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FINNISH ENTERPRISES AND PERCEPTIONS FOR ECONOMIC DECLINE

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ABSTRACT
The Finnish Company Reorganization Act (FCRA) came into force on February 8, 1993. According to this legislation, a reorganization program may be undertaken in order to rehabilitate a distressed debtor’s viable business, to ensure its continued viability, and to facilitate debt arrangements. This study concentrates on fourteen Finnish entrepreneurs who were accepted into the reorganization program between 2008 and 2010. The focus here is on the entrepreneurs’ thoughts about their own behavior and their own character, and how these were connected to their economic decline, as well as their perceptions of their own strengths as entrepreneurs. The results indicate that these entrepreneurs’ strengths and weaknesses can be divided into different categories concerning working habits and character. The reasons for the weaknesses were connected to external factors such as lack of funding, high expenses, and a recession. Other reasons included problems with the entrepreneurs’ own behavior and personality. The insights into these Finnish entrepreneurs’ difficulties could help new entrepreneurs in the beginning of their careers. Additionally, the results could be used in courses on entrepreneurship, for example, in relation to helping budding entrepreneurs to understand their potential weaknesses and how to avoid the risks inherent in self-management.

Keywords: Entrepreneurs, economic difficulties, economic decline

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INTRODUCTION
Venture failure has many serious consequences, including the loss of financial and social capital, the loss of requisite skills, such as self-efficacy and resilience, in the population of entrepreneurs (Wood and Bandura 1989), the stigmatization and devaluation of key actors in failed concerns (Weisenfeld, Wurthmann, and Hambrick 2008), and even the loss of the productive potential of economies (McGrath 1999). Several studies have examined factors contributing to the success or failure of new ventures (Shane 2001). For example, the study by Cardon, Stevens, and Potter (2011) disclosed that failure has a large impact on the stigmatization of entrepreneurs and entrepreneurship within a locale, as well as on the individual entrepreneurs’ views of themselves following failure. In Finland, bankruptcy usually causes enormous shame, but there are also countries that take it much more lightly. However, it is believed that people learn more from failures than successes (McGrath 1999; Sitkin 1992), and failure is an important phenomenon in entrepreneurship, in terms of both its causes and consequences for individuals, organizations, and society (McGrath 1999; McGrath and Cardon 1997; Shane 2001).

After a business failure, owner-managers have an opportunity to learn from the experience (Baker, Aldrich, Langton, and Cliff 1997; Corbett, Neck, and DeTienne 2007; Shepherd 2003) and improve their entrepreneurial competence (McGrath and Cardon 1997). Some owner-managers state that failure also acts as a catalyst for further economic and business development (McGrath 1999). According to Cope (2011), entrepreneurs learn a lot not only about themselves and the demise of their ventures but also about the nature of networks and relationships and the “pressure point” of venture management. Analyzing causes of failure can enhance learning from such failure (Singh, Corner, and Pavlovich 2007) and thus potentially help current and future entrepreneurs to avoid failures.

Weitzel and Jonsson (1989) state: “Organizations enter the state of decline when they fail to anticipate, recognize, avoid, neutralize, or adapt to external or internal pressures that threaten the organizations’ long term survival” (94). Generally, periods of economic crisis have been investigated through a focus on strategic actions taken in large multicultural companies, usually classified as strategies of growth, stabilization, or reorganization (Ackoff 1970; Hofer and Schendel 1978; Hilt and Ireland 1985; Penrose 1959; Wernefelt 1984).

With regard to reorganization, the Finnish Company Reorganization Act (FCRA) originally came into force in 1993. The objective of FCRA is to recover a viable company, which is in temporary financial distress but which will be able
to meet its obligations in the future. Under the Finnish Bankruptcy Act (FBA), bankruptcy means that the assets of an unviable firm are liquidated and divided by the creditors of the firm. Nearly ninety countries around the world have reformed their bankruptcy codes since World War II, and more than half of them have done so during the last decade (Gine and Love 2006, 2). All states seek to improve the efficiency of their procedures by encouraging the reorganization of viable firms and the liquidation of unviable ones (Laitinen 2012). The FCRA originated in the rapid increase in bankrupt firms during the depression between 1989 and 1992, when, among other negative consequences, bankruptcies caused severe economic losses to the Finnish economy (Bergström and Sundgren 1998; Sundgren 1998). The shortcomings of the Finnish Bankruptcy Act led to the enactment of the Finnish Company Reorganization Act in 1993. In terms of payoff, FCRA has shown itself to be efficient. The evidence presented by Sundgren (1998) indicates that creditors have received a better payoff under reorganization procedures than via bankruptcy liquidation. The FCRA allows a distressed firm or its creditors to file a petition for reorganization either directly or after a petition for bankruptcy is filed and active. When the reorganization petition is submitted to the court, the firm can be protected against the demands of creditors through a procedure known as an automatic stay. Thus, the provisions of the FCRA can be used to avoid bankruptcy liquidation, at least temporarily, even if the firm is unviable. If the firm is not permitted by the court to file for reorganization, it may become bankrupt. A firm may also be declared bankrupt if it fails to adhere to the reorganization program (Laitinen 2012).

