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Understanding the Microfoundations of Digital Transformation in SMEs

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UNDERSTANDING THE MICROFOUNDATIONS OF DIGITAL TRANSFORMATION IN SMEs

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Abstract

This paper aims to explore an in-depth understanding of digital transformation (DT); its process, initial conditions, dynamics, and successful outcomes within a single small business setting that presents a context-rich environment for microfoundational research. We employ inductive research and derive theory from experience. Our chosen case study shows that digital transformation is neither straightforward nor fast as the acquisition of digital technologies suggests. DT is a dynamic process that requires mindset and ST as co-mechanisms. Strategy transformation (ST) is about the strategic renewal of the business in response to changes in its environment through integrating all aspects of business strategies (i.e. human resources, market(ing), innovation, and networks). Mindset transformation (MT) as a construct that represents cognitive aspects is pivotal to microfoundations of DT. It has a process of its own and is at the core of microfoundations since it starts at the individual level (e.g. owner-manager); but for it to create a transformative effect at the organisational level, the management and the employees need to transform their mindsets. Overall, MT is needed to fight against rigid organisational routines and to alter the organisational culture for the better. Most importantly, all these transformation processes are endorsed with existing and emergent dynamic capabilities. Dynamic capabilities may initially reside in individuals, such as the founding/owner managers whose sensing and seizing capabilities come from their distinguishing entrepreneurial characteristics, yet a transfer of these capabilities to the organisational level over time is necessary and can be achieved through dynamics among MT, ST, and DT. Finally, we propose a ‘Digital Transformation Model’ that combines all these aspects.

1. INTRODUCTION

With the Covid-19 pandemic, the business environment has been so dramatically transformed digitally in such a short time that digital transformation (DT) has almost become a must-do for any organisation to maintain their competitiveness. While DT is undoubtedly important, how to achieve it is still an enigma for most SMEs.

Digitalisation has been determining the environment small businesses are operating for some time. Entrepreneurs see the opportunities it provides for their business growth but lag in seizing them due to the lack of resources and capabilities that will support undertaking such transformation. This paper focuses on unfolding DT within a small business to understand what resources and capabilities within small businesses influence successful digital transformation.

Approaching DT as a technology initiative driven by IT departments undermines the complexity surrounding DT in an organisation. Such an approach tends to treat DT as an 'outcome' rather than as a 'process'. For DS to occur, DT needs to emerge as a process that integrates with other processes within the organisation. On the one hand, clarifying business strategies might need to precede any DT so that the organisation has a clear and focused understanding of DT and its expected future impact on business performance. On the other hand, adopting new digital technologies might entail completely new strategy development and implementation within the organisation, which eventually becomes a business model change. In this sense, Wessell et al. (2021) contribute to our understanding of DT being distinct from information technology-enabled organisational transformation, where the former (latter) leads to redefining (supporting) an organisation's value propositions and creating a new identity (enhancing the existing identity). DT also requires new capability development to enact these new strategies ('transform' part of the dynamic capabilities) and to use the new digital technologies (digital platform capabilities) (Karimi and Walter, 2015). Li et al. (2017) show how DT goes beyond the introduction of transformative technology and requires complementary capability building within an organisation. At the core of some firms succeeding in their DT, while others fail, lies their ability to harmonise their existing and new strategies (i.e. strategy transformation – ST) and develop dynamic capabilities that enable them to sustain performance for a considerable amount of time.

A major hindrance to DT within the organization is the societal concerns that surround the use of digital technologies in the workplace. These concerns largely focus on the human perspective of DT and boost fear among employees. This kind of view defeats the whole purpose of DT before it begins (i.e. creating efficiency, improving productivity, and leading to sustainability). Entrepreneurs/owner-managers can be readily or more easily convinced of the benefits of DT for their organisation; however, when employees are not on board, e.g. computer-generated data at the back-office operations is difficult to utilise for the management of efficiency improvement. An open-minded approach to changes through DT, in some cases a complete transformation of mindset, go hand-in-hand with DT (Farias et al., 2020). Such mindset transformation (MT) not only refers to changing the mindsets of employees but also of the management who may not fully understand what DT means for their business. Hence trillions may be spent on DT without achieving its potential (Tabrizi et al., 2019).

When the MT is also incorporated into the abovementioned way ST and DT are aligned, DT becomes a strategic process that can empower pivoting business activities rather than an

automatic outcome of technology acquisition limited to existing business operations. This process, we posit, naturally will be different for each organisation depending on its idiosyncratic characteristics, conditions, and capabilities.

This paper argues that research on DT needs a microfoundations perspective to fully capture the cognitive, behavioural, and strategic aspects of such transformation within organisations. It highlights the causal mechanisms that contribute to our understanding of how DT initiates and develops. We draw on the concept of microfoundations in organisation theory, management, and strategy to dissect the constituent parts that make up DT such as actors, structure, culture, routines, processes, and market, and to explicate how they successfully coadjute with co-mechanisms that each evolves from individual (micro) to organisational (macro) level (Barney and Felin, 2013). We look at where it is rooted in the organisation, how it is shaped, what co-mechanisms are needed to be in place, and what role dynamic capabilities played in this dynamic and intertemporal transformation. To do so, the paper qualitatively explores the processes underlying DT within the context of SMEs and, using inductive theory building, develops a model of successful DT.

Our research follows a single case study design of a small company located regionally in the UK with a branch in France. Considering the impact of the Covid-19 pandemic, we have to highlight early on that the company we chose for our case study crucially did not wait for a crisis to make this change happen, rather it was digitally ready to reap the benefits when the pandemic hit. Timely conduct of DT brought it superior performance both during and after the Covid-19 pandemic.

Our case findings for ‘how DT occurs’ suggest that that DT does not happen in isolation, and it does not happen in one attempt. It is a continual and dynamic process that works together with co-mechanisms (MT and ST) that precede (lead to) and succeed (become a result of) the DT processes at different stages. Our case demonstrates how DT enforces organic radical growth in firms and leverages its external networks and alliances (Pagani and Pardo, 2017). As digitalisation determines the environment the firm is in, the entrepreneur sees the opportunities it provides for growth. As Penrose (1959) argues, managers play the key role in balancing the limited firm resources and devising strategies in determining the rate and direction of growth. However, when the firm does not have the managerial capacity to undertake such transformation for growth, the entrepreneur needs to work toward attracting/developing the right foundations for managerial resources and capacity. This process relies strongly on the firm’s organisational capabilities.

By uncovering the microfoundations of this dynamic and intertemporal process in a small, entrepreneurial firm, our findings contribute to the DT research by enhancing our understanding of the need for overall organisational transformation to achieve successful DT. Such transformational change involves MT that needs orchestration from individual to organisational level and ST that embraces a range of business strategies, starting with human resources strategy and extending it to market/marketing, innovation, networking strategies, etc.

The paper is structured as follows. Section 2 examines the theoretical background to digital transformation and microfoundations and sets the transformation-related concepts shedding light on the microfoundational case study analysis that takes place in section 6 and the model that derives from that analysis in findings section 7. Section 3 describes the research

methodology while Sections 4 and 5 introduce the case study and the industry respectively. Section 8 concludes.

2. THEORETICAL BACKGROUND

2.1 Conceptualising Digital Transformation

Most often digitalisation and DT are used interchangeably. Both are concerned with the changes that digital technologies cause in a firm's business model, products, processes, and organisational structure (Matt et al. 2016). It is however useful to distinguish DT from digitalisation as a more overarching concept. Digitalisation refers to the adoption and integration of digital technologies into the core business operations. These digital technologies range from the simple use of the internet and social media and the creation of a website for online sales to buzzwords such as Big Data, Artificial Intelligence, Industry 4.0, and the Internet of Things. They become 'enabling' technologies (Teece, 2018) for enhancing efficiency and productivity. Their use depends on the maturity of the level of the organisation regarding processes and capabilities, and therefore there are discernible differences in DT processes and rates between large and small companies as well as between the manufacturing and services sectors (Rummel et al., 2021; Frank et al., 2019; Liere-Netheler et al., 2018).

Most importantly, there is no clarity around the definitions of digitalisation or DT. Vial (2019) identified circularity, unclear terminology, and the conflation of the concept and its impacts. The underlined impacts centre on improving existing business models, creating new revenue and value-added opportunities (Fitzgerald et al, 2013; Matt et al, 2015; Demirkan et al., 2016; Liere-Netheler et al., 2018), radically improving the performance of organisations (Westerman et al., 2014; Bekkhus, 2016) and enhancing the productivity of organisations by bringing improvements and efficiency to the processes (Berghaus and Back, 2016; Paavola et al., 2017; OECD, 2019). Through the semantic decomposition method, Vial (2019:121) "constructed a conceptual definition of DT as '*a process that aims to improve an entity by triggering significant changes to its properties through combinations of information, computing, communication, and connectivity technologies*'" (original emphasis). This is an operational/working definition because it expands the context of DT from organisational to include the individual and societal contexts (Legner et al. 2017) – emphasising the different levels DT may take place in isolation or in addition to organisational level, and it treats the improvements as the expected outcome of DT, but not necessarily realised (Wacker, 2004: 393) – underscoring the ongoing nature of DT. The fuzziness around the definition of digital technologies is also overcome by the adoption of Bharadwaj et al.'s (2017) attempt to link these technologies to their operational use and purpose.

