Strategic Renewal of a Mature Manufacturing SME in Sweden – The Case of HangOn

Shanyun Sam Lu
Jönköping University, Jönköping International Business School
Business Administration
shanyun.lu@ju.se

Abstract
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My name is Shanyun Sam Lu. I am a PhD student in business administration at Jönköping International Business School in Sweden. I am in my second year of PhD study and expect to finish my dissertation by September, 2021. My email is Shanyun.lu@ju.se.

State-of-Art
Manufacturing industries still have high economic significance in many developed countries. However, most literature on industrial dynamics portray a gloomy picture of firms operating in mature manufacturing industries: not innovative, have low renewal potential and display an aggregated declining pattern (e.g. Klepper & Simons, 2000; Vergne & Durand, 2010). Moreover, manufacturing SMEs are often perceived to lack the resources and competence (Edwards, Delbridge, & Munday, 2005) to renew themselves, and to being vulnerable in situations of economic crisis (OECD, 2012). Acknowledging firm heterogeneity, we can however find evidence contrasting the above arguments (e.g. De Massis, Audretsch, Uhlaner, & Kammerlander, 2017).

Research Gap and Research Question
A recent review on strategic renewal by Schmitt, Raisch, and Volberda (2016) emphasizes that current research lacks a processual perspective to examine the timing, sequencing and performance implications of different strategic renewal activities over time, which can lead to high levels of abstraction and failure to capture the dynamic process of firms’ strategic renewal. This leads to the overarching research question of this study: how do manufacturing SMEs operating in mature industries strategically renew themselves over time?
Strategic Renewal of SME in Mature Manufacturing Industry – The Case of HangOn

1. Introduction

Manufacturing industries still represent a key economic pillar in many developed countries and contribute to the well-being of their citizens (Ron, 2015). However, literature on industrial dynamics (e.g. Anderson & Tushman, 1990; Breschi, Malerba, & Orsenigo, 2000) tend to portray a rather gloomy picture of firms operating in traditional manufacturing industries, arguing that those firms are within mature industries, have low growth potential and generate few innovations, especially radical innovations. Thus, they have little potential for renewal, facing decline and death sooner or later in the future (Klepper, 1996, 1997; Klepper & Simons, 2000). Furthermore, literature also argues that manufacturing SMEs generally may not possess the resources and competence (Edwards, Delbridge, & Munday, 2005; Jones & Macpherson, 2006) required to renew themselves, especially during times of high economic crisis (OECD, 2012). Despite the aggregated declining pattern of firms in mature manufacturing industries as suggested by literature on industrial dynamics, we also do not deny the heterogeneity of firms within those industries. Empirically, we can find evidence of some manufacturing SMEs operating in traditional industries being very successful in renewing themselves, such as many Mittelstand in Germany (cf. De Massis, Audretsch, Uhlaner, & Kammerlander, 2017) and manufacturing SMEs in Gnosjö in Sweden. This stimulates a series of questions: how do those SMEs manage to renew themselves and deviate from the aggregated pattern of decline? What do their renewal processes look like? What can be learned from their renewal processes?

Those questions motivate this study to look into the strategic renewal processes of traditional manufacturing SMEs. Furthermore, a recent extensive review on strategic renewal by Schmitt, Raisch, and Volberda (2016) emphasizes that there is a lack of research taking a processual perspective to examine the timing, sequencing and performance implications of different strategic renewal activities over time, which results in high level of abstraction and failure to capture the dynamic process of firms’ strategic renewal. Overall, the above two motivations lead to the overarching research question of this study: how do manufacturing SMEs operating in mature industries strategically renew themselves over time? To answer this research question, this study first makes an inquiry into strategic renewal literature (e.g. Agarwal & Helfat, 2009; Schmitt, Raisch, et al., 2016) and agency literature (e.g. Battilana & D’Aunno, 2009; Emirbayer & Mische, 1998; Garud, Kumaraswamy, & Karne, 2010), and then investigates a longitudinal case of an SME, namely HangOn to illustrate the theoretical arguments. A processual analysis has been conducted on the case, which has resulted first in a chronology (in Section 4) that highlights the timing, sequencing and performance implications of the firm’s strategic renewal activities. Then, drawing on the theoretical arguments built from literature, four building blocks of transitional trajectory enactment have been identified as the patterns and underlying mechanisms driving the case firm’s strategic renewal process, and presented in Section 5. Finally, this study concludes with implications, contributions and limitations.
2. Theoretical Background

2.1 Strategic Renewal

2.1.1 Definition of Strategic Renewal
Strategic renewal can be defined as “the process, content, and outcome of refreshment or replacement of attributes of an organization that have the potential to substantially affect its long-term prospect” (Agarwal & Helfat, 2009, p. 282). A renewal is strategic when it involves the strategic attributes that could have long-term impact on the success of the firm and define the range of future choices the firm could take for continuous development. These attributes include but not limited to goals, products and services, policies, reputation, scope and diversity of businesses, market positioning, as well as critical capabilities and resources that render competitive advantages of the firm (Flier, Van Den Bosch, & Volberda, 2003; Rumelt, Schendel, & Teece, 1994). In addition, a renewal is strategic when it allows the firm to alter path-dependency and break the shackle of inertia (Schmitt, Raisch, et al., 2016). As the definition entails, the ultimate purpose of strategic renewal is to secure the long-term prospect of a firm. However, it should be noted that strategic renewal is not necessarily about restoring strategic attributes to their original state (Agarwal & Helfat, 2009), implying the importance of enacting a transitional trajectory through refreshment and replacement of strategic attributes so as to enhance the long-term prospect of an organization. Below provide more details regarding the reasons why firms engage in strategic renewal.