In case of bigger companies, during the reorganization program, the chair of the firm will be changed, because it has been observed that problems are usually related to the wrong kind of manager. A change is not possible in the case of small firms (Laakso 2012). This is why it would be important for entrepreneurs to have self-awareness and to know how their character and personality may affect their business. However, studies of the behavior and characteristics of entrepreneurs facing economic difficulties are still scarce, and to date there is none investigating the situation in Finland. This study redresses the balance. It reports on Finnish entrepreneurs whose firms are given permission to enter reorganization and their opinions of the reasons for their companies’ downfall. The purpose is to enhance the knowledge of the reasons behind the economic decline in Finland.

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BACKGROUND THEORIES AND STUDIES

Finland has about 283,000 firms (excluding farmers, forest owners, and fishers), which employ 1.4 million people. Almost 99 percent of those companies employ fewer than fifty people, and over the past ten years more new working places have been created by small- and middle-sized firms than by large firms (Suomen virallinen tilasto).

The history of the Federation of Finnish Enterprises is an important part of Finnish history of entrepreneurial freedom. Entrepreneurial freedom was assured in 1879, when it was stated that Finnish citizens almost completely have the freedom to start all the businesses that they want. Entrepreneurial freedom is the basis of Finnish entrepreneurship in today’s Finland as well (Suomen Yrittäjät).

The Federation of Finnish Enterprises was formed at the end of the nineteenth century. It was focused on those who had handicraft skills, including master-journeymen2 and tradesmen. These entrepreneurs united their crafts and made their own association (Suomen Yrittäjät).

Concerning a beneficial atmosphere for entrepreneurship, Ilmakunnas and Kanniainen (2001) state that the best guarantee is stable national economy. When Finland joined the European Union and the European Economic and Monetary Union (EMU), the risks concerning monetary policy decreased, and limitations for inflation were created. The conditions have become prerequisites for Finnish entrepreneurship. It has been noted in the worldwide cross-sectional data set of eighty countries that high statutory and high effective corporate income-tax rates reduce business density and entrepreneurship entry rates (Da Rin, Giacomo, and Sembenelli 2011; Djankov et al. 2010). Block (2016) also states that reducing corporate income-tax rates or increasing tax progressivity increases entrepreneurship rates. Finland is well known as a country of high taxation, and this has been claimed as one of the biggest barriers to starting one’s own business in Finland. However, some claim that the barrier for entrepreneurship is more about the attitude than factual reasons themselves. In the Amway Global Entrepreneurship Report 2013, with over 26,000 respondents from 24 countries, the results indicate that 87 percent of Finnish people see entrepreneurship positively (the global average is 77 percent). However, only 41 percent of Finnish respondents can imagine themselves starting their own firms (the global average is 43 percent). For comparison, these percentages

2 Throughout Finland’s history, it has been typical that people learned new skills and their professions via masters. That happened when journeymen worked together with masters and learned by practice.
in the United States are 84 percent with a positive attitude towards entrepreneurship and 51 percent for entrepreneurial potential. Even though the positive attitude in the United States toward entrepreneurship is lower than in Finland, the actual potential is higher. It may be because around 60 percent of Finnish people are afraid of failure, and experience this as an obstacle to starting a business, when only 37 percent of people in the USA share this view (Amway Global Entrepreneurship Report 2013).

According to numbers gathered from Statistics Finland from the years 2010 to 2015, an average of 3,299 companies in Finland faced bankruptcy every year, 624 firms applied for the reorganization program, and, of those, 205 were accepted into the program (Suomen virallinen tilasto). Some weaknesses with the Finnish reorganization program have been noted: for instance, only 50 percent of those firms will complete the entire program; the FCRA does not have enough incentives that firms can apply for while in the program; firms do not apply to get into the program early enough; and the courts do not have equal criteria for the entrance, which means that some courts will deny applications more often than others (Laakso 2012).