There is a consensus though around how digital technologies that emerged externally to the business lead to fundamental changes and transformation in business strategies and structure, business processes and models, firm capabilities, products and services, and key inter-organisational relationships in business networks (Matt et al. 2016; Bharadwaj et al., 2017). These transformational changes happen when digital technologies are successfully embedded throughout the organisation (Kapoor and Teece, 2021) either through a bottom-up approach that introduces digital technologies into the existing processes to optimise them (most often observed in the manufacturing sector) or through a top-down approach that focuses on changing the business models (often observed in the services sector). Examples of the former consist of empirical studies focusing on the application of Industry 4.0 and blockchain technology in the context of supply chain management (Federico, et al., 2020) while an

example of the latter is Uber's business model as a result of market opportunity the founders spotted in the way people use their mobile phones (Kane, 2017).

Either way, they indicate that DT is part of organisational transformation, closely linked with strategy, management, and organisational behaviour. Both the academic and practitioner-based studies emphasise the role of strategy in driving DT to create new value and competitive advantage for organisations (Capgemini Consulting, 2011; Demirkan et al., 2016; Bharadwaj, et al., 2017). At the same time, the role of leadership and top management as drivers of DT are highlighted for a successful outcome (Capgemini Consulting, 2011; Fitzgerald et al, 2013). DT is situated at the nexus of technological, organisational, and market elements of strategy. It requires a redesign of organisational processes and routines, alignment between firm strategies and firm employees' acceptance and adoption of new digital technologies, and it keeps customer needs and expectations at the centre of attention. As it induces a change in organisational culture internally (i.e. employees) and externally (e.g. networking relations with partners), DT involves the management of many inter-related actors at individual to organisational levels, whose mindsets need to align with initiatives of DT and strategies (Solberg et al, 2021).

We argue that DT is not a simple prescription of strategy but requires a combination of cognitive and strategic management mechanisms that enables its success. Without shifting into a certain mindset, it is difficult to implement DT even if supporting strategies are in place. In turn, a successful DT regenerates a change in the individuals' viewpoint towards what productivity and growth mean for their organisation and changes in overall organisational culture. Moreover, while a strategic approach to DT is required, DT in turn transforms firm strategies and operations by leveraging a holistic and integrative strategy development within the organisation. We have little understanding of this dynamic process (Vial, 2019).

However, in practice, gaining these transformational effects from new digital technologies prove hard for many firms (Capgemini Consulting, 2011). Frameworks are emerging to endorse organisations in their DT (Hess et al., 2016; Tabrizi et al., 2019; Vial, 2019; Federico et al., 2020). After large-scale failed DT programmes by large corporates such as General Electric, Ford, and P&G who invested £1.3trillion, new approaches to DT become necessary to eliminate underlying reasons such as the lack of effective communication of their goals, strategy, purpose, and outlook with their employees. Moreover, despite the emphasis on DT's ability to create new values, the empirical evidence for how DT is implemented to create new values is still scarce. DT is particularly not well understood by SMEs who either find it financially beyond their capacity or they may not know where to start. This paper aims to propose, not a new framework for DT, but a new perspective on DT and its role in firm growth. In particular, how it is part of a bigger transformation within the organisation and why it requires a dynamic alignment with mental dimensions beyond the operational and strategic management.

2.2 Microfoundations, routines, and dynamic capabilities

To address this knowledge gap, we employ microfoundations research which seeks to understand actor/individuals and their social interaction, processes and/or structures to explain the *origins* and nature of the organisational-level phenomenon ((Felin et al., 2012:1353; Barney and Felin, 2013: 2012, italics in original). In their research, Eisenhardt et al. (2010:1263) define microfoundations as the underlying individual- and group-level

actions that shape strategy, organisation, and dynamic capabilities in achieving superior organisational-level performance. A microfoundational perspective is applied to empirical studies on small organisations, as it sheds a deeper light on the processes by putting the individuals' actions, behaviours, decisions, and capabilities at the core of analysis (Miron-Spektor et al., 2018; Zimmerman et al., 2020; Al-Atwia et al., 2021, Scuotto et al., 2021, Gutierrez et al., 2022).

In this sense, microfoundations research assumes a *methodological* purpose (Barney and Felin, 2013: 2012, italics in original) and 'provides a bridge for empirical investigation' (Storbacka et al., 2016). We draw on microfoundations research when undertaking the analysis of DT. We seek to explain microfoundations of DT by looking at the initial conditions/origins of DT where the individuals become the 'starting points' as well as 'a natural stopping point' (Barney and Felin, 2013: 2013), and examining the overall evolutionary process of DT as a result of emerging behaviours and choices of individuals and their social interaction within the organisation.

Due to the interest in individual-level constructs, organisational routines and capabilities that are devised by the actions and beliefs of individuals (Felin et al., 2015) have been central to microfoundations research. Levitt and March (1988: 320) explains routines as the forms, rules, procedures, strategies, and technologies through which organisations function and operate (i.e. getting things done). They play a significant role in developing organisational codes and cultures. However important they are as 'building blocks', routines can become a source of inertia (Teece, 2012) and/or a 'blocking point' to improvements in the business. Moreover, these routines may support ordinary capabilities within the organisation, but not necessarily the dynamic capabilities (Teece, 2012).

Dynamic capabilities as a distinguishing feature among the firms are acknowledged to be an important competitive advantage (Kay et al. 2018). Teece et al. (1997) defined dynamic capabilities as a superior ability of an organisation to sense new opportunities in its environment and seek those opportunities by continuously adapting, integrating, and reconfiguring its key assets and competences. They oversee the change in ordinary/operational capabilities and the commitment to specialised resources (Karimi and Walter, 2015).

Dynamic capabilities are about being agile to influence the firm's capacity and skills to respond and adapt to changing business environments and especially during uncertainty (Teece et al. 2016), which megatrends such as digital transformation can impose on organisations. In addition, the small size brings flexibility for SMEs to respond promptly to market shifts. In small businesses, founding/owner-managers act as the creative entrepreneur and manager, with their ability to sense and seize opportunities, and become the main source of dynamic capabilities when the business is small. So, until its growth and/or transformation process starts, dynamic capabilities in a small firm tend to be held in an individual rather than at organisational level; when this happens, organisational dynamic capabilities cannot be equal to an aggregation of routines (Teece, 2012: 1397). Any transformation requires organisational level first-order dynamic capabilities that to address the resources-processes and values (Karimi and Waler, 2015). The leadership skills of the owner-managers are defining to ease the transfer of the dynamic capabilities from the individual level to the organisation level (Schoemaker et al., 2018).

Teece (2012) also highlights the gap in research on the link between individual and managerial dynamic capabilities, whose main role is to periodically, if not continuously, orchestrate assets and implement renewal as well as redesign the routines. He urges further in-depth qualitative research. Microfoundations research, by examining ‘the underlying individual-level and group-level actions that shape strategy, organisation, and more broadly, dynamic capabilities, and lead to the emergence of superior organisation-level performance’ (Eisenhardt et al. 2010: 1263), establishes/builds this bridge.

Microfoundations research allows us to diagnose the source of problems and challenges an organisation faces and to understand how it determines a guiding strategy that builds on the competitive advantage and dynamic capabilities of the organisation. Dynamic capabilities enable the firm to instigate a transformation, particularly when combined with the right strategies and rest on entrepreneurial competences (Teece, 2012). However, DT is not an ordinary transformation, alas it is a clean break from most of the things the organisations used to do, that enforces the development of new strategies, structures, routines, and capabilities (e.g., digital).

Extant literature asserts that DT leads to positive outcomes when aligned with strategic objectives, yet there is insufficient literature to support this claim (Li, et al. 2018) nor is there a clear understanding of how DT takes place in SMEs. If any theory regarding DT is going to emerge, the empirical research needs to target a deeper understanding of the concepts that allow such transformation. To address this knowledge gap, we apply the microfoundations approach to understand how DT is successfully implemented and to offer a granular insight into the dynamics and mechanisms of DT in relation to the changes in routines, dynamic capabilities and business strategies at individual and organisational levels.

3. THE CASE STUDY METHOD

We aim to explore an in-depth understanding of DT, its process, initial conditions, dynamics, and successful outcomes within a single setting. The study of individual company histories is a relevant avenue for such inductive research that can pave the way for deriving theory from experience. Hence, in this paper, we adopted a qualitative exploratory approach to provide a more in-depth analysis of the DT a small company has gone through (Miles and Huberman, 1994). A case study method satisfies two complementary reasons to this study (Eisenhardt, 1989; Yin 1994). First, we aim to unpack a ‘how’ question in a context-rich environment that cannot be easily quantified, and second, the DT process is indeed a complex phenomenon that is embedded in the organisational context.

