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CHAPTER TITLE:

Exploring Adaptive Small and Medium Enterprises through the Lens of Open Strategy

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ABSTRACT

This chapter aims to develop a conceptual framework to probe evidence of open strategy phenomenon as being practiced by adaptive small and medium enterprises (SMEs) in manufacturing industry. Specifically, this study focuses on the act and doing of strategy communications, based on a set of readying and entrepreneuring practices, involving a plurality of internal and external actors (i.e. owner manager/ entrepreneur, middle managers, shop floor employees, suppliers). The empirical study is based on a deep collaboration with a Scottish SME that supplies outsourced bottling and packaging services to the Scotch Whisky industry through a seven-year longitudinal qualitative inquiry. This study finds that open strategy phenomenon is classified into transparent, participatory and inclusive practices. These nested open strategy practices are enacted progressively as particular events are unfolding during organizational lifecycle and renewal processes. Sustaining temporal openness in strategy is underpinned by important boundary readying practices in SMEs.

Exploring Adaptive Small and Medium Enterprises through the Lens of Open Strategy

In today's dynamic industrial era, the pace of technological change is vast, the velocity, volume and impact of those changes are exponential (Schwab, 2016). Organizational renewal, innovation, rapid response capability and adaptability are now fundamental than ever before for organizational longevity (Benner et al., 2003; Schwab, 2016). Scholars have frequently alluded to the benefits of emergent (Mintzberg, 1994) and de-centralized approach to strategy management (Andersen, 2015) for all adopting organizations, including small and medium enterprises (SMEs) to be able to adapt to environmental turbulence. Interestingly, the concept of o*penness* has mushroomed in several domains recently (e.g. open innovation, open government, open banking, the sharing economy, ecosystems, open science, crowd sourcing, crowd funding, open source software and interfirm networks) to enable adaptability. Indeed, similar movements have started to emerge in contemporary strategic management space. Lately, strategy management is described as a real-time debate, a continuous process (Sminia, 2014) as well as being interactive and adaptive (Andersen, 2015; Andersen et al., 2009). It is more than formulating the profitability targets or top line budgeting but also sets a dynamic big picture that interacts with and guides employees towards a shared purpose (Analoui et al., 2002). Correspondingly, there is an emergent "secular shift" towards more open strategy development practices and "massification of strategy" (Whittington, 2015, p. S13).

This study is inspired by the emerging phenomenon of open strategy (OS), which builds upon the notion of open innovation (Chesbrough, 2003). The point of departure is that there is a trend towards greater openness in the strategy process, for which Chesbrough and Appleyard (2007) and Doz and Kosonen (2008) shaped the term *open strategy*. Moreover, the trend to greater strategy openness is identified by two distinctive dimensions, first, more internal and external transparency with regards to processes and performative outcomes and second, greater inclusiveness of various legitimate actors in strategy making, internal and external (Whittington et al., 2011). Indeed, partial or full openness internal and external in the area of strategy is a growing necessity as

Montgomery (2012, p. 4) highlighted: "*Strategy has to be embraced as something open, not closed. It is a system that moves, evolves and changes. It comes into focus over time as you analyze and reflect on your business and work through each step of the process.*"

However, this new emerging lens brings about some theoretical puzzles too, for instance, why and how firms are opening up? What is the nature of openness in strategy process (emergent vs. intended), the legitimacy of actors (selective vs. all employees) in different contexts? Is openness discourse about yes/no issue or a matter of degree on a strategy process spectrum? Moreover, Birkinshaw (2017) suggests further exploration on the types of open practices used by organizations and their effectiveness when employed inside the boundaries of a firm. Thus, this study is focused on a neglected gap in literature regarding investigation of open strategy in the context of SMEs. This chapter will broadly outline the central scholarly points of departure with regard to OS to establish a theoretical grasp of what OS constitutes in SMEs. Correspondingly, the objectives of this study are firstly, to probe into evidence of OS as being practiced by SMEs and secondly, to develop a clear understanding into the modalities regarding how SMEs can be organized for opening up their strategy. Overall, the specific research questions are as follows.