**Entrepreneurial Failure: The Process and Underlying Reasons**

Weitzel and Johnsson (1989) presented a model of the stages of decline and outlined the possible organizational responses at each stage. In the absence of appropriate corrective measures, organizations in decline will proceed through the following five stages: (1) the blinded stage occurs when an organization is unable to recognize adverse changes and signals at the start of its decline; (2) the inaction stage, in which the organization recognizes its problems, but does not take corrective action because of the perceived costs of reform or confusion over the appropriate response, at which point the decline becomes noticeable; (3) faulty action refers to an organization taking some form of action, but the response is ineffective because incorrect decisions are made or because of inadequate implementation; (4) the crisis stage is marked by internal disunity as the organization recognizes that drastic action is needed, but this action is not taking place; leaders may be ousted and revolutionary changes proposed; the crisis stage represents the last chance for reorganization and reversal; (5) the final stage is dissolution: reform efforts have failed, stimulating intense internal conflict and the exit of key members and personnel; regardless of effort level, the demise of the organization can no longer be avoided.

Each of the above consecutive stages presents progressively more difficult challenges for internal or external adaptation, requiring more drastic and costly
measures if the decline is to be reversed. Each stage also brings with it a predictable pattern of behavior on the part of organizational actors, allowing observers to anticipate the kinds of politics the organization will experience if a downward trajectory continues. The survival strategies of small companies are usually based on the rationalization of working practices, sales of property, and delay of payments (Chowdhury, Shamsud, and Lang 1996). Chowdhury and Lang (1996) argue that when managing the turnaround process of small companies, the critical elements for survival are the speed of economic decline and the resources available. They also suggest that cutting costs would be good as a short-term turnaround strategy.

Rasheed (2005) argues that there are two views of a company’s failure: the deterministic view and the voluntaristic view. The deterministic view could be summarized as excessive control of the company by factors in the environment; therefore, a company’s failure is attributable to environmental factors. In contrast, the voluntaristic view could be summarized as the company’s control of the environment; therefore, any failure is attributable to factors inherent to the company itself (Rasheed 2005). Some studies investigating the reasons for crises in small companies have divided the relevant reasons into those originating externally or those that originate internally, within the entrepreneurs themselves. Sullivan, Warren, and Westbrook (1998) found that the reasons for bankruptcy are usually external to the business (38.5 percent), funding-related reasons (28.0 percent), or business-internal factors (27.1 percent). According to Zacharakis, Meyer, and DeCastro (1999) entrepreneurs themselves reported the main reason to be the lack of skills or strategic planning, while those who funded these companies reported company-external factors such as market circumstances as major reasons for failure. Headd (2003) ascribed the failure of an enterprise primarily to a lack of capital at its inception compounded by a lack of experience. According to Phillips and Kirchoff (1989), those firms with a desire to grow tend to be more successful than those without a desire to grow. According to Perry (2001), businesses not following written plans are more likely to fail than those companies operating in accordance with written plans. Finally, Gaskill, Van Auken, and Manning (1993) argue that the major reasons for business failure are the weak skills of entrepreneurs, a weak external business environment, weak skills in funding management, growth problems, and overall weak management skills.

**ENTREPRENEURS’ PERSONALITY**

Among the most famous studies of the entrepreneur’s personality is that of McClelland (1965). McClelland proposed the theory of the need to achieve. Many
studies have confirmed that a need for achievement is associated with entrepreneurs (Collins, Hanges, and Locke 2004; Tan 2001; Taormina and Lao 2007) and also with entrepreneurial inclination (Koh 1996). The literary review carried out by Tuunanen (1997) indicates that the need for achievement is a key entrepreneur-ial trait and a major factor in entrepreneurial behavior. The theory of the need to achieve hypothesizes that the most successful entrepreneurs have a strong need to achieve, and they want to solve problems themselves, set targets, and strive to meet those targets through their own efforts (McClelland 1965).

Rotter (1966) investigated people’s relationship with the locus of control. The study found people with an internal locus of control to be active types and to believe that individuals control their own lives. Having an external locus of control encourages passivity and the belief that people’s lives are controlled more by external factors than by individuals themselves. Naturally, entrepreneurship is associated with individuals with an internal locus of control (Gartner 1988; Shaver and Scott 1991) and with an entrepreneurial inclination (Koh 1996). Littunen (2000) studied entrepreneurs’ locus of control in different phases of entrepreneurship and concluded that after four years of functioning, mastery of a situation increased (sample item: “I prefer to work in situations that require a high level of skill”) and the influence of powerful others decreased (sample item: “my life is chiefly controlled by powerful others”). In addition, the importance of the external locus of control diminished as the number of cooperative partners and control by powerful others decreased and learning and independence increased. Both internal locus and the need to achieve were investigated by Lee and Tsang (2001) in relation to venture growth among Chinese entrepreneurs. The results indicated that entrepreneurs’ experience, networking activities, and number of partners, as well as an internal locus of control and a need for achievement all have a positive impact on venture growth. Industrial and managerial experience are the dominant factors particularly affecting venture growth. Entrepreneurs have been found to be ambitious and independent people (Lee and Chan 1998), with a proclivity for risk taking (Caird 1993; Tan 2001), a high tolerance of risk (Kihlstrom and Laffont 1979), and an aptitude for social networking (Taormina and Lao 2007). Several studies have found that entrepreneurs are also optimists (Cooper, Woo, and Dunkelberg 1988; Taormina and Lao 2007). Moreover, entrepreneurs are reported to have strong business instincts, the ability to identify business opportunities, the ability to correct errors effectively, and the ability to grasp profitable opportunities (Caird 1993). Other traits associated with an entrepreneurial inclination are innovativeness and tolerance of ambiguity (Koh
McClelland (1987) noted that successful entrepreneurs are typically more assertive than “average” entrepreneurs. According to Brandstätter (1997), success correlates positively with entrepreneurs’ emotional stability and independence. Successful entrepreneurs have also been ascribed the ability to take risks, they are innovative, knowledgeable about how the market functions, they have expertise in manufacturing, marketing, and business management, and they are able to cooperate (Casson 1982).

