

## **Strategic dualities and business model innovation within SMEs**

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# STRATEGIC DUALITIES AND BUSINESS MODEL

## INNOVATION WITHIN SMEs<sup>1</sup>

### Abstract

Applying a business model approach, this paper explores how SMEs perceive, understand and deal with the range of strategic dualities that they face and how this may impact their business model innovation. Qualitative research was conducted using a sample of eight SMEs with the results analysed using content analysis. The findings suggest that SMEs address strategic dualities along four dimensions: degree of globalization (local vs. global), type of offering (individual experience vs. mass product), time orientation (short-term survival vs. long-term orientation), and modernity orientation (tradition vs. modern). It appears to be that SMEs do not recognize these dualities directly but are continuously trying to cope with the tensions they create, and that the whole process is biased by a strong link of SMEs to the local environment (i.e. *terroir*) that prevents radical innovation of business models. These findings are significant as they cast new insights into the strategic duality faced by SMEs and start to untangle the complex relationships between elements of the business model and SMEs' local environments.

### **Keywords**

business model, business model innovation, qualitative research, SMEs, strategic duality

**JEL codes: M10, O31**

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## INTRODUCTION

During the last two decades, technological development, a higher concern for environmental sustainability, social responsibility, open innovation, and product co-creation have resulted in shorter product life-cycles, advancement of the circular economy, and changes in consumer behaviour. This has forced companies of all sizes and orientations to develop completely new business models (BMs), or at least, adapt existing ones, (Kesting/Günzel-Jensen 2015) to attempt to more effectively embrace innovation, facilitate sustainable development, improve economic efficiency, and create an uncontested market space (Yang/Evans/Vladimirova/Rana 2017).

According to Çakar and Ertürk (2010) small and medium-sized enterprises (SMEs) “are increasingly looking for ways to enhance their ability to innovate effectively” as this is seen as a key factor for survival in a competitive global environment. However, studies undertaken so far show that SMEs in general demonstrate an innovation management deficit (Hotho/Champion 2011), with a tendency to approach innovation cautiously, preferring traditional practices and policies (Morck/Yeung 2003; Cohen/Naoum/Vlismas 2014) despite often being owner operated and entrepreneurial based businesses. The study performed by Heikkilä and Bouwman (2018) uncovered that only 37% of European SMEs are innovating their BM and according to Saebi, Lien and Foss (2017) this happens prevalently under conditions of perceived threats rather than opportunities. Foss and Saebi (2017) also observe that it is unclear how SMEs actually innovate their BMs. These observations confirm that more research about BM innovation (BMI) within SMEs is needed and that there is an opportunity to fill this knowledge gap with further research (Cosenz/Bivona 2021).

One of the possible ways of exploring BMI is offered by the concept of strategic dualities or pairs of two complementary but contradictory aspects of the organisation (Hamel 2009; Andriopoulos/Lewis, 2010). Smith and Tushman (2005) state that effective

management of strategic dualities can lead to more organisational innovations, while Smith, Binns and Tushman (2010) describe how managing strategic paradoxes can lead to the development of complex BMs able to integrate inherent strategic tensions. Because strategic dualities are present in all types of organisations regardless of their economic orientation (i.e., for-profit or non-profit), size, or industry, they also allow us to explore BMI in SMEs. However, despite great interest in the area (Putnam/Fairhurst/Banghart 2016), there is no specific literature or empirical work to draw upon. The majority of the empirical studies are performed in large multinational companies or well-known fast growth global companies (e.g. Andriopoulos/Lewis, 2010). At the same time, the SME context is deficient in this area. Sarkar, Echambadi and Harrison (2001) state that SMEs do not just run their business differently when compared to big companies but that they also adopt theories and models differently, mainly due to resource-related disadvantages. A point emphasised by Man, Lau and Chan (2002: 125) who claim a small firm is “not a scaled-down version of larger firms. Larger firms and smaller firms differ from each other in terms of their organisational structures, responses to the environment, management styles and, most importantly, the ways in which compete with other firms”. This calls into question the relevance of research done to date on the management of strategic dualities for SMEs for this very reason. For example, SMEs lack the necessary amount of “slack” resources (Bos-Brouwers, 2010) or other facilitating mechanisms that could allow them to apply a spatial separation as a possible way for addressing strategic dualities, something which most big multinationals can do (O’Reilly/Tushman 2004; 2011). Also, managers of SMEs are more involved in everyday matters and problem solving than in planning a strategy that considers new threats and opportunities (Arbussa/Bikfalvi/Marquès 2017). Therefore, the SME context provides for an opportunity to make a contribution to an important and less understood context of BMI.

According to Biloslavo, Edgar and Bagnoli (2018) a link exists between BMs and strategic dualities. They argue that organisational decisions related to strategic dualities are embedded in the very structure of the BM and propose the conceptualization of BM at different levels of abstraction. At the lowest level, there are individual elements of the BM such as value proposition, customers, products, society, key operational activities, capital, key partners, benefits, and costs. Above this level, there are relationships between the elements of the BM that define its internal coherence, and at the highest level of abstraction, there are strategic dualities. The decisions made by the organisation in relation to such dualities can change the relationships between the elements of the BM, and indirectly change the individual components of the model itself. In other words, as poles of dualities are in constant interplay they can act as a guidepost for organisational and BM innovation. Assuming that strategic dualities can generate the organisational dynamics needed to fuel BMI (Tse 2013) raises some important research questions for SMEs.

