



PUBLIC BUSINESS SERVICES IN A SPARSELY POPULATED AREA – CASE STUDY

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ABSTRACT

Purpose: *In Finland, customers often view public business services as being a multifaceted, complex and scattered system. Service providers in sparsely populated areas are facing context-specific challenges as they provide services for their customers. The aim of this study is to describe what kinds of business services are provided for early-stage companies in the sparsely populated case region and to investigate how customers evaluate the importance and success of provided services.*

Design/methodology/approach: *This is a retrospective single case study focusing on a sparsely populated subregion in Northern Finland. The case study devises a four-stage configuration framework to describe the current state of public business services and to reflect the customer experiences related to these services. The study uses semi-structured interviews and surveys for data collection. Multiple perspectives were analysed in the interviews for triangulation.*

Findings: *This study describes public business services, especially for early-stage SMEs, in a sparsely populated region. As a result of this case study, key characteristics of organising public business services in sparsely populated area context are described. The success and importance of the public business services from the service customers' perspective are clarified.*

Research limitations/implications: *This descriptive case study is limited to a single sub-region of a sparsely populated Northern Finland to get an in-depth understanding of the phenomenon.*

Originality/value: *Current literature provides limited information about how to effectively and successfully organize public business services in sparsely populated areas. This study evaluates how services correspond to the needs of the customers and how customers evaluate the importance and success of the business services in the sparsely populated case area.*

Keywords: public business services, sparsely populated area, SME, stage models, growth

INTRODUCTION

According to a recent report (Ministry of Employment and the Economy, 2012), there is a vast number of public business services in Finland. However, the services are complex and scattered from a company perspective. Partly due to project-based funding, the field remains mixed and changes frequently. Services are provided by national organisations, as well as by regional agencies, such as science and technology parks and centres, regional development agencies and incubators.. According to the Evaluation of the National Finnish Innovation System (Veugelers, 2009), Finland's research and innovation system is complex and fragmented. This concerns a business support system, which small and start-up companies in particular experience as difficult. The challenges particularly affect innovative and entrepreneurial support at regional levels. The support system has overlapping functions and unclear organizational roles between actors. Even if the innovation system as a whole can be seen to work satisfactorily, small, rapid-growth companies are not served well and achieve poorer results.

Entrepreneurship drives the economy of most nations. Small- and medium-sized enterprises (SMEs) are considered an important and integral part of every country's economy; SMEs are the fastest growing sector of many economies and are more flexible and adaptable concerning their structure and their ability to respond more quickly than larger organisations (Tagliavini *et al.*, 2001; Yifeng, 2011). On the other hand, compared to large enterprises, SMEs typically have fewer financial resources, less technical expertise and more limited management skills (Blili and Raymond, 1993; Yifeng, 2011). A successful SME sector can be considered a vital part of growth and development in sparsely populated regions. Moreover, in Finland the national strategy is to enhance SMEs.

A company's number of employees, sales and assets indicate business growth; however, management must focus on multiple dimensions in a growing company. The majority of perspectives dealing with company growth are concerned with the factors leading to growth. However, this study deals with the actual growth process. Researchers label this perspective the stages of growth, company lifecycle or configuration perspective (see e.g. Muhos *et al.*, 2010; Muhos, 2011). Numerous models have attempted to clarify managerial challenges and priorities in the early stages of companies (see e.g. Churchill and Lewis, 1983; Greiner, 1972). This perspective relates to what growth brings to a company and how to manage a growing company (see Davidsson and Wiklund, 2006; Wiklund, 1998). Growth configuration literature reveals diverse managerial problem configurations specific to the different growth stages.

A simplified four-stage framework, a synthesis of recent stage models (see Muhos *et al.*, 201n [in press]), is utilized in this study to explore business services and development activities for early-stage companies provided by public business services. The key characteristics of the framework are presented in Figure 1 below.

