

A theory and its model
to formulate business
unit strategies within
the knowledge
economy context: nine
textile Catalanian
cases.

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September 2006

Acknowledgements

I am indebted to the following people that have helped me all along my thesis.

In the first place, to my parents, that from the very first moment they have supported me. Without them this achievement would have been less than possible.

In the second place, to my brother and his lovely family. All through these years their constant contact has been a moral pillar that has made me not far from home.

The third place is to Professor J.M. Viedma. Without his tolerance and guidance this thesis would have not seen the light of success. His continuous sustenance has been a clear example of triumph.

In the fourth place, to all the entrepreneurs and friends, that lent me a hand to carry out the interviews. This is especially true in a moment that was important to reach the conclusions.

The fifth place corresponds to Francesca Jalencas M. Her constant patience let me understand that things should be taken with calm and serenity in order to become tangible.

The sixth place is for Verónica. Her endless love for me has undoubtedly been a constant impulse to accomplish my thesis.

An important contribution in order for this thesis to have a good English level is that of Karen Twiselton. Without her help this would have never been possible.

Last but not least to my lecturers at UPC for their teachings; especially to J. C. López whose comments showed me another perspective to understand my ideas.

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Executive Summary

This thesis is understood within the context of the knowledge economy. In this sense this study reflects several matters that contribute to the firms' competitive advantage; these are:

- 1) The mission and vision of the interviewed companies. Even though most people know what these issues are, they are not formally stated.
- 2) Both strategies, operations and innovation, are also well known to the interviewed people yet, as with the previous point, they are not formally stated but pretty well executed.
- 3) The interviewed people are able to identify its competitive advantage and the main intangible assets that support it.
- 4) Because of the above, these persons are aware that their most valuable asset is that of their employees; without the knowledge inside the heads of their collaborators the company is lost.
- 5) The previous point signals trust. All the interviewed people acknowledge that an important part of their firms' success is social capital. This asset is inside, outside or on both sides of the firm. Put differently, man because of its own nature is a social being that cannot live and prosper its qualities by itself (Concilio II, 1965) so once trust is fully exercised, benefits arrive.
- 6) Because of the previous issues, the interviewed people believe that if they were utilising the proposed theory and its model to

formulate strategies, their overall strategy formulation process will be enhanced.

- 7) Despite point #6 the interviewed persons also acknowledge that, because of their company's size, the theory and its model are too big for them, but the constructs that build this theory appear sensible.

Chapter One

Introduction

*Learning is a cumulative process.
(Quinn, 1992)*

1. Introduction Chapter One.

It is important to point out the fact that the successful businesses are those that are able to well-formulate their strategies (Grant, 2005; Viedma, 2005), be these for innovations or operations; after this, implementation and measurement follows. For the implementation and measurement of the formulated strategies the most widespread tool utilized is the Balanced Scorecard (Kaplan and Norton, 1992).

The most common and popular framework to formulate strategies for the business units of a company is the strengths weaknesses opportunities and threats (SWOT) analysis. However this analysis can also be used for the formulation of corporate strategies.

Within the context of the knowledge economy (KE) and given the continuously changing times, it is believed that this analysis is insufficient to formulate a reliable, robust, and flexible strategy that takes into account the intangible resources (assets) of the firm as the departing point.

Today, the reason the firm must consider their intangible asset is because it supports and gives coherence to the strategy itself, and if strategically exploited can be a source of sustainable competitive advantage through time. For Teece *et al.* (1997) the firm's strategy should be formulated considering the most fundamental (basic) aspects of the firm's performance, i.e., intangibles resources and capabilities.

Going a step farther the SWOT framework does not encompass a deep scrutiny considering the information provided by, for example, a business intelligence process. This implies that the competitor analysis

might be short-sighted and as a consequence, useful pieces of needed information might be missing.

1.1 Conclusion.

In conclusion the problem at hand can be stated as follows: given that the SWOT framework is utilized to formulate strategies at the business unit level and given that this framework lacks a supporting theory that endorses its outcome, a new theory to formulate business unit level strategies (innovation and/or operation) is presented with its corresponding model. Therefore, the focus of this thesis is on the formulation of strategies at the business unit level, not on the formulation of corporate strategies and not on their implementation.

Within this new theory the following constructs are considered.

- 1) In order for this new theory to formulate sound business unit level strategies, the activity-based view, the dynamic capabilities and the resource-based view theories are introduced as the building blocks of this theory. This is the first step from where a company should commence to build its strategies.
- 2) Because of the current turbulent times the construct of innovation is also considered. This is so because in order for any company to remain alive, constant innovations must be a key component to consider in their strategies.
- 3) A benchmarking exercise between the firm and its closest peers. This considers the comparison between, among other opportunity (improvement) areas, the financial results, the products and services, the resources and capabilities.

- 4) The thorough analysis of available technology that will help the firm to better face and profit from the coming opportunities.
- 5) The execution of a business intelligence cycle that will permit the firm to enduringly stand against its most fierce competitors.
- 6) All the gather-up information will be condensed in a database for management to consult; in turn this database will also assist management with strategic feedback for improved decision making.

1.1.1 Thesis overview.

The first part of the thesis, Chapter II, considers the objectives, general and particular ones are introduced along with the hypotheses to be tested empirically.

The second part, the state of the art, consists of Chapters III to XII. In Chapter III a discussion about strategy, from a historical perspective, is presented. Given that this thesis is situated within the context of the Knowledge Economy, Chapter IV describes this issue that encompasses the Knowledge-based View of the firm.

Chapter V presents the strategy formulation frameworks. These include, among others, the SWOT analysis, the Five Forces Framework and within the context of the knowledge Economy, the Strategic Knowledge Benchmarking System. All of the frameworks set the ground for the latter presentation of the proposed theory and its model.

The Resource-based View, Dynamic Capabilities and the Activity-based View theories are considered in Chapters VI, VII and VIII respectively. The introduction of these theories is twofold. On the one hand is to complement the strategy frameworks and on the other hand, are the bedrock for the proposed theory and its corresponding model.

Since well formulated strategies can be developed not only from the internal side of the company, an outside point of view is also needed not only to know what the firm's competitors are achieving but to better understand what not to do and improve what is done. In this sense Chapter IX deals with the topic of benchmarking. This process can help the firm to improve its position viz. a viz. its closest rivals and adopt the best practices not only from them but from top companies that perform both in an international and local context.

Now, more than ever firms are collaborating in different ways in a close configuration i.e., physical proximity. This implies the concept of clusters. Chapter X accounts with this theme; their importance and relevance is underlined.

As mention before, companies must innovate if they do not want to face the peril of extinction. Chapter XI therefore considers some basic ideas of the innovation frame. In turn, these ideas are reflected in the model to formulate innovation strategies.

A key concept within the proposed theory is the business intelligence view. Data that is transformed into information to make and take strategic decisions is the central idea of Chapter XII.

Chapter XIII considers the third part of this thesis: the methodology utilized to build and test empirically the proposed theory. This chapter is divided into two parts. In the first part Dubin's

methodology for theory building is advanced. The second part develops the required steps to perform the empirical validation of the theory, i.e., the case study method.

Once Dubin's methodology for theory building was posed, a match is made between its components and the proposed theory. Also the models to formulate strategies are presented. These are the constituents of Chapter XIV, which is the fourth part of the whole thesis.

The fifth part of the thesis considers the industrial setting; Chapter (XV) is dedicated to the business context where the empirical testing of the proposed theory is to be carried away: the business milieu is the Catalanian textile industry.

A consistent review from Roman times up to the European - Chinese textile crisis is sketched. The objective of this is twofold. On the one hand to understand the current conundrums of this industry and on the other hand to frame the empirical test of the proposed theory within a specific situation.

The results (part VI) of this thesis are presented in Chapter (XVI). Here the reader will find the results from the researched cases from the Catalanian textile industry.

The final chapter (XVII) in this part comprises the conclusions, limitations and future research avenues. This supposes the acceptance or rejection of the hypotheses along with the proposed theory and its model.

Finally the annexes, list of figures and tables, as well as the consulted references complement this thesis.

Chapter Two

The Objectives and Hypotheses

*Education builds human capital the way fertilizer grows plants.
(Davenport, 1999)*

2. Introduction Chapter Two.

In the previous chapter the general idea of the whole thesis was set. The problem to be solved and the content of the chapters were presented.

This chapter considers the following:

- A) The main objective.
- B) The particular objectives.
- C) The proposed hypotheses.

2.1 The main objective.

The main objective of this thesis is the development of a theory that will help the business units to formulate better, flexible and successful strategies, be these of innovations, operations or both. The importance of this formulation of strategies is simple: the firm must have a strategic vision of its future if success is to be achieved. This will be done in a systematic way (process) that considers the following.

From the internal side of the firm, a thorough analysis of the intangible assets (resources), capabilities and key activities the company possesses and performs is executed. To better exploit these a benchmarking analysis is carried away with the best-in-class organizations, be these competitors or not, to stress the identified improvement areas.

Because the firm must compare against those best-in-class companies, this supposes an external analysis. This external analysis is also complemented with technological surveillance and a business

intelligence process. The former will assist the company to signal how the best available technology can be used to reach the goals and the latter will identify the best or would-be competitors in order to face them accordingly.

2.2 The particular objectives.

The particular objectives of this thesis are:

- A) The building of a model, derived from the proposed theory that allows the formulation of strategies for the business units of companies.
- B) The validation of the theory and its model in the chosen Catalanian textile companies.
- C) To help these chosen companies to learn how to identify and strategically exploit their resources, capabilities and key activities.
- D) To formulate better strategies for the chosen companies with the results of the performed analyses.

2.3 The hypotheses.

The hypotheses that are to be accepted or rejected are as follows:

- 1) The most commonly used tool to formulate business unit level strategies is the SWOT framework.

- 2) Within the context of the Knowledge Economy (KE) the simplicity of the SWOT analysis results are insufficient to formulate sound, flexible and reliable business unit level strategies.

- 3) A new theory and its corresponding model that include, from the internal perspective of the firm, the Activity-based View, the Dynamic Capabilities View and the Resource-based View theories, help in the formulation and re-formulation of business unit level successful strategies when compared with the simplicity of the SWOT analysis.

- 4) The technological surveillance, the business intelligence process and a benchmarking exercise, from the external perspective of the firm, help in the formulation and re-formulation of business unit level successful strategies when compared with the simplicity of the SWOT analysis.

Chapter Tree

Strategy:

Concepts and

Definitions

*The essence of strategy is selecting one position that a company can claim as
its own.
(Markides, 1999)*

3. Introduction Chapter Tree.

It has been almost 30 years since the first formal publications about the strategy of the enterprise have been published, with the pioneering works of Alfred Chandler Jr. (1962), Igor Ansoff (1963) and Kenneth Andrews (1971) among others. The main issue for these authors is the concept (theory) of strategy as a whole, and within this theory how the enterprise initiates a business or businesses, and how, through a general perspective, it solves its strategic problems (Bueno, 1995).

It can be said that to solve these problems, which arise from the changing environment (social, political, technological and economical), a strategic perspective is needed. This perspective comes from several necessities:

- 1) To formulate a general vision of how the enterprise overcomes these problems as effectively as possible (a strategy).
- 2) To focus on internal impacts (problems) as well as the consequences that the environment has on the enterprise.
- 3) To question the enterprise's structure and choose in which businesses to engage.
- 4) To see and understand the market (setting) with a systematic and general vision.
- 5) To understand the enterprise in an organized manner.
- 6) To establish strategies and policies for the medium and long term.

Summing up, the strategy can be explained as the relationship between the organization, its businesses, structure and environment.

3.1 Strategy itself.

David (1956) thinks of strategy as the conjunction and availability of the material and human resources of a business to accomplish, under the pressure of competition and the uncertainty of the unknown, (certain) specific and socially acceptable goals. Complementing this definition strategy can be summarized in three words (Percy and Roberts, 1956):

- (1) Planning.
- (2) Coordination.
- (3) Execution.

Therefore, it can be stated that strategy precedes action.

For Chandler (1962, 1990) strategy is the establishment of the basic long-term goals and objectives of a company and the adoption of courses of action and assigning the necessary resources for carrying out these goals.

For this author, the strategic growth results from being aware of the opportunities and needs –created by changing population, income, and technology- to utilize or expand the existing resources more profitably.

Strategy is a (system) concept which gives coherence and direction to the growth of a complex organization (Ansoff, 1987; Ansoff and McDonnell, 1990). It has several distinguishing characteristics:

1. The process of business-strategy formulation has no immediate results. Rather, it sets the general directions in which the firm's position will move, grow and develop.

2. Strategy is the quest to produce strategic projects through a search process. The strategic search must first look in those areas previously defined by the strategic projects and second filter out those possibilities that are not strategic, i.e. in the strategic projects.
3. Once strategy has accomplished its goals/objectives might be useless. This is to say, when the search process is already focused on the preferred areas.
4. When the strategy is formulated not all possible projects can be listed. Therefore, strategy formulation must be based on highly aggregated, incomplete and uncertain information about classes of alternatives.
5. When the search uncovers specific alternatives, the more precise, less aggregated information which becomes available may cast doubts on the wisdom of the original strategy choice. Thus, successful use of strategy requires strategic feedback.
6. Objectives and goals used both to filter projects, might look alike, but they have differences. Objectives represent the ends which the firm is seeking to attain, while the strategy is the means to these ends. The objectives are higher-level decision rules. A strategy which is valid under one set of objectives may lose its validity when the objectives of the organization are changed.
7. Because of the above, strategy and objectives are interchangeable; both at different points in time and at different levels of organization. Thus, some attributes of

performance (such as, for example, market share) can be an objective of the firm at one time and its strategy at another. Further, as objectives and strategy are elaborated throughout and organization, a typical hierarchical relationship results: elements of strategy at a higher managerial level become objectives at a lower one.

It can be concluded that strategy is an abstract and elusive deposit. Its formulation typically produces no immediate concrete productive action in the firm. Above all, it is an expensive process both in terms of actual dollars and managerial time. Since management is pragmatic result-oriented activity, a question needs to be asked: whether an abstract concept, such as strategy, can usefully contribute to the firm's performance.

A structure that can be considered another type of strategy is the multidivisional structure or M-Form (Williamson, 1975, 1985, 1986). The leaders in the visualization of this structure were Pierre S. du Pont and Alfred P. Sloan; it was between 1920 and 1930; the companies were du Pont and General Motors; they were looking to overcome the economic adversity under the old structure and they saw an opportunity to innovate. However both structures were different.

For this strategy to work efficiently the general office must follow these activities:

- 1) The identification of separable economic activities within the firm.
- 2) According quasi-autonomous standing (usually of a profit center nature) to each.
- 3) Monitoring the efficiency performance of each division.
- 4) Awarding incentives.
- 5) Allocating cash flows to high-yield uses.

- 6) Performing strategic planning (diversification, acquisition, divestiture, and related activities) in other respects.
- 7) Separation of operating from strategic decision-making is provided.

The M-form structure is thus one that combines the divisionalization concept with an internal control and strategic decision-making capability. Even though these activities are planned by the general office, the help of a staff is needed to carry out these tasks efficiently.

But the M-Form is "corrupted" when the general management involves continuously and broadly in the every day operations of the divisions. So for the M-Form performs its functions efficiently, the general management must step back and take some distance. If general management continually involves the consequences will be that the short-run operations, long-term activities, and the resources will be upset, therefore the rational allocation and planning might not be totally accomplished.

In the mid-eighties the concept of Competitive strategy (Porter, 1985) arose. This refers to the search for a favourable competition position in an industry, i.e., the fundamental arena in which competition occurs. This strategy looks to establish a profitable and sustainable position against the competing forces in the industry.

The emphasis of this theory is on the structure of the industry, the analysis of the competitors in diverse industrial settings however it contains many implications to obtain competitive advantage through cost leadership and differentiation. This theory describes the way a firm can choose and implement a generic strategy to achieve and sustain competitive advantage.