RQ1: What are the strategic dualities that SMEs and their entrepreneurs cope with?

RQ2: How are strategic dualities expressed in the BMs?

RQ3: How can possible strategic dualities influence BMI in SMEs?

The purpose of the paper is to answer these questions through exploring which strategic dualities are perceived by the SMEs' manager-owner entrepreneurs and whether their management has an impact on SMEs' BMI. To that end we will employ a qualitative research methodology taking into consideration that BM can also be considered as stories that explain how enterprises work (Magretta 2002; Haggege/Collet 2011).

The paper first explores the concepts of BMI and strategic dualities within the SME context and draws upon research linked to entrepreneurial behaviour. Next, the research

methodology is presented, followed by key findings and the discussion. Finally, concluding remarks are made along with suggestions for further research. Our work provides for interesting new insights into this specialist field, and hopefully it will stimulate a research agenda to better understand strategic dualities and their role within SMEs' BMI, which is according to researchers still unexplored (Foss/Saebi, 2017; Heikkilä/Bouwman 2018; Pucihar/Lenart/Borštnar/Vidmar/Marolt 2019).

## **LITERATURE REVIEW**

### ***Business Models Innovation and SMEs***

A Business Model (BM) describes the rationale of how an organisation or network of organisations creates, delivers, and captures value (Osterwalder/Pigneur/Clark/Smith 2010). In line with this general definition, Teece (2010: 172) states that “the essence of a Business Model is in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit.” In a nutshell, a BM is the “logic of value creation and value capture,” as Casadesus-Masanell and Ricart (2010) put it. The literature highlights the important role BMs play in gaining a sustainable competitive advantage, improving financial performance and enhancing cash flow (Mitchell/Coles 2003; Amit/Zott 2012; Gerasymenko/De Clercq/Sapienza 2015). It is therefore unsurprising that the literature review revealed an extensive body of articles on BMs (Wirtz/Pistoia/Ullrich/Göttel 2016; Yang et al. 2017). On the other hand, SMEs often lack the required resources and skills to make the BM concept tangible (Gassman/Frankenberger/Csik 2013). According to Gassmann et al. (2013), very few SMEs can explain their company's business model (often in a vague and ad-hoc manner), and even fewer can define what a BM actually is. However, SMEs who have exploited market opportunities have recognized and innovated their BMs (Guo/Tang/Su/Katz 2016).

Different definitions of BMI exist, but generally speaking *BMI* “is an implementation of novelty that redefines the value proposition, how it is delivered to a customer and/or how the firm profits from the customer offering” (Björkdahl/Holmén 2013). Foss and Saebi (2017) define BMI as “*designed, novel, and non-trivial changes to the key elements of a firm’s business model and/or the architecture linking these elements*”. Generally, BMI is divided into two types, incremental and radical (Crossan/Apaydin 2010; Cortimiglia/Ghezzi/Frank 2016).

Incremental BMI is seen as a change of small magnitude that modifies one or more components of the existing BM (Aspara/Hietanen/Tikkanen 2010; Arbussa et al. 2017). While constituting a departure from the status quo, the BM remains relatively close to its original form.

Radical BMI is seen as a change of large magnitude and relates to a simultaneous change of the majority of BM components. Radical BMI represents a clear departure from the status quo, which is associated with greater risk and complexity.

In both cases BMI can be considered as a result, as well as, a continuous process (Heikkilä/Bouwman 2018) involving initial experiment followed by continuous reassessment and modification to “create internal consistency and/or to adapt to its environment” (Demil/Lecocq 2010:241). Demil and Lecocq (2010:214) also suggest that “radical change generally follows the incremental changes accumulated from the model’s unintended ‘drift’, and/or from the multiple internal changes generated by the BM’s operation and managers’ continued ongoing adjustments between and within components”. Despite the fact that the BM is in a constant state of evolution, radical BMIs in SMEs are rare and most of the time happen only after a series of incremental changes. This may be in part due to the unique challenges that SMEs face in their BMI, for example, Guo et al. (2016:431) recognised that

“SMEs often fail to accomplish the performance implications of opportunity recognition because opportunity recognition does not automatically lead to superior SME performance” and that “the limited resource stocks of SMEs constrain their abilities to appropriate value from recognized opportunities and inhibit profiting from opportunity recognition” (Guo et al. 2016:432). Other reasons cited for the difficulties associated with exploiting opportunities included the dependency on acquiring external resources, a disadvantaged stance of SMEs in competing for resources, limited reaction to dynamic requests and changes in the business ecosystem (Pucihar et al. 2019), and a limited ability to build “boundary-spanning business networks with external stakeholders” (Zott/Amit 2013) or find partners with reasonable strategic fit and willingness to share risk. So, the SME challenge is to seek to translate recognized opportunities into superior performance (Ketchen/Ireland/Snow 2007; Vasilchenko/Morrish 2011; Mitchell/Shepherd 2012) through their composition of their BM ie “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (Amit/Zott, 2001:511) and their ability to innovate their BM ie BMI. As such, BMI is not just an action performed by an organisation, but is, as Berends, Smits, Reymen and Podoynitsyna (2016:200) claim, “a complex process in which action and cognition intertwine.”

