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Strategy Development in Growth-Oriented SMEs: The Role and Nature of Emergence

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Abstract

This paper contributes to strategic management research with increased understanding on the role and nature of emergence in strategy development. It is based on an in-depth case study of eight growth-oriented small- and medium-sized enterprises (SMEs) in IT software and services sector in Finland. It demonstrates that while SMEs have established a strategic planning process, those are highly flexible and autonomous in comparison to large firm processes. There are room for emergence as part of formal strategic planning process in form of open discussions and brainstorming sessions. In addition, this paper highlights the importance of continuous strategy process and how it may support emergence of new ideas through two ways 1) Strategy reflection as part of day-to-day management and 2) Systematic collection and experimentation of new business ideas. This paper further demonstrates how emergence may ultimately lay ground for the new strategy of the firm.

Background

During the last decade Strategy-As-Practice (SAP) research has contributed to strategic management research through in-depth case studies on how firms actually develop strategies. While SAP research is well suited for examining informal, unscripted activities through which strategies often emerge, it is surprising that prior studies on emergence has focused on studying formal planning so far (King, 2008; Vaara and Whittington, 2012). This paper is to contribute to strategic management research through increased understanding on the role and nature of emergence in both formal strategic planning and outside in form of continuous strategy process.

This paper is based on in-depth case study on eight SMEs in Finnish IT software and services sector. Prior research has emphasized that organizational and environmental contingencies influence the nature of strategic planning process (Wolf and Floyd, 2013). We have chosen to study growth-oriented SMEs and to investigate their mechanisms of supporting the emergence of innovative ideas for strategy development. Prior research has focused on strategic planning in large firms (Jarzabkowski and Spee, 2009; Sminia, 2009) and based on that we have good understanding about the generic characteristics of formal strategic planning process in large firms such as Grant’s (2003) study on oil majors and Ocasio’s and Joseph’s (2008) study on the evolution of strategic planning in General Electric.
This paper is organized as follows. First, we present a brief overview of the prior research on the topic. Then, we describe the chosen research method and approach in this empirical study. After that we provide the findings from the case of eight SMEs in Finnish IT Software and Services Sector. Finally, a discussion and conclusions section concludes the paper.

**Literature review**

**Deliberate vs. emergent strategies**

Mintzberg and Waters (1985) introduced the concept of deliberate vs. emergent strategies in strategic management literature. They emphasized that deliberate and emergent strategies can be conceived as two ends of a continuum along which real-world strategies lies. Typically realized strategies include elements of both deliberate (intended) strategy and emergent (unintended, spontaneous) strategies. Since then prior studies have increased our understanding through investigating emergence in strategy development from two distinct angles 1) as part of formal strategic planning process (Grant, 2003; Hodgkinson et al., 2006; King, 2008) and 2) emergence through everyday practices and actions (Burgelman, 1991, 1994; Chia & Holt, 2006; Chia & Rasche, 2010; Regnér, 2003; Tsoukas, 2010).

Grant (2003) study on oil majors revealed that there has been significant changes in formal strategic planning process from 1980s to late 1990s. While the earlier planning systems were highly formalized in terms of documentation, formal presentation and emphasis on techniques and quantitative analysis, by the end of 1990s planning systems were far more informal. Grant (2003) characterized strategic planning in large oil majors as “planned emergence”. This is because there was room for left emergence within the formal strategic management process. For instance, there was time reserved for open discussion in corporate-level strategy meetings and less emphasis on written documentation and set-piece presentations than earlier. In a similar vein, Hodgkinson et al.’s (2006) large-scale survey in U.K. showed that formal strategic planning tools and techniques are relatively little used today in strategy workshops of organizations, while the emphasis is on spontaneous discussions and relationship development among participants. King (2008) described formal strategic planning mode of venture capitalists as “deliberately emergent strategy”, stating that this mode is similar to “planned emergence”. King (2008) clarifies that venture capitalists set deliberately boundaries for each investment theme, but are ready to make exceptions when promising opportunities fall outside the boundaries. This is because these “off the radar” opportunities can sometimes evolve into new, promising investment themes. King (2008) further notified that strategizing of venture capitalists is a continuous process, while he only examined the formal strategic planning process in a more detail. Prior research has indeed shown that especially in dynamic and uncertain environments, firms have both continuous and formal strategy development (Eishenhardt, 1989; Eisenhardt and Brown, 1998).

