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# Fostering Growth through Business Development: Core Activities and Challenges for Micro-firm Entrepreneurs

## Abstract

As a concept stemming from practice, business development has received scarce academic attention. In this paper, we explore core business development activities of micro-firms and the challenges they perceive in conducting them. Based on interviews with 30 micro-firms, we identify three core business development activities that leverage the firm's resource base, complemented by three support activities that secure and organize the firm's resources. We find the business development activities to be tightly related to the three practices of leveraging, securing and organizing resources. We also identify three important contextual influences on business development in micro-firms: industry, age, and if the firm is in an incubator. Our findings contribute to developing a conceptualization and theorization of business development for micro-firms, which is relevant as the vast majority of companies worldwide are micro-firms, but many never embark on a growth path. Based on our results, we outline practical implications, for example, how companies could overcome their perceived lack of time and an agenda for future research encouraging further studies comprising micro-firms with different qualities.

**Key words:** business development, micro-firms, Sweden, growth, Penrose, resource practices

## Introduction

The position of *business developer* is well-established in many companies worldwide – a search in online job portals such as ‘indeed.com’ generates tens of thousands of hits of open positions with that job title in the US alone. The relevance of business development for practice has also been acted on by different business schools around the globe, offering Master's programs with that specialization – for example, the ‘Master of Business Development and Entrepreneurship’ at the University of Utrecht in the Netherlands, the ‘MSc in Business Development’ at the Grenoble Ecole de Management in France, or the ‘MBA in Business Development’ at Durham University, UK, to name but a few. Despite this popularity of business development, there is little evidence of agreement on what actually constitutes this concept, as Kind and von Knyphausen-Aufsess (2007: 176) pointedly state: “Business development (BD) is an often used, but not well defined, term in the business world”. Similarly, Forbes journalist Scott

Pollack (2012) asks in one of his articles ‘What, exactly, is business development?’ In the article, he complains: ‘Ask ten “VPs of Business Development” or similarly business card-ed folks what is business development, and you’re likely to get just as many answers’. He proposes to define business development as ‘the creation of long-term value for an organization from customers, markets, and relationships’.

Unfortunately, academia currently does not provide a more coherent picture; instead the phenomenon of business development has been largely overlooked by scholars to date. The scarce academic research on business development tends to consider business development taking place in larger firms as a part of corporate entrepreneurship (for example, Burgers, van den Bosch & Volberda, 2008). Small-firm research on business development concentrates on growth-oriented companies that have institutionalized the function of a business developer – such as entrepreneurial ventures in high-tech industries like biotechnology or ICT, where the formalization of a business development function is often demanded by investing venture capitalists to balance technological innovation skills with business stamina (e.g., Kind & zu Knyphausen-Aufsess, 2007).

However, in the definition of business development provided by Pollack (2012; see above), long-term value creation can be just as relevant for other types of businesses, independent of whether they have created an explicit function of a business developer or not. For example, even low-tech companies or small-scale micro-firms need to survive in a harsh competitive landscape through continuously developing their business activities (cf. Thorén, 2007). Yet, which business development activities these companies are conducting and which challenges they face in that process lack empirical investigation to date. The lack of attention to capturing the full context in which business development activities occur is problematic both theoretically and practically (cf. Härtel & O’Connor, 2014) as small businesses, including

micro-firms, are the backbone of many economies worldwide, and their growth is of great importance for job creation and economic welfare (EIM Business & Policy Research, 2009).

In the US, an astonishing 87.95% of all businesses are micro-enterprises (as of 2008; Association for Enterprise Opportunity, 2010). Over 99% of all enterprises in Europe are small and medium-sized enterprises (SMEs), and 90% of them fall into the category of micro-firms. According to the European Commission (2010/11) a micro-firm is “...*an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EURO 2 million*”. These micro-firms account for 53% of all jobs in Europe, demonstrating their importance for employment as well as social and economic welfare (Bushfeld et al., 2011; Doern, 2009).

Many micro-firms fail over time or never embark on a growth path that would reflect their success in value creation (cf. Ireland et al., 2001). One obvious explanation for this is that many start-ups enter mature industries with non-unique business ideas and/or only serve local markets, resulting in a low growth potential (Davidsson et al., 2010). However, many entrepreneurs running a micro-firm struggle and/or are unable to unleash its existing growth potential through business development, as they encounter a number of challenges, such as a lack of financial and human resources, which they have difficulties to overcome.

Through a fuller consideration of the context of business development in micro-firms, this paper aims to identify and explore which kind of business development activities are seen as important for micro-firms, and which challenges micro-firm entrepreneurs perceive in conducting these activities. This paper aims at contributing to the small business management literature by exploring business development, as well as its challenges, thus illustrating the relevance of this concept even for the huge micro-firm segment. We empirically examine these questions with a study conducted in the country context of Sweden, where a main challenge for economic development is the lack of growth of the increasing group of micro-firms. In an

analysis of the growth of companies within Swedish industry, Statistics Sweden (2010) found that the majority of micro-firms founded in 2004 and still operating in 2008 had remained micro-firms; and only 3 percent had grown into SMEs. Our study is based on semi-structured interviews with a sample of 30 micro-firm entrepreneurs from one region of Southern Sweden. The data are analyzed through a rigorous case-comparison technique inspired by Ragin (1987) and Ragin and Zaret (1983), to derive an empirically anchored conceptualization of business development in micro-firms.

The remainder of this paper is structured as follows. After a review of relevant literature, we present our method. We then proceed in describing the country context of this study, before presenting and discussing our findings. The paper is concluded by practical implications as well as a discussion of limitations and an agenda for future research.

