

Open innovation at the digital frontier: unraveling the paradoxes and roadmaps for SMEs' successful digital transformation

Open
innovation
for SMEs

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Abstract

Purpose – The purpose of this paper is to fill a gap in the literature regarding the open innovation management approaches that small and medium-sized enterprises (SMEs) can use to access digital technologies and incorporate them into their organizational processes. The research question is: What organizational and process-level managerial actions do SMEs take to successfully access and implement digital technologies within their organizational processes?

Design/methodology/approach – Using Guertler *et al.*'s (2020) Action Innovation Management Research (AIM-R) framework, this study examines the digital transformation experiences of 10 European SMEs to gain insights into the managerial actions that foster successful digital transformation.

Findings – The findings of the paper reveal two major contributions. First, a digital transformation roadmap for SMEs is proposed, with a focus on accessing external resources and reconfiguring internal ones to ease their digital transformation journey. Second, three distinct paradoxes that influence the digital transformation process in SMEs are highlighted, providing useful insights into the challenges and tensions SMEs face during this journey.

Originality/value – This paper provides a unique perspective on the digital transformation of SMEs by examining the managerial actions required for successful technology adoption and revealing the paradoxes that may emerge during this transformative process. The findings form the basis for future research, deepening our understanding of digital transformation in SMEs and providing actionable advice to managers and practitioners navigating this journey.

Keywords Small to medium-sized enterprises, Open innovation, Digital transformation

Paper type Research paper

1. Introduction

Digital transformation (DT) – an overarching concept encapsulating the integration of digital technologies into all aspects of an organization – has fundamentally altered the dynamics of innovation management and entrepreneurship (Nambisan, 2017; Crupi *et al.*, 2022). As firms strive to adapt to the rapidly evolving digital landscape, DT has emerged as a critical priority for organizations of all sizes and across various industries (Nambisan *et al.*, 2019). The adoption of digital technologies not only streamlines operations and enhances efficiency but also fosters innovation, facilitates data-driven decision-making, and engenders new business



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models, paving the way for sustained competitive advantage in the digital era (Appio *et al.*, 2021). The implications of DT are manifold, encompassing competitive strategy, culture, and structure, as well as business processes and customer interactions (Frank *et al.*, 2019). Consequently, DT warrants a holistic understanding of the various factors that contribute to its successful implementation, including change management, workforce upskilling, and the development of an agile mindset (Wu *et al.*, 2021). In the face of accelerated digitalization and increasing market pressures, organizations must navigate the complexities of DT to unlock new growth opportunities and maintain their relevance in an ever-changing landscape (Troise *et al.*, 2022). By fostering a robust digital ecosystem and embracing a culture of adaptability, businesses can capitalize on the transformative potential of digital technologies, thereby positioning themselves for success in the digital age.

In confronting DT, SMEs face both opportunities and challenges. On the one side, the impact of digital technology adoption on small and medium-sized enterprises (SMEs) is substantial, as it offers such firms the opportunity to access and incorporate advanced technologies into their existing processes. In turn, digital evolution may considerably benefit SMEs by paving the way for innovative digital products and services, expanding client bases, and enhancing overall performance (Khin and Ho, 2019). However, on the other side, SMEs often encounter challenges when implementing a combination of digital technologies, primarily due to their constrained financial, material, and human resources in comparison to larger enterprises (Horvath and Szabo, 2019; Masood and Sonntag, 2020; Nguyen *et al.*, 2015). Thus, SMEs struggle to harness digital technologies for competitive advantage due to multiple factors, such as the need for a skilled workforce, stakeholder recognition of digital technology value, and managerial readiness to implement innovations (Proksch *et al.*, 2021). Additionally, the misalignment of digital capabilities and tools with the broader DT vision for SMEs can impede the realization of the full potential of digital technologies (Nguyen *et al.*, 2015; Ko *et al.*, 2022).

The susceptibility of SMEs to external (economic and non-economic) disruptions highlights the crucial role of digital transformation in bolstering competitiveness and adaptability (Guo *et al.*, 2020). Nonetheless, achieving resilience and anti-fragility, particularly by tapping into external resources, remains a challenge for numerous SMEs when facing unstable environments (Corvello *et al.*, 2022). In this study, we argue that, to fully exploit the potential of DT by overcoming the internal limits that prevent its full implementation, SMEs should embrace an Open Innovation (OI) approach. Although existing literature has attempted to link OI with digital technologies (e.g., Dabić *et al.*, 2023; Costa *et al.*, 2023; Wu *et al.*, 2022), a discernible gap remains regarding the managerial solutions that SMEs can employ to access digital technologies and integrate them into their organizational processes from an OI perspective. This gap becomes increasingly significant as the pervasive nature of digital technologies continues to shape companies' innovation processes (Agostino *et al.*, 2021).

Against this background, it is essential to provide scholars and practitioners with guidance on how SMEs could access and integrate digital technologies, by creating a roadmap for innovation management from an open perspective. To address this gap, this paper builds upon research in resource-based view (RBV) and OI, with the objective of addressing the following research question: What organizational and process-level managerial actions should SMEs take to successfully access and implement digital technologies within their organizational processes?

By investigating the research question, this paper aims to offer valuable insights to the existing literature and practical guidance for SMEs pursuing DT. To accomplish this, the paper utilizes the Action Innovation Management Research (AIM-R) framework, as proposed by Guertler *et al.* (2020), to examine DT experiences of 10 European SMEs.

The paper's findings present two primary contributions to both academia and practice.

The first contribution involves identifying a *digital transformation roadmap* for SMEs, which assists firms in their DT journey by primarily focusing on accessing external resources (as devised by the OI paradigm) and reconfiguring internal ones. This roadmap provides a structured approach for SMEs to navigate the complexities of DT, ultimately enhancing their competitiveness and agility in the digital landscape. The second contribution relates to the recognition of three distinct paradoxes that influence the DT process in SMEs. These paradoxes underscore the challenges and tensions that SMEs encounter during their DT journey, offering valuable insights for researchers and practitioners alike. The examination of these paradoxes paves the way for further research, enriching the conversation around this vital aspect of DT in SMEs.

The remainder of the paper is structured as follows: in [Section 2](#), the theoretical framework is presented, including discussions on the rising importance of digital transformation (2.1), digital transformation and SMEs (2.2), and digital transformation and open innovation (2.3). [Section 3](#) outlines the methodology employed in this study. In [Section 4](#), the digital transformation roadmap is described, detailing its various phases: the scanning phase (4.1), the testing phase (4.2), the adoption phase (4.3), the integration and alignment phase (4.4), and the permanent transformation phase (4.5). Finally, [Section 5](#) presents the discussion and conclusion, highlighting the three identified paradoxes.

