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WAKE UP AND SMELL THE COFFEE

RESOURCES AND MANAGEMENT CONTROL IN THE CAFÉ SECTOR

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Elisabeth Ek 2012

Sandra Svensson 2012

SAMMANFATTNING

Kandidatuppsats i företagsekonomi och ekonomistyrning. Handelshögskolan i Göteborg vid Göteborgs Universitet, 2012.

Författare: Elisabeth Ek och Sandra Svensson **Handledare**: Peter Beusch

Titel: Vakna och känn doften av kaffe: Resurser och ekonomistyrning i kafésektorn

Problemdiskussion: Små och medelstora företag (SME) står för innovationstänkande, arbetstillfällen och utveckling i en ekonomi. 99% av alla europeiska företag är SME-företag, men det är de stora internationella företagen som styr marknaden, ofta på SME-företagens bekostnad. Sverige står just nu inför en situation där det finns för få nya livskraftiga SME-företag. Eftersom SME-företagen innehar en roll där de driver den ekonomiska utvecklingen framåt skulle ett minskat antal SME-företag kunna bli ett globalt problem. Därför är det viktigt att förstå hur dessa SME-företag kan konkurrera. Den negativa effekt som storföretagen kan ha på SME-företagens konkurrenskraft har iakttagits bl.a. i den svenska kafésektorn.

Det resursbaserade perspektivet förklarar hur konkurrensfördelar kan skapas med hjälp av interna resurser. Aktuell forskning tyder på att det är viktigt att studera kombinationer av resurser i SME-företag. Forskare tror även att det inte är tillräckligt att enbart studera resurser, eftersom det finns en koppling mellan det resursbaserade perspektivet, strategi och ekonomistyrning. Åsikter varierar om huruvida styrsystem kan skapa konkurrens-fördelar.

Syfte och forskningsfrågor: Syftet med denna uppsats är att se hur tre små och medelstora kaféer i Göteborg har utformat sina egna styrsystem och vad de identifierar som viktiga resurser. Följaktligen är forskningsfrågorna dessa:

1. Vilka interna resurser identifierar kaféägarna som viktiga och kan dessa resurser genererar konkurrensfördelar?
2. Hur styrs kaféerna och vilka anledningar kan finnas för detta?

Metodik: Tre semistrukturerade, kvalitativa intervjuer genomfördes med kaféägare i centrala Göteborg. Resultaten från dessa intervjuer diskuterades och analyserades sedan från ett resursbaserat perspektiv. Förklaringar till varför styrsystemen ser ut som de gör i de tre bolagen diskuterades med hjälp av befintlig teori.

Sammanfattning: Alla tre intervjuade kaféägare var överens om att följande interna resurser var viktiga för att skapa kundvärde: plats, rykte och varumärke, erfarenhet och kunskap, externa och interna relationer samt service och rutiner. Det var däremot en kombination av resurser som verkade vara nödvändig för att kunna skapa just konkurrensfördelar.

Ekonomistyrningen i de olika kaféerna varierade mellan enkla system bestående av budgetar och lagstadgade rapporter till mer formaliserade system där finansiella nyckeltal, företagskultur, bolagsstruktur, kostnadskalkyler och ansvarsfördelning användes.

Styrningen var i alla tre fall högst beroende av ägarnas erfarenheter och bedömningar. Därmed kan systemen ses som summan av alla de förmågor som finns i kaféerna. Företagens storlek och föränderliga behov, tillgången av resurser och önskan att finansiera kaféerna utan extern hjälp verkade vara orsaker till tillväxt av företagen och deras styrsystem.

Framtida forskning: Förslag för framtida forskning är att från ett resursbaserat perspektiv observera SME-företag som upplever ett ökat konkurrenstryck från stora företag. En mer djupgående studie av sektorn eller ett enskilt företag är dessutom ett alternativ för att se hur de fördelar som SME-företagen bidrar med i samhället kan bevaras. En tredje möjlighet är att i ett jämförelsesyfte inkludera större inhemska företag.

Nyckelord: resursbaserat perspektiv, ekonomistyrning, kafé, SME, bransch analys, kafé trend

ABSTRACT

Bachelor thesis in business administration. School of Business, Economics and Law at the University of Gothenburg, 2012.

Authors: Elisabeth Ek and Sandra Svensson **Instructor**: Peter Beusch

Title: Wake Up and Smell the Coffee: Resources and Management Control in the Café Sector

Problem Discussion: Small and Medium-sized Enterprises (SMEs) account for innovations, job opportunities and development in an economy. 99% of all European enterprises are SMEs, but it is the large international corporations that control the market, often at the expense of the SMEs. Sweden is currently facing a situation where there are too few new sustainable SMEs. Since SMEs hold a role as economic drivers, the decreasing number of SMEs could become a global problem. Therefore, it is vital to understand how SMEs can be competitive. In the Swedish café sector it has been observed that large corporations have a negative effect on SMEs.

The Resource-Based View explains how competitive advantages can be created with help of internal resources. Current research suggests that it is important to study combinations of resources in SMEs. Researchers have also suggested that it is not sufficient to only study resources since there is an interaction between the Resource-Based View, strategic choice and Management Control. Opinions also vary whether Management Control can create competitive advantages.

Purpose and Research Questions: The aim of this thesis is to see how three SME cafés in Gothenburg have put into practice their own versions of Management Control Systems and what they identify as important resources. Consequently the research questions are:

> **1.** Which internal resources do the café owners view as important and are these resources able to generate a competitive advantage?
> **2.** How are the cafés controlled and what could be the reasons for their Management Control?

Methodology: Three semi-structured qualitative interviews were conducted with café owners in Gothenburg's city centre. The results from these interviews were then discussed and analysed from a Resource-Based View. Explanations for the design of the Management Control System in the three companies were discussed with the help of existing theories.

Conclusion: All three interviewed cafés agreed that the following internal resources were important when creating customer value: location, reputation and brand, experience and knowledge, external and internal relationships, service and routines. However, a combination of resources was needed to create competitive advantages.

Management Control in the cafés ranged from a simplistic system with a simple budget and legally required reports to a more formalised system where financial ratios, corporate structure and culture, cost calculations and division of responsibility were

added. Management Control was in all three cases largely dependent on the experience and estimations of the owner. Thus the systems can be seen as the sums of the capabilities that exist in the cafés. Company size and needs, the availability of resources and the ambition to finance the cafés without external help appeared to be causes for growth of the companies and the Management Control Systems.

Possible Future Research: A suggestion for future research, from a Resource-Based View, is to observe SME sectors that are experiencing increased competitive pressure from large corporations. A more in-depth examination of the sector or a single company is one alternative in order to see how the advantages contributed by SMEs to society can be maintained. A third possibility would be to include larger domestic enterprises for benchmarking purposes.

Keywords: resource-based view, Management Control System, café, SME, sector analysis, café trend

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1. INTRODUCTION

Part 1.1 introduces the Small and Medium-sized segment and the café sector. The problem discussion of the thesis is presented in part 1.2 and the section concludes with the purpose of the thesis as well as the research questions (part 1.3).

1.1. Background

Roughly 99% of all European businesses are Small and Medium-sized Enterprises (SMEs). These enterprises operate in a tough economic environment and, as stated by Maud Olofsson (the Swedish minister of commerce), it is important to give SMEs the opportunity to focus on their core business rather than on bureaucratic measures (Regeringen 2009). The EU has also acknowledged this problem and has already started to take measures in order to improve the working climate of the SMEs. One example of this is the Small Business Act for Europe program that aims to *"create a level playing field for SMEs throughout the EU and improve the administrative and legal environment so as to allow these enterprises to unleash their full potential to create jobs and growth"* (European Commission 2008). Olofsson acknowledges the importance of implementing the Small Business Act in Sweden and that SMEs are of vital importance as far as societal development is concerned (Regeringen 2009). Almost half of the Swedish workforce was employed in SMEs in 2008 (FF 2008). Olofsson also stresses that Sweden needs more new sustainable businesses to maintain its competitive power (Regeringen 2011a).

One Swedish program designed to create 10 000 new jobs in the entire food supply chain is the 'Culinary Nation' (Regeringen 2010). As part of this program, Gothenburg was selected the Food Capital of 2012 (Regeringen 2011b). One of the sectors in which SMEs have a chance to prosper is the café sector. The café is one of many end distributors in the food supply chain and have a strong presence in Gothenburg's culinary and city landscape. Euromonitor (2011a) describes the café sector as characterised by its many SMEs and the Swedish café sector has had the best relative sales development of the restaurant and service industries since the financial crisis of 2009 (SCB 2010 & 2011, SHR 2012, Svensk Servicehandel & Fast Food 2012, Euromonitor 2011a). Sweden is today one of the largest nations of coffee consumers in the world (kaffeinformation.se 2010). Swedish cafés act as important social meeting places and target individuals ranging between the ages of 20-45 (Sydsvenskan 2010, Euromonitor 2011a). The café sector has shown positive results since the financial crisis, but this is largely because of a growing share of large coffee house chains. The market now predicts future saturation, which will increase the pressure on the SMEs. (Euromonitor 2011a)

Consequently, the SMEs in the sector must increase their awareness of how they can be competitive. One way of steering companies towards increased competit-iveness is to develop and control their inner resources (Barney 1991). Wernerfelt express the following: *"What a company wants is to create a situation where its own resource position directly or indirectly makes it more difficult for others to catch up"* (Wernerfelt 1984, p. 173).

1.2. Problem Discussion

As Olofsson mentioned, there are already too few sustainable SMEs in Sweden and if large corporations keep capturing larger market shares this will have a negative effect on the economy as a whole (Regeringen 2011a, SvD 2012). The café sector simply reflects this development. Because of the difficult economic situation discussed by Olofsson, SMEs cannot always afford to develop their resources and enforce strategies the way they wish to (Welsh & White 1981, Boter & Lundström 2005). Therefore, it is important that SMEs can identify, develop and control their internal resources as efficiently and effective as possible (Barney 1991).

Jay Barney's framework from 1991 has proved useful for researchers analysing resources, although subsequent research has mainly focused on studying single resources in large corporations (Jansson 2012). As Jansson (2012) states, it is difficult to study a combination of resources in large corporations because of the complexity in the corporate structure. A resource can *e.g.* be geographically dispersed. Jansson (2012) also refers to Kraaijenbrink's argumentation that it is a combination or a chain of resources that creates competitive advantages and therefore suggests that additional research should be done on a combination of resources in SMEs (Jansson 2012).

Henri (2006) suggested that the Resource-Based View is the connection between strategic choice and the Management Control System. He claimed that the Management Control System could create competitive advantages, something not entirely in line with previous research within the Resource-Based View (Henri 2006). Mahoney and Pandian (1992) argued that limitations of growth in a company could be the result of the company's internal management of resources. This would suggest that it is important to study resources and Management Control simultaneously. Both Henri (2006) and Mahoney and Pandian (1992) stated that the current research focusing on both Management Control and internal resources is limited.

1.3. Purpose and Research Questions

The aim of this thesis is to see how three SME cafés in Gothenburg have put into practice their own versions of Management Control Systems and what they identify as important resources. Consequently the research questions are:

1. Which internal resources do the café owners view as important and are these resources able to generate a competitive advantage?
2. How are the cafés controlled and what could be the reasons for their Management Control?

