[Managing Strategic Growth At Sjöland & Thyselius AB](https://jigsaw.vitalsource.com/books/9781305840829/epub/OEBPS/contents.xhtml%22%20%5Cl%20%22toc-ch8-20)-Case Study

*This case was written by Assistant Professor Svante Schriber, Stockholm School of Economics, and Senior Researcher Gerry Yemen, Darden School of Business. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Some names have been disguised. Copyright © 2011 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail to* *sales@dardenbusinesspublishing.com**. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.*

It seemed extraordinary that, in 21 years, Rune Thyselius, chair and cofounder of Sjöland & Thyselius AB (S&T), and his partner, CEO Magnus Sjöland, had grown their business from a two-person programming firm to an important Swedish defense enterprise with 160 employees. Based in Stockholm, S&T offered a range of services, from management consulting, military training systems, construction engineering, and communication technologies to owning and running Scandinavia’s only wind tunnel. Some reaching that level of success might have been ready to slow down and mull over an exit strategy, but Sjöland and Thyselius were looking to grow.

Their first large-scale international project was well under way in the United Arab Emirates (UAE), and other opportunities in the international defense arena were possible. But was the firm ready for an international expansion? What internal actions would be necessary to create an organizational structure capable of supporting successful globalization? Should it continue to seek business in the UAE or target other markets? What organizational structure and which capabilities would be required to expand globally?[1](https://jigsaw.vitalsource.com/books/9781305840829/epub/OEBPS/ch8.xhtml#fn1a)

**The Early Years**

Born in 1962, Rune Thyselius was the son of an engineer and a stay-at-home mother who later went to work for the municipality. He grew up in the southern part of Stockholm. His father worked at Ericsson, the telecom firm, for his entire career, which for Thyselius had two consequences—he adopted his father’s natural interest in science and engineering, and, unlike his sister, who also worked at Ericsson, Thyselius wanted to avoid working for a large firm:

*I strived for the opposite of what I saw happening to my dad: He got promoted to department manager and building operations, then the firm restructures, and everything is gone. So you do the same thing again in another department. I mean, it is like writing in the sand. So I thought to myself: Why not try the opposite?*

Until it began to be phased out in the 1990s, all adult Swedish males, including Thyselius, were conscripted for service in the military for an average of 11 months. He did not enjoy his time as a soldier. Although he was originally designated conscript platoon leader, his allergy to grass prevented this, and Thyselius quickly realized that taking orders was not his cup of tea: “In terms of personality, I don’t fit in as a soldier in the mass of other soldiers. I have always gone my own way. And I paid the price for that in some situations. I go my own way and if no one comes along, I go alone.”

From 1981 to 1985, Thyselius studied electrical engineering and computer sciences at the well-reputed Royal Institute of Technology in Stockholm, known not least for its relation to the Nobel Prize Award. While at school, he became friends with Magnus Sjöland, a math major, and the two soon became interested in starting their own business. They launched a venture in 1985 and earned their first revenues the following year with a project for the Swedish Defense Materiel Authority (FMV), the Swedish armed forces procurement organization.

Upon graduation, each went his separate way, Thyselius to Ericsson and Sjöland to FOA, the former name for the Swedish Defense Research Institute (later FOI). After 15 months at Ericsson, Thyselius returned to the Royal Institute to pursue a PhD and to research the interaction between humans and computers. Although he soon realized he was too impatient for research, his position left him time to develop skills in other areas. For example, he started offering training in computer programming. At the time, programming skills were a scarce resource. He trained employees at Ericsson and FMV, within their aerospace divisions in particular. Thyselius’s prime motivators were doing what interested him and what he perceived as “developing himself,” so at 25 years of age, he abandoned his PhD studies. He and Sjöland reunited and founded S&T in 1989, to offer computer programming courses in Stockholm.[2](https://jigsaw.vitalsource.com/books/9781305840829/epub/OEBPS/ch8.xhtml#fn2a)

Given Sjöland’s connections at FOA, it was natural for the new entrepreneurs to turn to the defense industry for customers. Despite its population of some 9 million, Sweden, neutral and non-member of NATO, had been a country with a large military defense of its own. Its proximity to the Soviet Union and long coastline made it virtually the northern half of a potential European battle theatre. When the Second World War caught Sweden and other countries with a small and declining military defense, armed forces expansion began and continued for years after.

S&T was an early adopter of the Internet and the first in Sweden to offer training in Java, the programming language, and eventually to develop technical systems. It soon became apparent that its market could be expanded to include large companies outside the defense industry such as Ericsson. As they gained clients, Thyselius and Sjöland concentrated on Ericsson and hired doctoral students from the Royal Institute to keep up with work for other customers. Although their focus on developing a programming code especially for the Swedish armed forces naturally limited their market, the two founders experienced no limits in demand for their services. Thyselius described the early years: “Oh, when we started in 1989—it was fantastic. We earned something like (Swedish krona) SKE400 [in U.S. dollars, approximately USD50] per hour; all hours we could work, I mean, it was fantastic.”