## **Literature Review**

Micro-firms are fundamentally different from other firms – and thus, even their business development processes can be expected to differ from larger firms, especially. Micro-firms tend to be more conservative, lack specific systems and routines, use non-formalized methods for business development, apply direct supervision and possess a one-person centered organizational structure (Parry, 2007; Kelliher & Reinl, 2009). Most importantly, business development of micro-firms often relies on the (owner-) managers and their cognitive abilities (Simpson, 2001; Liberman-Yaconi et al., 2010; Degrauel, 2012), who highly influence the type of management practices adopted by the firm (Parry, 2010; Stone & Braidford, 2015).

Not only in the micro-firm context, but also more generally, the literature on business development is scarce (Knyphausen-Aufsess, 2007; Eidhoff & Poelzl, 2014). The concept of business development is typically used to indicate some kind of externally-oriented expansion of the present business activities. One commonly used term is that of ‘new business

development', stressing the addition of a new line of business (Janovics & Christiansen, 2003; Burgers et al., 2008; Littunen & Virtanen, 2009). Forsman (2008) represents this line of research when investigating the success of business development projects in Finnish SMEs. Her focus is not on business development as an integrated, ongoing practice within companies, but on distinguishable, change-oriented business development projects that are opportunity-driven. Pointing out the alternative of running business development in a project-like manner is one important contribution of her work. However, given the small size of micro-firms, their business development activities can hardly be separated from the usual business activities, thus limiting the applicability of her findings to our study.

Focusing on business development as an ongoing activity, we find some literature studying the role and position of the individual working as a business developer, i.e. a specific position that carries the responsibility of developing the present business in the company. The emergence of such a position is explained by the increased need of companies to develop business models that are sustainable in dynamic environments (Eidhoff & Poelzl, 2014). In line with this focus on the individual, Janovics and Christiansen (2003) studied personality characteristics relevant for different roles in the business development function of a Fortune 500 company. They found that being more innovative and less methodical was associated with success at idea generation, whereas being less innovative and more methodical was related to success in implementation, suggesting that staffing teams with these different roles could be a success factor for business development.

Given the scarcity of literature on business development, it is not surprising that several scholars call for more studies on the topic (e.g. Davidsson et al., 2010). The lack of focus on the processes which develop small firms is even more apparent when reviewing adjacent streams of literature. The literature on corporate entrepreneurship is, for instance, mainly concerned with large firm settings and does not pay attention to business development

in smaller firms (Sharma & Chrisman, 1999; Phan et al., 2009). In fact, Zahra et al. (2009) challenge this dominating view by conceptually discussing the need for corporate entrepreneurship for small firms that are in the process of ‘professionalizing’ (i.e. they develop organizing practices that coordinate the different work tasks to be completed and assign responsibilities for them). A related (but small) stream of literature is represented by the research that studies innovation in micro-firms. Evidence from the US and Sweden suggests that micro-firms make an important contribution to national innovation, measured as the number of patent applications (Breitzman & Hicks, 2008; Andersson & Lööf, 2012). However, the understanding of how these innovations emerge remains limited. Here, Simpson (2001) suggests that a cognitive perspective on the individual owner/manager could further our understanding of how innovation in micro-firms creates value.

In entrepreneurship research, the financial performance measures typically applied in studies of strategic management are not always meaningful (as, for example, high-technology ventures although not yet achieving substantial sales may still be creating value based on patented developments); therefore, value creation is seen as an important performance measure and strongly related to business growth (see Ireland et al., 2001). Despite the large, though fragmented, literature on small firm growth (for a review see Davidsson et al., 2010), the specific challenges of micro-firms are largely neglected (Heshmati, 2001). According to Reid (1995:89), the “reason why the micro-firm is neglected is quite simple: data are not readily available”.

Existing studies of SME growth, typically in a retrospective design, tend to investigate the impact of one or several internal and/or external factors on business growth as outcome measure. Growth is most commonly operationalized as increase in sales, numbers of employees, assets and/or profit (Weinzimmer et al., 1998; Delmar, 1997). This *increase in amount* is the dominating connotation of growth (Penrose, 1959:1). Penrose, however, had also

suggested a second connotation of growth, which refers to growth as an increase in size or improvement of quality as a consequence of a *process of development* (ibid) – thereby providing an early theorization of business development. Thus, it is interesting to note that although academic attention to the issue of business development is only emerging, business development has already been suggested more than fifty years ago as one of two notions of business growth. In a recent study, Nason and Wiklund (2015) confirm Penrose's (1959) conceptualization of versatile resources as resources that increase a firm's combinative possibilities and therefore are positively related to business growth.

Despite the overall popularity of Penrose's work, studies of business growth are commonly based on her first definition of growth as 'increase in amount' and the second connotation of growth as a process of development has remained largely ignored until today. This bias towards outcome measures of growth fails to capture aspects of growth perceived as relevant by practitioners, who tend to view business development as one important dimension of growth (Achtenhagen et al., 2010). Yet, process-related studies of business development comprehensively investigating the activities conducted to achieve growth outcomes still remain scarce (Davidsson et al., 2010).

Kind and von Knyphausen-Aufsess (2007) represent a rare piece of research, which explicitly discusses business development as a process of development in a small-firm setting. The authors investigate how biotech ventures employing a business developer define this position's tasks. Based on a qualitative study of 15 biotech ventures, they find business development to entail three categories of activities: 1) those aimed at creating value and revenue potential for the company, 2) those aimed at developing products and technologies for commercialization, and 3) those that build relationships with different stakeholders (Kind & von Knyphausen-Aufsess, 2007: 185). When comparing their categories of activities to Pollack's (2012) definition of business development as long-term value creation (see above),



interestingly, only those activities in the first category directly match this definition. The second category entails activities that capture the long-term orientation of the definition, through developing a pipeline of products for future commercialization. The activities in the third category support these activities by facilitating the access to different kinds of resources through networking. Yet, the managing of resources as an important dimension of business development in relation to Penrose's work remains underexplored to date (Nason & Wiklund, 2015). Thus, our study departs from Kind and von Knyphausen-Aufsess' (2007) definition.