The thesis aims to study the combination of Management Control and internal resources, as this combination of research areas has previously been limited. Identifying factors in Management Control and internal resource management could prove to be important for creating competitive and sustainable SMEs, in the café sector as well as in other sectors.

2. METHODOLOGY

Section 2.1 discusses the design and strategy of the thesis. The inductive/deductive approach, the case study and the semi-structured and qualitative interviews are introduced. Some translations made from Swedish into English are explained. Section 2.2 discusses the selection and limitation of the study, as well as the chosen companies and interviewees. The interviewed companies are briefly presented in this part. Section 2.3 discusses the thesis's references and also includes databases through which literature was found. The quality of the study is summarised in part 2.4 and finally the limitations of the thesis are summarised in part 2.5.

2.1. Research Design and Strategy

Bryman and Bell (2005) mention the inductive and deductive approaches, which explain how the relationships between theory and practice can vary. The inductive approach theory is generated through the collection of empirical data and this is the most common approach when making a qualitative study. The deductive approach creates hypotheses with the support of theory that are then tested and either rejected or confirmed. A mixture of these two approaches also exists (Bryman & Bell 2005). Part of the frame of reference for this thesis was collected prior to the interviews so that the interview questions could be drawn. In compliance with the suggestion made by Bryman and Bell (2007), the theoretical part was then modified throughout the process to better analyse important subjects in the empirical data. The thesis is thereby a mix of the two approaches.

According to Bryman and Bell (2007) a case study is one way of illuminating why something has occurred and how. The focus of a case study can be either one or more companies. A case study made on more than one company makes it possible to distinguish patterns. A quantitative questionnaire is another alternative, but a more qualitative approach is to be preferred when there is little previous data to be found (Bryman & Bell 2007).

Three small case studies were made since the previous research data regarding the subject and the research questions was limited. Because of the low number of interviews in the thesis a generalisation of the results could not be justified. However, it should still be possible to perceive patterns in the cafés. The purpose of this study was to procure the opinions and perspectives of the interviewees. According to Jacobson (2002) a qualitative approach makes it easier to illustrate problems and questions. A qualitative study is also more flexible as it is easier to adjust interview questions throughout the working progress (Jacobson 2002). Exactly how the cafés operated was not known in advance and it was therefore important to have the possibility to focus on certain questions during the interviews. Corporate culture was therefore not expanded upon when the company had only one employee. On these bases a qualitative approach was selected.

According to Bryman and Bell (2007) interviews can be structured, semi-structured and unstructured. A structured interview is difficult to conduct when aspects of a problem are unknown. A semi-structured interview makes it possible for the interviewee to freely interpret and answer questions. The results from semi-structured interviews are easier to compare than those from an unstructured interview. (Bryman & Bell 2007)

2.1.1. Translations and Interview Questions

To facilitate comprehension during the interviews the terms Management Control System and resources were substituted with more commonly used and known words. For questions about the financial aspects of the business and Management Control the Swedish word *ekonomi* was used. There is no equivalent English translation for the Swedish word *ekonomi*, but the expression encompasses both accounting and finance in a business. The term resource was used, but together with the terms competitive advantage and company unique circumstance. The main questions the interviewees were asked to elaborate on were: How does the company view the role of *ekonomi* in the business? What important resources/ competitive advantages does the company have? Areas explicitly asked about were: budgeting, planning and pricing, brands, experience, internal and external relations, service and trend analysis.

2.2. References

The interviews were important sources of primary data. Primary data is according to Jacobsen (2002) the data tailor-made for a certain purpose.

2.2.1. Creating the Frame of Reference

An influential and much cited author from the Resource-Based View is Jay Barney, who wrote an article about the VRIN-framework in 1991. The research made on sole resources is however collected from a variety of authors (Jansson 2012). The starting point for the section about Management Control System in Swedish SMEs was the 1993 study by Bergström and Lumsden. The thesis includes articles about SMEs in general since little has been published about SMEs in the café sector.

2.2.2. Literature search

Search engines for scientific articles were: Business Source Premier, ScienceDirect, J-Stor, Emerald, Wiley and Google Scholar. Essays and books were found through the University of Gothenburg's search engine (GUNDA) and thesis databases (GUPEA, GUP), the National Library of Sweden's search engine (LIBRIS) and the thesis site uppsats.se. Keywords were: small business, strategy, SME, competitive advantage, Resource-Based, McDonaldization, *kaffehaus*, management control, [coffee house, café, coffee shop, *fika*, *fikatrend* (uppsats.se)]. To facilitate the reader’s comprehension of the problem(s) Bryman and Bell (2007) suggests that companies should be put into their context. This is why non-scientific articles from the daily press (SvD, Dn, and Sydsvenskan) were used. Keywords for these Google searches were: café trend, coffee and latte trend, take-away trend, Starbucks (NB original searches were concluded in Swedish).

2.3. Selection – Sector, Companies, Interviewees

The selection of the sector, the companies and the interviewees are briefly explained below.

2.3.1. Sector

Studying only one sector in a single geographical area facilitated the comparison between companies. As mentioned before the café sector was interesting because of the changing competitive conditions for the SMEs (Euromonitor 2011a). Another incentive to study the café sector was that researchers have largely left the sector and its SMEs unexplored. Identifying the resources in the café sector and the Management Control System designs could facilitate the understanding of how other sectors could create competitive advantages.

2.3.2. Companies

Bergström and Lumsden (1993) saw that it was appropriate to subdivide companies according to size and number of employees when internal situations were studied. The European Commission classifies companies with less than 250 employees as SMEs. According to the Swedish recommendation (BFNAR 2000:2) SME companies have less than 200 employees. The aim was to interview companies with different numbers of employees within the SME segment. Three café owners were interviewed (see Table 1). Company names were excluded at the request of one of the interviewees. The companies will be referred to as Company X, Y and Z. The three interviewed companies include one enterprise with only one employee, one slightly larger enterprise with 15 employees in 3 locations (one is a café) and finally one corporate group with about 160 employees in 9 locations.

Table 1 Interviewed Companies

	Company X	Company Y	Company Z
Employees	1	160	15
Nr of Businesses	1	9	1(*/3*)*
(including non café stores) *			

2.3.3. Interviewees

The aim was to interview an individual with insight into the whole of the company and its daily business, finance, Management Control System, strategy, competitive position and knowledge about the market. Face to face interviews were preferred and undertaken with the three owners.

2.4. Quality of the Study

Semi-structured interviews were chosen as they were less likely to influence the interviewees. Bryman and Bell (2007) emphasise that the choice of a more flexible semi-structured interview could make the comparability between companies more difficult. The interviewees can also choose to focus on questions that they feel are more important with the consequence that some answers tend to be less developed than others. The interviewees were made aware of the topic prior to the interview. (Bryman & Bell 2007) Also as recommended by Bryman and Bell (2005), the interviews were recorded, transcribed, summarised, translated and sent to the interviewees for verification to minimise misunder-standings. When an interview includes questions about past events, Jacobsen (2002) states that recollection is not always completely accurate as memory is selective, thus the results/answers can be affected.

One disadvantage of performing a qualitative study is the difficulty of replication. In addition, the values and ideas of the researchers might affect the objectivity of the study. (Bryman & Bell 2007) Jacobsen (2002) stated that information collected from interviews is harder to generalise, as the perception of one individual is not necessarily representative for others. He further adds that qualitative data is harder to quantify than the corresponding data collected in a quantitative study. Due to the limited scope (low number of interviewees and companies) of this thesis the possibility to generalise is, as mentioned, limited. (Jacobsen 2002)

The thesis has a local Swedish context which might hamper the comparability with studies from other countries.

2.5. Other Limitations

Through a Resource-Based Perspective this thesis studies the Management Control and internal resources of three cafés in Gothenburg, Sweden. All companies are classified as SMEs in accordance to Swedish recommendation BFNAR 2000:2 (less than 200 employees).

Only three semi-structured, qualitative interviews were held with the company owners.

Forms of ownerships such as franchises were not included as the relationships of control are not always clear. Franchisors and franchisees both have important control functions. Big international chains were excluded for much the same reason (international headquarters give directives). Enterprises without stand-alone stores, *e.g.* with a store-in-store concept, were also excluded, as the aim of this thesis was not to look at the relationship between firms in different business sectors.

3. FRAME OF REFERENCE

The theoretical framework begins with an overview of the café sector and its trends (part 3.1). Part 3.1.1 discusses how the SMEs' competitors operate; *i.e.* the global coffee house chains. Part 3.1.2 illustrates difficulties and strengths for SMEs in general. The value chain of the retail store (part 3.1.3) illustrates how companies can differentiate themselves through internal processes. The Resource-Based Model (part 3.2) explains how internal factors can create competitive advantages. Examples of various resources are to be found in part 3.2.1. Part 3.3 discusses the Management Control System. Part 3.3.1 and 3.3.2 respectively examine the Management Control Systems in SMEs and in service enterprises.

3.1. Trends in the Café Sector

Sweden has traditionally been enthusiastic about adopting foreign influences, the coffee culture being one example of this open mind. Today, the importance of coffee in Scandinavia can be compared to the conventional 'cup of tea' in the UK. (Kjeldgaard & Ostberg 2007) Two trends have been noticeable in the Swedish café sector for the last couple of years. The first trend is that the typically traditional cafés, that serve coffee and pastries, have started to remerge (Arla 2010). The second trend is the increasing share of existing Americanised coffee house chains, of which Espresso house and Wayne's coffee are currently the two largest Swedish actors (Euromonitor 2011a). In addition, the international chain Starbucks plans to expand its presence in Sweden during 2012, as an effect of globalisation (Euromonitor 2011a). Brands appear to be of an increasing importance in the sector and growth is centred to the big cities (SvD 2012, Dn 2007). Convenient stores like 7 Eleven and Pressbyrån have expanded their range aimed at coffee drinkers (Euromonitor 2011a).

The café trends have been influenced by the modern customer whose hectic lifestyle has created a growing demand for the take-away trend (Dn 2007). Another trend that influences cafés is the customers' increased awareness of how manufacturing and good consumption effect the environment (Euromonitor 2011b). As customers become more aware of what they eat the cafés must adapt their menus to suit the more health conscious customers (Arla 2010).

