were not only selected on the basis of theoretical perspectives, but on author's intrinsic interests. The first venture to be explored, Scenter AB, is in fact co-founded by one of the authors, Terhi Suhonen. According to Stake (1995) this is a valid reasoning for the selection, since it implies that the authors have intrinsic interest in the subject, which increases motivation, as long as the authors are aware of the limits of transferability the results will have. The second company chosen, Lanterna Education, was also selected on intrinsic basis, as it is the future employer of the other author, Arda Ertem. Due to the close relationship to these companies accessing information is facile but the validity of the results needs to be

clearly advocated in order to eliminate bias. The companies and their current status are briefly introduced in the following section.

Company Name	Product vs. Service Focus	Number of founders	Current Employees	Knowledge Sharing	Growth Pattern
Scenter	Customized Service	2	2	Informal	Still in progress
Lanterna	Standardized Service	2	7	Informal	Product enhancement & sales force expansion
Fraktus	Customized Service	2	5	Informal	Sales force empowerment
iZettle	Standardized Product	2	45	Informal	Product enhancement

Table 1. *Case study companies*

4.5.2.1 Scenter AB

Scenter AB was founded in 2011 in Stockholm, Sweden by Jenny Tengvall and Terhi Suhonen. Scenter is a scent marketing agency that "helps companies to strengthen their brands with the use of strategic scents. They offer consulting of scent solutions and consider customers' specific needs in the development of a scent. They provide both ambient and promotional scenting and design unique brand scents" (Scenter). Scenter is a continuation to bachelor thesis Tengvall and Suhonen wrote together about sensory marketing in 2009. Currently the founders are the only employees in the company hence they are owner-managers responsible for all the operations. Tengvall is the CEO of the company working fulltime and Terhi has been doing her master studies simultaneously during the company's existence. Scenter has not finished the first fiscal year yet by the time, however, the company is at a critical stage in the lifecycle where the decision has to be made whether to invest in future and growth or to become forced to finish the operations mostly due to lack of resources. This is a rather conservative perspective for the future situation that emphasizes the importance of evaluating the capabilities of the founders to transfer the company to the next stage and what needs to be done to reach and go beyond this turning point.

4.5.2.2 Lanterna Education Limited, Revision Courses Europe AB

Lanterna Education is a limited company registered in England, Wales and Sweden. In Sweden the company is called Revision Courses Europe (Lanterna Education). The company will be referred to as "Lanterna" from now on in this paper. Lanterna offers IB courses, both online and in classrooms, to students enrolled in the International Baccalaureate (IB) Diploma Programme, that is to say to high school students normally aged 16 to 19. The company was established in 2004 in Stockholm. The CEO and founder, Nicholas Johansson is a Stockholm School of Economics graduate and currently the company employs 7 people at the headquarters in Stockholm. Interestingly, some of Lanterna's key personnel are also finishing their studies simultaneously. In addition to the administrative personnel, Lanterna employs around 50 tutors annually in Sweden and the United Kingdom, all IB alumni themselves. Lanterna has been growing slowly both in terms of turnover and the number of people employed since the start (Retriever-Bolagsinfo) and is by the time seeking for an expansion of operations.

4.5.2.3 Fraktus

Fraktus was established by Mattias Nordlöf and Anders Norell, in 2010 in Stockholm. The founders met during MBA education and were accepted to SSE Business Labs, a business conglomerate. Fraktus offers "simpler and smarter management of transports" (Fraktus). The company aims to render its clients more competitive through modern reservation system and access to more cost-effective transportation alternative. Fraktus acts as an intermediary between transportation firms and other parties; business model implies giving consultation to small-scaled companies in overcoming logistics hurdles, reducing costs and most importantly by saving time. The company is already specialized in optimizing administration of transport contracts and stream, which is also pioneered towards evaluating more lucrative opportunities for exports. They have been growing steadily since inauguration employing five people and further growth plans are on process.

4.5.2.4 iZettle

Founded in April 2010 by serial entrepreneurs, Jacob de Geer and Magnus Nilsson, iZettle offers a free iPhone or iPad app and a mini chip-card reader that lets anyone make or take payments anywhere. The offer is suitable for both private persons and companies. iZettle is based in Stockholm and was able to reach sales of more than

17.000 terminals in less than 2 months which depicts how promising their product is. In addition, iZettle received funds from Index Ventures and Creandum to start their business.

4.6 Research Method

Research method refers to the technique employed to gather data (Bryman & Bell, 2011). It is reasonable to propose that researchers' choice of method should not be predetermined. Instead, choosing a method more appropriate to what we are trying to find allows for validity. Methods gain special meanings depending on the methodology it is used with (Silverman, 2010). Research questions necessitated us to explore more about individual's attitudes, beliefs and cross-sections from daily lives; therefore interviews based on qualitative data ended up as a more suitable method for our thesis.

The most commonly used sources of evidence in case studies discussed by Yin (2009) are as follows: direct observation, interviews, documentation, archival records, physical artefacts and participant-observation. Only two data collection methods stood out more than any other available options: "*documentation" and "interview"*. In the following chapter (from 4.6.1 to 4.6.3) all methods will be briefly introduced according to findings of Yin (2009) if not stated otherwise and reasons for discrepancy to our research will be underlined. In the latter part, favoured sources of evidence will be highlighted in detail.

4.6.1 Discussion of Six Sources of Evidence

Documentation ranges from letters, formal studies, and company websites to all other stable or unobtrusive material, which is not created by the case study itself. Archival records are mostly comprised of quantitative data including survey, public-use files, and service records. The only difference versus documentation is its quantitative nature based on surveys; that was the main reason why we did not seek to benefit from any source of archival records. Interviews are an integral part of case studies where topics are directly targeted in the form of guided conversations rather than strict interrogations. In-depth interview method was employed as our main source of evidence. Direct observation entails on-site inspection in the natural setting of cases, which can involve observations of office design, nearby neighbourhood, meetings or even dress code of employees. Although we do not neglect the indirect occurrence of

personal observation during field visits, its effect remained limited to only supplying additional information about the sample firms. Observations did not create value to understand the phenomenon being studied. Participant-observation provides valuable insights about interpersonal behaviour and relations, which renders the data collector to assume an active role. However, we interviewed only one person during interviews because time constraint prevented us to observe other employees within the companies. Final research method is physical artefacts, including any type of material, technologic device or tool mostly used in anthropological work. Artefacts are considered to have less clout within case studies and we were unable to identify a solid reason to utilize it.

We believe that no method of research is superior to another; however the ones most relevant to finding answers to previously stated research questions were chosen.

4.6.2 Documentation

We used documentation in our case study to corroborate evidence from such external resources as online publishing and company websites. Mentioned method also helped check titles and names of organizations, when those were established. Conflicting data augmented in the website was clarified during the interview. Moreover, internet search prior to interviews provided us with valuable information regarding company's background and businesses, which in return was compiled in our empirical findings. We not only looked at written facts or documents to justify others statements, but also recorded the discussions during interviews while taking notes.

4.6.3 Interviews

Qualitative (non-standardized) interviews in the form of data collection are suggested as a better fit for explanatory studies by many academic researchers (Cooper & Schindler, 2008). We opted for conducting in-depth interviews with target company profiles due to multiple reasons. First, interviews are great sources of case study information (Yin, 2009). Second, a great deal of data can be achieved by talking to people in the way in which depths of reality of life situations were revealed. Third, we managed to collect data that was not given so much importance in the first place which proved to be essential for our analysis. Last but not least, semi-structured interviews containing open questions allowed us with more freedom to ask for greater

detail when certain topics demanded, and also allowed the respondent a greater scope to answer questions more thoroughly.

Company	Name	Position	Date & Location	Type	Language	Length
Scenter	Jenny Tengvall	Founder, CEO	25.04.2012 SSE	Face-to-face	English	70 min[1]
Lanterna	Nicholas Johansson	Founder, Director	20.04.2012 their office	Face-to-face	English	75 min
Fraktus	Mattias Nordlöf	Founder, CEO	26.04.2012 their office	Face-to-face	English	80 min
iZettle	Johan Bendz	Marketing Director	25.04.2012 their office	Face-to-face	English	60 min

Table 2. *Interviews Conducted*

4.6.3.1 Interview Design

The purpose of this paper required deeper understanding of the companies and their founder's perspectives than a quantitative research would have allowed for, thus the semi-structured interviews are considered preferred method. For aforementioned purposes, semi-structured interviews comprised as our primary method (Kvale, 1996). Unlike in unstructured interviews, we decided to keep the order of highlighted topics, however allowing follow-up questions to strengthen the tone of respondent answers. In other words, although main sequence of order was preserved, actual tone of questions was flexible rather than rigid (Rubin & Rubin, 1995). Moreover, we were aiming to access narratives through which people convey their experiences that shape their reality. Therefore the design of the interviews was designed in the form of open-ended questions that allowed interviewees to go in depth of their experiences of the topics discussed.

The predetermined questions were formulated on the basis of the theoretical research to get a deeper and more realistic understanding of the situation and to attain information imperative to be able to answer the research questions of this paper. The questions were designed so that they would allow the interviewees to reflect upon their journey so far as entrepreneurs while simultaneously answering our research questions. The semi-structured interviews hence created a basis for analysis of the case studies/companies. By using coherent structure in all the interviews, we codified

[1] Suhonen not present at the interview to reduce bias and increase reliability

those results more effectively, which will be discussed in the following section. See the road map of the predetermined questions in Appendix B.

