

Bridging the Equity and Entrepreneurial Gaps in the Finnish Fashion Industry: A Comparative Case Study of the Swedish, Danish & Finnish Fashion Ecosystems

International Design Business Management (IDBM)

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Bridging the Equity and Entrepreneurial Gaps in the Finnish Fashion Industry

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Objectives: The Finnish fashion industry and especially the small and micro sized companies are facing challenges. It seems that there is strong design know-how, rising talents and a seemingly increasing interest for Finnish fashion, yet these companies fail to reach sufficient growth and expand into international markets. A hindrance for this development is the existence of equity and entrepreneurial gaps, which refer to the lack of business know-how and appropriate financing. However, in Sweden and Denmark these gaps have been successfully bridged in more occasions than one. This study is built on the assumption that the fashion industry ecosystem in these nations provides a better environment for emerging fashion companies to develop.

The purpose of this study is to explore the current state of the Finnish fashion ecosystem and examine reasons for its underdevelopment from a financier's approach. The Swedish and Danish fashion ecosystems are studied to explore the determinants of success that enable small fashion companies to prosper and succeed under very similar macro-economic conditions.

Methodology: Qualitative case study research was selected as the research method. The empirical part explores three fashion ecosystems: the ecosystem cases of Sweden and Denmark provide a setting and background into the topic, whilst the case study on the Finnish fashion ecosystem is more analytical and from an investor viewpoint. The cases were examined by using the constructed fashion entrepreneurship ecosystem model. Primary data was collected by interviewing private and public investors, business consultants and professionals in Finland, Sweden and Denmark. Secondary data to support the empirical findings was collected from a number of different sources, including government reports and studies, previous research, private analyses, newspapers and websites.

Results: The finance, culture, human capital and market domains were identified to have had a relatively higher impact on the development of the fashion ecosystem in Sweden— implying on a relevance of the private sector. In Denmark, the government's strategic support and public policies have had a significant role in developing the nation's fashion ecosystem.

In Finland, the ecosystem is underdeveloped because there seems to be a lack of business skills and collaboration among the fashion companies and entrepreneurs. This reflects on the finance domain as investors do not perceive the industry as a viable business case, and thus individual companies face challenges in acquiring external capital and smart money into their companies. Furthermore, there is a very limited amount of understanding and prior knowledge about the industry dynamics among potential investors and a lack of public and policy level support.

Key words: ecosystems, fashion firms, equity gap, entrepreneurial gap, small business financing

Rahoitus- ja liiketoimintaosaamisen haasteet Suomen muotialalla

- Vertaileva tutkimus Ruotsin, Tanskan ja Suomen muotialan ekosysteemeihin

Tutkimuksen tavoitteet: Suomen muotiala ja erityisesti siellä toimivat pienet ja mikro -tason yritykset kohtaavat haasteita liiketoiminnan kehittämässä. Vaikka alalla on vahvaa muotoiluosaamista, nousevia lupauksia ja kansainvälistä kiinnostusta, pienet kotimaiset muotialan yritykset eivät saavuta riittävää kasvua tai kansainvälisiä markkinoita. Nämä vaikeudet pohjautuvat puutteisiin yritysten rahoituksessa ja liiketoimintaosaamisessa. Ruotsissa ja Tanskassa vastaavat haasteet on kuitenkin onnistuttu selättämään useaan otteeseen. Tutkimuksen lähtökohtainen oletamus on, että näiden maiden paikalliset ekosysteemit tarjoavat paremmat kasvuedellytykset pienille ja kehittyville muotialan yrityksille.

Tämän tutkimuksen tavoitteena on selvittää Suomen muotialan ekosysteemin nykytilaa ja syitä sen alikehittymiselle rahoittajan näkökulmasta. Tarkastelemalla Ruotsin ja Tanskan ekosysteemejä tutkimus pyrkii tarkastelemaan niitä tekijöitä ja käytäntöjä, jotka edesauttavat muotialan yrityksiä kehittämään Suomen makrotalouden kaltaisissa olosuhteissa.

Tutkimusmenetelmät: Tutkimusmenetelmäksi valittiin laadullinen tapaustutkimus. Empiirinen tutkimusosio tarkastelee kolmea muotialan ekosysteemiä. Ruotsin ja Tanskan mallit toimivat taustaineistona aiheeseen, kun taas Suomen ekosysteemiä tarkastellaan analyttisemmin ja ulkopuolisen rahoittajan näkökulmasta. Ekosysteemien tarkastelussa hyödynnettiin tutkimusta varten kehitettyä muotialan yrittäjyyden ekosysteemimallia. Ensisijaista tutkimusaineistoa varten haastateltiin yksityisiä ja julkisia rahoittajia, yrityskonsultteja ja alan ammattilaisia Suomessa, Ruotsissa ja Tanskassa. Lisäksi tukevaa aineistoa kerättiin useista lähteistä, mm. valtion raportit ja selvitykset, aiempi tutkimusaineisto, toimialan analyysit ja kartoitukset, lehtiartikkelit, nettisivustot.

Tulokset ja yhteenveto: Tutkimuksen tuloksien mukaan Ruotsissa rahoitukseen, henkilöstöön ja markkinoihin vaikuttavat tekijät ovat olleet olennaisessa osassa paikallisen muotialan ekosysteemin kehityksessä – näin ollen yksityisen sektorin rooli on ollut merkittävä. Tanskassa valtion tuki ja muotialaa strategisesti tukevat julkiset hankkeet ovat keskeisesti edesauttaneet ekosysteemin kehitykseen.

Suomessa muotialan alikehitys johtuu pitkälti yrittäjien liiketoimintaosaamisen puutteesta ja alan pirstaloituneisuudesta. Tämä heijastuu ulkopuolisen rahoituksen saatavuuteen, sillä rahoittajat eivät usko alan potentiaaliin. Näin ollen yksittäisen yrityksen on haastavaa saada ulkoista rahoitusta ja etenkin ”fiksua rahaa” liiketoiminnan kehittämiseen. Potentiaalisilla rahoittajilla on hyvin rajallinen tietämys muodista toimialana ja lisäksi valtion konkreettiset tukitoimet ovat vähäisiä.

Avainsanat: ekosysteemit, muotialan yritykset, rahoitusaukko, liiketoimintaosaamisenaukko, pienyritysten rahoitus

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1 INTRODUCTION

1.1 Background

The Finnish fashion industry has been experiencing a slump for the past years: both in terms of financial and business outcomes, as well as in the lack of credibility and trust in its potential. According to Finatex (Federation of Finnish Textile and Clothing Industries), the textile and fashion exports amounted to 300 million euros in 2011, which is a slight increase from the previous years. However, this figure does not even come close to the impressive figures from the 1980s, when exports were worth half a billion euros (Von Alfthan, 2012). And at the same time, the neighboring country Sweden has become a fashion giant with success stories such as H&M and Acne, and export figures of approximately 1,3 billion euro in 2010 (10 billion SEK). Fashion has also become an important industry for Denmark, with exports close to 3 billion euro in 2010 (Von Alfthan, 2012).

However, a positive change may be occurring in Finland as many young and fresh-minded fashion companies have been founded during the past ten years, especially in the capital region. A handful of fashion and textile companies have shown promising efforts and achievements in the past few years, both domestically and internationally. Several Finnish designers have also successfully launched their careers abroad. In addition, consumers are becoming more interested in domestic brands, which can be seen in the growing number of visitors (4000 in 2011) attending the annual Finnish Catwalk fashion show (Finatex press release, 2011). Despite these positive trends, the majority of companies are designer-led micro or small companies, facing business challenges, prejudices and lack credibility (Lille, 2010).

1.2 Research gap

It seems that there is strong design know-how, rising talents and a seemingly increasing interest for Finnish fashion, yet these companies fail to reach sufficient growth and expand into international markets. One major cause for this market failure is assumed to be the existence of equity and entrepreneurial gaps, referring to the lack of know-how and suitable financing (KTM, 2007). The fashion industry is a very competitive environment. In most cases a unique and valuable product concept is not enough. In order for a company to succeed, it needs a strong network and a capable management

team, with business knowledge and experience to support the growth and expansion strategy, as well as sufficient capital reserves to get the operational aspects rolling. These equity and entrepreneurial gaps have not been successfully bridged in Finnish fashion companies.

However, in Sweden and Denmark these gaps have been successfully bridged in more occasions than one. The countries' macro-economic environments are very similar to Finland, meaning that lower production costs or huge internal markets cannot be the reasons for their competitiveness. Just like in Finland, the textile manufacturing and clothing industries have almost completely vanished, yet something has been done successfully as the fashion industry now presents very large and important sectors for both economies: in terms of exports, employment and number of new companies. It seems that this competitiveness derives from the individual firm-level competencies and a more supportive ecosystem, which enables the creation of fashion clusters and generates credibility and potential for the industry segment as a whole.

1.3 Research questions

In this study, I will explore the factors that enable fashion companies to successfully bridge the equity and entrepreneurial gaps. By using an entrepreneurship ecosystem model, the aim is to explore the elements that affect this bridging process. Therefore, the focus is not to study the factors from an individual firm's perspective, but offer understanding into the macro-level conditions, enablers and influencers. The study is built around the following research problem:

- How to bridge the equity and entrepreneurial gaps in small Finnish fashion companies?

In order to provide a comprehensive answer to the research problem, I will explore the fashion entrepreneur ecosystems in Sweden and Denmark and distinguish the factors that have enabled the development of these ecosystems. By understanding and analyzing the ecosystems in these two nations, I will then reflect them to the situation in Finland with the same ecosystem approach. The following research questions will be addressed:

- What are fashion ecosystems & their development processes – case Sweden & Denmark?
- Why is the Finnish fashion ecosystem underdeveloped?
- How to develop the Finnish fashion ecosystem?

The fashion entrepreneur ecosystems are represented with the constructed ecosystem model (figure 1) to help explore and structure the key components and attributes. The model is built on Isenberg's entrepreneurship ecosystem (2010), Moore's model on ecosystems, and findings from this study.

The model contains both the micro (organization) and macro (domains) levels. The individual organization and core business is placed in the middle of the ecosystem. The inner sphere includes the core contributors of the business (founders, personnel, financiers), distribution channels (retail, web store) and the direct supplier (producers, manufacturers). These core business drivers are essential for the production and operative processes, and define the mission and strategy of the organization. Bridging the equity and entrepreneurial gaps are essential in order to manage these attributes of the core business. The extended enterprise is depicted in the second layer and consists of direct customers (retail channels), customers' customers (consumers), suppliers of complementary products (PR, branding, advertising), suppliers' suppliers and standard bodies.

The focus of this study is on the outer sphere, which represents the six domains that are essential factors in establishing an entrepreneurship ecosystem (Isenberg, 2010). The individual domains are further categorized into functions or facilitating entities. The ecosystem is represented as the entity that contains both the micro (organization) and macro (domains) level spheres.

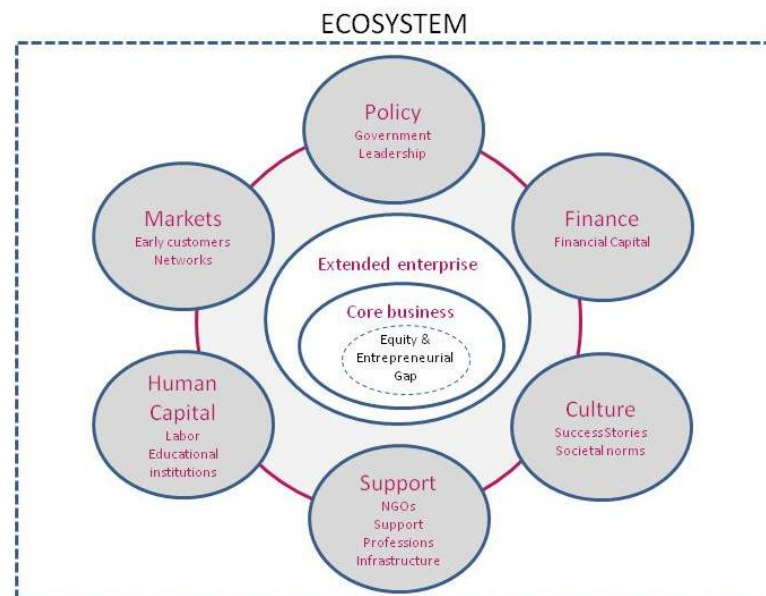


Figure 1: The fashion entrepreneurship ecosystem model. The model consists of three layers: core business, extended enterprise and the ecosystem domains. The focus of this study is on the outer sphere, i.e. ecosystem domains.

1.4 Contribution to existing literature

This study has both academic and managerial aspirations. Firstly, the aim is to contribute to the very limited amount of academic research (Elonen, 2010; Timonen, 2012) and studies (Mustonen & Heikkilä, 2012; Lille, 2010) on the fashion industry and business in Finland. Additionally, it appears that no existing literature has focused on combining business ecosystem models and small business financing from the fashion industry's point of view. Therefore this study aims to increase knowledge in both the ecosystem and creative industry financing domains.

In terms of managerial implications, this study will provide insights and a broad overview into the perceptions that external parties and financiers currently have of small Finnish fashion companies. It will also shed light on the fashion ecosystems in Sweden and Denmark, and explore factors that have contributed to their development. By providing more understanding into these fields, the study will propose recommendations for developing the Finnish fashion ecosystem and bridging the equity and entrepreneurial gaps.

1.5 Definitions

The focus of this study is on fashion companies that concentrate on garments and accessories, with an emphasis on brand concepts and design in their business models. Therefore, it is important to distinguish them from the traditional textile and clothing manufacturing companies. The small, entrepreneurial *fashion companies* in focus have a turnover of approximately 200 000 – 2 million euros, with 2-10 employees. Entrepreneurial firms are defined to have a vision for growth, while maintaining innovativeness, risk-taking and the ability to change (Wetzel, 1987).

Equity gaps are defined as the gaps that small companies face in acquiring finance that would enable them to make investments into the company's future growth. In this study, it is identified as the shortage of financing between the founders' personal assets and an investment made by an external entity. The term *entrepreneurial gap* is used here to refer to the lack of human and social capital that hinders the development of a company, in other words limitations in business and management skills.

As commercialization and rapid growth in international markets are important factors for the companies in focus, this study will also reflect on the notion of “*born global*” or “*born international*” companies. This is relevant since equity and entrepreneurial gaps are particularly important for companies aiming to grow and expand internationally.

1.6 Structure of the study

The following diagram provides an overview into the structure of the study.

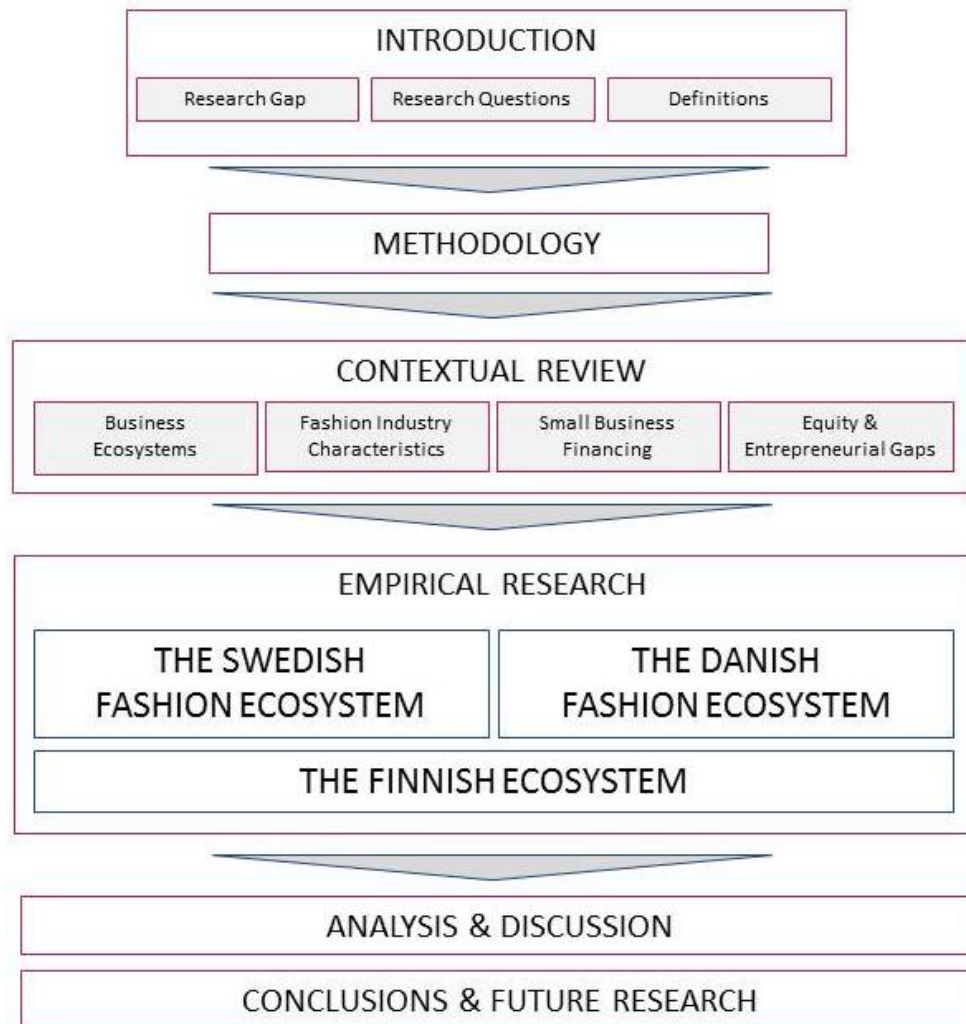


Figure 2: The structure for this study.

2 METHODOLOGY

In this chapter, I will present and validate the methodology that I have used in conducting the research. The purpose of this thesis is to explore the determinants of success in creating successful businesses in the Finnish fashion industry context, with a focus on bridging the entrepreneurial and equity gaps. I will start by introducing the research method and then present the research construct that I developed as the basis for the theoretical analysis and framework. I will then briefly explore the validity, reliability and limitations of this study.

2.1 Research methods

This study was conducted under a phenomenological paradigm, which aims at understanding human behavior from the researcher's own frame of reference (Collis & Hussey, 2003, 47). The ontological assumption is that reality is subjective and multiple as seen by the participants in this study (Collis & Hussey, 2003, 48), which is reflected on the qualitative, subjective and interpretative nature of the study. The paradigm determines the methodology, i.e. overall research process, which in this case is qualitative. It produces descriptive, interpretative data and focuses on analyzing concrete cases in their time-based and local particularity (Flick, 1998, 13). Given the research approach, I considered it as the most appropriate method since it targets at building a deeper and more holistic understanding of the research topic.

The research was done through an iterative process, meaning that the exact method and focus was iterated and revisited throughout the course of this research. This is a common approach under the phenomenological paradigm (Collis & Hussey, 2003). Through my prior research into the field and from preliminary discussions, I identified the main research gaps for this study. From preliminary discussions and with the validation from the initial interviews, I then resulted in a comparative case study between the fashion ecosystems in Sweden, Denmark and Finland.

2.1.1 Qualitative case study method

The research decision was to examine the different fashion ecosystems through a case study method, as this was considered the most suitable method to answer “*how*” and “*why*” questions (Yin, 2003, 7). Qualitative case study makes it possible to describe the current situation with rich detail and explanation (Piekkari et al., 2011). Furthermore,

case studies can provide a better opportunity for a holistic view of processes (Gummesson, 1988, 76). Yin (2003, 13) defines case studies as ‘*an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between the phenomenon and context are not clearly evident*’. The aim of my research is namely to explore *how* fashion companies in Denmark and Sweden have been able to reach success (bridge the equity and entrepreneurial gaps) and what have been the enabling drivers for this ecosystem. In the Finnish case, I will explore “*why*” companies are not able to bridge these gaps and develop. Furthermore, this study is an embedded case study, which means that several unit of analysis will be examined in each case.

2.1.2 Data collection and analysis

Next, I will discuss the data collection and research methods in more detail. Under the phenomenological paradigm, it is important to use various research methods to obtain different perceptions of the phenomena, understand what is happening and look for repeating patterns (Collis & Hussey, 2003, 51). Both primary and secondary data were used in compiling the cases and obtaining the results.

Primary data

Primary data was collected by using semi-structured interviews. In total, 24 interviews with 28 individuals were conducted during October 2012 and March 2013 in Finland, Sweden and Denmark. The lengths of the interviews varied from 40 to 100 minutes, and they were held in Finnish or in English. Most of the interviews were done face-to-face, with the exception of two phone interviews and two email interviews. The main points were noted down using a computer during the interview sessions. All face-to-face interviews were recorded with the consent of the respondent(s) and later typed out.

Some of the interviews were conducted together with my fellow researcher. Open-ended questions were made prior to the each interview and they reflected the background or area of expertise of the interviewee. Some of the interviews were conducted with two respondents – this was often due to the fact that the initially contacted person wanted to invite a colleague from the same institution, who was perceived to have more insights in specific fields (namely fashion or creative industries). The list of interviews can be found in Appendix 1. Due to the sensitivity and subjective nature of some of the comments and opinions, all interviewees and their comments were left anonymous. I distinguished the interviewees by their position or role. In some cases I also saw it relevant to identify the organization that they represent.

In addition to the interviews, I consider primary data to also include the seminars that I attended and my trips to Stockholm in January 2013 and to Copenhagen in February 2013. In Stockholm, I visited for example the premises of Moderådet and Modecenter. These visits provided a more holistic understanding into the interviewees' background and operating environments. During my visit to Copenhagen, I visited the three different fairs that make up the bi-annual Copenhagen Fashion week, namely Vision, Gallery and CIFF. In addition, I attended two fashion shows (a Finnish brand and a Danish brand), one in-shop event by a small Finnish label and several other public events. Discussions with designers, exhibitors and buyers improved my general understanding of the dynamics, players and level of competition in the fashion industry, thereby facilitating the analysis of some of the empirical results.

Secondary data

Secondary data was collected from a number of different sources and it was essential in order to understand the factors that impact and determine success in the respective ecosystem. Government reports and studies were necessary to gain information on the policies, public initiatives and political frameworks that influence the conditions in the three case countries. Privately made analyses and consultancy reports provided relevant information on more specific topics or projects. I also used newspaper and magazine articles to gain insights, understand trends and gather an overview of public opinions about the conditions in the different markets. Articles were collected in hardcopy format, as well as through online databases and archives. Websites of companies, organizations and events, press releases, as well as online blogs provided additional insights, validation and further understanding to support the analysis of empirical data and findings. Secondary data was collected in Finnish, English, Swedish and Danish.

2.2 Research construct

With a phenomenological approach, there may be not be an existing theory and therefore investigations may be carried out to construct a new theory to explain phenomena or describe patterns that emerge from data (Collis & Hussey, 2003, p. 56). This was also the case in this study and therefore I constructed a theoretical framework (figure 3) to represent and analyze the links between literature, research and empirical findings from the case ecosystems.

The equity and entrepreneurial gaps are identified as the core **drivers** in the framework. These drivers are linked to the entrepreneurship ecosystem model, comprising of six domains each representing essential factors in establishing this ecosystem. The finance,

policy, support and human capital domains are linked to **facilitators**, representing explicit strategies and initiatives within each domain. The culture and market domains develop in a more progressive manner and reflect the success and progress of the other domains; for example as a result of an industry success story (culture) or growing exports (market). The success and development in these domains are considered to then reflect back to the four other domains. Since the facilitators emerge from empirical findings, they are subject to the specific industry ecosystem and economic conditions. Hence, if this model was to be used for another industry or in other economic conditions, the facilitators would probably differ to some extent. The final step in this four-staged model goes into further detail about industrial **enablers** within the facilitating strategies. These enablers are also case-specific and vary depending on the ecosystem and economy at hand. I will identify and discuss them in more detail in the discussion part of this study.

Ecosystems do not operate in a vacuum, but are in constant interaction with the external environment: in respect to both competition and cooperation. Thus, I added the competitive environment into the model to visualize its impacts on the ecosystem's domains. Two levels of competition were distinguished: industrial and economy –level competition. Industrial competition refers to other industrial ecosystems in the national context, e.g. fashion industry versus software industries in Finland. The economy –level competition refers to the national level competition, e.g. Finnish fashion brands competing with Swedish or Danish brands. The competitive landscape is an important aspect of the ecosystem, but due to the limitations and focus of this study it is not subject to further research.

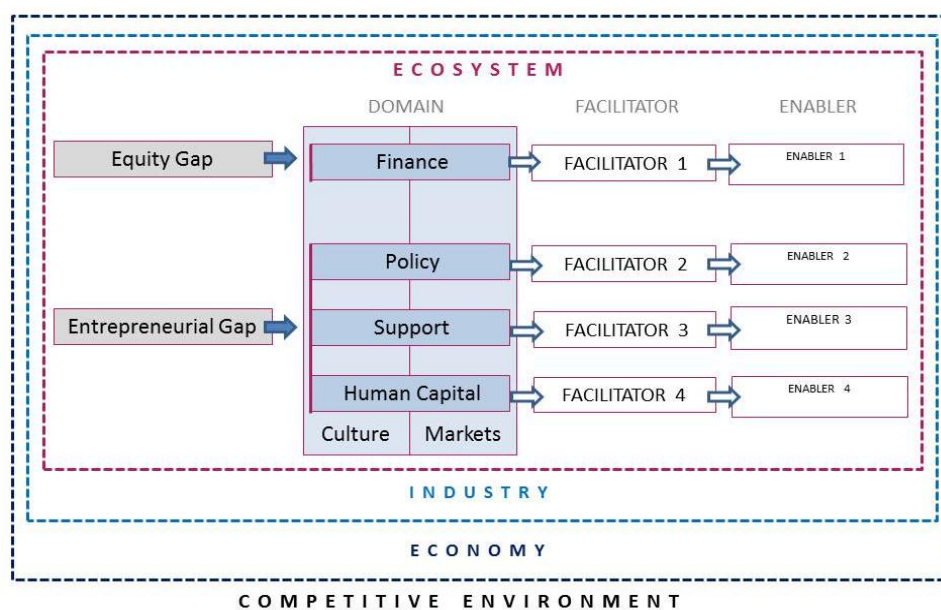


Figure 3: Theoretical framework for the development of the fashion ecosystem.

2.3 Validity, generalizability and reliability of the research

In this chapter I will discuss the issues of validity, generalizability and reliability of the study.

According to Saunders et al. (2009, 327), validity refers to the extent to which the researcher is able to access the interviewees' knowledge and experience, and manages to draw the right meanings from this data. There are two important types of validity that ensure the quality of exploratory research: *construct validity* and *external validity* (Yin, 2003, 34). Construct validity refers to overcoming the risks of subjective interpretations (Yin, 2003). In order to minimize the subjectivity in this research, I used triangulation, i.e. multiple sources of data to explore the three ecosystems. In addition to interviews and discussions, the sources included personal trips, public reports, company reports, previous research, websites and newspapers.