3.1.1. Effects of Globalisation

A recent development in Sweden is the cafés' increasing resemblance to fast-food chains (Sydsvenskan 2010). This might suggest that only branded chains, which are influenced by Americanisation, manage to cope with competition in this sector (SvD 2012). This American influence is what George Ritzer was referring to when he coined the expression 'McDonaldisation' (or 'Starbuckisation' as we might call it nowadays') *i.e. "the process by which the principles of the fast-food restaurant are coming to dominate more and more sectors of American society as* *well as of the rest of the world"* (Ritzer 2004, p. 3). As Ritzer (2004) explains, eating at McDonalds means that the individual is attuned to a contemporary lifestyle. The McDonaldisation framework consists of four dimensions: efficiency, calculability, predictability and control. Efficiency in this context means finding and utilising the optimal balance between two points to optimise the workflow. Calculability is the process of quantification into *e.g.* portion size or time needed for an activity. Calculability takes advantage of the assumption that it takes less time (or appears to take less time) for the costumer to eat at McDonalds than to cook at home. Predictability assures that 'the customer always know what he or she gets'. Control is the capability to affect people within the organisation through instructions. Control also directs the customers' choices by limiting the supply and by encouraging an effective time spent in the store. However, there is a counter movement to the emergence of McDonaldisation, which consists of individuals who have grown tired of the notion of McDonaldisation and choose other options. (Ritzer 2004)

One example of the effect of McDonaldisation on the café sector is evident in Budapest. According to Fazekas (2005) the café culture here had its bloom in the 18th and 19th century when an important role of the coffee houses was the one of meeting points and information centres. Today, Budapest's coffee houses have been forced into retreat by the advancement of the urban on-the-go lifestyle. Fast-food chains have replaced many old coffee houses. However, it is necessary to keep in mind that the social role of the coffee houses was politically unpopular at a certain point in history, which might also have influenced the evolution of the café sector in Hungary. (Fazekas 2005)

3.1.2. Small and Medium sized Enterprises – Survival of the fittest?

All types of companies have challenges to overcome, as do SMEs. Some problems as well as advantages for SMEs mentioned in currently existing literature will be treated in the sections below.

The SME is the most common company form in the world. SMEs are referred to as the engines of economic growth and employment, the reason being that many innovations originate from SMEs. Ideas can be easier developed in SMEs rather than in larger and slower moving corporations (Lee, Shin & Park 2011). SMEs are in this way often viewed as more flexible, as having local market knowledge and having an easier time adjusting to new market circumstances than larger companies (Boter & Lundström 2005). Weinrauch, Mann, Robinson, and Pharr (1991) also view SMEs as an important factor for future development. However, one problem is that they have a hard time competing with large enterprises especially on the global market. Larger enterprises have the advantage of economies of scale and have because of this successively gained large market shares. The main reason for this has been tariff barriers – it is difficult for SMEs to pay large fees when they wish to gain access to new markets, as they oftentimes have limited funds (Weinrauch *et* al. 1991). Welsh and White (1981) state that: "*A* *small business is not just a small big business*". Differences are that SMEs are more sensitive to mistakes and changes in the external environment. In order to stay in business and to receive funding it is important for SMEs to have adequate liquidity and debt-equity ratios (Welsh & White 1981). When a company wishes to obtain resources or to exercise power, accounting can be used as a mean to legitimate the company (Mellemvik, Monsen & Olson 1988). Funds are essential when a company wishes to invest in new strategies or to expand into new markets. The challenge that SMEs face is to find new, less expensive ways of doing this. When enterprises lack capital or loan securities the government or other organisations can help by supplying them with support systems (Boter & Lundström 2005).

In 1998, Masurel and Janszen discussed the so-called 'shoestring' approach. A shoestring is a collaboration between SMEs, *e.g.* cooperative groups, voluntary groups, and franchise organisations. When working together the SMEs can develop into a larger player, thus making it possible to compete against large corporations. The collaboration allows them to profit from some of the same benefits that larger companies have, *e.g.* they can split costs, buy large quantities to lower prices and share the cost of barrier tariffs (Masurel & Janszen 1998).

According to Davenport (2005), clusters provide SMEs with a similar manner to cooperate. Cluster effects occur when several similar companies operate in the same geographical area so that they can draw advantage from one another's proximity. SMEs can help one another through collective learning, synergy effects and knowledge sharing without being under a contract. Cluster effects have proven important for SMEs as it is easier to mobilise resources and capabilities in one geographical area. Another advantage is the increased attractiveness for customers when they can find similar products in the same area (Davenport 2005).

Weinrauch *et* al. (1991) state that small business owners often have considerable experience in all the business areas surrounding the one of the company. Most companies are started by only one or two individuals and thus the owners must learn all steps in the process of running a business. Through trial and error the owners are given deeper market knowledge aside from additional experience. It is clear that knowledge and experience give SMEs an advantage even if current research on this subject is limited (Weinrauch *et* al. 1991).

3.1.3. The Internal Value Chain

As previously mentioned, SMEs must find alternative options when competing with large corporations. Watkin (1986) argued that they could do this by niching themselves into the lower or upper segments of the market. He based his argumentation on Porter's differentiation and low-cost strategies. Watkin's model is built on the assumption that competitive advantages are created through the interaction of different activities. The value chain (Figure 1) consists of primary

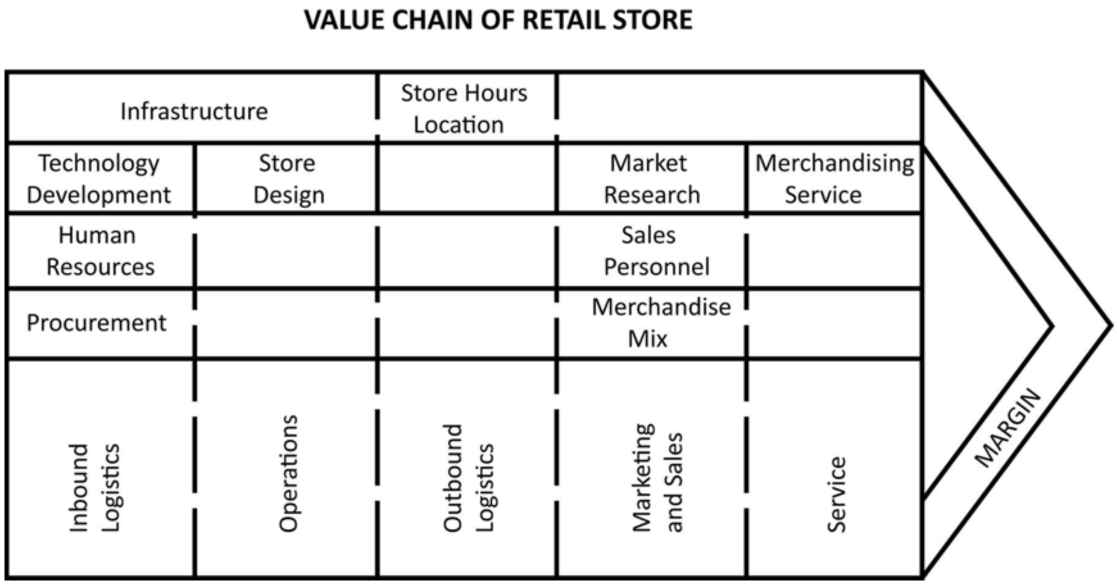

Figure 1: The value chain of a retail store (Watkin, 1986).

activities supported by secondary activities and margins. Activities such as marketing, manufacturing, logistics, *etc.* contribute to differentiation and cost advantages, which in turn create competitive advantages (Watkin 1986).

3.2. The Resource-Based Model of Sustainable Competitive Advantages

The Resource-Based View identifies internal company resources and discusses whether or not the position of the resources can create competitive advantages (Barney 1991). Wernerfelt explains a competitive advantage as follows: *"What a company wants is to create a situation where its own resource position directly or indirectly makes it more difficult for others to catch up"* (Wernerfelt 1984, p. 173). Wernerfelt introduced the Resource-Based View in 1984 and in 1991 Barney added the VRIN-framework, which is explained below. Barney (1991) explains that Sustainable Competitive Advantages are created when a company successfully position its resources and then combines this with a suitable strategy. Resources *"include all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc. controlled by a firm that enables the firm to conceive of and implement strategies that improve its efficiency and effectiveness"* (Barney 1991 p. 101).

Barney (1991) explains that if a company is to have competitive advantages, there has to be a state of resources heterogeneity and immobility in the market. When resources are heterogeneous companies can have for them unique resources. Immobile resources cannot be directly acquired or copied by other companies. Most sectors and industries have some level of resource heterogeneity and immobility present. If not there would be no unique strategies as resources could simply be created or traded between companies. Barney (1991) further classified resources into three groups: physical, human and organisational capital resources. He stressed however that not all resources are of strategic importance

- some may even weaken the company (Barney 1991). Resources that cannot satisfy customer demand are weaknesses, resources that can are strengths (Clulow, Barry & Gerstman 2007). Strengths can be used to take advantage of opportunities and to eliminate threats in the firm's external environment. This linkage to the external environment connects the Resource-Based View to earlier theories about competitive advantage, *e.g.* Porter (Barney 1991).

According to Fahy (2000), a company has a competitive advantage when it has something that is rare – that no other company or business group on the market possess. A competitive advantage also occurs when value is created through a strategy not used by future or current competitors (Barney 1991). Fahy (2000) adds that: *"More than one firm in a given market can have a competitive advantage"* (Fahy 2000 p.94). When competitors are unable to copy the company's strategy over a longer period, Sustainable Competitive Advantages are achieved. Barney (1991) further adds that even if a resource cannot create competitive advantages, it can enable other resources to do so. Fahy (2000) argues that a combination of resources is what creates competitive advantages.

There are certain other criteria that must be filled for a Sustainable Competitive Advantage to be created (Figure 2 – Barney 1991). As discussed above, there should be a state of firm resource heterogeneity and resource immobility. Then, the VRIN-criteria must be fulfilled and lastly the advantage created by the resource should be sustainable over time. VRIN is an abbreviation for valuable, rare, imperfect imitable and non-substitutability. Valuable resources make it possible for a company to use strategies that lead to an increase in efficiency and effectiveness. By default, a resource that is not rare cannot create a competitive advantage. A resource is imperfectly imitable according to three criteria: it has 1) a unique history, 2) there exists ambiguity concerning what resource is the source of an advantage (casual ambiguity) and 3) the resource is connected to a social phenomenon outside the company's control. When the substitutability criterion is met there is no strategically equivalent resource. The question of substitutability is, as discussed above a matter of degree (Barney 1991).

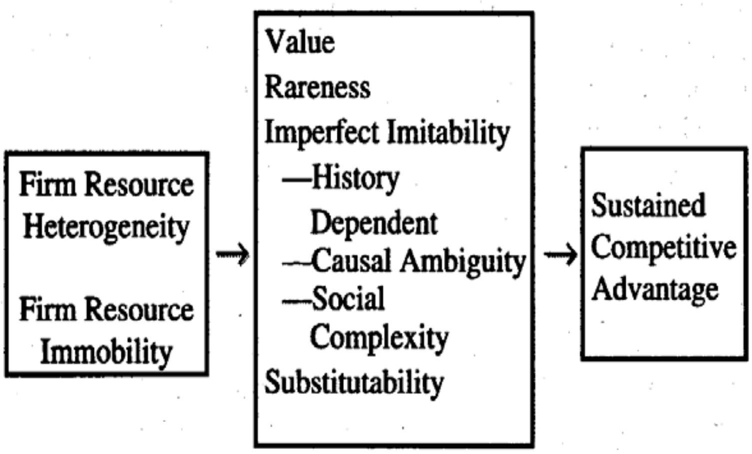

Figure 2: The Relationship between resource heterogeneity and immobility, value, rareness, imperfect imitability and non-substitutability and Sustainable Competitive Advantages (Barney 1991 p. 112).