Prahalad and Hamel (1990) assume that the concept of corporation will be needed to be defined again. This is so because companies nowadays will be measured by their ability to discover, grow and utilize their core competences that allow them to grow effectively.

These authors believe that core competencies are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies.

Because in the 1990s the only issue that remained constant was change, Porter's dynamic theory (1991) addressed this issue remarking innovation as a sustainable advantage. That is, firms through innovation, have considerable amplitude of margin in both influencing their environment and responding to it given that environmental change is relentless

Firms develop and maintain competitive advantage because the ability to continuously improve, innovate, and upgrade their competitive advantage through time. Upgrading is the process of shifting advantages throughout the value chain to more sophisticated types, and employing higher levels of skill and technology. Successful firms are those that improve in ways that are valued not only at home but elsewhere.

Competitive success is enhanced by moving first in each product or process generation, provided that the movement is along a path that carries evolving technology and buyer needs, and that these early movers continuously upgrade their positions rather than rest on them. This theory assumes that firms have considerable discretion in relaxing external and internal constraints.

For Mintzberg *et al.* (1996), effective formal strategies contain three essential elements:

- 1) The most important goals (or objectives) to be achieved.
- 2) The most significant policies guiding or limiting action.
- 3) The major action sequences (or programs) that are to accomplish the defined goals within the limits set.

Since strategy determines the whole direction and action focus of the organization, its formulation cannot be regarded as the mere generation and alignment of programs to meet predetermined goals; the essence of strategy formulation is to deal with competitors. However, goal (or objectives) development is an integral part of strategy formulation.

Strategy deals not just with the unpredictable but also with the unknowable. Consequently, the essence of strategy is to build a posture that is so strong (and potentially flexible) in selective ways that the organization can achieve its goals despite the unforeseeable ways external forces may actually interact when the time comes.

A well-formulated strategy gathers and allocates the organization's resources into a unique, viable, and winning posture based on its relative internal competencies and pitfalls, anticipated changes in the environment, and contingent moves by its competitors. The strategy states how the company will be better than its competitors and how effectively deploy its resources to achieve this end. The strategy itself frames the organization's major goals, policies, and action programs into a coherent unity.

Last but not least a well formulated strategy will consider (include) a flexible position as a key issue.

Barney (2002) defined a strategy as a firm's theory (idea) about how to compete successfully. Under this view, successful strategic theories address four aspects of the setting within which a firm operates:

- (1) A firm's strengths.
- (2) Its weaknesses.
- (3) The opportunities in its competitive environment.
- (4) Threats in that competitive environment.

It can be thought of these four aspects as a SWOT analysis.

The direction and scope of an organisation over the long term, which achieves advantage for the company through its configuration of resources and activities within a changing environment and to fulfil stakeholder expectations for Johnson and Scholes (2002) is a strategy. As a consequence the business unit strategy is about how to compete successfully in particular markets.

According to some (Grant, 2005) strategy is not a fully depicted plan; instead it is a unifying logic that gives coherence and direction of the actions and decisions of an individual or an organization.

He claims that a business strategy is concerned with how the firm competes within a particular industry or market. If the firm is to prosper within an industry or market, it must establish a competitive advantage over its competitors. Hence, this area of strategy is also referred to as competitive strategy.

3.2 Conclusion.

Strategy can be succinctly described as an abstract concept. It enunciates a general vision of the business environment of the firm. This implies to plan, direct, coordinate, and execute. It considers incomplete and uncertain information. Strategy requires strategic feedback for a better strategy re-formulation. It establishes objectives and socially

responsible policies for the firm. Answers the question: in which businesses must the firm engage?

Strategy gives sense and coherence to the direction the firm must take considering its internal environment, resources and capabilities, and its external environment, unknown and hostile. It indicates the tactics to fulfil in order to accomplish within a time frame the objectives previously established. It is a systematic way of thinking and acting.

Occasionally the strategy can be exchanged with the goals. The strategy revolves in a complex environment. It is a process that does not present immediate and tangible results; however, it is costly in terms of time and resources (human and economical). Strategy must be a process with both, a flexible and enduring posture. It should be focused on the business processes. Strategy establishes how to gain and sustain a competitive advantage to face competitors. And also seeks to establish and rank strategic projects.

Chapter Four

The Knowledge

Economy

*In an economy where the only certainty is uncertainty, the one source of lasting competitive advantage is knowledge
(Nonaka, 1991)*

4. Introduction Chapter Four.

Once the strategy chapter has been presented, attention is turned now to knowledge. This is so because this thesis is within the knowledge economy context. This means that a strategic perspective now more than ever must be constructed with the best available knowledge, not only outside the firm, but more important the knowledge produced in the firm. Put it another way to have a strategy lacking knowledge is useless. In the end the idea is knowledge that produces and sustains value.

It can be stated that nowadays, the traditional way of seeing and understanding the economy has changed. The traditional resources (work, property and money spending) that used to be the prime sources of wealth have dramatically changed to a knowledge economy, i.e. an economy that is based on knowledge. Therefore, those companies that harness, produce, and utilize more intelligently the available knowledge, will gain a sustainable advantage. Under this view this chapter deals with a brief canvass of the knowledge economy then the Knowledge-Based View of the firm is introduced and finally the relationship of knowledge and value is set.

4.1 The canvas of the knowledge economy.

In the knowledge economy (Foss, 2002), authority relations will continue to exist as efficient coordination mechanisms, defining the limits of firms in terms of asset ownership is entirely meaningful, and relations of complementarity between coordination mechanisms will obtain, so that transactions will tend to cluster in discrete structural forms (i.e., governance structures).

Thow (2003) believes that the value of information and as a consequence knowledge in the organizations will be high because of the globalization of the world's economies and the transformation of the industrial economies into knowledge economies. Two to three decades ago, information was rarely regarded as an asset to business operations.

Today, few managers can afford to ignore the importance of information, and in particular, knowledge. The latter is now managed as a critical resource, similar to capital or materials. In reality, information is more than a normal physical resource; it is a conceptual resource that can help to bind or break organizations. However, while information plays a role in knowing, it is worth highlighting that many organizations are plagued by poor-quality information, which can have a negative impact on knowledge-based activities (Peppard, 2005).

Another important aspect of knowledge in a "new economy" is its specific characteristic as a factor of production that has grown in importance in relation to the other factors of labour and capital (Evers *et al.*, 2004). Whereas other goods are succumbed to the law of diminishing returns, with knowledge happens the opposite, i.e. it actually experiences rising marginal utility. The more expert a group of consultants or an organisation knows, the more valuable they become the individual pieces of knowledge; or to put it differently: knowledge is needed to utilise knowledge effectively.

Tracey *et al.*, (2004) believe that the knowledge economy is a distinctive form of learning utilising intellectual capital in mutually reinforcing institutional environments.

So it can be concluded that in the knowledge age organizations will learn, remember and act based on the best available information, knowledge, and know-how (Dalkir, 2005).

As stated before, the accentuation of knowledge as the most important factor of production, surpassing land, labor, and capital, along with the rapid development, diffusion and utilization of information and communications technologies (ICTs), has profoundly affected the modes of global economic production and diffusion as well as consumption (Parayil, 2005).

The means by which knowledge-economy firms create value is through the intensification of intellectual property (IP) rights protection. In a market economy, intellectual property protection does provide incentives for innovation and useful knowledge creation.

4.2 The Knowledge-Based View of the Firm.

This emerging theory has been named by some scholars (Grant and Baden-Fuller, 1995; Spender and Grant, 1996; Grant, 1996a and b) since almost a decade ago. These authors stress the importance of knowledge that is produced, stored, transmitted and exploited not only between firms, but within firms, i.e., the strategic and managerial significance and integration of knowledge. For McMillan and Hamilton (2000) the Knowledge-Based View (KBV) understands firms as unique heterogeneous knowledge-bearing entities.

This theory is an outgrowth of several other research streams, namely: the Resource-Based View, epistemology, innovation (Grant and Baden-Fuller, 1995; Grant 1996b) and organizational learning (Hemphill and Vonortas, 2003).

This integration of knowledge is justified by two assumptions (Grant, 1996a):

- 1) Because of dynamic (constant) competition, the obtained superior profitability is linked with the firm's (intangible) resources and capabilities rather than with generic strategies such as market position, segment selection or both.
- 2) This (intangible) resources and capabilities that provide the competitive advantages for the firm, is highly probable that they are derived from accessing and integrating specialized knowledge.

Complementing the above assumptions the foundations (Grant, 1996b) of the KBV are introduced.

- A) *Transferability*. The transfer of knowledge is important, not only between firms but is essential that knowledge is transferred within the firm.
- B) *Capacity of aggregation*. This implies the capability of both the transmitter and receiver of knowledge to give and take respectively. For this aggregation of knowledge to be successful, a common language must be utilized. Put it another way, to add new knowledge to the one already possessed, a familiar lingo should be the instrument that facilitates this.
- C) *Appropriability*. This implies that the owner of a resource (knowledge) must receive in return a value equal to the knowledge that is being shared.
- D) *Specialization*. Since the human brain has limited capacity to produce, store, and acquire knowledge, these tasks must be shared with several other specialists. This implies that those

specialists should focus in particular types of knowledge. The idea is to maximize all the available knowledge in the firm.

E) *Knowledge production*. The primary input in this theory that creates and delivers value is knowledge. Therefore its production is essential for sustaining a competitive advantage.

But this integration of knowledge works better when employees with diverse knowledge work together. Put it another way, the combination of different sets of knowledge from diverse people is far more richly than if all employees hold more or less the same background of knowledge (Un and Cuervo-Cazurra, 2004).

So given that the KBV integrates the knowledge within the firm valuable teams or group of specialists are critical to the success of it (Ranft and Lord, 2000). Because of this specialization yet diverse knowledge the firm holds a platform that can develop product and service line extensions (Drazin and Rao, 2002).

This knowledge utilized to produce a good or service can be extended to other products or services that fulfil other markets, segments or niches. However if this knowledge platform is somehow unrelated to a specific product, service, or both, the overall produced knowledge is more diverse, therefore more abundant.

What this implies is that a firm that is able to manage superior knowledge integration mechanisms (Grant and Baden-Fuller, 2004) will likely holds a stronger competitive advantage. Put it another way, when a firms' competitive map (Zahara and Filatotchev, 2004) is constantly stretched, new paths are being explored, consequently developing new capabilities.

Because of this development of new capabilities, it is the manager's task to oversee the constant flow of above – normal profits (Nickerson and Zenger, 2004). This corroborate that new ways of knowledge integration must be put forward to achieve this above – normal profits. Put it another way, once knowledge is recognized as the key component of a firm's competitive advantage (Spender and Grant, 1996) then the lasting of the above – normal profits (rents) is determined by the transferability of knowledge itself.

As a consequence the ultimate goal for this theory to be achieved is competitive distinctive sustainable advantage for the firm, i.e. when knowledge is managed as an organizational resource (Beamish and Armistead, 2001; Styhre, 2004).

4.3 Knowledge that produces value.

Value has been defined from diverse disciplines (Payne and Holt, 2001). Most of the research carried out on this subject is mainly in the economics field. Other disciplines that also incorporate value within their stream of study are finance, accounting, marketing psychology, strategy, organizational behaviour and social psychology.

However, the most usual way to designate the idea that knowledge is the key driver that produces value is value management. This concept evolved in the late 1930s and early 1940s from the work of Lawrence Miles, a purchasing engineer working with General Electric Company (Male and Kelly, 1989).

Value management has been defined as a philosophy that identifies and eliminates useless costs so to realize the required functions at the

lowest possible monetary amount. Because of this it can also be thought of value management as a system.

This system (Henderson and Lentz, 1995) proactively seeks that executives formulate, design, control and adapt the business processes that are interconnected to create value; in turn this permits the firm to understand its investments, be these in technology, resources, tangible assets, among others.

Because of the nature of the system, this provides a feedback mechanism that enables the executives to comprehend their environment and act (respond) accordingly. This means that this system is a dynamic one, i.e., not inert.

Consequently if value management becomes a standardize habit that when implemented does not considers active participation and commitment the objectives (goals) will be unreachable. To avoid this situation the true benefit of value management (Green, 1999) materializes if it encourages people to innovate and think crucially about their actions and procedures.

Given the dynamic nature of the value management system, value is created and modified through time. Therefore the value management system consists of four stages (Payne and Holt, 2001), namely: determination, creation, delivery and assessment. These are presented in figure 4.1

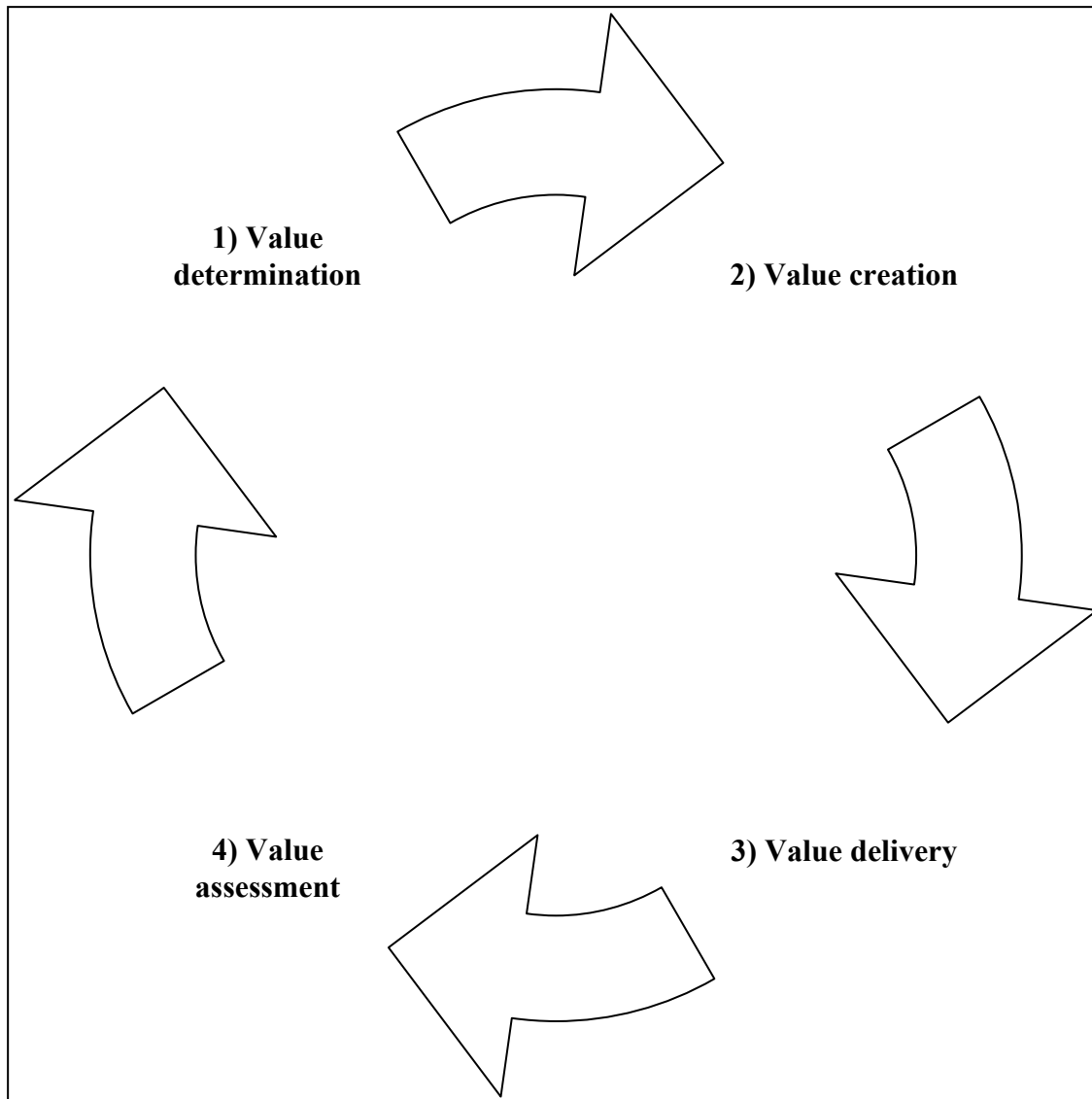


Figure 4.1 The value process. Source: adapted from Payne and Holt (2001)

Because value seeks to optimize the costs involved in the business functions, value can also be understood from two perspectives: as shareholder value, i.e. cash and client (customer) value (Vandermerwe, 2000).