How open strategy is enacted in SMEs? Which underlying mechanisms constitute open strategy modalities of transparency, participation and inclusiveness that shape SME practice?

Open Strategy Lens

Democratizing strategy formulation and making it more open, and consultative for all involved stakeholders is not a completely new way of thinking (Hamel, 2009; Stieger et al., 2012). Including many actors in strategy process and creating "strategic consensus" has been subject of research (Edh Mirzaei et al., 2016, p. 430). IBM developed its strategy jam project before 2002 (Bjelland et al., 2008) in which 50,000 of IBM's workers submitted about 10,000 comments about the future of the company. Despite this initial practices, no management research can be observed in the literature until Chesbrough and Appleyard (2007) developed a new concept based on the notion of open innovation, and called it *open strategy*.

While the realization of contemporary strategy management is shifting from closed, secretive approach towards openness, the literature has been developing in two complementary strands – OS as a Content and OS as a Process. When Chesbrough and his colleagues (Chesbrough and Appleyard, 2007) focused on the content view of OS, Whittington and his colleagues (Whittington et al., 2011) focused on the process view of OS. Appleyard et al. (2017) ponder OS as an organization's justification for participating in an open initiative such as innovation networks whereas Whittington et al. (2011) search the ways that enhance strategy development process by widening participation of both internal and external actors as well as improving transparency of strategy. Although process can be seen as flummery and the only true reality is the strategy outcome (i.e. content), there is a call for contextual and processual approach to strategy and organizational analysis (Clegg, 1990). This chapter is aligned with the processual school of thought and aims to contribute to this line of academic debate.

In developing a cohesive definition and conceptualization of OS modalities, this study recognizes a third dimension to originally what Whittington et al. (2011) offered. *Participation* appears to be different than inclusion and transparency because it does not constitute a direct relationship with actual decision making. With regard to its separate features, Mack et al. (2017) and Quick et al. (2011) suggest that participatory strategy practice enables firms to amass greater input on the strategy content through the collation of ideas and suggestions from internal and external actors. *Transparent* OS practices refer to one-way communication of information to employees to increase visibility and accessibility of strategy (Gegenhuber et al., 2017), whereas *participatory* practices are about collecting employees' inputs, feedback and contributions for decision making. Besides, *inclusive* OS practices refer to ongoing co-creation of the content and process of decision making, co-strategizing and sense making together with internal and external stakeholders (Doz et al., 2008). Ultimately, the three modalities of OS are interlinked as the foundational features underpinning what deviations contemporary strategic management represents moving from a secretive closed approach towards more openness.

Paradigm shifts in strategy towards a more open form of strategizing are emerging in contemporary management practice. OS promises ubiquitous advantages, such as improved creativity owing to bigger, more miscellaneous pools of participants (Stieger et

al., 2012), improved commitment, combined sense-making (Doz et al., 2008; Hutter et al., 2017; Ketokivi et al., 2004), and positive impression management (Gegenhuber et al., 2017; Yakis-Douglas et al., 2017). Despite the true significance of OS, research in manufacturing SME context has been scarce. Subsequently, this research aims to address this under-researched area next (Sandberg et al., 2011).

SME strategy

Today's highly dynamic and competitive world contend a new and more contemporary perspective to strategic management in SMEs too. The traditional principles of command and control and high degrees of centralization in SMEs[1] have reached their limits (Ates et al., 2011; Lubatkin et al., 2006) and management innovators need to tackle with the issues that companies will be unable to cope with in today's volatile world. Despite the fact that generic skills and abilities are requisite, the strategy process in SMEs is unique and cannot be considered to be the same as in larger organizations practiced on a "reduced scale" (Jennings et al., 1997, p. 13; Storey, 2016). Thus, the following section will focus on developing a better understanding into the key characteristics and practices of SME strategy processes while establishing why an OS lens is highly relevant in SME context.