## **Method**

In line with recent calls for more qualitative, explorative research on business development processes (cf. Doern, 2009; Davidsson et al., 2010), a qualitative method was chosen for this study. The data were generated through semi-structured, open-ended interviews with 30 CEOs of micro-firms, who were the owners and (co-)founders of these firms (see Table 1 below for a sample description). The firms in the sample have less than ten employees and an annual balance sheet that does not exceed EURO 2 million, which is line with the European Commission's (2010/2011) definition of micro firms.

For the sampling of this study, business developers at a regional incubator provided us with a list of micro-firms, all located in one region of Southern Sweden, that they considered as interesting companies due to the companies' realistic growth ambitions. The firms on that list were cross-checked with databases<sup>1</sup> in Sweden, containing public information about number of employees and turnover, to ensure each firm met the micro-firm definition. From that list, 18 entrepreneurs whose micro-firms were all located within the incubator, agreed to participate. Using a snowball technique (Biernacki & Waldorf, 1981) of the entrepreneurs'

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<sup>1</sup> The databases were Amadeus and AllaBolag. Amadeus provides financial and business information on a large number of European companies. For Sweden, this data can be regarded as highly reliable, as it is reported to the database by the Statistics Sweden Central Bureau. Allabolag.se is a Swedish website containing public information regarding all firms registered in Sweden.

networks, we extended the sample until data saturation was reached (e.g. Eisenhardt, 1989). The total sample size of 30 growth-oriented micro-firms meets the suggested cut-off point for heterogeneous samples in qualitative studies (DePaulo, 2000). While our sample is homogeneous in terms of company size and growth orientation, it is heterogeneous in terms of industries and business models.

All interviews lasted between 45 minutes and 2 hours, with an average length of 70 minutes, and followed an interview pro-forma. Drawing on our reading of the literature as presented above, the structure of the interviews was as follows: Firstly, we asked the entrepreneurs to narrate the development of their micro-firm since inception. Next, we asked them about their ambitions for future development of the venture. Thirdly, we asked the entrepreneurs about their main challenges for developing the business in the past and at present, as well as how these challenges were or could be overcome.

All interviews were tape-recorded and transcribed. The transcript from each interview was sent to the respective interview partner for validation and approval (cf. Silverman, 2001). Five of the entrepreneurs added further content to the transcripts, as they had recalled additional aspects after the interview. Two authors independently read the transcripts to identify codes capturing the (1) indicated business development and growth in the firm, (2) the perceived challenges, and (3) activities related to those challenges (e.g. Miles & Huberman, 1994). In a next step, all interview transcripts were analyzed according to this list of codes. A high level of inter-rater reliability was achieved from the beginning, and the remaining deviating cases were discussed until agreement was reached for all instances (see Krippendorff, 2011).

Then, we wrote vignettes for all 30 firms (e.g. Miles, 1990). The vignettes are a summary of one to two pages, highlighting the findings specifically addressing the aim of this research for each case (see Appendix A for an example of a vignette). Rather than following

the interview transcript with its question-and-answer format, the vignettes are constructed as a storyline. Following the within-case analyses, these vignettes as well as the coding results were then compared in a cross-case analysis in order to find patterns and deviations regarding business development activities and perceived challenges for conducting them. As the analysis proceeded, the ongoing construction of working hypotheses led to a highly iterative process, including several re-analyses of the data. To support our search for patterns of activities and perceived challenges in a structured way, we employed an analysis inspired by Ragin (1987). This analysis combines the intensity of information gathered through case-study research, with the additional advantage of examining a larger number of cases (Ragin & Zaret, 1983).

As we previously pointed out, there is opportunity to advance business development theory and practice by more explicit considerations of the range of contexts that business development occurs in as well as the important contextual influences on business development activities (cf. Härtel & O'Connor, 2014). Relevant to our research question, we identified three potential contextual differentiators for patterns of perceptions in micro-firms, namely, industry, age, and if the firm is part of an incubator or not. The first two contextual influences have been identified in prior research to affect firm and managerial activities (e.g. Greiner, 1972; Ripollés & Blesa, 2015). In addition to these contextual influences, we consider the potential that being within an incubator may positively affect business development as scholars have pointed out that firms within an incubator have access to better business support (Ratinho, Harms & Groen, 2010).

In our search for patterns, the age of the firm (less than 2 years, 3-7 years or more than 7 years old), the location of the firm (within the incubator or not) and the sector the firm operated in (service or manufacturing) led to distinctive differences in patterns. During the analysis process, we also applied a range of other differentiators investigated in prior research for pattern recognition, which we discarded due to finding no evidence of their role in our

results. These were: the source of financing (Chagranti et al., 1995), ownership (Cooper & Dunkelberg, 1986), educational background and industry experience of the founder(s) (Jo & Lee, 1996), individual versus team founding (Delmar & Shane, 2006) and gender (Carter et al., 2009).

The aim with this explorative study is to achieve analytical generalizability, in order to contribute to the existing literature on business development in general, and micro-firms' business development in particular (cf. Yin, 1989: 33-43).