Grant (1991) emphasises the role of capabilities for creating competitive advantages. Capabilities can *e.g.* be company culture, the relationship between management and workers in a firm or skills possessed by a person or a group. To Grant capabilities are closely linked to routines (Grant 1991). The advantages of capabilities are that they are harder to copy and are often highly specific to a certain company, which adds to their long-term value (Fahy 2000). Teece (1997) further defined capabilities by claiming that different mixture of paths, positions and processes create dynamic capabilities unique to each company. Paths are the company's available strategic alternatives. Positions are the current endowments of customer base, external relationships, *etc.* Processes are routines and how the company is run. (Teece 1997) Prahalad & Hamel (1990) call resources and capabilities core competences and consider them to be the keystones to controlling a company.

3.2.1. Resource Examples

Location is classified as a physical resource and is imperfectly imitable when it is also rare (Barney 1991). A **brand** can help protect the 'essence' of the ideas and the associations connected to the business concept. This essence helps to build the company's reputation. A brand makes it more difficult for competitors to appropriate ideas and concepts central to the own company (Hall 1992). Roberts and Dowling argue that a good **reputation** is of strategic value for companies and gives them a competitive advantage. Reputation has been defined as *"a perceptual representation of a company's past actions and future prospects, which describe the firm's overall appeal to all of its key constituents when compared to other leading rivals"* (Fombrun 1996: 72 from Roberts & Dowling 2002). Good reputation works as a confirmation of quality and confirms that the company is being recognised. A reputation separates the company from its rivals, which can lead to financial and strategic advantages (Roberts & Dowling 2002). How reputation is seen can be divided into two theoretical views: the first view acknowledges the reputations' importance for a company to be recognised. The second recognises the financial aspect of the reputation, *e.g.* how a company evaluates its specific attributes. (Jansson 2012)

Routines are defined as constant patterns of behaviour that are unique to each company. Routines simplify management and make processes more effective - employees know what to do and when to do it. Effective operational routines are also necessary in order to make the company run cost efficiently. (Zollo & Winter 2002) **Service** is further discussed in part 3.3.2 Management Control in Service Enterprises.

Customers and suppliers are vital external shareholders for the company, says Jansson (2012). Companies should base their **external relations** on mutual respect so that they can learn from each other. A successful relationship takes time to build. For this reason companies should strive for long-term relationships (Jansson 2012). **Internal relations** are company culture and/or human assets -

the way employees and management relate to one another. Employees who have worked together for a long time have developed experience together by working with each other, and can communicate better and make the use of time and effort more efficient (Barney 1986). **Pricing** is a central value-creating and value-suited capability that is cultivated within the company. Incorrect pricing leads to resource 'mismanagement', since price and pricing is connected to customer usage (Dutta, Zbarackik & Bergen 2003). Therefore, calculations and appropriate prices must also be connected. (Jansson 2012) **Knowledge** and **experience** is exemplified in part 3.3.1 Management Control in Small and Medium Sized Enterprises.

Barney (1991) further discusses some additional resources. Leaders with similar qualities and/or planning processes that generate highly imitable visions can substitute the own company's **charismatic leader** and the company's **vision**. Management involvement is something Barney sees as highly important in the creation of competitive advantages. A formal **strategic planning system** is unlikely to create competitive advantages on its own. However, it can enable this process in other resources. An information processing system can further competitive advantages if it is socially complex – it is impossible to exactly predict the actions of an individual or a group of people. The system can create competitive advantages if it is linked closely enough to the decision making process (Barney 1991).

Management Control is seen as a part of a process that includes objective setting and strategy formulation (Merchant & Van der Stede 2012). In a similar manner, Ax, Johansson and Kullvén (2009) view Management Control as a way for the company to reach its aims and objectives. Henri (2006) also argues that Management Control can create competitive advantages.

3.3. The Management Control System

Langfield-Smith (1997) viewed Management Control as the process by which the company's leaders control the internal resources. The aim of this process is to reach company objectives. What can be controlled are individuals and their behaviours and actions, sometimes with a specific result in mind (Langfield-Smith 1997). Bergström and Lumsden (1993) explained that the role of the manager and the owners often overlap in SMEs, thus their goals converge. The business manager's role is to collect internal and external information. This information can then be converted into strategic planning decisions that make it possible for the owner to act as a spokesperson/informant both inside and outside the company (Bergström & Lumsden 1993). How information is collected and interpreted will however vary between individuals, depending on their personality (Mellemvik *et* al. 1988).

The Management Control System is defined as a system in which goal setting (forming a standard) and deviation analysis motivate adjustments (Samuelsson

2004, Merchant & Van der Stede 2012). The system is seen as mainly reactive, but can also be interpreted as including proactive measures and informal controls. These control measurements are meant to not only control actions, but also to secure behaviour that ensures that company objectives are met (Strauß 2011).

In Erik Strauß's study (2011) Strauß saw that HR and finance functions were the first to be introduced in the Management Control System. Samuelsson (2004) adds that emphasis will lie on different Management Control Measurements[1] in different enterprises and will differ over time.

3.3.1. Management Control in Small- and Medium-Sized Enterprises

According to Bergström and Lumsden (1993) a typical attribute in SMEs was that the company structure was often more open and simple. How the companies used economic information depended on the companies' internal structure. What the companies perceived as their main competitive advantages, what the levels of integration and decentralisation were and what levels of complexity the companies exhibited would also define how sophisticated the systems were. Companies that did not outsource elements of their Management Control Systems appeared to have a higher usage. In addition, the manager's level of formal education and his or her usage of the Management Control System also appeared to be positively correlated (Bergström & Lumsden 1993).

The age and size of the companies often affected what functions the Management Control Systems[2] had. How much the system was used and to what extent information from the system was reintegrated into the company appeared to increase with company size. Legal requirements often formed the basis of a small-scale system. For this reason the scale of the systems usually remained unaffected over time. (Bergström & Lumsden 1993) The Management Control System has to be adapted to the needs of the company. Therefore, low adaptation and usage of the Management Control System does not automatically signify that the system is inferior to another (Jänkälä 2005).

Jänkälä (2005) gave two examples of where the design of the Management Control System was dependent on strategy. A company with a harvest strategy would be satisfied with the information supplied by the traditional Management Control System, as it only needed to sustain its operation. However, a company with a build strategy that wished to augment its market shares needed a future orientated Management Control System. The system would have an increased emphasis on external and non-financial information in addition to the information needed for a company with a harvest strategy.

[1] Management Control Measurements act as aids or sets of tools in the Management Control process. Examples of these measurements are financial (financial ratios, budgeting *etc.*), non-financial (corporate culture *etc.*) and structural (corporate structure *etc.*) (Ax *et* al. 2009).

[2] Bergström and Lumsden (1993) use the term Accounting Information System, which is a similar term.

3.3.2. Management Control in Service Enterprises

Service management is a concept and Samuelsson (2004) names its five factors: market segmentation, service concept, service delivery system, image and culture and philosophy. The importance of being able to handle knowledge is underlined. It is important to know how the company can create a functional relationship with the customer that incorporates the company's service into the customer's value creating process. Other important relationships are those with suppliers, co-workers and competitors. However, the level of integration for these different relationships will differ (Samuelsson 2004).

The development of core competences in a service company can be measured by how the customer perceives the company and how well it is doing on the market. In addition to financial and formal measurements the service company needs follow-ups for customer capital, competence capital and structural capital (Samuelsson 2004).

4. EMPIRICAL DATA

This section presents each of the interviewed companies, their owners and their views on trends, the Management Control Systems and their resources.

4.1. Company X

This café opened in January 2011 and is situated not far from the city's main parade street. The owner has earlier experience of the café sector in Gothenburg, as well as of a family owned confectionery in another Swedish city. The interviewee is the sole owner and employee.

The primary business concept is a café. The secondary purpose is that of a 'modern' confectionery. The owner wishes to create a mixture of quality, good coffee and Swedish, professionally home-baked pastries. The owner thinks that traditional confectioneries have previously been unable to deliver all these parameters. Many cafés in the surrounding area are described as having small rooms, often in a basement. The owner wants the own café to have a cleaner, more modern interior.

In addition to being located near the city's main street, this café is also in proximity to the Haga district. The Haga district with its pedestrian street and 19th century atmosphere could be thought of as competition as it has many cafés. However, the owner thinks that the competition comes mainly from the nearby convenient stores rather than the Haga district, as the clientele is different. The convenient stores along the street where the company is situated are big vendors of take-away coffee. Other strong opponents are two of the city's largest coffee chains that are situated across the street. The owner is also concerned with Starbuck's future expansion in Gothenburg. A Starbuck coffee shop on this street would probably force the smaller cafés on the street to shut down.

4.1.1. Trends and Strategy

The owner feels that the café trend is still substantial in Gothenburg. This means that the competition between cafés is intense. Adjusting to how other cafés adapt to trends, as a way of competing, is not something the owner does. It is however vital to be sensitive to the wants and needs of the customers. The café has *e.g.* previously stocked ecological coffee, as a response to the eco trend. The owner has since then stopped selling ecological coffee, since there was almost no demand. In addition, the owner thinks that customers want to be aware of health and environmental issues, but there appears to be a limited demand for *e.g.* products with local content. Quality is seen as the most important resource[3] of the café and the owner hopes to see a future quality trend. A current problem is how to convey that even though the products have a high quality standard, they are still

[3] The Resource-Based View does not strictly defined quality as a resource. This is the interpretation of the interviewee.

homemade. Sometimes costumers have commented that the pastries look too professional to be homemade.

The owner currently plans to refine the offered range and aims to make this new café profitable. Profitability is a condition that has to be met before any future expansions can come into question. There is the idea of an additional shop under the same brand. The company logo is *e.g.* designed with a possible expansion in mind. This expansion would however be limited, as the owner does not want to imitate the big coffee houses. The owner perceives the customer experience to be negatively affected when coffee house chains become too large.

4.1.2. Management Control

Management Control[4] is seen as something of a 'necessary evil' that takes the focus from the main activity of the café, which is baking. Management Control has a secondary role in the company. Although a friend of the owner has made a budget, it has a limited feedback function. The record of transactions is handed over to the friend who also carries out the annual accounting. In case of a future expansion the financier would demand a budget. A good financial foundation is vital if additional funds are needed in a start up phase. The owner adds that it is more expensive to acquire a café in Gothenburg than in Stockholm.

Moreover, financial plans and prognoses are not currently part of the business operation. Planning is based on experience and estimations, as the owner considers the café as still being too small to need a more complex support system. Planning is thus seen as something imperative for larger enterprises, where registering *e.g.* cash flows and other pertaining information can help plan the business. As a café in Sweden's second largest city the company does not experience the same fluctuation in demand that can be found in small cities. However, weather conditions and holidays affect sales and consequently day to day prognoses can be done by watching the weather forecast. Long-term prognoses can be made by observing where public holidays and city events occur during the year. One example is from 2011 when the weather was beautiful and numerous people were in motion because of the Half Marathon 'GöteborgsVarvet'. This day was highly profitable for the company.

4.1.3. Resources

Location was among the first resources mentioned by the owner. When located this close to the city centre, a few meters in the wrong direction can mean failure for a café. In smaller cities this is different as there are fewer cafés to choose from, that is to say the supply is far more limited. Hence, the owner explains that this makes the exact location of cafés in smaller cities less important. This is not, however, the case in Gothenburg, where the customers have a variety of cafés to

[4] The owner uses the Swedish word *ekonomi*.

choose from. Here, factors such as whether the café is situated in the sun or not will have an impact on sales, especially in the summer when customers prefer to sit outside.