4.6.3.2 Interview Data Coding

One of the main weaknesses of semi-structured interviews, and more precisely open-ended questions is the lack of coding possibilities (Creswell, 2007). In order to overcome this characteristic of the interviews we decided to divide the questions into sub-categories to be able process the answers comprehensively and facilitate the analysis. This increased the reliability of the interpretation of the data and provided solid base for conclusions (Lockyer, 2004). Since the interviewees were free to deliberate their answers during the interviews, the association chain of thoughts might have mislead us had we not had predetermined subcategories where we could place the answers. However, due to the open-ended structure of the questions, we noticed the need to restructure some of the sub-categories to be more specific due to the extensive information we received within each category.

4.7 Quality of Research Design

4.7.1 Reliability

Reliability is defined as the extent to which results are consistent over time and represent an accurate representation of the total population. Hence if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable (Joppe, 2000). Repeatability of results in other studies is the main idea behind this definition. Reliability of studies was originally generated for quantitative analysis and its applicability for qualitative analysis has been often questioned (e.g., Golafshani 2003; Yin 2009). However a substantive amount of research support the applicability of reliability in qualitative analysis but rather define the term as "dependability" (Lincoln & Guba, 1985) and investigated factors that influence reliability of qualitative studies. For example, Seale (1999) stated that trustworthiness of a research report ensures reliability in qualitative research.

4.7.1.1 Ensuring Reliability in the Case Study

Our objective was to design a clear and easily understandable case study so that the flow of procedures would lead to same results. While preparing the case study, we carefully considered our goal for that specific topic and designed the questions accordingly; therefore questions could generate appropriate outcomes that are

prerequisite for a successful analysis. When preparing for the multiple case studies, we came to realize probable threats due to flexibility of open-ended questions. The nature of informal semi-structured interviews necessitate face-to-face interactions to end up with a solid understanding of the business setting which in return posed challenges for reliability. Other potential setbacks relevant to our case are job insecurity, time constraint regarding interviews, recording issues and biased answers to questions (Saunders, et al., 2009).

To overcome mentioned threats to reliability, we first selected interview participants among those who either joined the company from the very beginning or are actually one of the owners-founders (Saunders, et al., 2009) to get as relevant information as possible. The rationale to not include subordinates was due to the limited knowledge of the company they possess compared to the founders and in addition, to eliminate any fear of confronting superiors. Consequently, a CEO or CMO could comfortably respond to questions, which they have in fact the most knowledge of without thinking about the consequences attached to job loss. Furthermore, our aim when preparing the interview questions directed towards respondents was to seek objective, unbiased answers. For that reason, no question was prepared to get either true of false answer; rather aimed at understanding personal experiences, motives and factors relevant to firms' nature.

Another constraint for a reliable case study was limited time exposure to individuals by virtue of their busy schedules. Interviews were designed to allow for follow-up questions. We decided on a span of one-hour to be long enough to generate desirable responses out of interviews so that we would prevent respondents from losing focus and yielding either perfunctorily or inconsistent answers. Besides these attempts, all three (plus one) companies in our chosen sample constitute more or less similar attributes, which in return helped enhance reliability and consistency among participant variables.

To conclude, a clear structure was devised before engaging the case study. We hatched the interview questions not only for the purpose of generating random answers but also more importantly for analysing firms through individual and organizations units of analyses. Therefore answers would render the study more

effective during data analysis. Since we had the semi-structured interview at hand, we strived to make face-to-face conversations more cordial. Hence, interviewees were presented with random questions to elaborate a better understanding of their business context, models and challenges arising in those businesses. Haphazard composition of questions might have affected the reliability but level of diversion was kept minimal.

4.7.2 Validity

Validity is referred as whether the research truly measures what it was supposed to measure from the beginning, in other words the extent to which research results are true (Golafshani, 2003). Validity is categorized into two parts: internal and external validity. Similar to reliability, applicability of validity to qualitative research has also been questioned, yet is been argued that external validity has been a significant obstacle for doing case studies (Yin, 2009). External validity, sometimes referred to as "generalizability", means to what extent research finds are applicable to other research settings, for instance other organizations (Raimond, 1993). In order for case study to become generalizable, one needs to replicate the findings more than once; hence results yield valid analysis of research questions. Outcomes can be accepted to the extent that those provide sound support for answering research questions (Yin, 2009).

4.7.2.1 Ensuring Validity in the Case Study

Two issues concerned with validity channelled our decision to include iZettle in our sample. First, case study renders making inferences whenever an event cannot be observed, leaving the decision to be made based on secondary data review (Yin, 2009). This posed internal reliability challenges for us. Second, it was imperative to generalize our findings, whereas we lacked strong rival evidence from complementary studies in in order to test (compare) the external validity of outcomes. Depending on the results, we would have the flexibility to even send additional clearance questions to earlier interviewees to justify consistency. Underlying distinction between iZettle and the other service firms was mentioned before in terms of services and products offered. Hence, although iZettle was not the most accurate target towards answering research questions, the idea was to ensure validity of findings from a rival point-of-view and investigate later stages of growth of a newly established start-up, cross-check managerial difficulties faced by founders, locate variances in growth patterns or in the ways those lead to scalability.

4.7.3 Triangulation

Triangulation as defined by Saunders adheres to the use of different data collection techniques within one study to ensure that the data are telling you what you think they are telling you (Saunders, et al., 2009). It is been realized that triangulation could be the source for ensuring validity. We used data source triangulation (Denzin, 1984), a process by which researcher expects to generate the same type of consistent data over different settings. Further proof argues that using multiple firms and sources of evidence embedded in a multiple case study provides concrete justification for those choices (Yin, 2003). Therefore, we took two important actions to corroborate facts: First, iZettle was incorporated in our research in order to observe whether data collected during interviews had fluctuated or showed similar patterns over the growth phase of start-ups within different industries. Initially, we have not thought about such a need to diversify target sample; however theoretic frameworks and concepts made us realize the significance of such enrichment. Second, interviews were supported by accurate documentation so that integrity of facts was ensured.

A holistic approach was adopted when analysing the start-ups because the organizations were considered as whole rather than being divided into separate departments or units. Furthermore, our thesis elaborated only on start-ups and service firms in early stages of growth; hence an embedded case study was not considered viable to apply.

4.7.4 Ethical Points in Research Design

Research ethics deals with whole aspects of thesis study ranging from research topic formulation, designing the flow, gathering and analysis of data to discussion of findings. Throughout our thesis, we paid utmost attention to abide by originality rules. However, as mentioned made use of previous researcher's work; hence we did not assume data occurred naturally. When conducting the interviews, respondents were well aware of our aims, objective of the questions and were provided with the questions before the actual meeting. Furthermore, appointments were asked for an hour thus both sides were kept informed regarding the scope and length of questions. We were aware of the fact that lack of large pool of manpower led to time constraints when interviewing founders of start-up. In addition, we avoided following a rigid

structure and let interviewees provide insights into behavioural events and certain occurrences.

Throughout the interviews, respondents were recorded by laptop, which was used to take notes at the same time. Before using the recording device, we asked interviewees for approval. According to Yin (2009), recordings provide a more accurate interpretation of interviews. Lastly, respondents were assured that recording would not be used as a substitute to note taking or listening.

4.8 Data Analysis

In this section, methodology of analysing case study findings will be explained. Such a road map will help us to analyse empirical findings from the interviews in a more efficient manner, which in return will lead to sound conclusions. We believe in the essence of having a clear guideline and structure on what basis data is evaluated. Yin (2009, 126) in his book explains data analysis as "*consisting of examining, categorizing, tabulating, testing, or otherwise recombining evidence, to draw empirically based conclusions."* Case study analysis is a tough assignment in the sense that techniques are yet to be made clear cut. However we will use two analytic techniques to produce high-quality analysis: explanation building and cross-case synthesis.

The main reason why we chose *explanation building* is to come up with an explanation of our case, which we mentioned before has explanatory case study features with an emphasis on merging links between different set of casual points. Furthermore, it will back our efforts up towards coming up with better answers to "how" research questions remarked in the introduction. Another decisive factor for choosing explanation building is their iterative features because it will permit us examine each piece of case evidence collaboratively, compare findings and make necessary adjustments which in return might result in revising initial explanations. One of the challenges uttered by Yin (2009) is the possibility to divert from original objectives. Consequently, we will frequently adhere to initial purpose of our research and take alternative explanations into account in case those occur.

The second technique to be utilized in analysing empirical findings is *cross-case synthesis.* Yin (2009) states that this technique is a better tool to investigate multiple case studies that contain more than two individual cases. Having multiple cases is believed to result in sound arguments. Rosenbaum (1986) in his book included data of eleven different program evaluations in separate chapters. Although characteristics of cases were completely disparate, he was able to aggregate findings across individual studies and generalizes about possible solutions by using iterative replication logic. After careful consideration, we finally decided to incorporate cross-case synthesis based on two logical reasoning. First, we are conducting a multiple case-study so it is necessary to make comparisons among four individual cases. Second, cross-case synthesis has already been recognized as successful by academic literature (e.g. Yin 2003, 2009: Rosenbaum, 1986; Hooks, 1990); hence we found it reasonable to take such widely accepted and approved technique as benchmark. To conclude by taking theoretical frameworks as basis and in line with our research methodology, most fundamental factors that have the most potential influence on scalability were specified. Subcategories designed according to theory, if noticed to exist, will also be taken into consideration. Based on the empirical findings from the semi-structured interviews, cases will be analysed according to specified subcategories. Only after which general conclusions will be drawn over series of findings by using replication logic also supported by explanation building technique.