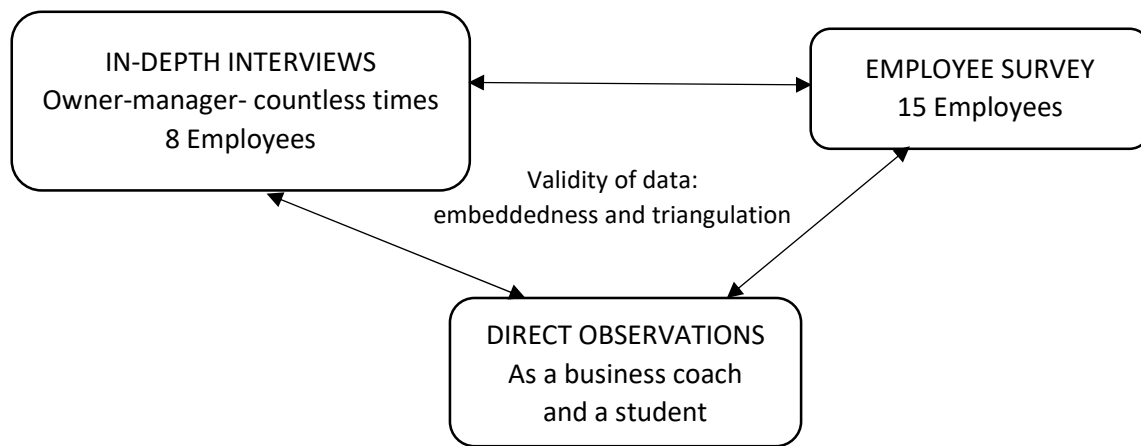
Following an inductive research approach, we use theoretical sampling (Eisenhardt and Graebner, 2007; Glaser and Strauss, 1967). Since the representativeness of the chosen case is not the main concern, the use of a single case study will serve the purpose of unfolding unknowns about the SMEs’ experience in DT in greater depth through a more dynamic and contextual understanding rather than limit the generalisability of our findings to other SMEs.

We selected Music Learning Collective (MLC) as the case organisation for our study. Its experience allows us to explore, elaborate and examine a relatively unknown process of DT. We are driven by how the conceptual framework will emerge given the *conditions* under which the DT operates. MLC’s DT process is particularly illuminating from a microfoundational perspective (Eisenhardt and Graebner, 2007). Although MLC appears as a

successful case of DT, the dynamics of, and mechanisms involved in, this process are surprisingly intricate with ups and downs in social interactions of individuals, providing us with a rich empirical insight (Yin, 1994).

While preparing the case study we used two main sources to gather information about the chosen company (Figure 1). The first source is the first-hand access of one of our authors to the company as a student (i.e. participant observation) and as a business coach to the owner-manager in particular and the company in general (i.e. ethnography) in the last eight years (2015 onwards). During these eight years, he immersed himself in the MLC community; interacted with the music tutors as a student and participated in and observed their meetings as a business coach. He played a significant role in influencing strategic changes at the individual (i.e. owner-manager) and organisational levels. He also had the chance to observe the process of DT MLC went through step-by-step. Hence, we have the ability to provide a longitudinal case study with rich information and data that supports our research interest.

Figure 1: Research Methodology Design



The second source is the interviews with the CEO, who is also a co-author of this paper providing us with an opportunity to validate all the information utilised for the analysis, and with 8 of 15 employees (i.e. managers and music tutors). The third source is the employee survey in which all 15 employees participated. Other sources that were used to triangulate the information during the writing up of the case study involve the archival data from the company websites, news and interviews in the company website's blogs, online interviews held by the owner-manager with Arts Awards and RSL Awards, the website of the organisations MLC partnered with (i.e. Confetti and Marshall).

A key characteristic of the research method employed is 'engagement', which involves sustained and continuous interaction between an academic and an entrepreneur in an organisational setting, and which leads to the co-creation of research that is relevant and impactful (Van de Ven and Johnson, 2006).

4. THE OVERVIEW OF MUSIC LEARNING COLLECTIVE (MLC)

Music Learning Collective (MLC) is a small business operating in the music education sector in Nottingham since 2007. The founding/owner-manager of MLC, Paul, set up his first business to run his music activities as a professional drummer, drum tutor, author of drum

tuition books, and recordings with or for other musicians. He then established MLC as a centre of excellence focusing on teaching instruments in the rock music genre, such as acoustic and electrical guitar, piano, bass, ukulele, drums, and vocals through one-to-one lessons. The company has expanded its teaching into music theory and music production for complete musicianship. As a contemporary career path, the company also offers lessons and programmes in music technology, which is a fast-growing specialism in the music industry with a completely different skill set than being a capable musician and helps develop skills as a performer. Covering the teaching side of the music education sector, the company also provides work experience, apprenticeships, and higher education level diplomas in teaching, performance, and creative enterprise.

Paul has also become the third shareholder in a music shop owned and run by one of his music colleagues in 2014. This business facilitated students' access to specialist advice and support in choosing musical instruments and all the equipment and tools they need on their journey to become a musician, a partnership that could be taken as the first of many complementary partnership MLC started to get involved with.

The music school has exceptionally taken off since 2015 by going through a combination of MT, ST, and DTs and is continuing to grow with three companies covering the music school's operations (MLC Nottingham LLP, MLC Group Ltd, MLC CIC,).

After initial steady growth, following the 2008 Global Financial Crisis, MLC started to feel the financial pressures by 2010 with a significantly declining number of students. An optimism for continuing business development emerged in 2011 when a professional drummer colleague of Paul franchised the MLC brand name and set up MLC Marseille in France in 2012. So, MLC became **MLC Nottingham** to distinguish between locations. In 2014, however, the number of students in MLC Nottingham further reduced, and the company came close to closure due to a sense of frustration.

Around this time, one of our authors, became MLC's student, and finding out his expertise on SME growth and development, Paul became interested in getting support from him as his business coach. Their journey started with Paul explaining his vision for his business and the business coach identifying entrepreneurial traits and strategic actions to overcome blockages for business to grow in the way Paul envisaged, which was based on Paul's music education philosophy of creating a community-based school that provided guidance, motivation, industry insight, support and opportunity to the entire collective - be they administration, tutor or student, at the international level.

Paul needed to prioritise the music school over the other businesses because their future success was depended on its success. Hence, over time, the school developed into an inclusive music school for students of all ages and abilities. However, the route to success was not troublefree.

The shareholder structure of MLC Nottingham has significantly changed, incorporating 3 new directors in addition to Paul. The number of staff increased to 23 in 2021; that of music tutors from 5 in 2007 to 19 in 2021. The company has a turnover that corresponds to a growth of more than 30% per annum. The loss in the number of students due to the Covid-19 pandemic was around 18% in 2021, but this did not significantly impact the company's financial situation.

The business structurally transformed through a geographical expansion within East Midlands region with three further franchises (MLC Leicester, MLC Loughborough and MLC Derby), and becoming a Group company by 2019 – **MLC Group Ltd** – which has become the owner and licensor of the intellectual property rights. The business relaunched in February 2022 as **Music Learning Collective CIC**, a community interest company, after the growth process through DT.

The DT the company went through in its education systems and business processes reduced the costs of replicating the business in other locations and made growth through setting up franchises possible.

5. THE RAPIDLY CHANGING MUSIC INDUSTRY, PHILOSOPHY AND VISION FOR MUSIC EDUCATION

The music industry is considered a creative industry for obvious reasons (Li, 2020). However, creativity in music no longer relies solely on raw talent. It is largely shaped by technological changes that have been occurring since the early 2000s (Bessant, 2014). Particularly digital technologies significantly influence the improvements and innovation in the business models of music production companies (Li, 2020). Moreover, after our experience with the Covid-19 pandemic since March 2020, it has become well-known that digital/online platforms created by businesses have transformed their markets. In the service sectors, such as education, online platforms not only eased the access of businesses to a wider range of consumers but also brought flexibility to the ways consumers accessed a wider range of services without compromising on time, space, and cost.

MLC educates and prepares the talents and the workforce for the music industry. Being a supplier to the music industry, the music education sector is expected to align its services in line with the transformation of the music industry. While there were developments initiated and shaped, for instance by the non-profit organisation National Association of Music Merchants (NAMM), this transformation has been rather slow. NAMM, whose tradeshow in California Paul has long been attending, has a vision that is built on promoting the joys of music in our daily lives by learning and making music at any age. Early on, NAMM established NAMM U which provides educational programmes and online resources for its members, which Paul attended over the years. Paul was so immensely inspired by NAMM's activities and programmes that he developed his own philosophy for music education to reach everyone interested in music at all ages and abilities and to create a music community that shares similar values, interests and enthusiasm. He believed in, and focused on, creating a community-based centre of excellence with MLC.

For a long time, however, the norm in the industry was private small music education companies offering music lessons to individuals who took up learning a musical instrument as a hobby or for fun. In the last two decades, however, parents have become interested in more structured music lessons for their children, as scientific research showed that music education allows children to develop better mentally and academically, and also in gaining music qualifications from awarding bodies. The changes in consumers' perceptions of music education and the permeation of digital technologies into the education sector in general started to gradually alter the environment for music education. Paul took a forward-looking business approach to take MLC from a company that offered music lessons in silo's into a dynamic and modern music school that would offer exciting opportunities and accredited pathways for both students and music tutors alike.

Paul did not have experiential knowledge from a variety of ventures to guide his business, yet he had something that can be deemed more valuable. Paul ‘sensed’ where the new frontiers of value are in his sector long before the Covid-19 pandemic made it apparent to all businesses: he was contemplating how digital technology would change music education as early as 2007, however, the technology was in its infancy and therefore was extremely expensive. In 2012, when Paul tried to integrate new technologies without success, digitalisation was not a very common way of pursuing business in the sector. The norm was one-to-one, face-to-face lessons. Only a handful of companies starting to take advantage of new technologies. By 2016, Paul re-initiated an undertaking of digitalisation within the business to realise his vision. The entire DT took 6 years.