2. Theoretical framework

According to prior literature (e.g. [Lombardi, 2019](#); [Lu, 2017](#)), DT is an iterative process that involves both incremental and disruptive changes to automate business processes and make logistical and administrative tasks more efficient. These changes enable companies to increase their competitiveness in the market. However, despite its technological focus, implementing DT requires the ability to adapt business models to new technologies and lead technological innovations in a socio-technical environment, as pointed out by several researchers ([Frank et al., 2019](#); [Muller et al., 2018](#); [Lu, 2017](#)). Innovation management scholars have also explored how DT can help maintain a company's competitive edge by promoting the creation of more customer-centric products and services ([Martínez-Caro et al., 2020](#)), enhancing the organization's collaborative networks ([Han and Trimè, 2022](#)), and minimizing costs while optimizing time and resource utilization ([Paolucci et al., 2021](#); [Zangiacomi et al., 2020](#)). These benefits are achievable through the implementation of various digital technologies, including the industrial Internet of Things, horizontal and vertical system integration, big data and analytics, autonomous robots, machine learning, and artificial intelligence. Some of these technologies facilitate the gathering of more dependable and diverse data in the external and internal environment, while others promote more efficient and swift integration, processing, and utilization of information ([Tao et al., 2018](#)). The amalgamation of these technologies establishes the critical infrastructure for digital transformation and serves as an essential resource for building the organization's information-processing capability, alongside other complementary human and organizational resources ([Kim et al., 2012](#); [Tippins and Sohi, 2003](#)).

In the case of SMEs, while digital technologies stand as transformative agents with the potential to redefine the operational and strategic facets of SMEs, they also present challenges, particularly in terms of resource constraints. Specifically, SMEs often struggle with financial and human resource limitations when attempting to integrate these advanced technologies ([Costa et al., 2023](#)). Yet, amidst these challenges, the adoption of an OI approach may represent a valuable strategy for SMEs. This strategy, we argue, can act as a lifeline for SMEs, enabling them to navigate the barriers inherent in technology adoption. Through the lens of OI, SMEs can not only swiftly access the latest technologies but also unlock new market opportunities. The subsequent paragraphs endeavor to lay the foundation for a

strategic roadmap through which SMEs can navigate these intertwined subjects, establishing a core strategy for the adoption of digital technologies.

2.1 Digital transformation and SMEs

The impact of digital technology infrastructure is primarily associated with its role in enhancing a firm's capacity to access and integrate digital technologies into existing processes. The need for a coordinated implementation of various digital technologies can especially hinder the DT of SMEs (Horvath and Szabo, 2019; Masood and Sonntag, 2020). Indeed, identifying the optimal combination of digital technologies in SMEs can be challenging due to their limited financial, material, and human resources compared to larger enterprises (Nguyen *et al.*, 2015).

Digital evolution has a significant impact on the operations of SMEs. The implementation of digital technologies enables the development of innovative digital products and services, expands customer bases, and enhances SMEs' performance (Khin and Ho, 2019). Rapid communication networks allow SMEs and entrepreneurs to collaborate with suppliers and customers, access real-time data, and adapt to the ever-changing market landscape and supply chains (Skare *et al.*, 2023). Moreover, digital innovations transform SMEs' business models by creating alternative distribution channels and methods for generating and delivering value to customers (Matarazzo *et al.*, 2021). In sum, digital evolution considerably strengthens the competitiveness of SMEs. By adopting digital technologies, SMEs can enhance their competitive advantage through innovation in value creation, value proposition, value delivery, and value capture (Teoh *et al.*, 2022).

However, several barriers prevent SMEs from fully leveraging digital technologies for a competitive edge. Adopting digital technologies as a key factor in competitiveness requires a skilled workforce, stakeholders who recognize the value of digital technology, and managers willing to implement such innovations (Proksch *et al.*, 2021). Additionally, if the alignment of digital capabilities and tools with the broader digital transformation vision for SMEs remains unclear, the true potential of these technologies for competitiveness is not fully realized (Nguyen *et al.*, 2015; Ko *et al.*, 2022).

External funding is crucial for SMEs' growth and operations. A company's financial capacity reflects favorable development conditions (Bouwman *et al.*, 2019). This financial capacity drives business model innovation, enhances firms' operations, and ultimately improves financial performance (Arner *et al.*, 2020). The ability to invest in a company is vital, and total assets serve as the company's fundamental security (Shi, 2021). Digital financial solutions enhance SMEs' market position through servitization (Chen and Zhang, 2021). Digital transformation accelerates supply chain financing, improving SMEs' position and access to financial resources (Chen *et al.*, 2021).

DT significantly affects input costs for SMEs (Costa *et al.*, 2023). SMEs undergoing digital transformation tend to be less concerned about managing expenses. By utilizing advanced technologies to create and offer innovative products and services, digital transformation improves small businesses' output while reducing input costs. DT affects both product and process innovation, resulting in increased productivity and decreased production costs for companies (Skare *et al.*, 2023). In fact, through DT, SMEs can explore new ideas, exploit existing knowledge, and adopt technologies from external sources, enabling them to cut costs and remain competitive in an increasingly globalized economy (Albats *et al.*, 2020).

Regulatory requirements may hinder SMEs' growth. However, electronic invoicing helps SMEs comply with tax regulations and reduce administrative burdens. Thus, digital technologies significantly change the traditional regulatory challenges faced by SMEs. Solutions such as digital platforms, cloud computing, one-stop government shops, and corresponding infrastructure help ease administrative burdens through services like

e-invoicing, e-signatures, e-taxes, and open government data (OECD Publishing, 2021). This digital government framework allows SMEs to quickly adapt to regulatory changes, enabling managers and owners to concentrate more on business operations and informed decision-making rather than constant administrative tasks (Agostino *et al.*, 2021; Baheer *et al.*, 2020).

Finally, it is worth considering that, compared to larger corporations, SMEs are more vulnerable to external economic and non-economic disruptions. Under disruptive conditions, firms need resilience and anti-fragility to withstand and prosper in unstable environments. While resilience refers to the ability to absorb shocks and recover despite temporary changes, anti-fragility denotes a system's capacity to absorb and bounce back from shocks (Corvello *et al.*, 2022). Both features are relevant for SMEs facing DT. As a result, digitally transformed SMEs are more likely to implement short- and long-term crisis management strategies and achieve better performance outcomes. Furthermore, enhanced competitiveness enables SMEs to adapt and increase flexibility in response to external disruptions (Guo *et al.*, 2020).

2.2 Digital transformation and open innovation

In the context of SMEs, DT encompasses the digitalization of the entire organization and its business processes, as well as an innovative cultural approach that supports radical changes in the company's organizational structure as it evolves towards a digital configuration (Lu, 2017). Kane *et al.* (2019) proposed a four-stage evolutionary path for implementing DT in organizations, which includes exploring DT, developing digital initiatives, achieving digital maturity, and ultimately becoming a fully digital organization.

To successfully implement DT, essential factors such as engaging a larger community of stakeholders, adopting an industry-based perspective, cooperating with multipliers and intermediaries, focusing on specific business segments and scenarios, and identifying pilot projects to demonstrate the benefits of DT implementation must be considered (Crupi *et al.*, 2020).

All these factors recall the need to adopt an open innovation approach. Open innovation is currently recognized as "a decentralized innovation method that relies on deliberately managing knowledge transfer across organizational borders, utilizing monetary and non-monetary mechanisms in accordance with the organization's business model" (Chesbrough and Bogers, 2014, p. 12). The literature on open innovation has expanded, with notable contributions addressing various topics, including the impact of open innovation on business performance, the relationship between open innovation strategies and appropriability, the methods for obtaining and transferring technological knowledge, and firms' capacity for absorptive and desorptive capacities.