2.1.2 Reasons for Strategic Renewal
There are many reasons why firms pursue strategic renewal. One main reasons is to respond to and (re-)align with the changing external environment (Albert, Kreutzer, & Lechner, 2015) brought by changes in technology and industry dynamics. New technologies may change the paradigm in which firms operate, making firms’ existing resources and competency irrelevant. Thus, firms must keep up with the new technologies and improve their resources and competency to maintain relevance alongside the technological paradigm shift. New entrants with disruptive innovations may destabilize the status quo of the industry, causing changes in industry dynamics according to which firms need to readjust themselves (Klepper & Simons, 2000). When an existing industry moves to the mature and declining stage of its life cycle, market demands usually shrink and competition is largely based on price level. This pressures firms to improve processes to reduce costs and offer lower prices than competitors to win market shares (Klepper, 1997). Meanwhile, firms can also customize offerings and provide superior value to customers despite of general standardizations in the market (Zeithaml & Fry, 1984). Furthermore, as network ties become increasingly strong and rigid in mature stage of industry life cycle (Boschma & Frenken, 2012), it is important that firms branch out to establish new ties outside their existing networks to gain new inspirations and opportunities (T.-Y. Kim, Oh, & Swaminathan, 2006).

Another main reason is to proactively coevolve with the changing environment by trying to shape it to the advantage of the firm (Agarwal & Helfat, 2009; Schmitt, Barker, Raisch, & Whetten, 2016). Innovation is one way to achieve this. Incumbent firms, more often than de novo entrants, launch innovations that shift the competitive landscape of industries and markets (Bayus & Agarwal, 2007; Sjöö, 2016). Such innovations can potentially set new industrial standards or dominant design, alter dominant productions and market practices, and shape customer preference (H. E. Kim & Pennings, 2009). Hence, firms’ continuous innovation efforts during
strategic renewal can contribute to changes of the competitive landscape and direct the change trajectory to their own benefits.

Besides, it is believed that some firms tend to suffer from path-dependency and internal inertia (Mezias & Glynn, 1993). Path dependency basically means that distant past choices and events have long-lasting effects on the future of a firm’s development, and thus its whole development trajectory (David, 1985). When a firm’s initial choices have generated growth for a period, it creates positive feedback that make the firm continue to follow the same development logic that sustained initial choices (i.e. self-reinforcing mechanism) (Araujo & Harrison, 2002). This makes firms insensitive to other (superior) alternatives (Vergne & Durand, 2010). Changes deviating from the existing logic entail risks and uncertainty, rendering financial and psychological insecurities (Garud & Karnøe, 2001; Mezias & Glynn, 1993). Against this backdrop, firms gradually develop inertia to changes even though their current development logic no longer fit with the changing environment (Huff, Huff, & Thomas, 1992). Hence, they sink into a ‘competency trap’ and their core competencies deteriorate into core rigidities (Ahuja & Morris Lampert, 2001; Mezias & Glynn, 1993). Overall, internal factors could pose serious threats to firms’ long-term survival. Therefore, strategic renewal is important to prevent firms from being trapped in stagnation and complacency.

In short, there are both internal and external reasons for strategic renewal. But how do firms pursue strategic renewal?

2.1.3 Modes and Process Types of Strategic Renewal

Firms can undertake strategic renewal through different modes. To elicit internal changes, a firm can reorganize its organizational structure (Gulati & Puranam, 2009), reset strategic intents and goals (Flier et al., 2003), engage in R&D activities for product and process innovation (Dougherty, 1992; Salvato, 2009), diversify and change its business scope (Sharma & Chrisman, 1999), and carry out organizational learning (Crossan & Berdrow, 2003) etc. Externally, a firm can among other things, enter new markets through internationalization (Agarwal & Helfat, 2009), develop strategic alliances (Dyer, Kale, & Singh, 2001), acquire other firms (Capron & Mitchell, 2009) or invest capital into external projects that have potential to open up new and beneficial avenues for the firm in the future (Schildt, Maula, & Keil, 2005).

Regarding strategic renewal process, Agarwal and Helfat (2009) distinguish between two types based on the manner in which the process unfolds, namely discontinuous transformation and incremental renewal. Strike of radical change in technology or sudden change in regulations are among various stimuli to discontinuous transformation of firms. Generally, such stimuli occur rather irregularly and unpredictably. Therefore, firms generally respond to them upon their occurrence. Additionally, discontinuous transformation implies firms need to make changes in multiple dimensions such as business model, technological and knowledge base, strategic resources and capabilities, organizational structure and mindsets.

However, these major transformation demand changes to such a large extent and/or fast pace that it causes extremely high stresses that are hard for the firms to bear (Huff et al., 1992). Therefore, firms tend to pursue strategic renewal in an incremental and evolutionary way (Huff et al., 1992) whenever possible to reactively keep pace with and even proactively steer environmental changes (Albert et al., 2015). They may do so via endeavors in ambidexterity (i.e. simultaneously explore
and exploit) (O'Reilly & Tushman, 2011), cumulated innovation (cf. Madsen & Walker, 2007; Murray & O'Mahony, 2007) and related diversification (Markides & Williamson, 1994) etc. By virtue of incremental strategic renewal, firms not only avoid intense stress, but also find new avenues of sustained growth in the long-term without having to entirely abandon existing attributes that they can still capitalize on. Moreover, “a series of small incremental changes can accumulate into a much larger change when viewed over a longer time span”, leading to qualitative transformation (Agarwal & Helfat, 2009, p. 284). The underlying patterns of actions taken and choices made by a firm constitute the distinct journeys and trajectories of a firm’s strategic renewal over time (Kwee, Van Den Bosch, & Volberda, 2011).

2.1.4 Challenges of Strategic Renewal

Regardless of whether a firm undertakes discontinuous or incremental strategic renewal, challenges are inevitable during renewal processes. One of the major challenges is handling risks. Even though we know the advantages strategic renewal could bring to a firm, the process of strategic renewal is usually rather complex (Albert et al., 2015). Nobody can correctly predict or guarantee its outcome ex ante, and not all strategic renewal attempts can succeed (Agarwal & Helfat, 2009). Therefore, risk management is important throughout the process of strategic renewal. Regarding risk management, earlier scholars tend to advocate efforts to reduce complexities while recent work recommend harnessing instead of reducing complexity (Brown & Eisenhardt, 1997; Garud, Tuertscher, & Van de Ven, 2013) via appropriate process design, supporting organizational structures and cultures (Agarwal & Helfat, 2009; Albert et al., 2015; Schmitt, Barker, et al., 2016).