Strategic decision making in SMEs is often described as being implicit and even as a process distinguished by reactive, short-term focused incremental behavior (Ates and Bititci, 2011). On the one hand, the competitive advantage of SMEs is often tied to contingent factors such as being in the right place at the right time and luck which cannot be foreseen (Jennings et al., 1997). Similarly, strategy management practices are closely linked to the skills of the entrepreneurs. Usually he/she is in charge of both operational and managerial functions, they often take on multiple roles but they usually neglect forward thinking (Fuller-Love, 2006). It is highlighted in literature that strategy is abstract and resides 'in the head' of entrepreneurs in SMEs (Mintzberg, 1994). Strategy in SMEs is considered to be enacted in a highly personalized manner and is strongly influenced by the actions, abilities, and personality of the leaders (Beaver et al., 2004). Therefore, a disorganized and random management decision process is common in SMEs (Dean, 1986).

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[1] According to the European Commission's definition, SMEs represent independent companies with fewer than 250 employees, with a turnover less than EUR50 million and/or an annual balance sheet total of less than EUR43 million (European Commission, 2017).

Similarly, Cagliano et al. (2001) point out that advanced decision making practices in SMEs seem to take place characteristically in a less structured and informal fashion. Limited strategic activity in SMEs is much more exclusive to upper echelons and invisible. (Beaver et al., 2004). This behavior can be explained by resource limitations as well as a lack of managerial skills (Edh Mirzaei et al., 2016; Hudson et al., 2001). In contrast to current characteristics of SMEs, Cagliano et al. (2001) point out that there is a call for facilitating the adoption of contemporary management practices by SMEs.

Although OS is recognized as a contemporary managerial practice, there is a neglected gap (Sandberg et al., 2011) in literature regarding studies investigating OS in the context of SMEs (Hautz et al., 2017). Examining OS phenomenon in the context of SMEs will require a general guiding theory that can be used to explore the empirical context with more flexibility (Ketokivi et al., 2014). The strategy process entails cyclical phases of formulation, implementation and review (Pettigrew, 1992; Van de Ven, 1992) and the next section aims to understand SME strategy process in order to reify strategy by adopting processual theory.

Strategy formulation in SMEs

Waalewijn et al. (1993) investigate the strategy practice in 200 medium-sized SMEs in the Netherlands and conclude that over 80% of the firms demonstrated poor strategic planning capabilities and reported that no long-term plans were prepared. On the other hand, a study by Baker et al. (1993) discovers that despite a diversity of obstacles, over half of the SMEs investigated performed strategic planning on a regular basis and suggest that fast growing firms develop written business plans. They find that strategic planning is positively associated with a firm's profitability and successful SMEs spend more time on planning. However, most SMEs do not possess any written or published business plans (Duchesneau et al., 1990). Aram et al. (1990) argue that formal strategic planning exist in SMEs and needs to blend with team development and multilateral communications to generate the concept of strategy *in use* out of a planning process. This line of inquiry fits well with OS paradigm and highlights the need to move away from the solitary confinement of the strategy by SME owner/manager.

Strategy implementation in SMEs

Secondly, implementation phase deals with marshalling resources and initiating actions to pursue opportunities (Hudson et al., 2001; Pelham et al., 2004). Strategy implementation phase encompasses communication and change management. For example, Duchesneau et al. (1990) highlight that adapting various industry and organizational circumstances via change management is an important strategic activity in SMEs. Organizational renewal is accomplished by reorganization, adapting strategy and executing those reformulated strategies via change management activities (Antoncic et al., 2001). According to Duchesneau et al. (1990) and Beaver (2002), managers of high performing SMEs are likely to spend more time communicating with partners, customers, suppliers, and employees than low performing SME managers. This argument shows parallels with internal and external transparency dimension including duality of actors in OS.