McCarthy (2003) studied the entrepreneur’s character and the development of strategy in small- and medium-sized firms. The study identified two main types of entrepreneurs: the pragmatist and the charismatic. These two types showed different patterns of strategic behavior. The study suggested that charismatic entrepreneurs evaluate their high propensity for risk taking, in the decision-making process. This results in a more rational, planned approach to the strategy-making process. Financial planning became a priority for both types of entrepreneur.

Finnish entrepreneurs differ from North American entrepreneurs according to studies by Tuunanen (1997) and Hyrsky and Tuunanen (1999). Tuunanen (1997) studied the need for achievement, and the results indicated that North American entrepreneurs have a stronger achievement motivation than their Finnish counterparts. Statistically significant differences were found between the samples and every subgroup analyzed by Tuunanen (1997), according to gender, business goals, start-up roles, and business planning mode. Hyrsky and Tuunanen (1999) compared North American (N=456) and Finnish (N=434) entrepreneurs and found that the North Americans tend to have a greater propensity for risk-taking than the Finns, who tend to be more conservative and risk-averse. Regarding gender, in the combined Finnish and North American sample, women exhibit higher levels of preference for innovation than men. However, male respondents score significantly higher on risk-taking (Hyrsky and Tuunanen 1999).

**Unsuccessful Entrepreneurs and Their Personality**

There has been some focus on entrepreneurial failure and the personality and characteristics of those entrepreneurs who fail (e.g., Cantner, Silbereisen, and Wilfling 2011; Landiers and Thesmar 2009; Ucbasaran, Westhead, Wright, and Flores 2010), although research in this field is very rare.

For example, Landiers and Thesmar (2009) studied French entrepreneurs and found that preconceptions may be (partly) explained by individual characteristics and that such preconceptions tend to be permanent. Additionally, they found that
short-term debt is robustly correlated with “optimistic” expectation errors. This means that optimistic people tend to appraise their firms’ future success better than it actually is, and thus they make decisions that are not very beneficial to their firms, for example, by taking on short-term debts (Landiers and Thesmar 2009). Optimism was also a central theme in the study of small-scale businesses. Meza and Southey (1996) argue that most of the aspects that characterize small-scale businesses, including high failure rates, reliance on bank credit rather than equity finance, relatively low interest-rate margins, and credit rationing, can be explained by new entrants being dominated by people with a tendency to be excessively optimistic. In contrast, Ucbasaran et al. (2010) investigated 576 entrepreneurs from Great Britain and found experience with business failure to be associated with entrepreneurs who tend not to describe themselves as optimistic. While the previous section listed several examples of research indicating that entrepreneurs are optimists (Cooper, Woo, and Dunkelberg 1988; Taormina and Lao 2007), it seems that optimism may also cause entrepreneurs to get into financial difficulty. However, it is better to be more positive, because emotional volatility and worrying can create obstacles for entrepreneurs (Vesper 1990). In Cantner, Silbereisen, and Wilfling’s study (2011), the focus was on the Big-Five personality traits and entrepreneurial failure in innovative industries. The findings suggest that agreeable entrepreneurs are less likely to fail than their less agreeable counterparts, but conscientiousness does increase the failure rate. When researchers interviewed insolvency administrators in Latvia, the personal reasons offered for insolvency were the inability to cope with increasing competition, a lack of adaptability, and overconfidence (Sauka and Welter 2010).

This study focuses on entrepreneurs involved in the reorganization program and elicits their thoughts about their strengths and weaknesses. Recognizing those characteristics might help other entrepreneurs in the midst of economic difficulty and might also help those who have entrepreneurial inclinations to exploit their strengths as well to recognize and ameliorate (perhaps with the assistance of other people) the effects of behavior that is counterproductive for business.