Complementary to this vision, Paul developed a philosophy that he wanted to pursue and apply in his music school. He was aiming to go beyond the traditional methods of music teaching where the master is in control of what to teach, how to teach, how to keep track of progress, and when to decide it is time to move on to the next level. He wanted the community members to be a part of the music education where the student is involved in the decision-making process of what to learn and how to learn, the parent is given the opportunity to systematically follow the progress of his/her child, other organisations where the student is a part/member of (e.g. the school) are aware of his/her progress and successes achieved at MLC. This philosophy was the key to creating a community-based music education, as it would provide everyone involved the feeling of belonging where they can learn, share, and produce together. It, therefore, required generating a centralised system that also formalised the ways of working and enhancing their efficiency in terms of standardising procedures followed by MLC music tutors. Paul noticed, early on, that digital technologies could provide him with the tools to create this.

For further benefits he could see from incorporating digital technologies, he began this process in three ways: (i) having a CRM system to systematise the market development opportunities for the business, to have access to a wider range of consumers, and achieve consistency in overall business operations and procedures; (ii) activating a login area on the website that would facilitate the setting up, and the secure use, of digital technologies, such as learning management systems (LMS); and (iii) creating a broader and inclusive MLC community as explained above.

The implementation of integrating such digital technology required many aspects of the business and the individual responses to be taken into account. As an ‘opportunistic-entrepreneur’ (rather than ‘craftsman-entrepreneur’ (Smith, 1967)), Paul displayed orientation to the future and flexibility to change, however, making an organisation adaptable required a new level of strategy and leadership mind.

6. THE MICROFOUNDATIONS OF THE DT PROCESS IN MLC

The MLC case study revealed that there is always a crisis that triggers change within organisations, à la the Greiner (1972) model of revolution and evolution.¹ After the crisis point was identified, we first examined the blocking points that caused the crisis and then we

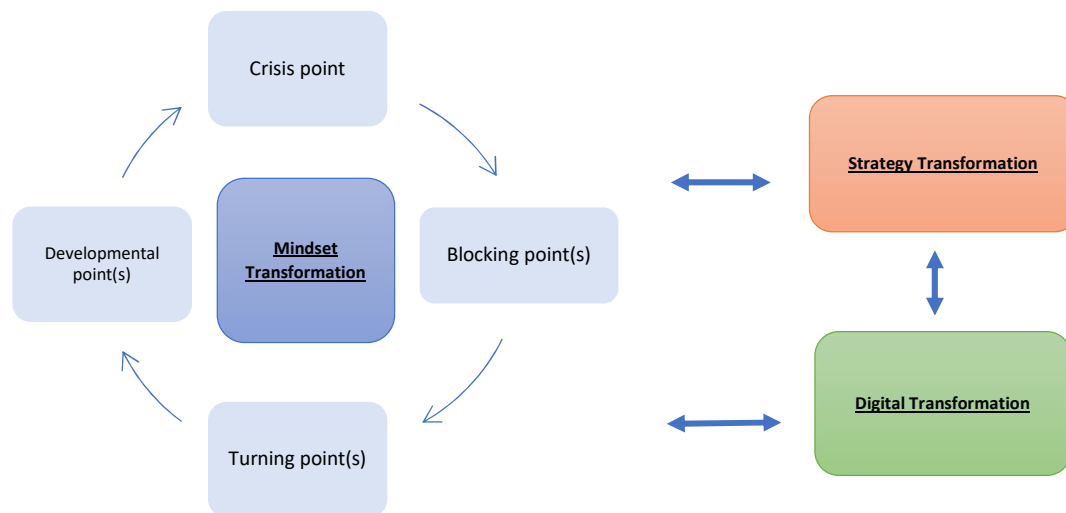
¹ Greiner’s model is based on a linear trajectory of growth phases in relation to strategic changes, and hence has no relevance to our context other than a particular crisis behaving as a revolution that leads to an evolution within the organisation.

pursued the evolution process through turning points and development points (Figure 2). Soon it became clear that every time crisis points emerged, a need for mindset change followed the course. The subsequent process of revolution and evolution was necessary for, and leading to, MT.

MT paved the way for successfully overcoming organisational rigidities, which often set back other forms of business transformation. Changing mindsets was so powerful that it enabled carrying out the needed changes and transformation either in strategic areas or in digitalising systems and processes within the company. In other words, the transformation of mindsets was integral to the development of other forms of transformation.

During the course of DT, we observe multi-level MT: it went from the individual level to the managerial level and employee level until it became an organisational behaviour that enabled bigger and ambitious projects. Figure 3 demonstrates the very dynamic overlapping process of transformations the company went through to achieve successful DT and below we provide a detailed explanation of it.

Figure 2. Dynamics between mindset transformation, strategy transformation and digital transformation



6.1 INITIAL CONDITIONS when the founding manager almost decides to close the business

6.1.1 The crisis point (CP)

Despite some successes and a franchise in France, in 2014, Paul was contemplating closing the business. The effects of the 2008 Global Financial Crisis started to deepen so much so that by 2014 it became a constant fight to keep the business trading. It had been a point of exhaustion for him mainly due to trying to manage a group of individualistic and sometimes very disruptive tutors (to be detailed below), the needs of a small cohort of students, and the governance of his businesses alongside teaching to make ends meet.

6.1.2 The blocking points (BP)

The financial difficulties, coupled with two issues that particularly made Paul realise that his vision for his business could never be achieved with disorganisation of business operations and activities. We call them *blocking points* (BP). One was related to the rigidity of organisational routines that resisted change and the other was related to the lack of strategic management.

BP1: Rigidity of organisational routines

The resistance toward the efforts to standardise the music education system within MLC

In line with his abovementioned philosophy, Paul had the desire to introduce a more standardised system that all tutors could follow. A strategic and non-routine change like this requires well-established support systems within the organisation. The downfall was the ‘ad hoc’ approach Paul and his co-managers had been pursuing since the inception of the business. Paul kept his vision for the business in his head, and neither shared them with anybody else in the company nor initiated any strategising to achieve them. Moreover, being a musician, initially, Paul had a flexible attitude towards the way tutors ran their classes and managed their master-student relationships. This led to an organisational system, which adversely affected the development of routines from the beginning with every tutor following a different routine based on their own experience, with no compatibility and comparability.

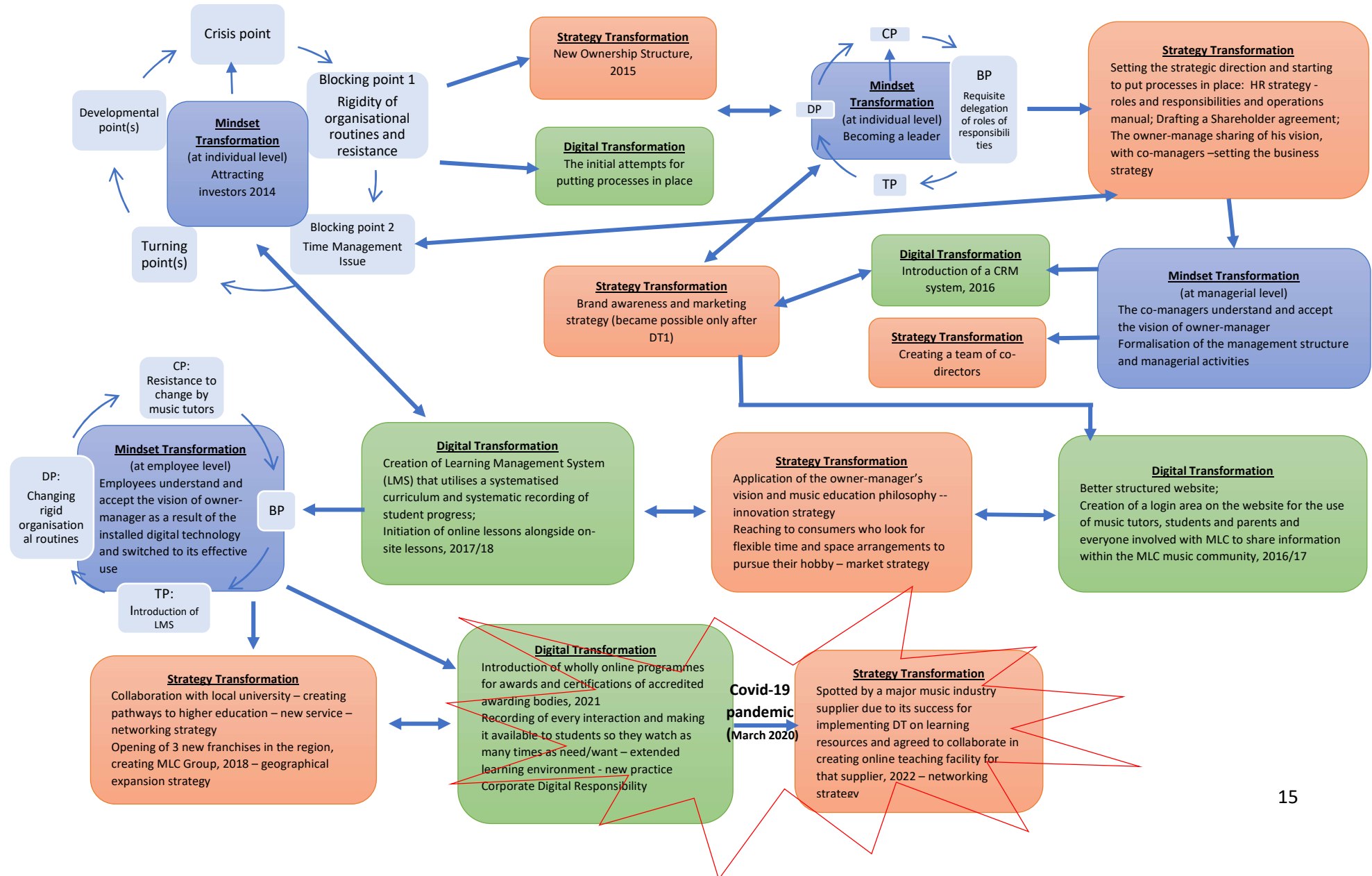
When Paul was considering closing the business, this problem was at its highest and dangerous levels. Managerial discretion was exercised excessively, and the tutors all established their own unique routines which collectively dictated the organisational routine. This flexible system without structure had become an obstacle to adaptability, especially when there is a need for change. Instead, it led to a tendency for strong resistance to change. The tutors perceived the idea of introducing a new way of doing things as an intervention to their traditional master-student relationship that had been at the core of music education for so long. In other words, it was difficult for them to break away from their rigid attachment to ‘this is how it was done in the past’ and be more open-minded and accepting of the changes. One can emphasise a lack of effective communication within the organisation at this point. Hence, Paul met with collective resistance from 6 to 8 tutors to conform to his idea of a new system. Paul was only trying to ‘infuse’ his ideas into the organisation when his vision for the future of his business was cut short, he was not even trying to ‘change the system’ yet because he did not know how to do it at this point – an understanding of the importance of strategy development for a business to change and grow was not available to Paul yet.