External validity refers to the generalizability of the study: it is considered high if the empirical results can be predicted to be similar if the study was replicated (Yin, 2003, 37). Case studies rely on analytical generalization, aiming to generalize a set of results to a broader theory. Therefore in order to facilitate the comparison and analysis of results, I used a common theory (constructed ecosystem model) as a basis for generalizing the findings from the three ecosystems. Furthermore, the choice for the three comparative ecosystems were carefully described and justified to ease the replication of the study.

The issue of reliability is linked to the notion above. According to Yin (2003, 37), a reliable study ensures that empirical research is explicitly explained so that it could be replicated by using the same procedures and concluded with the same findings. In order to improve the reliability of this study, all research decisions were made in regards to the objective of the study and data collection was justified in the methodological section. Furthermore, the interviews were recorded, stored and transcribed, and the secondary data was retrieved from publicly available and/or reliable sources. The use of semi-structured interviews allowed the interviewees to differ to some extent from one another, making it possible to analyze the topic from a broader perspective.

The research construct was partly built on Isenberg's model, which was published in the Harvard Business Review in 2010. Though recognized and highly valued, the articles in the Harvard Business Review have not been subject to such scrutiny as articles published in academic journals, which are required to be reviewed by academic scholars. For the model to be validated and used for this research, its applicability was discussed with Mr. Tarmo Lemola. Mr. Lemola is an expert in innovation ecosystems,

and has extensive knowledge and understanding of the field. I discussed the model in depth with Mr.Lemola, and reflected on its applicability with the findings from the empirical research. The focus of the model was considered to be rather widespread and extensive, but given the nature of the research and the variations between the cases, it was considered valid and applicable for this purpose (Lemola, interview 20.3.2013).

2.4 Limitations of the study

This study focuses on equity and entrepreneurial gaps from the fashion industry's perspective. Therefore, the results may not be fully applicable to other industry segments. Also, the focus of the analysis was micro and small fashion companies and thus the central issues that were explored may not be subject to larger and more established companies.

Furthermore, an evident limitation comes from the nature of case research. This study focuses solely on fashion ecosystems in three case countries, with very similar macro-economic conditions, societies and values. As the sample comprises of these three cases, the results cannot be generalized on a wider and more international scope as such.

The empirical research relies strongly on information gathered from personal interviews. Therefore the influence of time and personal opinions can have a strong influence on the gathered data (Koskinen et al. 2005). Personal opinions on the relevance of certain issues or false information may also affect the quality of data. Additionally, the experience and background of the interviewees impacts the opinions and relevance of comments. I tried to overcome these issues by gathering information and confirming details from secondary sources.

3 CONTEXTUAL REVIEW

The topic under study is versatile, widespread and lively, meaning that grasping the whole domain is somewhat impossible. Thereby I decided to approach the research with a contextual review. It is a critical and analytical activity, and defines the scope and state of the relevant knowledge base to date (Gray & Malins, 2004, 35). Furthermore, it would appear that there is a very limited amount of applicable literature regarding the Finnish fashion industry, fashion ecosystems and small fashion company financing and internationalization. Therefore, this contextual review was concluded with adjacent literature from areas that I considered applicable for this research. Relevant literature on fashion ecosystems and industry phenomena was derived from multiple sources in order to provide the best possible understanding into the topic. The contextual review assists in identifying the nature of the research question by gaining more information on its context: both in terms of what has been addressed (when, where, by whom) and in terms of what has not been addressed yet (Gray & Malins, 2004, 35). Through the contextual review, the hunch that initiated my research became a tangible “gap” in knowledge.

3.1 Business ecosystems

There are various different ways to study and analyze business systems and networks. The research choice in this study was to study the conditions in the three different fashion industry environments by using business ecosystems as the basis for the empirical research. Fashion as an industry is a dynamic network of loosely interlinked parties and players, with differing and evolving roles and positions within this complex structure. Therefore, business ecosystems are applicable in this study as they provide a good analogy for understanding a business network and description about what is happening in the wider business landscape (Moore, 1998; Peltoniemi & Vuori, 2004), for example in terms of competition, cooperation and evolution.

3.1.1 What are business ecosystems?

Business ecosystem is a rather new concept in the field of business research and there is no consensus on what it precisely means (Peltoniemi & Vuori, 2004). Moore (1993) first introduced the concept as a business community, which is supported by a network of connected and interacting organizations and individuals. He defined it to consist of customers, lead producers, competitors and other stakeholders (Moore, 1993). Five years after introducing the concept for the first time, Moore re-defined business

ecosystems to include communities of customers, suppliers, lead producers, competitors, other stakeholders, as well as financing, trade associations, standard bodies, labor unions, governmental and quasigovernmental institutions, and other interested parties (Moore, 1998).

Iansiti and Levien (2004) define business ecosystems as large networks of loosely interconnected participants, who depend on each other for survival and effectiveness. They distinguish three success factors for business ecosystems: productivity, robustness to react to changes, and the ability to create niches and opportunities for new firms (Iansiti & Levien, 2004). Power and Jerjian (2001) studied ecosystems, but from a more technological perspective. According to them, ecosystems need to consider four important stakeholders: communities of shareholders, employees, businesses and customers (Power & Jerjian, 2001). Gossain and Kandiah also studied business ecosystems from a technical perspective; they considered ecosystems to resemble integrated value chains, with the addition of emphasizing mutual relationships and involvement of organizations, and the importance of brands (Gossain & Kandiah, 1998). These few examples go to indicate that there is no universal definition for business ecosystems and they can be studied with various points of view.

Ecosystem as a concept is important since it provides a basis for a better understanding of the complex business environment that is the daily reality for most companies – be it in the creative industries, such as fashion, or in more traditional industries, such as manufacturing or services. Moore even suggested that “ecosystems” should be used instead of the term “industries”, as nowadays it is impossible to divide certain business activities to belong to specific industries (Moore, 1996): all players and levels in the business environment are interlinked and connected to one other. Similarly, Power and Jerjian (2001) argue that businesses can no longer be managed on their own, but need to be managed as member in the ecosystem.

3.1.2 Defining entrepreneurial ecosystems

In 2010 (Harvard professor) Daniel Isenberg published an article describing different environments where entrepreneurship tends to prosper. Isenberg presented a framework that the Babson Entrepreneurship Ecosystem Project uses to assess crucial elements in developing an ecosystem that supports and encourages entrepreneurship in a given industry segment. The model is primarily for governments to help them address the issues of developing and nurturing these ecosystems. The framework is summarized in twelve categories, each representing a key component of a healthy ecosystem. To simplify the analysis process, these components have been grouped into six domains:

policy, finance, culture, support, human capital and markets (Isenberg, 2011).

In this type of an “entrepreneurship ecosystem”, entrepreneurs have access to human, financial and professional resources, and are supported and encouraged by governmental policies and structures (Isenberg, 2010). The model is very similar to Moore’s definition of ecosystem players (Moore, 1998). However, whereas Moore’s model depicts the ecosystem from an individual firm’s perspective, Isenberg’s model focuses on analyzing the ecosystem from an external viewpoint.

Government support to develop and drive entrepreneurial ecosystems

Isenberg highlights the important role of governments in developing and fostering the creation of an entrepreneurship ecosystem. In order for a healthy ecosystem to develop, there should be strong public leadership and advocates of entrepreneurs, as well as government policies and institutions that foster collaboration and remove barriers between entities. Ecosystems cannot be replicated from other nations with a copy-paste –approach: they need to be tailored to fit the local entrepreneurship dimensions, style and climate. Education should also contribute in developing business and entrepreneurial skills, as well as encourage a culture that values entrepreneurship and risk-taking. (Isenberg, 2010)

This governmental initiated approach differentiates entrepreneurial ecosystems from the business ecosystems defined by Peltoniemi and Vuori (2004). They argue that business ecosystems should be self-sustaining, meaning that no government interventions would be needed to survive in the local or global markets.

Involving the private sector in creating healthy ecosystems

Isenberg’s model emphasizes the importance to understand that governments cannot create everything on their own: private and non-profit sectors must also participate in the process, as only they are seen to have the genuine motivation to develop self-sustaining and profit-driven markets. Therefore, governments must involve the private sector early on by reaching out to the actors and asking for advice in creating entrepreneur-friendly programs and policies. The private sector should also have, or be able to acquire, a significant stake in the ecosystem’s success in order to maintain their interest. (Isenberg, 2010)

An important aspect is securing sufficient amounts of capital - not only from the public side but also from the private side, as it can also contribute with non-monetary value, such as mentorship and contacts. In respect to this, non-profit and industry related associations are important in helping entrepreneurs and investors learn and network

with each other. Customers are also vital in developing healthy ecosystems, as they are the ones that generate the cash flows for the companies and provide feedback. (Isenberg, 2010).

The importance of an early success story

It has been recognized that even a single true success story in a certain industry can have a huge stimulating effect on its entrepreneurial ecosystem. Isenberg calls this effect the “*law of small numbers*”, referring to how the successful case can ignite the imagination of the public and inspire imitators (Isenberg, 2010). Moore (1996) also talks about “*keystone species*” as leadership companies that influence the co-evolutionary processes.

Recent examples of such “keystone species” are Skype’s massive success in encouraging highly trained technical people in Estonia to start their own business. In Finland, Rovio’s and Supercell’s successes have been significant in building the nation’s gaming cluster. In Sweden, H&M has had a significant impact in developing the fashion ecosystem as it has provided financial gains, employment, expertise and credibility for the entire industry. Early, visible success stories can help reduce the perception of entrepreneurial barriers and risks, and highlight the tangible rewards (Isenberg, 2011).

Therefore, governments should identify the early successes and then take on a more visible role in “over celebrating” them publicly. Media should be used as a tool to celebrate the wins and successes, as well as alter any negative attitudes towards entrepreneurship. A healthy ecosystem must also contain enough knowledgeable people with experience in creating companies and building structures, as well as offering their expertise to the different actors in the ecosystems (Isenberg, 2010)

3.2 Characteristics of the fashion industry

Fashion is explored in this part of this study to provide insights into its specific industry dynamics. Studying fashion is important because it is a growing and important industry (Hauge, 2007; Hemphill & Suk, 2009), representing a complex network of interlinked value chains embracing design, manufacturing of material and goods, as well as distribution and retail to end customers (European Commission, 2012a). This network provided employment to 5 million people and accounted for 3% GDP in the European Union in 2009 (European Commission, 2012b). In the UK in 2010, 22.5% of retail activity was focused on fashion spending (BFC Value of Fashion Report 2010).

In this chapter, I will first define fashion and then move on to explore the industry characteristics in more detail. I will also briefly describe the concept of creative industries as especially on national policy level, fashion is often considered as a subgroup under this broader concept.

3.2.1 What is fashion?

Fashion as a term is vague in itself. Barnard (1996) defined fashion as something that can be related to any object or phenomenon that changes over time and is based on individuals' collective preferences. Crewe (2001) stated that an essential feature of fashion is that it is by definition momentary and elusive - a target that is constantly moving and changing. This also makes it such an interesting case to study, and a challenging one if needed to be valued in tangible, monetary terms. Hemphill and Suk (2009) studied the intellectual property protection of fashion design and identify fashion as "collective selection": it is seen to emerge from a collective process, in which people form collective tastes through their choices among many competing styles.

3.2.2 Special characteristics of the fashion industry

Fashion industry is difficult to precisely define, as literature does not provide an exact single definition for the term. It is also not used as a term in internationally recognized industry classifications (European Commission, 2012a). Fashion industry is situated in the crossroad between creative industries, well-established manufacturing industries and services industries (European Commission, 2012a).

The industry represents a rather complex network of strongly interlinked value chains, and can be analyzed and studied from many different disciplines and with varying approaches. Through the interlinked value chains and networks, fashion can have a wider impact on a nation's economy, i.e. positive spill-over effects. As a highly knowledge intensive and reactive industry, it can also facilitate innovations and create value for other sectors (Aspers, 2010; Hauge, 2007; European Commission, 2012a). The British fashion council identified a variety of economic areas, where the nation's fashion industry can be seen to make contributions and economic impacts.

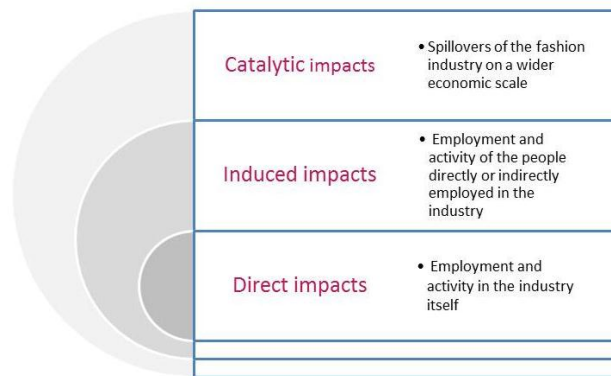


Figure 4: Impacts and contributions of the fashion industry, i.e. spillover effects. (The British Fashion Council, 2010).

The actual products can be associated with design innovations and therefore fashion is a business with high immaterial value (Hauge, 2007). Especially for companies in high cost countries, such as the Nordics, value creation and profitability are based on the ability to create innovative design, brand value, and maintain efficient marketing channels, logistics and distribution (Hauge et al, 2009). These factors set prerequisites for efficient production and supply chain management, skillful branding and marketing strategies, and optimizing and balancing cash flows and inventories.

Next, I will briefly explore some of the specific characteristics that differentiate fashion from many other industries.

Dual structure of the fashion industry

Fashion is an industry with a strong emphasis on both tangible and intangible aspects: it's partly based on creative inputs, but also on globalized production and day-to-day business techniques. Hauge (2007) distinguished a dual structure in the fashion industry, with two parallel systems impacting the success and processes of companies. The first system focuses on the tangible side, i.e. production of the actual commodities. The other system focuses on the intangible aspects, i.e. creating and producing immaterial value that will eventually differentiate the commodities from others in the market. Kawamura (2005) agrees that the economic structure of the industry is on one hand based on the manufacturing of physical goods, and on the other hand on the production of symbolic and aesthetic value. Thus, the way to success stems from the ability to transform a simple garment into a fashionable item.

The importance of branding in creating value

Unquestionably, fashion is less about needs and more about emotional appeal. The physical need of clothes can be fulfilled at a very low cost, but there doesn't seem to be a limit as to how much people are willing to spend to satisfy their emotional needs

(Hauge, 2007). Brands have a fundamental role in the fashion industry: consumers often base their consumption and purchasing decisions on the emotional notions and ties associated with being part of the brand experience.

Design as an aesthetic input is naturally also very important, but as Hauge (2007) argues, branding is taking a significant leading position as an innovative arena and a strategic tool. Branding enables the personifying of products and captures a balance between economic values (e.g. quality, utility) and symbolic and cultural worth (Hauge, 2007). Also Lille (2010) remarks that nowadays the most important asset for a fashion company is a strong brand, as well as innovative and dynamic business processes.

Challenging cash flows and rapid product cycles

The fashion industry environment is fast-paced and competitive. This also differentiates fashion companies from many others within the creative industries: fashion companies must launch a new collection on average every six months, or even more frequently. This fast cyclicity puts pressure on the cash flow and capital management (Lille, 2010), and financing has been identified as a pressing problem and challenge for fashion companies (Sundberg, 2006a). It also requires the companies to constantly re-establish and modify their processes.

Malem (2008) studied how fashion designer businesses operate and according to her, designer businesses need finance especially in the growth and expansion phases (Malem, 2008). In a typical case, the design process for a new collection is started 12-18 months before the product can actually be sold to retailers or end customers, and cash flows can be accumulated. Therefore, executing strict financial control is crucial in the manufacturing and distribution processes: the company must be able provide upfront payments to the manufacturers, manage logistics and invest in marketing and sales activities (e.g. fairs, PR, branding). The fast shift in consumer demands (trends, sizes etc.) and unforeseen demand patterns may also require companies to refurbish inventories for items in current or even past collections. Concerning distribution, many fashion companies use both wholesale and retail channels and must therefore find a balance between these two to ensure regular cash flows. Furthermore, many small players in particular resort to agents especially in foreign markets. These agents may expect commission payments on the sales made, regardless of whether the goods actually get delivered or paid by the end seller (Malem, 2008).

One could argue that undercapitalization, controlling financing and managing cash flow gaps is a necessity in all businesses, and hence fashion companies are not unique in this respect. However, the rapid cycles and dependency on consumer fads is exceptionally

strong among the fashion industry. The small companies may not possess the capital required to produce and deliver the orders that they receive, even when their collections have sold well (Malem, 2008).

Lack of property rights to protect fashion design

Intellectual property is the most important asset for companies in the creative industries and helps create longer term revenues, according to the so-called *long-tail principle* (Hermia, 2011). In their much cited article representing a theory on the beneficial values of fashion copying, Raustiala and Springman (2006, 1688) argue that innovations in many creative industries are often “*difficult to create but easy to copy*”. Fashion industry differs from many other creative industries as the industry’s main creative element, i.e. design of the garments, falls outside the boundaries of IP law (Raustiala & Springman, 2006). Fashion industry operates in a “*low-IP equilibrium*”, which is characterized by three core forms of IP law: copyright, trademark and patent. These three forms however present very limited protection for fashion designs (Raustiala & Springman, 2006).

Hemphill and Sue (2009) rightly point out that the notion of intellectual property is a central question in the legal protection for fashion design: there needs to be a balance between incentives to create, while simultaneously making existing works available to consumers by successive innovators. As fashion is all about following trends and satisfying customers’ demand, the distinction between close copying and mere participation in these common trends is very hard to distinguish (Hemphill & Sue, 2009).

Many fashion companies take expensive measures to protect their trademark brands, yet seem to accept the misuse of their actual designs (Raustiala & Springman, 2006). Piracy in the creative industries, such as music and films, has shaped the market dynamics and forced businesses to develop value in new ways. Fashion companies with valuable trademarks and distinguishable styles have been targets for many copyists and infringements against their labels.

3.2.3 Fashion companies as born globals

Examining born global firms and international entrepreneurship in this study is relevant as any fashion company originating from a SMOPEC (small and open economy) country, such as Finland, Sweden or Denmark (Salimäki & Gabrielsson, 2005), needs to

strive for international markets from the moment it is established. Global developments have had an especially strong impact in SMOPEC countries and firms from these economies compete against global multinationals with limited resources and opportunities for protectionism (Gabrielsson et al. 2008). In order to achieve rapid growth and better financial results, fashion companies based in SMOPEC countries must perceive themselves as *born globals* or *international new ventures*.

Born global firms have been studied for almost two decades and are defined in many ways (e.g. Gabrielsson, 2005; Madsen & Servais, 1997). Moen, Sorheim and Erikson (2008) define them as new ventures that focus on a global niche market from the moment they are established. Oviatt and McDougall refer to these types of companies as *international new ventures* (INV) (1994, 49). Knight and Cavusgil (2005, 16) argue that in reality few of these born globals or INVs are international right from establishment, but instead begin to sell their products in foreign markets within a few years after the firm's founding. Gabrielsson, Sasi and Darling (2004) make a distinction between *born globals* and *born internationals*: the first one refers to companies with rapid growth and a majority of sales from markets outside their home continent, whilst the latter refers to firms with rapid internationalization within their home continent (i.e. Europe).

Salimäki & Gabrielsson 2005 studied the challenges related to limited resources and deficient knowledge of international markets and business of small firms originating from SMOPEC countries. Fashion was already defined as a knowledge-intensive industry and as the focus of this study is on the ecosystems in Sweden, Denmark and Finland, the companies face similar challenges regardless of the industry segment. Domestic markets are small and limit the companies from establishing sufficient turnovers to enable future growth. Furthermore, high production costs in these countries require many companies to outsource manufacturing to foreign countries from early on. However, the issues of globalization are relevant even if the company was pursuing domestic production, since the effects of an ever-increasing number of firms involved in exporting, importing or manufacturing abroad impact all players in the ecosystem (Gabrielsson et al. 2004).

3.2.4 Profiling fashion entrepreneurs

Entrepreneurship and its importance for the development of employment and national growth have been widely recognized (e.g. Berger & Udell, 1998; Wetzel, 1987). This reflects their significance to economic growth and contribution to the economy. Entrepreneurship in the fashion industry differs somewhat from that of other creative

industries due to its specific challenges - relating to both business skill and financial needs. Entrepreneurship often requires a certain “just do it” mentality from the manager or entrepreneur. However, “doing it” in the fashion industry requires the entrepreneur to seamlessly combine the creative design process with business practices, entailing two different sets of skills and mindsets (Mills, 2010).

Mills (2010) studied fashion entrepreneurship in New Zealand, and found that fashion companies struggle with two sets of demands: demands associated with operating in a creative industry, and demands of operating in a challenging and competitive business environment. This also reflects the dual structure of the industry (Hauge, 2007). Mills developed a model for three distinctive enterprise orientations to facilitate identifying the level of creativity-business orientation of the designer. The three presented orientations are 1. *Creative enterprise orientation* (CEO), 2. *Creative business orientation* (CBO) and 3. *Fashion Industry orientation* (FIO).

CEOs are young designers, who often start their business to realize their creativity and perceive themselves as “creative individuals”. Business success is considered as a consequence of their design success, not as a result of a business strategy or participation in the industry. CBOs are a step more business-minded: they aim to make a living while doing something creative. Though their main goal is not to merely make business, they take advantage of unexpected business opportunities. FIOs are the most business oriented group of entrepreneurs, primarily participating in the fashion industry and not drawn into the business to pursue creativity or self-expression. The basis of the business venture lies in the team, brand and fashion label. (Mills, 2010)

Lille (2010) resulted in similar findings and created a model of three different fashion company types – *Creative freedom*, *Design label* and *Brand*. These frameworks facilitate the categorization of fashion companies for external stakeholders, such as investors. In this study, I will focus on fashion companies that aim for international markets and rapid growth. Therefore, the challenges regarding financing and development are considered from the viewpoint of a *FIO entrepreneur*, or namely *brand* company.

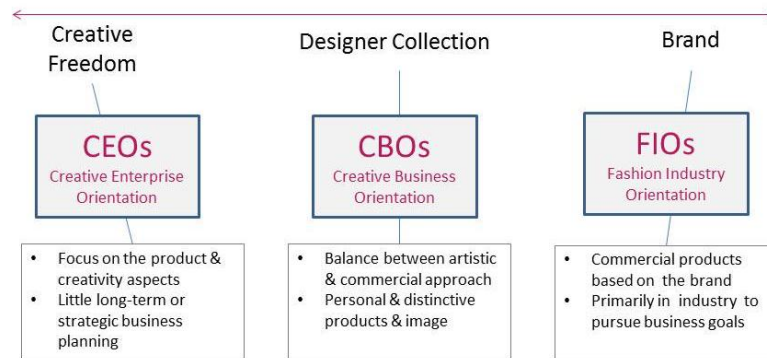


Figure 5: Fashion company categorization model (adapted from Lille, 2010; Mills, 2010).

3.2.5 Fashion as a “cultural and creative industry”

It is important to also discuss the characteristics of creative industries, as fashion is often included in this concept (e.g. Hauge, 2007; Nielsen, 2008). Hemphill et al. (2009) even consider it as the world’s most important creative industry. This classification became evident also through the interviews and discussions in the empirical research phase: most of the interviewees considered fashion within the scope of creative industries. Thus, the creative industries and fashion’s role in this domain is important and relevant to address and consider in this context. However, in-depth analysis of the topic or explicit positioning of fashion and its relevance is out of the scope of this study.

Creative industries have become a popular research theme during the past decade in academia (e.g. Power, 2002) and an industry of growing interest among many governments and policymakers (e.g. Hermia, 2011; European Commission 2012a; Bakhsh et al., 2012). As fashion is a sub-group within the “cultural industries”, it reflects many of the same challenges and opportunities.

But what exactly are cultural and creative industries? The terms *creative economy*, *cultural industry* and *creative industry* are often used as synonyms, referring to the same segments or groups of companies. Differentiating between these concepts is not explicit and creative industries can be considered as a group within the creative economy (Handelberg & Karhunen, 2009). Howkins (2001) studied aspects surrounding the creative industries and argues that the creative economy is about creating new activities and functions, and combining them with mass production and masses. Furthermore, different countries tend to have differing definitions for the concepts, making statistical reporting and comparisons between nations very challenging (Handelberg & Karhunen, 2009). In a report for the Finnish Ministry of Labor (2010), Taalas stated that the most often used classification for the creative industries originates

from individual creativity, i.e. new ways of thinking and producing, and from utilizing creative contexts for reformatted operations. The term is also linked to producing items with immaterial and intangible value, often highlighting the importance of property rights.

Creative industries are gaining momentum, especially in many high cost countries (Handelberg & Karhunen, 2009; Melchior et al., 2011; Power, 2002) where the focus for new sources of financial success has shifted from many traditional (manufacturing) industries and sectors to the creative sector (Melchior et al., 2011; Bakhsh et al., 2012). For example in the UK, the creative industries have grown twice as fast as the rest of the economy (The Economist, 2012). In the Nordics, the role of culture in the development of economies has become an increasingly popular topic for researchers and policymakers alike, and there is a growing awareness that these industries are an important and a vivacious part of the nations' economies (Power, 2003).

Despite the recognized potential of the creative industries, the segment has traditionally been less popular among investors. Banks and venture capitalists tend to regard the sector as riskier and comparatively less motivated and driven by profits (The Economist, 2012). In a study for the Warwick Business School, Fraser and Lomax (2011) concluded that creative firms are likelier than other businesses to be discouraged from even applying for finance. There is a need for equity finance among the creative sector, but the challenge seems to be convincing investors to invest in an industry traditionally perceived as risky (Fraser & Lomax, 2011).

3.3 Small business financing

Financing was identified as a pressing problem for small fashion companies (Sundberg, 2006a). Furthermore, managerial practices and organizational patterns that are typical for fashion industries often clash with the more traditional views of managing organizations (Jonsson, 2008). In this chapter, I will briefly present the forms of financing for small companies.

3.3.1 Importance of financing for small and micro companies

Access to financing is an essential enabler for most businesses to set up and expand their operations (e.g. BIS, 2012a; Beck & Demirguc-Kunt, 2006; Wetzels, 1987). The choice of using debt or equity financing in the early stage of the company's lifecycle has shown important implications for business operations, risk of failure, performance,

and potential for expansion (e.g. Cassar, 2003; Papadimitriou & Mourdoukoutas, 2002).

Gabrielsson, Sasi and Darling (2004) studied financing strategies and management capabilities of Finnish born global firms and their effect on globalization processes. They acknowledge that financial resources set challenges for these companies, especially in respect to managing working capital and balancing between the lack of cash flows and high development or set-up costs (Gabrielsson et al., 2004). Moen et al. (2008) argue that establishing this balance between cash flows is especially pressing for many born globals producing tangible products, i.e. garments in the fashion industry.