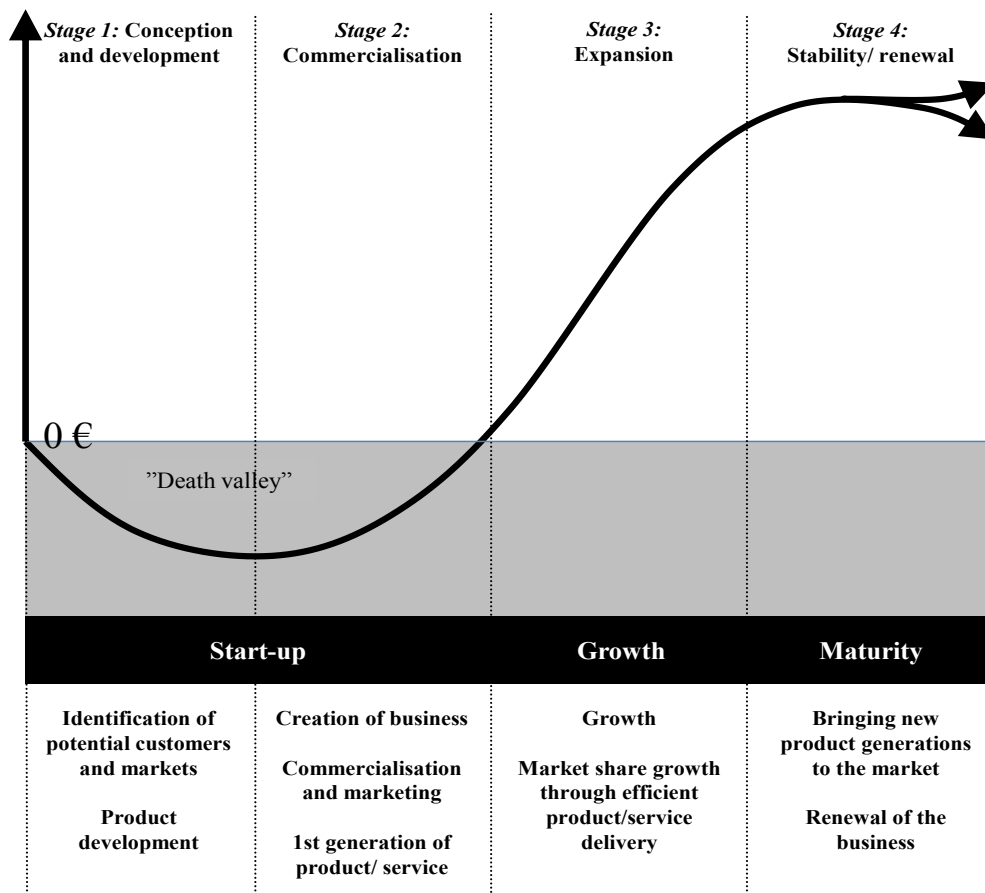


Figure 1: The simplified stage framework

Rurality can be defined in traditional descriptive terms, including the level of population density, the rate of population loss or gain, settlement size, local economic structure and landscape (Stathopoulou *et al.* 2004). Rural businesses tend to be small, and small businesses in rural communities face geo-demographic, socio-cultural and economic concerns. Remoteness brings about transportation challenges as well as increases in manufacturing costs and longer workforce commutes. Low population density may also limit the available skilled labour as well as employment options. The per capita, household income and educational level of rural residents tend to be low in comparison to their counterparts in urban areas, and rural businesses may lack sufficient access to financing. In the European Union (Eurostat, 2012) sparsely populated areas are defined as regions with a population density below a certain threshold; the region is defined as sparsely populated if it has a population density of fewer than 12.5 inhabitants per km². Northern parts of Finland, Sweden and Norway and the majority of Iceland can be defined as sparsely populated areas.