Prior studies investigating emergence through everyday practices and actions have demonstrated that strategy-making in periphery of the firm is characterized by inductive, heuristic and exploratory activity through which strategies emerge (Regnér, 2003). Thus, middle- and operating-level managers may be identified as sources of emergent influence, while top management is to have deliberate influence (Wolf and Floyd, 2013). Burgelman’s (1991, 1994) case study demonstrated how internal ventures were able to provide a basis for a firm’s future strategy. Chia & Holt (2006) in their theoretical model applying “Heideggerian perspective” developed the argument that strategy can emerge from non-deliberate human actions when people in operative work need to cope with everyday situations and to develop ways to act on them. When an actor has developed an internalized predisposition that orients actions, this predisposition may contribute to the emergence
of strategy (Chia & Holt, 2006). Prior studies have argued that it is through sensemaking of difficult situation that actors may develop emergent strategies through everyday work (Chia & Holt, 2006; Chia & Rasche, 2010; Tsoukas, 2010).

In this paper, we examine the role and nature of emergence in strategy development of growth-oriented SMEs. We define emergence as unscripted, spontaneous actions, through which strategies may emerge without using formal strategic planning tools and methods. In addition to examining formal strategic planning process, we investigate other sources of emergence that contribute to strategy development. This is the case for instance when a person as part of his/her day-to-day operative works identifies a new idea or topic that has implications for strategy development. We define strategy development as all activities contributing to the development of the final strategy for the company. We take the current strategy as the basis and seek to identify activities, participants and methods that have contributed to its final form. We define SMEs in line with current EU definition as companies that employ 50-250 employees and have revenues less than 50 MEUR.

**Strategic planning in small firms vs. large firms**

Prior research has identified several differences in strategic planning of small vs. large firms. First of all, strategy development in small firm is typically the responsibility of the CEO, who often acts also as an entrepreneur and owner (Berry, 1998; Mintzberg and Waters, 1985). The entrepreneur has intimate knowledge of the business and may adapt the business vision quickly when required through controlling closely day-to-day operations of a firm (Mintzberg and Waters, 1985). Indeed, strategic planning process in small start-ups tends to be highly iterative, based on trial-and-error (Blank and Dorf, 2012). Furthermore, prior research has shown that small companies typically rely on informal strategic planning techniques stressing ongoing management discussions (Berry, 1998). The role of the entrepreneur and top management team is critical for small firm performance (Berry, 1998; Gelderen et al., 2000).

As the firm grows strategy making in general becomes more decentralized, more analytic, in some ways more careful, but at the same time less visionary, less integrated and less flexible (Mintzberg and Waters, 1985). Grant (2003) revealed in his case study on large oil companies that strategic planning in corporate level is today less about strategic decision-making and more a mechanism for coordination and performance managing. The generic strategic planning process in large companies starts through corporate giving targets and guidelines to business units (Grant, 2003). Then businesses formulate their strategic plans and discuss them with corporate management, which integrates business unit plans into corporate plan, budgets and performance plans (Grant, 2003). The strategic plans today are shorter, more goal focused, and less specific regarding actions and resource allocations than in 1980s (Grant, 2003). The recent study of the evolvement of strategic planning in General Electric during 1940-2006 showed in contrast that strategic planning system in GE has remained integrated with corporate-level strategy development and decision making (Ocasio and Joseph, 2008). Strategy development occurs though in a collaboration with business unit and corporate level management (Ocasio and Joseph, 2008). In summary, it can be concluded that while strategic planning process tends to be more formal in large firms than in small firms, the informality is present in both types of firms. The strategic planning in entrepreneurial firms involve the entrepreneur and top management, while in large firms also middle management and operating-level management.