Concerning the role that OI may play to help SMEs overcome resource constraints to promote their DT processes, some studies have examined open innovation strategies during the transition from non-digital to digital technology, the role of absorptive capacity in incorporating complex IT innovations, the significance of idea markets, the role of Digital Innovation Hubs in connecting diverse knowledge sources, and the managerial actions at the organizational and process level to integrate digital technologies into open innovation processes (Christensen *et al.*, 2005; Roberts *et al.*, 2012; Natalicchio *et al.*, 2014; Crupi *et al.*, 2020; Urbini *et al.*, 2020).

However, despite the practical implications and some efforts to link OI with digital technology concepts, the literature reveals a gap in the innovation management approaches SMEs might use to access digital technologies and integrate them into their organizational processes from an open perspective. This gap becomes more critical as the increasing ubiquity of digital technologies impacts companies' innovation processes (Agostino *et al.*, 2021). Providing guidance to managers and practitioners in accessing and integrating digital technologies requires a roadmap for innovation management from an open viewpoint.

Figure 1 illustrates the benefits and barriers faced by SMEs when implementing digital technologies, as highlighted in the preceding theoretical background. Additionally, the figure demonstrates how OI can assist SMEs in overcoming these challenges.

3. Methodology

Generally speaking, action research aims to connect academia and practice. As stated by [Hult and Lennung \(1980\)](#), action research is an applied practice-oriented research method in cooperation with experts, which concurrently focuses on practical problem-solving and increasing scientific knowledge. In this perspective, the involved practitioners are considered as research partners – and not as distant subjects – by increasing the validity of action research ([Eikeland, 2006](#)). Previous literature demonstrated the use of action research in different domains such as organizational studies (e.g. [Evered and Roger, 2022](#)), education (e.g. [Hauber-Özer and Mertler, 2020](#)), design of information systems (e.g. [Gregor and Hevner, 2013](#)), and innovation management (e.g. [Guertler et al., 2020](#)). Concerning the latter, in response to the extremely complex nature of the socio-technical systems in which innovations occur, [Guertler et al. \(2020\)](#) suggest a proper methodology for an interventionist ethnographic approach to innovation management research called Action Innovation Management Research (AIM-R) framework able to “combines a high level of researcher involvement and engagement in the innovation process with high levels of methodological rigor and relevance” ([Ritala et al., 2020](#), p. 303).

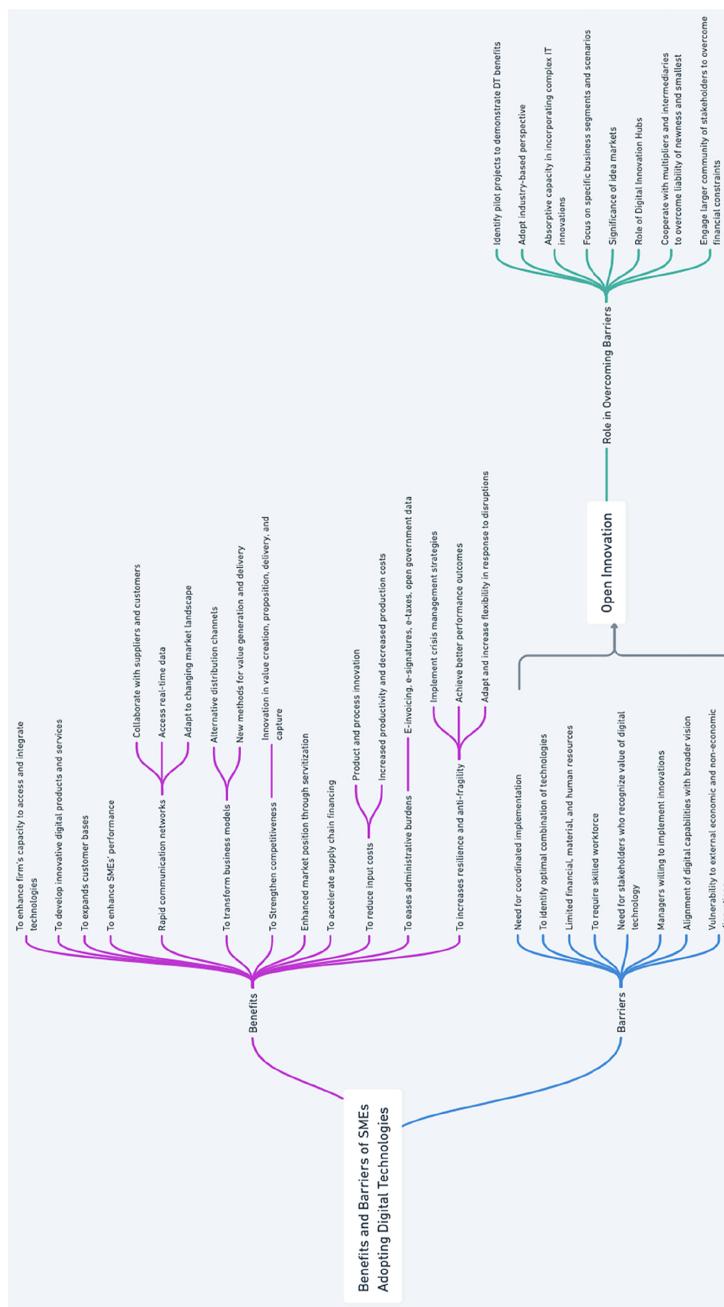
Since the Action Innovation Management Research’s main scope is to try out a theory with practitioners in real situations and gain feedback from this experience ([Ollila and Yström, 2020](#)), the SME sample was created by starting through the research’s team network. In order to conduct an accurate analysis, the willingness of practitioners to actively participate in research, by providing deeper information and experience, is an important factor in the selection of case studies. Then, starting from an initial set of 57 SMEs, 33 of them responded with interest to our request to participate in the study. Through the desk approach, we selected the most suitable of these for the research, relying on two sampling criteria: (1) clear evidence that the SME is involved in digital transformation strategies and (2) a heterogeneity of different industries, to take into consideration possible evolutionary patterns due to context-specific variables (e.g. [Urbinati et al., 2019](#)). The final sample contains 10 SMEs (see [Table 1](#)).

The AIM-R framework was developed through the following steps ([Figure 2](#)):

Step 1 – analysis and framing: During this step, we defined the specific goal of the study, framed the action research methodology, and identified key partners. Specifically, we based the project definition on a literature review of DT and SMEs. We then conducted an exploratory interview with a manager involved in DT strategies for SMEs, resulting in the definition of the problem of framing a digital transformation roadmap for SMEs, which became the problem addressed by the present study. Regarding the key partners identified to conduct the study, we identified a convenience sample consisting of ten firms with diverse backgrounds, industrial sectors, and locations. To varying degrees, these firms are all involved in projects with the authors, which allowed us access to information and previous experiences. In selecting the sample firms, we created a heterogeneous sample of partners to capture information from the various stages of the digital transformation process, as identified in the literature.