We obtained the best possible answers from interview respondents to the research questions in line with our initial goal of researching scalability in service firm context. Hence, we classified interview questions into three main categories with subcategories by taking both theories and case study units of analysis into account. Hence, we attempted to retain a consistent flow of evidence throughout the thesis. Aforementioned categories are shown in the figure below.

Figure 3. *Structure for Analysis*

In addition to the graph mentioned, we will incorporate scalability factors introduced by Mikael Samuelsson and seek to establish links between factors mentioned in the graph and differentiating features of scalability presented in 2.1.1. Hence, profound relevant factors will be combined into larger framework analysing growth and scalability. Lack of academic literature regarding scalability was mentioned in the introduction part, which left us with nothing but theoretical framework suggested by individual academicians or independent writers. Although arguments made sense in the light of deficient resources, they were not academically tested. That is the reason why we decided to take into account authors and entrepreneurs' valuable insights about scalability and combine those with Samuelsson's findings. By looking at the two different schemas, rationale behind our conclusions will be provided. Since our research goal is to elaborate on the intertwined interaction of growth and scalability, categories listed above gained considerable significance together with few readily available scalability frameworks for service firms.

4.8.1 Dimensions of our Qualitative Analysis

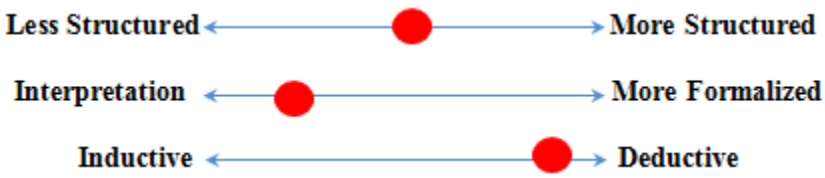

Figure 4. *Characteristic of Data Analysis*

Saunders (2009) outlined the features of qualitative data as seen in the Figure 4. When collecting data, we used a structured procedure to codify individual experiences and accounts. Data was collected in narrative form through in-depth interviews. Narrative data gathering allowed us to draw a coherent story from participant's engagement, actions taken and how those actions influenced the outcome.

When it came to data analysis, no such standardised procedures exist, rendering the nature of analysis conducive to subjectivity of the researcher. Furthermore, there is no clear definition of scalability or literature that has researched the relationship between service firms and scalable models of business. For that reason, *conclusions will rely on our interpretations* of interview findings instead of following predetermined rigid structure. In addition to that, we will fragment empirical findings by categorizing unit of analyses and elaborate on the intertwined interactions among variables, which were derived from our theoretical framework and choices of methodology. As a result, structured and formal data gathering process will lean towards interpretation of those findings based on our conceptual categorizations, which can be seen in Figure 4.

We had introduced our initial assumptions and research questions before data was gathered. However, our assumptions went through an iterative process of continuous change even in the light of explanation building. Deductive approach had a direct influence in the way in which we analysed qualitative data by laying out the logical structure described in the following section.

4.8.2 Impact of deductive approach on the analysis

First, deductive approach enabled us to follow a coherent sequent structure starting with well-defined research questions followed by theories relevant to scalability and

growth. Second, given the nature of objectives and research questions, both quantity and quality of sample was determined to undertake data collection. Thus, we were able to ascertain not only the minimal number of firms required within the sample but also what characteristics of those are fundamental in answering research questions. Third, literature and theories embedded in it shaped the content of interview questions to ensure consistency among different sections over the course of thesis. All in all, *interpretations of data attached to categories were steered by our initial theoretical assumptions and propositions.*

5. Empirical Findings

The findings from the case studies as summarised below and divided into subgroups from organisational and personal perspective according to theoretical findings that will further on be used to facilitate the analysis. The transcripts of the interviews can be found in Appendix A.

5.1 Personal Influences

An interesting finding was that all of the companies studied were first-time start-ups founded by two persons. More specifically, Lanterna, Fraktus (and iZettle[2]) were founded by two men of similar age, whereas Scenter was founded by two females also of similar age. In addition, founders of the companies had a similar educational background and what is noticeable is that the founders had all met during their studies, Lanterna and Scenter during their bachelor and Fraktus during their MBA studies.

5.1.1 Motivation for starting up business

Due to the unusually slow start-up process (see Appendix A) of Lanterna the founder of the company Nicholas Johansson stated that the motivation to start the business was more to have something to do than to earn money and even today these same values are driving force: he claims that helping people and seeing them getting happy is "a motivation itself" and Lanterna is not functioning by high profits. Whereas for Johansson the motivation was to have something to do, for the founder of Scenter, Jenny Tengvall, it was the passion for the idea and topic that she could not let go for someone else to seize the opportunity. Mattias Nordlöf from Fraktus was working as a managing director in an export-import firm but did not feel motivated to the job anymore and seeing the opportunity in improving transporting system he decided to leave the job as an MD and start on his own. Initially Nordlöf had thought to start by himself but Anders Norell who he had met during MBA education was a legit partner to join him. Both of the founders faced a salary shock when starting Fraktus hence Nordlöf claims the motivation to start a venture was not economical but more inspirational decision.

[2] iZettle was used to enhance validity of research, not only for comparison to other cases as it is a product-oriented service firm

5.1.1.1 Motivation for resuming daily operations

In Lanterna, each member is given freedom to prepare his/her own quarterly schedule, which is then discussed and evaluated together with the founders in the light of prioritization between short-term/long-term goals of the company at that moment. According to Johansson, performance of sales team had increased by 30 per cent since they began to apply empowerment method. Analogous to other firms, Nordlöf for Fraktus adopted a strategy that takes into account the importance of motivating his employees. Hence he designed a model that permits each employee to have up to 90% of each additional sales margin.

5.1.1.2 Entrepreneurial Learning

A noteworthy point is that except Fraktus, remaining firms claimed they learned from their mistakes throughout the development period, therefore rendering learning process continuous. Tengvall indicated that energy was spent on inefficient issues which brought no value to growth attempts such as choosing which colours to use on website instead of sound investments to initiate growth process. Similarly Lanterna first decided to expand in United States, a market that is far away and yet unknown for such a small-sized firm. Without establishing a concrete base and expand in Europe, US choice was a strategic mistake. In terms of organizational learning, Nordlöf emphasized the importance of multitasking and vertically keeping all the operations within the firm. His insights showed outsourcing might hinder learning, thus should be introduced at a later stage. Moreover during this previous job, he realized a loophole, “window of opportunity“ that was lacking in logistics industry and filled the gap by assuming an intermediary consultant role providing optimized solutions to both transport companies and small-scaled clients.

5.2 Organisational Influences

Specific organizational characteristics turned out to be common among all of the sample firms. The most important finding of all was that once founders establish the main source of framework upon which expansion plans are introduced, they began to resume administrative/coordinative duties whereas newly hired individuals took over sales and marketing operations. So-called introduction of clear responsibilities was seen as the first step towards proper structuring. Furthermore, limited size together

with flexible and cordial working environment let knowledge transfer and learning take place in an informal way resulting in faster learning of the business. Financial resources are essential sources for investment in others areas during the very early stages of start-ups. Last, future vision of firms reveals to a certain extent internal aspirations of founders and what they are aiming to achieve in the long run.

5.2.1 Recruitment

Scenter is the only one of the companies studied that has not hired full-time employees yet. Fraktus and Lanterna both have employed external people to join the team but their strategies were somewhat different. Fraktus hired sales people to join the team whereas Lanterna first hired on project basis but has now shifted to hire on functional basis, such as sales and marketing. The new employees at Lanterna are all previous IB students and have been tutors at Lanterna's courses when there were only the founders working for the administrative side of the company. As their size and revenues reached a level sufficient enough to hire more, the firms opted for enlarging sales core of the companies. Fraktus on the other hand has decided not to recruit from the industry where they operate in, i.e. transport and logistics. The reasoning behind this decision was that they want people with fresh ideas who are not restricted by the traditional industry patterns. Hence they believe diversity of workforce contributes to sustainable, scalable growth according to interviewee's responses. iZettle makes use of a different, yet efficient method of recruitment. Referral system is optimized where employees are able to receive bonus based on referral's acceptance to the company. In addition, online networks of close friends' or business partners' are utilized as a platform to post ads on websites. Scenter has in addition had part-time sales personnel, but as Jenny Tengvall said during the interview, their financial capabilities limit the ability to hire for a full-time position.

5.2.2 Division of Tasks

The founders were the only ones working at the companies during the start-up stage and in fact, all of the interviewees stated that the founders do, or did, not have division of task whatsoever. Scenter is still operated by the two founders whereas Lanterna currently employs seven full-time and four part-time team members. During the initial venture creation phase, it was far from real to think to delegate limited number of people well-defined responsibilities where each employee had to perform

multi-tasking. Dennis, one of the fulltime employees at Lanterna, was responsible for school relations and recruitment of tutors, completely disparate tasks. Fraktus went through a similar phase when founders had to assume wide array of tasks until when new hires were given sales job to ensure firm will grow. Hence it is reasonable to conclude that as soon as founders put the business model into practice, they chose to take on more of administrative task spanning from coordination, accounting, bookkeeping to strategy formulation whereas new hires took over the responsibility to expand the firm via sales and personal contacts.