### **The Institutional Context**

As this study was conducted in Sweden, some specificities of this institutional context need to be pointed out. Sweden reported the fastest quarterly economic growth in Europe in the beginning of 2011, reinforcing its position of being one of the best-performing economies in Europe (Ward, 2011). In previous decades, large companies created the major part of growth, employment and social welfare in Sweden (Persson, 2011). Critics state that institutions in Sweden since WWII have systematically hampered the growth of independent businesses, for example, through taxation, wage-setting institutions and labor market legislation (Davidsson & Henreksson, 2002; Carlsson, 2002). Also the lack of qualified labor has been identified as a threat to the future growth of SMEs in Sweden (Jansson, 2011). This situation is aggravated by the historical trajectory of skilled labor to favor secure jobs (Barth, 2004). However, from the 1980s and onwards, there has been a change in the size-distribution of companies in Sweden, and the number of SMEs has increased dramatically (SCB, 2008). Today 94.5% of SMEs in Sweden are micro-firms. Micro-firms represent 21.6% of the value added and 29.8% of all employees in Sweden (European Commission, 2010/11).

### **Results and Discussion**

Before presenting our findings regarding the core activities of, and challenges for business development perceived by micro-firms, we will describe the sample characteristics (see Table 1 below).

- Please insert Table 1 about here -

All but one of the entrepreneurs in our sample have completed at least two years of university-level education before they founded their firm. In addition, the majority of the entrepreneurs have extensive prior industry experience. Most of the entrepreneurs identified business opportunities directly related to their field of expertise. These factors may affect the challenges perceived, as they indicate the bias towards growth-oriented micro-firms in our study (cf. Storey, 1994).

From our findings, we categorize three core and three supporting activities of business development, and a number of challenges that are associated with conducting each of these activities. Core business development activities are those directly aimed at value creation, while the supporting business development activities are those facilitating them and preparing for long-term sustainability.

In the following, we will discuss each of these activities, as well as the challenges perceived for conducting them.

### ***Core business development activities***

#### ***1) Proactively seeking opportunities***

The first core business development activity that the entrepreneurs in our sample considered important was to constantly refine their value proposition to customers, and to proactively search for new opportunities adjacent to this offering – for example, by tracking relevant trends

in customer behavior or technological developments. However, entrepreneurs also discussed about their feeling of having too little time available for focusing on developing the new ideas, acting on opportunities and developing a new generation of products/services. The less experienced start-up entrepreneurs, in particular, explained this with their difficulty to prioritize tasks, leading them to feel overwhelmed by the range of different decisions related to setting up, running and developing the company:

*“There are so many tasks that require attention at the same time, all day we are running around putting out fires. We hardly ever have the time to take a moment to think about what would be most important to get done and to prioritize activities.” (Interview, entrepreneur 15)*

Entrepreneurs perceived it as difficult to take a step back to get a better overview of where a prioritization of activities might lead, but also of which activities would be more important than others for developing the business, and especially for allocating the scarce existing resources to different tasks and activities. Thus, some entrepreneurs felt that the core activity of proactively searching for opportunities was sometimes dominated by a reactive stance to needed changes.

## 2) *Tracking the industry logic and competition*

Tracking and understanding the business environment and industry logic (see Melander, 2005) as well as tackling the competition, is perceived as a core business development activity, which informs decision-making how to best position the own company. A challenge felt in relation to this core activity is how to deal with the sense of uncertainty deriving from a perceived lack of control over the business environment. This can hamper the micro-firm’s ability to predict possible outcome scenarios (Fisher, 2010). Uncertainty concerning how to best meet competition is also expressed in the fear of appropriation of the business idea by a competitor:

*“And as our product is unique, an imitation of our product by a competitor could be detrimental for the future of the firm.” (Interview, entrepreneur 22)*

*“I am very much afraid that a larger firm could steal our idea” (Interview, entrepreneur 30)*

The risk of such appropriation could be reduced by proper intellectual property protection. Here, some entrepreneurs discuss how they perceive that they are not fully aware of the need and possibilities of such protection, for example through patents or trademarks.

### *3) Marketing and finalizing sales*

Identifying target customers, marketing the micro-firm’s offer to them, and finalizing sales is another core business development activity, which takes up a substantial amount of the entrepreneurs’ time and energy. However, entrepreneurs who are active in service industries especially struggle with how to optimally identify and reach their target group, spending much time on experimenting with different approaches.

*“Our firm must find new ways to reach potential customers, but we do not know how to do that.” (Interview, entrepreneur 16)*

Entrepreneurs running manufacturing firms tell about how they struggle with gaining industry acceptance, especially for innovative and unique products. For them, it is more evident who their target customers are, but it is also difficult and time-consuming to find a way of convincing their target customers to actually buy the product, i.e. to finalize sales. Thus, which marketing activities are perceived as most challenging to conduct within business development appears to differ between industries (cf. also Orser et al., 2000, for a discussion of the impact of industry differences on small firm growth). In previous SME research, this challenge of developing marketing activities has not received much attention, though Colucci and Presutti (2006) argued for the importance of customer relationships for small-firm growth. In addition, previous research on small firm growth suggested that geographic expansion can limit growth in the headquarter facility – for example, when the process of establishing a subsidiary in a new

geographic location takes up much of the managerial capacity (Barringer & Greening, 1998). In our study, some micro-firm entrepreneurs perceived geographic distance as a challenge for business development when their customers are spread all over Sweden, with its large territory stretching over 1500 km from North to South, perceiving it to be difficult to efficiently cover such a large geographic area. Travelling to distant customers, when it is still unclear whether sales will be finalized after the visit, is expensive and time-consuming.

*“One challenge for us clearly is our geographic location, as we are very far away from many of our customers. (Interview, entrepreneur 13)*

Table 2 below summarizes the core business development activities and connected challenges.