Stronger financial resources facilitate quicker firm globalization. Sorenson and Erikson (2008) argue that instead of following an incremental development path to gather capital resources, the financial resources required by born global firms may often derive from external sources. Equity financing is considered an important source of financing for rapidly growing firms, especially if insufficient and unstable cash flows and the lack of collateral make them unable to obtain debt financing (BIS, 2012a; Wetzel, 1987). Furthermore, appropriate financial partners (e.g. business angels, venture capital investors and institutional investors) may yield better global management skills for the firms (Gabrielsson et al. 2004).

3.3.2 Sources of Financing

The various sources of external equity capital for small born global growth companies will be discussed in this chapter. Wetzel (1987) identified three major segments for venture capital financing.

- The public equity market (*Public equity financing*)
- Professional venture capital market (*Private equity financing*)
- Informal venture capital market (*Private equity financing*)

As this study focuses on micro and small companies, the above sources present relevant forms of equity financing. Bank lending is also a common way for small companies to acquire debt financing. However, bank financing and its dynamics will not be covered in further detail in this study. Firstly, because the focus of this study is on bridging equity and entrepreneurial gap – a process that requires business support in addition to merely injecting private capital into the company. Secondly, debt-based financing is usually inappropriate from a cash management perspective for early stage companies as it may tie a large amount of the future cash flows of companies (Jeng & Wells, 2000).

Public equity financing

Over the past decade or so, literature on the governments' role in financing young innovative companies has increased significantly (Maula et al., 2007) and there are differing viewpoints on the success of publicly financed programs (e.g. Tekes, Vigo accelerator program). Lerner (1999) provides evidence that publicly financed programs can derive positive and beneficial results. O'Shea (1996) presents an opposing view and argues that there may also be disadvantages in these efforts: for example government spending on venture capital may hinder the development of the private investment sector. Furthermore, there is skepticism on the public entities' capability and knowledge to focus on the best and most potential cases (Jeng & Wells, 2000).

Despite these differing views, governments are motivated to ensure financing for young companies, as their role is considered important in the growth and renewal of economies. Public financing is important in correcting the market failures in the provision of sufficient risk financing for these growth-oriented yet risky ventures (Maula et al., 2007). The government's main role in supporting entrepreneurship is to provide an encouraging system and environment to facilitate and support private investors' willingness to take risks and invest. The challenge seems to be balancing between the right amount of government intervention and support, and avoiding distorting the market conditions too much.

Private equity financing

Private financing is equity from individual investors and private firms. Even if equity is generally not considered a major source of financing for young firms (Atherton, 2012), equity finance is generally associated with the success of new ventures (Shane & Cable, 2002). Mason and Harrison (2000) argue that it is essential to assist entrepreneurs to understand different forms of equity financing. Therefore, it is important to identify between investments made by formal investors and those made by informal investors (Avdeitchikova et al., 2008).

Osnarbrugge (2000) identifies two types of finance providers that fund entrepreneurial and risky companies: business angels and venture capitalists. In this study, I define venture capitalists as *formal private investors* and business angels as *informal private investors*. In addition to business angels, friends, family and fools are considered as another form of informal investing.

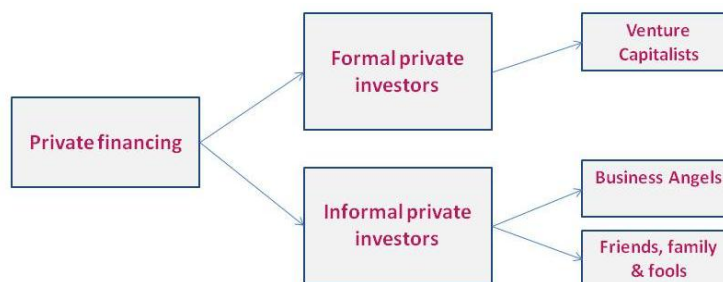


Figure 6: The division of private financing into formal and informal investors. Model adapted from Osnarbrugge (2000).

I) Formal Investors

I define formal investors are those entities that invest money with a “strings attached” approach (*professional venture capital market* (Wetzel, 1987)). Meaning that the investor needs to answer to a third party about the investments and the invested capital comes from external sources for the investor, as opposed to private and personal wealth. The source of funds for formal investors is often a third party (e.g. pension funds, insurance companies, wealthy private individuals). Formal investors carry only limited personal risk for the investment success, but are required to report to the fund management and fund owners. Credibility and reputation are important assets for these investors and compared to informal investors, they also tend to have more extensive investment experience and resources. Because of the significance that reputation and liability present to third parties, formal investors also carry out stringent due diligence processes.

Venture capitalists are included in this investor category, as they can provide financing to risky entrepreneurial companies. Lumme et al. (1998) defined venture capitalists as the intermediaries between financial institutions and unquoted companies, raising financing from the first sources to the latter targets. According to Wright and Robbie (1998), venture capitalists are professional investors with mid- to long-term investment strategies into unquoted, new firms with higher risk profiles. The aim of these investments is eventual capital gain, supplemented by dividends. As equity investors, venture capitalists often take a position in the company board and supervise the company's performance by setting strategic and managerial objectives.

Venture capitalists' pre-investment process is very rigorous, and the operating method usually consists of screening, due diligence, negotiations and contracting, post-investment involvement and exiting. Especially the due diligence process is highly comprehensive and time consuming (Lehtonen & Lahti, 2009). This naturally implies that seeking for external financing is difficult and resource-intensive for entrepreneurs as well, and success is never guaranteed and statistically rather unlikely.

II) Informal Investors

In this study, informal private investors are defined as private individual investors, i.e. business angels and friends, family and fool (*informal venture capital market* (Wetzel, 1987)). Informal equity financing is by no means less important or relevant for the development of small companies and ventures than formal financing (Moen et al, 2008). On the contrary, research has shown that informal venture capital, also comprising of micro-angel investments, has been a major source of financing for early-stage entrepreneurial ventures (Osnabrugge, 2000; Mason & Harrison, 2000; Maula et al., 2005). The invested sums are also significant (Reynolds et al., 2003). For example, a very recent study in Finland found that angel investments in 2012 totaled 14 million euros (FIBAN, 2013).

Informal investors often make investments into companies that formal private investors consider unattractive due to the high level of risk and small size of these businesses. (Avdeitchikova, 2008). In addition to financial resources, informal investors may also derive other benefits for the company, such as management skills and partnerships with international suppliers, customers, distributors, and other stakeholders.

Business Angels as a term was used by William Wetzel already in 1984 to refer to individuals that provide investments for young entrepreneurial ventures. The term was later defined for high net worth individuals, investing a proportion of their assets in high-risk, high-return entrepreneurial ventures (Freear et al, 1994). Mason and Harrison (1996) noted that in addition to providing capital, business angels often take a hands-on approach towards the investee companies and provide them with their commercial skills, experience, business know-how and networks.

Avdeitchikova et al. (2008) identified four aspects that distinguish business angels from institutional venture capitalists (formal private investors). These are the source of funds, responsibility, investment experience and available resources, and the time and resources spent on performing due diligence on the investment target. The source of funds for institutional investors is a third party, whereas business angels carry a significant personal financial responsibility. This allows informal investors to make riskier investments than their institutional or more formal counterparts.

Friend, Family and Fools include all those investors that make investments into young companies not founded by the investor, including investments made by family and friends, colleagues etc. (Avdeitchikova et al., 2008). In this case, investments into stocks and mutual funds are excluded.

Scholars present differing opinions as to whether friends and family should be included in the term *informal private investors*. Reynolds et al. (2003) agree with the above definition and include family and friends in their classification of informal private investments. Mason and Harrison (2000, 137) present an opposing definition and define informal investors as “*private individuals who make investments directly in unlisted companies, in which they have no family connections*”. The logic behind their definition is that the rationale for the investment decision differs from that of external investors: investment decisions by family members are more likely to be affected by social ties and soft values, rather than stringent due diligence and objective analysis of the investment. Maula et al. (2005) studied informal investment behavior in Finland and resulted in similar findings.

3.4 Equity and Entrepreneurial Gaps

Equity and entrepreneurial gaps are important to address as they are assumed to be the underlying factors for the weak performance of the Finnish fashion industry. After defining the key theories related to these concepts, I will present some suggestions from literature as to how these gaps could be bridged.

3.4.1 Pecking Order Theory

Equity gaps reflect the challenges and failures in the supply side of private equity for startups. However, past research (e.g. Paul et al., 2007; Jonsson, 2008) has also identified challenges related to the entrepreneurs’ aversion to seek and acquire external financing. Companies’ financing preferences are often explained by using the pecking order theory, which states that companies tend to prioritize internal financing to equity and prefer to raise equity only as a means of last resort financing (Myers & Majluf, 1984). This implies that the company’s or entrepreneur’s cash is used first. The next preferred source of financing is to issue debt, and only after this, does the company seek equity financing. However, there are many conflicting studies related to the pecking order theory - especially in the start-up context.

By rational means, the pecking order theory ought to be even more apparent among small companies than large ones, since the lack of historic performance data increases the information asymmetry. Moreover, the assumption that many entrepreneurs start their own business to be “one’s own boss”, would imply that entrepreneurs prefer financing options that minimize any risks of losing control of their business, thus

resorting to debt financing or their internal capital resources (Padachi et al, 2012; Paul et al., 2007; Sogorb-Mira, 2005).

However, studies have shown that this is only partially true (e.g. Atherton, 2012). Paul et al. (2007) studied the theory among Scottish entrepreneurs and found that own funds were used first and when external funds were needed, the main source was equity instead of debt. They suggest that the loss of control is traded-off and balanced against the benefits that an external investor can offer. In addition, four advantages were identified in this approach: investors add value and credibility, debt is liability and needs to be underwritten by personal guarantees, equity capital provides long-term financing without negative impacts on cash flows, and with high capital spending startup companies often require several rounds of financing. (Paul et al., 2007)

Jonsson (2008) studied organizational characteristics and formations in establishing relationships between SMEs and financiers in the Swedish fashion company context and resulted in similar findings as Paul et al. (2007). In contrast to the pecking theory, the small fashion company in question resorted to equity financing even when offered a bank loan. The rationale behind this decision was explained by the creative entrepreneurs' feeling of being "closer" to the investor than to the bank, i.e. the investor was embedded in the same aesthetic sphere (Jonsson, 2008). Aernoudt (2005) even suggests that the traditional financing pecking order would be reversed for startups as the interest for risk capital is larger in the seed and startup phase than in the later stage.

3.4.2 Equity Gap

Practitioners and academics have noted the important role of early stage financing for the development of high growth SMEs (for example Macht & Robinson, 2009); Atherton, 2012). However, in the case of small investments, the relatively large proportion of resources required can cause investors to seek for larger investment deals. This may result in a structural gap in the market as formal investors shift towards larger deals and favor companies in the later stages of the development cycle. This "equity gap" creates difficulties for the provision of modest amounts of equity to small companies (BIS, 2012b; Aernoudt, 2005; Rasila et al. 2002). The existence of financing or equity gaps implies that the companies are attractive from an investment perspective, but face challenges in acquiring this financing (Jonsson, 2011)

Many scholars and practitioners agree that equity gaps exist. However, there is no clear consensus on its positioning in the company's life cycle model: it seems to depend on the company, industry, markets, financial macro-economic conditions etc. For example,

Papadimitriou & Mourdoukoutas (2002) identified two financing gaps, which develop because requirements and sources of financing vary from one development stage to another. The *early stage equity gap* can be bridged by entrepreneurs and their personal networks (FFF) to provide seed money and start off the business. The *later stage equity start-up gap* is positioned in the product development stage, i.e. when financing requirements further increase and capital needs to be acquired through formal venture capital and large corporate partners. Also Lahti (2010) argues for the existence of these two gaps, stating that they have developed due to the requirements and sources for financing that vary from one development stage to the other.

Aernoudt (2005) studied equity gaps, but unlike Papadimitriou & Mourdoukoutas, the first equity gap is identified in an earlier development stage: the *original equity gap* is basically the gap between developing the idea of a business into the first tangible outcomes. The second gap is reached when the company is in need of a larger sum of money, but still too small to acquire formal venture capital financing. Aernoudt (2005) suggests business angels as the most suitable means to bridge this gap between credit card debts, small public support scholarships, FFF money and venture capitalists. Formal venture capitalists tend to look for larger investments at later stages in the firms existence, thus creating this “second equity gap”.

Due to the small size of the Finnish fashion companies, the prevailing equity gap in the industry can be identified as the second one in Aernoudt’s (2005) model: addressing the challenges of acquiring the first forms of external private equity, i.e. business angel financing.

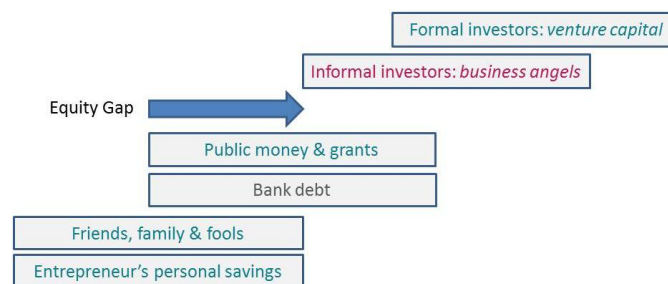


Figure 7: Equity gap for small Finnish fashion companies. The gap is positioned between public grants, small bank loans and informal private investments, i.e. business angel capital.

3.4.3 Entrepreneurial Gap

Previous studies show that entrepreneurial firms in their early stages face two major shortages (Avdeitchikova, 2008). In addition to the equity gaps discussed earlier, these

companies often struggle with *experimental gaps*, also referred to as *knowledge* or *entrepreneurial gaps*. These gaps are caused by a lack of human and social capital, as well as management and business skills (Macht and Robinson, 2009; Avdeitchikova, 2008).

This experimental gap can be clearly identified among the Finnish fashion companies. Elonen (2010) studied the Finnish fashion companies' potential for growth and financial performance in his thesis. From interviews with designers and fashion entrepreneurs, it became evident that even the companies that had been able to secure external financing, could not have succeeded in developing the business with the additional financing alone. The business knowledge, networks and management skills of the financier were seen as critical factors for the company's development and growth.

3.4.4 Bridging the Gaps

Next, I will present some suggestions from academia and previous research as to how these gaps could be successfully overcome or how to facilitate the "bridging process".

Smart Money

Mason and Harrison (1995) introduced the term *smart money*, referring to private equity, which in addition to financing provides also resources to bridge the entrepreneurial gaps: for example business knowledge, access to the investors' networks and experiences. Avdeitchikova (2008) developed a framework to analyze the different investor roles based on two dimensions: the contribution of the financial and non-financial resources. Depending on the resource requirements of the firm, the level of contribution of these assets varies and results in different roles of the investor. Both dimensions are important, as they aim to fill the different "gaps" accordingly (Rasila et al., 2002).

Avdeitchikova's framework identifies the investor's role as *capital oriented*, when an individual invests a large amount of capital into an entrepreneurial firm without any contribution to the human capital resources. The investor takes a passive hands-off role, providing only the financial investment (Lahti, 2010). Alternatively, if the investor is actively involved in the operations but with a low financial contribution, the role is considered as *knowledge-oriented*. When both the financial and human capital resources are significant, the investor's role is that of a traditional business angel, also referred to as "*smart money*" (Mason & Harrison, 1995). This often entails an active part in the

company's strategic and operative functions (Lahti, 2010). Finally, if the level of contribution is low on both aspects, the investor is taking on a *micro-investor role* (Avdeitchikov, 2008). This role is common in the informal financing market (Reynolds et al., 2003).

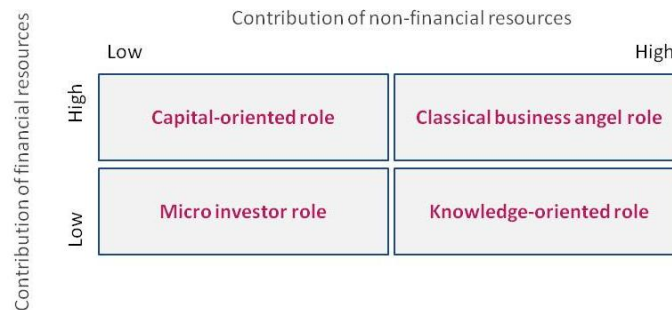


Figure 8: Investor roles for business angels (Avdeitchikov, 2008)

Business Incubators

Incubator programs can be considered as another means to help bridge the entrepreneurial and equity gaps. Incubators have been identified as important players in developing new, successful startups (Aernoudt, 2004). There is no universal definition for a business incubator and their role and function seems to vary depending on the country and industry in which they operate. Aernoudt (2004, 128) studied incubators in the US and European contexts and defined their key function to be “*the nurturing of young firms*”, i.e. providing help and support during the vulnerable start-up phase. An incubator should offer hands-on management, improved access to seed capital funds or business angels, legal advice, operational know-how and better access to new markets. The ultimate goal for the incubator should be to develop and produce successful firms, which will eventually result in financial success also for the incubator.

Advisory services

A number of studies reflect the challenges that entrepreneurs face in qualifying for external financing. Many of these challenges derive from shortcomings in written and oral presentations of these business opportunities. A business advisor may assist in reducing the “*equity aversion*” between the entrepreneurs’ lack of knowledge about the financier’s operating procedures (Mason and Harrison, 2001). They may also facilitate the process of seeking and acquiring financing.

Lehtonen and Lahti (2009) studied the role of external advisors in the venture capital investment process among firms in Finland. They state that external advisors have an important role and impact in bridging the gap between good investment opportunities that are still unable to acquire financing on their own. Advisors can assist by accelerating the process and improve the terms and conditions for financing.

Networking possibilities

Knowing the entrepreneur of an investee company is the single most important factor influencing an investment decision (Maula et al., 2005). Hence, if an entrepreneur is looking to raise informal capital and friends and family are not capable or willing to invest, the likelihood of finding an informal investor increases by making the venture more known to potential investors (Maula et al. 2005). Both incubators and advisory services are important in creating and fostering connections and mutual awareness and interest among investors and entrepreneurs. Also non-governmental institutions (e.g. business angel networks) and governmentally funded initiatives and projects (e.g. embassies and export projects) play an important role in creating these connections. The most successful sources of deal origination include personal and professional networks.

Early networking and connecting to investors is important for entrepreneurs in order to bridge the equity and entrepreneurial gaps, but it can equally provide opportunities and additional value for investors. Investments sourced through personal and professional networks have been shown to yield higher returns (Teten & Farmer, 2010). Furthermore, those investors with a proactive origination strategy have consistently shown higher returns, i.e. those funds that have origination programs of substantial scale and focus on companies outside of the most competitive sectors (Teten and Farmer, 2010).

4 EMPIRICAL RESEARCH

In this chapter, I will present the case ecosystems by using the constructed fashion ecosystem model. The case ecosystems of Sweden and Denmark are explored in a rather descriptive manner, and primarily serve as background and benchmark for the Finnish case. Sweden and Denmark were chosen as comparative cases as a result of consistent suggestions from preliminary discussions and initial research. Furthermore, they were considered applicable as both nations are very similar to Finland in terms of their political, geographical and social conditions.

The Finnish fashion system is analyzed in more detail and presents the main findings and challenges raised up in the interviewees with local investors, financiers, public officials and business consultants. Secondary data was also used to validate information and provide further insight in each case study.

5 THE SWEDISH FASHION ECOSYSTEM

5.1 Introduction to the Swedish Fashion Industry

During the past decade or so, the Swedish fashion industry has developed into a highly competitive export industry and prosperous employer (Sundberg, 2006b; Swedish Institute, 2012; Hauge, 2004). Moreover, the industry has a vital symbolic and aesthetic impact on everyday life in Sweden (Hauge, 2004).

In short, large retail chains dominate both export and home markets. Hauge, Malmberg & Power (2009) studied the systemic character, innovation processes and competitiveness of Swedish fashion companies. They discovered that basically all other functions beside the actual production, i.e. design, distribution, marketing and retail, are well integrated within the companies (Hauge et al. 2009). The most well-known of the Swedish fashion companies is undoubtedly H&M, but there are several other large, publicly listed companies (e.g. Lindex, KappAhl) and an increasing number of small – and medium sized producers (e.g. Acne, Filippa K, Nudie Jeans and WESC). In addition, there is a very successful cluster of niche-oriented small-and medium sized players, which focus strongly on developing their brand strategy and fostering their image (Hauge et al. 2009).

5.2 Development of the Fashion Industry in Sweden

Much like in the other Nordic countries, the production-oriented clothing industry in Sweden used to be much more considerable in the past. The structural changes in the 1960s and 1970s resulted in a decline in the industry and its employment figures (Pettersson, 2001, cited by Hauge 2007). Despite the decline and negative market outlook at the time, Sweden was simultaneously able to establish new companies, restructure some of the existing ones, and shift the production to lower cost countries. Companies started to implement a strategy of maintaining the design process, marketing, distribution and retail internally, while outsourcing manufacturing elsewhere. Nowadays, there are variations among the companies is regards to their geographical location, business model and the design and brand profiles.

5.3 The Swedish Fashion Wonder

The term “Swedish Fashion Wonder” was first used at the end of the 90s. There doesn’t seem to be a clear consensus as to what it exactly refers to - the entrepreneurial success story of Acne, the huge profits of H&M or the Swedish style identity (Swedish Institute, 2012). Based on my research, I would argue that the concept refers to the development of the Swedish fashion segment as a whole. Regardless of the exact definition, for the past decade the concept of “Swedish fashion” has certainly taken off: both in terms of awards and recognition for its style and image, as well as in the aggressive growth figures for fashion retailers (Fagring & Treschow, 2010).

In 2011, the turnover for the Swedish fashion industry was 206 billion crowns, of which 60% was from exports and 40% from the domestic market. The average number of employees in the industry in Sweden was just under 50 000 in 2011 (excluding H&M), of which most were employed in in-store trade (Volante, 2013). According to recent statistics by the Association of Swedish Fashion Brands, the profitability for the business is high. In a sample study of 15 Swedish clothing brands, the average return on capital employed over the past three years was almost 18%, with the most profitable company having a return of 133%.

The new breed of Swedish fashion firms can be roughly categorized into two groups: *the vertically integrated mass market retailers* and *the niche or brand-oriented portfolio firms*. With little actual manufacturing in Sweden, the Swedish fashion industry is nowadays a completely knowledge-based and innovation-driven industry. In a high cost country such as Sweden, there is a clear separation from the material production aspects. Thus value creation and profitability for these companies rests on the ability to produce innovative design, brand value, efficient marketing, logistics and retail strategies. To summarize, the *core product* of the Swedish fashion companies is the production and management of ideas: they sell in-house designed and developed brands. (Hauge et al. 2009)

5.4 The Swedish Fashion Ecosystem - Determining the success factors

Before exploring in detail the success factors behind the *Swedish fashion wonder*, I will briefly describe the nation’s fashion ecosystem in general. It appears that the success factors are distributed quite evenly on all the six domains of the fashion entrepreneurship ecosystem model.

Starting from the top of the model, the **policy domain** reflects the active role of politicians and policy makers in developing and speaking for the industry. The **financial domain** has been supported by private investments into Swedish fashion companies: the strong trend of company listings in the 2000s and the interest and popularity of private individuals' *glam investing*. The many success stories (H&M, Acne etc.), the talk of the Swedish Fashion Wonder, and the boost and media frenzy have all had an impact on the **cultural domain** of the ecosystem. These factors have increased the credibility of the industry – "*fashion is business like anything else*". The societal norms in Sweden also seem to favor entrepreneurship and a *just do it* –mentality, which is also reflected in the cultural domain. Moderrådet, Stockholm fashion weeks and various other industry organizations make up the **support domain**, whereas skillful branding techniques and experienced industry professionals represent the **human capital domain**. The final element in the model is the **market domain**: networks are strong with multidisciplinary management teams and experienced advisors, and the sufficient internal markets in Sweden create an early customer base that can derive feasible revenues to enable further growth.

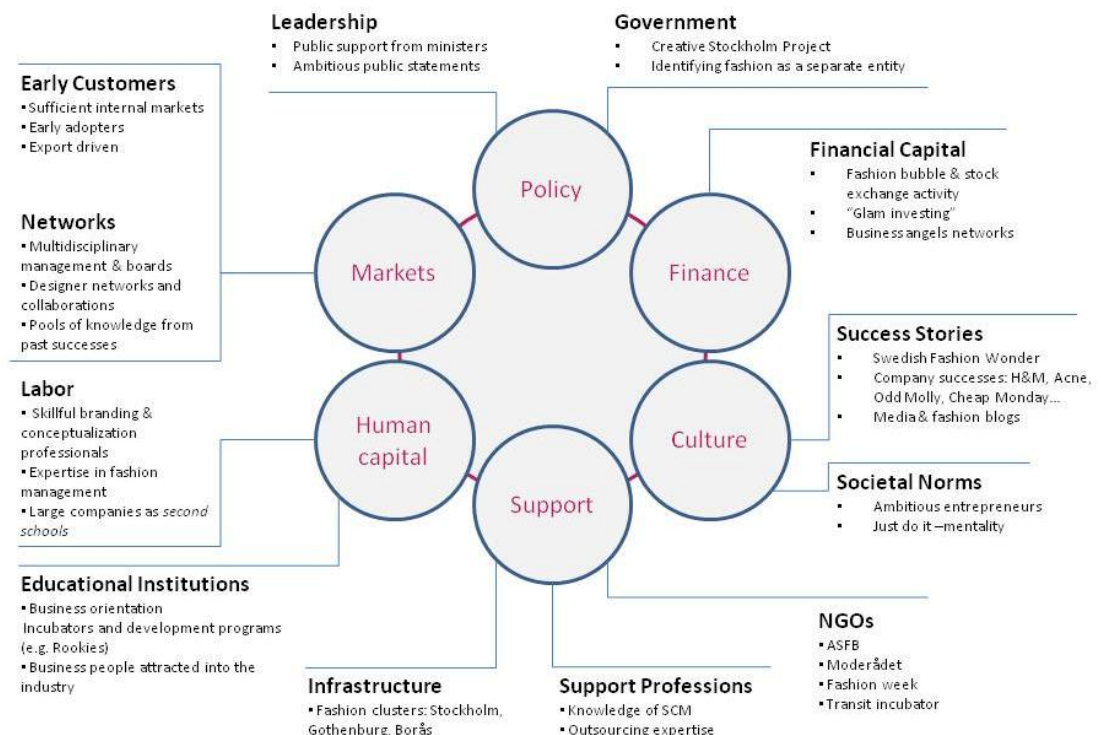


Figure 9: The Swedish fashion ecosystem

As the figure above shows, there seems to be a rather good balance between the public support efforts and the activities of the private sector players, i.e. companies, investors etc. However, it should be noted that efforts to systematically improve and support the Swedish fashion industry have been carried out for years already (Lille, 2010). Next, I will explore the different domains and their main elements in more detail.