### ***Strategic Dualities***

Dualities have been recognised by different management authors over the last three decades as “*a tangible fact of organisational life*” (Birkinshaw/Crilly/Bouquet/Lee 2016; Smith/Erez/Jarvenpaa/Lewis/Tracey 2017). Well-known examples of strategic dualities identified within different organisations and contextual setting include Deliberate vs. Emergent strategy (Tse 2013); Competition vs. Collaboration (Das/Kumar 2010; Tidström 2014); Centralization vs. Decentralization (Lewis 2000; Manderscheid/Freeman 2012);



Exploitation vs. Exploration (Levinthal/March 1993); Smith/Tushman 2005; Chen 2017); Low Cost vs. Differentiation (Lewis 2000; Manderscheid/Freeman 2012); Profitability vs. Responsibility (Galuppo/Gorli/Scaratti/Kaneklin 2014); Stability vs. Change (Lewis 2000; Manderscheid/Freeman 2012; Tse 2013); Global integration vs. Local responsiveness (Millar/Hind/Magala 2012). Clearly such dualities impact upon the nature of the BM and the operations.

Within organisational literature, different terms are used to describe dualities, e.g., paradoxes (Handy 1994; Ramirez 2012), conflicting values or tensions (Cousins/Robey/Ilze Ziguers 2007; Tidström 2014), dualities (Graetz/Smith 2008; Farjoun 2010; Stoltzfus et al. 2011) and organisational ambidexterity (Andriopoulos/Lewis, 2009; O'Reilly/Tushman 2011). Some authors use these terms interchangeably, while others use the term strategic dualities as an umbrella concept that includes all “pairs of imperatives that are equally important but to some degree in conflict with one another” (Birkinshaw et al., 2016: 52). After considering all definitions, Putnam et al. (2016) found that the concept of dualities is best described as *conflicting and interrelating relationships* (i.e. tensions) that organisations are continuously dealing with. Based on Farjoun (2010), strategic duality can therefore be defined as a pair of complementary yet contradictory aspects of certain business or organisational characteristics that coexist in a dynamic balance. The distinct feature of strategic dualities is their conflicting and yet mutually dependent relationship; one pole of duality is established by the other. If we ‘take back’ one pole, one side, or one character of the dialectical object, then the opposite side must be constructed in relation to something else or disappear altogether. Therefore, duality is characterized not only by the co-existence of the opposites in a static sense but also, and specifically, with their constant dynamic interplay (Farjoun 2010).

Dualities are necessary to convey a more insightful understanding of organisational reality (Slaatte 1968) and as such represent the core of modern organisational strategy and BMs. According to Graetz and Smith (2008), dualities provide conceptual guidance to managers in identifying contradictions as well as helping them to understand the importance of simultaneously managing and exploiting such contradictions. The importance of strategic dualities is therefore recognized, but there is still an open question of how to deal with them in practice. The literature suggests that there are often three interrelated ways of managing dualities: (i) acceptance, (ii) confrontation and (iii) transcendence (Poole/Van der Ven 1989; Andriopoulos 2003; Smith/Lewis 2011) and as such these can provide insight into the nature of dualities for BMIs within SMEs:

#### *Acceptance*

Acceptance, characterised by Andriopoulos as “acceptance of paradoxes is all about learning to live with them” (2003:385), helps an organisation’s members avoid potentially disruptive debates by focusing on their everyday activities and tasks. Organisations can deliberately decide to compromise between a mix of opposites or follow an ‘either/or’ approach, believing that a duality cannot be solved within the organisation. Acceptance limits the potential scope of BMI and instead encourages minor changes in the direction of optimizing the existing BM.

#### *Confrontation*

Confronting dualities is about discussing their tensions to clarify different levels of reference and the connections between them in an attempt to understand and resolve the duality (Poole/Van der Ven 1989) or by considering their different roles at different times (Weick 1982). This means organisations either “resolve” the duality by simultaneously pursuing opposites in different parts of the organisation, i.e. physical separation (Volberda 1998) or temporally shifting attention from one opposite to the other in order to pursue each at

a different time (Pascale 1990). The latter supposes organisations are ‘swinging’, ‘balancing’, or ‘oscillating’ between contrary poles which suggests that an organisational pendulum swings “over a generation from one desirable quality to its opposite” (Evans/Doz, 1989: 219). Confrontation leads to a movement between two types of BM, which over a long period of time manifests itself as a change in the BM. However, these changes represent a departure from one and a return to another BM more than a real innovation.

### *Transcendence*

Transcendence implies the ability to think paradoxically, meaning to adopt dialectical instead of binary logic (Andriopoulos 2003). To follow this approach, new logic and behaviours need to be adopted which entail critically examining entrenched assumptions to see beyond the contradictions, accept their persistence, and identify interdependencies (De Wit/Meyer 2005). This allows development of a qualitatively different and more encompassing frame of reference. However, duality is ‘unsolvable’ in a static sense. Organisations can only sustain a dynamic balance between the two opposite and complimentary forces. This requires management to be capable of communicating an overarching vision, building and maintaining an internally inconsistent organisational structure, utilizing integrative thinking (Smith et al. 2010) and/or increasing the variety of embedded organisation capabilities, i.e. dynamic capabilities (Evans/Genadry 1999). Transcendence implies development of a complex BM able to integrate strategic tensions (Smith et al. 2010) that per se represent an innovation, as that is the only way to transcend limitations of classical “either/or” BMs.