**Data and Methodology**

I interviewed fourteen Finnish entrepreneurs whose firms had been accepted for the reorganization program between 2008 and 2010. The coordinator of the research group acquired the information of all applicants to the re-organization program and asked suitable entrepreneurs if they would want to participate in the study. Those who work in farming were not included because they differ from other entrepreneurs
Entrepreneurs who were interviewed. Field of work, ownership, gender, and turnover (in euros) are included. R=Respondent. In the text the citations are marked with R1, R2, etc., to refer to the entrepreneur in question.

<table>
<thead>
<tr>
<th>R1</th>
<th>Handcraft, female, 23,000 €.</th>
</tr>
</thead>
<tbody>
<tr>
<td>R2</td>
<td>Car repair, male, 97,364 €.</td>
</tr>
<tr>
<td>R3</td>
<td>Cleaning, married couple working together, 117,962 €. The female was the leading person, and she was the one interviewed.</td>
</tr>
<tr>
<td>R4</td>
<td>House renovations, male, 199,009 €.</td>
</tr>
<tr>
<td>R5</td>
<td>Gardening, married couple working together, 148,629 €. The female was the leading person, and she was the one interviewed.</td>
</tr>
<tr>
<td>R6</td>
<td>Accounting company, male, 38,999 €.</td>
</tr>
<tr>
<td>R7</td>
<td>Clothing store, four siblings, who inherited the company from their parents, 551,918 €. Two of the four siblings were interviewed (female and male).</td>
</tr>
<tr>
<td>R8</td>
<td>Discount store, two male entrepreneurs; one was interviewed, 1,719,243 €.</td>
</tr>
<tr>
<td>R9</td>
<td>Construction, male, 34,000 €.</td>
</tr>
<tr>
<td>R10</td>
<td>Oven store, married couple, 343,318 €. The male was the leading person, and he was the one interviewed.</td>
</tr>
<tr>
<td>R11</td>
<td>Transport company, male, 1,143,119 €.</td>
</tr>
<tr>
<td>R12</td>
<td>Vegetable grower, married couple, 205,305 €. The male was the leading person and he was the one interviewed.</td>
</tr>
<tr>
<td>R13</td>
<td>Electronics, two male entrepreneurs, 2,335,699 €. One of the two was interviewed.</td>
</tr>
</tbody>
</table>

Table 1. Interview subjects.

The research participants were selected to include different fields of work. Also, the entrepreneurs themselves had to be agreeable with this research. The interviews focused on possible reasons for decline, their experience as entrepreneurs, and their mental well being. All respondents were very positive about the research topic and wanted to share their information in the hope that they could help other entrepreneurs. The entrepreneurs and their firms are presented in Table 1. Four of those firms included in the study were run by married couples and three enterprises by two or more entrepreneurs, with the remainder run by one entrepreneur. Four
women, nine men, and one couple were interviewed. All but one of the firms represented were micro enterprises; the one exception was a small enterprise.

The subjects were interviewed by visiting them. The researchers felt that a personal visit would elicit more information than a telephone interview. The language of the interviews was Finnish. The entrepreneurs were very open and analyzed their situation and life openly. The interviews were transcribed, and the content was analyzed before groups of strengths and weaknesses were formulated, as well as the reasons for the downfall of the entrepreneurs’ companies. The participants’ Finnish replies were translated into English.

**RESULTS**

The current research proceeds by first examining the participating entrepreneurs’ self-reported character strengths and weaknesses and then reporting their thoughts on the reasons for their companies’ problems. Those reasons are subsequently assessed to isolate the deterministic from the voluntaristic views.

**ENTREPRENEURS’ CHARACTERS**

The results can be divided into four categories: entrepreneurs’ strengths related to work, weaknesses related to work, strengths related to their own character, and weaknesses related to their own character (see Figure 1 on p. 137).

Figure 1 shows the four categories of **strengths in work skills** (professionalism, experience, high quality, customer service). Nine entrepreneurs reported that their professional strength was their own skills and *professional skills*. Example quotations included the following (in the brackets are entrepreneurs’ codes R1, R2, R3, etc., which can be found in Table 1):

1. There is a very wide range of things I can do. (R9, male)
2. We know the basic things, and we have product knowledge. (R7, siblings: one female and one male)
3. We try to be professional, and if we don’t know something, we will find out. (R3, female)

Three entrepreneurs mentioned their work experience:

4. . . . a long [working] history behind [in this field], it is one strength. (R7, siblings: one female and one male)
(5) Yes, it is a strength that we have been in this field for fifteen years. We have experience and knowledge. (R8, male)

Two entrepreneurs mentioned the *high quality* of products or *customer service*. They were liked by customers, because of their social skills:

(6) The quality of the products, or my own criteria for products, is very high. (R1, female)

(7) ... in my opinion, communicating with people is also good. (R9, male)

Three categories were related to *weaknesses in work skills*: pricing, lack of time, others. *Pricing* was mentioned by four entrepreneurs: they undervalued their own work.