5.2.3 Knowledge Sharing

Scenter is relying on informal knowledge sharing where no regular meetings to discuss the business are set. However, Jenny Tengvall stated in the interview that she sees the necessity for it in the future if and once more people are employed. Fraktus has daily morning meetings with the whole team to set the day since "new incidents appear every day", as Nordlöf said during the interview. He said also that it does not matter whether the meeting is ten minutes or one hour long but as long as there is a meeting it helps to set the operations. Lanterna on the other hand focuses on more long-term setting by holding monthly meetings where all the employees are held accountable for the goals they have set for each month and to keep track of these tasks, a board with a check-list is present in the company hallway. In iZettle, meetings occur on daily, weekly and monthly basis where prioritization is made based on the current issues, developments in industry and company's goals. In all settings, knowledge is transferred to new employees by using informal communication tools and usually occurs tacitly.

5.2.4 Size of the Firm

Significant evidence gathered through interviews shows the effect of small number individuals on the cordial interactions between CEO and rest of the team. In Fraktus, all five employees are currently sharing the same room at SSE Business Lab and have daily morning meetings to discuss on-going developments. Scenter has moved out from Business Lab and now shares the office floor with other companies of various size and age. When iZettle was formed, the entire company used to spend their time in the same room, as Bendz quoted, a process that helped him tacitly gain a better understanding of the business context and firm dynamics. Similar experience

conveyed by Johansson as Lanterna went through a similar phase when the firm had to settle in Johansson's fathers' office to resume operations. What all sample units share in common is the existence of flexible, non-rigid and non-hierarchical structures that allow especially newly hired members to take initiative of their own.

Only when firms reached a particular size and recruited new individuals to be utilized in the field, knowledge sharing took a bilateral form abandoning top-down approach. As sales people in Lanterna and Fraktus gained insights into on-going advances in respective businesses, they transferred their learning in the form of suggestions for further strategy formulation.

5.2.5 Financial Resources

Financial capital is very much welcomed during the venture creation phase as the interviewees stated. What is derived out of interviews is that prior work experience helped founders of Fraktus and iZettle invest their own capital but at the same time rendered them personally liable for any cases. Norell got an exit bonus and Nordlöf got provision from old employer where he kept working on provision basis even after starting Fraktus. On the other hand, founders of Scenter and Lanterna started up researching for viable business opportunities during school and immediately after graduation began their journey with neither previous work experience nor financial resources. It has been noted as a major setback presented to founders. Owing to valuable information gathered from Tengvall in comparison to those of Bendz, it has become clear that it is less feasible and harder for service firms to attract direct investment from venture capitalists during creation period compared to product-oriented technology firms for two reasons. First, it requires more time to generate sound financial returns. Second, as seen in our case, Scenter, Fraktus and Lanterna are funded by internal revenues, which very much depend on founders' efforts whereas iZettle was able to generate large sums of cash thanks to technical aspects of the business.

5.2.6 Vision of the Future

Fraktus has been striving for scalability from the very start since their MBA education was mainly focused in scalability. Therefore, Nordlöf revealed that the goal of the company has been to be "educate people so that they can take over after us", a motto

that necessitated founders to have an available exit plan to be readily executed within five years. Currently Fraktus employs five people (including the founders) and Nordlöf claimed that they will be able to "do what we are doing now with seven people to have 10 times the current turnover, 10 times that with only two more people and half a billion SEK turnover with 15 people". Lanterna has been giving growth signals since they first launched online IB courses to encompass highly potential markets in distant locations. Stepping into digital world enabled them to reach out to students on a standardized platform with limited fixed costs, a decision that boosted scalability of their actual business model. Their future vision is based on the expectation that online businesses will surpass offline ones by enabling far-distant markets viable to access. iZettle on the other hand, had already grown their business to a level for which future vision entails spreading into new international markets. Scenter is still in the early stages of growth and the founders plan to continue working full-time with the company to make it expand.

5.3 External Influences

5.3.1 Networking and External Help

A common nominator for all the case study companies is their connection to SSE Business Lab that has been the starting ground, and first physical office, for all the three companies. SSE Business Lab is a conglomerate for start-ups, where external help from its partnering companies is provided for free to the ventures. Lanterna was sitting at the Business Lab in 2008 when the relationship with partnering companies was not as highly developed as it was during Fraktus and Scenter's time at the Lab. Johansson from Lanterna claimed that they have not utilized external resources but mostly relied on help from friends and family. However, the company has recently started monthly meetings with external advisors. Scenter and Fraktus on the other hand said to have utilized extensively the help from the Lab partners, which included companies within price strategy consulting, accounting and bookkeeping etc. As indicated, external help mostly comes in the form of advice from close circle of networks or partner organizations. SSE Business Lab granted Scenter, Fraktus and Lanterna access to well-known partners that they otherwise would not have been able to use due to limited financial capabilities. iZettle has worked with various

consultants who were later integrated into the company and Lanterna aims to utilize consultants since the size of the firm now requires more professional structuring.

Below can be found a summary of the empirical findings from all case studies.

	Sample Factors	SCENTER	LANTERNA	FRAKTUS	iZETTLE
Unit of Analysis: Individual	**Personal Motivation (Attitudes, goals, aspirations)**	• Growth-oriented • Passion for the idea	• Growth-oriented • Financial return as secondary purpose • Doing something fun and meaningful	• Scalable-growth orientation • Financial return	• Fast-growth • Exploiting a window of opportunity
	Empowerment	• Not available • Only 2 employees	• Highly practiced • New hires given ample responsibilities	• Favoured as much as possible • Only 5 people → imperative to expand business	• Freedom given to new hires • Few levels of hierarchy as possible
	Founders' Background	• Business school	• Business school	• MBA	• Business school
	Founders' Previous Experience	• Thesis on scent marketing • Limited work experience	• No serious work experience	• Experience in the logistics industry and sales for many years	• 3-4 entrepreneurial ventures • Experience in larger orgs.
Unit of Analysis: Organization	**Internal Structure**	• Unstructured • Very informal knowledge sharing	• Semi-structured • Soft rules and informal knowledge transfer • Monthly meetings and task board	• Informal knowledge sharing • Morning meetings to discuss on-going development	• Informal despite the size • Flat with few hierarchical levels
	Division of Work	• No division of work exists • Founders multitasking	• Tasks are divided according to functions • Founders multitask	• Tasks are divided among sales people according to projects • Founders multitask	• Precisely clarified • Activities are prominent
	Diverse Workforce	• N/A due to size	• Distinct areas of specialization	• From different industries	• From disparate specializations
	Employee Training	• N/A due to size	• Very informal through tacit knowledge sharing • Fast process	• Introduction to industry, business & vision during 1st month	• Very informal • Personal initiatives are expected for development
External Factors	**External Help**	• SSE Business Lab partner companies • Friends and family	• Friends and family, close network	• SSE Business Lab partner companies • Outsource systems	• Venture capital investment • Consultant advice
	Networking Activities	• Participating in branch events	• IB career fairs, among friends	• Acquaintance to clients through previous work experience	• Exhibitions • High-tech consultants

Table 3. *Summary of Empirical Findings from Case Study Interviews*

6. ANALYSIS

The purpose of this chapter is to practically analyse each selected case and evaluate the findings based on the theoretical framework and analytic techniques mentioned in the preceding chapters.

6.1 Personal Factors

6.1.1 Motivation and Decision-making

When analysing the findings we received from the companies, we noticed all the companies had the motivation to grow but not all of them had achieved it. The willingness to become more efficient was however not as evident, which can hinder the ability to become more scalable. This can be true since the motivation of founders encourages them to follow their passion and does not directly promote the search for scalable operations. This appeared to be especially relevant for Scenter, who has not achieved growth yet and has neither made active attempts to become more scalable. This let us to the conclusion that in order to achieve scalability in a service firm start-up, there needs to be *an active decision* to design a business model that allows for automated processes, even before the actual growth. In the case of Scenter, it can be that the growth has not been relevant yet, and therefore scalability has not been an issue, whilst the company might find difficulties in the future if willing, and able, to grow without the capability to scale their business and knowledge hence backfiring the growth.

6.1.2 Entrepreneurial Learning

These aforementioned findings lead us to the somewhat contradicting characteristics of scalability: learning and ignorance. As we claim that scalability needs to be an active decision, the founders needs to overcome their ignorance and acknowledge the importance of continuous learning, which is seen not only as a requirement but also as the definition for scalability.

Another interesting finding suggests that learning should not supposedly take the form of top-down approach given the iterative nature of start-ups. For instance new sales people in Fraktus and Lanterna became the main sources of keeping office informed about on-going developments in the market. Without their valuable feedbacks, strategy formulation would not have been designed and implemented as efficiently as

it is now. Bottom-up education has a positive effect on growth but its impact on scalability remains far from proven by only observing a limited sample of companies.