## **METHODOLOGY**

### *The Context of the Study*

The context for our study is Slovenian SMEs as defined by the EU and includes micro-organisations, small- and medium-sized companies<sup>2</sup> (EU 2003/361/EC 2003). Most recent available figures (SBA Fact Sheet 2016) indicate that SMEs in Slovenia represent the bulk of the national economy in terms of number of firms and provide over 72 % of employment and nearly 63 % of value added, which is in both cases about five percentage points above the EU average. In the last few years the outlook for Slovenian SMEs is very positive as it has been reported that between 2015–2017, value added and employment increased by 6% and 2% respectively, creating around 8,000 new jobs. More recent figures are currently not available.

Our paper is based on qualitative data generated from an EU cross-border research project that aimed to support SMEs in the region to better understand their existing BMs and (re)direct their future development to exploit their strategic and innovative potential within the global market. As such, a qualitative study of Slovenian SMEs from four different industries was conducted: tourism, construction, logistic, and food/agriculture industry. This choice was conditioned by the fact that these industries were considered as the most significant in the cross-border region and were the worst affected by the last financial crisis.

### ***Data Collection and Sampling***

Taking into account Marshall's (1996) guidelines regarding sampling for qualitative research we first asked the local chamber of commerce to provide a list of SMEs within the analysed industrial sectors that are known for an orientation to innovate (i.e. SMEs that can present a critical case sample). They listed 30 Slovenian SMEs that we contacted. Later we applied the snow-ball approach asking contacted SMEs to recommend other useful potential candidates. At the end eight SMEs decided to participate fully in the research; two from tourism, two from construction, one from logistic, and three from food/agriculture. This

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<sup>2</sup> Micro-organisations have less than 10 employees, turnover ≤ €2 m, balance sheet total ≤ €2m; small companies have less than 50 employees, turnover ≤ €10 m, balance sheet total ≤ €10 m; and medium-sized companies have less than 250 employees, turnover ≤ €50 m, balance sheet total ≤ €43 m (EU 2003/361/EC 2003).

seemed low at first but proved to provide for sufficient saturation in responses received. Among the eight SMEs three were small and five medium size enterprises according to the European Commission's definition (European Commission 2003). A description of the eight SMEs and their annual turnover generated in 2018 is given in Table 1.

(Insert Table 1 about here)

Among the owner-managers five participants have a degree or a diploma in business sciences, one a PhD in biology, one a diploma in viticulture and one a degree in civil engineering. Three participants were females and five males.

The whole research was divided into two phases. In the first phase we asked the owner-managers to tell us 'the story' of the company as far as they know it. We specifically asked them to pay attention to the "critical events" that represented turning points in the company's development so far. The data collected involved a description by managers-owners of the firm's development path together with its strategy and aims. We asked the questions in the same form to all participants in the research. This enabled us to circumvent a rather static approach offered by classical BM analysis. In that way we were able to capture dynamics of BM development (e.g., asking questions about what the value proposition is does not address how the firm came to this value proposition or how it developed over time). Beside the primary data, we collected secondary data about the company's history and current business practices from the company's documents, web site and available public sources. After this initial interview, individual BM canvases were drafted by researchers for each company involved using the value triangle (VT) BM canvas as proposed by Biloslavo, Bagnoli and Edgar (2018).

The interviews in the second phase were consistently structured around the key components of the VT BM canvas namely the value proposition, society, customers, products, partners, key activities, capital, costs and benefits. Participants were asked broad general

questions such as: *What do you believe is your value proposition? How would you describe it? How do you collaborate with other stakeholders beside business partners and customers? How would you describe your key costumers / products / activities / capital? How do you believe your key activities impact your customers? In which ways do you think your activities are different from your competitors? In which ways do you think your capital is different from your competitors? In which ways do you think your BM is different from your competitors?*

Other more contextual questions were defined and asked based on the findings from the first phase of the research. Interviews lasted from one and a half hours to two hours. Based on the data collected, the final VT BM canvases were developed and sent to participants for validation and informed consent. All interviews were recorded, transcribed and analysed by the authors independently. During analysis of data we first applied open coding and then axial coding that allowed emergent themes to be developed (Williams/Moser 2019). At this stage of analysis, we followed the approach used by Andriopoulos and Lewis (2010) where the identified themes were compared with each other and bipolar concepts mapped along four dimensions: degree of globalization (local vs. global), type of offering (individual experience vs. mass product), time orientation (short-term survival vs. long-term orientation), and modernity orientation (tradition vs. modern).

## **FINDINGS**

### ***Strategic Duality 1: Local vs. Global***

The globalization of markets has pushed SMEs to the fore in terms of the need for development, but also the opportunity to broaden their horizons and take on new global dimensions (Lee/Shin/Park 2012). SMEs involved in the research are characterised by a strong inclusion in the local environment, but at the same time an openness to the global market, all be it but under certain conditions and in a way that enhances the local story. However, they

cannot be considered as representatives of the ‘born global’ companies (Evers 2011) as their business growth is based on satisfying local needs “*Why wouldn’t we sell to our people, here? It means we go no further than Vienna (Austria) and Udine (Italy). It means there is 0 km from production to selling, to forks and plates.*” (F – respondent codes are found in Table 1) It is also based on exploiting local territory advantages “*Our location is perfect for the production of red wine because it has more sunshine and less rainfall than other places in this part of Europe*” (KM1). Strong local ties do not prevent SMEs from considering foreign customers or foreign business partners: “*We operate across the world but not in a manner that we go to the world but they /the world/ come to us. ... there is no continent that we would not have as guests*” (KM) and “*Our main customers are South Koreans and I have the highest respect for them and their business attitude*” (E).