Step 2 – project planning: After reviewing the literature, we engaged the project stakeholders. We drafted a semi-structured interview protocol to explore the constraints that affect SMEs in implementing DT strategies and the solutions adopted. Specifically, in its flexibility, the interview outline was organized into two main macro-areas: (1) the theme

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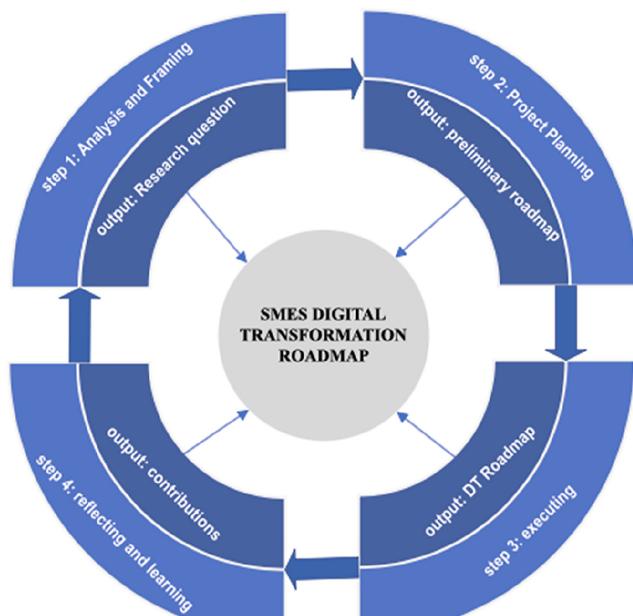
Source(s): Authors' own work

Figure 1.
Main SMEs' benefits
and barriers in digital
technologies
implementation
identified by the
literature

Firm	Main business activity	Interviewee	Duration (minutes)
A	Consultancy and strategic management	Co-Founder	120
B	HR management specialist	Founder and CFO	80
		Co-Founder	50
		Co-CEO	65
C	IT services and consultancy	Co-Founder	45
		Chief Marketing Officer	50
D	IT services and consultancy	Founder and CEO	60
		Co-Founder	70
E	Legal services	Founder	60
		Data Protection Specialist	40
F	Consultancy and strategic management	CIO	50
		Managing Partner	100
G	IT services and consultancy	Senior Analyst	50
H	Consultancy and strategic management	Sales Director	90
I	Web Marketing services	Senior Analyst	45
L	Consultancy and strategic management	Digital Marketing Officer	60
		Managing Director	70
		Senior Partner	60
		Senior Founding Partner	60

Table 1.
Firms and interviewees
involved in the study

Source(s): Author's own work



Source(s): Authors' elaboration

Figure 2.
Action innovation
management research
model for the SMEs'
digital transformation
roadmap

of *DT* in its broadest sense, with the aim of exploring the opportunities and challenges to be faced by SMEs; (2) the resources needed by SMEs in implementing the *DT* and the role played by open innovation to overcome the constraints. In sum, we conducted 19

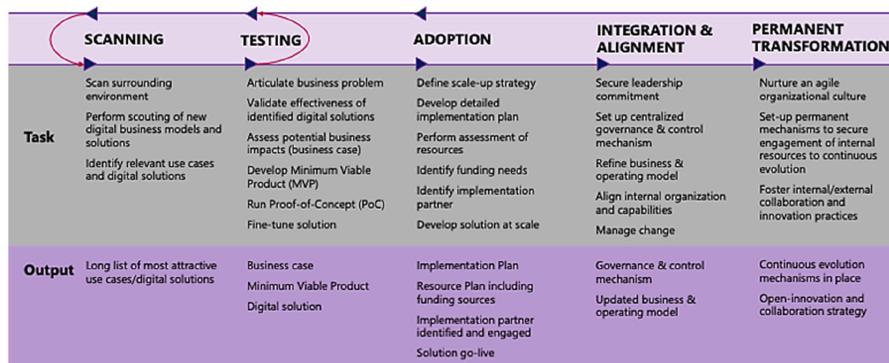
interviews with the ten firms previously identified. These SMEs act as consultants, intermediaries, and facilitators, collaborating with other SMEs to boost their *DT* processes and implement open innovation strategies to successfully access external resources. During the interviews with managers, we acknowledged the main barriers faced by SMEs in accessing or adopting digital technologies and explored the most common strategies adopted to overcome these barriers. Interviews were conducted using an iterative approach across multiple phases. In each phase, we analyzed the information obtained, sought confirmation, or requested clarifications. Interview durations ranged from 40 min to approximately two hours. These interviews were conducted online from March to December 2021. **Table 1** includes all the information regarding the ten firms involved in the study and the personnel interviewed. The outcome of this step includes a series of phases for SMEs to define their *DT* strategies.

Step 3 – executing: During this step, we drew the definitive version of the SMEs' digital transformation roadmap. Crucial in this step was the mixed composition of the authors' team, which consisted of four innovation management scholars and one practitioner with decades of work experience in consultancy and managing DT processes for several MNEs leaders in the IT sector. The development of this stage was characterized by an iterative approach during which the authors' team discussed the previous evidence and combined it with their different backgrounds. Scholars on the team integrated the evidence with previous literature in innovation management, while the practitioner combined the findings with previous experience and best practices used in daily DT processes. This iterative process, also characterized by continuous intra-project pivoting, produced the digital transformation roadmap as an outcome.

Step 4 – reflecting and learning: In this step, we analyzed all the project findings, including the interviews, the roadmap, and the individual experiences of the researchers and the practitioner, to derive implications for scholars and managers. The outcomes of this step are a systematic analysis and discussion of research findings, including academic and practical contributions.

4. Findings: characterizing the digital transformation roadmap

The primary outcome of this research is a process-driven roadmap for DT in SMEs, as illustrated in **Figure 3**. This depiction offers a dynamic, process-centered approach to DT,



Source(s): Authors' elaboration

Figure 3.
SMEs' digital transformation roadmap

outlining the crucial implementation stages required for a successful digitally-enabled organizational change strategy. Although the process perspective shares several touchpoints with the component perspective, the dynamic and activity-focused representation of DT provides a coherent analytical framework, particularly vital for the practical implementation of a DT strategy.

Indeed, a DT effort depends on individuals' readiness, willingness, and openness to change, as well as the commitment of top management (Verhoef *et al.*, 2021; Correani *et al.*, 2020; Zaoui and Souissi, 2020; Gurbaxani and Dunkle, 2019; Matt *et al.*, 2015). The corresponding extensive and large-scale organizational revitalization initiative should be based on a structured pathway for organizations to follow. **Figure 3** presents the SMEs' Digital Transformation Roadmap, which includes the five steps discussed in detail below.

4.1 The scanning phase

The first step in developing a digital transformation strategy is to continuously scan the surrounding environment. This activity can be carried out at every level of the company, as good ideas can come from anyone and, importantly, from every direction. In fact, considering that digital technologies are inherently pervasive and multidimensional by nature, external environment scanning should be conducted with a broad horizon, not solely focusing on one's own industry or the relevant technology market. In this regard, some effort should be devoted to systematic scouting of new digital business models with potential mid- and long-term impact on the SME's own industry value chain. Industry-related and non-related digital use cases should be mapped, assessed, and prioritized based on their business relevance for the organization.