6.1.3 Previous Experience and Background

We found that past experiences are important measurement for scalability for three reasons: First, it is a clear sign of their risk-taking character by which failure is seen as a source of continuous learning from mistakes, not a matter of disgrace or embarrassment. Although none of them failed in their start up attempts, attitudes towards failing were not necessarily negative. Second, neither age nor having a family had impeded founders' willingness to start their own businesses. Nordlöf had worked in a logistics company for 8 years by which he had the chance to gain valuable insights into logistics industry and meet key contacts, establish network before he founded Fraktus. Third, by virtue of accumulated knowledge and practical experience, Fraktus was able to design a business model that led to a scalable growth since they could create multiple financial returns by adding only minimum amount of employees. A similar pattern was found at iZettle. The founders had experience of multiple ventures, not to mention professional experience of Magnus Nilsson. However, growth patterns of a high-tech start-up and service firms are of course not well matched which presented difficulties when generalizing our findings. Therefore, it has been decided not to include iZettle when providing concluding remarks.

Furthermore, previous work experience provided founders with accumulation of adequate financial resources to be able to invest in their own businesses. Comparison of Fraktus and iZettle to Scenter and Lanterna showed the impact of financial availability during the early stages of venture creation.

6.2 Organisational Factors

As mentioned in the theory, service firms are more prone to customisation than standardised offerings. If we look at the companies studied in this paper we can notice a linear placement of the companies on a scale from most standardised to most customised (i.e. iZettle-Lanterna-Fraktus-Scenter) which can be argued to be an implication of the scalability of the companies, where iZettle offering a standard product is the most scalable in operations and Scenter offering customized scent design the least. In relation to the firm structure, where imitation and innovation are

seen as the resource of the offer (to customers) from theoretical perspective (see 2.1.1) we claim these characteristics can be transferred to describe the internal learning process as well. Imitation of on-going internal operations by co-workers creates scalable businesses once it is repeated enough many times. However, innovation is required to be able to offer custom-made services that vary depending on the customer hence imitation alone is not enough for service firms since it would result in only standardised services. The main issue of service firms comes down to the need for customisation (customer point-of-view) while they strive for scalability (and decrease in marginal costs) (company point-of-view).

6.2.1 Founders' influence on new hires

What is observed during the interviews and review of documentations including academic literature, suggests that knowledge transfer in start-ups occurs in a very informal manner resulting from the limited small size. This helps new employees gain necessary skills and learn to conduct business more rapidly without going through hierarchical and bureaucratic layers as in larger organizations. One of the two founders of Fraktus, Mattias Nordlöf, conveyed us the inexplicit influence of *transparent* operational activities on *employee empowerment*, which directly impacts scalability. As sales people honed their persuasion techniques and gained deeper insights both of the logistics industry and firms' vision, they became much more efficient in closing profitable deals, consequently resulting in even higher level of scalability. Furthermore, junior people were constantly kept informed regarding firm's financial structure, bonus schemes, future plans and so on. Mentioned empowerment enhanced the feeling of being valued even in the absence of any shares or existing partnership structure. Empowerment boosted employee motivation to take initiatives on their own, contributing to the job satisfaction allowing for flexibility and independency. After analysing empirical findings, we saw that founders' willingness to incorporate people who share the same passion and motivation and more importantly those who were striving to personally develop their skills, without direct and constant supervision of founders, is essential to create a scalable foundation. Since no formal training took place, fresh entrants' personal motivations ignited by founders' aspirations enabled them to accomplish difficult tasks, which would normally require more human power.

In Lanterna, all members had diverse academic backgrounds and specializations. Founders became aware of what type of organizational structure or business model scalable businesses demand at the beginning venture creation. Therefore based on the human requirements, new hires were chosen based not only on their qualifications or resumes but on what they would possibly bring to the table and contribute to scalable growth in the long-run.

6.2.2 Division of Work

By analysing the scalability in relation to the characteristics presented in 2.1.1, we can observe a clear connection to the substitution between focus and multitasking. In the theory part of this paper (3.1.2.3) we explained how division of tasks should be applied according to the competencies of the people from the very start-up phase, even if it would be only between the founders, to achieve scalability. Nevertheless, as we explored from the interviews with the founders of the case companies, none of them had a division of tasks whatsoever between them, especially not in the very beginning. This finding abolishes the theory of strict division of tasks as a necessity and the importance of pure task focus instead of multitasking. This finding could be explained by the fact that the founders of the companies we studied had similar backgrounds and expertise, which makes it harder for them to divide the tasks, consequently resulting in multitasking. Interestingly though, when new people joined the company, they *did* become responsible for focused tasks, such as sales, whereas the founders continued to multitask, everything from sales to administration.

We came to analyse then whether it is a prerequisite or a hinder to multitask, and similarly, whether it is a prerequisite or a hinder to focus on one task. We argue multitasking is not only forced condition by nature, but a necessity for the founders to be able to know their company. In fact, since the founders often stay as the CEOs and in other key positions, they need to keep this *overview* of the company by multitasking. On the other hand, new employees are introduced to focus tasks where their area of responsibility has clear boundaries. This finding brought up then the question of how can the company subsequently achieve scalability, let alone survive, in the event of the founders retiring with new employees knowledgeable only of their area of operations. Therefore this finding supports the analysis that a *balance between focus and multitasking* is essential to achieve scalable operations. The founders need

to be able to multitask in order to know the company thoroughly yet focus on tasks to become more efficient. The employees on the other hand can have areas of focused operations yet need to be involved in other operations as well to enable them to know the venture exhaustively to achieve scalability even without the founders being present. Hence, to answer whether focus- and multitasking are hinders or prerequisites for scalability, we argue that they are both hinders as well as prerequisites. Focusing is likely to increase repetition of tasks, which consequently increases efficiency through learning, and the company is likely to achieve lower marginal costs per task performed resulting in increased profits. Nevertheless, multitasking is required to create a solid platform for the company where the few additional people working in the start-up can become familiar with the whole process enabling knowledge transfer between all the persons working in the company in order to transfer the vision and knowledge of the founders further in order for the start-up to function even without the presence of the founders.

6.3 External Factors

6.3.1 External Assistance

All the firms that were interviewed received some sort of assistance during the venture creation stage. These ranged from consulting and legal advice to preparing pricing schemas and to friend's contribution to business via freelance projects. Fraktus, Lanterna and Scenter were all accepted to the SSE Business Labs, and therefore provided with partnering companies offering these services and access to important network. By analysing the qualitative data gathered through interviews, we came however to the conclusion that *financial* help has much more significance for start-ups than social capital for two following reasons: first, without cash, no investments can take place. As conveyed by Jenny Tengvall, Scenter would have already recruited full-time sales people to expand their business if financial situation permitted. Likewise, lack of sufficient financial sources forced Lanterna's management team to postpone change of online interface for two years, which would otherwise have been implemented before. Contrarily, iZettle due to its competitive product offering generated high level of enthusiasm in the eyes of investors and succeeded in receiving enough amount of financial support to acquire tangible and intangible assets, which resulted in fast growth. However, none of these factors directly dictates whether firms can achieve scalability or not with external help but

financial support can be seen as a prerequisite for the founders to be able to devote their time and effort to the "right" things and plan for scalable processes. Financial investments can therefore be essential sources of investment in areas where funds enhance growth, as seen in iZettle case, and its absence acted as a barrier to growth with Scenter and Lanterna. All in all, external help alone is crucial for growth in the early stages of start-ups but not necessarily a precondition for scalability.

6.3.2 Networking

We were unable to find a link between neither networking attempts nor skills and scalability. All of the four sample firms had shown interest in conducting networking activities in various forms. However, its effect on scalable growth remains to be unclear. Due to relatively modest context that start-up service firms operate, networking became an extremely important factor in spreading the word about their services and products, a task that would require lot of time, money and effort. As growth and prospect of finding new potential clients are concerned, networking is a must, but for scalability of the company there was no evident link to be found.

7. Conclusion

This chapter concludes the analysis and answers the purpose of the study by analyzing the research questions.

The purpose of this thesis *"to investigate the impact of scalability on sustainable growth of service firms in their very early stages and which factors are fundamental in effecting scalable growth process"* is answered through the research questions presented in 1.6.

RQ1: ***How can scalability serve as a platform in order for start-up service firms to achieve sustainable growth?***

We came to the conclusion that founders of the start-ups have to create a platform where operations can be standardised and automated. This needs to be done in order to create scalability that can further on facilitate and accelerate growth. Even if the knowledge transfer would remain informal, it is easier for the new recruits to take over the operations if a structured platform is available.

Moreover, we realised it is important for the founders to decide what position they are willing to take during growth whether they opt to either lead the company or continue working in the field. This influences the ability of firms to create a company that can run without the founders. Therefore, it is a necessity to create a procedure that new hires can follow with ease and take care of. That way operational side will not rely only on founders' resources and capabilities but achieve an independent functioning attribute in the form *standardisation*. As we explored, scalability requires a platform that allows for automation even for service firms so that long-term growth can be achieved. It can be concluded that scalability itself is not enough for service firms, as the human capital will remain as the main source of knowledge, which means *complete automation of processes should not be the goal.*

Therefore we suggest that ventures should create a business model where "easy profits" are created from standardised services that even additional people joining the venture can easily handle. In long term, even the customised services can be turned

into standardised from similarities found between customised offerings that can function as the platform for the standardised service.