- Please insert Table 2 about here –

Next, we will present findings related to the three categories of supporting business development activities and the perceived challenges for conducting them.

### ***Supporting business development activities***

#### ***4) Securing access to capital***

One important business development activity supporting the previous three activities is that of securing access to sufficient working capital. Financial resources need to be secured, not only to enable continuous product/service development, production and distribution, but also to ensure the necessary cash-flow to keep the business running. A challenge connected to this activity – beyond access to capital through external sources of finance – is to track down customers to make them pay their invoices, which creates frustration as this time could be better spent on developing opportunities:



*“Overall, the access to capital is a continuous challenge, and the incoming flow of capital seems stagnant, hindering new ideas to be explored in a timely manner.” (Interview, entrepreneur 7).*

### 5) Talent management

Securing qualified labor and talent is another important supporting business development activity reported by the micro-firms. This activity comprises of recruitment, training and development of employees, in order to create a stimulating work environment, but also to foster the entrepreneur’s own talent and managerial capacity. However, it is perceived as a challenge to develop new managerial skills, while at the same time running the day-to-day business activities, which typically requires all managerial attention and resources at hand. Thus, entrepreneurs typically stated that while they wish to expand their existing knowledge-base through training, they feel too stressed to invest time in such educational activities.

For micro-firms, each recruitment is an important strategic decision with major impact on how the business will develop. Identifying, recruiting and training the ‘right’ people is an important business development activity, which entrepreneurs tend to feel rather uncomfortable with, as they lack experience and competence for this activity. In consequence, entrepreneurs tend to increase their own workload, as well as that of their existing employees and delay the recruiting process, leading to a kind of ‘Catch 22<sup>2</sup>’ situation. While prior research has commonly ascribed a lack of available competences to hinder small firm growth (Hoffman et al., 1998), entrepreneurs in our sample tended to attribute the lack of access to qualified labor not to a lack of skills available on the market, but rather to their own difficulty of identifying and recruiting suitable candidates:

*“Our problem is rather to identify people that match the qualifications we need and the attitudes we desire. Right now, it would be more important for us to recruit an additional*

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<sup>2</sup> ‘Catch 22’ is a novel by Joseph Heller, in which problematic situations, for which the only solutions are denied by circumstances of the problem itself, are important for the story-line.

*owner, rather than a new employee. Obviously it is vital for us to find an owner who brings value to the firm, but who also understands the culture.” (Interview, entrepreneur 9)*

A lack of skilled labor as well as managerial capacity for developing the business and allocating the scarce available resources had already been noted by Penrose (1959). She argued that during expansion, the existing managerial resources are tied up in daily operations, hampering the necessary development of new services, skills, and organizational structures to capture value from further growth opportunities.

However, another challenge is perceived in relation to talent management, namely that of adhering to complex regulations. This challenge is seen to be especially critical in relation to hiring employees. Labor regulations in Sweden demand that micro-firms must pay for the first two weeks of a sick-leave. This implies a high financial risk, with the consequence that entrepreneurs tend to postpone hiring additional personnel, reinforcing the perceived lack of time mentioned above (cf. Bernanke, 1983). In our study, this is especially evident for the entrepreneurs from service industries. That Swedish regulations hamper business growth has been suggested in previous studies (Carlsson, 2002; Davidsson & Henreksson, 2002). Our findings add to that research by pointing out that entrepreneurs not only perceive the financial risk which they carry in result of hiring employees as a challenge, but that they also perceive the regulations *per se* as time-consuming to fully understand and follow due to their complexity:

*“The regulations are too complex as well as time-consuming, and hard to understand. In result, instead of focusing on the actual aim of the firm, such as selling our product, we have to focus on administrative tasks, unfavorable taxation processes and complex, institutional employment routines.” (Interview, entrepreneur 18)*

#### *6) Developing suitable organizational structures and processes*

Another important supporting activity for business development is organizational development, i.e. developing suitable organizational structures and processes that allow efficient development

of the business. A major challenge perceived by those micro-firm entrepreneurs who had not put in place organizational structures and processes that could digest the company's future expansion, is that they do not have the capacity to change them now – knowing that this challenge will only aggravate over time. Typically, such observed inefficiencies are related to faster than intended growth. This creates some kind of 'vicious circle', in that entrepreneurs claim that better designed structures and routines would improve their time-efficiency and business development efforts, while they do not know how to free the time necessary for the changes.

*“We can clearly identify opportunities for further development, but our organizational structure causes inefficiencies that lead to a lack of managerial time, and therefore we are not able to take advantage of these opportunities.”  
(Interview, entrepreneur 20)*

*“However, to be able to use my time in the firm more efficiently, I would need to find the time to make appropriate changes, but I don't have that time right now”  
(Interview, entrepreneur 5).*

The three supporting business development activities and their related challenges presented above are summarized in Table 3 below.

- Please insert Table 3 about here –

Based on the contextual differentiators mentioned above (industry, age and if the firm is in an incubator or not) we identified a number of patterns related to the challenges in business development activities. These patterns will be presented in the next section, before moving on to our concluding discussion.

### ***Patterns of Findings across Contextual Differentiators***

#### ***Industry***

The business development activity of marketing and finalizing sales appeared to differ between service and manufacturing companies. Micro-firm entrepreneurs running manufacturing firms struggle with administrative tasks taking away time to focus on selling. To cope with their workload, these entrepreneurs compensate by working overtime, including late nights and weekends. In contrast, service firm entrepreneurs are very concerned about developing a suitable approach to marketing, but they also struggle with understanding and complying with regulations.