Another challenge is lack of necessary knowledge and resources. The knowledge a firm possesses largely constitute the foundation of its dynamic capability (Cepeda & Vera, 2007; Easterby-Smith & Prieto, 2008). Without necessary knowledge, it is difficult for a firm to reconfigure its current attributes to achieve renewal. Even though a firm may acquire knowledge by organizational learning, the learning process could be inhibited by lack of absorptive capacity (Cohen & Levinthal, 1990) if its current knowledge base is too distant from the new knowledge it intends to learn. Consequently, it reduces the likelihood of success of strategic renewal. A common way to manage this challenge is by acquiring or forming alliance with another firm that already possesses the knowledge or at least sufficient absorptive capacity for further learning intended (Agarwal & Helfat, 2009; Karim & Mitchell, 2000, 2004). Moreover, even though slack resources may be very useful for renewal activities (Lewin & Volberda, 1999; Mezias & Glynn, 1993), not all firms can afford to have slack resources. Particularly, SMEs often face constraints of resources of various kinds (e.g. human, financial, time, information resources) (Edwards et al., 2005; Hewitt-Dundas, 2006). In face of resource deficiency, firms can try to tap into the resources available through their networks (De Massis et al., 2017; Jones & Macpherson, 2006) or construct resources themselves via bricolage (Baker & Nelson, 2005) or resource orchestration (Carnes, Chirico, Hitt, Huh, & Pisano, 2017). Of course, there are more challenges with strategic renewal than space is allowed for discussion here.

2.2 Agency and Strategic Renewal Process

The concept of agency is often referred to capable and reflexive actors operating more or less independently of the determining constraints of social structure (Battilana & D'Aunno, 2009). Meanwhile, the relational dimension of agency informs us that actors are not completely free
from the context and structure they are embedded in (Battilana & D’Aunno, 2009; DiMaggio, 1988; Giddens, 1984). In another word, agency is neither voluntaristic nor isolated, but rather subject to contextual influence. In this regard, agency is dynamic and manifests in an emergent and distributed manner (Garud et al., 2010). Embedded actors interact with each other and with artifacts for the sake of shaping and navigating their way through (or out of) a process that is not without constraints and uncertainties (Garud et al., 2010).

Another dimension of agency, which is often neglected in empirical studies, is the temporal dimension. In this case, agency can be conceptualized as “a temporally embedded process of social engagement, informed by the past (in its ‘iterational’ or habitual aspect) but also oriented towards the future (as a ‘projective’ capacity to imagine alternative possibilities) and toward the present (as a ‘practical-evaluative’ capacity to contextualize past habits and future projects within the contingencies of the moment” (Battilana & D’Aunno, 2009, p. 47; Emirbayer & Mische, 1998, p. 962)

With a temporal focus, this conceptualization of agency highlights that the ‘past’, ‘present’ and ‘future’ are inextricably intertwined, as actors envision the future, make sense of the past and organize the present (Garud et al., 2010). More specifically, retrospective memories of the past engender actors to take certain actions in the present and aspire the future to be a certain way. Nevertheless, when proactive efforts are taken, actors may envision the future in different ways, allowing them to selectively mobilize different elements in the past which then galvanize different actions in the present. In this case, actors’ future is not determined by the past as they can influence (but not determine) how the future will unfold (Garud et al., 2010). This contrasts the determination of the past upon the future as argued by the core thesis of many path-dependence literature (Araujo & Harrison, 2002; David, 1985; Vergne & Durand, 2010). Actors engaging in temporal agency do not deny the past (Garud & Karnøe, 2001) nor treat ‘initial condition’ as given (Garud et al., 2010). Additionally, they view ‘contingencies’ as emergent context for them to act upon (Garud & Giuliani, 2013; Garud et al., 2010). For them, emergent situations are simultaneously the outcome and medium of their actions (Giddens, 1984). Because of such orientation, those actors gain some degree of self-efficacy to enact, improvise and bricolage (Garud et al., 2010).

Moreover, those actors strategically manipulate ‘self-reinforcing mechanism’ by purposefully seeding and introducing new and alternative mechanisms (e.g. mechanism that facilitate sensing of new trends, challenging entrenched beliefs, investing in learning behavior, and creating new network ties etc.) (Garud et al., 2010). The results of such manipulations by actors may not be immediately visible to outsiders, because the manipulations may be embedded or hidden in actors’ everyday- and seemingly trivial activities. Therefore, this implies that even if outsiders may condemn the actors with the label of ‘lock-in’, the actors themselves are aware that they are cultivating new and transitional trajectories in the temporary stabilization. Over time, the transitional trajectories become visible to the actors and outsiders.

During the course of enacting transitional trajectories via relational agency and temporal agency, actors may come across serendipities that contribute to the constitution of transitional trajectories. However, serendipities are not necessarily exogenous and come as random luck, but instead
actors could cultivate serendipities by actively making something out of what they stumble upon (Garud et al., 2010). As such, agency by no means entails predictability and heroism. Rather, it is incremental and concrete course of proactive actions taken cautiously by the capable and reflexive actors as they interact with their context. This makes it important to pay attention to the timing, sequencing and performance implications of series of activities unfolding over time, when studying the enactment of transitional trajectories in firms’ strategic renewal processes.

Arguably, a strategic renewal process can be understood as the process of firms enacting transitional trajectories in light of changes in both internal and external environments. During this process, relational agency and temporal agency are utilized to refresh and replace strategic attributes of the firm for the sake for ensuring the firm’s long-term prospect. Put differently, relational agency and temporal agency serve as both ontological orientation and means adopted by actors to enact transitional trajectories during the process of strategic renewal. To get a more concrete understanding of this, I will provide illustration from an empirical case by probing into the strategic renewal process of the SME HangOn.