The café currently experiences difficulties targeting its customers. The owner is currently trying to enhance the company's reputation by *e.g.* advertising in medias aimed at students. One imaginable explanation is that it is difficult to get a view into the café from the street. Reputation and brands is a way for the café to spread awareness of its existence to the customer. Starbucks and Espresso House are two examples of companies that are seen as benefiting from their familiar brands. The fact that these cafés are easy to recognise and are situated all over the city make them frequently visited. The combination of their brand names, reputation and accessibility causes a recognition factor in the customer, which the owner referrers to as the 'McDonalds effect'.

Company X's owner views service and routines as two factors closely linked. Since routines make the workflow more efficient - time is money. However, routines are less critical for the company at the moment as one person is still sufficient to handle the daily work. One of the earlier locations of the café had very hectic lunch hours. The experience from this café showed the owner how important working routines are as they enable good service. The owner believes that different previous experiences have been of use, as pitfalls could be avoided and benefits utilised.

Furthermore, something the owner otherwise feels must be attained is a relationship with external actors/suppliers that is built on mutual respect. Margins and profits are of course necessary when running a business, but the café could not have stayed in business without the support of its suppliers. A working network is therefore crucial for sustainable enterprising. The cooperation between competit-ors is not as developed in Gothenburg, as it was in the small city where the owner was previously active. However, the companies can still borrow from one another if needed. The café has another collaboration, where it stocks products from a local ice cream brand. The local familiarity of the brand is seen as a plus, but the owner emphasises that it was chosen because of its quality.

Finally, the current location is experienced as somewhat price sensitive, thus setting the right price is important. The café's prices were originally set based on the pricing of other cafés situated in the same area. Calculations were not used. The café is situated right next to one of the city's campuses, which makes students an important target group. The main difficulty up to the present has been reaching the students and conveying that the café has a discount. Otherwise, customers become less price sensitive closer to the city centre. The owner adds that what is truly important in the city centre is that the customers can pay by card. The owner has previously experienced that a malfunctioning card reader can cause a loss in profit.

4.1.4. Summary - Company X

Company X is still a relatively young company. The company has its own concept and niche as a 'modern confectionery'. According to the owner, Management Control is performed on a small scale as is the business itself. Current operations are focused on achieving a sustainable business. The size of the company and what the law requires explain how Management Control is currently used. Resources that are viewed as important are location, reputation and brand, service and routines, external relationships, experience and knowledge and to some extent pricing.

4.2. Company Y

Company Y is the owner of one of the city's biggest café chains and most cafés are situated on the city's main avenue. Early on, the owner started out as a chef by profession, but the dream was always to own a café, a dream that came true 27 years ago. At the initial stages, at the same time as the first café opened, there were only working-class cafés and confectioneries in Gothenburg and thus being the sole café was a clear advantage. One café expanded into two, and in the year of 2003 the owner felt that it was time to make use of the up until then acquired knowledge and start a new cohesive café chain. Together with an architect and a graphic designer the owner created the new concept. The initial idea was to open one café and if it would become successful an expansion would be made. The feeling, as the owner describes it, was right and within the next two years four new stores were launched in Gothenburg. The latest addition to the company was made in December 2011 and recently an expansion of the chain has also taken place outside the city. Today the company occupies a CFO, a salary administrator and a product manager who all help the owner in the daily and strategic work. In addition, each café has a local manager and a kitchen manager.

The business idea is to offer a café with homemade pastries and lighter food /smaller snacks. All products are produced in the own bakery, which is also situated in Gothenburg. It is important that all types of personalities feel welcome and that there is something on the menu for everyone. A coveted effect is that if a customer is a vegan it should still be possible to provide options that satisfy him or her.

Competent competitors are seen as an opportunity as they help develop the market. However, the company itself is the biggest competitor according to the owner. It is crucial to be aware of what the competitors are doing, but once you stop pushing the own organisation towards new goals the business will eventually stagnate. The owner expresses that as an entrepreneur it is important to let your own thoughts and feelings guide the way. Only when you listen to your own heart the company can be successful.

4.2.1. Trends and Strategy

The owner actively strives to create new trends instead of excessively studying the current market. Own ideas are preferred by the owner, as only they can be truly based on the company values and converge with the current sentiment of the owner. Value assessments have always been important. The owner compares the company to a lens through which own values are reflected. If it is natural to use fair trade coffee at home, it should also be natural to serve it in the cafés. A business is an opportunity to make changes in the community, *e.g.* to make people more aware of what they eat. By welcoming all sorts of people the owner experience that they help work against segregation.

4.2.2. Management Control

According to the owner *ekonomi* [5]/Managmement Control is an important and fun part of business. All day to day and strategic financial work is done internally, but the company has an external auditor with insight in the totality. The Management Control System is viewed as a way to control the company and not only a way to make money. Profit and a working Management Control System are necessary in order to be able to expand the company, but as an entrepreneur it is not the only motivation when running a business. Providing service to the guest and making people happy are important incentives.

When running a business of this size a functional control and financial system is invaluable. In the café sector, *ekonomi* can be equated to ecology, states the owner. Consequently, the company keeps track of how many products that are wasted each year. This is made possible through a new system that measures how much of each product and ingredient that is used each day. There are two main reasons for using this system: 1) the company can keep track of its expenses and 2) the customer should always be able to expect the same sized portion that tastes the same. *E.g.*, a coffee with too much milk will be too weak in taste and the cost of the milk will be larger than expected. Consequently, the company works with financial ratios for product and salary costs and rents.

Expansion is always an important element in business and it is therefore important to keep looking for new opportunities. Plans are essential, but sometimes opportunities for which no plans have been made present themselves. The company should then be able to recognise and seize these opportunities. The plan for this company is to expand the business further, both in Sweden and possibly abroad. In either case, the brand is a protected trademark everywhere it has been possible to register it as such. Furthermore, the owner thinks that it is of high priority to pay old loans before starting a new expansion.

[5] *Ekonomi* can here mean both accounting and finance in a business.

4.2.3. Resources

Location is seen as an important resource and it is essential to find a suitable location before opening a new café. It has been difficult to come across good locations in Gothenburg, as it is not often that new attractive premises become available. The inert change in the city landscape together with the lack of suitable locations are what have impeded the company's pace of expansion.

According to the owner, the guest is without doubt the company's greatest resource[6]. After all, without customers there can be no business. The owner considers the cafés as meeting points for all kinds of people, as the company has no distinct target group. This, together with their motto 'of course' creates surplus value for customers. (Of course is what the staff should answer if the customer asks for something). A recent example of the company trying to create surplus value is the all-vegetarian menu that the café chain serves once a week. The menu's purpose is to make sure that everyone can find something to eat that meets his or her expectations. Another example is the 'this summer's favourite smoothie' competition, which has been held on Facebook. This competition was created to ensure that the customers are part of the selection process.

The owner's previous experience of working as a chef has been an advantage when establishing the business, mainly since the knowledge of food has been useful. The owner has no formal education on the subject of leadership, but instead the motto has been to learn from past mistakes and to never repeat them.

Relationships, both external and internal, are seen as important resources. The relations towards external suppliers should be based on mutual respect, and both suppliers and the company should share the same values. There are about 160 full-time employees receiving pay each month. When hiring, the owner considers it important to pay attention to how the new employee interacts with people, rather than only looking at previous experiences. A service mind-set should be a given to all employees. It is good service that makes the customer want to return. No one should have to tell the employees to smile and be polite. Consequently, the owner might prefer to employ someone who is only accessible for work for a short period of time, but who understands the concept of service. The company has created its culture by choosing its employees carefully. The owner sees the company culture as an element that enables unity and better customer service. Helping one another out and doing the best job possible are considered keystones; the employees should work with and for one another. If the night shift has not done the preparations for the next day, this will be at the expense of the morning shift. Therefore, mutual respect among co-workers is vital.

Cost calculations are not always made when setting the price for a new product. Usually price is set in accordance with what the customer is likely to be willing to pay. This ultimately means that not all products will be profitable, but other

[6] The guest is not strictly defined as a resource in the Resource-Based. This is the interpretation of the interviewee.

products with better margins will compensate for this. How competitors choose to set their prices are not unimportant, but are viewed as secondary. In the end, what the customer thinks is the right price will be the most crucial.

4.2.4. Summary - Company Y

Company Y is one of Gothenburg's most well-known cafés. The company actively works with trends and views competition as something that develops the market. Company Y has a more formalised Management Control System consisting of financial, non-financial and structural measurements[7]. Management Control has been adjusted to the company's increasing size. Resources discussed in previous section are location, reputation, service and routines, external and internal relationships, knowledge and experience and pricing.

4.3. Company Z

When establishing the current company, the interviewee utilised an old Gothenburg brand that had its origin in a 19th century chocolate manufacturer. The brand name was re-launched in 1998, but was adapted to the present owner's specific outlook and concept. The desired atmosphere in the stores and the overall business concept wish to convey a local and historical connection and make use of the brand's familiar background. The main activity of the company is still chocolate manufacturing. The owner is a professional chef and has prior experience of the restaurant sector. Today, the business is run by the owner single-handed, and consists of three stores, divided into two separate corporations. The café is the latest addition.

A couple of years ago the premiere of the movie *Chocolat* induced an increased interest in chocolate. As a result, many new chocolatiers opened all around Gothenburg. However a majority did not manage to sustain their businesses. As the company was already established and well-known the owner believes that the increased interest was positive since it made the costumers aware of the products. The owner states that when competition increases it is important not to lose confidence in the own business idea and that it can be successful. The fact that not every company is alike can be an advantage, as different companies satisfy different customer needs.

4.3.1. Trends and Strategy

The owner still sees a growing coffee and café trend, especially compared to a couple of years ago when people often met at home instead of going out for a coffee. Trends are never invariable and therefore it is important to always be at the forefront in order to see and develop new trends. Therefore, the owner strives to be an active participant at social events and in new forums. Just recently the

[7] Management Control Measurements - financial (financial ratios, budgeting *etc.*), non-financial (corporate culture *etc.*) and structural (corporate structure *etc.*) (Ax *et* al. 2009).

company had a new product tasting that took place at a big blog event in Gothenburg.

An advantage with being a relatively small business is that the company enjoy more freedom to experiment and try out new products and flavours. This is also made possible by their close connection to the end consumer. The owner argues that all new trends are created in small companies, and that larger companies then adopt the trends.

4.3.2. Management Control

The owner is completely autodidact in the subject of business administration, but keeps updated on business development and consults an external resource for accounting and auditing. The Management Control System is an important tool for managing the business, as the main responsibility for the company is a duty of the owner. Consequently, knowledge in the company's finance and operations is vital, and therefore calculations, reports and follow-ups concerning spoilage, purchasing costs, inventory, work schedules, *etc.* are made. Daily reports are balanced by forecasts. Experience is essential when forecasting sales and product allotment - a skill the owner has learned over time. Company Z's owner wants to be involved in the everyday operations of all three facilities. Thus, the owner is also involved in all steps of the value chain, from product development and manufacturing, to greeting the customer. To the owner, important keystones are being the best at understanding and explaining the manufacturing process plus having the best ingredients and quality. It is important to have knowledge of all the production steps today, as the customers are both aware and interested. Internal knowledge acts as an assurance of quality and proves to the customers that the company is trustworthy.