Observing academic research in various fields and paying attention to strategies and solutions of other non-directly competing companies can provide managers with valuable insights into potential solutions that can be integrated into their own organizations.

For this reason, managers at all levels are required to continually engage in cross-boundary activities, to immerse themselves in the surrounding environment in search of rewarding experiences, and to remain attentive to what happens around them, detecting changes. Participating in shared experiences – such as digital innovation incubators and accelerators or open innovation consortia – is fundamental in this regard (Crupi *et al.*, 2020). From this perspective, it is crucial for the company to demonstrate its ability to access and be part of those digital innovation ecosystems within which the proper resources for open innovation can be found and identified. This external dimension should be combined with the company's internal dimension and needs. Managers are not only required to discover the right digital solutions but also to understand their potential for their own business and the impact that may result (Wu *et al.*, 2022). Magnitude and speed of potential digital impact on the organization's value chain must be thoroughly assessed in order to gain a clear view on the impact of DT dynamics on the organization.

In this stage a pivotal role is played by leadership commitment. Even before initiating the actual adoption of digital technologies, it is the dedication and vision of leaders that set the foundational tone. This proactive leadership engagement underscores to the entire organization the strategic importance and priority of the digital journey, fostering a conducive environment for transformation (Weber *et al.*, 2022). While the focus may shift to continuous evolution in later stages, it's this initial momentum, driven by the leadership, that truly activates and charts the course for the DT process. Hence, from the outset, the role of leadership is indispensable in guiding and ensuring the successful execution of DT strategies.

As evidenced, no SME can rely solely on its own capabilities to acquire all the necessary resources for implementing DT strategies. To this regard, connection with customers, suppliers, retailers, dealers, wholesalers, licensees, and partners is also crucial to gather data across the value chain for joint development of digital innovation.

Working within an open innovation framework and mindset is crucial for identifying external assets that complement internal ones. However, in order to make this framework effective, an open-innovation ecosystem strategy should be defined and aligned with business priorities, along with systematic collaboration with startups hubs and/or corporate venture capital programs from large enterprises.

Digital transformation encompasses not only intellectual but also economic aspects. In this multifaceted process, the identification and procurement of valuable digital assets, as well as their integration with other resources like capital, personnel, IT systems, tools and equipment, are essential for driving a successful strategy. Indeed, it's worth noting that the ability to scan the external environment is closely linked with the importance of managers understanding the costs and benefits of digital technologies before choosing which ones to adopt. Explicitly addressing this consideration is invaluable, particularly for managers of SMEs with limited digital proficiency and commitment to digital technologies.

An example can be found in the experience of Firm M, which recognized a rising trend in clients' needs related to the increasing complexity of the external environment. The firm's management acknowledged the importance of providing companies and professionals with a digital tool to be used as a virtual marketplace for sharing (selling and buying) resources, inventions, and competencies. Having recognized the significance of offering an instrument to overcome the noise created by traditional social networks and to navigate the Volatility, Uncertainty, Complexity, and Ambiguity (VUCA) environment, the firm released an open innovation platform. Even the creation of the platform was implemented through open innovation. This approach allowed the firm to expedite the time to market by reducing the platform development time, lowering costs, and improving market fit by collaborating with target users and key stakeholders to shorten the prototyping phase and expand functionalities.

4.2 The testing phase

The Testing Phase is a crucial stage that focuses on validating the effectiveness and feasibility of an identified digital solution. For instance, enhancing existing business models by meshing digital and physical channels – e.g. through click-and-collect services – might require several testing rounds before the new service is ready for market launch.

Thus, the testing phase entails an iterative process in which a lean startup or agile model is adopted, allowing the initial idea to be broken down into smaller blocks for field testing with the opportunity to pivot until the desired outcome is achieved. This will ultimately lead to faster identification (as time is a crucial factor) of the best solution to scale.

This phase is initiated after the identification of a problem that requires a digital intervention to enhance business operations, customer experience, products and/or services or overall efficiency. The Testing Phase involves conducting a small-scale pilot test by implementing the digital solution on a specific part of the problem, following a proof of concept (PoC) approach. A key aspect of this phase is embracing a trial-and-error perspective, which encourages learning from both successes and failures. The key aspects of this phase are, firstly, the *problem segmentation* according to which the problem is broken down into smaller, manageable components. This enables a focused approach and allows for accurate evaluation of the digital solution's impact on the specific aspect of the problem at issue. The second key aspect is the *solution design*, where the digital solution is designed or selected based on thorough research and a clear understanding of the problem. This aspect involves exploring various technologies, tools, and platforms that can address the identified problem and align with the organization's objectives and resources. The third key aspect concerns the *proof-of-concept development*. In this stage, a PoC is developed to demonstrate the feasibility and effectiveness of the digital solution in addressing the problem. A functional prototype or a minimum viable product (MVP) that can be tested and assessed is often created at this stage.

After that, the implementation of the phase should encompass the *pilot testing* to apply the PoC in a controlled environment, embracing a trial-and-error perspective. This stage helps gather valuable insights, identify potential issues, and evaluate the overall performance of the digital solution. Experimentation should be encouraged and failures should be permitted at this stage, as they provide essential learning opportunities for refining the solution. It is crucial to involve key stakeholders and end-users during the testing process to gather feedback and ensure the solution meets their needs and expectations. An important part of the stage development is linked to data analysis and evaluation activity the measure the results of the pilot test. Key performance indicators (KPIs) are established, so that the solution's performance and results can be compared against them. This data-driven approach provides quantitative evidence about the effectiveness of the solution and helps guide further improvements. Finally, based on the insights and feedback gathered during the pilot test, the digital solution may undergo modifications and refinements to enhance its performance, usability, and compatibility with the organization's systems and processes. Accordingly, the digital solution is scaled and integrated into the organization's broader operations. This stage entails developing a detailed implementation plan that includes necessary resources, training, and support structures to ensure a smooth transition.

Firm G, for example, guided a partner in addressing a Customer Care issue in which the company was experiencing significant delays in handling customer requests resulting in a sharp decline of customer satisfaction levels. After identifying the overarching problem, Firm G directed the company's team to segment the issue by focusing solely on customers' comments regarding a specific product. Having evaluated all possible solutions, Firm G devised a technical solution based on an AI-powered chatbot that would guide customers through problem resolution and automate troubleshooting of most common queries. The AI chatbot was designed to learn from customer interactions, continuously improving its ability to assist users effectively. The company then developed a PoC for the AI chatbot, creating a functional prototype to test its feasibility and effectiveness in addressing customers' concerns. Drawing on insights and feedbacks gathered during the pilot test, Firm G assisted the company in refining the AI chatbot to improve its performance, usability, and compatibility with their systems and processes. Following successful modifications, the company planned to gradually scale up the AI solution and integrate it into their broader customer care operations. The case of Firm G makes a good example of a trial-and-error approach. It started by prototyping automation options with a small set of processes (customer care operations) and technologies, before embarking on company-wide automation.

