

# Chapter 34

## Strategic Learning for Agile Maneuvering in High Technology SMEs

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### ABSTRACT

*This chapter illustrates four interrelated strategic learning processes, namely knowledge creation, dissemination, interpretation, and implementation, that are critical in ensuring the effective and rapid renewal of the core capabilities of technology-based small and medium-sized enterprises (SMEs). Based on a cluster analysis of 182 Finnish software companies and information from illustrative case examples, the chapter highlights success factors related to strategic learning practices necessary for survival and prosperity in the highly dynamic IT industry. By offering a consistent strategic learning framework and multiple practical examples, the chapter provides SME leadership teams with practical suggestions to facilitate strategic learning. In addition, the chapter considers learning traps that prevent firms from renewing their capabilities and highlights practices to avoid those traps to facilitate strategic learning in technology-based SMEs.*

### INTRODUCTION

How do organizations survive in the face of rapid technological and market change? This question has become central across industries where technological and competitive landscapes undergo constant and rapid change. In this environment, firms need dynamic capabilities, such as strategic agility, for rapid renewal (Doz & Kosonen, 2008, 2010). An agile firm is able to rapidly renew and transform its core capabilities and adapt to changes in technologies, ecosystems, and competitor behaviors. Recent studies have suggested that for firms to be agile they need strategic learning capabilities to effectively absorb, evaluate, distribute, and integrate new knowledge to foster accelerated innovation and renewal

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(e.g., Berghman, Matthyssens, Streukens & Vandenbempt, 2013; Kuwada, 1998; Mintzberg & Waters, 1985; Thomas, Sussman & Henderson, 2001). We define strategic learning as an organization's dynamic capability that consists of the four sub-processes of knowledge creation, dissemination, interpretation, and implementation. Unlike other forms of organizational learning, the concept of strategic learning is commonly used in reference to learning behaviors and processes that facilitate a firm's long-term adaptive capability (e.g., Kuwada, 1998; Mueller, Titus, Covin & Slevin, 2012).

One of the central arguments for strategic learning capability is a firm's ability to avoid exploitation traps (e.g., Berghman et al., 2013; March, 1991; Sirén, Kohtamäki & Kuckertz, 2012) that emerge from historical success and blind the firm to developments taking place around it. The firm becomes satisfied with its present state and disregards the need for continuous strategic maneuvers necessary when competitors commoditize their products, services, and ecosystems (Doz & Kosonen, 2010). This happened to Nokia, once the world's leading mobile phone manufacturer<sup>1</sup>; the firm rapidly became commoditized, first by Apple and the IOS operating system, and later by Samsung and the Android operating system. Trapped by its investment in the Symbian operating system and lacking the ability to create a new platform for touchscreen smartphones, Nokia lost its competitive edge against Apple and Samsung. The reasons for Nokia's failure are multitude, but at the core, as industry analysts and researchers suggest, Nokia became trapped by not only its investments in Symbian, but also its path dependent capabilities and historical success. This example illustrates how companies accustomed to effectively exploiting their existing resource base may sacrifice their future due to exploitation traps (Kuckertz, Kohtamäki & Körber, 2010). Exploitation traps have mostly been considered a problem of larger and well-established firms, yet the problem is particularly evident in SMEs that lack finance and other resources to accelerate renewal of their business models.

The existing research on dynamic capabilities has ignored new ventures and SMEs, and as a result, researchers (e.g. Zahra, Sapienza & Davidsson, 2006) have called for studies on learning capabilities of SMEs. Moreover, recent studies (e.g., Berghman et al., 2013, p. 40) highlight that the "insights into the specific organizational mechanisms that enhance strategic learning is still limited." Through the application of emerging strategic learning literature, supported by cluster analysis of 182 Finnish software companies accompanied by four innovation-intensive SME cases, we provide insights on strategic learning practices in a highly dynamic IT industry characterized by intense global competition, short product lifecycles, and continually changing customer needs. Although they comprise a small proportion of the total population, these innovative and agile SMEs offer interesting examples from which others can learn. By offering a consistent framework and multiple examples, this chapter provides practical suggestions of means to manage strategic learning in SMEs.

## **BACKGROUND**

At the heart of strategic management research is the finding that firms compete with core competencies and strategic capabilities embedded in the organization that develop over time through organizational learning processes (Levinthal & March, 1993). An organization's ability to learn has been argued to be the most important and perhaps the only source of a firm's sustainable competitive advantage (Levinthal & March, 1993; Mintzberg & Lampel, 1999). The role organizational learning plays in a firm's survival is particularly evident in dynamic environments such as high technology settings where the value of knowledge rapidly diminishes and new capabilities needs to be acquired. For growth-oriented SMEs, the

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