The case region of this study, the Nivala-Haapajärvi subregion, consists of five municipalities: Haapajärvi, Käsämäki, Nivala, Pyhäjärvi and Reisjärvi, with a total population of approximately 30,000 inhabitants. The area is located in the southern part of Northern Ostrobothnia in Finland. It covers an area of nearly 4000 km². There are about 1600 companies in the subregion; the majority of them (95%) are micro-sized companies. Industry, services and primary production comprise about 70 % of the jobs. The growing

industrial sectors include the metal and wood products industries. The metal industry, including the construction of metal structures and machinery, equipment manufacturing and mechanical engineering, has strongly increased its workforce in recent years. The Nivala-Haapajärvi subregion is the leading region in milk and meat production in Finland. Besides agriculture, forestry has a significant impact on employment in the area as well.

This study's research problem can be condensed into the following research questions:

1. What kinds of business services are provided for early-stage companies in the case region?
2. How do customers evaluate the importance and success of these provided services?

These questions are studied by analysing the supply of services in the case region. By investigating the case, this study explores how public business services are organised in this sparsely populated area and describes the services provided for early-stage companies. In addition to that, the study clarifies how public business services correspond to demands. In addition, the importance and success of the services are evaluated both from the providers' and the customers' perspectives.

METHOD

This is a case study with a holistic strategy; the power of a case study is in clarifying complicated processes and in obtaining new knowledge when the boundaries between a phenomenon and its context are not clearly evident and in which multiple sources of evidence are used (Yin, 1994).

The empirical evidence for this study was collected by interviewing the representatives of NIHAK, which is a business development company of the Nivala-Haapajärvi subregion, and by collecting survey data from the customers of NIHAK. The collected data and the received evidence was further analysed and synthesized.

The first part of the empirical evidence was collected at the end of 2011 and in the beginning of 2012 by interviewing the Chief Executive Officer, the Business Development Manager and the Project Manager of NIHAK. All interviews were conducted using a similar research process and thematic questionnaires. The main thematic sections of the interview are provided in Table 1,

Table 1. The main thematic sections of the interviews

Section	Theme
1	Clarification of the purpose of the interviews
2	Basic information about the organisations and the interviewees
3	General description of the services provided by the organisations and their customers
4	Orientation to the stage framework
5	Stage-specific description of the services provided for SME companies in their early stages
6	Evaluation of the services provided
7	Description of successful cases and best practices

The second part of the empirical evidence was collected during the spring of 2012 by surveys sent to the customers of public business services in the Nivala-Haapajärvi subregion (NIHAK). The internet based survey was sent to 857 companies. A total of 129 responses were received before the survey deadline, the response rate being 15 %. Almost half of the respondents were one-person micro-sized companies. The main themes of the questionnaire are presented in Table 2.

Table 2. The main thematic sections of the questionnaire

Section	Theme
1	Basic information about respondents
2	General evaluation of the public business services and service organisations of the region
3	Description of the emerging needs for new services (general level)
4	Evaluation of the importance and success of public business services provided for early-stage companies (stage-by-stage)
5	Description of the emerging needs for new services for early-stage companies (stage-by-stage)

RESULTS

The Nivala-Haapajärvi subregion (five municipalities, 30,333 inhabitants, 1600 companies) has arranged its business development services via the development company NIHAK, which is operating as a limited company. NIHAK is a municipal producer and its duty is to develop the region, together with its member municipalities and partners, by means of programme-based regional development. The aim of the business development services is to develop several kinds of business activities, excluding primary production in agriculture and forestry, which are the responsibility of other actors/organisations.

Table 3: Description of the Nivala-Haapajärvi subregion

	Nivala-Haapajärvi subregion
Organisation of services	NIHAK
Municipalities	Haapajärvi, Käsämäki, Nivala, Pyhäjärvi and Reisjärvi
Inhabitants	30,333
Number of enterprises	1600

Interview results

The public business development company NIHAK has 10 employees working with entrepreneurs.