To sum up, although existing literature has provided us with extensive knowledge on the reasons, modes and types as well as challenges of strategic renewal of firms, we still know very little about how the processes of firms’ strategic renewal unfold, particularly related to the timing, sequencing and performance implications of different strategic renewal activities over time. The reason why we lack such knowledge is because existing research hardly take a processual perspective in their investigation on strategic renewal. Therefore, they tend to portray a rather static picture and fail to capture the dynamics of firms’ strategic renewal processes. Consequently, this results in high level of abstraction and limited practical implications (Schmitt, Raisch, et al., 2016). This study fills this knowledge gap by investigating the strategic renewal process of an SME named HangOn, and by paying attention to the timing, sequencing and performance implications of agencies manifested in the form of different strategic renewal activities of the firm unfolded over time. As such, this study adds to our knowledge on the dynamic process of SME’s strategic renewal and enriches practical implications for firms as they pursue strategic renewal. Furthermore, since the illustrative case firm is an SME and operates in the mature metal manufacturing industry, this study also enhances our understanding on how other SMEs that bear similar characteristics as HangOn could manage to overcome resource and competency constraints during strategic renewal, and to deviate from the aggregated pattern of decline as suggested by some literature in industrial dynamics.

3. Methods

In light with the overarching research question of how do manufacturing SMEs operating in mature industries strategically renew themselves over time, this study first makes an inquiry into strategic renewal literature and agency literature in order to build theoretical understandings. Subsequently, a longitudinal case of the manufacturing SME named HangOn is used and analyzed to illustrate the theoretical arguments built. The firm HangOn is an SME with limited resources, and operates in the metal manufacturing industry which is considered as mature and declining in Sweden. Nevertheless, HangOn displays patterns of transitional trajectories and appears to be very successful in strategic renewal. This makes the SME HangOn an interesting illustrative case for analyzing relational agency and temporal agency during a strategic renewal process. Furthermore, the availability of rich data about this case allows for investigation into the
Timing, sequencing and performance implication of strategic renewal activities unfolded over time. This fits well with the intent of this study add to our knowledge in the dynamic process of firms’ strategic renewal.

A mix of qualitative methods were used for empirical data collection. For primary data, two in-depth semi-structured interviews (300 minutes in total) were conducted with the firm’s former CEO Håkan who is still active in the firm’s daily operation. Primary data is complemented and triangulated with secondary data via careful study of the firm’s website, product brochures, a book about the family’s 100 years of business history, the former CEO Håkan’s autobiography, and a collection of relevant newspaper articles (between the year 1989 and 2016) about the firm. As to analysis, I have conducted a processual analysis inspired by Pettigrew (1997), where I first built a chronology of the case highlighting the timing, sequencing and performance implications of the firm’s key renewal activities. Then, informed by the theoretical arguments made on relational agency and temporal agency during strategic renewal processes, I searched for and highlighted patterns and underlying mechanisms in the observed process. To enhance reliability, the initial draft of the chronology was sent to the interviewee Håkan to check in case of misunderstanding. Minor misunderstandings have been detected and subsequently corrected in the chronology presented in Section 4.

4. The Strategic Renewal Case of HangOn

4.1 Case Overview

The firm HangOn was founded in a garage by an entrepreneur Erland after his retirement in 1977. It is located in a small and old industrial village called Hillerstorp in southern Sweden. In the first few years, the firm manufactured and supplied metal hooks to only a few local firms in the coating industry. In 1989, Erland’s son Håkan took over the business due to Erland’s sickness. Since then, the firm has been in a strategic renewal process. After being stuck by the 2008 economic crisis, HangOn quickly recovered and rejuvenated in 2010. Currently, HangOn has 75 employees and enjoys a competitive presence in over 40 countries worldwide. Its product portfolio has expanded and now includes metal hangers, smart hanging systems, accessories for hanging, and silicon caps and plugs for industrial use in the coating and masking industries. Besides producing standardized products, HangOn also offers tailor-made solutions to meet customers’ special demands. In 2016, HangOn achieved approximately 119 million SEK in revenue. In this current era when high-tech industries are believed to be the future dominance and traditional industries like metal and plastic product manufacturing are viewed as mature and dying, HangOn continuously expands and grows. These evidences demonstrate the successful outcomes of the firm’s strategic renewal.

4.2 A Chronology of HangOn’s Strategic Renewal Process

How has the firm been able to accomplish such successful strategic renewal outcome? To understand this, the strategic renewal process of the firm - in particular various key renewal events in their timing, sequence and performance implication (Schmitt, Raisch, et al., 2016). The first major renewal event took place in 1989 when Håkan took over the business from his father. Realizing the impracticality of the original garage style production facility, the firm decided to replace the old facility with a new one which was not only larger in size but also designed to both suite the production organization process and create a physical work environment for the well-
being of its staff. To meet the need of producing shorter hooks, the firm bought two second-hand machines which was rebuilt by its main machinery supplier NMV in the same town. Additionally, some older machines were altered to increase production efficiency. In the same year, the firm attended a subcontractor exhibition for the first time in the broader region and expanded its small customer base. As the number of customer grew, so did the requirements of customized-design hooks. During the early 1990’s, the firm spent significant efforts to develop machinery to increase production flexibility to satisfy customers’ needs for tailor-made hooks. This was accomplished by the firm’s technicians in cooperation with their local machinery supplier NMV. During this process of close interaction between the firm and NMV, not only did the firm fill their knowledge gap in customized machine development, but it also benefited from tacit knowledge spillover from NMV and consequently improved the firm’s own knowledge base. Notably, the high degree of automatic machine usage since the 1990’s allowed the firm to reduce labor costs and achieve production efficiency early on.

Besides the demand for tailor-made hooks, one key customer asked whether the firm could also provide discs for metal masking use – an area in which the firm had no knowledge and experience in at that time. Instead of turning down customer’s request, the firm’s product development staff started exploring ideas based on their existing knowledge. After trials and errors with experimentations, the firm developed a solution in 1991. After this, the firm managed to build its own machine for producing masking discs, and the machine is still in full use 25 years later. This marked the beginning of the firm diversifying into producing products for the masking industry.