4.3 The adoption phase

Adoption represents a more mature stage in which the company and its managers are required to internally implement the digital technologies identified and tested in previous stages to initiate a DT process. This operation is inherently complex and is based on a scale-up strategy during which the validated solution is integrated into the entire process after carefully evaluating its technological and financial impacts. As with any innovative experience, the adoption phase relies on certain premises. One of these premises is that the identified technology aligns with the business needs of the company. Given this assumption, which is corroborated by the testing phase, the firm's managers are tasked with planning the technology adoption.

To achieve this result, the objective of the transformation must be identified, and an appropriate assessment of resources must be conducted. Once the necessary resources are identified, it is important to determine whether these resources are sufficient or if it is necessary to tap into new resources and/or align internal ones. During this phase, it is crucial

to rely on a solid partner to ensure a successful process of technology adoption and resources alignment. This partner is usually represented by a technology provider or an intermediary that delivers not only the technology but also intervenes in terms of training and guidance during the adoption process. The latter represents a key building block stage during which both managers and employees start familiarizing themselves with the technology and the new processes activated by the innovative solution. The process of adopting a new technology, as further explained in the next phase, has an impact not only at the strategic level but also at the organizational level. Thus, the initial engagement of managers and employees involved during the adoption phase has particular relevance for creating a common sense of technology acceptance.

It is worth mentioning that from a financial perspective, SMEs might struggle to dedicate the necessary resources to properly navigate this phase. Therefore, it is crucial for top management to find the right sources of funding in the public and private landscape, allowing for sustainable access to the required capital. However, it should be considered that the adoption phase is inherently iterative, and thus involves the creation of specific projects or intermediate implementation stages that enable the company to concurrently adapt its strategy. Despite relying on external resources, it must be acknowledged that DT activities, by their nature, involve high levels of risk and uncertainty, so resources will always be scarce or only partially adequate as the strategy evolves.

Against this background, the experience of Firm F offers insightful highlights on how to collaborate with an SME to implement an internal DT process to support smart operations in terms of manufacturing capacity. Specifically, the manufacturing firm – having recognized the rapid evolution experienced by the global value chain and the rising need for customization and flexibility among buyers – collaborated with Firm F to develop a digital tool for optimizing and controlling the production process remotely. Throughout the entire technology acquisition process, Firm F closely collaborated with the client to analyze the operations, benchmark the identified needs against the technical solutions available on the market, define the adoption roadmap, and guide the entire process.

4.4 The integration and alignment phase

Once the optimal solution has been identified, it is necessary to proceed to the integration into the firm's business model and the subsequent alignment with the new opportunities generated. As demonstrated in the previous phase, the adoption of a new solution is not only a matter of strategy, it also involves the firm's operational structure. Thus, the implementation of this phase encompasses both internal and external factors. First and foremost, it is crucial, for firms, to reiterate the crucial importance of leadership and commitment of top management, which should be constantly involved and aligned on the path forward and committed to its implementation. Indeed, since this adaption process requires structural changes, centralizing the responsibilities related to DT may offer a suitable control and governance mechanism. Centralization can encourage vertical information exchange, bypass lengthy negotiations, and streamline overall coordination (Firk *et al.*, 2021). To this end, a series of alignment mechanisms between the DT strategy and the firm's overall business strategy must be activated.

Analyzing the components that make up the entire stage, it becomes apparent that the first step (integration) requires a structural intervention in operations that necessitates the identification of appropriate resources and a suitable strategy for employing them without affecting the company's regular operations. To accomplish this, it is necessary to have a clear focus on the objectives to be achieved, the activities to be performed and related timelines, and the division of roles and responsibilities. Segment management, in this case as well, allows for constant monitoring of the strategy's impact on the company's functioning and enables

progressive adaptation and adjustment of the entire structure. Once the integration of technologies has been initiated and completed, the next step is to align the new functions and capabilities with the existing business model. Business model innovation is, indeed, functional for the company as it allows it to create, distribute, and capture value following the adopted transformation strategy. Indeed, it is not enough for the company to innovate the way it creates value; this innovation must reach its customers to meet their needs, fulfill their desires, or solve their problems.

Firm C's experience in IT consulting services demonstrates a profound comprehension of the importance of collaboration when incorporating new technology and knowledge into existing processes. For instance, when integrating AI into production processes, Firm C guided its partner in establishing an internal IT department equipped with the required skilled resources, offering training and technical solutions. Having a dedicated department enables the firm to capitalize on all opportunities presented by AI for operations and strategies. Firm C's advisory role assisted the partner in defining KPIs, developing the infrastructure, and upskilling human resources to effectively integrate AI.

4.5 The permanent transformation phase

The alignment of the operations and the business model does not exhaust the DT strategy; rather, we could say that it is perhaps the point at which a permanent transformation begins. The process described up to this point clearly involves companies that must adapt to new technologies. However, we have seen that these technologies are constantly evolving, and their areas of application are exponentially multiplying with the increase of applications and experiences. This implies that once a company has accomplished a process of DT, it must activate mechanisms for a continuous evolution to create a permanent phase of DT. To achieve this goal, it may seem trivial to say but the first step is to create an agile organizational culture that is constantly focused on digital evolution. The processes described previously – engagement of leadership, resources alignment, participation in shared experiences of open innovation, and continuous scanning of the surrounding environment – must become endemic to the firm's actions. The elements of this new phase can undoubtedly be found in the following equation:

$$\begin{aligned} &\text{Innovation focused on needs + resources + dynamic environment + openness} \\ &= \text{permanent DT}. \end{aligned}$$

Indeed, an innovative drive that is continually attentive to the needs of customers and the firm itself will activate those permanent mechanisms of scanning the external environment and collaborating with external partners that allow the company to be always up-to-date on digital developments. The consequent attention to internal resources, on the other hand, provides the basis for constant attention to innovative forms of financing and, as far as human resources are concerned, ensures they are always adequately skilled and updated. This will contribute to creating a constantly evolving environment in which ideas flourish and innovations take root.

A stimulating environment in which leadership behaviors favor digital adoption, team empowerment and risk-taking, and encourages personnel at all levels to bring new ideas to the firm to constantly fuel its evolution.

Lastly, openness to the external environment as a current practice and the knowledge sharing will increasingly drive open innovation and the search for partners with whom to activate collaboration strategies aimed at generating shared value. A company that consistently facilitates internal changes and contributes to the value proposition within the ecosystem in which it operates has a greater chance of continuously evolving, keeping pace with the times, and even anticipating the future.

5. Discussion and conclusion

Our analysis highlights that the implementation of a DT strategy in SMEs involves the adoption of managerial action not only at strategic but also at organizational level to overcome their liabilities by recurring to open innovation. At organizational level, the adoption of digital technologies pushes SMEs to reorganize their leadership, reskill the internal resources, formalize procedures and budget for digital investments, and develop validated practices to promote innovation development and adoption through external collaborations (Nadkarni and Prügl, 2021; Urbinati *et al.*, 2020). However, navigating the DT and collaborating with external partners at the same time is challenging for SMEs' managers also because they must navigate a complex environment governed by paradoxes (McGahan *et al.*, 2021). These paradoxes entail changes at the organizational level. We highlight these paradoxes in the following discussion.