Strategy reviews in SMEs

Thirdly, strategy process involves revision and reformulation of a firm's products, services, markets, or technologies for new competitive positions including major operational decisions in SMEs (Antoncic et al., 2001). For instance, board meetings are common rituals to review how the strategy is being enacted and what changes might be required. These strategy meetings are generally exclusive to senior management, calendar-based and focused on reviewing past performance and whether to exploit the opportunities. This evaluation process is an attempt to look beyond short-term health of a business and instead focusses on more fundamental factors and long-term paths that govern success in SMEs (Beaver, 2002).
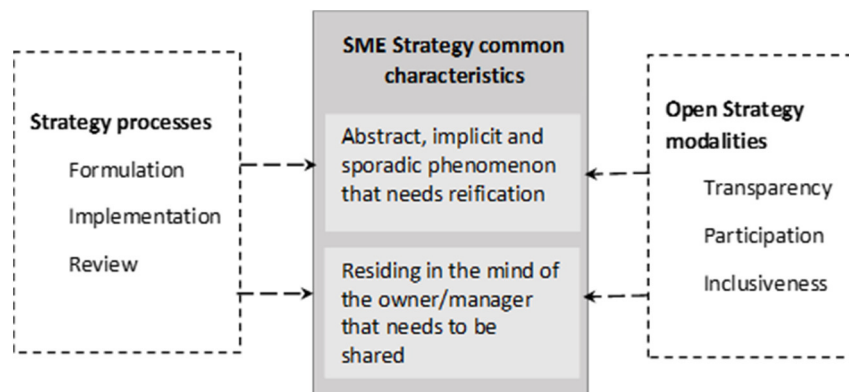

Figure 1. Basic conceptual framework to analyze open strategy in SMEs

Consequently, aforementioned theoretical framework (Figure 1) proves to be of value in reification of strategy and analyzing the notion of OS as practiced in SMEs. This conceptual framework underpinned by the processual theory (Pettigrew, 1992; Van de Ven, 1992) will guide the empirical investigation in the next section.

The Research Process

The research presented in this paper is a longitudinal case study based on a deep collaboration with a Scottish SME, *Whisky Co* that provides bottling and packaging services to major whisky and spirits firms. The author had the opportunity to work closely with this organization as part of two major research projects that aimed to improve organizational capabilities, adaptability and competitiveness of European manufacturing SMEs. The first research project was a large RCUK[2] funded research project in the UK that was conducted in 2005-2008. A database of 37 firms was developed through this three-year multidisciplinary research project funded by the UK Government's Engineering and Physical Sciences Research Council (EPSRC). This research project was focused on understanding what makes SMEs successful as well as examining their managerial processes including strategy. The second set of observations and data collection was achieved through a four-year European Commission funded FP7 project that was conducted in 2009-2012. This project included 13 SMEs that were observed over the period and Whisky Co was one of the SME partners in those two research projects.

Conducting rigorous longitudinal case studies can be very resource intensive and demands a considerable time and effort to collect and interpret data over a long period time. Therefore, access and having long-term relationships with the case company was an important asset for the author. In the first phase, a primary source of qualitative data was collected through three semi-structured and retrospective interviews with the Managing Director, Operations Director and Operations Manager, which were electronically recorded. A semi-structured interview guide was designed to capture the

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[2] Research Councils UK (RCUK) encompasses seven research councils and the EPSRC is one of these councils. We recommend those unfamiliar with these research funding bodies to look at this website: http://www.rcuk.ac.uk/

specific context and process with regard to adaptive and open strategy phenomenon in the selected SME as well as for research reliability and validity. Each interview lasted approximately 60-90 minutes.

In the second phase, Whisky Co had been subject to semi-structured interviews, group discussions as well as other project activities, such as seminars, project meetings and workshops over a period of four years. The main events were nine formal partner meetings (2-3 days long) which included all projects partners: company representatives as well as consultants and research partners and the author of this chapter as an independent researcher. Further, there have been continuous monthly online meetings in different constellations. During this time, the author was involved in observing the strategy journey through regular meetings and workshops, but not actively involved in executing. Therefore, a longitudinal case study rather than an action research is considered more favorable.

Inductive qualitative data analysis progressed in two stages inspired by Cope (2005) and Corley et al. (2011). Phase 1 included sorting and uploading all qualitative data into a database using NVivo 11 Pro Qualitative data analysis software. Phase 2 analysis comprised of carefully reading the written data files in NVivo for abductive coding purposes. This phase was concerned with identifying coherent and important common themes across the dataset. The results from the abductive coding analysis will be presented in the next section.