5.4.1 POLICY DOMAIN

Cultural industries have become important for Swedish employment, regional development and international competitiveness (Power, 2002). The Swedish government has taken strategic steps to support and promote creative industries. As Swedish fashion has developed from a marginal business to an established player among the nation's industries, politicians have also started to perceive the industry as a potential one and some have taken on more visible roles in supporting the Swedish fashion industry (e.g. Lena Adelsohn Liljeroth, Minister of Culture; Ewa Björling, Minister for Trade).

The head of public relations at Moderådet (The Swedish Fashion Council) stated that *“politicians have finally seen that fashion is an interesting area”* (interview 10.1.2013). An important sign of support and trust in the industry was the Trade Ministry's ambitious public announcement to double export figures in cultural industries by year 2020, including fashion. Trade Minister Eva Björling stated that the fashion industry has an important role in improving Sweden's image abroad and encouraged companies to enter international markets (Ministry of Trade, press release 2011; Nylander, 2011).

The representative from Moderådet emphasized the importance of such public support, especially for young designers:

“..the first time, when it (association) was inaugurated, we had the minister of culture here, because she likes the rookies project quite much...and this is sort of also something to support the up and coming. The designers were very, very happy when they saw that she was here, because even if she can't give something, the support means a lot.”

Political support has also been evident in the form of projects and initiatives, such as MO:DE and The Creative Stockholm Project.

MO:DE

Already in 2005, the Stockholm Business Region decided to initiate the creation of a network for the creative industries. This led to the establishment of MO:DE (Mötesplats Mode & Design), which aimed at developing a creating platform, where different parties and players within the fashion and design industries could collaborate and work together. The goal for the initiative was to develop the businesses within these industries, as well as encourage and foster entrepreneurship. The ultimate vision and mission for MO:DE was very ambitious: to develop Stockholm into one of North-Europe's leading clusters for fashion and design within five years. (Sundberg, 2006b)

The Creative Stockholm project

The Creative Stockholm was a project launched in 2009 as a joint effort between the culture and business sectors in the Stockholm region. The goal was to improve entrepreneurship in the cultural and creative sectors. The project recognized fashion as one of the targeted sectors and focused on programs that would for example improve early stage financing, increase business networking and enhance internationalization (SLL, 2012). The Creative Stockholm project was undoubtedly inspired by the Creative London project, which included many of the same elements and motivations (Jonsson, 2013).

5.4.2 FINANCE DOMAIN

Stock exchange activity and the “fashion bubble”

During the 1980s and 1990s, the Swedish stock exchange was experiencing the most rapid growth of all stock exchanges in the industrialized world (Månsson and Landström, 2006). In regards to fashion companies, H&M and Lindex represented the only publicly listed fashion companies in the Swedish stock exchange. But the turn of the millennium witnessed a significant increase in the number of new fashion and clothing retailer listings - raising discussions, awareness and interest about the industry in general (Fagring & Treschow, 2010).

The success stories of the Swedish fashion companies in the beginning of the 00s also created interest among financial investors (Fagring & Treschow, 2010). There were discussions of a “fashion bubble” in the Swedish media in the late 00s, at the same time when the stock market began to see opportunities in the rapidly increasing growth trends among the fashion retailers. During this time, some argued that the high growth expectations and the companies’ aggressive and continuous expansion would eventually lead to a bubble.

Fagring and Treschow (2010) studied the hype by exploring the growth expectations incorporated by the stock market in Swedish fashion companies between the years 2004 until 2009. They argue that the Stockholm stock exchange became an arena for leveraging the fashion retail hype, and young companies experienced exceptional growth rates during the period (Fagring & Treschow, 2010), setting the stage for speculations about the “fashion bubble” (see also Appendix 3).

The positive and stable conditions in the Swedish economy had a positive and encouraging influence on informal investors (Månsson and Landström, 2006). The activities in the stock exchange also triggered venture capital interest and increased the effect on share prices – thus strengthening the hype within the sector (Fagring & Treschow, 2010). At the time, Swedish business journalist Pia Gripenberg talked about venture capitalists crowding fashion fairs and the soaring share prices of clothing companies. She also criticized the unhealthy and unsustainable hype in the industry (Gripenberg, 2009a).

By exploring the growth expectations incorporated by the stock market in Swedish fashion companies between 2004 until 2009, Fagrin Fagring and Treschow (2010) conclude that in fact there was no “fashion bubble” or evidence of excessively high priced-in long term growth or over-pricing of shares. They suggest that the “fashion bubble” was more apparent in the media and popular press, which were discussing and speculating on the high share prices of clothing retailers.

A researcher at the KTH Royal Institute of Technology in Stockholm has been studying the relationships between financiers and small fashion companies in Sweden. According to her, the “hype” surrounding the fashion industry seems to have faded from the years 2007-2008:

“I feel like the hype (in 2008) has kind of faded now, it’s not so hip to be an investor in the fashion industry...the owner of H&M said that the Swedish fashion wonder is not based on anything, they’re not making any revenues. It’s more like visions and fantasies. And fashion firms, they also got a lot of attention in the press, and now I feel that it’s not so much anymore. And some of those small labels that were hyped back then in 2008, 2007, are now bankrupt.” (Researcher on fashion financing, KTH)

“Glam investing” initiating private investments

When discussing the business angel approach to fashion in Sweden, Per Åldestam (Swedish fashion entrepreneur, partner at Royal Majestics) stressed the significance of the fashion industry's appeal for the investor. He implied that this interest in the industry and the desire to belong to this exclusive community would have a positive impact on the investment decisions of individual investors (interview 11.12.2012). I refer to this as phenomenon as "*glam or glamorous investing*", namely when the investment decision has been positively influenced by the perceived attractiveness of the industry. The increase in the number of fashion company listings and the general positive publicity

may also have had a positive effect on informal private investors, thus enforcing the “*glam investing*” phenomenon.

The researcher at KTH also commented on the impact of the industry’s appeal for some investors:

“...some of them (investors) said, well it’s kind of hip thing to be, to own shares in a fashion company, and that’s a way to be included in this very exclusive world, and go to fashion shows. That it is for some actors more of like a hobby... Because it’s kind of like a click you want to be part of.”
(Researcher on fashion financing, KTH)

She confirmed the notion of “*glam investing*” and considered it more common for informal investors, such as business angels: “*those who are more emotional perhaps in their investing strategies*” (interview, 10.1.2013). She also suggested that especially during the “fashion bubble” years, the wide media coverage and publicity had an influence on some of the investors:

“...from the investor and financier side, their interest in the fashion industry, I mean there was a lot of media coverage a few years ago about the fashion industry, so that kind of helped. It was perceived as a more credible industry.” (Researcher on fashion financing, KTH)

Active business angel networks and collaborations

Månsson and Landström (2006) studied how the changes in the macroeconomic variables influenced business angel investments in Sweden between 1992 and 2002. According to them, there seems to be a growing interest among Swedish business angels to collaborate and unite efforts. The number of investor networks has increased significantly during the past decades, and as Månsson and Landström (2006) suggest, there is a possibility that these newly created networks have lessened the anonymity and have also had a positive impact on the business angels’ deal flow.

There is also an interest from the fashion industry’s side to approach these business angel networks. Currently, Moderådet does not have any official collaboration with business angel networks. However, the numerous inquiries from designers and small brands have made them recognize the need for such collaborations and networks, and they are currently taking initiatives to set up new forms of cooperation. One of the current initiatives is the establishment of “Föreningens för Svensk mode”, an association under Moderådet. The association is run by designers and focuses on relevant projects regarding production, administration and financing, which also

includes establishing better networks with business angels. (Representative of Moderådet, interview 10.1.2013)

5.4.3 CULTURE DOMAIN

The deregulation of the financial markets and tax reform of the 1990s in Sweden created new opportunities for entrepreneurs and increased the number of startups: there has been a general trend towards increased entrepreneurship in the Swedish society (Månsson & Landström, 2006; Powers, 2002). The entrepreneurial spirit among the Swedish fashion entrepreneurs is rather ambitious and determined, encouraging a can-do attitude. As the managing director of Acne Jeans Mikael Schiller stated: “*we have a “just do it” approach to everything*” (Reed, 2006, online article).

Industry success stories sparking new ventures

During the past decades, Sweden has seen the rapid development and global expansion of several of its fashion brands and retailers. The presence of these successful companies seems to have had a vital role on the overall development of the sector: increasing the credibility of the industry and breeding not only more companies, but also increasing investors’ interest. The researcher at KTH agreed that these impacts have facilitated the development of the Swedish fashion industry:

“...it (the industry success) is like a natural consequence: you need these kinds of success cases. You also need to have good examples of how you can make investments and get a good return. So someone has to be the first one to succeed, to build it.” (Researcher on fashion financing, KTH)

Hennes & Mauritz

When discussing the Swedish fashion industry, it is impossible to dismiss H&M - the Swedish global clothing retailer that has become somewhat of a synonym for Swedish fashion (Swedish Institute, 2012). With more than 2700 stores in 48 different countries and annual revenues of 141,000 MSEK (2012), H&M represents one of the largest companies on the Stockholm OMX Stock exchange (H&M annual report, 2012). The impact of H&M on the success and development of the Swedish fashion industry is unquestionable. The company has an important role in training young designers into the business realities of the industry, and creating key networks both domestically and internationally. The representative from Moderådet agrees:

“H&M’s role is very important. Now, the design department has more than 100 persons. So actually, when the designers leave the school, many of them start at H&M. So this is their second school. They continue to build their network, start to learn about production.” (Representative of Moderådet)

In addition to providing networks and a knowledge basis for designers, H&M has also had a significant impact on creating business credibility for the Swedish fashion industry in general, also in respect to potential investments.

Acne Jeans

Another company that keeps appearing in discussions of more recent Swedish fashion success stories is Acne Jeans – *a company that placed Sweden on the international jeans map* (Swedish Institute, 2012, 1). Acne Jeans was founded in 1996 by marketing professionals, and has since grown with exceptional figures. In 2011, Acne's products were sold in 700 locations in 45 countries (Larsson, 2011). The company has expanded from producing jeans to offering internationally recognized fashion collections. Whereas H&M is categorized as a retail and manufacturing company, Acne is the common benchmark for high-end fashion design.

Media frenzy and the over-celebrating of the fashion industry

Pia Gripenberg (2009b) was one of the critiques questioning the sustainability of the growth rate of Swedish fashion industry. In an article from 2009, she argued that the market success of Swedish fashion companies can be essentially explained by the strong general consumption trends (Gripenberg, 2009b; Sjöberg, 2008). Another critique of the fashion hype was Stefan Persson, owner and chairman of H&M. In 2009 he claimed that the “Swedish fashion wonder” was in fact a phenomenon created by the Swedish media and that the actual turnover figures were comparatively rather low (Fagring & Treschow, 2010).

Regardless of the critics and speculations of the existence of a bubble, Swedish fashion industry was highly fueled and “over-celebrated” by local, and consequently also international, media. To add on, during the years of the “hype”, the Swedish fashion blogs phenomenon exploded. This generated further publicity for the nation’s fashion companies, style and image (The Swedish Institute, 2012).

5.4.4 SUPPORT DOMAIN

There are several organizations and companies in Sweden that focus solely on the promotion and development of the nation's fashion industry.

Moderådet as the platform for cooperation

Moderådet, or the Swedish Fashion Council, was founded as a consequence of a state-instigated business scheme that intended to curtail the clothing and textile crisis at the end of the 1970s. During the eighties and nineties, the main function of the organization was to promote Swedish clothing. However, the changes in the industry dynamics initiated a new strategy and the Fashion Council became a limited company in 1991. Operations were expanded into new areas, and trend forecasting became the main source of revenues (Moderådet, press release 2012). Nowadays, Moderådet's main activities include organizing the Stockholm fashion week four times a year and running programs and initiatives to support young designers. Moderådet is the generally accepted platform for cooperation in the Swedish fashion and textile trade (Swedish Institute, 2012).

Moderådet has a very important role as a lobbyist among policy-makers to improve and develop the industry's status in the nation's overall business environment. The company has a very business oriented and agile mentality in their activities and processes: they aggressively seek for new partners and opportunities.

“We struggle quite a lot with the money issue; we have to work with sponsors...If we see a possibility to collaborate with someone, somehow, with an organization or a company, we take that possibility.”
(Representative of Moderådet)

An example of this dynamic project management and ambitious goals of the Council is the recent launch of the Swedish Pop Up Store. The concept was developed to support emerging young designers and provides them the possibility not only to showcase their collections, but also sell them to the general public. A physical pop-up store was set up in August 2012, with 63 different brands present. The concept was a huge success and created lot of media coverage for the designers and created sales of 242 000 SEK in just two days. A few months later in November 2012, Moderådet was already able to launch the online store to continue the strategy on a longer term basis.

Public initiatives for networking: Association of Swedish Fashion Brands

ASFB is an independent organization aiming to unite, support and promote the Swedish fashion sector, with a special focus on exports, entrepreneurship and innovation (ASFB website, 2013). The organization was not established by public initiative, but by the industry itself. It was founded in 2009, around the time of the fashion hype, by some of the most established fashion companies, magazines and PR firms of the industry. The board of ASFB consists of many of the most affluent names in the Swedish fashion industry, as well as a representative from the Swedish official tourism board. Members include almost all of the prominent Swedish fashion companies, many of which have been founded during the past decade. ASFB is a good example of the successful collaboration between the industry players and common realization of the positive spillover effects.

Fashion Clusters strengthening the physical networks

There are three areas in Sweden which can be identified as fashion clusters: Stockholm, Gothenburg and Borås. All of these areas have a relatively high number of fashion companies and employees in the sector, but present some differences in terms of business organizations and design profile (Hauge et al. 2009).

Stockholm is the nation's capital and largest city and also dominates as the country's fashion capital (Hauge et al. 2009). The city has the highest number of people employed in the industry (Power, 2002), as well as a bulk of service providers supporting the industry demands. Many of the big, retail-focused fashion companies are situated around the capital region. Furthermore, Stockholm has also a relatively high number of smaller firms producing designer fashion in smaller volumes and for niche markets (Hauge, 2004).

Gothenburg and Borås are also considered as fashion agglomerations: despite having almost half of the working population of Stockholm, fashion industry in these areas employs only slightly fewer people than in the capital (Power, 2002). Casual, daily wear companies and jeans wear dominate Gothenburg's fashion scene, and it can be seen more as a hub for fashion consumption or retail centered companies (Power, 2002). The background of the employees also differs slightly from those in Stockholm: there are fewer employees with designer education and they tend to have less prior experience from the industry (Hauge, 2004). Borås used to have a considerable garment industry in the 1960s (Hauge et al.2009) and since some of the nation's largest design schools are situated there, the region is still considered as the starting base for many fashion

designers.

These clusters have undoubtedly had a positive impact on the development of the Swedish fashion industry. The most prestigious design schools are located in these clusters, breeding new talents for the industry. Furthermore, supportive industries and companies have positioned themselves close to these clusters, thus enforcing the networks and spatial proximity.

5.4.5 HUMAN CAPITAL DOMAIN

Skillful branding as a driving force

Swedes have a strong know-how in brand building and innovative, dynamic marketing concepts. The success in branding strategies also derives from the accuracy in collections (Volonte, 2013), i.e. know-how and ability to pick up trends and forecast consumer preferences. These factors can be considered as one of the main reasons for the success of the nation's fashion companies. The interviewees also identified these as the strengths of the nation's fashion companies:

“I think the strengths are that generally Swedes are good in building brands, brand-builders. And we have some of the major companies, like Acne, J. Lindeberg, Odd Molly... They are not designers: there are entrepreneurs behind these labels; they are more like brand-builders, brand-managers.” (Representative of Moderådet)

“I think that (branding) is kind of what Sweden is known for. Picking up the signals...” (Researcher on fashion financing, KTH)

An interesting case example of a well branded company is Swedish Hasbeens. Through a well-planned and strong concept, the company has been able to successfully rebrand the traditional Swedish wooden clogs, originally dating back to the 1970s (Swedish Hasbeens website, 2012). According to the head designer and founder, they received support in marketing and branding from external sources. This enabled them to develop a clear vision from the beginning about the products and how they should be branded and marketed:

“He (marketing professional) was like “you have to go to the US, this is good”, -. “You have to come up with a good name, what are your ideas, what are your visions; you have to talk about it.” (Founder, Swedish Hasbeens)

Multidisciplinary team and entrepreneurs' networks

Many of the most successful fashion companies in Sweden have been founded by people with a background and skills in marketing, or alternatively there has been a multidisciplinary duo or team comprising of the designer and a business person. For example, Acne was founded by a team of branding and marketing professionals; WeSC was established by a team with expertise in advertising and conceptualizing (Aldestam, interview 2012). Odd Molly is an example of a company founded by a marketing and designer duo.

The credibility of the industry has gotten business professionals to consider it as a noteworthy and potential sector. Acquiring these individuals into the companies has been important for the industry: in addition to expertise in branding and marketing, it is crucial to possess skills in creating profitable businesses (Volonte, 2013). Combining this skill set with an appealing design and look have been the keys to success:

“So the combination is kind of like the success factor. In Sweden we have for example Filippa K: she is the designer, and the husband is the business manager. That seems to be common.” (Researcher on fashion financing, KTH)

A very similar setting can be found in the case of Swedish Hasbeens: the head designer focused on the products and designing, whereas the co-founder was responsible for the business and financial aspects of the company:

“Together with (the co-founder) we were like a double force,-. I was very much into the product and production, the vision and the communication. And she was very focused on the revenues and the margins, the economy and so on...” (Founder, Swedish Hasbeens)

The founder also talked about the importance of establishing a multi-skilled board for the company from early on:

“I have a great board with skills from many different areas, it has been very important, -...someone with experience from building a fashion company, we have the old Marco Polo founder, and we have one marketing guy, one economy guy, one lawyer...” (Founder, Swedish Hasbeens)

Designer collaboration and industry networks

Still some years ago, it was not as common for Swedish fashion companies to directly collaborate and there was little evidence of joint cooperation between companies.

Companies were focusing on benchmarking themselves against others. This way they were able to gather insight of their competitors, keep track of each other's turnovers, business models, production methods etc. – facilitating their own positioning and strategic development (Hauge et al. 2009). However, now it seems that also the level of collaboration has been improving among the Swedish fashion designers and companies.

The representative from Moderrådet talked about this change in attitudes, which may also have been influenced by the changing conditions in Sweden and the role of Moderrådet as a facilitator:

“There is a good collaborative spirit among the small companies. They do much more than just share information. Actually, in one of these network meetings we had, one of the designers actually said that it's sort of lightening up that, since a couple of years, designers didn't want to share their information, if they had a production unit somewhere they didn't want to give any address or contact information, but now it's lightening up.” (Representative of Moderrådet)

Both the rivalry and the more recent collaborative efforts have been important for the industry's development. Collaboration increases synergies and can add to the credibility of the industry, whereas networked rivalry can also be regarded as a positive attribute for the industry's overall development. It can push and develop the actors further and act as a form of competitive advantage (Hauge et al., 2009). Despite the rivalry, Swedish fashion companies seem to understand that they need each other and realize that the achievements of some in the industry breed new ones for others. Hauge et al. (2009) refer to this as positive reputational externalities or reputational spill-over, meaning that one success story makes it easier for others to succeed by proving that success is possible even as a small player.

5.4.6 MARKET DOMAIN

Internal market demand providing sufficient revenues

Due to historical reasons, the wealth among Swedish households has traditionally been quite high. In the mid-90s the interest rates in Sweden were low, which increased real wages and gave consumers more purchasing power. This left room for spending beyond the bare necessities and resulted in the Swedish retail sector's 146 consecutive months of positive growth (Fagring & Treschow, 2010). Naturally, this tremendous growth in the retail sector also affected the development of the fashion retail industry, and marked

the growth of many Swedish fashion retailers.

Furthermore, the purchasing power and consumption habits in Sweden have in general been favorable toward the domestic fashion companies. This can be noted in the relatively large turnovers of domestic sales for fashion in Sweden: 40% of the sales in fashion in 2011 derived from internal markets (Volante, 2013). This internal market demand means that Swedish fashion companies are better able to achieve sufficient turnovers to support and organically grow their business and make investments into international expansion, compared to for example their Finnish colleagues.

”They (Swedish fashion companies) are able to achieve that (sufficient level of turnover) without the need for external capital, because the internal markets can yield adequate cash flows to expand the business fast enough.(...)The Swedish internal markets are almost double the size of the Finnish markets.” (Investor / fashion business consultant)

6 THE DANISH FASHION ECOSYSTEM

6.1 Introduction to the Danish Fashion Industry

The Danish fashion industry is considered as a very important sector for the nation's economy and society as a whole. In 2012, the Danish fashion industry had a turnover of 51,5 billion DKK, of which 30,6 billion DKK were exports (Dansk fashion & Textile, 2013). Together, textiles and fashion represent the fourth largest export business in Denmark and consist of approximately 600 companies. In total, the clothing industry employs around 14 000 people: mainly in management, logistics and design functions (Dansk fashion & Textile, 2013).

The structure of the Danish fashion industry is rather distinctive as it is so clearly dominated by four large companies (Bestseller, BTX, DK Company and IC Companys), which represent approximately two thirds of the entire sector (Dansk fashion & Textile, 2012). These companies are all price-driven, meaning that their strategies are built on low price levels, outsourced production and efficient logistics and supply chains. The more design-driven companies only represent approximately 5% of the industry. Despite the small figures, they have been able to create attention and awareness towards the sector as a whole (Dansk fashion & Textile, 2012).

6.2 Development of the fashion industry in Denmark

The Danish fashion industry began to develop in the 1950s, with distinct industry developments characterizing the different decades. In short, the industry witnessed a strong trend in production in the 1950's, an emergence of creative design in the 1960's, commercial orientations in the 80s and 90s, and finally the re-emergence of creative designers during the 2000s. The recent years have witnessed strong consolidations within industry, but there has also been a clear increase in the number of new companies established in 2000s (MOKO, 2006). Exploring the industry developments is relevant to understand the reasons and motivations for the outsourcing processes and their impacts.

6.2.1 50s – 70s: From Production and Creative emergence to Profit Creation

The Danish fashion industry can be considered to have really started in the 1950s. Production was concentrated to some key areas and exports were experiencing rapid

growth. Design was in the core of business, and there were several distinguished and prominent designers in the field. During the 1960s, the industry began to focus more on markets and profit-making – in other words, fashion began to commercialize. Companies that had before been design-led were now shifting away from high segments and towards seeking commercial targets and profits. (Tran, 2008)

6.2.2 80s-00s: Competitive Advantage from Outsourcing Production

As companies began to focus more on profit-making and price competition within the commercial sector, many players started to seek for reductions in production costs (Tran, 2008). The 1980s and 1990s saw an increase in the outsourcing of production and manufacturing. This had significant effects on the industry's structure in Denmark: traditional production activities shifted towards more knowledge based activities, such as design, logistics, marketing and sales (IMAGINE, 2005; Melchior, 2008).

The fact that the Danish companies needed to outsource production so early on gave them a comparative advantage against competitors (Tran, 2008). The trend towards efficiency continued also on the company level, and there was a wave of consolidations in the 1990s. Many smaller brands were acquired by large fashion conglomerates, which resulted in strong industry growth figures and pushed the commercial progress and exports forward.

Until the 2000s, the Danish fashion and clothing industry was known for its export success and commercial looks. However, in the 2000s Danish fashion designers began to put more efforts into re-establishing the design aspects in the garments and promoting Danish-led design in fashion (Tran, 2008). At the same time, government and public initiatives were introduced and recognized the potential of the sector, its positive spill-over effects across industry-boarders, and promotional aspects of the national image.

6.2.3 Now: Concentrated, prospering and profitable

As mentioned afore, the Danish fashion industry is concentrated in terms of turnover. For example in 2006 when the sector was experiencing aggressive growth, the top 10 companies were making 68% of the whole industry's profits and driving growth figures (Tran, 2008).

“In numbers, the fashion industry in Denmark is dominated by small companies. But the revenue and turnover is delivered by few companies - such as Bestseller A/S, IC Company...” (Researcher of Danish fashion)

6.3 The Danish Fashion Ecosystem - Determining the success factors

Next, I will explore the Danish fashion ecosystem with the fashion entrepreneurship ecosystem model (figure 10). I will present the factors that have impacted the development and creation of this ecosystem.

The **policy domain** has a strong influence in Denmark and also reflects on the activities in the other domains, especially on the culture and support domains. The Danish government has had a significant role in shaping the nation's fashion ecosystem by setting a strategic focus on the fashion industry since the mid-2000s and by allocating resources and introducing initiatives. One of these initiatives was the establishment of DAFI, the Danish Fashion Institute. DAFI can be positioned in the **support domain** of the ecosystem and it has had a very important impact on the overall development of the industry. DAFI's active lobbying and the government's visible support have improved the credibility of the industry – yielding positive impacts for the **cultural domain**.

The networks and credibility that have been established by the private companies have also had an effect on the development of the industry. The financial returns of the industry conglomerates and the successful private investment cases have built the base for the **financial domain**. The successful branding and conceptualizing of “Danish fashion” has increased public awareness, acceptance and interest in the industry segment. Both the **human capital** and **markets domains** have been developed by the acknowledged spillover effects of the industry, as well as the expertise and know-how from the successful outsourcing and value chain management strategies.

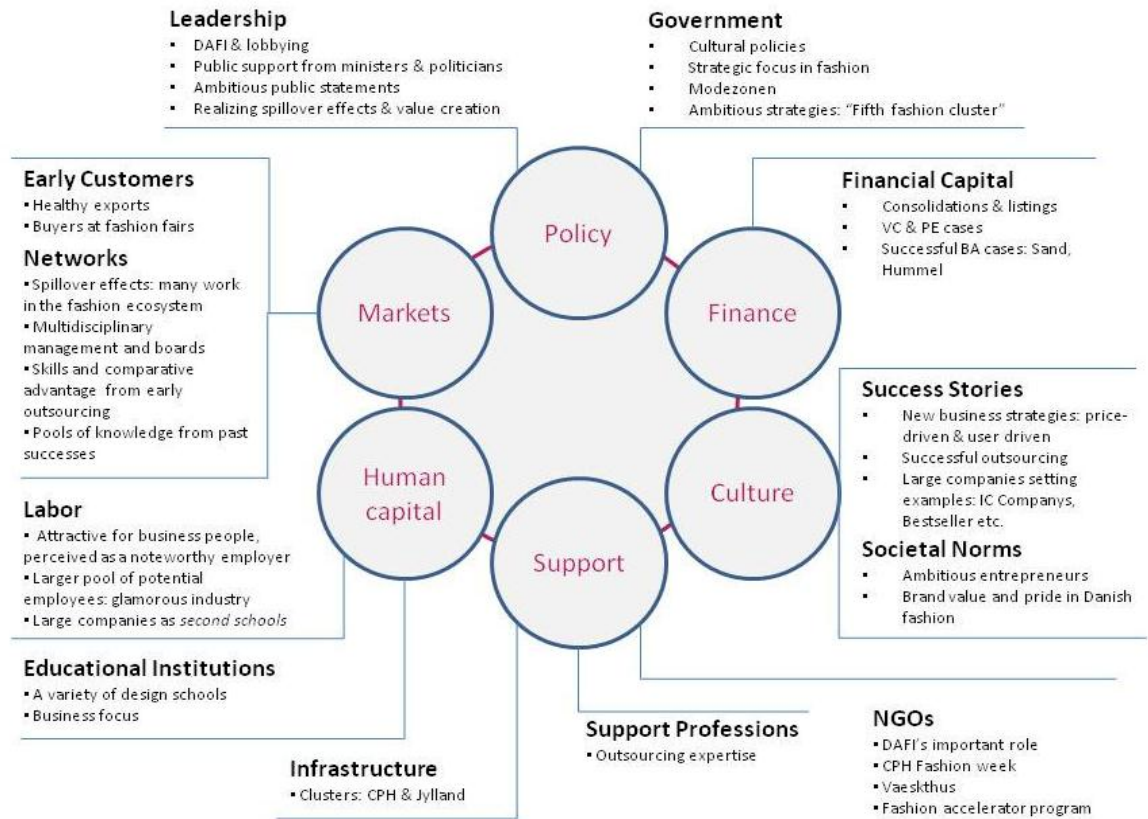


Figure 10: The Danish fashion ecosystem

6.3.1 POLICY DOMAIN

The Danish government has a vital role in developing the local fashion industry, hailing it as a model for successful postindustrial transformation (Melchior et al., 2011).