At the same time, it is widely recognised that SMEs, in general, have limited resources in the form of time, money and human capital (Van Gils 2005). This prevents them from being important contributors to internationalisation (Etemad/Wright 2003). For small companies involved in the research, the financial constraints represent an important reason for limiting their business activities to regional markets only. This is clearly explained by the statement, “*The foreign market is interesting, but it requires a lot of time and especially money*” (M). However, the financial issue per se represents only a marginal factor when the SMEs’ stance to this strategic duality is considered. The challenge seems to be more related to the relationship between their local identities and the global world. “*I have an international perspective. I sometimes feel limited, almost like ‘compressed’ in Slovenia ... but I must stay here because from here I can offer the best possible logistic solution for my customers*” (E). SMEs understand concepts “local/global” as a multidimensional phenomenon. “Global” on the physical level represents something distant, while on the cognitive level means something different, which deviates from the everyday or familiar. On the other hand, “local” represents

something that is physically present, is well known, and reflects an organisation's identity. Local, in the sense of cultural knowledge and awareness, represents a source of distinctiveness that can be translated into a competitive advantage. The local that defines SMEs' identities is constructed in relation to the global and vice versa. The strong link of the company to the local territory "*I believe that our mission is to offer the best and the healthiest food to Slovenians and only when there is a surplus of it, also to others*" (F) and the desire to exploit global opportunities represent the tension that SMEs try to reconcile. The tension is pushing SMEs to constantly (re)consider their local orientation in the view of the global processes and possible opportunities that emerge at the intersection of local advantages and global demands.

### ***Strategic Duality 2: Individual Experience vs. Mass Product***

SMEs included in the study retain a focus on small, individual, and almost personalised production or service delivery (i.e. a craftsman-like approach). It is interesting that they lack extensive market segmentation or niche strategy development yet argue for individualised and personalized service provision and products instead, and this offering 'tailor made' products and service delivery. As a company owner from the food and agriculture sector stated, "*With smaller batches we cover 90% probability that a single customer will find his proper wine*" (KM1). Other companies from agriculture, food and tourism industries have emphasised a personalized and individualized approach to service delivery with tailor-made personalised products and experiences as core to their activities and strategy: "*Nobody is waiting, and groups are small because we do not want to create a sense of a mass destination. Consciously, we are not /mass tourism /... we want to give a guest a sense of individuality, despite our 521.000 /guests/*" (P).

SMEs, whose capital is mostly invested in the specific local territory, need to find innovative ways of exploiting available resources, which to a large extent represent their



natural and cultural specificities, in order to survive (Morgan/Elbe/Curiel 2009). In this way they create an experience that is completely unique and not repeatable: *"Nobody ever drinks the same wine. It depends on their mood, social circumstances, and opportunities /.../"* (KM1). SMEs cope with this strategic duality by giving meaning (i.e. significance) to products. When a glass of wine is no longer a glass of wine but a “culinary delight” or even a “social event”, the product assumes more of an aesthetic, symbolic form and the emotional message that is delivered by it replaces the tangible product itself (Battistella/Biotto/De Toni 2012). The same approach of giving meaning to the product is followed by other companies from agriculture, food, and tourism, *"We decided to give a name to the fish; we gave the fish a brand. /.../ We personally are behind this name. It means it is not 'just something'; it is not just a "fish" but our family heritage."* (F). Their fish is a “fish with a story and a name”.

### ***Strategic Duality 3: Short-term Survival vs. Long-term Orientation***

One participant stated, *"...no good strategy can be designed in advance by writing down a vision or mission statement and then persuading employees to follow. Organisation development is more like teaching child to walk. You help them to make the first step and then you lead them by hand"* (P). Perhaps not surprisingly, most SMEs do not have visions and missions written into their documents, plans, or strategies, but they do have and are able to clearly articulate a long-term view of where the company should be in the remote future. At the same time, they are very much focused on survival and thus forced into an operational mind-set (Ates/Bititci 2011). This is especially the case in the construction business where the strategic imperative is *not to reject any opportunity in order to get the economically rewarding job*. Their motto is the most extremely placed among participating companies – survival: *"It is true, we had a vision, we were also implementing it, but it needed to be changed. The aim and purpose, the mission persists, we will only accomplish it in a different way"* (M1).

Although companies struggle with survival, they keep a long-term view. One participant stated: *“We know that opportunism can give us some advantages, at least in the short-term, but this is against our values and our long-term customer orientation”* (E). An even better example is given when they refer to succession planning for the next family generation, *“My kids are actually in the school learning foreign languages and business /.../ I expect that in the near future will take over the business. /.../When this moment will come I want my business to be ready for the next phase of growth”* (KM), or in some cases, preserving the local landscape, *“We have a privilege to take care of natural beauty that is unparalleled /.../ we have to hand it over to future generations untouched in its beauty so they will be able to enjoy it as we enjoy it and generations before us did”* (P). The tension between long-term orientation and short-term survival is clearly evident in the next statement: *“For a sea bass to grow /.../ it takes 4 to 5 years! We feed them by hand and with the best food available. /.../ We cannot compete on price. We can compete only with quality and service but at the same time we must consider the cash flow and profitability!”* (F).

#### ***Strategic Duality 4: Tradition vs. Modernity***

The duality of tradition versus modernity within SMEs was already recognised by prior studies (Inglehart/Baker, 2000). They found that traditional cultural values persisted despite economic and political changes. SMEs included in the research emphasized tradition but did not neglect modernity. In this regard, tradition reflects believing in the customs and values handed over through generations and living according to them, while modernity means differentiation of lifestyle, domination of economic activities over social life, and the tendency to push limits further in terms of space (globalisation), scale (growth), and technology.