BP 2: Lack of Strategic Management

Time management issues due to lack of clear delegation of roles and responsibilities

Paul was also experiencing a serious time management problem without understanding the underlying reasons for it. This is a problem experienced by many entrepreneurs as their business evolves. Often describing it as ‘working in the business’, when they want to ‘work on the business’ and make it grow. The difference in the case of Paul was that he was not experiencing the ‘busy fool syndrome’ of trying to do everything himself, which is commonly associated with SME founders. He believed the problem would be resolved if only his co-managers would own their roles and responsibilities and accomplish their side of the work confidently. Instead, he was frequently pulled into day-to-day business matters by his co-managers. He put it down to them wanting to consult with him about everything, as he

Figure 3. The microfoundations of digital transformation in MLC: The role of mindset and strategy transformation as co-mechanisms



was good at creating new ideas and problem-solving. However, this approach left no room for Paul to concentrate on the tasks he needed to accomplish or prioritise.

Paul did not know then that he needed to transform his management and leadership position from being ‘the only man’, to a group of managing directors with ‘clear’ roles and responsibilities and accountability. This was a matter of devising business strategies in line with the needs and priorities of the business rather than letting individuals act according to their individual needs, preferences, and priorities.

6.1.3 Turning point

The turning point is related to the ‘sensing’ part of dynamic capabilities, i.e. “identification and assessment of an opportunity” (Teece, 2012: 1396), at which Paul, time and again, shows that he is rather successful. So, in 2014, with little support from his co-managers and employees for structural change, Paul was finding it unfeasible/inconceivable to continue this business with all the hurdles. He consulted his accountant regarding whether to close the business. His accountant in return made Paul aware that the business had value and could be sold instead of closed. Paul had no idea that he had built something that had financial value. The realisation of what he had achieved so far made Paul see the opportunity in it. We call this ‘*Paul’s entrepreneurial mode*’ when he sensed the opportunity to grow rather than close.

It was possible only because he went through a *mindset change*, which resonated with his personal experience of depression a couple of years prior: out of which, he emerged stronger, more purposeful, and resilient. Paul could now clearly see a path for turning his business’s negative standing into a positive outcome: not by selling the business but by attracting like-minded investors. Not only was the story of MLC shaped differently from this moment on, but this also constituted a turning point for Paul that, at an individual level, achieved a significant mindset change. Since then, he both understood the significance of *positive cognitive processes in changing mindsets* and successfully applied it to every hurdle he experienced thereafter.

6.1.4 Developmental point

To ‘seize’ the opportunity and turn around his business, Paul decided to seek investors who would contribute to the business not only financially, but also mentally and developmentally. After some serious thought and soul searching, he decided to sell some of the shares to one of the tutors, Steve, who later proved an invaluable ally and would provide a much-needed second opinion. Steve became Director of Operations from 2015 onwards and gradually involved in all three businesses both as a shareholder and manager. He proved to be a very capable and trustable manager whose involvement and contribution later facilitated Paul’s vision to become reality.

6.1.5 Dynamics between MT at the individual level and ST and DT

ST: Setting the strategic direction of the business

As a result, Paul experienced a mindset change with significant implications for the business and its subsequent ST initiated by changes in ownership structure. In 2015, Paul began to work with one of our authors as a business coach to explore how to begin to put his vision together and solve some of the barriers he was experiencing.

At the same time, the two businesses went through rather unexpected changes in their ownership structures. This coincided with Paul and the coach starting to address Paul's time management issue and developing strategic action for everyone to understand and act on their roles and responsibilities in the business. So, Paul was reflecting on his co-managers' attitudes and their work ethics and was resolved to liaise with the co-managers concerning the potential solutions for a more efficient management strategy without causing any unnecessary tension among them.

Around that time, in the music shop, one out of the initial three shareholders decided to leave the business when an extra financial contribution to the business was required from the shareholders instead of receiving dividends. Though his withdrawal increased the workload, Paul realised that it did not cause a further burden on them, but rather, decision-making became smoother via a reduction of inconsistencies in running the business. A similar occurrence also happened within the music school, when one of the shareholders had to leave the business for personal reasons.

Paul, having experienced the impact of a positive cognitive state on mindset changes first-hand, now realised that, contrary to his anterior expectations, the withdrawal of two shareholders was easing managerial pressures, leaving Paul feeling strong and capable of continuing and even succeeding in the business.

DT: The initial attempts for putting processes in place

After the withdrawal of the shareholder, Paul seized another opportunity for the business. For some time, he was not satisfied with the outcomes of manual customer data collection at the point of purchase: they did not lead to the successful development of data management or effective marketing strategies. Paul became interested in acquiring a formal CRM system for MLC to systematise its relationships with existing customers and to improve its ability to create new customer bases through consistent ways of engaging with them. A specialist software developer was contracted to create a CRM that would match the needs of MLC. However, this person was not always able to deliver what was fully required nor at times requested. This raised questions for the directors concerning making sure that they understood what was required from their CRM.

From this interpersonal experience, they learned that 'trust' in the IT contractor is as crucial as the 'competence' of the IT contractor when choosing who to work with for introducing digitalisation into the business. Neither the installation of a CRM system nor the digital technologies Paul had in mind to introduce into the business later (such as a web-based Learning Management System) were composed of simple market transactions, they required a long-term relationship that involved training of the tutors, their maintenance, and after-sale services for problem-solving when needed. A trustworthy relationship had to be built between the parties to build a long-term relationship.

6.2 TIME MANAGEMENT ISSUE or requisite delegation of roles of responsibilities

6.2.1 The crisis point

Paul had started feeling the pressure of his time management problem. He was feeling divided between three businesses without giving the time and focus that each one required. He also was not content with having no time left for his professional drum playing and book writing, which were the main motivational sources for everything he did in his businesses.

Though he originally thought that spending too much time on the phone and computer was the main culprit, there were several aspects to the problem. What he was essentially doing was not ‘business management’ but ‘day-to-day fire-fighting activity’.

His co-managers also tended to occupy all his time while he was in the office, such that all issues, minor or major, required sorting out on the spot. This demanding attitude from his co-managers was leaving no time for essential tasks. He was not happy with his reactionary approach to these distractions, because rather than confronting the problem, he was confining himself to work from home, which led to further misperceptions by his co-managers.

6.2.2 Blocking point

The physical absence of Paul in the office had given the impression to the co-managers that he was not available enough for their part of the business and that they thought they were working harder than he was, not realising that he was still busy with all three businesses even if he was not physically present in each office all the time. The way co-managers perceive the work of the owner-manager and make him accountable for all decision-making stemmed from nobody having the requisite clarity on each other’s roles and responsibilities (discussed in further detail below). And the lack of role delegation originated from the lack of strategic management in either of the businesses. Paul needed to transition from ‘owner-manager’ to ‘leader’ of a team and not act as the sole decision-maker as identified by his co-managers.

6.2.3 Turning point

The facilitator of this turning point was the discussions with the business coach that allowed Paul to see the root of the problem with his co-managers and the link with his time management problem.

6.2.4 Developmental point

With this role delegation issue, Paul learned to own the key role in beginning to strategise. While he aimed at minimising internal conflict within the organisation by not confronting his co-managers, he realised the consequences of this kind of action are more detrimental to the business. Paul began to gain the strength to make some major decisions for a sustainable business. This experience initiated the MT needed for his transition process to becoming a leader rather than a mere owner-manager.

6.2.5 Dynamics between MT at the individual level and the beginnings of ST

In response to dealing with the attitude of co-managers, Paul’s MT to becoming a leader initiated the process of fully standardising the business operations within the organisation. Paul set the human resource strategy by identifying the roles and clarifying the responsibilities. He began to write an Operations Manual and to draft a Shareholders Agreement. Another important task for him to ratify his leadership was conceptualising his vision for the business to share with co-managers and begin the journey of building a business strategy. While this all took some time to realise, once done/achieved, it led to MT at managerial level, which we will explain in depth.

6.3 CHANGING MINDSET OF CO-MANAGERS TOWARD THE BUSINESS AND THE OWNER-MANAGER

6.3.1 The crisis point

From the onset, Paul had in his mind the vision to integrate his three businesses and run them as a holistic set of businesses. He could see the complementarities among them and the potential they together had to create the MLC music community he wanted to create.