On the other hand, due to the combination of the firm’s niche focus on two industries (i.e. hanging for industrial coating and masking) and the small home market, the firm realized they must seek and grow international markets since early 1990’s. In the beginning, the firm had very limited knowledge about the international markets. Therefore, they attended various exhibitions abroad to not only marketed their products, but also to gain knowledge about the industries and markets abroad as well as make international contacts. One of the key contacts they made was in 1993 with a manager named Kissak from a US company AA, which opened up opportunities for the firm to sell products to the US market and establish partnership for 10 years in the production of rubber masking products that was added to the firm’s product portfolio. In 1995, at an exhibition in Germany, the firm established another important contact from the Netherland through which the firm started to export products to the Benelux countries and a couple years later set up production site in the Netherland. The firm’s establishment in the Netherland was a strategic decision with the intention to enter another important neighboring market – Germany. Along with the firm’s entry into the Germany market, their new Germany contact did a market research which revealed critical industry information – there were only a few suppliers of metal hooks for the coating industry in Europe and the firm had competitive advantages over its competitors both regarding price and product development potential, but fast and reliable distribution was an obstacle. After that, the firm captured every opportunity to develop efficient and well-functioning distributions via strategies like establishing strategic distribution hubs based on customers’ geographical locations, utilizing information system to manage stock and logistics etc. Such strategies enabled the firm to fulfill its promise to customers: products dispatched before 14:00 the same day an order is placed. This helped the firm develop superior competitive advantage over its competitors, build a strong international reputation and won customer loyalty.
In addition, during the 1990’s and early 2000’s, the firm also leveraged on their contacts to acquire a number of firms and establish subsidiaries and sales channels in Denmark, England, Germany, the US, China and so on. Over time, the firm’s presence sprang up all over the world. When the firm acquired foreign firms, they retained the key local staff to make up for the firm’s lack of cultural knowledge (e.g. language, local business practices) and network. To ensure coherence and manage coordination complexity, the firm uses the same stock-distribution management software system with minor local adjustment in all its subsidiaries. As aggressive as it may appear, the firm takes each renewal steps with caution, albeit unexpected situations at times. One example of such situation was in 1994 when the firm was looking for machinery incorporated with the new CNC technology for the sake of improving flexibility in producing customized products without sacrificing efficiency. They were contacted by a Greek machine company and invited to visit the company’s booth at an exhibition in Germany. The firm convinced the key technician from its first local machine supplier NMV to accompany for this visit to complement the firm’s lack of technological knowledge. To their disappointment, they discovered the Greek machine was not at all up to quality standard. However, in the same exhibition the firm experienced a serendipitous discovery of the right machine offered by a French supplier. Discussion with and subsequent visit of this French supplier not only resulted in the firm’s purchase of a series of the machines, but also the opportunity for the firm to become this supplier’s only Swedish representative and sell the French machines in Sweden for ten years. In this way, the firm diversified its revenue stream and also contributed to the development of industries in Sweden via the introduction of advanced machines from abroad.

As described above, R&D efforts in products and production methods innovation have always been a routine for the firm as it renews itself. As stated in the book about the firm’s development history and also highlighted by the interviewee Håkan, the main driving philosophy in the firm is ‘to be different and make daily improvements, whether big or small’. This constant innovation efforts allow the firm to over time accumulate knowledge in material properties, production machine design and building, as well as product design in relation to their deepening understand of customers’ specific needs and production process. A large percentage of this knowledge is tacit and situated either within the firm or its interface with customers/suppliers/key partners, which means this knowledge is valuable, complex and difficult for competitors to copy or acquire (Gertler, 2004). Along with the increase of knowledge is the increase of the firm’s dynamic capability. In addition, the firm gains constant inspirations for innovation and keeps pace with the industries’ development through close collaboration with customers, suppliers and other key actors in theirs expanding network (T.-Y. Kim et al., 2006). The firm’s first slightly complex product was launch and patented in 1996 under the trademark HangOn. Subsequent product innovation led to the launch of socket systems, masking for flat surface, holds and axles, with a total of 40 patents. While the values of the firm’s products are not obvious to the eyes of people outside the coating and masking industries, their special designs can help customers improve production efficiency and reduce cost by up to 50%. This can be interpreted as a distinct competitive advantage the firm has developed. Moreover, building key production machines in-house prevents competitors from accessing unique and valuable production methods, which adds to the firm’s competitive advantage.

HangOn’s renewal journey had gone relatively well in general until the economic crisis hit in 2008. In 2009, the firm’s incoming order dropped, and turnover was curtailed by 30%. During this difficult time, it was common for many firms to lay off workers. However, this was not the idea of HangOn as they had high commitment to their employees who held the firm’s valuable
strategic asset – tacit knowledge (Winter & Teece, 1998). Therefore, the firm strived to take in extra tasks outside of their core business and managed to keep all the employees. In return, this increased their employees’ loyalty and commitment to the firm. Believing in the long-term prospect of their own development trajectory, the firm made a counter-intuitive and ‘risky’ move against their competitors by investing 30 million Swedish Kroner into a new warehouse and in further diversification into the field of masking disc production. This large investment was made possible due to the firm’s good relationship with external financial providers who had high regards for the firm’s trustworthiness. In addition, the firm gathered 20 of their sales representatives all over the world in Hillerstorp for the first sales conference, to improve sales skills on the one hand and to encourage as well as refresh the firm’s sales force on the other hand. Such daring and strategic moves made the company well prepared for fast recovery the year after the economic crisis in 2010. The remarkably fast rejuvenation of the firm over its competitors enabled the firm to take on even larger market shares both at home and abroad.

In 2010, the firm officially changed its Swedish name Törestorps Tråd to its current English name HangOn. This has refreshed the whole firm’s image, and prepared the firm to further expand its international market under its registered trademark ‘HangOn’ in 38 countries. In 2013, another attempt to refresh and improve its international sales force of 50 people was made as the firm held its second sales conference in its new manufacturing facility in the Netherland. In 2014, the firm undertook a large-scale renewal activity regarding its marketing materials: new handbooks were designed with a refreshed image, translated into 20 different languages and included new product offers; 44,000 copies of the handbooks were printed and distributed; the firm’s website was improved. In 2017, the firm has added an 8,400 square meters facility as an expansion to its original 16,000 square meters manufacturing site and office space in Hillerstorp. Although Håkan has retired from his position as CEO, the firm remained in the ownership of the family and managed by Håkan’s three sons. When asked to reflect upon the firm’s strategic renewal journey, Håkan replied,

“It does not matter what kind of industry one operates in – high-tech, low-tech, new or traditional. As long as you find somewhere to be smart and act differently from others (mainly competitors), the business will be successful anyway. I believe so for our company in the past, present and also in the future...even though others hold an opposite view.”