Food and agriculture as well as tourism are particularly focused on traditional ways of production: *“My approach is such that guest or group is always taken with a typical Istrian greeting, that is, with bread and salt /.../ in Istria salt was always consider as monopoly but also as a tradition. We always do our best to bake homemade bread in the bread oven according to the traditional way /.../”* (KM). They understand quality as a degree of attachment to “traditional” values, land, and the way of production: *“We produce wine that in addition to varieties, fullness and harmony reflects the terroir<sup>3</sup>. Location, tradition and people are factors that determine the terroir from which our wine originate”* (KM1). Due to the “traditional” way of production, they produce smaller quantities but they also deliberately oppose larger quantities because they believe that with increased quantity, they can lose control over the quality and individuality of the service delivered.

Fear of losing control, together with lack of proper knowledge and skills about the external environment, among others, can be considered to be external barriers to growth for SMEs. At the same time other studies have reported that SMEs are more focused on maintaining independence rather than seeking new growth opportunities (Choi/Shepherd 2004; Dutta/Thornhill 2008; Douglas 2013;). Consequently, these factors could affect SMEs’ propensity for innovation and growth since firms that value long-term survival and independence measure performance through firm longevity, while firms with a market-domination objective are more preoccupied with growth measures (St-Pierre/Audet 2011). However, it seems that tradition and modernity are not ‘mutually exclusive’. SMEs are willing to apply modern solutions within their processes or customer approach as long as they perceive these actions in line with their values and way of doing business: *“Every fish got a tag and on every tag is the date and hour when the fish was taken out of the water. It means*

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<sup>3</sup> “Terroir is a mix between a geographical definition and a cultural one. It is a geographical area with specific geological, hydrological, soil and climate characteristics. But it is more than that. The terroir has a strong cultural side. It is the reflection of the human societies that work its land”. <http://www.frenchfoodintheus.org/spip.php?article3005>

*you can follow the fish all the way from the sea to your plate. /.../” (F). In a similar vein, the SMEs recognised the need to ensure currency in thinking: "Everything is changing rapidly today, as well in our business. Therefore, we must continuously educate ourselves, /.../ Every year we have training programs because we need to follow new trends" (P1).*

## **DISCUSSION**

The BMs of the participating companies do not show common characteristics that would allow categorization into specific topologies. Each company has developed its BM in accordance with its own mission, vision and strategic orientations. In other words, each company has created its own unique web of competitive factors that position it in the market (Onetti/Zucchella/Jones/McDougall-Covin 2012; Child/Hsieh/Elbanna/Karmowska/Marinova/Puthusserry/Tsai/Narooz/Zhang 2017). For example, the key success factor in agriculture is represented by the traditional way of producing agricultural products, in logistics there are responsiveness and speed, in tourism are destination, individual experience and tradition, while in construction is a proper price for the contract award and the quality of institutional and business networks. On the other hand, the results show that companies, even if from different industries, face the same or similar strategic dualities. The study findings can be explained by looking at them through the ‘hierarchical conceptualization’ of the BM concept as proposed by Biloslavo, Edgar and Bagnoli (2018) and described previously in the introduction. According to the hierarchical conceptualization, strategic dualities persist at the highest level of the hierarchy and their internal dynamics support changes of BM components at the lower levels. Given the complexity of the entrepreneur’s cognitive scheme (Sosna/Trevinyo-Rodríguez/Velamuri 2010), BMs can be constantly reconstructed (i.e. they shift between the two poles of duality), optimized, or innovated by integrating both poles of duality.

Applying Johnson's (1996) concept of polarity management, it can be argued that by moving towards one of the poles of duality, an SME increases its effectiveness and efficiency up to the "tipping point" when further movement towards the same pole begins to negatively influence the company's performance<sup>4</sup>. In order to prevent further loss of effectiveness and efficiency, a kind of turn around must happen where the SME needs to change its direction to the opposite pole of duality. In practice this can be seen as a continuous evolution of the BM. In our study SMEs stay close to one or other pole of duality, but at the same time adapt their BMs by applying some characteristics of the opposite pole (e.g. their value proposition is predominantly local oriented but customer segments and/or key partners are global). Their approach to managing duality can be defined as an intermediate solution between acceptance and confrontation, where the transition from one pole to the other pole of duality is very slow with predominantly incremental changes that do not significantly affect the business logic of how SMEs create, transfer and capture value for their stakeholders. This confirms Bhasrakan's (2006) findings about prevailing incremental innovation within SMEs, which can seriously limit the effectiveness of SMEs in the modern business environment characterized by disruptions and complexities (Baden-Fuller/Haeffliger 2013; Martins/Rindova/Greenbaum 2015). At the same time, this is a perfect example of what Li (2014) defined as 'asymmetrical balancing' with one of the poles being the dominant while the other is subordinate. All recognised dualities have a clear bias to one of the poles of the duality which is the same in all SMEs involved. In the dimension *degree of globalization* the dominant pole is local, in the dimension *type of offering* the dominant pole is individual experience, in the dimension *time orientation* the dominant pole is long-term orientation, and in the dimension *modernity orientation* the dominant pole is tradition.

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<sup>4</sup> Li (2014) named this 'curvilinear balancing' with the interactive effect of the opposite elements following an inverted U-shape curve.