“As I see it, the Danish government found an interest in the fashion industry, because it demonstrated a successful transformation from being a production based industry to a knowledge (design and sale) based industry.” (Researcher of Danish fashion)

Fashion in the core of cultural policies

Since the beginning of the 2000s, the Danish government’s creative industry policy has focused on supporting the creative industries, improving conditions for business innovation and promoting investments in nation-branding (Melchior et al., 2011; Negarandeh, R, 2008). For approximately a decade, fashion has been in the core of this creative policy.

From a series of studies, research and reports, a new cultural policy was inaugurated in 2000 by the Ministry of Business Affairs and by the Ministry of Culture. The first report focused on the potential of the experience economy, underlining that the nation's future growth potential could not lie in selling merely goods, but in selling stories, experiences and identities to consumers and thus providing intangible added value. The report did not separate fashion from the rest, but for the first time identified it as an important element in creating a profitable link between design and business. (KUM & OEM, 2000).

Despite the changes in the nation's governing entities, the cultural policy initiative was considered a priority also by the new government and the policy discourse was extended in 2001. The two ministries collaborated again and resulted in a report and road map for the experience economy. This time, fashion was separated as an area of specific interest and future potential. The report also emphasized the collaboration between design and business, and the branding of the "Danish design" concept. (KUM & OEM, 2003)

Fashion was truly singled out after the creation of FORA, a research unit inside the Ministry of Economics and Business Affairs. FORA published a report in 2003, underlining fashion as one of the highly innovative industries in Denmark and one that should be supported and developed further (Melchior et al. 2011). Together with the pharmaceutical and electronic industries, FORA singled out fashion as a potential growth industry and as a means to tackle the challenges of globalization. Danish fashion was celebrated as a success story, since it had been able to increase its turnover and export profits whilst employing only half of what it had a few decades earlier (FORA, 2003). The report argued that the industry had developed as a result of price innovation (ability to control costs) and user-driven innovation (the ability to follow consumer demands instead of market reports or competitors) (FORA, 2003).

Ambitious goals towards the fifth fashion cluster

A few years after the FORA report singled out fashion as a potential industry, more concrete measures were taken. In 2005, the Danish Ministry of Economic and Business Affairs initiated a research project that focused on innovation processes and the possible impacts of user-driven innovation on business policies. Three industry reports were launched, focusing on the electronics industry, the medical device industry and the fashion industry (FORA, 2005). This way FORA continued its activities in promoting fashion as a part of the creative policy. The report's recommendations were very ambitious: to make Denmark the world's fifth fashion cluster among Paris, London, Milan and New York. This ambitious goal was accepted and adopted as the country's first official fashion policy (Melchior et al., 2011).

Modezonen to provide a foundation for the industry development

In 2007, as a result of these reports and recommendations, the government carried out a wider scale initiative for what had been defined as the *cultural and experience economies* (Melchior et al. 2011). The initiative picked four industries, which would be in more comprehensive focus and referred to as “experience zones”. Fashion was one of the four zones, which undoubtedly made the final push to strategically develop the industry and implement necessary actions.

Modezonen – the Fashion zone – was launched in 2008 and aimed at developing a foundation of innovation, export and growth in the Danish fashion industry. The initiative was a joint effort between various stakeholders, including education, research, the Ministry of Foreign Affairs of Denmark, the Trade Council and several industry players. (Danish Trade Council, 2009)

6.3.2 FINANCE DOMAIN

Væksthus is a government funded and owned organization providing business support and consultation for startup and developing companies in Denmark. According to the creative business growth consultant at Væksthus, acquiring external financing is challenging for fashion companies in Denmark and there have been some negative examples of bad investments – both in the private and public investor side (Vækstfonden). The interviewed consultant suggested that the reasons for these negative cases have been the lack of cooperation and understanding of mutual goals between the investors and the designers.

“I guess they don’t really talk about what they expect from each other. The designer will think about the creative thing, and the investors will think about the money, the business side. Those two things don’t always match, they clash with each other.” (Creative business growth consultant)

The most important source of financing for Danish fashion companies in the startup phase is the same as in many other segments: friends, family and fools. This is also the case for many fashion companies that seek for further consultation from Væksthus. The interviewed consultant also remarked that the financial crisis has strengthened the need for informal capital in Denmark, as many investors and banks have become even more risk-averse towards the fashion industry.

“It (acquiring external financing) is very difficult... (-)...it’s definitely mostly friends, fools and family.” (Creative business growth consultant)

Despite these comments, there are several case examples from the past decade, in which private investors have made successful investments into Danish fashion companies. Therefore, one can assume that there is at least some level of fashion investing and a culture for this in Denmark.

Industry consolidations and mergers

Since 2000, there have been several large mergers and acquisitions in the Design fashion industry. They have been to some extent the result of the changing industry dynamics and increased competition (IMAGINE, 2005). For example, in 2001 two traditional Danish companies InWear and Carli Gry merged together to form IC Companys. Through a domestically focused acquisition strategy, IC Companys nowadays represents 15 independent brands and has grown into one of the biggest and most well-known Danish fashion companies. It is listed on the Copenhagen stock exchange with revenues of 314 million euros in 2012 (IC Companys annual report, 2012).

These mergers and acquisitions have led to the development of three forms of branded fashion companies. Firstly, there are the originally branded fashion manufacturers with partially owned factories. The large Danish brand houses, such as IC Companys and Bestseller fall into this category. The second group consists of companies focusing on designing, sourcing production and then selling the products to retailers or to buyers. The primary focus is on design and supplier management. The third class of companies comprises of those with their own shops: many of these companies originate as retailers, later on shifting to designing and selling their own brands, such as department stores and supermarkets. (Tran, 2008)

Investment activities in the Danish fashion industry

Even though the business consultant (interview, 1.2.2013) talked about the challenges for fashion companies to acquire venture capital financing in Denmark, there is evidence from the past years of both public and private investments having been made into Danish fashion companies (Svenningsen, 2011).

I) Private Equity

There are several cases of private equity investments into Danish fashion or retail companies. For example in 2007, the large Danish private equity firm Axcel acquired 70% of shares in Noa Noa, a Danish-based fashion brand for women and children. The

reasons for investing were Noa Noa's solid performance, as it had shown growth, profitability, strong brands, international market presence and stable business structure (Lund, 2009). In 2007, Axcel also invested and became the majority shareholder in Ball Group, a women's fashion manufacturer and retailer. (Business DK, 2006a; Axcel, 2013)

Another interesting case from the same period was the joint investment of two Icelandic-based investment companies, Baugur Group and B2B. In 2006, the two companies made a 50% investment into the well-known Danish fashion company Day Birger et Mikkelsen. They considered the Danish retail sector as a prospering market since prior to this, both Baugur and B2B had acquired shares in Magasin and Illum – two of the most established and famous Danish department store chains (Retail week, 2006). A Danish newspaper from that time noted that Baugur's portfolio strategy was to establish a platform for Danish designers (Business DK, 2006b).

II) Venture Capital

An example of a private venture capital investment into Danish fashion was 3i's investment in 2008 into Soya Concept, a Danish women's clothing company. 3i acquired a 45% stake in the company (Svenningsen, 2011; 3i website, 2013). A public venture capital investment was done in 2008, when the Danish state backed investment fund Vaekstfonden invested DKK 9 million into the fashion clothing firm Noir. (MFA Press release, 2008). Vaekstfonden considered the three year-old company to have a unique business concept and needed the capital to develop and strengthen its position in the international markets (Vaekstfonden, 2009).

III) Business Angels

There are a few known examples of private individuals having made successful investments into the Danish fashion industry. One of these well-known business angels is Ib Kunoe, who in 1992 acquired half of the shares of the fashion company Sand. The investment was a success and eight years later in 2000, Kunoe sold his shares for DKK 141 million (Euroinvestor.dk, 2013). Currently, Sand is one of the most well-known international Danish fashion companies. In 2012, Kunoe made his second investment into the fashion industry by investing in Friis Label Factory, an international Danish fashion accessories company (Business DK, 2012).

Another well-known case is Hummel, the traditional Danish sport and fashion company. In 1999, Christian and Thor Stadil invested in the under-performing company. By implementing bold moves to the company structure and pursuing a long-term investment strategy, they managed to turn the company into a very successful

investment case. (Business DK, 2006c).

These investment cases received public attention due to the position and public image of the business angels behind them, but they have undoubtedly also created benchmarking examples that money could be made in the Danish fashion industry.

6.3.3 CULTURE DOMAIN

The few successful cases from the Danish creative industries created credibility, acceptance and trust in the segment as whole.

“We had some success stories in other creative industries... we had the pop band Aqua... And also the computer game called Hitman. Suddenly you saw that the road from coming out of nowhere and then becoming a huge commercial success worldwide was not that long a process in the creative industries.” (Creative business growth consultant)

New innovative business strategies

One of the reasons for the success of Danish fashion companies has been the successful transformation of the industry in the 1990s: fashion companies shifted away from being mere producers to becoming knowledge companies that are based on an entirely different set of skills and expertise. The new, successful company model was one that could embrace various activities from design, marketing, sales to wholesale and retail.

Danish companies have been exceptionally successful in pursuing price-driven and user-driven innovation strategies (IMAGINE, 2005). Cost minimization is in the core of price-driven innovation strategies and has an increasing importance due to the international pressure of cutting down costs. Especially the large Danish fashion companies, such as Bestseller and Brandtex with efficient value chains and retail channels, have been successful in implementing these price-strategies. User-driven innovation focuses on market needs, which in the fashion and clothing industry is very much related to brand-based marketing and cultural value adding. Especially for the smaller Danish companies, this represents a more feasible strategy as they do not operate on such large scales that would enable cost minimization. (IMAGINE, 2005)

Globalization and internationalization have had significant impacts on the competitive conditions of the fashion industry (IMAGINE, 2005), as it has meant that production processes are by no means restricted by national boundaries. Therefore outsourcing

strategies have become one of important drivers for growth. The Danish fashion industry has been able to successfully develop these networks and create efficient value chains. Much like in Sweden, the general trend for these companies has been to outsource the labor intensive production activities into low-cost countries, whilst maintaining the same turnover figures and increasing exports (Tran, 2008).

Strategic efforts to brand “Danish Fashion”

The term “Danish design” has been recognized world-wide for several decades and is associated with simplistic, modern and high-quality products and items. However, it has not been very long that the words “*Danish*” and “*fashion*” have come together to form the concept of “*Danish fashion*” (Melchior et al. 2011). This has been the result of the boost that the Danish fashion industry has been experiencing over the last years as Danish styles have been gaining international recognition (Tran, 2008).

This is also reflected by the activities in the policy and support domains. Through various cultural policies, the Danish government has promoted *Danishness* as a key competitive differentiator and an attribute for the growth of the industry. When discussing the reasons for the success and popularity of Danish fashion, the interviewed business consultant mentioned that it is partly due to the values that consumers characterize with Denmark, its tradition and lifestyle. Danish companies should also aim to pursue these values more strongly in their brand and image.

“There are values that you could try to sell. So maybe that’s why it’s also popular: because of the Danish values, the Danish design, the whole idea of this little paradise up North.” (Creative business growth consultant)

Melchior studied the process of creating a common, national identity for Danish fashion and argues that establishing this collective brand has required determined efforts. The fact that there previously was no strong sense of identity within the Danish fashion industry and no national dress or common sense of clothing heritage made the differentiating efforts challenging. (Melchior, 2008) The work and efforts have paid off, as nowadays “*Danish fashion*” represents a very distinguished and internationally recognized style and look.

Establishing this national identity has been crucial for the Danish fashion industry, since the considerable outsourcing has restructured the value chain, making the knowledge of design, marketing and sales more fundamental for Danish clothing companies. This also highlights the importance of branding and value-adding in the competitive consumer markets. The larger Danish fashion companies with their efficient value chains are still

able to compete with their international competitors, but especially for the smaller companies branding is used as a means to gain access to the competitive markets (IMAGINE, 2005).

Copenhagen International Fashion Week

The importance of the bi-annual Copenhagen fashion week is brought up constantly in discussion regarding the Danish fashion industry and it is by no means an insignificant event. The event provides publicity and credibility for the industry, as well as visitors and revenues for the city. Copenhagen fashion week is currently the biggest fashion event in Northern Europe and visited by more than 60 000 buyers, designers and press from around the world (CPH Fashion Week website, 2013). The week comprises of three international fairs: CIFF, CPH Vision and Gallery.

It is also a manifestation of the intangible and symbolic values for the Danish fashion industry, as both the “democratic” approach of Danish fashion and the public support are concretized during the Copenhagen fashion week. It is a good example of how fashion has been successfully brought to the attention of the wider public: it is not only aimed for the small, elitist fashion crowd, but also for the inhabitants and tourists in the region. For example, during the past years large screens have been placed around the city in order for pedestrians to follow the shows and events. The city’s public transportation is free for anyone with a pass to one of the fairs (registration and access to the fairs is free of charge). The city has also offered some of its most valuable and central buildings to be used for fashion shows, thus presenting the political goodwill and acknowledgements towards the industry. (Danish Trade Council, 2009)

6.3.4 SUPPORT DOMAIN

DAFI as the driving force

The establishment of DAFI, the Danish Fashion Institute, in 2005 has been one of the most important steps in developing the Danish fashion industry and a very concrete achievement of the governmental policy. From my research, interviews and discussions, it is *the* entity that was consistently being brought up.

“It (establishing DAFI) has been important, as DAFI work for the collectiveness of the industry and for promoting the industry as a unity.”
(Researcher of Danish fashion)

DAFI was founded by representatives of the fashion industry and media as a result of the FORA report (Melchior et al. 2011). The goal for DAFI from the beginning has been to detach itself from industry and educational responsibilities and constraints (Melchior et al. 2011). Instead, it is a network organization aiming to promote Danish fashion: “*created by and for the Danish fashion industry*” (DAFI, 2012). Financing is acquired through two principal sources: membership fees and government financing.

Since its establishment, DAFI has achieved legitimacy and credibility namely through efforts in two fronts. Firstly, DAFI needed to position itself among the industry players and thus focused its efforts on organizing and coordinating the Danish Fashion week (Melchior et al., 2011). DAFI was able to generate a great deal of media and public attention for the event, which legitimized the organization in the eyes of its members and the public (Melchior, 2008). Secondly, DAFI’s important task has been branding and defining Danish fashion, which was considered an important step to develop the national branding platform (Melchior et al. 2011).

DAFI’s active role in lobbying for the industry

DAFI has a very important role in improving the fashion industry’s position the Danish society and among policymakers and government officials. Since its establishment, it has been able to channel more government financing and more media attention towards the industry than anyone or anything before it (Melchior et al., 2011).

“For DAFI it is important to lobby. Through lobbying DAFI secures its existence and shows the public through media coverage of collaborations between the fashion industry and political ministers, the importance of the industry.” (Researcher of Danish fashion)

“They (DAFI) are definitely very good at understanding the political system and knowing that. We just went to the Town Hall for the fashion show: you can’t do that if you don’t know have the right strings to pull. And I think that’s fabulous: thinking that you can’t help a business or an industry, if you don’t have the support of the politicians.” (Creative business growth consultant)

DAFI as a network organization is well adjusted to the new requirements of the cultural industry policy. Firstly, the government is able to influence the industry through DAFI without having to directly interfere or provide subsidies. Secondly, with no official mandate from its members, DAFI is very flexible in its activities and can move from one project to another on a very agile basis. Thirdly, and related to this agility and

willingness to take on new projects, DAFI can help create legitimacy for the government's policy agenda by concretizing concepts such as "network organization" and "CSR" introduced by the official policies. (Melchior et al.2011)

There is evidently a good consensus between DAFI and the governmental organizations, and both parties have understood the possibilities for mutual gains.

"They (DAFI) definitely understand that you have to do well with lobbying and with the hand that feeds you. It's a good, mutual relationship because obviously a lot of tourists and people come to Denmark for the fashion: buyers for the fashion week, and so forth. It's a win-win situation, and everybody understands that." (Creative business growth consultant)

Mobilization of allies – politician in the front seats of fashion shows

The Danish government's support for the fashion industry is recognizable not only through policy guidelines, reports and channeled financing, but also by the fact that politicians attend events and show their personal support for the industry. Politicians have come to recognize fashion as an interesting segment, and one that also appeals to the wider public. For example, in 2009 Prime Minister Rasmussen made a very public appearance and took part in the Copenhagen Fashion Week (Melchior et al., 2011). He has also publicly praised the industry. For example in interview for the internationally renowned journal "Monocle", he stated that fashion is important for the national industry and image of Denmark. (Monocle, 2009)

"...over the years that I've been going to the fashion week, there's always politicians at the fashion shows and in the front rows." (Creative business growth consultant)

The Fashion Accelerator Program

The Fashion Accelerator was a program coordinated by Vaeksthus and aimed at developing the business skills of small and medium –sized Danish fashion companies (Teknologisk Institut, 2011). The program was initiated in 2008 and ran for just over three years. It included classes, meetings, workshops and networking events (Danish Trade Council, 2009). The program involved around 40 fashion companies and was implemented in two separate rounds. Prior experience from the industry and establishing a program specifically for fashion companies were considered important for the overall success of the program:

"...we had worked with the companies in the fashion industries and we

could see what their needs are. We had tailor-made a program for them, but we had also made it very individual so that we could also meet the needs of the customers.” (Creative business growth consultant)

Some of the most important attributes of the program were the workshops and the company-specific counseling that followed.

“What we tried here was that after the work shops were over, we had an expert come around individually to the companies, and would work individually with their specific needs and demands.” (Creative business growth consultant)

The program also provided mentors, which were highly valued by the companies:

“Every company had 1-2 mentors that were specific on that company. And some of the mentors were from the fashion industry, but we also picked mentors that were very good in business and growing and developing companies, but from different industries...” (Creative business growth consultant)

6.3.5 HUMAN CAPITAL DOMAIN

Fashion is a significant employer in Denmark, with impacts on other domains as well.

“I think they say that every 9th person in Denmark works for the fashion industry in some way or another, which is rather high figure.” (Creative business growth consultant)

The years of successful outsourcing and innovative strategies, as well as the activities within the policy and support domains, have impacted and developed the labor and educational institutions in the fashion ecosystem. The success in exporting has been the result of business talent, logistics and mercantile intuition, which have been the strengths of Danish fashion (The Trade Council, 2009)

Success through joint efforts

Similar to the Swedish fashion industry, the level of cooperation has traditionally been lower also within the Danish fashion industry. The interviewed business consultant talked about the industry being “closed off”, relating to the level of communication and limited knowledge-sharing among the companies.

“It’s a very closed off industry. At least now with the crisis, it’s been a bit more open and companies will communicate a lot more now.” (Creative business growth consultant)

The level of collaboration and openness has improved, and a success factor for the industry seems to have been the willingness of different groups to collaborate. This may not be visible on the individual firm level, but the public entities and organizations have been able to combine the goals of the individual players. Through various organizations and entities and as a result of projects and initiatives, there appears to be a general consensus that in order to realize the individual level ambitions and goals, the Danish fashion industry players need to join efforts. They need to bridge the gap between the big and successful trend-driven businesses and the talent pool and creativity of the innovation-driven growth companies.

Recognizing the mutual dependencies between companies

The structure of the Danish fashion industry was defined into two groups: the innovation driven and the trend driven brands. This foundation of having both business flair and nurturing design talent has resulted in different business models, but also influences the labor pools and knowledge bases of the people working in the sector. In addition, the efforts and activities within the policy and support domains have clearly impacted also the human capital domain.

The few major companies in the Danish fashion industry have created a labor pool for the industry, with talent and experience in managing and understanding the industry complexities and dynamics. The large consolidated companies are mainly driven by efficient value chains and outsourcing, representing the successful export figures. However, in a recent report for the Ministry of Foreign Affairs, it was argued that 75 % of Danish fashion exporting would not be possible for the major players if it wasn't for the smaller innovation-driven businesses. It is the smaller players (the fashion personas and designers) that create the hype, interest and visibility of Danish fashion in both national and international context. The large players also derive some of their looks and designs from the more creative, trend-driven brands (The Trade Council, 2009).

Rising to the challenge - realizing the need for business

The image of fashion as a profitable and growing industry has triggered also the Danish fashion entrepreneurs and small companies to professionalize themselves, set business objectives and commercial goals. The fact that this realization derives from the industry itself, as well as from the political goodwill and support, may also have a positive effect on entrepreneurs' willingness and initiative to seek for external support and collaboration.

Though the business consultant described the starting fashion entrepreneurs as being artistically oriented, she also referred to the high level of ambitions:

“A lot of them have really huge ambitions, and I love that. They want to be everywhere, be international. A lot of them have been to school in St.Martins...so that’s amazing.” (Creative business growth consultant)

A range of stakeholders from within and outside the fashion business have taken initiatives to professionalize, upgrade and strengthen fashion industry through financing, research, professional networking and collaboration. Such an example is MOKO (Modekonsortiet), a platform for fashion research based at the Danish Design School. MOKO focuses on the economic and cultural circulation of fashion and how it could be optimized through networking, shared knowledge and research.

6.3.6 MARKET DOMAIN

Denmark is a small country, with a population of only 5,5 million (Denmark.dk, 2013). Compared to for example Sweden, the internal demand and consumption for Danish fashions is significantly lower. However, “Danish fashion” is a concept that Danes take pride in. The industry’s merits and accomplishments are often presented by public media, proclaiming the international success of Danish designers and fashion companies. Nonetheless, the consumption of fashion in Denmark favors international brands and 40% of all apparel is sold in supermarkets or by mail order (The Trade Council, 2009).

Therefore, the internal markets for fashion cannot create enough revenue to enable growth for Danish fashion companies. The road to success has been exporting, which represents approximately 70% of the total turnover of the Danish fashion industry (Dansk fashion & Textile, 2013).

7 THE FINNISH FASHION ECOSYSTEM

7.1 Introduction to the Finnish Fashion Industry

After the successful years of massive exportation to the Soviet Union, the Finnish fashion and textile industry has been experiencing harsh times: in terms of financial figures relating to industry growth, production, turnover and export, as well as in terms of respectability and credibility for the industry. The number of active companies and entrepreneurs in Finland has declined since the recession in the 1990's, whilst demand for clothing and fashion items has been increasing and supported by growing imports (Lille, 2010). Employment in the industry has plummeted from past decades, and currently the figures are among the lowest in the EU (Finatex website, 2013).

However, there is a handful of talented, young Finnish fashion companies that are showing great potential and experiencing impressive growth in turnover. There is also international interest towards the individual and "quirky" Finnish fashion, but it seems that the business related challenges hinder the development of the industry. If these companies could develop and grow in a healthy ecosystem with access to the right pools of knowledge, networks, support and financing, would they be able to reach the same kind of international success as their Swedish and Danish colleagues? In this chapter, I will briefly summarize the past decades of the Finnish fashion industry and then present the fashion ecosystem and its shortcomings in the Finnish context. The fashion ecosystem is viewed from an external investor's approach, as opposed to a designer/entrepreneur approach.

7.2 History of the Finnish Fashion Industry

The Finnish clothing industry began to grow after the Second World War, when rapid urbanization led to an increase in demand and resulted in an increase in the number of clothing companies (Kasvio, 1991). Marimekko was founded already in 1951 and still today represents one of the few successful Finnish design and fashion companies. During the 1950s, Marimekko's success set an example for other Finnish fashion and clothing companies and established an original and distinct look for Finnish designer fashion (Heikkilä-Rastas, 2004). Other companies followed with colorful designs and distinctive, geometrical prints.

Partly due to Marimekko's success in the domestic and international markets, and partly also inspired by the changes in the international fashion business, the Finnish textile and

fashion design industry began to renew its lines and processes in the 1950s and 1960s. Since the mid-1960s, efforts were also focused on exports and internationalization of the industry: in 1966, the textile and clothing industry proportion of total exports was 3,8%, with almost half of exports to the Soviet Union. By the end of the 1960s, clothing had established itself as part of the Finnish design concept, which was still living off the hype and success of the 1950s (Heikkilä-Rastas, 2004). The government also contributed and supported the design industry and its exports in the 1960s and 1970s, for example by taking small Finnish fashion companies to international fairs and exhibitions. This public support also established trust and self-confidence among the designers (Nikkinen, 2008). By the turn of the 1960-1970s, the Finnish fashion and clothing industry started to develop rapidly (Kasvio, 1991) and generally speaking, the 1970s marked the golden years of the industry (Heikkilä-Rastas, 2004).

The turn of the 1970-80s was a focal point for the industry. In 1979, employment in the sector peaked at 35 000, which was 6% of all employment in domestic production. Both Kasvio and Heikkilä-Rastas talk about “new-exports”, referring to the growth and significance of the clothing and textile exports to the Soviet Union, reaching its highest peak in 1981 (Heikkilä-Rastas, 2003). The domestic and international demand for Finnish clothing was also still significant, with export four times greater than imports. (Kasvio, 1991)

The period between 1970 to 1990 marked changes in the Finnish clothing industry (Tikkanen, 1994) and resulted in variations between Finland and the rest of the Nordics. Sweden, Denmark and Norway had already been facing a heavy decline since the 1960s due to increasing costs and imports, forcing them to shift production to lower costs countries at an early stage. The economic and political situation combined with cheap labor force in the 1970s resulted in a different setting for Finland: production and exports continued to grow until the 1980s and as a result, the production capacity in Finland in the 1970s was almost the size of the rest of the Nordics combined (Kasvio, 1991).