**Technology Industry**

As the Internet began to evolve, the programming and IT industry grew dramatically. One of the fastest-rising segments of the software industry was enterprise resource planning (ERP), the automated business processes that helped the back office manage a corporation’s day-to-day operations. The front office became the next priority, with emphasis on supply chain management. As technology became more advanced and vendors proliferated, end users tended to need third-party help to design, install, integrate, and maintain their equipment for e-commerce, and because the best computer professionals tended to work for computer firms, noncomputer businesses found it more cost-efficient to outsource such tasks to computer service companies.

Sometimes called the Silicon Valley of Europe, Sweden was at the forefront of the Internet boom during the 1990s and saw a dramatic increase in the value of programming and Internet firms, leading many start-ups to attempt fast growth. S&T, however, did not take part in that trend, partly because it prioritized work toward existing customers in the defense industry and partly because it strived for quality and long-term growth rather than the quick benefit of being branded an “Internet firm.”

Industry developments, however, influenced the firm. The tech boom made competition for employees intense. IT companies with seemingly endless pots of money had invested in in-house restaurants and on-site gyms with tae kwon do and yoga classes. Swimming pools, table tennis, massage therapists, dry-cleaning drop-off services, and dog walkers were only some of the perks companies showcased to attract techies. Thyselius recalled the difficulties in attracting talent in this competition, and the founders’ solution to hire family:

*In 1991 we spoke to the first potential employees, but it didn’t work because nobody wanted to work in such a small firm. In 1992, we needed to recruit and eventually hired Magnus’s wife. Then her younger brother joined us for 10 years—and met his wife at S&T, too, by the way.*

**From Home Office to Building**

Eventually Sjöland and Thyselius were able to hire outside the family, and in 1993, the firm got its own office. A secretary was hired, and business started taking off, with an annual growth of 50% for four years. At the same time, S&T attempted to cater more to civilian industries, but during the Swedish economic downturn in the early 1990s, demand was low for civilian projects. But demand from the Swedish armed forces continued unabated.

Outgrowing the office a couple years later, S&T moved to larger premises. Then, in 1995, S&T opened its first subsidiary in Gothenburg, Sweden’s second largest city, located on the west coast. The first nonfounder CEO was hired at the end of the 1990s, and several employees from his former firm were hired too.

During the dot-com bubble, forces within the firm pushed for growth in civilian industries. Demand for civilian projects increased, but so did competition for highly skilled employees; there was a significant gap between the number of technology users and the number of expert programmers at the time. “A lot of people still thought that a computer engineer should earn more than an engineer in chemistry or electronics, without any rational reasons,” Thyselius said. “And that still is a bit of a problem in the IT business—too high salaries in relation to the earnings, even if it has improved.” This made it even more difficult for the firm to find competent employees, especially without risking compromise in terms of quality.

As the dot-com bubble burst in 2000, and many Internet companies shut off their computers and closed their doors, S&T remained profitable and was well positioned to grow. Giving priority to existing customers over new ones, S&T continued to use its resources to deliver to the Swedish Defense Forces, thus further establishing the firm within the defense sector.

**Growth Through Acquisition**

Another trend that followed the tech bubble affected S&T’s business: The Swedish Defense Forces experienced successive cutbacks in number of troops, resulting in diminished demand for the company’s services. To balance that, S&T searched for opportunities in other areas through acquisitions. The strategy behind the growth was a combination of actively searching for suitable firms and opportunistically responding to reasonable prices. “So when we started looking at acquisitions,” Thyselius said, “All our acquisitions have come at a low price, really.” At the same time, this meant diversifying the firm.[3](https://jigsaw.vitalsource.com/books/9781305840829/epub/OEBPS/ch8.xhtml#fn3a)

In 2005, Erik Andersson, CEO of a software company called InterIT Konsult (InterIT), approached Thyselius and Sjöland about a possible sale. The purchase would allow S&T to reach new customers outside the military area. InterIT had barely survived the IT crisis and still struggled to make profits—a poor performance that kept the acquisition price modest. Although some InterIT employees left following S&T’s takeover, many stayed including the CEO, and the acquisition was considered successful.

In 2006, S&T’s acquisition of Grandezza, a management and IT consulting firm in Stockholm, allowed S&T to broaden its offering; Grandezza developed into one of its cash cows. That same year, a telecom project manager based in Lund (in southern Sweden) was acquired as a one-man firm, and around him, the firmSite of Knowledge was formed; it managed to grow to eight employees during the first year following acquisition.

Two years later, in one of its largest acquisition deals, S&T bought the Swedish government’s wind tunnel and renamed it the Sjöland & Thyselius Aerodynamic Research Center Sweden AB (STARCS). Because that acquisition also included a certain financial support from the Swedish Defense Research Agency (FOI), it provided S&T some time to acquire new customers.

The wind tunnel played a pivotal role in the firm. Being inherited from FOI, it carried credibility from the history of the Swedish jet fighter development program. Sweden was one of the few European countries developing and producing its own fighter aircraft. Some countries—Germany, France, the UK, and Italy—had wind tunnels of their own, but few other European did (even fewer countries in other parts of the world, and no other firms in the Nordic countries boasted wind tunnels). The lack of wind tunnels made this a high-profile resource, in turn providing S&T with contacts to potential customers and offering add-on projects from other firms in the S&T corporation.