It is vital for the company to have the resources that enables it to carry out new ideas. Management Control is an important tool for this. However, the owner explains that it is never solely the financial factors that determine if an idea should be implemented or not. The owner claims that you have to be passionate about your product and believe in it, and claims that Management Control should support this development process. The owner has a product perspective when developing a new idea and when the idea has been established the financial planning process begins.

The company has a policy that promotes the idea that it should take time to grow. This strategy protects the company's uniqueness and guaranties that every part of the company works well before moving on with new ideas. The different locations can then be used as supporting units when developing new products or expanding the company. The café has *e.g.* been used for chocolate testing events and some of the café's products are manufactured in the other stores. The proximity to the other stores makes the planning process easier as they can borrow goods and personnel from one another. The previous stores were also used to fund the opening of the café.

Chocolate is an everyday luxury product, which means that it should not be found on every street corner or in every store. This would demolish the concept of the brand and the uniqueness of the product. Therefore, it is important to consider new business opportunities carefully, beforehand. Presently, there are no plans to expand the brand outside of Gothenburg. On a personal note, the owner has no wish to leave the city and staying within one geographical area acts to ensure that the owner can maintain control of all levels of the company. *"But one should never say never."*

The owner regards owning and running a business as a constant learning process. Letting expansions and plans develop over a longer period allows for well-considered decisions. Initially the owner only had the help of a part time employee. As the company grew further help was needed. As everyone in the company is dependent on one another, trust is fundamental. Thus division of responsibility was something that the owner felt had to be learned.

4.3.3. Resources

Location is important and should therefore fit the concept. The owner has actively chosen locations in the city centre for the cafés, based on personal assumptions of the conditions. It is an advantage that they are easily accessible and within walking distance of one another. This café is situated on a corner and in the future the surrounding areas is to be rebuilt, offering a sunny open-air café with a view of the city canal and one of the city's parks.

The history of the brand is a resource as many people, especially senior customers, remember it and associate it with Gothenburg. The café has its fair share of regulars and relies to a large extent on word-of-mouth in order to build a customer base. That said the number of younger customers has positively surprised the owner.

Service is one of the most indispensable factors for the company. Without good service it does not matter how high the quality of the product is, the customer will not return. The three stores are able to support one another with products, knowledge and staff. Today the owner has about 15 employees, and when hiring new personnel the personal meeting and the first impression are important. The owner thinks that internships are an excellent way of acquiring new personnel, as it allows for the owner to see how the individual interacts with the customers. The company culture and the willingness to work with the company's best in mind, as a family, are essential. Each employee is important and trusted to do a good job. To always be in time, to be polite and helpful toward both customers and colleagues and to know the product and processes behind it.

There are many potential suppliers on the market, which sometimes makes it difficult to choose whom to work with. This makes the company's relationships to its external actors important. The owner wants to find suppliers that value quality and the manufacturing process to the same extent as the company. The owner prefers to work with quality rather than quantity, which must be communicated to the suppliers. It is in the end a relationship of trust, which must be conveyed throughout the whole process in order to create customer value.

The owner's knowledge and experience from the restaurant sector as well as from running the other stores have proved to be useful when running the current companies. The commitment the owner feels to the business and all the time spent on the company can be seen as another unique asset.

As chocolate is a luxury product, the demand is less sensitive to recessions. What the customer is willing to pay will decide the price of the product. Therefore cost calculations have a secondary role. As the café has a relatively unique niche it is not necessary for the owner to compare prices with the café's competitors.

4.3.4. Summary - Company Z

The company has a Management Control System with elements of financial, non-financial and structural measurements. Management Control is still mainly informal and the system has a vital role as a feedback tool. The owner thinks that it is important that personal control can be maintained. The Management Control System and the corporate structure must be adapted to this. The café has a distinct niche with a partner business that appears to have similar needs for control. Resources discussed were location, brand and reputation, service, internal and external relationships, knowledge and experience and pricing.

5. DISCUSSION AND ANALYSIS

Part 5.1 presents an adaptation of Watkin's internal value chain. Part 5.2 discusses the interaction between Management Control, strategic choice and resources. Important resources are discussed and analysed with the help of the VRIN-framework (Barney 1991) in part 5.3. The designs of the Management Control Systems in the three companies are assessed in part 5.4 of the thesis.

5.1. An Adaptation of the Internal Value Chain

Company X and Z have niched themselves within the lower or upper end of the income scale, just as Watkin (1986) suggested. Company Y has a more general approach and a wider target group, which could be explained by the fact that Company X and Z wish to remain small companies, while Company Y views domestic and global expansions as possibilities.

Returning to Watkin's (1986) retail store value chain, Figure 3 shows an adaptation of the model, containing the terms used in the thesis as well as in the Resource-Based View. An asterisk in the figure indicates that the terminology has been altered in the model, otherwise the terminology remains unchanged. The new model suggests that resources, set in the context of the internal value chain, have a sequential impact on one another and on the company's differentiation strategy. Fahy (2000) has drawn a similar conclusion - that a combination of resources is what creates competitive advantages. An example is that if service is to add value, the cafés must first have functional corporate cultures.

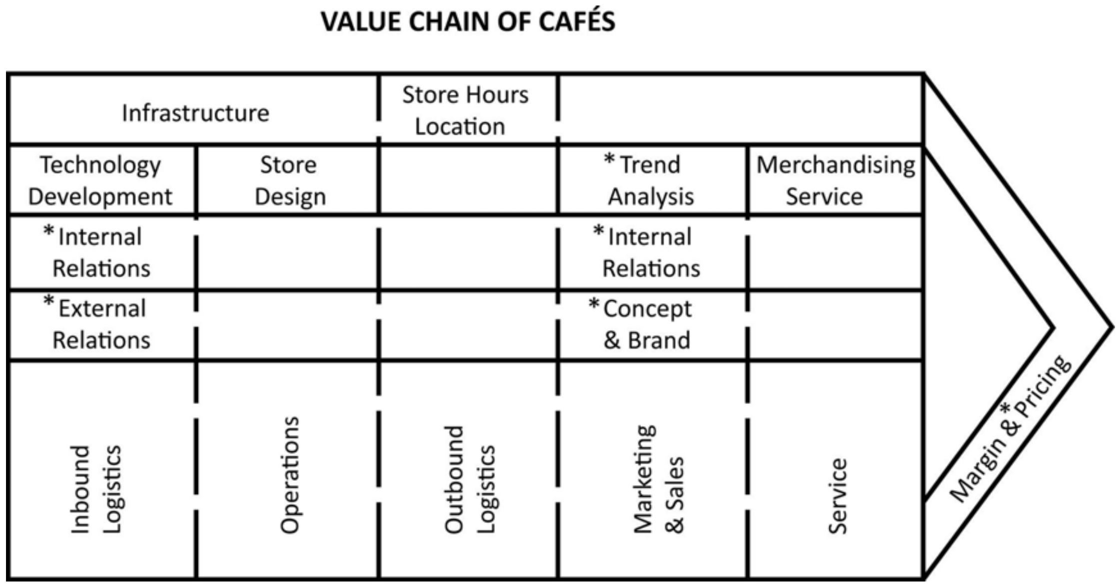

Figure 3: Adaptation of Watkin's (1986) retail store value chain. (Authors' adaptation)

5.2. The Coordination of Factors

As seen in the empirical data, customer preferences, trends and strategy are all closely connected in the interviewed companies. This could be as Lee *et* al. (2011) suggested because of the companies' closeness to and knowledge of the market. Company Y and Z view trends as something that can originate from the own company and which can then be used to influence the market.

Henri (2006) suggested that there is an interaction between strategic choice, the Resource-Based View and the Management Control System. Based on the result on this study this notion appears to have merit. One observed example of this is that the cafés choose their locations with their concepts and strategies in mind. If a suitable location cannot be found neither can an expansion be made. Thus, strategic choices decide what resources the cafés want to develop and obtain. In a further step the Management Control Systems are adapted to the resources size and complexity. This adaptation of the Management Control System in order to suit the company's needs is discussed in the theory chapter and can be illustrated through further company examples (Samuelsson 2004). An example is how the cafés employ corporate culture and division of responsibility depending on the complexity of the internal relationships in the companies.

Mahoney and Pandian (1992) argued that the Management Control System might influence the company's growth. It would appear as if simultaneously as the cafés grow needs for changes within their systems would occur. It is feasible to believe that there will be an intermission in which the cafés have not had the time to adapt their Management Control. This delay might cause the companies' expansion to slow down. Henri (2006) argues that Management Control Systems could create competitive advantages. Strategic work and trend analyses are used as differentiation tools by the interviewed companies. As theory suggests, strategies are in that case dependent on the companies having the right control functions to complete these strategies. Consequently, the Management Control does not appear to grant the cafés competitive advantages on their own, but they facilitate achievement of company strategies.

Furthermore, the cafés have different points of view on how large corporations affect the SME market. Two out of three companies view competition as positive since it diversifies and develops the sector. However, Euromonitor (2011a and Svd (2012) discuss a future market with fewer actors, where the market power is centred to fewer actors. This would remove the positive effects of having numerous competitors noticed by the cafés as well as by Davenport (2005). As observed, several similar companies in the same area are necessary for his cluster theory to come into effect.

Therefore, selected business strategies together with how the companies chose to adapt trends will impact the selection of internal resources. Suitable Management Control is consequently important for strategy implementation and resources development. It would thus appear to be a combination of viable strategic choices, a functional Management Control System and resources that can create competitive advantages.

5.3. Resources

The Resource-Based View helps companies identify and optimise their strongest resources and create competitive advantages (Barney 1991). The three steps of Barney's (1991) VRIN-framework are reiterated below. The framework will then be used to analyse the companies' resources in the following sections.

In the first step of the VRIN-framework (Barney 1991), one must determine if there is a case of firm resource heterogeneity and immobility. The fact that the three interviewed cafés have managed to differentiate themselves and their strategies would suggest that resource homogeneousness and immobility exist on the market.

The second step in Barney's (1991) VRIN-framework examines if the resources fulfil the VRIN criteria. VRIN is as mentioned an abbreviation for valuable, rare, imperfect imitable and non-substitutable. The third step evaluates whether the competitive advantage could be sustained over time. In the following section of the thesis the companies' resources will be evaluated one by one with the help of the VRIN-criteria. A summary in the form of a table is presented in each section. Each VRIN-criterion is given a score from 0-2 per resource and per company. '0' means that no indication was found that the given VRIN-criterion was fulfilled for that company's resource. '1' indicates that the criteria appear to be fulfilled to some extent. '1' can also mean that the resource appears to be heavily reliant on another resource in order to create competitive advantages. '2' signifies that the VRIN-criterion appeared to be fulfilled.