The roles of the personnel are divided in such a way so that the personnel have both a horizontal (thematic) responsibility (e.g. the incubation services and the services of the growing enterprises) and a vertical (local) municipal business development consultation responsibility. In every member municipality, there is a business development manager and an agency where the entrepreneur receives a start-up package containing information on



business development services with the principle of a 'single window' system. The business development managers respond to the business development services in their 'own' municipality, but co-operate with each other as a network, depending on their areas of expertise, for the benefit of the subregion.

The subregion's business development services have been segmented and productised in the NIHAK in the way that commencing enterprises, operating enterprises, innovation enterprises, enterprises becoming international, and domiciliary services are represented each in a group of their own. Based on the interviews, the main content of the service is recognising and understanding the process and the lifecycle stage of the business activity and then offering the right service. Clients receive information from the business development services about such things as start-up grants, business development assistance and loans and securities for loans. Moreover, acquisition and other ownership change-related services are offered. Business development services are confidential and free of charge for clients.

In addition to producing the services, NIHAK is an agent for the services provided by the local, regional and national cooperation partners, including such things as manufacturing studios, premises and international services. In this study's interviews, NIHAK is regarded as an immediate interface between the enterprises, society and the public economy. Several actors participate in the cooperation coordinated by NIHAK. The development companies need personnel to have sufficiently broad know-how and readiness concerning the services offered by the cooperation partners, so that the company's role as an intermediary organisation works. The NIHAK business development managers also act as intermediaries and consultants when they search for a suitable service concept for the client enterprise.

Based on the interviews the proactive nature of the services is pointed out. The business development managers contact the enterprises in the region annually. In the development discussions they make every attempt to understand the enterprise's situation so they can provide sufficient information about the specific services that best fit the company's needs. NIHAK has organized the business services it provides to the many areas of region through its business development managers, which is often the strength of local service and a direct link to broader business service networks.

Services for enterprises in the conception and development phase include general enterprise consultation, enterprise start-up consultation and grants. In addition, business idea development, surveys of grant opportunities, evaluations of profitability, different kinds of plans (e.g. a business activity plan), financial statements, financial planning and applications for financing are offered. There is also an incubation service, which is directed especially to commencing enterprises and young enterprises, as well as for those who start up and develop new business activities and have opportunities to expand. Innovation services, like the protection of innovations and building up development services, suit the enterprises in this phase. Additionally, NIHAK offers with its partners training in enterprising, manufacturing studios, premises and internationalisation services.

A typical case of a commencing entrepreneur is when the business idea and its likelihood of success are first estimated. In connection with the business idea evaluation, possibilities for getting start-up grants are surveyed and applications for such grants are made together with the entrepreneur. Financial needs and potential sources of financing (e.g. a bank and other



funding actors) and the quality are evaluated next. For example, the TEKES (the Finnish Funding Agency for Technology and Innovation) provides financing for the development projects. After the survey and applications the actual business start-up documents are created. At the same time the issues concerning the choice of a company form, its grounds, risks, responsibilities and taxing are reviewed.

Services directed into the commercialisation phase are the incubation, where the enterprise is developed in cooperation with consultants. Targeted training is also available. Often general business development consultation with the right questions for the entrepreneur offers the necessary help for an enterprise. As an intermediary organisation NIHAK has also recommended e.g. the marketing and sales programme offered by the ELY-Centre (The Centres for Economic Development, Transport and the Environment).

NIHAK's role as an intermediary organisation is emphasized when the enterprise being served is in the expansion phase. The expertise of NIHAK is utilized for instance in budget calculation. Typical services offered in this phase are financial planning and applications for financing. Several kinds of challenges become current; the manufacturing is e.g. not able to respond to sales growth. Problems may appear with the production management, quality management systems, financing, working capital, increases in staff and recruitment. To recognise the acute sticking points and bottlenecks, an enterprise may need outside expertise that NIHAK can offer. All internationalisation services, e.g. the shared export secretary service, can also be seen as expansion phase services.