From the shareholder perspective, this signifies the remaining money after all the bills have been paid (Doyle, 2000). So a strategy that fully understands value management must have as an objective to produce and measure value as rising share prices or (growing) dividends (Doyle, 2001).

From the customer (client) perspective this means customer focus. And this not only suggests that the costs associated to products, services or both should be enhanced, i.e. lowered, but that true value should be obtained from these products and services purchased by customers. This implies that clients must keep on buying the firm's products or services on an ongoing basis. Put it another way, customer lock-on.

Lacking a strategy that underscores value management, as mentioned above can result in throwing away the opportunities created by key (strong) customers, synergies of functions, resources or both or already established good performing market niches. In this sense a primary purpose of value management system is to set the participant's values and goals as explicit as possible in a coherent decision-making process (Leung and Liu, 2003). However, customers must not be forgotten in this strategy. In this sense, value management should consider clients as an integral part of it.

All in all, even though knowledge will support and build the firm's competitive advantage, in the end this knowledge will not only increase the company's asset base (tangible and intangible ones) but most important of all, the cash obtained from this advantageous position should boost the firm's overall profitability, consequently strengthening its position (status quo) in the market.

Put it another way, a virtuous growing-value cycle can be achieved. This is represented in figure 4.2

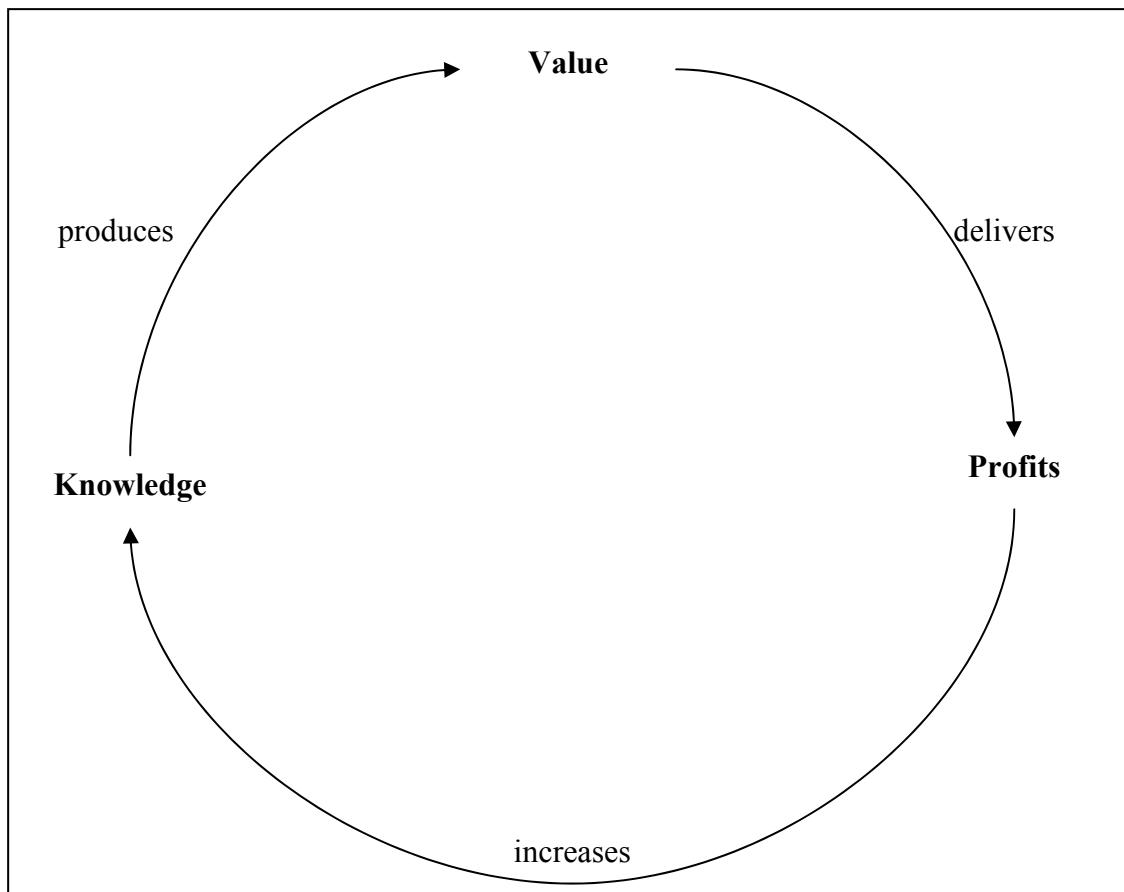


Figure 4.2 The value management virtuous cycle. Source: the author.

4.4 Conclusion.

In conclusion it can be stated that information is transformed into knowledge (it is the first input). This is one of the driving forces to gain and sustain a competitive advantage. But only good-quality information can provide useful strategic knowledge; managers should distinguish between good and poor-quality information. This means that even though information is important, if it is not translated into knowledge there is no basis for a better management (Hult *et al.*, 2004). This is shown in figure 4.3

The more knowledge is used (strategically), the more it increases its value. This is opposed to the traditional view of the means of production (land, labour and capital) used to produce goods and services.

Almost everyone can benefit from knowledge integration and sharing, i.e., benefits can be obtained from this organizational resource.

As a consequence, the strategic integration of knowledge delivers monetary benefits to owners of that knowledge (employees) and lastly to shareholders and clients is known as value management. This implies that knowledge is put to work for a specific purpose and not for the sake of knowledge *per se*.

Complementing the value process (figure 4.1) value management, in the end, can be understood as a decision – making process (figure 4.4). This process that transforms the value into goals comprises the setting, hierarchy and analysis of objectives, as well as its evaluation. Say it differently if knowledge does not delivers monetary value no time, efforts and resources (tangible and intangibles ones) should be devoted to it.

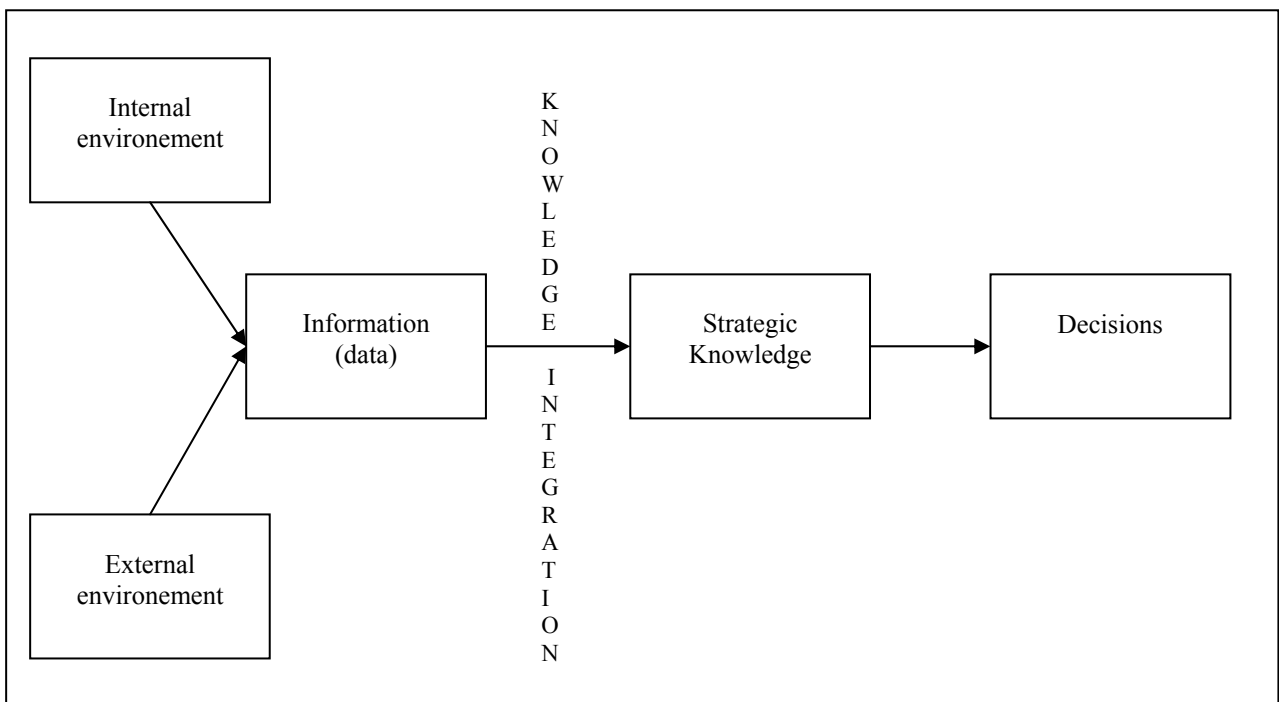


Figure 4.3 The making of strategic knowledge. Source: the author.

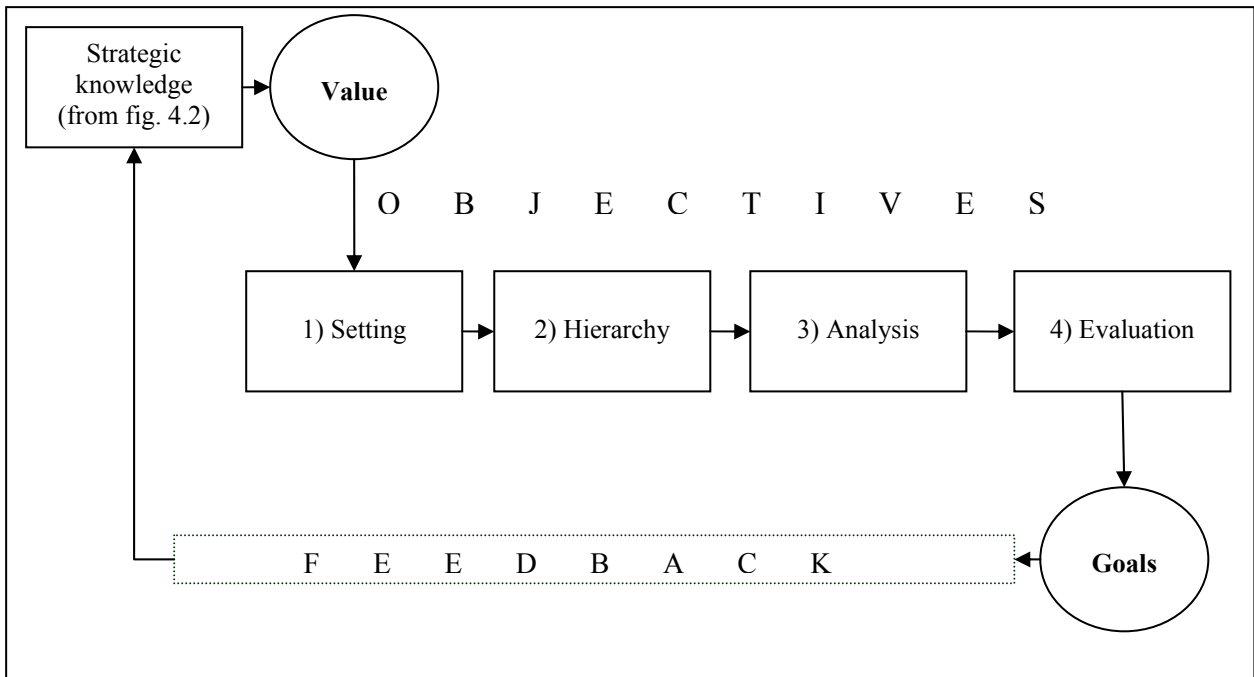


Figure 4.4 The decision-making process of value management. Source: the author.

Chapter Five

The Strategy Frameworks

*Change effectiveness depends first and foremost on engagement.
(David, 2004)*

5. Introduction Chapter Five.

Once the overview of the knowledge economy has been set, the present chapter deals with the strategy formulation frameworks. In order for a strategy to be formulated some frameworks (models) and theories were developed to achieve this task as successful as possible.

Anyhow some of these frameworks were visualized in a particular point in time and as a consequence now they are not functional given the turbulent ages. This is they lack, for example, an internal (intangible assets) perspective. Others do consider this issue. This is particularly important given the knowledge economy context.

In this chapter these strategy models and theories are introduced. These, the strategy frameworks and the theory, are important to be introduced, so to put in perspective the significance of our theory and its corresponding model.

First the theory from the industrial age is presented followed by the frameworks; after these Sveiby's *Knowledge-based theory* and Viedma's *Strategic Knowledge Benchmarking System* are introduced. All of them are offered in alphabetical order.

5.1 The Theory of Constraints (TOC).

This is a group of very general processes (techniques) that help to solve problems and improve the current situation (Boyd *et al.*, 2001). These processes answer three fundamental questions:

- 1) What factors should be changed?
- 2) What should the change outcome be?
- 3) How can the change be brought about?

This theory is constructed of five stages that help answer the previous questions, namely:

- A) *The current reality tree (CRT)*. This stage uses cause and effect along the tree builder's intuition to identify the main (core) problems in the system. This stage is considered an analysis of the situation.
- B) *The evaporating cloud (EC)*. This stage considers that to achieve a common objective, the needs of each party must be equalled to the wants of the other, i.e. a win – win situation. This way the main problems are eliminated. This stage is considered the first part of the formulation of the strategy.
- C) *The future reality tree (FRT)*. This stage evaluates the ideas in order to see if the results achieved are correct or not. This is to say not to have negative effects. This stage is the second part of the formulation of the strategy.
- D) *The prerequisite tree (PRT)*. The objective of this stage is to name all the possible obstacles preventing the positive outcome of the desired goal. Each time an obstacle is identified, a corresponding solution (action) is presented. Thus the flow of this tree is from present to future; this means that once in the to-be future the goals have been reached. This stage is the first part of the implementation of the strategy.
- E) *The transition tree (TrT)*. This last stage is a list of steps (to-do things) in a logical sequence and the rationale (reasons) supporting them. This final stage is the second part of the implementation of the strategy.

The whole TOC process is schematized in figure 5.1

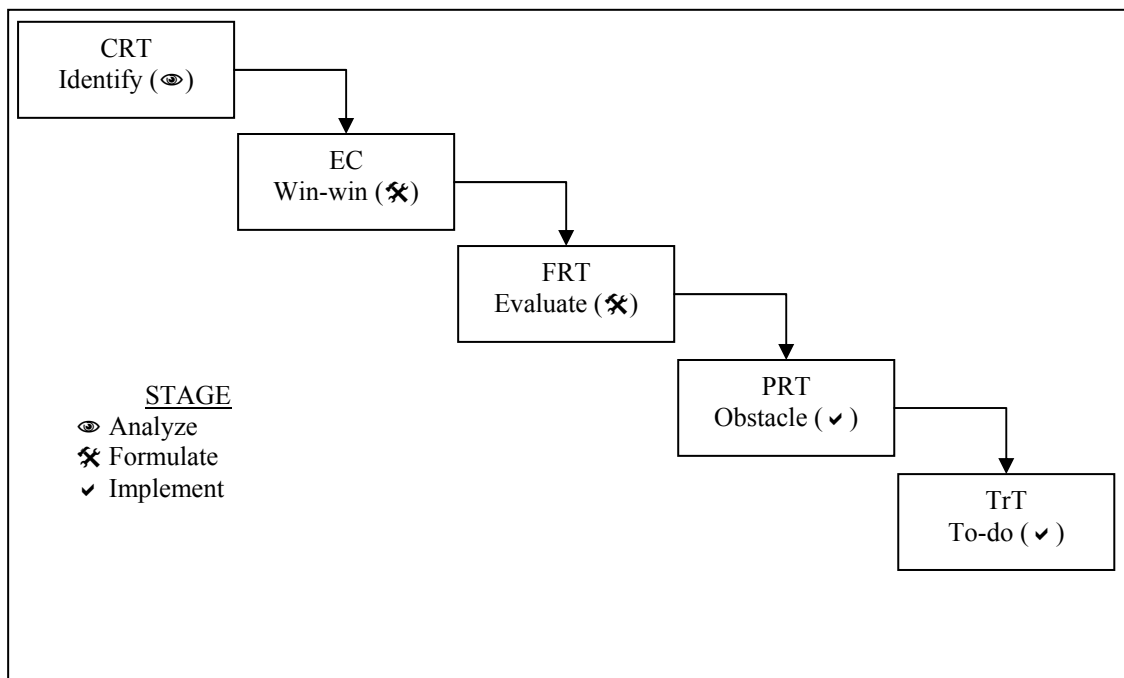


Figure 5.1 The Theory of Constraints Process (TOC). Source: the author.