When thinking about closing his business, he regarded the inability to put his vision into action as part of his failure. But with the new perspectives he gained through two stages of MT and the continued business coaching from an academic, he realised the predominance of informality at the management level was preventing the development of the business: which was further strengthened by the abovementioned attitude of his co-managers. It fostered a culture that kept each business from being able to develop and reinforced, most dangerously, rigid organisational routines, which could also be observed in the behaviours of music tutors (see MT at employee level). The reliance on informal enquiries and gatherings among managers led to on-the-spot, informal decision-making for the business, rather than systematic strategy formulation and implementation, which in turn hindered the growth of the business in line with changes in their business environment. The need for Paul to lead rather than manage became vital/inevitable.

While some informality in the business is good as it allows the organisation to be nimble and react quickly, Paul felt that to act like one business, they needed to introduce processes, systems, structure, and strategy. For integration to happen, the shareholders of the three businesses needed to meet to develop a strategy, clarify the roles and responsibilities of each individual and have a written shareholder agreement to guide the integration. While Paul started the process of identifying the roles and responsibilities of every staff, arranging for a strategy meeting with his co-managers to discuss business strategy became the biggest challenge. They were making excuses of being ‘too busy to get together in a formal meeting’.

6.3.2 Blocking point

The fact that the co-managers were strongly/excessively focussed on operational matters rather than the bigger business made them fail to see the benefits of a wider strategic approach to the business. Moreover, keeping the informal system of management made the owner-manager accountable for all the decisions made.

6.3.3 Turning point

The turning point came with the ‘seizing’ part of the dynamic capabilities, i.e. “mobilisation of resources to address an opportunity and to capture value from doing so” (Teece, 2012: 1396). Paul first emphasised the need for both the co-managers to arrange their schedule for a half-a-day meeting (i.e. get rid of the excuses and created a friendly environment). Then with the help and guidance of the business coach, he prepared a presentation explaining his vision for the business. The aim was to develop a shared vision, one that had been in his head for so long, so the shareholders could connect with his passion for the prospects of the business, be encouraged to embrace change, and be more strategic in their approach to business. Ultimately working with Paul toward creating an overarching strategy for achieving the vision.

6.3.4 Developmental point

The developmental point out of mindset change at the managerial level for the MLC was the ability to change even the most rigid organisational routines. The meeting achieved what it aimed for and led the shareholders/co-managers to understand a shared vision and accept the need for adopting the best formal and informal approaches to management within the

business. The process of formalising the business operations started with the constructive cooperation of co-managers with the owner-manager. Weekly half-a-day meetings were introduced.

6.3.5 Dynamic relationship between MT at the managerial level and ST and DT

The new managerial structure reinforced with the understanding of and support for Paul's vision led to a series of transformations in strategies and digitalisation of the processes within the company.

ST: Creating a team of co-directors

Changing routines among co-managers involved an evolution from an informal to more structured management, accelerated with an effort to maximise complementarities among the skills of co-managers. This process, over time, increased the number of co-directors with focussed specialisations, and created a structured management with clear boundaries for their roles and responsibilities. The first co-director who was appointed in 2015 as the Director of Operations after investing in the business after Paul's first MT was now made responsible for the operations in all five MLC branches. Another music tutor joined the shareholder team when Paul shared the organisational strategy with all employees. Her expectations/perspective for the future of MLC were so aligned with Paul's that she decided to financially invest in MLC. Based on her previous work experience, she was appointed as the Director of Communication and Marketing. MLC has recently added a new director to the team, the Director of Education, who is associated with the local university: one of the institutes MLC has started to collaborate with since 2018. This position was deemed necessary as part of developing organisational capability in a completely new area for MLC. This was the beginning of creating a curricula-based structure stepping into the journey of creating pathways for higher education for their students.

DT: Introduction of CRM system

The building of a strategic direction initiated the introduction of a professional and customised CRM (Customer Relationship Management). It could be viewed as part of the automation or digitisation of strategic processes within the firm, supporting the leverage of customer data. MLC, like any other SME, perceived having a CRM system to strengthen the efficiency of current business operations and processes as though its presence granted an ability to efficiently manage customer relationships.

So, MLC switched to the idea of working with a professional software solutions company. They decided to buy software suitable for their needs but needed to explore what technologies were available, which ones were corresponding to their needs, and which ones were the most trustworthy. They were investing a considerable amount of money and wanted to make sure they chose the right product, and the trustworthy provider and get the right service for developing MLC's digital capabilities then and after the installation. The whole process of CRM installation was supposed to be a smooth process, yet it turned out to be a challenge for MLC in a positive sense as it initiated a learning process that helped in understanding their own business needs, marketing position, and organisational capabilities.

Overall, the installed CRM system addressed the irregularities in the collection of tuition fees (which was conducted by the tutors and frequently led to arrears on the financial sheets) and the ineffective communication among the staff, and with customers. Particularly, in the past, parents were kept out of the communication loop as their children (i.e. students) were not effectively transferring the new opportunities made available by MLC services. The CRM

system incorporated parents in such a way as to regularise payments, to enhance their awareness of MLC's services and the progress of their children's music activities. With the CRM system, business operations and processes became consistent and smoother with an observable improvement in communication and marketing.

ST: Brand awareness and marketing strategy

During previous MTs, some reflection on the impact of the disruptions caused by the attitudes of co-managers and tutors made Paul realise that the success of the business was largely based on him. This is when he decided to address 'brand awareness' as a strategy; however, he did not have the means then. The CRM system helped to address marketing strategy going beyond the classic competitive edge in the music education industry, namely the quality of tuition, to involve developing a 'brand' through differentiation of services; particularly the online lessons at a time when only a limited number of competitors were doing so. So, although online lessons gained further momentum with the Covid-19 pandemic, MLC was an early mover and largely benefited from introducing a niche service that particularly combined with the personalisation of the service by giving flexibility to the customer in terms of time and space.

DT: Website improvements

Increasing brand awareness became possible with the extensive utilisation of digital technologies in the business. MLC worked on better structuring its website to ease its use, but most importantly it created a login area on the website for the use of music tutors, students and parents, and everyone involved with MLC to share information within the MLC music community. Improving the website with podcasts, blogs, and Q&A forums and making it accessible via a login area for the MLC community further facilitated effective communication.

ST: Creating an innovative approach to music education

The improvements on the website and the access of the MLC community to the systems through a secure login area paved the way to put the music education philosophy the owner-manager had in mind for a long time ago into application. Paul has been planning to design and deliver the best possible experience across all parts of music education at MLC. For quite some time, he hoped to have time to create a 'structured teaching framework' that supported student progression and opened up new qualification pathways for them. He wrote a curriculum-level support programme from the beginner level to the highest qualification level that is aligned with Regulated Qualification Framework, which is recognised in over 60 countries. Most importantly, he envisioned a system where each tuition in this programme had standardised planning and comparable delivery and assessment methods applied by the tutors, while it also included the principles of Paul's abovementioned music education philosophy that was based on the inclusivity of the participants. This proved to be a rather innovative approach to music education services in the music education industry.

Together with the development of this programme, MLC developed the confidence for starting to offer online lessons alongside their onsite face-to-face lessons. The purpose was to diversify their market by reaching consumers who look for flexible time and space arrangements to pursue music.

DT: Creating a novel learning experience with Learning Management System (LMS) and web-based/online teaching

Activating a login area on the website paved the way to the setting up, and secure use, of digital technologies, such as learning management systems (LMS), which in turn made Paul's curriculum-level support programme to music education in MLC achievable. LMS allowed the integration of digital technologies (cloud computing) into this framework programme and served successfully for two purposes: to monitor the quality and standard of individual teaching practices taking place in MLC by the management and to provide students and parents an opportunity to self-evaluate the lessons and programmes they participate regarding their expectations, musical development, and overall progress.

LMS also accelerated the introduction of online teaching. Online learning and teaching are not something completely new but their application to music education can be considered so. While the education sector has started taking advantage of digital sources to teach GCSE and A-level school subjects that might be taught remotely, the imposed master-student relationship distinguished music education, particularly because of the grounded idea that instrument lessons must be conducted face-to-face. MLC's involvement with online learning and teaching did not stop with the initiation of online lessons alongside the on-site lessons, rather, the former was supported with further opportunities for learning through multimedia (e.g., recorded video-based lessons, webinars, infograms, peer-to-peer sessions).