RQ2: ***How can personal and organisational characteristics influence scalability of start-up service firms?***

The case studied uncovered that all the founders had motivation to grow but not necessarily motivation to become effective; they were rather just following their passion. We came to the conclusion that scalability needs therefore to be an *active decision* taken by the owner-managers as scalability is a necessity for sustainable company growth. As mentioned, the founders need in addition to decide whether they wish to work in the field or become the sole leaders enabling the company to scale.

After careful consideration of data derived from interviews, we concluded that when personal motivations and aspirations of entrepreneurs are canalized towards transferring knowledge to new employees, the level of empowerment is found very solid in start-ups. Small size of firms hastens the learning process of new hires due to flexible organizational structure that allows for direct involvement with owner-managers. Continuous learning is not only a requirement for scalability; it is also the definition of it. Another conclusion boils down to effect of recruiting employees from diverse backgrounds for two reasons. First, varying perspectives complement each other when recognizing ambiguities within the organization. Second, people from various industries are more eager to absorb new knowledge and not constrained by any previous conceptualizations, as they are unbiased towards any previous way of thinking. Hence, they learn about the industry and *innovate* without taking prior assumptions into consideration.

We could reveal a correlation between standardisation versus customisation of the customer offer and the scalability grade company possesses. For service firms both are essential, hence a combination of standardised services should be utilised to increase profit margins. In addition, in order to maintain and develop the knowledge and skills in the firm, customisation needs to be applied to leave space for innovation. Both features of imitation and innovation (seen from internal learning perspective, not solely as the customer offer) need to be present in a service firm with an aim to

accelerate knowledge transfer within the company. Work task division and recruitment procedures should take into account the importance of employees multitasking in order to understand the company as a whole as well as the needt to delegate (focus) tasks to achieve efficiency. When done, it provides the framework for employees to become more efficient through repletion that in return leads firm to achieve scalability. Such an organizational structure not only paves the way for scalability but also teaches employees to comprehend the way in which firm operates, enabling them to see the bigger picture.

There could not be found direct correlation between scalability and use of networks and external help, whereas it proved to be a facilitator for growth. Although financial feature of scalability was excluded from our study, findings from in-depth interviews came down to the same conclusion: Without sufficient cash flow or injection of capital, nothing happens. What is implied here is that no matter how passionate or enthusiast people are on board either founders or new hires, ventures in their early creation period will not succeed in establishing a scalable organization unless they possess enough financial capital. Investments are essential for building a scalable framework. However, financial capital is found to present the opportunity for start-up service firms to deploy it into areas that can result in multiple profitable returns. Another conclusion from findings suggests that service firms are less likely to attract and generate quick flow of cash compared to high-tech or dotcom companies, rendering scalability harder to attain.

Therefore we argue that scalability is a necessity for sustainable company growth where the scalability allows for long-term operational readiness of the company to function even with the absence of the founders.

8. Discussion

This part asserts the limitations of this study and presents recommendations for future research to be done within the field.

8.1 Limitations

The findings of this paper should be interpreted with level of caution since there are limitations to the generalizability of the results. As the methodology section already described, the results of a qualitative study are harder to generalize, which consequently limits the transferability of the findings to other industries. The sample companies of this study were chosen to be a solid representation of the range of various service companies in their start-up stage but with different current statuses. Despite this contributing to the depth of the analysis, it also aggravates the possibilities to derive sound conclusions since not only one successful method can explain scalability.

Second, the interviewees were limited only to the founders, hence we did not interview the newly recruited people and did not take into account their experiences with the companies nor the level of their awareness and relation to scalability. Interviewing the founders of the start-ups could have resulted in biases, overly positive answers, due to their intensive personal involvement in the companies. This bias was however attempted to reduce by the formulation of the questions presented to the interviewees. In addition, the interviewees might have not thought about scalability in their operations prior to the interviews hence their answers reflected also the ignorance of the issue in service firms but also complicated the generalizability of the findings.

We chose not to include the external competitive environment to this study and prior to the case study findings excluded also the financial perspective of scalability whereas these factors can have an important influence and impact on shaping the internal structure of the company and its readiness for scalable operations. This would have required a more extensive market analysis of the different industries hence it was unreasonable to include these perspectives in terms of the scope of this paper.

Moreover, there are limited acknowledged theories available about the relationship between scalability and start-ups and scalability and therefore there is a narrow scope of comparison available of the findings of this paper. However, the aim of this paper was not to establish a new theory but to explore the existing assumptions hence this leaves room for further research.

8.2 Future Research

Previous research on the field of scalability is very much limited to IT and software firms which have a very distinct organizational structure compared to service firms. This paper is one of few of its kind that attempts to find the link between scalability and service firms. Due to limitations mentioned above, procedures for measuring scalability still remain to be vague within service sector. Future research can more extensively contribute to academic literature by first coming up with a clear and decisive definition of scalability for business context. Despite the appearance of a few explanations given by entrepreneurs, all seem ambiguous and far from academic language. Following the definition, a clear measurement tool can be introduced, focusing more on the analytic techniques relying on quantitative data. Future research should be free of time constraints; depending on the objectives should attach more features to analyse scalability. Our definitions were limited to only financial and organizational qualities, whereas term has yet more to offer when it comes to service firms.

Besides clarification issues of definition, this study revolves solely around service firms that employ less than ten employees. Therefore, as target sample was kept quite minimal, limited discoveries were realized regarding larger service firms surrounded with complex structures. It is not known whether scalability would have had the same impact or depends on similar variables in other industries. For instance the impact of scalability on large organizations or multinational corporations is open to further discussion and might present interesting outcomes. In addition, research can investigate how to turn clumsy structures of large organizations into more agile ones which are adept at responding to competitive pressures. Hence, efforts can be channelled towards other industries or larger organizations.

So much has been written about small firm growth and growth-related academic literature can widely be found everywhere. Previous research revealed that growth of start-ups is connected to so many variables, yet it still is a complex issue to propose a clear guideline. Indirect goal of our research was to link a few of the growth theories to scalability. However, our focus was limited to individual and organizational units for analysis. Growth and small firm growth is such a comprehensive topic that there is much more room to cover. Hence further research can focus on other aspects of growth framework such as entrepreneurial orientation. Resulting from the modest size and limited firm-specific resources of start-ups, organic growth was chosen over acquisition growth which better fit larger organizations growth strategies; then question should be pointed at why would academicians investigate effect of scalability on acquisition-based growth. Mergers and acquisitions have gained so much momentum globally that attracts the interests of academicians range from finance, accounting to organizational behaviour. Hence we believe scalability can be researched within the context of M&As.

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APPENDIX A - Interview Transcripts

The interview findings are combined in the following section. The development of each company will be in a narrative form to let the reader to understand the process from the beginning till today.

A1. Lanterna

According to the founder of Lanterna, Nicholas Johansson, the company has faced three different stages during its existence. The first language courses were offered during the Easter break in 2004 in Stockholm. It was Johansson himself with few friends tutoring the IB students. This stage Johansson called as the *"project"*. The next stage he referred to as the "*company*", when Johansson moved to SSE Business Lab and accidentally found his future business partner, Hugo Wernhoff, from the locations. These years, 2007 to 2008 he considers as the real start-up stage of the Lanterna. Johansson was still studying at that time so Lanterna was more of a side hobby for him, but once he graduated, it was time to decide whether to continue with Lanterna or search for jobs. Johansson chose the former. The transition from "company" to "*professional company*", the third stage, took place in 2009 when the company expanded its offer, clientele and employee-base.

1.1 Stage one - Project

Nicholas Johansson an IB-graduate himself moved to Stockholm in 2003 working every second week for the Swedish Military. Johansson felt bored during the weeks without work and asked for advice from his father. It was actually his father who came up with the idea for Johansson to work as a "substitute teacher". Johansson contacted an IB-school at Skärholmen (suburb of Stockholm) to help out the students and got a positive answer already on the phone. Johansson started at the Stockholm School of Economics but the idea to continue helping the students remained and the annual Easter courses were first held in 2004 with the help of his classmates from SSE being tutors for the IB-students.

1.2 Stage two - Company

In 2007 Johansson received a spot at the SSE Business Lab, which was a turning point for the company. The moving in to the Lab required business perspective for the activity that had been hobby so far and Johansson found a business partner, Wernhoff Wernhoff, who fortunately confused Johansson for someone other name Johansson

and the coincidence brought the two business minded young guys together. Wernhoff joined the team and Lanterna was officially established.

The company had low start-up costs with only few leaflets to be printed and friends working as tutors further minimized the costs. Lanterna has not have investors, and still today it has been only internal cash flow covering for the costs.

According to Johansson, at this stage of the company there was no division of tasks whatsoever, but Johansson and Wernhoff were doing the entire administrative tasks and tutors, mostly old IB friends were joining only during the courses. In the beginning of 2008 not only did the time at the Business Lab end but also both Johansson and Wernhoff were about to graduate, which brought them to question the future possibilities of the company.

1.3 Stage three - Professional Company

From the business perspective, the business officially started in 2008 and Lanterna expanded its course offerings to be available also in the UK and USA. In addition to the founders working at the company, Johansson and Wernhoff hired their friends from SSE to work on project basis with a nominal compensation they received at the end of the project.