However, the 1980s marked a heavy decline in the Finnish clothing and textile industry and resulted in decreases in volumes and massive layoffs. Several factors affected this rapid decline: first of all, domestic demand decreased and increasing imports tightened competition and cut revenues and profits of Finnish companies. The collapse of the Soviet Union meant the loss of the most significant export market. The Finnish companies had also based their offering on unfavorable product portfolios: the collections that were mostly sold to the East-European markets could not be sold in the more demanding western markets. Furthermore, the products that were made for the western markets were positioned in the low-mid price range, i.e. in the segments with

the toughest competition. (Kasvio, 1991) The “easiness” of success in the eastern markets had also meant that Finnish companies did not really have to push efforts into marketing or sales: whatever was manufactured and exported could be sold. This resulted in a gap in the marketing and branding skills of Finnish companies.

7.3 What is happening now?

There is a growing interest for Finnish fashion and several players in the field have started to make efforts and launch initiatives to improve the conditions for the industry. Actions have been taken by both private and public entities, and the scope ranges from reports to public events and promotional activities.

Noteworthy developments within the industry have been the acceptance of the fashion focused accelerator company Royal Majestics into the Vigo program, a publicly funded accelerator program for dynamic startups. The establishment of Feelis Helsinki, a privately funded brand portfolio company for design and fashion, is also a sign of private investor interest in the field.

For more detailed information on the relevant and actual activities, see appendix 3.

7.4 The Finnish Fashion Ecosystem

The figure below represents the major shortages in the Finnish fashion ecosystem. In the following, I will explore these shortcomings and challenges in more detail.

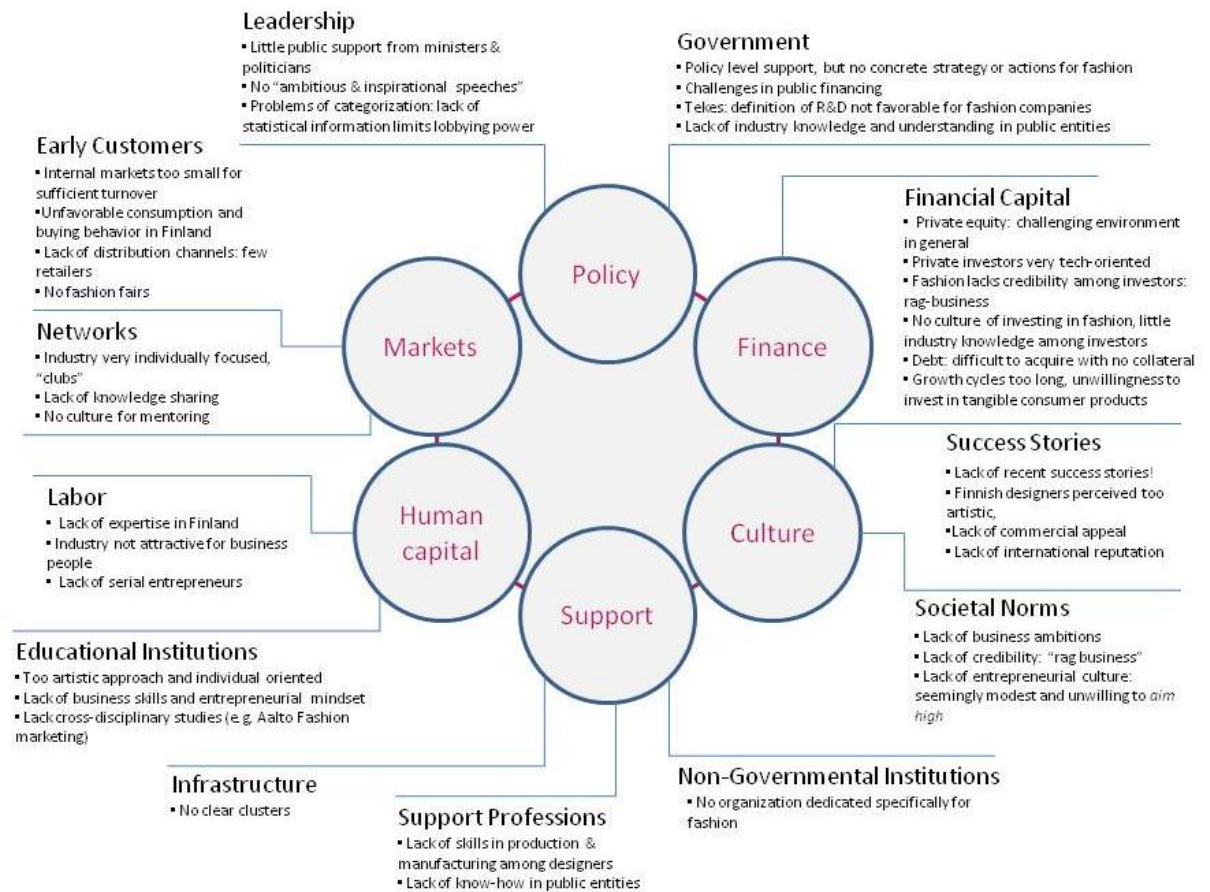


Figure 11: The Finnish fashion ecosystem

7.4.1 POLICY DOMAIN

Lack of government supports and long-term development strategy

Entrepreneurship in the creative industries is supported on a strategic policy level. Especially the World Design Capital year in 2012 initiated many new projects and interest for the creative and design sectors. Still, the general attitude towards the fashion industry is very skeptical (Lille, 2010) and public entities have not made systematic efforts nor taken concrete action to support the industry in Finland. Similar public determination and development efforts that have been carried out in Denmark and in Sweden have not been implemented in Finland. The government has not considered the

industry as a credible one nor seen the potential, and no individual politician has taken the lead in initiating public discussion.

Representatives from the fashion industry have been lobbying for the development of a better support system and organization, but so far these initiatives have not yielded any tangible outcomes.

"We were here with the ministers of this country (...) pitching to push for the, to have a structure made for the Finnish fashion institute and explain what we could do, but it's always the same problem: they don't see the potential. It's not an industry yet." (Fashion entrepreneur)

"Entrepreneurs in the creative industries have been actively lobbying for five years to the ministries, very often referring to the gaming industry. But they're lacking the dynamics and know-how to take it international and the scalability is also different, which seems to be a problem".

(Investment manager I, FINNVERA)

No category for fashion

As was explained in the literature part, fashion is considered to belong to the creative industries. In Finland, policy makers and officials define "*creative industries*" very widely, including everything from audiovisual and IT software games, to design and theatre (KTM 2007). The generally accepted categorization defines 14 industry segments in total: fashion is not among these definitions, but seen as a sub-group under "design". This means that fashion design companies do not clearly fall under any of the existing categories, which further implies that their activities and efforts in the society are not considered credible (Lille, 2010).

Some of the interviewees talked about the vague and too broad categorization for the term *creative industries*.

"If creativity is the only thing in common, then it's on a pretty weak basis. Creative industry is more like a condescending term – it's considered to be that arty-farty stuff." (Investment manager II, FINNVERA)

In Sweden and Denmark fashion has been categorized as a separate business entity with its own dynamics and characteristics, e.g. in Sweden it is included in the mass production segment of the creative industries (Nielsen, 2008). Defining fashion as a separate entity means that the industry and its spillover effects and impacts can be compiled into statistics, which can then be analyzed and compared. In Finland, the

industry categorization sets barriers for developing proper statistics.

“There are no separate statistics, for example on the proportion of fashion companies, mainly because of this industry categorization”

(Financial manager I, FINNVERA)

“In practice we can't make statistics, there's the problem of defining it (fashion)...” (Expert II, TEKES)

7.4.2 FINANCE DOMAIN

General environment for small company financing in Finland

The interviewees had somewhat differing opinions regarding the general conditions in Finland for micro and small companies to acquire sufficient growth financing. Most agreed that acquiring private investments is challenging due to the current macro-economic downturn. However, especially the interviewees representing the public entities did not really see any major abnormalities outside of the normal economic cyclicity. They considered their role as a small company financier to be emphasized in these periods when private and bank lending are scarcer.

“Right now banks are careful, but that's all part of the economic cycle. Finnvera's role is highlighted when things are not going so well.”
(Financial manager I, FINNVERA)

“It (the conditions for financing) is good, there's even too much money out there. Or there's a lot incapable money in Finland. The public money is not targeted at the best cases, and there is a shortage of private money.” (Growth Finance expert)

Regarding private equity and private investing into startup and growth companies, the general consensus was that there is a shortage of financing for startup and growth companies. The use of debt and leveraging has already been used among Finnish fashion companies. However, in order to bridge the equity gaps and really develop the companies further, private equity and investments were seen as necessary. This would enable the companies to have equity in their balance sheets and avoid the need to further increase the portion of liabilities

“The problem is that we don't have enough private equity investors or markets in Finland, nor the global networks”(Growth Finance expert)

Financing conditions vary across industry segments and several interviewees referred to the general investment trend favoring the IT and software segments. None of the interviewees saw any special interest to invest in fashion or creative industries (excluding gaming).

"Despite this techno-boom (referring to the gaming industry), it doesn't look very good. Financing is very hard to get, and I don't see it getting better any time soon" (Private equity investor)

The role of public financing

The majority of the interviewees agreed that the public side in Finland is offering various sources of financing and support for companies. The role of public financing raised a lot of discussion during the interviews and some very differing opinions. In general, the role of Finnish public institutions and entities in bridging the gap in startup and small business financing was considered positive.

"I really do feel that they actually get a lot - we have some exceptional systems in place (...). The public decision makers are perhaps not the best ones to make those (financing) decisions." (Business advisor for creative industries)

However, the focus and investment policies of some of the institutions raised criticism: public investing was considered to lack sufficient levels of knowledge, as well as longer-term liability and interest to follow up on the investments. Some interviewees questioned whether this form of support is the most efficient way to develop these companies and whether the public financing is focused in the right places: do the right companies and industries receive enough or any public support? And are the governmental policy-makers the best people to recognize the most potential targets and make the right financing decisions?

"There's a structural problem: when you give out public money, you don't really have a genuine interest to do your homework properly." (Growth Finance expert)

"...there is a limited amount, if any, guidance or support about how to achieve growth and success." (Venture capitalist)

The interviewees also mentioned the lack of proper support for early internalization activities and ventures: the majority of the financing is allocated to R&D - projects, leaving little resources for sales and marketing activities.

"Companies need to go abroad much faster and earlier than what they are doing now - and this is something our models are not supporting."
(Business angel)

In respect to the creative industries and fashion in particular, many of the interviewees brought up the challenges that these companies face in dealing with the public entities. The public organizations have developed to support more technically oriented companies and R&D activities. In addition, the field of public financing and support entities is rather complex with various entities and different projects, initiatives, focus groups, collaborations and activities. Positioning a fashion company in this field is challenging. Furthermore, most of the names and descriptions imply on technical aspects, leaving the creative entrepreneur even more bewildered. Some of the interviewed investors and business consultants agreed with the complex landscape.

"It (the public financing field) is a scattered." (Business advisor for creative industries)

"Perhaps a bit confusing this financing side" (Investment manager I, FINNVERA)

However, one of the interviewed business consultants argued that despite all the complaints for the lack of financing, actually the creative industries can receive double the amounts as opposed to their technology oriented competitors - given that they pull off the application procedures in a professional and credible manner.

"The truth is that they can get artist grants, so money from the art societies - lots of places where the tech-entrepreneur can never go. And if they have a good case, they'll also get the same amounts as the ICT companies - so double the amount." (Business advisor for creative industries)

Despite these complexities and ownership-related challenges, the interviewees also agreed that public support is needed when there is not enough capital in the private side to sustain the projects.

"Many of these private side projects work well for a while, but if and when there is no sufficient capital base, they die away." (Investment manager I, FINNVERA)

TEKES

Tekes is the most significant publicly funded expert organizations in Finland, and focuses on financing research, development and innovation in Finland. The field of Finnish public support organizations is rather scattered and large, but Tekes is in the heart of all of it, providing financing to over 1500 business research and development projects and 600 public research projects every year (Tekes website).

The name Tekes comes from *Finnish Funding Agency for Technology and Innovation*, already implying that the organization has traditionally focused on technology. Lately they have also initiated projects related to services, design, business and social innovation. One of the interviewees with expertise in early stage financing stated that the difference in the financing path for tech and non-tech companies is that it's more difficult to get financing from Tekes. This sets challenges for the design and fashion companies, as their value and business models are not based on innovative new technologies, but on branding and international marketing strategies - aspects that have not been in the focus on Tekes' financing policies.

“On a theoretical level, Tekes probably still supports the fashion industry, but not in the way they support the traditional models. So there has to be some technological edge.” (Consultant / Designer)

The financing landscape for fashion companies

The conditions for the fashion industry are challenging to say the least.

“The future of the Fashion Industry cannot be saved by public means. Private equity investors and many angel investors are not interested, so there are many roads blocked.” (Financial manager I, FINNVERA)

The Finnish private equity and venture capital market is very small on the European scale, meaning that the basic expectations for any company to get a private investment are rather low. Regarding the fashion industry, the situation was considered even more challenging as there is no culture and prior cases of successful investments having been made to the sector.

“...especially in Finland, the fashion industry does not fall under those industries where the domestic or near-by investors would run to and make investments: basically there is no investing in this in Finland.”
(Investment manager II, FINNVERA)

"Fashion is a small business and the Finnish venture capital markets are so small, that there are basically no funds specialized in it – that's definitely one challenge." (Venture Capitalist)

Barriers for investing in Finnish fashion

Next, I will explore the five themes that were constantly brought up in interviews when discussing the reasons for the general low level of investments in the industry.

I) Historical reasons affecting investing

As explained before, the Finnish textile and clothing industry underwent a very harsh decline during the 1980s and 1990s. The history and the perceptions of a *hasbeen* industry seem to impact and reflect on the investors' willingness to even consider the industry.

"...the past 20 years in Finland have witnessed a number of harsh bankruptcies, and the banks continue to talk about it as a rag business. There's a lot of this history behind it, which makes it even more challenging to get financing (...)The industry is traditionally very weak in Finland, especially in terms of investing." (Private equity investor)

The lack of culture in investing in fashion implies that the Finnish private investors have challenges in perceiving it as a viable and potential investment case, setting even higher standards for the quality and potential performance of design and fashion companies.

"To get a design-focused company forward requires more innovativeness than commercializing some technology, because Finnish equity investors have profiled themselves around software. Knowledge outside of that area is very limited, already due to historical reasons." (Growth Finance expert)

Even though design is appreciated in Finland and something that the nation is internationally known for, the willingness for private individuals to invest personal assets into young design-oriented or creative companies is quite low. In addition, public showing of personal wealth is often looked upon with negative connotations and the interviewees also mentioned the jealous approach towards other peoples' success or wealth. Therefore the phenomenon on "glam investing" and making public investments into interesting or glamorous industries seems more unlikely in Finland. Personal wealth is usually invested through institutions, or if done on a business angel basis, the

targets are usually more familiar and traditional.

"There isn't that much private equity to go around. And if there is, it has been channeled to segments that have been better understood, and where the cycles are faster." (Private equity investor)

"Regarding this whole business angel network, there's only a few with even a bit of understanding for the design companies." (Business angel)

Furthermore, consumer goods in general do not fall into private investors' favored categories. In 2012, most of the Finnish venture investments were made into computer and consumer electronics, life sciences and the energy and environmental sectors (FVCA, 2013). The consumer goods and retail industry, where many of the fashion companies would be placed, was the second to last in this statistic. The Finnish private investments are simply focused on technology based companies.

"The other challenging factor is that it's consumer business: many domestic private equity firms do not invest at all into these categories." (Investment manager II, FINNVERA)

"...if you link tangible consumer products into it (the investment case), then I see the challenge to be the additional demand for capital, time and so forth." (Venture capitalist)

II) Lack of investors' knowledge

The interviewees agreed that there is a general lack of knowledge on the fashion industry among Finnish investors. They were also skeptical whether average Finnish, technology-oriented investors fully understand the investment strategies in the fashion industry. This was seen as a major hindrance for investment decisions.

"The fundamental problem is that the invertors know these creative industries very poorly." (Investment specialist)

"They don't know, so they don't get involved. It's as simple as that." (Investor / fashion business consultant)

"The easiest thing is to reject something because you don't know about it." (Investment manager I, FINNVERA)

They interviewees spoke of the special characteristic of the fashion industry, and always viewed them as challenges or reasons why fashion companies do *not* represent viable investment cases. None of the interviews and discussions led to reflecting how these challenges and threats could be turned into opportunities or strengths. They raised the

issue of long investment horizons, lack of IPR and capital intensive operations - all of which were considered to entail larger risks compared to for example technology investments.

"There are some industry characteristics: growth in general is slower than in the technology or software business, so the business scalability is not as fast and that's why there are also fewer investors: the company value does not develop as fast as with these technology companies."
(Financial manager II, FINNVERA)

"The reason why it's not a suitable industry for a private equity investor, is that in the clothing and fashion sectors a five year cycle is just the beginning" (Private equity investor)

A fundamental investment strategy challenge, and one that was brought up by most interviewees, was the need for capital injections in the early stages to cover for production costs and new collections. Fashion as a fast-paced and cyclical industry requires careful internal financial management to balance the gap between cash flows and production payments. This sets constraints on developing the companies by traditional means, such as leveraging.

"...one cannot start by leveraging (...), it needs to be more stable. The company will need a huge amount of financial buffers, since it has to pay for everything well in advance, for example half of the production."
(Private equity investor)

There was some controversy in the interviewees' statements: despite all the specific industry challenges that were considered to hinder investments, most were quick to state that the industry or segment is not that relevant in investment decisions – the team and product make the difference.

"The industry doesn't matter. But in order to make good investments, there needs to be a competitive advantage. And to create and maintain this advantage, it helps a lot if you have protectable IPR (intellectual property right)." (Growth Finance expert)

III) Negative perceptions and attitudes

The lack of industry understanding, previous success stories, and the negative connotations and perceptions related to the Finnish clothing and textile industry's history have affected the credibility of the sector. Fashion is not considered as viable and noteworthy industry in Finland: it is often associated with the term *rag business* (rätti -business), implying the shallow values of the industry and small design

companies engaging in "nice and creative" activities, with no clear scalable business potential or ambitions.

"Traditionally, and some still do, with no believe in the Finnish fashion and design industry, refer to it as "rag business.". (Investment specialist)

"I guess if you call them fashion companies, they're doomed right away - "at least we're not investing in that one". (Business angel)

Several of the interviewees talked about the invisibility of fashion or design companies in events, where they could connect to investors.

"Fashion companies, and design companies in general: they are very rarely present for example in these pitching events." (Business angel)

Fashion companies also rarely apply for public financing or support.

"We receive very few applications from the design –segment: those companies don't really seek private equity investments from us or from any other source. Perhaps they have such strong presumptions about not getting financing, they don't know or then they're scared to apply for it." (Financial manager II, FINNVERA)

Elonen (2010) also came across these prejudices from the fashion entrepreneurs' side: in his thesis study, several of the interviewed fashion entrepreneurs argued that investors do not perceive fashion as a business, but more as a hobby. The designers also showcased reluctance to even apply for financing, as all the money was considered to go to software and ICT companies "anyways". The procedures were also perceived as too bureaucratic and time consuming (Elonen, 2010),

IV) Influence of the strong IT cluster

"The fact is, there is more money in technology than in design...If we look at private equity investors for example, the design -related companies are just not rational targets for investors focusing in tech-focused growth companies. (Growth Finance expert)

As was discussed, most of the private investments in Finland are allocated for technology-based and highly innovative companies, and this tech-orientation seems to hold true also for the public financing organizations. For years, the Finnish business ecosystem and the policy outlines have focused efforts on these industries. The interviewees who had personal experience in introducing "new" and "controversial" business models talked about a lack of understanding and challenges in confronting the institutional representatives with these different business models and industry profiles.

"They don't really know: we don't have business around this in Finland. We do have some consumer goods based production, but not the kind that is built on brands, and so there is no understanding" (Investor / fashion business consultant)

"If you look at the knowledge pool (of design and fashion industries) of Tekes and the other players in the field, it's non-existent. It doesn't exist in any of the public entities." (Growth Finance expert)

The Finnish business angel scene is still rather small, and the central organization FIBAN was only established in 2010 (FIBAN website). Business angels were identified earlier to have an important role in bridging both the equity and entrepreneurial gaps for growth companies. They are often the first sources of external capital for startup companies and could be seen as a viable resource for the fashion industry as well. A challenge for fashion companies in acquiring this financing is that many of these investors have background and expertise in technology, and do not necessarily favor or consider fashion as a potential investment case, especially if they aim to contribute to the operational activities as well. Business angels tend to seek for very aggressive growth curves, and the fashion business model is not suitable for this.

"They are not enough for business angels, their growth targets are insufficient" (Business angel)

V) Public financing and the definition of R&D

Concerning public financing, one of the issues hindering Tekes' support for fashion and design companies was considered its strict definition for *research and development*, and what type of activities it can support and fund within this sphere. Currently, Tekes does not consider the creation and designing of a new garment collection as R&D related activities, and therefore it cannot grant financing for it.

"We cannot finance the design process, for example the next collection. But if someone was to invent a very distinctive shoe or intelligent garments, we could finance those. But not a new collection." (Expert I, TEKES)

However, the creation and design of a new game or software does belong to the definition of R&D, and can be therefore considered as a financing target. Some of the interviewees had a hard time understanding and accepting this.

"Tekes is one of the reasons why design companies don't succeed. Why do they give money to the gaming industry? Why not to the fashion industry, where you create a whole new collection from nothing - what's the difference between these two?" (Business angel)

Another issue that several of the other interviewees considered problematic was Tekes' unwillingness to finance the actual implementation of the development processes. For example, a development project related to sales can include purchasing consulting services and creating sales strategies, but nothing on the operational level.

"It very often entails planning and developing, so if it then goes to the operational side, for example going to a fair, then that is already on the borderlines on whether it is a Tekes –project to be involved in that. It's more considered as marketing and sales, where we legally cannot be to avoid disrupting competition." (Expert II, TEKES)

When asked about the general acceptance and atmosphere towards creative and design oriented companies with no prior basis in technology, the interviewees admitted there to be some challenges and even prejudices.

"Working with Tekes? Yes, it was challenging, it always is. Very challenging...Already the name implies it, and they will ask "what's so innovative about this scarf?" So that's already a very challenging starting point." (Investor / fashion business consultant)

Tekes was also criticized by some of the interviewees for being too bureaucratic and following the guidelines too orally. The lack of IP rights was also considered as one of the fundamental challenges why fashion or design companies do not necessarily even consider Tekes as a source of financing and support.

"Tekes' structure does not support the companies in getting faster access to the markets or allow them to use the money for conceptualizing - they're following the policy outlines too vigorously" (Business angel)

"The creative industries, with no immaterial value, they don't turn to Tekes. These typical fashion industry cases will not go there."
(Business advisor for creative industries)

Despite all this criticism towards Tekes, its policies and principles, many of the interviewees agreed on its importance for the Finnish startup scene, and fundamental role as a foundation for many success stories.

"Tekes is perhaps the most central early stage financier for everyone, if you consider that they invest 600 million annually, of which around 380 million into companies and they run about 1500 projects."(Investment manager II, FINNVERA)

One of the interviewed designers had received Tekes financing to start her own consulting business and develop a platform for Finnish design entrepreneurs. According to her, Tekes financing was essential in order to develop the idea into a proper concept.

“It wouldn’t have been possible without Tekes financing (...). It is definitely an accomplishment, and it has also encouraged our own thoughts. And we have become more open-minded to combining fashion and technology.” (Fashion consultant / creativity leader)

7.4.3 CULTURE DOMAIN

Lack of success stories from the fashion industry

The lack of recent success stories in the industry was considered a major impeding factor for the development of the Finnish fashion system. It was also often linked with the lack of credibility, investor faith in the business, and the government's small interest in setting up initiatives and policies to drive the sector forward.

“It (lack of credibility) is reflected on this whole venture and private equity industry: it’s a lot easier to sell a story that has a reference case...it’s always more credible.” (Venture capitalist)

Furthermore, it was also seen to limit the level of ambitions and self-confidence among the small fashion entrepreneurs: there is no case company that they companies could aspire to or that would add credibility and justify their dreams.

“The basic vision or level of ambitions is globally very low, because there is no understanding of what could be done. The basic understanding...there is no global vision and they (companies) are not built so that they would break big someday.” (Growth financing expert)

The lack of success stories and serial entrepreneurs was also considered as one of the reasons for the lack in business skills and limited connections to investor networks and other stakeholders that currently operate outside the industry domains.

“...there is no wide collection of entrepreneurs, who would have done their fortunes in the fashion or design industries. And that partly results in the lack of business angel networks and experiences serial entrepreneurs.” (Venture capitalist)

Lack of entrepreneurial ambitions

The companies lack an ambitious vision and determination, which would appeal to the investors and increase their credibility in the companies and in the business. When discussing the reasons for the underperformance of Finnish fashion companies, several of the interviewees mentioned the prevailing culture surrounding entrepreneurship and risk-taking in the industry. The culture was considered very risk-averse and some even called it "fearful", meaning that the entrepreneurs are afraid of taking big chances and pursuing their dreams in the fear of eventually failing.

"If you want to become an entrepreneur, you have to be very innovative and believe that you are creating something profitable that will create value. And I'd say, that in Finland we're often missing that vision to create something big" (Growth financing expert)

Undoubtedly, the fashion designers and entrepreneurs are passionate about their products and designs. However, their lack of business skills results in a seeming lack of interest for commercial success, making external parties and investors doubt their ambitions. Designers are perceived as being too strongly driven by artistic approaches and not capable of seeing the business potential in their ventures.

"The design - entrepreneur's vision tends to be very modest" (Business angel)

It was not only the investors who were considered unwilling to seek opportunities in the fashion industry - the fashion entrepreneurs were seen to lack skills in seeking for financing and also tend to possess prejudices towards the "hard core" investors.

"The creative industries, with many one-man run companies; they don't know how to apply for financing." (Expert I, TEKES)

Media's role

Media was considered as one of the factors resulting in the hype of Swedish fashion, i.e. Swedish fashion wonder. Also in Denmark, the active role of DAFI in lobbying for the industry, as well as the bi-annual fashion weeks, have increased media's interest for the domestic fashion companies. A Finpro business consultant from the Copenhagen office stated that the Danish media has had a large impact in creating visibility and credibility for the industry (interview 25.10.2012).

In Finland, fashion is more present in weekly journals and magazines as personal interviews with designers than in the pages of relevant business newspapers. The

articles may present the individual companies and their products, but very rarely talk about the business related challenges or financial figures. The designers are considered as artists or celebrities, not as entrepreneurs or business people.

“I’m very often surprised about many of these renowned Finnish designers who we see in the papers: their business figures are so insignificant.” (Expert I, TEKES)

Fear of losing control

The interviewees considered a potential limitation for the cooperation between the designers and the investors to be the designers' unwillingness to compromise on their creative visions. This was perceived as something that could challenge business and commercial goals of the business development strategy, and decrease possibilities for investors' interest.