6.4 BREAKING THE RESISTANCE OF MUSIC TUTORS THROUGH DIGITAL TECHNOLOGY ADOPTION

As mentioned in the blocking point (2) in section 6.1.2 above (which nearly led to the demise of the business just before Paul went through a MT) the routines set by music tutors proved one of the most difficult hurdles for Paul to overcome. In the traditional sense of music education, a major part of the master-student communication was managed by each music tutor in a way they saw fit. Often what happened in the lesson and the opinions on the level of progress went without being recorded. Paul found it hard to impose a change on this predominant and unsystematic but rigid organisational routine. On the one hand, with the changing perception of music education and the involvement of parents in their children's education, the expectations of parents have become higher. They wanted to know how their children benefit from the lessons and to be involved in what their customised/bespoke plans and prospects in music were or could be. On the other hand, the MLC tutors, as the fundamental locus of MLC's organisational knowledge, created value with their experience and knowledge that they brought into the business. However, appropriation of this value proved not so easy. Each tutor employed diverse methods of teaching and processes which on the positive side contributed to the development of inimitable organisational capabilities while on the negative side hindered the attempts to change and standardise the nature of organisational routines. The beliefs and expectations of the music tutors for the future of MLC were not always the same as Paul's. They viewed Paul's new system as an intrusion into their autonomy of professional teaching methods and judgement on a student's progress. They could not comprehend the advantages, both philosophically and technologically, that the changes could bring to their capabilities and performance. To bring them to an understanding of what Paul envisaged for the future of MLC would have required a lot of negotiation with everyone with different routines and capabilities if it was not for the digital technologies being introduced over time. Instead of negotiations, convincing, and deliberations, the introduction of a digital system for the use of both tutors and

students/parents not only solved a potential conflict within the organisation (that might have brought about the demise of the business) but also put into practice Paul's philosophy of inclusiveness - the students and their parents were able to directly get involved with their own/their child's education and progress. In other words, the use of digital technologies became the solution to the resistance from tutors as they created an objective platform between managers and tutors for effective communication.

Once exposed to the MLC's online Learning Management System (LMS), the music tutors appreciated that it changed their way of managing music education but not the way they conduct it. DT played an enormous role in changing their routines, and with the change of their routines, the change of mindset at the employee level was not only achieved but also brought higher business performance with less complexity.

ST: Networking strategy

When digital mechanisms and systems were put in place, the DT started to bear fruit. MLC started partnering with music qualification awarding bodies such as Rock School for RSL Awards provided graded exams for instruments and validated all of MLC's tuitions, and Trinity College London (TCL) and Arts Council England for Arts Awards, where MLC music tutors gained their own qualifications to deliver TCL and Arts Awards programmes. All these partnerships and validations increased MLC's credibility. These digital capabilities also helped align the organisational structure and culture within the three franchises that MLC opened in the region, creating the MLC Group, in 2018.

The development of digital capabilities within the organisation improved their confidence in getting involved in external cooperation and partnerships with other organisations. One such cooperation was with the local university's centre for creative technologies. This cooperation opened up opportunities for new service innovation to MLC. As a small business in the music education industry, the cooperation with the University allowed MLC to offer its students a higher education path in music. The partnership led to the opening of a new MLC branch that delivered music specialisms relevant to today's developments in the music industry not covered by other small businesses in the industry, such as music production facilities and lessons, music for film and games, and podcasting alongside university level instrument lessons. The partnership also allowed MLC students to perform regularly on stage and provided them with the unique opportunity of being mentored for performance in a world-class facility. The ability to create pathways to higher education has been a big accomplishment for a small company.

DT: New online practices, accredited courses, and corporate digital responsibility

When the Covid-19 pandemic hit, MLC was in a very robust position with its digital technologies in place, the foundational skill base and knowledge for online delivery developed, and students and parents have already experienced and are satisfied with MLC's capacity to deliver online learning and teaching. Just before the lockdown in March 2020, they completed and approved the documentation of their online teaching policy that brought safeguarding issues of users to the fore, by which they initiated the implementation of a newly emerging concept of 'corporate digital responsibility' (Lobschat et al., 2021). Online services were now there to stay and be part of their services, and with the Covid-19 pandemic, the rate of providing online services only accelerated.

Before the pandemic, MLC extended their online instrument lessons to online mock exams and online tutor training diplomas awarded by TCL. Before the lockdown, they introduced a new practice of recording online interactions with students and making them available to students through the LMS. This practice paved the way for becoming an extra source that supported online independent learning. It provided an opportunity to extend the learning environment for students because they could watch their lesson as many times as they wanted or needed. This supportive source for learning became an advantage that students and parents seemed to appreciate. Hence, this approach is modified during the Covid-19 pandemic to include online Arts Awards programmes for younger children in MLC's online delivery portfolio. During the lockdown, with children having more time needing to be occupied, introducing fully online programmes such as Arts Awards in collaboration with awarding bodies of TCL and Arts England Council presented MLC as a successful and experienced example to companies that were new adopters of online lessons.

ST: Collaboration with a major industry supplier to run its online teaching facility

MLC's success in the online delivery of learning and teaching did not escape the attention of a major music industry supplier, which diversified its online activities to create a community of its own. The cooperation has been recently agreed with this very well-known music equipment supplier completely based on all the successes MLC achieved in DT. Starting in January 2022, MLC and this company agreed to collaborate in creating an online teaching facility for that supplier.

From the onset, Paul had an underlying principle that guided his choices, the philosophy he developed for his business both in terms of the education methods employed (i.e. inclusivity of the participants into the process, which is achieved systematically with the help of digital technologies) and the kind of business he aspired to be (i.e. community-based). These two, alongside the strategic decisions taken to expand the business, become competitive advantages of the company, and despite its small size, it took the attention of one of the most well-known companies in the music industry and brought an unusual partnership with it. Being a forerunner in DT enhanced networking opportunities for MLC, securing international recognition.

In sum, DT helped unlock the growth opportunities for MLC. It allowed Paul to share his vision with his employees to build a strong foundation for developing his philosophy and passion for music education together. The successful DT did what Paul could not do with reasoning.

7. FINDINGS, PROPOSITIONS, AND DERIVATION OF A DT MODEL

Based on the observations made in our case study, we develop the below propositions.

Our case study shows that DT is neither straightforward nor fast as the acquisition of digital technologies suggests. As an entrepreneur who successfully relied on dynamic 'sensing' capability, Paul anticipated the changing circumstances of music education; how advanced technologies not only change how music is made but have the potential to bring people together in virtual settings. He early on developed a vision to create his business that embraces this all. His initial struggle was to manage the business to support an earlier exploit

of these potentials of digitalisation. Excluding the idea generation phase in the mind of the entrepreneur/owner-manager, the actual implementation took around 6 years.

During the journey of digitalisation, he first learned to be a transformer by combining entrepreneur, manager, and leader characteristics and building a team of key support people who could follow his vision for the business. Then they together ensured to create a suitable organisation structure and strategy for the business. The MT learned at different levels of the organisation helped build the business on a strong foundation of strategic activities, decisions, and tools that mutually supported digitalisation processes. The whole process not only grew the business but also helped Paul and his team learn to manage and sustain the ongoing DT, whose complexity is not expected to lessen soon as these technologies continue to evolve and advance over time.

Hence, DT for MLC has not been entirely completed – it will always be an ongoing process as there is always room for improvement and constant revising and renewing of the digital technologies and processes in place, hence a ‘transformation’, and the need for organisational dynamic capabilities more than ever now (Warner and Wäger, 2019). Moreover, having a rather slow transformation is not necessarily discouraging because, at any given time within an organisation, there is more than one process at play; neither is DT happening on its own nor is it the sole focus.

Proposition 1: MT and ST are co-mechanisms of DT, meaning DT cannot happen in isolation.

As is shown in MLC case, a process of MT and ST needs to prepare the business for such a big undertaking of DT mentally, structurally, and strategically. However, SMEs do not think about ST or MT as systematically as they think about DT. ST is more than just formulating and implementing business strategies. It arises due to a need for strategic renewal within the firm (Teece, 2019; Warner and Wäger, 2019), particularly in the light of environmental stimuli, e.g., some major changes in technologies and markets, and sometimes due to some form of crisis (e.g., economic, pandemic, or natural disasters). ST (re)defines the organisation’s purpose, vision, values (PVV), and associated business strategies (Warner and Wäger, 2019). It has direct links with dynamic capabilities because it emerges out of the ability to sense market opportunities, seize the right combinations of resources, capabilities, and technological advances, and transform the firm strategies to create a brand-new approach to business (Teece, 2007, 2019).

Proposition 2a: ST is more than strategy formulation and implementation. It is about the strategic renewal of the business in response to changes in its environment.

Our findings from the case study show that the order of strategic changes is also important. Prioritising to sort out the deficiencies in the human resource strategy, such as setting a management structure and clarifying the roles and responsibilities of individuals in relation to the PVV of the business, sets the organisation’s perspective and guides the strategy development in other aspects. The starting point for MLC was to develop a sound human resource strategy that secured and leveraged manager skills and turned them into MLC’s competitive advantage. The HR strategy then eased the integration of the market, innovation, and networking strategies into the core business strategy. Once DT allowed the re-gaining of employee support, a similar approach to employee training for digital capability development allowed them to be invaluable and embedded competences of the firm.

Moreover, the success of MLC is rooted in its ability to *combine technological issues with market-related issues*, while most SMEs view these two issues separate from each other and focus on technological issues in isolation, in a service sector such as education, the need for pursuing technological changes, digitalisation in this case, is a result of market pull effects rather than technology push. Hence, the attention to process innovation (in terms of integrating digital technologies into business operations) not only generated successful product/service offerings but also market expansion through new networks (Perez, 2006; Abernathy and Utterback, 1978).

Proposition 2b: ST is about integrating all aspects of business strategies (i.e. human resources, market(ing), innovation, and networks).

In a small firm, however, the main obstacle to ST frequently is the lack of structure and formality regarding the management and strategy implementation. The source of this obstacle lies in the ability to transition from being a founder manager to becoming a leader (change of mindset) and respond to changing business environment (Schoemaker et al, 2018). Leadership capabilities present themselves in the ability to define the PVV of the business, and it is vital to share PVV with the employees as a leader to create an effect to change their minds (MT) and to activate their knowledge, experience, and capabilities to start a change in strategies as a team (ST). The business PVV guides the right kind of strategy development and a leader can drive any transformation in the organisation with the right team, tools, and strategies.