**Research methods and data**
This research utilizes inductive, multiple case study approach (Eisenhardt, 1989). Inductive studies are especially useful when investigating areas that extant theory does not cover well and for process studies (Langley, 1999). Multiple cases are important for enabling cross-case comparison and thus resulting in a more accurate, generalizable theory than single cases (Eisenhardt, 1989). Our research choice of qualitative research is typical for Strategy-as-Practice research (Vaara and Whittington, 2012).

We studied eight growth-oriented SMEs in Finnish IT Software and Services sector. This industry was selected as it contains plenty of young high-growth SMEs. Furthermore, the first author has professional experience in ICT (information and communication technology) industry and the second author in-depth research experience in IT Software sector, which supports us to deeply understand the industry context and strategic choices for case firms. We utilized ORBIS database to extract the research sample based on the following criteria: Industry code (62), year of incorporation (on and after 2000), number of employees (50-250) and the headquarters and top management location (Helsinki, Finland).

The initial list covered 27 firms. As the latest information in ORBIS was from the year 2012, we updated the information in the list to notify the changes in the number of employees, revenues and ownership structure. We only selected firms which current number of employees was 100-250 and the yearly revenue 50 MEUR or less to be qualified as SMEs. We excluded firms that were majority-owned by external stakeholders as these firms were not independent in the choice of strategy. After this, we had 10 firms matching the search criteria. We contacted the CEOs of these companies first by e-mail and then by phone. Eight out of ten CEOs accepted the invitation to interview. The basic information of case companies and their informants are presented in Table 1.

<table>
<thead>
<tr>
<th>Case</th>
<th>Date of Incorporation</th>
<th>Revenue (MEUR) 2012</th>
<th>Revenue Growth 2012</th>
<th>Employees 2012</th>
<th>Location</th>
<th>Informant(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT 1</td>
<td>2005</td>
<td>16</td>
<td>22 %</td>
<td>149</td>
<td>Finland</td>
<td>CEO, CTO (started in 2007)</td>
</tr>
<tr>
<td>IT 2</td>
<td>2006</td>
<td>12</td>
<td>18 %</td>
<td>151</td>
<td>Finland, India</td>
<td>CEO (founder)</td>
</tr>
<tr>
<td>IT 3</td>
<td>2005</td>
<td>12</td>
<td>32 %</td>
<td>71</td>
<td>Finland, Poland</td>
<td>CEO, Chairman of the Board (old CEO), COO</td>
</tr>
<tr>
<td>IT 4</td>
<td>2002</td>
<td>11</td>
<td>12% estimate</td>
<td>95</td>
<td>Finland, Estonia, Poland, Germany</td>
<td>CEO, Sales Director (founder), COO</td>
</tr>
<tr>
<td>IT 5</td>
<td>2001</td>
<td>9</td>
<td>18 %</td>
<td>93</td>
<td>Finland</td>
<td>CEO (founder)</td>
</tr>
<tr>
<td>IT 6</td>
<td>2006</td>
<td>7</td>
<td>41 %</td>
<td>84</td>
<td>Finland, Denmark, China</td>
<td>CEO, Business Director</td>
</tr>
<tr>
<td>IT 7</td>
<td>2001</td>
<td>6</td>
<td>-14 % One unit divested</td>
<td>76</td>
<td>Finland, Romania, US, Taiwan</td>
<td>CEO (founder)</td>
</tr>
<tr>
<td>IT 8</td>
<td>2007</td>
<td>5</td>
<td>17 %</td>
<td>50</td>
<td>Finland</td>
<td>CEO, Chairman of the board (old CEO, founder)</td>
</tr>
</tbody>
</table>
We chose archive data and semi-structured interviews as primary sources of research data in order to be able to compare the case firms in certain areas, but still to leave room for informants to raise firm-specific issues in regard to strategy practices. First, we collected archive data from case company press releases as well industry reports and statistics. This was to familiarize ourselves with the case company and industry context. We then conducted 1-3 interviews per case company, each lasting approximately one hour from December 2013 to May 2014. Each informant was interviewed once. We started by interviewing the CEO and then the persons he/she appointed to be central in the strategy development of the case company. All interviews followed the same structure starting by company and informant background information, the description of the latest strategy and how it was developed. As part of interviews, the informants often shared their strategic plans, communication material and/or presentations of strategic projects. We recorded all interviews and transcribed them and promised the anonymity of companies in order to support openness of informants in interviews.