Open Strategy Process at Whisky Co

Whisky Co is an independent and privately owned company that provides a bonded warehousing service to the Scottish whisky and spirit industry with a focus on co-packing and promotional work while "*taking the hassle away*" for the major distillers. The large distillers are not good at small production runs and it's not economic for them to do this. The company has 76 permanent employees with an additional 110 temporary staff during busy periods in order to cope with the seasonality in demand. Their two major customers have merged which left Whisky Co in a vulnerable position with 85% of their business coming from one customer. They have recently invested in bottling machinery by making significant improvements in their production processes and with changes in their management team, they have tripled their production capacity in two years. The

firm had a new ownership in 2000. Therefore, the strategy practices can be divided into two organizational renewal periods as before and after 2001. The strategy was shaped in that era after the new Managing Director (MD) was appointed. The consecutive strategic journey is depicted in Figure 2.

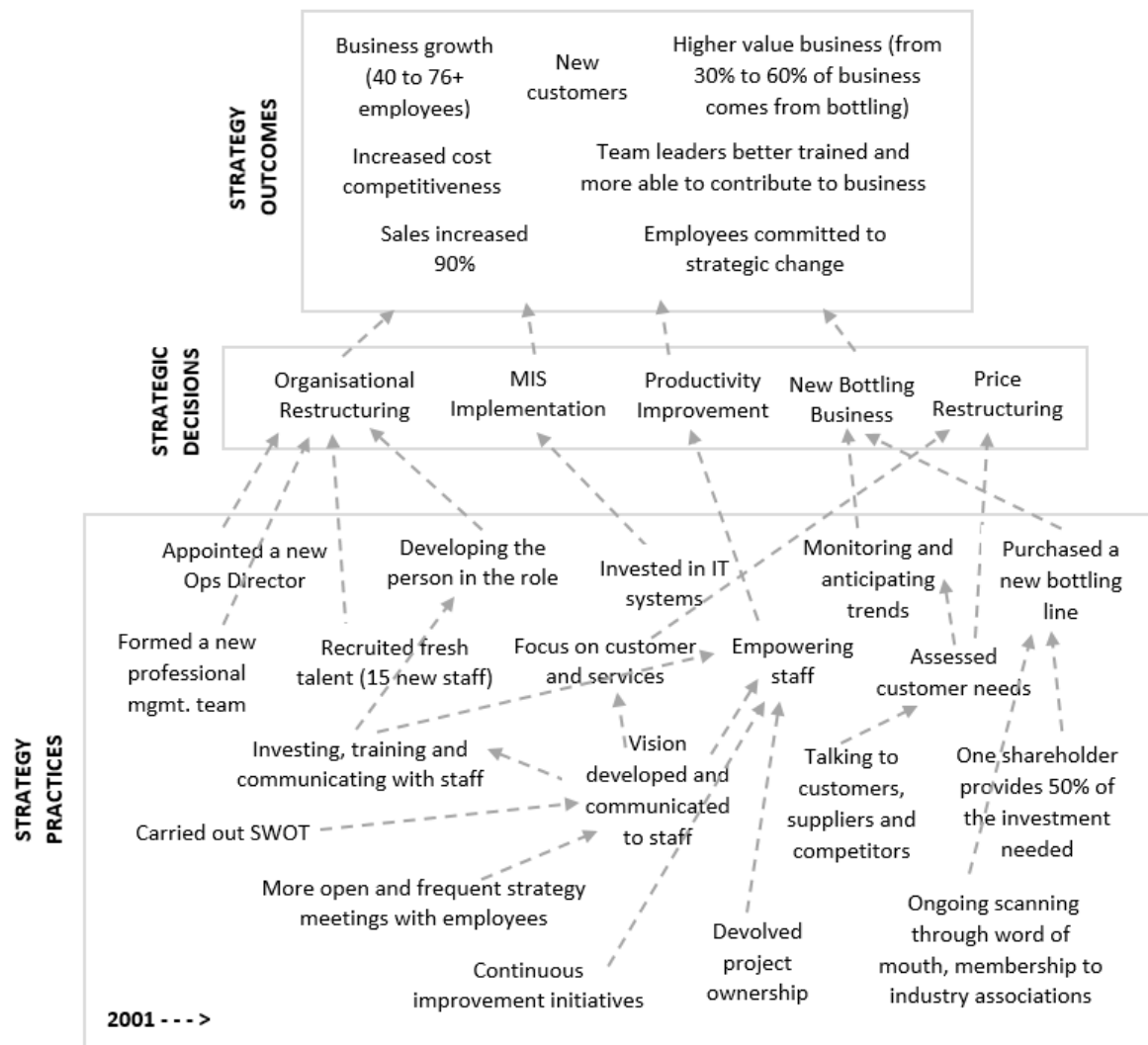**Figure 2.** Strategy map for Whisky Co

Readying for Open Strategy

The findings show us that sustaining temporal openness in strategy is underpinned by important boundary readying practices in SMEs. Prior to the organizational renewal in 2001, the management team did not look at open strategy. Then, the management team started to engage with internal and external actors progressively. Progressively, the

company has become driven by close customer relations and people development as reflected in the following quote by the Operations Director:

> *Getting the right people in the right places and developing the person in the role are central to our business strategy.*

First, the management team carried out a SWOT analysis and from this developed a mission and a strategic plan. This vision has been communicated throughout the organization through briefings and training sessions. This message was repeated to increase transparency as the MD says "*saying it once or twice is not enough you have to say it all the* time". They assessed customer needs, talked to the customers and competitors and restructured their service offering. They measured each job's profitability and realized that certain jobs were no longer economical to do. The company's pricing strategy emerged after this activity. The key strategy practice was to focus on the key players in the industry, this carried risks especially since 85% of the business came from one customer. They focused on establishing an on-going relationship with these customers so they would not take their business elsewhere. The Operations Director said:

> *It is necessary to have a constant dialogue with these people [customer] to understand what is going on.*