5.2 The Acnur and Englyst Model.

The Acnur and Englyst (2006) formulation strategy process is justified because a well formulated strategy-process will lead to a good strategy. These authors name a continuous tree-phase process (figure 5.2) to achieve a sound strategy. This process consists of:

A) Strategic thinking. This phase must consider strategic priorities and creative strategies. These creative strategies result from this thinking and are the outcome of synthetical and divergent thought.

B) Embedding. This is the building of shared (common) understanding and acceptance by all the employees of the strategic choices made all over the company. The consequence of these two conditions is the establishment for continuous change, i.e. continuous learning and adapting.

C) Strategic Planning. As opposed to the strategic thinking phase, the conventional and convergent thoughts (analysis) are presented here. This is complemented with the formulation of characteristics that will help managers to be aware of their organizational and environmental changes. To face successfully these changes, the strategy itself might need to be refined and realigned.

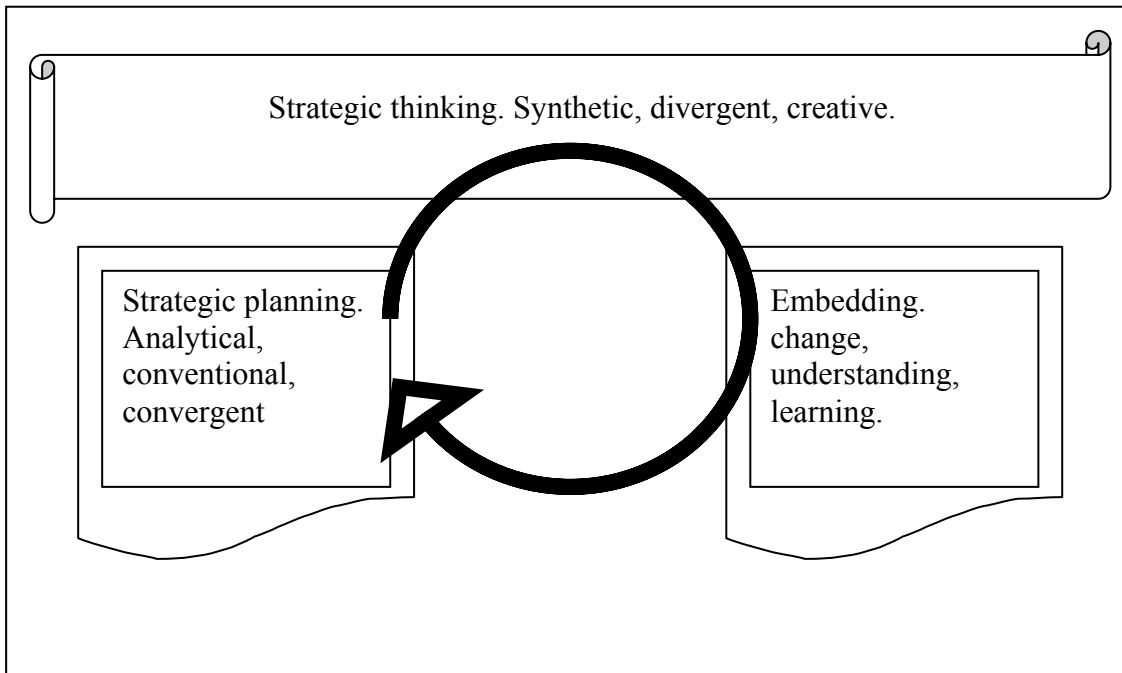


Figure 5.2 Phases of the strategy formulation process. Source: Acnur and Englyst (2006)

As a corollary, it can be thought that in order for the employees to believe in the strategy, they must be convinced that the business goals will be achieved. This means that the formulated strategy is not an ambiguous document containing detailed responsibilities and actions.

5.3 The Boston Consulting Group (BCG) Matrix.

The Boston Consulting Group Matrix (Ansoff, 1987; Ansoff and McDonnell, 1990), introduced by the Boston Consulting Group offers a useful method for comparison of a firm's strategic business units (bu's). This matrix chooses volume growth in demand as the single measure of the future business units prospects (vertical dimension) and the firm's

market share in relation to the share of the leading competitor (horizontal dimension).

The BCG matrix is useful for two purposes:

- 1) Decisions on the desirable market share positions, and
- 2) The assigning of the strategic funds among the bu's.

Applications of the BCG matrix showed it to be useful tool for making strategic position decisions about bu's and for near-term strategic resource allocations. However, the BCG matrix is applicable under very special conditions.

The future prospects in all the firm's bu's should be measurable by a single growth rate index. This is true in bu's which, for the foreseeable future, can be expected to remain in the same life cycle growth stage, and/or when the expected level of turbulence is low, which is another way of saying that the growth is not likely to be perturbed by unexpected events. But when the bu's is expected to move into another growth stage in the expected future, and/or high level turbulence is forecasted, the single growth rate measure of prospects becomes inaccurate and perilous. What is even more dangerous is the implied assumption that high volume growth will necessarily lead to high profitability. In today's environment bu's which are technologically turbulent, or in which competition is cut-throat, may experience profitless growth.

The future competitive dynamics within the bu's should be such that relative market share is the only determinant of its competitive strength. This means that the technological conditions are stable, the rate of growth of demand surpasses that of the supply and the competition is not intense. But when these conditions do not hold other factors apart from the market share typically acquire dominant importance to continued competitive success.

Another way of naming the BCG matrix is the Advantage Matrix (Davies, 2003). This matrix is used extensively in business practice. The matrix is an attempt to classify business groups in relation to market growth and relative firm market shares. These classifications are then used in order to present strategic options based on creating competitive advantages for analysis. Product sets can be identified –usually referred to as stars, cash, cows, dogs and question marks. This is shown in figure 5.3

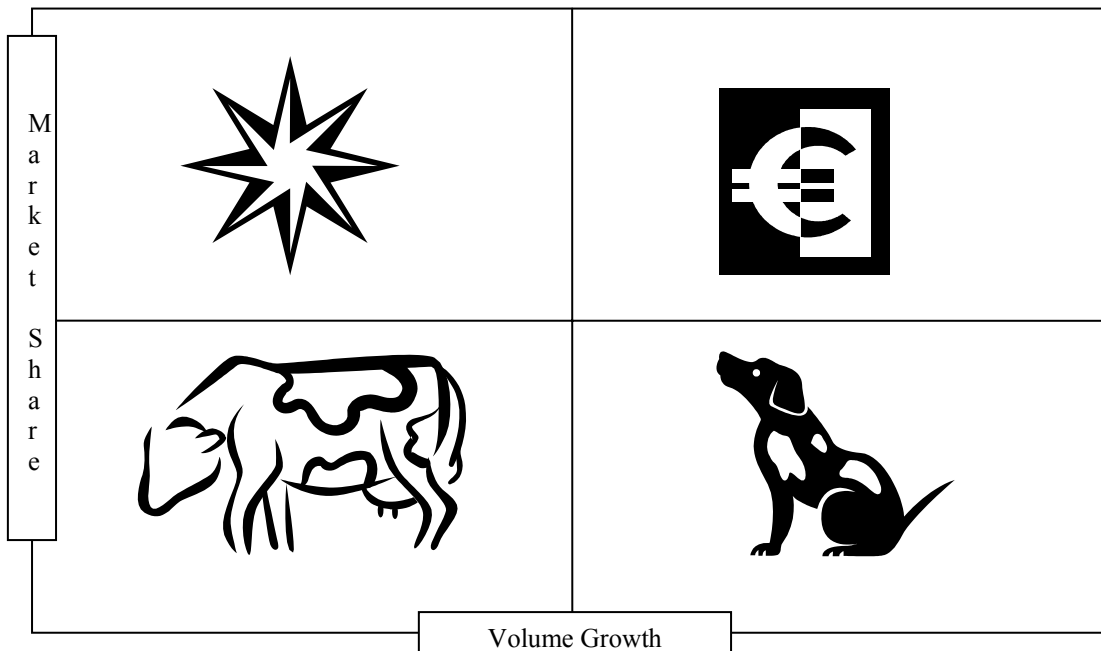


Figure 5.3 The Advantage Matrix (Boston Consulting Group Matrix). Source: Ansoff (1990)

5.4 The Brock and Barry Model.

Brock and Barry's (2003) strategy formulation model incorporates different planning modes that are important to organizational function within some general competitive types and scopes. These authors name tree different planning modes with their corresponding focus.

1) Short-term planning. Revenues and costs are projected up to a one year in the future, considering the last available figures.

2) Medium-term planning. Revenues and costs are projected between one and two years in the future, considering the last available figures. In this planning, even though the main sources from where the information is retrieved are internal, some external ones (interest rates, customer demand) have some bearing.

3) Long-term planning. The forecast in this planning stage is at least a five years time-frame in the future. Capital budgeting is a project evaluation method based on predicted cash flows, tax rates, depreciation, and discount rates over the life of the projects. This information is mainly available inside the company.

As for the several competitive types and scopes, these authors state a four typology (strategy) classification.

1) Cost leader/prospector. New offerings (products) and the developing of new markets are the key features of this construct. The competition is based on a low-cost strategy. This strategy is best suited for an internal orientation, i.e. controlling costs while obtaining long-term information to achieve opportunities. In turn, these opportunities are for the new customers and products previously mentioned. This strategy will be more successfully achieved when framed in the medium/long-term planning mode and when the scope is continuous change.

2) Differentiator/prospector. Even though the new offerings and developing of new markets are also present here, the basis for competition is perceived uniqueness. This posture should gather more external information; this is necessary to fully differentiate from competitors. This strategy, just as the previous one, will be more

successfully achieved when framed in the medium/long-term planning mode and when the scope is continuous change.

3) Cost leader/defender. This constructs supports the idea of maintaining relative stable offerings and customer bases. The competition is focus on low cost. However, this typology considers a well-developed internal information system tied with the management accounting system. In turn, this system uses (as much as possible) internal generated data thus costs are kept low and the focus on existing customer is maintained and strengthened. This strategy will work more effectively within a short-term planning mode.

4) Differentiator/defender. The competition focus is on perceived uniqueness and the idea of maintaining relative offerings and customer bases is supported here. The requirement for long-term information is not so heavily needed here. This saves money and time and achieves a more appropriate defensive focus on the company's existing segments. This strategy, just as the previous one, will work more effectively within a short-term planning mode and stable scope.

All these strategies are summarized in table 5.1

	Strategic scope: continuous change	Strategic scope: stable, concentrated
Competitive advantage: cost	<ul style="list-style-type: none"> • Strategy: cost leader/prospector • Planning mode: medium/long-term 	<ul style="list-style-type: none"> • Strategy: cost leader/defender • Planning mode: short-term
Competitive advantage: differentiation	<ul style="list-style-type: none"> • Strategy: differentiator/prospector • Planning mode: medium/long-term 	<ul style="list-style-type: none"> • Strategy: differentiator/defender. • Planning mode: short-term

Table 5.1 Integrated strategies and planning modes. Source: the author.

5.5 The Five Forces Framework.

The last framework to formulate a strategy is the five forces model from Michael Porter (1980). Even though this framework has a focus at an industry level, it can also be used at the business unit parallel, so it is worthwhile to consider it and have a detailed look.

For this author the essence of formulating a competitive strategy is relating a company to its environment. Consequently the key aspect of the firm's environment is the industry or industries in which it competes.

Within a particular industry (ies) the state of competition depends on five basic competitive forces (figure 5.4):

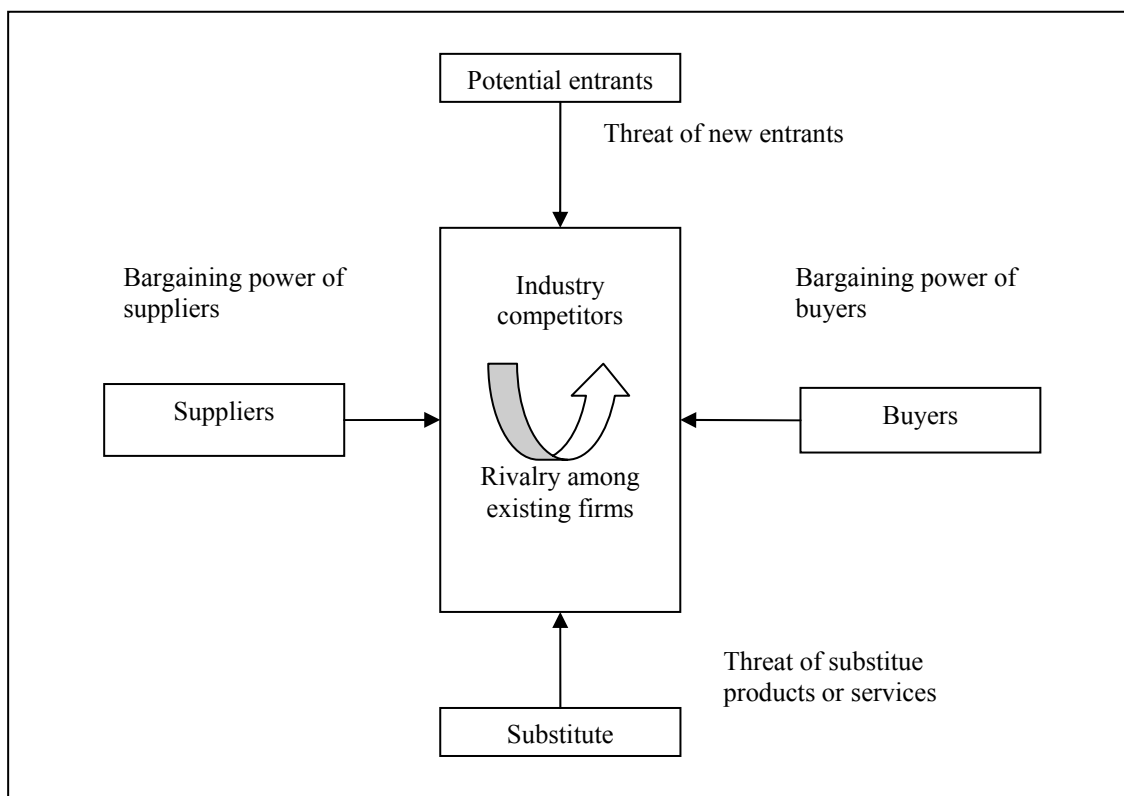


Figure 5.4 The Five Forces framework. Source: Porter (1980)

- 1) Threat of entry. The new participants in an industry bring their own new capacity, be that production, distribution, resources, among others.