5.3.1. Location

All three companies stress the importance of a good location. Company X's owner argues that if the café is easy to access, it becomes more attractive and easier to recall for customers. An argumentation much like the one made by Ritzer (2004). Despite this argumentation, Company X's location has not managed to attract customers. Thereby, it cannot be perceived as either rare or valuable. A resource that cannot create value for the company cannot create competitive advantages. As the valuable criterion is not fulfilled in the case of Company X, the remaining criteria are not examined (VRIN-summary Table 2).

Table 2 - Location

LOCATION	Company X	Company Y	Company Z
Valuable	0	2	2
Rare	-	2	2
Imperfectly Imitable	-	1	1
Social Complexity	-	1	1
Unique History	-	2	2
Casual Ambiguity	-	1	1
Non-Substitutable	-	1	2
Sustainability	-	2	2
0 = NO 1 = To some extent/ In combination with other resource 2 = YES			

Company Y and Z stress that finding a suitable location must precede a planed expansion. In the case of these two companies, their locations appear to add value. The cafés' exact locations are rare and thus automatically imperfectly imitable (Barney 1991). As Company X's owner emphasises a few meters in the wrong direction can mean failure. Therefore, it is not always clear what makes a location attractive. Social complexity and casual ambiguity could account for parts of this effect. Company Y's and Z's stores are located in areas where they are already present, thereby the locations can be said to have unique histories.

Substitutes ought to be hard to find because of the inert change of the city landscape. However, Company Y has more locations to choose from, as it is willing to expand outside of Gothenburg. Company Z has carefully chosen locations in the same city area. The inertness of change in the cityscape is also what should make the companies' locations sustainable.

5.3.2. Reputation and Brand

As brand and reputation are so closely connected to each other, they will be discussed simultaneously. Reputation specifies how a company is perceived (Roberts and Dowling 2002). As Fahy (2000) stated, a good reputation can be achieved independently from other companies' reputations. The brand protects the integrity of the company's concept (Hall 1992). These effects are desired and attempted to reach by all three companies. They have all chosen to develop brands and they see reputation as crucial when reaching and creating their customer bases. In addition, a good reputation verifies the quality of their products and service.

The fact that Company X has not been able to reach its customers would suggest that its brand and reputation are not successful in creating competitive advantages (VRIN-summary Table 3). The business might simply be too new, or another explanation might be that the concept (brand) is too dissimilar to how the café is perceived by customers (reputation). *I.e.* a gap between the two is created. Visually the store resembles the coffee houses rather than the other small cafés on the street, but the product range is similar to what can be found in the small cafés. As the valuable criterion is not fulfilled in the case of Company X, the remaining criteria are not examined.

Table 3 – Reputation & Brand

REPUTATION & BRAND	Company X	Company Y	Company Z
Valuable	0	2	2
Rare	-	2	2
Imperfectly Imitable			
Social Complexity	-	1	1
Unique History	-	1	2
Casual Ambiguity	-	1	1
Non-Substitutable	-	2	2
Sustainability	-	2	2
0 = NO 1 = To some extent/ In combination with other resource 2 = YES			

The brands and reputations of the other two companies have been established in the mind of the customers for a longer period and fulfil the valuable criterion. As each company's brand and reputation is unique the rare criterion is also achieved.

The establishment of a successful reputation and brand will undoubtedly be a socially complex issue. It is also difficult to explain exactly why the interviewed companies have managed to stay in business, when others have not. The historical connection is strong between all of Company Z's stores and the brand. Company Y's history possess the most visible connection to its oldest subsidiary.

Since all the companies have protected their concepts through a brand the substitutability decreases. The amount of work and effort put into the brand and reputation will directly affect the substitutability, as suggested in Barney's (1991) research. With reservations for unexpected events, such as bad press, reputation and brand should also be relatively stable (sustainable) over time.

5.3.3. Experience and Knowledge

As experience and knowledge have a causality relationship they are discussed in the same section. Weinrauch et al. (1991) suggest the café owners have a central role in the development of their companies. The success of all the cafés has, at least initially, been dependent on the owners' leadership and knowledge. All owners believe that their knowledge and experience has helped them operate their companies, knowledge and experience can thereby be regarded as valuable (VRIN-summary Table 4).

Table 4 – Experience & Knowledge

Experience & Knowledge	Company X	Company Y	Company Z
Valuable	2	2	2
Rare	2	2	2
Imperfectly Imitable			
Social Complexity	2	2	2
Unique History	2	2	2
Casual Ambiguity	-	-	-
Non-Substitutable	2	2	2
Sustainability	2	2	2
0 = NO 1 = To some extent/ In combination with other resource 2 = YES			

As it is not possible to exactly duplicate another person's knowledge the imperfectly imitable and rare criteria are fulfilled. Every individual interprets information in different ways and his or hers experience is a socially complex resource closely connected to the individual's own history. Again as stated by Barney (1991) substitutability is a matter of degree. He argues that a leader is replaceable. This however, does not appear to be the case in the cafés, as the owners' visions are key when making the strategic and operational choices. Ultimately this is what makes it possible for the cafés to differentiate themselves.
As Boter and Lundström (2005) suggest, the cafés' owners all work relatively close to their customers and can therefore update their knowledge and expertise continuously. This indicates sustainability over time.

One example of how knowledge and experience is utilised in the companies is the process of price setting. Setting the (right) price fulfils all the requirements for the VRIN framework in the same way that experience does. Cost calculations are viewed as a complement to estimations in Company Y and Z, while Company additionally uses benchmarking.

5.3.4. External and Internal Relations

Theory stresses that functional relationships take time to build (Jansson 2012, Barney 1986). The owners emphasise the need for trust in their relationships to suppliers and employees, which eventually will amount to what theory emphasises. As Grant (1991) suggests relationships are closely connected to capabilities and are therefore harder to imitate, as they are highly specific to the individual company.

In Company Z the supplier relationships have been meticulously chosen, as quality is viewed as such a central aspect of the brand and the customer value creating process. Company X and Y try to attain a high quality in their products, which make relationships with suppliers important even if they do not have an equally strong focus on luxury products. Company X stresses that supplier relationships have been important for survival. External relationships that create value appear to take time to build and are heavily dependent on personal chemistry. Therefore, external relationships can be viewed as valuable, rare, imperfectly imitable and non-substitutable (VRIN-summary Table 5).

The companies attempt to create sustainable relationships. However, relationships are not static ideals, but part of a continuous renewal process. Sometimes a collaboration does not proceed as expected. An employee might not have the same perspective on service or a supplier might not view quality in the same way as the company does. Such relationships should be terminated.

Company X has no internal relationships and thus the table summary only includes a score for external relationships. The argumentation for whether internal relationships can create competitive advantages is similar to that in the previous paragraphs with the difference that internal relationships are more closely interconnected to the customers' value creating process through service and routines. As the employees are service providers they help create the cafés' reputations. Their service will therefore influence if the customer returns or not.

Table 5 – Internal & External Relationships

INTERNAL & EXTERNAL RELATIONSHIPS	Company X*	Company Y	Company Z
Valuable	2	2	2
Rare	2	2	2
Imperfectly Imitable			
Social Complexity	2	2	2
Unique History	2	2	2
Casual Ambiguity	-	-	-
Non-Substitutable	2	2	2
Sustainability	1	1	1

0 = NO 1 = To some extent/ In combination with other resource 2 = YES *Only external relationships

All three companies have created their own versions of Masurel and Janszen's (1998) shoestring effect. Company Y has several cafés and all businesses share the same suppliers and manufacturers. Company Z collaborates on a smaller scale within the brand name, but also makes certain to cooperate with other businesses, being present at blog events and forums. Company X has extended its product range by selling products from a local ice cream brand.

5.3.5. Service and Routines

The companies all stress the importance of service as a way of creating customer value (Samuelsson 2004). The companies view routines as positive for (cost) efficiency; a conclusion which has also been made by Zollo and Winter (2002). Service and routines will be discussed together as both companies and theory view the two as interconnected. Grant (1991) and Teece (1997) also connected routines with capabilities, which make routines rarer and more difficult to imitate - it is seldom that the same routines work in every company.

Table 6 – Service and Routines

SERVICE & ROUTINES	Company X	Company Y	Company Z
Valuable	2	2	2
Rare	2	1	2
Imperfectly Imitable			
Social Complexity	1	1	1
Unique History	-	-	-
Casual Ambiguity	-	-	-
Non-Substitutable	2	2	2
Sustainability	2	2	2
0 = NO 1 = To some extent/ In combination with other resource 2 = YES			

The service and routines of the cafés appear to be adapted to the specific need of the individual company. Thus the resources are valuable, rare and imperfectly imitable (VRIN-summary Table 6). The routines are more formalised in Company Y, this means that they start to resemble those in large corporations and that their originality will be reduced. Service and routines in Company Y and Z are heavily dependent on how satisfactory their internal relationships are and to what extent they work. Whereas the social complexity in Company X is limited as only one individual is active there.

Substitutability should be limited in all three companies, as service is such an integrated part of the purpose of the cafés'. The sustainability criterion should be fulfilled as long as the companies provide efficient service.

5.3.6. Summary – Resources

Although one should not underestimate the significance of the role of a single resource, it is largely, as Fahy (2000) suggests a combination of resources that create competitive advantages. Much as Watkin (1986) shows, resources or activities are found within a chain and are therefore only as strong as the weakest link. The companies mention how different resources interact with one another.

Experience and knowledge is the main tools for the owners when selecting all other resources. Reputation and brand is mentioned together with location, service and routines and relationships. Service and routines are connected to internal relationships.

5.4. Management Control

Management Control is a process that can be found in all companies. With the help of the previous theoretical framework, this section discusses the Management Control Systems in the three interviewed companies. Part (5.4.2) concludes the section by summarising the Management Control Measurements found in the companies.

5.4.1. Management Control Systems

The three companies all base their Management Control System on financial measurements such as budgets and financial reports. Informal planning and prognoses are used, and are largely based on experience and estimations. Company X mentions legal demands and the small size of the company as reasons for the current design (Welsh & White 1981, Mellemvik et al. 1988, Bergström and Lumsden 1993). The owner experiences no need for additional functions (Samuelsson 2004). Company X's planning process is done entirely through estimations rather than with help from pre-existing data. This makes the system difficult to imitate. However, as data is not really reintegrated and as the system has been developed on such a small scale, it is doubtful that it can add value and thus create competitive advantages. Companies Y and Z utilise their Management Control Systems as the more traditional feedback tools that Langfield-Smith (1997) mentions. The number of stores of the two companies together with the size of their staff have created an additional need for measurements such as corporate culture, structure and division of responsibility (Samuelsson 2004, Strauß 2011).

Bergström and Lumsden (1993) suggested that companies which do not outsource elements of their Management Control Systems are also higher users. This correlates with the situations in the examined companies, where for example Company X's owner has a friend who does all the financial reports. Company Z has some external help and Company Y only consults an auditor.

The first impression when meeting a prospective employee is regarded as important by both company owners with employees. Company Z has a flat organization, while Company Y has a more hierarchical structure. Bergström and Lumsden (1993) argue that the company's structure and complexity plus the level of decentralisation add to the sophistication of the Management Control System. In Company Z however, the system is less complex, but hardly less sophisticated, as it is tailor-made to fit the needs of the owner and the company.

Both Company Y and Z control how spoilage is accumulated over a period. Ratios are their key tool for judging product quality and keep costs down. Company Y has formalised this control function and employs financial ratios for costs and rents. What differ between the two companies are the company structure and the needed division of responsibility.