(8) I don’t appreciate myself or regard myself well enough, so I cannot ask such a high price. Or at least it is quite hard. (R1, female)

(9) As a child, I was raised to consider others, and that you shouldn’t take too much from others, and that you should give others what you have, so I never can do pricing for the products. (R12, couple)

*Lack of time* was mentioned by three entrepreneurs, and one of them raised the issue many times in different contexts:

(10) This lack of time is, of course, what continuously causes me problems, trying to balance work and family matters. (R2, male)

(11) Because of the lack of time, there has been little focus on the economic side; we have been thinking since that we should have been more focused on economic issues concerning booking, calculation profits and expenses etc. (R11, male)

Other issues mentioned were marketing, paperwork, and routines. For example, when speaking of marketing, one entrepreneur said:

(12) I cannot do ads and those sorts of things. (R2, male)

Four categories related to *strength of character* (optimism, industriousness, persistence, and others). *Optimism* was mentioned by four entrepreneurs:
(13) I am probably quite optimistic, that in my basic nature, I believe . . . 
I always believe next year will be better. (R5, female)

Three entrepreneurs said that they were hardworking:

(14) and then we are all very hardworking, a little bit too much. . . .
(R7, female and male)

Persistence was mentioned by two entrepreneurs:

(15) Trying with resilience, not giving up, are clear strengths. . . .
(R12, couple)

Other strengths noted were analytical thinking, calmness, the ability to find help when necessary, planning, taking part at work like everybody else, efficiency, and the ability to solve problems. Four categories were assessed as indicating weaknesses in character: working too much, being too kind, lack of planning, and others. Five respondents regarded themselves as too kind. They illustrated this with the following kinds of statements:

(16) I am not hard enough. People should have an enormous business attitude, that you should be able to do hard business. That must be lacking in me, I am probably too empathetic, too sensitive. I cannot think only of myself. (R5, female)

Working too much, which was described as a strength, too, was mentioned by four respondents:

(17) Yes, I have been doing too much. It is also one weak side, making myself tired [. . .] but seven years like that, that I had [only] one day per week off. That rhythm was too hard. The capacity is not enough. (R11, male)

Two respondents said that they lacked planning skills; they did not plan enough beforehand the bigger tasks that they were doing (e.g., building and repairing houses), and this affected time management and pricing:

(18) I could have planned things a little more before starting them. That might have helped. But I am a little bit restless in that way, that I want things to happen. (R4, male)
Three respondents brought up other reasons such as age (not being innovative like younger people), a lack of money, and a lack of enthusiasm.

**Reasons Offered by Entrepreneurs for the Decline of Their Firms**

The number of reasons offered by each entrepreneur for their difficulties varied from one to seven. The fourteen entrepreneurs offered altogether thirty-eight explanations, with the average of 2.7 explanations per entrepreneur. In the analysis, I have grouped the reasons into fifteen different themes.

The reason most frequently mentioned (by six entrepreneurs) was that their business (1) **did not have enough customers**, for various reasons. One major reason was competition:

(19) Then one after another, quite quickly, customers decided to transfer those subcontract tasks to another importer. (R2, male)

Another important reason offered was changes at markets. New market places were created worldwide via the Internet:

(20) Because this shopping system started to change so much and this webshop started to develop. People just came and looked at our expensive products and said that they would buy from the web because it is so much cheaper. (R10, male)

Additional reasons for the lack of customers were bad weather, the beginning of a recession during an important business season, and the company’s new location, which customers could not find. A further often mentioned issue (by five entrepreneurs) was problems with the entrepreneur’s own behavior or attitude and the lack of funding. (2) **Problems with own behavior** included the following kinds of comments:

(21) Lost faith and motivation and future vision. (R5, female)

(22) Too modest with pricing. (R1, female)

(23) Not enough energy to do paperwork. (R9, male)

Three entrepreneurs mentioned major costs or (3) **lack of funding** (four entrepreneurs). According to Sullivan, Warren, and Westbrook (1998) and to Headd (2003), funding problems are—not surprisingly—one of the most typical
reasons for failure. My study confirms this as well. The informants commented on the lack of funding: for example, they had to compromise on the location of a shop, or they could not afford new products because all the available money was already tied up in the current stock. A bad season exacerbated the situation.