- 2) Intensity of rivalry among existing competitors. This is the logical pressure established among rivals for market share improvement. Be this of products or services.
- 3) Pressure from substitute products. When they are several competitors offering similar (substitute) products the price they can charge all the players has a limit, therefore ceiling profits. The more attractive the price performance alternative offered by substitutes, the firmer the lid on industry profits.
- 4) Bargaining power of buyers. Again, because of several competitors offering substitute products, the buyers ask for better prices, after-sale service, high quality and consequently playing competitors against each other, driving down the industry profitability.
- 5) Bargaining power of suppliers. The other side of the process is the suppliers. They will raise prices, lower their quality, have excess time delivery, consequently reducing the industry profitability.

Even though in the beginning this model was used to formulate competitive strategies in diverse industries, later was also used to formulate generic type strategies of cost leadership, positioning and differentiation (Roos *et al.*, 2001).

5.6 The Strength Weaknesses Opportunities and Threats (SWOT) Framework.

A key element of strategic formulation is the matching of organizational strengths and weaknesses with opportunities and threats which exist in the marketplace (Roucco and Proctor, 1994; Proctor 2000). This analysis is widely recognized in the strategic management literature as a systematic way of achieving this end.

The method helps to identify relationships between strengths, weaknesses, opportunities and threats and also provides the bases for formulating strategies on these relationships. This analysis is a technique specifically designed to help identify suitable business strategies for an organisation to follow.

Complementing the above it can be stated that this straightforward framework and approach used in the analysis of a company's strategic position is the SWOT analysis (Hill and Westbrook, 1997). It could be claimed that strategic planning in general and the SWOT analysis in particular, have their mutual origins in the work of business policy academics at Harvard Business School and other American business schools from the 1960s onwards.

SWOT-type analysis of internal (strengths and weaknesses) and external (threats and opportunities) assessment and seeking a fit between the two perspectives has remained popular. However, proponents of SWOT do not see it as mere list making (figure 5.5). It is arguable that this SWOT activity and its outputs do not constitute analysis at all, for they do not go beyond description, and description only in the most general terms.

STRENGTHS	WEAKNESSES
OPPORTUNITIES	THREATS

Figure 5.5 The Strengths Weaknesses Opportunities and Threats (SWOT) framework. Source: the author.

There are other fundamental concerns about the intrinsic nature of SWOT analysis:

- The length of the lists.
- No requirement to prioritize or weight the factors identified.
- Unclear and ambiguous words and phrases.
- No resolution of conflicts.
- No obligation to verify statements and opinions with data or analyses.
- Single level of analysis is all that is required.
- No logical link with an implementation phase.

There is therefore a lack of rigour in SWOT because there is no inherent requirement to overcome any of these weaknesses.

Some others (Drago and Folker, 1999) have also claimed that the SWOT analysis has been a main stay in the strategy formulation literature. For them, just as to others, SWOT analysis calls for an external assessment of the opportunities and threats that exist in a firm’s

environment and an internal assessment of the strengths and weaknesses of the organisation. Generally, firms are asked to develop strategies to steer the organisation towards opportunities that may be exploited using strengths of the organisation, steer the organisation away from threats in the environment, maintain existing strengths and improve organisational weaknesses.

Lee and Sai On Ko (2000) and Sai On Ko and Lee (2000) establish a four-pair combination strategies to complement the classical SWOT analysis, namely:

- 1) Maxi-Maxi (S/O): In essence, an organization should strive to maximise its strengths to capitalise on new opportunities. This combination shows the organization's strengths and opportunities.
- 2) Maxi-Mini (S/T): In essence, an organization should strive to use its strengths to parry or minimise threats. This combination shows the organization's strengths in consideration of threats, e.g. from competitors.
- 3) Mini-Maxi (W/O): It is an exertion to conquer the organization's weaknesses by making the most out of any new opportunities. This combination shows the organization's weaknesses in tandem with opportunities.
- 4) Mini-Mini (W/T): This is most definitely defensive strategy, to minimise an organization's internal weaknesses and avoid external threats. This combination shows the organization's weaknesses by comparison with the current external threats.

For these authors the quid of SWOT is to match (process of exploring) specific internal and external factors (the environment of an organization based on its strengths, weaknesses, opportunities and threats), which creates a strategic matrix that makes sense.

The internal factors are within the control of the organization, such as operations, finance, marketing, and in other areas. The external factors are out of the organization's control, such as political and economic factors, technology, competition, and in other areas.

For Barney (2002) the SWOT analysis is only an organizing framework. This framework does not suggest how questions about a firm's strategic theories can be answered. Without additional theories and models that can be used to identify strengths, weaknesses, opportunities, and threats, this framework does little more than provide a tool for organizing questions one should ask about a firm when choosing a strategy.

A SWOT (strengths, weaknesses, opportunities and threats) analysis (Johnson and Scholes, 2002) summarises the key issues from the business environment and the strategic capability of an organisation that are most likely to impact on strategy development.

The aim is to identify the extent to which the current weaknesses are relevant to, and capable of, dealing with the changes taking place in the business environment. It can also be used to assess whether there are opportunities to exploit further the unique resources or core competences of the organisation.

For Grant (2005) a most common approach to distinguish between the external and the internal environment of the firm is also the SWOT framework. This framework classifies the various influences on a firm's

strategy into four categories: strengths, weaknesses, opportunities, and threats. The first two – strengths and weaknesses – relate to the internal environment; the last two – opportunities and threats – relate to the external environment.

However, for this author, to make this classification in real life might seem of little practice. Besides a two-way classification (internal vs. external factors) or a four-way classification (strengths, weaknesses, opportunities, and threats) could be irrelevant and useless. This is so because at some point in time, for example, a given strength might become a weakness or vice versa.

5.7 A knowledge-based theory of the firm.

This theory was developed by Karl-Erik Sveiby (2001) from the Swedish School of Economics and Business Administration. Professor Sveiby believes that strategy formulation should start with the competence of people. The reason for this is because people are seen as the only true agents in business; all tangible and intangible relations are the result of human action and depend ultimately on people for their continued existence. People are constantly extending themselves into their world by tangible means and intangible associations.

Yet an important thing to consider is the fact that in contrast to tangible goods, which depreciate through time, knowledge grows when used and it does not depreciates. This is a key issue because if the organisation creates value from knowledge transfers together with its clients the value chain collapses and the relationship should be understand instead as a value network.

In contrast to the value chain the intangible value in a value network grows each time a transfer takes place because knowledge does not leave the creator. In this sense, knowledge shared is knowledge doubled. The key value creation lies in how effective these communications and conversions are and the major issue strategy for formulation is: how can the leverage be used to create value for the firm? The value creation is primarily determined by the tacit/explicit transfer of knowledge between individuals and in the conversion of knowledge from one type to another.

So knowledge transfer between persons tends to enhance competence of individuals and teams. Because of all these reasons, Sveiby exposes nine basic knowledge questions that create value for the organisation. These are described below.

- 1) *Knowledge transfers between individuals.* This concerns how to best enable the communication between employees within the firm. The strategic questions are: how can the transfers of knowledge between people in the firm be improved? And how willing are people to share what they know? According to this author, to answer these, the following activities must be accomplished: trust building, enabling team activities, induction programs, job rotation/master apprentice schemes and so forth.

- 2) *Knowledge transfers from individuals to external structure.* This concerns with how the organisation's employees transfer their knowledge to the outer world. The question is: how can employees improve the competence of customers, suppliers and other stakeholders? Activities to answer this are: enable employees to help customers learn about the products, eliminating red tape, permitting job rotation with customers and holding product seminars and providing client education.

- 3) *Knowledge transfers from external structure to individuals.* This concern with how the organisation's employees learn from the external structure. So the question is: how can the firm's clients, suppliers and other stakeholders improve the competence of the employees? The activity to answer this is: the creation and maintenance of good personal relationships between the organisation's own people and persons from outside the company.
- 4) *Knowledge transfers from competence to internal structure.* The idea behind this is: information repositories should be shared with the whole organisation. And the question is: how is the improvement to take place for the conversion of individually held competence to systems, tools and templates? The answer is: activities focused on tools, templates, process and systems in order to be shared more easily and efficiently.
- 5) *Knowledge transfers from internal structure to individual competence.* Once a competence is inside the system it needs to be made available to other individuals in such a way that they improve their capacity to act, otherwise the investment is negligible. The strategic question to achieve this is: how to improve individual's competence by utilising systems, tools and templates? The activities that help achieve this are: improvement of the human-computer interface systems, action based learning processes, simulations and interactive e-learning environments.
- 6) *Knowledge transfers within the external structure.* A knowledge perspective adds a richer range of possible activities to the traditional client satisfaction surveys, by focusing on how the competence of clients is transferred between the stakeholders in

the external structure. The question is: how can be enabled the conversations among clients, suppliers and other stakeholders so they improve their competence? The answers are: focus on partnering and alliances, improving the image of the organisation and the brand equity of its products and services, improving the quality of the offering, conducting product seminars and alumni programs.

- 7) *Knowledge transfers from external to internal structure.* This is concerned with what knowledge the firm can obtain from the outside world and be converted into tangible goods and services. In this sense the question is: how is the competence from clients, suppliers and other stakeholders enhanced the firm's systems, tools and processes and products? This is answered by activities such as empowering call centres to interpret client's complaints, forging alliances to generate ideas for new products and R&D partnerships.
- 8) *Knowledge transfers from internal to external structure.* This is concerned with what knowledge the outside world can obtain from the firm to be converted into tangible goods and services. The question is: how can the firm's systems, tools and processes and products improve the competence of clients, suppliers and other stakeholders? This is done by focusing on making the firm's systems, tools and processes effective in servicing the client, extranets, product tracking, help desks and e-business.
- 9) *Knowledge transfers within internal structure.* This is concerned with the backbone of the firm. How can the organisation's systems, tools and processes and products be effectively

integrated? By focusing on streamlining databases, building integrated IT systems, improving the office layout.

5.8 The Strategic Knowledge Benchmarking System (SKBS).

The last model in this chapter is the Strategic Knowledge benchmarking system (SKBS). This was developed by the Business Administration Professor José María Viedma (2004) from the Polytechnic University of Catalonia.

This model moves from the traditional SWOT framework (described above) to more concrete factors and characteristics appropriate to the knowledge economy. It can be considered, according to Professor Viedma, an extended SWOT analysis.

This extended analysis provides the main factors to consider when looking for strategies that lead to business eminence. This is to say that the key factors produce the Strategic Knowledge Benchmarking System (SKBS); a knowledge-based strategic management information system framework. These are depicted in figure 5.6

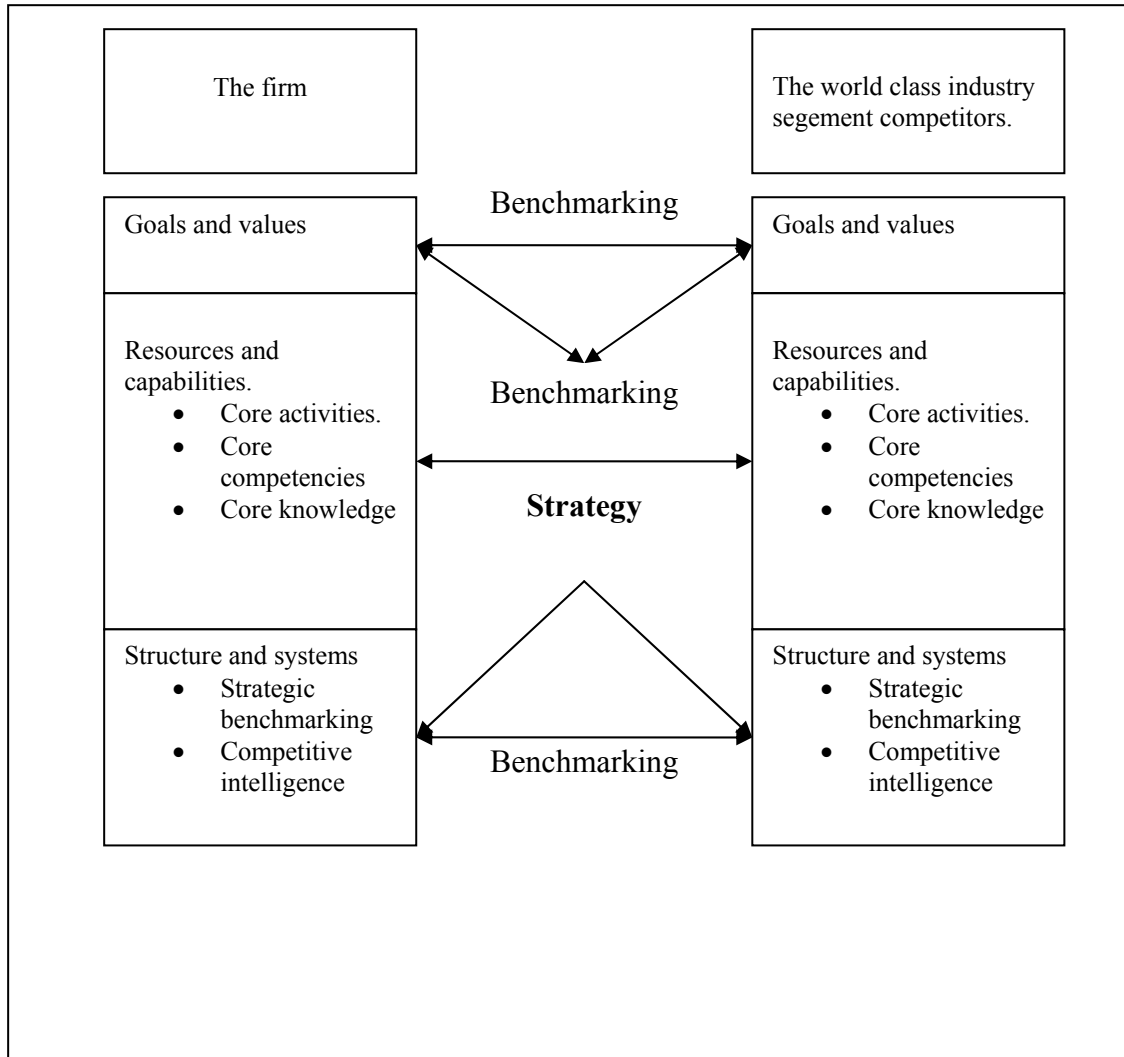


Figure 5.6 The SKBS model. Source: Viedma (2004)

Once the model has been depicted, the benefits obtained from it are summarized below.

- Learning from one's betters to surpass one's own competitive position.
- Identify the specific competitiveness factors and criteria which are relevant in a given business activity.
- Enabling the identification, auditing, and benchmarking of the core competences or core knowledge that are the main sources of sustainable competitive advantages.
- Selecting in a systematic and organized way the necessary information for evaluating relevant factors, core knowledge, core competences, and key intellectual capital.

- Identify the key areas in which in-depth benchmarking can be carried out in the future.
- Promote organizational learning through assessment teams, benchmarking teams, and strategic teams.
- Introduce a common language for company managers when dealing with intangible and intellectual assets.
- Measure the reliability of the relevant information and the process of acquiring it.
- Facilitate the work of the benchmark and competitive intelligence teams.
- Give the managers of small and medium enterprises access to knowledge and intellectual capital management in a systematic and organized way.

Last but not least, Professor Viedma previously developed the Operations Strategic Benchmarking System (2003) and the Intellectual Capital Benchmarking System (2001); both essentially constitute the base for the SKBS.

5.9 Conclusion.

The Theory of Constraints even though claims to the manager's structured intuition, has two main drawbacks. First, it is very general process, and because of this, important parts of the whole strategy formulation process might be neglected or overlooked, for instance the intangibles. Second, no strategic feedback is considered, consequently downplaying historical strategical issues. As a repercussion the following stages could suffer problems.

The Acnur and Englyst Model integrate a very important issue that in order to remain competitive in turbulent times has to be considered: learning. Given that the process is a cycle, this fact (learning) is

accentuated. From the Dynamic Capabilities chapter it can be concluded that this can give a company a truly competitive edge. However, on the downside, the process itself points to the fact that if employees see an ambiguous document, they will hardly follow. So care must be taken in the embedding phase. This is, understanding must be well understood and (strategic) change properly managed.