Mindset appears to deal with negative thoughts, observations, and applications and focus on overturning them. It tends to lead to other forms of transformation, but it most often needs endorsement from more visible effects such as a change in strategy or an introduction of new technology. MT is a comprehensive concept. It includes not only transformational (vs transactional) leadership (both the owner-manager and managers) but also transformation of employees as manifested in their job satisfaction and abilities to create competitive advantage.

MT is the cognitive side of change and the least recognised. Not only taking time because, as MLC's case showed, people need some form of evidence before changing their mind, for instance, an experience, rather than a rationalisation of an argument, but also, based on our analysis of mindset changes, it goes through some cognitive stages. Without realising individuals face a crisis when they almost give up. If they can identify blocking points, they then find ways to turn them around and develop a solution.

MT as a construct that represents cognitive aspects is pivotal to microfoundations of DT. In small business context, we found that this cognitive process goes through several levels starting with individual level, mostly the owner manager, and then move its way up to management and employee levels, until whole organisation embraces a similar mindset for change.

Proposition 3a: MT has a process of its own (i.e. crisis point, blocking point, turning point, and developmental point). It is at the core of microfoundations of DT since it starts at the individual level (e.g. owner-manager).

Proposition 3b: For it to create a transformative effect at the organisational level, the management and then the employees need to transform their mindsets.

Proposition 3c: MT is needed to fight against rigid organisational routines, and to alter the organisational culture for the better.

A model of organisational transformation that includes DT requires articulation of plausible mental mechanisms (mindsets) and action mechanisms (strategies) and their association with each other and the digital technologies and dynamic capabilities. Dynamic capabilities may initially reside in individuals, such as the founding/owner managers whose sensing and seizing capabilities come from their distinguishing entrepreneurial characteristics, yet a transfer of these capabilities to the organisational level over time is necessary and can be achieved through dynamics among MT, ST, and DT.

What distinguished MLC was that it did not have a short-term market-oriented focus on the business. Motivated by the vision he had; from early on, Paul aimed for long-term strategic planning. This approach, with the help of the business coach, made MLC determine and eliminate the barriers that prevented dynamic capability development. We need to highlight that the potential benefits of DT could not be fully reaped unless MLC displayed dynamic capabilities to manage the interplay between the three aspects of transformation.

Proposition 4: Dynamic capabilities at the core of MT, ST, and DT; however, the transfer of dynamic capabilities from the individual level to the organisational level is necessary for successful transformation and this can be achieved through dynamics among MT, ST, and DT.

Hence, we put forward that DT is not a linear process between all three mechanisms of transformation (i.e. strategy, mindset, and digital technologies) but a dynamic process that aligns all three transformations by the help of existing as well as emerging dynamic capabilities.

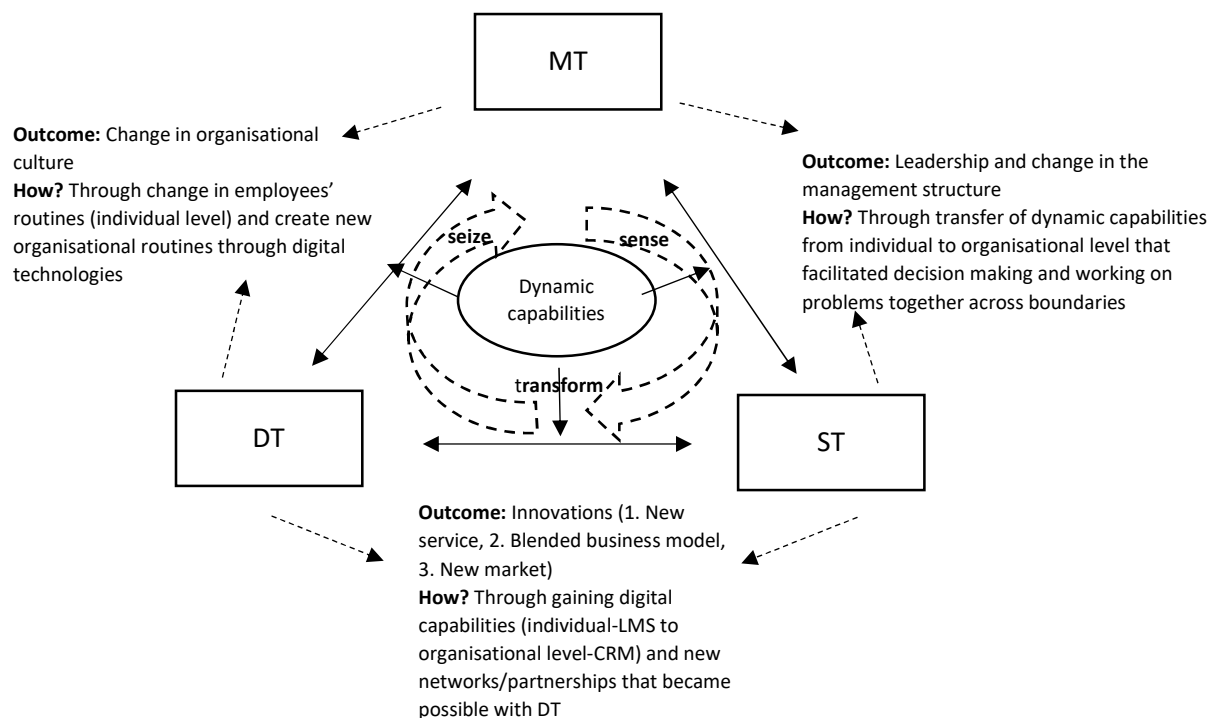
Proposition 5: DT is a dynamic process that is part of the interplay between DT, ST and MT, endorsed with existing and emergent dynamic capabilities. Unlocking business possibilities in a digital world needs to be supported by MT and ST.

As a result, we propose the below DT Model (Figure 4). The case study we examined demonstrates that i) the DT process is not a standalone process, instead integral to MT and ST, ii) it is a dynamic process that requires dynamic capabilities at managerial and organisational levels to be successful (iii) it implicitly leads to changes in business model with opportunities for growth and efficiency gains.

In the case of MLC, we are able to observe the third point not only in terms of online markets and geographical expansion of the company but also with reference to the Covid-19 pandemic during which MLC continued to grow when many firms faced major difficulties due to the lack of digital readiness.

Paul's forward-looking approach to creating his company's competitive advantages before the Covid-19 pandemic paid off since getting ahead of trends delivered significant value to his business during the Covid-19 pandemic when many small companies were forced to hasten the DT process almost blindly in order not to lag.

Figure 4. The Proposed DT Model



Overall, the introduction of digital technologies transformed music teaching at MLC in line with Paul's philosophy so much so that they introduced a *new business model* to MLC. DT helped transform how MLC served its consumers and contributed to changing the rigid perceptions around music education.

DT, requiring a dynamic process itself, allowed the development of dynamic capabilities within the organisation at every level, encouraging changing and evolving processes to improve existing services, create new service opportunities, develop new partnerships, enhance business performance, and continue to grow.

MLC had created a new organisational architecture for itself not only by setting up a new management structure but also by introducing robust processes that are appropriate for continuous innovation. As soon as MLC had structured management, formal strategy development became possible. Creating a sound management structure for the needs of the business has been definitive in managing the trade-off between flexibility and efficiency for the business. This trade-off most often sacrifices flexibility over structure and limits the flexible access of firms to opportunities (Eisenhardt et al., 2010). In our case, when there was a lot of flexibility with no structure in the management, the efficiency was falling to the detriment of the business. The structure guided the roles and brought reliability for taking responsibility, speed in decision-making, and overall efficiency. As well as creating dynamic capabilities for competitive advantage the combination of DT, MT and ST also allowed efficiencies to develop in operations, processes, engagement, innovation and diversification.

In a small firm, bringing structure to the management did not eliminate flexibility, instead structured the way flexibility is implemented, e.g. within interpersonal relations (e.g. director

of education and director of communications cooperate to achieve a successful outcome of online Arts Awards programme). While individual experiences and the flexible management system were determining the beliefs, expectations, and routines of MLC music tutors, the artificially created stimulus of DT in their environment drove a change first in their behaviour, then in their beliefs and routines (March and Simon, 1958).

Finally, though we studied one case in depth to refine our conceptual framework for DT, which also works reasonably for SME growth, we can neither assert that our case is a typical/representative case nor exceptional. We encourage further research to find and examine successful cases to see whether similar constructs explain the DT and consecutive growth in SMEs.

8. CONCLUSION

This paper explored an in-depth understanding of digital transformation (DT), its process, context, and dynamics in the SME context. We examined a small business with successful outcomes for DT that presents a context-rich environment for microfoundational research. We employed inductive research and derived theory from experience. We found neither DT is as fast as the acquisition of digital technologies suggests nor is straightforward. DT is a complex and dynamic process that requires mindset and strategy transformation as co-mechanisms (MT and ST). ST is about the strategic renewal of the business in response to changes in its environment. MT, with its own process, presents cognitive aspects and is at the core of microfoundations moving from the entrepreneur to organisation level. MT helps breakdown rigid organizational routines and build future organizational culture. These transformation processes are endorsed with emergent dynamic capabilities that initially reside in the entrepreneur with sensing and seizing capabilities and transfer to organisational level over time. We derived a model of digital transformation from the experience of MLC that combines all three aspects while encapsulating the complexity of transformation processes in SMEs in a simplified manner.

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