Digitalization and Growth of SMEs

Dr. Sanna Joensuu-Salo
SeAMK International Week 16.2.2021
What is growth?

<table>
<thead>
<tr>
<th>SeAMK MODEL IN REGIONAL SMEs</th>
<th>&quot;want to grow&quot;</th>
<th>&quot;nice growth&quot;</th>
<th>&quot;high growth&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>No growth but high growth intentions</td>
<td>5-19 % continuous growth</td>
<td>20 % or higher continuous growth</td>
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**CUMULATIVE GROWTH**

**CONTINUOUS GROWTH**

**GROWTH IN TURNOVER**

**EMPLOYEE GROWTH**
Growth Ecosystem

ABILITY
- PERCEIVED ABILITY

NEED
- PERCEIVED NEED

OPPORTUNITY
- PERCEIVED OPPORTUNITY

GROWTH MOTIVATION

GROWTH STRATEGY
Organic and/or External (Acquisitive)

Pre
- Searching acquisition target

Acquisition
- Acquisition

Post
- Integration

ACTUAL GROWTH

Antecedents of growth – pre phase
Implementation of growth

role of ecosystem actors of ecosystem
Three mainstreams in research

ANTECEDENTS OF GROWTH

GROWTH PROCESS

GROWTH OUTCOME
What is digitalization?

- Analytical tools, sharing platforms, IoT, mobile devices, applications etc.
- Digitalization and servitization → new business models
- Transforming the value-creation logic
Effects Of Digitalization (Kuusisto 2017)

1. Organizational structures
2. Digital innovations
3. Organizational learning
4. Organizational agility
5. Business ecosystems
Study 1: Qualitative Case Studies

Objectives:
1) to increase understanding of how digitalization affects pre-factors for growth,
2) to examine how digitalization transforms the growth process (especially growth strategies), and
3) to examine how digitalization is apparent in the outcome of growth.

Six SMEs from South Ostrobothnia

“Strategic flexibility as handling the change by exploiting the opportunities arising”
Methodology

1. Digimat measurement test: the current state of digitalization, the digitalization target level of a company, and its capability to digitize its operations. *Group interviews.*

2. Qualitative interviews with operational managers: history, development, growth strategies, digitalization, and future goals for digitalization.

<table>
<thead>
<tr>
<th>Themes</th>
<th>Description</th>
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<tbody>
<tr>
<td>Theme 1</td>
<td>Growth strategies (Ansoff 1957)</td>
</tr>
<tr>
<td>Theme 2</td>
<td>Digital orientation (Zhou et al. 2010)</td>
</tr>
<tr>
<td>Theme 3</td>
<td>IT capabilities and exploitation of new information resources (Matzler et al. 2018)</td>
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<tr>
<td>Theme 4</td>
<td>IT capabilities and integration of new innovative technologies in the processes (Kuusisto 2017)</td>
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</table>
Results

Digitalization occurs as a pre-factor of growth in two ways:

1. Digitalization creates new markets and opportunities.
2. The company’s digital capability creates new business and growth (capabilities).
Digitalization is visible in the **growth process** in four ways:

1. *Market penetration*: harnessing digitalization in acquiring new customers and developing existing customer relationships, especially in terms of digital marketing communications.

2. *Product development*: adding intelligence to products, utilizing digital technology in product development processes, especially big data and information management.


Digitalization is reflected in the outcome of growth in four ways:

1. Realized growth affects future growth goals, creating learning for growth. A firm can continue to pursue growth by investing in digitalization.

2. A pioneering approach to digitalization and realized growth will continue to contribute to the development of absorptive capacity. Staff development and learning is a key factor, as is investment in competence development and continuous learning. A pioneering strategy can open access to new networks, which in turn enable new growth opportunities.

3. Materialized growth also creates challenges for the development of processes through digitalization. Digitalization enables growth management in many processes.

4. Growth and a pioneering approach to digitalization create reputation capital for a company, reputation capital in turn creates competitive advantage.
Results

STRATEGIC FLEXIBILITY

- Digitalization opportunities
- Digitalization capabilities
- Digital market penetration
- Digital product development
- Digital market development
- Digital diversification

- Digital processes
- Digitalization strategy
- Digital integration of networks
- Reputation for digitalization
- Learning via digitalization

PRE-FACTORS FOR GROWTH

GROWTH PROCESS

GROWTH OUTCOME
Study 2: Quantitative study

• The effect of digital capability on firm performance and growth, the effect of firm size
• 242 SMEs in South Ostrobothnia
• Structural equation modelling

<table>
<thead>
<tr>
<th>SMEs in the data</th>
<th>Cumulative growth in three years</th>
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<tbody>
<tr>
<td>32 %</td>
<td>At least 30 %</td>
</tr>
<tr>
<td>12 %</td>
<td>20-29 %</td>
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<tr>
<td>11 %</td>
<td>10-19%</td>
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<tr>
<td>45 %</td>
<td>under 10 %.</td>
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Results

- Digital Capability: $r^2 = 0.03$
  - Non-financial performance: $r^2 = 0.45$
  - Firm size: $r^2 = 0.05$

$\text{Digital Capability} \rightarrow \text{Non-financial performance}$: $r = 0.59^{**}$
$\text{Digital Capability} \rightarrow \text{Firm growth}$: $r = 0.24^{***}$
$\text{Firm size} \rightarrow \text{Non-financial performance}$: $r = 0.22^{***}$
$\text{Firm size} \rightarrow \text{Firm growth}$: $r = -0.07$
<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Supported/Not supported</th>
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<tbody>
<tr>
<td><strong>H1:</strong> Digital capability has a positive relationship with firm performance.</td>
<td>Supported.</td>
</tr>
<tr>
<td><strong>H2:</strong> Digital capability has a positive relationship with firm growth.</td>
<td>Supported.</td>
</tr>
<tr>
<td><strong>H3:</strong> Firm size has a positive relationship with firm performance: larger firms have higher firm performance.</td>
<td>Supported.</td>
</tr>
<tr>
<td><strong>H4:</strong> Firm size has a negative relationship with firm growth; smaller firms grow more.</td>
<td>Not supported.</td>
</tr>
<tr>
<td><strong>H5:</strong> Firm size has a positive relationship with digital capability; larger firms have higher digital capability.</td>
<td>Supported.</td>
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Future research

• Digitalization, sustainability and growth
• SME business transfers and digitalization (strategic renewal)
• Women entrepreneurship, digitalization and growth
Questions?
Own experience?
Ideas?

*Thank you!*