This has a clear practical impact that can be described as ‘transitional balancing’ with opposite poles shifting over time from the dominant role or the subordinate role toward their opposite (Li 2014). A radical innovation of the BM happens when poles of duality change their dominant – subordinate roles, which also explains why SMEs generally experience BMI as a highly emergent and often unintended process (Laudien/Daxböck 2017). We attribute the persistence of SMEs to stay close to the identified poles of duality to bias. Zhang and Cueto (2017) say that entrepreneurs are prone to such bias due to various factors, including (but not limited to) a high uncertainty, information overload and speed, lack of historical information, organisational routines and pressures of time. While, Stouraitis, Boonchoo, Mior Harun and Kyritsis (2017) claim that entrepreneurs have specific bias about dualities, which need to be taken into account when understanding decisions that are affected by them. Bias is shaped by entrepreneurs' beliefs about what the organisation is, what it should look like, and how it should behave in relation to organisational identity (Scott/Lane 2000; Ravasi/Schultz 2006). Based on the data collected, and the conclusions reached by several researches, (e.g. Davis, 2009; Dimov, 2010; Wirtz,/Schilke/Ullrich 2010) that SMEs depend heavily on the local business environment for their development and effectiveness, we assume that the bias in our respondent findings is represented by the strong bond that these companies have with the local social and ecological system (Perrini/Tencati 2008; Del Baldo 2012). The local territory, shaped by the values and traditions of the given social and environmental context, represents the place of production of specific knowledge (contextual knowledge) and mechanisms of social interaction (networks of interpersonal relationships) that impact SMEs innovation, growth and way of interaction with other companies in the territory. How SMEs perceive the local context is well explicated by the notion of *terroir* that was mentioned during the research. The *terroir* represents a relational, complex, unique and difficult to imitate space (Rullani 1997) that reflects the specific natural conditions of the territory and the ways in

which humans relate to it. As such terroir is a contingency factor that must be taken into account in order to understand the attitude of SMEs to innovate BMs.

Considering these facts, we believe that the sense of belonging to the locality is a learned experience that presents itself as a bias, and has an important impact on the understanding of the process of innovation of the BM in SMEs, both incremental and radical. In fact, we make a hypothesis that the degree of innovation is a function of the possibility of the SME to transcend or unlearn such bias once they are recognized. Literature analysis shows that SMEs have two ways in which they can do this. The first relates to the internationalization process (Etemad/Keen 2012; Onetti et al. 2012; Zucchella/Siano 2014). For example, Landau, Karna and Sailer (2016) concluded from their study that firms have to innovate their BMs to better fit the specific context of their international markets. This conclusion is confirmed by the study by Child et al. (2017), which also observed that SMEs can adopt a completely new and different BM for the foreign market in addition to the one they use for the domestic market. We can conclude that through the internationalization process entrepreneurs need to make sense of novelty that enables them to reconfigure their view about duality and design an alternate BM schema (Martins et al. 2015). The second way which is more congruous to the concept of sustainable development foresees the need for SMEs to adopt different BMs inspired by Corporate Social Responsibility or social justice. This is achieved, by virtue of the strong link that these companies have with the local context that permits a stronger engagement of local stakeholders (Perrini/Tencati 2008; Del Baldo 2012). This concept has also already been partially developed in innovation literature through the use of social, environmental or sustainability drivers to create new products, services, processes and new market space (Mair/Martí 2006). From this point of view, the concept of duality can offer a further insight on how to use the highlighted drivers to limit the bias of entrepreneurs.

## CONCLUSIONS

Our study, is the first study that focuses on analysing the connection between strategic dualities and BMI within SMEs. The study makes a number of important contributions. Firstly, we explored the existence of dualities across the bipolar four thematic dimensions of degree of globalization, type of offering, time orientation and modernity orientation. We found here that there is a strong drive to localization and that either/or approaches were adopted but with shorter time periods and more fluid interpretations of the duality. This raised questions around the longer term strategic development of SME BMI and the need to encourage more transcendent thinking and transitional balancing into BM in SMEs.

The second contribution we offered was to consider the influence and potential contributions of bias in the operationalising of reactions to strategic duality by SMEs and the influence and power of the local territory in shaping values and traditions and ultimately action. This could have policy implications for shaping, encouraging and stimulating SME growth and development. So, while we have provided interesting new insights into this specialist field, and hopefully helped to stimulate a research agenda to better understand the unexplored domain of strategic dualities and their role within SMEs' BMI (Foss/Saebi 2017; Heikkilä/Bouwman 2018; Pucihar et al. 2019), we also sought to make some practical contributions to move the field from theory to practice for SMEs and their BMI development.

Furthermore, the research has demonstrated that strategic dualities can only be indirectly recognized by analyzing the BM's narrative. The narrative perspective captures the business' 'real-life' or 'lived' experience, but it cannot provide a direct insight into the nature of strategic duality. BM narratives, structured in the BM canvas, are a useful tool for dialoguing and discovering the unconscious roots of entrepreneurs' beliefs, attitudes, and behaviors that shape BMs but do not allow direct understanding, interpretation, perhaps even measurement, of the duality the company faces. Proof of this is the fact that none of the



participants in the research recognized the nature of the tensions that the company is facing, although they indirectly described them. Therefore, strategic dualities cannot be directly identified with classical tools of BM analysis, so it is necessary to use other methods of qualitative analysis as we have done.