“I feel that the artistic approach is too dominant among the Finns...I haven’t come across that with any other nationality – the artistic side is the main thing.” (Expert I, TEKES)

“I’m also ready to question whether it’s about the lack of financing or rather the will to have investors involved, which is also a bit about losing control. These more artistic types perhaps want to maintain their control.” (Expert I, TEKES)

“I’ve been surprised about how sensitive they (designers) are (...). I’ve even seen some of the big names, who have been seeking for financing but then got picky in the end. And especially within the fashion sector.”
(Private equity investor)

The business consultant also spoke of the designers’ fear of losing control of their creative freedom, if an external party was brought into the company with an equity share and decision making power.

7.4.4 SUPPORT DOMAIN

No explicit network organizations

Currently, the Finnish fashion ecosystem is lacking a credible and competent network organization that would collect the small and scattered companies and entrepreneurs, set common macro level goals and then strategically pursue them. Moderådet in Sweden

organizes the fashion week and coordinates activities between stakeholders. DAFI in Denmark has been lobbying for fashion as a credible and noteworthy industry and establishing the brand and image of "Danish fashion".

"...it's not about the designer, it's about the different entities: it's not hand-in-hand, it's very individual. (...) they are starting; they are saying that they'll wake up for the fashion industry but so far it's not done. And it should have been done before by the way - helping, showing the way. The same way the DAFI is doing it, or Moderådet in Sweden." (Fashion entrepreneur)

There are several organizations in Finland (for example Finatex, Ornamo, Design Forum Finland, Muotikaupan liitto, Diges) but it seems that neither the fashion entrepreneurs nor the investors perceive them as viable or credible supportive entities for the business. The textile, fashion and clothing industries are perceived as very local and national activities, and the majority of supportive efforts focus on domestic production and retail - the new fashion and design entrepreneurs fall outside of these domains (Lille, 2010).

"Finatex and Muotikaupan liitto are doing something, but they're not bringing the people together." (Financial manager II, FINNVERA)

"There is no cluster that would support this: there are a few consultants and investors that seem to circle a bit around this business and are thinking about how to develop this..." (Investment manager II, FINNVERA)

The large number of entities and organizations also makes the field appear very complex and scattered, and the lack of collaboration does not facilitate longer term strategic efforts to develop the Finnish fashion sector toward common goals. The interviewees considered the lack of such an organization to limit the development of the industry.

"...a kind of a hub, meaning that the different stakeholders would create new successes, or this learning through others' experiences - it just doesn't exist in this sector." (Business Angel)

"This is one of the points (for the underdevelopment): if you're looking at the fashion and design industry, there are no such programs and of course you can notice the lack of a cluster." (Investment manager I, FINNVERA)

Some of the interviewees mentioned Design Forum Finland, the promoting organization for Finnish design, to take the lead in creating such an entity. The issue was discussed with Mikko Kalhama (interview, 18.3.2012), the CEO of the organization. According to him, there have been initial discussions to start developing a support entity for the industry, but so far it has been challenging due to the stakeholders' hindrance and reluctance to establish sufficient cooperation. Kalhama argued that in order for such an entity or society to operate and achieve external credibility, it would need to have the full support of the companies and stakeholder in the ecosystem. Currently, the fragmentation and individualism within the industry would not enable this. (Kalhama, interview 18.3.2013)

FINATEX

Finatex is the Federation of Finnish Textile and Clothing, and focuses on lobbying, training and acting as a service organization for the industry. The federation has about 140 member organizations, employing in total around 8000 people in the sector (Finatex website).

Lille (2010) interviewed eleven fashion companies for her study, of which only one was a member of Finatex. The rest were not very familiar with the organization (Lille, 2010). This again goes to show that the industry is truly scattered and there is a clear division between the textile industry and the more creative fashion industry. The players in the textile and clothing industry represent various different business models, value structures, customers - creating challenges for Finatex to meet the needs of all of its members. Just within the textile industry segment, some companies manufacture thread, fabrics, interior textiles, outdoor goods etc. for end consumers, whereas others produce nonwovens, wadding, glass fiber tissues and papermaking fabrics for other manufacturing industries. The clothing segment on the other hand produces garments for end consumers, work clothing and protective gear for service industries. In addition, Finatex represents the leather- and fur producers in Finland. (Finatex).

"They're focused on the textile industry, which is only half of it, the rest should be fashion. It's half of their task." (Fashion entrepreneur)

The wide array of companies has made it difficult for Finatex to focus efforts on one specific segment such as fashion. This decreases the Finnish fashion companies' expectations and believes in the organization.

"Old-fashioned. A has been. They're trying to wake up now; they have the power and the money. They're not doing their job. They just don't do

their job. Their structure has been based on the exports to Russia in the 1980s, and they haven't moved away from it. Right now it's just sad." (Fashion entrepreneur)

"There is a bit of will to shake up the industry, since these current mechanisms don't really drive things forward. So why lean on them, when you can do things in a new way." (Fashion consultant/creativity leader)

There are discussions among some players in the segment to establish a complementing organization to Finatex that would focus solely on fashion, functioning in a similar way as Moderådet and DAFI.

"...a lot of people have been talking about creating a structure that is complementing Finatex for what they are not doing...We need a Finnish fashion institute." (Fashion entrepreneur)

7.4.5 HUMAN CAPITAL DOMAIN

Entrepreneurial challenges

"They're so separated from each other, they don't collaborate or network, financing is very strange to them and to exaggerate a bit, they're scared to death to contact any investors - it's not the creative person's thing." (Investment manager II, FINNVERA)

The statement above summarizes the main points that came up in the interviewees with business consultants and investors considering the entrepreneurial factors that hinder the development of the fashion ecosystem. A constant theme that kept coming up in the interviews was the lack of business skills among the fashion entrepreneurs to actually develop and strategically grow the company and the brand.

"To have entrepreneurial spirit and know-how around entrepreneurship, in other words being determined, that is definitely needed in the creative industries." (Growth financing expert)

A few of the interviewees also called for the unrealistic expectations of the fashion entrepreneurs regarding the acquisition of external financing and determining the rationally expected growth figures.

"Sometimes the entrepreneurs have unrealistic expectations about what it actually means when an investor invests in company (...). So these discussions are in many cases, or at least in some, on an unrealistic basis." (Investment specialist)

"They typically have a too rosy picture of success. The cycle from the start of the design process to actually getting any cash flows is very long, and they're very rarely able to consider this realistically." (Financial manager, FINNVERA)

Communication skills and the ability to present themselves and their ideas in a compelling way were also considered as major limitations in acquiring this external support and financing.

"...the creative entrepreneur doesn't know how to present themselves and their business professionally, and that's why they don't get financing. And they don't even know where to apply it from, they don't run the business professionally - there's no development, no thoughts on growth." (Business advisor for creative industries)

They're more artistically than business driven and very rarely well connected with business people. (Investment manager II, FINNVERA)

Fashion entrepreneurs are far behind some of the young, dynamic and enthusiastic tech-entrepreneurs, who take the stage in investor pitching events and are able to convince public decision-makers about their innovations and future growth potential. The fact that fashion is a challenging and an unfamiliar industry for many investors means that fashion entrepreneurs need to convince their case and compete for the same pool of equity as fast-moving and profitable (or at least so perceived) IT and software industries.

"It has to be special, it has to be scalable, and you need to be able to demonstrate the growth path. And that is the challenge for the fashion company. It needs to be as strongly presented package, similar to what these IT companies are presenting." (Business Angel)

Culture of "doing it alone" and lack of mentoring

The Finnish fashion and design industry is very small in size and everyone seems to know each other. Yet, there seems to be very little collaboration between the fashion

entrepreneurs regarding knowledge-sharing and consulting one another in business related activities, such as production, supply chain, international pricing policies etc. Gathering information is very challenging for a fashion entrepreneur, since the industry and its players are not networking or lined together (Lille, 2010).

“The problem is that everyone is working alone. There’s not a lot that can come out of that” (Fashion consultant / creativity leader)

The role of mentors and coaches, who would share their experiences and insights, help create networks and guide the young entrepreneurs to the right paths, is significantly less common in the fashion industry.

“There’s not really this kind of culture among the creative industries, they should get new mentors – it’s very important.” (Business advisor for creative industries)

“Since there’s no such culture among the creative industries, they will demand 2500 euros for a few hours of consulting. It’s different in the ICT –business: there are lots of those skillful people and they help these young companies and demand nothing in return.” (Business advisor for creative industries)

For example IT and technology sectors, successful entrepreneurs attend events, share their stories and support young entrepreneurs starting up their own business. This culture of mentoring was considered as one of the reasons for the healthy ecosystem.

“There (in the IT sector) every self-respecting serial entrepreneur feels that it is their duty to be involved: they want to succeed, but they’re also ready to share their success stories so that others can benefit. The strength of the network is that they genuinely share knowledge.” (Venture capitalist)

Lack of multidisciplinary management teams

An essential part of any successful venture is the team behind it - this statement was shared by all interviewees with an investor profile or any deeper understanding of what investment decisions are usually based on. The importance of the right team seemed to have an even greater importance among the creative industries, such as fashion companies. The comparatively lower level of business skills among these companies was considered to highlight the team’s personal potential.

“It’s important that the people are good. But then here (in the fashion industry), it’s the only thing there is. You have to genuinely believe that

the people can pull it off. And if they have some kind of a track record, even better." (Growth Financing expert)

Several of the interviewees mentioned that the general atmosphere is getting better and designers and fashion entrepreneurs are realizing the need to have a business person in the company to handle the operative and financial side of the business. However the challenge stills remains in actually acquiring this person and involving them from the early stages.

"The younger generation (...) they have a surprisingly international mindset, and they understand that they actually do have a need for that business guy." (Business consultant/ investor)

"Perhaps it (lack of ambitions) was something we feared, but especially the young designers do have proper goals, also business goals." (Investment specialist)

In addition to having a skillful management team to run the operational front, competent boards that challenge and steer these companies was considered as a means to develop the industry. When asked whether it's realistic to expect real professionals to engage in board activities of small fashion companies, the managers argued that it all depends on the quality and potential of the company and of the entrepreneur.

"Great board members will end up in great companies with potential. The entrepreneur must also have a high level of ambition and a will to grow and internationalize." (Investment manager II, FINNVERA)

Competent management teams and boards tend to have at least a few members with prior experience and success from the industry where the company is operating in. However, establishing this for the Finnish fashion industry was mentioned as a challenge

"It's of course difficult, as there is a very limited amount of experience in the industry in Finland." (Investment manager II, FINNVERA)

Lack of skills in crystallizing the concept

Another commonly mentioned issue was the lack of skillful commercialization. In general, there is a lack of marketing and branding skills among the Finnish companies: the nation has been built around technical expertise and know-how. Marketing and branding products has not been that critical to excel in the markets. However, the value of design and fashion relies strongly on consumer brand recognition, and the lack of

such capabilities was seen as one of the reasons for the poor international performance of the sector.

"The marketing of Finnish design is awful - that's a fact. Finns are just not good in commercialization or branding." (Growth financing expert)

"The biggest challenge is the lack of commercial presence in these companies." (Business consultant / investor)

Branding and conceptualizing the product offers should drive the company strategy and decision-making in order to establish growth and international presence. The interviewees considered that "commercialism" is not valued enough among the Finnish fashion entrepreneurs.

"I don't think "commercial" should be a bad word in the design -scene, it's a necessity in order to get that talented Finnish designer into a world-class success." (Business consultant / investor)

"If you want to enter the business, then commercialism should be the driving force." (Private equity investor)

Furthermore, the companies were seen to lack the skills to position and differentiate themselves and their products in the competitor landscape and markets.

"So if you really want to be successful and sell, create cash flows, you just have to position the products well" (Private equity investor)

Lack of business and entrepreneurial education

Education was considered as one of the fundamental reasons for the lack of business understanding and entrepreneurial approach among the designers and fashion entrepreneurs. The education system in Finland emphasizes creative individuality and designers were considered to be very talented. However, many criticized them for being *too* individual and artistic, creating garments and products with no commercial appeal or potential for scalability. The interviewees also mentioned the lack of understanding the realities of the business: from sourcing to the production and supply chain management.

"There definitely is talent and they are highly educated, but the way of using it is just not channeled very well" (Financial manager I, FINNVERA)

“That’s probably the root of the problem: the education system aims to make them into these personalities – industrial artists, or even fashion artists. Then that drive to pursue their personal vision very often overrides the commercial aspects.” (Consultant / designer)

“We have so many graduating from Taik with their heads somewhere up here, and creating so exceptional things that they are not commercial. They're nice, and the press likes them, but consumers will not buy just anything.” (Private equity investor)

The current design education was seen to lack business and conceptual approaches:

“The problem seems to be that they’re excellent designers, but they can’t do business” (Investment manager I, FINNVERA)

“It’s definitely about the education, combining different disciplines. Are there enough business skills in those teams?” (Business angel)

In Sweden and Denmark, many young designers have the possibility to attend the "real-life schools" as after graduating, many pursue careers in the large domestic fashion and clothing retail companies. Many of the interviewees raised this as a problem for Finnish designers: the system develops them to be too artistically minded, yet there are not enough Finnish companies where they could start their careers and learn the rules of the game. The proportion of fashion companies and retailers in respect to the number of graduating designers is too small to support or employ them all (Lille, 2010). For example, there are five main design schools in Sweden, whereas in Finland students are accepted into more than 10 different universities or vocational schools (Lille, 2010).

7.4.6 MARKET DOMAIN

Small internal markets

Small Finnish fashion ventures need to increase turnover fast enough to yield sufficient cash flows that can then be re-invested into the company, i.e. production of future collections, marketing, distribution networks and hiring skilled employees. However, these revenues cannot be achieved only in the domestic markets.

"We have so small internal markets here in Finland that no company can grow only in the domestic market" (Business angel)

The issue of achieving sufficient revenues was raised as an important and decisive factor for investors. The small size of the Finnish market and limitations in commercialization skills was seen as an impediment for investments into Finnish fashion companies.

"The company must be able to show something for itself, and that something is revenue growth. Profitability is not so important in the beginning..." (Business advisor for creative industries)

"To reach rapid turnover growth in Finland requires a lot of innovativeness. If you want to commercialize something in the design front, Finland is just not the place - there is no critical mass here." (Growth financing expert)

The end consumer pool in Finland is small and the general consumption patterns and average spending on clothing is far less than in Sweden or Denmark for example. The buying behavior in Finland favors large hypermarkets and department stores, where price is the decisive factor and most of the products are sourced from large, international companies.

"If you consider the structure of the Finnish clothing industry, our demand structure is already a bit strange. It's very supermarket – centered: the humble Finns buy their clothes from Citymarket." (Expert I, TEKES)

"Finland is just such a tiny market. Then again, the population in Denmark is roughly the same, but we don't have the same consumption behavior as they do." (Private equity investor)

A common channel for small fashion companies to distribute their products is through retailers. However, the number of potential retailers especially for more high-end collections is limited to only a few players in Helsinki, and a handful in the rest of the country. The competition for shelf space in large department stores was considered difficult.

"The first problem is that they don't have enough retail channels"
(Business angel)

"It's very difficult for a small designer to sell to the buyers of the big department stores. It requires a lot of tough selling." (Financial manager I, FINNVERA)

The past few decades have shown positive trends in the general consumption of fashion and clothing: imports have increased from 500M euros in 1990 to over 1500M euros in 2011 (Finatex website, 2013). This implies that the demand expectations set positive outlooks for the industry, but the challenge for the Finnish brands remains the competition with the established international brands. Some of the investors also saw potential in the domestic markets and believe that the new generations will change the basic consumption habits. The question is how long will this transition take for the internal markets to be able to create sufficient demand and value for Finnish fashion.

"This consumption behavior will also change in Finland, slowly but surely. It's just so slow, that if you now only focus on Finland, it will the end of your business, no one can live off it. Internationalization is a vital." (Private equity investor)

Table 1: Comparison of the Swedish, Danish and Finnish ecosystems
Ecosystem domain

	Policy	Finance	Culture	Support	Human Capital	Markets
Sweden	<ul style="list-style-type: none"> General focus and support for cultural industries E.g. Creative Stockholm project 	<ul style="list-style-type: none"> Strong increase in the number of listed companies Glam investing and private investor interest “The Fashion Bubble effect” 	<ul style="list-style-type: none"> “The Swedish Fashion wonder” Media attention, fashion blogs Success stories: H&M, Acne, etc. Industry credibility and entrepreneurship 	<ul style="list-style-type: none"> Moderådet established already in the 1970s Bi-annual Stockholm fashion week Privately established networking entities e.g. ASFB Fashion clusters 	<ul style="list-style-type: none"> Branding and conceptualizing skills Expertise in fashion marketing “School after schools” Initiatives and programs for young designers, e.g. Rookies Job opportunities for business professionals 	<ul style="list-style-type: none"> Early customers: internal markets enabling sufficient growth Multidisciplinary teams and boards Industry networks and collaboration Knowledge pools from past successes
Denmark	<ul style="list-style-type: none"> Cultural policies and strong focus in fashion Reports and ambitious goals and objectives: “fifth fashion cluster” Establishing Modezonen Realization of spill-over effects & value creation 	<ul style="list-style-type: none"> Consolidations and stock exchange activities Successful cases of VC and PE investments Successful cases of business angel investments 	<ul style="list-style-type: none"> Innovative strategies: price driven and user driven innovations Advantages from early outsourcing Large successful companies improving industry credibility 	<ul style="list-style-type: none"> DAFI Fashion Accelerator Program CPH Fashion Week Væksthus and fashion “consultant” 	<ul style="list-style-type: none"> Perceived as a credible industry and employer Job opportunities for business professionals Good educational systems Impact of spill-over effects: many jobs related to the fashion industry 	<ul style="list-style-type: none"> Branding “Danish fashion” Skills from early outsourcing Multidisciplinary management and boards
Finland	<ul style="list-style-type: none"> Lack of explicit support for the fashion industry 	<ul style="list-style-type: none"> No industry credibility: “rag business” Financing very industry specific: focus on technology and traditional manufacturing No culture of investing in fashion, limited investor understanding 	<ul style="list-style-type: none"> No company success stories History of bankruptcies and industry collapse Lack of entrepreneurial attitudes and ambitions Commercial goals perceived as negative Strong artistic aspirations 	<ul style="list-style-type: none"> No credible organization to promote the industry Lack of mentors and serial entrepreneurs Individualistic culture and limited collaboration among industry stakeholders 	<ul style="list-style-type: none"> Education too focused on artistic attributes Lack of business and entrepreneurial approach in studies No “schools after school” Challenges in attracting business people into the industry 	<ul style="list-style-type: none"> Difficulties in finding skillful people No sufficient pool of knowledge and expertise No culture of mentoring or coaching Very individualistic, lack of information and knowledge sharing Small internal markets, insufficient for revenues Very few distributors, challenging distribution channels

8 ANALYSIS AND DISCUSSION

As the lack of sufficient internal markets in Finland cannot yield sufficient turnover, this study suggests that fashion companies should resort to external financing in order to develop. In addition, these companies face entrepreneurial gaps, which are caused by a lack of human and social capital, as well as management and business skills (Macht and Robinson, 2009; Avdeitchikova, 2008b). Governments have an important role in developing and fostering healthy entrepreneurship ecosystems, but as the empirical findings indicate, involving the private side in this process would be important as they have the genuine motivation to develop the markets (Isenberg, 2010). Thus, the results of this study imply that bridging both the current equity and entrepreneurial gaps in Finnish fashion companies would develop them further. This could be done by improving the domains of the fashion ecosystem.

Figure 12 presents this process. In order to bridge the equity gap, facilitators within the finance domain were identified, namely improving access to smart money. Bridging the entrepreneurial gap would appear to involve several domains, which would all interact simultaneously with one another. Firstly within the policy domain, efforts could be taken to improve the credibility of the fashion industry. The findings of the study indicate that categorizing “fashion” would enable the development of better statistical data on the value creation and spillover effects. Secondly, the establishment of network organizations was noted as an important factor in developing the Swedish and Danish ecosystems. Thus, the support domain could focus on establishing a network organization to improve collaboration and drive stakeholders towards common goals. Finally, the human capital domain's facilitator was identified as a strategy that would improve entrepreneurship among the ecosystem's companies. Next, I will discuss the theoretical fashion ecosystem framework and its implication in more detail.

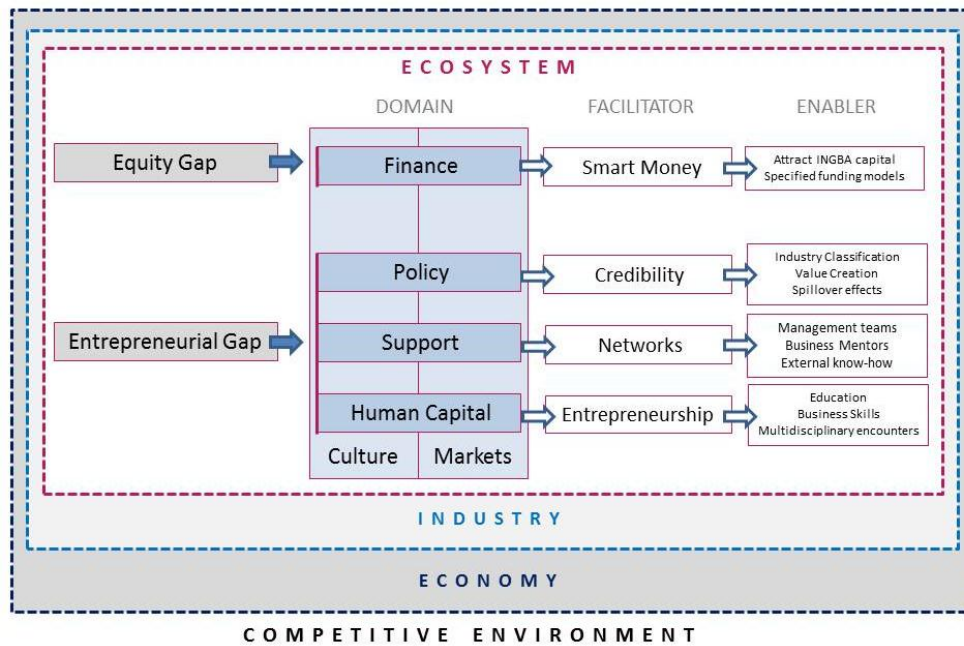


Figure 12: Revised entrepreneurship fashion ecosystem framework. Bridging the equity and entrepreneurial gaps requires efforts the different ecosystem domains.

8.1 Bridging the equity gap

FINANCE: Acquiring smart money into the fashion ecosystem

Access to finance was considered essential to enable businesses to set up and expand (Cassar, 2003). According to the findings in this study, this is also a pressing issue for Finnish fashion companies. In Sweden, business angels and the “glam investing” phenomenon have raised the awareness of the industry as a viable investment case. In Denmark, noteworthy individuals as well as private equity and venture capital firms consider fashion as an industry with potential for investment profits. The role of private investors has enforced the knowledge base, set business objectives and facilitated in driving the companies towards more profit-oriented paths.

Therefore in order to reap the benefits of *smart money*, the Finnish fashion industry could also aim to raise its profile and attract private financing. Pecking order theory was evident in the comments about designer’s fear of losing control: however, many considered the positive effects of smart money and the severe lack of business skills to override this problem.

“The money alone doesn’t get them (fashion companies) anywhere, but the smart money does. That’s the essential thing, and it also shows that

these advisors are needed.” (Business Angel)

In order to attract “smart money”, arousing interest among private investors was considered essential. The size and growth rate of an average Finnish fashion company is still too small for private equity or venture capital investments, and therefore business angels could be considered as a viable means. Ideally, they would contribute to both human and capital resources (Avdeitchikov, 2008b).

Both the empirical findings and literature (e.g. Maula et al., 2005) indicate that knowing the entrepreneurs and ventures is an important factor influencing investment decisions. Furthermore, investments made through personal or professional networks have also shown to yield higher returns (Teten & Farmer, 2010). Therefore, Finnish fashion companies could actively promote the industry and its potential to investors by participating in networking events and presenting their companies as noteworthy business cases.

FIBAN (Finnish Business Angel Network) could present potential opportunities for this. In the beginning of 2013, FIBAN merged its pool of approximately 250 investors with the 240 investors previously registered under Finnvera (Lampi, 2013). This new network now comprises of almost 500 Finnish business angels, with annual investments worth roughly 20 million euros. As many of the investments are channeled towards technical industries, fashion could be presented as a means to diversify risks and avoid investors putting “*all the eggs in the same basket*”. Fashion companies would benefit from being included in the deal flow processes of these investor groups. Currently it seems that there is a lack of knowledge from the investors’ side as to how to contact or where to screen for potential companies.

“There are many investors who would like to invest in these types of companies (fashion and design), but they have no idea how to get the process going and there is no clear channel for the investment.” (Growth financing expert)

Incubator programs also were identified as a means to facilitate the development of successful new companies (Aernoudt, 2004). The publicly funded Fashion Accelerator program in Denmark yielded positive results and raised the level of business skills among small, Danish fashion companies (Vaeksthus, 2013; Teknologisk Institut, 2011). Similar programs could also be launched in Finland. It would appear that there already exists a will, a knowledge base and a structure to support entrepreneurship, but efforts specifically targeting the fashion and design –oriented companies would undoubtedly strengthen their position. Mentoring and advisory services were identified to have an

important function in bridging the gap between investment opportunities and means of acquiring financing (Lehtonen and Lahti, 2009), and hence they could be included in the programs.

Furthermore, the findings indicate that establishing new funding programs that take into account the characteristics and demands of fashion and design companies would benefit the ecosystem's development. In Finland, Feelis Helsinki represents an example of private investors' interest in the fashion and design –oriented companies. Royal Majestics's acceptance into the Vigo program can be considered as a sign of public investors' interest. This method of pooling several small players together to create operational synergies seems to be the way to convey external financiers to get involved.

An interesting funding strategy for the fashion and design industries could also be *royalty or revenue based financing*. In this model, the company receives capital in return for future repayments, which are based on a percentage of future cash flows from products. In the case of fashion, capital could be invested into a collection consisting of several items, thus mitigating the risk of a single design product (e.g. classic pieces to create revenues, and more unconventional and riskier pieces to differentiate and create brand recognition and value). This model limits the investors' risk and could also encourage designers to assess the commercial strategy of their products. In Finland, Vision+ is currently the only company specialized in royalty based financing and focuses on digitally distributed products (Vision Plus, 2012).

Another financing scheme that could be further developed to meet the needs of fashion companies is *venture capital seed pocket funding*. Fashion companies were not considered applicable to venture capital funding because of their funding demands and the fact that there are no Finnish venture capital firms specialized in fashion or design companies. However, the seed pocket method could provide venture capitalists a better possibility to allocate a certain amount of fund capital for smaller investments in a wider scale of industries. If Finnish venture capital companies start pursuing this funding strategy as well, fashion could present a noteworthy case of diversifying investments and investing into these "unexplored" territories.