The Atlas.ti software developed for qualitative data analyses was utilized in this research. We first analyzed each case company individually. The informants had been asked to describe all activities, persons and methods used that had contributed to the development of the case company strategy. We extracted this information from the interview material for each company providing a description of its formal strategy process and possibly continuous strategy process. Then, we identified the sources of emergence in both processes, and analyzed the role of emergence in relation to the company strategy. Finally, we compared the individual results of each case company with others. Cross-case comparisons enable researchers to develop more robust theoretical concepts and causal relations (Eisenhardt, 1989; Langley, 1999) than looking at only one case study. At the end, we compared the initial results with extant literature to see what is similar, what is different and why. This approach is important for a case study to enhance its internal validity, generalizability and the theoretical level of theory building (Eisenhardt, 1989). We especially paid attention to understand how strategy processes and the sources of their emergence in SMEs differed from those of large companies and why.

Results

**Formal strategic planning process in SMEs**

All the case companies had established a formal strategic planning process. CEOs were responsible of strategic planning and they planned the input to be collected for strategy and the organization of strategy workshops/meetings including participants, contents and methods used. CEOs typically acted also as a facilitator in strategy workshops. None of the companies had corporate staff for strategy. After the strategy workshops, CEO was the person to integrate workshop results and based on that to develop the strategic plan and the related communication material. The strategic plan was approved by the board after which CEO and the management team planned for its implementation and follow-up. It can be concluded that the CEO was the person solely responsible of strategy process and its contents. This finding is similar to earlier studies emphasizing the key role of the entrepreneur and CEO for SMEs.

There were differences in strategic planning processes in case companies. While the latest strategy round of the case companies IT1, IT3, IT5 and IT6 was to develop a new strategy and vision for the company for several years ahead, the other four companies the round was just to update the current strategy with necessary small modifications. Typically, those firms that were to develop new strategy had completed their earlier plans and it was thus time to plan what to do next. In addition, they often were in need to revise their strategy due to the changes in the market environment. Those
firms that were to only to update their strategy were doing fine and the task for strategic planning was to strengthen the focus to improve the implementation of the strategy.

The strategy process to develop new strategy was typically wider in the scope, lasted longer and involved more people than the strategy process to update the current strategy. In both types of strategy processes there were though significant differences in the exact process contents, duration, participants and applied methods. The differences in the process to create new strategy are illustrated in Table 2.