The research also finds that the same dualities are reflected differently within individual elements of the analysed BMs. BMs contextualized according to industry, company strategy, and its assets, are different. However, all of the companies studied face the same four dualities. In this respect, knowledge of strategic dualities cannot give us guidelines for the development of individual elements of a BM, but instead, can serve as an artifact or "creative tool" that allow us to look from another angle and thus open up opportunities for new solutions, which can more or less radically change the existing BM. However, knowledge of strategic dualities is not enough in itself to innovate a BM.

With the help of recognised strategic dualities we can start to explain why there are "discrepancies" within BMs, such as elements of globalisation in the otherwise "locally" designed BM of the tourist offering, or modern cellaring technology in a BM based on a traditional approach to wine production. These "inconsistencies" reflect the way in which SMEs approach the management of strategic duality and adapt their BMs so that, in addition to the dominant one, they also include characteristics of the subordinate pole. This approach makes it possible to adapt the BM, but does not encourage more radical innovation. This can be explained by the fact that the poles of duality are perceived in terms of company values. Local, traditional, individual, long-term orientation do not represent neutral strategic concepts, but do reflect the values that companies stand for. The process of BMI thus becomes a complex phenomenon involving values embedded in the contextual factors as well as in the behaviours of the organisations and persons involved in the BMI process. The latter opens up a new dimension of understanding BMI, not only for SMEs but also wider. In this respect, the

BMI represents a solution that at the operational level is able to integrate the values of both poles of duality. In the case of the companies surveyed, these values reflect their dependence on local resources, which is typical of SMEs.

SMEs' local resource dependency plays a prominent part in their sense-making bias of strategic dualities. All eight SMEs consider local, traditional, long-term, and individual experience as a key part of their identities. That locks them into one way of doing things. We saw this in their definition of mission statement (e.g. *»Increase the recognition of the area of Slovenian Istria around the world as the homeland of warm-hearted people, virgin olive oil and top quality wine.«*; *»We are building a community that wants to live and work in a green, sustainable and socially responsible Istria.«*; *»We enable socially responsible guests to experience the authentic environment of karst caves through individualized tourist products.«*), and different elements of BM, especially in value proposition (e.g. *»Food prepared in the old way - with a lot of time and even more love, but above all with fresh produce«*), partners and suppliers (e. g. *»With local suppliers we co-create and raise the quality of the tourist offer.«*), key resources (e. g. *»Istrian natural and cultural heritage«*; *»The location of the fish farm in the Piran Bay with characteristic local climate and lower salt content of the sea«*), and society (e.g. *»Protect the Istrian cultural heritage and respect the traditions of the ancestors.«*; *»We are aware of our responsibility for the development of the community in which we operate and understand people's expectations, so we are actively involved in cultural, sports and humanitarian events.«*). For SMEs, the territory represents the real differential with respect to competition, and thus the resource on which to focus in order to assert itself and consolidate its presence, also in international markets. This study highlights that local setting can represent a critical issue for better understanding BMI within SMEs.

Summarizing all these findings, the approach of strategic dualities to the BMI can be divided into three groups. The first group includes an approach where SMEs “deny” or ignore

tensions and adapt their BMs to one of the poles of duality, which can be a successful strategy for optimizing a BM in the short term, but not in the long run. The second group includes the approach of gradual adjustment, where tensions (explicitly recognised or not) are resolved by incremental changes, as we find in our research. In this approach, the subordinate pole of duality is reflected as a certain inconsistency within the BM. The third approach is a radical innovation of the BM, where the identified tensions are resolved by overcoming or integrating them. The latter approach is the most demanding and has not been found among the companies included in the survey, but some examples are mentioned in the literature.

To properly understand our findings, it is worth considering a number of limitations. We recognise that the study results are influenced by a small number of SME involved, a specific national culture, a type of industry sector and a proportion of small companies. While the national culture and industrial context will impact SMEs' perspectives and results, the emerged dualities are likely to be similar, but we cannot claim this with certainty. Here we see an opportunity for further research. In this respect, we can extend the geographic region and the range of industries, but more significantly, we can start to explore different gender perspectives, entrepreneurial orientation and forms of organisational ownership (e.g., third sector, family business, partnerships, franchises).

A second limitation could be argued in that SMEs' dilemmas vary due to their strategy, mission and market orientation, so they are difficult to compare and unify when using inductive methodological approaches. This is indeed a challenge, but as established earlier, the main research approach of the paper is a process, and the process can be used to explore different organisational settings as well as paradigms or philosophical domains.

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*Table 1: Characteristics of involved companies*

| <b>Company</b> | <b>Industry</b> | <b>Size of company</b> | <b>Established in</b> | <b>Number of employees</b> | <b>Annual turnover (Eur)</b> |
|----------------|-----------------|------------------------|-----------------------|----------------------------|------------------------------|
| F              | agriculture     | small                  | 2005                  | 12                         | 1.124.000                    |
| KM             | agriculture     | small                  | 2003                  | 10                         | 1.340.000                    |
| KM1            | agriculture     | medium                 | 1991                  | 94                         | 9.058.000                    |
| M              | construction    | medium                 | 1991                  | 70                         | 25.773.000                   |
| M1             | construction    | medium                 | 1996                  | 48                         | 18.360.000                   |
| E              | logistic        | small                  | 2007                  | 10                         | 5.840.000                    |
| P              | tourism         | medium                 | 2010                  | 209                        | 28.350.000                   |
| P1             | tourism         | medium                 | 2007                  | 111                        | 8.217.000                    |