(4) **Large expenses** were mentioned by four entrepreneurs, who said that the field was mostly working with personnel (personnel costs are quite big in Finland), and their new personnel did not produce enough in sufficient speed. The following comment sums this up:

(24) Those invoices started to build up. (R7, siblings)

(5) **The recession** was also mentioned by three entrepreneurs. One said that it came earlier than they anticipated:

(25) And after growth in the Christmas period, we thought that the recession would not happen in the coming year and we would get our enterprise functioning in that time. (R8, male)

Two entrepreneurs offered low prices, customers not paying their bills, bad investments, a poor new business location, or overall bad luck as reasons for failure. Two people cited (6) **low prices.** Another one said that market prices were low, which meant that entrepreneurs could not raise their prices. Another reason why entrepreneurs did not feel able to raise prices was because they did not think that the product or service justified a higher price.

(7) **Partners proving unreliable** was offered as a reason for failure in three instances. The problem arose either because customers did not pay for goods, or other partners—who were supposed to give funding—did not fulfill their promises. One interviewee offered the following statement to illustrate this:

(26) The wrong people at the wrong place to manage; they did not work in accordance to earlier promises, and so it started slowly to fray at the edges. (R8, male)

(8) **Poor investments,** such as for a plot of land, caused problems for entrepreneurs. One entrepreneur made a considerable investment in the plot of land, but finding the money to pay for it proved too difficult.

(9) **Poor choice of location for a new business** was a reason why customers did not find some entrepreneurs’ shops. Two entrepreneurs claimed that their problems were attributable to (10) **bad luck:** many things happened at the same
time. As examples, they list insufficient funding combined with a bad season and a poor location for the shop.

Isolated items that were mentioned as reasons for failure included (11) scarce resources, (12) long work days, and (13) bad timing for a change of business location. One entrepreneur describes the scarce resources:

(27) . . . when you listen to Kesko [one of the two major retail chains in Finland] or some other bigger place, when the recession comes, they will put a hundred times more marketing money into the business. We had to do the opposite. (R8, male)

Long work days were the reason why some job-related tasks were not particularly appealing. The following entrepreneur found bookkeeping chores tedious:

(28) . . . after a sixteen-hour working day, I could not be bothered to look at papers very closely. (R9, male)

Finally, bad timing for a change of business locations affected one entrepreneur who changed locations just as the recession started, and whose business then required two years to complete the move. During this transition period, the business could not operate at an optimal level.

**The Deterministic and Voluntaristic Views Identified**

Further analysis can divide the responses roughly into deterministic and voluntary views (Rasheed 2005). A total of ten reasons can be categorized under the deterministic view, where the environment controls the company. Those reasons include lack of customers and funding; large expenses; the recession; new personnel; customers not paying bills; poor location for the business; bad luck; disappointments with partners; and bad timing for a change of business location.

The remaining five reasons can be categorized as exemplifying the voluntaristic view, whereby the company controls the environment. Those reasons include issues around the entrepreneurs’ own behavior; low prices; poor investments; scarce resources; and long working days. Thus we can conclude that according to the interviews, most of the entrepreneurs ascribed the downfall of their businesses to environmental factors. However, many of those reasons can be categorized under either view: for example, a lack of customers can be the result of unwise actions by a business owner, and it is very difficult to say what exactly is attributable to the environment and what to the entrepreneur. In most cases, there was no single obvious
reason for the firm’s downfall, but the important point is how well the entrepreneur can analyze the situation and learn from the possible mistakes made. Many of the apparently deterministic reasons offered for a firm’s decline can be regarded as voluntaristic reasons. This is the case for large expenses, personnel expenses, low prices, poor investments, and long working days. In the case of large expenses, one entrepreneur admitted that the reason was also because they did not follow up on the situation carefully:

(29) The world has changed and we haven’t been able to follow the situation so much, so the expenses grew so hard to bear, and we didn’t react to them early enough. (R7, siblings)

In addition, personnel expenses could become problematic because they were allowed to spiral. Similarly, the reasoning that long working days did not allow the entrepreneur to keep the paperwork up to date may reflect the entrepreneur’s poor organizational skills and time management. Hard work has traditionally been appreciated in Finland, and it has been said it is the outcome of Finnish Lutheran parenting. However, working should be focused, like respondents here say. The 50 percent of entrepreneurs (seven of the fourteen) admitted (some as asides and some directly) that they made mistakes and the situation could have been saved earlier if they had acted differently. In one case, the entrepreneur was experienced and previously successful, and apparently did everything possible to advance the business, but the product was simply not appealing enough to attract a sufficient number of customers. This was clearly a situation of a deterministic reason causing the downfall of the business.