The management team deem that it is important to make people feel that they have something to contribute. The team leaders had felt that nobody listened to them before the organizational restructuring regarding roles and responsibilities. The new management asked their ideas regarding what was not right and how these problems could be fixed through continuous improvement initiatives. This was the start of the participatory open strategy process, "*developing the person in the role*". The team leaders are now more confident that they have the backing of the management. Team leaders today are better trained and more able to contribute to inclusive decisions making for the business through devolved project ownership. They feel they are part of the organization but several managers believe that "*They have come a long way, but still have a long way to go*".

The firm seems to have a good level of awareness of what is happening in the business environment by using multilateral communication channels internal and external. Senior managers have good contacts built up based on their history as ex-

distillers and through membership to the Association of Distillers. They speak to customers to anticipate trends. Those frequent and *nested* strategy conversations are done through both formal and informal channels. The managers particularly talk to the customers and they hear industry "*gossip*" from truck drivers. A lot of information is gained by word of mouth especially through feedback from HGV drivers who have good knowledge about the industry. The information from these different sources is pieced together and checked as to whether it "*fits into the jigsaw*". The Operations Director is the chairman of the Bonded Warehouse Keeper Association and obtains information through this position, also the "*cowboy*" companies [competitors] don't register with this organization; therefore they can have a good idea of who they are. The Operations Director opined that:

> *We have faced with a number of competitors, often taking the form of small 'cowboy' companies that enter the market to make a quick buck; they undercut us on price but in doing so often file for bankruptcy, later reappearing under another company name. These competitors do not always provide a reliable service as we strive to do but due to the pricing matrices used by the customers they may still win the business. We have better people, we don't try to be the cheapest so we are more financially sound and have better I.T. systems in place. We also have more space in our warehouse and therefore can do things on a bigger scale. We demonstrate that we are professional rather than just in it to make quick money.*

The MD ensures that the management team revisits strategy annually because of the dynamic nature of the industry and following that, a formal business plan is developed which identifies company goals, which then are translated into departmental goals. The firm has not managed to develop individual level goals yet but they are trying to work this process down in the entire organization. This business plan sets a pace and direction for the organization and acts as a checklist to monitor whether they are still doing the right things. They are concentrating on team leaders at the moment, making sure they understand how their role fits with the business strategy and making them feel like they have something to contribute.