In itself, the wind tunnel represented a resource that would cost approximately USD100 million to build from scratch, not to mention the employees’ wealth of experience. In that sense, the wind tunnel could work as an entry into many firms and countries that otherwise would deal only with much larger, international firms. As Thyselius explained:

*The wind tunnel plays a central role in putting us on the map. It gives us contact to Saab in a completely different way. That is the most important difference. So now we are administering a part of the Swedish industrial heritage, which carries weight both with the Defense Department, FMV, and Saab. It has a certain weight. You are for real. No one else has such a thing.*

At the end of 2008, S&T acquired Projektgaranti, a construction and real estate consulting firm, broadening the types of project management in which S&T was involved. That same year, the firm Sellegi Technologies was purchased; the intention was to integrate Sellegi into Site of Knowledge and make the CEO of Sellegi responsible for business development in the combined unit. In spring 2009, S&T acquired 51% of Stockholm firm Perakustik, which built ceilings for offices and schools. It was acquired on personal recommendations and was a completely new line of business.

The wide array of acquisitions had the corporation competing in a variety of industries; the strategy of growing through opportunity had the consequence of spreading firm resources over a wide range of activities. Both owners were aware that there was little conscious positioning in markets and no grand plan or common strategy behind the firm’s success. Overall, the growth was more of trial and error, or, as Thyselius put it, *carpe diem,* than a clear strategy. There had been many discussions between Thyselius and Sjöland about which way to go. There were successes, but also mistakes: In hindsight, decisions not to expand into the Internet business and not to invest in the Swedish real estate market during the 1990s meant losing out on highly profitable markets. Nevertheless, the continuous success boiled down to managing as Thyselius described:

*It is because of the ability to keep things together. Not having any loose ends. Managing challenges during a crisis. That is what has saved us. We have made mistakes: We did not grasp that interest rates would sink and real estate prices would skyrocket. We could have positioned ourselves as a dot-com firm, for instance. But we didn’t think of adopting the* [*st.com*](http://st.com/) *or st.co.uk domains because we did not grasp that it could have been very, very profitable. We have had our .se domain since 1992 and the domain business did not take off until around 1995. We probably could have earned a million dollars on one of those addresses. So keeping things together is what explains our success.*

**S&T Organizational Structure**

By 2011, S&T was a holding company owning 12 firms of different sizes and industries, mainly in the defense industries and around project management and IT. The long period of growth had created a successful company which, as Thyselius proudly stated, “never produced any losses.” But there could be room for improvement. For instance, even in those areas where there might be synergies between firms, cooperation within the corporation was low.

At the top of the corporation was the holding company, Sjöland & Thyselius Holding, consisting of the founders, a financial controller, two accountants, and a receptionist (see [**Figure 1**](https://jigsaw.vitalsource.com/books/9781305840829/epub/OEBPS/ch8.xhtml#figure1) for company structure). The holding company owned stakes in a total of 12 firms of different sizes. Six of those firms were somewhat larger, three of which were geared toward the defense industry and three toward civilian industries. The defense industry part represented an estimated 60% of turnover. S&T Datakonsulter offered consulting services mainly to the defense industry; S&T Systemteknik developed IT systems mainly to the defense industry but also to civilian customers; and STARCS ran the only wind tunnel in the Nordic countries. S&T Systemteknik and Datakonsulter were highly profitable. The wind tunnel itself delivered little cash flow but provided both contacts and international recognition.

Additionally, three firms worked in project management and consulting primarily in the civilian sector: Projektgaranti, Grandezza, and Site of Knowledge, as well as six firms with between one and ten employees.

**Management Style and Culture**

In some ways, the company’s culture reflected Thyselius’s personality. It was the foundation of the firm, and Thyselius believed the culture should be both supportive and demanding. First and foremost, the culture emphasized a work ethos: Deliver results. As the firm had no set strategy, expressed overall goals, or common budget, the idea was to give managers freedom to develop their own businesses, although in the direction that matched the interests of the overall firm. Thyselius stressed the importance of managers feeling that they were the bosses of their own firms. But there was one set rule: “It is forbidden to allow losses,” Thyselius said. “If you make losses it means that operations are not working and that you allow negligence and stupidities.”

Also important to the culture was a belief in welcoming and personally rewarding HR policies for all employees. That approach seemed to work as illustrated by the fact that the first secretary, Agneta, hired in 1993, still worked in the company in 2011. The founders insisted on personally meeting every candidate for hire in all the firms. It was company policy that they meet students writing their degree project and that each should feel welcome and be given the status of hired on a project basis. One manager ignored the policy, and Thyselius described the situation:

*Then you realize that they are challenging the rules. All of a sudden, it turns out that one of our managers had hired a degree project student—without talking to us. Hello?! We regard degree project students as regular employees who get to join us at conferences and things like that. So we are as picky with project works as other employees. So that was not good.*