**Table 2 – Description of Formal Strategy Process for creating new strategy in SMEs**

<table>
<thead>
<tr>
<th>Case</th>
<th>Contents of strategy process</th>
<th>Duration</th>
<th>Participants</th>
<th>Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT 1</td>
<td>In-depth analyses of customer cases – investigating what is different in large customer cases in relation to others. Developing company and its service portfolio based on large customer cases.</td>
<td>Six months</td>
<td>New CEO, COO, CTO and HR manager.</td>
<td>Brainstorming, open discussion, self-developed analyses method</td>
</tr>
<tr>
<td>IT 3</td>
<td>Market and industry analyses followed by two strategy workshops that determined market scenarios, questions for destiny and the actions needed.</td>
<td>3-4 months, two days of workshops</td>
<td>Management team + board (10 persons)</td>
<td>Trends analyses, scenarios, BCG matrix, open discussion and brainstorming</td>
</tr>
<tr>
<td>IT 5</td>
<td>Employee questionnaire and customer interviews (15) to identify new seeds for growth. Evaluation of growth options, their size and &quot;sanity check&quot; in first workshop day, conclusions and strategy wrap-up in second day.</td>
<td>2 months, workshop two days</td>
<td>Management team, key R&amp;D personnel, chairman of the board (12 persons)</td>
<td>Brainstorming as one group, workshop guided by external facilitator.</td>
</tr>
<tr>
<td>IT 6</td>
<td>Crystallizing mission, vision and values. Determined company goals, competitive landscape, SWOT and market positioning. Development of alternative strategies and how they work in different scenarios. Determining strategy, critical success factors and implementation plan.</td>
<td>One year, 6-8 one day long workshops</td>
<td>Management team (4 persons)</td>
<td>SWOT, strategic positioning, scenarios, BCG matrix etc. Strategy process guided by external facilitator.</td>
</tr>
</tbody>
</table>

While IT1 developed its strategy from internal company perspective based on its current situation, IT3 developed its strategy from external market perspective and forecasted market development. IT5 focused its strategy on identifying new seeds for growth based on internal and external views, while IT 6 worked very much to develop a formal strategy for the company. While others utilized 2-6 months for strategy development, IT6 spent the one year for the work guided by an external facilitator. IT3 and IT 6 utilized many common methods for strategy analyses, while IT1 and IT3 relied on their own methods and mostly on open discussion and brainstorming in a group. IT1 had smallest participation in strategy development (four persons), while IT5 had largest participation (12 persons in strategy workshops).
There were also many differences in the process for update the current strategy. These differences are illustrated in Table 3.

Table 3 – Description of Formal Strategy Process for updating strategy in SMEs

<table>
<thead>
<tr>
<th>Case</th>
<th>Contents of strategy process</th>
<th>Duration</th>
<th>Participants</th>
<th>Methods</th>
</tr>
</thead>
</table>
| IT 2 | Top management updates strategy based on the following input:  
- Market research, how company performs in different areas in relation to competitors  
- Operational plans from teams and units  
- Key personnel workshop results on how to solve key challenges in production  
- Company SWOT | 4 months | Management team | Open discussion and assessment of strategy input. SWOT |
| IT 4 | Crystallizing own competitive advantage, evaluation of a new business opportunity in high level. | 1 month, one-day workshop | Management team | Brainstorming, imagination and visualization. |
| IT 7 | Discussion about market and company state and brainstorming on possible scenarios. Raising and evaluating strategic options. Deciding on focus areas. | 2 months, 3 days of workshops | 3 founders + US country director and Asia area director | Evaluation of strategic options and grading them. Imagination e.g. who is next customer. SWOT Balanced Scorecard. |
| IT 8 | CEO discusses informally current operations and strategy with key persons and updates strategy. Management team and board give feedback for strategy update. | 1 month | CEO, chairman of the board, owners, key personnel | Open discussion and assessment of initial strategy update. |

As all companies were doing fine and there was no need to develop a new strategy, they had chosen different areas what to work on in their formal strategy process. While IT7 and IT8 strived for assessing their current operations and setting new focus areas, IT2 used the strategy process to improving its current value added for the customer and IT4 crystallizing its competitive advantage and evaluating one new business opportunity in high level. The process was shorter (1-4 months) compared to the development of new strategy. The longest process was in IT2 who collected input widely from both internal and external stakeholders, although the strategy was essentially developed in a management team meeting. For others, the strategy process was conducted purely by the management team and it IT8 also owners and the chairman of the board. The key methods in strategy development were open discussion and brainstorming. In addition, case companies used as analytical methods SWOT and strategic option evaluation and as creative imagination and visualization.