The challenges regarding the public support and financing schemes were discussed afore. Despite the recent efforts to increase possibilities for creative industries (e.g. Tekes' program "Fiiliksestä fyrkkaan"), the support still seems strongly restricted to product development. Furthermore, the knowhow and mindset in these institutions is very technology oriented. A new public scheme needs to be developed for the creative, and in this case fashion, industries and external experts need to be brought into these

entities. As the EU regulations set restrictions on competition distortion, offering direct sales and marketing support is limited. Therefore, the public side and finance would need to be channeled through other means (e.g. via private investment firms).

8.2 Bridging the entrepreneurial gap

POLICY: Increasing the industry's credibility

In Finland, cultural industries are perceived as a new motor for competitiveness in accelerating innovativeness and new business models (Handelberg & Karhunen, 2009). For example between 2000 – 2005, the turnover of the creative industries increased by 15%, whilst the equivalent for the electronics industry dropped by 7% and by 38% for the forest industry (Hermia, 2011). The government has set a goal to improve business opportunities for creative industries in domestic and international contexts, and the Ministry of Trade and Investments has initiated a strategy for developing entrepreneurship within the sector for 2015 (Hermia Oy, 2011).

The Finnish fashion industry could tap into this positive industry trend. In Sweden and Denmark, the creative industry policies had an important role in strengthening the general acceptance and credibility also towards the local fashion industries. It appears that the recent success stories within the creative industries in Finland (e.g. Rovio and Supercell in gaming, Nightwish and HIM in music) have improved the atmosphere and level of confidence towards the segment. The international reputation in of these industries could create a positive buzz around the story and image of the Finnish creative companies and also spark foreign investors' interest. Similar success cases were mentioned for the emergence of the creative industry's hype in Denmark.

The findings indicate that classifying fashion as a separate entity within the creative industries could be beneficial for the development of the fashion industry and ecosystem. This could facilitate resource allocation and lobbying efforts.

“Fashion industry should be raised up as a separate entity when lobbying, otherwise it will get lost in the broad definition of creative industries” (Investment manager II, FINNVERA)

Similar efforts were carried out in both Sweden and Denmark to distinguish fashion as an industry and separate it from the more traditional and manufacturing based textile and clothing industries. Some of the interviewees considered it necessary also in Finland to differentiate fashion from traditional textile industries (“*TEVA –ala*”).

“..so that we would really start talking about the fashion industry, as opposed to the textile and clothing industries, which is a lot more old-fashioned and traditionally very production-oriented.” (Fashion business consultant / creativity leader)

Furthermore, fashion was considered as a highly knowledge intensive industry that can facilitate innovations and create value across industry boundaries (Aspers, 2010; Hauge, 2007). Therefore, separating fashion industry and defining the term could also enable better understanding and communicating of the total value creation. The findings suggest that including a wider sphere of stakeholders in the definition of *fashion industries* could promote the industry’s value creation as a whole. For example in Denmark, the government took a clear lead in identifying fashion in the core of its policies and as one of the strategically important industries. By identifying the positive spill-over effects and the contribution to other sectors, fashion was established as an important growth driver and a significant source of income. Fashion could also be seen as a means to develop Finland’s identity and national brand.

SUPPORT: Establishing collaboration within the fashion industry

The results from this study imply that a network organization would be important to develop a healthy ecosystem. DAFI in Denmark has played a vital role in lobbying for the industry and establishing a common brand and recognition for the nation’s fashion. In Sweden, Moderådet has been actively improving the fashion industry’s status and focusing efforts on developing the next H&Ms and Acnes. The development of a similar organization for Finland could improve lobbying and promoting of the industry as a single unit. Collaboration and establishing a supportive culture were considered important to establish a healthier ecosystem: the network organization could primarily focus on improving these attributes.

Creating this ecosystem or cluster –way of thinking would be essential.
(Investment manager II, FINNVERA)

The empirical findings also strongly indicate that mentorship and learning from other's experiences is an important factor in driving the industry forward and developing the ecosystem. The innovative outsourcing strategies in Denmark and value-adding branding strategies in Sweden have developed a pool of experts and professionals in fashion management. This way, young fashion companies could derive knowledge and insights from these networks, industry professionals and other entrepreneurs’ experience. Creating a similar mentorship culture as in the Finnish software and ICT sectors would be very important also for the public support entities: currently they are

able to provide to general business consulting for fashion companies, but there is a lack of more explicit industry knowledge and insights.

“We’re generalists; we don’t focus that much on the industry substance. The know-how must come from outside, and we can then assist with the business technicalities.” (Business advisor for creative industries)

Competent management boards were also mentioned as an important means to develop individual firms and consequently the ecosystem as a whole, as they can establish the wider strategic frames and overlook the operational management activities. For example in the case of Swedish Hasbeens, the multidisciplinary board was established to challenge and direct the decision of the founders. The proposed network organization could focus on improving the board activities among the small companies and also screen potential companies and match them with the appropriate boards.

“Board activities are an excellent means (to develop the industry). It’s double-sided, both the management and the owners of these companies should understand that the board should mainly comprise of external members, who have the best possible expertise to drive the company forward.” (Investment manager II, FINNVERA)

Fashion as an industry was identified to have some very distinct and challenging characteristics and therefore mentors and business consultants would need to have personal experiences and knowhow. Competent boards tend to have at least a few members with prior experience and success from the industry in which the company is operating in. However, in Finland the lack of recent success stories in the fashion industry would indicate that there is no sufficient pool of knowhow, expertise and networks in the fashion field. The respondents suggested that instead of developing the knowledge base internally in Finland, the network organization could seek to attract professionals externally (e.g. from Sweden or Denmark).

Some efforts have been already taken to improve the collaboration between the Nordics (e.g. Nordic Fashion Association). As the Finnish industry could have a lot to gain from this, more initiatives could be taken to develop the cooperation. Regarding the management and financing of such programs, in addition to public resources, Nordic retail companies could also be involved in the process as a means of corporate social responsibility: improving the local fashion industry, creating employment and growth.

HUMAN CAPITAL: Improving fashion entrepreneurs' business skills

Value creation and profitability in the fashion industry are based on the ability to create innovative designs and brands whilst managing efficient marketing channels, logistics and distribution (Hauge et al. 2009). The cyclical nature and industry dynamics also set requirements for strict financial control (Malem, 2012). Therefore, a successful fashion company must possess skills and expertise in multiple areas.

However according to the findings in this study, it appears that Finnish fashion companies lack many of these skills and the companies are often too designer-driven. In Sweden, many of the successful companies have been founded by marketing or branding professionals. Design is seen more as a supportive function, as the core values are derived from branding strategies and careful conceptualization. Also in Denmark, the role of skillful teams has been influential to the growth and development of the nation's industry. Currently it seems that the companies in Finland are too driven by the creative freedom (Creative enterprise orientation) and do not focus enough on branding concepts (Fashion industry orientation) (Lille, 2010; Mills, 2010). Thus, improving the business skills and knowhow within the Finnish fashion companies and balancing between the creativity-business orientations could develop the businesses.

The findings also indicate that education was considered as one of the core reasons for the industry's underperformance in Finland. The leading educational institutions were perceived to strongly focus on developing the individuality of the designer, and the quality and distinctness of their designs. The problem seems to arise once the designers graduate and seek for work in their own line of studies: many are forced to pursue a career as entrepreneurs and set up their own business as there are not enough companies to employ them. It appears that their current education does not provide enough entrepreneurial courses to teach the basics of running a business. Furthermore, in Finland the lack of industry leaders means that designers do not have the same possibilities to attend the "schools after school" as their colleagues in Sweden or Denmark. This leaves them with very limited skills, networks and understanding of how the business really functions.

Therefore, the educational system would need to increase the entrepreneurial approach in the study curriculums and educate students about marketing, value chains and supply processes in order to improve their entrepreneurial capacities. Experts could also be invited from other disciplines and industries. Furthermore, industry benchmarking and analysis of successful companies was identified as an attribute in the Swedish ecosystem. This could also be enforced in Finland as it may facilitate fashion

entrepreneurs and emerging designers to position themselves vis-a-vis their competitor and also better enable them to develop differentiating strategies and define their own niche. User-driven design approaches was acknowledged as competitive edges for the industry in Denmark: Finnish students could also be encouraged to incorporate and understand the need for these approaches and marketability in their designs.

In addition, the importance of the “*right team*” and “*people*” was constantly brought up as investment criteria by the respondents. The importance of the right team seemed to have an even greater importance among the creative industries, such as fashion companies since the comparatively lower level of business skills was considered to highlight the team’s personal potential.

“Especially in the beginning, things go either good or bad depending on the team: even a good idea can develop into a bad one (without the right team)” (Investment manager I, FINNVERA)

Thus, Finnish fashion companies could focus more efforts on accumulating multidisciplinary skills and knowledge into their companies. Many of the interviewees, especially the investors, emphasized the importance of having the right balance of skills within the company or in the management team. It was seen as essential to find the right combination of vision and design strategy, knowledge of production and materials, and strong business skills. These attributes could also awake investors' interests.

“There needs to be a team with skills and expertise from different fields from the start, one that is credible and able to persuade a professional investor” (Investment manager I, FINNVERA)

“I always recommend that in a company like that (small fashion venture), at least the other founder would have knowledge in sales and marketing, and in the financial side.” (Private equity investor)

The challenge in Finland seems to be actually acquiring and committing these people to the business early on. Currently, it appears that fashion companies in Finland are not perceived as noteworthy career options for business oriented people the industry in general is not perceived to have enough potential for ambitious career development. The small companies cannot compete with salaries and benefits, and there is a seeming lack of trust for the founders’ management capabilities. Therefore, fostering multidisciplinary encounters and establishing fashion as an alternative career option for young entrepreneurs could mitigate these challenges. For example, the Aalto Fashion Marketing course could be developed further and extended into a minor or a master’s program. Similar programs could also be initiated in other universities and some form

of support should also be provided after the completing these studies.

Fashion companies were distinguished as born globals as they operate in a very international context. Due to the high manufacturing costs in Finland and the small internal markets, small companies need to establish international presence from early on in order to grow. This highlights the need for an international mindset and sufficient language skills. Encouraging designers to seek for internships and apply for exchange programs abroad was mentioned as an enabling factor to better understand the international business context and establish new networks.

9 CONCLUSIONS & FUTURE RESEARCH

9.1 Summary

This study focused on exploring why the Finnish fashion companies have not been able to develop and achieve growth in the same way as their counterparts in Sweden and Denmark. The industry in Finland has potential: a unique style, international curiosity and the potential to raise investors' interest as an undervalued segment. Company level equity and entrepreneurial gaps were assumed as the limitations for further growth, and the fundamental problems were considered to derive from the prevailing ecosystem conditions in Finland.

The main research question was identified as:

- How to bridge the equity and entrepreneurial gaps in small Finnish fashion companies?

This research question demands a very broad approach and therefore in order to provide a comprehensive answer to this research question, three further research questions were identified. Next, I will briefly summarize how this study answered the following questions.

- What are fashion ecosystems & their development processes – case Sweden & Denmark?

The fashion entrepreneurship ecosystem model was constructed to represent the individual organization's position in the wider industry ecosystem. The model structures the findings from the empirical research by identifying the six domains and their significance and impact on the ecosystem's development. The ecosystems in Sweden and Denmark were explored to understand the determinant of success for creating these more favorable conditions for fashion companies.

In Sweden, the finance, culture, human capital and market domains were identified to have had a relatively higher impact on the development of the nation's fashion system – implying on a relevance of the private sector. In Denmark, the government's strategic support and public policies have had a significant role in developing the nation's fashion ecosystem during the past decade or so.

- Why is the Finnish fashion ecosystem underdeveloped?

In order to understand the lack of investor interest and presence of business potential among the Finnish fashion companies, the prevailing ecosystem conditions were explored from a financier's viewpoint. The aim was to shed light on the reasons why public and private investments are currently not made into the small fashion companies.

The findings from the interviewees provide insights into this research question. Firstly, the ecosystem is underdeveloped because there is a clear lack of business skills among the fashion companies and entrepreneurs. A typical fashion entrepreneur has an educational background in design, and thus a very limited know-how of business processes and operations. This reflects on the finance domain as investors do not perceive the industry as a viable business case, meaning that the individual companies face challenges in acquiring external capital and *smart money* into their companies. Furthermore, there is a very limited amount of understanding and prior knowledge about the industry dynamics among potential investors.

Secondly, the fashion industry is not supported sufficiently by public means and there is a lack of credibility for its business potential. The industry has witnessed some very harsh years in the past and there are practically no successful companies to lead the way and provide evidence of profit potential. In addition, there is very little collaboration or knowledge sharing with the industry players. These aspects reflect negatively on the ecosystem's culture domain. Furthermore, the Finnish startup and entrepreneur scene is currently very technology-oriented and many of the strategic initiatives and policies are based on the needs of these companies. Thirdly, the internal markets and consumer demand in Finland is simply not enough to yield sufficient revenues for small fashion companies.

- How to develop the Finnish fashion ecosystem?

The theoretical fashion ecosystem framework was used to link the findings from the Finnish fashion ecosystem with literature, and then analyze them vis-a-vis the Danish and Swedish ecosystems. The findings indicate that in order to successfully develop the ecosystem, it would be essential to focus on four facilitating strategies:

- I. **Acquiring smart money** to simultaneously improve the financial position and expansion possibilities of the individual companies
- II. **Establishing credibility for the industry** and communicating its overall value creations and significance.
- III. **Increasing collaboration** to establish knowledge sharing and objectives for common industry-wide goals.

- IV. **Developing a higher level of entrepreneurial ambitions** to improve business skills, increase the level of multidisciplinary collaboration and enhance the business orientation in new ventures.

Furthermore, developing an industry leader is important to pave the way for young companies and provide concrete evidence that success in the industry is attainable.

9.2 Managerial Implications

The entrepreneurship fashion ecosystem framework recognized potential industry enablers within the domain facilitator strategies. The following list briefly summarizes the main focus of each facilitator and presents their respective enablers as more concrete actions that could be initiated to improve the respective ecosystems domain.

FINANCE: Acquiring smart money into the fashion companies

- **ACTION:** Establishing networks with business angels
- **ACTION:** Developing accelerator programs for the fashion industry's needs
- **ACTION:** Initiating new funding programs and models for fashion companies

POLICY: Increasing the industry's credibility and public appeal

- **ACTION:** Classifying fashion as a separate entity within the creative industries
- **ACTION:** Elaborating and promoting the total value creation of the industry

SUPPORT: Establishing collaboration within the fashion industry

- **ACTION:** Creating a network organization to unite the industry stakeholders
- **ACTION:** Encouraging mentorship and knowledge-sharing
- **ACTION:** Acquiring industry knowledge and expertise from the outside

HUMAN CAPITAL: Improving fashion entrepreneurs' business skills

- **ACTION:** Encouraging entrepreneurship and commercial aspirations
- **ACTION:** Increasing business education and awareness in design studies
- **ACTION:** Facilitating multidisciplinary and cross-functional encounters

9.3 Contributions of this study

This study has contributed to the research and exploration of the Finnish fashion industry in several ways. Firstly, it appears that this is the first time that the industry has

been modeled by using a business ecosystem framework and extending previous research from this field to the Finnish fashion industry context. Novelty value of this study is also generated by addressing the ecosystem from external financiers' viewpoint.

Secondly, this study provides novelty value as it seems that no previous studies or research have compared or benchmarked fashion ecosystems in these contexts. For this to be done, extensive research was carried out to gather data and information on the three ecosystems in question, i.e. Finland, Sweden and Denmark. The research included interviews, field trips to Sweden and Denmark, visits to companies and organizations and seminars. In addition, secondary material needed to be studied in their original languages, namely Finnish, English, Swedish and Danish.

Thirdly, the findings of this study offer managerial implications by recognizing more concrete enablers and key opportunity spaces that could be adopted to develop and improve the conditions in the Finnish fashion ecosystem. These enablers were identified by drawing on the findings from the wide array of interviews, literature and prior research, and then reflecting their feasibility on the current business environment.

9.4 Suggestions for further research

The focus of this research, bridging equity and entrepreneurial gaps among small fashion companies, is novel in the existing literature and there are many areas that need further and more detailed research in the future. Previous literature has addressed the phenomenon in other industries, but there is still a lack of research among the creative industries, especially among fashion companies. This study addressed the topic from an external viewpoint (investors) and explored it from a wider, macro-level approach. Future research could explore the phenomenon from an internal, micro-level perspective (i.e. founder, designer, individual employee) to provide insight on how the equity and entrepreneurial gaps are considered and addressed in the individual companies.

Generally speaking, the Finnish fashion industry landscape has not been the subject of wide academic research. Therefore, it presents opportunities and untapped potential for many interesting research cases. For example, revenue based financing and its adaptability for fashion companies could be studied further. Determining success factors for policy support and best practices to develop a network organization for the Finnish fashion industry would also be interesting and valuable research topics. This study proposed some suggestions on developing the credibility and awareness of the fashion industry among policy makers in Finland: this issue of fashion industry lobbying could also be studied in greater detail in the future.

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APPENDICES

Appendix 1. List of Interviews

FINLAND

Organization	Title	Date of interview	Format of interview
Finatex	CEO	6.10.2012	phone interview
FinPro Scandinavia	Head of Trade Center	25.10.2012	phone interview
Venture Firm for Fashion & Design	Partner	31.10.2012	Face to face, recorded
Investment fund (royalty based financing)	Partner	15.10.2012	Face to face, recorded
Investment fund	Private equity investor	30.11.2012	Face to face, recorded
Private fashion/clothing company	Designer	24.10.2012	Face to face, recorded
Private fashion/clothing company	Fashion entrepreneur	7.11.2012	Face to face, recorded
Fashion & design consultancy	Fashion consultant / Creativity leader	2.11.2012	Face to face, recorded
Venture Firm for Fashion & Design	Concept development / partner	11.12.2012	Face to face, recorded
Private fashion/clothing company	Consultant / designer	3.1.2013	Face to face, recorded
Åbo Academi	Doctoral student in fashion business	3.1.2013	Face to face, recorded
Venture Firm for Fashion & Design	Investment specialist / partner	7.1.2013	Face to face, recorded
Aalto Center for Entrepreneurship	Growth Finance expert	15.1.2013	Face to face, recorded
Aalto Startup Center	Business advisor for creative industries	15.1.2013	Face to face, recorded
Tekes	Expert I Expert II	22.1.2013	Face to face, recorded
Private company	Business Angel	23.1.2013	Face to face, recorded
Finnvera	Financial manager I Financial manager II	12.2.2013 7.1.2013	Face to face, recorded
Finnvera	Investment manager I Investment manager II	20.2.2013	Face to face, recorded
Private company	Venture capitalist	7.3.2013	Face to face, recorded
Investment fund	Investor for design industries	4.4.2013	email

SWEDEN

Organization	Title	Date of interview	Format of interview
Moderådet	Head of public relations	10.1.2013	Face to face, recorded
KTH	Researcher	10.1.2013	Face to face, recorded
Swedish Hasbeens	Founder / entrepreneur	11.1.2013	Face to face, recorded

DENMARK

Organization	Title	Date of interview	Format of interview
Vækstfonden	Growth consultant for creative industries	1.2.2013	Face to face, recorded
Designmuseum Danmark	Researcher	4.2.2013	email

Discussions with:	Title	Date
Harry Elonen	MSc thesis, industry specialist	28.11.2013
Mikko Kalhama	CEO of Design Forum Finland	18.3.2012
Tarmo Lemola	Referral for ecosystem theory	20.3.2012

Appendix 2: Activities in the Swedish stock exchange

The following picture was published in Swedish newspaper DagensNyheter 21 September, 2009. It provides an overview of the clothing retailers' activities and listings on the Swedish stock market during the 2000s.

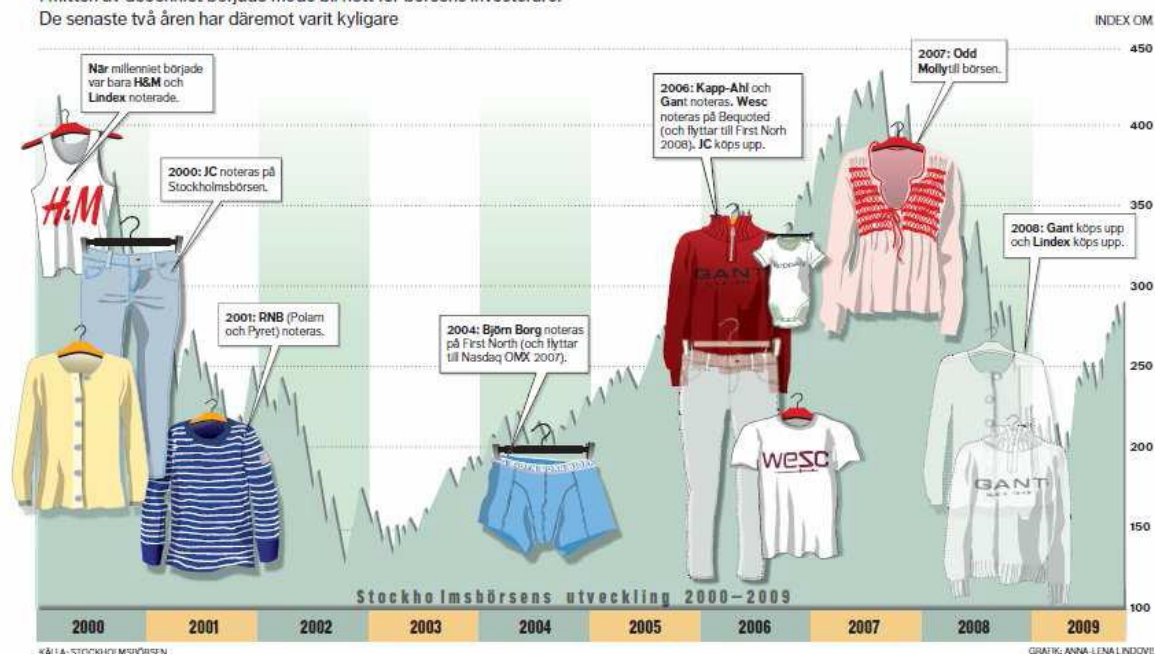
6

MÅNDAG 21 SEPTEMBER 2009 DN

SPECIAL BÖRS & FÖRETAG

Handelsföretagen lämnar börsen

I mitten av decenniet började mode bli hett för börsens investerare. De senaste två åren har däremot varit kyligare



Appendix 3: Fashion industry activities in Finland

Overview of some of the main projects and initiatives that have taken place within the past few years in the fashion segment.

Royal Majestics:

Royal Majestics is a company founded in 2011, with a goal to develop Finnish design and fashion companies into international business. In addition to providing capital, the important contributing drivers are industry knowledge and wide, international networks (Diges, 2012). In 2012, Royal Majestics was chosen as one of the nine accelerators into the Vigo program – a publicly initiated and coordinated program to accelerate small company growth, which combines public and private financing. By March 2013, Royal Majestics had invested into three portfolio companies (KL, 14.3.2013).

Feelis Helsinki

Feelis Helsinki was founded in the beginning of 2013 and operates as a business platform for the investee companies of Muotoilun Edelläkävijät I –equity fund. Feelis Helsinki is a financing channel and knowledge platform, as well as an entity providing marketing and sales support. By April 2013, the company had made letter of intent – agreements with four established Finnish companies, representing design and fashion. (Feelis Helsinki website; interview with Minna Hellström, 2013)

Muodilla menestykseen (Successful with Fashion):

”Muodilla menestykseen” is a project run by Diges ry. to improve the Finnish fashion business, and it is partly funded by the Centre for Economic Development, Transport and the Environment (ELY -keskus). The most visible aspects of the project is an event concept “Fashion encounters” (Muodin kohtaamispaikka), comprising of seminars and workshops around various business related themes, open for all (Diges, 2013). The events started in 2012.

Reports and studies

Since the mid-2000s, the creative industries have also started to raise their head in the Finnish public policies. A few reports have also focused specifically on the fashion industry and some have also created discussion and increasing awareness around the issues. Examples of more recent reports/projects: KELANO in 2009-2010 focusing on sustainable supply chain management (Tampere University of Technology), Tevallako Tulevaisuuteen in 2010 by Kirsi Lille, Tekes report studying the textile and clothing dynamics and potential (2007).

The Finnish Catwalk

The Finnish Catwalk is a fashion show organized by Finatex. The shows present Finnish fashion companies and it was organized for the first time in 2006. During the past few, the focus audience has shifted more towards consumers and almost 4000 visitors have attended the events. However, the Finnish Catwalk was organized for the last time in January 2012. (Finnish catwalk website, 2013)

Aalto University's Fashion Marketing course

Since 2012, Aalto University has been offering a course in fashion marketing, which focuses on the development of a commercial fashion brand concept. The course brings together students from diverse academic backgrounds with mentors and fashion industry professionals. The aim is to provide students with a comprehensive knowledge of key industry-specific strategic, economic, and practical issues related to fashion marketing, an understanding of the roles of different actors and institutions in the business, and experience in developing, communicating, and arguing marketing approaches for fashion.

Export event and projects

There have been a few export promoting project focusing on the fashion industry the recent years. For example, 4 Finnish designers were presented in 2012 in St.Petersburg in the Aurora Fashion Week. The project "Portfolio Finland" coordinated by the Finnish Institute in St.Petersburg and Design Forum Finland (Suomen Pietarin Insituutti, 2013). A similar project called Northern Exposure was carried out in New York in 2012 showcasing three Swedish and Finnish emerging brands and was organized in collaboration with the Consulate Generals of Finland and Sweden. The goal was to promote Nordic fashion brands, and to support new talents in their North American operations. (US Embassy of Finland press release, 2012).

Another project identifying fashion as one of its focus groups is New Cut! – a program improving ties between the creative industry players of New York and Finland. The project was launched at the start of 2013, and no specific results have been registered yet. (New Cut website, 2013).

The Helsinki Fashion Summit place in 2012 and was part of the World Design Capital year's program. The goal was to create new networks and business models, and encourage internationalization of young brands. The summit brought together industry representatives, media, investors, designers and experts some renowned speakers from the Nordics and beyond (WDC 2012 website, 2012). The event was attended by

approximately 450 visitors, most of whom represented the industry (Helsinki Design Week website, 2013).

HEL_ FWRD/ Fashion Village was organized by an individual company (Lumi Accesories) and was also part of the Helsinki World Design Capital 2012 events. It was a two-week event in August 2012, gathering Finnish fashion brands to the center of Helsinki. The goal was to showcase the brands and the designers to the larger public, making Finnish fashion a part of everyday lives and the local brands more recognizable. (Helsinki Fashion Forward, 2013)