5.1 The humans' key role

The first paradox relates to skills. In a world that pushes digital capabilities to unprecedented levels, individuals with their abilities and uniqueness play a crucial role (Eller *et al.*, 2020). In fact, we have observed that individuals, with their approach and attitude, govern transformation processes. Within this vein, leaders and managers are crucial, as they play a fundamental role for at least two main reasons. The first relates to commitment. Digital transformation cannot exist without a genuine engagement from top management (Wrede *et al.*, 2020). Their commitment starts from the early stage of the process with the identification of technologies to implement by means of scanning the external environment. Furthermore, they must guide and govern the process of technology absorption within the firm's processes by managing the relative strategic and organizational implications. The second aspect is linked to their ability to interpret the new role that digital leaders are called upon to undertake. The digital manager is, in fact, a multipotential manager who exhibits cross-sectoral characteristics and is capable of approaching change with a comprehensive strategic vision (Singh and Hess, 2017). We are no longer dealing with experts in a single discipline, but rather with individuals skilled in broadening their range of cross-cutting knowledge while clearly understanding their gaps, and simultaneously possessing the ability to surround themselves with human resources equipped with complementary skills and ultimately capable of filling those gaps. It is precisely on the skills of individuals that the other aspect of the first paradox manifests itself. Not only is leadership crucial in transformation processes, but so are all the members of the firm (Cetindamar *et al.*, 2024). They are entrusted with the important role of aligning and updating their skills based on what is necessary in order to effectively deal with digital innovations. Indeed, while new technologies will replace much of manual labor, they will also require the introduction of new roles suitable for managing them (Weber *et al.*, 2022). Although it is hard to predict exactly which type of management skill set will be the most suited to thrive in the digital era, a general principle is clear: flexibility and adaptability will be very much in demand. The human-machine integration thus represents a new opportunity for employment and professional growth for those individuals able to seize its potential. Over the next decade, although it is very unlikely that technologies such as AI will replace managers, it is very likely that managers who are able to use AI will replace those who don't (Brynjolfsson and MacAfee, 2017). To this regard still a lot remains to explore on the aspects of leadership and the future of work answering questions such as: What skills should the leaders of tomorrow possess? What are the characteristics of digital workers? How should companies enhance and cultivate these abilities? How is the concept of work changing, and how is the world of professions evolving? What are the future models for the integration between humans and machines?

5.2 Resources scarcity vs abundance

The second paradox pertains to resources. SMEs suffer dramatically from a lack of resources for implementing DT strategies, while the external environment is abundant with the necessary resources. This triggers centrifugal mechanisms that push firms to open up externally, creating open and systemic collaborations (Jugend *et al.*, 2020). When discussing resources, as we have seen, we must consider them in their entirety, that is, material resources – understood as financial means – and immaterial resources – understood as human resources, skills, and know-how. Let us begin with the examination of the latter. Digital transformation requires SMEs to primarily invest and reinforce skills (Troise *et al.*, 2022). The role of management and employees is to scan the external environment and the market for technologies to identify the best solutions to integrate into the firm to increase its competitive advantage. Know-how related to digital technologies is often complex and constantly evolving, and therefore the best solution for firms is to identify the leaders (or owners) of the technologies and interact with them for the acquisition or use of these technologies, rather than developing such know-how internally (which would expose firms to substantial investments and uncertain results).

Once the best technology has been identified and acquired, it is necessary to proceed with aligning the technologies with the business model and the internal organization. This operation will allow the firm to optimize internal processes and, at the same time, necessitate an appropriate strategy to effectively communicate the new value generated externally. In turn, technologies have to be aligned with the firm's internal skills, which must be appropriately redefined based on new needs (Kraus *et al.*, 2022). Thus, in addition to hiring new competencies from outside ("buy" strategies), firms have also to pursue a strategy of up-skilling and re-skilling internal competencies ("build" strategies). In this regard, the relationships that companies are able to establish with universities and research centers may prove to be a win-win strategy for both parties (Greco *et al.*, 2021), as these institutions contribute to maintain a vigilant focus on new training needs and adapting their educational offerings and teaching methods accordingly. On one hand, firms have access to sources of knowledge for updating their skills; on the other hand, universities have the opportunity to understand the real market needs and adjust their offerings accordingly.

As for material resources, we have observed that to govern DT processes, SMEs need initial investments for the purchase or development of technologies, machinery, and the adaptation of internal operations (Marozzo *et al.*, 2023). These resources can be obtained externally in various ways. One of the most common methods employed by small businesses is collaborating with large industrial, commercial, and financial partners to obtain the resources they need in terms of orders, access to facilities, or equity participation, allowing them to increase their capacity to invest in infrastructure and machinery. The second strategy is to utilize digital finance tools such as Initial Coin Offers to access widespread sources of capital. Lastly, firms can also rely on innovation policies' funds issued at all institutional levels.

Innovation policies deserve some ad-hoc reflection. Innovation incentives play a crucial role in the development of innovation and, over the years, have demonstrated their undeniable utility (Mina *et al.*, 2021). However, they often require too great an effort for firms, especially smaller ones (micro), in terms of initial investment for drafting funding proposals or due to barriers related to excessively high technology readiness levels. To overcome those two aspects, SMEs can collaborate with partners such as digital innovation hubs, accelerators, and incubators that offer the opportunity to join already established partnerships for requesting funds in larger projects (Crupi *et al.*, 2020). On the other hand, if the technological readiness level is too low, they can leverage these partnerships or create new ones with universities and research centers to access policies aimed at incentivizing the development of more nascent technologies for which a significant portion of basic research is

still required. Conversely, national and regional policies also play a crucial role (perhaps even more significant for certain aspects), as they represent the first potential means of access to substantial funds for firms. However, these policies are often limited in number or provide inadequate funds compared to the real needs of the entrepreneurial needs. They also impose rigid spending constraints which restrict their effectiveness, ultimately favoring only those companies that already have the necessary liquidity to anticipate investments or address a series of collateral investments required for the development of digital transformation strategies.

The analysis of the second paradox thus opens the opportunity to develop further investigations on two main streams. The first is related to the importance for SMEs of having free financial capital to be invested within the company to enhance its capabilities, thereby putting companies in a position to implement a genuine DT strategy. The second aspect is the importance for the company of opening up externally with a focus on OI to draw upon the resources it needs in a collaborative, ecosystem-oriented approach.

5.3 Power to the smallest

The third paradox pertains to size. New digital technologies are redefining the boundaries of entrepreneurial action ([Crupi et al., 2022](#)). Through the implementation of digital technologies, SMEs can both reach the global market and comply with adequate technological standards that allow them to enter global value chains, thereby prompting them to broaden their horizons despite their limited size. Moreover, such technologies enable access to human resources and expertise potentially scattered worldwide. New forms of hybrid work, in fact, allow firms to access a much wider talent pool without the need for them to be physically on the workplace. Consider the potential that technologies such as online freelancing platforms, matchmaking platforms or talent marketplaces offer in acquiring specific, highly specialized expertise from around the world to govern only part of the transformation process while optimizing resources and processes. This paradigm shift calls into question the very concept of the market (in terms of consumers, labor, or technologies) and the relative capacity of firms to access it based on their size.