Legitimacy and Accountability of Actors

The analysis reveals that participation is a separate modality for OS while previous studies have mainly explored inclusive and transparent branches of OS. While participation of internal actors is a key element, the previous studies mainly focused on

the accountability and legitimacy of actors in OS practices. The analysis here shows up internal actors' participatory practices are subject to deeper contradictions while the opening up strategy at the surface goes on. Consequently, this study offers a set of dilemmas related to opening up strategy in SMEs. These accounts include the type of strategic information being shared (transparency) and avoidance of overburdening of employees with strategic issues (participation and inclusiveness).

First, previously employees did not connect with the top management well, which resulted in people not working together towards common goals. There was a paucity of trust among the workforce due to a lack of communication from top management. Changing attitudes has been a long process and as one manager said that after 5-6 years, "*they are still not home and dry*". They are currently training team leaders for continuous improvement, talking about the problems openly and trying to get them involved while empowering people. These attempts required a change in management style and employee attitudes. Previously, the employees had been told what to do and thus, people were not used to make decisions.

Whisky Co went through a tense organizational renewal program when the new MD came on board. Following this transitional period, the management team focused on OS practices and shared the positive business results with its employees. An interesting finding is that senior managers openly shared the positive business news however; they were reluctant to share financial results openly in order to avoid lack of credibility by internal and external stakeholders. The same pattern was observed in all interviews as the management teams were not entirely comfortable to share all financial information internally and externally.

Second, enacting the open strategy, the management team now tries to be more open with employees and the Operations Manager makes the effort to go to the shop floor everyday making employees realize they are serious about changing. Now, they have more team meetings to discuss what is going on in the organization. They have done this through presentations on financial targets and results, which has a positive outcome. Though, there is still some resistance from the employees as they say "*why don't we do it the old way*". The employees see the benefit for themselves through shared success and bonus payouts but when there is a downturn in business, they lose interest and yet tend to blame management for this downturn. Next, this study will revisit the underlying

conceptual framework and offer extensions to OS theory in the context of SMEs in Figure 3.
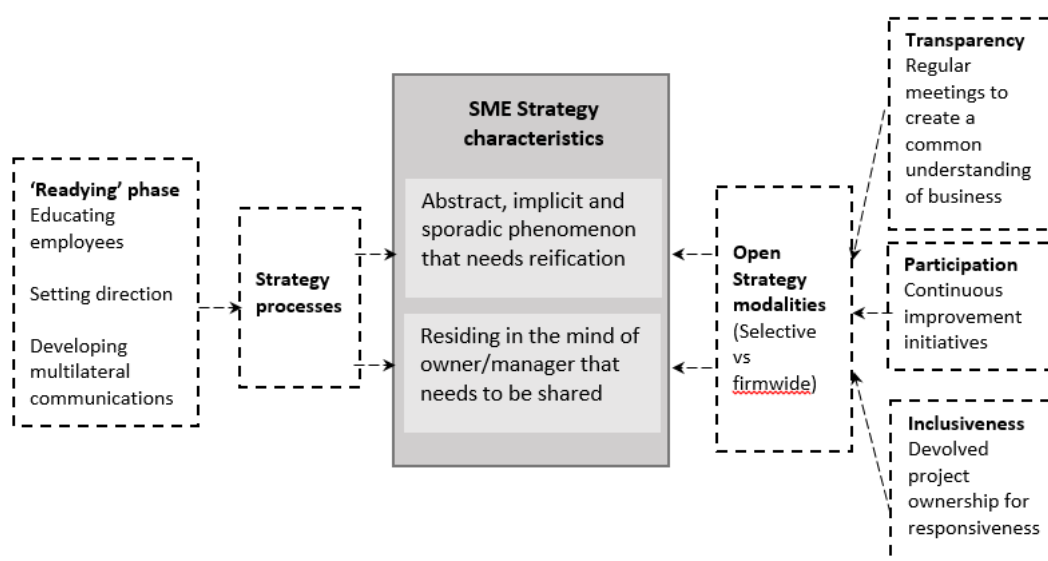