The conclusion to be drawn from the above remarks is that before the BCG matrix is used, it is essential to make sure that the future prospects are adequately measured by volume growth and the firm's relative competitive position by its relative market share.

This matrix has the advantage of simplicity, too crude to permit realistic business decisions and is an effective tool for analysis of the firm's portfolio. Further, it is expected to function under stable non-turbulent growth and in which relative market share will determine the firm's competitive strength. It oversimplifies the complex reality of the firm by dividing it into four neat piles.

The Brock and Barry model, even though is appealing and sense making, focuses more on the financial side of planning leaving aside important issues such as intangible assets and capabilities. These are two important features of the knowledge economy to achieve a sustainable competitive advantage (position). Also it does not states where a business unit must position, i.e. in which market niche must compete; neither does consider how to achieve, for example, uniqueness.

The five forces framework has also some major drawbacks, namely:

- 1st. It does not define where a business unit must compete, i.e. in which industry (ies) should seek to be competitive.

- 2nd. Its main strength, the amount of detailed information required (Roucco and Proctor, 1994), paradoxically is a great flaw. To use it practically can be prohibitive.
- 3rd. The level of competitor information required is very thorough and may not always be available.
- 4th. It appears that all the factors are static, i.e. it does not help to identify, for example how to show the new competitors. This is it lacks a monitoring device to be aware of these factors.
- 5th. The focus is mainly at the industry level, therefore the internal perspective (intangibles) are completely neglected.

As for the SWOT framework, once this has been placed it can be claimed that the output from this analysis is often either trivial or so broad as to be relatively meaningless in the context of making actual strategic decisions. SWOT aims to solve strategic problems by reviewing companies as wholes, overlying corporate diversity with generic solutions.

Strategic assessment requires substantial analysis, and SWOT is not used as a true mode of analysis. SWOT survives because it is very straightforward and requires little preparation on anyone's part-hence its popularity as an early, even the first, activity in a project.

The detached assessment of strengths and weaknesses may be unreliable, being bound up with aspirations, biases and hopes. Strengths and weaknesses have to be defined in the context of a situation, not out of thin air.

Because the SWOT analysis was developed in an era of stable markets, it can be argued that in today's markets is unsuited the inherent rationale of the SWOT approach.

The Knowledge-Based Theory of the firm has the flaw that it does not explicitly consider, neither business (competitor) intelligence nor the technological surveillance in order to fully capture the competitive world; important pieces of information can be missed to act promptly. In this sense the formulated strategy can lack some important key facts that can make it flexible and robust.

The SKBS model main drawback is the lack of strategic feedback. This, along with the absence of technological surveillance gives room for improvement. In the end the idea for the presented theory and its model is the formulation of sound and flexible business unit strategies, be these for operations, innovation or both.

Chapter Six

The Resource- Based View

*Best people attract best projects, which attract the best people, which successfully solve the problems, which create success and reputation.
(Pike et. al., 2005)*

6. Introduction Chapter Six.

Within the knowledge economy, a key issue is intangibles, specifically knowledge. In this sense and complementing the previous chapter, the following tree chapters deal with the fundamental blocks that can help a firm to achieve a sustainable competitive advantage through the competitive management of intangibles.

This is particularly important because in these chapters, the founding stones that complement the strategy frameworks are presented; furthermore these blocks help in the construction of the proposed theory and model.

The Resource-Based View (RBV) focuses on the internal part of the company, as opposed to the traditional industry perspective. It considers the firm's intangible resources to efficiently deploy its capacities. These intangible resources should provide a stream of benefits if strategically used. Should a firm manage to achieve this, it will 'automatically' build natural barriers against its competitors. This chapter deals with this theory.

6.1 The characteristics of the Resource-Based View (RBV).

Even though staying competitive will mean a bold, venturesome outlook on investment in new plants and equipment, management must provide enough incentive to attract and hold really capable men at all levels-once these resources are set, all else depends on this (Breech, 1956).

Specialization is very good from the point of view of getting the most highly skilled person possible and having this abilities brought to

bear on the solution of particular problems, such specialization, from the point of view of qualifications for broader management opportunities, cannot fail to be a real limitation and a real handicap. Men can definitely learn from other men in the firm, just as they can benefit from being coached by their superiors.

Penrose (1959) believes that the services offered by resources are a function of the way in which they are used-exactly the same resource when used for different meanings or in different ways and in combination with different types or amount of other resources provides a different service or set of services.

This kind of heterogeneity in the services available from the tangible resources with which a firm works permits the same resources to be used in different ways and for different purposes if the persons who work with them get different thoughts about how they can be utilized.

The options of using services change with increases in knowledge. More services become available, previously unused services become employed and employed services become unused as knowledge improves the physical characteristics of resources, about ways of using them, or about products it would be profitable to use them for. Consequently, there is a close connection between the type of knowledge possessed by the employees of the firm and the services obtainable from its material resources.

The effort to discover more about the productive services of a resource may take the form of research or ways of combining its known features with those of other resources. Moreover, the main strength of a large, well-established firm does not derive from a miscellaneous collection of resources in many fields, but from the fact that it has defences in depth, in a few special fields.

For Williamson (1983) the specialized skills and knowledge belong to individuals and small groups as a result of their specific training and experience. But while such skills and information accumulate naturally, they can be used strategically.

Wernerfelt (1984) claims that companies have (or can develop) a resource-position barrier which is analogous to an entry barrier. The firm can identify kinds of resources which can lead to high profits. Thus, a strategy for a bigger firm involves obtaining a balance between the exploitation of existing resources and the development of new ones.

For a resource to be valuable it must be used as an entry barrier, i.e. only some firms should own it. What a firm wants is to hold a position where its resources, directly or indirectly makes it more difficult for others to catch up.

Thus firms need to find those resources which can give them these resource-positions barriers, but in which no one currently has one, and where they have a good chance of being among the few who succeed in building one. They have to stress the combination of the resources they already have with those that will acquire. However the resources that they will acquire should be owned by few competitors.

So it is better to develop the resources in one market and then move to enter other markets from a position of strength. This means that once the firm builds (diverse) resources it can potentially enter different markets. The downside is that although versatile resources give more options, the company should expect more and bigger competition in them.

Consumer trust, brand image, control of distribution, corporate culture, and management skill are all informational resources (Itami *et*

al., 1987). These are information-based resources termed invisible assets, and they are just as essential for effective operation as the other corporate resources. These invisible assets are the most important resources for long-term success.

Invisible assets are the real source of competitive power and the key factor in corporate adaptability for three reasons:

- 1) They are difficult to gather up, i.e. accumulate.
- 2) They can be used simultaneously.
- 3) They are both inputs and outputs of business activities.

A firm can differentiate itself from its competitors through these invisible assets. If a resource can be bought, competitors with sufficient financial resources can gain access to it. And if a resource can be created quickly, competitors will have ready access to it through imitation. But competitors cannot do this easily with invisible assets. Therefore, a firm's competitive power depends on the accumulation of invisible assets.

A key issue that holds the invisible assets concept is people. People are important assets of the firm, but they are important because much of the invisible assets of the firm are embodied in them. Consequently, managers must care and nurture these asset-owners.

The originality of the Resource-Based View according to Collis (1991) comes from the attention it pays to the internal resources of the firm and how these are acquired or developed. As a consequence it can be stated that a firm's strategy is constrained by, and dependent on, the current level of resources.

For this author, a firm's core competence is defined as the vector of the irreversible (a combination of tangible and intangible) assets along

which the firm is uniquely advantaged. While every firm may aspire to develop a core competence, it is important to recognize that any such competence will be valuable only if it is distinctive. This means that the resources the firm possesses must still be measured against those from the competitors, because only a competitively unique and superior competence can be a source of economic value.

Thus while the external opportunity set is almost the same for every firm, the additional resources each must acquire from the market to effectively serve a particular product market, i.e. niche, will differ, because the vector of resources each possesses (represented by its core competence) is different. This is a firm will do its best with its own tangible and intangible resources.

This asymmetry provides the rationale for each firm to choose different product market positions as they optimize the trade-off between the attractiveness of, and the cost to build, a particular product market position. Consequently firms will elucidate the best market position that offers the best application of their competences.

Mahoney *et al.* (1992) think that the differences among firms in terms of information, luck, and/or capabilities enable the firm to generate rents. This is so because a firm selects its strategy to generate those rents based upon their resource capabilities.

The Resource-Based View amplifies the capabilities as a source to obtain a sustainable competitive advantage. In this sense a core capability is the knowledge set that distinguishes and provides a competitive advantage (strategically different) to a company (Leonard-Barton, 1992). The core capability knowledge is embodied in:

- (1) Employee knowledge and skills.

- (2) Technical systems.
- (3) Managerial systems.
- (4) The values,
- (5) Norms (diverse types of knowledge) and the
- (6) Processes of knowledge creation and control.

All six dimensions of core capabilities reflect accumulated behaviors and beliefs based on early firm corporate successes. One advantage of core capabilities lies in this unique heritage, which is not easily imitated by would-be competitors. Thus a system of knowledge that is interrelated in an interdependent fashion is a core capability.

Last but not least one of the most necessary elements in a core capability is excellence in the technical and professional skills and knowledge base underlying major products.

Amit and Schoemaker (1993) define the firm's resources as stocks of available factors (assets) that are owned or controlled by the firm. The resources are converted into final products or services by using a wide range of other firm assets (factors) and bonding such as technology, management information systems, incentive systems, trust between management and labor, among others. These consist of know-how that can be traded.

Given the above consideration these authors define the firm's strategic assets as the set of difficult to trade, imitate, scarce, appropriable and specialized resources and capabilities that bestow the firm's competitive advantage.

A major contribution of the resource-based model is that it explains long-lived differences in firm profitability that cannot be attributed to differences in industry conditions (Peteraf, 1993). This model is

fundamentally concerned with the internal accumulation of assets, with asset specificity, and, less directly, with transactions costs.

The key is: superior resources (assets) remain limited in supply. As a consequence, efficient firms can sustain this type of competitive advantage only if their resources cannot be expanded freely or imitated by other firms. So regardless of the nature of the rents, sustained competitive advantage requires that the condition of heterogeneity be maintained.

Resources may also be termed imperfectly mobile. They can be considered this way when they are somewhat specialized to firm-specific needs, i.e., not easily to move outside the boundaries of the firm.

Because immobile or imperfectly mobile resources are non tradable or less valuable to other users, they cannot be taken away readily from their employer. They remain more or less fixed to the firm and available for use over the long run. Thus, they can be a source of sustained advantage.

As the Resource-Based View focuses on the internal resources of the firm, the issue of convergence (Hamel and Prahalad, 1994) is to be considered important. Convergence requires an understanding of how all the resources of the firm can be combined to achieve a goal or objective, one that firms with a more fragmented sense of corporate priorities cannot hope to achieve. To potent the use of resources the efforts of people, teams, functions (tasks) and businesses must be additive across all over the organization. This must be done in a permanent way.

To achieve this convergence, the following actions must be taken:

- 1) *Focusing*. If convergence protects against the divergence of goals over time, focus protects against the dilution of resources at a particular point in time.
- 2) *Targeting*. The goal is not just to focus on a few things at a time, but to focus on the right things; to target those activities that will make the biggest impact in terms of customer perceived value. The trick here is to identify those areas where the ratio of creating that value is as high as possible.
- 3) *Borrowing*. Borrowing the resources of other firms is yet another way of achieving resource leverage. Through alliances, joint ventures, inward licensing, and the use of subcontractors, a firm can avail itself of skills and resources residing outside the firm. At the extreme, borrowing involves not only gaining access to the skills of a partner but actually internalizing those skills by learning from the partner. Internalization is often a more efficient way of acquiring new skills than acquiring an entire firm. Besides, borrowing can be used to multiply resources at any stage of the value chain.
- 4) *Harvesting*. The technology seeds planted in another nation is one method of resource leverage.
- 5) *Blending*. Another form of resource leverage rests on a firm's ability to blend different types of resources in ways that multiply the value of each. This is the essence of the resource transformation process. Blending involves several skills: technological integration, functional integration, and new product imagination.

6) *Balancing*. Blending and balancing are different – one involves the creative interweaving of disparate skills, the other involves taking ownership of resources that multiply the value of a firm's unique competencies. Yet both are forms of resource complementation.

7) *Recycling*. The more often a given skill or competence is reused, the greater the resource leverage.

Resources are most effectively and efficiently used when they are targeted in the areas that make most difference to clients. Resource leverage comes not just from better amortizing of past investments or a particular skill set, but from creating entirely new forms of functionality and, thereby, value-added.

The firm is understood by some (Grant, 1996b) as a unique bundle of idiosyncratic (unique) resources and capabilities where the primary task of management is to maximize value through the optimal deployment of existing resources and capabilities, while developing the firm's resource base for the future, i.e., nurturing the future resource base.

Within the Resource-Based View the main resource any firm has is knowledge. It can be thought that the lack of it is a lack of the firm itself. Consequently this is the most valuable resource (intangible). So given that a firm is a set of resources (Spender and Grant, 1996) when knowledge is defined as a resource, knowledge is the primary resource upon which competitive advantage is founded. Its transferability determines the period over which its possessor can earn rents from it. Efficient markets are those in which competitive advantage is fleeting because relevant information is available to all.

To achieve a competitive advantage the competencies must be used strategically; their role is very important. These tend to be sets of skills which cut across traditional functions (Mintzberg and Quinn, 1996). This interaction allows the organization to consistently perform activities better than competitors organized solely in a functional manner and to continually improve these activities as markets, technology and competition evolve.

Competencies thus involve activities such as product or service design, technology creation, customer service, or logistics-that tend to be based on knowledge rather than ownership of assets or intellectual property per se. This means that at least one of the firm's core competencies should normally relate directly to understanding and serving its customers.

Given that the resource based approach emphasizes the firm level, as opposed to industrial organization theory that focuses on the industry or market, two different types of resources are defined: ordinary and extraordinary (Maijor and Van Witteloostuijn, 1996). For these authors ordinary resources are almost available to every firm and extraordinary resources generate a sustainable rent potential at the level of the firm, group or industry.

As has been stated the Resource-Based View shifts attention away from product-market barriers to competition, and towards factor-market impediments to resource flows. This means that certain configurations of resources are superior to others.

This is so because the Resource-Based View (Mehra, 1996), calls for viewing the firm not through its activities in the product market but as a unique bundle of tangible and intangible resources. Thus simply being endowed with or developing strategic resources is not enough. The

effective deployment of these resources in a suitable combination is essential for realizing their full potential value in the marketplace.

The resource selection and accumulation are a function of both within-firm decision-making and external strategic factors (Oliver, 1997). Consequently the characteristics of the resources (intangible) and the potential rents they generate are shaped by the characteristics of the resource market(s). The persistence of rents from resources depends fundamentally on the characteristics of the resources themselves.

Therefore, from a resource-based perspective, sustainable competitive advantage is the outcome of discretionary rational managerial choices, selective resource accumulation and deployment, strategic industry factors, and factor market imperfections. Consistent with a strategic orientation, the Resource-Based View assumes that economic motives drive resource procurement decisions and that the economic factors in the firm's competitive and resource environments drive firm conduct and outcomes.

This author argues that the basic argument of the Resource-Based View is that rare, specialized, inimitable resources, and resource market imperfections cause firm heterogeneity, consequently successful firms are those that acquire and maintain valuable unique resources for sustainable competitive advantage. She considers firm heterogeneity as relatively durable differences in strategy and structure across firms in the same industry that tend to produce economic rents and a sustainable competitive advantage.