In 2009 the offering had already expanded to Philadelphia, London (with A-level and IB courses) as well as courses in Stockholm. The founders this required too much administration, i.e. tutors were recruited via Skype and all marketing efforts were done in Sweden. The result from this was that the founders realized the importance of having a *focus* and *synergies* between offerings and therefore decided to keep only their core competence market, the IB courses. Since 2011 Lanterna has consequently only offered IB-courses, with the addition of online courses since February 2011. In November 2010 the first external fulltime-employee was hired for the purpose becoming a project leader for the online course launch. Currently there are six people working full-time at Lanterna, where Johansson is the Director and Wernhoff Managing Director.

1.4 Transition from tasks to functions

The transition from a company to professional company was concretized when Lanterna employed additional people to the team that required "structure, administration and routines" according to Johansson. However, the founders did not have experience of neither entrepreneurship (first start-up for both) nor working in "real" companies as Johansson put it, hence they created own structure for the company. Initially, the employees were doing all the tasks within the project they were responsible for from marketing to recruitment of tutors. Already at this point they started with weekly meetings with all employees present since the founders "had heard that is what others do".

As a consequence of the increased number of employees the founders decided to change the focus from tasks to functions, e.g. sales, marketing, recruitment etc. In the beginning of this transition the employees were all responsible for approximately five functions. Introduction of functional structure was a strategic decentralizing move from the founders.

Today the employees are responsible for one or few functions as more people have joined the team. In May 2011 the Johansson made an initiative to increase accountability of all the employees. This initiative conducted of a quarterly plan for each function that the individuals propose in line with the company goals. The company goals are set for the coming year with everyone agreeing upon them even though full consensus would have not been reached. Johansson and Wernhoff will approve the functional quarterly plans after which the goals are laminated for the employees to have visible on their desks. In addition, Lanterna holds monthly meetings were everyone is hold accountable for the goals they have set for each month and to keep track of the task, a board with a check-list is present in the company hallway. Holding these kind of activities together in the company is mostly Johansson responsibility

1.5 External help and Networking

When asking for whether Lanterna has used external advisors during their existence, Johansson stated that they have only had help from friends and family. However, according to him some of the "mistakes" could have been avoided especially had

there been external help. In the beginning, Johansson said, that they thought they knew the business the best, which in some sense was true, but that it was the actual business part they did not know the best. He gave examples of such as expansion, employing, and new markets. Currently all the new employees (additional to Johansson and Wernhoff) are employed through their network being all old tutors at Lanterna's IB courses. Board of directors is still seen as a formality for Lanterna, but recently they have started with monthly meetings with "2,5 advisors" (i.e. two permanent, one present to varying degrees). These advisors are older and more experienced compared to the founders of Lanterna and they were found through friends. Nevertheless, Johansson claims that he is not actively networking but rather asks for help from existing friends. Johansson definition of networking is knowing a lot of people for the purpose of utilizing them for business and therefore do not say to be actively networking. He said he prefers to ask help from friends but not utilizing them, but having fun with them instead.

1.6 Motivation

The decision to start a company was not an obvious option for Johansson as aforementioned findings from the interview describe. As he said, "it wasn't like now we are going to start a business", but more of a slow, growth process from a project that kept him busy to a professional company. The company grew slowly in the beginning and Johansson said there was "no ambition to grow". As the company did not start as a business by the definition, the motivation for starting the company was not to make money but more to keep busy and help people. Still these same values are the motivation for Johansson; he enjoys helping people and seeing them getting happy is "a motivation itself" and the company is not functioning by high profits.

A2. Scenter

Scenter was started as a continuation to a bachelor thesis the founders of the company, Jenny Tengvall and Terhi Suhonen, wrote in 2009. The thesis explored the influence of sensory marketing and the founders saw great opportunity in scent marketing, an idea which they could not let go and decided to start the company in autumn 2010.

2.1 Company Structure

When writing their thesis, the girls realized an opportunity in the Scandinavian market in which there were no or few companies that specialized in branding/marketing of scent in Sweden. The market was however very big elsewhere. Starting up a new business brought along its challenges when identifying which direction to follow, what type of business plan to adopt. In November 2010, Scenter was granted a seat in Stockholm School of Economics Business Lab, a move that marked the first step towards official foundation because Business Lab not only provided an office and coaching service but pioneered entrepreneurial action. Tengvall claimed that during the first stage of Scenter, energy was spent on issues that brought no value to the growth attempts such as choosing which colours or papers to buy instead of sound investments to initiate growth process. Once accepted to the Business Lab, Scenter saw the company professionally and started a limited corporation (AB) which assured credibility in the eyes of potential clients. Tengvall mentioned during the interview that they had to define the basic motive of the firm and what it stood for. In addition to that, process of finding the right selling point was misjudged during the initial stage; first-hand experience taught them so much that both Tengvall and Suhonen had to question what they believed as true might be subject to change.

Currently firm is based in Stockholm, supervising operations centrally from their office with Tengvall working full-time since the beginning and Terhi simultaneously studying master's degree. The main supplier of scent machines is a German company with a subsidiary in the Netherlands, where the main contact from the company is located (due to language barrier with the German CEO). Further discussions are therefore taking place to move the manufacturing base to Finland in order to overcome communication and cultural mismatch problems and to reduce the ineffectiveness of cooperation that frustrating for the company development.

Scenter employs a differentiation strategy to achieve a competitive position but it more importantly underlines firm's uniqueness by appealing to a small niche segment composed of higher-end brand fashion, especially within fashion. Hence the ideal positioning is to become a high-end firm, being selective when it comes to choosing which markets to serve and what type customers to work with according to own

interests. During 2012, market research efforts focused more on trying to locate company's own strengths and weaknesses so that target market could be identified. Being a small-sized start-up allows them to be more agile and fast to adapt to changing demands of customers, provide those clients with customized solutions based on natures of varying industries. Long-term vision encompasses expanding into Central and Eastern Europe where the value of scent marketing and its potential impact on company's operations are yet to be discovered; currently Scenter is focused in Scandinavia, mainly Sweden and Finland. It is worth to mention the effort put forth to identify what Scandinavian consumer expect and demand from Scenter. Main difference between previous research about American customers and Swedish ones is the difference of preferences and demand. According to Tengvall, Swedish clients ask for natural solutions and knowing your client makes a huge difference in scent marketing.

2.2 Barriers

Ensuring funds and steady flow of cash appear to be the most formidable challenge during this stage in that lack of sales makes investments in highly important areas unfeasible which in return hinder growth. Tengvall claimed that more interns or fulltime sales people would have been recruited if financial conditions permitted. Even so amid difficult circumstances, motivation and passion to grow is as strong as day one.

When asked about future growth plans for Scenter in the next five to ten years, Tengvall was confident about having established monthly or annual goals and division of roles as the number of employees increase. Small size of the firm acts as a barrier to under delegation because responsibilities are still not clearly defined. When interns were hired, it became clear that informal communication is the only method to conduct organizational learning and knowledge transfer. No matter how bigger the firm gets, Tengvall seemed eager to keep the informal friendly environment which would be supported by clear power roles.

2.3 External Help and Networking

Due to the limitation of small size and uncertain financial conditions surrounding the firm, Scenter relied on the consultation support provided by SSE Business Lab's partnering companies. Business Lab not only provided legal guidance or coaching services that helped establish the main framework to start operating but also linked Scenter to such partners as Deloitte. External partners underpinned the growth of Scenter by ensuring right pricing strategies when both founders lacked experience in starting their own businesses. In addition to those efforts, both Tengvall and Suhonen attend networking events as an attempt to spread the word about the company.

2.4 Personal Motivations

Tengvall considered herself as a person carrying entrepreneurial spirit and enjoying to take risks. Although Scenter is her first business initiative, she has been a strong supporter of igniting change when she took part in Swedish-French Chamber of Commerce in France, an act that reflects her intolerance for status-quo. Although profit maximization is undisputedly an important fact of business life in the long-run, the underlying reason behind their starting the journey mainly were ability to have full control over operations, to decide on strategies, to have a relaxed workplace, and most significantly to be able to *do what you are passionate about.*

A3. Fraktus

Mattias Nordlöf, the co- founder of Fraktus, claims there is a "recipe for success" which they also apply for Fraktus. The recipe consists of window of opportunity, business idea and combination of insights. According to Nordlöf all these three are necessary for success. Originally, Nordlöf had thought about starting a company on his own but happened to meet Anders Norell at MBA courses and they found complementary characteristics in each other and so Norell and Nordlöf started Fraktus together. Before Fraktus, Nordlöf worked as a managing director in an export/import firm and says to have turned the company into success during his time as the MD. This position helped him also to realise the opportunity in the transporting industry. He find out that the cost of transporting was too high (% of costs), especially for smaller companies since the big transport companies (FedEx, DHL etc.) want only high volumes. The idea of transport optimisation hence arrived from work experience and environment.

3.1 Experience and knowledge

The MBA education focused a lot on start-up scalability, importance of cashflow and value creation so Fraktus designed its operations with the emphasis on these points. Currently Fraktus charges the customers only for transports, i.e. no monthly fees, and offers transport optimisation for free. However, soon they are supposed to be in a stage where they can start to charge even for the optimisation service and logistics analysis. Now they are doing this "value creation" for free whereas competitors charge for it. Fraktus was able to use an existing online booking system that saved their start-up time and costs. The system is outsourced and the firm takes even care of the maintenance of the system. Nordlöf says their business will be even better during downturns in global economy since barriers to change transport company are lower hence they are right-on-time to attract new customers.