5. Further Analysis of the Case

This study asks the research question: how do manufacturing SMEs operating in mature industries strategically renew themselves over time? When investigating the strategic renewal process of HangOn, four distinctive building blocks have been identified as patterned or thematic embodiment of relational agency and temporal agency employed by the firm to enact transitional trajectories. In another word, these four building blocks serve as underlying mechanisms driving the firm’s strategic renewal process over time. These building blocks are 1) securing efficiency within an unexploited niche; 2) expanding customer base and networks; 3) related diversification and innovating for customers; 4) maintaining and reinforcing the core capabilities of the firm. These four building blocks are continuous, with some overlaps timewise, and display cumulative consequences (i.e. enacted transitional trajectories) in the firm’s strategic renewal process. This is in line with the incremental and evolutionary character of strategic renewal process highlighted by some strategic renewal scholars (Agarwal & Helfat, 2009; Albert et al., 2015; Huff et al., 1992). Table 1 provides supporting evidence for each building block.
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<th>Evidence Supporting Building Blocks of Transitional Trajectories during HangOn’s Strategic Renewal Process</th>
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<td><strong>Building Block 1: Securing Efficiency within an Unexploited Niche</strong></td>
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<td><strong>Relational Agency</strong></td>
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<td>Interacted with first few customers in the coating industry in the local village to identify gap/opportunity, Leveraged on the relationship and knowledge of key machinery supplier.</td>
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<tr>
<td><strong>Temporal Agency</strong></td>
</tr>
<tr>
<td>Not viewed the declining of metal manufacturing industry as constraints to the firm’s future prospect, Introduced automated production, built new facility as envisioning future expansion, Securing efficiency to make room for future innovative exploration.</td>
</tr>
<tr>
<td><strong>Transitional Trajectories Enacted:</strong></td>
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<tr>
<td>Moved to focus on an unexploited niche, increasing independence on building automotive machinery in-house, efficient yet flexible production, products became increasingly complex.</td>
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| **Building Block 2: Expanding Customer Base and Networks** |
| **Relational Agency** |
| Attended exhibitions to expand customer base and networks, Leveraged on network’s network to build important relationship ties. |
| **Temporal Agency** |
| Utilized customers’ and network’s knowledge as mechanism to sense future trend and current market and industry gaps, Built reliable and fast distribution channels and established distribution hubs in strategic location to prepare for entering new international markets. |
| **Transitional Trajectories Enacted:** |
| Moved from local to international market, built reputations as a specialized supplier of hangers for the coating industry, and diversified revenue stream by becoming CNC machine supplier’s representative. |

| **Building Block 3: Related Diversification and Innovating for Customers** |
| **Relational Agency** |
| Not refusing to solve new request by customers, Close interaction with customers across industries to understand technical processes and identify needs for complex solution system. |
| **Temporal Agency** |
| Strong aspiration to solve customers’ request despite of lacking prior direct knowledge, Mobilized and orchestrated different elements in existing knowledge base accumulated from the past, Continuous experimentation and improvements in innovating for customers across the coating and masking industries. |
| **Transitional Trajectories Enacted:** |
| Transitioned from products and serving customers in the coating industries to those in both the coating and masking industries, Transitioned from producing product units to complex solution system, increasing value to customers and won customer loyalty, increasing relevance of the firm to the changing environment. |

| **Building Block 4: Maintaining and Reinforcing the Core Capabilities** |
| **Relational Agency** |
| Leveraged relationship with financer to access capital, Leveraged on network ties to bring in commissioned work to sustain the firm’s workforce, No laying off any worker to keep tacit knowledge, employee loyalty. |
| **Temporal Agency** |
| Make every effort to maintain tacit knowledge and core capabilities accumulated from the past to secure for future prospect after financial crisis: heavily invested at the time despite of financial crisis and sharp dropped of sales, built warehouse and brought in IT system to |
Securing Efficiency within an Unexploited Niche

While HangOn operates in the metal manufacturing industry which is believed to be in the mature stage of industry life cycle (Tavassoli, 2015), the firm has identified from early on a niche area that was rather underdeveloped and unexploited, namely production of metal hangers specifically for the coating industry. Therefore, they decided to focus on this unexploited niche area. This shows that the firm did not take the general perception of the mature stage of the metal manufacturing industry as a given ‘initial condition’ (Garud et al., 2010) that constrained them. Instead, via interaction with the first few customers in the coating industry, they experienced and sensed ‘the hole within the tight competitive tissues’ in the metal manufacturing industry, which they then focused to fill. From this, we can see that the firm’s employment of relational agency (Battilana & D'Aunno, 2009; Garud et al., 2010) and temporal agency (Emirbayer & Mische, 1998; Garud et al., 2010) enabled them to identify an unexploited opportunity for enacting a trajectory deviating from the aggregated declining pattern of the mature metal manufacturing industry.

After identifying an unexploited niche, they realized efficiency in terms of cost and production is crucial for building competitive advantages, especially since the initial products they produced are rather simple. This became an emergent context for them to act upon (Garud et al., 2010). Therefore, they strived to secure efficiency by introducing automation and mechanical production. Lacking both financial resources and knowledge for building suitable machines, they bricolaged (Baker & Nelson, 2005; Garud et al., 2010) by buying second-hand machines and leveraged on the expert knowledge of their machinery supplier to rebuild the machines that fit the specific production requirements of the firm. Consequently, they largely reduced the high labor costs generated in production that would be transferred to the price of their products. In a country like Sweden where high labor cost contributes to high price of simple products, labor cost reduction is one of the most effective ways to increase cost efficiency in production. In addition, they invested in building a new facility that engender smooth flows in the whole production process and decreased coordination complexity, significantly enhancing production efficiency. This new facility was larger than what is minimum requirement to carry out production at the time, as the firm envisioned that their future expansion would need more space in their facility. Such projective capacity (Emirbayer & Mische, 1998) of the firm galvanizes them to act on (Garud et al., 2010) replacing old facilities and refreshing production organization. The replacement of old facility and refreshment of production organization constitute an important part of renewing strategic attributes as suggested by Agarwal and Helfat (2009). While the process of securing efficiency within an unexploited niche was full of hard work, it consequently enabled the firm to have more time and energy later on in exploration into new areas for enacting transitional trajectories (Garud et al., 2010) while at the same time cultivated and stretched the firm’s capacity to expand and accept larger and more complicated demands from customers.