Another important characteristic of the Resource-Based View is the replacement of intangibles (assets). When a firm has a strong (tight) tie with a competency or resource (intangible asset) that will be replaced, the likelihood of letting it go is low. From another angle, the probability

of acquiring the new capability is also low given it is not part of their social traditions. The more closely aligned a new resource or capability is perceived to be with firm traditions, the higher the likelihood that it will be acquired.

However, the top management team has a key part to play. A firm will be more likely to acquire new resources when top management no longer values existing resources or capabilities (including human resources) because they are perceived to be obsolete or detrimental to firm performance. Thus, management must constantly renew the firm's resources.

The Resource-Based View (Teece *et al.*, 1997) considers firms with superior systems and structures as being profitable not because they engage in strategic investments that may deter entry and raise prices above costs, but because they have markedly lower costs, or offer markedly higher quality or product performance.

This approach focuses on the rents accruing to the owners of scarce firm-specific resources rather than the economic profits from product market positioning. This means that firms are heterogeneous (unique) with respect to their resources/capabilities/endowments.

These authors define resources as firm-specific assets that are difficult if not impossible to imitate. Such assets are difficult to move among firms because of transactions and transfer costs, and because the assets may contain tacit knowledge.

As has been pointed before the most valuable resources are the human ones. It can be stated that in successful organizations, whatever the industry or area, individual competencies are being turned into organizational capabilities (Ulrich, 1997). To make the best use of these

organizational capabilities, executives must see their human resources as potential sources of competitive advantage.

These organizational capabilities refer to what a firm is able to do or needs to do to accomplish its strategy; they are those processes and practices within a company that enable a company to add value for customers in unique ways. Buying competencies means hiring talent from outside the organization. Building competencies results from upgrading the skills and knowledge of current professionals through training and development.

Borrowing competencies involves forming a joint venture, partnership or alliance. It turns out that human resource issues must be a way for companies seeking to create value, deliver results and obtain rents.

Organizational capabilities, the enduring attributes characterizing an organization, create value for the customers served by these capabilities. When customer value is created, economic value (however measured) follows.

According to Barney (2002) the Resource-Based View of the firm, focuses on the idiosyncratic, costly to copy resources controlled by a firm; the exploitation of these resources could give a competitive advantage to the firm. For this author, firm resources are all assets, capabilities, competencies, organizational processes, firm attributes, information, knowledge, among others that are controlled by a firm and that enable it to conceive of and implement strategies designed to improve its efficiency and effectiveness.

Thus, if the resources a firm possesses enable it to exploit opportunities or neutralize threats, these resources are owned by only a

small number of competing firms, and if they are costly to copy or limited in supply; when this happens they might become a firm's strengths and thus potential sources of competitive advantage.

However, when, a firm that no longer owns valuable resources and capabilities has two fundamental choices. One choice is to develop new and valuable resources and capabilities. The other is to utilize the available resources and capabilities in new manners, deployed differently, thus not developing new ones. In summary, valuable but common resources and capabilities will only be sources of competitive parity, but valuable and rare resources and capabilities will be sources of at least temporary competitive advantage.

Others (Danneels, 2002) state that a competence is a purposive combination of firm-specific assets (or resources) which enables it to accomplish a given task. For this author two main competences a firm has to develop in order to gain and sustain a competitive advantage are: the customer and technology competences.

The first one gives the firm the ability to serve certain customers. This competence is constituted by market-related resources such as: knowledge of customer needs, preferences, and purchasing procedures, distribution and sales access to customers, customer goodwill reflected in the reputation of the firm and its brands, and communication channels for exchange of information between the firm and customers during development and commercialization of the product.

The technology competence is being described as a competence that gives the firm the ability to design and manufacture a physical product with certain features. These are constituted by such technically related resources as: design and engineering know-how, product and

process design equipment, manufacturing facilities and know-how, and procedures for quality control.

Core competences, he believes, transcend any particular product. One product may embody several competences, and one competence may underlie many products. Because of this, technological and customer competences form stepping stones for the development of additional competences.

The condition of competitive heterogeneity (Helfat and Peteraf, 2003) provided by the Resource-Based View is based on the premise that close competitors differ in their resources and capabilities in important and durable ways.

This competitive heterogeneity considers the resources as assets or inputs to production (tangible or intangible) that an organization owns, controls, or has access to on a semi-permanent basis. An organizational capability refers to the ability of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result.

For a specific capability to be discovered or developed, it should be deemed meaningful within the strategic context of the firm (Narayanan *et al.*, 2003). The resources and routines, which constitute a specific capability and the pathways by which capabilities are built, are likely to be determined by the firm's specific context.

Thus the history of the firm, its resources, and market position – the departing point – are a limitation in the early stages of capability development.

These authors believe that because capabilities are not traded in the market, are somewhat unique to the organization. This is the reason why organizational capabilities imply replication: consequently success in an experiment does not by itself constitute a capability, i.e. it must be performed several times successfully to truly become an organizational capability.

Viedma (2003) considers that core competencies a firm possess is the summary of adding intangible assets (resources) of several kind. This means that intangible resources are built up of knowledge and skills, and skills are always produced by human beings—working either on their own or in groups. Thus, the managing of core competencies is basically dependent upon the effective management of the people's core competencies that work alone or in specialized working groups.

So for a successful business recipe to deliver value, the core knowledge, skills and competencies must be used and deployed strategically.

For Hoopes *et al.* (2003) the Resource-Based View is one of the many explanations for industry performance differences that also describes alternative sources for these performance differences. So the resources and capabilities if they are to sustain a competitive advantage must have the following characteristics:

- 1) Valuable. If the market position of the firm relative to its competitors is improved, it can be considered that its resources are valuable.
- 2) Rare. If the resources are owned by only some firms and they are difficult or scarce to obtain, it can be thought of these resources as rare, consequently valuable.

- 3) Isolated (protected) from imitation or substitution. If the resources are not only valuable and rare but near impossible and costly to move, duplicate or imitate, they have a natural bondage against substitution.

Three general isolating mechanisms prevent the imitation of resources and capabilities: property rights, learning and development costs, and causal ambiguity.

Hatch and Dyer (2004) think that in order for a firm to sustain its competitive advantage, the resources must be inimitable and non-substitutable to prevent rivals from replicating the value of the resources and competing away their benefits. This is so because the Resource-Based View seeks to explain sustained differences in firm performance by identifying differences in firm resources.

A key inimitable and non-substitutable resource is human capital. The Resource-Based View predicts that superior human capital, when it is firm-specific, can create competitive advantage as human capital improves learning by doing, thereby reducing the firm's cost.

Because of the above, if human capital is firm-specific, socially complex, path-dependent, and faces time compression diseconomies, firms with high turnover will suffer a significant competitive disadvantage relative to firms with more stable workforces where human capital can be developed and deployed. As human resources leave they take their tacit knowledge with them and are replaced by new employees without the firm-specific knowledge required to significantly contribute to learning by doing.

6.2 Social capital.

6.2.1 Introduction.

One of the key constructs of the Resource-Based View is social capital; a collective intangible asset. This sort of asset can give to the firm a sustainable competitive advantage. This is so because of the knowledge embedded in it. Luo *et al.* (2004) define social capital as an intangible asset that is created through social relations that can be leveraged to facilitate action and achieve and sustain a competitive advantage.

6.2.2 Inside social capital.

According to Akdere (2005), social capital increases organisational performance, enables employees to get better jobs, better pay, and faster promotions through the social capital that they build. He defines three levels of social capital.

- 1) Social capital at macro level: it deals with the social development and economic growth.
- 2) Social capital at the meso (middle) level: it deals with local development and organisational growth.
- 3) Social capital at micro level: it deals with the steady relations of ego with others, individual development, and personal growth.

Given the above, social capital theory has become more important than ever because of the critical significance of knowledge sharing to organisations and business success.

Bapuji and Crossan (2005) state that social capital provides access to external knowledge, which needs to be identified, evaluated, acquired, and assimilated before it could be used in creating new knowledge. In order to use this external knowledge several firm-specific routines and processes help in the acquisition and exploiting of it.

Social capital's sources lie in the social structure within which the actor is located (Carlisle and Flynn, 2005). Therefore this resource is available to actors and is determined by the position the firm has in the structure of its social relations.

For Inkpen and Tsang (2005) social capital is the aggregate of resources embedded within, available through, and derived from the network of relationships possesses by an individual or organization-this considers the accommodation of both the private and public good perspectives of social capital that are a valuable resource (i.e., capital) for the individual or the organization.

For some others (Glover and Hemingway, 2005; and Glover *et al.*, 2005) social capital exists in the social ties among people; it is a consequence of social structure in which they interact. Yet the social ties in which social capital exists are not natural givens or static. The creation and maintenance of social capital depends on the creation and maintenance of social ties, that is, on building relationships among people.

Face-to-face interaction is central to the creation of social capital and its long-term survival. However social capital has a dark side that it may strengthen undesirable social networks and lock people into situations from which they would much prefer not to be embedded in.

Social capital can give benefits to both individuals and organizations, but it belongs to neither and can easily be destroyed when relationships are severed through member turnover or turn sour due to perceived violations of social contracts (Nissen, 2005). However, social capital must be used in a constant way otherwise it perishes.

For Sahaym (2005) social capital is composed of individual and collective social networks, ties and structures that help an individual or organization get access to information and know-how. This means that social capital resources and capabilities are embedded in a particular social structure.

It is this way because relationships between individuals and organizations based on expectations, obligations (norms), trust, support, knowledge, and complementary resources may be acquired through social ties, resulting in social cooperation between key players.

6.3 Conclusion.

In summary the RBV focuses on the internal side of the firm (intangible assets and capabilities). If effectively deploy the firm can obtain a competitive advantage. These resources can be used several times simultaneously and they do not “wear out”. They are built of knowledge and new knowledge is created when they are used. This knowledge resides mainly in the employees’ heads but also in processes, routines, software, and so on.

The intangible resources (assets) are also termed skills and they are built over time. They are not easily traded, bought or imitated by competitors, thus they are firm-specific. For these assets to be valuable they must be unique, rare and imperfectly mobile. Given this it can be consider that these heterogeneous resources support the idea of firm

heterogeneity and in consequence this will explain inter firm differences of profitability.

An important source of this new knowledge is acquired via social capital, another intangible asset. This capital if not used continuously perishes and becomes useless.

Social capital is created through social relations. Knowledge is created and shared, thus providing the firm with a competitive advantage. This knowledge is created and shared through the social networks the firm has built over time. However not only knowledge is created and leveraged but other resources as well, such as diverse relations, cooperation, among other. Social capital is a dynamic concept so if it is not used it perishes. To obtain more and better benefits social capital must be exercised face-to-face.

Finally, these intangible assets when deploy must consider the customer in order to truly obtain a sustainable competitive advantage.

Chapter Seven

Dynamic Capabilities

*In a dynamic environment, the role of collaboration, that is the ability to interact with other parties, is highlighted.
(Blomqvist et. al., 2004)*

7. Introduction Chapter Seven.

In the previous chapter the Resource-Based View was introduced. The logical continuation for this (intangible) perspective is the Dynamic Capabilities View, i.e., the dynamism of the intangible resources.

This implies that dynamic capabilities are considered to be a step further than ordinary capabilities. Once these capabilities (intangibles) are identified, in order to remain competitive, they should be modified through time. Depending on the strategy formulation, dynamic capabilities will help to reach the objectives. The key issue for a company to withhold its competitive advantage lies in these capabilities; this is done through incessant learning. This is the subject of this chapter.

7.1 Dynamic capabilities: their characteristics and emergence.

The first category of capabilities (Collis, 1991; 1994) are those that reflect an ability to perform the basic functional activities of the firm, such as plant layout, distribution logistics, and marketing campaigns, among others, more effectively than competitors. The second category of capabilities is the continuous (dynamic) enhancement of the activities of the firm. The third category of capabilities, although closely related to dynamic improvements, comprises the more strategic insights that enable firms to recognize the intrinsic value of other resources or to develop novel strategies before competitors, i.e., the mixing or combining the available resources in new ways so to obtain improved strategies.

So successful firms possess a tacit collective capability to both innovate and accommodate external change in a way that enables them to continually improve. To achieve this, the firm must create dynamic

routines that facilitate innovation, foster collective learning, and transfer information and skills within the organization.

With the above explanation it is crucial to understand that dynamic capabilities (Madsen, 1996) play an important part in:

- 1) Determining the co-evolutionary success of firms competing against each other in an industry population, and
- 2) The evolution of these populations.

The dynamic capabilities (Teece *et al.*, 1997) approach assumes the exploiting of existing internal and external firm specific competences to address changing environments. They are named dynamic because of the naturally given characteristic of evolving (renewing) through the environmental (internal and external) changes. They are called capabilities because they stress out the point of strategically managing, adapting, integrating and reconfiguring the internal and external skills, resources (tangible and intangible) and competences to face efficiently and effectively the continuous evolving environment.

Dynamic capabilities thus reflect an organization's ability to achieve new and innovative forms of competitive advantage given their historical development and market niches.

The fast paced evolving environment demands an adaptable workforce that develops new competencies and capabilities (Galbraith and Lawler, 1998). However, the design and components of the organizational structure need to be adaptable as well. Put it another way, competencies and capabilities must match the organizational structure to support them correctly and constantly. In turn this competency-based approach will offer individuals greater flexibility by allowing them to learn at their own pace. This means that the organization must view its

employees as human resources who continually develop the capabilities required for addressing the competitive challenges.

The necessary organizational competencies and capabilities may change as the environment changes and as the business strategy changes. Under these conditions, it is important that the organization either be able to develop existing (capabilities of their) employees so that they have the necessary new skills and knowledge or that it be able to hire replacement employees who have the kinds of skills and capabilities that are needed to support the new organizational requirements.

An enterprise's ability to create, deploy, and upgrade organizationally embedded and return-generating resources in pursuit of sustained competitive advantages in the global marketplace can also be named dynamic capabilities (Luo, 2000).

Dynamic capabilities demand a capacity to obtain economic benefits (ideally rents) from current resources and to develop new capabilities. To achieve this, the organizational resources must be looked and understood beyond their static roles as sources of competitive advantage. Instead, they become important aspects of a sustainable, evolving advantage. Return-generating resources alone cannot ensure the adaptability, innovativeness, and sustainability necessary for expansion success. The deployment of resources and their upgrading capabilities influence the enterprise long-term economic return and global competitive advantage.

Rindova and Kotha (2001) state that dynamic capabilities and strategic flexibility enhance firm's ability to morph continuously; however, the reverse is also true. Continuous morphing may further enhance the development of dynamic capabilities to the degree to which

it promotes self-organizing through reliance on simple organizational principles.

For these authors, dynamic capabilities depend on up coming learning processes and simple organizing principles spawned in the evolution of a firm's organizational form and supported by its top management team.