When you start from the scratch with no customers, no revenues, you need to base partnership on vision. During 2-3 months Fraktus had no customers but these were successful months according to Nordlöf since this is when they established the booking system. Nordlöf claims that experience matter in start-ups, any kind of experience. Switching problems into insights can be achieved through experience, he says. This is also one reason why Fraktus decided to do bookkeeping themselves: they wanted to understand own business and to know the value of outsourcing. Outsourcing is of no use if it does not create value, Nordlöf said they have now outsourced also the bookkeeping. In their old works they did everything by themselves but acknowledge now the value creation from cooperation.

3.2 Motivation

Motivation to start the business was the unpleasantness of previous working place and inspiration to seize the opportunity. As Nordlöf said, long-term motivation is of course to make money. To be able to start the company, Andres got an exit bonus and Nordlöf got provision based salary from the old company during 11 months. Nordlöf says need for new environment was also a motivation to start own and he says the same applies for Fraktus; they have included exit strategy already in their business plan and the idea is to exit within 3 to 5 years. The vision for recruitment is to never recruit from logistics so that they won't know too much about the business. This is

what Nordlöf believes will happen to him as well in few years and therefore need to let new people come in to the company. The new people are doing sales, whereas Nordlöf and Anders are doing everything else without clear division of responsibilities but Nordlöf said they complement each other.

3.3 Workforce

The new hires are taught in the beginning how to communicate, i.e. not pushing for sales since Fraktus wants to be "different in any way they can". Also to get cash flow, the employees don't get fixed salary but only provision, which is all the margins they make from their own customers. During the first month the new hires don't do any sales but get to know the industry and how to communicate and the business and thereafter they can start calling to smaller customers. Fraktus has morning meetings every day around 9am, which they learned from a former company sitting at the Business Lab. There is no fixed time for the meetings and it will be done even with two people who will then send the best ideas and summary to others. The sales people are also assigned to spend the last half an hour after sales calls on maintenance (from 4.30pm to 5pm).

Nordlöf says they can do what they do now with 10 times higher revenues with seven people, 10 times that with two more people (9) and SEK 0.5 billion with 15 people. Fraktus wants to automate everything that is possible but some things need still be done manually. The plan is to "educate people so that they can take over after you and then leave the company". Nordlöf says you cannot be scared for business but to start a new company.

A4. iZettle

The idea that led to the birth of iZettle was put forth by Jacob de Geer's, one of the two founders', wife in the form a spontaneous need. She used to work as a trader selling, basically glass business. Scope of her business remained limited to cash payments due to lack of convenient and easy-to-use devices to process credit card transactions. Thus the idea was researched by partners Geer and Magnus Nilsson who had worked in EF Education for 15 years and held office of Vice Presidency when he actually quit the firm. Geer took part in three more entrepreneurial ventures in different industries hence making them both "serial entrepreneurs". "iZettle is a secure and easy to use card reader for mobile payments which is currently

revolutionizing Swedish commerce" explains de Geer (Geer, 2012). The first service has a free of charge iPhone app and an EMV chip card reader to be plugged into iPhones or iPads, making it the convenient payment solution for the mobile, cashless generation.

4.1 Imitation

In United States, Square, a firm offering a similar product for swipe cards, was launched in 2009 by the very same founder of Twitter in order to bring the credit card usage to merchants and small business owners. According to Geer, Square was taken as a benchmark when founding iZettle since it was already a proven success in such a huge market as US. However, the system was not compatible with Europe due to various reasons: the most important of all was the difference in processing transactions. Square was designed to enable swipe transactions whereas in Europe majority of credit cards given the European Union regulatory framework was produced with mini chips. Geer realized after shortly beginning his market research the difficulties attached to chip card security standards. Following the research phase, iZettle was officially founded in April 2010.

Venture creation and survival stage presented both challenges and opportunities together because online card transaction industry was a demanding business where lots of external actors and factors should be taken into consideration. The fact that none of the founders had previous experience in this line of business rendered them less risk-averse and more willing to push the limits. Hence in other words, lack of particular experience coupled with entrepreneurial spirit paved the way to take next step towards establishing the foundation upon which company would keep on building. Only when Johan Bendz joined the firm in March 2011, total employee number reached four and he was given the responsibility to lead marketing and public relations operations.

4.2 Rapid Growth

Period between March 2011 and April 2012 marked a significant shift in company's size and focus during when lots of outside consultants, specialized in specific areas, joined the team to develop high-end applications, improve existing systems. So the team was selective in terms of recruitment, in search of "best-of-the-best' of all. What

iZettle did best to fasten the growth and achieve success was getting the product to the market as fast as possible in order to prove the experiment. iZettle not only transformed the way small merchants conducted their business but also ensured security for the correspondent side, thus differentiated the business model from other credit card terminal providers. The firm currently employs 45 people all divided into separate structures handling various duties as a result of growth process.

4.3 Structure of the company

iZettle is a tech company delivering a special device to help ease small business's payment models to reach out a wide breath of customers. For that reason, firm needs to develop the product, make sure every system works efficiently and security is always kept at maximum. Consequently, as iZettle grew, clear structure and guidelines had to be established to cope up with complexities of business. Largest department in the firm are development which is responsible for handling back-end of systems together with application development. Division of Risks complete background check on potential clients to guarantee provided details conform to reality to avoid fraudulency. Other parts span from PR & Marketing, Sales, Finance or Customer support.

During the first year, communication took place in an extremely informal way and all the members used to share the same room which made it more likely to create a cordial business context. We got the impression of a small-scaled Google located in the middle of Stockholm after entering the office since layout was designed in an open space format enabling for less formal knowledge sharing. Another important characteristic of inter-personal relations was the absence of pre-structured training since newly-entrants are expected to share the same drive to work in a start-up which in return gave employees flexibility to manage their own personal development. Team meetings are arranged on regular basis which are complemented by management meetings every week as an attempt to check whether teams are moving in the right direction. Lastly once a month company gatherings were held when all the individuals are expected to participate, not necessarily in an official format.

Workforce consists of a combination of people from different backgrounds, ages, expertise. In the long-run diversity leads to more efficient outcomes when individuals complement each other with specific skills.

4.4 External Help

Recruitment and human resource practices also follow an informal pattern via LinkedIn or referral, as employees were able to receive bonus based on referral's acceptance to the company. In addition, network of friends are used to post ads on their websites. That reminded us of the Google's HR policy in which employees are provided with bonuses as long as their potential candidates were hired to the company. Recruitment is not the only area where outside support is utilized. Accounting services are outsourced since the establishment but plans are put forth to integrate non-technical aspects to the company. Moreover, multiple venture capitalists invested large sums of money that were essential in acquiring tangible assets ranging from production facilities, servers to developing intangible products such as mobile applications or maintenance services.

4.5 Motivation

Personal aspirations, attitudes, motives and previous experience played a decisive role in the success of iZettle. Neither Nilsson nor Geer were so passionate to apply to large corporations because they were looking for ways to prove themselves that they are capable of achieving something bigger by seizing a market opportunity serving special interest. Both had a history of risk-taking. Bendz fit very well with rest of the team as he gets bored of routine tasks that leave no room to hone ones' skills. Furthermore, they all shared a common set of values.

APPENDIX B - Interview Questions

Interview questions as shown below were open-ended, however the authors had "check list" to facilitate documentation of the answers. Our goal was to ignite spontaneous responses from interviewees in a semi-structured way by asking follow-up questions. Through that method, we aimed to dig into realities of their own experiences in an unbiased, neutral perspective.

1. *What were your main motives to start your own business?*
   (CHECK LIST:
   a. achieving high-level of income
   b. achieving high level of creativity
   c. achieving high level of independence (being able to control operations)
   d. achieving a sense of flexibility in working time
   e. having security
   f. ability to contribute to outcomes directly)

2. *To summarize the motivation part, what is most important and self-fulfilling for you? (*e.g. Maximizing financial returns, gaining independence, having the power and control, more relaxed workplace)

3. *What kind of setbacks/challenges have you come across during the venture creation stage of your company?*
   (We know from literature that vast amount of start-ups fail to generate enough cash to invest in their businesses. Hence the goal is to stimulate interviewees to take a step back and elaborate on their own experiences)

4. *Have you heard about the term scalability? How are you planning (or would you) achieve scalable growth within your line of business?*
   a. Have you considered that before?
   b. If not, how would you have implemented a scalable business model?
   c. If you have already created a scalable organization, what did you take into consideration?

5. *What type of business strategy have (are) you pursued (ing)? What were the underlying reasons behind that strategy? Do you believe targeting a niche market is a better fit for start-ups in the early survival phase?*

6. *How does inter-personal communication occur within the company? (formal vs. informal)*
   a. Could you tell more about the way in which new employees are informed/trained?
   b. How does this process influence company's operations?

7. *Could you please tell us about the business environment? (competitors, technology changes)*
    a. Would you list 3 of the most influential external factors that had an impact on your business? To what extent your business was positively or negatively affected by any specific changes?

8. *Transfer of knowledge is essential for new hires to learn the nature of business and acquire necessary skills to perform their best in the field.*
    a. How do you delegate responsibility to junior employees in your company considering the small size?
    b. How important it is to empower them with a high level of trust? Would you briefly talk about the actions you have taken so far?

9. Have you received or applied for any external assistance?
    a. If yes from whom?
        i. Family
        ii. Friends
        iii. in the form of venture capital
        iv. in the form consultation