Continuous strategy process in SMEs
Three out of eight case companies specified that the core ideas laying the ground for the strategy were created outside the formal strategy process and four companies described their processes for continuous strategy. The most common process was to discuss strategic issues as part of ordinary management team meetings that handled also day-to-day operative issues.

The CEO of IT6 explains this:

“Together with core people we think as part of everyday operations what to do next, how position in the market etc. Strategy work is thus embedded in operative work. This is partly because I am both CEO and the chairman of the board, and we don’t have separate board and management team. All things are handled around management teamwork, also the development of strategy.”

The CEO of IT3 explains this:

“Strategy implementation and planning occur all the time. Strategic thinking occurs in the board as well as in ordinary line work. This is because the members of the boards are part of line organization as well. They are founders who work for instance as ordinary consultants, account managers and supervisors. I as a CEO get input all the time from the board members and the management team how to develop our strategy and operations”

The CEO of IT8 explains this:

“I discuss everyday with partners and the chairman of the board. These discussions are the most important forum for strategy development”.

As part of continuous strategy process, SMEs had different ways to collect new business ideas from personnel and others. IT6 had a systematic process to finance the best ideas. The CEO of IT6 explains this:

“Part of our strategy is that if the personnel have good, new, business ideas, we can use our own project workforce to start new business related to IT or Internet technologies. Our aim is to have always one this kind of new business trial ongoing. We give one year for the trial and if it is successful, we can spin off the trial outside ordinary business. IT6 supports the new business idea as a financer, the developers become partners and they develop the new company further separate from IT6. Both companies belong to the same group though. We have two such success cases of which one is now bigger than IT6. This is also a way for us to motivate personnel. If they have a good idea and the management sees its potential and it is developed further, this is a kind of possibility for personnel to become start-up entrepreneurs.”

IT5 in turn encourages for open discussion both directly and indirectly through a software tool. CEO of IT 5 explains:

“As the industry develops fast, it is highly central to get everyone’s input and innovative ideas for use. We have an open and experimental organizational culture, which in practice means that we have a low organizational hierarchy, everyone can suggest me things or criticize. I believe that successful firms use the signals from personnel and customers in real-time and react to them right away. It is not enough to analyze things once a year and decide on strategy. We utilize software tool – Jammer – to collect ideas along the year and to select those that we develop further. The software tool also provides us an ongoing dialogue, which we utilize as part of everyday work e.g. to seek advice from others.”
IT8 sees both internal and external signals important for strategy development. The CEO explains this:

“I see my role as to take the signals that come from the board, key people, personnel, partners and networks and to evaluate those rationally. I challenge and discuss further the signals that are sustainable and bring them to different forums such as management team meetings or mutual discussions. I collect facts around them from own sales data, market research and statistics as well as opinions from customers, other firms, specialists and influential persons. The collection of facts and opinions may last several months, even a year. I think of plus and minus to get my own opinion and understanding what the signal means concretely.”

All case companies claimed to think strategy throughout the year and to be quick to act outside their strategic planning cycle when there was need to make changes to strategy based on new opportunity or threat. As the organization structure was flat and the decision power centralized, it was easy for CEO to take such quick actions either independently or involving board to decision when needed. Typically, the board consisted of founders having very close relationship to the case company, often working in an operative or managerial role. Founders were thus readily available and easy to contact for the CEO for discussions about strategy when needed. In the case company IT3, the founders had formed a “family council”, who discussed strategic issues throughout the year. In all case companies, CEO was in frequent contact with the chairman of the board. In a few cases the CEO acted also as the chairman of the board. It was also typical that the chairman of the board was old CEO and the founder of the company. Quick decision-making made the strategy work in SMEs to be highly flexible and autonomous in comparison to large companies, where the management team and the board are strictly separated and have diverse backgrounds.

