COMPLEXITY IN RETAIL ORGANISATIONS: AN EMPIRICALLY INFORMED DISCUSSION WITH PARTICULAR REFERENCE TO RETAIL LOCATION STRATEGY

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Abstract

This paper presents an innovative approach to the exploration and explanation of retail location strategy formulation based on the premises of complexity theory. We employed a chaos-theoretic approach in order to encapsulate the complex environmental context of retail organisations and discussed the findings of our research in terms and language of chaos literature. We argue that managers understand complexity in an individual way, and therefore they are dealing 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 & 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 behavior 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 behavior (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 absorbing behaviour or a adapting 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, the variety and complexity of the environment is absorbed into the organisation (Ashmos et al. 2000). In contrast to complexity absorption, some organisations are characterised by complexity reduction. 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 reduction response is accomplished by emphasising formal role relationships and thereby minimising connections. Some scholars associate complexity reduction 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 & 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 & 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 are 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 a dynamic alignment of the employees and the managers in order to keep in touch with the environment, and
therefore understand and deal with the 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 project¹ and had been identified and researched as part of that. The first one deals with complex situations ignoring 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 selection of 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.

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 it was translated in English by one of the authors in order to achieve the best attribution of the Greek data  (Temple & Young

¹ The PhD research of one of the authors.
After writing the case-study report companies were sent summary copies of the findings for review. The final case report was then developed.

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<td>Interviewee 4</td>
<td>Store development manager</td>
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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 the Greater Thessaloniki area, 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 & 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 stated that:

> “There are so many people working for the company or not and authorities involved in my work that make it unbearably complex. I have to keep in touch with people here, in Athens, in Thessaloniki,

\(^2\) A1 = Company A/ Interviewee 1; B1 = Company B/ Interviewee 1 and so on.
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 development process. The plethora of data and information sources are a potential source of strategic opportunities for Company A that 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 mentioned:

“Yougos [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 these
information and by the time I will finish 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 do not pay any attention to them. I do not think that it is any use 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.”
“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, where the plan comes first, the threats and opportunities that emerge in the environment are absorbed, and the plan is 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 are framing 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 the feedback that it receives 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 cleaning ladies 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 him in charge of the presentation of the idea and we keep him updated about the progress of the way that we will deal with his 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 is following strict plans that the managers of the company believe are so robust that they can withstand the changes in the environment; or 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 encourage the employees and the managers to format 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 laid our sight on 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 manager’s ability to process information which is complicated, novel or/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 point the difference of the internal and external environment. Boyd and Fulk (1996) argued that it is common for the managers to reduce the time they devote to the environmental scanning when the level of the perceived complexity is high. The findings of our research are supporting this argument because the managers from Company A, which is a complexity absorber, face complexity as a property of the environment that is unreachable by them while managers from Company B, which is a complexity adapter, perceive complexity as a property of the environment that is understandable and worths the spending of time of the top managers. Therefore, it can be assumed that understanding complexity is time dependent but the decision to spend time on understanding complexity is prejudiced by the initial willingness to deal with complexity.

We also found evidence that there are different ways that companies deal with complexity; in this research project one of companies choose to absorb complexity and continue its operations based on a single plan without any variations, which is consistent with the findings of Ashmos et al. (2000). On the other hand, we found that the second one has developed an organisational structure that supports the adaption of the company to the emergent circumstances of the environment in a dynamic way. Stacey (1995) suggested that the organisations that adapt to the environment have the ability to continue their change even when opportunities from the external environment does not exist \((\text{negative feedback})\). However, the findings of the research indicate that it is possible that a company may look to engage in a complex environment and use its assets to make advantage of it. McKelvey (1999) suggested that companies might look to achieve competitive advantage against their competitors 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 environment that will be to its own benefit by gaining a share in a previously unexploited market.

Using the language of chaos theory, a \textit{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 continuums 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. No matter what the reasons were, the exploitation of under-developed low-cost locations gave an advantage to the 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. We recognised in our research that 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 & 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.

The complexity absorbing organisation employees had a narrower view of the environmental context than the ones in the complexity adaptive organisation. This is the outcome of a strategic decision for the organisations because it is related to the level of the involvement of the employees in the strategy formation procedure. 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 the exploitation of an emerging opportunity 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 business unit that could survey for a site, can expect that it will become aware and exploit the opportunity of a contested site before another one that it has not, because this kind of organisation would encourage employees to concentrate around a human strange attractor that could organise and manage a self-organised unit.

**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 research. 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.

An issue that emerged and needs further research is whether organisations have the power to cause crises in order to benefit from the complex environment that will emerge. It was implied by the complexity adaptive organisation that controlling the environment is much better than adapting to it. However it remains unclear how an organisation can control the environment. Therefore this research would benefit from a comparative study of a sector leader with smaller competitors and a study of the way that the sector leader faces complex environments. Finally, it should be reiterated that this is an exploratory study that was undertaken in a specific sector in Greece so it needs to be replicated in other geographical areas and sectors before it can be generalised.
References