### *Age*

Somewhat surprisingly, previous research has hardly differentiated challenges in relation to the age of the micro-firm, though it could be expected that challenges of younger micro-firms might be different from those that have been around for a longer period of time. Somewhat older firms might, for example, achieve more stable performance, though they have not (yet) embarked on a growth trajectory. Whereas, for the micro-firms in our study that were two years or younger, the perceived lack of time was the dominating overall challenge for business development, in that it was clearly more difficult for the entrepreneurs to distinguish different factors related to it. In somewhat older firms, other aspects were differentiated more clearly in connection to the perceived lack of time. Thus, there appears to be some evidence that micro-firms, over time, develop routines and processes to cope with the time-pressure perceived at the earlier stages.

### *Incubator*

Regulations were perceived more commonly as a challenge by non-incubator entrepreneurs than by firms located in the incubator. Here, the business support available in the incubator appears to make a difference. Micro-firms located in the incubator are assigned a business developer who supports the firm in regulatory and taxation issues. This is in line with previous

studies which show that tenants of business incubators have access to business support and better network access (for example, Ratinho et al., 2010). Marketing was, on the other hand, considered much more of a challenge by entrepreneurs of firms inside the incubator. As many micro-firms are built around business models that draw on the entrepreneurs' experience, one explanation of this difference could be that entrepreneurs outside of the incubator more successfully rely on their personal networks for marketing.

## **Discussion and Conclusions**

Our study illustrates how micro-firm entrepreneurs focus on three core business development activities to deliver their value proposition to the customer: the continuous work with developing business opportunities, tracking the industry developments and competition in order to position the own value proposition, as well as activities related to initiating and finalizing sales (see Figure 1 below).

- Please insert Figure 1 about here –

The three core activities are supplemented by three support activities: securing (access to) financing, talent management, and developing organizational structures and processes. Our results have also shown that a number of different challenges are perceived in relation to these business development activities.

The micro-firm entrepreneurs in our study consistently assumed a tight relation between business development and growth (cf. Penrose, 1959): They tended to define business development as those activities leading to future growth in terms of outcomes (such as increased sales), described business development as the process of growth (cf. also Achtenhagen et al., 2010), or talked about business development and growth as two sides of the same coin – in that successful business development leads to growth, while growth requires business development

activities. The practitioners' view on business development resonates with Penrose's (1959) definition of growth not only as outcome, but as process – the process of business development. While Penrose's Theory of the Growth of the Firm (1959) has been highly influential – as demonstrated by close to 25,000 citations (according to GoogleScholar as of May 15, 2016), research continues to operationalize business growth mainly as an increase in amount, largely ignoring her second connotation of growth as a process of development and improvement of quality – which matches the concept of business development. Thus, Penrose's (1959) second connotation of growth provides a good starting point for theory-building around business development. For example, the entrepreneurs in our sample tended to use a development-oriented reasoning for discussing growth. Increases in amounts (such as higher profitability, market share or number of employees) *per se* did not play a major role in their perceptions and were rarely seen as an aim in itself.

Anchoring business development within Penrose's (1959) seminal work also allows us to define the entrepreneurs' perceived lack of time as tightly related to a lack of the resource of managerial capacity. However, Penrose's assumptions relating to managerial capacity as a limiting factor of business growth were based on large companies, where questions of managerial competence might be less of an issue. In our study of micro-firms, it appears that the limited managerial capacity is aggravated by a lack of managerial competence – with entrepreneurs feeling overwhelmed by having to prioritize between different tasks and decisions, often because they did not have much prior experience with similar situations.

Entrepreneurs referred to time as related to 'now' moments, based on which they make sense of the past and construct visions for the future (see also Dawson, 2014). Namely, entrepreneurs perceiving a lack of time considered what had happened in the past, where they were now, and where they wanted to be in the future. For discussing business development, with its clear future orientation, the 'now' was consistently and explicitly used as the reference

point (cf. Ancona et al., 2001). Thus, time can be seen as a critical resource for business development, and access to relevant resources has been previously shown to be crucial for achieving growth (Wiklund & Shepherd, 2003). In our conceptualization of business development (see Figure 1 above), the resource of time is, for example, an important aspect of talent management and developing the organization. The relevance of resources had also been hinted at in prior research on business development, as pointed out in our literature review above. In a meta-analytical study of the relationship between resources and financial performance and growth respectively, Nason and Wiklund (2015) find that the Penrosean characteristics related to resource versatility (in terms of the range of services they can provide) are positively linked to growth, thereby moving beyond the prior focus on resource endowment, which has long characterized entrepreneurship research (cf. Davidsson et al., 2010). That it is not the resources *per se* that create value, but the activities conducted with them – that can even be labelled resource practices, has been elaborated on by Sirmon et al. (2007). In relation to the business development activities identified in our study, we find that the core activities leverage the company's internal and external resource base for value creation, while the support activities secure the required (financial and human) resources and organize the resource base through talent management and suitable organizational structures and processes. Thus, based on our findings and the above discussion, we propose an extended definition of business development as *those business-related core and support activities that secure, organize and leverage resources to allow immediate value creation and prepare for future business growth.*

### ***Practical Implications***

With the study, we aim to contribute to a better understanding of business development issues in micro-firms – a topic largely ignored by academia so far. This endeavor has practical relevance, as many micro-firms never embark on a pronounced growth path, and one possible

reason is that many micro-firms do not manage to overcome the perceived challenges for business development. If micro-firms could be supported in this process, it might be possible that more firms achieve growth. Several practical implications can be derived from our results. Firstly, as the scarcity of the resource *time* is as a challenge for business development in micro-firms, time management and priority setting strategies should be actively developed: If entrepreneurs' competences to allocate time were better, they could more efficiently manage their business development. As micro-firms rely much on their founders, leveraging managerial capacity outside the immediate business, for example from boards of directors or consultants, but also different incubator offerings, could free some managerial capacity inside the organization. Bootstrapping and the use of personal networks (which is facilitated when located in an incubator), can further help to address this challenge. Secondly, if a micro-firm does not possess adequate knowledge or capabilities when it comes to regulations, tax or accounting, its entrepreneurs might want to consider the advice of external consultants specialized in small firms. While this incurs some costs, they can be outweighed by saving time, and eventually money, and it helps to keep the accounting in balance, providing the micro-firm better overview and control of the resources available for the development of business activities. Thirdly, many micro-firms struggle with gaining industry acceptance and trust from customers. Here, a number of companies pointed out how much easier this issue had become for them once they organized as limited companies. Therefore, micro-firm entrepreneurs might consider changing from sole proprietorship into a limited company at an early stage.