**Discussion**

Several studies have found that entrepreneurs are generally optimists (Cooper, Woo, and Dunkelberg 1988; Taormina and Lao 2007). My study confirms this, even if the situation of the entrepreneurs surveyed here was not a positive one. It seems that the optimism of entrepreneurs is a quality that remains undiminished even in difficult times. The finding is in line with that of the Landiers and Thesmar (2009) study relating to biases in beliefs as explained partly by individual characteristics that tend to remain permanent. According to Meza and Southey (1996), most of the aspects characterizing small-scale businesses, including high failure rates, reliance on bank credit rather than equity finance, relatively low interest-rate margins, and credit rationing, can be explained by a tendency for new entrants to be dominated by
excessively optimistic types. However, Ucbasaran et al. (2010) state that experience with business failure was associated with entrepreneurs who were more optimistic. Thus, optimism is important but it should be tempered with realism.

McClelland (1987) noted that successful entrepreneurs are typically more assertive than “average” entrepreneurs. In my sample of entrepreneurs, many said that they were too kind. Thus, this study confirms that assertiveness is an important quality for an entrepreneur.

Cantner, Silbereisen, and Wilfling’s (2011) study of entrepreneurial failure...
found that those with an agreeable personality were less likely to fail, and, in contrast, conscientiousness increased the failure rate. Agreeableness means a tendency to be compassionate and cooperative rather than suspicious and antagonistic toward others. It is also a measure of a person’s trusting and helpful nature, and whether a person is generally good tempered. Agreeable people also have an optimistic view of human nature. Conscientiousness suggests a tendency to be organized and dependable, show self-discipline, act dutifully, aspire to achievement, and prefer planned to spontaneous behavior (Atkinson et al. 2000). Even if planning is important, previous studies indicate that spontaneous personalities are more inclined to pursue entrepreneurship than others (Routamaa and Miettinen 2007). It may be that too much planning will diminish the ability to adapt rapidly in changing situations, and also constrain risk-taking behavior.

Successful entrepreneurs have been defined as having an ability to take risks and to be innovative, to know how the market functions and to demonstrate expertise in manufacturing, to be proficient in marketing and business management, and to be able to cooperate (Casson 1982). Many of those qualities were not evident among the current sample of respondents. The respondents did not have enough knowledge of how their market functions (the rise of Internet shopping took them by surprise), they did not regard their marketing skills very highly, and their business management was weak in that several lacked a business attitude and demonstrated a poor level of financial calculation and planning.

To conclude, the results indicate that optimism is a prevailing factor among entrepreneurs, even among those whose businesses are in difficulty. The respondents said that their limitations included excessive kindness in addition to a lack of a commercial attitude and planning skills. However, they had several strengths in terms of their professional skills, lengthy experience, and diligence. These strengths would make them successful entrepreneurs if they could work on their weaknesses or find a more business-minded partner.

There are many reasons for the economic decline of a company, and some of the problems are the result of environmental reasons and some of an entrepreneur’s own action, inaction, or behavior. Interestingly, this study of Finnish entrepreneurs does not support Headd’s (2003) research in the case of lack of experience. With regard to earlier research, the closest to these results is the study by Gaskill, Van Auken, and Manning (1993), which reported that the most important reasons for the failure of an enterprise are the weak skills of its entrepreneurs, a weak external business environment, weak funding management skills, weak overall management
skills, and growth issues.

When conducting these interviews, I was surprised that most of the respondents saw their company’s future very positively, even if that future was uncertain in the light of objective calculations. Also, many of those entrepreneurs had to interrupt the reorganization program and they, thus, faced bankruptcy. Even though the respondents were optimistic, some of them were very tired. They were shocked by other people’s behavior when, for instance, creditors sometimes requested their payments in a very rough way. The reorganization program identified an investigator who then helped the entrepreneur with the program, and the program also took care of the creditors’ interests. For some entrepreneurs, these investigators represented “saviors.” They provided specialist help, and this diminished the entrepreneurs’ anxiety immediately. During the interviews, respondents spoke very freely of their situations, and it felt that they were easing their burden when sharing all those hard experiences with the interviewer.

The current research has limitations, the first among which is that it gathered only business owners’ thoughts on the decline of their enterprises and did not canvass other perspectives. This field would merit from more research, especially in those cases where the main reason for failure is the behavior of the owner(s). This should be analyzed more carefully in order to encourage entrepreneurs to scrutinize their own behavior and personality before starting a business. There may be some easily changeable behavior patterns that could be damaging to the whole prospective business, and new entrepreneurs would benefit from knowing about these negative traits in advance. One additional implication for nascent entrepreneurs would be the importance of giving sufficient time to tasks that might seem simple, routine, or uninteresting, such as keeping paperwork up to date and constantly monitoring finances. Successful entrepreneurs are aware that corrective action must be taken as early as possible, and it must be completed efficiently.
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