<table>
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<tr>
<th>Organized sales conference for international staff to strengthen internal ties and prepare for further penetration of international market. Changed firm name from Swedish (Torestorp Träd) to English (HangOn).</th>
<th>further improve reliability and efficiency of distribution, and organized sales conference to boost the morale of staff to infuse confidence of weathering through the crisis.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transitional Trajectories Enacted:</strong> Consolidated and strengthened its strategic position in serving the coating and masking industries, while securing prospect for transitional trajectory enactment in the future.</td>
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It is also worth noting that as the firm secured efficiency in an unexploited niche, they have introduced a reinforcing mechanism (Garud et al., 2010) that encouraged the firm’s technical staff to learn new knowledge of production machine design and (re)building through interaction with their machine supplier and ‘learning by doing’. As a result, they went from large dependence on machine supplier to mostly self-sustained capability to build and improve complex production machines in house over time, contributing to the constitution of the firm’s transitional trajectories. Their accumulated knowledge (Garud & Karnøe, 2001) made it possible for them to increase flexibility without sacrificing efficiency in meeting customers’ special demands on various product properties later on. Without such accumulated knowledge, the firm would not have recognized the suitability of the CNC technology incorporated machines that they serendipitously stumbled upon (Garud et al., 2010) in the exhibition in Germany.

Expanding Customer Base and Networks

As the firm managed to secure efficiency to a certain extent, the volume demand from the local customers in the village Hillerstorp became very limited in relation to the large production capacity the firm had reached. This contextual constraints became an emergent situation which provided another context for the firm to act upon in transitional trajectory enactment (Garud et al., 2010). The firm worked to expand its customer base through attending exhibition both within Sweden and abroad. When customers from other regions in Sweden and abroad were attracted by the low price and high quality of HangOn’s products, they started to place order to HangOn instead of their (at the time relatively few) competitors who did not enjoy the competitive advantages as HangOn. This not only increased the volume demand to match with HangOn’s efficient production capacity, but also allowed HangOn to capture increasing market shares and widely build a reputation as a specialized supplier of quality hangers for the coating industry.

In addition, HangOn exercises relational agency (Battilana & D’Aunno, 2009; Garud et al., 2010) further by expanding its networks through establishing new contacts with potential distributors and partners (T.-Y. Kim et al., 2006). The expanded network was leveraged on as a new mechanism (Garud et al., 2010) to help the firm further identify unfulfilled gaps within their niche, sensing new trend, and learning about country-specific information of their product market in different countries. What the firm excelled at with network expansion was that they were able to use a new tie that they built to reach and establish another new tie. Such compounding pace of network expansion enabled the firm to internationalize to various countries and penetrate the niche market for hanger supply for the coating industry. One important example was the firm’s contact in Germany who revealed critical information to the firm regarding the industry-wide problem of distribution unreliability. Upon this emergent situation (Garud et al., 2010), HangOn timely invested efforts in building reliable distribution channels through establishment of strategic distribution hubs in relation to the geographical clustering of their customers. Such a move was right in time and critical for the firm to quickly enter several international markets within a relatively short period of time. In short, while the firm was serving a narrow niche, they were able to act ahead of their competitors, and to timely enact transitional trajectories regarding country markets to which they sell their products.

Related Diversification and Innovating for Customers

After the firm had been specialized in producing metal hangers for the coating industry for quite some time, it was not locked-in by customers in the coating industry. Instead, that period was just
temporary stabilization of transitional trajectories in the making (Garud et al., 2010). As an important way to differentiate itself and provide superior value to customers (Zeithaml & Fry, 1984), HangOn strived to meet different customization demands raised by customers (Quinn, 1985). This turned into a mechanism (Garud et al., 2010) that enabled the firm to not only combat inertia to status quo (Albert et al., 2015; Huff et al., 1992; Schmitt, Raisch, et al., 2016), but also to conduct related diversification (Markides & Williamson, 1994) and innovate for customers. Consequently, this opened up new opportunities for the firm to enact new transitional trajectories in terms of new product range and industry served. When one of their customers who happened to operate both within the coating industry and masking industry asked whether HangOn could manufacture and supply metal masking disc, HangOn did not say no, even though they did not have prior knowledge in the new area. This was yet another emergent context for the firm to act upon (Garud et al., 2010) and exercise relational agency (Battilana & D’Aunno, 2009; Giddens, 1984) and temporal agency (Emirbayer & Mische, 1998; Garud et al., 2010). Although they have never manufactured metal masking discs, their close interactions with the customer made them realize there are technological relatedness between coating and masking processes. In addition, HangOn’s aspiration to solving customer’s problem in the nearest possible future led them to mobilize and orchestrate different knowledge from their existing knowledge base accumulated in the past (Garud & Karnøe, 2001; Murray & O’Mahony, 2007). Eventually, they came up with an idea for experimentation in manufacturing metal masking discs. Subsequent improvements of the idea enabled the firm to successfully diversify its products from metal hangers to masking discs, and diversify into serving the masking industry that is related to the coating industry. In another word, transitional trajectories have been enacted in terms of diversity of product and industry the firm serves.