### ***Limitations and agenda for future research***

A limitation of this study could be seen in its single-country focus on Sweden. Yet, using a sample from a non-US context serves to develop the existing knowledge base (cf. Aldrich, 2000). In addition, the Global Entrepreneurship Monitor reports suggest that Sweden has



similar entrepreneurship-related characteristics as other European countries, such as the UK, Netherlands or Spain, and is similar to the European average (Reynolds et al., 2001). Yet, certain growth-related factors, such as risk-taking preferences, may have cultural roots, so restricting the sample to a single country may limit the generalizability of the findings (Hayton et al., 2002). The active involvement of institutional investors may also be particularly strong in Sweden because of their generally long-term investment horizon. Thus, future research would benefit from examining business development across multiple country contexts, representing multiple cultural groups and institutional environments.

Also, one could argue that the sample size of 30 micro-firms is a limitation of this study. Moreover, our sample is likely more growth-oriented than the population of micro-firms in general. While this leads to a lack of generalizability of our findings in a statistical sense, the qualitative approach chosen allowed us to explore business development activities and challenges perceived for conducting them. Yet, further research is needed to test our findings for larger samples, possibly in relation to different contingency factors.

Our study indicated that business development was perceived differently by entrepreneurs running micro-firms with different qualities. Future research is needed to explore these contextual features in more detail to determine how they might influence the patterns in results. Further, research on time has, to date, mainly focused on large corporations (Dawson, 2014) or gazelles (Tell, 2012). Future research is needed to elaborate how time as a resource is constructed in smaller firms. Such endeavors would further add to the understanding of a perceived lack of time as a challenge to business development and growth.

A better understanding of the perceived challenges for micro-firm business development and growth might help these firms overcome them – generating a positive impact on economic development and social welfare. Much of the earlier research on small-firm growth has tested the impact of individual factors, or a combination of such factors in clear-cut,

simple relationships, on business growth (for an extensive review of these, see Davidsson et al., 2010). Our study indicates that these factors do not operate in isolation, and that it can be difficult for founders to assess the effects of individual, isolated variables on business development. Thus, to gain a better understanding of these processes, more research is needed that attempts to capture the interrelatedness of different factors contributing to - or hampering - business development and growth. Such studies could adequately capture Penrose's (1959) second connotation of growth as business development over time, and support the further theorization about this phenomenon.

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Table 1: Sample characteristics

| <b>Firm</b> | <b>Industry</b>                   | <b>Founded</b> | <b>Education</b> | <b>Experienced growth?</b>  | <b>Enrolled at Business Incubator</b> |
|-------------|-----------------------------------|----------------|------------------|---|---------------------------------------|
| 1           | Advertising and communication     | 2005           | Yes              | Yes, turnover, employees and sales increased.                           | Yes                                   |
| 2           | Electronics                       | 2005           | Yes              | Yes, increased sales  | Yes                                   |
| 3           | Consulting activity               | 2010           | Yes              | Yes, more employees that generate more sales and turnover.              | Yes                                   |
| 4           | Electronics                       | 2007           | Yes              | Yes, early stages of growth (sales)                                     | Yes                                   |
| 5           | IT                                | 2009           | Yes              | Yes, fast growth in the past 1.5 years. Sales and better work practices | Yes                                   |
| 6           | Automations solutions             | 2011           | Yes              | Yes, hired one person   | Yes                                   |
| 7           | Consulting activity               | 2004           | Yes              | Yes, more orders  | Yes                                   |
| 8           | Consulting Activity               | 2005           | Yes              | Doubled turnover each year  | Yes                                   |
| 9           | Consulting activity               | 2010           | Yes              | Increased sales   | No                                    |
| 10          | Consulting activity and education | 1996           | Yes              | Increased sales   | No                                    |
| 11          | Service Firm (Tour Packages)      | 2005           | Yes              | No  | Yes                                   |
| 12          | Wholesaler for fasteners          | 2001           | Yes              | Hired 5 people  | No                                    |
| 13          | Advertising and communication     | 2009           | Yes              | More customers, increased sales   | Yes                                   |
| 14          | Design                            | 2011           | Yes              | Too soon to tell, but has only been in business                         | Yes                                   |