Based on the interviews, the stability and renewal phase is also interesting because some of the enterprises are content with their stability and are not trying to reach growth. Business activity stabilises in this phase, and in the absence of growth desires, there are no longer significant needs for utilising business development services. As far as an enterprise has the desire and the need for a renewal, a stage of expansion with new investment planning may often come up. There may be a need for an expert from outside to help as well. In this phase the change of ownership may become necessary in the enterprise's development. If the entrepreneur is interested in abandoning the enterprise, NIHAK can cooperate in implementing the acquisition. NIHAK can negotiate with the purchasing candidates from outside. In addition, family business succession is promoted.

Business services and development activities for early-stage companies provided by NIHAK are described in Table 4.

Table 4. Business services and development activities provided by NIHAK for early-stage companies

	Stage 1: Conception and development	Stage 2: Commercialisation	Stage 3: Expansion	Stage 4: Stability/ renewal
Nivala- Haapajärvi subregion	<ul style="list-style-type: none"> - Business plan - Establishing the business - Planning and seeking financing - Developing the business idea - Assessing profitability - Constructing development projects - Business incubation 	<ul style="list-style-type: none"> - Planning and seeking financing - Surveying the business situation and development needs - Building development projects - Training 	<ul style="list-style-type: none"> - Planning and seeking financing -Export specialist services -Trade fair and contact services - Building development projects - Studios as development environments 	<ul style="list-style-type: none"> - Planning and seeking financing - Monitoring the business situation and development needs -Building development projects - Services upon ownership and generational changes

General business consulting and intermediary organisations' actions are included in all cells of the above presented table. The support actions of public business services are not always productised, but they are tailored to customers' needs. Third party solutions are offered when a service portfolio does not meet the specific needs of a customer. These can be offered through the partner networks.

Based on the interviews, the services and the needs of established and start-up companies seem to be fairly similar without any larger gaps. From the perspective of service providers, targets for future development are expressed location services and internationalisation, as well as the surrounding areas for planned large-scale projects. Even though large-scale projects are regionally nearby, for small entrepreneurs and micro-entrepreneurs those major projects are often difficult to participate in. This also applies to internationalisation. For this reason public business services are needed. Business providers are actors that are able to develop the needed skills of the entrepreneurs concerning large-scale projects and internationalisation. Providers see that one focus of future development will also be co-educational institutions. Recently graduated and entrepreneurship-oriented young people are not even necessarily fully aware of the available business services in the subregion.

Based on the interviews, one future development area of NIHAK is the awareness of the services among operating companies. Recently completed reform of the region's business services gathered under NIHAK has increased and clarified the public business services in the region. The threshold to be a customer of public business services has been lowered. Service network operates also thus that the other business service field operators guide customers to NIHAK. For example, start-up companies are directed to the desk of NIHAK by banks to refine their business ideas before applying for funding.



According to the interviews with service providers, feedback from customers has been mainly positive, which indicates that NIHAK has a successful service strategy. In general, those who use the public business services see the need, and those who do not use services criticize necessary of the services. The reason of negative feedback can be negative financing decision or regulatory barriers to business support. According to service providers, public business services are well-known in their area of operations, especially among the start-ups and early stage entrepreneurs.

Business service resources and competence are perceived to be reasonably good, especially in relation to the number of inhabitants and the firms in large cities, which often have better resources. However, additional staff resources could improve service efficiency, which could still further improve companies' growth potential. Based on the interviews, personnel's level of competence is perceived as good, especially since individuals' different competencies and strengths can successfully support each other in NIHAK. The maintenance of personnel's competence is a horse race that requires constant updates. NIHAK tries to ensure necessary and continuous education and training of personnel, who consist of experienced professionals, many of whom have a business background. Experienced personnel are able to understand the companies' situations and to be customer-focused in all service implementations.

In the analysis between the industries, public business services' current challenge is the health care services sector, which is currently undergoing a major change. The industry is changing e.g. because of ePrescriptions and service vouchers. The task of public business services is to coach and prepare micro-companies to be able to operate and compete in concert with the new regulations and practices of the industry.