The role and nature of emergence in strategy development in SMEs

In all case companies, top management was open for new ideas and ready to act quickly if changes in strategy or strategic projects were needed. Input for new strategies emerged continuously in case companies from both internal and external sources. In the case company IT3, the CEO and three founders met weekly to discuss informally the market development and company strategy in order to come up with new ideas for strategy renewal. In one of these meetings one founder spontaneously raised the idea for new strategy and the others knew right away that it was exactly what the company needed to do next. This idea was further developed as part of formal strategic planning process. In the case company IT4, the CEO believed that one cannot analytically analyze everything and thus it is more proper to experiment with customers new ideas and to get immediate feedback. In all case companies, the CEO, the management team and the board had continuous discussions about the strategy and its progress. Furthermore, in the case company IT5, CEO told that they utilize a software tool to collect development ideas from employees all around the year and encourage employees to openly speak up when they oppose something or have new ideas. The best ideas were selected and discussed as part of strategy round. Furthermore, the CEO felt it was important to get new ideas for specialists, which had been the tradition since the beginning of the company. In addition, the CTO of IT1 told typically himself, CTO, HR team, business unit managers and a few senior consultants develop ideas in front of flap board. The process is very creative and intuitive, dependent on having competent people who are experienced and understand well the customer needs. As an example of external emergence, the key partner of IT3 acquired suddenly a small company operating in one of IT3’s core business areas. This resulted the management team to reflect this and think strategically what was the consequence for IT3 and to act quickly accordingly.
Furthermore, there was room for emergence as part of formal strategic planning cycle in all case companies similar to what Grant (2003) referred to as planned emergence in the case of oil majors. The atmosphere in strategy workshops in case companies was open to new ideas and the questioning of existing ones. The methods used in workshops were mainly informal including brainstorming and open discussion. Table 4 summarizes the findings in regard to the role and the nature of emergence in strategy development of case companies.

**Table 4 Emergence in strategy development of case companies**

<table>
<thead>
<tr>
<th>Case</th>
<th>Within formal strategy process</th>
<th>As part of continuous strategy process</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT 1</td>
<td>- Brainstorming, open discussion&lt;br&gt; <em>Example: Resulted in the creation of own method for strategic analyses</em></td>
<td>- Frequent, informal, management discussions in front of flap board for developing new ideas</td>
</tr>
<tr>
<td>IT 2</td>
<td>- Specialist workshop involving brainstorming as an input for strategy&lt;br&gt; <em>Example: As a result of such discussion, new solutions for solving bottlenecks in production were developed and top management utilized this information in strategy development.</em></td>
<td>- Strategic thinking throughout the year.</td>
</tr>
<tr>
<td>IT 3</td>
<td>- Strategy workshops involve brainstorming on new ideas and open discussion</td>
<td>- Continuous reflection on strategy in day-to-day operations. CEO gets feedback from the board (founders) and the management team&lt;br&gt; <em>Example: One of founders in informal strategy discussion spontaneously raised an idea that laid ground for new strategy</em></td>
</tr>
<tr>
<td>IT 4</td>
<td>- Strategy workshop focus on brainstorming, imagination and visualization</td>
<td>- Strategic plan forms the basic structure based on which to think on strategy throughout the year.&lt;br&gt; - Experimenting new ideas quickly with customer.</td>
</tr>
<tr>
<td>IT 5</td>
<td>- Strategy workshops focus on brainstorming and open, informal</td>
<td>- Ideas from employees collected through software tool and face-to-face</td>
</tr>
<tr>
<td></td>
<td>discussion</td>
<td>informal discussions.</td>
</tr>
<tr>
<td>---</td>
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<td>-----------------------</td>
</tr>
<tr>
<td>IT 6</td>
<td>- Open discussion in strategy workshops</td>
<td>- Management team thinks as part of everyday operations what to do next, how to position in the market etc. Strategy work is thus embedded in operative work. Creativity occurs outside formal strategic planning. - Employees are encouraged to present new business ideas. The aim is to have always one ongoing venture trial based on such idea. The company acts as financer, and gives one year for employees to demonstrate the results. If successful, the venture may be spin-offed. <em>Example: One such spin-off has today higher revenues than IT6.</em></td>
</tr>
<tr>
<td>IT 7</td>
<td>- Open discussion, brainstorming and imagination in strategy workshops.</td>
<td>- Strategy development is ongoing business that management team does throughout the year (it is written down once a year)</td>
</tr>
<tr>
<td>IT 8</td>
<td>- Open and informal discussions with key persons.</td>
<td>- CEO discusses daily with partners and the chairman of the board - CEO collects signals from external and internal sources and evaluates them rationally</td>
</tr>
</tbody>
</table>