|    |                                |      |     |   |     |
|----|--------------------------------|------|-----|---|-----|
|    |                                |      |     | for 3 months and have already made sales          |     |
| 15 | Iron and steel industry        | 2005 | Yes | Yes initially, but was affected by the recession. | Yes |
| 16 | Telemarketing sports marketing | 2003 | Yes | Yes, both in employees and sales                  | No  |
| 17 | Food retailing                 | 2011 | Yes | Yes, both in sales and employees                  | No  |
| 18 | CRM systems                    | 2010 | Yes | Yes, hired one and increased sales                | Yes |
| 19 | Accounting                     | 2008 | Yes | Yes, hired one                                    | Yes |
| 20 | Consulting activity            | 2009 | Yes | Hired three people                                | Yes |
| 21 | Household services             | 2006 | Yes | Increased revenue                                 | Yes |
| 22 | IT                             | 2008 | Yes | One more partner and increased turnover           | Yes |
| 23 | Clothes                        | 2000 | Yes | Hired one person and increased revenues           | No  |
| 24 | Arts                           | 2008 | Yes | Hired one person                                  | No  |
| 25 | Retailor                       | 2010 | Yes | Increased sales                                   | No  |
| 26 | Consulting Activity            | 2010 | Yes | Yes, increased number of orders                   | Yes |
| 27 | Beauty saloon                  | 2007 | Yes | New branches and increased revenues               | No  |
| 28 | Beauty saloon                  | 2008 | Yes | Increase in sales, new location                   | No  |
| 29 | Sport equipment                | 2011 | Yes | Increased sales                                   | No  |
| 30 | Health                         | 2007 | Yes | Hired one person                                  | No  |



Table 2: Core business development activities and related challenges

| <b>Core business development activity</b> | <b>Perceived challenges</b>   |
|---|---|
| Proactively seeking opportunities         | <ul style="list-style-type: none"> <li>• Difficulty to prioritize tasks and free up time to spend looking forward</li> </ul>  |
| Tracking industry logic and competition   | <ul style="list-style-type: none"> <li>• Unpredictability of environment risks to delay decision-making</li> </ul>  |
| Marketing and finalizing sales            | <ul style="list-style-type: none"> <li>• Defining and identifying target customers</li> <li>• Gaining industry acceptance</li> <li>• Geographic distance to prospective customers make sales visits expensive and time-consuming</li> </ul> |

Table 3: Supporting business development activities and related challenges

| <b>Supporting business development activities</b>  | <b>Perceived challenges</b>   |
|--|---|
| Securing access to capital                         | <ul style="list-style-type: none"> <li>• Receiving capital from external sources of finance</li> <li>• Getting paid for invoices in timely manner</li> </ul>  |
| Managing talent                                    | <ul style="list-style-type: none"> <li>• Identifying, recruiting and training the right people</li> <li>• Adhering to complex labor laws and regulations</li> <li>• Financial risk of hiring</li> </ul> |
| Developing organizational structures and processes | <ul style="list-style-type: none"> <li>• Lack of managerial capacity to develop organization</li> </ul>   |

Figure 1: Business development activities

|  |   |                                |
|--|---|--------------------------------|
| Value proposition<br>for value creation and growth   |   |                                |
|  |   |                                |
| Core business development activities<br>for leveraging resources   |   |                                |
| Proactively seeking opportunities  | Tracking industry logic and competition | Marketing and finalizing sales |
|  |   |                                |
| Supporting business development activities<br>for securing resources                      for organizing resources |   |                                |
| Securing access to capital   | Managing talent                         | Developing organization        |

### **Appendix B: Example of a vignette (company and business idea disguised)**

The firm was initially founded by a few friends in 2005, but not developed at full speed. After the founder had finished his/her education, he/she 'relaunched' the firm alone in 2010. The business idea of XXX was based on personal interest and several years of experience in the industry. While the initial intention had not been to grow the firm but to test the feasibility of the idea, the re-launch in 2010 occurred with the aim of achieving financial sustainability of the venture and with clear growth ambitions for developing it. This ambition is confirmed by the founder's having given up his/her previous job to solely focus on developing the venture. The firm is experiencing growth in terms of increase in sales, result and number of employees. The environmental condition is seen as positive, with an increase in market demand for the offered value proposition.

The major challenge for developing the firm is seen to be related to its small size. The limited financial resources provide limits for how the firm can run its operations. Being a small actor in a market that involves a lot of prestige requires to very carefully target the right customer segments. The founder and the employees have a strong passion for the industry. They have taken the decision to differentiate themselves from their competitors, instead of imitating bigger competitors. Honesty and being humble are considered as central values.

Networking is seen as a crucial activity for developing the firm: To sell its service, it is seen as important to establish a personal connection with the customers, and thus networking and meeting with prospective customers is essential. The founding entrepreneur views time as a limitation for business development. (S)he would like to be able to spend more time to plan next steps for development, but always puts customers' demands first and after managing all necessary tasks, no time is left to look ahead. One group of time-consuming tasks is related to laws and regulations associated with accounting and HR practices, such as salaries. Here, many aspects need to be remembered and taken into consideration, which is sometimes difficult, as these aspects are not always seen to follow a logic process. Also concerning taxation, the process is viewed to be difficult, while at the same time it is considered as too expensive to employ an accountant or controller to handle it. Especially the process of declaring salaries is seen as difficult. Overall, it is seen as a challenge to balance handling the administrative aspects of the firm with being creative and handling the customer-related demands.

Maintaining control of the firm is an important driving force for the entrepreneur. In line with this, it has no loans or financial liabilities. While taking in external capital could speed up the company's expansion, the entrepreneur is afraid that it might be difficult to maintain the current culture of passion and drive within the firm. This culture is seen as highly important, and when recruiting new talent, they specifically search for the combination of the right attitude with the right competences. Here, finding people with a genuine interest in and passion for the industry, the right education but also the right attitude, is perceived as a challenge. This challenge is seen in that people possessing the kind of talent demanded are already employed, requiring a costly headhunting process to identify them. New graduates are easier to locate and attract, but usually lack experience and require a lot of training. Employees in the venture mainly learn by doing, and are encouraged to follow blogs and different media to keep up to date regarding new trends. Employing additional people is seen as a challenge

also given the additional costs this entails, as it is difficult in Sweden to lay off employees in case the business goes worse than expected.