Survey results

When analysing the success and importance of the public business services, it is essential to gather information from the customers' perspective as well. Because of the large number of customers, survey research can provide us with a better picture of their opinions and experiences.

Table 5. General evaluation of NIHAK's business services on a scale from 1 to 5 (1= the weakest, 5= the most successful).

	n	1	2	3	4	5	mean
Contact person's knowledge and expertise	87	6	2	25	36	18	3.67
Smoothness and ease of cooperation	87	5	3	28	34	17	3.63
NIHAK's reputation in the region	85	7	7	32	27	12	3.35
Customer orientation	85	5	3	28	35	14	3.59
Operational flexibility	84	5	6	25	31	17	3.58
Operational efficiency	85	5	7	35	28	10	3.36
Operational quality	85	5	5	30	34	11	3.48
Continuous development of services.	83	5	5	31	32	10	3.45
Sum		43	38	237	257	109	3.51

According to the results (Table 5), customers consider different operations of NIHAK as reasonably good. The mean of all quality aspects of operations is 3.51 on a scale of 1 to 5. The most successful area of services is a contact person's knowledge and expertise (3.67). The weakest area among evaluated targets is NIHAK's reputation in the region, although the respondents' average estimate grade (3.35) is not poor. In general, survey data show that every evaluated area of service quality is successful, from the customers' perspective. In addition, all aspects are rated consistently by all customers without major differences.

Table 6 shows how customers evaluate the importance of business services and development activities provided by NIHAK for early-stage companies. According to Table 6, survey respondents consider customers before the establishment as the most important target group of the business services.

	n	1	2	3	4	5	mean
Before the establishment	104	5	7	13	27	52	4.1
Conception and development	104	3	8	21	35	37	3.91
Commercialisation	103	3	7	21	37	35	3.91
Expansion	103	3	8	22	38	32	3.85
Stability/ renewal	103	4	10	28	33	26	3.66
Sum		18	40	105	170	182	3.89

Table 6. Evaluation of the importance of public business services provided for early-stage companies (stage-by-stage), on a scale from 1 to 5 (1= the least, 5= the most).

Service activities done before a company's establishment are rated together as one group, and the mean is over 4. Half of the respondents argue that services done before the establishment are quite important; 50 % of the respondents rated them as a 5 on a scale from 1 to 5. It can also be noted that the importance of the public business services decreases stage-by-stage with the duration of the business.

Table 7 shows how customers evaluate the success of business services and development activities provided by NIHAK for early-stage companies. Services done before a company is established are the most successful, according to the respondents. The services done in the commercialisation and stability stages are rated as the least successful.

	n	1	2	3	4	5	mean
Before the establishment	58	4	6	16	19	13	3.53
Conception and development	54	3	7	21	16	7	3.31
Commercialisation	50	4	7	20	15	4	3.16
Expansion	51	5	5	21	12	8	3.25
Stability/ renewal	48	4	7	21	12	4	3.1
Sum		20	32	99	74	36	3.27

Table 7. Evaluation of the success of public business services provided for early-stage companies (stage-by-stage) on a scale from 1 to 5 (1= the least, 5 = the most).

In general, Table 7 shows that NIHAK has managed to provide quite successful services for companies in different stages of development. The customers' point of view enhances providers' understanding of their public business services.

According to the responses to open-ended questions in the terms of the demand and the importance of public business services, financial issues come up concerning the stage before a company's establishment. Balance of the finance is described as an important part of business planning. In the conception and development stage, networking, tax issues and cooperation with fund institutions are considered the most important affairs. In the terms of the commercialisation phase, respondents emphasised the necessity of services concerning marketing skills, target marketing and competition analysis. Based on the responses to open-ended questions, marketing, networking and internationalisation are seen to be the focal concerns of business services for SMEs in the expansion stage. Expertise services and consultancies are emphasised for stability/renewal stage companies, although public services are perceived a least important in this target group.