Figure 1 below summarizes the key findings of this paper in regard to the role and nature of emergence in strategy development of SMEs. It presents that emergence occurs as both within and outside formal strategy process, the key mechanisms to support emergence in strategy development and its contribution to strategy development as providing the new ideas that ultimately may lay the ground for the strategy.

**Figure 1 The role and nature of emergence in strategy development of SMEs**


Discussion

This paper has contributed to strategic management research through increased understanding on the role and the nature of emergence in strategy development of SMEs. Prior research has revealed that there is room for emergence within formal strategic planning (Grant, 2003; Hodgkinson et al., 2006). This paper strengthens the earlier findings that informal discussions and brainstorming in strategy workshops contribute to the emergence as part of formal strategy process, and describe also other ways how top management may strengthen “planned emergence”.

In regard to the emergence outside formal strategy process, prior research has indicated it mostly with bottom-up strategy (Burgelman, 1991, 1994; Chia & Holt, 2006; Chia and Rasche, 2010; Régner, 2003; Tsoukas, 2010). This paper demonstrates that also top management in SMEs may support emergence throughout continuous strategy reflection and part of day-to-day management. It also highlights different ways how top management may support the systematic collection and experimentation of new business ideas from both internal and external stakeholders. Thus, we show in contrast with prior research how also in the centre of the company the top management works with both deliberate and emergent strategy, and describe different ways how the top management supports emergence as part of continuous strategy process.

Furthermore, we argue that strategy development is distinctive in SMEs in relation to entrepreneurial firms and large firms. While SMEs firms have formed a formal strategic planning cycle, its strategy development is more autonomous and flexible than in large companies. This is due the following factors - the autonomy of CEO to decide and act on strategy process, the small number of participants in strategy process, short strategic planning cycle and the great flexibility and speed of top management to change strategy when needed outside the formal process. We describe in further detail formal strategy development in growth-oriented SMEs. The overall findings are in line with earlier research on strategy development in small companies (e.g. Berry, 1998).

As managerial implications, this paper demonstrates the importance of fostering emergence of new ideas in strategy development and provides concrete advice how to implement that in practice. The results are valid both for SMEs and larger firms. While the paper shows the agility of the top management in SMEs to collect external and internal signals, conduct strategic thinking in line with
the operative management and to be quick to decide and take actions when needed, these matters are also worth for striving in larger companies. Although being agile is more difficult when the firm grows, there are different ways to strive for that i.e. through dividing the operations in smaller units that are easier to manage. This would be worth for larger firms to consider based on the findings of this paper.

The results of this paper in regard to the role of top management in SMEs supporting emergence outside formal strategy process cannot yet be fully generalized as they are based on the results of eight SMEs in IT services and software industry in Finland. Thus, we recommend future research to explore strategy development in SMEs in a larger number of firms and industries to further validate the key results of the paper. We also suggest future research to investigate in a further detail a few successful SMEs and their processes to support emergence to be able to further clarify the mechanisms of emergence in strategy development and the ways to support it.

**List of references**