Growth and Strategy

The growth of the Management Control Systems appears to be rather organic in the all companies. Following this reasoning the question is if the Management Control Systems work as tools to implement strategies, as opined by Ax *et* al. (2009) and Merchant and Van der Stede (2012). If not, the systems are effects of the strategies and resources employed by the companies. The results from this study would suggest the latter, as there is no absolute resource, strategy or measurement that first must be acquired by the companies.

The owners of Company X and Z are present in the daily operational decisions in all stores. All three owners also perform their own strategic planning, whether it is a matter of expansion plans or product development. Company Y with its build strategy required a more future orientated strategy, just as Jänkälä (2005) suggested. The café's aim is to be market leader and to expand into new markets. As theory concludes Company X and Z are also largely satisfied with the more traditional strategy. Their plans of expansion are less extensive.

All three companies express a desire to minimize their debts, especially before launching new projects. An explanation for this could be, as Welsh and White (1981) comment, that banks are sensitive to debt-equity when granting loans. SMEs are vulnerable to market conditions, according to both theory and the interviewees (Welsh and White 1981). This limitation and the fact that the owners all desire to maintain their pronounced role in the Management Control process could explain why they have chosen to finance themselves this way.

The Owners' Influence on Management Control

As Mellemvik *et* al. (1988) state the personality and individual needs of the owner will determine what the Management Control System aims to accomplish. This combined with the owners' insights, knowledge and experiences make them invaluable to their companies.

All three café owners have different points of view on Management Control and optimal company size. Company X would prefer to have a slightly smaller structure. Furthermore, Company X's owner views Management Control as something that takes focus from the main purpose and objective. This would suggest that the causes for the café's Management Control System can be seen as the owner's desire for implementing and aptitude for Management Control.

Company Y as opposed to the other two, has set no limits for its future growth and has the most positive attitude towards Management Control. The company is on its way to outgrow some of the characteristics of a SME. Its increase in size *e.g.* has added to its hierarchical levels, which will ultimately make the structure less flexible. In the company examples the flexibility that is the strength of SMEs, appears to stem from the fact that one individual can oversee the entire business. Company Y's owner is no longer present in the daily operations of all the cafés. At the same time the company's growth would suggest that it is less vulnerable to fluctuations in the market.

In many respects Company Z is found somewhere in between the two other companies. The owner has a product rather than a Management Control perspective on running and developing the business, even if Management Control is seen as necessary.

Bergström and Lumsden (1993) found that the formal education of the owners influenced to what extent they used data from the Management Control System. All owners lack formal economic education, but none of them seem to consider this as a disadvantage, and instead apply the knowledge they have received through working. They do however to different degrees, express interest in the subject of Management Control. This interest might though have caused them to actively pursue economic knowledge. Consequently, one could argue that it is not as much a question of formal education as one of an interest in acquiring knowledge.

5.4.2. Summary - Management Control System

Henri (2006) discussed if the Management Control System could create competitive advantages. Again, the systems in the companies do not appear to have a close enough connection to strategic decisions for this to happen (Barney 1991). Other factors must be involved for competitive advantages to be generated.

The companies discuss different resources in connection to various functions of their Management Control Systems. Number of locations and where they are situated can affect planning and corporate structure. Brand and reputation are perhaps closest connected to strategic choice. Relationships affect planning, corporate structure and culture, division of responsibility and the formalisation of *e.g.* hiring instructions. Service and routines affect planning and service management. The Management Control Systems can be perceived as the sum of all capabilities, acquired knowledge and experience in the companies (Prahalad & Hamel 1990). Experience and knowledge are prerequisites for the systems to be functional. Pricing is just one example where experience and knowledge is applied.

Table 7 (see the next page) summarises the different Management Control Measurements that the companies have chosen to utilise and to what extent.

Table 7 - Management Control			
MCS	**Company X**	**Company Y**	**Company Z**
Budget	Made externally - no current feedback function	Made internally	Made internally
Corporate culture	-	Group focus	Company focus
Corporate structure	One enterprise	Chain & independent brands	Two separate enterprises under one brand
Cost calculation	Benchmarking	Calculations, experience & estimations	Experience & estimations
Decision-making	Owner	Owner & administrative staff	Owner
Division of responsibility	-	Yes - Local managers	Yes - Final responsibility with the owner
Hiring instructions	-	Considers making formal rules. Today face-to-face meeting	Face-to-face meeting
Preferred form of financing	Self- financing	Self- financing	Self- financing
Internal data processing	Daily	All internal - External auditor	Mostly internal, but with external help
Knowledge/ Competence	Owner	Strategic - management staff. Operational - all staff	Strategic - owner. Operational - owner & staff
Planning (daily)	Experience	Ratios	Experience
Planning (future)	Limited. Possibly one additional café if this café is successful	Location decides. Possible global expansion. Trademark protected internationally	Slow growth - small geographical distribution. Location & atmosphere important
Product development	Owner	Owner and product manager	Owner
Ratios	-	Financial & operational	Operational
Service Management	Reputation	Reputation	Reputation
Trend analysis & Strategy	Wants to see a quality trend.	Tries to create own trends & thereby influence the market	Tries to create own trends

6. CONCLUSION

A closing discussion is held in this chapter and a model created by the authors is presented.

There was no clear divergence regarding which internal resources the three companies saw as significant. All three interviewed café owners agreed that the following internal resources were important when creating customer value: location, reputation and brand, experience and knowledge, external and internal relationships, and finally service and routines. Quality and the guest/customer were also discussed, but in the context of service, not as resources that stands by themselves. However, the companies emphasised the importance of the various resources to different extents. As resources are part of a continuous renewal process, the companies must always be aware of changing conditions. Therefore, no resource appeared to be more important than another. It was the combination or chain of resources that seemed to create competitive advantages.

When the resources were not able to create competitive advantages, as seemed to be the case in Company X, it appeared to be a consequence of a dysfunctional combination of location together with reputation and brand. None of Company Y or Z's resources seemed to weaken the companies' position. Thereby, their resources appear to be able to generate competitive advantages. The only perceivable difference between these companies was that Company X's resource selection has not managed to balance the requirements of the market. As opposed to the other two, the company has both limited financial and operational backing from additional company branches. This lack of additional support should make it even more important to accomplish the right resource selection from the start.

Reasons for the current design of the Management Control Systems appear to be legal requirements, the specific needs of the owners and the companies and the also the company sizes. None of the companies were controlled in an exact similar manner since they were in need of different functionalities from their systems. The main purpose of the Management Control System is that of a support function, as the systems help enable the companies to control their resources and implement strategies. The three companies use basic measurements such as budgets and reports. Experience and estimations are vital to the planning process in all companies. The owners' business aims - their interest in Management Control and how much they wish to expand their companies will impact in what way Management Control is employed. Increased size seemed to create a more complex system, with a need for corporate structural and HR functions. The largest company has the most formalised system and utilises financial ratios, corporate structure and culture, cost calculations and division of responsibility

Theory suggests that the company's resources influence strategic choice and Management Control. The authors view this interaction as cyclical. A model describing this interaction is presented below.

6.1. The Resource and Capability Cycle – The Authors' Contribution

Strategy is originally devised from the company's products and services. Resources and capabilities that the company possesses and wants to obtain are also vital to strategic choice. These resources are controlled with the help of a Management Control System (MCS in the figure). As the company's resources change, corresponding adaptations will have to be made in the system. An additional measurement is implemented if it is judged to add value. With experience of implementing, the functions and processes in the system can be optimised. The system could thus be seen as the sum of the capabilities and the knowledge acquired in the company. Funds, knowledge and experience are acquired as the company optimises its resource utilisation and create Sustainable Competitive Advantages (SCA in Figure 4). Acquired financial means can then be used to further develop and obtain resources and capabilities as well as to implement new strategies.

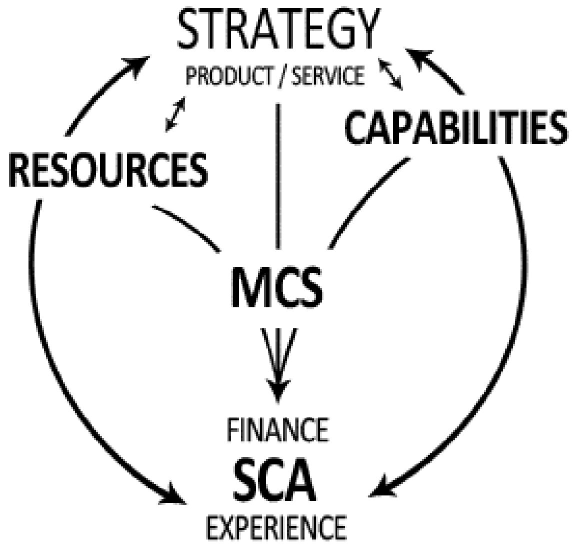

Figure 4: The resource and capability cycle. (Authors' illustration)

The resource and capability cycle (Figure 4) can act as a mean to evaluate how well the company has managed to adapt its internal resources to its external environment. Because of the flexibility (closeness to the customer) and vulnerability (sensitivity to changing market conditions) of the SMEs one could assume that they undergo the cycle (Figure 4) faster. This as the company structures/hierarchies and the Management Control Systems can be less complex and slow moving.

6.2. Possible Future Research

A suggestion for future research, from a Resource-Based View, is to observe SME sectors that are experiencing increased competitive pressure from large corporations. A more in-depth examination of the sector or a single company is one alternative in order to see how the advantages contributed by SMEs to society can be maintained. A third possibility would be to include larger domestic enterprises for benchmarking purposes.

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Appendix

Interview Questions

FRÅGEGUIDE – INTERVJUER

1) Bakgrund

Kan du berätta lite kort om dig själv och företaget?
Exempel på utveckling av svar:
- Tidigare erfarenhet
- Hur ser företaget ut
- Antal anställda
- Ägarstruktur

Speciell inriktning/ huvudmål med verksamheten?
- Framtidsplaner

Hur upplevs konkurrensen?
- Hur mycket påverkas ni av trender?

2) Resurser

Vad tycker ni är era konkurrensfördelar?
Vilka är huvudresurserna/konkurrensfördelarna?
Exempel på utveckling av svar:
- T.ex. pris, service, inriktning, läge, utbud

Om svar inte framgår av tidigare svar – Hur ser de på X :
- Varumärket
- Hur viktig är relationen till leverantörer
- Interna relationer/företagskultur
- Service och rutiner
- Egna erfarenheter

3) Ekonomi

Hur ser ni på ekonomins roll i företaget?

Hjälper ekonomiarbetet er i verksamheten?
Exempel på utveckling av svar:
- Legala krav, finansieringsmöjligheter
- Planerande, uppföljande, daglig verksamhet (t.ex likviditetsplanering)
- Budgetar, produktutveckling
- Kalkyler, benchmarking (prissättning)

Hur mycket sköts intern/externt?
Vem tar hand om ekonomin?
- Hur ser ansvarsfördelningen ut?
Exempel på utveckling av svar:
- Inköp, planering
- Personalrekrytering (schema, anställning)
- Investeringar, löpande verksamhet, beslutsfattande