At the same time, HangOn has always been active with innovation. The firm’s innovation activities can be viewed as embodiment of their relational agency and temporal agency. During the firm’s strategic renewal process, besides innovating production machinery in-house to ensure efficiency and flexibility, the firm also spent large amounts of their efforts in innovating for their customers. This is typically embodied in their daily efforts in listening to customers who raised new issues, and coming up with new solutions via creative product design to help customers solve production problems, reduce costs and enhance efficiencies in coating and masking productions. Such endeavors led to continuous development of new and unique products, from simple units transitioning to complex systems. The more HangOn did this, the more capable they became. HangOn’s willingness and capabilities to innovate for customers have generated customer loyalty, and constructed arenas for co-enactment of HangOn’s transitional trajectories with customers. Combined with the fact that they constantly expanded their customer base and network both in size and scope, the prospect of enacting transitional trajectories for strategic renewal presumably became brighter and brighter. Notably, as the firm continues with their endeavors of transitional trajectories enactment during their strategic renewal process, they maintain and even increase their relevance to the ever-changing environment.

**Maintaining and Reinforcing the Core Capabilities**

During its strategic renewal process, HangOn has developed a set of core capabilities regarding production machinery building, automation adaptation, meeting customer demands through product innovation, internationalization and sales etc. These core capabilities allowed them to draw on and combine different elements to act upon various emergent situations. As the firm developed these core capabilities, they have also been conscious in reinforcing them even at times of crisis. In 2008 and 2009 when the economic crisis stroke and demand significantly
shrunk by 30%, the firm took a counter-intuitive and daring move to heavily invest. The purpose of this move is to maintain and reinforce the core capabilities they had arduously built up over the years. They understood that if they lost these core capabilities, they would most likely lose sustained competitive advantage over their competitors. Not only would this make obsolete their new transitional trajectories already enacted or in the making, but also inhibit them from continuously finding opportunities for further transitional trajectory enactment. This was why they chose to heavily invest. In this regard, they chose to manage and harness risk rather than avoiding risk as their risk management strategy (Garud et al., 2013). Such investment went into keeping the firm’s entire work force where valuable tacit knowledge resided, enlarging warehouses to ensure the reliability of stock supply in light of their envisioning of rejuvenated demand after the crisis; diversifying further into serving various new needs in the masking industry, as well as training the skills and boosting the morale of their international sales force in face of the crisis.

Notably, in their attempt to maintain and reinforce the core capabilities underpinning enactment of transitional trajectories, they strategically chose to take some side steps. This is exemplified by the firm taking in commissioned work outside of their core business to keep their work force occupied and paid. However, that was only temporary during the time the firm weathered through the crisis. The importance of taking side steps can be viewed as creative exercise of relational agency and temporal agency to enact transitional trajectories during a hard period of the firm’s strategic renewal process. Furthermore, although the firm could not predict when the crisis would end, they were cultivating potential and preparing for fast rejuvenation for after the crisis. Evidences about the firm’s successful renewal outcome after 2009 showed that ‘luck favors the one who is well-prepared’ (Cohen & Levinthal, 1994). This is in line with Garud et al.’s (2010) argument that serendipity and luck do not necessarily come at random but rather can be cultivated via relational agency and temporal agency. In short, the firm’s strategic position as a key supplier of hangers and products for the coating and masking industries has been largely consolidated and strengthened, while securing prospect for transitional trajectory enactment in the future. This is evidenced by the firm’s expansion of existing facility in the headquarter in Hillerstorp in 2017.

6. Conclusion

This study sought to understand how manufacturing SMEs operating in mature industries strategically renew themselves over time. The purpose of this study is motivated by our lack of knowledge in the dynamic process of firms’ strategic renewal, as well as in how SMEs operating in mature manufacturing industries and facing resource constraints managed to renew themselves and deviate from the aggregated declining pattern of those industries as suggested by literature on industrial dynamics. This study inquires into the strategic renewal literature and agency literature, and revealed that while there are various reasons, modes, process types and challenges of firms’ strategic renewal, a strategic renewal process per se is dynamic, with interrelated strategic renewal activities unfolding over time. Specifically, for SMEs, despite of resource and competence scarcity, relational agency and temporal agency can be effectively utilized to enact transitional trajectories during their strategic renewal processes. To illustrate the theoretical arguments, the empirical case of HangOn (an SME operating in mature metal manufacturing industry in Sweden) is used and analysed. During their strategic renewal process, HangOn over time effectively exercised relational agency and temporal agency which embodied as four interrelated building blocks: 1) securing efficiency within an unexploited niche, 2) expanding...
customer base and networks, 3) related diversification and innovating for customers, and 4) maintaining and reinforcing core capabilities. As such, they were able to enact various transitional trajectories over time, which contributed to their success in strategic renewal and deviance from the aggregated declining pattern of the mature metal manufacturing industry in Sweden.

This study has both theoretical and practical implications. For theoretical implication, this study suggests the importance of investigating both conceptually and empirically into the dynamic processes of firms’ strategic renewal. Arguably, qualitative research that take a processual perspective and attend to the timing, sequencing and performance implications of strategic renewal activities over time warrants to enhance our understanding on dynamic strategic renewal processes. For practical implication, this study suggests that managers in SMEs operating in mature manufacturing industries need to be aware of the shackles of inertia and lock-ins that they may be subject to, while at the same time do not become paralyzed by the shackles nor take the aggregated declining trend of their industries as determinant of their future. This is because they can pursue strategic renewal. Facing resource and competence scarcity during their strategic renewal process, it is important for SMEs to strategically leverage on their existing resource and knowledge base that they have accumulated in the past, take advantage of the enabling factors such as external relationship and network presented in their context to find new opportunities, and agilely act upon present emergent situations as they envision their future.

The contribution of this study is threefold. First, this study contributes to the strategic renewal literature by addressing our knowledge gap in the dynamic process of strategic renewal, and filling this gap by taking a processual perspective to examine the timing, sequencing and performance implications of firms’ strategic renewal activities unfolded over time. The theoretical arguments are illustrated by an empirical case. As such, this study has lowered the level of abstraction and enhanced our understandings in the dynamics of strategic renewal processes. Second, this study brought in a novel theoretical lens – relational agency and temporal agency, to enhance our understandings on how SMEs could overcome resource and competence constrains to renew themselves and consequently deviate from the aggregated declining pattern of the mature manufacturing industries they operate in. This has also enriched practical implications for SMEs as they pursue strategic renewal. Meanwhile, the major limitation of this study is generalizability as it investigates only one empirical case in one industry. Future research can study more empirical cases in different mature industries to verify and develop the findings of this study.
References:


