# STRATEGIC RETAIL LOCATION DECISION-MAKING UNDER UNCERTAINTY: AN APPLICATION OF COMPLEXITY THEORY IN THE GREEK RETAILING SECTOR

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PhD 2014

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A thesis submitted in partial fulfilment of the requirements

of the

Manchester Metropolitan University for the degree of

Doctor of Philosophy

Manchester Metropolitan University Business School

the Manchester Metropolitan University

February 2014

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# Acknowledgements

There are a number of people I shall thank for their help to conclude and submit this work. First of all, my Director of Studies Professor David Bennison who not only exhausted half the red ink of the world giving feedback to my drafts but also for being so supportive to all the unexpected things that emerged in my way to the submission. I would also like to thank my supervisor Professor Gillian Wright, Gillian I greatly regret I did not keep you closer to the loop.

I would like to thank for their support my family, particularly my sister Zoe for being the catalyst between here (the UK) and there (Greece). I would like to thank a number of friends who helped me to contact the companies I researched, and the companies themselves for allowing me access.

Last, but not least, I would like to thank my companion to life. Without you Katerina this would have only been an unfulfilled dream.

Let me highlight that this research was conducted with the funding of the Greek State Scholarships Foundation. Without their support this PhD would not have happened.

# Abstract

The rapid environmental changes, high levels of uncertainty and difficulty in understanding these situations, make recession a uniquely challenging time for SMEs, particularly with respect to their strategic decision-making. This is especially true for retail SMEs: at the end of the supply chain, they are dependent on consumer buying power.

Strategic decision-making in retail SMEs, notably location and expansion decisions, are under-researched, though there is evidence that such decisions are subjective, more an art than a science.

These two elements, strategic decision making in SMEs and the context of recession are the focus and contribution of this thesis: the aim of the research was to compile a theoretical framework to portray the emergence of retail location strategies in recession. The research is underpinned by the theoretical domains of strategic location decision-making under the umbrella of complexity theory.

The research comprises two case studies of SME electrical retailers in Greece. Pre-recession, these retailers had established track records of aggressive locational expansion and so the impact of the turbulence that accompanied the Greek recession made them ideal exemplar cases for this study. The data collection comprised observation, informal conversations, key informant interviews and focus groups. A thematic analysis approach was taken to the coding, organisation and reporting of the results.

The results demonstrate how strategy development is supported by emerging organisational structures, including informal and opportunistic networks that facilitate the diffusion of tacit and explicit knowledge. These networks provide a friendly and supportive environment in which decision-makers are supported in their development of project-specific schemes. Thus this research contributes to understanding the locational decision process, successful locational strategy and strategic development in periods of instability and confusion.

# 1. Introduction

This thesis is about the strategic decision-making in SMEs in a turbulent environment, with specific reference to the retail location decisions of Greek SME in recession. The underpinnings of this project lie in two major bodies of literature, namely strategic decision-making and retail location decision-making, but it also draws on complexity and chaos theory in order to bring all the existing and developed knowledge together to produce one coherent theoretical framework. The thesis is the product of a long period of involvement by the researcher with the research, which also coincided with extreme changes that happened to his own family-owned and run business that impacted on the progress of the project and delayed its submission of the thesis. There were many ups and downs, periods of heavy involvement (the researcher spent 15 weeks in one of companies that were researched) and periods of complete inactivity, periods of intellectual production[1] and periods of stagnation, and all these happening under the pressure of a failing family business that required his attention. The following sections set out the rationale of the research, its aim and objectives, and some more detail on the personal context of the work. Finally the structure of the Thesis will be outlined.

[1] One journal article, one book chapter, four conference-papers, and 4 PhD *symposia* papers have been produced from this research. They can all be found in the appendix 1

## 1.1. The rationale for the research

This research emerged from two major influences. The first is a personal one and relates to the researcher's family business background; a female fashion SME in Thessaloniki, Greece; so there is an inherent interest in retail, and also the researcher's career as a practitioner in the marketing research industry where he was involved in numerous strategy development projects for local and national SMEs. The second one relates to the rapidly changing decision-making context for managers during the outset of the long and severe recession that the Greek economy saw from 2007. The Greek retail industry saw a major decline, according to the official statistics from the Hellenic Statistic Authority by as much as 34% by volume of sales (HSA, 2014), with specific sectors declining by over 50%. However, within this declining industry some SMEs not only managed to remain competitive but they thrived and saw substantial growth in their sales and profits, while engaging in relentless strategic location activity in the form of opening new stores and rationalising their store networks. These influences did not occur simultaneously: in fact, the researcher started his research by initially looking at the factors that support a successful retail location strategy, but the emergence of the dramatic economic downturn changed the scope of this project.

The academic underpinnings of the research go back a long way and, stem from the seminal work of the Nobel laureate Herbert Simon on decision-making and bounded rationality; research on strategic decision-making in volatile environments by Kathryn Eisenhardt and her colleagues; David Bennison's and Ian Clarke's work on retail location decision-making; John Dawson's work on the contextualisation of the changing retail environments; and Ralph Stacey's and Philip Anderson's work on the application of complexity and chaos theory to organisational research. This is just a very selective choice of the key authors that have influenced the work of the researcher; albeit over 500 different academic and journalistic sources are actually cited in this thesis and a lot more have been read and reviewed during the research process. During the development of the project another major question emerged from the reading that took place, namely, the relative lack of research specifically focused on retail strategy. The author takes the stance that retail has distinctive differences to the other sectors of businesses; it moves above and beyond the purely operational aspect especially in the sense that retail location strategic decisions involve massive, and possibly long term tying, resource allocation, particularly in the form of properties that are distant between them, and therefore the way that they are made and implemented deserves its own space in the academic research. A discussion of this issue will take place in chapter 6.

### 1.2. The general context of the research

The research has three main areas of interest. The first one is related to retail location decision-making strategy which can be regarded as an amalgamation of retail location, decision-making, and strategy. The combination of the three gives insights to what, where, how, why, and when company resources are spent.

- *What* and *where* is informed by retail location practice. It involves monadic and operational decision initially, but also involves bigger issues like expansion or rationalisations.
- *How* is informed by the decision-making process, which explains and illustrates the process of stimulation-alternatives development-choice-implementation-evaluation of a locational decision.
- *Why* and *when* refers to the strategic dimension. It is about long term planning, an abstract road map that will direct an organisation from its current state to a future better and desirable state. It is also about weighing alternatives and developing strategies that are compatible to the business environment (internal, external, macroeconomic), the culture of the organisation, and are achievable with the available resources.

The second area of interest has to do with Greece as a business landscape. From Hofstede's seminal work on culture and organisations to the country specific research of Papadakis on strategic decision-making in Greece there is evidence that Greece is a unique place for doing business. The dominant role of the *polymath* owners of the businesses, the lack of delegation, the *heuristic prognosis*, and of course the rapidly declining *dynamism* of the Greek economy made the research interesting and challenging at the same time. What started as an exercise to understand retail location strategies ended up being a quest to deal with multiple changing *lifeworlds*, including the author's himself, as a result of the outcomes of the economic crisis in Greece.

This was a complex process, where the major challenge was to distinguish the borderlines between business life and private life, something difficult when business life involves family businesses. The researcher observed that economic depression can be a life defining shock, for example the owners of one of the companies under research decided to retire because he did not want to live the stressful life of the business owner during such a massive economic downturn. The rapid change of the lifeworld sets out an ontological challenge that influences the research, particularly the data collection, in this project.

The research offers insights into how small-medium retail companies in Greece make strategic locational decisions. This was a multilevel task as it involved the understanding of the rapidly changing social, business, and retail environments in Greece which needed to be examined and (see Chapter 4). From 2007 to present the Greek economy has been subjected to a substantial downsizing, and companies have had to deal with an external environment which has been changing constantly, unexpectedly, and with the major involvement of the national government and *troika* officials. The macroeconomic changes that are discussed in Chapter 4 illustrate the extent to which the economy has changed. From an academic point of view the research addressed strategic decision-making and locational decision-making in Greek SMEs, a research field that has been under-researched, if researched at all, particularly in a period of massive change. Greece was characterised in the past as the perfect laboratory to do research (Bennison and Boutsouki, 1995) not only from the business point of view but also because it is isolated geographically from the rest of the European Union countries, and retains a unique culture and attitude. This uniqueness in addition to the extreme economic circumstances was the starting point for the research into decision-making in a changing, complex and uncertain environment.

The third area of interest is that it is an exercise in the reflection and the interpretation of sayings and meanings. Possibly the most interesting and rewarding aspect of this research for the researcher was to keep his distance from the decisions that were made during the project, and explore the behaviours and attitudes of the people involved to the decision that were researched. It was the identification of the relevance of complexity theory to the way that strategies are developed and how people team up or split when their personal targets exceed the organisational targets; how politics within the organisation become the point of reference and when culture becomes the *strange attractor*, the catalyst, that keep the organisation coherent during the turbulence of the crisis.

## 1.3. The major challenges

The author had to deal with two major challenges in this project. The first had to do with changes in the companies being researched. The project started with full co-operation from the companies involved, but amid the changes that happened during the recession this support became less and less over time, concluding in restrictions on the data collection and analysis by one of the companies. As will be further explained in Chapter 3, Company B asked for complete anonymity in this project and the result was firstly the need to fully rewrite the data analysis, and second a lot of very useful data could not to be used as it would potentially identify the company.

The second one is related to the changes in the personal circumstances. The failure of his family business was accompanied by severe health problems of family members which resulted in the suspension of the project for a year, and the extension of the submission of the work for another year. However, it was an educational experience. The author developed his own, hands-on, experience of managing a failing company that had to make tough decisions about assets and employees; dealing with the state and negotiating with a government that was in serious need to achieve results; and finally keeping safe as much of the family's assets as possible in order to keep the members of the family self-sustainable. Understanding the strategic process in such a turbulent environment become more intrinsic as aside from working with businesses for the thesis, research the author was working on his own strategic tasks that required immediate and in some cases radical solutions.

## 1.4. Aim and objectives of the research

As a consequence of the events noted above, the general outline of the project was not *finalised* for about three years. The broad aim was "*To understand how strategic retail location decision-making takes place in Greek SMEs during uncertainty".* Based on this, specific objectives were developed:

a. To explore how decision-making happens in organisations.
b. To determine what is uncertainty and how it is manifested in SME organisations.
c. To identify what are the characteristics of the Greek retail environment that make strategic decision-making uncertain.
d. To demonstrate examples of how complexity theory can be used in order to explain strategic thinking in Greek retail SMEs.
e. To compose a conceptual framework that models this process that can be used and implemented in other settings?

## 1.5. The structure of the Thesis

Following the introduction the Literature Review (Chapter 2) critically analyses the concepts of decision-making, strategy development, SME strategy, and retail location strategy are brought together and the theoretical background of the research is developed. In Chapter 3 the methodological approach to this research is presented, discussing the philosophical underpinnings of the research as well as explaining the practical execution and analysis of the collected data. Chapter 4 is a critical appraisal of the Greek retail industry with specific reference to the retail location tradition and landscape. Chapter 5 presents the data that were collected from the two case-studies that were completed for the purposes of this project. Chapter 6 is the discussion of the findings where the idea of complexity is linked to the data, and they synthesise the existed theory on retail location strategy. Chapter 7 finally presents the conclusions of this research, its limitations of the study, and potential avenues for further work.

# 2. Literature review

## 2.1. Introduction

Decision-making in organisations, perceived uncertainty, and retail location strategy literature is reviewed and synthesised in this chapter in an attempt to link together these three distinct bodies of literature. The aim of this chapter is to bring closer theories that have been debated and applied widely in the academic and professional landscape; but whose integration has not been attempted so far. This aim links to aim and objective of the Thesis that are summarised in the Table below:

| | | |
|---|---|---|
| Objective 1 | To explore how decision-making happens in organisations. | Section 2.2 |
| Objective 2 | To determine what is uncertainty and how it is manifested in SME organisations. | Section 2.3 |
| Objective 3 | To identify what are the characteristics of the Greek retail environment that make strategic decision-making uncertain | Section 4.8 |
| Objective 4 | To demonstrate examples of how complexity theory can be used in order to explain strategic thinking in Greek retail SMEs. | Section 2.7 |
| Objective 5 | To compose a conceptual framework that models this process that can be used and implemented in other settings? | Section 2.8 |
| Aim | To understand how strategic retail location decision-making takes place in Greek SMEs during uncertainty | |

**Table 2.1: Linkage of objectives to the literature review**

Broadly speaking, retail location strategy has been viewed from a number of different perspectives, mainly from a prescriptive point of view. The majority of retail location researchers have focused on the development of rigid frameworks that analyse the development of alternative decisions or strategies taking into consideration the alternative contextual characteristics (internal and external to organisations) that influence the retail location strategy. Another stream of research refers to Decision Support Systems (DSS), how these systems are applied by organisations, and what are the expected benefits of the use and exploitation of DSS. Finally, another relevant stream of research refers to the change and evolution of retail formats although it focuses on external environmental change and not on the intra-organisational processes that lead to the emergence of new formats or locational trends.

In this chapter the question of how retail location strategies are developed under uncertainty is addressed. The seminal work of Ghosh and his colleagues (see Ghosh and Craig, 1983; Craig, Ghosh, and McLafferty, 1984; Ghosh, and McLafferty, 1987) , and Timmermans in the 1980's, and the more recent contributions of Drezner and Drezner in the 1990's have established the basis of what are the alternative methods that can be used by retail location specialists', however their work is solely focused on the repertoire of techniques (mostly the statistical analysis of existing data that is considered to be valid and reliable) that are available, and not on how the dynamics of the organisation influence the decision-making process itself. Therefore in this chapter how retail location strategy is formulated under uncertainty is discussed focusing on the organisational perspective of process and particularly on how decisions are made in businesses and how perceptions of the environment define the decisions that are made.

The literature review is divided into three sections. The first section reviews the literature about decision-making in organisations. The aim of this section is to provide a critical summary of what the dynamics of decision-making within organisations are and how these dynamics set the context of the decisions. It is based on the seminal work of Cyert and March (1965) which is generally acknowledged to be the most influential piece of work regarding to decision-making in organisations. Particular attention is paid to decision-making in SMEs as their inherent characteristics pose challenges to the decision-makers. The second section of the literature review refers to perceived uncertainty and the related concept of risk. The aim of the second section is to introduce the concepts of uncertainty and risk to the reader and show how uncertainty influences managerial decision-making. Finally in the third section of this chapter the literature on retail location strategy formation is reviewed and synthesised with that on organisational decision-making and uncertainty literature. The aim of the final section of this chapter is to provide the theoretical background to how retail location strategy is developed under conditions of uncertainty, focusing on the internal processes that organisations adapt, and not on the techniques and the practical side of choice.

## 2.2. Decision-making in organisations

Decision-making in organisations is an everyday activity that involves numerous factors, and is influenced by both the internal and external environment of organisations. Threats and opportunities appear, leading managers to devote a significant proportion of their time (Prelec and Lowenstein, 1991) and effort to evaluating the environment, developing alternative ways of action, and making final decisions about the future of the organisations that they work for. Decision-making research has been placed high on the scholars' research agenda for reasons outlined by Miler et al. (1996, p. 75):

> *"Modern organisations need decisions to be made in order that they can function effectively; managers spend much of their time in making decisions at both the operational and the strategic level; and decision-making can be seen to focus political activity in organisations and so provide a window to a less observable but nonetheless influential 'underworld'".*

The research on decision-making follows two major streams. The first aims to gain insight into how decisions should be made, while the second one focuses on how decisions are actually made in reality (Nutt, 2008). Descriptive (or normative or rational) models of decision-making are basically prescriptive; therefore they are idealistic. Descriptive models are more concerned with the "bounded" manner in which decision makers operate. This research project does not intend to focus on the application of prescriptive models of decision-making. Rather, it centres on managers' reality and tries to gain insights into how they make decisions in everyday life. Moreover, the assumptions behind normative models of decision-making are fundamentally opposed to the ontological and epistemological assumptions of the author. As Teale et al. (2003) note, normative models tend to assume that decision makers:

- Have an extremely sound basis of knowledge available to them, so they can know a great range of alternative options available to them, and successfully predict an extensive variety of possible outcomes;
- Have excellent judgement, so they can rank all possible outcomes in terms of value;
- Are logical, rational and objective in the way they make decisions.

However the explanatory value of the normative models cannot be ignored. A plethora of research projects has been based on, or resulted in, rational explanatory models, even though the underlying ontological assumption was that decision-makers are not rational. For example, Mintzberg et al. (1976) in exploring what managers do when they are making strategic decisions, suggested that even though strategic decision- making is a complex process which managers do not have full control of, it can be reduced to a three stages model and a seven routines model. The idea that the researchers proposed reduces the complex process of the decision-making in the stages of:

a) Identification

b) Development

c) Selection

Within these stages the decision-maker recognise an emerging challenge that requires their attention followed by the application of an organised or intuitive diagnostic tool (stage a); search for alternatives and design a course of action (stage b); and finally evaluate the alternatives and authorise the implementation of the optimum decision (stage c). Vroom (2000) investigated a normative model of decision delegation and while he acknowledges that there are individual differences among managers, he concluded that the decision-making process matures at the same time that the managers mature. His research showed that managers decision-making process escalates from the very person-centric individual decision to the group oriented delegation. Bommer et al. (1987) developed a multi-dimensional model of ethical decision-making in organisations, where they identified six factors that influence the decision-making process and numerous mediating and moderating relationships among them, before finally summarising the whole process in a three stage model which generally falls within the generic model of rational decision-making in organisations that Mintzberg & Westley (2001) suggested (see Figure 2.1).

Define → Diagnose → Design → Decide

**Figure 2.1: Rational decision making in organisations, based on Mintzberg Westley (2001)**

Similarly, Dean & Sharfman (1993) argued that rational decision-making processes are employed when managers are making strategic decisions, however they imply that rationality is not an absolute measure and can vary among individuals. The level of rationality of a decision-making process has been positively linked with organisational performance (Goll & Rasheed, 1997). These are all evidence that rationality is varying among managers and albeit it is discussed as an integral property of the decision-making process, it is understood as a proportional measure that can be influenced by the contextual characteristics of the decision-making incident. The scarcity of information along with the limited ability of humans to analyse it, results in the creation of an individual reality, which sets the overall context where decision-making takes place. Simon (1982) uses the term “bounded rationality” to express this idea. According to Harrison and Phillips (1991) there is a continuum between rationality and bounded rationality which is related to the proportional understanding of rationality as a concept. The level of rationality of a decision-making process is a matter of information, managerial skills, and individual characteristics of the decision-maker (Teale et al., 2003). The result of bounded rationality is that managers and firms are not able to fully understand complex environments, and are forced to make decisions while possessing incomplete information about their options. What this means is that if the context of decision-making is characterised by bounded rationality, it can only mean that a non-normative decision-making process is adopted. Many scholars have focused their research on proving the existence of this limited rationality in managerial decision-making. Eisenhart and Zbaracki (1992) have researched the dominant paradigms of managerial decision-making and concluded that managerial decisions are rational, but only in a bounded manner. Mintzberg and Waters (1982) suggested that when organisations grow bigger, decisions tend to be made under bounded rationality; while Dean and Sharfman (1992) found that threatening environments, high uncertainty and external control decrease rationality. Fredrickson and colleagues (Fredrickson and Mitchell, 1984; Fredrickson and Iaquinto, 1989) have studied the continuum of rationality vs. bounded rationality and noted that there is a negative relationship between uncertain - unstable environments and rationality as a decision process.

Even though managers cannot show a stringently rational decision-making behaviour, they intend to be rational and reasoned (Miller et al., 1999). This is fundamentally the foundation of the behavioural theory of decision-making in organisations. Behavioural interpretations of decision-making processes seek to provide an environmentally valid representation of the decision-making behaviour (Gallimore et al., 2000). They acknowledge that managers have individual limitations of understanding and processing data, and accordingly define the problematic cases that need some kind of decision-intervention based on their individual understanding, which means that not only managers make decisions based on an individual interpretation of the environment but also they have an individual understanding of what a decision-seeking situation is (Tversky & Kahneman, 1986). Tversky and Kahneman's research addressed the issue of the framing of decisions, and it contributed to the accentuation of the contextual nature of decision-making. Their work inspired more researchers to look for a holistic conceptual framework that encapsulates all the factors that document a decision-making process and was awarded with the Nobel Prize in Economics in 2002. Kahneman (2002) in his prize lecture (2002, p.483) maintained that

> *"… A conservative general prediction is that variables that are neglected in intuition will remain underweighted in considered judgments".*

This statement further supports the view that decision-making is largely imperfect, based on the decision-makers preoccupations and heuristics, however this does not mean that this behaviour is problematic or unsuccessful by definition (Kahneman 2002). Nutt (2008) argued that decision-making is dependent on its context and content, the procedures that decision-makers follow to make decisions, the potential outcome of the decision-making process and finally the framework that connects the four previously mentioned factors. This part of the literature review will only focus on the contextual characteristics of decision-making.

The context of decision-making manifests the environment in which the decisions are made (Nutt, 2008). Both stimuli from the internal and the external environment define the context of decision-making (Achrol & Stern, 1988). Papadakis et al. (1998) suggested that internal measurable characteristics of an organisation like size, the type of ownership, the past performance of the organisation, and the formal systems that support decision-making, are related to the decision-making process. Other scholars like Cyert & March (1965) argued that the decision-making context is a set of goals, expectations, choices and their relational concepts. Each of these sets is determined by a number of variables constituting a complex context (see Table 2.1) that orientates the decision-making process. Even though Cyert and March's framework was published in 1965 it remains useful, because the concept of uncertainty is pivotal in managerial decision-making and fits the needs of this research, while it also provides a robust and coherent basis of discussion.

| Organisational Goals | Organisational Expectation | Organisational Choice |
|---|---|---|
| Dimensions<br>Aspiration level | Extraction of conclusions<br>Information feed | Definition of problem<br>Decision rules<br>Order of consideration of the alternatives |
| Relational concepts | | |
| Quasi resolution of conflict<br>Uncertainty avoidance<br>Problemistic search<br>Organisational learning | | |

**Table 2.2: The organisational context of decision making, based on Cyert and March (1965)**

The basic assumption of Cyert & March (1965) is that organisational goals, expectations and choices are influenced by the perceptions of the managers about their determining variables. Organisational goals are perceived as a mix of the things that are viewed as important by the decision-makers, and are related to the decision that will be made (dimensions of the goals) and the will to achieve this goal (aspiration level). Bourgeois (1980) suggested that the decision-making process starts from the appraisal of a goal and it is predefined by the means that the managers have to achieve the goal. Looking then at how various managers of public organisations move from the appraisal of the goal to the implementation of a decision, he concluded that there are differences, due to the formation of the group of people that were making the decision and the type of problem that appeared needing a decision-making intervention. Lines (2004) argued that the commitment to the organisational goals is positively related to the effectiveness of the decision-making process of the organisation. Considering that the organisational goals are influenced by who is making the decisions, Lines (2004) research implies that the effectiveness of the decision-making process is influenced by the composition of the decision-making teams of organisations.

The organisational expectations are seen as the outcome of the evaluation and processing of the available information by the decision-makers (Cyert & March, 1965). Schaefer (1998) suggested that when the organisation is performing below the expectations of the managers, or the expectations of various other stakeholders, this phenomenon by itself starts a decision-making process. Considering that maximisation of profits is the never-ending expectation of the managers and particularly of the shareholders of a commercial organisation, it means that an organisation is always involved in an ongoing decision-making process because they (the managers and the shareholders) can never settle with its existing economic results. Nevertheless, the organisational expectations are dependent on what kind of information the decision support team, of any form, of the organisation can feed the managers and what the managers get from this information.

The "*organisational choice*" is Cyert & March's (1965) approach to the structure of a decision-making process. Burnes (1997) stressed that organisations need to make choices when something changes in their environment. Therefore, organisational choice is related to the context within which the organisation operates. He also stresses that the development of alternative choices is the precedent of the decisions which are related to a problem-solving situation. Organisational choice is considered as the source of organisational problems by some researchers. Cohen *et al*. (1972) suggested that organisations inherently have available choices and they look for situations to apply them to. Even when the context appears to be certain, organisations have available alternative choices in their arsenal and making decisions can lead to turbulence of the stable context (Nickerson & Zenger , 2002).

Cyert & March (1965) argued that organisational choice is affected by the definition of the problem, the decision rules that are used by the decision-makers, and the order of consideration of the alternatives. Scholars have related the definition of the problem to the prior knowledge of the managers and the hermeneutics they understand (Dixon & Dogan, 2003). As a result, the choices that managers make are limited by their knowledge which is inherently imperfect, hence they can only make decisions that appear to be suitable for their understanding of a situation, while probably avoiding more suitable alternatives. The value of the decision rules lie more in the consistency they provide to the decision-making process rather than the improvement of the decision itself (Bowman & Moskowitz, 2001). Hickson *et al.*'s (1986) research revealed that a decision-making process creates decision-rules for the next time that a decision-making process is in place within the organisation. However, as Kauffman (1996) suggested, the decision rules are not perceived in the same way by all the decision-makers involved in a decision-making situation because there are individual cognitive differences, and this means that conflicted interpretations of the decision rules can result in the inclusion or exclusion of possible alternatives. Originally Cyert & March (1965) suggested that the order of consideration of the alternatives is only related to the past experience of the managers. Other researchers have argued that this order is also affected by the individual routines of judgement, bargaining and analysis (Molloy & Schwenk, 1995). The implication that is hidden behind the order of the consideration of the alternatives is related to the avoidance of uncertainty and the risk aversion behaviour of the decision-makers. Decision-makers tend to order alternatives and when they perceive that two or more alternatives can have the same outcome, they tend to qualify the safest one (March & Shapira, 1987). The nature of the choice is also related to the order of consideration of the alternatives. When the decision involves a positive outcome decision makers tend to be risk-averse. On the contrary, when the decision outcome is negative the decision makers tend to be risk-seeking (Kahneman & Tversky, 1979).

Cyert & March's (1965) research has also revealed that decision-making in organisations happens under a set of routines and restrictions that connects organisational goals, expectations, and choices. They look at the organisation as a living system that changes and evolves during the decision-making process, and finally learns and adapts within the environment that it operates. Within this system, the members of the organisation are negotiating for the setting of the organisational goals, developing their expectations and fostering the expectations of the stakeholders, and ordering the alternative choices according to the political bargaining that takes place during a decision-making process (Lazaric & Raybaut, 2005). Likewise, the decisions that are made by the decision-makers have a local and temporal value because they are the result of the resolution of the intra-organisational disagreements that are taking place for the opportunistic purpose of a decision-making situation. This describes Cyert & March's (1965, p.64) idea of the "quasi resolution of conflict".

The concept of uncertainty avoidance is pivotal in organisational decision-making, and it is also central to this research project. Therefore, it will be thoroughly explored in section 2.3. In brief, within the literature of organisational studies, uncertainty has been used as a proxy concept to understand and explain decision-making in organisations. For the purposes of this study the term "uncertainty" refers to environmental uncertainty, which is related to information uncertainty and resource dependence uncertainty (Kreiser & Marino, 2002). Hofstede (2001) suggested that organisations use technology, rules, and rituals to cope with uncertainty. The findings of his research showed that uncertainty differs among the managers working in different countries, and most importantly his research shows that Greek managers are the most uncertainty averse among ones in fifty countries all over the world that Hofstede examined. His research also revealed that uncertainty avoidance is affected by the gender and the hierarchical position of the manager. However it should be noted that even though Hofstede's research is considered to be seminal it has a major limitation. This is that all the managers surveyed for this research were employed by IBM, therefore his research reflects the opinions of managers working in the IT sector for a single multinational company. Cyert & March (1965) suggested that managers avoid uncertainty by tackling problems as they arise. Long term planning and complicated situations are increasing the uncertainty for managers so they tend to look at the issues that evolve incrementally and on an ad-hoc basis. For example, Cyert & March (1965) stressed that even though managers develop long term roadmaps they are frequently making adjustments based on day-to-day or week-to-week feedback. An assumption that Cyert & March (1965) made is that organisations attempt to create a negotiated environment in order to reduce or avoid uncertainty. A negotiated type of environment is more likely to be controlled by the organisations, making it more stable and less uncertain (Lev, 1975). A negotiated environment can be met both in the internal or the external environment of organisations. Rules, reporting techniques and budgets reduce the environment into a controllable proportion that is more easily comprehended by managers. Similarly, organisations make alliances that have similar goals, negotiate with other public or private sector bodies, achieve lower buying or higher selling prices, thus making their external environment more certain (Cai *et al*., 2008). It is also pretty common that organisations develop formal networks with the government, by employing lobbyists that represent them during the times that laws and regulations are formulated. This is another example of the creation of a negotiated environment. Pal *et al.* (2001) provides a relevant example related to the involvement of major grocery retailers in the formulation of Planning Policy Guidance Note 6 in the UK. The opportunistic nature of decision-making in organisations is not only related to the intra-organisational resolution of conflict that was described before, but is also related to the way that a decision-making process starts. Cyert & March (1965) have used the term “problemistic search”, to describe a search of alternatives that is stimulated by a specific problem that arises for the organisation. There are three assumptions that are related to the organisational context of the problemistic search:

1) The search is motivated by a problem. The problem can be solved either by finding the optimal solution for the given problem or by revising the problem and reformulating it according to the best alternative solution. The second case has been researched by Cohen *et al*. (1972) who developed the garbage can model for organisational choice. The application of the garbage can model requires the existence of an unstable external environment that produces unexpected streams of problems and an organisational structure that allows choices to be communicated freely among the hierarchy (Schwenk, 1985). Therefore, in a rapidly changing environment and in companies with simple hierarchical structures a garbage-can model is more likely to appear.

2) The search is “simple-minded”. When a search procedure starts, simple search mechanisms are employed. Managers tend to repeat search patterns that they have used in the past (Astley et al., 1982). Only when these search patterns fail, the lack of generation of alternatives leads to the development of more complicated search mechanisms (Eisner, 2003). Related to motivated search there are two rules about simple-minded search (Cyert & March, 1965). The search starts either from the alternatives that are related to the problem, or from the available alternatives regardless of the nature of the problem. In the first case, if a retail organisation cannot find the appropriate location to develop a retail store, the search begins in the retail location unit and the search process it employs. If this fails then the search expands to other units like strategy development and the requirements it sets, or the finance unit and the capital that was made available. In the second case the organisation is going to look for a choice that was made in a similar search instance in the past. Using the same example, a retail organisation can delegate the decision-making process to an external specialist.

3) The search is biased. The third rule reflects the influence of the other relational concepts (see Table 1) in the decision making context. Cyert & March’s (1965) assumption is that decision-makers are biased by the individual goals that are resolved by the negotiation of a mutually agreed resolution, by the local problems that they have to tackle, and

finally by the prior knowledge that is inherent to the members of the organisation. The bias in search is also related to the managerial perception of the framing of the problem. Hodgkinson *et al*. (1999) stressed that the cognitive limitations of the decision-makers have as a result the employment of heuristics that reduce the context of the problem to a manageable one, thus the search for alternative choices is limited to the extent of the manageable proportion that is understood.

Finally, the behavioural theory of the organisation advocates that since organisations are living systems they have the ability to learn. The basic assumption behind organisational learning is that the organisation exhibits adaptive behaviour which improves future performance (Fiol & Lyles, 1985). Organisational learning is related to the process that the organisation is following to adjust to the environment. The organisations adapt their goals and their rules according to the environment in which they operate. The adaptation to the environment reduces the uncertainties (Dodgson, 1993), therefore decision-making is improved or is more easily understood by the decision-makers. Learning within the organisational context is affected by the power relationships and the political schemes that are in place. The channels, through which learning is transmitted to the members of the organisation, are controlled internally by the gatekeepers who allow or prohibit its distribution (Easterby-Smith *et al.*, 2000). However, Tucker *et al*. (2002) suggested that organisational learning could be a barrier to a problem-solving case because the members of the organisation may stay attached to norms and routines and avoid the adoption of an innovative choice or decision-making routine that was never used in the past.

Cyert and March's research provided insights on the way that organisations operate. This is because they made explicit that the organisational context is influenced by ideas and concepts that are individually perceived and understood within the limitations of human cognition. Their research also brings into focus the fact that managers as individuals have to operate in a conflicted environment in which they make decisions not only as rational managers but also as irrational humans. In this environment, managers have to negotiate within the hierarchy of the organisation, and outside of it within the external environment. They have to be part of a political game that involves colleagues, competitors, the government, and various other stakeholders (Hickson *et al*., 1986). Decisions involve choices that require the employment of the resources or capital of the organisation. As Pettigrew (1973) noted, the finitude of resources of the organisation makes them contested by various members of the organisation. He also adds that the competition for the resources is more apparent when the decision that involves their employment is related to the introduction of innovations or the long term commitment of the resources. Hickson et al. (1986, p.59) define "politicality" as "the degree to which influence is exerted through a decision-making process upon the outcome". Elg & Johansson (1997) argued that the decision-making process is politically influenced not only by internal relationships and negotiation but also by the relationships and negotiating power of seemingly allied organisations. The concept of political negotiation is embedded in the concept of the power that managers have and can exert in a decision-making process. Formal or informal pillars of power influence the decision-making process, and particularly the power that originates from hierarchical schemes is considered to be crucial for the present and the future of the organisation (Hislop et al., 2000). The exertion of power is also referred to by Papadakis & Barwise (2002) who suggest that the power that results from the hierarchical position of CEO's and top-managers has a significant influence on the decision-making process. Moreover, the exertion of power in the decision-making process is not opportunistic in nature but it is a means of sustaining the hierarchy within the organisation and among the other competing organisations (Pettigrew, 1973). Hence, decision-making is not only a process that gives an answer to a question but it also has further implications for the organisation and its position in the environment. Achrol & Stern (1988) have proposed seven environmental dimensions of the external environment whose conceptualisation influences the decision-making process (see Table 2.2). Each of these concepts documents a separate body of literature but the purpose of this literature review is not to focus on these specific concepts but to provide a flavour of the environmental dimensions that influence the decision-making process and introduce them to the reader. A more thorough discussion of these concepts follows in the section 2.3 of the literature review which is about uncertainty in organisations.

| | |
|---|---|
| Environmental diversity | The perceived degree of differentiation of the population that operate within the environment. |
| Environmental dynamism | The frequency of change of the organisations that operate within the environment. |
| Environmental concentration | The degree of control upon the resources that are in contest among competing forces. |
| Environmental capacity | The perceived favourableness to attract resources from the local competitors. |
| Environmental interconnectedness | The perceived number of linkages among relevant organisations. |
| Environmental conflict | The perceived level of abnormal competitive stress characterising competing organisations. |
| Environmental interdependence | The mutual reactivity to one another's acts among competing organisations. |

**Table 2.3: Environmental dimensions, adopted from Achrol and Stern (1988)**

The seven dimensions refer to the competitive position of the organisation in the environment and the relationships that the organisation creates with the other parts of the environment. Environmental diversity concerns the ability of the organisation to cope with the different elements of the environment and involves people, organisations, processes, and social forces that affect resource availability (Achrol, 1991). In a rapidly changing environment, diversity is an inherent characteristic because the actors within the environment occasionally lose and gain access to resources. Because of that, organisations in modern business environments tend not to engage in long term commitments and opt for more flexible ways of resource and capital management (Cravens *et al*., 1993). Environmental dynamism refers to the level of change and the consequent uncertainty of the environment (Priem *et al.*, 1995). The existence of environmental dynamism is a sign of uncertainty which is also related to Cyert & March's (1965) research. As Eisenhardt (1989) stressed, when the environment is characterised by a high level of dynamism, managers tend to make decisions faster, by processing more information and more alternative solutions in a shorter period of time. This means that innovative decisions are more likely to occur and explains why the most radical changes are happening in rapidly changing environments. Environmental concentration is the extent to which resources are perceived as controlled by few or many organisations (Achrol & Stern, 1988). It is particularly important when the decision involved requires the engagement of a significant amount of resources. Eisenhardt & Zbaracki (1992) maintained that environmental concentration is related to the power relations within the company and among companies of the same sectors. The scarce resources of a company are an object of competition among its managers and decision-makers, thus their political skills and their power prioritise the candidates who will have access to the resources of the organisation. Consequently, the perception of availability of resources by managers, cited as environmental capacity by Keats & Hitt (1988), determines the priority of the actions that require their decision intervention, and the conflicted nature of decisions that managers make is influenced by the kind of available resources and the timeframe of their availability.

Environmental interconnectedness is a major component of organisational theory, as it is a basic descriptor of the environmental stability (Pfeffer &

Salancik, 2003). Achrol & Stern (1988) suggested that the increase of inter-organisational connections creates turbulent environments that require increased decision-making activity. This assertion has same routes with environmental uncertainty concept that will be further explored in the next section of this chapter. However, it should be noted that the more actors are involved in a decision-making process and the more their inter-connections, the more complicated the decision-making process is. Finally, as Pfeffer & Salancik (2003) suggested, environmental conflict and interdependence are interrelated. Bantel & Osborn (1995) suggested that the number of available choices for a manager is shaped by the interdependency links that are created within the environment. For example, the more stakeholders involved in the acquisition of a retail property, the more alternative choices are available for the managers, because of the wide variation of alternative targets that the stakeholders involved in the acquisition are pursuing.

### 2.2.1. Decision making in SMEs

Decision-making in SMEs is characterised by some features that complicate decision-makers' task (Gibcus *et al.* 2009). First, managers or entrepreneurs are asked to make decisions in an environment of limited and imperfect information. These companies lack the financial resources to access information and the human resources that are needed to scan the environment, collect data and information, and transform them to meaningful input for the company. Second, the business environment of SMEs is complex and dynamic (Covin and Slevin, 1991). The complexity and dynamism of the environment varies between sectors: for example, in innovation-intensive ones companies reinforce the dynamism of the environment by launching new products or services and competitors replies maintain the dynamism.

The personal relationships that are developed within and outside the companies increase the complexity of the environment as more actors participating in the environment of the company can become important or even essential and their behaviour within the complex environment is highly sensitive.

Another feature of decision-making within SMEs is that it is determined by a limited number of individuals, therefore the key people – or even a single person that makes decisions - within a company is pivotal to the decision-making process. Papadakis *et al.* (1998) suggested that internal measurable characteristics of an organisation like size, the type of ownership, the past performance of the organisation, and the formal systems that support decision-making, are related to the decision-making process. In a later paper Papadakis and Barwise (2002) suggested that the length of the involvement in a specific position in the company as well as the education of the manager influence the decision-making process. Considering that much decision-making in SMEs is based on biases and heuristics (Busanitz and Barney, 1997), the experience of the decision-maker to handle the changing environment, and the knowledge to deal with fragmented pieces of information that are coming from sources of questionable validity and reliability, is crucial.

The experience and education of the decision-maker is also linked to the development of intraorganisational and interorganisational networks that are a valuable source of information. Lybaert (1998) stressed the importance of networks in SMEs decision-making and suggested that there is a relationship between the size of the SME and size of the networks they use. Ottesen *et al.* (2006) argued that SMEs' intraorganisational and interorganisational management networks provide a source of information that is controlled since the members and actors of the networks are selected and continuously assessed for their reliability, validity and credibility. Therefore decision makers constantly filter the information sources they use but there is always the possibility that the strength of interpersonal relationships and habitual reliance on specific networks or their members might skew the information input to the company.

## 2.3. The impact of environmental uncertainty in organisations

### 2.3.1. Introduction

This section of the literature review aims to evaluate the concept of *environmental uncertainty*. Uncertainty is related to the inability of individuals to predict the future. This is because

> *". . . the problem with the future is that more things might happen than will happen"* (Hillson & Murray-Webster, 2007, p. 3).

As stated in section 2.2, the perception of uncertainty is central to the decision-making process. Langholtz *et al.* (1993) suggested that common decision situations involve the selection of one course of action among others, or a sequence of choices in response to a changing environment. The inability to predict the future, due to cognitive or perception restrictions or due to the lack of data and/or information to support a predictive process, leads managers to make decisions under a state of uncertainty about the environment, the available alternative options, and the possible outcome of a decision-making process. Later in this chapter, the concept of environmental uncertainty will be discussed and particular reference will be made to the types of environmental uncertainty.

Dealing with uncertainty enhances the management of the subsequent risk. A risk-taking attitude could compromise the future of the organisation when it is a result of bold decisions. Therefore, risk aversion is generally assumed in circumstances of decision-making under uncertainty (Tversky & Kahneman, 1992). Mintzberg *et al.* (2009) stressed that managers tend to underestimate uncertainty because they need to reduce their anxiety; therefore, they show excessive optimism and overestimate their ability to understand the environment and to predict the future. Hillson and Murray-Webster (2005, p. 5) defined risk as "*an uncertainty that could affect one or more objectives".*

However, as risk-management experts have suggested (e.g. Frame, 2003), risk and uncertainty have distinct differences that will be discussed at the end of this chapter.

### 2.3.2. About uncertainty and environmental uncertainty

"Uncertainty", in general, is a contested concept in management literature. Management experts rarely agree on a definition of uncertainty; however, common elements of alternatives selection and/or information availability are found. The *Cambridge Advanced Learner's Dictionary* defines "uncertainty" as the state of not knowing what to do or to believe, or not being able to decide about something. Milliken (1987, p. 136), whose research is referenced by Frishammar (2003, p. 319) as "*classic*" in this field, defined uncertainty as "*the inability to predict something accurately*," either because of the lack of information or because of the inability to discriminate between relevant and/or irrelevant data. Rowe (1994) defined uncertainty as the absence of information that may or may not be obtainable. On the other hand, Brashers (2001) suggested that uncertainty emerges because decision alternatives may appear equally attractive (or equally unattractive) if people lack the information needed to distinguish them. Boyd and Fulk (1996) emphasised that uncertainty is dependent on the number of the elements that are relevant to the environmental context, the interdependence among these elements, and the number of potential outcomes that can emerge from changes in the environment; or their *complexity* and *variability*, respectively.

Cyert and March (1965) asserted that uncertainty is a basic feature of organisational life. This is because the context in which company managers operate is open to the influence of numerous stakeholders whose attitudes or actions can have a severe impact on the company. Therefore, the problem with uncertainty in organisations is that managers have to operate in uncertain environments where limited and imperfect information leads to problematic decisions (Tversky & Kahneman, 1974). As a result, management scholars have developed tools that can improve data and information collection, and individual and organisational processes that can reduce the information needed to achieve the threshold level of confidence required for decision-making.

The label *environmental*, when attached to the term “uncertainty”, implies that uncertainty is caused by external environmental sources (Milliken, 1987). Duncan (1972), Miles and Snow (1978), and Wernerfelt and Karani (1987) provided lists of the dimensions of *environmental uncertainty* (see Table 2.3); however, these lists cannot be considered as exhaustive, and they (the lists) have been criticised for being old-fashioned and outdated. For example, Freel (2005) noted that in contemporary business environments, trade unions are not as influential as they used to be during the 1970s and 1980s, and Miller (1993) included technology as a determining factor. However, the term *environmental uncertainty* has been used in a flexible and opportunistic fashion, according to the specific needs of each researcher.

| Duncan (1972) | Miles and Snow (1978) | Wernerfelt and Karani (1987) |
|---|---|---|
| 1. Actual users of your products<br>2. Competitors for your raw materials<br>3. Competitors for your customers<br>4. Government regulations controlling your industry<br>5. The public's attitudes towards your industry<br>6. Trade unions | 1. Customers<br>2. Suppliers<br>3. Competitors<br>4. Government and regulatory agencies<br>5. Financial markets<br>6. Trade unions | 1. Demand<br>2. Supply<br>3. Competition<br>4. External |

**Table 2.4: Variables of perceived environmental uncertainty, Freel (2005, p. 51)**

Fischer (1996) suggested that within management research, perceived environmental uncertainty is used subjectively rather than objectively when trying to measure uncertainty. This is because managers do not understand the same environment in the same way; however, to them their perceived environment is their reality. As Saywer *et al.* (2003, p. 271) argued,

> *"Since decision makers do not have the capacity to respond to the environment in a comprehensive manner, organisational responses to external events are based on decision makers' perceptions of environmental conditions, as opposed to actual objective environmental conditions."*

Smircich and Stubbart (1985) emphasised that the perception of the environment is a basic feature of strategy development for organisations because strategy reflects the expectations of the organisation for the future. Therefore, the perception of the present reality is a determining factor for the planning of future actions by the members of the organisation.

In a similar vein, Bourgeois (1985) stated that managers respond only to what they perceive. This means that the different comprehension and interpretation of a given environmental context among different managers is likely to result in different responses to the emergent environmental stimuli. Such a condition could explain the diversity of the decisions that managers make when they are confronted with seemingly similar contexts. For example, when two competing retail organisations develop and implement two different marketing strategies (e.g., the development of a new service or the launch of a new supply chain), and respectively have successful and unsuccessful results, the reason for success of the first company may be that the managers' perceptions of the environments were more accurate than the second company's managers' perceptions.

Environmental uncertainty is closely related to the perception and understanding of the environment. As Elenkov (1997) noted, environmental uncertainty is the difference between the minimum information necessary to perform a decision-making task and the amount of information that is obtained by the managers. Duncan (1972, p. 318) suggested that environmental uncertainty is defined as a construct comprised of three components:

1. *The lack of information regarding the environmental factors associated with a given decision-making situation,*
2. *Not knowing the outcome of a specific decision in terms of how much the organization would lose if the decision were incorrect, and*
3. *The inability to assign probabilities with any degree of confidence with regard to how environmental factors are going to affect the success or failure of the decision unit in performing its function.*

Miliken (1987) suggested that individuals experience uncertainty because they perceive themselves to be lacking sufficient information to predict accurately or because they feel unable to discriminate between relevant and irrelevant data. Ibid (1987, pp. 136-137) suggested three shorter names for the three components of environmental uncertainty, which are, respectively:

1. *State uncertainty.*
2. *Effect uncertainty.*
3. *Response uncertainty.*

McMullen and Shepherd (2006, p. 135) maintained that Milliken's three types of uncertainty can be simplified into three questions:

1. *What is happening out there?*
2. *How will it impact me?*
3. *What am I going to do about it?*

| Type of uncertainty | Description | Question |
|---|---|---|
| State uncertainty | The lack of information regarding the environmental factors associated with a given decision-making situation | What is happening out there? |
| Effect uncertainty | Not knowing the outcome of a specific decision in terms of how much the organization would lose if the decision mere incorrect | How will it impact me? |
| Response uncertainty | The inability to assign probabilities with any degree of confidence with regard to how environmental factors are going to affect the success or failure of the decision unit in performing its function | What am I going to do about it? |

**Table 2.5: Types of uncertainty (Duncan, 1972; Milliken, 1987; McMullen and Shepherd, 2006)**

Empirical research on decision-making has shown that during periods of environmental uncertainty, managers resort to intuitive processes of making decisions (Dane & Pratt, 2007). Therefore, when managers lack the information to support their decisions, they develop and use experience-based methods, known as heuristics (Tversky & Kahneman, 1974) in their everyday life experience in order to reduce uncertainty to an acceptable level. Hartley (2000, p. 111) suggested that environmental uncertainty arises “from difficulties in extrapolating from a current situation into the future, which in part relates to the capacities, experiences and resources within the organisation." Van Gelderen *et al.* (2000) stated that environmental uncertainty could be considered as knowledge uncertainty because it is concerned with the lack of information and the inability to conceptualise cause-effect phenomena that take place in the environment in the present and future times. The emergence and application of decision-making tools, especially since the early 1970s, was facilitated by the development of information technology and came to provide a quantifiable and justifiable method of supporting decisions (Bellman & Zadeh, 1970). However, the core of environmental uncertainty lies within the three components that were proposed by Duncan (1972); therefore, a review of them follows.

#### *2.3.2.1. State uncertainty*

Miliken (1987) suggested that state uncertainty (or perceived environmental uncertainty) is experienced when decision-makers perceive the environment to be unpredictable, or have the inability to predict a component of the environment such as the actions of competitors or the demands of consumers (Dickson & Weaver, 1997). In his work, Miliken (1987, p. 136) defined the environmental context using the following description:

> *"Top-level managers might be uncertain about what actions relevant organisations or key organisational constituencies (i.e.,*

> *suppliers, competitors, consumers, the government, shareholders etc) might take, or they might be uncertain about the probability or nature of general changes in state in the relevant environment (i.e., sociocultural trends, demographic shifts, major new developments in technology).”*

Gerloff *et al.* (1991) suggested that state uncertainty has a situational character. They specifically suggested that in a given situation, a given manager may lack confidence or have doubts that the available data reveal the significant events and trends of the environment, and as a result, the manager will experience state uncertainty. Duncan (1972) also argued that uncertainty is not a constant feature in any organisation. Rather, “it is dependent on the perceptions of organisation members and thus can vary in their incidence to the extent that individuals differ in their perceptions” (Duncan, 1972, p. 325). Buchko (1994) maintained that even though state uncertainty is related to the characteristics of the environment, managerial perceptions are equally important for understanding the context of uncertainty. Miller and Shamsie (1999) noted that state uncertainty can also be related to single products or strategic decisions. They suggested that the changing consumption patterns over time make the prediction difficult of which products, product features, or product styles will be in demand. Therefore, if Miller and Shamsie’s observations are applied to the retail sector, managers’ uncertainty about the future needs and demands of consumers could lead to them not predicting these future needs and, therefore not developing and managing the most efficient store portfolios.

McMullen and Shepherd (2006) emphasised that state uncertainty (as well as effect uncertainty) is experienced only when managers have a minimum knowledge of the context to which the uncertainty refers. Based on theirs assumption, state uncertainty is assumed to be greater when managers have to operate in a setting of change. Milliken's (1987) research concluded that state uncertainty is not associated with a particular managerial action. However, Lang *et al.* (1997) suggested that the experience of state uncertainty by managers is associated with the initiation of an environmental scanning programme that will increase the managers' awareness of the environment and help them build their confidence in making decisions that respond to the changes that are taking place.

Frishammar (2003) brought to attention the idea that the condition of state uncertainty is related to the lack of information that managers have at their disposal when they are evaluating and attempting to understand an environmental context. This means that the development or acquisition of a technology (Miller, 2002) or a process such as a Marketing Intelligence System will add value to the organisation because it will reduce the level of state uncertainty and support managers when they need to reach the necessary threshold level required to understand the environment and to operate within it. May *et al.* (2000) suggested that the level of state uncertainty is positively related to the amount of time and the resources that managers invest in gaining the information they need in order to feel confident about their understanding of the environment.

Miliken (1987) suggests that *state uncertainty* is experienced when managers perceive the environment (or a particular component of it) to be unpredictable. In his work Miliken (1987, p.136) describes the environment as follows:

> "*Top-level managers might be uncertain about what actions relevant organisations or key organisational constituencies (i.e., suppliers, competitors, consumers, the government, shareholders etc) might take, or they might be uncertain about the probability or nature of general changes in state in the relevant environment (i.e., sociocultural trends, demographic shifts, major new developments in technology).* "

Gerloff *et al.* (1991) suggest that state uncertainty has a situational character. They specifically suggest that in a given situation, a given manager may lack confidence or have doubts that the available data reveals the significant events and trends of the environment; as a result, the manager would experience state uncertainty. Duncan (1972) had also argued that uncertainty is not a constant feature in any organisation. Rather, "it is dependent on the perceptions of organisation members and thus can vary in their incidence to the extent that individuals differ in their perceptions" (1972, p.325).

Therefore, perceived environmental uncertainty is related to managers' perceptions about the environment. This uncertainty is an inhibitory factor in their decision-making process and requires time and resources in order to overcome it. The emergence and use of tools and techniques that assist managerial decision-making came to bolster managers' confidence and to reduce state uncertainty.

*2.3.2.2. Effect uncertainty*

Milliken (1987, p. 137) defined effect uncertainty as "*an inability to predict what the nature of the impact of a future state of the environment or environmental change will be on the organization.*" Matthews and Scott (1995, p. 36) summarised Milliken's definition in the question "*Given what is occurring in the task environment, how is this likely to affect my organization?"* In this case, managers do not feel confident that they understand what the major events or trends in an environment are nor are they able to accurately assign probabilities to the likelihood that particular events or changes will occur (Ashil & Jober, 1999). This type of uncertainty is more specific than state uncertainty because the experience involves an inability to conceptualise or to predict the impact of events within the organisation, not an inability to predict the state of the external environment (Ashil & Jober, 2005).

Effect uncertainty does not involve the lack of understanding of the current environment; for example, a retail manager may know that the number of single-parent families is growing, but he or she may feel unable to predict how this trend is going to affect the sales of his or her products. As Gerloff *et al.* (1991) noted, effect uncertainty involves a lack of understanding of cause-effect relationships. To a large degree, effect uncertainty arises from a firm's leaders' inability to anticipate or influence how their customers and competitors will shape the future of the firm (Miller & Shamsie, 1996). Miller and Shamsie (1999) emphasised that effect uncertainty is also a result of the limited or improper use of technologies or knowledge that could assist with the prediction of future circumstances. If state uncertainty is experienced by managers, which means that they cannot predict the likely impact of a future state of the environment on the organisation, the managers are likely to be uncertain about the future of the company for which they are working (Milliken, 1987). This suggests that the experience of effect uncertainty in the present is the processor of the experience of state uncertainty in the future.

Past research has shown that company leaders who have the means to influence their environment experience less effect uncertainty than those who have not (Itami, 1987; Wernerfelt & Karnani, 1987). Miller and Shamsie (1999) noted that a negative relationship exists between effect uncertainty and product variety. This means that managers who fail to predict the future, or who are not confident that their interpretation of the future state is realistic, prefer to operate with fewer products than the managers who are confident of their understanding of the future. This could mean that retail organisations' managers who cannot predict the future are more likely to retain the existing location strategies because this means they will take fewer risks with the future of the company.

Perez-Batres and Eden (2008) suggested that unexpected changes in regulations are a typical example of an event that causes effect uncertainty. Regan (2006) argued that decisions that are made under effect uncertainty are less likely to be the result of a rational decision-making process. She also suggested that if managers of organisations are allowed or encouraged to participate in the development of strategy, they are more likely to reduce the levels of effect uncertainty, which in turn means that the level of state uncertainty will also be lower in the future. However, this implies the emergence of self-organised structures that could appear as threats to top-managers who cannot identify themselves with non-organic structures within the organisation (Asare *et al.,* 2006); therefore, they fight these structures and do not allow them to participate in the decision-making process.

Miliken (1987, p.137) defines *effect uncertainty* as "an inability to predict what the nature of the impact of a future state of the environment or environmental change will be on the organisation". Effect uncertainty does not involve the lack of understanding of the environment, e.g. a retail manager may know that the number of single-parent families is growing but he or she may feel unable to predict how this trend is going to change the sales of his or hers product.

As Gerloff *et al.* (1991) note, effect uncertainty involves a lack of understanding of cause-effect relationships. To a large degree effect uncertainty arises from a firm's inability to anticipate or influence how its customers and competitors will shape its own future (Miller & Shamsie, 1996). Past research has shown that companies that have the means to influence their environment experience less effect uncertainty than others that have not (Itami, 1987; Wernerfelt & Karnani, 1987).

A possible conclusion is that managers who experience high levels of effect uncertainty are less likely to get involved in an innovative and risky decision, thereby leading to a conservative strategy. The relationship between uncertainty and risk will be explored further later in section 2.3.3.

*2.3.2.3. Response uncertainty*

Milliken (1987, p. 137) defined response uncertainty as “a lack of knowledge of response options and/or inability to predict the likely consequences of a response choice.” Ellis and Spielberg (2003) suggested that response uncertainty occurs when managers in organisations cannot contextualise the potential alternatives in a given situation. This type of uncertainty becomes especially important in situations involving a need to take action, such as a pending threat or opportunity (Gerloff *et al.,* 1991). As Gerloff *at al.* (1991) noted, at this level of uncertainty managers are wondering “What action are we going to take?”. Milliken (1987) suggested that this level of uncertainty is directly related to decision-making because it is about the importance of choosing between alternatives. The lack of predictability in decision outcomes results in the initiation of an information research process (Dean & Sharfman, 1993).

Miller and Shamsie (1999) have researched response uncertainty in terms of new product line development. In conjunction with Milliken's observation, Miller and Shamsie suggested that this type of uncertainty (what they call *decision response uncertainty*) is dependent on sociological, demographic, and economic variables (e.g., decision makers' experience, job tenure, product line diversity, and cost, among other variables). Their research findings are consistent with those of Downey *et al.* (1977) who focused their research on managers' cognitions and perceptions of environmental uncertainty. A key issue that emerged from both Miller and Shamsie's (1999) and Downey *et al.*'s (1977) research is the significance of a changing (as noted by the first) or dynamic (as noted by the latter) environment in the manager's perception of response uncertainty. The researchers in both studies explored the relationship of change and uncertainty and simultaneously introduced the idea that the managerial decision-making process is influenced by the state of the environment as it is defined by the two latter variables.

Miliken (1987, p.137) defines *response uncertainty* as "a lack of knowledge of response options and/or inability to predict the likely consequences of a response choice". This type of uncertainty becomes especially important in situations involving a need to take actions, such as a pending threat or opportunity (Gerloff *et al.,* 1991). As Gerloff *at al.* (1991) notes at this level of uncertainty managers are wondering "What action are we going to take?". Milliken (1987) suggests that this level of uncertainty is directly related with decision making because it is about the importance of choosing between alternatives. Miller and Shamsie (1999) have researched response uncertainty in terms of new product line development. In conjunction with Miliken's observation, Miller and Shamsie suggested that this type of uncertainty (that they call *decision response uncertainty*) is dependant on social, demographic and economic variables (e.g. decision makers' experience, job tenure, product line diversity, cost etc). Their research findings are consistent with the ones of Downey *et al.* (1977) who focused their research on managers' cognition and perception of environmental uncertainty. A key issue that emerges from both Miller and Shamsie's, and Downey *et al.*'s research is the significance of a changing (as noted by the first) or dynamic (as noted by the latter) environment on the perception of response uncertainty. The findings of both are important because they explore the relationship of change and uncertainty and at the same time introduce the idea that the managerial decision making process is influenced by the state of the environment as it is defined by the two latter variables.

### 2.3.3. Distinguishing the concept of uncertainty from the concept of risk

The concepts of uncertainty and risk are linked together, but at the same time, they are distinctively different. Providing a short definition of risk is not easy. A thorough discussion of the definition of risk in organisations was made by March and Shapira (1987). They concluded that risk is conceived as reflecting variation in the distribution of possible outcomes, their likelihoods, and their subjective values. They also suggested that the two major propositions about risk involve decision-makers' preferences for large expected returns and smaller risks than larger ones. Many scholars consider Frank Knight's (1921) definition of risk to be fundamental to management literature (Frame, 2003; Holton, 2004). Knight (1921, p. 233):

> *". . . between the measurable uncertainty and the unmeasurable one we may use the term "risk" to designate the former and the term "uncertainty" for the latter.*"

Frame (2003) stated that decisions made under conditions of risk are assigned a probability regarding the outcome of the decision. In contrast, when decisions are made under uncertainty, decision makers do not have a probability assigned regarding the outcome. For example, if a retailer develops a new store at the first vacant site he or she finds, he or she is making a decision under uncertain conditions. However, if a retail location specialist informs the retailer that the probability of servicing an underserviced target group through this store is 80%, then the retailer is engaging in decision-making under risk. The latter example should be considered in relation to the fact that an operation start-up, such as the opening of a new store, involves more risk than an everyday managerial activity because the assignment of success or failure probabilities is impossible since managers lack the necessary data to perform such a task (Buzanits, 1999). Therefore, the inability to calculate risk suggests that starting a new operation is a highly uncertain action. Drawing on that, Davidson-Frame (2003) depicted the relationship between risk and uncertainty as a two-way continuum which is driven by the information input of the organisation (see Figure 2.2).

| Total ignorance | ⟷ | Perfect information |
|---|---|---|
| ←Uncertainty | | Risk → |

**Figure 2.2: Risk, uncertainty and levels of information, Davidson-Frame (2003)**

McClelland's (1962) review on entrepreneurial activity came to the conclusion that managerial risk is associated with entrepreneurial success. He stated that high-achieving managers[2] are moderate risk-takers who prefer 50 percent probabilities. This implies that different risk-taking attitudes depend on the managerial responses to uncertainty. The basic distinction, based on risk-taking attitude, is identified between risk-averse and risk-seeking managers. Risk-averse managers feel uncomfortable with uncertainty, have a low tolerance for ambiguity, and seek security in the face of risk (Hillson & Murray-

[2] In fact, he is using the term "entrepreneurs"; however, his research is based on interviews with entrepreneurs as well as business executives and business operators (Buzenits, 1999).

Webster, 2003). March and Shapira (1987, p. 1405) suggested that risk-averse managers, "*when faced with one alternative having a given outcome with certainty, and a second alternative which is a gamble but has the same expected value as the first, they will choose the certain outcome rather than the gamble.*" Risk-seeking managers tend to be adaptable and resourceful and not afraid to take action when an opportunity or a threat emerges (Hillson & Murray-Webster, 2003). Risk-seekers tend to underestimate threats, and overestimate opportunities, and their optimism often leads them to overestimate their abilities and their potential (Hillson & Murray-Webster, 2003).

Kahneman and Tversky (1979) maintained that a managerial risk-taking attitude is not the same in every occasion. People in general, and managers specifically, tend to give more weight to outcomes that are considered certain than to outcomes that are merely probable. Kahneman and Tversky (1979, p. 265) label this property as the "*certainty effect.*" Sitkin and Pablo (1992) have researched the conditions that affect the risk attitude and identified three general factors:

1) **Individual characteristics**: Sung and Hanna (1996) maintained that managing risks is related to a number of factors, such as age, time horizon, liquidity needs, portfolio size, income, investment knowledge, and attitude toward price fluctuations. Sitkin and Pablo (1992) categorised the individual characteristics that affect risk attitude into

three groups: risk preferences, which is the inherent drive found in some individuals who achieve high goals; risk perceptions, which is the understanding of the importance of the risk for the organisation and for the future state of the environment in which the organisation will be engaged; and finally, risk propensity, which is the individual's tendency to show either risk-averse or risk-seeking behaviour.

2) **Organisational characteristics**: The composition of the groups involved in a decision-making process is the most descriptive predictor of risk behaviour (Sitkin and Pablo, 1992). The political relationships among the members of the groups and their subsequent ability to negotiate determine the managers' tendency to take risks. When managers have the power to enforce their decisions, they are more likely to show risk-seeking attitude. Other predictors cited in the literature involve the culture of the company (Hofstede, 1990); the role of the leaders and their involvement in the everyday life of the managers (Jacofsky *et al.*, 1988); and the organisational control systems. Managers of organisations in which outcomes of decisions are punished or rewarded are encouraged to show risk-averse or risk-seeking behaviour, respectively (March & Shapira, 1987).

3) **Problem characteristics**: The most well-known problem-related characteristic is the problem framing (Kahneman & Tversky, 1974). When individuals are confronted with an uncertain situation, they either

view it as positive or negative. Kahneman and Tversky (1979) later formulated a prospect theory, where they noted that positively framed situations led to risk-averse attitudes, whereas negatively framed situations led to risk-seeking attitudes. Sitkin and Pablo (1992) also brought to attention that managers grow their knowledge by gaining experiences. Therefore, when managers have to deal with a problem that has similar characteristics with problems that emerged in the past, they are more likely to be risk averse, while if they are dealing with an issue for the first time, they are more likely to be risk taking.

### 2.3.4. Environmental uncertainty and risk: how are they related?

Even though environmental uncertainty and risk describe similar situations, little research has been conducted on the exact correlation of the two concepts. In addition, the research of Frank Knight (1921) regarding risk and uncertainty, which is considered to be pioneering in this field, has been criticised by contemporary scholars (e.g., Runde, 1998) as being untidy and confusing because the statistical and the logical arguments presented by Knight are confusing. In more recent years, researchers have introduced conceptual frameworks that encapsulate the concepts of both risk and uncertainty (Hillson & Murray-Webster, 2003); however, they have treated uncertainty as a general perception (see Figure 2).

Uncertainty is unavoidable in organisations. This is because data and information are infinite whilst the human brain has a limited processing capacity. Therefore, even if an organisation's leaders had all the information that could eliminate uncertainty, individuals would not understand the full extent of the information, and perceived uncertainty would appear to some extent. The emergence of uncertainty leads to the assignment of probabilities to alternative future outcomes which means that risk exists and affects managers' decisions. In terms of state uncertainty, risk attitude is related to the adoption of an optimistic or pessimistic understanding of the environment. At the next level of environmental uncertainty, a risk-seeking behaviour would suggest the development of a broad range of alternative decisions that could produce a broad range of outcomes. Risk-seeking managers tend to overestimate their ability to process data and information; therefore, this type of manager is likely to feel more comfortable working with many alternative solutions. On the contrary, risk-averse managers would be more comfortable with a limited range of alternatives that could be comprehensible and manageable. Finally, risk-seeking managers are more likely to believe that they can predict the impact of their actions on the future state of the environment; therefore, they are more likely to make risky decisions that they predict will lead them to the desirable future state. In contrast, risk-averse managers are more likely to want to make safe decisions that will not have the potential to cause great change to the future environment.

What should not be overlooked is that environmental uncertainty and risk attitude are determining factors of the decisions that a manager or managers of an organisation is making. Complex business environments—environments that are characterised by the lack of data and information and the presence of a large number of interacting elements—inevitably increase the uncertainty experienced by managers and require them to make risky decisions.

### 2.3.5. Uncertainty in retailing

The concept of uncertainty has been discussed by a number of academics and has been seen from a number of different perspectives. In the retailing research, the introduction of the idea of uncertainty was primarily used to address the saturation of the opportunities in the "traditional" retail landscape that led the retailers to search for expansion alternatives. Alexander and Freathy (2003) suggested that in the rapidly changing world, companies would probably use new technological advancements to initiate revolutions that they (the companies) would be able to take advantage of. This is a finding that had also emerged in an earlier study by Schrader *et al.* (1989). Their research concluded that technological advances had become the focal point of the development of retailers then (it was a period of great development for the Point Of Sale system) and in comparison to other sectors long-term strategic planning was less active.

Another area where uncertainty in retailing appears is internationalisation. This retail internationalisation frequently involves the investment of substantial capital (Alexander and Myers, 2000) in areas that the managers that make the decisions do not have the necessary information and knowledge. Burt *et al.* (2008) pointed that in relation to this that risk taking is found in different levels in different retailers. Retailers with greater experience in internationalisation, which means more experienced decision-making mechanisms and subsequently heuristics that correspond to similar situations, are more comfortable taking riskier decisions. Evans and Mavondo (2002) raised the issue of uncertainty in contrast to the concept of psychic distance. They argued that while psychic distance is a concept that can be operationalised and measured, uncertainty is something vaguer and comes as a result of the experience of psychic distance. They concluded that the access to marketing research and sophisticated IT systems reduces this uncertainty. Their finding can be seen as a development to the findings of Dawson (1994) who suggested that the implementation of IT systems causes uncertainty as it is a costly investment that can quickly be rendered obsolete.

The experience of uncertainty is even greater in retail SMEs where access to resources is scarcer and internationalisation is inevitably limited to the extent that the managers can understand and handle (Hutchinson, Quinn, and Alexander, 2005). Dawson and Henley (2005) pointed out that another source of uncertainty is the lack of control over the supply chain and the logistics for the retailers that internationalise, taking as an example the Polish market.

Jones and Simmons (1993) have extensively discussed the impact of uncertainty on retail location decisions. They suggested that the changes that are happening in the business environment increase the perceived level of uncertainty for the retailers. They also stressed that retailers introduce modifications to their companies in order to respond to the changes, which means that they are changing in order to cope and potentially gain advantage from the uncertainty.

## 2.4. Strategic decision-making in SMEs

Decision-making in SMEs is characterised by some features that complicate the decision-makers' task (Gibcus *et al.* 2009). First, managers or entrepreneurs are asked to make decisions in an environment of limited and imperfect information. These companies lack the financial resources to access information and the human resources that are needed to scan the environment, collect data and information, and transform them to meaningful input for the company. Second, the business environment of SMEs is complex and dynamic (Covin and Slevin, 1991). The complexity and dynamism of the environment varies between sectors: for example, in innovation-intensive ones companies reinforce the dynamism of the environment by launching new products or services, and competitors replies maintain the dynamism. Singh *et al.* (2008) pointed out that high-growth SMEs are adapting faster to their external environment by developing programmes for improving their skill and capabilities with a view to offer innovative products and services in the niche market they serve.

Gray and Mabey (2005) maintained that SMEs are very different to large organisations when it comes to their strategy. Small and medium organisations tend to be more flexible and dynamic, with a strong view to growth strategies, even though they have to cope with the scarcity of resources and the lack of information. Stonehouse and Pemberton (2002) found similarly in their research that SMEs tend to develop policies rather than strategies, as their limited access to resources lead them to shorter-term focus. They also suggest that this difference is stronger in the service rather than the manufacturing sector. This flexibility is related to the emergence of strategies that will be discussed later in section 2.7.2.

Another feature of decision-making within SMEs is that it is determined by a limited number of individuals, therefore the key people – or even a single person that makes decisions - within a company is pivotal to the decision-making process. Gray and Mabey (2005) stressed that it is common for managers of SMEs to be multi-functional while Papadakis et al. (1998) suggested that internal measurable characteristics of an organisation like size, type of ownership, the past performance of the organisation, and the formal systems that support decision-making, are related to the decision-making process. In a later paper Papadakis and Barwise (2002) suggested that the length of the involvement in a specific position in the company as well as the education of the manager influence the decision-making process. Considering that a lot of the decision-making in SMEs is based on biases and heuristics (Busanitz and Barney, 1997), the experience of the decision-maker in handling the changing environment and the knowledge to deal with fragmented pieces of information that are coming from sources of questionable validity and reliability is crucial. The personal relationships that are developed within and outside the companies increase the complexity of the environment as more actors participating in the environment of the company can become important or even essential and their behaviour within the complex environment is highly sensitive.

The experience and education of the decision-maker is also linked to the development of intraorganisational and interorganisational networks that are a valuable source of information. Lybaert (1998) stressed the importance of networks in SMEs decision-making and suggested that there is a relationship between the size of the SME and size of the networks they use. Ottesen *et al.* (2006) argued that SMEs' intraorganisational and interorganisational management networks provide a source of information that is controlled since the members and actors of the networks are selected and continuously assessed for their reliability, validity and credibility. Therefore decision makers constantly filter the information sources they use but there is always the possibility that the strength of interpersonal relationships and habitual reliance on specific networks or their members might skew the information input to the company.

A substantial body of research on the impact of long-term and opportunistic networks was developed by Carson, Gilmore and their colleagues. In the initial stages of their work (O'Driscol *et al.*, 2000) they developed the ideas of networking of Lybaert (1998) by introducing the concept of the learning SME that creates marketing value exploiting its networking capability. Later, Carson *et al.* (2004) maintained that SME managers when making strategic decision have a narrow only view of the competitive environment, and their understanding of competition is based upon their perception of which the competitors are rather that intergrading multiple sources of information. The complex interaction among individuals, organisations, and resources was debated by Gartner (1985) who suggested that entrepreneurial decision, particularly start-ups, are the result of complex interactions among individuals, the environment, the organisation, and processes.

Johnston *et al.* (2006) suggested that environmental uncertainty is a critical aspect of decision-making in SMEs. They maintained that uncertainty perception is a result of a number of factors, such as experience, managerial level, demographics, values and beliefs, as well as the strategic focus of the organisation. They proposed that a way to cope with uncertainty is the development of scenarios. The idea of scenario planning can be found in the work of O'Dwyer *et al*. (2009) who researching innovative marketing strategies concluded that key is the modification which is a result of adaptations to existing or planned marketing practices.

### 2.4.1. Characteristics of strategic decision making in Greek companies

Bourantas & Papadakis (1996) have shown that decision-makers in Greek-owned companies follow less rational decision-making processes compared to those found in firms in the US. Their findings were confirmed by the research of Dimitratos *et al.*, (2011) who found that strategic decision making in Greek SMEs, specifically related to internationalisation, is relatively centralised and lacks lateral communication.

Generally speaking, Greek management is associated with fewer rules of formalisation, and less hierarchical decentralisation. This is also consistent with Zey's (1992) research, which has shown that rational models have dominated many business areas particularly in the United States and the Western Europe, while Papadakis et al. (1998, p.137) noted that Greek private firms have less formal rules and comprehensive decision-making processes than U.S. or British ones, and so are more likely to make decisions in a more "emotional" manner. The preference of Western scholars for these rational models of explanation has been critiqued by Eisenhardt & Zbaracki (1992) who suggested that theorists should be more concerned with real-life processes, rather than being rooted in the normative tradition. A recent study by Dimitratos *et al.* (2011) confirmed Eisenhardt & Zbaracki's assertion as their research on SMEs from Greece, Cyprus, UK, and the USA showed that their internationalisation strategic decision-making process differ massively, depending on national culture characteristics.

However, there is research supporting the view that managers' perceptions of the environment are not accurate (Maule & Hodgkinson, 2003; Mezias & Starbuck, 2003) and this is not only with reference to the external environment of the organisation, but also to its internal environment. The Greek retail environment, is complex and uncertain, making it challenging for managers to have a sound basis of knowledge available to them. The environment is rapidly changing and they cannot have immediately available information to support the evaluation of alternatives; managers' cognitive limitations (Schwenk, 1988) make it impossible for them to have excellent judgement; and finally they show a reasoned behaviour when they act as managers but they do not meet the rigid requirements of a wholly rational behaviour (Miller et al., 1996). In addition, there is no evidence that rational models of decision-making are used in Greece, particularly in local companies. Bourantas & Papadakis (1996) have shown that decision-makers in Greek-owned companies follow less rational processes.

### 2.5. Strategy during economic downturn

Strategy development and implementation during periods of recession is basically viewed from two different stand-points, or some combination of the two. A number of scholars and practitioners maintain that it is the time for low-price and cost cutting strategies (Sands and Farraro, 2010) while others suggest that companies should differentiate their products (e.g. Reeves and

Deimler, 2009). There is also a third perspective where it is argued that a mixture of these strategies should be developed and implemented (Scott, 2009; Sands and Farraro, 2010). This discussion is supported by evidence collected during previous periods of economic downturns, and research that was conducted in post-recession times. For example, Beaver and Ross (2000, p.26) suggested that British SMEs (a sample of companies coming from various sectors) that survived the 1990s recession had the following characteristics:

1. They had a firm grip on their finances.
2. They examined business forecasts carefully and returned to the original business plan to check principal assumptions made about sales volume and cash flow.
3. They reduced the money that debtors owed by implementing an effective credit management system and/or used factoring.
4. They considered what purchases to make, and deferred risky ones that were not necessary or negotiated better prices, extended credit or quicker deliveries to reduce stock. Many had a pricing plan and took a strategic view when setting price.
5. They concentrated on tight stock control, reviewing and identifying areas where efficiency and costs could be improved. Successful firms focused stock control efforts on high-price and high-volume items. They also minimized work in progress and finished goods stocks by making production processes as streamlined as possible.

6. Sales and marketing activities were reviewed to increase efficiency and reduce costs where possible, including dropping marginal products and concentrating on the most non-price-sensitive products and services.

Navarro (2009) argued that companies should develop forecasting techniques that will allow them to fit quicker and better into the recession landscape. He considered that companies operate in cyclical environments where economic downturns are unavoidable, and therefore company managers should be prepared for these times and implement strategies that will allow their companies to maintain their competitive advantage. Even though Navarro’s point is reasonable, there is a counter-argument that stresses managers’ inability to predict downturns precisely. Scott (2009) attributes this to managers’ tendency to rationalise uncertainty. As a result of the rationalisation of uncertainty, the possible scenarios are limited to the most probable ones, and usually the possibility that a favourable outcome will emerge is overestimated.

The inability to predict the future, due to cognitive or perception restrictions or to the lack of data and/or information to support a predictive process, leads managers to make decisions under a state of uncertainty about the environment, the alternative options available, and the possible outcome of a decision-making process. The concept of environmental uncertainty contextualises the managerial inability to strategise in complex settings (eg during recession). Managers operating under uncertainty face a number of different but interconnected challenges. During the recession period it is expected that managers will experience even higher level of uncertainty. This may be because managers have been influenced by their inability to predict the recession, and therefore have become overly cautious in the decision-making, and averse to change. It is also suggested that the rapid changes in the global economic environment have put in question managers' ability to make sense of the direction they need to make for their companies as the uncertain business landscape is not readily understood by them (Piercy *et al.* 2010).

## 2.6. Retail location strategy – A holistic analysis

### 2.6.1. Introduction

Probably the most well-known saying about retailing is "location, location, location" which depicts the critical importance of retail location for the retail organisation. Retail location strategy research is often undertaken by multi-disciplinarian groups of academics or/and practitioners because it needs the combination of a number of skills and knowledge such as geography, economics, marketing, management, and organisational theory (see Vandel and Carter, 1993, for a detailed analysis of the skills required for undertaking retail location research). Kivell and Show (1980) suggested that retail location strategy development is often subject to intuition, guesswork and subjective experience however we are "*very ignorant*" (1980, p. 101) about entrepreneurial decision-making. The term "retail location strategy" is frequently used by retailing researchers, but, to the author's knowledge, there is no definition of what retail location strategy is. Therefore, in the beginning of this section a synthesis of the debates about retail location will be attempted aiming to conclude with a definition of retail location strategy.

The second part of this section discusses about retail location strategy-formation. Most of the literature about retail location strategy development has been produced in UK and the USA and refers to these specific geographical and business contexts. This section of the chapter it will evaluate how valid these theoretical underpinnings are for inherently complex and uncertain business contexts. It is argued that informal methods of strategy development are put in place, and informal human networks replace the sophisticated decision-making support tools that are used by retail organisations in the Western Europe and the North America.

Finally, the third part of the section examines how retail location strategy can create a competitive advantage for a retail company, and how this is achieved by exploiting the internal core competences of the company. In this part we look at retail location strategy as a sequence of goal-directed actions and discuss how these goal-directed actions are informed and reinforced not only by formalised and rational patterns but also by intuitive and spontaneous replies to emerging threats or opportunities in the environment.

### 2.6.2. Defining retail location strategy

The fundamental issue regarding retail location strategy is what is described by the term “retail location strategy”. Applebaum (1965) stressed that retail location strategy involves the understanding of marketing geography which covers issues such as the terrain features, traffic arteries, demography, consumer and shopping habits, the dynamics of competition, and the economics of operations. It also involves the understanding of corporate aim and objectives and how these are achieved. Applebaum (1965, p. 235) used the following metaphor to describe retail strategy development:

> *“[...] is like tailoring a suit to fit the measurements of the man who will wear it.”*

Ghosh and McLafferty (1987, p.1) maintained that the objective of location strategy is “to determine the spatial pattern of outlets that best meets corporate goals and objectives”. Retail location strategy is not detached from the corporate strategy; to the contrary, it serves as a medium for retail organisations in order to achieve their strategic goals. Ghosh and Craig (1983) suggested that retail location strategy involves the selection among alternatives of the most desirable property. They maintained that retail location provides firms with a strategic advantage that competitors find difficult to overcome because retail location cannot be duplicated and therefore this makes it a non-replicable core competence for the organisation (Levy and Weitz, 2007) In addition to that, retail location is the most difficult to change component of the marketing mix for the retailer because it entails long term capital commitments (Hernandez and Biasiotto, 2001) and the involvement of a large number of stakeholders, that in some cases are out of the influence sphere of the retailer, in the decision-making process (Hernandez *et al.*, 1998).

Pioch and Byrom (2004) used the term *locational strategy* to discuss the physical positioning of the store of an independent retailer. Newman and Patel (2004) suggested that retail location strategy is measurable and therefore comparable. Their assumption was that a similar store portfolio (same formats and same locations) indicates a similar retail location strategy, however this point of view is only showing how flexible the term *retail location strategy* is since a strategy is much more than a comparison of a list of stores. Popkowski-Leszczyc *et al.*(2004) found that retail location strategy is partially dependent on consumer needs and therefore the dynamics that are created by the interaction between consumers and competitors are influencing the location strategy of the retail organisations. Wood and Browne's (2007) suggested that location strategy is reflected in a set of actions including national or international expansion in new geographic markets, the choice to invest in innovative formats, and the holistic management of store networks. Wood and Tusker (2008) pointed out that strategic retail location decisions concern macro-scale issues of retailers' strategy. Alexander *et al.* (2008)

researched locational planning for charity shops in UK and used the term "location strategy" to describe the expansion of the store network through which HDH (Helen & Douglas House) operates.

Looking at the general business literature there is a number of definitions for strategy. Mintzberg (1982) has seen strategy as a plan, which is developed based on a pattern, and orientates the position of the company against their competitors and the other components of the environment in the long term by employing the resources and competences of the organisation that ultimately lead to the achievement of sustainable competitive advantage. In other words, strategy is a sequence of decisions and actions that service a particular rationale and describe (or prescribe) how the resources of the organisation will be used in order to achieve and maintain competitive advantage. Johnson and Scholes (2009, p???) defined strategy as the:

> *"[...] direction and scope of an organisation over the long-term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations".*

Building on the discussion about the content of retail location strategy and the theoretical bearings provided by the general business and management literature, the author's definition of retail strategy is the holistic store network management over the long term which is going to ensure sustainable competitive advantage and profits for the organisation, through an efficient combination of its limited but diverse resources within the competitive environment, to fulfil stakeholders' expectations. This definition encompasses all the major strategic tasks that are serviced by the formation of location strategy, and will bring to attention the pivotal role of achieving and sustaining the competitive advantage in a changing, and therefore uncertain, environment.

Successful retail location strategies involve not only an understanding of the contemporary marketing environment but also the anticipation of possible changes in competitors and demographics (Ghosh & Craig, 1983). Timmermans (1986) suggested that locational decisions are an amalgamation of marketing and geographic characteristics. He maintained that the choice of a property depends on factors such as the distance, the accessibility, the size of the retail location and at the same time he highlighted the importance of the presence of competitors, of support facilities such as banks or other leisure ones. Oppewal and Timmermans (1997) extended the previous research and concluded that the store choices are influenced by the overall locational landscape, particularly the retailers mix that can be found in a retail area. However, within the same research they showed, within a limited and geographically isolated sample though, that the perception of competitiveness is influenced by the retail location and retailers tend to attach locational properties to marketing components as the elements of the marketing mix, and the ones of the retail mix (McGoldrick, 2002).

The emergence of an international competitive environment for retailers and the subsequent complexity that has occurred through it has led retail organisations to invest in and develop routines or tools that allow them to process data from multiple sources, replacing or complementing the more traditional approaches. For example, instinct and traditional rules of thumb used for the selection of a retail property have been gradually supplemented by mathematical and statistical tools (Hernandez and Bennison, 2000). Even small independent retailers have been noted issuing loyalty cards, and using the data they collect from them to plan their locational expansion (Wood & Browne, 2007). Considering that retail location decisions are of high importance for the organisation because they engage capital for the long term, and the decision-making process involves a number of stakeholders (Hernandez, Bennison, & Cornelius, 1998), it is to be anticipated that numerous interactions will take place between the actors of the system. This is a sign of the complex environment within which retail organisations operate.

Retail location strategy at the strategic level is embedded within the wider context of the marketing and corporate strategy of the retail organisation (Hernandez et al., 1998). It is related to the overall scope of the organisation and reflects the overall vision and objectives of the organisation. However, at a time of rapid change it could be argued that company retail location strategy falls into a context of complexity, and the traditional normative tools that are used to support retail location decisions may be inadequate because they are driven by historical data that were collected and analysed in different environmental contexts. Therefore organisations that operate in complex environments may look for alternative ways to support their strategic retail location decisions, and draw on the skills and knowledge that come from within the organisation. In combination with the normative tools that are used, this integration can provide a more dynamic process for collecting and assessing data, and exploiting the emerging opportunities in favour of the company. This way of operating may be the foundation for developing and sustaining a non-replicable competitive advantage over other organisations in the sector, as the advantage derives, in part at least, from the internal attributes of the company (Somers, 2004).

### 2.6.3. Retail location strategy formation: a few thoughts about the process.

Store choice can be the most important strategic decision that a retailer has to make (Craig *et al.*, 1984). However, retail location strategy formation, or in other words *how* retail location strategy is formulated, remains under-researched. Even though retail location site assessment, retail location planning, retail format selection, and/or form and function planning alternatives development have been discussed in the literature, the decision-making process at the micro-level is a field that needs to be further explored (Clarke *et al.*, 1997). A number of research programmes has focused on the prescriptive side of strategy formation, whilst some others (considerably fewer) have focused on the descriptive and real life dimension of the decision-making process. Clark (1965) noted that retail location strategy formation is based on the premises of marketing geography. He added (1965, p.235) that the retail strategy formation

> *"[...] starts with a regional economic analysis involving studies of terrain features, arteries of traffic, distribution of population and other demographic factors, urban land uses, retail structure and store net- works, consumer buying and shopping habits, store trading areas, the dynamics of competition, and the economics of store operations"*

Retail location strategy research lacks an international perspective as it is mainly focused on the UK, the United States, and Canada (some exceptions are Tokatli and Boyaci, 1998 for Turkey; Bennison and Boutsouki, 1995 for Greece; Tzeng *et al.*, 2002 for Taiwan; Cliquet and Croizean, 2000 for France); and also the majority of the researchers have directed their efforts towards large retailers who are major actors of the national or international market. This can be explained by the fact that the size of the retail organisations has become increasingly important (Dawson, 2000) and "bigness" (Dawson, 2000; p.123) apart from being an entrepreneurial trend (Popkowski-Leszczyc *et al.*, 2004) is also a major research topic for academics. Some academics consider the mimetic of a retail location strategy highly probable. For example, Karande and Lombard (2005) suggested that it is likely that retailers will choose properties proximate to each other in order to get advantage by the agglomeration and the economies of scale that are created by the symbiosis of a large number of competing companies that offer similar products. Retail location strategies though need to be viewed holistically as the management and planning of resources that are necessary in order to develop and maintain store networks and the consumer needs that drive retailers' operations are interlinked and viewing just one side of it leads to a myopic view of the context (Brown, 1993).

*2.6.3.1. Retail location strategy in large organisations*

The research that has been done on large retail organisations is mainly retrospective in fashion and uses a variety of secondary resources as evidence to support the authors' arguments. For example, Clarke *et al*. (1997) assessed and synthesised secondary data about the management of the store network of Tesco, with specific focus on the development of the *Metro* format, and noted that it was driven by the need to increase the company's market share. They also suggested that the transition from large out-of-town superstores to smaller city centre ones was a decision informed by the marketing information system that Tesco had in place that suggested the opportunity for smaller outlets in major urban centres and strong provincial centres. Even though Clarke *et al* (1997) monitored and reported Tesco's strategy, their research didn't address the organisational implications of retail-location decision making. This gap was addressed by Hernandez *et al.* (1998) and more recently by Wood and Reynolds (2013). Hernandez *et al.* (1998)

surveyed 240 UK based retail location specialists and found that even though these managers potentially had had sophisticated retail location decision-making support tools, only half of them were using predictive tools based on the statistical analysis of data, and about 10% of them they were using knowledge based tools such as expert systems or/and neural networks (see Table 3.1.1). These findings indicate the importance of intuition in retail location strategy formation, nevertheless they also underpin the necessity of data to inform locational decisions. Wood and Reynolds (2013) established the necessity of viewing the retail location decision-making as a knowledge management issue. The same authors (2011) maintained that knowledge management happens within organisational communities, a concept that has its routes in the Organisational Behaviour literature (Lave and Wenger, 1991). They (2011) provided a comprehensive table of all the techniques used by retail location managers and their key characteristics. Their research, undertaken in the UK, revealed that the size of the organisation is a key determinant of the methods that are used pointing out that smaller companies use more spontaneous decision-making methods while larger companies put in place and automatically use management intelligence. Rogers (2007) reported the findings of a similar survey that was undertaken by the Oxford University's Institute of Retail Management and even though the survey took place ten years after Hernandez's, and the sample was biased since the surveyed companies were committed to improving their methodologies, they were not significantly different than the ones presented in Figure 2.3.

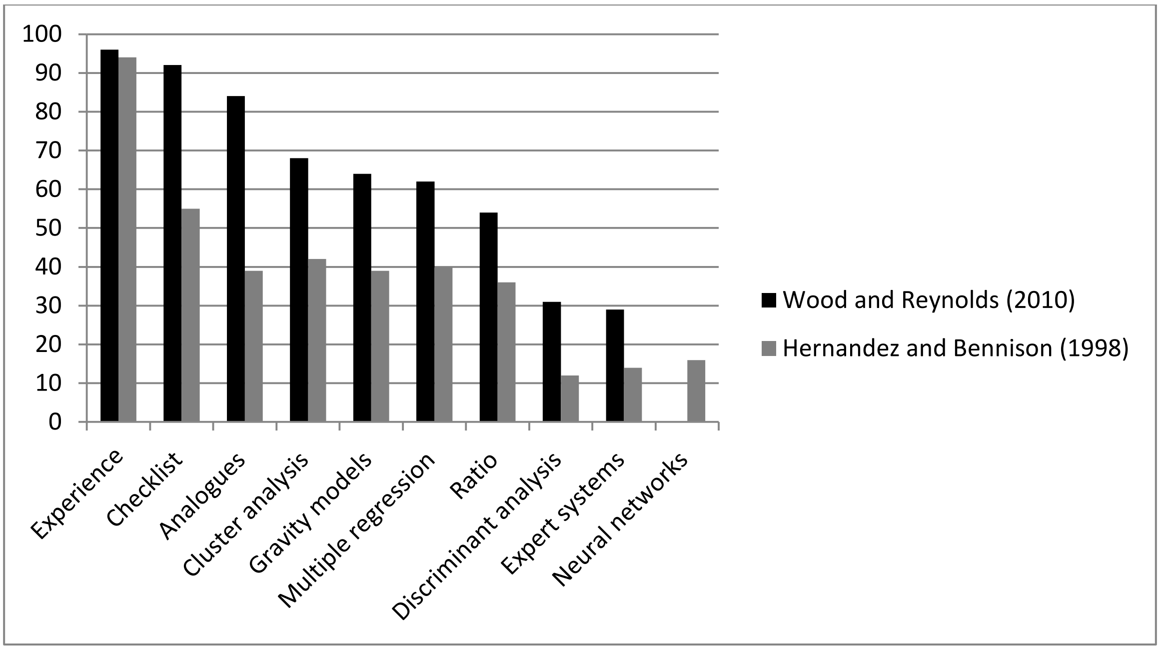



**Figure 2.3: Locational planning techniques by usage, adapted from Hernandez and Bennison (1998), and Wood and Reynolds (2010)**

A well-structured property selection process that is employed by retailers was described by O'Roarty *et al.* (1997). They suggested that realistic and pragmatic factors influenced the decision-making process for a sample of 50 retailers that operated through a store network of 9,833 outlets in the UK. Marketing and competition determinants directed the locational objectives, an assertion that neglects the internal environment of the organisation, and the selection was made upon the availability of capital and the specific merchandise requirements that the retailer was selling. Even though O'Roarty's *et al* .research contributed to the development of a better understanding of the rationale behind the locational strategy formation, it did not view the intra-organisational processes. The discussion of management problems such as the delay of the opening of a new store, or a chain of stores, has been researched in the context of mathematically forecasting the time span of the delay and not the organisational or contextual factors that led to this delay (Kaufmann *et al*, 2000). Real life problems like unplanned incidents such as logistic disruptions or staffing shortages are treated as statistical components of a forecasting equation as well as the uncertainties that are caused by the competitors and their surprising responses to the challenges that are set by the other competitors.

Clarke and Mackaness (2001) researched the retail location decision making process within a major UK electrical retailer using cognitive maps in order to understand how managers frame problematic situations such as strategic investments in retail property. Clarke and his colleagues' research provided an insight on how intra-organisational processes work during the development of locational strategy. They concluded that senior managers are more intuitive than functional managers, therefore it could be inferred that it is more probable lower ranked managers to collect more data than senior managers. They also concluded that senior managers have a wider understanding of the environmental context of the locational decision. However this was not the result of a more coherent mental process but of a simplification process that senior managers put in place when they had to understand the environmental context. It is also an outcome of the utilisation of peripheral information that is available to senior managers, which supplements the core knowledge platform that senior manager employ to support their decisions. Finally, Clarke and Mackaness's (2001) research revealed that senior managers have a greater predictive capability of the outcome of the strategic locational decision they make than lower managers. It can be assumed that this is an expected result since senior managers have a wider spectrum of information and usually are more experienced that lower managers. Clarke and Mackaness's research is relevant to the environmental uncertainty theory that has been discussed in section 2.3 of the literature review. Managerial intuition has been recognised as a means of reducing uncertainty (Patton, 2003), and the last of the three findings of Clarke and Mackaness's research indirectly refers to the effect uncertainty concept and the managers' inability to predict future. Therefore, no matter how sophisticated and available information is, managers' intuition is always a strong determining factor in strategic decisions.

Since decision-making is conducted by humans it is necessary to try to understand cognitions and relationships in order to analyse and explain how strategic retail locations are made. In a later paper Clarke and his colleagues (Clarke *et al.*, 2003) analysed further the findings of this research, and concluded that managers develop heuristics in the form of analogues in order to understand and manage the packages of information they analyse when making a strategic location decision. Even though managers have a decision support system (DSS) in their arsenal, they tend to simplify the process by visualising their understanding of the wider environmental context in order to come up with a manageable proportion of the reality.

Hernandez and Bennison (2000) researched the techniques used by retailers to support retail location decision-making. They interviewed[3] retail location specialists who introduced two focal dimensions of the decision-making process:

i. The power of directors not only to impose decisions but also to manipulate lower level managers to support their decisions, and
ii. The decision-making process can vary from very flexible to very bureaucratic, and informal to formal.

Their research confirmed that power relationships, eg stakeholders' power, within organisations determine strategy development. It is also a reminder that strategic retail location decisions can be the result of "soft" decision-making processes (Clarke *et al.*, 2000), even in large organisations that utilise sophisticated management information systems. Informal or tacit knowledge becomes part of the information background that managers of major retailers in UK have employed in order to understand the environmental context and formulate the retail location strategy for the organisation. After all

> "[...] sound location decision-making is an art not a science. Without an understanding of the strengths and weaknesses of the base data...geographic information and software is dangerous and costly witchcraft". (Byrom *et al.* 2001, p.227)

[3] Unfortunately there is no specific data on the sample size

*2.6.3.2. Retail location strategy in small-medium organisations*

The amount of research that is dedicated to retail location strategy formation in small-medium organisations is less compared to large organisations. Small-medium businesses are a significant part of national economies; 99.8% of the total businesses in EU are SMEs employing about 67% of the total employed population, and contributing 58% of the EU gross product (Ecorys, 2012). Their internal structure and operation is complex due to the intuitive, informal and personal way that business owners or/and managers employ when they exercise their managerial duties (Jacumsen, 2004). Nevertheless there is a small number of research projects that focused on retail location strategy formation in small-medium companies that provide an insight into the assessment of an opportunities or threats, the development of alternatives, and the implementation of a retail location strategy.

Strategic decisions in SMEs are developed and implemented by a small number of people, mainly the entrepreneurs and a few of the people they trust (Mazzarol and Reboud, 2006). It is therefore expected that the owner of the small-medium company and a small group of employees will be the most important people with regards to the formulation of retail location strategy. The entrepreneur is the person who is mainly involved with strategy formation. Therefore he or she is expressing the aim of the company and the strategies that are employed in order for this aim to be fulfilled. Researching the retail location strategy of a small independent outdoor retailer, Pioch and Byrom (2004) found that the managing director of the company (who also was the founder and owner of the company) was the only person who was making strategic decisions. The same person was involved with environmental scanning, the setting of the locational objectives, and the development of the locational mix. Store managers had limited authority and were only concerned with everyday marketing issues. However, there are counter examples in the literature where location strategy is discussed and formulated by more people. This research comes to provide further insight on the challenge of developing and implementing retail location strategies in SMEs.

Wood and Tasker (2008) made the point that retail location decisions are influenced by the size and scope of the retailer. They suggested that while the sophistication of the retail location selection has massively improved small independent retailers, and not only them, primarily depend on the utilisation of personal site visits where they combine their experience and gut-feeling to appraise a property. Hogg *et al.* (2003) suggested that SME retailers can find beneficial to choose a property that lies within a Business Improvement District as they are specifically designed for smaller businesses, they are local and have access to an already established clientele, and finally they benefit from the SME networks which is a key characteristic of decision-making in SMEs. O'Callaghan (2007) researching locational decisions in Ireland concluded that location *per se* is just the mean to achieve the end, which is a successful strategy. He raises the issue of competing for space in congested areas, which is an idea that relates to the work of Dietsch and Petey (2007) on the financial implications of location choice especially with regards to the access to banking credit.

### 2.6.4. Formulating retail location strategies under uncertainty

Most of the research on this specific topic comes from Ghosh and colleagues's work on store network management (for example Ghosh and Craig, 1983; Ghosh and McLafferty, 1987). The major issue about their research is that it focuses on the applied side of the process and not on the background procedures that take place before and during the decision-making process. Therefore they have developed a number of statistical models that can support retail location managers in identifying the appropriate properties for the needs of their company. Timmermans (1986) claimed that only a few research programmes have focused on the actual retail location decision-making process; as a response to that he developed a model that captures nine marketing and geographical factors that can potentially influence the managerial decision-making process. The real contribution of his research was not on how the decision is made but on what factors of the external environment influence the decision-making.

Drezner and Drezner (1998; 2002; 2009) have also contributed to the development of this body of literature. Their research is primarily concerned with the methods that assist retail managers to choose the optimal properties for their outlets. Drezner (2009) has differentiated her arguments by incorporating in her research the issue of problem framing when talking about the selection of the optimal site. Based on Ghosh's work on retail location strategy development under uncertainty, she used scenario-development to explain how retailers prioritise alternatives and create contingency plans for their locational strategy. Using scenarios to deal with uncertainty is not an innovative approach. The idea of developing alternative scenarios in order to cope with uncertainty can be found in Schoemaker's (1985) and Naylor's (1987) work as a technique to reduce uncertainty in strategic decision-making. In general, scenario planning is a technique that is often used to develop strategies, which is met in SME companies as well (Johnston *et al.*, 2006). However, in the context of retail location strategy development, it is new and contributes to the understanding of how managers deal with retail location strategy under uncertainty.

### 2.6.5. How are retail location strategies formed?

Based on the literature review that preceded there are three categories of factors that influence the formation of the retail location strategy:

1. Consumer related factors
2. Competition related factors
3. Intra-organisational factors

Clarke *et al.* (1997) developed a detailed conceptual model (see Figure 2.4) that maps the locational position and alternative strategies. However this is more a roadmap rather than an integrative framework that depicts how decisions are made in real life. This model encompasses consumer related and competition related factors; nevertheless there is no reference to intra-organisational factors.

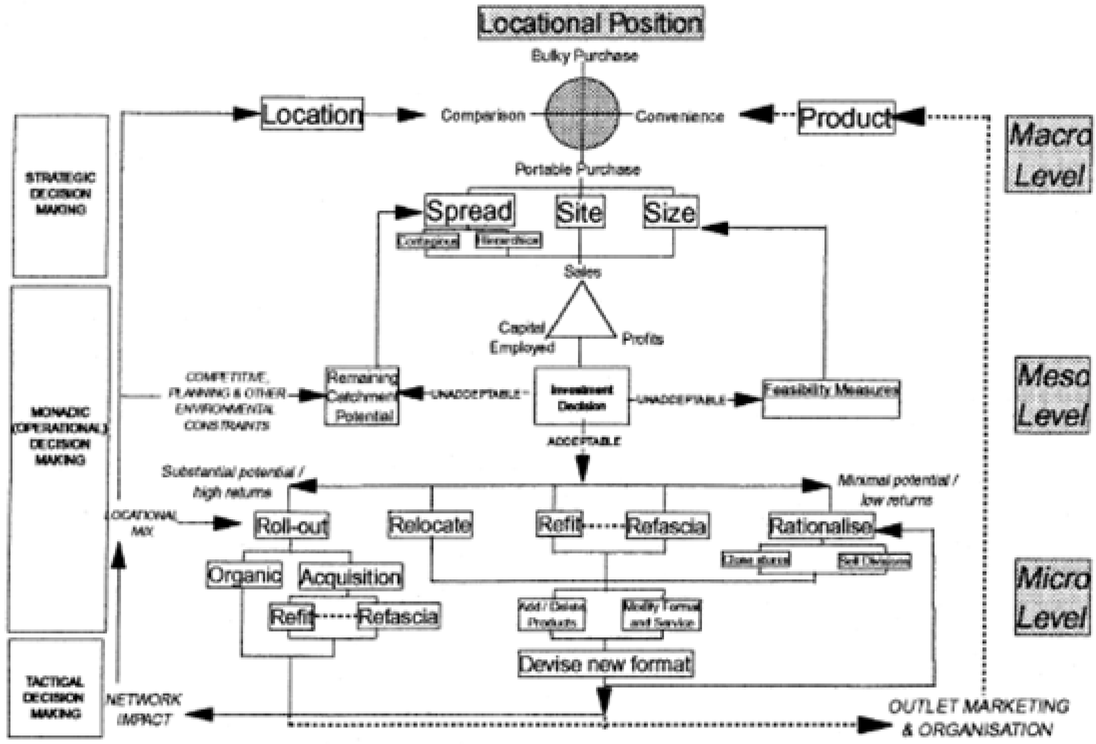



**Figure 2.4: Location positioning and strategy: an integrating framework, Clarke *et al.* (1997, p.67)**

Gonzalez-Benito and Gonzalez-Benito (2005) have produced a model that links the key factors that influence retail location strategy (see Figure 3.1.2.). Even though this model links market and operational factors to the formation of retail location strategy, it is very abstract and in addition it does not appreciate the intra-organisational setting and how the internal dynamics affect the decision-making process.

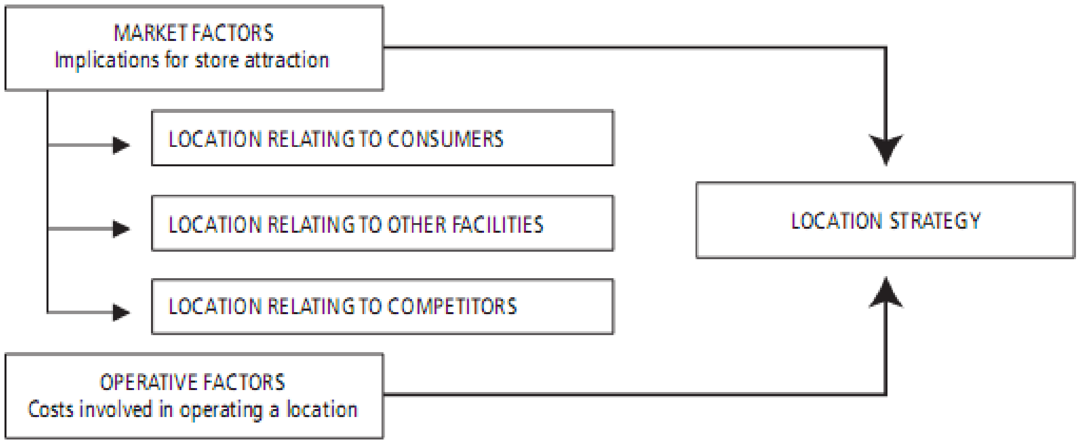



**Figure 2.5: Location strategy: Key factors, Gonzalez-Benito and Gonzalez-Benito (2005, p.297)**

It is common ground that strategies are developed in order to provide a viable route to the future for organisations. Locational strategies for retailers set the route towards the successful operation in a competitive environment through the efficient management of the resources of the organisation. Considering that the sources of information and their distribution speed is rapidly increasing, retailers need to develop structures that can help them to deal with the environmental uncertainties and give them alternative locational choices in order to format their strategies. It should not be neglected that strategies are available only when there are alternatives, single and unique options are one-way routes and strategy development is not applicable in that case.

## 2.7. Complexity and organisations

Brown and Eisenhardt (1997) described complex organisations as systems that exhibit complex, adaptive, and emergent behaviours because they are made up of multiple interacting agents. Simon (1957) suggested that there is a limit to the complexity that individuals can handle over a given period of time, which implies that complexity is time dependent. Eisenhardt and Brown (1998) stressed that this time involves not only the time that is needed by individuals to cope with complexity but that it is also related to the timing of involvement in a complex environment. Organisations that fail to change ultimately die, suffering the penalty for not revising their priorities in a timely manner (Boisot, 2000).

The study of organisations in the context of the concept of complexity has its roots in the natural sciences. Seen from this perspective, organisations come to dynamic equilibrium with their environments through a ceaseless process of adaptation and change (Morel & Ramanujam, 1999). Cilliers (2000, p.24) offers a detailed description of complex systems. The main features are:

1. Complex systems consist of a large number of elements that in themselves can be simple. These elements can be of diverse types - e.g. people, coalitions, organisations, processes etc (Morel & Ramanujam, 1999).
2. The elements interact dynamically and their interaction is non-linear.
3. There are feedback loops.

4. Complex systems are open systems, and operate in non-equilibrium conditions.
5. Complex systems have organic properties like memory and history. The behaviour of a complex system is not determined by its elements but by the nature of the interaction among the elements. The interaction of elements produces emergent patterns of behaviour (Morel & Ramanujam, 1999). Since the interactions are emerging and dynamic, predictions about the system cannot be made by just inspecting their components.
6. Complex systems are adaptive: they can organise their structure without the intervention of an external actor.

The organisational response to complexity involves either an *adaptive* or an *absorbing* behaviour (D. P. Ashmos, Duchon, & Jr, 2000). The view of organisations as *complex adaptive* systems suggests that organisations gather information about their surroundings, themselves and their own behaviour, and then use this information for adapting to and co-evolving with their environments (Kauffman, 1995). When organisations choose managerial responses to complexity that are consistent with the characteristics of complex adaptive systems, they recognise multiple and sometimes emerging goals and emphasise the importance of connections among the parts of organisation as a way of acknowledging and resolving conflict that is created by the pursuit of multiple alternative goals (D. P. Ashmos et al., 2000). In contrast to *complexity adaptation*, some organisations are characterised by *complexity absorption*. That is, the organisation tries to simplify and reduce the amount of data and the number of choices available to its members (Donde P. Ashmos, Duchon, McDaniel, & Huonker, 2002). A complexity absorption response is accomplished by emphasising formal role relationships and thereby minimising connections. Some scholars associate complexity absorption in the organisation with organisational stability: Stacey (1992), for example, suggested that managers tend to establish stability and succeed, or experience instability and fail.

In organisational theory complexity is treated as a structural variable that characterises both organisations and environments (Anderson, 1999). Complexity as a concept is perceived in different ways by academics and practitioners (Cilliers, 2000) and raises implications about chaotic situations, even though scholars see signs of chaos everywhere (Levy, 1994).

### 2.7.1. Complexity and strategy development

In order to understand the relevance of chaos theory to strategy we need to see organisations as complex and dynamic systems (Levy, 1994). Organisations interact with each other, but also interact with the other parts of their environments, such as consumers, suppliers, labour, the political authorities, banks and other financial institutions. The interconnection of these parts creates a complex environment, defined by the number of actors and their interconnections. Bechtold (1997) suggested that a chaos theory approach to strategy development requires a dynamic view of the process.

Strategy is developed with respect to the *scale* that the environmental context is viewed by the participants in the decision-making process. Strategy development as a vital activity of organisations is planned and implemented in a different way by *complexity adapting* and *complexity absorbing* organisations in terms of the flexibility and the length of their strategic plan, their understanding of environmental stability, their resistance to change, and their development of mechanisms that support them at times of uncertainty. Strategy is not developed as a long term plan but rather *emerges* spontaneously from chaos through a process of adaptation, real-time learning and political negotiations (Stacey, 1993). There is, therefore, as Stacey (1993) noted, a distinction between companies that have adopted or try to adopt a chaos-theory approach to strategy development, and those that follow the normative view of strategy development.

### 2.7.2. Emergence in organisations

The concept of emergence in organisations has its roots in the domain of systemic thinking (Stacey, 1993) as it is built around the idea of the existence of an open environment where all the participating agents influence each other, and therefore the whole environment changes according to the change of the participating agents. Complexity theory assumes that the changes that happen within the environment are not proportional to their trigger: to the contrary small alterations to the stability of the system can cause dramatic changes (Levy, 1994). Nevertheless, complex systems present the property of the recurring emergence where it can be expected that change of any magnitude will happen, although it is uncertain what the frequency and the size will be. Lissack and Letiche (2002) stressed that complexity in organisations is reflected in their ability to produce collective behaviours that are different to the individual behaviour of their agents. Relating that to the environmental influences on the decision-making processes that take place in organisations (see section 2.2), it can be argued that complexity is not an alien concept in the relevant literature. The findings of Achrol & Stern (1988) showed that the characteristics of the environment such as its dynamism, connectedness, conflict, and interdependence determine the context of the decision-making process, the alternative options, and the outcome of the process. This in turn constitutes in essence the gradual shift from state uncertainty to effect uncertainty, the feeling managers experience when they cannot position themselves within a managerial problem, their inability to choose among alternative options, and finally the lack of confidence to predict the impact of their choices on the environment. Downs *et al.* (2003) have stressed that emergence is the means to address uncertainty in organisations and provide alternative routes to deal with the challenges that appear in the environment. They also suggested that this view of strategic analysis calls for more research that will build on the work of Mintzberg, Stacey, and Brown and Eisnehardt. This thesis addresses this gap in the particular area of strategic decision-making in retail SMEs.

*2.7.2.1 Defining emergence*

Robertson and Caldart (2009) suggest that emergence happens when an organisation responds to a challenge in a new, unconventional manner. Stacey (2009, p.80) adds that it is "*distinct from a formal planning process*". Goldstein (1999, p.49) suggested that:

> *"...emergence refers to the arising of novel and coherent structures, patterns, and properties during the process of self-organization in complex systems. Emergent phenomena are conceptualized as occurring on the macro level, in contrast to the micro-level components and processes out of which they arise. "*

Kauffman, one of the pioneering complexity theorists, (1995, p. 23) maintained that a theory of emergence:

> *"... would account for the creation of the stunning order out our window as a natural expression of some underlying laws. It would tell us if we are at home in the universe, expected in it, rather than present despite overwhelming odds."*

Emergence, in the form of emerging strategies, is a core concept in the Mintbergian conceptualisation of strategy development. Mintzberg's view of emerging strategies is directly opposed to strategies that are the result of deliberation, intention and plan. However, in his work he clearly pointed out that emergent strategies do not refer to chaos but to *unintended order* (Mintzberg and Waters, 2002, p.71). They suggest that emergence is a result of thinking, learning and adapting which is similar to the idea of the feedback loops that take place in complex systems. Albeit, the initial conceptualisation of emergent strategies came earlier from Mintzberg (1994) and then his view was that emerging strategies were a pattern that companies applied in order to cope with strategic challenges. In fact, Mintzberg saw emerging strategies as a sequence of decisions; a direct implication of linearity which is the exact opposite to the way emergence is viewed in complexity theory: that is, companies implement decisions one by one to test unexplored territories. Lengnick-Hall and Beck (2005) proposed that emergent strategies should be seen not as a circumstantial response to an unexpected challenge but as a standardised procedure that the organisation puts in place when contingencies happen. This relates to the uncertainty reduction techniques that were mentioned previously in section 2.3. Managers merely make informed decisions, as they do not have the access to resources or the time to further elaborate on their decisions, and by replacing factual information with heuristics they place themselves in a comfort zone that satisfies the threshold to make decisions. Therefore, this approach describes an artificial state of informed decision-making which is a comforting experience for the managers.

## 2.8. Chapter summary

This chapter provided a review of the concepts related to decision-making, uncertainty, retail location strategy development, and complexity in organisations. It synthesised controversial bodies of literature in order to develop the theoretical background for the empirical research that follows.

With respect to the first objective of this Thesis, which is how decision-making happens in organisations, it was argued that this is a complex task that is influenced by a number of factors. The development of decisions is not always a result of rational and prescriptive models but it can be the outcome of political or/and power games, negotiation, and falsified perceptions and conceptions. Decisions are needed when alternatives are available, and it is not clear that the decisions made will be relevant to the exact problem that has emerged and required intervention. Human aspirations and goals are influencing the decision making process and sometimes they are in conflict with organisational goals. Research into decisions should therefore involve the understanding of the actors that participate in the decision-making process and not focus solely on the process itself.

With reference to the second objective, namely the understanding of uncertainty and how it is manifested in organisations, it was argued that environmental uncertainty influences the decisions that organisations make. As environmental uncertainty is a perceived concept it is important to understand what is the perception of uncertainty by the people that are involved in a decision-making process. The relation between environmental uncertainty and risk was also discussed. It was shown that these two concepts have a proportional relationship depending on the entrepreneurial behaviour of the managers. It is likely that managers that show high levels of uncertainty are risk-averse, and managers that show low levels of uncertainty are risk-takers.

With regards to the fourth objective (as the third objective is addressed in chapter 3) namely the critical review of research on strategic retail location, it was maintained that the emphasis on the applied side of decision-making has led researchers away from developing descriptive frameworks that analyse the way that strategic retail location decisions are developed. It was also argued that research up to now focuses on large organisations that operate in UK, the USA, and other central European countries. Smaller retail organisations that operate in other geographical regions and business environments are overlooked. There the lack of infrastructure, information, and training is apparent, and therefore managers employ their “gut feeling”, and interpersonal networks to scan the environment, identify the emerging opportunities and threats, and finally make strategic locational decisions.

As with regards to the fifth objective, the critical discussion of complexity theory and its linkage to strategy development, it was shown that during rapidly changing and uncertain times the use of complexity theory can provide a platform for organisational enquiry and understanding. This happens because complexity theory is an open, multidisciplinary, and dynamic tool of analysis that is specifically suited to explaining the impact of multiple and diverse internal and external agents on a decision-making process. It was also discussed that complexity has common grounds with mainstream strategic research but that there is a gap in the sense that complexity theory research has not been used in retail strategy development and implementation, and specifically in context of the retail location strategy research. Research on retail strategy calls for work that will link it to the broader current strategic debates, to which Wood and Raynods recent (post-2010) work came recently contributed.

As the overall aim of the Thesis is to *understand how strategic retail location decision-making takes place in Greek SMEs during uncertainty*, from the literature review in this chapter the author concludes that negotiation with an uncertain environment is an experience that managers live in their own personal way. Acting as organisational agents within the environment, they adapt to the challenges that they deal with, and interact with the human and non-human elements of the environment by always bearing in mind that the complex system they operate within has anthropomorphic characteristics such as memory and learning, and based on that they repeat trained patterns of behaviour that are the result of feedback loops. When it comes specifically to retail strategy, the organisational characteristics are defining factors in the decision-making process and practice. Retail location decision-making is based on use of the input of decision support systems, and therefore the lack of the information that comes from them calls for heuristic replacement.

In the following chapter is analysed the Greek business environment in the period that the research for this thesis took place. Evidence is also presented on the developments took place between 2000 and 2010 relating to the growth of the retail sector and the development of retail location practices. Finally, the way the environment becomes a source of uncertainties that managers have to find ways to deal with is discussed.

# 3. Methodology

## 3.1. Introduction

Chapter 3 addresses the methodological issues surrounding this research. The chapter begins with a discussion of the philosophical underpinnings of the research, basically viewing the ontological and epistemological assumptions made by the researcher. It is maintained that the research falls within the phenomenological - interpritivist research paradigm where the importance lies in the elicitation of meanings rather than the statistical inquiry of statistically informed universal generalisation. A description of the research method follows where the case study in use is described, explained and supported as opposed to other research methods that are compatible with this episteme and the specific research questions of this project. Finally, the issue of the quality of the qualitative research is addressed, and the criteria for the assessment of the quality of this research are presented.

## 3.2. Social constructionism and the interpritivist paradigm

Interpretivism emerged in an attempt to understand and explain human and social reality (Crotty, 2009). The claim that interpretivist researchers make is that it is only possible through *social constructions* such as language, consciousness, shared meanings and instruments to understand the nature of knowledge (Myers, 2009). Social constructionism is a fairly new research paradigm that emerged as a reaction to positivism to the social sciences (Easterby-Smith *et al.*, 2008). Crotty (2009) argued that all institutions precede us and their actors are embedded in them, and therefore if the researcher wants to understand what is happening within this environment he has to live it in order to have access to the public and conventional sense it makes. Myers (2009) suggested that reality is determined by people rather than by objective and external factors. The focus then should be on people, *individually* and *collectively*, and how communication streams are received and transmitted by them. Bryman (2012) asserted that social constructionism is not only produced through social interaction, but it is in a constant state of revision. That given, organisations are viewed as living constructs that have similar attributes to living organisations, referring back to the basic premises of complexity theory that was discussed in section 2.7. By taking this ontological stance, I accept the subjective nature of my inquiry, as well as my role as part of the system that I research. Myers (2009) contrasted the implications of social constructionism and positivism (see Table 3.1) and linked the ontological, epistemological, and methodological implications of such a research endeavour.

| | **Social constructionism** | **Positivism** |
|---|---|---|
| **The observer** | Is part of what is being observed | Must be independent |
| **Human interests** | Are the main drivers of science | Should be irrelevant |
| **Explanations** | Aim to increase general understanding of the situation | Must demonstrate causality |
| **Research progresses through** | Gathering rich data from which ideas are induced | Hypotheses and deduction |
| **Concepts** | Should incorporate stakeholder perspectives | Need to be defined so that they can be measured |
| **Units of analysis** | May include the complexity of 'whole' situations | Should be reduced to simplest terms |
| **Generalisation through** | Theoretical abstraction | Statistical probability |
| **Sampling requires** | Small number of cases chosen for specific reasons | Large numbers selected randomly |

**Table 3.1: Contrasting implications of positivism and social constructionism, adapted from Easterby-Smith et al. (2009, p.59)**

The basic premise of interpretivist research is that conclusion derives from the context (Myers, 2009). Therefore, the theoretical and practical contextualisation is absolutely necessary under this research paradigm. Generalisations are not the focus of the researcher; neither is the primary concern to develop prepositions or concepts that explain the human action. Language in all forms is a tool to develop an understanding of the context and to produce sound explanations. Language is informed by data that is collected in various forms and provide justifications and support the researcher in making claims deriving from this data.

### 3.3. The philosophical foundations of phenomenology

Phenomenology emerged in the late 19$^{th}$ century as a reaction against the then-dominant positivist view of philosophy (Ehrich, 2005). Berglund (2007) stated that phenomenology deals with a fundamental philosophical question: what is real? Husserl (1969, p. 39), who is considered to be the founder of modern phenomenology, suggested that knowledge is produced by

> *". . . setting aside all previous habits of thought, see through and break down the mental barriers which these habits have set along the horizons of our thinking."*

Those who base their philosophy on phenomenology assume that even though individuals cannot be certain about the independent existence of objects in the external world, they can be certain about how these objects appear to them in their consciousness (Carson et al., 2001). Gibson and Hanes (2003) suggested that phenomenology focuses on the meanings that individuals assign to phenomena rather than raw descriptions of observed behaviours and actions.

Husserl's main aim for philosophical phenomenology was to analyse phenomena for what they are, intuitively and directly, not for what they mean, theoretically and from a certain viewpoint (Berglund, 2007). Husserl wanted to develop a schema for describing and classifying subjective experiences

(Goulding, 2005) where the implicit structure and meaning of human experiences will become explicit (Sanders, 1982). Crotty (1998) said that phenomenology is about saying “No.” His is a critical approach to phenomena that will lead to a fresh look at the pure essence of them. Therefore, phenomenology is a critical reflection of conscious experience, rather than subconscious motivation, and is designed to uncover the essential invariant features of that experience (Jopling, 1996). Berglund (2007, p. 80) provides an account of the Husserlian phenomenology (see table 3.2).

| | |
|---|---|
| **Metaphysical focus** | Epistemological |
| **Description of the individual** | Person living in a world of objects |
| **Knowledge** | Ahistorical |
| **Enabling the social** | Essences are shared |
| **Method for gaining knowledge** | Bracketing affords access to true knowledge |

**Table 3.2: The Husserlian phenomenology, adapted from Berglund (2007, p.80)**

### 3.3.1. Phenomenology as a methodology

Four major philosophical concepts of phenomenology are presented that provide the foundation for phenomenology as a research methodology: *intentionality, lifeworld, intersubjectivity*, and *phenomenological reduction* (Sanders, 1982; Moustakas, 1994).

### 3.3.2. Intentionality

The term *intentionality* indicates the orientation of the mind to the object; the object or experience exists is one's mind in an intentional way (Moustakas, 1994). Husserl (1931, p. 31) himself describes intentionality as "a concept which at the threshold of phenomenology is quite indispensable as a starting point and basis." Intentionality is important to phenomenology as a research methodology because the purpose of phenomenological research is to understand how humans experience and perceive certain objects or phenomena in the world (Gibson & Hanes, 2003). As Moustakas (1992) pointed out, the act of consciousness and the object of consciousness are intentionally related. When something—an object or an experience—is presented to a person, it is presented as something, and the person sees it, interprets it, and understands it as something.

Husserl (1931) used the Greek terms *noesis* and *noema* to indicate the intimate relationship between intentionality as a total meaning of what is expected (noema) and the mode of experiencing (noesis). Moustakas (1992) stated that for every noesis there is a noema; for every noema there is a noesis. Sanders (1982, p. 355) maintained that a noematic experience always includes a "bearer," one who is interpreting the noema. She has illustrated that using the following figure (Figure 3.1):

Noesis → Noema

| | | |
|---|---|---|
| Experiencer | Experiencing | Experienced |

**Figure 3.1: The noesis – noema experience (Sanders, 1982; p355)**

### 3.3.3. Lifeworld

Goulding (2005, p. 302) defines *lifeworld* as "the world in which we, as human beings among other human beings, experience culture and society, take a stand with regard to their objects, are influenced by them, and act on them." Husserl (1982, p. 51) used the expression "me and my surrounding world" to describe lifeworld. The lifeworld is the place where humans are in the world and, therefore, could be the starting point for research in social sciences. Lifeworld is the context where researchers must go and study the way in which individuals experience phenomena in their natural attitude (Gibson & Hanes, 2003).

### 3.3.4. Intersubjectvity

Phenomenological *intersubjectivity* concerns the lifeworld that the researcher creates by synthesising the different layers of reality that the researched individuals experience (Moustakas, 1992). The essential property of intersubjectivity is the construction of a research context by participating in an empathetic way in the experience of the researched individual. Moran (2000, p. 176), explaining the term, said "I can live in other's experience in an intuitive manner but I don't undergo that experience myself in an original fashion." Intersubjectivity is related to both intentionality and lifeworld. Through the layer that is set by intersubjectivity, the meanings that are assigned in an intentional way to objects and experiences by the researched individuals are positioned in the lifeworld.

Gibson and Hanes (2003) stated that lifeworld is an intersubjective world in which the researched individuals are in a relationship with the world. This relationship is primary for the experiencer but it is acknowledged in an analogy by the researcher (Moustakas, 1992). In phenomenological research, intersubjectivity is the act of researchers being with and developing a trusting relationship with the researched individuals as they describe their experience with the phenomenon being investigated (Gibson & Hanes, 2003).

Related to the latter three concepts (intentionality, lifeworld, and intersubjectivity) is the concept of the *embodied consciousness* (Merleau-Ponty, 1962). The importance of Merleau-Ponty's contribution is that he removed the metaphysical and transcendental nature of phenomenological research and brought it closer to the needs of social science research. The concept of embodied consciousness highlights the spatial and temporal relationship between researcher and the researched object (Gibson & Hanes, 2003). Gibson and Hanes said that the embodied consciousness is the means through which the researcher experiences the researched individuals' lifeworlds. They also mentioned the importance of the researcher receiving the experiences of the researched individuals without prejudice, which facilitates the free and open expression of these experiences that constitute the lifeworld.

### 3.3.5. Phenomenological reduction

*Phenomenological reduction* is the basis of phenomenological research (Gibson & Hanes, 2003). This action is divided into two procedures (Sanders, 1982; Giorgi, 1997). The first one is called bracketing or, according to the Husserlian (1931) term, *epoche.*[4] The bracketing concerns only the researcher. It is the process when the researcher sets aside his or her prejudgments, biases, and preconceived ideas (Moustakas, 1992). The bracketed matter does not cease to exist; rather, it becomes inactive until the researcher revisits it and integrates it with the knowledge that will be produced by his primary research.

The action of reduction that is the second procedure “takes on the character of graded pre-reflection, reflection, and reduction, with concentrated work aimed at explicating the essential nature of the phenomenon” (Husserl, 1931, p. 114). Husserl’s explanation of reduction was interpreted by Moustakas (1992) as a process when the researcher perceives, thinks, remembers, imagines, and judges the contents that build the phenomenon. The world is reduced to the contents of consciousness alone (Carson et al., 2001). In

[4] A Greek word meaning to stay away from or abstain (Moustakas, 1992; p.85).

management research practice, this is interpreted as the process of collecting, assessing, and synthesising data that come from alternative sources. Through this process, the researcher constructs his research context, which will be enriched and integrated with the data he will collect through his field research.

### 3.3.6. Phenomenological research in management studies

Ehrich (2005) suggested that phenomenological research is suitable for researching fields such as general management, leadership, marketing, organisational and corporate strategy, and accounting. Some examples of such research are Moreno's (1991) study of people's experience with the transformation of their work life because of the IT evolution, and Berglund's (2007) study of entrepreneurship as a lived experience. Goulding (2005) maintained that phenomenology has its own unique characteristics that are beneficial in terms of theory building around lived experiences in the field of strategic decision-making. Carson *et al.* (2001) suggested that in the marketing context, the phenomenological approach could be used to research how managers perceive their marketing decision-making roles within their work environment. Gibson and Hanes (2003) said that phenomenological research can be used when the goal of the research is to understand the complexity of the human experience and to gain a deeper understanding of the meaning of participants' experiences in order to understand the phenomena itself.

Over 30 years ago, Sanders (1982) argued that phenomenology was then the new way of conducting management research. More recently, management scholars (e.g., Hackley, 2003) stated that phenomenological research has a lot to offer, particularly when it is used in research projects such as PhD research. Goulding (2005) cited eleven phenomenological studies of consumer behaviour, and Ehrich (2005) cited four studies of general management. Some explanations for the limited usage of phenomenological research are provided by Hill and McGowan (1999). They maintained that many management researchers have built on existing normative paradigms that have their roots in economics, psychology, or sociology, especially where researchers have a long history of utilizing quantitative methods for understanding social phenomena. These researchers have passed down their research approach to their students, transferring the positivist paradigm from one generation to the next; and finally they pointed out that government funding is more in line with quantitative research approaches than with qualitative. Ehrich (2005) added to these explanations that other reasons for the limited use of phenomenological research are the perception that qualitative methods are second-rate (Gummesson, 2000) or lack the rigour and objectivity of the quantitative approach (Patton & Appelbaum, 2003).

### 3.4. The phenomenological research process

Sanders (1982) outlined the phenomenological paradigm (Table 3.3). He provided an outline of the characteristics of phenomenological inquiry, although he neglected to cite the principles that a phenomenologist should possess. Even though this summary is imperfect, it provides a starting point for discussing the design of this research (see Table 3.3).

| **Phenomenological Paradigm** | **Normative Paradigm** |
|---|---|
| i. World View | |
| The world is viewed as largely indeterminate and problematic. Phenomena under investigation are viewed as functions of perceptions, implicit, and personal meanings/commitments. The observer and the observed are not separate. | The world is viewed as more or less determinate and non-problematic. It is external and objective. Science is value-free |
| ii. Phenomena under Investigation | |
| Considers 'lived experience' of subjects. Observed characteristics and specific qualities are perceived as personal forms of meaning. | Considers characteristics that are easily enumerated and empirically verifiable. |
| iii. Problem Formulation | |
| Ideas are developed through induction from data. | Begins with a hypothesis of causal relationships. Hypotheses are tested by manipulating one or more independent variables to study an effect on a specific behaviour (dependent variable). |
| iv. Preferred Methodology/Methods | |
| Emphasis is placed upon describing the world from the point of view of those experiencing it. Concepts and theories emerge from data – inductive approach. Small samples are investigated in-depth or over time. | Broad abstract generalisations or theories are applied in a logical deductive fashion by means of hypotheses. Large samples and quantitative methods are used. |
| v. Validity and Reliability | |
| Has the researcher gained full access to the knowledge and meaning of the subjects under investigation?<br>Will similar observations be made by different researchers on different occasions? | Does the instrument measure what it is supposed to measure?<br>Will the measure yield the same results if applied on different occasions? |
| vi. Generalisation of Results | |

| | |
|---|---|
| Generalisations only concern the specific subjects under investigation. Generalisations can take the form of conceptual structures. Findings can be used as a data base for future research. | Generalisations are formulated based on an analysis of the data regarding similar classes or universal tendencies that are expressed in normative fashion. |

**Table 3.3: Contrasting Phenomenological with Normative Paradigms, adopted from Sanders (1982, p. 358)**

Sanders (1982) argued that phenomenology is a qualitative research method, a detailed study of the lived experiences[5] of the individuals who are being researched. Colaizzi (1978) suggested a series of seven steps to describe the phenomenological research process:

a. The first task of the researcher is to read the participants' narratives, to acquire a feeling for their ideas in order to understand them fully.
b. The next step, "extracting significant statements," requires the researcher to identify key words and sentences relating to the phenomenon under study.
c. The researcher then attempts to formulate meanings for each of these significant statements.
d. This process is repeated across participants' stories, and recurrent meaningful themes are clustered. These may be validated by returning to the informants to check interpretation.
e. After this, the researcher should be able to integrate the resulting themes into a rich description of the phenomenon under study.

[5] Husserl (1970, p. 385) noted "The appearing of things does not appear itself to us, we *live* through it."

f. The next step is to reduce these themes to an essential structure that offers an explanation of the behaviour.

g. Finally, the researcher may return to the participants to conduct further interviews or to elicit their opinions on the analysis in order to cross check interpretation.

Later Hycner (1985) provided a more detailed catalogue of phases that the phenomenological inquiry may follow. His contribution builds on Colaizzi's work by creating a more instrumental tool of phenomenological inquiry framing: See Table 3.4 for a comparison of the two methods.

| | **Colaizzi (1978)** | **Hycner (1985)** |
|---|---|---|
| Phase 1 | Summaries reading to acquire the general idea. | Transcription. |
| Phase 2 | Extraction of significant statements and identification of key words. | Bracketing and the phenomenological reduction. |
| Phase 3 | Understanding the meaning of the significant statements. | Listening to the interview for a sense of the whole. |
| Phase 4 | Validation of the process through repetition and revisit of the interviewees. | Delineating units of general meaning. |
| Phase 5 | Development of a meaningful summary. | Delineating meanings relevant to the research question. |
| Phase 6 | Reduction to an essential structure that explain the behaviour of the interviewees. | Training independent judges to verify the units of relevant meaning. |
| Phase 7 | Return to the interviewees for further clarification if required. | Eliminating redundancies. |
| Phase 8 | | Clustering units of relevant meanings. |
| Phase 9 | | Determining themes from clusters of meaning. |
| Phase 10 | | Writing a summary for each individual interview. |
| Phase 11 | | Return to the participant with summary and themes: Conducting a second interview. |
| Phase 12 | | Modifying themes and summaries. |
| Phase 13 | | Identifying general and unique themes for all the interviews. |
| Phase 14 | | Contextualisation of themes. |
| Phase 15 | | Composite summary. |

**Table 3.4: The phenomenological inquiry method, adapted from Colaizzi (1978) and Hycner (1985)**

Comparing the two methods, Hycner's (1985) work is more detailed and prescriptive in nature. It delivers a step-by-step roadmap with particular milestones that the researcher has to achieve. However, doing phenomenological research in this way is rather contradictory as the core idea of phenomenological research is the flexibility and looseness of the method, and the space that is given to the interviewees to express their feelings, emotion, knowledge and understandings. In those terms Colaizzi's suggestion is closer to the ontological underpinning of phenomenology. Nevertheless Hycner's contribution is also valuable because his account of the phases of phenomenological inquiry provides a useful checklist for the researcher, particularly the inexperienced phenomenological one.

Phenomenology is a qualitative way of researching social phenomena. Ahmad and Ali (2003, p. 2) noted that "qualitative research is used where there is a concern for understanding how things happen and how they are related, rather than only measuring the relationship between variables." The objective of qualitative data is to provide depth and details of action, events, and perspectives through the eyes of the actors or those being investigated (Bryman & Cramer, 1988). As a result, a qualitative methodology can provide the investigator with meaningful insights by delving more deeply and examining the intangible aspects of complex issues of process (Lofland, 1971; Mintzberg, 1983; Van Maanen, 1983). Therefore, qualitative methodologies are characterised not only as "deep" (Sieber, 1973), "storytelling," "full, rich, and real" (Miles and Hubert, 1984), but also as "soft" and "narrow" (Warneryd, 1985). All these characteristics show the power of qualitative study to answer several research objectives suited to the use of this methodology. However, such methodology is costly and time-consuming, and data can only be gathered from a small sample size (Sekaran, 1992).

### 3.4.1. Issues in phenomenological research

The issues of validity and reliability from the phenomenological viewpoint have been addressed by Easterby-Smith (1994). The validity of research is dependent on the access that the researcher gains to the knowledge and meanings of the informants. With respect to that, Sanders (1982) suggested that the phenomenologist researcher should probe the research problem in-depth, without caring for the quantity of the interviewed or observed research objects. Reliability of the phenomenological research is gained if similar observations are made by different researchers in different locations.

## 3.5. The case-study research method

In-depth interviews are a common method of executing a phenomenological research project (Sanders, 1982; Thompsons *et al.* 1989; Moustakas, 1992; Wimpenny and Gass, 2000; Cope, 2005; Smith *et al.*, 2009), although the interviews are supported by other sources of data like archival data, documents, and observations (direct and/or participant). Yin (2003) suggested that in the case-study method, six major sources of evidence are used by the researcher:

1. Documents
2. Archival records
3. Interviews
4. Direct observation
5. Participant observation
6. Physical artifacts

The case-study method has been used in a variety of research problems that concern decision-making (Eisenhardt, 1989; Perren & Ram, 2004). Yin (2003) provided an extensive guide to the practical implementation of the case-study research technique for academic purposes, while Perry (1998) showed how the case-study technique can be used for the purposes of doctoral research. Based on the methodological implications imposed by the phenomenological dimension of my research, and the widely accepted guidelines given by Yin (2003) and Perry (1998), the practical issues of case-study research are discussed below. Essentially, two reasons exist for adopting a case-study approach in this instance:

1. Conducting case-study research makes it possible to examine contemporary events in context; and,

2. The researcher is able to draw on a wide variety of evidence that may include documents, artifacts, interviews, and observation (Quinn et al., 2007).

The case-study method can be used in both inductive and deductive research programmes (Perry, 1998). Eisenhardt (1989) mentioned that a research question is necessary to start because without one, the volume of data can easily become overwhelming. The case-study method has two key advantages: first, conducting case-study research makes it possible to examine contemporary events in context; and the researcher can use whatever sources of data and information are available to him (Quinn et al., 2007). In this study Stake's (1995) approach to a case study was followed, involving a series of steps, including posing research questions, gathering data, and data analysis and interpretation. His approach is based on the interpretivist paradigm. As he suggests (2010, p.63)

> *"Experiential researchers seek multiple realities, the different meanings that different people give to how things work. They usually end up feeling that one reality is more pertinent or useful than others, but they try to display more than one reality to the readers of their reports…"*

Another characteristic of his approach to case-studying is that the researcher should use a variety of personal data records. This is relevant to this work as the researcher kept a detailed archive of personal notes and also an important part of the collected data came from unstructured and informal discussions that took place in the corridors or the communal areas of the premises of the companies under research. Stake's approach differs from Yin's (2009) in the sense that it is inductive in nature; therefore it relies on the development of theories that are based on the theoretical generalisation whilst Yin's approach suggests that case studies are used in order to test and validate hypotheses.

### 3.5.1. Case selection

The number of the cases that are necessary for a case-study research project has not been addressed clearly in the research literature. Perry (1998) reviewed the case-study literature, and he concluded that four to six units of analysis and four to ten cases are usually enough to reach the theoretical saturation point (Eisenhardt, 1989), which is the point where additional information does not add additional knowledge. The selection of the cases is usually purposive since all the other sampling techniques are characterised as "not preferable" (Eisenhardt, 1989, p. 536). Patton (1990) stated that *maximum variation* sampling is more appropriate because it ensures the maximum richness of information.

### 3.5.2. Development of instruments and protocols

The collection of data through all the alternative ways mentioned before is necessary for *bracketing* (epoche). Husserl (1931) originally defined *epoche* as a process where the researcher doubts the facts and his or her knowledge is based on a review of the external sources of information. Later, other researchers interpreted Husserl's definition and concluded that the epoche is the process where the researcher constructs the research context before he starts to reflect on it, and is influenced by the knowledge he will gather during the in-depth interviews (Sanders, 1982; Moustakas, 1992). The case-study method provides a structured framework where the researcher has the opportunity to create a context based on all the sources of information available to him and where the interviews will be the catalyst that produces new knowledge out of this process.

Yin (2003) suggested that the case-study instruments are just a part of the case-study protocol, in which the use of various data types is described and, according to Eisenhardt (1989, p. 538), the combination of data deriving from various quantitative and qualitative sources can be "highly synergetic." Yin (2003) proposed that each case-study protocol should have four sections:

1. Introduction: The research aim and objectives are reviewed, and the theoretical framework of the case study is addressed.
2. Data collection procedures: An analytical database is created where important dates, names, and other details of the cases are imported. In

addition to them, *a priori* data sources are reviewed and the preparations needed prior to visiting the sites are listed.

3. Case study questions: In this section of the protocol, the research questions are linked with the methods that will be used in order to access the necessary data to answer them. This section includes not only the interview schedules but also reminders for the researcher, such as things he should observe while on the sites of the retailers or documents he should find and review.
4. A guide for the case study report: With respect to the phenomenological approach of the inquiry, this part of the case study will include the data that will be reviewed by the interviewees and where they will reflect and give their feedback. This part of the protocol is related to the phenomenological reduction because through the outlines set here, the data will be classified and organised in order to be analysed at the next stage.

### 3.5.3. Cognitive mapping

Marshall (2013) stressed the importance of understanding strategy development processes as he suggested that strategic decisions often happen as a result of irrational behaviours and imperfect interpretation of the context. Cognitive maps are a method used to elicit the structure and the content of people's mental process (Daniels *et al.* 1995), and which provides a mental model. A mental model can be broadly defined as a simplification or a representation of understanding (Ahman and Ali, 2003). It can be seen as providing a framework which directs and controls a decision-making process at an individual level. It affects the way an individual views the world, influencing the way in which he or she thinks about or perceives problems or issues. Ultimately, it affects individual behaviour and action (Spicer, 1998).

Spicer (2000) defined cognitive mapping as a suite of techniques and methodologies which are designed for the elicitation and representation of individual knowledge and understanding. Cognitive mapping techniques are one of the tools to draw cognitive maps. These techniques are used to explore graphical descriptions of the unique ways in which an individual views a particular domain (field of thought or action) (Langfield-Smith, 1992). As a research tool cognitive mapping has its strengths and weaknesses, which can be summarised in Table 3.5.

| Strengths | Weaknesses |
|---|---|
| Structure through symbolic representation | Exerts undue influence on mapping process |
| Graphical rather than linear layout | Needs skill and highly trained researchers |
| Quick insight into the structure of information | "Reading" maps is difficult |
| Information clearly communicable | Large maps become complex to administer |
| Mapping large amount of qualitative information | Time-consuming |
| Capture individual knowledge and experience | Mapping unavoidably changes the understanding being mapped |
| Improves interviewing capability | Stress and uncomfortable feeling as respondent |

**Table 3.1: Strengths and weaknesses of cognitive mapping technique, Ahmad and Ali (2003, p.5)**

The rationale behind using the cognitive mapping technique is that the author wanted to understand the cognitive negotiations that take place in an interviewee’s mind while describing the decision making process. Ackermann *et al.* (2004) suggested that cognitive mapping helps the researcher and interviewee to structure, organise, and analyse data. They also maintained that the implementation of the technique may “increase the user’s understanding of the issue through the necessity of questioning how the chains of argument fit together and determining when isolated chunks of data fits in” (Ackermann *et al*., 2004; p.2 ). Finally, allowing the researched objects to map their own cognitions enables their reflection. Marshall (2013) stressed that it is odd that strategic decisions that involves large investments often happen spontaneously and in a repetitive manner, therefore understanding this repetition will provide useful insights on the strong determining factors that drive or even predict strategic decisions.

### 3.6. Criticism of the case-study approach

Case studies have been criticised, just as every other research method has. Yin (2003) mentioned that the greatest concern has been over the lack of rigour of case-study research. He also stressed that “too many times, the case investigator has been sloppy, has not followed systematic procedures, or has equivocal evidence or biased views to influence the directions of the findings and conclusions” (p. 10). The development of a complete and efficient case-study protocol assures that systematic procedures will be followed and the biases will be suppressed.

Tellis (1997) also suggested that a frequent criticism of case-study methodology is that the researchers depend on a single case, making them incapable of providing a generalising conclusion. Yin's (2003) reply was that case studies are generalisable to theoretical propositions and not to populations. The case study does not represent a sample, but in doing a case study, the goal is to expand theories and not to enumerate frequencies.

## 3.7. The development of the method

### 3.7.1. Sample selection

Phenomenological research is not concerned with statistical generalisations (Berglund, 2007). Researchers using this method have the goal of making explicit the implicit meanings and values of the researched persons by understanding their living experiences. Case-study method provides the basis for developing the context wherein the researched phenomenon is taking place, and it could depict the complexity of the relationships among the actors that constitute the phenomenon itself (Stake, 2005). The sample selection is driven by two factors:

1. Access to data sources and, in particular, access to archives and documents.

2. The research questions and the data sources that should be accessed in order to build a dataset that will be meaningful and could provide proper justification for the answers given to the research questions.

In my thesis, I am using theoretical sampling. Mason (1996, p. 94) suggested that “theoretical sampling is concerned with constructing a sample which is meaningful theoretically because it builds in certain characteristics or criteria which help to develop and test your theory and explanation.” In addition to this, Glaser and Strauss (1967, p. 45) claimed that “theoretical sampling is the process of data collection for generating theory whereby the analyst jointly collects, codes, and analyses his data and then decides what data to collect next and where to find them, in order to develop his theory as it emerges.”

Since the research problem is to understand the strategic decision-making process in uncertain environments, it is of greater importance to understand in what sense strategic decision-making theories, and particularly the ones related to retail location decisions, can be applied to Greek-based retail firms. The sample selection is consistent with Mason’s and Glaser and Strauss’ theoretical sampling definitions. The unit of analysis will be retail SMEs, taking into consideration Yin’s (2009) suggestion that generalisation of results, from either single- or multiple-case designs, is made to theory and not to populations from which sample cases are drawn.

Theoretical sampling has been used in similar research projects. Dey (2004) reported that he used the theoretical sampling technique in his thesis about labour union members' decisions when dealing with disputes. He first selected the decision of a union to strike and then he compared it with a union that negotiated. The value of theoretical sampling is that it provides a simultaneous comparison between theory and real life, which is consistent with the multiple case-study method (Glaser & Strauss, 1967). In his study, Dey (2004) stated that the greater the contrast in settings, the sharper the points of comparison.

Stake (2006) also suggested that it is useful to do more than one case study because examining typical and atypical settings offers information about diverse settings. In addition, Yin (2003) argued for the two-case design because identifying direct replication is easier; also, in terms of academic studies, researchers find it easier to avoid defending the validity of the empirical work.

A comparative case-study was employed in this doctoral research in order to explore the treatment of complexity by top and middle managers among retail organisations, with particular reference to the selection of locations for new stores. The main part of the data collection started in September 2006 and lasted until the end of 2008 (with the breaks noted in Chapter 1). The researcher spent 12 weeks in Company A, where he followed the everyday routines of middle and top managers. Twelve tape-recorded interviews with top and middle managers took place, using a semi-structured questionnaire. In addition to these interviews, more than fifty short conversations also took place and notes were taken. Additionally, another eight tape-recorded interviews were conducted with top and middle managers of Company B during a period of 6 weeks. Company A's managers also gave access to various documents, such as consumer data, real estate agents quotes, and internal memos. Company B's managers did not give access to archival or other kinds of data, but secondary research was conducted, and data and information that was collected has been used in order to enrich the existing primary data. However, it should be noted that the researcher kept close contact with the company A and followed their strategy development until mid-2009 when the company was acquired by another Greek electrical retailer (see Chapter 8 for further details). Tape-recorded interviews were transcribed, and finally all interviews were coded using techniques that focused on the identification of common themes.

The translation of the material from Greek to English is complex task as Greek language is structurally different than the English one. There are also elements of the Greek culture that are quite common when addressed and discussed by Greek managers, words such as *philotimia (*the pursuit of honour, tangible or intangible), or *meraki* (the enthusiasm but also particular care with which someone performs a certain usually manual task) describe them. Another issue that made the translation challenging is that the Greek perception of size and volume are different to the ones that are used in the

UK. For example what is considered to be a SME in terms of the number of employees and the amount of sales, or what is considered to be a hypermarket in Greece is locally adapted. For that reason a *glossary* of terms has been developed and can be found in Appendix 1. For these reasons the data collected for this study is in Greek and it was adapted into English by the author (Temple & Young, 2004).

Company A (regionally) and Company B (nationally) were two of the major electrical retailers in Greece. The total sales of the sector amounted to £1.3bn in 2006, having registered a growth of 12% on the previous year (ICAP, 2007). The leader of the sector was *Kotsovolos* (owned by DSGi) with a market share of about 24%. Company A had a market share of about 4% (Total Sales 2006: £34M/Gross Profits: £395K), and Company B a share of 10% (Total Sales 2006: £126M/Gross Profits: £7.3M). The market was highly fragmented because local traditional independent retailers still had a leading position in consumers' choice: for example, *Makrakis* was the local market leader in Crete, where it competed against all the other national retailers (ICAP, 2007).

The study was focused on the operations of the companies in Greater Thessaloniki, the second largest urban area in Greece (2001 population – c763,000). Company A had five stores located there, out of a nine store network developed solely in Northern Greece. These stores accounted for 65% of the total retail sales of the company, and it was the local market leader with a market share of about 30%. Company B had four out of its fifty one stores located in Northern Greece, which accounted for 13% of its total retail sales. It was third by sales with a market share of about 18% after Kotsovolos.

Both companies had at the time at least one store in the centre of Thessaloniki, and others are located around the city in either planned or unplanned shopping centres. Both companies have been exploring the possibility of opening another new store in Thessaloniki. The interviews focused on the understanding of this process as the employees and other involved stakeholders experienced it within the strategic context.

### 3.7.2. Data analysis

This is related to the theoretical background of the research as well as to the methodological stance the researcher is taking. Perry (2004) suggested that the data analysis should be based on the theory upon which the case study was built. Eisenhardt (1989) stated that a *within-case* data analysis approach should be taken. The basic premise of within-case data analysis is the development of "detailed case study write-ups for each site" (Eisenhardt, 1989, p. 540). This not only helps the researcher to reflect on his or her data but also is a tool compatible with the phenomenological approach, which calls for the validation of the analysis by the interviewees.

The main aim of the within-case analysis is the detection of theoretical replications (Perry, 2004). Eisenhardt (1989) stated that the process of the detection of theoretical replications gives the investigator a rich familiarity with each case, and this accelerates the cross-case comparison. Eisenhardt (1989) suggested that the researchers' focus should be on finding cross-case patterns. She pointed out that an efficient way to proceed is to select categories or dimensions and then look for within-group similarities, coupled with intergroup differences. Yin's (2003) suggestion was to base the pattern matching on the theoretical assumptions of the study. Eisenhardt (1989) pointed out that cross-case searching enhances the probability that the investigator will capture novel findings that may exist in the data. The data analysis in case-study research stops when the incremental improvement to theory is minimal (Eisenhardt, 1989; Perry, 2004).

It was expected that a large amount of data would be collected from the two cases. The analysis was aimed at generating themes through the interrogation of the data (Eisenhardt, 1989) and examining them in relation to the existing literature (Pettigrew, 1990). Eisenhardt and Graebner (2007) suggested that the ideal way to analyse case-study material is by summarising it and dealing with it section by section, or research objective by research objective. This was the approach that was taken in this thesis, as the overall emerging theory was an outcome of analysing and theorising in each one of the research objectives.

The case-study analysis strategy was based on Stakes's (2005) framework of multiple case-study analysis. The analysis was driven by the research aim, which is to understand the strategic decision-making process in the uncertain and complex Greek environment. I began by focusing my analysis on understanding how uncertainty and environment are perceived and defined by the managers of the companies under investigation. Drawing upon the data, a chronological narrative was developed. Narratives are frequently used in case-study research as a reporting tool (Jarzabkowski, 2005). The narratives were analysed again and the relationships between uncertainty, the perceived environment, and strategic decisions was investigated. Then, my analysis focused on understanding how managers deal with uncertainty and respond to the challenges that are imposed by the changing environment.

The data analysis method is related to my philosophical stance as well as to the sample that I have selected. Phenomenological researchers aim to understand the experiences of the researched objects in an empathic way (Moustakas, 1994). This means that data analysis is mainly a report of the lived experience rather than an interpretation of it, which is why the narratives should be precise and highlight the linkages between people and concepts. The theoretical sampling method aims to make clear the contrast between theory and practice. In order to be consistent with that method, I analysed the data by making simultaneous comparisons between the cases and between each case and the theory.

The research aim is addressed by developing a theory that will explain strategic decision-making in uncertain environments. This theory results from the identification of commonalities and differences between the cases themselves and between the cases and the existing theory of strategic decision-making.

After writing the case-study report, the companies were sent summary copies of the findings for review and the final case report was then developed.

### 3.7.3. Transcript analysis

The empirical research was heavily dependent on the data collected through the phenomenological interviews; therefore, the analysis of the transcripts is pivotal for the development of theory. Golden-Biddle and Locke (2007) argued that qualitative research should be reported as a coherent storyline that is supported by theory. Therefore, a basic concern while doing the analysis of the transcripts was to identify themes that could summarise the details included in the interviews. The reporting of qualitative work is also dependent on direct quoting that is used to illustrate particular points of the analysis of the interviews or to support agreements (Hackley, 2005). The reporting of phenomenological research, in particular, requires the direct quoting of the interviewees' initial descriptions so that the described experience can be fully captured and reported (Hackley, 2005).

Phenomenological research looks to emphasise the meanings of the interviewees' statements. Moustakas (1994, p. 118) referred to the *horizonalisation* of the data as the essential procedure of phenomenological interview analysis. He suggested that every piece of data should be considered and treated as equally important, and only replicated and overlapping statements should be discarded. Thematic analysis follows, and textural descriptions of the experiences are developed (Moustakas, 1994). The themes at the beginning are abstract and need the personal reflection of the researcher in order to become meaningful (Hackley, 2005). The use of particular words or phrases that are captured in the interview transcript, or during observation of an everyday routine that cannot be included in an interview, are essential in order to integrate the data and produce a coherent theme. For example, the managers from Company B used the phrase "not my business" or a synonymous one, indicating their detachment from the strategy development process, but also by using this phrase, they were revealing their unfulfilled desire to be actively involved in the strategy development process.

### 3.7.4. Secondary data analysis

The development of the *lifeworld* is a task that requires the use, synthesis, analysis, and interpretation of secondary data. The use of databases and archives is a well-justified data source for conducting case study research (Yin, 2009) and fits with the interpretivist paradigm. The chapter about the Greek retailing context is developed around the PESTEL model (Campbell and Craig, 2005; Worthington and Britton, 2006) that has been used in numerous similar circumstances by a number of authors (e.g. Bennison and Boutsouki, 1995; Zantes *et al.*, 2011) and according to Easterby-Smith *et al.* (2008) a rigid framework is necessary for the organisation of the collection, and the presentation of data.

A relevant issue with regards to the secondary data collection and analysis is the validity and credibility of such data. This issue becomes more important since the country in focus is Greece. There are considerable concerns about the quality of data that was collected, analysed, and presented by the Greek authorities. Journalistic sources such as the Financial Times, Business Week, BBC as well as Eurostat reported their concerns about the quality of the Greek fiscal data. In 2010 Eurostat decided to revise all the main Greek macroeconomic indicators and to assign to Eurostat employees the supervision of the data collection and statistical analysis that takes place in the National Statistics Service of Greece. In addition to this there is the reluctance of the local store managers to share information even when this is for academic purposes. The lack of control over the quality of secondary data is a usual problem that researchers encounter (Bryman, 2011). Another issue that is raised by Bryman (2011) with regards to the reliability of secondary data refers to the alternative definitions that are used for the same concepts by different authorities. Within the Greek context it is common that terms are interchangeably used (see Appendix 1). Scott and Morrison (2005) recommended a set of criteria that should be used in order to assess the quality of secondary data:

1. Authenticity: Is this evidence genuine and of unquestionable origin?
2. Credibility: Is the evidence free of error?
3. Representativeness: Is the evidence typical of each kind?
4. Meaning: Is the evidence clear and comprehensible?

The combination of the lack of credible data and managers' reluctance to provide information to researchers decreases the credibility of the desk research and this constitutes a limitation of this thesis. Myers (2009) suggests that the reliability and credibility of the secondary data increased by the triangulation of sources, and this is what is attempted in this research project whenever possible.

### 3.7.5. Use of qualitative data analysis software

For this research it was decided not to use any Qualitative Data Analysis (QDA) software. QDA software assists researchers in coding, searching, and retrieving search. It is useful to mechanise the basic tasks of qualitative data analysis and makes the whole process *quicker* and *easier* (Myers, 2009). Seale (2000) adds to that that the use of QDA software adds rigour to the research process as it can rapidly count the occurrence of terms within the dataset. However, qualitative research concerns the personal reflection on data that were collected by the researcher himself and therefore the use of QDA can reduce the personal flavour that is embedded by the researcher. As Easterby-Smith *et al.* (2008) suggest, the strength and the success of the data analysis depends on the judgement of the researcher and computers cannot substitute this.

However the basic obstacle with using some QDA software was that most of the primary data is Greek, all interview transcripts are in Greek as well, and as far as the researcher understands there are no QDA software packages that support the Greek language. Therefore all data analysis took place by hand using the traditional post-it notes, and multiple markers.

### 3.8. Evaluation of the quality of the research

There are a number of researchers that have proposed criteria to assess the quality of the qualitative research (e.g. Guba and Lincoln, 1985; Silverman, 2005). Corbin and Strauss (2008, p.305-307) have synthesised the criteria that have been recommended by a number of different scholars and produced a comprehensive catalogue of criteria that have been emplyed in this research:

*Fit*: Fit refers to whether the findings reflect the experience of both the researcher and the individuals/groups that were involved in the research. For this reason the data analysis was reviewed and verified by the participants in the research.

*Applicability:* Applicability refers to the usefulness of the findings to provide alternative or new explanations to phenomena. This is achieved by discussing strategic decision-making within the framework of complexity theory.

*Concepts:* Concepts refer to central themes around which explanations are developed. The development of central themes in this research is driven by the aim and objectives, nevertheless the research stayed open to other themes that emerged during the data analysis.

*Contextualisation of concepts:* The understanding of the research outcomes is only possible when the emerging concepts are related to the wider context. For this reason chapter 4 was developed.

*Logic:* Logic only means that data analysis and conclusions should make sense. This is achieved by linking findings to theory and providing sufficient explanation for what is new.

*Depth:* Depth refers to the richness of data that the researchers use to support their concepts. For that reason the data analysis is enhanced with direct quotes of the interviewees.

*Variation:* Variation refers to the illustration of the complex relationships among the actors of the research context. This means that alternative explanations need to be provided and linkages among seemingly irrelevant individuals or groups with concepts should be established.

*Creativity:* Creativity refers to the presentation of the findings and innovativeness the research is showing to demonstrate consistently, creatively, and flexibly the richness and newness of the findings. For this reason in this research the complexity theory framework is applied to discuss and understand the strategic decision-making process within retail organisations.

*Sensitivity:* Sensitivity refers to the ethical conduct of research. The researcher signed the ethical commitment that is provided by the University and made sure that data analysis and conclusions were reviewed by the participants.

*Evidence of memos:* The last criterion refers to the backup of data that was used by the researcher to develop the data analysis, the concepts, and the conclusions. All this evidence is archived in paper and digital format that it is easily accessible for researchers to revisit and review.

### 3.8. Summary of the chapter

In this chapter the employment of the phenomenological methodology for this project was established. It was explained that the decision making within the organisations is a real-life experience for the people involved and therefore it is sensible to research from a perspective that creates a comfortable environment for them. The relevance of the comparative case study and the choice of the cases were also addressed. Two companies with different size characteristics, albeit SMEs, and different level of decision-making support systems were selected in order to identify whether retail location strategic decisions occur in similar ways or not.

# 4. The Greek Business Environment: The Changing Nature of the Local Characteristics with Particular Reference to the Retail Sector

## 4.1. Introduction

This chapter aims to establish the agenda of change in the wider Greek business environment that facilitated the transformation of the Greek retail sector, and address such issues as competition among retailers, changing consumer needs, emerging supply chains, and, in particular, the evolution of retail location and formats as they occurred in the context of the transformation. Greek retailing experienced a period of massive growth from the mid-1990's to mid-2000's. This was a result of a number of changes that took place in the environment. Consumers saw their disposable income increase (both in actual terms and through bank lending), companies changed as a result of new laws and regulation that were put in place by the government, and the industry changed by the rapid growth in the number of international retailers that entered Greece. As a result these changes on the structure of the Greek retail sector were mainly reflected in the expansion of the store networks of the retailers and subsequently the emergence of a need for a more sophisticated approach to the selection of properties.

The rapid change that took place in Greek retailing has implications for both corporate and retail location strategies. The unforeseen changes that have occurred, as well as a corporate inability to predict the future, are the major determinants of uncertainly. Therefore, the issues that are addressed in this chapter are some of the specific factors that cause retail management uncertainty in making strategic location decisions.

The business environment in Greece has changed in a number of ways during the last twenty years. This is the result of social, economic, political and technological factors that have impacted upon “a system of small, independently owned and operated shops, which has been protected by tight legislative controls on store operations” (Bennison and Boutsouki, 1995). Changes in the laws that restricted competition in the retail sector was one reason for the rapid change. The new laws extended the limit of the opening hours from 50 to 68, removed control of minimum and maximum prices, and allowed grocery stores to sell products like bread, milk and fish.

From the demographic point of view, two major changes can be identified. The first one is the growth of the number of immigrants in Greece. According to the Greek National Statistics Services (2005) the number of immigrants increased from 150,000 in 1990 to 600,000 in 2005, a growth of about 300%. According to the same source (2001) the majority of immigrants have settled in Athens and Thessaloniki (the two largest urban centres in Greece).

Anthropologists and sociologists that have researched immigrants' attitudes in Greece suggest that their buying behaviour is determined by their income and their ethnic origin, thus they frequently purchase products from discount stores, outlets and small independent stores operated by individuals of the same ethnic origin (Droukas, 1998; Fakiolas, 1999).

Another factor that has had an impact on the change in the Greek retail sector was that banks made it easier for individuals to get personal loans. The 2005 annual report of the Bank of Greece indicates that from 1995 to 2004 the amount of personal loans increased by 72%. Commentators have related this rapid growth of debt with the growth of sales of big department stores (To Vima, 2004).

The massive economic crisis Greece has faced in the last 6 years has affected the structure of society entirely including consumers, whole industries and sectors, as well as individual businesses. The crisis created a completely new economic environment, with conditions in which many businesses (producers, suppliers and retailers) have never operated before. However, the degree of impact may differ in various sectors since the decrease of demand is more visible in some sectors or in some sub-sectors.

Retailing specifically has been one of the key industries that has experienced tremendous difficulties, and it has been through a process of transformation.

In 2011 numerous closures, decreased sales, stronger competition, the existence of a significant movement towards lower-priced products were some of the events that characterised the sector. Even successful companies from e-tailing (internet retailer e-shops), have been struggling as the uncertain economic environment increased pressure on operating profits (Euromonitor, 2012). Between mid-2009, when the economic turmoil began, and mid-September of 2011, about 65,000 stores terminated their operation (Smith, 2012). Non-grocery retailers face the biggest problems in terms of demand, turnover and store closures. For example, many well known domestic and international apparel and consumer electronics retailing chains (e.g., Sprider Stores, Vardas, RadioKorasidis, MediaMarkt) rationalised their store network in order to survive.

The food retailing sector entered a new phase due to various significant changes. Carrefour’s announcement that it was pulling out of Greece, and selling its Greek supermarkets to the Marinopoulos group (Nikolas, 2012) created a new situation in terms of competition and leadership in the market. Furthermore it is very difficult foreign retailers to enter the Greek market (Manifava, 2012). Consumers continue to buy necessities by taking advantage of any promotional offerings in hypermarkets, supermarkets, and discounters. In addition, consumers turn increasingly towards private label products due to their lower prices since the economic crisis influences dramatically consumer spending. However, an interesting development is the fact that Greek consumers have turned towards products made in Greece (Kosmides, 2011).

All these make for a very competitive environment in which the retailers have to operate. It is anticipated strategic actions such as investments in private label products due to increased demand, a series of acquisitions (smaller retailers will be acquired since they felt the economic pressure more) and some big retailers will open new stores as part of their expansion policy (Manifava, 2012). Internet retailing also appears to grow as well, Euromonitor (2013) reports that between 2007 and 2012 the growth of internet retailing was 11.5% and the forecasted growth until 2017 will as high as 75%. This will have a direct impact to the sales of the electrical retailers as large ticket items are the ones that have been hit more severely by the growth of the online retailing. This can become a major threat for the electrical retailers for an additional reason; as Ecommerce EU (2014) reports, the Greek e-shoppers have spent about £1.1Bn in online purchases that makes them the biggest online spenders in Southern Europe and suggest a shift to this modern distribution channel.

Before proceeding any further, it should be stressed that the Greek business environment and Greek retailing in particular remain under-researched from a scholarly perspective. Furthermore, the official provider of statistical data, the National Statistical Service of Greece (*NSSG*), collects scant retail data.

NSSG has received plenty of negative publicity since then, including accusations for fixing the macroeconomic performance indicators of the Greek economy, so the data that is used in the following section of chapter 4 must be read with the scepticism. In an attempt to reduce the dependance of this thesis on the NSSG data much information has been collected from journalistic sources, companies' Web sites and annual reports, professional reports, and from various European and international organisations.

## 4.2. Greece in numbers

Located in southeast Europe Greece is bordered to the east by Turkey, and to the north by the Former Yugoslav Republic of Macedonia (FYROM), Bulgaria, and Albania. It has been a member of the European Union since 1981 (EU-12) and joined the third stage of the European Monetary Union in 2001. By population, Greece is the ninth biggest country of EU-27 and in 2009 had an estimated population of approximately 11.1 million (Eurostat, 2009). The country has shown a marginal increase in population of less than 0.6% per year since 1990 (see Figure 4.1).

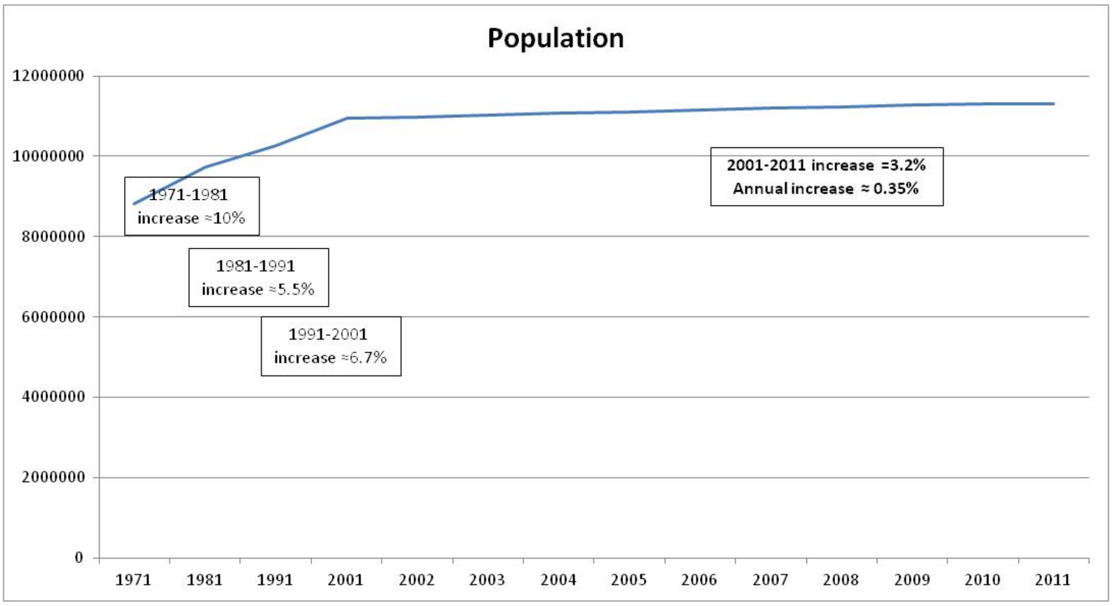



**Figure 4.1: Population of Greece, World Bank (2011)**

The majority of the country's population lives in the Greater Athens and Greater Thessaloniki areas. According to the latest census, approximately 3.7 million people live in the former and 750,000 people live in the latter (National Statistical Service of Greece, 2001). More recent research findings estimate that the population of the two major Greek conurbations is higher than is officially reported, estimating approximately 4 million people in Athens (Directorate-General for Regional Policy at the European Commission, 2009) and more than 1.1 million in Thessaloniki (Koutsamparis, 2008). Patrai, Iraklion, and Larisa are three additional cities with populations over 100,000. The population is coherent in terms of ethnic origin and religion. However, since 1990, a large number of East European citizens immigrated in Greece in two waves. The first wave of Albanian immigrants moved to Greece in the early 1990's. The second wave occurred in the mid-to-late 1990s and involved much greater participation of immigrants from other Balkan states, the former Soviet Union, Pakistan, and India (Kasimis and Kassimi, 2004). According to the census of 1991 and 2001, immigrants to Greece increased from 167,000 to 762,000 (Kasimis and Kassimi, 2004). Considering that the average length of an immigrant's stay in Greece is between one to five years (Rovolis and Tragaki, 2006), and that the number of the unregistered immigrants who have illegally entered Greece remains unclear (Glytsos, 2005) or can only be roughly estimated between 170,000 and 205,000 (Lianos et al., 2008), it can be concluded that the number of immigrants who live in Greece is much higher than the census shows. Most of the immigrants settled in Greater Athens and Greater Thessaloniki, but as Rovolis and Tragaki's research (2006) showed, there are also immigrant groups that have settled in suburban and rural areas. The locations in which immigrants settle are related to their skills and the relevant job opportunities that they can find. The immigrant labour force was integrated into the Greek labour force and supported the growth of the private and public construction sectors. At the same time the emmigration was not high, as the Greek economy saw prosperity for a long time and jobs had been available for the majority of the population. However, it should be stressed that Greece has a long history of emigration of highly educated employees that consistently floats between 12%-15% of the University graduates since 1990 (World Bank, 2013). This suggests that the local economy was capable of employing low skilled employees, which is consistent with the development of the national infrastructure that demands unskilled workers; however it was not knowledge intensive enough to attract all the highly knowledgeable University graduates who choose to work overseas.

### 4.3. The Wider Business Context

Between 1997 and 2004, approximately €11.7B (≈£10.5B[6]) were invested in the development of sporting venues and other supplementary infrastructure for the 2004 Olympics (Kasimati and Dawson, 2009). The Greek government that bid, prepared and organised the Olympics was enthusiastic about its economic heritage and made the Games a national priority. Approximately 40% of the overall budget was invested in transportation and communication infrastructure (Ministry of Economy and Finance, 2004). Kasimati and Dawson's research (2009) showed that the positive effect of the Olympic Games for the pre-Games period was an additional 1.5% of GDP and a 1.9% decrease of unemployment. In contrast, between 2006 and 2012, the effect was generally reduced to a 0.5% increase in GDP and 0.17% decrease in unemployment. In their study of impact of the Olympics in the Greek economy Kasimati and Dawson (2009) concluded that from 1997 to 2005 the investment on the preparation boosted the economy by 1.3% of GDP per year and by a 1.9% of decrease of the unemployment in the same period of time.

[6] Applies to all currency conversions: €1 = £0.9

The Greek economy is dependent on services such as tourism and shipping. The services sector contributes over 70% of total GDP, while agriculture contributes approximately 4% and industry contributes the remaining 26% (Economist Intelligence Unit, 2008; see Figure 4.2).

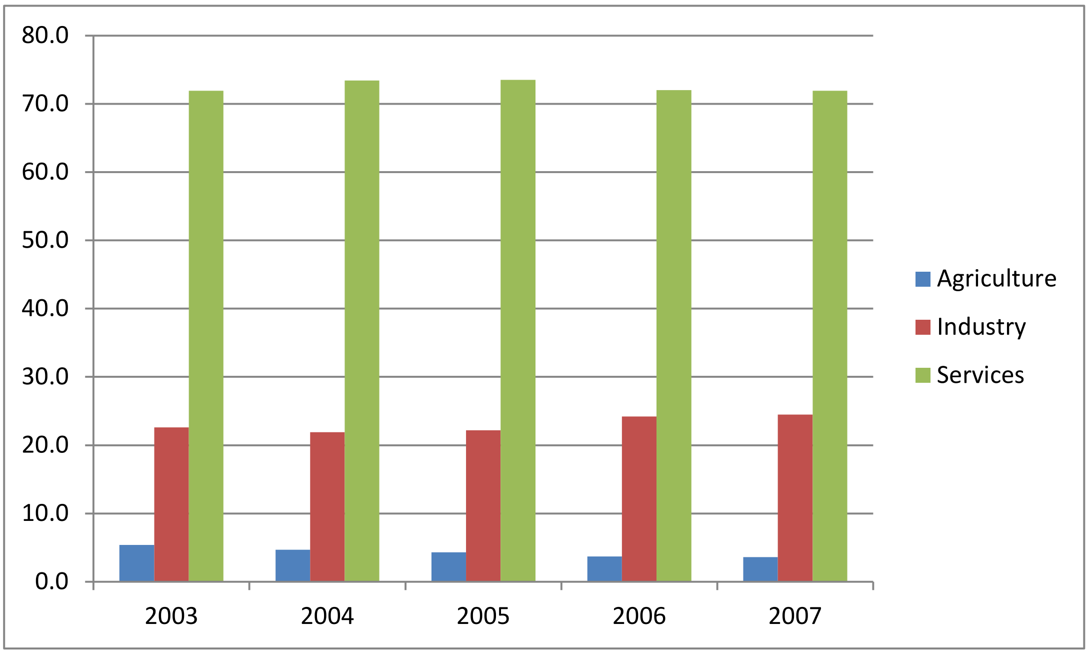



**Figure 4.2: Real gross domestic product by sector, Economist Intelligence Unit (2008)**

It was in 1991 that the Greek government had to face severe pressure from the EU authorities in order for the Greek economy to harmonise with the others that constituted the single European market. Since then, the Greek government has sought to make the Greek economy attractive to foreign investors. Earlier, during the 1980s, the first steps towards an attractive business environment were made by the then-socialist government. It gradually dismantled the existing trade barriers by removing taxes and quotas, particularly the ones which involved other EC members; abolished import taxes; and liberalised financial transactions between EC members (Katseli, 1990). In general terms, the state is a major entrepreneur which preserved monopolies or oligopolies in many sectors – notably energy and telecommunications. Since the early 1990s a substantial privatisation programme has been in effect and approximately half of the state's stake in various industries was sold (Economist, 2008) through the local or international stock market or directly to private or institutional investors.

An important feature of the Greek business environment is the large black, or shadow, economy which is estimated to be equivalent to 25 to 30% of GDP (Bennison, 2003; Economist, 2008). The EU's pressure on the Greek government to control and reduce the size of the black economy has been constant since the late 1990s; however, the Greek government only managed marginal results, considering that the size of the black economy was 28.2% of GDP in 1990 and 28.7% in 2001 (Katsios, 2006). The research of Dell' Anno *et al*. (2007) showed that even though the Greek government implemented measures to combat the shadow economy phenomenon, there were no obvious positive results. On the contrary, the changes in the fiscal regulations created uncertainty among the organisations and caused a burden to the further growth of the economy. The size of the shadow economy is a major issue that needs to be addressed by an investor since it is related to a series of problems for any company because:

1. It means higher taxes and social security contribution burdens.
2. Without prior notice, the government intensifies the laws and regulations that could potentially control the shadow economy.
3. The quality and quantity of the public sector services for the companies are reduced as the income of the state is also reduced.

(Katsios, 2006)

Another effect which is related to the problem of the shadow economy is corruption in the public sector. According to a survey by Transparency International (2008), Greece had the 57$^{th}$ highest Corruption Perception Score (CPI) among 180 countries and is the lowest among the EU-15 countries (see Figure 3). In fact, that score now is even worst as in the results of the 2012 survey Greece is in the 94$^{th}$ place, which is the lowest among the EU countries (Italy occupies the 74$^{th}$ place). Since 2001, there has been a slightly improved perception among the businessmen who participated in the survey about the corruption of the Greek public sector, but this improvement is relatively low considering that Greece's placement on the list slipped from 42 in 2001 to 57 in 2008. This slide indicates that other countries have been more efficient and managed to improve more significantly and faster than Greece, leading to the opportunity for the emergence of a more attractive environment for investments.

Nevertheless, the Greek economy showed signs of development that are reflected in the growth of GDP, the increase of foreign direct investments (FDI), and the decrease of unemployment. GDP increased by five times between 1990 and 2007, indicating an annual growth of approximately 10% (OECD, 2009). From 2000 to 2006, FDI increased by two and a half times because of the country's friendly environment during the pre-Olympics period (OECD, 2009). During this period of time, FDI contribution to the GDP increased from 9.8% to 14.7% (see Figure 4.3). Such growth reflected a reduction in state involvement in the national economy and indicated the Greek economy's improved attractiveness.

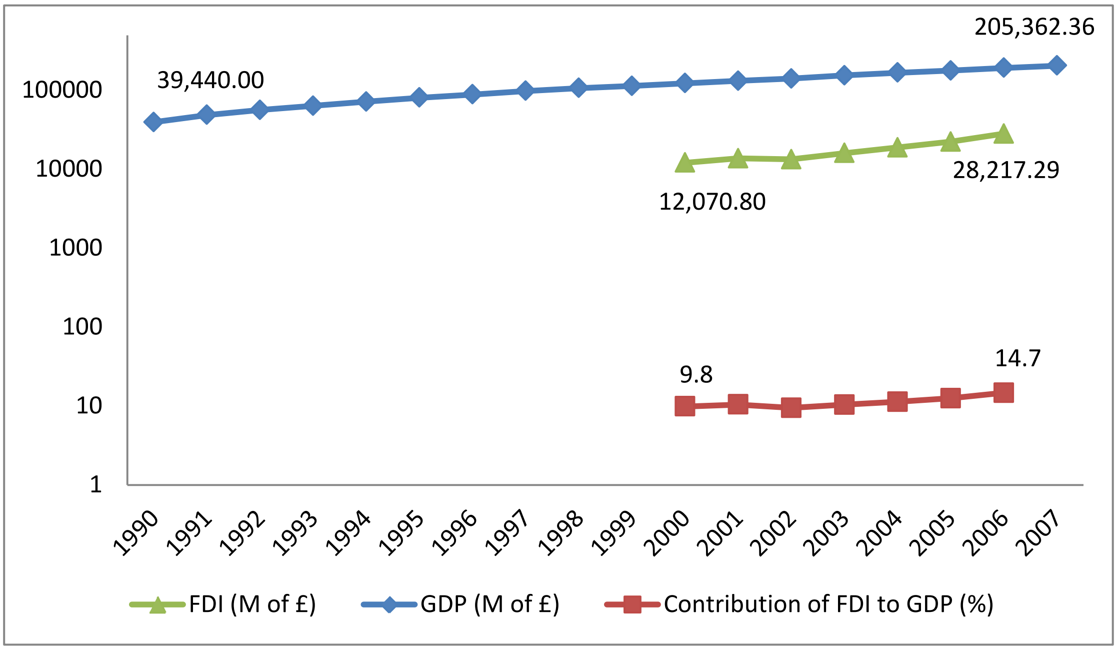



**Figure 4.3: GDP and FDI in Greece compiled from OECD website (2009)**

Between 2000 and 2006, the contribution of FDI to the Greek GDP was approximately 11% per year (OECD,2009). In comparison to other European countries, this level of contribution is considered to be relatively low. The average of the ratio during this time frame was 5.4% for Turkey, 12.7% for Italy, and 21.4% for Spain. It appears that the ratio was relatively higher for the East European countries that recently joined the EU; for example, it was 38.4% for the Slovak Republic and 50.7% for the Czech Republic. This data indicates that the new members of the EU also attracted foreign investments and that their economy is competitive with that of Greece. Another indicator of the Greek economy's weak competitive position is the Global Competitiveness Index (GCI), which is reported yearly by the World Economic Forum. According to the 2008 survey, Greece was 68$^{th}$ among 134 countries, a position that makes it the lowest ranked country in the EU. The major disadvantages of the Greek economy are bureaucracy, tax regulations, restrictive labour regulations, and corruption (Porter and Schwab, 2008). Therefore, even though Greece had the potential to attract significant FDI, its performance did not manage to equal this potential (United Nations, 2007). Porter's and Schwab's report (2008) suggests that the major competitive strengths of the Greek economy are its infrastructure, which was modernised for the Olympics, and the large labour force of highly educated and trained individuals. In addition to the previously described growth of the economy, the emergence of an educated and trained labour force contributed to a reduction in unemployment. According to EUROSTAT (2008), the unemployment rate has fallen 10.8% in 1998 to 8.3% in 2007. When compared with the rest of the EU, Greece's unemployment rate was still high although it approached the 2007 EU average of 7.1%. However, the official unemployment rate could be misleading because the survey does not capture uninsured employment. The number of uninsured workers, the majority of whom worked in construction, leisure, agriculture, and retail, was estimated at 300,000 in 2008 (Adam, 2009). However, the official number of unemployed workers was approximately 355,000 in autumn 2008 (National Statistical Service of Greece, 2008). Therefore, it can be concluded that Greece's real unemployment rate is much lower than is reflected by official data.

The structure of the Greek economy is based on small companies that are primarily family-owned and employ four or less workers. In 2002, 844,917 out of 879,318 (96%) companies which operated in Greece employed four or less employees (National Statistical Service of Greece, 2002). The small size of the majority of Greek companies is related to the centralised management type they have adopted (Bourantas and Mandes, 1987; Makridakis et al., 1997; PriceWaterhouseCoopers, 2008), in which the owner-manager plays a pivotal role. Interestingly, PriceWaterhouseCoopers' (2008) research stresses that this centralised structure causes local small-to-medium companies to resist the pressure of globalisation and curtails the expansion of foreign companies in Greece because they can remain coherent and employ the owner and his family in order to stay competitive in the market.

The unstable legal and regulatory framework has been identified as a major source of uncertainty for organisations as well as a major barrier for foreign companies to invest in Greece (Porter and Schwab, 2008). Since 1981, when Greece joined the EU, and more intensively since 1991, when Greece adopted the European monetary unit (EMU), a number of steps were taken towards the liberalisation of the economy (Katseli, 1990). By advancing towards the accession of the Stability and Growth Pact, the Greek government altered the framework that regulated the operation of businesses in order to produce immediate results. Its efforts have been aimed at short-term results that, particularly in the early years of this process, forced some large and well-known foreign companies, such as Pirelli and Siemens, to exit Greece. Between 2004 and 2006, the Greek economy was placed under EU surveillance because of its deficit was higher than 3%. The urgent need for cash inflow led the Greek government to sell its stake in public companies and make available the land, properties and venues that were used for the Olympics. Some of these properties which are located in the Greater Athens area have been transformed into approximately 600,000sm of retail floor space (Olympic Properties, 2009).

## 4.4. The Transformation of Greek Retailing Between 1990 and the 2009

The transformation of Greek retailing began in 1991, when the then *New Democracy* government made a series of changes on the regulatory framework of retailing as part of a broad liberalisation program (Bennison and Boutsouki, 1995). Bennison and colleagues' research (Bennison and Boutsouki, 1995; Bennison, 2003; Bennison and Tzimas, 2003) elucidated these changes and reviews them in depth over a period of time. These changes, combined with the increased international activity of European and non-European retailers during the late 1980s and early 1990s (Alexander and Myers, 2000; Dawson, 2001), showed Greece as the potential host of ambitious internationalisation activity.

The remainder of this chapter is divided into two sections:

1. An overview, based on statistical and business data, of the changes that have occurred between 1991 and 2007[7], with particular reference to the period between 2000 and 2008.
2. A specific review of retail location planning between 1990 and the present. In this part, the author addresses the issues that are related to the selection of retail locations and discusses the emergence of new developments in Greek locations and formats.

[7] Or for the period that data are available

## 4.5. The Evolution of the Greek Retailing Sector: Facts and Figures

On average, retail sales in Greece represented 19 to 21% of the total GDP between 1995 and 2007 (see Figure 4.4). In general terms, the growth of retail sales followed the same pattern as the growth of GDP with one year's lag. This means that a year of more or less than the average growth of GDP was followed by a similar year of more or less than the average growth of retail sales. Such a pattern is logical, considering that the influence of the national economic position will be reflected in retail sales. In terms of sales, retailers and business commentators suggested that 2008 proved to be a fiscal year of contraction, while the president of the Athens Chamber of Commerce and Industry predicted that "small retail companies will face big troubles" in 2009 (Manifava, 2008).

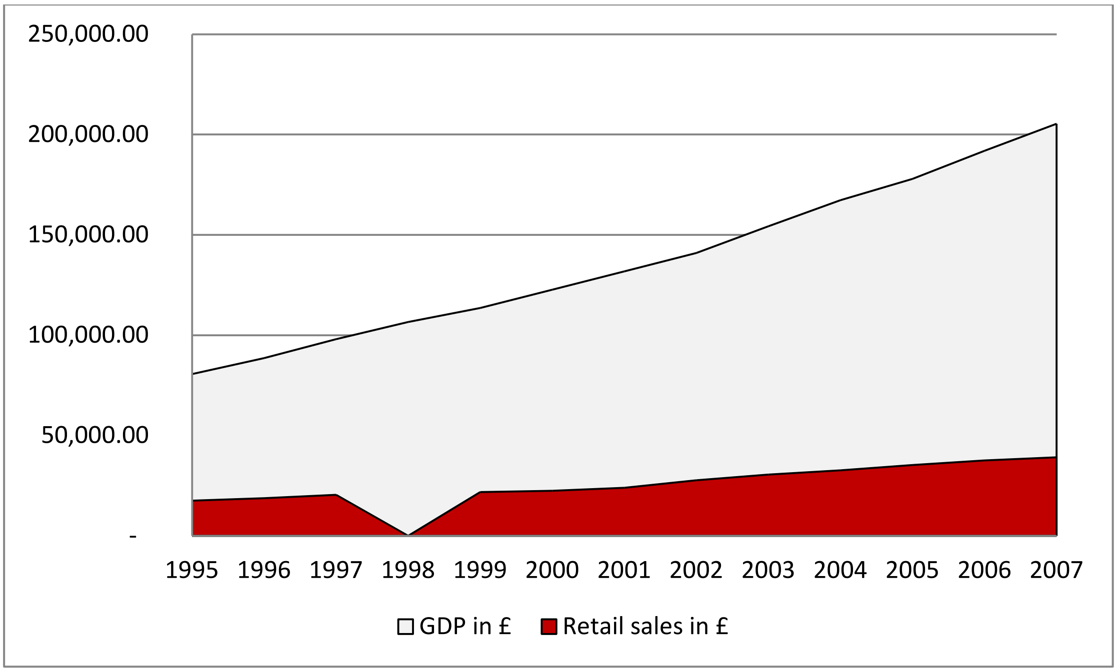


**Figure 4.4: Retail sales as proportion of GDP in £, compiled from Eurostat, OECD, Euromonitor sites**

The structure of household consumption expenditures shows a significant change between 1988[8] and 2005 (see Table 4.1). The income that was spent on food, clothing, and consumer durables decreased in favour of energy, telecommunications, and transportation. This trend is a result of two factors:

1. With respect to food, clothing, and consumer durables, the expansion of a number of international retailers in Greece resulted in a more competitive local environment and increased international activity that competed against each other led to price restraints.
2. With respect to the energy, telecommunications, and transportation expenditures, it should be noted that energy and transportations markets are still regulated and operated as monopolies by the state so there is no competition that could restrain the prices. As regards telecommunications, the introduction of mobile telecommunications in 1994 and the rapid expansion of the use of mobile devices and services – statistically speaking, 99 out of 100 inhabitants have a subscription to a cellular network (Eurostat, 2006), as well as with the expansion of the Internet among Greek households, which increased from 12% in 2003 to 56% in 2008 (Eurostat, 2008) – have also attracted a portion of the household income.

[8] There are no available data between 1988 and 1994.

| | *1988* | | 1994 | | 1999 | | 2005 | Change 1988-2005 |
|---|---|---|---|---|---|---|---|---|
| Food and non-alcoholic beverages | *22,6* | ↓ | 17,8 | ↓ | 16,6 | ↓ | 15,5 | -7,1 |
| Alcoholic beverages, tobacco and narcotics | *3,0* | ↑ | 3,4 | ↑ | 3,5 | ↓ | 3,4 | 0,4 |
| Clothing and footwear | *12,6* | ↑ | 12,9 | ↓ | 8,6 | ↓ | 7,0 | -5,6 |
| Housing, water, electricity, gas and other fuels | *19,3* | ↑ | 24,0 | ↓ | 21,9 | ↑ | 24,0 | 4,7 |
| Furnishings, household equipment and routine maintenance of the house | *7,7* | ↓ | 6,7 | ↑ | 7,5 | ↓ | 6,2 | -1,5 |
| Health | *4,5* | ↑ | 5,2 | ↑ | 6,3 | ↓ | 5,9 | 1,4 |
| Transport | *8,9* | ↑ | 9,3 | ↑ | 11,2 | ↓ | 10,4 | 1,5 |
| Communications | *1,3* | ↑ | 1,6 | ↑ | 3,3 | ↑ | 3,8 | 2,5 |
| Recreation and culture | *4,6* | ↓ | 3,9 | ↑ | 4,5 | ↓ | 4,2 | -0,4 |
| Education | *1,6* | ↑ | 2,2 | ↑ | 2,4 | ↑ | 2,4 | 0,8 |
| Restaurants and hotels | *7,6* | ↓ | 5,1 | ↑ | 8,8 | ↓ | 8,6 | 1,0 |
| Miscellaneous goods and services | *6,2* | ↑ | 7,9 | ↓ | 5,5 | ↑ | 8,7 | 2,5 |

**Table 4.1: Structure of household consumption expenditure, Eurostat (2008)**

The retail trade volume index includes data which supplements data on household consumption expenditures and creates a wider picture of the Greek retail market. The trends that are depicted in Figure 4.5 are supported by the changes in the volume index in retail trades as reported by the National Statistical Service of Greece (NSSG, 2009). The data which are provided by the NSSG covers the years between 2005 and 2008, where it is evident that there is a marginal decline in the overall index which is a result of the respective reduction in food, clothing, furniture and electrical appliances, and stationery (see Figure 4.5).

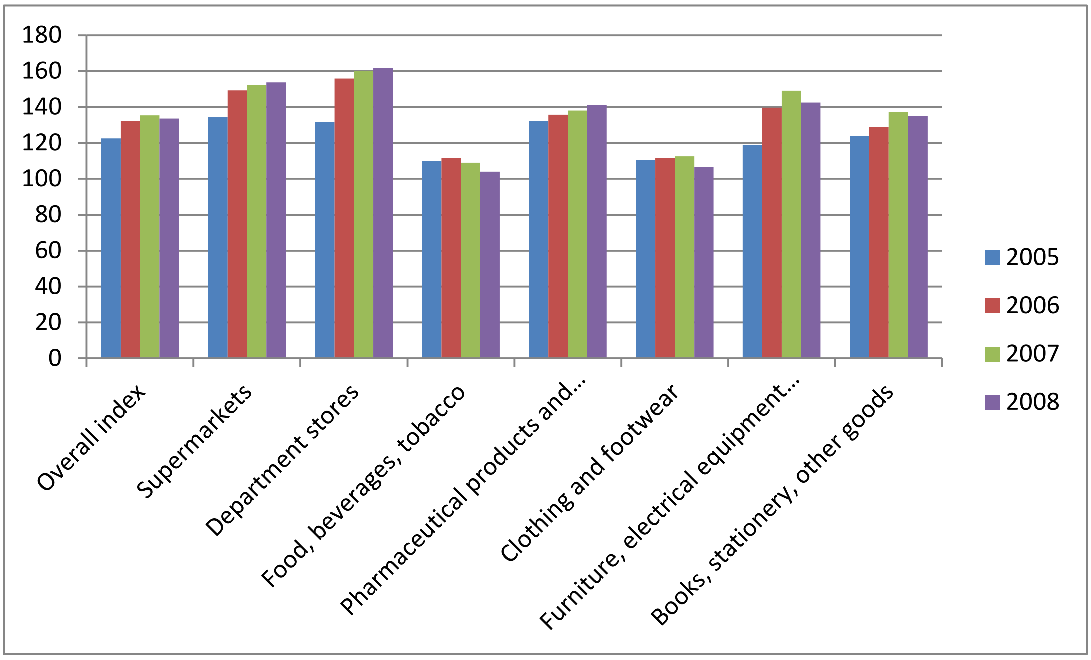



**Figure 4.5: Volume Index in Retail Trade, NSSG (2009)**

The involvement of banks was critical to the growth of the retailing sector. Credit cards and personal loans became easily accessible in 1994 (Kathimerini, 2006). That was a government decision that allowed the central Bank to ease the money supply regulations. Banks' financing of consumer purchases boosted particular sectors, especially the consumer durables market, during the mid-to-late 1990s (see Figure 6). However, in the long term, it left a heavy burden on households. Between 1999 and 2008, the credit dependence of households rose from £3.5B to £32.5B, which is more than 500% growth (Bank of Greece, 2001; Bank of Greece, 2005; Bank of Greece, 2009). Accordingly, in proportion to the net disposable income, consumer loans and credit card debt have increased from 4.8% in 2000 to 17.2% in 2007 (Bank of Greece, 2001; Bank of Greece, 2005; Bank of

Greece, 2008; National Statistical Service of Greece, 2009). This means that the per capita debt on credit cards and consumer loans increased from £381 to £3,367 between 2000 and 2007 respectively (see Figure 4.6) as consumers felt that the growth and prosperity that Greece saw from mid-1990's to mid-2000's will go on forever.

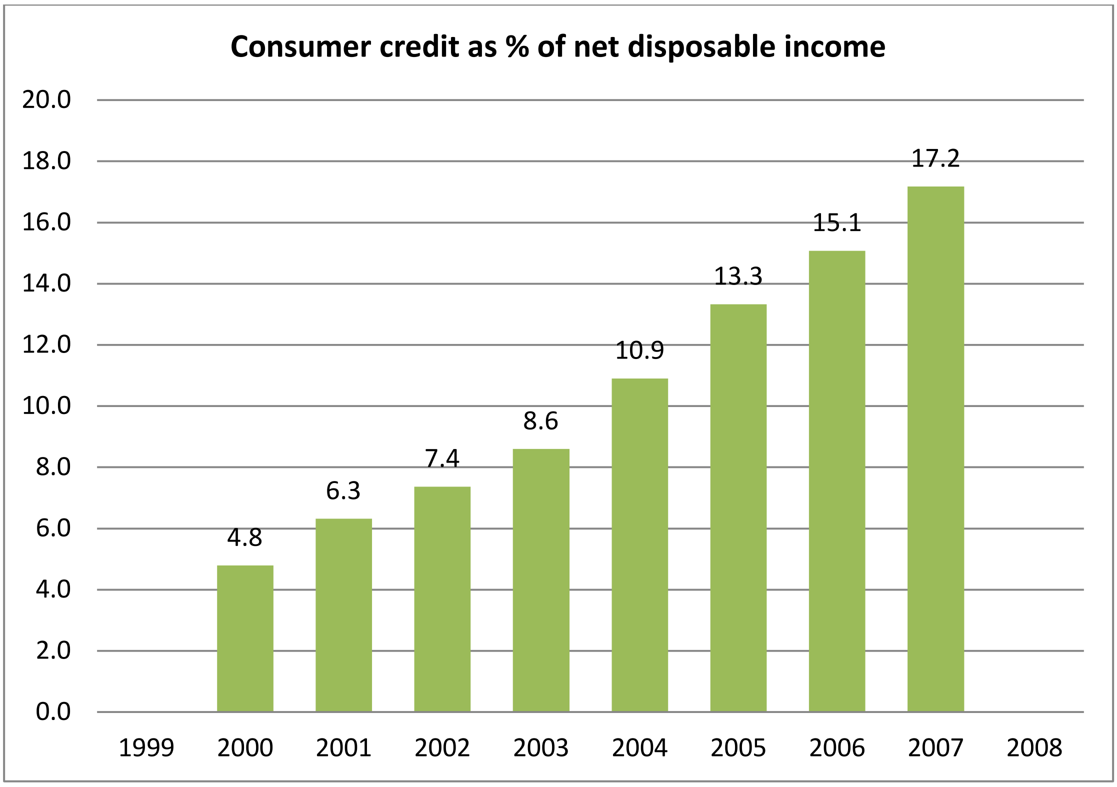



**Figure 4.6: Consumer loans and credit cards in Greece, compiled from Bank of Greece, 2001; Bank of Greece, 2005; Bank of Greece, 2009; National Statistical Service of Greece, 2008**

The contribution of consumer loans and credit cards to the growth of retail sales in Greece has been acknowledged by various commentators and retailers. Particular retail sectors grew because of the liberalization of the consumer loan and easy access to borrow money (Statbank, 2005). However, the consumers' dependence on loans became a burden for households. Dimitromalonakis (2008) suggested that households became reluctant to use bank credit for their retail purchases, a habit which resulted in the near-term decrease of retail sales. On the other hand, Greek banks were hit by the global economic recession and, in response, enacted stricter rules for borrowing money and issuing credit cards. It was estimated that only 40% of the households meet the requirements that banks have enacted in order to issue a consumer loan or a credit card (Tsirou, 2009). The limited access to consumer loans and credit cards had a negative impact on Greek retail, particularly the consumer durables sector.

The change in the consumer credit system was not the only modification that concerned consumer behaviour with respect to the evolution of the retail sector. The number of privately-owned cars tripled between 1990 and 2008 (NSSG, 2009), even though the replacement rate is approximately 7% per year. The NSSG (2009) reported that, during the same time, the number of privately-owned motorcycles quintupled, portraying a similar replacement rate with cars (see Figure 4.7). A possible explanation for the low replacement rate of both cars and motorcycles is that immigrants tend to buy used cars that they can afford. Nevertheless, the high rate of car and motorcycle ownership, which increased from 0.2 vehicles per inhabitant in 1990 to 0.6 vehicles per inhabitant in 2008, in addition to improved roads, facilitated the geographical expansion of retailers to out-of-town locations.

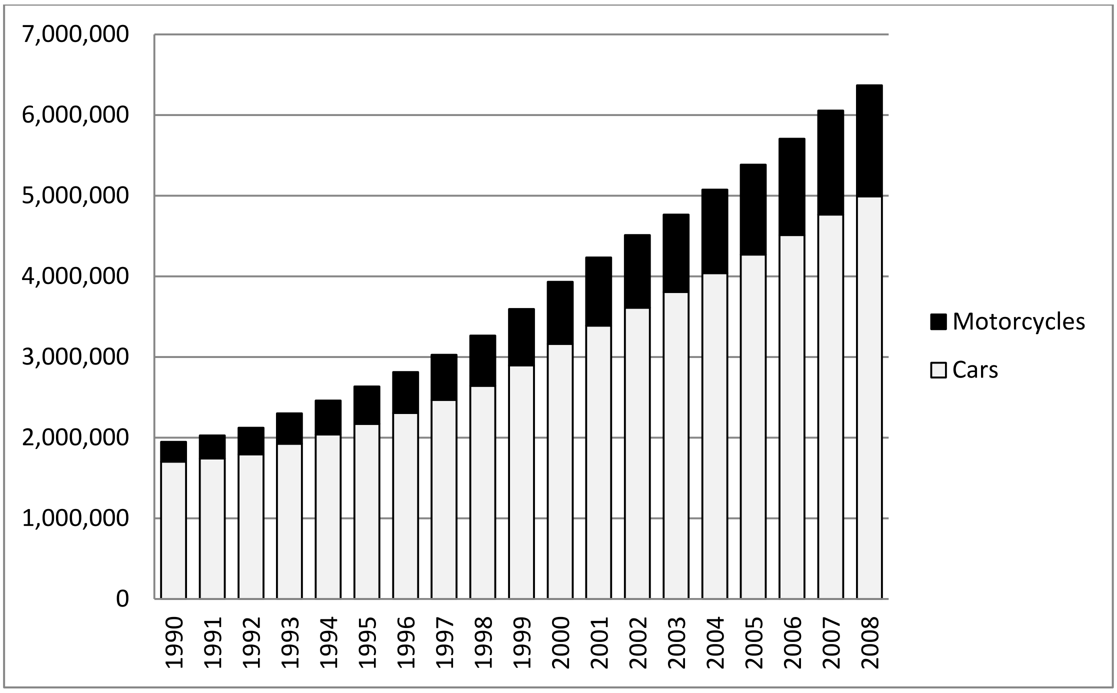



**Figure 4.7: Private vehicles ownership, NSSG, 2009**

The emergence of out-of-town retail formats was also supported by the increased number of people who moved from city centres to the suburbs. Considering that more than 50% of Greece's total population lives in Greater Athens and Thessaloniki areas, the development of new residential areas was unavoidable. Unfortunately, census data was collected and reported by the NSSG only once a decade and it cannot capture the dynamics of the transfer of population from the city centres to the suburbs. However, there are scholarly and other journalistic sources to provide such data. The suburbanisation is believed to have started in the late 1970s when the middle class began to seek new and comfortable housing outside the borders of the city centres (Maloutas, 2003) where protective laws restricted the development of new residential buildings. Another factor which influenced suburbanisation is immigration and the locations in which the immigrants have chosen to settle (Arapoglou, 2006). Piperopoulos and Ikonomou's research (2007) showed that immigrants chose to stay in suburban areas, not only because the prices were lower, but also because the construction that takes place around them provide good opportunities for employment. Local newspapers indicate that suburbanisation is not only a phenomenon in Athens and Thessaloniki, but also other smaller towns such as Larisa (Koukoutsis, 2007), Kavala, Volos, and Patrai (Fotiadi, 2008). From a marketing perspective, Kouremenos and Avlonitis (1995) predicted that suburbanisation would have an immediate impact on the demand of housing, cars, and consumer durables which, as was previously discussed, proved to be true.

Access to the Internet is a consumer trend which was facilitated by the improvement of telecommunication infrastructure and spurred the growth of e-commerce. In order for consumers to attain greater access to the World Wide Web, the number of personal computers in households increased from 25% in 2002 to 37% in 2006 (Eurostat, 2009). In comparison to the EU25 equivalent of 67%, this number remained low; however, it increased by almost 50% in five years. Within the same period of time, the percentage of individuals in Greece who use computers increased from 29% to 47%, which indicates that almost one out of every two Greeks had access to a computer. The percentage of internet users remains relatively low in Greece, with 56% of the population using interner (World Bank, 2013) which suggests that traditional retail is still the major retail channel in Greece. In 2008, approximately 6% of the total population had purchased a product or a service through the Internet. Although this figure may be significantly lower than the EU25 average of 26%, it is significantly larger than the 2004 figure of 1% (see Figure 4.8). The total volume of e-purchases in 2008 was about £900M, with travel services, computers and peripherals, electronics, and books comprising the biggest share of the purchases (Athanasainas, 2009).

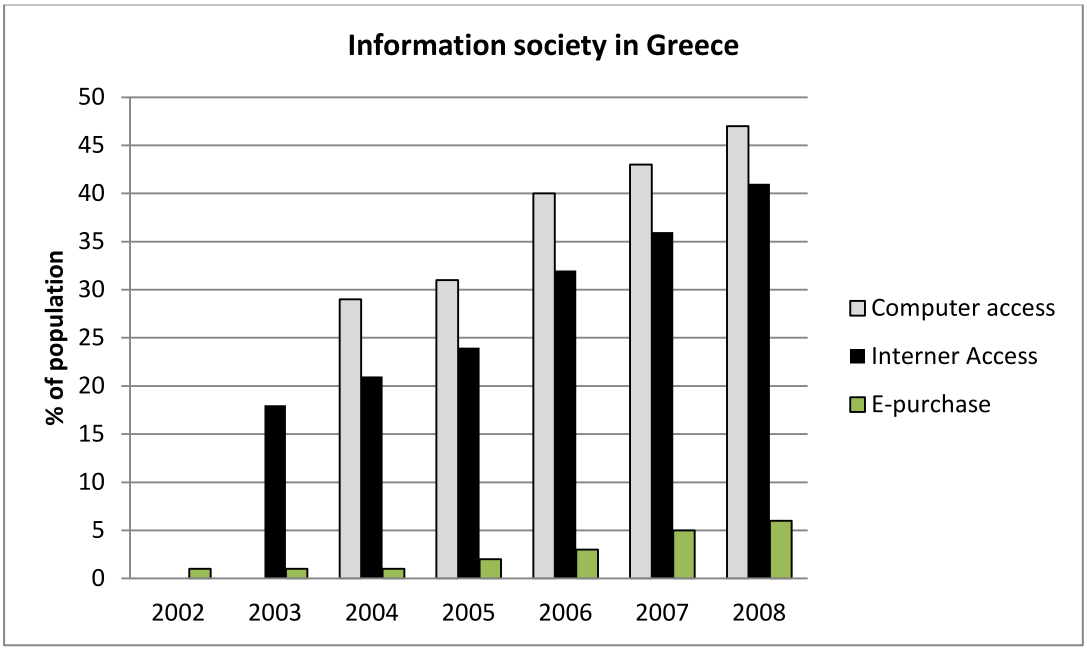



**Figure 4.8: Information society statistics, Eurostat, 2009**

The aforementioned retail internationalisation also impacted the Greek retail sector. Twenty-nine of the top 250 European retailers, ranked according to their sales, are operating in Greece. Although the majority of them internationalised through a joint venture with an existing local retailer, examples of franchising (e.g., Benetton), or direct investments (e.g., Aldi) can be found (see Table 4.2).

| Position in European Top-250 by sales | Company name | Local brand/brands | Local Partner | Sector | Operating in Greece since |
|---|---|---|---|---|---|
| 1 | Carrefour* | Marinopoulos | Marinopoulos | Grocery | 1992 |
| 2 | Schwarz Group | Lidl | None | Grocery | 2001 |
| 5 | Edeka Group | Plus | None | Grocery | ? |
| 6 | Metro Group | Metro | Metro | Grocery | ? |
| 8 | Aldi* | Aldi | Aldi | Grocery | ? |
| 16 | Tengelmann* | Plus | None (Acquired by Delheize in 2007) | Grocery | 2005 |
| 19 | IKEA* | IKEA | Fourlis | Furniture | ? |
| 22 | Marks & Spencer* | Marks & Spencer | Marinopoulos | Clothing/Footware/Housing | ? |
| 27 | DSG International | Kotsovolos - Dixons | Kotsovolos | Electricals | 1997 |
| 29 | Euronics International | Euronics | Euronics | Electricals | ? |
| 36 | Expert* | Expert | Eikona Ihos | Electricals | ? |
| 39 | H&M Hennes & Mauritz | H&M | None | Clothing | ? |
| 42 | Spar Österreich | Marinopoulos | Marinopoulos | Grocery | ? |
| 44 | Intersport | Intersport | Fourlis | Clothing | ? |
| 47 | Grupo Inditex* | Zara, Zara Home, Pull & Bear, Bershka, Massimo Dutti, Stradivarious, Oysho, Skhuban , Uterque | None | Clothing | 1993 |
| 54 | Delhaize Group* | AB | AB Vasilopoulos | Grocery | ? |
| 75 | Praktiker | Praktiker | None | DIY | 1995 |
| 82 | Bauhaus | Bauhaus | None | Furniture | Pending |
| 90 | Esprit | Esprit | Franchise | Clothing | 1999 |

| | | | | | |
|---|---|---|---|---|---|
| 119 | Yves Rocher Groupe | Yves Rocher Groupe | Theoharakis Group | Cosmetics | 2001 |
| 125 | Benetton Group* | United Colors of Benetton, Undercolors of Benetton, Sisley, Playlife, Killer Loop | Franchise | Clothing | |
| 143 | Bhs Plc | British Home Stores (BhS) | Klaoudatos | Department Stores | 1993 |
| 148 | Vodafone Distribution Limited | Vodafone | Intracom | Telecommunications | 1992 |
| 150 | Sephora | Sephora | Marinopoulos | Cosmetics | 1982 |
| 202 | Monsoon Plc | Monsoon, Accessorize | ? | Clothing/Accessories | 2006 |
| 224 | Gap Inc* | Gap | Marinopoulos | Clothing | 2008 |
| 229 | Burberry Group Plc* | Burberry | ? | Clothing/Accessories | 2005 |
| 239 | The Body Shop* | The Body Shop | Franchise | Cosmetics | 1992 |
| 240 | Bang & Olufsen | Bang & Olufsen | TH Athanasopoulos SA | Electricals | ? |

**Table 4.2: International retailers operating in Greece, combiled from Mintel 2008 and journalistic sources**

The grocery sector, which was formerly characterised by independently owned traditional general stores (*pantopoleion*), has been transformed into a sector that is dominated by retail chains. The leader of the sector is Carrefour, which internationalised in Greece through a joint venture with Marinopoulos S.A. The grocery sector is fragmented, since the sector leader has a market share of sales of less than 10%. However, the top 10 retailers, ranked by sales, accumulated a total market share of about 37% in 2008, which is an indication of the local power of independent grocery retailers (Euromonitor, 2009). The majority of grocery sales take place in supermarkets (see Table 4.3); however, the traditional *pantopoleion* remains a popular destination for grocery shopping. Information Resources Hellas (2005) reported that among the approximately 18,000 food stores in Greece, about 15,000 are traditional food and grocery retail stores (about 80%). Nevertheless, the supermarkets and hypermarkets account for half of the total grocery sales.

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Hypermarkets | 4.3 | 4 | 4.3 | 4.1 | 4.1 | 4 |
| Supermarkets | 41.9 | 42.9 | 42.2 | 43 | 42.6 | 43.1 |
| Discounters | 5.8 | 6.8 | 6.9 | 7.4 | 7.7 | 7.7 |
| Small grocery retailers | 16.3 | 14.8 | 13.4 | 12.8 | 12.5 | 12.2 |
| Food/drink/tobacco | 16 | 16.5 | 16.7 | 16.2 | 16 | 15.9 |
| Other grocery retailers | 15.7 | 15 | 16.5 | 16.4 | 17 | 17.1 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

**Table 4.3: % of Sales in Store-Based Retailing by Sector, Euromonitor, 2009**

In terms of the number of outlets, Euromonitor (2006) provided a detailed breakdown that shows the growth of the hypermarket sector although the very large formats are difficult to find because of land restrictions as well as the growth of the discount sector. Diamantidis (2009) stressed that the profitability of discount supermarkets in Greece is significantly higher than that of traditional supermarkets, since the recession provides discounters with an opportunity to grow. On the other hand, the development of the discount sector has caused a price war among discounters, particularly between Aldi and Lidl. When Aldi opened its first stores, Lidl reduced the prices of its products by 15% (Tsoulos, 2008).

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Change 2000-2005 |
|---|---|---|---|---|---|---|---|
| Hypermarkets | 6 | 9 | 10 | 15 | 22 | 23 | 283.3 |
| Supermarkets | 5,150 | 5,300 | 5,412 | 5,528 | 5,644 | 5,757 | 11.8 |
| Discounters | 310 | 380 | 410 | 450 | 479 | 525 | 69.4 |
| Convenience stores | 4,575 | 4,479 | 4,345 | 4,193 | 4,150 | 3,973 | -13.2 |
| Independent grocers | 1,530 | 1,569 | 1,604 | 1,637 | 1,670 | 1,687 | 10.3 |
| Food specialist | 26,335 | 26,418 | 26,586 | 26,503 | 26,500 | 26,409 | 0.3 |
| Other grocery retailers | 3,790 | 3,812 | 3,864 | 3,849 | 3,830 | 3,825 | 0.9 |
| Grocery | 41,696 | 41,967 | 42,230 | 42,175 | 42,295 | 42,198 | 1.2 |

**Table 4.4: Number of outlets, Euromonitor, 2006**

Hypermarkets have the biggest sales by store. It was estimated that the sales of each hypermarket are approximately £45M per year, while the sales in each supermarket and discount market are approximately £1M and £1.2M per year, respectively (see Figure 9). The supermarkets and discount stores increased their sales per store between 2000 and 2005, while the sales per store of independent retailers and food specialists decreased. It should be also noted that, between 2000 and 2008, a number of mergers and acquisitions occurred. Through these activities, grocery retailers such as AB Vasilopoulos and Marinopoulos aimed to expand their store networks at the national level, while smaller retailers such as Masoutis and Arvanitidis sought to increase their regional presence.

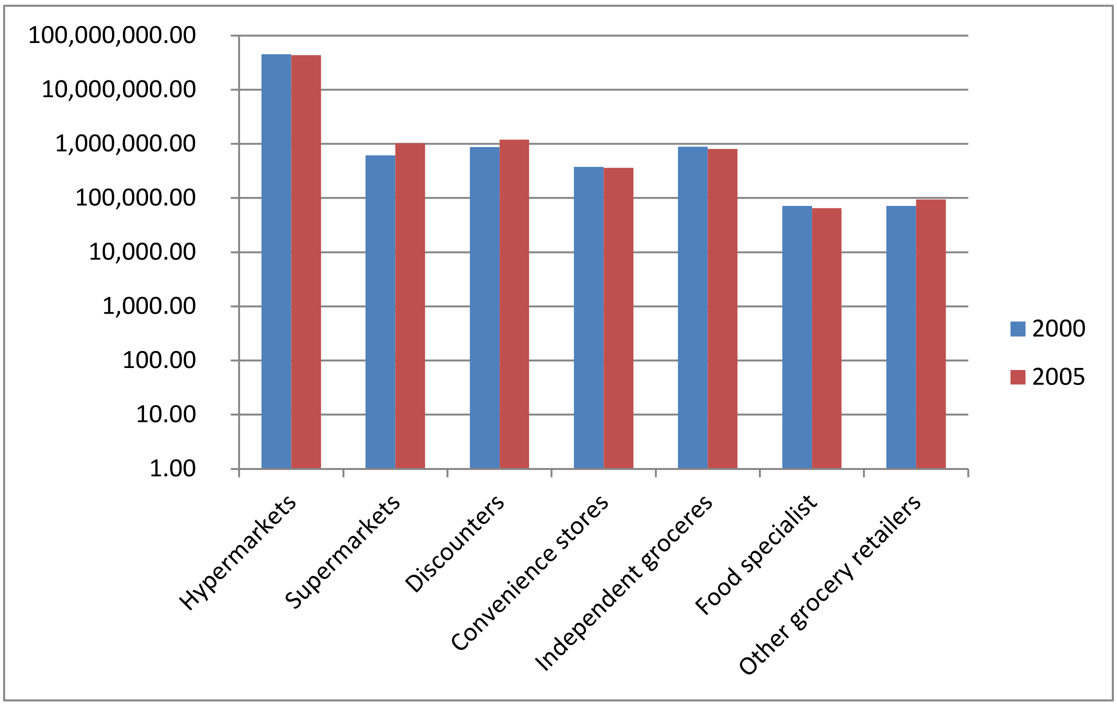



**Figure 4.9: Sales by stores in M £, Euromonitor, 2006**

The non-grocery sector accumulated sales of £25B in 2008. About one-third of these sales involved furniture, electrical devices, and other home improvement products (Euromonitor, 2009). The macroeconomic growth of the Greek economy and the changing patterns of consumer behaviour and preferences supported the general growth of the non-grocery sector, particularly the durables category. The previously-described credit boost is another reason behind Greece's significant growth of the non-grocery sector. However, the bank credit constraints and the recession caused the non-grocery sector to experience a serious decline, particularly the electrical retailing sector.

Hondos Centre, the top non-grocery retailer by sales, is a cosmetic and fashion accessories retailer that operates a national network of 72 stores in city centres or planned shopping centres (Euromonitor, 2009). Among the top 10 retailers according to sales, there are three electrical retailers, two computer and other peripherals retailers, one DIY retailer, one toy retailer, and one clothing retailer. With the exception of IKEA, which operates through a network of three stores located in Athens, Thessaloniki, and Larisa, all of them operate through national store networks and accumulate sales between £1560M and £450M (see in Table 4.5).

| | Sector | Outlets | No of Employees | Sales ('000,000 £) | Selling Space (,000 of sq.m.) | Sales by Outlet | Sales by Employee |
|---|---|---|---|---|---|---|---|
| Hondos | Cosmetics | 78 | 4,357 | 447.7 | 60 | 5,739,230.77 | 102,745.01 |
| Kotsovolos-DSGI | Electrical | 78 | 2,200 | 437 | N/A | 5,603,076.92 | 198,654.55 |
| IKEA | Furniture | 3 | 1,604 | 310.9 | 70 | 103,620,000.00 | 193,802.99 |
| Jumbo | Toys and games | 38 | 1,942 | 291.3 | N/A | 7,666,578.95 | 150,015.45 |
| Praktiker | DIY | 11 | 1,073 | 225 | 70,2 | 20,454,545.45 | 209,692.45 |
| Germanos | Computers & Peripherals | 315 | 4,800 | 265.5 | N/A | 842,857.14 | 55,312.50 |
| Zara | Clothing | 50 | N/A | 249.3 | N/A | 4,986,000.00 | N/A |
| Plaisio | Computers & Peripherals | 21 | 1,211 | 228.7 | 28,6 | 10,890,000.00 | 188,843.93 |
| Expert | Electrical | 116 | N/A | 221.4 | N/A | 1,908,620.69 | N/A |
| Elektroniki | Electrical | 27 | 629 | 160.7 | 38,2 | 5,953,333.33 | 255,548.49 |

**Table 4.5: Top 10 by sales non-grocery retailers, compiled from companies' web sites, annual reports, and journalistic sources**

### 4.6. Retail Location and Formats

The changes that have occurred in all of the other aspects of Greek retailing could not have left the retail location and retail formats untouched. The involvement of institutional investors, real estate agents, and banks has facilitated the change of location and formats trends because *ktimatologio* (cadaster), which provided a systematic survey of properties, and the possibility of increased capital make it viable to unify fragmented pieces of land in order to develop new retail properties in and out of town. The problem with the fragmentation of the land has been acknowledged by Bennison (2003), who stressed that one of the barriers to the emergence of large formats was the fragmented land that resulted from the long Greek tradition of land redistribution, inheritance, and dowry.

The first free-standing, out-of-town formats appeared in Greece in the early 1990s when the grocery retailer Continent opened its first store in Athens (Bennison and Boutsouki, 1995). It was later followed by the cash-and-carry retailer Makro, which opened an 11,000 sq.m. store in the suburbs of Thessaloniki and DIY retailer Praktiker, which opened a 6,500 sq.m. store in the suburbs of Athens. At that time, their plans called for a mixed-use retail scheme in Marousi, a suburb of Athens. In 1994, another mixed-use planned retail scheme opened in the city centre of Thessaloniki. However, from a historical standpoint, the first retail department store opened in Athens' city centre in 1934 (Lembesi, 2007), followed by another two years later (To Vima, 2008). Greece was occupied by the German army until 1945 and suffered a civil war between 1945 and 1949, when the evolution of retail was interrupted. After this period, and funded by the Marshall Plan, Greece's urban development was based on the system of *antiparochi* (Delladetsima, 2006), in which a land owner exchanged a piece of land which was developed into a residential building with commercial premises on the ground floor for an apartment and a store. This system of exchange led many families to open and operate retail stores, sometimes as a supplementally form of employment (Bennison and Boutsouki, 1995), in which members of the family offered their unpaid labour. This pattern continued until the early 1990s, when the retail sector began the previously-described transformation (see Figure 4.10).

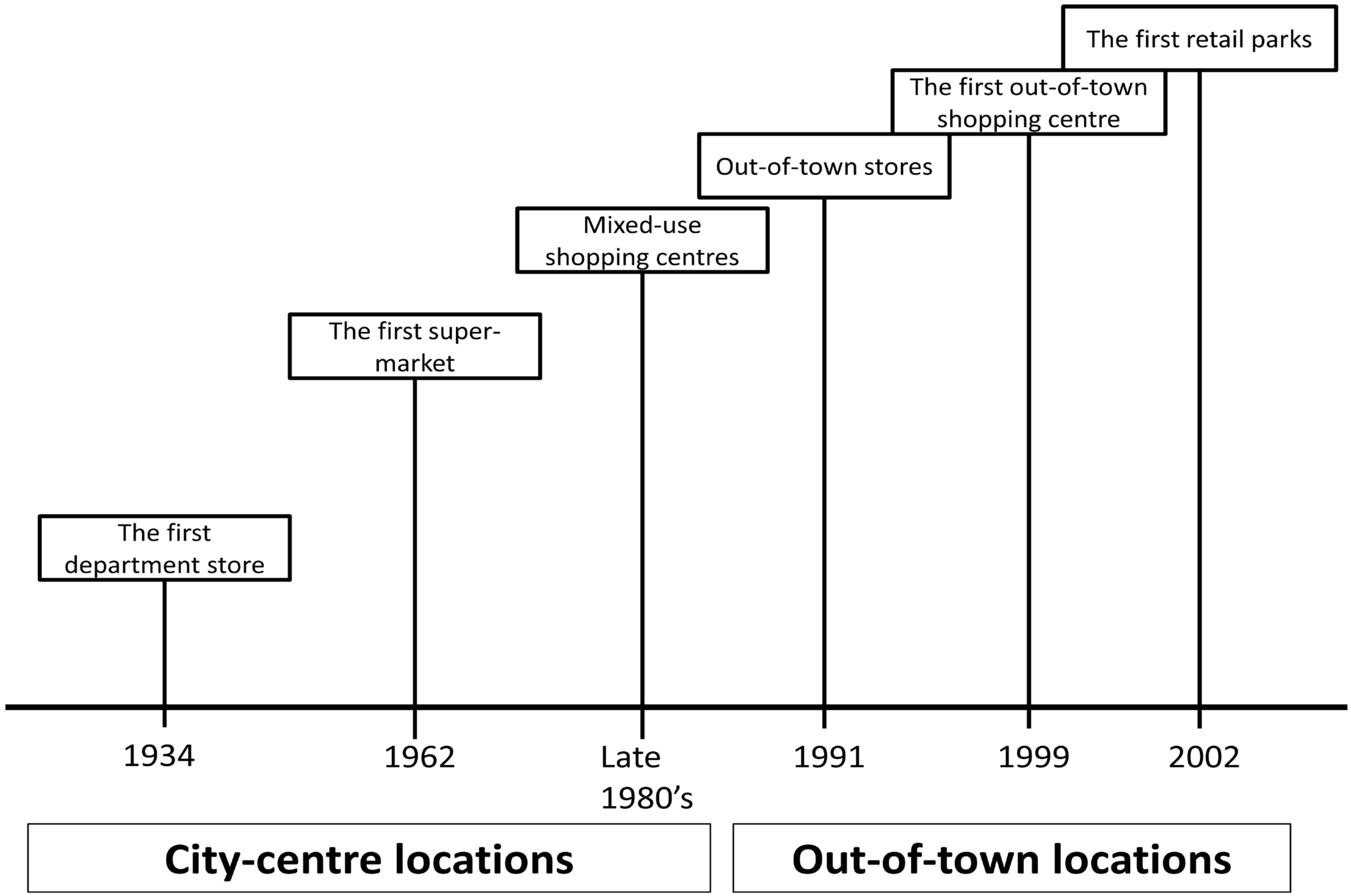

The first retail parks
The first out-of-town shopping centre
Out-of-town stores
Mixed-use shopping centres
The first super-market
The first department store
1934
1962
Late 1980's
1991
1999
2002
City-centre locations
Out-of-town locations

**Figure 4.10: The change of retail locations in Greece, developed by the author**

The internationalisation of retailers in Greece that required and had the means to purchase large and frequently flat properties, and the involvement of the banks in the development of retail properties, resulted in the emergence of modern retail properties (Delladetsima, 2006). Unfortunately, there is no official authority that records and reports the size of retail property in Greece. The NSSG records and reports the accumulated amount of land that is used for commercial purposes (including retail stores, warehouses, and offices), so the data that are available do not indicate the changes that have occurred in Greece during the last twenty years. Eurostat also does not have any available data about the size of properties which are used for retailing activities in Greece. However, according to other sources, such as commentators, newspapers, business reports, etc., the author compiled a chart which depicts the development of retail property in Greece between 1996 and 2008 (Figure 4.11).

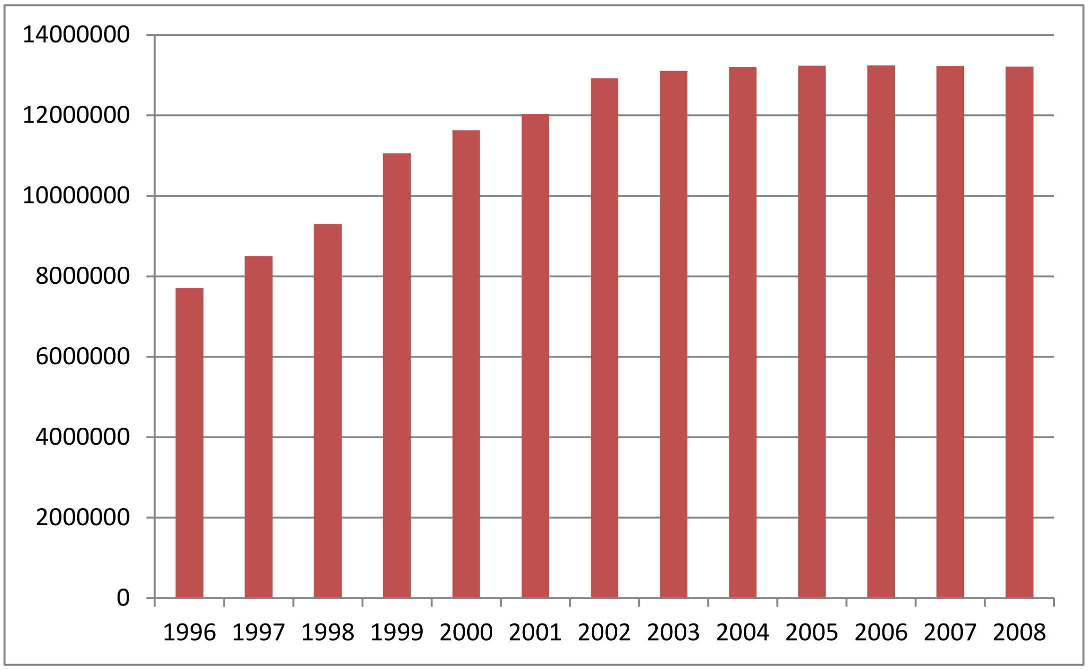



**Figure 4.11: Retail premises in sq.m., developed by the author**

Between 1996 and 2006, the amount of retail premises increased by 70% (in sq.m.). Such growth can be explained by the development of approximately 25 new shopping centres that are primarily found in out-of-town locations in Athens, Thessaloniki, and other smaller towns such as Larisa, Patrai, Ioannina. Since the economic recession started the development has slowed because banks have curtailed the finance of construction projects (Kontogianni, 2008). Nevertheless, there were more shopping centres expected to open from 2009 and onwards that would have added another 212,000 sq.m. of gross leasable area, while 12 more were planned to debut in 2012 (Skoufou, 2008). Other companies, such as Praktiker and IKEA, have chosen to operate through large freestanding stores in out-of-town areas. Retail parks, such as *Apollonia Politia* in Thessaloniki or

*Eleftherios Venizelos* next to the international airport in Athens, often open in the vicinity of such anchor stores.

The high price of retail property in city centres makes shopping centres a cheaper alternative for retailers (Skoufou, 2008). Before the recession the city centre of Athens was estimated to be among the twenty most expensive areas in Europe in terms of the price per sq.m. (Athens Traders Association, 2006). For example, the price per sq.m. at Tsakalof Street, one of the busiest shopping streets in Athens, was approximately £125 plus an additional one-off fee to the existing tenant called "*aeras"* of about £2,500 to £4,500 per sq.m. In contrast, the rent per sq.m. in the busiest shopping centre in Athens is £45 to £63 per sq.m. and there is no additional *aeras* (Lambrou, 2006). Another reason that retailers prefer shopping centres is that they can arrange the interior of the store to fit their needs. Since stores in the city centres are usually located on the ground floor of residential or mixed-use buildings, the available space is limited by pillars or staircases (Theodoridis, 2007). A retail trend that appeared right before the recession was the development of thematic shopping centres in Athens. Located in Marousi, Golden Hall is a 41,000 sq.m. upscale shopping centre. Its approximately 130 tenants include elegant restaurants and exclusive brands such as CK, Prada, and Burberry.

| | Total | Unoccupied | % of unoccupied stores |
|---|---|---|---|
| **Athens** | 3,241 | 505 | 15.6 |
| **Thessaloniki** | 1,239 | 125 | 10.1 |
| **Larisa** | 1256 | 131 | 10.4 |
| **Kavala** | 412 | 43 | 10.4 |
| **Kozani** | 456 | 82 | 18.0 |
| **Veroia** | 655 | 58 | 8.9 |
| **Edessa** | 437 | 68 | 15.6 |

**Table 4.6: Unoccupied stores in major Greek conurbations, adopted from ESEE (2010)**

## 4.7. Property and Retail Location Planning

A combination of traditions and antiquated laws set the context of land ownership in Greece. Essentially, the agricultural land redistribution that took place in the mid-1920s created an environment in which individuals acquired fragmented pieces of land of various value (Bennison, 2002). The pieces of land became even more disjointed by the tradition of dowry, which suggested that the daughters of a family are given part of the parental assets at her marriage rather than after the death of the father. As a result of the economic development that occurred in Greece during the 1950s and 1960s, individual developers that could afford the cost of building of multistory residential developments entered into agreements with land owners in which builders offered two or three apartments in the future property without any expense other than the concession of the land

(Dalledetsima, 2006)[9]. The mixture of these factors resulted in the absence of large pieces of land that could be used for the development of large retail formats.

Another issue that is stressed by Dalledetsima (2006) is the slow implementation of the land register and the strong resistance to change. Both of these features are sustained by market dynamics and public intervention. As was previously mentioned, the Greek economy was isolated until the early 1980s when EC accession resulted in the development of an open and competitive economic environment. Such an atmosphere attracted foreign funds, some of which were channelled to land acquisition. However, at the same time, there also have been attempts to make land ownership and development less bureaucratic (Sapountzaki and Karka, 2001; Dalledetsima, 2006). For the international companies that expanded their operations in Greece, the lack of large pieces of land and the highly complicated and bureaucratic process to buy land and develop commercial properties has been an unanswered problem. The store networks that are developed by retail multiples lack rationality, both in city centres and out-of-town retail zones. For example, there used to be at least four Vodafone stores on one of the main shopping streets of Thessaloniki. Furthermore, companies such as Plus and Aldi have slowed or even abandoned

[9] Known as *antiparohi*.

expansion projects because of the lack of last tracts of land. Companies such as Praktiker have not expanded as rapidly as they wished (Bennison, 2002).

The changes that are taking place in Greece also impact retail locations. Traditional Greek retailers used to operate in small independent stores. Retailing, as a traditional employment route for the Greeks, was related to the social characteristics of the population. As Bennison and Boutsouki stressed (1997), families operated small retail stores in an effort to generate additional income. It is not unusual for families to run small convenience stores or clothing stores on the ground floors of their residences. Out-of-town retailing has only recently emerged primarily, but not solely, as a result of the needs of the large international retailers that expanded in Greece. The modernisation of the property development system has been supplemented by a number of other factors such as the banking capital, the estate developers, the state intervention, and the entertainment sector (Delladetsima, 2006):

The banking sector in Greece has been in a modernisation process since the mid-1980s. The banking institutions introduced the Greek market to new financial products and services such as mortgages, mutual funds, and leasing while simultaneously developing affiliations with foreign banks and institutions. Through the relationships that Greek banks developed with their foreign counterparts, the Greek estate market was advertised abroad and international funds saw the opportunity to invest in Greece. On the other hand, banks, as some of the biggest land owners in Greece, also acted as developers. Large retail properties have been developed and managed by banks: for example, the *Attica* department store in the centre of Athens was developed on property that is owned by the Bank of Piraeus.

The real estate sector is a recent phenomenon in Greece. In the past, red and white advertisements that simply declared properties “For Sale” or “To Rent” could be seen in Greece. Theodoratos (2004) reported that 800 agencies are in operation throughout Greece, but only 20% of the property transactions were backed by their representatives. Until the mid-1990s, foreign real estate agencies were absent from Greece, probably because of the traditional nature of the real estate sector. However, companies such as Lambert Smith Hampton, Jones Lang Wootton Lasalle, and FPDSavills now operate in Athens.

For many years, the government used public land strictly for social benefit, such as the development of hospitals, schools, or public housing. However, during the 1990s, the government decided to assign professional managers to a number of public companies and institutions. As a result, part of the property that was owned by them has been channelled to the real estate market and is used for the development of commercial properties. Another public stakeholder who owns large pieces of land is the Greek Church. *Mediterranean Cosmos* was developed on church property, which is why an Orthodox Church stands in its centre.

The entertainment sector is present in all new large-scale retail schemes. New shopping centres all include multiplexes that combine cinemas and small thematic retail stores. However, it has been expected that theme parks would have boosted the sector (Kannelis, 2002). The development of *Aegean Park* in Athens and *Mare* in Patrai signifies the emergences of such a trend.

### 4.8. Decision-making in Greek organisations

Bourantas & Papadakis (1996) have shown that decision-makers in Greek-owned companies follow less rational decision-making processes compared to those found in firms in the US. Their findings were confirmed by the research of Dimitratos *et al.*, (2011) who found that strategic decision making in Greek SMEs, specifically related to internationalisation, is relatively centralised and lacks lateral communication.

However, there is research supporting the view that managers' perceptions of the environment are not accurate (Maule & Hodgkinson, 2003; Mezias & Starbuck, 2003) and this is not only with reference to the external environment of the organisation, but also to its internal environment. The author perceives the Greek retail environment as complex and uncertain, making it impossible for managers to have a sound basis of knowledge available to them. The environment is rapidly changing and they cannot have immediately available information to support the evaluation of alternatives; managers' cognitive limitations (Schwenk, 1988) make it impossible for them to have excellent judgement; and finally they show a reasoned behaviour when they act as managers but they do not meet the rigid requirements of a wholly rational behaviour (Miller et al., 1996). In addition, there is no evidence that rational models of decision-making are used in Greece, particularly in local companies. Bourantas & Papadakis (1996) have shown that decision-makers in Greek-owned companies follow less rational processes. Generally speaking, the Greek type of management is associated with less rules of formalisation, and less hierarchical decentralisation. This is also consistent with Zey's (1992) research, which has shown that rational models have dominated many business areas particularly in the United States and the Western Europe, while Papadakis et al. (1998, p.137) mentioned that Greek private firms have less formal rules and comprehensive decision-making processes than U.S. or British ones, thus they are more likely to make decisions in a more "emotional" manner. The insistence of Western scholars on these rational models of explanation eventually has been critiqued. Eisenhardt & Zbaracki (1992) for example suggest that theorists should be concerned more with behavioural real-life models, rather than being attached to their normative tradition.

Summarising the characteristics of decision-making in Greek companies it can be highlighted that it is dependent on behavioural approaches, where managerial perceptions are dominating the process. The rapid changes in the business environment make decision-making a challenging task where managers have to deal at the same time with their own perception barriers and the problems to collect and analyse information about the environment. This particular configuration makes uncertainty a dominant characteristic of the decision-making process.

## 4.9. Chapter summary

The rationale of this chapter was to present the Greek business environment, and particularly focus on the factors that affect the retail sector and make it an uncertain domain to make strategic decisions during the period that the research took place. It was argued that a combination of economic, socio-cultural, technological, and legal factors are external sources that cause uncertainty to companies. It was also stressed that the decision-making in the Greek SMEs is often based on quasi-rational procedures, and therefore strategies are dependent on perceptions of the business environment (internal and external) that are limited and incremental.

This chapter also addressed the third research objective, namely "*to identify the characteristics of the Greek retail environment that make strategic decision-making uncertain*". During the period under research it was shown that all the major macro-economic indicators declined and this resulted in the subsequent decline of consumption. It was also evident that the recession resulted in a more risk-averse strategy shown from the banks. This was another reason for the decline of consumption in the retail industry in Greece. The changes that have happened in the legislative framework were another factor that influenced the stability of the environment. It should be noted here that all these factors have been identified in the literature to influence the perceived uncertainty (see Section 2.3.2.). What makes the Greek case interesting is the magnitude of the change and the fact that the research took place exactly from the outset of it.

At the micro-level of the companies in Greece present characteristics that are associated with the uncertainty creation. The lack of structure and formalisation, the centralisation of management, and the "emotional" decisions are all factors that destabilise the managerial context. Having said this, it should be noted, that the experience of environmental uncertainty is associated with the performance of an organisation. Greek companies have thrived under these circumstances, particularly the micro-environment ones, and therefore it can be deduced that some organisational configurations are attracted to these settings.

In addition to that it can be expected that all the symptoms of the recession will be more apparent in smaller companies. SMEs are usually vulnerable to bank leveraging and the withholding of credit is a major obstacle to their day-to-day operation, not to mention their mid-term and long-term growth. It could be also concluded that the rapid change in the business environment increases the need for accurate and timely information, an area in which SMEs inherently suffer. However, the fact that numerous companies have succeeded under these conditions may mean that these settings are open for companies to make strategic decisions that will enable them to prosper.

# 5. Case studies report

## 5.1 Introduction

Chapter 5 presents the analysis of the data that were collected during researching the two retailers under investigation. The chapter is divided into two accounts, each of them constituting a case-study. The data that is used for the development of each of the cases studies is shown in Table 5.1:

| | **Company A** | | **Company B** | |
|---|---|---|---|---|
| Interviews | 12 in-depth interviews (Sep 2007 – Feb 2008)<br>63 informal discussions (May 2007 – May 2008) | | 5 in-depth interviews (Jan 2008)<br>12 informal discussions (Dec 2007 – Jan 2008) | |
| Focus groups | 2 focus groups<br>(October 2007 & January 2008) | | | |
| Observation | 48 hours of non-participant observation | | 6 hours of non-participant observation | |
| Documents | Minutes from meetings (taken by the researcher)<br>Managers' and employees' notes<br>Corporate website | | Managers' notes<br>Managers' answers to open-ended questions research instrument<br>Annual reports (2006-2010)<br>Corporate website | |
| Participants | **Company A** | | **Company B** | |
| | A0 | Company owner | B0 | CEO |
| | A1 | General manager | B1 | Head of marketing |
| | A2 | Marketing manager & planning executive | B2 | Head of operations |
| | A3 | CFO | B3 | Store network manager |
| | A4 | Head of store network | B4 | Head of marketing research |
| | A5 | Consultant | B5 | Store manager |
| | A6 | Store manager | | |
| | A7 | Hyperstore manager | | |
| | A8 | Marketing research consultant | | |

**Table 5.1: Data used for the development of the case-studies**

The analysis of the data for each case-study follows the order of the research questions that were set to be answered through the case-study. After a brief introduction to the companies under investigation follow:

1. The contextualisation of the business environment.
2. The understanding and appreciation of the perceived uncertainty experience by managers and employees.
3. The analysis of the decision-making process within the company and how this is affected by uncertainty.
4. The evaluation of the strategy implementation process within the uncertainty environment.

The presentation of the data takes the form of a narrative, informed by direct quotes and visual aids where necessary. The researcher was part of the research context, and therefore this analysis is his reflection on the data that were collected during the fieldwork.

## 5.2 Case reports: Company A

Company A is small-medium family-owned and run electrical retail business based in Thessaloniki, Greece. Therefore the family and interpersonal bonds are apparent in the accounts that were collected during the fieldwork and reported here. An element that characterises the research is the cultural influences on the way that managerial tasks or activities take place within the company. A challenge for the researcher, as well as an actual issue for the company, is the diverse or even non-existent formal business education that is replaced by the long-term experience or what the owner of the company labelled as "*family tradition*". Family tradition appears to be a confidence boosting factor for the managers of the company, an element that unloads the burden of the uninformed decision-making from managers' shoulders. Within the next section of the case study report it will be shown how company managers analyse, evaluate, and understand the environment wherein the company operates.

### 5.2.1 The contextualisation of the business environment

Despite the numerous business and management literature definitions available for "business environment" the first and introductory section of the formalised data collection process was focused on the understanding of managers' and employees perception of this rather abstract concept. This emerged as a necessity as the majority of the managers of the company A have not been exposed to any kind of formal business education, and therefore they developed their managerial skills by experience and "hands-on" learning.

It was a general consensus among all the managers that the business environment was influenced by a combination of elements that was related to the government, the resources of the company, the competition and the consumers. A1 suggested that:

*"Our environment includes us, our competitors, the consumers and government that sets the laws of the game"*

He was the only from the members of the staff of Company A who referred to the company itself as part of the *environment*. The owner and the CFO, A0 and A3 respectively, had a conversation where they were debating on the barriers that the banks have set to the consumers to borrow money from them:

> <u>A0</u>*: They* [the banks] *will destroy the environment...*
>
> <u>A3</u>*: They have already destroyed it... These interest rates are high and their credit checks have become impossible...*
>
> <u>A0</u>*: We go back to 2000. It took so much effort to make bank credit open to the consumers and now we go back to 2000...*
>
> <u>A3</u>*: It's even worst... Then they* [the consumers] *knew how much money they had in the bank and planned accordingly. Now they do not know where they stand. The change is so sudden...*

They were clear that the banking conditions, bank credit and loans, are the locomotive of the growth of the sector. Some of the managers have also mentioned that the competitors are one of the parts of the environment. Interestingly, sometimes they were seen as having a positive impact on the environment whilst in some other occasion they were as the "*evil*". A2 said in one of the boards:

> *"Mediamarkt has changed the landscape! Just see how they use the space; their stores are like open markets. Consumers go there and they can breath, our stores are packed with products and consumers feel like being squeezed between the Symplegades* [refers to the myth of the Crashing Rocks] *..."*

That was a board where the agenda was on the layout of the new *hyperstore*. It was interesting that they were seeing the international competition as a positive element while in other occasion when referring to the local competitors there was a negative tone in the conversations. For example:

> <u>A0</u>*: Did you hear that? Expert does a 20% off week in all the white goods... Without any prior agreement with any of the suppliers!*
> <u>A1</u>*: It's not the first time...*
> <u>A0</u>*: Sure it is not, but these things destroy the market!*

Finally, the government; in the form of the overall system, the laws, and the regulations; has been identified as one of the most important elements of the environment. It was raised in multiple occasions, the following quote from A1 is characteristic:

> *"...they control the game! They control the banks, they are the biggest employer in the country; so they control the money flow; they make laws and they implement them, and of course they change them over night if they do not like them!"*

A4 also made an interesting comment on the government, possibly exaggerating but still shows how managers felt:

> *"Planning laws...? I tell you for sure that there is no store in Greece that fully conforms to the planning laws. Some are bigger, some are smaller, some do not have parking space, some do not have disabled facilities... There is something wrong with all the stores!"*

Some of these factors were considered to be unstable and unpredictable and therefore they have an impact on the perception of the uncertainty within the company. This is covered in the following section (see Section 5.2.2).

### 5.2.2 The nature of environmental uncertainty

Two major themes emerged in the first set of the interviews. The first one relates to the components of the environment that create environmental uncertainty, and the second is related to the type of uncertainty that company managers experience.

With respect to the first theme, taken together the interviewees suggested that there are eleven components of the business environment that are causing the state of uncertainty. Most of these components are parts of the external environment of the company, but there are also few that come from its internal environment. Four components were identified as important by all the interviewees:

The first one concerns the legal and planning issues. As A1 suggested "*planning legislation is very old and cannot cover the needs of the developers that want to bring fresh ideas from abroad".* A3 added, *"Laws can be very flexible. If you know the right people things are very easy, but what happens if you don't…".* Laws, the regulations framework and lack of transparency are a serious problem of the Greek public sector. During an informal discussion the same person labelled the planning law a "blurry area", while the owner of the company characterised it as "*unmapped territory*".

The second component is information circulation. A1 and A2 take information circulation as granted and they experience uncertainty because they are not sure if they are using information in the most effective way. For A3 and A4 information circulation is a matter of capital investment. They believe that they know how to take advantage of the information but they address the issue of the cost of the information and the time needed to get it. This information varies from details on the performance of the company, e.g. KPIs, or benchmarks, to macroeconomic figures that arguably meant very little to the members of the company that receive them. However, it was apparent that holding information, usable or not, was a factor that filled the staff that made decisions with confidence.

The third component concerns competition. A5, an external consultant to the company, raised an interesting point using an example from a different sector. He suggested that:

> *"…there are about ten large independent cosmetics stores in Thessaloniki, and it is very difficult to keep an eye on them. Their size and structure allows them to change fast and approach niche markets. For instance it took more than a year for a big cosmetic retailer to introduce a line of organic perfumes when they* [a small local SME retailer] *did it just a week after a couple of Greek actresses protested against chemical cosmetics".*

The point he tried to make is that smaller retailers find it easier to respond to the environmental challenges which creates a threat for the slow moving bureaucratic larger retailers. A4 suggested that:

*"I hear rumours that Zara is looking for a store in Kolonaki[10] and the other day somebody tells me that Zara wants to relocate all their stores from high streets in shopping malls because high street retailing has become saturated in Greece. And the problem is that it's not just rumours. These things are happening in front of my eyes every day."*

Obviously, the cosmetic retailer that A5 referred to or Zara are not direct competitors of company A. However they are points of reference for the people that participate and contribute to the strategic decision-making of the under-study organisation. The multiplicity of the roles of the individuals that take part in the group decision-making process influences their perception of what is important and influential in a strategic decision-making process. Therefore the developments in other sectors of the retail industry, even though they are not perceived as competitive by the individuals involved in the decision-making process, are considered to be important because effectively they can attract consumers to spend their disposable income there and not on the products that Company A traded, or because the same people believe that the changes in the wider industry have an impact to the sector itself. It should be stressed at this stage that anecdotal information is a key source of influence on decision-making in Greek organisations (see the research of Vlachos and colleagues (1992, 1995)). Therefore it is not uncommon to find managers who make decisions just by rumours or inaccurate information alone.

[10] Kolonaki is the wealthiest district in the city centre of Athens.

The fourth component concerns consumers. Consumers are mentioned in many different ways by the interviewees. Their concern mainly involves consumers' loyalty. It was stated by all four that consumers are not loyal and they cannot understand what kind of change they are sensitive to. For example A1 suggested that *"When we decided to advertise our low prices we had a massive fall of our sales, we are a discount chain but consumers don't want to know that!"*. Even though all the respondents have some kind of marketing intelligence available to them, they all agreed that they just have a partial idea of consumers' needs. This is the barrier for them to serve them effectively.

A1 and A2 largely mentioned the same environmental components. They believe that components of the environment that are mediating their relationship with the top management of the company are very important to the way that they are experiencing the uncertainty. A2 suggested that:

> "*…sometimes I wonder if senior managers know what they are asking from me"*

For these two respondents management expectations and goals are important. They suggested that top management expectations, the strategic goals of the company and profitability expectations are three components of the internal environment that are a major cause of the uncertainty experience.

A3 and A4 are primarily concerned about the components of the external environment that affect the competitiveness of the company. A major issue for them is the expansion of international retailers in Greece and how this influences their companies. They attribute both the emergence of opportunities and threats to the expansion of international retailers. A3 suggested that:

> *"… the expansion of DSG and Mediamarkt was a shock for companies and consumers. Our competitors focused on retaining their market-share but for me it was a great opportunity to grow now that all our competitors try to defend".*

For both A3 and A4 the survival and growth of the company are their focus. They relate the experience of uncertainty to the existence of their company and they consider as most important the components of the environment that can create opportunities and threats for them.

With respect to the second theme, namely the type of uncertainty that the managers experience, the interviewees suggest that they are not all experiencing the same type of uncertainty. For A1 uncertainty is "*what I cannot predict*", for A2 it is "*…when I don't understand what senior managers are asking from me"*, for A3 it is "*…when I cannot make decisions"*, and finally for A4 it is "*…how I will manage to survive"*. A1 and A2 are experiencing state uncertainty, while A3 and

A4 are experiencing effect uncertainty. A1 and A2 cannot understand their environment, while A3 and A4 cannot decide how they are going to react to the environmental stimuli.

A1 and A2 have a wider view of the company and the environment, and thus they do have an overall idea of the environment they are operating within. On the other hand A3 and A4 have only a partial view of the company and the environment. A1 and A2 have a better understanding of their company and the external environment because they are exposed to the internal and external environment of the company. Their uncertainty comes from their inability to choose between alternative replies to the environmental stimuli.

What was quoted as an element of the environment by the managers of Company A is listed in Table 5.2:

| | Components of the environment | Company A |
|---|---|---|
| Political factors (3) | 1. Laws | X |
| | 2. Banks | X |
| | 3. Interest rates | X |
| Capital management (2) | 1. Information circulation | X |
| | 2. Property owners | X |
| Competitiveness (6) | 1. International retailers | X |
| | 2. Competition | X |
| | 3. Consumers | X |
| | 4. Costumers | X |
| | 5. Suppliers | X |
| | 6. Survival | X |

**Table 5.2: Components of the environment causing uncertainty - Company A**

### 5.2.3 Conceptualisation of uncertainty

As indicated previously, Duncan (1972) maintained that there are three levels of uncertainty met in organisations. All these three levels of uncertainty were identified in the data collected for this company.

The notion of environmental uncertainty underpinned a significant proportion of the interviews. Environmental uncertainty is experienced in a different way by each respondent. For A1 environmental uncertainty is "*…what I cannot predict".* For A2 "*…it is when I cannot make decisions".* For A3 it is related to the expectations of her senior manager "*…sometimes I wonder if senior managers know what they are asking from me".* A4 gives an existential definition. He says that he is experiencing environmental uncertainty as an internal query of "*…how I will manage to survive?"*.

The two main concepts that emerged in this part of the interviews are how information reduces uncertainty and how government can reduce uncertainty. With respect to the first concept A1 says:

> "*My job involves high investments. I have to be able to justify to all the stakeholders why I am asking them to invest a load of money in a piece of land. To do so I need proofs… I need official and unofficial support… I want the papers from the town planning bureau but I also developed a network of people that could give me all the information I want. Sometimes these people are the owners of pieces of land next to the one I am interested in, sometimes they are estate agents, sometimes they can be a bus driver, or the owner of a grocery store. I value every piece of information I can get."*

A2's concern was about the future. He said "*… I want to be a step ahead… Most of the times I trust my intuition, but things are changing. As my company is growing bigger and bigger I need data apart from my gut feeling…"* and he adds *"…coping with uncertainty cost me a lot. I buy information, I am hiring marketing research agencies, and I am trying to keep alive a network of people moving in my environment that can give me the information I want".* And also notes that "… *actually now we are talking about this I am thinking more carefully how much uncertainty costs. It is not only the money; it is also the time that I and the others in here spend to understand what s going on".* An interesting point that A2 made was that "…*Sometimes I am taking advantage of the uncertainty that my competitors or my suppliers are experiencing. But this is the task of the entrepreneur, isn't it? To create opportunities when others see danger…".*

The next theme that emerged concerned the role of government in reducing uncertainty. This theme emerged from the interviews of A2 and A4. Both insisted that government's role is to secure a stable economy, and the laws should be enforced in order to protect this stability. A2 said that "*…if I knew that government would protect my investment from all these dangers that emerge I would have been much more aggressive in my expansion. Now I can't be sure even if the tax laws will be the same next year…"* And he also said that

*"…government has the mechanisms to control uncertainty in the market. We cannot hide behind our fingers; uncertainty is a result of the economic prosperity of the nation. When people have money to spend everybody is optimistic and we as retailers feel surer to expand our operations. The last big retailing boom happened when banks made it easier for consumers to loan or issue credit cards. The development of the retailing sector these last years was based on that…"*

A4 had a similar opinion about government, looking at it from the perspective of the entrepreneur. He said

*"… the growth of my company, and I think it is the same with most of the small-medium retail companies in Greece, depends on my relationship with banks. Corporate banking services are the key to the existence of the vast majority of small medium retail companies. When my father was a wholesaler, not many years ago, things like factoring or leasing were completely unknown to him. Now my banker is my best … friend. I need to have a good relationship with him e.g. in order to borrow money with advantageous terms. Government's interference is crucial in order for corporate banking services to be developed because this way I will be able to have a funding source that could support my growth…"*

#### 5.2.3.1 State uncertainty

Managers and employees in the organisation identified sources that produced uncertainty in their everyday working life. A few members of the organisation used the word "*Everything"* to describe the factors that created the uncertainty. The owner of the company, for example, said:

> *"I used to be able to predict accurately the sales year-by-year based on the historical data I had in my disposal but this is not working now. The sales are plunging and I just cannot remember such a thing in my life!"*

The marketing manager of the company also reiterated this point:

> *"Even during negative periods there were some products that carried our sales forward. We knew where to focus. Now I cannot see a single positive trend in our sales. I cannot find where to focus."*

A major issue about the company was the conflict of interests that were observed among the different members of the company. As stressed in Section 2.2, the conflict between organisational and personal goals is a common issue in decision-making in organisations. The tendency of the employees to weigh their options leads to controversial decisions, not to mention that the personal targets may vary among the people that are involved in a decision-making project. The owner of the company said on a number of occasions that he wanted to see his company expanding but various factors impeded this. The key issues were: funding, low demand, uncertain future, low availability of suitable properties, saturation of the local market, and the expansion of international retail chains in Greece such as MediaMarkt-Saturn and Fnac. Together they constituted sufficient reason to make him averse to investing in new stores. On the other hand, he acknowledged and appreciated the opportunity to become established as a leader in the local market during the period of recession, and this tension between restraint and development dominated his thoughts about the future of the company. He said:

> *“With all these small independent competitors struggling to stay open we could become the unbeatable first option. But with banks lending less and less and sales figures falling, it is difficult to fund the acquisition of the competitors that interest us."*

5.2.3.2 Effect uncertainty

The company had planned the opening of a new store in the developing west-side of Thessaloniki for the final quarter of 2009. A total investment of €2M was agreed for the leasing and development of an existing industrial property. However, the financial and social circumstances delayed the finalisation of the tenancy agreement and the further investments that were required for the development of the store. The business development manager considered that:

*"I have no doubt that we achieved a very advantageous leasing agreement. We could never get that price for this property two or three years ago. But what will happen if the crisis continues for another two or three years?"*

The owner of the company also stressed that:

*"Opening a new store was easy for us in the past. Banks loans were easy to get and the market for many years was only growing. There were fewer big competitors and more available properties."*

The "What if?" question dominated the debates around the future of the company. However what emerged as a consensus within the company was that the plan to expand was robust, and it should be supported to completion.

#### 5.2.3.3 Response uncertainty

Opening a new store during a period of economic crisis can be a very complicated task. There are a number of factors which influence the success of a new store that are multiplied during a period of crisis for the managers of the company. The marketing manager of the company noted:

*"We normally look for stores that are accessible, close to our competitors, in good condition so we do not need to spend a lot for the refurbishment, and close to developing residential areas. We attempt to do the same thing now but there are a lot more features that we need to add to the success equation..."*

The owner of the company added:

*"The false idea of prosperity that was fuelled by the uncontrolled bank lending boosted the sales of our sector and supported it for the last seven or eight years. This is now gone. Fewer and fewer consumer loans are approved now, buyers are educated and conscious and obviously their disposable income reduced so buying electrical goods is not their priority."*

A point that was made by the business development manager reflects what the owner and other managers believe:

> *"The business landscape changes, if we want to be part of it in the future we need to take advantage of any opportunity that emerges. The cost of not taking the risk will be dearer than taking it in the long term."*

The decision making process within that environment reflects the premises of the theories of bounded rationality (Simon, 1991) where individuals, limited by their cognitive and cultural barriers, transform reality into a manageable proportion that fits with their cognitive ability and their embedded cultural background.

### 5.2.4 Dealing with a strategic location decision

Strategic location decisions are a result of an intuitive process in Company A. A1 explained that:

> *"Sometimes we get information about promising vacant sites. We are always interested in a good vacant site. When we built our first store there were only grocery stores around it but we believed in our*

*decision and we supported it. When you are a businessman you just know that you have to go for it..."*

And A2 added:

*"I like to spend time with people and listen to them. I like to share ideas and when I hear something interesting I go to [B1] to discuss it. This is how we built our store in City Gate* [a planned shopping centre in east Thessalonki]. *It proved to be a bad decision because this store never became profitable but we know that this store has the potential to become profitable."*

While A6 showed his appreciation of this process:

*"I cannot say that I agree with all the decisions that are made but anyway I can have my own word. And I am happy that someone is listening and replies back to me."*

Company A showed openness to external and internal stimulation. The organisation adjusts its strategy according to feedback from the environment, and adapts to emerging circumstances. Top management encourages internal communication and feedback from employees, and aims to build on that.

The interviewees of Company A painted a different picture of the way their organisation dealt with an urgent situation. A1 claimed that:

> *"We are trying to use our small-medium size in our favour. Our size allows me to stay in touch with everybody in the organisation. From the cleaners to the top managers and from our customers to our suppliers... My door is always open for my people and when something comes up they know that I will be there for them... I try to delegate responsibilities to everybody, when someone has an interesting idea I put them in charge of the presentation of the idea and we keep them updated about the progress of the way that we will deal with their idea."*

A2 also cited an example:

> *"A couple of weeks ago a sale assistant sent me a video message that was filmed a vacant store near the train station. Everybody in this organisation knows that we are interested in every opportunity that emerges in this area. When I met the property owner this sales assistant was there with me. She is part of this decision now. She lives right next to the train station, she knows the people there; she is not a professional but she has her unique insight about this."*

Company A appeared to be adaptive to the changes that are happening in the environment because it has nurtured a self-organisation culture that encourages the employees and the managers to form informal workgroups that deal with emerging issues directly when they happen. The company is open to suggestions from everybody who works there and it benefits from employees' willingness to participate in the development of the company. With respect to its location strategy, Company A shows adaptive behaviour, open to feedback from the environment and open to the opportunities that emerge. For example, one of the major methods it employs in order to appraise properties is to ask from their staff to take photographs from available sites and forward them to the head of the store network. If the company chooses one of them for further appraisal there are two "*bonuses*" given to the member of staff that took the photo. The first one is tangible and involves a large-ticket electrical device (usually a new TV-set) and the second one is that this member of staff attends the boards where it is made the decision to further pursue or not the specific property. This is a great incentive for the members of staff as they see it as the entry point to the mid-level management of the organisation. In order for this to happen, the members of the staff collaborate. They form groups that look around for properties and these groups are usually led by the senior members of the staff. These groups are not planned or formally organised, however there is a culture within the company that encourages them and allows them to happen. This is an example of emergence in organisations.

A discussion that was made on many different occasions between the owner and the managers of the company was how to take advantage of the opportunities that emerged during the recession. The significant fall of retail property prices by up to 15% by 2010 (Zirogiannis, 2010) provided an opportunity for expansion for retailers that were in a healthy financial position, and in particular operate from leased properties.

The debate in the company focused on what the unique selling proposition of the new store should be: the innovative concept that would attract new customers to the store and provide the basis for success. During the meetings of the members of the company it was suggested by a few different employees that the focus on the new store should be on the "*affordable difference*" offered by the new store. The marketing manager stated:

> *"The new store should not be like the others. We need to offer an alternative option to consumers. Something fresh and contemporary."*

The owner (A0) of the company made another point:

> *"We need a store that shows that we understand the changes in lifestyles and we provide options for the customers. If we cannot do that we are not opening a new store!"*

In 2006 the company was the first one to open an electrical superstore in Thessaloniki. That was then a new concept. It was a luxurious development with large windows and a wide variety of brown and white goods. That store has been successful and it was the main source of the company's sales. It was then an innovative concept and reflected the social and business environment of that period. The growth and the high profits were obvious. The comment that is made by A7, one of the store managers of the company, is that:

*"Since we sensed consumers' needs in 2006 and built the suitable store for them, we can do it again now!"*

The basic requirement for the development of a new store is the identification of the right property at the right – low – price. The method that the company implemented to look for new stores is based on the active involvement of all the members of the staff, from the sale assistants to the owner himself. In addition to all the traditional search channels, e.g. real-estate agents, advertisements etc, the company motivates and provides incentives to the employees to do their own search. If they find an attractive property to let they inform the business development manager, and get rewarded for that.

The other emerging issue with regards to the exploitation of the opportunities is to develop and implement a differentiation strategy at store level. A new store in the earlier format would not be regarded as being in the company's interest.

What the company wanted to develop was a new store concept that would be compatible with current economic and social circumstances. A2 stressed:

*"Buyers are price and promotion sensitive. Therefore we need a format that will facilitate the presentation of our low prices and our daily, weekly, or monthly promotions. We need to have a focus on value!"*

It was also suggested in a number of meetings or informal discussions that the company should concentrate on high profit margin products. This was an area of disagreement between the owner and the managers because the highest profit margin products are the white goods, yet they show the lowest sales of all the products the company offers. There was also a cultural background to this debate. Most of the company managers have been there for a long time, 15 or more years, and they have established in their mind the view that the company is known for its variety of white goods. A typical discussion among some members of the company and the staff of the marketing research company (A8) that works for them is:

*<u>A8</u>: You are doing great on the brown goods, you are the first choice in Northern Greece.*

*<u>A2</u>: Fantastic, this is one of our priorities as brown goods are the future of electrical.*

*A8: That's right... Your consumers are very satisfied and they report that they are very likely to recommend you to their social network.*

*A3: Our priority should be the white goods. Our loyal customers are coming because of our white goods!*

*A2: Do you have any evidence to justify that?*

*A3: Are my 26 years of experience not enough?*

Obviously, the politics and power relationships are a key factor that determines the strategic direction of the company. Older and more senior managers develop their people network internally and externally and they can influence or even determine the decisions that are made with regards to the exploitation of the opportunities during the crisis. There is also a conflict management issue that emerges during this process. The owner of the company has acknowledged that:

*"I have been running this company for 30 years now and I have learned that people need to feel free to talk but be restrained when they act."*

Locational strategies are emergent and intuitive in Company A. A1 suggested:

*"Sometimes we get information about promising vacant sites. We are always interested in a good vacant site. When we built our first store there were only grocery stores around it but we believed in our*

*decision and we supported it. When you are a businessman you just know that you have to go for it..."*

And A2 added:

*"I like to spend time with people and listen to them. I like to share ideas and when I hear something interesting I go to [A1] to discuss it. This is how we built our store in City Gate* [a planned shopping centre in east Thessalonki]. *Up to now it hasn't paid back but we know that this store has the potential to become profitable."*

While A4 showed his appreciation of this process:

*"I cannot say that I agree with all the decisions that are made but anyway I can have my own word. And I am happy that someone is listening and replies back to me."*

Company A is flexible and open to external and internal stimulation. The organisation adjusts its strategy according to feedback from the environment, and adapts to emerging circumstances. Top management encourages internal communication and feedback from employees, and aims to build on that.

Finally, the owner of the company had the final word, and in this case he decided to approve the opening of the new store and the subsequent investment. The new store opened in October 2010.

### 5.2.5 Retail location decision making

The third part of the interviews was focused on decision making and particularly on retail location decision making. The purpose of this part of the research was to address the issue of decision making as an everyday practise of managers. The use of mental maps assisted in the creation of a visual representation of the decision making process. The maps incorporated concepts and interactions and some very interesting findings were unveiled through the interpretation of them. In particular, the locational decision that was discussed in depth was the opening of a new store. In addition to this, the relocation of an existing store was discussed with the company owner, A1, A2, and A4. Note that all maps have been annotated in English.

Before discussing the maps the author needs to highlight the use of the language from the members of the company. As explained before the company is owned by A0 and all the other members of the company that have decision-making authority are employees of the company, or in the case of A1 he holds a small part of the shares of the company. Nevertheless, the sense of belonging and ownership is strong as is the sense of responsibility and accountability. All the members that were interviewed not only felt responsible for the decisions that were made but also they used the first person in their narration showing their perception of ownership over the decision in specific but also the material outcome in general. Therefore, it was quite common for members of the staff to refer to the stores of the company as *their stores*, group decisions as *their decision*, and group responsibilities as *their responsibilities*.

A key finding that emerged through this part of the interviews was the number of concepts that respondents drew in their maps. It is interesting that all the respondents that drew cognitive maps not only depicted causal relationships but also had other concepts. Even though this kind of map is not the dominating paradigm of cognitive mapping (Swan, 1995) they have been used in managerial perception studies before. For example, Walton (1986) used non-causal mental maps to research managerial perceptions of the development of financial terms. For example, A2, in the map he drew (see figure 5.1) to describe his decision to open a new out of town store in an unplanned retail area used a total of fifteen concepts.

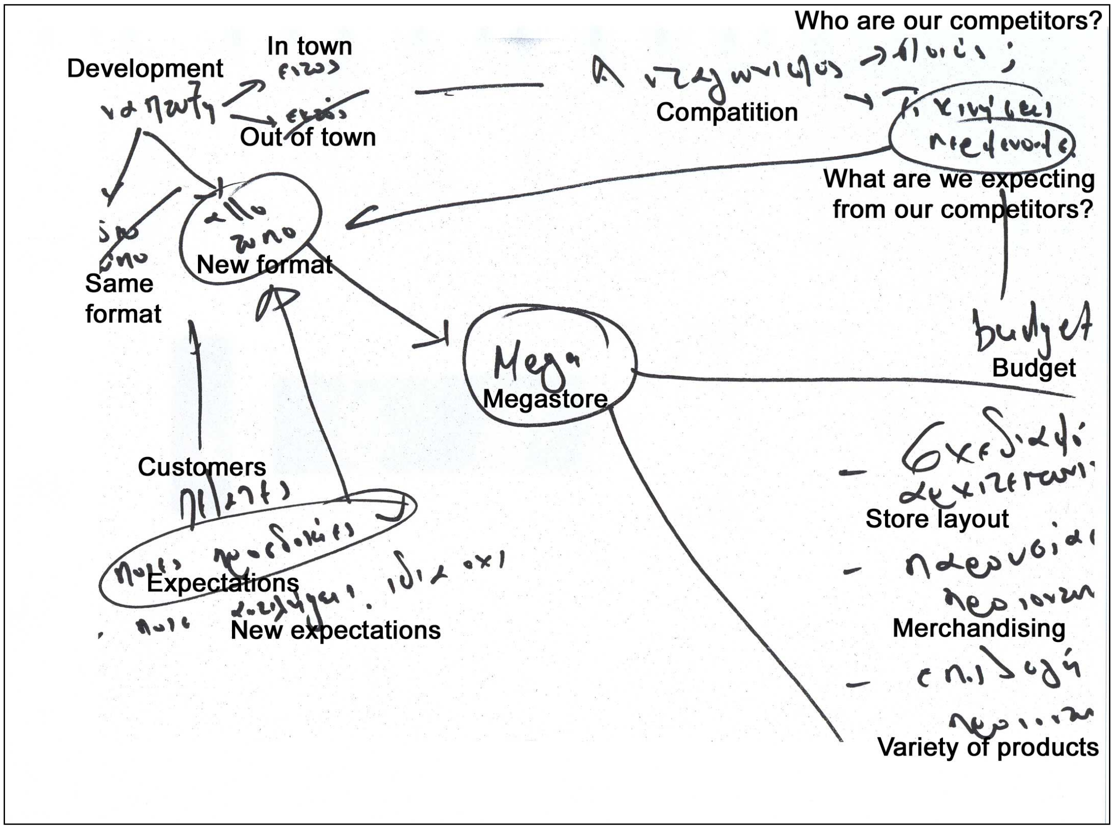



**Figure 5.1: A2's mental map of the decision to open a new store**

A2's map is a mix of causal and non-causal relationships. His decision according to the map was determined by four major factors which are:

1. Trends in retailing formats
2. The expectations of customers
3. Competitors' activity
4. Budgeting issues

A number of constructs that were reviewed in the literature review chapter are consistent with his depiction. Elements of retail change theories can be identified in the concept of future development. The way that he is addressing "*development*" is thoroughly discussed in conflict theories of retail change. A new retail store format that would look different than the other stores is in essence the key idea of conflict change, which is the introduction of an innovative idea by a smaller retailer in order to compete against a bigger one. As was mentioned before, this store was built in order for A2 to compete against Mediamarkt who is a much bigger retailer than him.

The second idea that is introduced in this map is that he focuses on satisfying his existing customers and not potential new ones. Using respectively the words "*expectations*" and *"new expectations"* could be interpreted as an attempt not to lose his customers, implying perhaps his concern about the impact of competitors on them. He drew a causal relationship between customers and development, but at the same time, in the way he drew his map, development has a mediating role between customers and the decision to build this new store. Hence, the meaning that can be given to this relationship is that by attempting to keep the existing customers satisfied he is developing new formats. This resulted in the development of the new megastore.

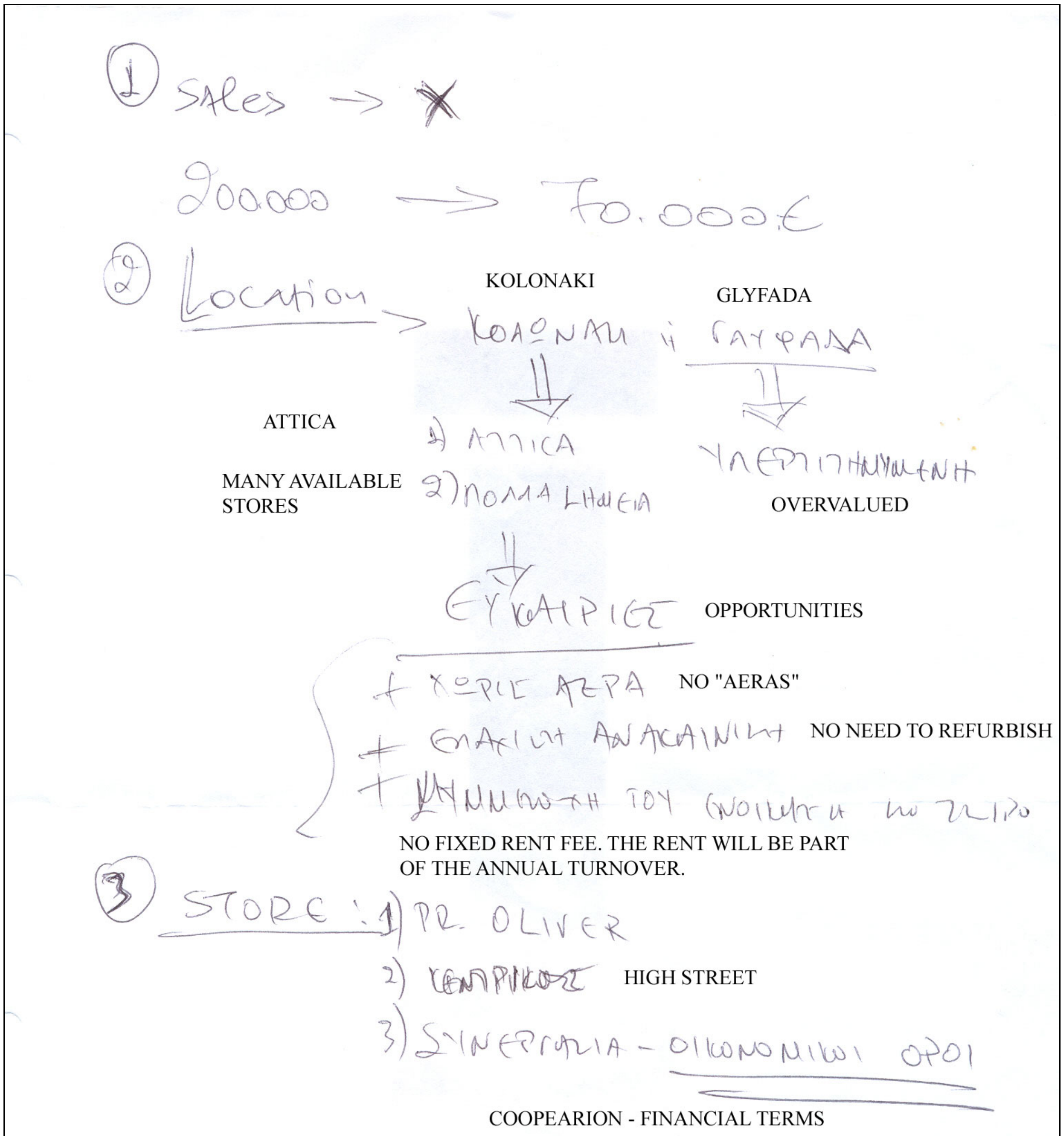
The third element that is depicted in the map is competition. It is again interesting that he indicates a causal relationship between competition and the selection of the store format. The relationship between competition and store format is suggested at two levels. The first one has to do with who the competitors, are and the second one has to do with what A2 is expecting to be competitors' strategy in the future. Competing at the level of a new retail format is *per se* a very important decision for a local retailer. At the same time it is both a strategic and tactical (monadic) decision. It is a strategic decision because attached to the locational part of the decision is a segmentation choice that is the result of the new catchment area that the retail company will create; and it is a tactical decision because it is addressed by the development of a new shop that will require a store image that will be up-to-date and compatible with the current customers expectations.

The element that is portrayed in the map is the budget. It looks poorly defined but A2 used a very characteristic phrase to describe what he was thinking when he put that in the map. He said *"…since I afford it I go for it".* It is also interesting that he assigns no causal relationship between budget and any other concept that is depicted in the map. Considering the whole interview it could be interpreted as if budget is a focal concept of the decision to construct a new store, thus it is related with all the other concepts in the map. Looking at the exact phrase he used to explain how budget lies in his decision making process it could be assumed that it is a prerequisite in order for the whole process to start.

The fifth element that was depicted in the map was the store layout. This is the monadic part of the decision. And it is interesting that he indicates a relationship between the monadic part of the decision with the strategic decision. Even visually the schematic he uses to indicate the relationship between the decision to build the new store, that is the centre of the map, and these monadic decisions does not show a causal orientation but rather it is indicating that monadic decisions are supporting the strategic decision. This conceptualisation is completely consistent with theory (e.g. see figure 2.5, p.) even though it comes directly from A2's experience.

A4's map (see Figure 5.2) has a causal form that in essence describes a path. The path comprises a three-level decision-making framework which suggests that it is operationally driven since the store decision is specifically attached to the achievement of a specific goal. A4's map starts from a claim that he made which was that he was looking to increase his sales from €70,000 per month to €200,000 month. So, by acquiring a new store he was actually looking to achieve a strategic goal which was to increase his sales. Talking about this in the interview he noted that:

"*I was just looking to increase my profits and I thought that the viable way was to increase my sales. I cannot increase my prices because I already sell my products more expensive than my competitors, and I don't see a way to decrease* *my operational and other costs. The only way is to sell more and with my existing store portfolio this is impossible".*




GLOSSARY:

KOLONAKI: IT IS THE MOST PRESTIGIOUS HIGH-STREET IN ATHENS
GLYFADA: SUBURBAN AREA WHERE MOST OF THE WELL KNOWN FASHION RETAILERS HAVE OPENED OUTLET STORES
AERAS: IT IS THE FEE PAID TO THE PRESENT OWNER IN EXCHANGE TO LEAVE HIS STORE
ATTICA: THE BIGGEST DEPARTMENT STORE IN ATHENS

**Figure 5.2: A4's mental map of the decision to open a new store**

The second step he described was the selection of the location. He is suggesting that they had two options: either to acquire an in-town store, or to acquire one in a suburban area. The decision described here is related with issues like the potential consumers, the catchment area, what kind of products they would sell. So, there is also a strategic decision implied here. What looks interesting here is that following this path analytic process A4's advance from the second step to the third is based on some subjective claims like Attica, the city-centre department store, would have an impact on the retailing activity of a wide area, or that property is overvalued in Glyfada. These claims are supported only by A4's "gut feeling", but he feels confident based only on that to proceed with an investment. A key finding of this part of the interview is that retail locational decision making is dependent on the context that a retailer creates. A4 understood the implementation of the opening of a big department store, and the fact that many stores are available in a high street as an opportunity for them to achieve their strategic goal. At the same time he compared alternatives, and he chose what he thought as the best one.

The lower part of A4's map is setting the locational standards of the ideal store. It is a complex and arguably unrelated conceptualisation of some key features that the store should have. With respect to what he said in the first part of the interview about retail change A4 wants to locate their store next to Prince Oliver[11]. He said:

*"I am not that big to go my own way. I am following the leaders"*

In A4's case "*following the leader"* is a strong indication of a strategic choice. That, as well as his choice of a high street store and the financial terms that was again mentioned as the last thing in the map, support the view that A4 had to cope with few unrelated concepts (e.g. follow the leader under tight schedules) that in essence defined the context of the decision making process. It is also particularly interesting that by referring to *leaders*, A4 is not referring to the leaders of the electrical sector. The proposed leader is a retailer that operates in the fashion sector. A4 explained that Prince Oliver's customers have the same profile as their preferred customers; trendy and affluent late middle-aged family people. Therefore setting a store, with all the specific space restrictions, next to a fashion retailer that symbolises the trendy fashion option is a strategic decision as well as a marketing statement.

Having a closer look at how he justifies the "*opportunity"* in his map it is clear that "*opportunity"* is defined by him as a massive saving of resources. This belt tightening attitude was latent in the whole interview. Here is a characteristic piece of the interview

[11] Prince Oliver was then a top 5 by sales Greek male fashion retailer

A4: "… *there are fantastic stores in Thessaloniki that you can get for a very low aeras*[12]. *You can make a turnover of half a million per month in these stores and you need no more than a couple of hundred thousands to pay for the aeras…"*

I: "And why don't you get one of these stores?"

A4: *"I couldn't afford to fail. What if something goes wrong? And you know it's not just me... Plenty of retailers think like me. We see the opportunity but how can we be sure we will not fail?"*

A4 was looking to reduce uncertainty to the minimum. He was focusing on the perception that he is investing his "*own money"* even though that he was referring to a budget allocated to the lease of the property, thus he wants to be as sure as possible for the environment he is operating in. There are some characteristic quotes in his interview like: "*…I am looking for information from any source is available to me. This can be a newspaper, it can be a rumor, and it can be something that a salesman told me. I am listening to anybody that is part of my environment".* What was the core of his argument is that uncertainty has an impact on his investment and he has to secure his investment because he has to provide financial security to his family. It is rather controversial but in a later stage of the interview he said:

[12] Aeras is a Greek idiom meaning the fee that is paid to a tenant in order to leave his store

*"…we are experiencing a time of rapid change and extreme uncertainty now. I know that if I want to survive I have to grow bigger know. But how can I do that…"*

Uncertainty in decision-making is a key factor, as was indicated in the chapter 2. In this case it looks like there is a threshold which is considered as the limit for the retailer to make a decision. The threshold for A4 has a monetary value, the cost of the investment. In a way A2 also experienced the same state of uncertainty but in his case his threshold was not to lose customers. Unfortunately, A3 did not provide maps but from his interview it is clear that his threshold is to keep satisfied the stakeholders. In his interview he said:

*"I have to offer a good level of services to our customers… I have to meet the goals that my senior managers are setting…I have to respect our suppliers' demands for the configuration of the store layout…"*

From these quotes it can be assumed that A3's decisions have to meet some minimum standards too. It is worth-mentioning that the first issue that A3 raised was customer service. Bearing in mind that A3 is the CFO of the company, claiming that the customer focus is the primary consideration shows an overall appreciation of how the retail business works. A3 is one of the oldest members of the company and is a person that built his career in the company starting from the shop floor. His overall comprehension of the business links to the issue of the complexity of the decisions that are made in the company. Having a unique set of skills, experience, and understanding of the business made him a pivotal figure in the boards and the meetings and a highly influential person both in the offices and the shop floor (see also the dialogue section 5.2.4).

A1 is also providing a similar paradigm through his map. A1’s map (see Figure 5.3) includes no causal relationships but rather it is indicating what the factors are that influence their retail location decision making process. The characteristic of his map is the very few factors that influence their decision making process. Perhaps, a reason for that is that he is an employee for the company, so the decision has no direct impact in his own fortune.

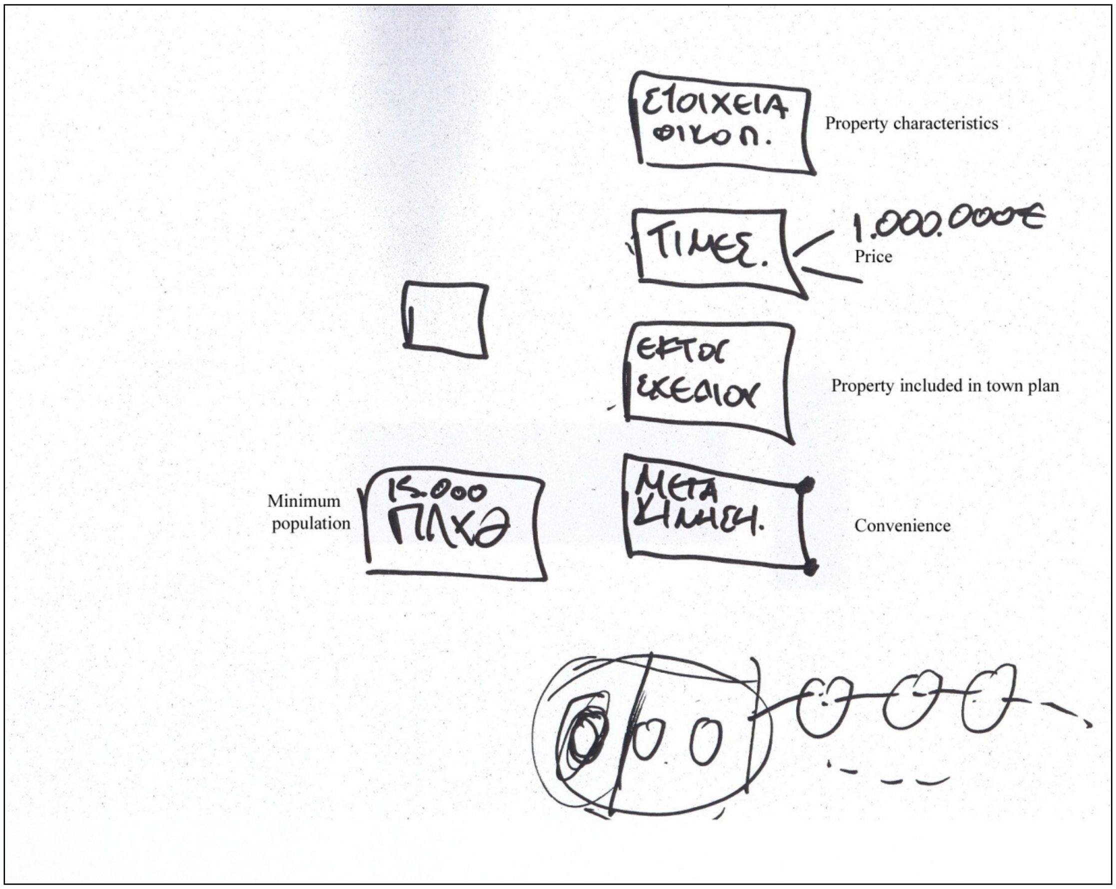



**Figure 5.3: A1's mental map of his decision to open a new store**

What is depicted in this map and was also mentioned in the interview is that his decisions "*always*" have to be supported by data. In order to justify a locational decision he had to calculate in a "*scientific way"* the catchment area; he had to collect documents from public services, and negotiate the best price for the land. A1 directly showed appreciation and consideration of policies and regulation that have to be followed for all his actions; there were formal documentation for his decisions, including minutes kept from his meetings and was the only one who had an understanding of the planning rules and restrictions. His unique characteristic was that he was the only member of the top management team that came to the company after having a successful career with other large retailers in Greece. His decision making process context is different than A2's and A4's and has some similarities with A3's. What is common to all four respondents is that they have a minimum of expectations to match with their decisions. Everybody has a threshold that can be very atypical and abstract, or it can be very specific and typical.

A2 and A4 also drew a map of a relocation decision. Both maps are very simple, but have a common characteristic that makes them interesting. The cognition that was mapped in this case by both respondents indicates a causal relationship by just two concepts where the effect is exactly the same.

A2 (see Figure 5.4) said that relocation happened because the old store was in a declining market district and it was relocated in a location where it could compete against the large international competitors that have expanded in Greece. What is important is that he is using a scale to describe the analogy of the investment between the new store that was mapped in Figure 5.4 and this one.

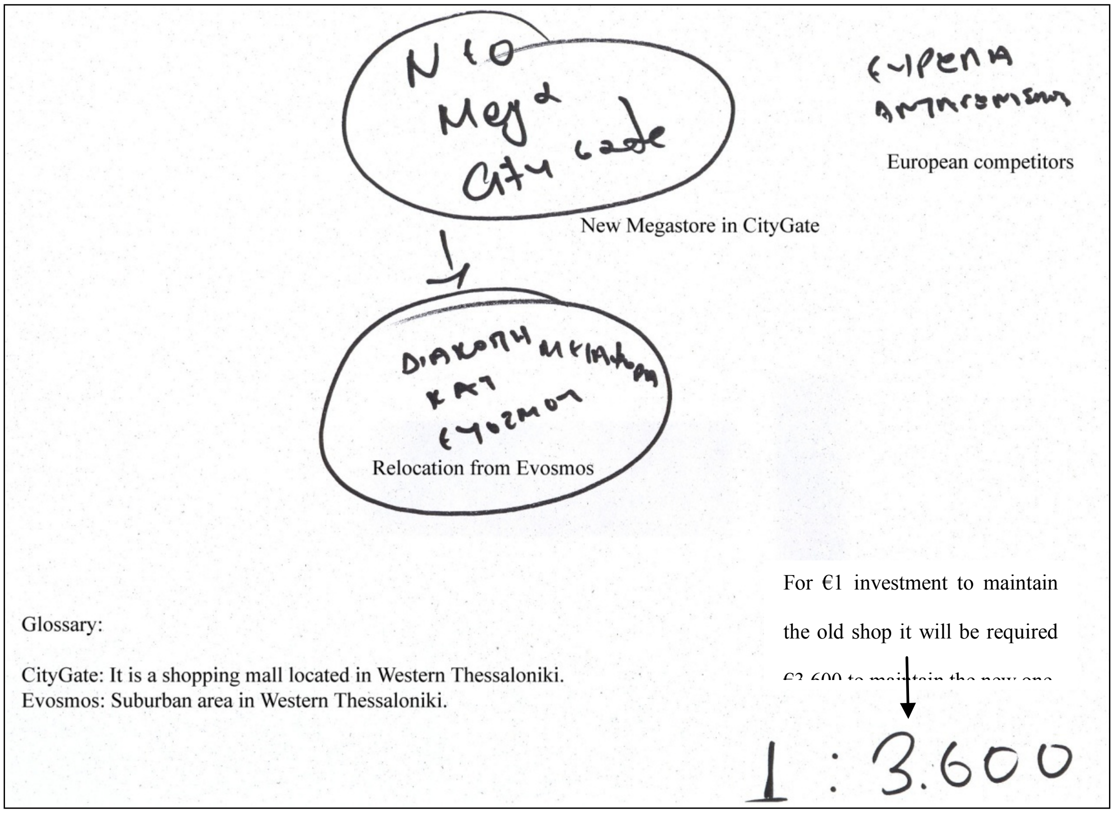



**Figure 5.4: A2's mental map of the decision to relocate**

While drawing this map he said:

> *"I can't say much about this. I had a useless store and I could get rid of it so cheaply. It was the natural thing to do".*

A4's response has common characteristics. His map (see figure 5.5) is more like notes he was keeping while he was thinking out loudly.

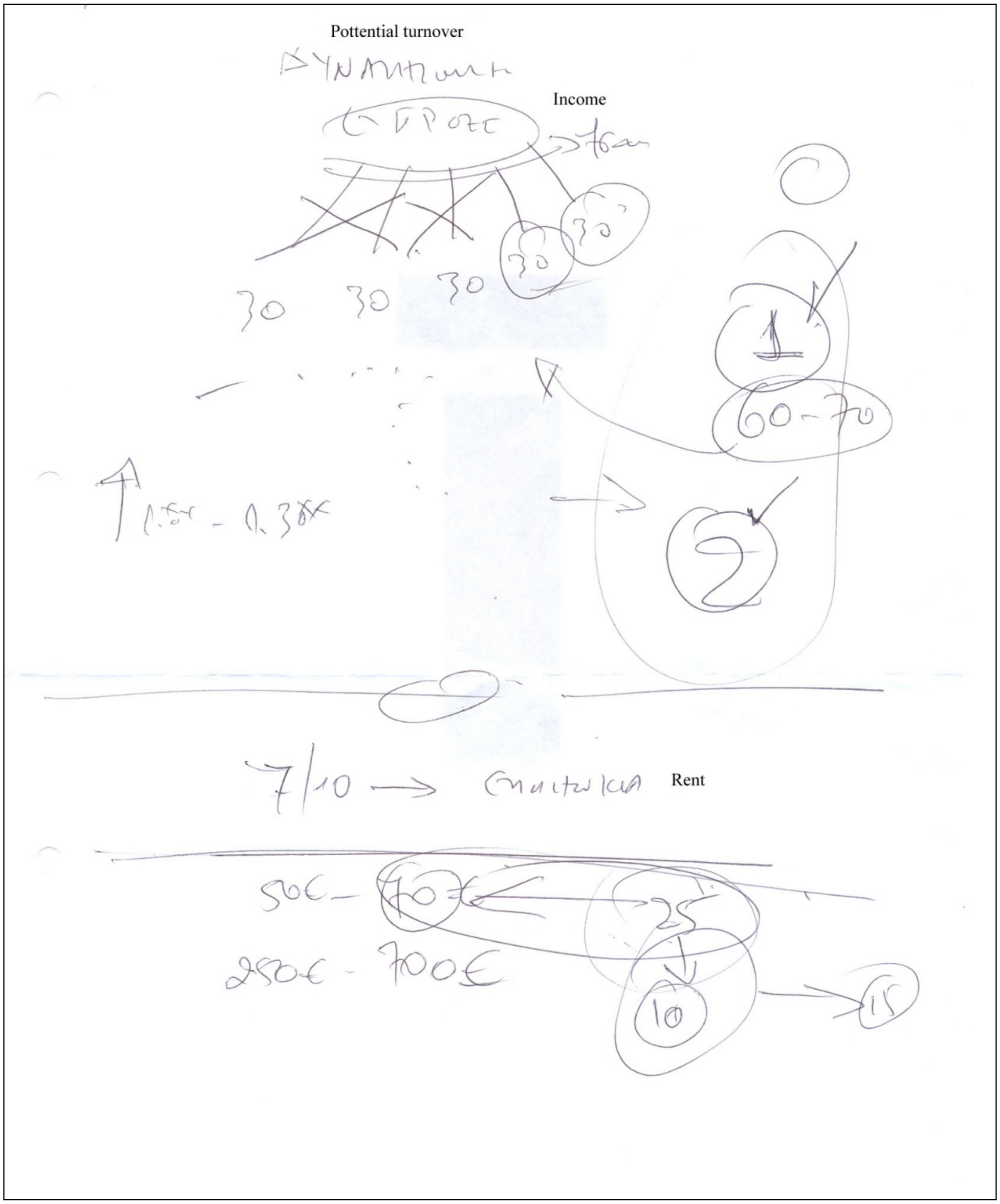



**Figure 5.5: A4's mental map of the decision to relocate**

What this map is showing is that the reason he is relocating his store is that in the long term he wants to make changes to his store portfolio, having as his main objective to keep big stores in high streets and relocating, merging, or rationalising the others. His map also incorporates of two concepts, the turnover that the stores are making and the rent. The context wherein he is making his decision in this case is clearly narrower. There is a clear causal relationship between the concepts (even though it is not drawn in the map) and he just wants to make this decision as quickly as possible[13].

### 5.2.6 Understanding complexity

Company A is structured around the owner-CEO and the marketing manager, so the complexity of the environment concerns only them. A2 stated:

> "*Yorgos* [first name of the company owner] *and I deal with everyone. We want it to be this way. We hear things and we are always listening to our employees, our customers, and our suppliers but we figure out the bigger picture and decide where we can and where we want to get involved."*

A0 observed:

[13] I noticed the same thing in A2 interview and I thought it might be a problem with the research design, such as a fatigue effect to the respondent, so in A4 interview I asked him to draw the relocation map first and the new store map afterwards. The result was the same.

*"You know how it is here... It's just me and [A2]. And on the other side there are employees, suppliers, customers, consultants that work for us, the banks, the government, all these people... I cannot stay in touch with all of them all the time. Too many people, too little time..."*

A0 has made a number of interesting comments on the development of an environment that fosters and supports the emergence of *dissipative* structures. He said:

*"I let people to improvise, that's our strength"*

This is similar to the point A1 made on the way the company deals with urgent situations in section 5.2.4. The open doors policy helps the staff to grow and emergent structures to appear when the company deals with a challenge.

This chaotic stability, a constantly changing dynamic that is driven from the environment, or the feedback loops in the complexity theory vocabulary, is a key characteristic of an adapting organisation. Trying to understand what is the *attractor* of the system, the characteristic that keeps it coherent it can be argued that it is the culture of openness. This is the constant that the owner, the senior managers, and the rest of the staff kept on bringing forward when they were asked what is the reason they feel comfortable when changes happen. A5, an external consultant to the company, made an interesting point in an informal discussion:

> *"It is like they want it* [a change] *to happen... they ask it... and when it happens they happily embrace it..."*

A1 stressed in relation to this:

> *"We cannot be prepared for each and every different scenario. What we can do is to be prepared to move on".*

## 5.3 Case Study: Company B[14]

Company B is an international SME operating through a store network of 50 plus stores in Greece and Cyprus. They evolved from a local family-owned retail company to a major retail chain mainly based on the funding that was injected into the company through its entrance on the stock market in Athens. The company is still under the influence, but not ownership, of the family of the founder.

[14] Company B made clear that they do not want to be named in the Thesis. Therefore information that can identify them is excluded.

As a PLC the company had a rigid framework of corporate governance which was reflected in the actual data collection both in the form of the standardised communication and the reluctance to share any kind of information that could potentially identify them. Their decision-making was primarily based on facts and figures as managers were formally accountable for their decisions and actions. It was also obvious that the managers were conscious of the results a failed decision that could have on them, and therefore their decisions were characterised by aversion and risks were limited, if any at all.

### 5.3.1 The contextualisation of the business environment

B1 and B2, in contrast to B3 and B4, are responsible for the key strategic decisions of the company. The components of the environment that are acknowledged as significant for them appear to be different between them. B1 and B2 suggested that they have to conform to formal rules and policies, and this can be very difficult especially when they have to deal with the government. B1 suggested that:

*"… when I have to get a license from the local authorities or from the town-planning bureau it is very easy if I act as an individual. Everybody there can be bribed. But it is not the same thing when I act*

*as a manager. I have to follow the laws and the rules because it is the reputation of the company on the stake"*

While B3 cited public authorities specifically and other people in general outside the company as elements of the complex environment:

*"There are so many people and public authorities involved in my work that make it unbearably complex. I have to keep in touch with people here, in Athens, in Thessaloniki, in Crete, abroad, sometimes I e-mail people that I haven't even seen in my life."*

Company B is a much larger company than company A, and therefore has relationships with more individuals and organisations than A. This offers a potentially much wider range of data and information to the company to support the strategy development process. The plethora of data and information sources are a potential source of strategic opportunities for Company B. However, although it has a management information system in place, it is not yet exploited. B1 said:

*"... I don't have enough time to deal with all this data I receive. There are hidden treasures in here* [points to a pile of papers]*, but it is practically impossible to read each and every one of these memos and*

*reports. It's a real pity that so many opportunities are wasted and so many threats that could have been foreseen were unobserved."*

A common element for both Company A and Company B is the appreciation of time as a key component of complexity. B1 and B2 agreed that the time they can spend in reviewing data and information is related to the level of complexity they perceive at the present time and also their ability to reduce complexity in the future. B1 said:

"*I think that the data and information I have access to are enough to predict the future. But it would take ages to review all this information and by the time I might have finished, something new would have emerged. "*

B2 added:

"*I usually believe that if I had a piece of information just a little earlier than the time it came to my hands I could do things different. I would have a clearer view of the environment and I could plan a better future for the company."*

In Company B the approach was to follow the previously articulated strategy. As B1 stressed:

*“We are planning our expansion. We follow a strategic plan and build new stores based on this plan. We follow our competitors, we want to be where our competitors are..”.*

While B2 added:

*“The timing is not good right now, but we are going to follow our plan. It is more expensive to borrow money, and it is going to cost us more than we calculated but it is important for us to show that we are strong.”*

Underlining the dedicated pursuit of the strategy by the company leadership, a lower ranking manager (B4) commented:

*“Sometimes I send memos to the top managers but I think they don’t pay any attention to them. I don’t think it’s useful to follow our competitors everywhere. It is a bit arrogant to believe that you can have a store everywhere.”*

### 5.3.2 The nature of environmental uncertainty

In Company B the managers have a view of the environment that is influenced by more factors that in Company A, however the major difference can be found in the area on technology and the management of the organisation. The laws and the regulations are also an important factor, possibly even stronger than in Company A as Company B is a PLC and the managers are not only accountable to the board but also to the shareholders and the auditing authority. As B1 said:

*"We have a responsibility not only to the managers but also to the investors that trusted us with their money and also to the auditing authorities; that latter is the very strict and we have to be transparent."*

Technology appears to have a strange role, even though it is well-appreciated that it is an important asset for the company it is also perceived as a factor that increases the complexity of the managerial role. B2 suggested that:

*"Our decision support systems and generally our MIS is powerful, so powerful we cannot cope with it!"*

Similar comments were made by almost all the interviewed managers. It appears that they have a good understanding of the opportunities the emerge from the use of the technology however they prefer to stick with solutions that are less time consuming and in a sense more prescriptive.

In company B it is also well-established that the resources of the company, tangible and intangible, are another element of the environment. Still, it was a common outcome of the interviews that managers saw them as a safety net rather than a source of opportunities. Scanning the environment was a task that was documented and therefore it was another exhibit that the “*job was done”*. An interesting observation came from B4:

*“I report on the market trends every day, every week, every month, every quarter, every semester, and every year. And as far I am concerned there is also a five-year report which is due in two years. In my point of view this is good because I have a very detailed job description. I know what I need to do in order to do my job right!”*

This comment shows that making sense of the environment, which happened a lot in Company A, is quite different to the environmental scanning that happened in Company B. Both approaches worked though and therefore this cannot be seen as an advantage or disadvantage of the company.

The next theme that emerged was relevant to the competitiveness. In included the chains of the distribution channel and how they are managed efficiently. The managers positioned the Company against the other parts of the chain, and not only suggested that one part is influenced by the others but they also stressed that the company is managing this relationship in a dynamic way. B2 suggested that:

*"We have a good idea of who our suppliers are, we do a lot of research on our customers and we feel we know who they are, and we are confident that we have intelligence to understand the competition as well."*

Finally, another emerging theme is the strategic management of the organisation. It became obvious that the managers had to deliver measurable results that were linked to the strategy of the company. This was reinforced by the senior management team and the board of the directors. As B3 said:

*"There is a very clear focus on targets. We have to achieve our goals in order to receive our bonuses. The board is waiting for result."*

While B5 stressed:

*"I get the store targets for the day, the week, the month, the quarter, the semester, and the year. It may sound too much but for me is great tool for my work. I know what I have to deliver and when I need to deliver it by."*

The sense of the timely response is something that appeared earlier as well in the quote of B4 and is a strong indication of the prescriptive approach that Company B had to pursue its strategy within the given environment. Table 5.3 summarises all the factors that appeared in the data collection to influence the perception of the business environment for the staff of company B.

| | |
|---|---|
| Political factors (2) | 1. Laws |
| | 2. Regulation |
| Technological factors (1) | 1. Information systems |
| Resource management (4) | 1. Information circulation |
| | 2. Data |
| | 3. Property owners |
| | 4. Estate agents |
| Competitiveness (3) | 1. Competition |
| | 2. Consumers |
| | 3. Suppliers |
| Management (3) | 1. Strategic goals |
| | 2. Senior management |
| | 3. Profitability |

**Table 5.3: Components of the environment causing uncertainty - Company B**

### 5.3.3 Conceptualisation of uncertainty

The idea of living and dealing with uncertainty was apparent in the interviews with the members of Company B. The concept of managing the uncertain environment as part of the "job description" emerged in a number of interviews and even more strongly in the informal discussions where the interviewees were more relaxed and open. All the three levels of uncertainty were traced in the communication the author had with the members of the staff. The power of the structured organisation environment was used a lot as a safety net for their decisions. Also, the boundaries of the authority ware another way to reduce the uncertainty of the environment and subsequently of the decisions.

When they were asked to define what environmental uncertainty is the definitions were similar to Company A and involved the inability to predict the impact of the strategic decisions that the company made to the wider business environment. For some of them, for example B2, the issue of the accountability to the shareholders was quite stressing. In one of the discussions we had he suggested that:

> *"It is very different to be accountable to your boss and losing your job if you mess it up to being prosecuted because a poor decision caused the loss of lots of money. This makes me risk averse. I will always play safe now".*

Investment decisions that are linked to capital attraction from the stock market or through the increase of the share capital are subjected to investigation from auditors that report to the State. This drives the staffs that make strategic decision reluctant to make risky ones as they could be accountable for misuse of funds or even for fraud.

Another interesting point was raised be B1. Referring to his duties he mentioned that:

*"I have a lot of weight on my shoulders. My decisions are not only related to the attraction of consumers but also making sure that we will have a positive image out there. The people above me will need to raise money from the stock market and we need to be spotless in our communication"*

This reinforces the message of B2 about the role of the shareholders as a major source of uncertainty in their environment. In one of the CEOs' memos to the staff it was stressed that *"... our top priority is the satisfaction of our shareholders"* while a very similar quote can be found in the first page of their corporate website.

Another area of uncertainty is the unstable economy. Again, this is closely related to the satisfaction of the shareholders. In the same memo the CEO says that

*"The market is declining; we approach a period of economic crisis, however we need to stay focused on our major aim."*

The future is a major concern for B4 as well. He said on a number of occasions that he struggles to understand the priorities of the consumers. There are marketing research data that he gets every fortnight, monthly, and quarterly and during the period that this data was collected the messages he was receiving were inconsistent. Interestingly, he also referred to the shareholders because some of the data that he recently received came from a focus group with some minor shareholders. The major finding of this research was that these shareholders viewed company B as a vehicle to quick profits. None of them saw company B as a long term investment that they would hold on to during a period of crisis.

Therefore uncertainty for company B was strongly associated with the satisfaction of the shareholders. This explains their dedication to the application of corporate governance and the thorough transparency of their strategic decisions that involve the investment of significant resources of the company.

#### 5.3.3.1 State uncertainty

The key characteristic of the data collected regarding this area is the detachment of the interviewees from the everyday, operational side of the business. It was mentioned by all of them that there are *other managers* to deal with the day-by-day issues. B1 said for example:

*"No no no... The board provides managers with a plan and they will implement that. My time is precious, I cannot spend it dealing with minor operational matters"*

B5 on the other hand experience a state uncertainty very strongly. He says

*"There are quantitative and qualitative targets I have to meet. I am monitoring them daily and when the end of the week comes I know how close we are to achieving them, the same with the end of the month or the semester. Believe me, it is very difficult to chase these targets and if we do not meet them we either lose our bonuses or we can even loose our jobs. And being uncertain about the job safety is definitely a source of uncertainty..."*

During the observations the author did in the stores the tension among the staff was obvious closer to the end of the month. They put more effort on the sale as they knew that they could lose their bonuses. Sometimes they were arguing or at other times they motivated one the other.

Having a formal set of targets proved to be an attractor for the coherence of the business. From the top to the bottom the staff operated having a clear target to achieve. As much this was a source of state uncertainty this was also a way to reduce the uncertainty. A clear target that was met was the reassurance that the future will be bright while an unmet target meant stress and uncertainty for all the managers and the staff. Therefore, state uncertainty was primarily driven by the internal structure of the company. It was founded upon the clear and transparent communication of job-specific goals, and it was bounded by the limits of the accountability of each one of the staff to the reporting manager.

#### 5.3.3.2 Effect uncertainty

Company B was planning to open a new free-standing store in a retail park in Thessaloniki during the period of the data collection. Therefore the interviews revolved around this issue and how this project will influence the company. Owning property is traditionally considered in Greece as a symbol of prosperity, and even though company B is a public listed company it still has in its culture this trace. Amid the turbulence in the economic, social and business environment the company raised money from their shareholders to finance the project. The CEO in his public address said that this will be *“a move that will guarantee the stability of the business”* and that was also the message that was communicated by the other members of the company that were interviewed.

The unstable business environment though was a key factor of uncertainty about the success of the project. An interesting quote comes from B1. He said that

*“Good intentions is the worst enemy of the company”* and he elaborated by referring to his pessimism about the development of the sector in the future. He said that the risk taken is disproportionate to the expected return on the investment. B2 referred to the impact that a new store will have on the corporate equity and how a failure would damage it.

Another interesting point was raised by B1. His point was related to the relative position of the company against the competition. He suggested that making strategic decisions does not necessarily mean that the company will grow bigger. Particularly in a period when one of the major national competitors in the sector defaulted and most of the local competition is defensive, it is possibly the time to plan how not to lose a lot rather than making more. In an informal discussion between the author, B1 and B4 was raised the issue of sustaining the business in an environment of reduced demand. B4 suggested that there must be a balance, a plan to go forward is necessary but this plan does not have to be a growth plan, and continued by referring to the factors that attract consumers to an electrical store by saying that he does not have any evidence to show that more stores make a company more credible or attractive. On the other hand there is a lot of evidence to support the view that a poorly located store, or a store that is operationally undermanaged is a “*no-go”* factor for the consumers. He concluded by asking “*What do we aim to do with this store?”.*

These conversations brought to light two factors that created uncertainty for the staff. The first one is the duality of the goals. The company wants to keep satisfied both shareholders and the customers and this increases the effect uncertainty for the managers as they feel that one is contradicting the other. The other factor is about the narrowness of the understanding of the bigger picture the managers had. Apparently this is intentional in the first place, as it is seen as a way to be less accountable, but when it comes to the big decisions they feel that they do not have the fundamental knowledge to become part of them. Therefore, formality and accountability is a barrier for them to engage in strategy development.

5.3.3.3 Response uncertainty

This area was very intriguing as there was a lot of debate around the rightness of the choices. The common ground for all the managers was that the sector declines therefore it is time for a strategic decision related to whether the company will be aggressive or defensive during this period. Yet again, the shareholder-satisfaction factor came very strongly to dominate the debate.

B2 was very clear about it. He stressed that within a declining sector they need to safeguard what they have and not open new fronts "*here and there*". However, in an informal discussion he was very vocal saying that "*we have to move to*

*Bulgaria*". That shows that he weighed different opportunities and concluded that growth will come from the expansion to another country.

The CEO in a shareholders' meeting said that "*our mission is the growth and the prosperity of the company*" which is a clear message of a strategic choice during turbulent times. He also stressed on another occasion that this growth can come even from the acquisition of a competitor if this suits the goals of the company[15].

B5, who had a closer contact with the consumers of the company, was more reluctant to make any kind of a risky move. As mentioned in Section 5.3.3, he was one of the members of the staff that very clearly stated that he is averse to any kind of risk and that was exhibited again when he stressed that "*we shall protect our market position and save expansion for later*". B1 was also averse to any risk. The point he made was that "*we do not need more stores right now, we have as many as we need*". This is an interesting view because it suggests an overall understanding of the business and the market that was not shown on any other occasion. It can be attributed to the potential impact that a success or a failure would have on him as a major success or failure in a turbulent environment that he was opposed to may mean that he would become to be seen unreliable within the business. This raises again the issue of accountability and also brings to focus the issue of career progression. He, as a professional manager, has a strong sense of continuity in his career and he cannot afford a

[15] Which happened one year after this data collection project

failure, not to mention how difficult it would have been to find a new job in a turbulent business landscape.

### 5.3.4 Dealing with a strategic location decision

Company B has a firmly structured process of retail location development, following a predetermined plan. The plan comes first, the threats and opportunities that emerge in the environment are absorbed, and the plan is formally reviewed when it proves to be inadequate. The staff of Company B show a limited understanding of the environmental context as a result of choices being made by the top management of the company. The strategic plan and the formal normative tools that Company B uses frame the actions of the members of the organisation, and drive the way that the organisation deals with the environment.
The second difference between the companies is related to the way that they organise themselves in order to deal with emerging circumstances (opportunities or threats). B1 said:

*"When something urgent comes up it takes us some time to appreciate it. We prefer to plan things and we believe that we can predict things but nonetheless bad things or good things appear in our way ... and then we review the past and try to adjust to this urgent situation."*

While B3 noted:

*"Sometimes we see things coming and adjust before they become serious. The company is fairly bureaucratic and it is not easy to make rapid changes but anyway we can skip the hierarchy and at least save some time this way."*

And B4 observed:

*"I do not believe that I understand all the big changes that are happening. One day I might receive a memo from a top manager asking for an estimate of the cost of closing a store, and the next day they ask me to start looking for vacant sites. I understand that the plans change from time to time, but I cannot understand the direction of the change."*

When an unexpected event happens Company B has a structured behaviour in place, related to rules and the heuristics of the top management of the company. With respect to the retail location strategy Company B follows strict plans that the managers of the company believe are robust enough to withstand changes in the environment; or, if not, at least when changes happen, they have alternative plans to implement.

B3 seemed very confident by saying "… *we have the policies that help us reduce uncertainty. I can ask from the headquarters all the information I need and I know that I will have it".* She also talked about the kinds of information that help her reduce uncertainty "…*numbers and historical data help me reduce uncertainty. I feel very comfortable when they ask from me to achieve a goal, even when it is an overestimated one, and they provide me with all the data I need. Numbers help me feel more secure, and numbers makes everyone in here feeling confident".* Even though saying these things in a later stage of the interview she noted that "*…I am trying to spend time in the stores. I want to communicate with the customers and the employees. They are giving me a sense of what is going on in the market".* When I asked her why she needs this kind of information since she said that numbers and historical data is the information that makes her comfortable she said that "… *we serve consumers. Numbers show past trends or perhaps how good we served them before but I want to have a closer look at their present attitude. This helps me to know if what I am doing has an impact on my customers and consumers".*

### 5.3.5 Retail location decision making

The data from Company B is not as rich as Company's A and does not include mental maps to illustrate the locational decision-making process of the managers. Nevertheless there is interview data that was collected and will be presented in this section.

In Company B, as mentioned in 5.3.4, the retail location decision-making approach was to follow the previously articulated strategy. B1 stressed that

*"We are planning our expansion. We follow a strategic plan and build new stores based on this plan. We follow our competitors, we want to be where our competitors are.."*

And B2 added, relating this back to the shareholders expecations:

*"The timing is not good right now, but we are going to follow our plan. It is more expensive to borrow money, and it is going to cost us more than we calculated but it is important for us to show that we are strong."*

Underlining the dedicated pursuit of the strategy by the company leadership, B4 commented:

*"Sometimes I send memos to the top managers but I think they don't pay any attention to them. I don't think it's useful to follow our*

*competitors everywhere. It is a bit arrogant to believe that you can have a store everywhere."*

Company B has a firmly structured process of retail location development, following a predetermined plan. The plan comes first, the threats and opportunities that emerge in the environment are absorbed, and the plan is formally reviewed when it proves to be inadequate. The staff of Company B show a limited understanding of the environmental context as a result of choices being made by the top management of the company. The strategic plan and the formal normative tools that Company B uses frame the actions of the members of the organisation, and drive the way that the organisation deals with the environment.

### 5.3.6 Understanding complexity

The basic finding of this part of the research is that the interviewees of Company B do not see their internal environment as part of the bigger picture of complexity. For example, B2 said:

> *"Our competitors, and our consumers, and all the potential customers, even our suppliers and the government make the system complex.... [but] we have the means to deal with them...."*

While B4 cited public authorities specifically and other people in general outside the company as elements of the complex environment:

> *"There are so many people and public authorities involved in my work that make it unbearably complex. I have to keep in touch with people here, in Athens, in Thessaloniki, in Crete, abroad, sometimes I e-mail people that I haven't even seen in my life."*

Company B is a relatively large SME. This offers a potentially much wider range of data and information to the company to support the strategy development process. The plethora of data and information sources are a potential source of strategic opportunities for them. However, although it has a management information system in place, it is not yet exploited. B1 quoted in Section 5.3.1 to be critical on the lack of time to fully exploit the information system of the company supports that. This is presented strongly in a quote from B2 as well who stressed:

"Why could have used these resources more ... wisely".

In Company B the *strange attractor* are the strict prescriptive processes that have in place. When they come to a *bifurcation point* the solution is to get advice or follow the routines the company has in place. Even though the response to the challenges is prescriptive the company is open to the feedback of the environment. In fact, it embraces it and uses it in a productive way for the delivery of long term plans. The company exhibits organic properties eg learning and memory. B4 stressed in relation to that:

*“We learn from our failures, we track the shops that underperform and try to understand the reasons.”*

Emergence comes through the following of the patterns; the company may be reliant to protocols and prescriptive plans but this does not stop it to change. For example, when the opportunity emerged Company B expanded overseas. B2 explains that:

*“This was not supposed to happen then, but we were thinking of it and we had planned the methods of our internationalisation. We may have changed a thing or two but the roadmap was there.”*

# 6. Discussion

## 6.1 Introduction

The purpose of Chapter 6 is to compare the findings of the research (see Chapter 6) to the existing literature (as reviewed in Chapter 2) bearing in mind the aim and objectives that were set in the Introduction of this Thesis (Chapter 1). The order of the sections in this chapter follows the order of the research objectives. The chapter starts with a discussion of characteristics of the strategic decision-making in Greek retail SMEs. This section is followed by one on the manifestation of uncertainty in Greek retail SMEs. The next section of this chapter refers to complexity theory and how it explains the strategic process in the aforementioned companies. They are followed by the sections where theory is developed, therefore in section 6.5 it is presented a conceptual model of strategy development and implementation while in section 7.6 the discussion focuses specifically on the strategic location decision in retail SMEs.

## 6.2 The characteristics of strategic decision-making in Greek retail SMEs

The empirical findings of the reseach only partially agree with the literature. Bourantas and Papadakis (1996) research had shown that decision-makers in Greek organisations are less rational than managers of similar positions in US companies. This was fully supported by the findings of the research with the managers of Company A; however, the findings in Company B are rather different and describe a company where managers are making rational decision using as much information they can process. In fact, managers from Company B stressed that they receive that much information that they cannot make use of it as their time is relatively limited. The use of MIS and IT decision-support tools by the managers in company B can be seen as a development of the findings of Vlahos and Ferratt's (1995) research, where they found that the use of IT support in decision-making has been increasing in Greek organisations. The findings of this research are also consistent with the findings of Papadakis (2006) who found that the decisions that are made in Greek organisations are on average more influenced by the context rather than the strategist himself. This is relevant to the way decisions are made in Company A where it was found that the CEO intentionally allowed staff with greater contextual experience to lead the projects that were related to the decision being under negotiation, keeping for himself a moderating and possibly supervising role. This attitude of encouragement and empowerment of the employees in Company A is in to agreement with the findings of Xenikou and Simosi (2006) whose research on the employees of a large banking institution in Greece showed the positive impact of empowerment and the promotion of the corporate success through personal achievement.

The author's interpretation of these findings concurs with the findings of the research of Psychogios and Szamosi (2007) who suggested that there are the appropriate circumstances for businesses in Greece to embrace more modern and sophisticated management and decision-making practices. In this research this was exhibited in both companies. Company A showed adaptation to the economic crisis which resulted in the development and implementation of an aggressive investment strategy, building on and exploiting the opportunities that emerged from the retreat of the competition. Company B on the other hand decided to absorb the crisis and stayed focused on the maximisation of the value for the shareholder. The research also confirms the findings of the research of Katou and Budhwar (2008) who suggested that successful business decisions are more likely to happen when the members of an organisation are part of the decision-making process.

However, it should be noted that most research on decision-making in Greek organisations has taken place in larger ones, mostly from the banking or manufacturing sectors. This research comes to contributes to this debate by finding that the modernisation of the decision-making process by the incorporation of decision-support technology and the participation in the decision-making process by a wider base of staff are practices that have had a positive impact in retail SMEs.

### 6.3 The manifestation of environmental uncertainty in retail SMEs

The evidence of the empirical research supports the view that companies of different characteristics, and with employees of diverse backgrounds perceive different sets of factors to define the uncertainty of the environment. Table 7.1 summarises the tables 5.2 and 5.3 that can be found in sections 5.2.2 and 5.3.2 respectively. The evidence of the research indicates that environmental uncertainty is understood by the individuals, and therefore within the organisation, in different ways.

| | Components of the environment | Company A | Company B |
|---|---|---|---|
| Political factors | 1. Laws | X | X |
| | 2. Regulation | | X |
| | 3. Banks | X | |
| | 4. Interest rates | X | |
| Technological factors | 1. Information systems | | X |
| Capital management | 1. Information circulation | X | X |
| | 2. Data | | X |
| | 3. Property owners | X | X |
| | 4. Estate agents | | X |
| Competitiveness | 1. International retailers | X | |
| | 2. Competition | X | X |
| | 3. Consumers | X | X |
| | 4. Costumers | X | |
| | 5. Suppliers | X | X |
| | 6. Survival | X | |
| Management | 1. Strategic goals | | X |
| | 2. Senior managers | | X |
| | 3. Profitability | | X |

**Table 6.1: Components of the environment causing uncertainty**

This finding is consistent with the findings of the research of Duncan (1972), Miles and Snow (1978), Wernerfelt and Karani (1987), and Freel (2005). They are particularly relevant to Freel's findings who noted that the experience of uncertainty is contextual and changes over time depending on the circumstances.

In eliciting a theoretical generalisation to this point it can be noted that this is essentially research into change that takes place in the environment and with an impact on the retail sector. Brown (1987) in his work on understanding *retail change* has explained the impact of the context on institutional change. The findings of the empirical research indicate that retail location decisions are influenced by the environment and particularly by changes that happen in the retail environment. A key finding of the research, which is not consistent with the existing literature, is that retail change is not necessarily only a factor that causes environmental uncertainty but it is also paradoxically retailers' response to uncertainty. It is the means of overcoming uncertainty and coping with it. In fact, it is a response that not only aims at coping with uncertainty but also it is a way for them to compete. A conceptual framework is suggested that links existing theory with the empirical findings reported here (see Figure 7.1).

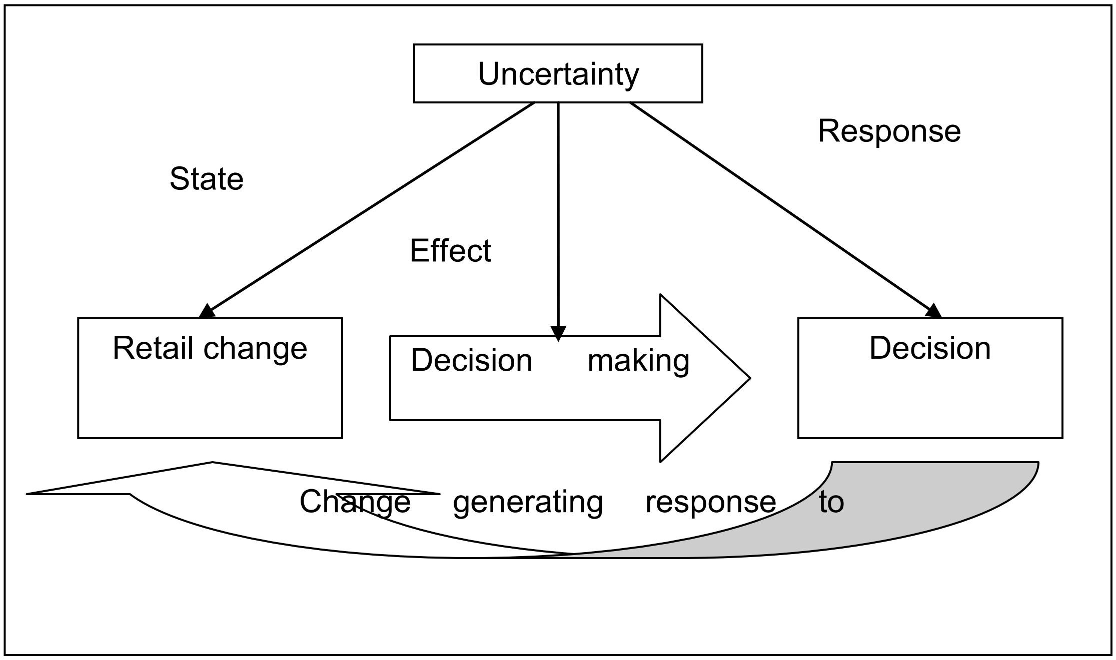



**Figure 6.1: Conceptual framework deriving from the research**

As was argued previously, managers experience state uncertainty when they believe that the available data and information they have is not enough to understand a phenomenon (Duncan, 1972). Retail change is a phenomenon (Brown, 1987) and the understanding of the phenomenon is influenced by the state uncertainty effect.

Evidence from the research indicates that effect uncertainty influences the decision-making process. This happens because the respondents feel unable to predict the changes in their business environment, which is the typical symptom of effect uncertainty (Milliken, 1987). When respondents have to make decisions, and particularly retail location decisions, they are influenced by the effect uncertainty because they are not confident about the outcome of their decisions.

So, they are hesitant in making decisions and in order to become confident (reach the threshold level of confidence) they are making decisions that are the most effective according to their conceptualisation of the environment.

When managers come to make a decision they experience response uncertainty. Response uncertainty was defined as the inability to predict the likely consequences of a response choice (Miliken, 1987). This is particularly important when decisions involve retail location because a need for a strategic response to a threat or opportunity is implied. The evidence of the exploratory research indicates that respondents attempt to reduce response uncertainty by making decisions that exploit the opportunities or meet the threats by attempting not only to adapt to their environment but furthermore to change the environment to the extent their company can.

The intentional generation of conflict within the environment is well document in the retail change literature. As Brown (1987) noted, the conflict theory of retail change came as an explanation for the development of innovative retail formats. Conflict theory basically suggests that retail change is an action – reaction sequence. These are: shock, defensive retreat, acknowledgement, and adaptation (Stern and El Ansary, 1977). Brown (1987), discussing the implications of conflict theory, notes that all four phases are dependent on managers' perception of the event. The shock happens when the manager understands that there is a change in the environment, which is a basic feature of state uncertainty. Usually, this change happens because minor competitors want to shake up the environment or to take advantage of a change that takes place anyway, and present themselves as an equal alternative to the leaders of the sector. In the phase of defensive retreat managers are evaluating the changes that have happened in the environment, which is the state of effect uncertainty. In the phase of acknowledgement managers have finally understood the changes in the environment and they are selecting the right action from a set of alternatives. This is when the state of response uncertainty is experienced. Finally the managers are making a decision and based on that they adapt their company to the environment. The evidence from the empirical research indicates that this decision is usually an action that will initiate a new change process. This process is presented graphically in Figure 6.2

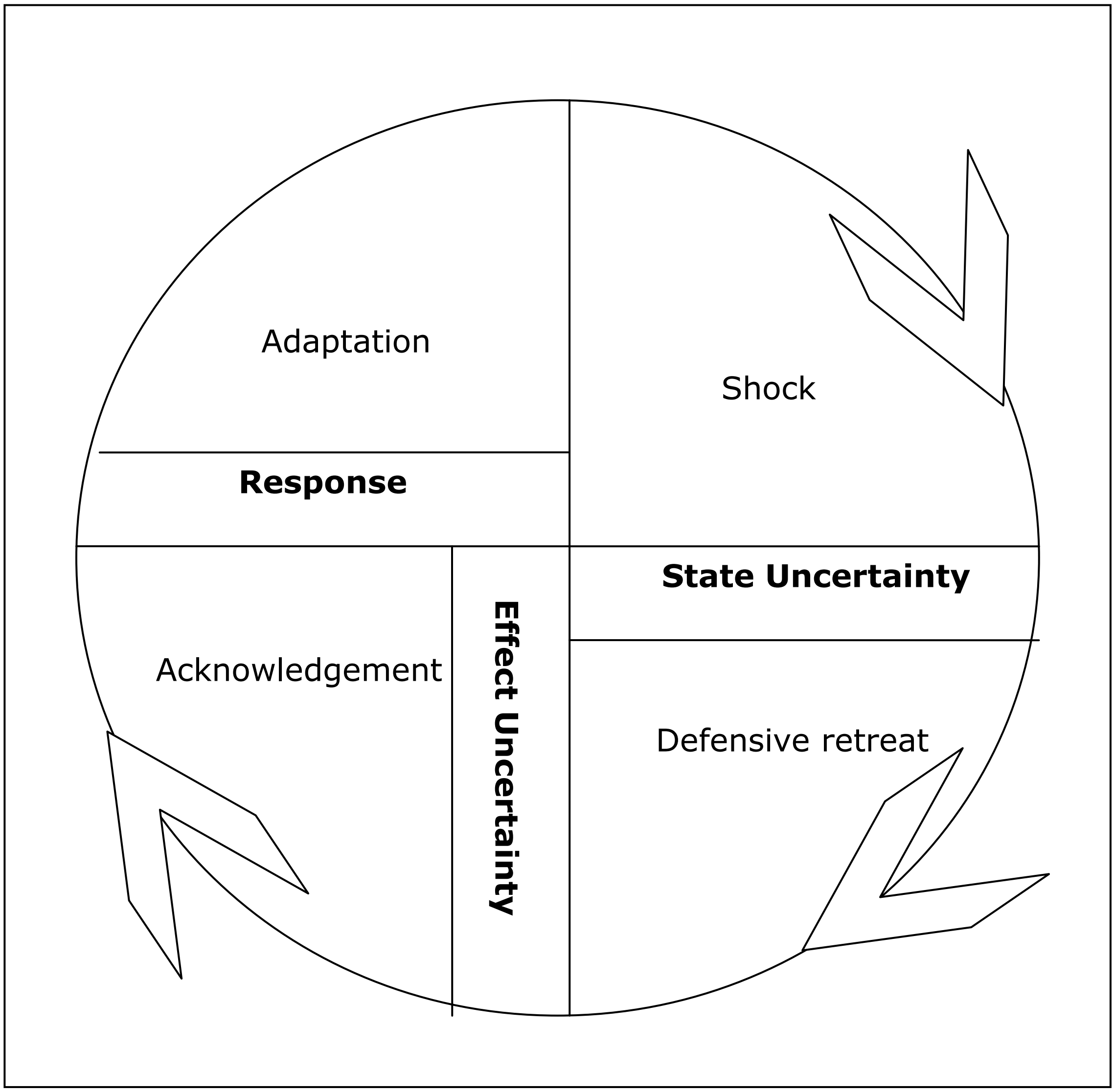



**Figure 6.2: Conflict theory of retail change with the impact of environmental uncertainty**

## 6.4 Complexity theory as means of understanding strategy development in Greek retail SMEs

The basic assumption that needs to be made when strategies are reviewed under the prism of complexity theory is that companies make strategic decisions in order to achieve advantage over competitors, preferably long term and sustainable, in a given strategic landscape. Companies interact with each other, but also interact with the other elements of their environments, such as consumers, suppliers, labour, the political authorities, banks and other financial institutions. All those have been identified in the case studies in Chapter 6 as factors that cause uncertainty. The evidence of the research shows that strategy itself is a complex process that generates uncertainty for the managers of the SMEs. Strategy refers to the long term engagement to a goal, the allocation of resources, and the investment of capital and time on that goal. Each one of these prepositions entails some kind of art and science, some guessing and some calculation, some gut feeling as opposed to evidence-based planning. Basically, it involves strategic decisions that are made with limited information, limited resources, and within limited time. This reduction of the environment to a manageable proportion is what is called *scaling* in the complexity theory vocabulary, but it is also the same thing that is described as *bounded rationality* by behavioural decision-making theorists.

Bechtold (1997) approached strategy development as a dynamic process. It is as a vital activity of organisations, and it gives them – as well as the decision-makers – identity; and it is planned and implemented in a different and opportunistic way by complexity adapting and complexity absorbing organisations. This can be viewed in terms of the flexibility and the length of their strategic plans, their understanding of environmental uncertainty and stability, their resistance to change, and their development of mechanisms that support them at times of change. As Stacey (1993) highlighted for some of them, strategy is not developed as a long-term plan but rather emerges spontaneously from chaos through a process of adaptation, real-time learning and political negotiations. In addition to that, he added that a distinction between companies that have adopted or try to adopt a chaos-theory approach to strategy development and those that follow the normative view of strategy development is necessary; not in terms of the likelihood to succeed but as a tool to understand them. This applies to this research as the companies under scrutiny are completely different in terms of how they develop and implement strategies, but both of them kept being profitable and successful for a few years after the end of the research (see also Chapter 8 for more details on that).

There was also evidence found that there are different ways that companies deal with complexity. Wang and Chan (1995) suggested that the perception of a complex environment relies on managers' ability to process information which is complicated, novel and/or dynamic. In the cases under research evidence were found that the managers of Company A had adopted a simplified heuristic about the complex environment which corresponded to a general understanding of the term "business environment"; whilst in contrast the managers of Company B developed a more structured and synthesised understanding of the business environment that differentiated between its internal and external components.

Boyd and Fulk (1996) argued that it is common for managers to reduce the time they devote to environmental scanning when the level of perceived complexity is high. The findings of this research support this argument because the managers from Company B, which is a complexity absorber, regard complexity as a property of the environment that cannot be affected by them. In contrast, managers from Company A, which is a complexity adapter, perceive complexity as a property of the environment that is understandable and worth top managers spending time evaluating it. Understanding complexity is therefore time dependent but the decision to spend time on understanding it is influenced by the initial willingness to deal with it. In this research project one of the companies chose to absorb complexity and continue its operations based on a single plan without any variations, consistent with the findings of Ashmos *et al.* (2000). On the other hand, the second one had developed an organisational structure that supported the adaption of the company to the emergent circumstances of the environment in a dynamic way. Stacey (1995) suggested that organisations which adapt to the environment have the ability to continue their change, even when opportunities from the external environment do not arise. The findings of this research indicate that it is possible that a company can look to engage in a complex environment and use its assets to take advantage of it. McKelvey (1999) suggested that companies might look to achieve competitive advantage by introducing multiple innovations: in terms of location strategy this could be new positioning or locational strategies (Hernandez & Bennison, 2000). By expanding into a new market or setting up in a new location, the retailer aims to cause turbulence in the micro-environment that will be to its own benefit by gaining a share in a previously unexploited market.

Using the language of chaos theory, a *complexity absorbing* retail organisation, even though it acknowledges the non-linearity of cause-effect relations in the environment, develops techniques that reduce the uncertainty caused by the complexity, and prepares itself for alternative complex situations. Bechtold (1997) suggested that the abstraction of complexity is achieved by developing alternative scenarios and by preparing the organisation to implement them in response to whatever events occur. On the other hand, a *complexity adaptive* organisation understands non-linearity and seeks for hidden opportunities and threats in seemingly insignificant changes. Complexity absorbing retail organisations separate changes and deal with them as independent circumstances while complexity adaptive retail organisations seek to identify continua in the change process. The idea of the waves of retail decentralisation (Fernie, 1995; Schiller, 1986), for example, reflects the openness of some retail organisations to changes in the retailing environment. The exploitation of under-developed low-cost locations gave an advantage to those companies that spearheaded the move out of traditional centres.

When the need for a decision arises (a *bifurcation point* in the language of chaos theory), complexity absorbing retail organisations do not alter their strategy because they take it as given that such situations arise, and such eventualities are planned for. In contrast, complexity adaptive retail organisations understand bifurcation points as an opportunity to evolve. In these cases, when a complexity absorbing and a complexity adaptive retail organisation were at the same bifurcation point, the first one saw it as a planned moment in time while the other one perceived it as an emergent opportunity. They both acknowledged that action was required (development of a new store in an under-developed location), and both indicated that they were going to act similarly but the justification of their action was based on different arguments.

A structural difference between the complexity absorbing and the complexity adaptive organisation was identified in the norms and rules that guided their activities (in the language of chaos theory, these may be seen as the *strange attractors*, the core properties of a system to which it always tends to return regardless of change). The complexity absorbing organisation had a formal nucleus of rules and regulations that were brought forward when a crisis appeared. This is consistent with McMillan's (2004) findings that suggested that strange attractors are a set of routines that define the life of employees in the organisation. In contrast, the complexity adaptive organisation had human actors that acted as the strange attractor of the organisation. Parker and Stacey (1994) suggested that when the organisation meets a bifurcation point, the strange attractor is the facilitator of the transition from the previous to the future state. The existence of a person that can make decisions and guide the change process appeared to be an essential part of the organisation during the adaptation.

Employees in the complexity absorbing organisation had a narrower view of the environmental context than ones in the complexity adaptive organisation. This is the outcome of a strategic decision by the organisations because it relates to the level of involvement of employees in the strategy formation process. With respect to location strategy, since it is influenced by both consumer and institutional factors (Brown, 1991), having an extended perspective of the environment brings all levels of employees closer, and sharing information is easier because everybody is aware of the strategic requirements of the organisation. When more people are involved in scanning the environment for strategic opportunities or threats, it is likely that these opportunities and threats will be identified and exploited faster. This means that an organisation that encourages the formation of workgroups (formal or informal) for exploiting emerging opportunities could expect a timely response to a crisis, which in turn could lead to the gain of competitive advantage. In terms of retail location strategy, it could be assumed that a retail organisation that has the ability to organise itself for certain purposes - for example, allow the formation of a unit that could identify and evaluate sites - will become aware and exploit the opportunity of a contested site before another one that has not.

It is argued in the literature review that low-price and differentiation strategies are more likely to emerge during a period of recession. In this research it was considered that before researching the strategy itself it was important to understand organisational perceptions of the environment, and the dynamics among the people that make the decisions in the company. The company followed widely used development strategies during recession, a period of constant change and uncertainty, but it was the way that the decisions were made that provides the greatest interest. Dealing with the perception of uncertainty is inevitable in organisations, basically because, first, the physical capacity of the human brain is such that it cannot process unlimited information; and, second, information flow is imperfect within companies as power and politics create barriers. Even if the information flow was perfect within the organisation, the changes in a recessionary environment are so rapid that they produce too much information to handle, and /or the distribution of outdated and invalid information. Therefore managers have to deal with a twofold problem: one side of it is related to the internal structures of the company and how managers position themselves within the company *vis-à-vis* their colleagues, the senior members of the staff and the company owner. The other side is linked to humans and their ability to process the changes in the environment. This problem is resolved by the development of a perceived environment by managers, which is abstract and limited to a proportion that can be comprehended or manipulated by them.

The research showed that managers have a myopic view of the environment, and therefore their perceived uncertainty reflects an environment that is not real but echoes the microenvironment that the managers of the company understand individually, which is not the same for all of them. Hayes and Alinsson (1998) suggested that successful organisations develop mechanisms that transfer individual perception to the collective perception, which is something that was observed in both companies to occur. Marali (2000) stressed that the development of collective knowledge is a value added quality for the organisation because collective knowledge is something more than the sum of the individual knowledge. Having said that, it can be expected that the collective perception of the uncertain environment is something more than the accumulation of the individual perception of the environment by each member of the company who takes part in the decision-making process. The commonly agreed collective perception of the environment provides managers with the comfort of sharing a similar problematic state and knowing that the other people feel equally confused alone but comfortable when they act within a group.

At this point power relations and politics emerge and influence the decision-making process. Elg & Johansson (1997) argued that the decision-making process is politically influenced not only by internal relationships and negotiation but also by the relationships and negotiating power of seemingly allied organisations. Within the organisation, the members of the organisation negotiate for the setting of the organisational goals, developing their expectations and fostering the expectations of the stakeholders, and ordering the alternative choices according to the political bargaining that takes place during a decision-making process (Lazaric & Raybaut, 2005). In these cases it was identified that even though the managers of the company did not know about the prescribed best strategies for retail companies during recession, they managed to make decisions by negotiating and imposing their power to the extent that they were allowed by the company owner.

However, it was a common place that strategies are related to change and uncertainty. Not necessarily in a linear manner, nor in a conscious attempt to locate the strategic decision within this multifactor landscape. Albeit, it was clear that all the respondents in both companies experienced uncertainty when they made decisions.

### 6.5 A conceptual model of strategy development and implementation

This section of chapter 6 presents a model of strategy development and implementation in retail SMEs. This is not a recipe book of strategy; rather the author wants to show that successful strategies can be the result of very diverse processes and management techniques. It is of paramount importance to fit the competencies of the company to the strategic goals and direct the resources to the path that will maximise the chance to succeed. Strategies follow basic rules however successful strategies are based on the unique internal and external circumstances that govern the operation of companies. The major capability that is unique and non-imitable for the company is the alignment of the resources in a way that managers or decision-makers will be (or feel) confident to make decisions. This is a core competence for the organisation and can lead to long term and non-substitutable competitive advantage. Wood and Reynolds (2011) have shown that the organisational structure is a potential mean for achieving competitive advantage in big retailers in the UK. This research concurs with these findings and extends them to the area of the SMEs in Greece.

In an attempt to encapsulate the distinctive differences in the understanding of the environment and the development and the implementation of the retail location strategy between complexity absorbing and complexity adaptive organisations, two summative conceptual frameworks are proposed. It is suggested that complexity adapting organisation show a more complicated way of understanding the environment and making decisions (see Figure 6.3). This is basically a result of the involvement of a greater number of elements in the process. The chaotic properties of the complexity adapting system include the development of *ad hoc* structures that work supplementary to the existing formalised networks of employers and managers. McAdam and Reid (2001) suggested that in SMEs the development of *ad hoc* structures intended to transfer information and knowledge are more likely to occur than in large companies that prefer formalised procedures of information communication. This is consistent with the findings that show that a large number of elements of the complexity adapting company are employed in the scanning of the environment and the negotiation of the strategy alternatives. Another factor that is known to facilitate the dynamic involvement of a large number of elements in this process is the existence of "common knowledge" among the members of small organisations (De Sousa and Awasu, 2006, p.36). In smaller companies it is expected that the employees will have a wider and deeper understanding of the aims and the strategic goals of the organisation, and it is therefore easier for them to get involved in *ad hoc* structures whenever it is necessary.

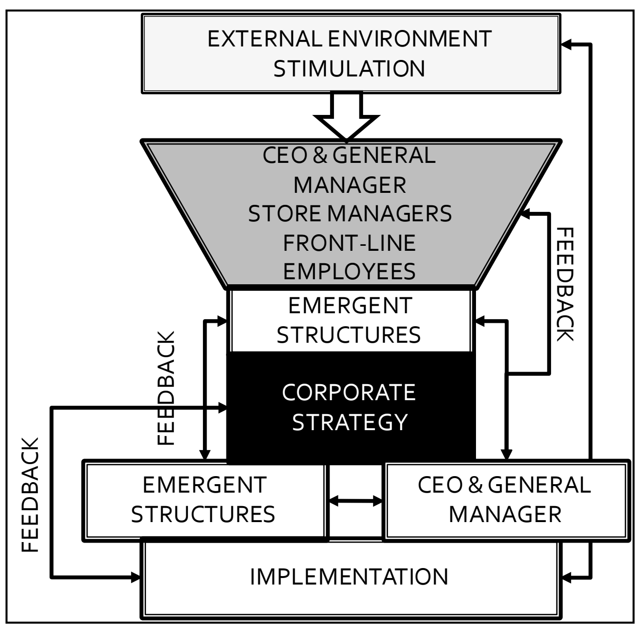



**Figure 6.3 Decision-making in complexity adapting organisations**

In contrast, complexity absorbing organisations, like Company B, (see Figure 6.4) have a relatively simplified way of scanning the environment involving only employees at the higher or highest levels of the company. Employees in the complexity absorbing organisation had a narrower view of the environmental context than ones in the complexity adaptive organisation. This is the outcome of a strategic decision by the organisations because it relates to the level of involvement of employees in the strategy formation process. The size of an organisation strongly influences its ability to raise and employ capital in information acquisition and communication. Da Sousa and Awasu (2006) maintained that small organisations often use knowledge that is revealed openly by larger organisations to inform their decisions. In terms of the retail location strategy of smaller companies, this can be understood when seeing them follow the locations and formats first introduced by larger ones. With respect to location strategy, since it is influenced by both consumer and institutional factors (Brown, 1991), having an extended perspective of the environment brings all levels of employees closer, and sharing information is easier because everybody is aware of the strategic requirements of the organisation. When more people are involved in scanning the environment for strategic opportunities or threats, it is likely that these opportunities and threats will be identified and exploited faster. This means that an organisation that encourages the formation of workgroups (formal or informal) for exploiting emerging opportunities could expect a timely response to a crisis, which in turn could lead to the gain of competitive advantage. In terms of retail location strategy, it could be assumed that a retail organisation that has the ability to organise itself for certain purposes - for example, allow the formation of a unit that could identify and evaluate sites - will become aware and exploit the opportunity of a contested site before another one that has not.

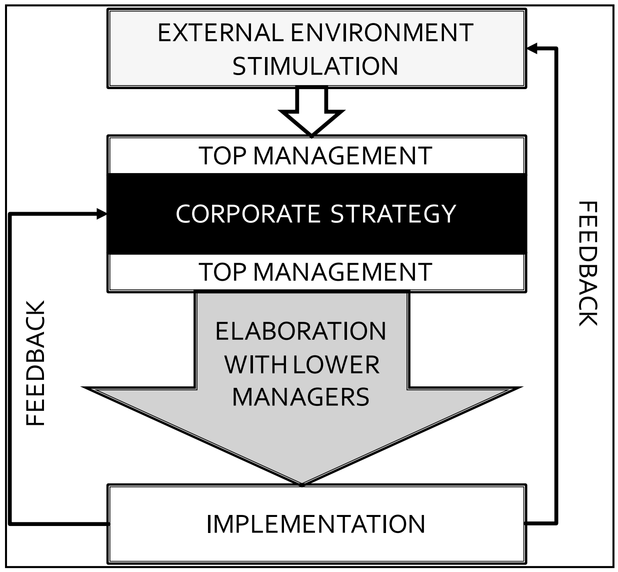



**Figure 6.4: Decision-making and implementation in complexity absorbing organisations**

### 6.6 A theory of the retail location decision-making under uncertainty

This section will synthesise the previous sections of this chapter and provide a holistic theoretical proposition for the development of strategic retail locational decisions under uncertainty. The findings of the research have similarities to the findings of Reynolds and Wood (2010, 2011) who identified that there is a strong cultural element in locational planning within large British retailers. This finding is compatible to the findings of this research as well. Company A appeared to be adaptive to the changes that have happened in the environment because it has nurtured a self-organisation culture that encourages the employees and the managers to form informal workgroups that deal with emerging issues directly when they happen. The company is open to suggestions from everybody who works there and it benefits from employees' willingness to participate in the development of the company. With respect to its location strategy, Company A shows adaptive behaviour, open to feedback from the environment and open to the opportunities that emerge.

The impact of all levels of uncertainty on the members of the company in addition to the rapid changes in the external environment particularly, internal environment, and consumer lifestyle and behaviour resulted in the development of an unclear decision-making process. Small medium companies, like Company A, where the entrepreneurial figure is pivotal and decisive in the decision-making process, develop internal and external mechanisms to support the decision-making process. Whereas bigger companies can afford to pay for information or put in place a Management Information System, SMEs employ informal networks that can provide them with the information they need in order to make decisions. When decision-makers in Company A had to deal with a strategic decision – the opening of a new store – the internal and external networks that are in place in the company led the decision making process. Top managers, who have a wider view of the organisational environment, had to deal with the uncertainties that emerged from the opening of the new store. Issues like the financial stability of the company after the investment or the market niche that will be targeted therefore occupied their thoughts. Mid-level managers showed that they did not understand what the possible outcomes of the opening of the new store were. At the same time lower store – level managers were unsure about the options of the company and how these options are influenced by the changes to consumer lifestyles that were obvious during the recession. Nevertheless the informal networks that work within the company and the power relationships among them made them all feel confident enough with the strategic decision that was made.

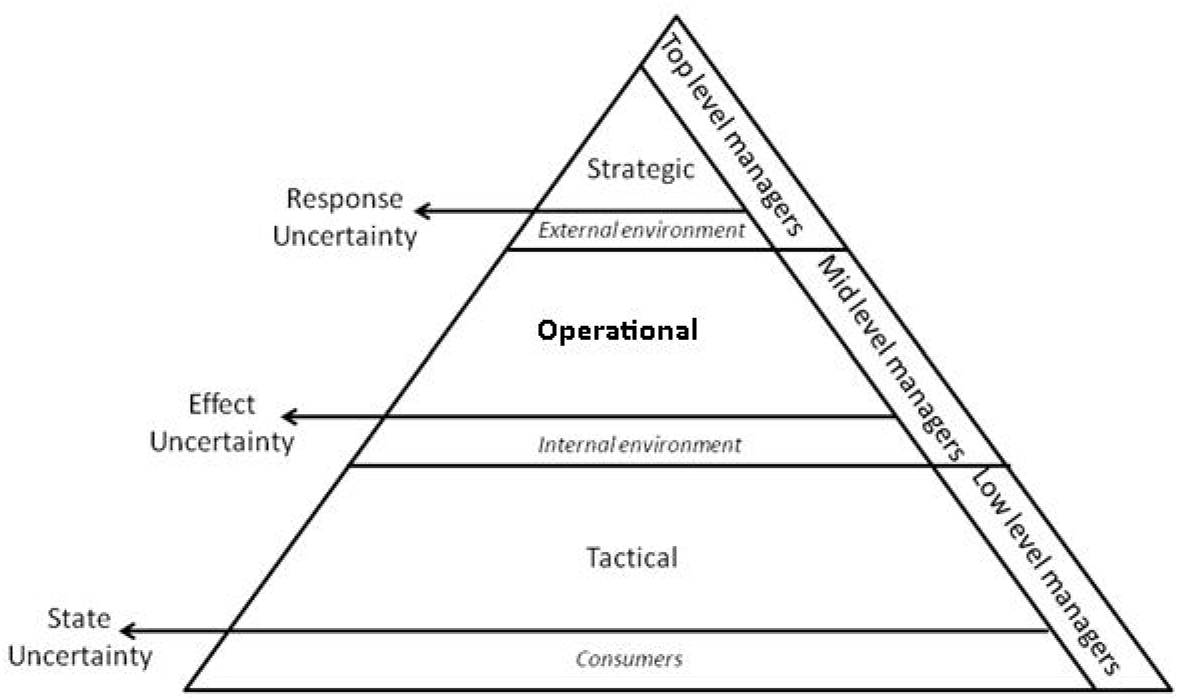



**Figure 6.5: The impact of uncertainty on strategic retail location decision-making**

It is argued in the literature review that low-price and differentiation strategies are more likely to emerge during a period of recession. In this case study it was considered that before researching the strategy itself it was important to understand organisational perceptions of the environment, and the dynamics among the people that make the decisions in the company. The company followed widely used development strategies during recession – a period of constant change and uncertainty, but it was the way that the decisions were made that provides the greatest interest. Dealing with the perception of uncertainty is inevitable in organisations, basically because, first, the physical capacity of the human brain is such that it cannot process unlimited information; and, second, information flow is imperfect within companies as power and politics create barriers. Even if the information flow was perfect within the organisation, the changes in a recessionary environment are so rapid that they produce too much information to handle, and /or the distribution of outdated and invalid information. Therefore managers have to deal with a twofold problem: one side of it is related to the internal structures of the company and how managers position themselves within the company *vis-à-vis* their colleagues, the senior members of the staff and the company owner. The other side is linked to humans and their ability to process the changes in the environment. This problem is resolved by the development of a perceived environment by managers, which is abstract and limited to a proportion that can be comprehended or manipulated by them. These findings of the research are consistent with the findings of Wood and Raynolds (2011) research on retail multinationals that concluded that groups of employees with diverse backgrounds create communities of practice that help the accumulation and dissemination of knowledge within the company. This is evidence that this research has potential generalisabilty as the findings that were drawn from the research in the turbulent Greek environment involving SMEs are similar to the findings of research that took place in the relatively stable, comparing to Greece, environment of the retail multinationals in the UK.

The research showed that managers have a myopic view of the environment, and therefore their perceived uncertainty reflects an environment that is not real but echoes the microenvironment that the managers of the company understand individually, which is not the same for all of them. Hayes and Alinsson (1998) suggested that successful organisations develop mechanisms that transfer individual perception to the collective perception, which is something that was observed in this company too. Marali (2000) stressed that the development of collective knowledge is a value added quality for the organisation because collective knowledge is something more than the sum of the individual knowledge. Having said that, it can be expected that the collective perception of the uncertain environment is something more than the accumulation of the individual perception of the environment by each member of the company who takes part in the decision-making process. The commonly agreed collective perception of the environment provides managers with the comfort of sharing a similar problematic state and knowing that the other people feel equally confused alone but comfortable when they act within a group.

At this point power relations and politics emerge and influence the decision-making process. Elg & Johansson (1997) argued that the decision-making process is politically influenced not only by internal relationships and negotiation but also by the relationships and negotiating power of seemingly allied organisations. Within the organisation, the members of the organisation negotiate for the setting of the organisational goals, developing their expectations and fostering the expectations of the stakeholders, and ordering the alternative choices according to the political bargaining that takes place during a decision-making process (Lazaric & Raybaut, 2005). In this case it was identified that even though the managers of the company did not know about the prescribed best strategies for retail companies during recession, they managed to make decisions by negotiating and imposing their power to the extent that they were allowed by the company owner.

When it comes to company B, the successful pattern of absorption, has similarities to the findings of the work of Bennison *et al.* (1995), Clarke *et al.* (1997), Clarke (1998), Hernandez and Bennison (2000), and the more recent work of Reynolds and Wood (2010). Their work shows the strong impact of formal planning to the development of locational strategic plans. Reynolds' and Woods' research which is an update of the work of Hernandez and Bennison (2000), showed that the major asset investments require strong evidence based justification, which is exactly the same finding the author concluded in his research in Greece. Interestingly, even though the technological advancements that were made in the support of the locational decisions, experience is still the dominant *technique*, albeit complemented by hard evidence.

Absorbing organisations are reluctant to change nonetheless locational data provides a strong incentive for that. This can be seen as a positive sign, it shows that strategy development is not a totally intuitive process. Especially, when it comes to the accountability of the managers to the shareholders having evidence of the decision-making process and the information that was used in that is essential for the clarity and transparency of the investment. In this case, evidence based decision-making is also necessary because managers are pursuing a professional career and a track of their successes as well as their failures is essential. This need makes managers of Company more risk averse; therefore they operate in an environment of higher bounded rationality.

## 6.7 Conclusion

This chapter discussed the findings of the research and placed them in the broader context of strategic decision-making; with particular reference to locational strategic decisions that take place in retail SMEs during a period of economic crisis. These findings and their implications are summarised in table 7.1, against to the aim and objectives that were set in Chapter 1.

| Objectives | Finding | Implications |
|---|---|---|
| To identify the process of decision-making in organisations. | Planned or emergent decision support systems have been put in place by the SMEs which resulted in the appearance of a new successful business model that moves away from the traditional centralised Greek organisational structures. There is evidence that the participation of more mid or even low level managers in decision-making process had positive results as for the SMEs the lack of formalised or explicit knowledge was replaced by the tacit knowledge that emerged from the self-organised dissipative structures that were used in the specific case of a strategic choice. | SMEs may call their managers to participate actively in the strategy development as the cumulative knowledge that is generated through the sharing of information is greater than the sum of the individual knowledge of the employees of the SME organisations. |
| To explore the phenomenon of uncertainty and its manifestation in SME organisations. | Uncertainty is an inevitable influence on the way managers perceive the environment. However uncertainty can become a tool for smaller SMEs to compete against larger organisations. | SMEs may engage with uncertain environments as their dynamism and flexibility can become a tool to overcame the challenge and generate advantage through them. |

| | | |
|---|---|---|
| To understand the characteristics of the Greek retail environment that make strategic decision-making uncertain. | Networks and communities are a vital part of the successful strategic decision making process as they contribute with essential micro-level input that can be lost due to the *myopic* vision of managers. | Retail location strategies, as any other strategy, are a road map for the future. The cultural characteristics of the Greek companies, even though milder than in the past, present an opportunity for the SMEs make use of them and remain competitive through the utilisation of the data, information, and/or insight that can be collected through any kind of emerging structure. |
| To theorise on how complexity theory can be utilised in order to explain strategic thinking in Greek retail SMEs. | Adaptation or absorption is related to the context, circumstances, and the characteristics of the company. It is not a universal solution in dealing with environmental change, and it is dependent on the strategic needs and resources of the SME organisation. | SMEs may embrace their uniqueness and use it to their advantage. Adapting to the changes that happen in the environment is an equally valid and successful option as absorbing the change (follow the existing plans) always depending on the organisational characteristics. |
| To develop a conceptual framework that can be used and implemented in | Environmental uncertainty is embedded in the retail location strategy process. Complexity | Organisations create complex systems that analyse and distribute data and information |

| | | |
|---|---|---|
| other uncertain settings. | theory can facilitate the understanding of the uncertain environment, however it is not a strategic tool *per se.* | using different routes and feedback loops depending on their absorbing or adapting capability. |

**Table 6.2: Research objectives, findings, and implications**

The aim of the research was to understand how strategic retail location decision-making takes place in SMEs during uncertainty, and evidently this is can happen successfully in more than one ways. SMEs are seen and treated as organisations that due to their lack of ownership of and/or access to resources cannot strategise as they cannot feed with data and information their future plans. This is challenged by the findings of this research. It appears that SMEs with limited access to resources can manage to make successful strategies if they stay open to the feedback of the environment and make full use of the resources they control. It is also found that change is not always a threat; a period of economic crisis poses imminent threats to the SMEs but due to their size and flexibility, and particularly in Greece due to the cultural bond that is created between the owners of the company and the members of the staff, this crisis can become an opportunity for them. A common good practice that was observed in both the companies that were researched was their openness to feedback; feedback that was coming in the business into different forms and structure. The complexity adapting company A let emergent networks flourish and took advantage of them, while the complexity absorbing company B made use of the strategic plans that had been prepared for such a period and took advantage of the stability that exhibited. A major finding of this research is that a period of economic downturn offers the opportunity to grow in different ways. The success depends on fine-tuning the strategies to the tangible and intangible resources of the company rather than looking for a universal solution that can be applied to any kind of different business.

### 6.8 Avenues for future research

This research was conducted in a sample of two SMEs operating in the consumer durables sector in Greece and, as stated in the chapter 4 it looks to provide theoretical rather than statistical generalisations. In that sense this research opens an avenue for further enquiry where the current narrow scope can be expanded. An inherent and unavoidable limitation of this research is the unequal amount of data that was collected from the two companies. As explained in Chapters 3 and 4 Company B decided to limit access to the people and the artefacts that the author collected midway through the research. The explanation of that follows in chapter 8. Possibly, a more detailed dataset would have provided better insight on how managers experienced uncertainty and how they deal with the challenges that emerged during the recession.

In terms of the future opportunities for research it will be useful to expand this project to other sector and industries, nationally and internationally. The author has already started working on a project on pharmacy retailing where he is attempting to apply his findings to elicit the barrier and challenges that emerge when a retail sector regulated by a government becomes deregulated. Another opportunity for future research relates to the size of the companies that are under scrutiny (even though there is more research available on the retail location strategies of large companies the organisation background of the strategy development process remains underexplored), and also the inter- and cross-cultural differences of companies within the same country or between different countries.

# 7. Postscript

This section is a retrospective view of the changes that happened in the two companies after the end of the research, and also an area for the author to reflect on the opportunity to develop as a person and as a researcher. As detailed in Chapter 3 the fieldwork for this research took place between 2006 and 2008, when the great depression in Greece started and during its way to its peak. Only a few months after the end of the data collection in Company A, it was publically announced that Company B decided to put in an offer to buy Company A as they decided that this was the most efficient way to expand their store network to the North of Greece. Company A accepted the offer and the final deal between the companies stated that from 2008 to 2010 Company B would buy out 25% of the shares of the company with a view of a full acquisition after four years. This is now completed and Company A is fully owned by Company B even though it still operates under the previous brand name. It is the authors belief that the reason that he was stopped from doing any further research was that Company B decided to proceed to the acquisition of Company A.

From 2010 onwards the Greek economy deteriorated, and retail sales in Greece shrank by 20% to 40% (depending on the source) and particularly the electrical sector saw a massive decline that is reflected in the failure of two of the largest by sales electrical retailers in 2011. The growth of Mediamarkt-Saturn helped to stabilise the market when at the same time the entry of the French chain Fnac was unsuccessful and they closed all their stores within only 12 months of their opening. It is clear though that traditional electrical retailers face severe competition from the online retailers, usually SMEs that have the flexibility and keep their operating costs low and provide competitive pricing to their clients.

For the researcher this was a very rewarding journey that included personal and professional challenges. From the personal point of view this Thesis was the reason to move from Greece to the UK and start a new life here. Given the circumstances and the current development in Greece, this proved to be the right decision. But also, from the professional point of view this Thesis is the starting point of an academic career that started four years ago and goes on up to now. It has been the major source of data for the majority of the published work of the author (copies can be found in the appendixes) that includes one journal article, two book chapters, and six conference papers that are in the process of development to journal articles now.

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# Appendices

## Appendix 1: Glossary[16]

| | |
|---|---|
| Bakaliko | Also known as mini-markets and *galaktopoleio*. Small off-trade outlets, larger than CTNs/Kiosks but similarly common, which sell FCMG products at a higher price point than supermarkets/hypermarkets. This type of outlet is typically located in villages and neighborhoods, and thus has similar characteristics to a cornershop, offering household goods that slipped from the supermarket shopping list. |
| Convenience store | Small local store selling mainly groceries open until late at night or even24-hours per day. Sometimes abbreviated to c-store |
| Department store | A store with a sales area of at least 2,500sqm, selling mainly non-food merchandise and at least five lines in different departments. They are usually arranged over several floors. |
| Discount outlet shopping villages (or discount outlets) | Dedicated, mall-style developments, often built around a mock street, village square or quay-side. These developments comprise several units selling recognized brands at substantial discounts. The centres also usually offer leisure facilities and extensive car-parking provision. |
| Discount superstore | Large retail unit (upto9,000sqm) offering goods direct from the manufacturer at heavily discounted prices. Such outlets typically carry between 5,000 and 10,000 product lines. |
| Hypermarket | Store with a sales area of over2,500sqm, with at least 35% of selling space devoted to non-foods. Frequently on out-of-town sites or as the anchor store in a shopping centre. |
| N.S.S.G. | National Statistics Secretariat of Greece |
| Pantopwleio | A traditional convenience store, larger than bakaliko. |
| Psilika | Small neighbourhood outlets, like mini markets that sell confectionery, some toiletry and food items. Some sell tobacco and magazines. |
| Shopping centre | Purpose-built, usually indoor and multi-levelled shopping precinct with car park and a range of large stores and specialist shops. |

[16] Adapted from Euromonitor (2004)

## Appendix 2: Publications

Book Chapters

Theodoridis, C. and Priporas, C. (2013) 'Strategic decision-making during uncertainty: implications for SMEs' in Vrontis, D., and Thrassou, A. (eds) 'Innovative Business Practices: Prevailing a Turbulent Era', Cambridge Scholars Publishing, Newcastle upon Tyne.

Journals

Theodoridis, C., and Bennison, D. (2009). "Complexity theory and retail location strategy", International Review of Retail, Distribution, and Consumer Research, Vol. 19 Iss. 4, pp. 389-403

Conference Papers

Theodoridis, C., and Bennison, D. (2012) "Self-Organisation as a Source of Competitive Advantage for Retail SMEs: A Case–Study from Greece", Nineteenth International Conference on Recent Advances in Retailing and Consumer Services Science, Vienna, Austria, July.

Theodoridis, C., and Bennison, D. (2011) "Exploring Strategic Decision- making in Retail SMEs during turbulent Times: a Greek Case

Study", Sixteenth International Conference on Research in the Distributive Trades, Parma, Italy, July.

Theodoridis, C., and Bennison, D. (2009) "Complexity in retail organisations: an empirically informed discussion with particular reference to retail location strategy", Fifteenth International Conference on Research in the Distributive Trades, Surrey, UK, July.

Theodoridis, C. (2007) "Retail location decision-making under uncertainty: The case of the Greek retailing sector", Fourteenth International Conference on Research in the Distributive Trades, Saarbrucken, Germany, July, CD-ROM

# CHAPTER FIVE

# STRATEGIC DECISION-MAKING DURING UNCERTAINTY: IMPLICATIONS FOR SMES

CONSTANTINOS THEODORIDIS
AND CONSTANTINOS V. PRIPORAS

## Introduction

Making decisions is a sequence of actions involving the understanding of a context, the development of alternative solutions, and finally the selection of the optimal solution for the given problem. Rational decision-making obeys to laws (Simon, 1979), including one that suggests that decision-makers have the absolute knowledge of the alternatives they can choose from. Behavioural theorists, influenced by the seminal work of Cyert and March (1965), opposed to that claiming that in the real world it is literally impossible to grasp all the available alternatives, let alone the inability of individuals or groups of decision-makers to predict the consequences of their decisions. This debate resurfaces whenever a major crisis takes place (for example, a massive amount of research was published in the late 1980's-early 1990's after the Black Monday of 1987 and the savings and loan crisis in the USA in the late 1980s). However, the vast majority of the research on decision-making during uncertainty is informed by data coming from bigger organisations that are based in the USA, the UK, Canada, or the Central European countries. Within this chapter the authors attempt to the shed light on the strategic decision-making made in SMEs in Greece, particularly in the retail SMEs, using as an example the retail location strategy.

The book chapter starts with a comprehensive review of the concept of the environmental uncertainty and it is followed by sections on uncertainty in retailing, the nature of strategic decision-making in retail SMEs, and a brief account of the developments in the Greek retail sector. A case study is reported right after that and the findings are discussed under the prism of the explanatory framework that is provided by the advances of the complexity theory. The book chapter closes with implications for academics and practitioners.

## The concept of environmental uncertainty

Miliken (1987) suggested that individuals experience uncertainty because they perceive themselves to be lacking sufficient information to predict accurately or because they feel unable to discriminate between relevant and irrelevant data. In the first part of the literature review environmental uncertainty literature will be discussed. In the second part of the literature review the retail location decision-making literature will be discussed with particular interest on establishing a linkage between environmental uncertainty and retail location decision-making.

### *State uncertainty*

Miliken (1987) suggests that *state uncertainty* is experienced when administrators perceive the environment (or a particular component of it) to be unpredictable. In his work Miliken (1987:136) describes the environment as follows:

> “Top-level managers might be uncertain about what actions relevant organisations or key organisational constituencies (i.e., suppliers, competitors, consumers, the government, shareholders etc.) might take, or they might be uncertain about the probability or nature of general changes in state in the relevant environment (i.e., sociocultural trends, demographic shifts, major new developments in technology”).

Gerloff et al., (1991) suggest that state uncertainty has a situational character. They specifically suggest that in a given situation, a given manager may lack confidence or has doubts that the available data reveals the significant events and trends of the environment and as a result the manager would experience state uncertainty. Duncan (1972) had also argued that uncertainty is not a constant feature in any organisation. Rather, “it is dependent on the perceptions of organisation members and thus can vary in their incidence to the extent that individuals differ in their perceptions” (1972: 325).

### *Effect uncertainty*

Miliken (1987: 137) defines *effect uncertainty* as "an inability to predict what the nature of the impact of a future state of the environment or environmental change will be on the organisation". Effect uncertainty does not involve the lack of understanding of the environment, e.g. a retail manager may know that the number of single-parent families is growing but he or she may feel unable to predict how this trend is going to change the sales of his or hers product. As Gerloff et al., (1991) note, effect uncertainty involves a lack of understanding of cause-effect relationships. To a large degree effect uncertainty arises from a firm's inability to anticipate or influence how its customers and competitors will shape its own future (Miller and Shamsie, 1996). Past research has shown that companies that have the means to influence their environment experience less effect uncertainty than others that have not (Itami, 1987; Wernerfelt and Karnani, 1987).

### *Response uncertainty*

Miliken (1987: 137) defines *response uncertainty* as "a lack of knowledge of response options and/or inability to predict the likely consequences of a response choice". This type of uncertainty becomes especially important in situations involving a need to take actions, such as a pending threat or opportunity (Gerloff et al., 1991). As Gerloff et al. (1991) notes at this level of uncertainty managers are wondering "What action are we going to take?" Milliken (1987) suggests that this level of uncertainty is directly related with decision making because it is about the importance of choosing between alternatives. Miller and Shamsie (1999) have researched response uncertainty in terms of new product line development. In conjunction with Miliken's observation, Miller and Shamsie suggested that this type of uncertainty (that they call *decision response uncertainty*) is dependant on social, demographical and economic variables (e.g. decision makers' experience, job tenure, product line diversity, cost etc.). Their research findings are consistent with the ones of Downey *et al.* (1977) who focused their research on managers' cognition and perception of environmental uncertainty. A key issue that emerges from both Miller and Shamsie's and Downey *et al.*'s research is the significance of a changing (as noted by the first) or dynamic (as noted by the latter) environment on the perception of response uncertainty. The findings of both are important because they explore the relationship of change and uncertainty and at the same time introduce the idea that the managerial decision making process is influenced by the state of the environment as it is defined by the two latter variables.

A detailed account of the development of the concept of environmental uncertainty can be found in Kreiser and Marino (2002), and Lopez-Gamaro et al. (2011).

### *Uncertainty in retailing*

The concept of uncertainty has been discussed by a number of academics and has been seen from a number of different perspectives. Jones and Simmons (1993) have extensively discussed the impact of uncertainty on the retail location decisions. They suggested that the changes that are happening in the business environment increase the perceived level of uncertainty for the retailers. They also mentioned that retailers in order to respond to the changes they introduce modifications to their companies, which means that they are changing in order cope and potentially get advantage of the uncertainty. Alexander and Freathy (2003) suggested that in the rapidly changing world, the companies would probably use new technological advancements to initiate revolutions that they (the companies) would be able to take advantage of. This is a finding that had also emerged in an earlier study of Schrader et al. (1989). Their research concluded that technological advances had become the focal point of the development of retailers then (it was a period of great development for the Point Of Sale system) and in comparison to other sectors the long-term strategic planning was less active.

## Strategic decision-making in SMEs

Decision-making in SMEs is characterised by some features that complicates decision-makers' task (Gibcus et al. 2009). First, managers or entrepreneurs are asked to make decisions in an environment of limited and imperfect information. These companies lack the financial resources to access information and the human resources that are needed to scan the environment, collect data and information, and transform them to meaningful input for the company. Second, the business environment of SMEs is complex and dynamic (Covin and Slevin, 1991). The complexity and dynamism of the environment varies between sectors: for example, in innovation-intensive ones companies reinforce the dynamism of the environment by launching new products or services and competitors' replies maintain the dynamism. Singh et al. (2008) pointed that high-growth SMEs are adapting faster to their external environment by developing programmes for improving their skill and capabilities with a view to offer innovative products and services in the niche market they serve.

The personal relationships that are developed within and outside the companies increase the complexity of the environment as more actors participating in the environment of the company can become important or even essential and their behaviour within the complex environment is highly sensitive.

Another feature of decision-making within SMEs is that it is determined by a limited number of individuals, therefore the key people – or even a single person that makes decisions - within a company is pivotal to the decision-making process. Papadakis et al. (1998) suggested that internal measurable characteristics of an organisation like size, the type of ownership, the past performance of the organisation, and the formal systems that support decision-making, are related to the decision-making process. In a later paper Papadakis and Barwise (2002) suggested that the length of the involvement in a specific position in the company as well as the education of the manager influence the decision-making process. Considering that a lot of the decision-making in SMEs is based on biases and heuristics (Busenitz and Barney, 1997), the experience of the decision-maker to handle the changing environment and the knowledge to deal with fragmented pieces of information that are coming from sources of questionable validity and reliability is crucial.

The experience and education of the decision-maker is also linked to the development of intra-organisational and inter-organisational networks that are a valuable source of information. Lybaert (1998) stressed the importance of networks in SMEs decision-making and suggested that there is a relationship between the size of the SME and size of the networks they use. Ottesen et al. (2004) argued that SMEs' intra-organisational and inter-organisational management networks provide a source of information that is controlled since the members and actors of the networks are selected and continuously assessed for their reliability, validity and credibility. Therefore decision makers constantly filter the information sources they use but there is always the possibility that the strength of interpersonal relationships and habitual reliance on specific networks or their members might skew the information input to the company.

## Greece under focus

The business environment in Greece has changed in a number of ways during the last twenty years. This is the result of social, economic, political and technological factors that have impact upon “a system of small, independently owned and operated shops, which has been protected by tight legislative controls on store operations” (Bennison and Boutsouki, 1995). The change of the laws that were restricting competition in the retail sector was one reason for the rapid change. The new laws extended the limit of the opening hours from 50 to 68, removed control of minimum and maximum prices, and allowed grocery stores to sell products like bread, milk and fish. From the demographic point of view two major changes can be identified. The first one is the growth of the number of emigrants in Greece. According to the Greek National Statistics Services (2005) the number of emigrants has increased from 150,000 in 1990 to 600,000 in 2005, a growth of about 300%. According to the same source (2001) the majority of emigrants have settled in Athens and Thessaloniki (the larger urban centres of Greece). Anthropologists and sociologists that have researched emigrants’ attitudes in Greece suggest that their buying behaviour is determined by their income and their ethnic origin, thus they frequently purchase products from discount stores, outlets and small independent stores operated by individuals of the same ethnic origin (Droukas, 1998; Fakiolas, 1999). Another factor that has had an impact on the change of the Greek retail sector was that banks made it easier for individuals to get personal loans. The 2005 annual report of the Bank of Greece indicates that from 1995 to 2004 the amount of personal loans have increased by 72%. Commentators have related this rapid growth of debt with the growth of sales of big department stores (To Vima, 2004).

The massive economic crisis Greece faces has affected the structure of society entirely including citizens/consumers, economic sectors as a whole and individual businesses. The crisis created a completely new economic environment, with conditions in which many businesses (producers, suppliers and retailers) have never performed. However, the degree of impact may differ in various sectors since the decrease of demand is more visible in some sectors or in some sub-sectors.

Retailing in general is one of the major sectors that experience tremendous difficulties and it is in the beginning of its new transformation. In 2011 numerous closures, decreased sales, stronger competition, the existence of a significant movement towards lower-priced products were some of the events that characterised the sector. Even successful companies from e-tailing (internet retailer e-shops), have been struggling as the uncertain economic environment increased pressure on operating profits (Euromonitor, 2012). Since mid-2009, when the economic turmoil began to hit the Greek economy, until mid-September of 2011, about 65,000 stores have terminated their operation (Smith, 2012). Non-grocery retailers face the biggest problems in terms of demand, turnover and store closures. For example, many well-known domestic and international apparel and consumer electronics retailing chains (e.g., Sprider Stores, Vardas, Radio Korasidis, MediaMarkt) shut down a number of stores in order to survive.

The food retailing sector enters in a new phase due to various significant changes. Carrefour's announcement that it is pulling out of Greece, and selling its Greek supermarkets to the Marinopoulos group (Nikolas, 2012) creates a new situation in terms of competition and leadership in the market. Also, it is very difficult for a foreign retailer to enter the Greek market (Manifava, 2012). Consumers continue to buy the necessary goods by taking also advantage of any promotional offerings in hypermarkets, supermarkets, and discounters. In addition, consumers turn increasingly towards private label products due to their lower prices since the economic crisis influences dramatically consumer spending. However, an interesting development is the fact that Greek consumers turn towards products made in Greece (Kosmides, 2011).

All the above compose a very competitive environment in which the retailers are called to operate. It is anticipated that strategic actions will take place such as investments in private label products due to the increased demand. Other predicted developments include a series of acquisitions (smaller retailers will be acquired since they felt the economic pressure more), and some big retailers will open new stores as part of their expansion policy (Manifava, 2012).

## Characteristics of strategic decision making in Greek companies

Bourantas and Papadakis (1996) have shown that decision-makers in Greek-owned companies follow less rational decision-making processes compared to those found in firms in the US. Generally speaking, Greek management is associated with fewer rules of formalisation, and less hierarchical decentralisation. This is also consistent with Zey's (1992) research, which has shown that rational models have dominated many business areas particularly in the United States and the Western Europe, while Papadakis et al. (1998,:137) noted that Greek private firms have less formal rules and comprehensive decision-making processes than U.S. or British ones, and so are more likely to make decisions in a more "emotional" manner. The preference of Western scholars for these rational models of explanation has been critiqued by Eisenhardt and Zbaracki (1992) who suggested that theorists should be more concerned with real-life processes, rather than being rooted in the normative tradition. A recent study by Dimitratos et al. (2011) confirmed Eisenhardt and Zbaracki's assertion as their research on SMEs from Greece, Cyprus, UK, and the USA showed that their internationalisation strategic decision-making process massively differ, depending on national culture characteristics.

## Case study: Making location strategy in Greek retail SMEs

### *Methodological note*

Given the lack of empirical research in this area, an exploratory investigation was considered the most justifiable approach (Churchill, 1991). A "critical case" (Dawes-Farquhar, 2012) was selected aiming to recruit respondents from the major sub-sectors of the Greek retailing sector. Two sets of four in-depth interviews (two phases), informal discussions varying in number and length with each one of the respondents, and observations were made. Interviews took place at the working place of the respondents. All interviews lasted about an hour and were recorded. All interviews took place in Greek, which is the native language of both researchers and respondents. The audiotapes were transcribed and translated by the authors.

The purpose of this research is to help the authors create a better understanding of the decision making process of retailers under uncertainty. For that purpose the cognitive mapping technique was employed (see figure 1 for example).

Cognitive maps can be referred to as a method used to elicit the structure and the content of people's mental process (Daniels et al. 1995), and which provides a mental model. Spicer (2000) defined cognitive mapping as a suite of techniques and methodologies which are designed for the elicitation and representation of individual knowledge and understanding. Cognitive mapping techniques are one of the tools to draw cognitive maps.

These techniques are used to explore graphical descriptions of the unique ways in which an individual views a particular domain (field of thought or action) (Langfield-Smith, 1992). As a research tool cognitive mapping has its strengths and weaknesses; a detailed account can be found in Ahmad and Ali (2003). Table 1 summarises the details of the sample.

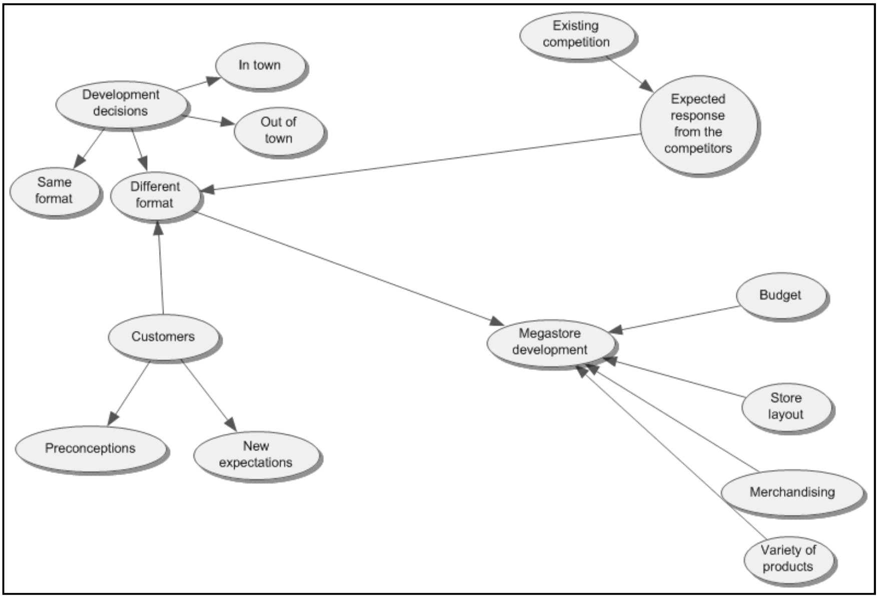


Figure 1: R2's mental map of his decision to open a new store
Source: Adapted by the original mental map

**Table 1: Details of the selected cases**

| | **Sector** | **Main contact** |
|---|---|---|
| **Respondent 1 (R1)** | **Grocery** | The north-Greece locational manager of a leading discount Super Market chain |
| **Respondent 2 (R2)** | **Health and cosmetics** | The regional manager of a leading cosmetics retailer |
| **Respondent 3 (R3)** | **Electricals** | The owner of a leading electrical retail company |
| **Respondent 4 (R4)** | **Fashion** | The owner of a male fashion retail company |

## The nature of environmental uncertainty

Two major themes emerged in the first part of the interviews. The first one relates to the components of the environment that are creating environmental uncertainty, and the second one is related to the type of uncertainty that retailers are experiencing.

With respect to the first theme, taken together the interviewees suggested that there are eighteen components of the business environment that are causing the state of uncertainty. Most of these components are parts of the external environment of the company, but there are also few that come from the internal environment of the company. Four components were identified as important by all the interviewees.

The first one concerns the laws and specifically planning legislation. As R1 suggested "*planning legislation is very old and cannot cover the needs of the developers that want to bring fresh ideas from abroad*". R3 added, "*Laws can be very flexible. If you know the right people things are very easy, but what happens if you don't…*" Laws and corruption is a serious problem of the Greek public sector. According to Transparency International the perceived level of corruption in the Greek public sector by Greek citizens is the highest observed between EU-15 and one of the highest between EU-25 (http://ww1.transparency.org/cpi/2005/cpi2005_infocus.html#cpi).

The second one is information circulation. R1 and R2 take information circulation as granted and they experience uncertainty because they are not sure if they are using information in the most effective way. For R3 and R4 information circulation is a matter of capital investment. They believe that they know how to take advantage of the information but they address the issue of the cost of the information and the time needed to get it.

The third one concerns competition. In this case international retailers are afraid of the flexibility of local retailers and local retailers are afraid of the size and power of international retailers. R2 mentioned that "*…there are about ten large independent cosmetics stores in Thessaloniki, and it is very difficult to keep an eye on them. Their size and structure allows them to change fast and approach niche markets. For instance it took us more than a year to introduce a line of ecological perfumes when they did it just a week after a couple of Greek actresses protested against chemical cosmetics*". On the other hand R4 suggested "*I hear rumours that Zara is* *looking for a store in Kolonaki*[1]*and the other day I somebody tells me that Zara wants to relocate all their stores from hi-streets in shopping malls because hi-street retailing has saturated in Greece. And the problem is that it's not just rumours. These things are happening in front of my eyes every day."*

The fourth component concerns consumers. Consumers are mentioned in many different ways by the interviewees. Their concern mainly involves consumers' loyalty. It was stated by all four that consumers are not loyal and they cannot understand to what kind of changes consumers are sensitive to. For example R1 mentioned that *"When we decided to advertise our low prices we had a massive fall of our sales, we are a discount chain but consumers don't want to know that!"* Even though all the respondents have some kind of marketing intelligence available to them they all agreed that they just have a partial idea of consumers' needs. This is the barrier for them to serve them effectively.

R1 and R2 largely mentioned the same environmental components. They believe that components of the environment that are mediating their relationship with the top management of the company are very important to the way that they are experiencing the uncertainty. R2 suggested that:

> *"…sometimes I wonder if senior managers know what they are asking of me."*

For these two respondents management expectations and goals are important. They suggested that top management expectations, the strategic goals of the company and profitability expectations are three components of the environment that are a major cause of the uncertainty experience.

R3 and R4 are primarily concerned about the components of the environment that affect the competitiveness of their company. A major issue for them is the expansion of international retailers in Greece and how this influences their companies. They attribute both the emergence of opportunities and threats to the expansion of international retailers. R3 suggested that:

> *"… the expansion of DSG and Mediamarkt was a shock for both companies and consumers. Our competitors focused on retaining their*

[1] Kolonaki is the wealthiest district in Athens. R4 has one store there.

*market-share but for me it was a great opportunity to grow now that all my competitors try to defend."*

For both R3 and R4 the survival and growth of their companies are their focus. They relate the experience of uncertainty to the existence of their company and they consider as most important the components of the environment that can create opportunities and threats for their companies.

R1 and R2, contrary to R3 and R4, are employed by international retailers. The components of the environment that are acknowledged as significant for the international retailers appear to be different than local retailers. R1 and R2 suggested that they have to conform to formal rules and policies, and this can be very difficult especially when they have to deal with the government. R1 suggested that:

*"… when I have to get a license from the local authorities or from the town-planning bureau it is very easy if I act as an individual. Everybody there can be bribed. But it is not the same thing when I act as a manager. I have to follow the laws and the rules because it is the reputation of the company on the stake".*

There are signs that there are significant differences in the perception of uncertainty between managers and company-owners and local and international retailers. These differences are presented in table 2.

With respect to the second theme, the interviewees suggest that they are not all experiencing the same type of uncertainty. For R1 uncertainty is "*what I cannot predict*", for R2 it is *"…when I don't understand what senior managers are asking of me"*, for R3 it is *"…when I cannot make decisions"*, and finally for R4 it is *"…how I will manage to survive"*. R1 and R2 are experiencing state uncertainty, while R3 and R4 are experiencing effect uncertainty. R1 and R2 cannot understand their environment, while R3 and R4 cannot decide how they are going to react to the environmental stimuli.

R1 and R2 have only a partial view of the company and the environment, and thus they do not have an overall idea of the environment they are operating within. On the other hand R3 and R4 have a wider view of the company and the environment as they are the owners of their companies. They have a better understanding of their company and the external environment because they are exposed to the internal and external environment of the company. Their uncertainty comes from their inability to choose between alternative replies to the environmental stimuli.

**Table 2: Components of the environment causing uncertainty**

| | Components of the environment | Local | International |
|---|---|---|---|
| Political factors | 1. Laws | X | X |
| | 2. Regulation | | X |
| | 3. Banks | X | |
| | 4. Interest rates | X | |
| Technological factors | 1. Information systems | | X |
| Capital management | 1. Information circulation | X | X |
| | 2. Data | | X |
| | 3. Property owners | X | X |
| | 4. Estate agents | | X |
| Competitiveness | 1. International retailers | X | |
| | 2. Competition | X | X |
| | 3. Consumers | X | X |
| | 4. Costumers | X | |
| | 5. Suppliers | X | X |
| | 6. Survival | X | |
| Management | 1. Strategic goals | | X |
| | 2. Senior managers | | X |
| | 3. Profitability | | X |

## Uncertainty and strategic retail location decisions

The findings of the empirical research indicate that retail location decisions are influenced by the environment and particularly by changes that happen in the retail environment. A key finding of the research, which is not consistent with the existing literature but it is supported by the empirical research, is that retail change is not necessarily only a factor that causes environmental uncertainty but it is also retailers' response to uncertainty. It is the means of overcoming uncertainty and coping with it. In fact, it is a response that not only aims at coping with uncertainty but also it is a way for them to compete. A conceptual framework is suggested that links existing theory with the empirical findings reported here (Figure 2).

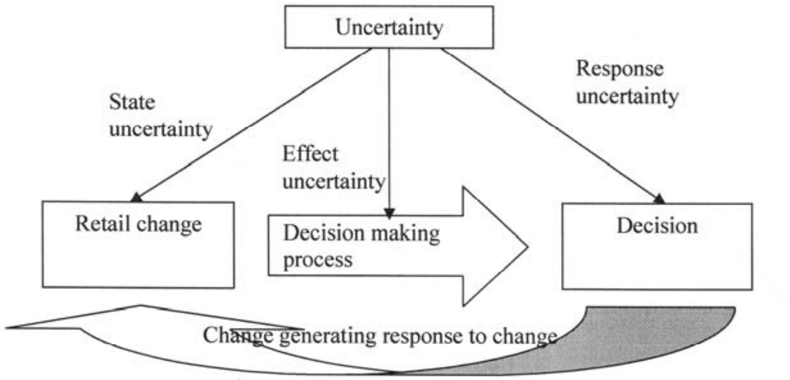


Figure 2: Conceptual framework deriving from research

The framework is informed by the authors' reflection on the relevant literature and the evidence of their exploratory research. As it was argued before, managers experience state uncertainty when they believe that available data and information they have is not enough in order to understand a phenomenon (Duncan, 1972). Retail change is a phenomenon (Brown, 1987) and the understanding of the phenomenon is influenced by the state uncertainty effect.

Evidence from the exploratory research indicate that effect uncertainty influences the decision making process. This happens because the respondents feel unable to predict the changes in their business environment, which is the typical symptom of effect uncertainty (Milliken, 1987). When respondents have to make decisions, and particularly retail location decisions, they are influenced by the effect uncertainty because they are not confident about the outcome of their decisions. So, they are hesitant in making decisions and in order to become confident (reach the threshold of confidence) they are making decisions that are the most effective according to their conceptualisation of the environment.

When managers come to making a decision they experience response uncertainty. Response uncertainty was defined as the inability to predict the likely consequences of a response choice (Miliken, 1987). This is particularly important when decisions involve retail location because a need for a strategic response to a threat or opportunity is implied. The evidence of the exploratory research indicates that respondents attempt to reduce response uncertainty by making decisions that exploit the opportunities or meet the threats by attempting not only to adapt to their environment but furthermore to change the environment up to the extent their company can.

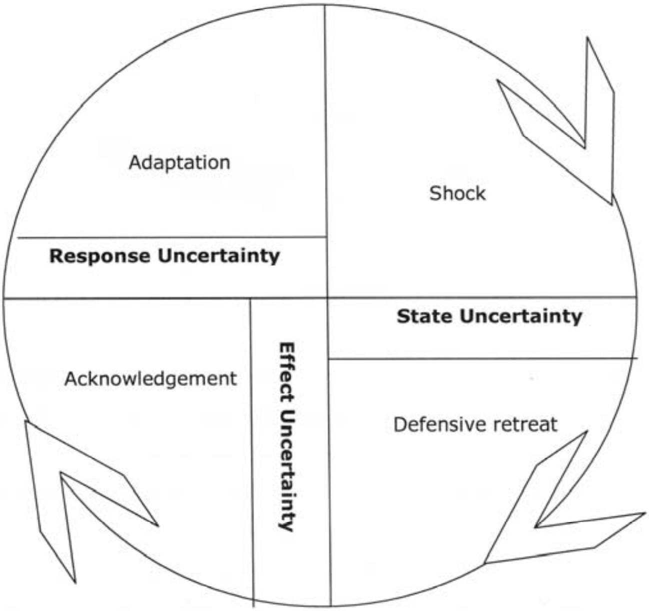


Figure 3: Conflict theory of retail change with the impact of environmental uncertainty

As Brown (1987) noted, the conflict theory of retail change came as an explanation of the emergence of innovative retail formats. Conflict theory basically suggests that retail change is an action – reaction sequence. These are: shock, defensive retreat, acknowledgement, and adaptation (Stern and El Ansary, 1977). Brown (1987), discussing the implications of conflict theory, notes that all four phases are dependent on managers' perception of the event. The shock happens when the manager understands that there is a change in the environment, which is a basic feature of state uncertainty. In the phase of defensive retreat managers are evaluating the changes that have happened in the environment, which is the state of effect uncertainty. In the phase of acknowledgement managers have finally understood the changes in the environment and they are selecting the right action from a set of alternatives. This is when the state of response uncertainty is experienced. Finally the managers are making a decision and based on that they adapt their company to the environment. The evidence from the empirical research indicates that this decision is usually an action that will initiate a new change process. This process is presented graphically in figure 3.

## Understanding the strategic decisions through the complexity theory lens

Recent advances in strategic decision-making research are towards the direction of the need of a holistic explanatory model that will be able to capture the changes in the environment that make strategic decision-making a difficult task. During uncertain times this becomes even more complicated because decisions are made in circumstances of high dynamism and volatility that are crying out for urgent responses. A trending approach to this quest is the application of science, and particularly of the physical laws governing complex adaptive systems (Davis et al., 2007, Theodoridis and Bennison, 2009). Brown and Eisenhardt (1997) described complex organisations as systems that exhibit complex, adaptive, and emergent behaviours because they are made up of multiple interacting agents. In organisational sciences complexity is treated as a structural construct that characterises both the organisations and the environments (Anderson, 1999). Complexity is understood and conceptualised in different ways by academics and practitioners (Cilliers, 2000) and it raises rather exotic thoughts about chaotic situations, even though scholars see signs of chaos everywhere (Levy, 1994).

## Complexity and organisations

As suggested before the concept of complexity is seen from a number of different ways and has seen different uses during the years. For example there are references of complexity from Simon (1955) who posed that there is a limit to the complexity that individuals can handle over a given period of time; therefore complexity is dependent and time defined. Eisenhardt and Brown (1998) suggested that time refers not only to the management of a complex system but also to the understanding of it, which probably is the most demanding and resource intensive part of it. Authors like Boisot (2000), gave a Darwinian view of the adaptation to the complex environments. He stressed that failing to adapt in a timely manner ultimately leads to the natural termination of the organisational life.

The systemic characteristics of organisations are a factor that explain their ceaseless process of adaptation and change (Morel and Ramanujam 1999). Companies that fail to achieve the dynamic equilibrium with their environments become outdated and ultimately “die”. Using anthropomorphisms is a common trait of complexity vocabulary as they are rooted in the Darwinian laws of adaptation. Cilliers (2000: 24) provided a detailed account of the features of the complex systems (see Table 3).

**Table 3: Characteristics of the complex adaptive systems,**

| | |
|---|---|
| 1 | Complex systems consist of a large number of elements that in themselves can be simple. These elements can be of diverse types - e.g. people, coalitions, organisations, processes etc (Morel and Ramanujam 1999). |
| 2 | The elements interact dynamically and their interactions are non-linear, therefore they cannot be predicted. |
| 3 | There exhibit feedback loops. |
| 4 | Complex systems are open, and operate in non-equilibrium conditions. |
| 5 | Complex systems have organic properties like memory and history. The behaviour of a complex system is not determined by its elements but by the nature of the interaction among the elements. The interaction of elements produces emergent patterns of behaviour (Morel and Ramanujam 1999). Since the interactions are emerging and dynamic, predictions about the system cannot be made by just inspecting their components. |
| 6 | Complex systems are adaptive meaning that they can organise their structure without the intervention of an external actor. |

Source: Cilliers (2000:.24), adapted

The fundamental behaviours of organisations that operate in complex settings are either to adapt or absorb to the feedback that is given by the environment (Ashmos et al. 2000). This approach has common grounds to the debate on being a first mover or a fast follower (Song et al., 2012). The transformation is inevitable; however adapting or absorbing is not a magic recipe that can always reply to the environmental challenges. Therefore companies must move from the adaptation to the absorption of the environmental complexity taking into account the circumstances, their resources, and their capabilities. Kauffman (1995) presented companies as organisms that are fed with information, create energy in order to evolve – or co-evolve – and become compatible to their environment. Ashmos *et al.* (2000) have similarly concluded that organisations operate under multiple goals and multiple challenges, therefore they develop – intentionally or not – responses that reply holistically to the emerging challenges. The notion of multiplicity is central to the complexity theory. A response to a certain challenge has multiple consequences, or a piece of incoming information is related to numerous different challenges. That makes decision-making complex and unpredictable and is the fundamental connection between environmental uncertainty and complexity theory. Not knowing the current state, the future state, or the impact of a certain course of actions to the environment are the core of the environmental uncertainty theories and at the same time are the major reasons that organisations show complex behaviours.

Therefore if the company cannot cope with the challenges and adapt, or make the first move in a more prescriptive strategic approach, it will probably develop a bounded rational understanding of the environment and wait to absorb the energy that is created by the transformation from the order to the disorder – what is called as the *entropy* of the system in the thermodynamics – defending its position and waiting for an environmental setting that will meet its capabilities. This is not necessarily a conscious decision! The example of the case study reported above is enlightening. Companies of different sectors, with different access to information and resources showed similar – but not the same – patterns of behaviour to the emerging challenges. The comprehension of the environment was off different level and detail, the resources that could have been allocated are different, and the responses to the challenges are also different. However the pattern of action is similar. Internal and external powers drove the companies to decisions, strategic decisions of high stake and long-term commitment, with present and future implication for the company and the sector. The complexity absorption response was accomplished by emphasising formal role relationships and thereby minimising connections. It is a defensive response, yet this is not a sign of a successful or unsuccessful strategy. Stacey (1992), for example, stressed that managers tend to establish stability and succeed, or experience instability and fail. Adapting or absorbing is not a forecasting technique, it is not meant to be used to assess the performance of the company let alone its future success. It is a way to view the evolution of organisations, understand them, and potentially explain the reasons they succeed or failed in order to learn and create knowledge for future reference.

## Complexity theory and strategy development

The basic assumption that needs to be made when strategies are reviewed under the prism of the complexity theory is that companies made strategies decisions in order to achieve advantage over competitors in a given strategic landscape. Companies interact with each other, but also interact with the other elements of their environments, such as consumers, suppliers, labour, the political authorities, banks and other financial institutions. All those have been identified in the case study above as factors that cause uncertainty. So, is strategy itself a complex process that generates uncertainty to the managers of the SMEs? The evidence of the research shows that it is. Strategy refers to the long term engagement to a goal, the allocation of resources, and the investment of capital and time on that goal. Each one of these prepositions entails some kind of art and science, some guessing and some calculation, some gut feeling opposed to evidence based planning. Basically, it involves strategic decisions that are made with limited information, limited resources, and within limited time. This reduction of the environment to a manageable proportion is what is called *scaling* in the complexity theory vocabulary, but it is also the same thing that is described as bounded rationality by behavioural decision-making theorists.

Bechtold (1997) approached strategy development as a dynamic process. It is as a vital activity of organisations, it gives them – as well as the decision-makers – identity, and it is planned and implemented in a different and opportunistic way by complexity adapting and complexity absorbing organisations. This can be viewed in terms of the flexibility and the length of their strategic plans, their understanding of environmental uncertainty and stability, their resistance to change, and their development of mechanisms that support them at times of change. As Stacey (1993) highlighted for some of them, strategy is not developed as a long-term plan but rather emerges spontaneously from chaos through a process of adaptation, real-time learning and political negotiations. In addition to that he added that a distinction between companies that have adopted or try to adopt a chaos-theory approach to strategy development and those that follow the normative view of strategy development is necessary. Not in terms of the likelihood to succeed but as a tool to understand them.

## Further implications

This chapter aimed to draw the attention of the readers to an alternative way to understand strategising in retail SMEs. It is not the intention of the authors to provide a recipe book of strategy; on the contrary their intention is to show that there are no recipe books. Strategies shall comply with basic rules however successful strategies are based on the unique internal and external circumstances that govern the operation of the companies. Therefore, the recommendation that is made through this chapter is to spend more resources on developing a process of understanding the context rather than understanding a given and finite environment. The major capability that is unique and non-imitable for the company is the alignment of the resources in a way that managers or decision-makers will be (or feel) confident to make decisions. This is a core competence for the organisation and can lead to long term and non-substitutable competitive advantage. Theodoridis and Bennison (2009) have for example shown that the organisational structure is a potential means for achieving competitive advantage for the retail SMEs in Greece; indeed Wood and Reynolds (2013) had similar findings in their research into big retailers in the UK. For the academic researchers this is a field of further enquiry as the European South still experiences the economic crisis and yet strives to compete against the international competitors – let alone the competition from the online retailers. For the practitioners it is a field of opportunity. Consultancies may find this area of great interest and can provide consultation of business process, re-engineering processes that may lead to an organisational structure that will be open to inputs and outputs, to the environmental entropy, and the challenges of the turbulent environment.

## Acknowledgements

The authors would like to thank the anonymous reviewers of the EAERCD 2007 conference, as well as Professor David Bennison for their valuable comments. This research was supported by the Greek State Scholarships Foundation.

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The International Review of Retail, Distribution and Consumer Research
Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/rirr20

# Complexity theory and retail location strategy

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Published online: 11 Nov 2009.

*The International Review of Retail, Distribution and Consumer Research*
Vol. 19, No. 4, September 2009, 389–403



# Complexity theory and retail location strategy

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(*Received January 2009; final version received August 2009*)

This paper presents an innovative approach to the exploration and explanation of retail location strategy formulation based on the premises of complexity theory. A chaos-theoretic approach was employed to encapsulate the complex environmental context of retail organisations, and the findings of the research are discussed in the terms and language of chaos literature. It is argued that managers understand complexity in an individual way, and therefore they deal with complexity based on their own unique understanding of it. We also argue that there are complexity absorbing and complexity adapting retail organisations that follow different approaches to their retail location strategy formulation.

**Keywords:** retail location; complexity theory; chaos theory; case study; Greece



## Introduction

The formulation of retail location strategy is often supported by sophisticated computer assisted techniques that integrate large quantities of marketing and geographical data. Older approaches based on gut feeling and simple checklists or analogues have been complemented by statistical models and the application of geographical information systems (GIS) where these are available (Clarke and Rowley 1995). However, for reasons of finance, infrastructure or data availability, sophisticated normative techniques have limits because they either cannot be afforded by all retailers (Pioch and Byrom 2004), and/or there are retailers that operate in places where the raw data for such approaches are simply not available. Moreover, retail location strategy, as part of overall corporate strategy, is influenced by the rapid changes that occur in the environment, and it is debatable whether the linear models that are used in retail location planning are always compatible with the non-linear and complex environments in which retail organisations really operate around the world. Using complexity theory and its adjunct chaos theory as a framework for analysis (Lissack 1997), the exploratory research reported in this paper looks at how retail location strategy is developed in complex environments by retail companies absorbing or adapting to the complexity around them. Following an outline of the key features of complexity theory and its application to organisational studies, the paper presents the findings of a case study of two companies in Greece. The emergence of a modern, corporate retail system in the

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ISSN 0959-3969 print/ISSN 1466-4402 online

DOI: 10.1080/09593960903331386
http://www.informaworld.com

country during the last 20 years has been very rapid and destructive of the traditional system that preceded it (Bennison 2003), creating a particularly turbulent environment for both indigenous and international retailers, and therefore a highly suitable place to undertake research.

## Basic theoretical underpinnings

### *Complexity and organisations*

In organisational theory complexity is treated as a structural variable that characterises both organisations and environments (Anderson 1999). Brown and Eisenhardt (1997) described complex organisations as systems that exhibit complex, adaptive, and emergent behaviours because they are made up of multiple interacting agents. Simon (1957) suggested that there is a limit to the complexity that individuals can handle over a given period of time, which implies that complexity is time dependent. Eisenhardt and Brown (1998), building on Simon's (1957) work, maintained that time dependency is related to how long individuals need in order to understand and deal with complexity as well as to when individuals will engage with the complex environment. Organisations that fail to change ultimately die, suffering the penalty for not revising their priorities in a timely manner (Boisot 2000).

The study of organisations in the context of the concept of complexity has its roots in the natural sciences. Seen from this perspective, organisations come to dynamic equilibrium with their environments through a ceaseless process of adaptation and change (Morel and Ramanujam 1999). Cilliers (2000, 24) offers a detailed description of complex systems. The main features are:

(1) A large number of elements that in themselves can be simple. These elements can be of diverse types, e.g. people, coalitions, organisations, processes etc. (Morel and Ramanujam 1999).
(2) The elements interact dynamically and their interaction is non-linear.
(3) There are feedback loops.
(4) They are open systems, and operate in non-equilibrium conditions.
(5) They have organic properties like memory and history. The behaviour of a complex system is not determined by its elements but by the nature of the interaction among the elements. The interaction of elements produces emergent patterns of behaviour (Morel and Ramanujam 1999). Since the interactions are emerging and dynamic, predictions about the system cannot be made by just inspecting their components.
(6) They are adaptive: they can organise their structure without the intervention of an external actor.

The organisational response to complexity involves either an *adaptive* or an *absorbing* behaviour (Ashmos, Duchon, and McDaniel 2000). The view of organisations as *complex adaptive* systems suggests that organisations gather information about their surroundings, themselves and their own behaviour, and then use this information for adapting to, and co-evolving with, their environments (Kauffman 1995). When organisations choose managerial responses to complexity that are consistent with the characteristics of complex adaptive systems, they recognise multiple and sometimes emerging goals and emphasise the importance of connections among the parts of the organisation as a way of acknowledging and resolving conflict that is created by the pursuit of multiple alternative goals (Ashmos, Duchon, and McDaniel 2000).

In contrast to *complexity adaptation*, some organisations are characterised by *complexity absorption*. That is, the organisation tries to simplify and reduce the amount of data and the number of choices available to its members (Ashmos et al. 2002). A complexity absorption response is accomplished by emphasising formal role relationships and thereby minimising connections. Some scholars associate complexity absorption in the organisation with organisational stability: For example, Stacey (1992) suggested that managers tend to establish stability and succeed, or experience instability and fail.

Boisot (2000) considered that organisations either attempt to simplify the complexity of their environment or they attempt to deal with a variety of portrayals of the complex environment. Three basic differences between complexity absorbing and complexity adapting organisations can be identified (Table 1). Ashmos, Duchon, and McDaniel (2000) argued that complexity absorbing organisations attempt to reduce uncertainty by minimising the number of elements of the environment that are considered important. By doing that, they channel all their efforts into specific and predetermined activities and strategic goals, and disregard feedback from the internal and external environment that could redefine their strategy and goals. In contrast, complexity adapting organisations prepare themselves for alternative variations of the environment, and can have multiple goals and strategies (Ashmos, Duchon, and McDaniel 2000). Complexity adapting organisations are potentially capable of developing ad hoc structures that allow information exchange and the multiple interpretation of the environment.

### *Chaos theory and strategy development*

Given that organisations are complex and dynamic systems (Levy 1994), the notion of chaos theory may be applied to the process of strategy development. Organisations interact with each other, but also interact with the other parts of their environments, such as consumers, suppliers, labour, the political authorities, banks and other financial institutions. The interconnection of these parts creates a complex environment, defined by the number of actors and their interconnections. Bechtold (1997) suggested that a chaos theory approach to strategy development provides a dynamic view of the process. Strategy is developed with respect to the *scale* that the environmental context is viewed by the participants in the decision-making process. Strategy development as a vital activity of organisations is planned and implemented in a different way by *complexity adapting* and *complexity absorbing*

Table 1. The characteristics of complexity absorbing vs complexity adapting organisations.

| | Complexity absorbing organisations | Complexity adapting organisations |
|---|---|---|
| Perception of environmental stability | The environment is stable | The environment is unstable |
| Flexibility and length of strategic plans | Rigid and long-term plans | Flexible and short-term plans |
| Resistance to change | Resistant to change | Open to change |

organisations in terms of the flexibility and the length of their strategic plan, their understanding of environmental stability, their resistance to change, and their development of mechanisms that support them at times of uncertainty. Strategy is not developed as a long term plan but rather emerges spontaneously from chaos through a process of adaptation, real-time learning and political negotiations (Stacey 1993). There is, therefore, as Stacey (1993) noted, a distinction between companies that have adopted or try to adopt a chaos-theory approach to strategy development, and those that follow the normative view.

### *Retail location strategy*

Successful retail location strategies involve not only an understanding of the contemporary marketing environment but also the anticipation of possible changes in competitors and demographics (Ghosh and Craig 1983). The emergence of an international competitive environment for retailers and the subsequent complexity that has occurred through it has led retail organisations to invest in and develop routines or tools that allow them to process data from multiple sources, replacing or complementing the more traditional approaches. For example, instinct and traditional rules of thumb used for the selection of a retail location have been gradually supplemented by mathematical and statistical tools (Hernandez and Bennison 2000). Even small independent retailers have been noted issuing loyalty cards, and using the data they collect from them to plan their locational expansion (Wood and Browne 2007). Considering that retail location decisions are of high importance for the organisation because they engage capital for the long term, and the decision-making process involves a number of stakeholders (Hernandez, Bennison, and Cornelius 1998), it is to be anticipated that numerous interactions will take place between the actors of the system. This is a sign of the complex environment within which retail organisations operate.

Retail location at the strategic level is embedded within the wider context of the marketing and corporate strategy of the retail organisation (Hernandez, Bennison, and Cornelius 1998). It is related to the overall scope of the organisation and reflects the overall vision and objectives of the organisation. However, at a time of rapid change it could be argued that company retail location strategy falls into a context of complexity, and the traditional normative tools that are used to support retail location decisions may be inadequate because they are driven by historical data that were collected and analysed in different environmental contexts. Therefore organisations that operate in complex environments may look for alternative ways to support their strategic retail location decisions, and draw on the skills and knowledge that come from within the organisation. In countries where there is a paucity of officially or commercially available data in the first instance to support decision-making, this is likely to be even more the case.

In combination with the normative tools that are used, this integration can provide a more dynamic process for collecting and assessing data, and exploiting the emerging opportunities in favour of the company. This way of operating may be the foundation for developing and sustaining a non-replicable competitive advantage over other organisations in the sector, as the advantage derives, in part at least, from the internal attributes of the company (Somers 2004).

The case study that follows looks at two companies in Greece that make their strategic retail location decisions in distinctively different ways. The first one, a *complexity absorbing* company, follows the normative patterns of decision-making and it relies on the belief that the processes and the tools that are used by the top and middle managers are good enough to support the strategy development process. The second one, a *complexity adapting* company, follows a pattern that acknowledges the complexity in the environment, and aligns employees and managers to keep in touch with the environment, allowing them to understand and deal with emerging opportunities and threats in a dynamic way.

## Methodology

The overall aim of the paper is to identify the differences between *complexity absorbing* and *complexity adapting* retail companies, and examine the relationship to the formulation of their retail location strategies. The objectives of the paper are:

(1) To understand how complexity is perceived by retail managers.
(2) To examine the differences in strategic location decision-making processes between complexity absorbing and complexity adapting companies.

A comparative case study was employed in order to explore the treatment of complexity by top and middle managers in retail organisations with particular reference to the selection of locations for new stores. Two retail organisations in Greece were chosen, the selection being based on discriminating between *complexity absorbing* and *complexity adapting* organisations. The first one deals with complex situations by downplaying them and continuing the implementation of their strategy, and the second one deals with complexity dynamically by adapting to the complex environment and adjusting its strategy in order to fit with it.

The case study method has two key advantages: first, by conducting case study research it is possible to examine contemporary events in context; and, second, it is possible to use the multiple sources of data and information that were available to the authors (Quinn, Hines, and Bennison 2007). Stake's (1995) approach to a case study was followed, involving a series of steps including posing research questions, gathering data, data analysis and interpretation.

For the purposes of this study eight interviews took place, four at each of the companies (referred to as Company A and Company B – Table 2), using a

Table 2. Job description of the interviewees.

| | |
|---|---|
| Company A | |
| Interviewee 1 | Marketing director |
| Interviewee 2 | Head of accounting division |
| Interviewee 3 | Head of business development unit |
| Interviewee 4 | Area manager |
| Company B | |
| Interviewee 1 | Owner – CEO |
| Interviewee 2 | Marketing director |
| Interviewee 3 | Head of accounting and finance division |
| Interviewee 4 | Store development manager |

semi-structured questionnaire as the basis for discussion. Company A also allowed access to various documents, such as consumer data, real estate agents' quotes, and internal memos. Tape-recorded interviews were transcribed and finally all interviews were coded using techniques that focused on the identification of common themes. All of the data collected for this study is in Greek, and subsequently translated into English by one of the authors (Temple and Young 2004). After writing the case study report companies were sent summary copies of the findings for review. The final case report was then developed.

## The case studies

### *Introduction to the case context*

Company A and Company B are two of the major electrical retailers in Greece. The total sales of the sector amounted to £1.3bn in 2006, having registered a growth of 12% on the previous year (ICAP 2007). The leader of the sector is *Kotsovolos* (owned by DSGi) with a market share of about 24%. Company A has a market share of about 10% (total sales 2006: £126M/gross profits: £7.3M), and Company B a share of 4% (total sales 2006: £34M/gross profits: £395K). The market is highly fragmented because local traditional independent retailers still have a leading position in consumers' choice: for example, *Makrakis* is the local market leader in Crete, where it competes against all the other national retailers (ICAP 2007).

The study is focused on the operations of the companies in Greater Thessaloniki, the second largest urban area in Greece (2001 population: c763,000). Company A has four out of its 51 stores located there, which account for 13% of its total retail sales. Company B has five stores located in the same area, out of a nine store network developed solely in Northern Greece. These stores account for 65% of the total retail sales of the company, and it is the local market leader with a market share of about 30%. Company A is third by sales with a market share of about 18%.

Both companies have a store in the centre of Thessaloniki, and their other stores are located around the city in either planned or unplanned shopping centres. Both companies have been exploring the possibility of opening another new store in Thessaloniki. The interviews focused on the understanding of this process, taking into consideration managers' perceptions of complexity.

### *Understanding complexity*

Complexity science approaches matters holistically and views the system and its agents as an integrated entity (Marion and Uhl-Bien 2001). Therefore, before discussing anything else it should be established how these organisations perceive their complex environment. A basic distinction is found in that the interviewees of Company A, the complexity absorbing company, do not see their internal environment as part of the bigger picture of complexity. For example, Interviewee 2 in Company A (A2) said:

> Our competitors, and our consumers, and all the potential customers, even our suppliers and the government make the system complex ... [but] we have the means to deal with them ...

While A4 cited public authorities specifically and other people in general outside the company as elements of the complex environment:

> There are so many people and public authorities involved in my work that make it unbearably complex. I have to keep in touch with people here, in Athens, in Thessaloniki, in Crete, abroad, sometimes I email people that I haven't even seen in my life.

Company A is a much larger company than company B, and therefore has relationships with more individuals and organisations than B. This offers a potentially much wider range of data and information to the company to support the strategy development process. The plethora of data and information sources are a potential source of strategic opportunities for Company A. However, although it has a management information system in place, it is not yet exploited. A1 said:

> I don't have enough time to deal with all this data I receive. There are hidden treasures in here [points to a pile of papers], but it is practically impossible to read each and every one of these memos and reports. It's a real pity that so many opportunities are wasted and so many threats that could have been foreseen were unobserved.

In contrast, Company B, the complexity adopting organisation, is structured around the owner-CEO and the marketing manager, so the complexity of the environment concerns only them. B2 stated:

> Yorgos [first name of the company owner] and I deal with everyone. We want it to be this way. We hear things and we are always listening to our employees, our customers, and our suppliers but we figure out the bigger picture and decide where we can and where we want to get involved.

A common element for both Company A and Company B is the appreciation of time as a key component of complexity. A1 and A2 agreed that the time they can spend in reviewing data and information is related to the level of complexity they perceive at the present time and also their ability to reduce complexity in the future. A1 said:

> I think that the data and information I have access to are enough to predict the future. But it would take ages to review all this information and by the time I might have finished, something new would have emerged.

A2 added:

> I usually believe that if I had a piece of information just a little earlier than the time it came to my hands I could do things different. I would have a clearer view of the environment and I could plan a better future for the company.

B1 observed:

> You know how it is here ... It's just me and [B2]. And on the other side there are employees, suppliers, customers, consultants that work for us, the banks, the government, all these people ... I cannot stay in touch with all of them all the time. Too many people, too little time ...

***Dealing with a strategic location decision***

Both companies use similar types of store formats, mainly two-storey units of about 1000sqm, located in the city centre. Company B operates one two-storey store in a planned shopping centre. The interviews revealed two differences in the way that the decision-makers of the two companies understood and dealt with a strategic location decision. The first involved the motivation to make a strategic location decision.

In Company A the approach was to follow the previously articulated strategy:

> We are planning our expansion. We follow a strategic plan and build new stores based on this plan. We follow our competitors, we want to be where our competitors are . . . (A1)

While A2 added:

> The timing is not good right now, but we are going to follow our plan. It is more expensive to borrow money, and it is going to cost us more than we calculated but it is important for us to show that we are strong.

Underlining the dedicated pursuit of the strategy by the company leadership, a lower ranking manager (A4) commented:

> Sometimes I send memos to the top managers but I think they don't pay any attention to them. I don't think it's useful to follow our competitors everywhere. It is a bit arrogant to believe that you can have a store everywhere.

In contrast, a more intuitive approach was used in the other company (B1):

> Sometimes we get information about promising vacant sites. We are always interested in a good vacant site. When we built our first store there were only grocery stores around it but we believed in our decision and we supported it. When you are a businessman you just know that you have to go for it . . .

And B2 added:

> I like to spend time with people and listen to them. I like to share ideas and when I hear something interesting I go to [B1] to discuss it. This is how we built our store in City Gate [a planned shopping centre in east Thessalonki]. It proved to be a bad decision because this store never became profitable but we know that this store has the potential to become profitable.

While B4 showed his appreciation of this process:

> I cannot say that I agree with all the decisions that are made but anyway I can have my own word. And I am happy that someone is listening and replies back to me.

Two types of retail location strategy formulation were identified from the interviews. The first company (A) has a firmly structured process of retail location development, following a predetermined plan. The plan comes first, the threats and opportunities that emerge in the environment are absorbed, and the plan is formally reviewed when it proves to be inadequate. The staff of Company A show a limited understanding of the environmental context as a result of choices being made by the top management of the company. The strategic plan and the formal normative tools that Company A uses frame the actions of the members of the organisation, and drive the way that the organisation deals with the environment. Company B is more flexible and open to external and internal stimulation. The organisation adjusts its strategy according to feedback from the environment, and adapts to emerging circumstances. Top management encourages internal communication and feedback from employees, and aims to build on that.

The second difference between the companies is related to the way that they organise themselves in order to deal with emerging circumstances (opportunities or threats). In Company A, A1 said:

> When something urgent comes up it takes us some time to appreciate it. We prefer to plan things and we believe that we can predict things but nonetheless bad things or good things appear in our way ... and then we review the past and try to adjust to this urgent situation.

While A3 noted:

> Sometimes we see things coming and adjust before they become serious. The company is fairly bureaucratic and it is not easy to make rapid changes but anyway we can skip the hierarchy and at least save some time this way.

And A4 observed:

> I do not believe that I understand all the big changes that are happening. One day I might receive a memo from a top manager asking for an estimate of the cost of closing a store, and the next day they ask me to start looking for vacant sites. I understand that the plans change from time to time, but I cannot understand the direction of the change.

The interviewees of Company B painted a different picture of the way their organisation dealt with an urgent situation. B1 claimed that:

> We are trying to use our small-medium size in our favour. Our size allows me to stay in touch with everybody in the organisation. From the cleaners to the top managers and from our customers to our suppliers ... My door is always open for my people and when something comes up they know that I will be there for them ... I try to delegate responsibilities to everybody, when someone has an interesting idea I put them in charge of the presentation of the idea and we keep them updated about the progress of the way that we will deal with their idea.

B2 also cited an example:

> A couple of weeks ago a sale assistant send me a video message that was showing a vacant store near the train station. Everybody in this organisation knows that we are interested in every opportunity that emerges in this area. When I met the property owner this sales assistant was there with me. She is part of this decision now. She lives right next to the train station, she knows the people there; she is not a professional but she has her unique insight about this.

Both companies showed their own distinct approach to the management of emerging circumstances. In Company A structured behaviour, related to rules and the heuristics of the top management, was evident. With respect to retail location strategy Company A follows strict plans that the managers of the company believe are robust enough to withstand changes in the environment; or, if not, at least when changes happen, they have alternative plans to implement.

In contrast, Company B appeared to be more adaptive to the changes that are happening in the environment because it has nurtured a self-organisation culture that encourages the employees and the managers to form informal workgroups that deal with emerging issues directly when they happen. The company is open to suggestions from everybody who works there and it benefits from employees' willingness to participate in the development of the company. With respect to its location strategy, Company B shows adaptive behaviour, open to feedback from the environment and open to the opportunities that emerge.

## Discussion

In this paper we have explored the phenomenon of retail location strategy formulation under the lens of complexity and chaos theory. We first examined the understanding of complexity by the managers of the two companies, and found evidence that complexity is understood by individuals in different ways. Wang and Chan (1995) suggested that the perception of a complex environment relies on managers' ability to process information which is complicated, novel or/and dynamic. In our cases we found evidence that the managers of Company A had adopted a simplified heuristic understanding about the complex environment which corresponds to a general understanding of the term 'business environment' whilst the managers of Company B developed a more structured and synthesised understanding of the business environment that differentiated between its internal and external components. Boyd and Fulk (1996) argued that it is common for managers to reduce the time they devote to environmental scanning when the level of perceived complexity is high. The findings of our research support this argument because the managers from Company A, which is a complexity absorber, regard complexity as a property of the environment that cannot be affected by them. In contrast, managers from Company B, which is a complexity adapter, perceive complexity as a property of the environment that is understandable and worth top managers spending time evaluating it. Understanding complexity is therefore time dependent but the decision to spend time on understanding it is influenced by the initial willingness to deal with it.

We also found evidence that there are different ways that companies deal with complexity. One of the companies chose to absorb complexity and continue its operations based on a single plan without any variations, consistent with the findings of Ashmos, Duchon, and McDaniel (2000). On the other hand, the second company had developed an organisational structure that supported the adaptation of the company to the emergent circumstances of the environment in a dynamic way. Stacey (1995) suggested that organisations which adapt to the environment have the ability to continue their change, even when opportunities from the external environment do not arise. The findings of this research indicate that it is possible that a company can look to engage in a complex environment and use its assets to take advantage of it. McKelvey (1999) suggested that companies might look to achieve a competitive advantage by introducing multiple innovations: in terms of location strategy this could be new positioning or locational strategies (Hernandez and Bennison 2000). By expanding into a new market or setting up in a new location, the retailer aims to cause turbulence in the environment that will be to its own benefit by gaining a share in a previously unexploited market.

Using the language of chaos theory, a *complexity absorbing* retail organisation, even though it acknowledges the non-linearity of cause–effect relations in the environment, develops techniques that reduce the uncertainty caused by the complexity, and prepares itself for alternative complex situations. Bechtold (1997) suggested that the abstraction of complexity is achieved by developing alternative scenarios and by preparing the organisation to implement them in response to whatever events occur. On the other hand, a *complexity adaptive* organisation understands non-linearity and seeks for hidden opportunities and threats in seemingly insignificant changes. Complexity absorbing retail organisations separate changes and deal with them as independent circumstances while complexity adaptive retail organisations seek to identify continua in the change process. The idea of the waves of retail decentralisation (Schiller 1986; Fernie 1995), for example, reflects the openness of some retail organisations to changes in the retailing environment. The exploitation of under-developed low-cost locations gave an advantage to those companies that spearheaded the move out of traditional centres.

When the need for a decision arises (a *bifurcation point* in the language of chaos theory), complexity absorbing retail organisations do not alter their strategy because they take it as given that such situations arise, and such eventualities are planned for. In contrast, complexity adaptive retail organisations understand bifurcation points as an opportunity to evolve. In our cases, when a complexity absorbing and a complexity adaptive retail organisation were at the same bifurcation point, the first one saw it as a planned moment in time while the other one perceived it as an emergent opportunity. They both acknowledged that action was required (development of a new store in an under-developed location), and both indicated that they were going to act similarly but the justification of their action was based on different arguments.

A structural difference between the complexity absorbing and the complexity adaptive organisation was identified in the norms and rules that guided their activities (in the language of chaos theory, these may be seen as the *strange attractors*, the core properties of a system to which it always tends to return regardless of change). The complexity absorbing organisation had a formal nucleus of rules and regulations that were brought forward when a crisis appeared. This is consistent with McMillan's (2004) findings that suggested that strange attractors are a set of routines that define the life of employees in the organisation. In contrast, the complexity adaptive organisation had human actors that acted as the strange attractor of the organisation. Parker and Stacey (1994) suggested that when the organisation meets a bifurcation point, the strange attractor is the facilitator of the transition from the previous to the future state. The existence of a person that can make decisions and guide the change process appeared to be an essential part of the organisation during the adaptation.

In an attempt to encapsulate the distinctive differences in the understanding of the environment and the development and implementation of the retail location strategy between complexity absorbing and complexity adaptive organisations two summative conceptual frameworks are proposed. It is suggested that complexity absorbing organisations (Figure 1) have a relatively simplified way of scanning the environment involving only employees at the higher or highest levels of the company.

In contrast, complexity adapting organisations show a more complicated way of understanding the environment and making decisions (see Figure 2). This is basically a result of the involvement of a greater number of elements in the process. The chaotic properties of the complexity adapting system include the development of ad hoc structures that work supplementary to the existing formalised networks of employers and managers. McAdam and Reid (2001) suggested that in SMEs the development of ad hoc structures intended to transfer information and knowledge are more likely to occur than in large companies that prefer formalised procedures of information communication. This is consistent with our findings that show that a large number of elements of the complexity adapting company are employed in the

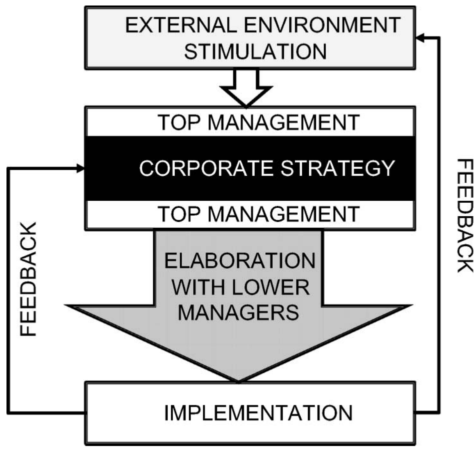


Figure 1. Decision-making in complexity absorbing organisations.

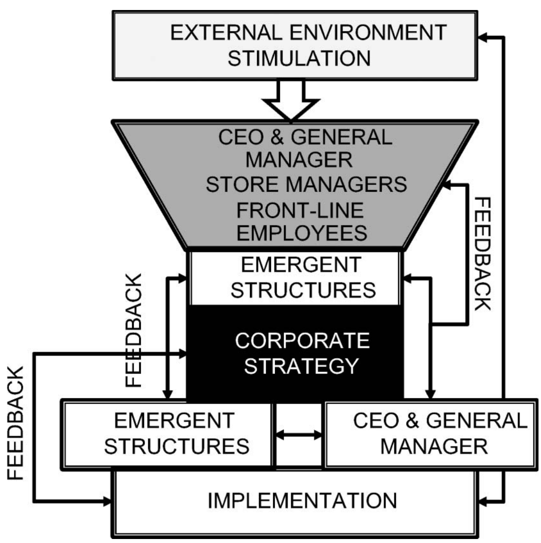


Figure 2. Decision-making in complexity adapting organisations.

scanning of the environment and the negotiation of the strategy alternatives. Another factor that is known to facilitate the dynamic involvement of a large number of elements in this process is the existence of 'common knowledge' among the members of small organisations (Desouza and Awazu 2006, 36). In smaller companies it is expected that the employees will have a wider and deeper understanding of the aims and the strategic goals of the organisation, and it is therefore easier for them to get involved in ad hoc structures whenever it is necessary.

Employees in the complexity absorbing organisation had a narrower view of the environmental context than ones in the complexity adaptive organisation. This is the outcome of a strategic decision by the organisations because it relates to the level of involvement of employees in the strategy formation process. The size of an organisation strongly influences its ability to raise and employ capital in information acquisition and communication. Desouza and Awazu (2006) maintained that small organisations often use knowledge that is revealed openly by larger organisations to inform their decisions. In terms of the retail location strategy of smaller companies, this can be understood when seeing them follow the locations and formats first introduced by larger ones. With respect to location strategy, since it is influenced by both consumer and institutional factors (Brown 1991), having an extended perspective of the environment brings all levels of employees closer, and sharing information is easier because everybody is aware of the strategic requirements of the organisation. When more people are involved in scanning the environment for strategic opportunities or threats, it is likely that these opportunities and threats will be identified and exploited faster. This means that an organisation that encourages the formation of workgroups (formal or informal) for exploiting emerging opportunities could expect a timely response to a crisis, which in turn could lead to the gain of competitive advantage. In terms of retail location strategy, it could be assumed that a retail organisation that has the ability to organise itself for certain purposes – for example, allow the formation of a unit that could identify and evaluate sites – will become aware and exploit the opportunity of a contested site before another one that has not.

## Conclusion

Our intention was to complement and extend previous research on retail location strategy development and implementation through gaining insights from the application of complexity theory and chaos theory, and thereby align the topic more closely with mainstream organisation research. Our research by no means suggests that complexity absorbing or complexity adaptive retail organisations are better, more profitable or more efficient than each other because this was not its aim. On the contrary, we saw that two retail organisations operate in very different ways and still manage to be profitable. In terms of retail location strategy specifically, the findings indicate that a complexity adaptive approach could lead to the development and implementation of an innovative strategy in terms of site selection. However, the study was exploratory, and further research is required to enable some wider generalisation. In particular, work on larger national or/and international retail organisations is first needed to establish if they have the potential not only to change internally but also to influence their external environment to their advantage. Second, the study needs to be replicated across other geographical areas and sectors.

## Acknowledgements

We would like to thank Professor Tony Hernandez, Professor Leigh Sparks, and the anonymous reviewers for their helpful comments on the earlier version of this paper.

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Greece experiences a combination of a massive economic downturn and a great social unrest that has an unavoidable negative impact on the retail business. The official figures provided by the Hellenic Statistical Authority show an average decline on the volume of the retail sales by 22% from 2005 to November 2011 (NSA, 2012) which varies from 3.9% to the pharmaceutical sector to 40.1% to the apparel sector. The steep decline on the retail sales had as a subsequent result the closure of 60,000 retail companies (National Confederation of Hellenic Commerce, 2011) varying from small independent shops to multinational chains that expanded the last decade to Greece (e.g. Aldi and Plus). The bank credit dependent retail sector, which saw a huge development from 1995 to 2004 when bank loaning increased by 72% (Bank of Greece, 2005), has been seriously hit from the sudden cease of bank funding, both in terms of consumer loans and credit cards supply and left to relay on the declining income of consumers. A direct result of the decline was the rationalisation of the store networks of the companies that still operate, such as the cosmetic retail Hondos Center, the electrical retailer Electroniki, the fashion retailer Sprider, and the furniture retailer Neoset. A Colliers International report (2011) points that about 30% of the retail stores in Greece remain vacant, as well as that the per Sq.M. price of property decreased by 20%-30% since 2010. In such a period, of massive social and business change retail companies could not have stayed untouched. The uncertainty that companies deal with became apparent on their decisions, and the way they dealt with the rapid change that takes place.

In periods of rapid change and increased uncertainty like the one mentioned above is common that companies are customising their location decisions. The rationalisation of the store networks, the closure of small businesses, and the opening of shopping centres provide opportunities to risk taking retailers that still can afford the expansion or fine-tuning of their store networks. Evidence from research that was undertaken in USA and the UK support that. Rousey and Morganosky (1996) researched retail format change in USA and concluded that department stores made browsing quicker and easier because the time that consumers can spend in their stores is decreasing as they become busier. Fernie (1996) suggested that the transfer of outlet centres from USA to the UK was partly dependant on the relaxed planning legislation. The author integrated older data collected in 2006 to contemporary data collected in 2011 and 2012 to review how strategic location decisions were made, and implemented in order to develop a theory on the viable store network management during periods of high uncertainty. In order to achieve that four research questions were developed: (1) to understand how managers define environmental uncertainty; (2) to understand how retail managers experience the environment uncertainty that is caused by the social and business changes that were briefly described above; (3) to understand how managers are dealing with the uncertainty experience with respect to the retail location decisions that are making; and (4) to identify success and failure patterns on the retail strategy development.

## *LITERATURE REVIEW*

Miliken (1987) suggested that individuals experience uncertainty because they perceive themselves to be lacking sufficient information to predict accurately or because they feel unable to discriminate between relevant and irrelevant data. In the first part of the literature review environmental uncertainty literature will be discussed. In the second part of the literature review the retail location decision making literature will be discussed with particular interest on establishing a linkage between environmental uncertainty and retail location decision making.

### State uncertainty

Miliken (1987) suggests that *state uncertainty* is experienced when administrators perceive the environment (or a particular component of it) to be unpredictable. In his work Miliken (1987, p.136) describes the environment as follows:

> "*Top-level managers might be uncertain about what actions relevant organisations or key organisational constituencies (i.e., suppliers, competitors, consumers, the government, shareholders etc) might take, or they might be uncertain about the probability or nature of general changes in state in the relevant environment (i.e., sociocultural trends, demographic shifts, major new developments in technology).*

Gerloff *et al.* (1991) suggest that state uncertainty has a situational character. They specifically suggest that in a given situation, a given manager may lack confidence or has doubts that the available data reveals the significant events and trends of the environment and as a result the manager would experience state uncertainty. Duncan (1972) had also argued that uncertainty is not a constant feature in any organisation. Rather, "it is dependent on the perceptions of organisation members and thus can vary in their incidence to the extent that individuals differ in their perceptions" (1972, p.325).

### Effect uncertainty

Miliken (1987, p.137) defines *effect uncertainty* as "an inability to predict what the nature of the impact of a future state of the environment or environmental change will be on the organisation". Effect uncertainty does not involve the lack of understanding of the environment, e.g. a retail manager may know that the number of single-parent families is growing but he or she may feel unable to predict how this trend is going to change the sales of his or hers product. As Gerloff *et al.* (1991) note, effect uncertainty involves a lack of understanding of cause-effect relationships. To a large degree effect uncertainty arises from a firm's inability to anticipate or influence how its customers and competitors will shape its own future (Miller & Shamsie, 1996). Past research has shown that companies that have the means to influence their environment experience less effect uncertainty than others that have not (Itami, 1987; Wernerfelt & Karnani, 1987).

### Response uncertainty

Miliken (1987, p.137) defines *response uncertainty* as "a lack of knowledge of response options and/or inability to predict the likely consequences of a response choice". This type of uncertainty becomes especially important in situations involving a need to take actions, such as a pending threat or opportunity (Gerloff *et al.,* 1991). As Gerloff *at al.* (1991) notes at this level of uncertainty managers are wondering "What action are we going to take?". Milliken (1987) suggests that this level of uncertainty is directly related with decision making because it is about the importance of choosing between alternatives. Miller and Shamsie (1999) have researched response uncertainty in terms of new product line development. In conjunction with Miliken's observation, Miller and Shamsie suggested that this type of uncertainty (that they call *decision response uncertainty*) is dependant on social, demographical and economic variables (e.g. decision makers' experience, job tenure, product line diversity, cost etc). Their research findings are consistent with the ones of Downey *et al.* (1977) who focused their research on managers' cognition and perception of environmental uncertainty. A key issue that emerges from both Miller and Shamsie's and Downey *et al.*'s research is the significance of a changing (as noted by the first) or dynamic (as noted by the latter) environment on the perception of response uncertainty. The findings of both are important because they explore the relationship of change and uncertainty and at the same time introduce the idea that the managerial decision making process is influenced by the state of the environment as it is defined by the two latter variables.

## Characteristics of strategic decision making in Greek companies

Bourantas & Papadakis (1996) have shown that decision-makers in Greek-owned companies follow less rational decision-making processes compared to those found in firms in the US. Generally speaking, Greek management is associated with fewer rules of formalisation, and less hierarchical decentralisation. This is also consistent with Zey's (1992) research, which has shown that rational models have dominated many business areas particularly in the United States and the Western Europe, while Papadakis et al. (1998, p.137) noted that Greek private firms have less formal rules and comprehensive decision-making processes than U.S. or British ones, and so are more likely to make decisions in a more "emotional" manner. The preference of Western scholars for these rational models of explanation has been critiqued by Eisenhardt & Zbaracki (1992) who suggested that theorists should be more concerned with real-life processes, rather than being rooted in the normative tradition.

### Retail location decision making

Retail location decision making was first researched by geographers. As Clarke *et al.* (1997) note geographers contributed in three ways:

1. They gave an insight into the spatial patterns of retailing
2. They helped to develop techniques for locational analysis and evaluation
3. They deal with land use planning and public policy issues surrounding retail location

The marketing research tradition focuses on the concept of "place" rather than the location itself. Retail outlets are treated as the final ring of the supply chain and the emphasis is clearly on the absolute dimensions and the characteristics of the "place" (Clarke *et al.,* 1997). A development in this research trend starts to happen at mid-90's – a few attempts have been made before e.g. Ghosh and Craig (1983); Timmermans (1985) but they are interested in the development of mathematical models rather than developing the context of decision making. Bennison *et al.* (1995) made the first significant break to the research tradition by relating retail location decisions to their environmental context. Furthermore, their work is important because they highlight the strategic nature of the retail location decisions for a company.

Bennison's *et al.* (1995) work was extended first by Clarke's *et al.* (1997) research and later by Hernandez's (1998) one. Clarke et al. (1997) suggested that retail location decisions are influenced by the conditions of the external and internal environment of the company. They also suggest that decision makers perceive only a simplified version of these environments, thus their decisions are made in a constructed abstract context. Hernandez *et al.* (1998) essentially extended Bennison's *et al.* (1995) and Clarke's *et al.* (1997) work by intergrating both of them in a framework (see figure 1) that relates the concepts of external and internal environment, decision making, location management and property portfolio management.

[FIGURE 1]

In their framework they presented the variety of location decisions that a retail company can take. The most important feature of their framework is the multiple relationships that they depict. Hernandez and Biasotto (2001) explain this complexity as a result of the risk and uncertainty under which retail managers are making location decisions. They suggested that retail location decisions can involve high cost investment and long term commitment which increase the financial risk. Based on the level of investment and the time needed to implement the decision, Hernandez *et al.* (1998) presented a location mix option matrix (Figure 2). It is obvious that acquiring a new store involves the investment of a large amount of money while leasing the same place would mean a long term commitment with the owner. This commitment in a changing environment is a cause of the state of uncertainty in decision makers because they know how to respond to an environmental stimulus but they cannot predict what is going to be the result of their decision. Probably the level of uncertainty is lower when the level of investment and the decision horizon in smaller. This is because they know that even if their decision fails they do not have to experience a failure they cannot overcome by tweaking their strategy.

[FIGURE 2]

Obviously there are common grounds between uncertainty and managerial decision making – particularly retail location decision making. Up to now there is no research that clearly identifies how these two phenomena are related together. Furthermore and with respect to retailing, research has been focused basically on the rational judgement of alternative choices rather than understanding how managers are creating the context (or contexts) within which they operate and make decisions.

## *METHODOLOGY*

Given the lack of empirical research in this area, an exploratory investigation was considered the most justifiable approach (Churchill, 1991). A snowball sampling technique was selected and follow-up interviews with the initial respondents took place at a later stage. Effort was made to recruit respondents from the major sub-sectors of the Greek retailing sector. Four interviews took place in Thessaloniki, Greece from the 11th of June, 2006 up to 12th of September, 2006. According to Euromonitor (2001) the four leading sub-sectors of Greek retailing are:

1. Supermarkets
2. Home equipment (Furniture and electronics)
3. Cosmetics
4. Clothing

With respect to this classification the respondents of this research are:

1. The north-Greece locational manager of the leading discount Super Market chain in Greece (international) (R1);
2. The regional manager of the second bigger cosmetics retailer in Greece (international) (R2);
3. The owner of the third biggest by sales electrical retailer in Greece (local) (R3); and,
4. The owner of a local male clothing retailer R4.

The interviews took place at the working place of the respondents. All interviews lasted about an hour and were recorded. All interviews took place in Greek which is the native language of both researcher and respondents. The audiotapes were transcribed and translated by the researcher.

The purpose of this research is to help the researcher create a better understanding of the decision making process of retailers under uncertainty. For that purpose the cognitive mapping technique was employed (see figure 3 for example).

[FIGURE 3]

Cognitive maps can be referred to as a method used to elicit the structure and the content of people's mental process (Daniels *et al.* 1995), and which provides a mental model. Spicer (2000) defined cognitive mapping as a suite of techniques and methodologies which are designed for the elicitation and representation of individual knowledge and understanding. Cognitive mapping techniques are one of the tools to draw cognitive maps. These techniques are used to explore graphical descriptions of the unique ways in which an individual views a particular domain (field of thought or action) (Langfield-Smith, 1992). As a research tool cognitive mapping has its strengths and weaknesses, which can be summarised in Table 1.

[TABLE 1]

## *RESEARCH FINDINGS*

With respect to the research objectives the research findings are discussed below.

### The nature of environmental uncertainty

Two major themes emerged in the first part of the interviews. The first one relates to the components of the environment that are creating environmental uncertainty, and the second one is related to the type of uncertainty that retailers are experiencing.

With respect to the first theme, taken together the interviewees suggested that there are eighteen components of the business environment that are causing the state of uncertainty. Most of these components are parts of the external environment of the company, but there are also few that come from the internal environment of the company. Four components were identified as important by all the interviewees.

The first one concerns the laws and specifically planning legislation. As R1 suggested "*planning legislation is very old and cannot cover the needs of the developers that want to bring fresh ideas from abroad"*. R3 added that *"Laws can be very flexible. If you know the right people things are very easy, but what happens if you don't…"*. Laws and corruption is a serious problem of the Greek public sector. According to Transparency International the perceived level of corruption in the Greek public sector by Greek citizens is the highest observed among EU-15 and one of the highest between EU-25 (http://ww1.transparency.org/cpi/2005/cpi2005_infocus.html#cpi).

The second one is information circulation. R1 and R2 take information circulation as granted and they experience uncertainty because they are not sure if they are using information in the most effective way. For R3 and R4 information circulation is a matter of capital investment. They believe that they know how to take advantage of the information but they address the issue of the cost of the information and the time needed to get it.

The third one concerns competition. In this case international retailers are afraid of the flexibility of local retailers and local retailers are afraid of the size and power of international retailers. R2 mentioned that *"…there are about ten large independent cosmetics stores in Thessaloniki, and it is very difficult to keep an eye on them. Their size and structure allows them to change fast and approach niche markets. For instance it took us more than a year to introduce a line of ecological perfumes when they did it just a week after a couple of Greek actresses protested against chemical cosmetics"*. On the other hand R4 suggested that *"I hear rumors that Zara is looking for a store in Kolonaki*[1]*and the other day I somebody tells me that Zara wants to relocate all their stores from hi-streets in shopping malls because hi-street*

[1] Kolonaki is the wealthiest district in Athens. R4 has one store there.

*retailing has saturated in Greece. And the problem is that it's not just rumors. These things are happening in front of my eyes everyday."*

The forth component concerns consumers. Consumers are mentioned in many different ways by the interviewees. Their concern mainly involves consumers' loyalty. It was stated by all four that consumers are not loyal and they cannot understand in what kind of changes are sensitive to. For example R1 mentioned that *"When we decided to advertise our low prices we had a massive fall of our sales, we are a discount chain but consumers don't want to know that!"*. Even though all the respondents have some kind of marketing intelligence available to them they all agreed that they just have a partial idea of consumers' needs. This is the barrier for them to serve them effectively.

R1 and R2 largely mentioned the same environmental components. They believe that components of the environment that are mediating their relationship with the top management of the company are very important to the way that they are experiencing the uncertainty. R2 suggested that:

> *"…sometimes I wonder if senior managers know what they are asking from me"*

For these two respondents management expectations and goals are important. They suggested that top management expectations, the strategic goals of the company and profitability expectations are three components of the environment that are a major cause of the uncertainty experience.

R3 and R4 are primarily concerned about the components of the environment that affect the competitiveness of their company. A major issue for them is the expansion of international retailers in Greece and how this influences their companies. They attribute both the emergence of opportunities and threats to the expansion of international retailers. R3 suggested that:

> *"… the expansion of DSG and Mediamarkt was a shock for both companies and consumers. Our competitors focused on retaining their market-share but for me it was a great opportunity to grow now that all my competitors try to defend".*

For both R3 and R4 the survival and growth of their companies are their focus. They relate the experience of uncertainty to the existence of their company and they consider as most important the components of the environment that can create opportunities and threats for their companies.

R1 and R2 contrary to R3 and R4 are employed by international retailers. The components of the environment that are acknowledged as significant for the international retailers appear to be different than local retailers. R1 and R2 suggested that they have to be conformed to formal rules and policies, and this can be very difficult especially when they have to deal with the government. R1 suggested that:

> *"… when I have to get a license from the local authorities or from the town-planning bureau it is very easy if I act as an individual. Everybody there can be*

*bribed. But it is not the same thing when I act as a manager. I have to follow the laws and the rules because it is the reputation of the company on the stake"*

There are signs that there are significant differences in the perception of uncertainty between managers and company-owners and local and international retailers. These differences are presented in table 2.

[TABLE 2]

With respect to the second theme, the interviewees suggest that they are not al experiencing the same type of uncertainty. For R1 uncertainty is "*what I cannot predict*", for R2 it is "*…when I don't understand what senior managers are asking from me"*, for R3 it is "*…when I can not make decisions"*, and finally for R4 it is "*…how I will manage to survive"*. R1 and R2 are experiencing state uncertainty, while R3 and R4 are experiencing effect uncertainty. R1 and R2 cannot understand their environment, while R3 and R4 cannot decide how they are going to react to the environmental stimuli.

R1 and R2 have only a partial view of the company and the environment, and thus they do not have an overall idea of the environment they are operating within. On the other hand R2 and R4 have a wider view of the company and the environment as they are the owners of their companies. They have a better understanding of their company and the external environment because they are exposed to the internal and external environment of the company. Their uncertainty comes from their inability to choose between alternative replies to the environmental stimuli.

## Uncertainty and retail location decisions

The findings of the empirical research indicate that retail location decisions are influenced by the environment and particularly by changes that happen in the retail environment. A key finding of the research, which is not consistent with the existing literature but it is supported by the empirical research, is that retail change is not necessarily only a factor that causes environmental uncertainty but it is also retailers' response to uncertainty. It is the means of overcoming uncertainty and coping with it. In fact, it is a response that not only aims at coping with uncertainty but also it is a way for them to compete. A conceptual framework is suggested that links existing theory with the empirical findings reported here (Figure 4).

[FIGURE 4]

The framework is informed by my reflection on the relevant literature and the evidence of my exploratory research. As it was argued before, managers experience state uncertainty when they believe that available data and information they have is not enough in order to understand a phenomenon (Duncan, 1972). Retail change is a phenomenon (Brown, 1987) and the understanding of the phenomenon is influenced by the state uncertainty effect.

Evidence from the exploratory research indicate that effect uncertainty is influences the decision making process. This happens because the respondents feel unable to predict the changes in their business environment, which is the typical symptom of effect uncertainty (Milliken, 1987). When respondents have to make decisions, and particularly retail location decisions, they are influenced by the effect uncertainty because they are not confident about the outcome of their decisions. So, they are hesitant in making decisions and in order to become confident (reach the threshold of confidence) they are making decisions that are the most effective according to their conceptualisation of the environment.

When managers come to making a decision they experience response uncertainty. Response uncertainty was defined as the inability to predict the likely consequences of a response choice (Miliken, 1987). This is particularly important when decisions involve retail location because a need for a strategic response to a threat or opportunity is implied. The evidence of the exploratory research indicates that respondents attempt to reduce response uncertainty by making decisions that exploit the opportunities or meet the threats by attempting not only to adapt to their environment but furthermore to change the environment up to the extent their company can.

As Brown (1987) noted, the conflict theory of retail change came as an explanation of the emergence of innovative retail formats. Conflict theory basically suggests that retail change is an action – reaction sequence. These are: shock, defensive retreat, acknowledgement, and adaptation (Stern and El Ansary, 1977). Brown (1987), discussing the implications of conflict theory, notes that all four phases are dependent on managers' perception of the event. The shock happens when the manager understands that there is a change in the environment, which is a basic feature of state uncertainty. In the phase of defensive retreat managers are evaluating the changes that have happened in the environment, which is the state of effect uncertainty. In the phase of acknowledgement managers have finally understood the changes in the environment and they are selecting the right action from a set of alternatives. This is when the state of response uncertainty is experienced. Finally the managers are making a decision and based on that they adapt their company to the environment. The evidence from the empirical research indicates that this decision is usually an action that will initiate a new change process. This process is presented graphically in figure 5.

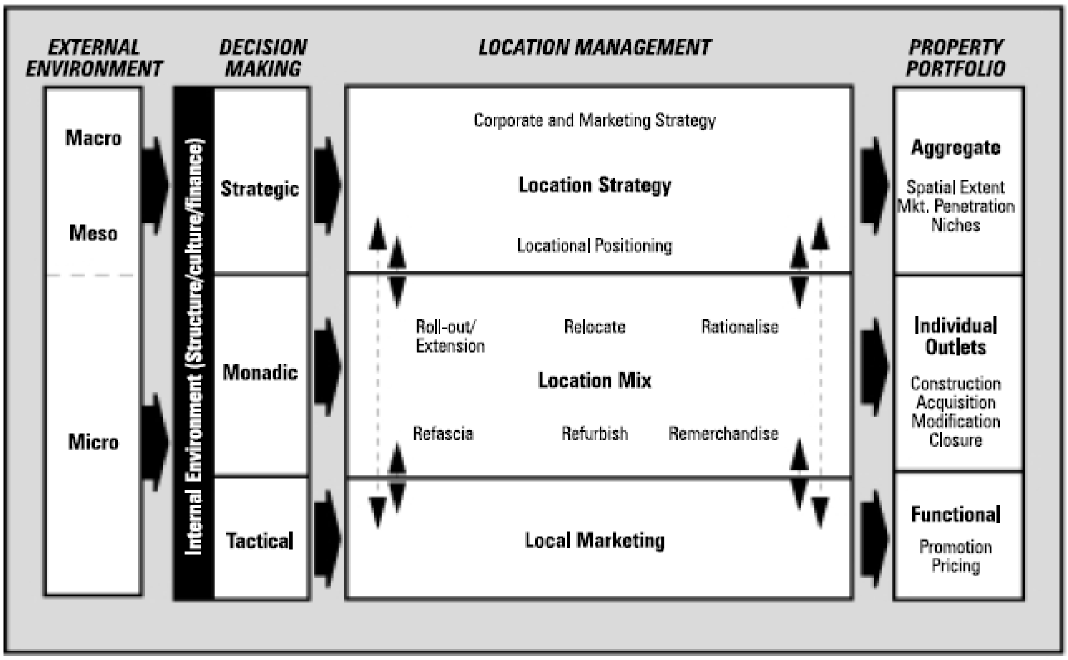
[FIGURE 5]

## *FUTURE RESEARCH*

The focus of the future research is to create a better understanding of the decision making process and particularly the complexity of decision making in uncertain changing environments. The major concept that should be explored is how uncertainty is affecting decision making. Exploring that concept in the context of retailing provides a manageable research area where retail change and retail location decision making are two well supported domains of knowledge. Using this example a theory will emerge that in later stages could be tested in other areas of management research.

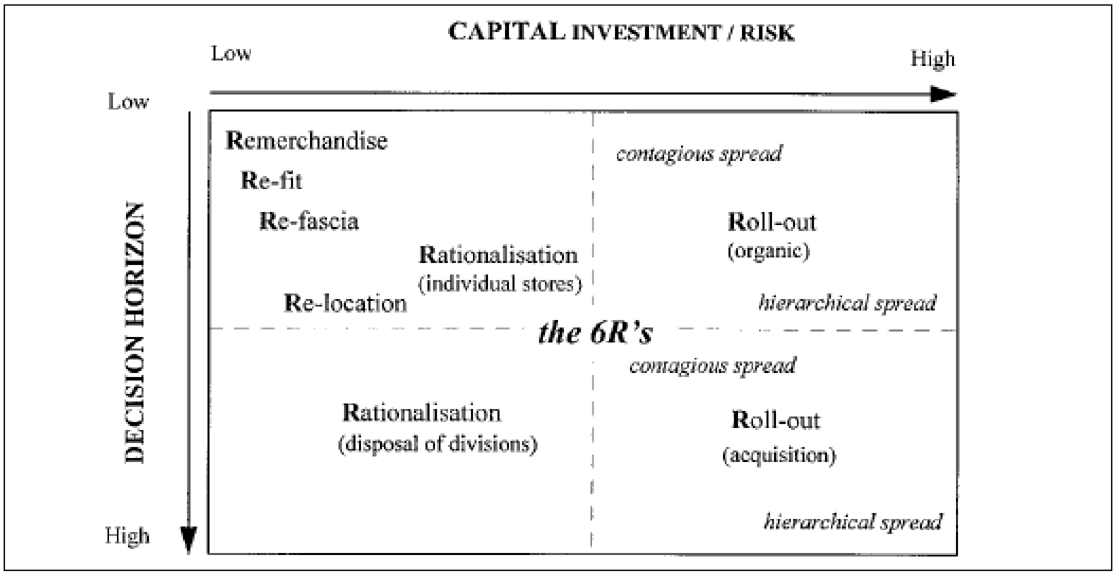
**APPENDIX**

Figure 1: Retail location planning and decision making




Source: Hernandez et al. (1998)

Figure 2: Decision mix options: decision horizons and capital investment




Source: Hernandez et al. (1998)

Figure 3: R2's mental map of his decision to open a new store

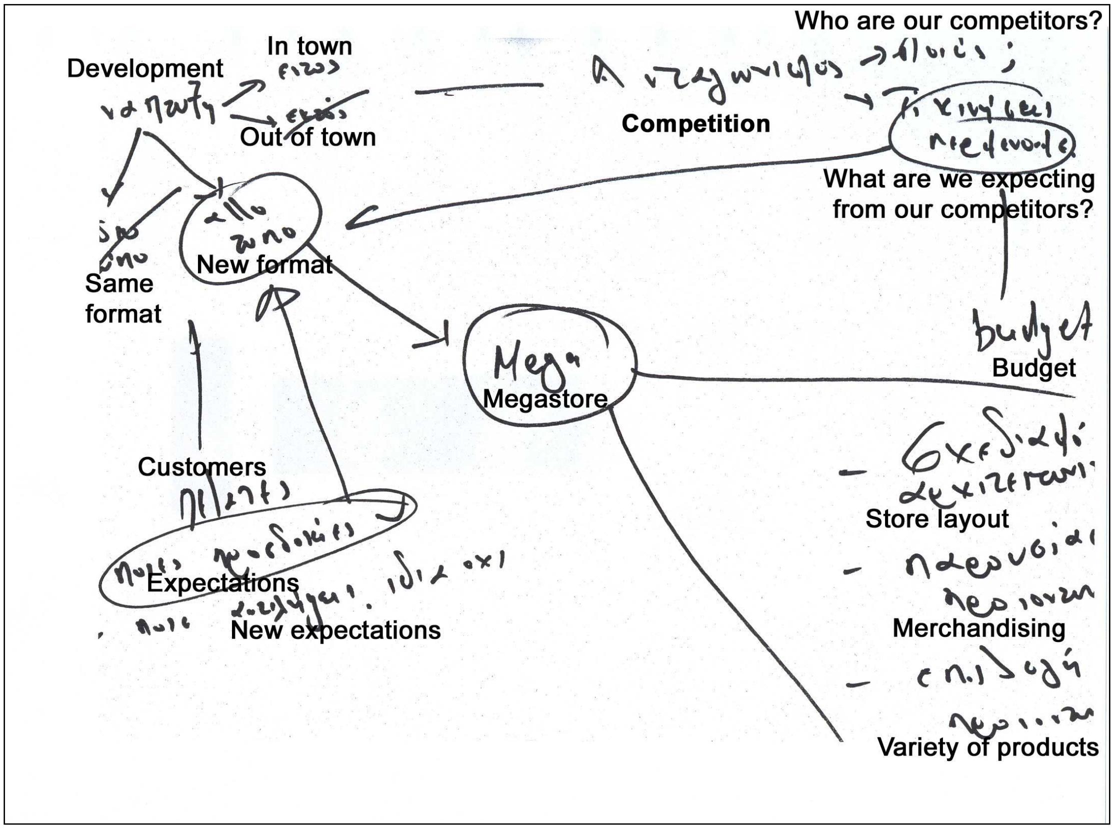


Figure 4: Conceptual framework deriving from research

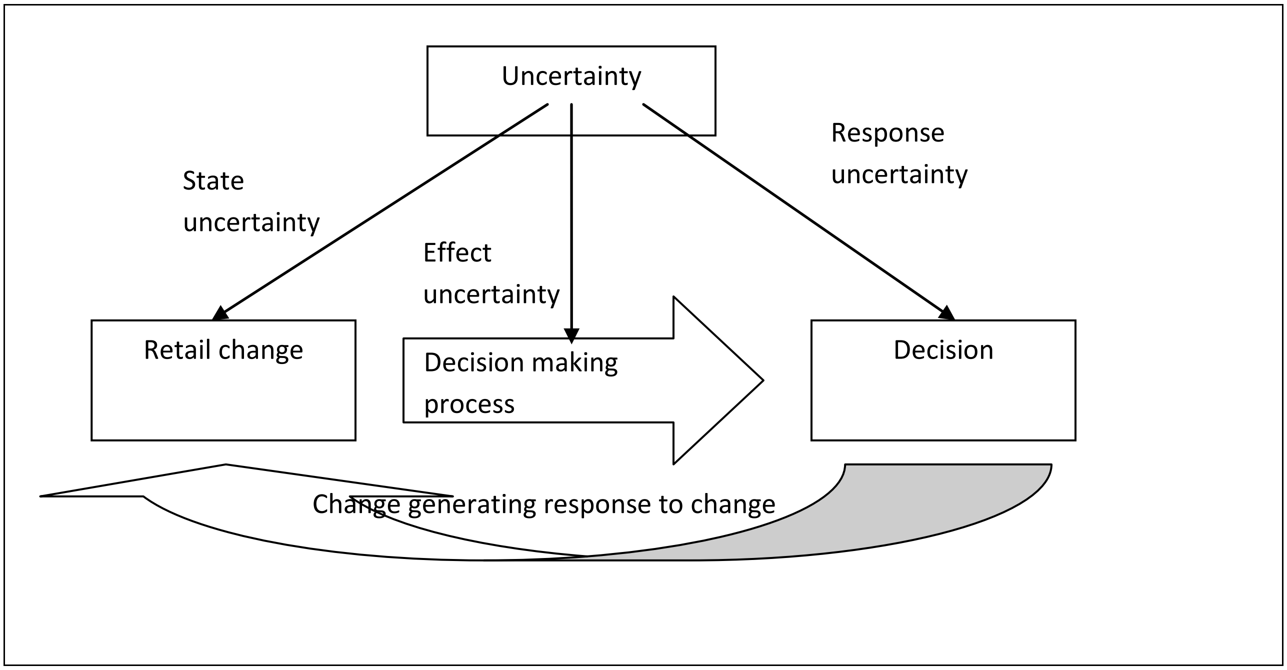


Figure 5: Conflict theory of retail change with the impact of environmental uncertainty

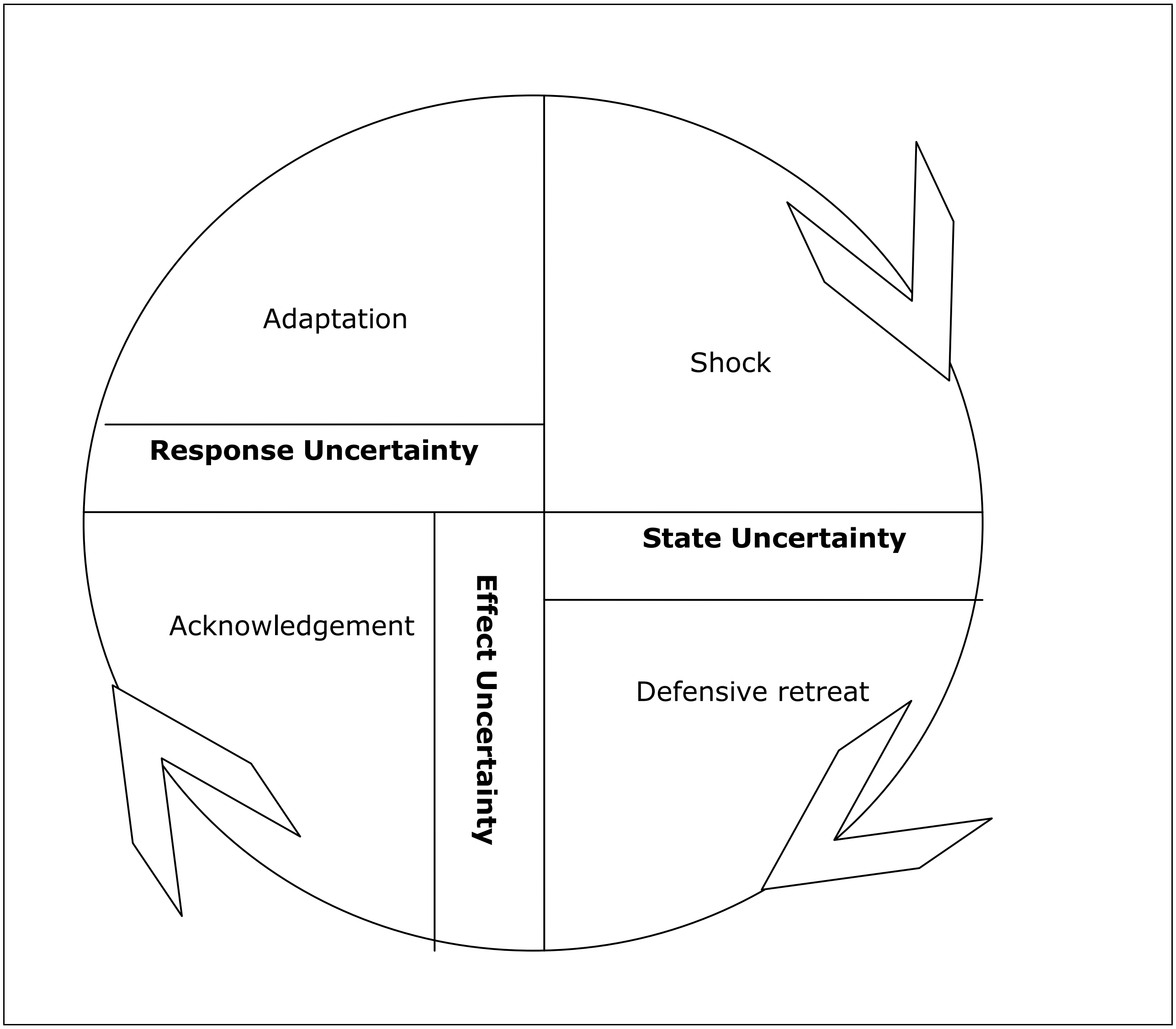


Table 1: Strengths and weaknesses of cognitive mapping technique

**Table 2. Strengths and Weaknesses of Cognitive Mapping Techniques**

| **Strengths** | **Weaknesses** |
|---|---|
| Structure thought through symbolic representation | Exerts undue influence on mapping process |
| Graphical rather than linear layout | Needs skill and highly trained researchers |
| Quick insight into the structure of information | 'Reading' maps is difficult |
| Information clearly communicable | Large maps become complex to administer |
| Managing large amount of qualitative information | Time-comsuming |
| Capture individual knowledge and experience | Mapping unavoidably changes the understanding being mapped |
| Improve interviewing capability | Stress and uncomfortable feeling of respondent |

Source: Ahmad and Ali (2003)

Table 2: Components of the environment causing uncertainty

| | Components of the environment | Local | International |
|---|---|---|---|
| Political factors | 1. Laws | X | X |
| | 2. Regulation | | X |
| | 3. Banks | X | |
| | 4. Interest rates | X | |
| Technological factors | 1. Information systems | | X |
| Capital management | 1. Information circulation | X | X |
| | 2. Data | | X |
| | 3. Property owners | X | X |
| | 4. Estate agents | | X |
| Competitiveness | 1. International retailers | X | |
| | 2. Competition | X | X |
| | 3. Consumers | X | X |
| | 4. Costumers | X | |
| | 5. Suppliers | X | X |
| | 6. Survival | X | |
| Management | 1. Strategic goals | | X |
| | 2. Senior managers | | X |
| | 3. Profitability | | X |

# Exploring strategic decision-making in retail SMEs during turbulent times: a Greek case study

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# Exploring strategic decision-making in retail SMEs during turbulent times: a Greek case study

The paper looks at the strategic decision-making process in a Greek retail SME during turbulent times. Strategic decision-making in retail SMEs is a rather under-researched field, particularly in the latter mentioned geographic context. The paper contributes to the understanding of how decisions are made in retail SMEs during periods of rapid change, with limited or no information available, and under the influence of power and politics relationships within the organisation. A qualitative approach was employed based on an instrumental case study. The authors argue that strategic decisions take place in a context of limited data and information access where personal and hierarchical characteristics strongly influence the decisions made.

**Keywords**: Strategic decision-making, retail SMEs, Greece, networks

## Introduction

This paper examines the decision-making process that a Greek SME retail firm has used during the period of recession to develop its store portfolio. Building on previous work (Theodoridis, 2007; Theodoridis and Bennison, 2009), the authors advocate that SMEs develop distinctive methods of dealing with strategic decisions during periods of rapid change, and attempt to reduce the uncertainties of turbulent times by aligning their corporate resources and competencies in such a way that managers experience a manageable and acceptable level of uncertainty. Set within the context of the Greek recession and retrenchment of 2009/10, it is suggested that decision-makers tend to replace rational processes of information collection by feedback from internal and external networks, mediated by their own experience.

Experience suggests that strategy development during periods of recession is usually limited to defensive low-cost / differentiation approaches that aim to maintain the company in a healthy position ready to grow after it ends or even during its course (Reeves and Deimler, 2009; Gulati, Nohria, and Wohlgezogen, 2010). During the recession of 2009 companies in various countries and of differing sizes attempted to create competitive advantage building on the opportunities that recession provided to them (Piercy *et al.* 2010). In many cases these companies were successful, especially when this growth was linked to the realignment of their store portfolio with new store openings and rationalisations taking place. A number of grocery retailers including the Co-op and Aldi in the UK, for example, took the opportunity to open new stores in city centres and approach new target groups. Other retailers like Best Buy expanded into Europe. At the same time retail giants like Woolworths found themselves struggling to survive, eventually collapsing . Wood (2010) has suggested that in the post-recession era major retail chains will have to battle to regain the market share they may have lost to small independent and value retailers, as a significant proportion of consumers seem to be reluctant to return to them. This shows that small-medium retailers can have the opportunity to expand if they manage to identify a niche where they can compete against the major retail chains.

The impact of recession on the Greek business environment has not so far been subjected to much academic scrutiny; nevertheless, contemporary sources describe the economic landscape in dramatic words like "diseased" (Baum, 2010), or "contagious" (Totaro, 2010), while other commentators use the term *Greek-style* crisis in other countries (Fraher, 2010). The macroeconomic indicators of the Greek economy show that GDP fell by 4% during the first quarter of 2010, industrial production decreased by 4.5%, consumer prices increased by 3.9%, and the unemployment rate has reached 12% (Economist, 2010), figures that are significantly worse than the Eurozone as a whole (see Figure 1). All the structural economic indicators show that the Greek economy has entered a severe downturn.

** Figure 1 here **

The impact of the recession is manifest in newspaper articles and interviews with retailers which strongly reiterate the view that Greek retailing is in deep crisis. For example, the CEO of AB Vasilopoulos, one of the biggest national grocery chains in Greece, suggested that the recession will last at least until 2014 (Analitis.com, 2010); yet, he suggested that this can be a great opportunity for retailers to reorganise their operations: in fact, his company will invest €600M over the next 3 years in developing its own-label product lines, and their store network.

It has been reported that hundreds of centrally located stores remain unoccupied in the city centre of Athens and Thessaloniki, and other major towns in Greece (see Table 1). A number of other well-known retailers have taken advantage of the opportunity that has emerged in the middle of the crisis, and expanded outside Athens and Thessaloniki: for example, Zara has opened new stores in Chalkida and Chania; H&M has opened two new stores in Larisa; AB Vasilopoulos announced that they plan to open two new stores in Crete; and Mediamarkt-Saturn have announced a plan to open new stores in Epirus and Thrace (Imerisia, 2010). On the other hand, it is reported that small-medium retail companies are struggling to survive the crisis. To Vima (2010) reported that the number of small-medium retail companies has decreased by 15 per cent since the beginning of 2010. Therefore it can be understood that companies operate in a very difficult environment where prices increase, and consumer expenditure is threatened by declining incomes and increasing unemployment.

** Table 1 here **

Even though the outcome of the strategic decisions that retailers make during recession is understood through the monitoring and research of their operations, a critical field that remains unexplored is the structure of the decision-making process that takes place in retail organisations during such times. Therefore, this paper looks at this problem using as an exemplar a small-medium retailer from Greece, the country in the EU which has probably been the most negatively influenced by the world economic recession. In this paper an exploration of the experiences of uncertainty by Greek managers in an SME retailer is made, followed by an investigation of the way that the company has tried to exploit the emerging opportunities in its environment.

**Strategy in recession**

Strategy development and implementation during recession periods is basically viewed from two different stand-points, or some combination of the two. A number of scholars and practitioners maintain that it is the time for low-price and cost cutting strategies (Sands and Farraro, 2010) while others suggest that companies should differentiate their products (e.g. Reeves and Deimler, 2009). There is also a third perspective where it is argued that a mixture of these strategies should be developed and implemented (Scott, 2009; Sands and Farraro, 2010). This discussion is supported by evidence collected during previous periods of economic downturns, and research that was conducted in post-recession times. For example, Beaver and Ross (2000, p.26) suggested that British SMEs that survived the 1990s recession had the following characteristics:

They had a firm grip on their finances.

They examined business forecasts carefully and returned to the original business plan to check principal assumptions made about sales volume and cash flow.

They reduced the money that debtors owed by implementing an effective credit management system and/or used factoring.

They considered what purchases to make, and deferred risky ones that were not necessary or negotiated better prices, extended credit or quicker deliveries to reduce stock. Many had a pricing plan and took a strategic view when setting price.

They concentrated on tight stock control, reviewing and identifying areas where efficiency and costs could be improved. Successful firms focused stock control efforts on high-price and high-volume items. They also minimized work in progress and finished goods stocks by making production processes as streamlined as possible.

Sales and marketing activities were reviewed to increase efficiency and reduce costs where possible, including dropping marginal products and concentrating on the most non-price-sensitive products and services.

Navarro (2009) argued that companies should develop forecasting techniques that will allow them to fit quicker and better into the recession landscape. He considered that companies operate in cyclical environments where economic downturns are unavoidable therefore company managers should be prepared for these times and implement strategies that will allow their companies to maintain their competitive advantage. Even though Navarro's point is reasonable, there is a counter-argument that stresses managers' inability to predict downturns precisely. Scott (2009) attributes this to managers' tendency to rationalise uncertainty. As a result of the rationalisation of uncertainty, the possible scenarios are limited to the most probable ones, and usually the possibility that a favourable outcome will emerge is overestimated.

**Strategy development under uncertainty**

The inability to predict the future, due to cognitive or perception restrictions or to the lack of data and/or information to support a predictive process, leads managers to make decisions under a state of uncertainty about the environment, the alternative options available, and the possible outcome of a decision-making process. The concept of environmental uncertainty contextualises the managerial inability to strategise in complex settings (eg during recession). Managers operating under uncertainty face a number of different but interconnected challenges. Duncan (1972, p. 318) suggested that environmental uncertainty can be defined as a concept consisting of three different levels:

*State uncertainty:* The lack of information regarding the environmental factors associated with a given decision-making situation;

*Effect uncertainty:* Not knowing the outcome of a specific decision in terms of how much the organization would lose if the decision were incorrect; and,

*Response uncertainty:* The inability to assign probabilities with any degree of confidence with regard to how environmental factors are going to affect the success or failure of the decision unit in performing its function

During the recession period it is expected that managers will experience even higher level of uncertainty. This is because it may be hypothesised that managers have been influenced by their inability to predict the recession, and therefore have become overly cautious in the decision-making, and averse to chnageIt is also suggested that the rapid changes in the global economic environment have put in question managers' ability to make sense of the direction they need to make for their companies as the uncertain business landscape is not readily understood by them (Piercy *et al.* 2010). Theodoridis (2007) noted that understanding change is an imperative when managers decide to deal with their uncertainties (see Figure 2).

** Figure 2 here **

**Decision making in SMEs**

Decision-making in SMEs is characterised by some features that complicates decision-makers' task (Gibcus *et al.* 2009). First, managers or entrepreneurs are asked to make decisions in an environment of limited and imperfect information. These companies lack the financial resources to access information and the human resources that are needed to scan the environment, collect data and information, and transform them to meaningful input for the company. Second, the business environment of SMEs is complex and dynamic (Covin and Slevin, 1991). The complexity and dynamism of the environment varies between sectors: for example,in innovation-intensive ones companies reinforce the dynamism of the environment by launching new products or services and competitors replies maintain the dynamism.

The personal relationships that are developed within and outside the companies increase the complexity of the environment as more actors participating in the environment of the company can become important or even essential and their behaviour within the complex environment is highly sensitive.

Another feature of decision-making within SMEs is that it is determined by a limited number of individuals, therefore the key people – or even a single person that makes decisions - within a company is pivotal to the decision-making process. Papadakis et al. (1998) suggested that internal measurable characteristics of an organisation like size, the type of ownership, the past performance of the organisation, and the formal systems that support decision-making, are related to the decision-making process. In a later paper Papadakis and Barwise (2002) suggested that the length of the involvement in a specific position in the company as well as the education of the manager influence the decision-making process. Considering that a lot of the decision-making in SMEs is based on biases and heuristics (Busanitz and Barney, 1997), the experience of the decision-maker to handle the changing environment and the knowledge to deal with fragmented pieces of information that are coming from sources of questionable validity and reliability is crucial.

The experience and education of the decision-maker is also linked to the development of intraorganisational and interorganisational networks that are a valuable source of information. Lybaert (1998) stressed the importance of networks in SMEs decision-making and suggested that there is a relationship between the size of the SME and size of the networks they use. Ottesen *et al.* (2006) argued that SMEs' intraorganisational and interorganisational management networks provide a source of information that is controlled since the members and actors of the networks are selected and continuously assessed for their reliability, validity and credibility. Therefore decision makers constantly filter the information sources they use but there is always the possibility that the strength of interpersonal relationships and habitual reliance on specific networks or their members might skew the information input to the company.

**Characteristics of strategic decision making in Greek companies**

Bourantas & Papadakis (1996) have shown that decision-makers in Greek-owned companies follow less rational decision-making processes compared to those found in firms in the US. Generally speaking, Greek management is associated with fewer rules of formalisation, and less hierarchical decentralisation. This is also consistent with Zey's (1992) research, which has shown that rational models have dominated many business areas particularly in the United States and the Western Europe, while Papadakis et al. (1998, p.137) noted that Greek private firms have less formal rules and comprehensive decision-making processes than U.S. or British ones, and so are more likely to make decisions in a more "emotional" manner. The preference of Western scholars for these rational models of explanation has been critiqued by Eisenhardt & Zbaracki (1992) who suggested that theorists should be more concerned with real-life processes, rather than being rooted in the normative tradition.

**Methodology**

A qualitative approach was selected as appropriate for the research as its nature is exploratory, and insights into behaviour are sought. The research project aims to uncover the meaning that managers in a small-medium retail company attribute to uncertainty and how they deal with the opportunities that emerge in the environment. The landscape that is examined reflects the reality that the different interest groups understand. From the ontological point of view the researchers adopted the constructivist position (Bryman, 2008). This standpoint emerges from acknowledgement of the dynamic nature of decision-making within organisations and the individualistic/collectivist goal setting that is met at the company level. The interpretivist epistemological position is employed. The focus is on the individual interpretations of the uncertainty and opportunity exploitation by putting the different experiences in focal position. Theory emerged from the study of the phenomena (Bryman, 2008) and the researchers did not look for the verification of generalisable propositions. As the nature of enquiry is exploratory the suitable method of research is qualitative. Denzin and Lincoln (2005, p.5) noted that "qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them".

The data collection was conducted in two stages. At first an exploratory set of interviews took place where the concept of uncertainty was explored. The target audience of the interviews was the owner and the managers of the company. In total 13 interviews were conducted which was the point where theoretical saturation was reached. Other researchers into strategy-making in organisations during periods of rapid change employed a range of interviewees varying from four (Le and Nhu, 2009) to thirty (Beaver and Ross, 2000).

Unfortunately no other research has been conducted in the Greek context that can be used for comparison. Bryman (2008) cited cases where theoretical saturation was reached after 20 interviews, while Guest *et al.* (2006) experimented with qualitative data collected with interviews and found that theoretical saturation was achieved after 12 interviews. Therefore the number of interviews in this study is broadly commensurate with other work elsewhere.

The findings of the interviews were the foundation for a more thorough instrumental case-study of the company (Stake, 1995). The focus was on understanding how strategic decisions were made during the recession period and how opportunities were exploited. A second set of interviews with the owner and the manager took place, as well as attendance at meetings, observations and document analysis, data collection techniques that are commonly used in case-study research (Yin, 2009). The triangulation of interviews and the instrumental case study provides validity to the research as the lived experience of the individuals was explored holistically, and were researched within the bounded environment of the company (Robson, 2002).

**The research context**

Company B[1] is one the major electrical retailers in Greece with very strong presence in the Northern part of Greece. The total sales of the sector amounted to €3bn in 2009, having registered a decline of 12% on the previous year (Ta Nea, 2010) after a long period of growth which started at 2001. The leader of the sector is *Kotsovolos* (owned by DSGi) with a market share of about 25%. Company B has a national market share of about 4% (Total Sales 2006: £34M/Gross Profits: £395K). Local traditional independent retailers still have a leading position in consumers' choice: *Makrakis* is the local market leader in Crete, where it competes against all the other national retailers (ICAP, 2007).

The study is focused on the operations of the company in Greater Thessaloniki, the second largest urban area in Greece (2001 population – c763,000). Company B operates under a network of ten stores, all of them located in Northern Greece. Five of the stores are based in Thessaloniki accounting for 65% of the total retail sales of the company. Company B is the local market leader with a market share of about 30%.

**Case report**

The case reports data that was collected through interviews, observations, and document analysis from June to August 2009. It attempts to develop an understanding of the factors that contribute to creating uncertainty for managers; how they deal with that uncertainty; and how uncertainty shapes the strategic direction that store network management takes during this period of rapid and massive changes for the national and international economy.

[1] Due to confidentiality reasons the name of the company will not be disclosed. As this paper builds on the research presented in Theodoridis and Bennison (2009), the same Company initial is used.

## FINDINGS

### *Conceptualisation of uncertainty*

As indicated previously, Duncan (1972) maintained that there are three levels of uncertainty met in organisations. All these three levels of uncertainty were identified in the data collected for this research.

*State uncertainty*

Managers and employees in the organisation identified sources that produced uncertainty in their everyday working life. A few members of the organisation used the word "*Everything"* to describe the factors that created the uncertainty. The owner of the company, for example, said:

> *"I was able to predict accurately the sales year-by-year based on the historical data I had in my disposal but this is not working now. The sales are plunging and I just cannot remember such a thing in my life!"*

The marketing manager of the company also reiterated this point:

> *"Even during negative periods there were some products that carried our sales forward. We knew where to focus. Now I cannot see a single positive trend in our sales. I cannot find where to focus."*

A major issue about the company was that the owner put their development plans on hold during the period of recession. The owner of the company said on a number of occasions that he wanted to see his company expanding but various factors impeded this. The key issues were: funding, low demand, uncertain future, low availability of suitable properties, saturation of the local market, and the expansion of international retail chains in Greece such as MediaMarkt-Saturn and Fnac. Together they constituted sufficient reason to make him averse to investing in new stores. On the other hand, he acknowledged and appreciated the opportunity to become established as a leader in the local market during the period of recession, and this tension between restraint and development dominated his thoughts about the future of the company. He said:

> *"With all these small independent competitors struggling to stay open we could become the unbeatable first option. But with banks lending less and*

*less and sales figures falling, it is difficult to fund the acquisition of the competitors that interest us."*

*Effect uncertainty*

The company had planned the opening of a new store in the developing west-side of Thessaloniki for the final quarter of 2009. A total investment of €2M was agreed for the leasing and development of an existing industrial property. However, the financial and social circumstances delayed the finalisation of the tenancy agreement and the further investments that were required for the development of the store. The business development manager considered that:

> *"I have no doubt that we achieved a very advantageous leasing agreement. We could never get that price for this property two or three years ago. But what will happen if the crisis continues for another two or three years?"*

The owner of the company also stressed that:

> *"Opening a new store was easy for us in the past. Banks loans were easy to get and the market for many years was only growing. There were fewer big competitors and more available properties."*

The "What if?" question dominated the debates around the future of the company. However what emerged as a consensus within the company was that the plan to expand was robust, and it should be supported to completion.

*Response uncertainty*

Opening a new store during a period of economic crisis can be a very complicated task. There are a number of factors which influence the success of a new store that are multiplied during a period of crisis for the managers of the company. The marketing manager of the company noted:

> *"We normally look for stores that are accessible, close to our competitors, in good condition so we do not need to spend a lot for the refurbishment, and close to developing residential areas. We attempt to do the same thing now but there are a lot more features that we need to add to the success equation..."*

The owner of the company added:

> *"The false idea of prosperity that was fuelled by the uncontrolled bank lending boosted the sales of our sector and supported it for the last seven or eight years. This is now gone. Less and less consumer loans are approved now, buyers are educated and conscious and obviously their disposable income reduced so buying electrical goods is not their priority."*

A point that was made by the business development manager reflects what the owner and other managers believe:

> *"The business landscape changes, if we want to be part of it in the future we need to take advantage of any opportunity that emerges. The cost of not taking the risk will be dearer than taking it in the long term."*

The decision making process within that environment reflects the premises of the theories of bounded rationality (Simon, 1991) where individuals, limited by their cognitive and cultural barriers, transform reality into a manageable proportion that fits with their cognitive ability and their embedded cultural background.

***Exploiting opportunities during the recession***

A discussion that was made on many different occasions between the owner and the managers of the company was how to take advantage of the opportunities that emerged during the recession. The significant fall of retail property prices by up to 15% by2010 (Zirogiannis, 2010) provided an opportunity for expansion for retailers that were in a healthy financial position, and in particular operate from leased properties.

The debate in the company focused on what the unique selling proposition of the new store should be: the innovative concept that would attract new customers to the store and provide the basis for success. During the meetings of the members of the company it was suggested by a few different employees that the focus on the new store should be on the "*affordable difference*" offered by the new store. The marketing manager stated:

> *"The new store should not be like the others. We need to offer an alternative option to consumers. Something fresh and contemporary."*

The owner of the company made another point:

*"We need a store that shows that we understand the changes in lifestyles and we provide options for the customers. If we cannot do that we are not opening a new store!"*

In 2006 the company was the first one to open an electrical superstore in Thessaloniki. That was then a brand new concept. It was a luxurious development with large windows and a wide variety of brown and white goods. That store has been successful and it is still the main source of the company's sales. It was then an innovative concept and reflected the social and business environment of that period. The growth and the high profits were obvious. The comment that is made by the managers of the company is that:

*"Since we sensed consumers' needs in 2006 and build the suitable store for them, we can do it again now!"*

*(Superstore manager)*

The basic requirement for the development of a new store is the identification of the right property at the right – low – price. The method that the company uses to look for new stores which is based on the active involvement of all the members of the staff, from the sale assistants to the owner himself. In addition to all the traditional channels, e.g. real-estate agents, advertisements etc, the company motivates and provides incentives to the employees to do their own search. If they find an interesting property to let they inform the business development manager, and get rewarded for that (see Theodoridis and Bennison, 2009 for more details).

The other emerging issue with regards to the exploitation of the opportunities is to develop and implement a differentiation strategy at store level. A new store in the earlier format would not be regarded as being in the company's interest. What the company wanted to develop was a new store concept that would be compatible with current economical and social circumstances. The marketing manager stressed:

*"Buyers are price and promotion sensitive. Therefore we need a format that will facilitate the presentation of our low prices and our daily, weekly, or monthly promotions. We need to have a focus on value!*

It was also suggested on a number of meetings or informal discussions that the company should concentrate on high profit margin products. This was an area of disagreement between the owner and the managers because the highest profit margin products are the white goods, yet they show the lowest sales of all the products the company offers. There was also a cultural background to this debate. Most of the company managers have been there for a long time, 15 or more years, and they have established in their mind the view that the company is known for its variety of white goods. A typical discussion among some members of the company and the staff of the marketing research company (MRC) that works for them is:

> *MRC: You are doing great on the brown goods, you are the first choice in Northern Greece.*
>
> *Marketing director: Fantastic, this is one of our priorities as brown goods are the future of electrical.*
>
> *MRC: That's right... Your consumers are very satisfied and they report that they are very likely to recommend you to their social network.*
>
> *Financial director: Our priority should be the white goods. Our loyal customers are coming because of our white goods!*
>
> *Marketing director: Do you have any evidence to justify that?*
>
> *Financial director: Are my 26 years of experience not enough?*

Obviously, the politics and power relationships are a key factor that determines the strategic direction of the company. Older and more senior managers develop their people network internally and externally and they can influence or even determine the decisions that are made with regards to the exploitation of the opportunities during the crisis. There is also a conflict management issue that emerges during this process. The owner of the company has acknowledged that:

> *"I have been running this company for 30 years now and I have learned that people need to feel free to talk but be restrained when they act."*

At the end of the day the owner of the company had the final word, and in this case he decided to approve the opening of the new store and the subsequent investment. The new store opened in October 2010.

**Discussion**

It is argued in the literature review that low-price and differentiation strategies are more likely to emerge during a period of recession. In this case study it was considered that before researching the strategy itself it was important to understand organisational perceptions of the environment, and the dynamics among the people that make the decisions in the company. The company followed widely used development strategies during recession – a period of constant change and uncertainty, but it was the way that the decisions were made that provides the greatest interest. Dealing with the perception of uncertainty is inevitable in organisations, basically because, first, the physical capacity of the human brain is such that it cannot process unlimited information; and, second, information flow is imperfect within companies as power and politics create barriers. Even if the information flow was perfect within the organisation, the changes in a recessionary environment are so rapid that they produce too much information to handle, and /or the distribution of outdated and invalid information. Therefore managers have to deal with a twofold problem: one side of it is related to the internal structures of the company and how managers position themselves within the company *vis-à-vis* their colleagues, the senior members of the staff and the company owner. The other side is linked to humans and their ability to process the changes in the environment. This problem is resolved by the development of a perceived environment by managers, which is abstract and limited to a proportion that can be comprehended or manipulated by them.

The research showed that managers have a myopic view of the environment, and therefore their perceived uncertainty reflects an environment that is not real but echoes the microenvironment that the managers of the company understand individually, which is not the same for all of them. Hayes and Alinsson (1998) suggested that successful organisations develop mechanisms that transfer individual perception to the collective perception, which is something that was observed in this company too. Marali (2000) stressed that the development of collective knowledge is a value added quality for the organisation because collective knowledge is something more than the sum of the individual knowledge. Having said that, it can be expected that the collective perception of the uncertain environment is something more than the accumulation of the individual perception of the environment by each member of the company who takes part in the decision-making process. The commonly agreed collective perception of the environment provides managers with the comfort of sharing a similar problematic state and knowing that the other people feel equally confused alone but comfortable when they act within a group.

At this point power relations and politics emerge and influence the decision-making process. Elg & Johansson (1997) argued that the decision-making process is politically influenced not only by internal relationships and negotiation but also by the relationships and negotiating power of seemingly allied organisations. Within the organisation, the members of the organisation negotiate for the setting of the organisational goals, developing their expectations and fostering the expectations of the stakeholders, and ordering the alternative choices according to the political bargaining that takes place during a decision-making process (Lazaric & Raybaut, 2005). In this case it was identified that even though the managers of the company did not know about the prescribed best strategies for retail companies during recession, they managed to make decisions by negotiating and imposing their power to the extent that they were allowed by the company owner.

The impact of all levels of uncertainty on the members of the company in addition to the rapid changes in the external environment, internal environment, and consumer behaviour resulted in the development of an unclear decision-making process. Small medium companies, like Company B, where the entrepreneurial figure is pivotal and decisive in the decision-making process, develop internal and external mechanisms to support the decision-making process. Whereas bigger companies can afford to pay for information or to put in place a Management Information System, SMEs employ informal networks that can provide them with the information they need in order to make decisions. When decision-makers in Company B had to deal with a strategic decision – the opening of a new store – it was shown by Theodoridis and Bennison (2009)that the internal and external networks that are in place in the company led the decision making process. Top managers, who have a wider view of the organisational environment, had to deal with the uncertainties that emerged from the opening of the new store. Issues like the financial stability of the company after the investment or the market niche that will be targeted therefore occupied their thoughts. Mid-level managers showed that they did not understand what the possible outcomes of the opening of the new store were. At the same time lower – store – level managers were unsure about the options of the company and how these options are influenced by the changes to consumer lifestyles that were obvious during the recession (see Figure 3). Nevertheless the informal networks that work within the company and the power relationships among them made them all feel confident enough with the strategic decision that was made.

** Figure 3 here **

**Conclusion**

This paper aimed to understand how the uncertainty of a recessionary environment was perceived within a small medium Greek retail company and how this company develops and implements development strategies during this period. The collective perception of the uncertain environment feels more safe and secure for the decision-makers rather than the individual one even though the transformation involves a power game within the company. The perception of uncertainty is pivotal in organisational decision-making, especially when the decision under investigation involves a long commitment such as the long term lease of retail property. Uncertainty is reduced – or the experienced level of uncertainty is reduced – when decision-makers sense the support of a network that can provide the threshold of confidence that is necessary to make decisions. The confidence is produced by the information and the feedback the networks provide but it can also be the outcome of the power that certain people have within the company as a result of their experience or expertise. The findings of the research showed that even though the decision was a product of a political process, it left managers satisfied with the belief that they had made the right decision.

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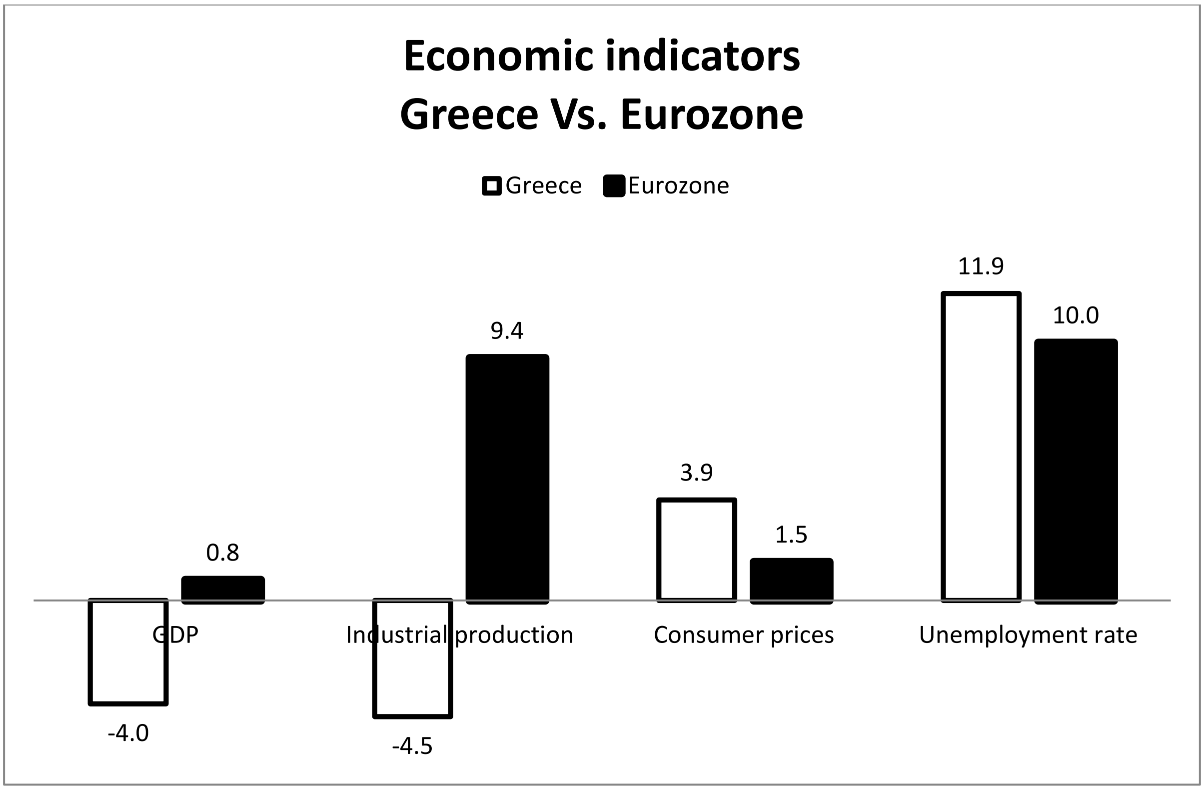


**Figure 1: Economic indicators of Greece Vs. Eurozone, Economist (2010)**

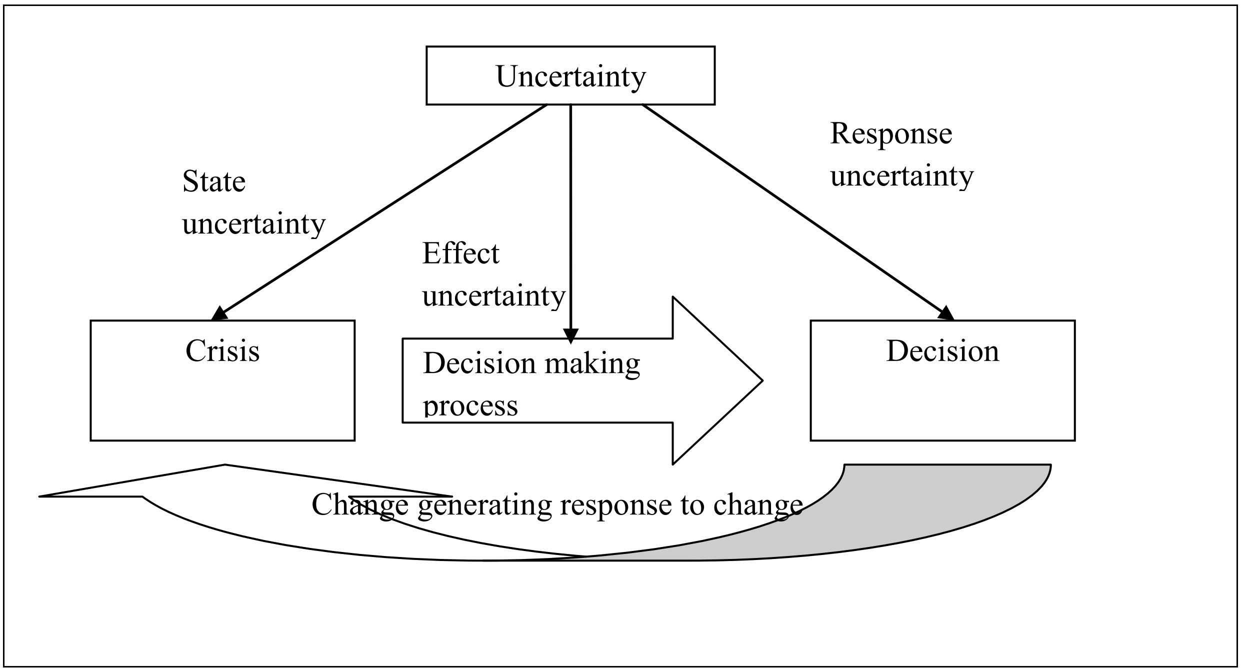


**Figure 2: Decision-making under uncertainty, adapted from Theodoridis (2007)**

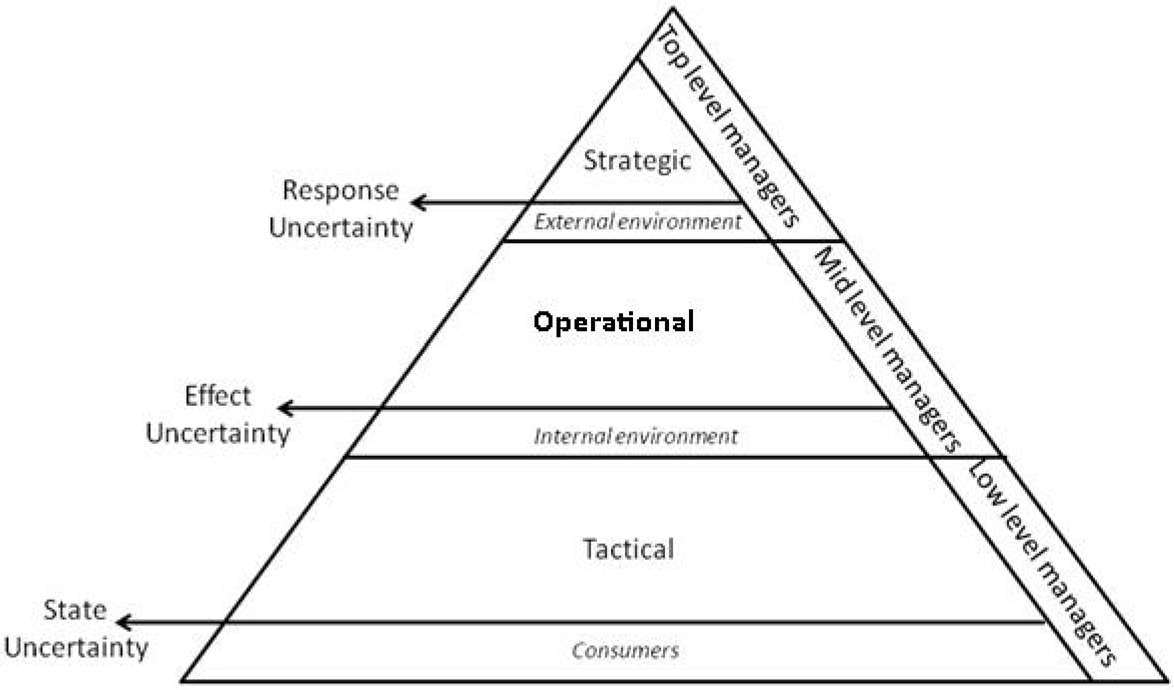


**Figure 3: Uncertainty impact on decision making**

| | Total | Unoccupied | % of unoccupied stores |
|---|---|---|---|
| **Athens** | 3,241 | 505 | 15.6 |
| **Thessaloniki** | 1,239 | 125 | 10.1 |
| **Larisa** | 1256 | 131 | 10.4 |
| **Kavala** | 412 | 43 | 10.4 |
| **Kozani** | 456 | 82 | 18.0 |
| **Veroia** | 655 | 58 | 8.9 |
| **Edessa** | 437 | 68 | 15.6 |

**Table 1: Unoccupied stores in major Greek conurbations, adopted from ESEE (2010)**

# COMPLEXITY IN RETAIL ORGANISATIONS: AN EMPIRICALLY INFORMED DISCUSSION WITH PARTICULAR REFERENCE TO RETAIL LOCATION STRATEGY

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# Complexity in retail organisations: an empirically informed discussion with particular reference to retail location strategy

This paper presents an innovative approach to the exploration and explanation of retail location strategy formulation based on the premises of complexity theory. A chaos-theoretic approach was employed to encapsulate the complex environmental context of retail organisations, and the findings of the research are discussed in the terms and language of chaos literature. It is argued that managers understand complexity in an individual way, and therefore they deal with complexity based on their own unique understanding of it. We also argue that there are *complexity absorbing* and *complexity adapting* retail organisations that follow different approaches to their retail location strategy formulation.

**Keywords**: Retail location, complexity theory, chaos theory, case study, Greece

## Introduction

The formulation of retail location strategy is often supported by sophisticated computer assisted techniques that integrate large quantities of marketing and geographical data. Older approaches based on gut-feeling and simple checklists or analogues have been complemented by statistical models and the application of geographical information systems (GIS) where these are available (Clarke, 1998). However, for reasons of finance, infrastructure or data availability, sophisticated normative techniques have limits because they either cannot be afforded by all retailers (Pioch and Byrom, 2004), and / or there are retailers that operate in places where the raw data for such approaches are simply not available. Moreover, retail location strategy, as part of overall corporate strategy, is influenced by the rapid changes that occur in the environment, and it is debatable whether the linear models that are used in retail location planning are compatible with the non-linear and complex environments in which retail organisations really operate around the world. The exploratory research reported in this paper therefore looks at how retail location strategy is developed in complex environments by retail companies absorbing or adapting to the complexity around them. It is based on case studies of companies in Greece, where the emergence of a modern, corporate retail system in the last twenty years has been very rapid and destructive of the traditional system that preceded it (Bennison, 2003), creating a particularly turbulent environment for both indigenous and international retailers.

## Aim and objectives

The aim of the paper is to identify the differences between *complexity absorbing* and *complexity adapting* retail companies, and examine the relationship to the formulation of their retail location strategies. The objectives of the paper are:

1. To understand how complexity is perceived by retail managers.
2. To examine the differences in strategic location decision-making between complexity absorbing and complexity adapting companies.

## Basic theoretical underpinnings

### *Complexity and organisations*

Brown and Eisenhardt (1997) described complex organisations as systems that exhibit complex, adaptive, and emergent behaviours because they are made up of multiple interacting agents. Simon (1957) suggested that there is a limit to the complexity that individuals can handle over a given period of time, which implies that complexity is time dependent. Eisenhardt and Brown (1998) stressed that this time involves not only the time that is needed by individuals to cope with complexity but that it is also related to the timing of involvement in a complex environment. Organisations that fail to change ultimately die, suffering the penalty for not revising their priorities in a timely manner (Boisot 2000).

The study of organisations in the context of the concept of complexity has its roots in the natural sciences. Seen from this perspective, organisations come to dynamic equilibrium with their environments through a ceaseless process of adaptation and change (Morel and Ramanujam 1999). Cilliers (2000, p.24) offers a detailed description of complex systems. The main features are:

1. Complex systems consist of a large number of elements that in themselves can be simple. These elements can be of diverse types - e.g. people, coalitions, organisations, processes etc (Morel and Ramanujam 1999).
2. The elements interact dynamically and their interaction is non-linear.
3. There are feedback loops.
4. Complex systems are open systems, and operate in non-equilibrium conditions.
5. Complex systems have organic properties like memory and history. The behaviour of a complex system is not determined by its elements but by the nature of the interaction among the elements. The interaction of elements produces emergent patterns of behaviour (Morel and Ramanujam 1999). Since the interactions are emerging and dynamic, predictions about the system cannot be made by just inspecting their components.
6. Complex systems are adaptive: they can organise their structure without the intervention of an external actor.

The organisational response to complexity involves either an *adaptive* or an *absorbing* behaviour (Ashmos *et al.* 2000). The view of organisations as *complex adaptive* systems suggests that organisations gather information about their surroundings, themselves and their own behaviour, and then use this information for adapting to and co-evolving with their environments (Kauffman 1995). When organisations choose managerial responses to complexity that are consistent with the characteristics of complex adaptive systems, they recognise multiple and sometimes emerging goals and emphasise the importance of connections among the parts of organisation as a way of acknowledging and resolving conflict that is created by the pursuit of multiple alternative goals (Ashmos *et al.* 2000). In contrast to *complexity adaptation*, some organisations are characterised by *complexity absorption*. That is, the organisation tries to simplify and reduce the amount of data and the number of choices available to its members (Ashmos *et al.* 2002). A complexity absorption response is accomplished by emphasising formal role relationships and thereby minimising connections. Some scholars associate complexity absorbtion in the organisation with organisational stability: Stacey (1992), for example, suggested that managers tend to establish stability and succeed, or experience instability and fail.

In organisational theory complexity is treated as a structural variable that characterises both organisations and environments (Anderson 1999). Complexity as a concept is perceived in different ways by academics and practitioners (Cilliers 2000) and raises implications about chaotic situations, even though scholars see signs of chaos everywhere (Levy 1994).

***Chaos theory and strategy development***

In order to understand the relevance of chaos theory to strategy we need to see organisations as complex and dynamic systems (Levy, 1994). Organisations interact with each other, but also interact with the other parts of their environments, such as consumers, suppliers, labour, the political authorities, banks and other financial institutions. The interconnection of these parts creates a complex environment, defined by the number of actors and their interconnections. Bechtold (1997) suggested that a chaos theory approach to strategy development requires a dynamic view of the process. Strategy is developed with respect to the *scale* that the environmental context is viewed by the participants in the decision-making process. Strategy development as a vital activity of organisations is planned and implemented in a different way by *complexity adapting* and *complexity absorbing* organisations in terms of the flexibility and the length of their strategic plan, their understanding of environmental stability, their resistance to change, and their development of mechanisms that support them at times of uncertainty. Strategy is not developed as a long term plan but rather emerges spontaneously from chaos through a process of adaptation, real-time learning and political negotiations (Stacey 1993). There is, therefore, as Stacey (1993) noted, a distinction between companies that have adopted or try to adopt a chaos-theory approach to strategy development, and those that follow the normative view of strategy development.

***Retail location strategy***

Successful retail location strategies involve not only an understanding of the contemporary marketing environment but also the anticipation of possible changes in competitors and demographics (Ghosh and Craig 1983). The emergence of an international competitive environment for retailers and the subsequent complexity that has occurred through it has led retail organisations to invest in and develop routines or tools that allow them to process data from multiple sources, replacing or complementing the more traditional approaches. For example, instinct and traditional rules of thumb used for the selection of a retail property have been gradually supplemented by mathematical and statistical tools (Hernandez and Bennison, 2000). Even small independent retailers have been noted issuing loyalty cards, and using the data they collect from them to plan their locational expansion (Wood and Browne 2007). Considering that retail location decisions are of high importance for the organisation because they engage capital for the long term, and the decision-making process involves a number of stakeholders (Hernandez *et al.* 1998), it is to be anticipated that numerous interactions will take place between the actors of the system. This is a sign of the complex environment within which retail organisations operate.

Retail location strategy at the strategic level is embedded within the wider context of the marketing and corporate strategy of the retail organisation (Hernandez *et al.* 1998). It is related to the overall scope of the organisation and reflects the overall vision and objectives of the organisation. However, at a time of rapid change it could be argued that company retail location strategy falls into a context of complexity, and the traditional normative tools that are used to support retail location decisions may be inadequate because they are driven by historical data that were collected and analysed in different environmental contexts. Therefore organisations that operate in complex environments may look for alternative ways to support their strategic retail location decisions, and draw on the skills and knowledge that come from within the organisation. In combination with the normative tools that are used, this integration can provide a more dynamic process for collecting and assessing data, and exploiting the emerging opportunities in favour of the company. This way of operating may be the foundation for developing and sustaining a non-replicable competitive advantage over other organisations in the sector, as the advantage derives, in part at least, from the internal attributes of the company (Somers, 2004).

The case-study that follows looks at two companies in Greece that make their strategic retail location decisions in distinctively different ways. The first one follows the normative patterns of decision-making and it relies on the belief that the processes and the tools that are used by the top and middle managers are good enough to support the strategy development process. The second one follows a pattern that acknowledges the complexity in the environment, and uses an alignment of the employees and the managers to keep in touch with the environment, which allows them to understand and deal with emerging opportunities and threats in a dynamic way.

**Methodology**

A comparative case-study was employed in order to explore the treatment of complexity by top and middle managers among retail organisations with particular reference to the selection of locations for new stores. A theoretical sample of two retail organisations was selected. The selection was based on discriminating between *complexity absorbing* and *complexity adapting* organisations. These companies are part of a larger research project[1] and had been identified and researched as part of that. The first one deals with complex situations by downplaying them and continuing the implementation of their strategy, and the second one deals with complexity dynamically by adapting to the complex environment and adjusting its strategy in order to fit with it.

The case-study method has two key advantages: first, by conducting case-study research it is possible to examine contemporary events in context; and, it is possible to use the multiple sources of data and information that were available to the authors (Quinn *et al.* 2007). Stake's (1995) approach to a case study was followed, involving a series of steps including posing research questions, gathering data, data analysis and interpretation.

[1] The PhD research of one of the authors.

For the purposes of this study eight interviews took place, four at each of the companies (referred to as Company A and B - see Table 1), using a semi-structured questionnaire as the basis for discussion. Company A also gave access to various documents, such as consumer data, real estate agents quotes, and internal memos. Tape-recorded interviews were transcribed and finally all interviews were coded using techniques that focused on the identification of common themes. All of the data collected for this study is in Greek, and subsequently translated into English by one of the authors (Temple and Young 2004). After writing the case-study report companies were sent summary copies of the findings for review. The final case report was then developed.

| | | |
|---|---|---|
| Company A | Interviewee 1 | Marketing director |
| | Interviewee 2 | Head of accounting division |
| | Interviewee 3 | Head of business development unit |
| | Interviewee 4 | Area manager |
| Company B | Interviewee 1 | Owner – CEO |
| | Interviewee 2 | Marketing director |
| | Interviewee 3 | Head of accounting and finance division |
| | Interviewee 4 | Store development manager |

Table 1. Job description of the interviewees

## The case studies

### *Introduction to the case context*

Company A and Company B are two of the major electrical retailers in Greece. The total sales of the sector amounted to £1.3bn in 2006, having registered a growth of 12% on the previous year (ICAP, 2007). The leader of the sector is *Kotsovolos* (owned by DSGi) with a market share of about 24%. Company A has a market share of about 10% (Total Sales 2006: £126M/Gross Profits: £7.3M), and Company B a share of 4% (Total Sales 2006: £34M/Gross Profits: £395K). The market is highly fragmented because local traditional independent retailers still have a leading position in consumers' choice: for example, *Makrakis* is the local market leader in Crete, where it competes against all the other national retailers (ICAP, 2007).

The study is focused on the operations of the companies in Greater Thessaloniki, the second largest urban area in Greece (2001 population – c763,000). Company A has four out of its fifty one stores located there, which account for 13% of its total retail sales. Company B has five stores located in the same area, out of a nine store network developed solely in Northern Greece. These stores account for 65% of the total retail sales of the company, and it is the local market leader with a market share of about 30%. Company A is third by sales with a market share of about 18%.

Both companies have a store in the centre of Thessaloniki, and their others are located around the city in either planned or unplanned shopping centres. Both companies have been exploring the possibility of opening another new store in Thessaloniki. The interviews focused on the understanding of this process, taking into consideration managers' perceptions of complexity.

### *Understanding complexity*

Complexity science approaches matters holistically and views the system and its agent as an integrated entity (Marion and Uhl-Bien 2001). Therefore, before discussing anything else we should see how these organisations perceive their complex environment. A basic distinction is found in that the interviewees of Company A do not see their internal environment as part of the bigger picture of complexity. For example, Interviewee 2 of Company A[2] (A2) said:

> *"Our competitors, and our consumers, and all the potential customers, even our suppliers and the government make the system complex.... [but] we have the means to deal with them...."*

While A4 cited public authorities specifically and other people in general outside the company as elements of the complex environment:

> *"There are so many people and public authorities involved in my work that make it unbearably complex. I have to keep in touch with people here, in Athens, in Thessaloniki, in Crete, abroad, sometimes I e-mail people that I haven't even seen in my life."*

Company A is a much larger company than company B, and therefore has relationships with more individuals and organisations than B. This offers a potentially much wider range of data and information to the company to support the strategy

[2] A1 = Company A/ Interviewee 1; B1 = Company B/ Interviewee 1and so on.

development process. The plethora of data and information sources are a potential source of strategic opportunities for Company A. However, although it has a management information system in place, it is not yet exploited. A1 said:

> *"... I don't have enough time to deal with all this data I receive. There are hidden treasures in here* [points to a pile of papers]*, but it is practically impossible to read each and every one of these memos and reports. It's a real pity that so many opportunities are wasted and so many threats that could have been foreseen were unobserved."*

Company B on the other hand is structured around the owner-CEO and the marketing manager, so the complexity of the environment concerns only them. B2 stated:

> "*Yorgos* [first name of the company owner] *and I deal with everyone. We want it to be this way. We hear things and we are always listening to our employees, our customers, and our suppliers but we figure out the bigger picture and decide where we can and where we want to get involved."*

A common element for both Company A and Company B is the appreciation of time as a key component of complexity. A1 and A2 agreed that the time they can spend in reviewing data and information is related to the level of complexity they perceive at the present time and also their ability to reduce complexity in the future. A1 said:

> "*I think that the data and information I have access to are enough to predict the future. But it would take ages to review all this information and by the time I might have finished, something new would have emerged.* "

A2 added:

> "*I usually believe that if I had a piece of information just a little earlier than the time it came to my hands I could do things different. I would have a clearer view of the environment and I could plan a better future for the company.*"

B1 observed:

> *"You know how it is here... It's just me and [B2]. And on the other side there are employees, suppliers, customers, consultants that work for us, the banks, the government, all these people... I cannot stay in touch with all of them all the time. Too many people, too little time..."*

### ***Dealing with a strategic location decision***

Both companies use similar types of store formats, mainly two-storey units of about 1,000sqm, located in the city centre. Company B operates one two-storey store in a planned shopping centre. The interviews revealed two differences in the way that the decision-makers of the two companies understood and dealt with a strategic location decision. The first involved the motivation to make a strategic location decision.

In Company A the approach was to follow the previously articulated strategy:

> *"We are planning our expansion. We follow a strategic plan and build new stores based on this plan. We follow our competitors, we want to be where our competitors are..".* (A1)

While A2 added:

> *"The timing is not good right now, but we are going to follow our plan. It is more expensive to borrow money, and it is going to cost us more than we calculated but it is important for us to show that we are strong."*

Underlining the dedicated pursuit of the strategy by the company leadership, a lower ranking manager (A4) commented:

> *"Sometimes I send memos to the top managers but I think they don't pay any attention to them. I don't think it's useful to follow*

*our competitors everywhere. It is a bit arrogant to believe that you can have a store everywhere."*

In contrast, a more intuitive approach was used in Company B1:

*"Sometimes we get information about promising vacant sites. We are always interested in a good vacant site. When we built our first store there were only grocery stores around it but we believed in our decision and we supported it. When you are a businessman you just know that you have to go for it..."*

And B2 added:

*"I like to spend time with people and listen to them. I like to share ideas and when I hear something interesting I go to [B1] to discuss it. This is how we built our store in City Gate* [a planned shopping centre in east Thessalonki]. *It proved to be a bad decision because this store never became profitable but we know that this store has the potential to become profitable."*

While B4 showed his appreciation of this process:

*"I cannot say that I agree with all the decisions that are made but anyway I can have my own word. And I am happy that someone is listening and replies back to me."*

Two types of retail location strategy formulation were identified from the interviews. The first company (A) has a firmly structured process of retail location development, following a predetermined plan. The plan comes first, the threats and opportunities that emerge in the environment are absorbed, and the plan is formally reviewed when it proves to be inadequate. The staff of Company A show a limited understanding of the environmental context as a result of choices being made by the top management of the company. The strategic plan and the formal normative tools that Company A uses frame the actions of the members of the organisation, and drive the way that the organisation deals with the environment.

Company B is more flexible and open to external and internal stimulation. The organisation adjusts its strategy according to feedback from the environment, and adapts to emerging circumstances. Top management encourages internal communication and feedback from employees, and aims to build on that.

The second difference between the companies is related to the way that they organise themselves in order to deal with emerging circumstances (opportunities or threats). In Company A, A1 said:

> *"When something urgent comes up it takes us some time to appreciate it. We prefer to plan things and we believe that we can predict things but nonetheless bad things or good things appear in our way ... and then we review the past and try to adjust to this urgent situation."*

While A3 noted:

> *"Sometimes we see things coming and adjust before they become serious. The company is fairly bureaucratic and it is not easy to make rapid changes but anyway we can skip the hierarchy and at least save some time this way."*

And A4 observed:

> *"I do not believe that I understand all the big changes that are happening. One day I might receive a memo from a top manager asking for an estimate of the cost of closing a store, and the next day they ask me to start looking for vacant sites. I understand that the plans change from time to time, but I cannot understand the direction of the change."*

The interviewees of Company B painted a different picture of the way their organisation dealt with an urgent situation. B1 claimed that:

> *"We are trying to use our small-medium size in our favour. Our size allows me to stay in touch with everybody in the organisation. From the cleaners to the top managers and from our customers to our suppliers... My door is always open for my people and when something comes up they know that I will be there for them... I try to delegate responsibilities to everybody, when someone has an interesting idea I put*

*them in charge of the presentation of the idea and we keep them updated about the progress of the way that we will deal with their idea."*

B2 also cited an example:

*"A couple of weeks ago a sale assistant send me a video message that was showing a vacant store near the train station. Everybody in this organisation knows that we are interested in every opportunity that emerges in this area. When I met the property owner this sales assistant was there with me. She is part of this decision now. She lives right next to the train station, she knows the people there; she is not a professional but she has her unique insight about this."*

Both companies showed their own distinct approach to the management of emerging circumstances. In Company A structured behaviour, related to rules and the heuristics of the top management, was evident. With respect to retail location strategy Company A follows strict plans that the managers of the company believe are robust enough to withstand changes in the environment; or, if not, at least when changes happen, they have alternative plans to implement.

In contrast, Company B appeared to be more adaptive to the changes that are happening in the environment because it has nurtured a self-organisation culture that encourages the employees and the managers to form informal workgroups that deal with emerging issues directly when they happen. The company is open to suggestions from everybody who works there and it benefits from employees' willingness to participate in the development of the company. With respect to its location strategy, Company B shows adaptive behaviour, open to feedback from the environment and open to the opportunities that emerge.

## Discussion

In this paper, we have explored the phenomenon of retail location strategy formulation under the lens of complexity and chaos theory. We first examined the understanding of complexity by the managers of the two companies, and found evidence that complexity is understood by the individuals in different ways. Wang and Chan (1995) suggested that the perception of a complex environment relies on managers' ability to process information which is complicated, novel or/and dynamic. In our cases we found evidence that the managers of Company A had adopted a simplified heuristic about the complex environment which corresponds to a general understanding of the term "business environment" whilst the managers of Company B developed a more structured and synthesised understanding of the business environment that differentiated between its internal and external components. Boyd and Fulk (1996) argued that it is common for managers to reduce the time they devote to environmental scanning when the level of perceived complexity is high. The findings of our research support this argument because the managers from Company A, which is a complexity absorber, regard complexity as a property of the environment that cannot be affected by them. In contrast, managers from Company B, which is a complexity adapter, perceive complexity as a property of the environment that is understandable and worth top managers spending time evaluating it. Understanding complexity is therefore time dependent but the decision to spend time on understanding it is influenced by the initial willingness to deal with it.

We also found evidence that there are different ways that companies deal with complexity. In this research project one of the companies chose to absorb complexity and continue its operations based on a single plan without any variations, consistent with the findings of Ashmos *et al.* (2000). On the other hand, we found that the second one had developed an organisational structure that supported the adaption of the company to the emergent circumstances of the environment in a dynamic way. Stacey (1995) suggested that organisations which adapt to the environment have the ability to continue their change, even when opportunities from the external environment do not arise. The findings of this research indicate that it is possible that a company can look to engage in a complex environment and use its assets to take advantage of it. McKelvey (1999) suggested that companies might look to achieve competitive advantage by introducing multiple innovations: in terms of location strategy this could be new positioning or locational strategies (Hernandez and Bennison 2000). By expanding into a new market or setting up in a new location, the retailer aims to cause turbulence in the environment that will be to its own benefit by gaining a share in a previously unexploited market.

Using the language of chaos theory, a *complexity absorbing* retail organisation, even though it acknowledges the non-linearity of cause-effect relations in the environment, develops techniques that reduce the uncertainty caused by the complexity, and prepares itself for alternative complex situations. Bechtold (1997) suggested that the abstraction of complexity is achieved by developing alternative scenarios and by preparing the organisation to implement them in response to whatever events occur. On the other hand, a *complexity adaptive* organisation understands non-linearity and seeks for hidden opportunities and threats in seemingly insignificant changes. Complexity absorbing retail organisations separate changes and deal with them as independent circumstances while complexity adaptive retail organisations seek to identify continua in the change process. The idea of the waves of retail decentralisation (Schiller, 1986; Fernie, 1995), for example, reflects the openness of some retail organisations to changes in the retailing environment. The exploitation of under-developed low-cost locations gave an advantage to those companies that spearheaded the move out of traditional centres.

When the need for a decision arises (a *bifurcation point* in the language of chaos theory), complexity absorbing retail organisations do not alter their strategy because they take it as given that such situations arise, and such eventualities are planned for. In contrast, complexity adaptive retail organisations understand bifurcation points as an opportunity to evolve. In our cases, when a complexity absorbing and a complexity adaptive retail organisation were at the same bifurcation point, the first one saw it as a planned moment in time while the other one perceived it as an emergent opportunity. They both acknowledged that action was required (development of a new store in an under-developed location), and both indicated that they were going to act similarly but the justification of their action was based on different arguments.

A structural difference between the complexity absorbing and the complexity adaptive organisation was identified in the norms and rules that guided their activities (in the language of chaos theory, these may be seen as the *strange attractors*, the core properties of a system to which it always tends to return regardless of change). The complexity absorbing organisation had a formal nucleus of rules and regulations that were brought forward when a crisis appeared. This is consistent with McMillan's (2004) findings that suggested that strange attractors are a set of routines that define the life of employees in the organisation. In contrast, the complexity adaptive organisation had human actors that acted as the strange attractor of the organisation. (Parker and Stacey 1994) suggested that when the organisation meets a bifurcation point, the strange attractor is the facilitator of the transition from the previous to the future state. The existence of a person that can make decisions and guide the change process appeared to be an essential part of the organisation during the adaptation.

Employees in the complexity absorbing organisation had a narrower view of the environmental context than ones in the complexity adaptive organisation. This is the outcome of a strategic decision by the organisations because it relates to the level of involvement of employees in the strategy formation process. With respect to location strategy, since it is influenced by both consumer and institutional factors (Brown 1991), having an extended perspective of the environment brings all levels of employees closer, and sharing information is easier because everybody is aware of the strategic requirements of the organisation. When more people are involved in scanning the environment for strategic opportunities or threats, it is likely that these opportunities and threats will be identified and exploited faster. This means that an organisation that encourages the formation of workgroups (formal or informal) for exploiting emerging opportunities could expect a timely response to a crisis, which in turn could lead to the gain of competitive advantage. In terms of retail location strategy, it could be assumed that a retail organisation that has the ability to organise itself for certain purposes - for example, allow the formation of a unit that could identify and evaluate sites - will become aware and exploit the opportunity of a contested site before another one that has not.

## Limitations and implications for future research

We should stress that our research by no means suggests that complexity absorbing or complexity adaptive retail organisations are better, more profitable or more efficient than each other because this was not the aim of this work. On the contrary, we saw that two retail organisations operate in very different ways and still manage to be profitable. In terms of retail location strategy specifically, the findings indicate that a complexity adaptive approach could lead to the development and implementation of an innovative strategy in terms of site selection. However, the study was exploratory, and further research is required to enable some wider generalisation. In particular, first, work on larger national or/and international retail organisations is needed to establish if they have the potential not only to change internally but also to influence their external environment to their advantage. And second, the study needs to be replicated in other geographical areas and sectors.

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# RETAIL LOCATION DECISION MAKING UNDER UNCERTAINTY: THE CASE OF THE GREEK RETAIL SECTOR

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Acknowledgments: I would like to thank Professor David Bennison for his guidance throughout the research process and the EAERCD 2007 conference reviewers for their comments and suggestions. This research was funded by the Greek State Scholarship Foundation.

RETAIL LOCATION DECISION MAKING UNDER UNCERTAINTY: THE CASE OF THE GREEK RETAIL SECTOR


## *ABSTRACT*

Environmental uncertainty is one of the very fundamental research topics in management research. A significant number of studies that explored the concept of uncertainty have been conducted, although retail location decisions have never been related with this concept. Recent studies in retail location decision making highlight their strategic dimension. It is argued by a number of scholars that environmental uncertainty has a decisive impact on strategic decision and the strategic decisions making process. This study explored in a qualitative manner the relationship between environmental uncertainty and retail location decision-making. The research took place in Greece, a highly volatile and uncertain business environment, just before the Greek economy enters the recession. Retail managers from four Greek retail companies were interviewed and based on their interviews a framework that relates environmental uncertainty and retail location decision-making is developed and discussed. The major finding of this research project is that during periods of uncertainty managers can attempt to develop and implement changes to the locational strategy of the companies as they are keen to eliminate are the elements of the environment that can increase the perception of uncertainty in their everyday managerial practice.



**Keywords:** Environmental uncertainty, retail location decision making, retail change, Greece, cognitive mapping

# GREECE UNDER FOCUS

The business environment in Greece has changed in a number of ways during the last twenty years. This is the result of social, economic, political and technological factors that have impact upon "a system of small, independently owned and operated shops, which has been protected by tight legislative controls on store operations" (Bennison and Boutsouki, 1995). The change of the laws that were restricting competition in the retail sector was one reason for the rapid change. The new laws extended the limit of the opening hours from 50 to 68, removed control of minimum and maximum prize, and allowed grocery stores to sell products like bread, milk and fish. From the demographic point of view two major changes can be identified. The first one is the growth of the number of emigrants in Greece. According to the Greek National Statistics Services (2005) the number of emigrants has increased from 150,000 in 1990 to 600,000 in 2005, a growth of about 300%. According to the same source (2001) the majority of emigrants have settled in Athens and Thessaloniki (the larger urban centres of Greece). Anthropologists and sociologists that have researched emigrants' attitudes in Greece suggest that their buying behaviour is determined by their income and their ethnic origin, thus they frequently purchase products from discount stores, outlets and small independent stores operated by individuals of the same ethnic origin (Droukas, 1998; Fakiolas, 1999). Another factor that has had an impact on the change of the Greek retail sector was that banks made easier for individuals to get personal loans. The 2005 annual report of the Bank of Greece indicates that from 1995 to 2004 the amount of personal loans have increased by 72%. Commentators have related this rapid growth of debt with the growth of sales of big department stores (To Vima, 2004).

In periods of rapid change and increased uncertainty like the one mentioned above is common that companies are customising their location decisions. Rousey and Morganosky (1996) researched retail format change in USA and concluded that department stores made browsing quicker and easier because the time that consumers can spend in their stores is decreasing as they become busier. Fernie (1996) suggested that the transfer of outlet centres from USA to the UK was partly dependant on the relaxed planning legislation. The objectives of this paper are: (1) to understand how managers define environmental uncertainty; (2) to understand how retail managers are experiencing the environment uncertainty that is caused by the changes mentioned above; and (3) to understand how managers are dealing with the uncertainty experience with respect to the retail location decisions that are making. The aim of the paper is to present a conceptual framework that explains how managers are responding to change while they are experiencing the uncertainty.

## LITERATURE REVIEW

Miliken (1987) suggested that individuals experience uncertainty because they perceive themselves to be lacking sufficient information to predict accurately or because they feel unable to discriminate between relevant and irrelevant data. In the first part of the literature review environmental uncertainty literature will be discussed. In the second part of the literature review the retail location decision-making literature will be discussed with particular interest on establishing a linkage between environmental uncertainty and retail location decision-making.

## State uncertainty

Miliken (1987) suggests that *state uncertainty* is experienced when administrators perceive the environment (or a particular component of it) to be unpredictable. In his work Miliken (1987, p.136) describes the environment as follows:

> "*Top-level managers might be uncertain about what actions relevant organisations or key organisational constituencies (i.e., suppliers, competitors, consumers, the government, shareholders etc) might take, or they might be uncertain about the probability or nature of general changes in state in the relevant environment (i.e., sociocultural trends, demographic shifts, major new developments in technology).*

Gerloff *et al.* (1991) suggest that state uncertainty has a situational character. They specifically suggest that in a given situation, a given manager may lack confidence or has doubts that the available data reveals the significant events and trends of the environment and as a result the manager would experience state uncertainty. Duncan (1972) had also argued that uncertainty is not a constant feature in any organisation. Rather, "it is dependent on the perceptions of organisation members and thus can vary in their incidence to the extent that individuals differ in their perceptions" (1972, p.325).

## Effect uncertainty

Miliken (1987, p.137) defines *effect uncertainty* as "an inability to predict what the nature of the impact of a future state of the environment or environmental change will be on the organisation". Effect uncertainty does not involve the lack of understanding of the environment, e.g. a retail manager may know that the number of single-parent families is growing but he or she may feel unable to predict how this trend is going to change the sales of his or hers product. As Gerloff *et al.* (1991) note, effect uncertainty involves a lack of understanding of cause-effect relationships. To a large degree effect uncertainty arises from a firm's inability to anticipate or influence how its customers and competitors will shape its own future (Miller & Shamsie, 1996). Past research has shown that companies that have the means to influence their environment experience less effect uncertainty than others that have not (Itami, 1987; Wernerfelt & Karnani, 1987).

**Response uncertainty**

Miliken (1987, p.137) defines *response uncertainty* as "a lack of knowledge of response options and/or inability to predict the likely consequences of a response choice". This type of uncertainty becomes especially important in situations involving a need to take actions, such as a pending threat or opportunity (Gerloff *et al.,* 1991). As Gerloff *at al.* (1991) notes at this level of uncertainty managers are wondering "What action are we going to take?". Milliken (1987) suggests that this level of uncertainty is directly related with decision making because it is about the importance of choosing between alternatives. Miller and Shamsie (1999) have researched response uncertainty in terms of new product line development. In conjunction with Miliken's observation, Miller and Shamsie suggested that this type of uncertainty (that they call *decision response uncertainty*) is dependant on social, demographical and economic variables (e.g. decision makers' experience, job tenure, product line diversity, cost etc). Their research findings are consistent with the ones of Downey *et al.* (1977) who focused their research on managers' cognition and perception of environmental uncertainty. A key issue that emerges from both Miller and Shamsie's and Downey *et al.*'s research is the significance of a changing (as noted by the first) or dynamic (as noted by the latter) environment on the perception of response uncertainty. The findings of both are important because they explore the relationship of change and uncertainty and at the same time introduce the idea that the managerial decision making process is influenced by the state of the environment as it is defined by the two latter variables.

**Uncertainty in retailing**

The concept of uncertainty has been discussed by a number of academics and has been seen from a number of different perspectives. Jones and Simmons (1993) have extensively discussed the impact of uncertainty on the retail location decisions. They suggested that the changes that are happening the business environment increase the perceived level of uncertainty for the retailers. They also mentioned that retailers in order to respond to the changes they introduce modifications to the their companies, which means that they are changing in order cope and potentially get advantage of the uncertainty. Alexander and Freathy (2003) suggested that in the rapidly changing world, the companies would probably use new technological advancements to initiate revolutions that they (the companies) would be able to take advantage of.

**Retail location decision making**

Geographers first researched retail location decision-making. As Clarke *et al.* (1997) note geographers contributed in three ways:

1. They gave an insight into the spatial patterns of retailing
2. They helped to develop techniques for locational analysis and evaluation
3. They deal with land use planning and public policy issues surrounding retail location

The marketing research tradition focuses on the concept of "place" rather than the location itself. Retail outlets are treated as the final ring of the supply chain and the emphasis is clearly on the absolute dimensions and the characteristics of the "place" (Clarke *et al.,* 1997). A development in this research trend starts to happen at mid-90's – a few attempts have been made before e.g. Ghosh and Craig (1983); Timmermans (1985) but they are interested in the development of mathematical models rather than developing the context of decision making. Bennison *et al.* (1995) made the first significant break to the research tradition by relating retail location decisions to their environmental context. Furthermore, their work is important because they highlight the strategic nature of the retail location decisions for a company.

Bennison's *et al.* (1995) work was extended first by Clarke's *et al.* (1997) research and later by Hernandez's (1998) one. Clarke et al. (1997) suggested that retail location decisions are influenced by the conditions of the external and internal environment of the company. They also suggest that decision makers perceive only a simplified version of these environments, thus their decisions are made in a constructed abstract context. Hernandez *et al.* (1998) essentially extended Bennison's *et al.* (1995) and Clarke's *et al.* (1997) work by intergrading both of them in a framework (see figure 1) that relates the concepts of external and internal environment, decision making, location management and property portfolio management.

[FIGURE 1]

In their framework they presented the variety of location decisions that a retail company can take. The most important feature of their framework is the multiple relationships that they depict. Hernandez and Biasotto (2001) explain this complexity as a result of the risk and uncertainty under which retail managers are making location decisions. They suggested that retail location decisions could involve high cost investment and long-term commitment, which increase the financial risk. Based on the level of investment and the time needed to implement the decision, Hernandez *et al.* (1998) presented a location mix option matrix (Figure 2). It is obvious that acquiring a new store involves the investment of a large amount of money while leasing the same place would mean a long-term commitment with the owner. This commitment in a changing environment is a cause of the state of uncertainty in decision makers because they know how to respond to an environmental stimulus but they cannot predict what is going to be the result of their decision. Probably the level of uncertainty is lower when the level of investment and the decision horizon in smaller. This is because they know that even if their decision fails they do not have to experience a failure they cannot overcome by tweaking their strategy.

[FIGURE 2]

Obviously there are common grounds between uncertainty and managerial decision-making – particularly retail location decision-making. Up to now there is no research that clearly identifies how these two phenomena are related together. Furthermore and with respect to retailing, research has been focused basically on the rational judgement of alternative choices rather than understanding how managers are creating the context (or contexts) within which they operate and make decisions.

# METHODOLOGY

Given the lack of empirical research in this area, an exploratory investigation was considered the most justifiable approach (Churchill, 1991). A convenience sample was selected, taken that this is a pilot study part of researcher's doctoral research. Effort was made to recruit respondents from the major sub-sectors of the Greek retailing sector. Four interviews took place in Thessaloniki, Greece from the $11^{th}$ of June 2006 up to $12^{th}$ of September 2006. According to Euromonitor (2001) the four leading sub-sectors of Greek retailing are:

1. Supermarkets
2. Home equipment (Furniture and electronics)
3. Cosmetics
4. Clothing

With respect to this classification the respondents of this research are:

1. The north-Greece locational manager of the leading discount Super Market chain in Greece (international) (R1);
2. The regional manager of the second bigger cosmetics retailer in Greece (international) (R2);
3. The owner of the third biggest by sales electrical retailer in Greece (local) (R3); and,
4. The owner of a local male clothing retailer R4.

The interviews took place at the working place of the respondents. All interviews lasted about an hour and were recorded. All interviews took place in Greek, which is the native language of both researcher and respondents. The audiotapes were transcribed and translated by the researcher.

The purpose of this research is to help the researcher create a better understanding of the decision making process of retailers under uncertainty. For that purpose the cognitive mapping technique was employed (see figure 3 for example).

[FIGURE 3]

Cognitive maps can be referred to as a method used to elicit the structure and the content of people's mental process (Daniels *et al.* 1995), and which provides a mental model. Spicer (2000) defined cognitive mapping as a suite of techniques and methodologies which are designed for the elicitation and representation of individual knowledge and understanding. Cognitive mapping techniques are one of the tools to draw cognitive maps. These techniques are used to explore graphical descriptions of the unique ways in which an individual views a particular domain (field of thought or action) (Langfield-Smith, 1992). As a research tool cognitive mapping has its strengths and weaknesses, which can be summarised in Table 1.

[TABLE 1]

## RESEARCH FINDINGS

With respect to the research objectives the research findings are discussed below.

**The nature of environmental uncertainty**

Two major themes emerged in the first part of the interviews. The first one relates to the components of the environment that are creating environmental uncertainty, and the second one is related to the type of uncertainty that retailers are experiencing.

With respect to the first theme, taken together the interviewees suggested that there are eighteen components of the business environment that are causing the state of uncertainty. Most of these components are parts of the external environment of the company, but there are also few that come from the internal environment of the company. Four components were identified as important by all the interviewees.

The first one concerns the laws and specifically planning legislation. As R1 suggested "*planning legislation is very old and cannot cover the needs of the developers that want to bring fresh ideas from abroad"*. R3 added, *"Laws can be very flexible. If you know the right people things are very easy, but what happens if you don't…"*. Laws and corruption is a serious problem of the Greek public sector. According to Transparency International the perceived level of corruption in the Greek public sector by Greek citizens is the highest observed between EU-15 and one of the highest between EU-25 (http://ww1.transparency.org/cpi/2005/cpi2005_infocus.html#cpi).

The second one is information circulation. R1 and R2 take information circulation as granted and they experience uncertainty because they are not sure if they are using information in the most effective way. For R3 and R4 information circulation is a matter of capital investment.

They believe that they know how to take advantage of the information but they address the issue of the cost of the information and the time needed to get it.

The third one concerns competition. In this case international retailers are afraid of the flexibility of local retailers and local retailers are afraid of the size and power of international retailers. R2 mentioned that *"...there are about ten large independent cosmetics stores in Thessaloniki, and it is very difficult to keep an eye on them. Their size and structure allows them to change fast and approach niche markets. For instance it took us more than a year to introduce a line of ecological perfumes when they did it just a week after a couple of Greek actresses protested against chemical cosmetics"*. On the other hand R4 suggested *"I hear rumors that Zara is looking for a store in Kolonaki*[1]*and the other day I somebody tells me that Zara wants to relocate all their stores from hi-streets in shopping malls because hi-street retailing has saturated in Greece. And the problem is that it's not just rumors. These things are happening in front of my eyes everyday."*

The forth component concerns consumers. Consumers are mentioned in many different ways by the interviewees. Their concern mainly involves consumers' loyalty. It was stated by all four that consumers are not loyal and they cannot understand in what kind of changes are sensitive to. For example R1 mentioned that *"When we decided to advertise our low prices we had a massive fall of our sales, we are a discount chain but consumers don't want to know that!"*. Even though all the respondents have some kind of marketing intelligence available to them they all agreed that they just have a partial idea of consumers' needs. This is the barrier for them to serve them effectively.

[1] Kolonaki is the wealthiest district in Athens. R4 has one store there.

R1 and R2 largely mentioned the same environmental components. They believe that components of the environment that are mediating their relationship with the top management of the company are very important to the way that they are experiencing the uncertainty. R2 suggested that:

> “*...sometimes I wonder if senior managers know what they are asking from me”*

For these two respondents management expectations and goals are important. They suggested that top management expectations, the strategic goals of the company and profitability expectations are three components of the environment that are a major cause of the uncertainty experience.

R3 and R4 are primarily concerned about the components of the environment that affect the competitiveness of their company. A major issue for them is the expansion of international retailers in Greece and how this influences their companies. They attribute both the emergence of opportunities and threats to the expansion of international retailers. R3 suggested that:

> *“... the expansion of DSG and Mediamarkt was a shock for both companies and consumers. Our competitors focused on retaining their market-share but for me it was a great opportunity to grow now that all my competitors try to defend”.*

For both R3 and R4 the survival and growth of their companies are their focus. They relate the experience of uncertainty to the existence of their company and they consider as most important the components of the environment that can create opportunities and threats for their companies.

R1 and R2 contrary to R3 and R4 are employed by international retailers. The components of the environment that are acknowledged as significant for the international retailers appear to be different than local retailers. R1 and R2 suggested that they have to be conformed to formal rules and policies, and this can be very difficult especially when they have to deal with the government. R1 suggested that:

> *"... when I have to get a license from the local authorities or from the town-planning bureau it is very easy if I act as an individual. Everybody there can be bribed. But it is not the same thing when I act as a manager. I have to follow the laws and the rules because it is the reputation of the company on the stake"*

There are signs that there are significant differences in the perception of uncertainty between managers and company-owners and local and international retailers. These differences are presented in table 2.

[TABLE 2]

With respect to the second theme, the interviewees suggest that they are not al experiencing the same type of uncertainty. For R1 uncertainty is "*what I cannot predict*", for R2 it is

"*…when I don't understand what senior managers are asking from me"*, for R3 it is "*…when I can not make decisions"*, and finally for R4 it is "*…how I will manage to survive"*. R1 and R2 are experiencing state uncertainty, while R3 and R4 are experiencing effect uncertainty. R1 and R2 cannot understand their environment, while R3 and R4 cannot decide how they are going to react to the environmental stimuli.

R1 and R2 have only a partial view of the company and the environment, and thus they do not have an overall idea of the environment they are operating within. On the other hand R3 and R4 have a wider view of the company and the environment as they are the owners of their companies. They have a better understanding of their company and the external environment because they are exposed to the internal and external environment of the company. Their uncertainty comes from their inability to choose between alternative replies to the environmental stimuli.

**Uncertainty and retail location decisions**

The findings of the empirical research indicate that retail location decisions are influenced by the environment and particularly by changes that happen in the retail environment. A key finding of the research, which is not consistent with the existing literature but it is supported by the empirical research, is that retail change is not necessarily only a factor that causes environmental uncertainty but it is also retailers' response to uncertainty. It is the means of overcoming uncertainty and coping with it. In fact, it is a response that not only aims at coping with uncertainty but also it is a way for them to compete. A conceptual framework is suggested that links existing theory with the empirical findings reported here (Figure 4).

[FIGURE 4]

The framework is informed by my reflection on the relevant literature and the evidence of my exploratory research. As it was argued before, managers experience state uncertainty when they believe that available data and information they have is not enough in order to understand a phenomenon (Duncan, 1972). Retail change is a phenomenon (Brown, 1987) and the understanding of the phenomenon is influenced by the state uncertainty effect.

Evidence from the exploratory research indicate that effect uncertainty influences the decision making process. This happens because the respondents feel unable to predict the changes in their business environment, which is the typical symptom of effect uncertainty (Milliken, 1987). When respondents have to make decisions, and particularly retail location decisions, they are influenced by the effect uncertainty because they are not confident about the outcome of their decisions. So, they are hesitant in making decisions and in order to become confident (reach the threshold of confidence) they are making decisions that are the most effective according to their conceptualisation of the environment.

When managers come to making a decision they experience response uncertainty. Response uncertainty was defined as the inability to predict the likely consequences of a response choice (Miliken, 1987). This is particularly important when decisions involve retail location because a need for a strategic response to a threat or opportunity is implied. The evidence of the exploratory research indicates that respondents attempt to reduce response uncertainty by making decisions that exploit the opportunities or meet the threats by attempting not only to adapt to their environment but furthermore to change the environment up to the extent their company can.

As Brown (1987) noted, the conflict theory of retail change came as an explanation of the emergence of innovative retail formats. Conflict theory basically suggests that retail change is an action – reaction sequence. These are: shock, defensive retreat, acknowledgement, and adaptation (Stern and El Ansary, 1977). Brown (1987), discussing the implications of conflict theory, notes that all four phases are dependent on managers' perception of the event. The shock happens when the manager understands that there is a change in the environment, which is a basic feature of state uncertainty. In the phase of defensive retreat managers are evaluating the changes that have happened in the environment, which is the state of effect uncertainty. In the phase of acknowledgement managers have finally understood the changes in the environment and they are selecting the right action from a set of alternatives. This is when the state of response uncertainty is experienced. Finally the managers are making a decision and based on that they adapt their company to the environment. The evidence from the empirical research indicates that this decision is usually an action that will initiate a new change process.  This process is presented graphically in figure 5.

[FIGURE 5]

## FUTURE RESEARCH

The focus of the future research is to create a better understanding of the decision- making process and particularly the complexity of decision-making in uncertain changing environments. The major concept that should be explored is how uncertainty is affecting decision-making. Exploring that concept in the context of retailing provides a manageable research area where retail change and retail location decision-making are two well-supported domains of knowledge. Along with that the retail change, as a response to uncertainty will be empirically tested. Using this example a theory will emerge that in later stages could be tested in other areas of management research.

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**TABLES**

Table 1: Strengths and weaknesses of cognitive mapping technique

| Table 2. Strengths and Weaknesses of Cognitive Mapping Techniques | |
|---|---|
| **Strengths** | **Weaknesses** |
| Structure thought through symbolic representation | Exerts undue influence on mapping process |
| Graphical rather than linear layout | Needs skill and highly trained researchers |
| Quick insight into the structure of information | 'Reading' maps is difficult |
| Information clearly communicable | Large maps become complex to administer |
| Managing large amount of qualitative information | Time-comsuming |
| Capture individual knowledge and experience | Mapping unavoidably changes the understand-ing being mapped |
| Improve interviewing capability | Stress and uncomfortable feeling of respondent |

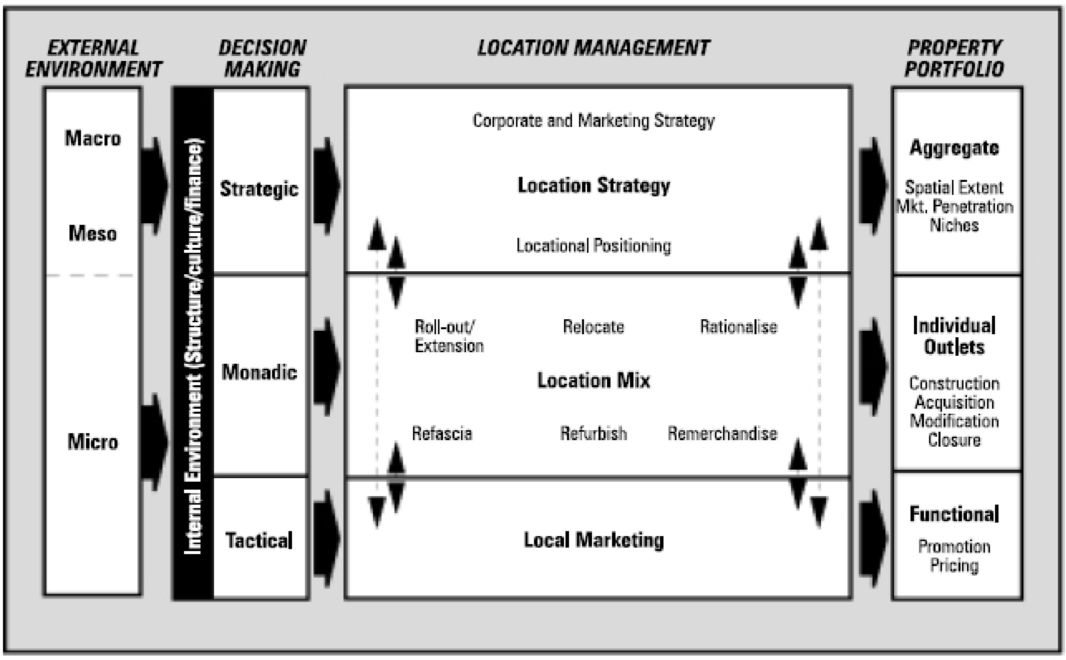
Source: Ahmad and Ali (2003)

Table 2: Components of the environment causing uncertainty

| | Components of the environment | Local | International |
|---|---|---|---|
| Political factors | 1. Laws | X | X |
| | 2. Regulation | | X |
| | 3. Banks | X | |
| | 4. Interest rates | X | |
| Technological factors | 1. Information systems | | X |
| Capital management | 1. Information circulation | X | X |
| | 2. Data | | X |
| | 3. Property owners | X | X |
| | 4. Estate agents | | X |
| Competitiveness | 1. International retailers | X | |
| | 2. Competition | X | X |
| | 3. Consumers | X | X |
| | 4. Costumers | X | |
| | 5. Suppliers | X | X |
| | 6. Survival | X | |
| Management | 1. Strategic goals | | X |
| | 2. Senior managers | | X |
| | 3. Profitability | | X |

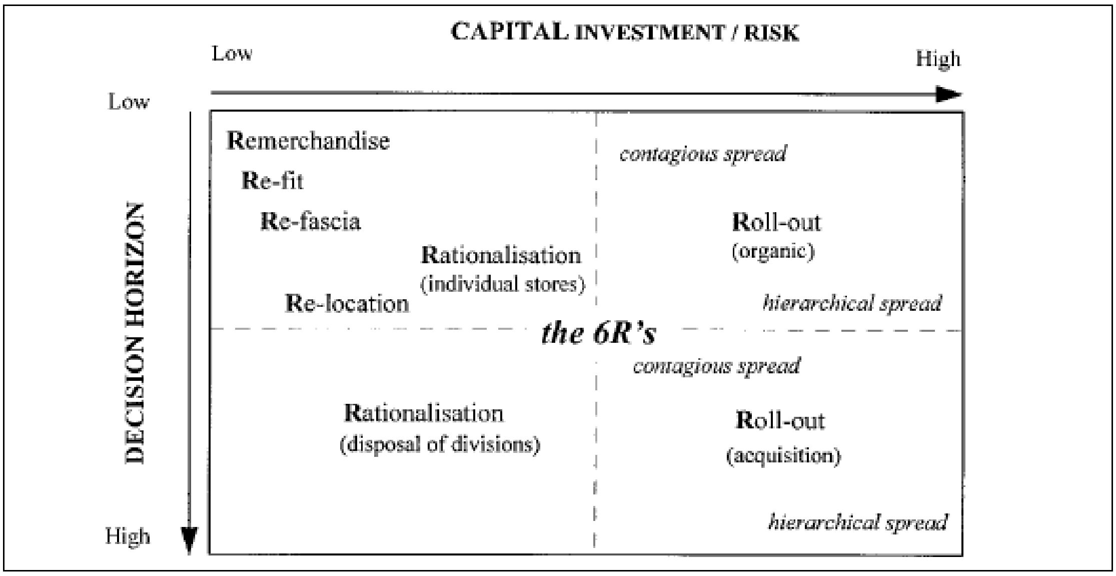
## FIGURES

Figure 1: Retail location planning and decision making




Source: Hernandez et al. (1998)

Figure 2: Decision mix options: decision horizons and capital investment




Source: Hernandez et al. (1998)

Figure 3: R2's mental map of his decision to open a new store

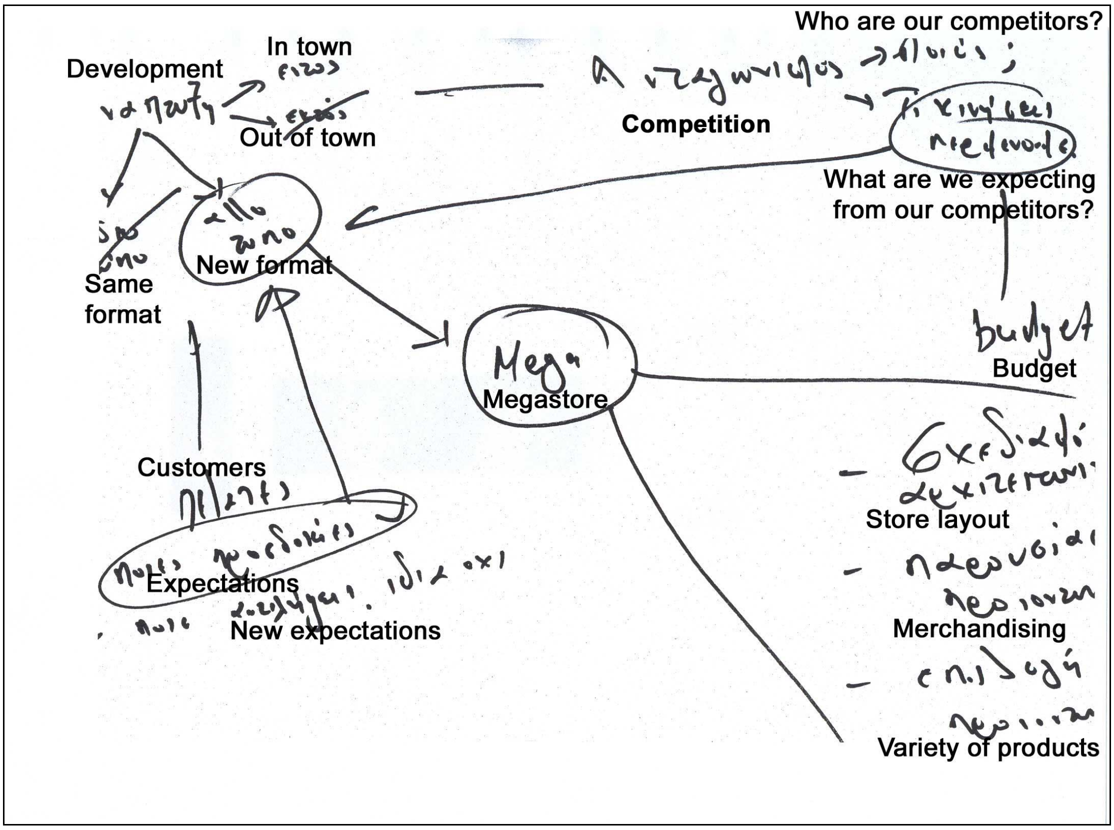



Figure 4: Conceptual framework deriving from research

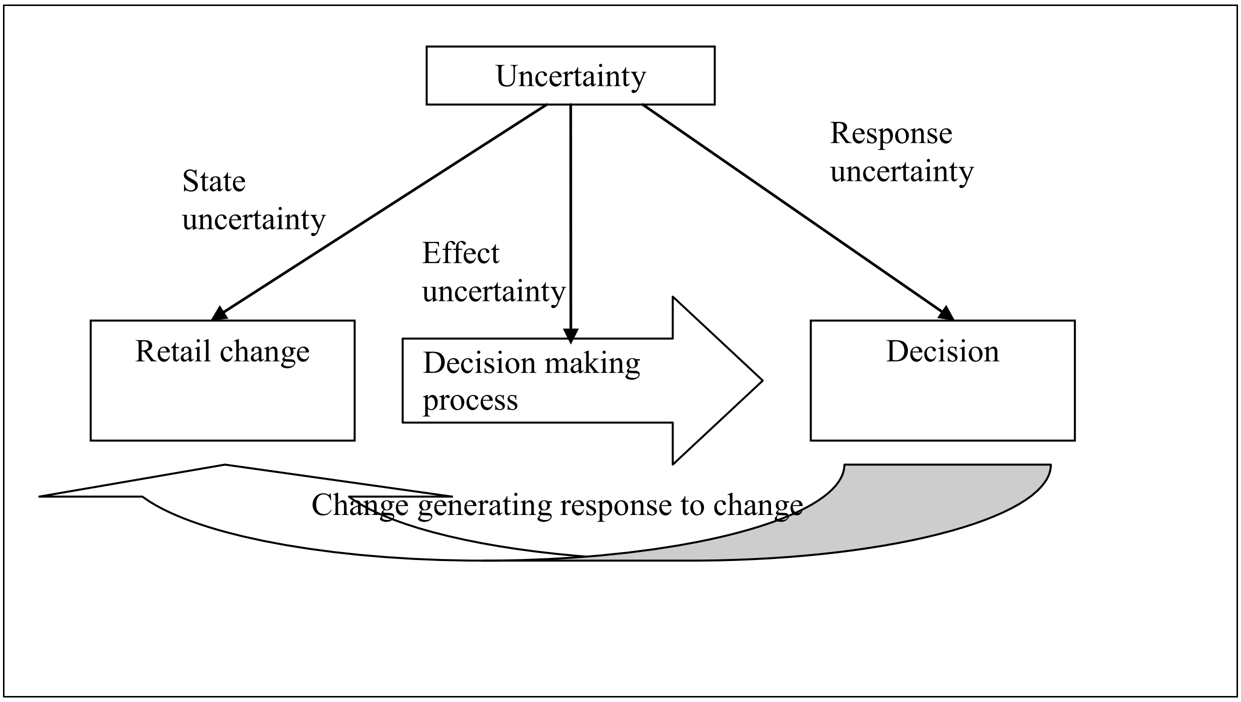


Figure 5: Conflict theory of retail change with the impact of environmental uncertainty