DISCUSSION

Public business services, especially for early-stage SMEs in the case area, were described based on interviews with providers in this study. In addition, the importance and success of the services were investigated based on these interviews and the survey addressed to customer companies.

Based on the case study interviews, it can be noted that when an entrepreneur with a business activity is a client of the business development services, that entrepreneur's enterprise is almost always in transition. In the positive or negative transitional stages, such entrepreneurs try to utilise public business development services. Grant applications and plans for extensions, projects and investments, as well as budgeting related to those plans, are typical services directed to enterprises engaged in positive transitions. One important function of business service organisations is to act as companions in discussions with entrepreneurs.

The organising of public business services in NIHAK can be described through three main characteristics. First, the services are organised through *important personal relationships*.

The relationship between business service managers and entrepreneurs is essential, as interacting with entrepreneurs on a personal level builds trust. This personalised approach includes responding to the needs of enterprises within a short time period, maintaining contact at least on an annual basis and tailoring services to make them entrepreneur-centred. Second, the *tailoring and productisation of services* is an integral part of the system. Most of the services are semi-structured, which offers the possibility to respond to the specific needs of each client. In addition to agencies' direct services, the services of the partner and network organisations are also offered. The productisation of services is important, especially when addressing the internal needs of the network and the partner organisations. To be able to tailor the services or to use the services of the network, business service managers have to know the existing service possibilities. Third, the services are organised through multiple *intermediary actors* with multiple roles. An organisation offering public business services in a rural area is acting on the interface. It is essential to produce and disseminate information to entrepreneurs, enterprises' staff and collaborating organisations. Agencies' role shifts based on the unique regional development tasks, such as promoting innovation possibilities and other preconditions of the enterprises.

Based on the interviews, several challenges were also pointed out such as internationalisation, attracting private financing and supporting SMEs' participation in the region's specific large-scale building projects (e.g. a nuclear power plant and an international underground physics research centre). Generally speaking, the service providers did not recognize major gaps between services and the needs of companies. They seem to have effectively utilized their networks and external expertise in cases of specific needs. On the other hand, some of them highlighted the need to build a more extensive knowledge base to be able to provide more accurate support for their customers.

The business service providers interviewed in this study emphasised the multi-skills needed of the business development managers so they can respond to local entrepreneurs' diverse needs. According to the survey, NIHAK's strategy has succeeded particularly in terms of personnel knowledge and expertise. Also, based on the survey results, personnel knowledge and expertise was rated as most successful dimension of services. Notable is that the importance of the services decreased towards the maturity stage of development. Thus, 50 % of respondents viewed services provided before a company's establishment as very meaningful, evidenced by their maximum rating of 5.

According to the customers' responses regarding the general evaluation of NIHAK's business services on a scale from 1 to 5 (1= the weakest, 5= the most successful), it is notable that a rating of 1 was more common than 2. Therefore, it can be assumed that those who were not satisfied with the services were very disappointed. However, a significantly larger proportion of customers rated the services as a 4 or 5.

Based on the customers' responses, the most significant gap between the importance and success of services is in services in the commercialisation stage. A closer look at this gap can be taken by analysing answers to the open-ended questions concerning the commercialisation stage. The respondents see the need for guidance in marketing, financing and understanding the commercial competition at this stage. On the other hand, services for expansion stage companies have the smallest gap between the importance and success of the services. Nevertheless, respondents to the open-ended questions at this expansion stage see the need

for internationalisation services and marketing courses, as well as mentoring and networking services.

In future studies it would be interesting to investigate a larger number of cases with similar backgrounds. The results of this study represent the viewpoint of a public business service organisation and its customer companies in a sparsely populated area. Their viewpoints might differ from those of similar organisations in different business environments because of context-specific variables. It would be interesting to compare these findings to those of a similar analysis made in public business services located in rural areas in other European countries, in the US or in Asia.

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