However, the observation of the experiences we have conducted in this study leads us to the definition of the paradox. Despite the increasingly global dimension in which technologies push companies, the local context still exerts a significant influence on SMEs, particularly concerning the initial stages of transformation. What we have noticed is that the evolution of the concept of ecosystem, when related to SMEs, tends to refocus on the notion of territory. SMEs tend to scan their surroundings for new technological solutions to adopt, starting from the territory in which they operate and the partners they typically collaborate with. The main actors driving DT from this perspective are those most active in the local area. Digital innovation hubs, for example, play a fundamental role in mapping the needs of the territory and seeking potential digital solutions within broader networks to offer affiliated companies. Universities generate a continuous push towards digital innovation by creating a scientific base that requires industrial partnerships for testing and application. Small digital-born consulting firms aim to nurture a technology-driven ecosystem and take charge of guiding incumbents through their transformation processes. These are just a few examples that we have observed and demonstrate the importance of stable local relationships in open innovation, which have an exponential multiplier function in ecosystem creation ([Remneland Wikhamn and Styhre, 2023](#)). An ecosystem that evolves and adapts in its composition and definition, based on open innovation capable of self-sustenance, and driven by SMEs in a bottom-up approach.

This observation represents a novelty in the landscape of ecosystem literature, as the classic definition of the ecosystem usually involves a top-down approach in which a focal

company drives the creation of relationship networks based on a single value proposition attributable to its interests or the implementation of its technology (Marozzo *et al.*, 2023). In this perspective, the narrative described in the present study is reversed, and SMEs – subject to the centrifugal force that leads them to seek resources externally – create complex networks of relationships with other partners to cover the various needs dictated by the strategies of transformation implemented concurrently. In turn, by employing a word-of-mouth strategy, companies involved in such relationships tend to suggest other partners with whom they have collaborated for the resolution of specific problems. This continuous brokerage activity creates a virtuous cycle that fuels the bottom-up OI ecosystem in which the value proposition is represented by the success of SMEs' DT strategies. Examining in detail the mechanisms underlying the creation and management of these ecosystems, measuring their impact, and understanding their internal dynamics and power relations is perhaps one of the most crucial aspects that research will need to focus on in the future to provide answers and suitable models for supporting SMEs during their transformation phases.

Figure 4 shows the framework derived from the discussion of our results, pinpointing the core challenges associated with each paradox. Within this framework, we emphasize how OI, by fostering interactions with the external environment, can facilitate SMEs in seamlessly adopting digital technologies and unlocking new opportunities in terms of access to the market.

6. Conclusions and future research

The outcomes of this study open the door to future research. Our analysis has emphasized the importance of managerial actions at both strategic and organizational levels in implementing DT strategies for SMEs. However, simultaneously navigating DT and collaborating with external partners remains a challenge for SME managers due to the complex environment characterized by paradoxes.

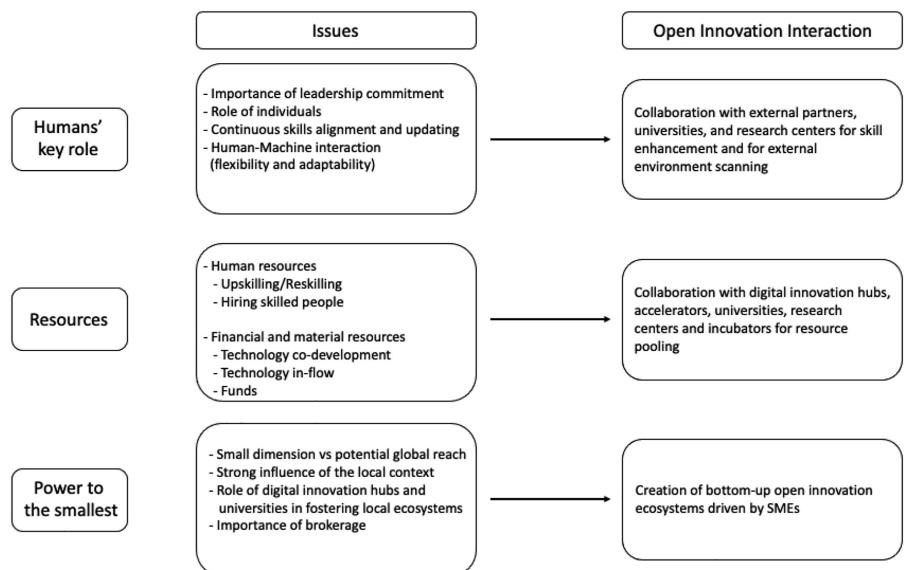


Figure 4.
Digital transformation
paradoxes and open
innovation framework

Source(s): Authors' elaboration

Concerning the first paradox (skills), while digital capabilities are pushed to unprecedented levels, individuals' abilities to cope with change play a crucial role in governing transformation processes, particularly in a context where (1) predictability and stability can no longer be taken for granted; (2) the skills' obsolescence rate is dramatically accelerating; (3) work increasingly consists of complex arrangements of interrelated tasks and new digital tools, requiring new ways of working. Leaders and managers are essential in this context, not only to drive the transformation efforts, but also to turn the traditional hierarchical organization structure of SMEs into a more agile one by means of investing in continuous upskilling initiatives, pioneering new ways of working and introducing a culture that fosters innovation. More research is needed to understand the aspects of leadership and the future of work, such as the necessary skills for future leaders, the characteristics of digital workers, and how SMEs can enhance, cultivate, refresh and keep these abilities constantly up to date. As for the second paradox (resources), SMEs must overcome several barriers to digitally transform their business. Since some of the most common roadblocks include lack of funding and lack of expertise, the end result is that SMEs often lack the resources needed for implementing DT strategies, while the external environment is abundant with the necessary resources. This creates a push for SMEs to adopt open and systemic collaborations. Future research can explore the importance and value of establishing an ecosystem-oriented approach to enable SMEs to gain access to free financial capital and to a broader talent pool. Finally, concerning the third paradox (size), new digital technologies redefine the boundaries of entrepreneurial action, allowing SMEs to access global markets, value chains, and human resources. However, the local context still exerts a significant influence on SMEs in the initial stages of transformation. Future research can examine the mechanisms underlying the creation and management of ecosystems or collaboration networks that support SMEs during their transformation phases and measure their impact.

The findings of this study carry significant implications for policymakers aiming to foster an environment conducive to the digital transformation of SMEs. First and foremost, while free financial capital is undeniably crucial for SMEs, a broader systemic approach is needed. Policies that strengthen fiscal regulations can provide SMEs with greater financial security and incentives to undertake transformative initiatives. Furthermore, enhancing laws related to intellectual property protection can bolster innovation, as SMEs would be assured that their digital innovations are safeguarded. Risk control mechanisms should be established and refined to give SMEs' managers the confidence to navigate complex digital landscapes without undue exposure to financial or operational hazards. Additionally, considering the importance of collaborations and ecosystems in the DT process, fostering policies that facilitate open and systemic collaborations can pave the way for resource-constrained SMEs to access necessary tools and knowledge. In essence, a multi-faceted policy approach, addressing financial, legal, and collaborative aspects, can greatly enhance the external environment and drive the digital transformation of SMEs more effectively.

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