Figure 3. Extended conceptual framework for understanding open strategy in SMEs

Discussion and Conclusion

The research reported in this chapter set out to conceptualize and seek evidence for open strategy practices in an SME context; bearing in mind these practices feature contradiction and dilemmas. This study focused on OS in SME context because SME strategy conveys highly implicit practices and closed characteristics. These are underpinned by resource constraints, centralization of power, restricted autonomy (command and control culture) and limited communications (Hudson et al., 2001; Ates and Bititci, 2011). Therefore, it is essential to free up management time so they can focus on forward thinking. This research offers two important contributions for theory elaboration purposes.

The first contribution is that this study extended broad theoretical principles of OS by clarifying a third dimension of *participation,* which is different than inclusive and transparent strategy. Whittington et al. (2014) challenge to contemporize elitist and closed strategy by characterizing the OS phenomenon through a transparent and inclusive means of strategizing that facilitates wider involvement of internal and external actors beyond the traditional secretive boundaries of the firm. Whilst the third dimension

of OS remains a recognized practice in some scholarly debates (Mack et al., 2017; Quick et al., 2011), however as an unclear component in recent OS studies, the omission of participatory practices in the definition of OS is an oversight in existing literature. As this study has shown participation to be different from inclusion, its submersion within the inclusion branch of open strategy literature reduces its impact on better understanding the OS practices. Furthermore, this study elaborates OS phenomenon by identifying key practices under those three branches: *Transparent* strategy practices are carried out through regular meetings in order to deliver benefits such as creating a common understanding of business. *Participatory* practices are mainly observed in continuous improvement initiatives, where employees are encouraged to offer ideas and contributions for incremental improvements of operations. Finally, *inclusive* strategy is practiced through devolved ownership of projects and defined decision making responsibilities in order to enhance responsiveness in an adaptive SME context.

Second, OS is present in SMEs to some extent (i.e. either at management level or firm-wide level) but openness isn't binary (absolute openness vs closeness). Instead it is progressively enacted across a continuum with varying degrees of openness. However, there are temporal elements before making strategy process more open. The OS literature is dominated by studies that explore the execution of OS while dismissing the pre-open strategizing phase. Consequently, the theory development efforts neglect the *readying* stage, which encompasses firstly, developing and educating employees; second, setting a sense of direction and repeating that message; third, nested and continuous communications with internal and external actors.

Nevertheless, this study also unpacked some downsides regarding boundary readying practices for OS in SMEs. For example, openness could be felt to a certain extent as overbearing for employees. It seems that employees value positivity, fairness and consistency (i.e. procedural justice) in promoting openness. However, there should be boundaries for openness in strategy. Building on the findings by Knights et al. (1991), there are some areas in the practices of OS that needs to be explored for further clarity to enhance its positive potentials for more effective strategy management in SMEs. For instance, to what extent full transparency is perceived as useful in highly dynamic contexts without causing anxiety among employees? Whether all employees would be interested in participatory and inclusive decision making? How much burdening of

employees with decision making responsibility is optimal? This study calls for future rich qualitative and quantitative studies that would enhance our understanding of employee perspective regarding OS practices.

Finally, this study proposes that theory has not sufficiently captured the agency and practice of pre-open strategizing efforts in SMEs (i.e. readying phase) in preparing their internal and external stakeholders for open strategy. Hence, SME managers should engage in setting a strategic direction and investing into educating employees regarding the benefits of openness but more importantly without overburdening them with strategic ambiguity. In short, it is the aim of this study to present a starting point for these further investigations regarding open strategy in adaptive SMEs, which are the backbones of world economies.

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