The continuous morphing concept can be thought of a virtuous circle: the greater the dynamic capabilities of a firm, the more effectively it can engage in continuous morphing; dynamic capabilities may generate strategic flexibility, and finally, the greater the strategic flexibility of a firm, the more effectively it can engage in continuous morphing. This is shown in figure 7.1

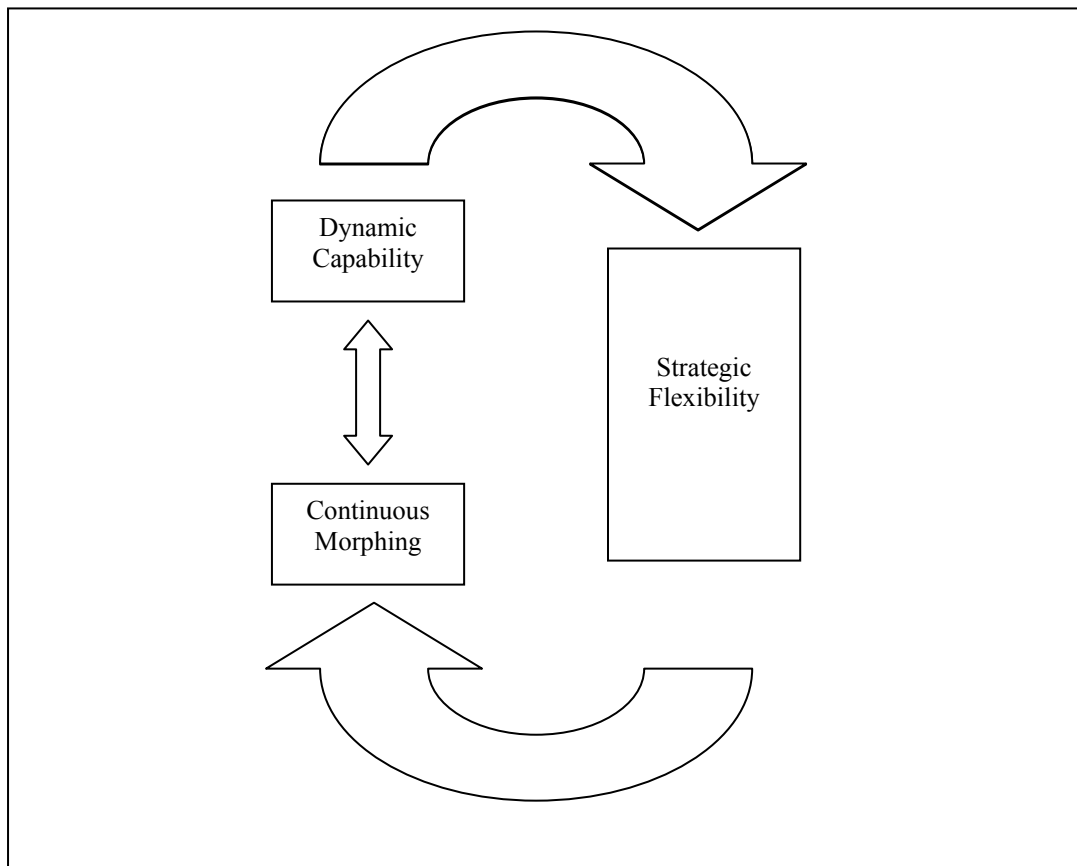


Figure 7.1 The continuous morphing cycle of dynamic capabilities. Source: the author.

The customer competence, the firm's the ability to serve certain customers and the technological competence, the firm's the ability to design and manufacture a physical product with certain features, are termed first-order competences (Danneels, 2002). Second-order competences then sit at a higher level; they are not specific to a certain domain of knowledge and skill, but rather refer to the ability to learn new domains, i.e., continuous (dynamic) learning. Second-order competences can then be thought of as the ability to identify, evaluate, and incorporate new technological and/or customer competences into the firm, i.e., a competence at explorative learning by exploring new markets or exploring new technology.

As the previous paragraph pointed out that the firm must focus on externalities, it can be thought that dynamic capabilities are essentially change-oriented capabilities that help firms redeploy and reconfigure their resource base to meet evolving customer demands and competitor strategies (Zahra and George, 2002).

Zollo and Winter (2002) assume that a dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness. Dynamic capabilities are structured and persistent: an organization that adapts in a creative but disjointed way to a succession of crises is not exercising a dynamic capability. Put it another way, to continually face changes (innovation) a firm must do so in a logical sequence, not best-guessing.

Blyler and Coff (2003) believe that the ability to manage resource flows to create valuable combinations may be a meta-capability. The logic is that firms create a string of temporary advantages by selecting (adding), eliminating, and rebuilding resources, which presumes to offer a sustained advantage once the full pattern is considered. Even if a

certain kind of resource configuration might be imitated, the capability (meta-capability) to keep on doing this might not.

Because the dynamic capabilities view (Bowman and Ambrosini, 2003) focuses on the capacity an organization has to face a rapidly changing environment, the company must create new resources or capabilities or both, to renew or alter its asset mix.

This view involves adaptation and change, because it builds, integrates, or reconfigures other resources and capabilities (Helfat and Peteraf, 2003). For these authors, dynamic capabilities do not directly affect output for the firm in which they reside; instead they contribute to the output of the firm through an impact on the operational capabilities.

Many dynamic capabilities such as new product development, process R&D, and even post-acquisition integration are tailored to a particular product-market and to keep on continuously exploiting them in other markets, products or services an alteration or modification is required.

Winter (2003) assumes that dynamic capabilities typically involve long-term commitments to specialized resources. The more they are diffused all over the company and the more detailed the patterning of the activity involved is, the higher the costs of the commitments tend to be.

Put it another way, since dynamic capabilities are embedded in the routine processes involved in the acquisition, creation, modification, and transfer of valuable resources and capabilities, their costs are important to consider.

Zott (2003) suggests that dynamic capabilities are indirectly linked with firm performance by aiming at changing a firm's bundle of

resources, operational routines, and competencies, which in turn affect economic (rents) performance.

For this author, learning how to change can thus trigger self-reinforcing dynamics that may lead firms to specialize in distinct variants of dynamic capabilities; this is, specific learning. Learning is also integrally related to a particular point in time to efficiently deploy resources because it is precisely through deploying resources that firms learn how to do it more effectively.

Further in the process of learning within a firm (Hatch and Dyer, 2004), human capital becomes more firm-specific and potentially less useful to rivals. This learning (training) constructs firm-specific human capital that accelerates the rate at which human resources learn and deploy their duties, thereby improving their productivity. With greater tacit knowledge in their role in complex processes, human resources can make meaningful contributions to the improvement of these complex processes and accelerate the firm's descent down the learning curve.

If, however, human capital is firm-specific, socially complex, path-dependent, and faces time compression diseconomies, firms with high turnover will suffer a significant competitive disadvantage relative to firms with more stable workforces where human capital can be developed and deployed. As human resources leave they take their tacit knowledge with them and are replaced by new employees without the firm-specific knowledge required to significantly contribute to learning by doing.

Macpherson *et. al.* (2004) believe that knowledge resources (human assets) and dynamic capabilities can be developed by collaboration that creates high trust and product knowledge, integrated communication structures and flexible inter-organizational relations.

Finally a dynamic capability will reflect the important, albeit general, steps that must be undertaken in order to modify a given resource base effectively (Newbert, 2005).

7.2 Conclusion.

It can be concluded that dynamic capabilities modify the existing resources (external and internal) of the firm through learning, adapting, integrating, and changing them into new organizational routines. Firms must undertake these routines not only within their local marketplace, but also in a global context. However, it must be kept in mind that the dynamic capabilities issue is a matter of time; put it another way: to build these capabilities and remain competitive, the firm must engage in a long term commitment to achieve a sustainable competitive advantage.

Chapter Eight

The Activity- Based View

*The successful organization is one that can bring all the activities into consistency with the strategy.
(Porter, 1991)*

8. Introduction Chapter Eight.

As the Resource-Based View and the Dynamic Capabilities approaches have been presented, a natural way to frame these ideas is in the (competitive) activities the firm performs in the knowledge economy under a certain strategy.

This is to say that the intangible resources the firm has must be capable of deploying them in profitable ways. These activities are either internal, external or both. This chapter focuses on the activity-based view (value chain and service activities) and the implications it has in the firm.

8.1 The Activity-Based View: how it functions, is built and its competitive advantage.

The value chain disaggregates a firm into its strategically relevant activities (Porter, 1985, 1990, 1991). A firm gains competitive advantage by performing these strategically important activities (distinct physically and technologically value activities) more cheaply or better than its competitors. These are the building blocks by which a firm creates a product valuable to its clients. However it is important to note that a firm may also differentiate itself through the breadth of its activities, or its competitive scope.

The value chain is a firm's collection of activities that are performed to design, produce, support, deliver, and market its products and services. A firm's value chain and the way it performs individual activities are the outcome of its history, its strategy, its approach to implementing its strategy, and the economical costs to perform these activities.

Value activities can be divided into two broad types, primary activities and support activities. Primary activities have to do with the production, sale, distribution and post-sale support of products and

services. Support activities can be thought of the inputs that produce the primary activities such as technology, human capital among others.

There are five generic categories of primary activities:

- *Inbound logistics.* These activities deal with receiving, storing and disseminating inputs to the product, such as material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers.
- *Operations.* These activities deal with transforming inputs into the final product form, such as machining, packaging, assembly, equipment maintenance, testing, printing, and facility operations.
- *Outbound logistics.* These activities deal with collecting, storing, and physically distributing the product to buyers, such as finished goods, warehousing, material handling, delivery vehicle operation, order processing, and scheduling.
- *Marketing and sales.* These activities deal with providing a means by which buyers can purchase the product and inducing them to do so, such as advertising, promotion, sales force, quoting, channel selection, channel relations, and pricing.
- *Service.* These activities deal with providing service to enhance or maintain the value of the product, such as installation, repair, training, parts supply, and product adjustment.

The support value activities can be divided into four generic categories:

- *Procurement.* Refers to the function of purchasing inputs used in the firm's value chain, not to the purchased inputs themselves.
- *Technology development.* Every value activity embodies technology, be it know-how, procedures, or technology embodied in process equipment.
- *Human resource management.* Consists of activities involved in the recruiting, hiring, training, development, and compensation of all types of personnel.
- *Firm infrastructure.* Consists of a number of activities including general management, planning, finance, accounting, legal government affairs, and quality management.

Within each category of primary and support activities, there are three activity types that play a different role in competitive advantage:

- *Direct.* Activities directly involved in creating value for the buyer, such as assembly, parts machining, sales force operation, advertising, product design, recruiting, etc.
- *Indirect.* Activities that make it possible to perform direct activities on a continuing basis, such as maintenance, scheduling operation of facilities, sales force administration, research administration, vendor record keeping, etc.
- *Quality assurance.* Activities that ensure the quality of other activities, such as monitoring, inspecting, testing, reviewing, checking, adjusting, and reworking. Quality assurance is not

synonymous with quality management because many value activities contribute to quality.

How each activity is performed will determine whether a firm is high or low cost relative to competitors. How each value activity is performed will also determine its contribution to buyer needs and hence differentiation. Comparing (benchmarking) the value chains of competitors surfaces differences that point out the competitive advantage.

Sharing a value activity (between two or more business units) will lead to a significant cost advantage if it involves an activity that represents a significant fraction of operating costs or assets (large value activity), and sharing lowers the cost of performing the activity. Sharing will significantly enhance differentiation if it involves an activity important to differentiation in which sharing either increases the uniqueness of the activity or reduces the cost of being unique. Consequently sharing value activities can potentially lead to a competitive advantage because it affects 1) the cost and 2) differentiation. In either case can be difficult for competitors to equal these strategies.

However it is a key issue to consider that even though the profits that arise from a firm's activities may be eroded by competitive imitation, since information is costly to obtain and techniques are difficult to duplicate, the firm may enjoy growth and a superior rate of return for some time (Barney *et al.*, 1990).

Activities in the value chain which are least productive relative to foreign firms will get relocated abroad. A firm should locate activities and its headquarters at those locations in the nation where there are concentrations of sophisticated buyers, important suppliers, groups of competitors, or specifically factor-creating mechanisms for its industry

(such as universities with specialized programs or laboratories with expertise in important technologies).

Given that the competitive advantage is the outcome of a firm's ability to perform the required activities at a collectively lower cost than rivals, or perform some activities in unique ways that create buyer value and hence allow the firm to command a premium price, a firm's strategy dictates the configuration of its activities and how they are built or constructed.

The skills and market position a firm has built today are the result of past choices about how to configure activities and what skills to create or acquire (learning). Put it another way, history affects how activities will be in the future. This learning is a reflection of past strategy choices which have defined how activities are configured. Other resources were obtained through well-timed factor purchases (timing). Still others are the result of the ability to share across units.

Within the knowledge economy, a service activity strategy might be a key component of the firm's competitive advantage. Thus it can be considered that the service-activities offered by an enterprise could be a valuable set of intangibles.

Each company should focus its strategic investments and management attention on those core competencies-usually intellectual or service activities-where it can achieve and maintain best in world status, i.e., a significant long-term competitive advantage (Quinn, 1992).

Generally speaking, the firm's strategy must outline the necessity to internally develop best in world capabilities within selected key activities and also externally focusing on those networks of suppliers that can perform those activities that the firm has sub-contracted.

For maximum long-term strategic advantage, companies focus their own internal resources on a relatively few basic sources of intellectual or service strength –or classes of service activities-which create and maintain a real and meaningful long-term distinctiveness in customer’s mind. Core service competencies focus on the basics of what creates value from the customer’s viewpoint and should be designed and evaluated from this perspective.

For continued success companies actively command, dominate, and build barriers to entry around those selected activities critical to their particular strategic concept. Concentrating more power than anyone else in the world on these core competencies as they affect customers is crucial to strategic success.

Looking beyond mere product lines to a strategy built around core intellectual or service competencies provides both a rigorously maintainable strategic focus and long-term flexibility. Once a company develops sufficient depth in a few such activities, these can become linchpins for a consistent business strategy and competitive edge lasting for decades.

The company must ensure that it is and remains measurably better in its selected core activities, developing them in greater depth than anyone else can.

Barney (2002) thinks that a firm’s processes (value chain) are the discrete activities it engages in to design, produce, distribute, and sell its products or services better than any competing firms; these activities can be termed distinctive competencies. However, it is important to point out that the number of stages in the value chain which a firm engages does not have to remain constant over time.

8.2 Conclusion.

In summary, the activity-based view considers relevant and unique activities, distinct from competitors that are performed by the firm in a cheaper (cost benefit) way and impacts the minds of customers. If this is done strategically, it can be a source of sustainable competitive advantage. Those activities that are not valuable to the company must be outsourced to the best-in-world suppliers in order for the firm to retain its competitiveness.

Activities can be shared among two or more business units, supporting the firm's overall competitive advantage. Service activities can also be a key issue to raise human intellect, thus contributing in a constant fashion to profits. The interaction between skilled people in different functional activities often develops unexpected new insights or solutions.

However, in this dynamic environment, managers must also be capable of managing their networks, so to impact in a positive way their activities, especially the external ones. Last but not least, the number of key activities a firm does could change over time in order to remain competitive.

Chapter Nine

Benchmarking

Benchmarking is mostly about people, learning and improvement.
(Yarrow et. al., 2004)

9. Introduction Chapter Nine.

For the activities as well as the intangible assets (dynamic capabilities) to really be competitive and provide a sustainable (competitive) advantage a benchmark exercise needs to be done in order for the firm to realize if it is achieving that competitiveness at all or not. This practice can be either externally or internally focused and had its origins in Japan. The first Western company to perform a benchmark analysis was Rank Xerox in the mid 1980s.

Marr (2004), states that benchmarking is the process of identifying, understanding, and adopting outstanding practices from organizations, including the company itself, anywhere in the world. This implies that in order for a company to become a first world competitor, offering valuable goods and services to customers and obtain a competitive advantage to its competitors, it must yardstick its procedures and operations against the best-in-class companies in those particular processes (capabilities and strategies as well) that wants to be excel at.

Once this is achieved, with the analyzed results the new best practices should be adopted consequently positioning the firm in a much better standing than its competitors. This chapter deals with this technique.

9.1 The key insights of benchmarking.

Benchmarking world-class performance starts with competitive analysis, but goes far beyond it (Walleck *et al.*, 1991). While competitive analysis focuses on product comparisons, benchmarking looks beyond products to the operating and management skills that produce the

products; i.e., the objective of benchmarking is to enable companies to obtain and maintain high levels of competitiveness.

Moreover, while competitive analysis is limited to companies that produce more or less similar products or services, benchmarking studies are free to search out the best of breed of a process or skill, wherever it may be found. And unlike competitive analysis, which is usually carried out as a staff exercise, benchmarking any process in depth usually requires the active participation of the line personnel who perform that function in their own business. Thus, benchmarking is more than an analytical process; it can be a tool for the encouragement of change.

For Zairi (1992; 1994) benchmarking means constantly emulating the best, in order to introduce change and aspiring for superior performance standards. There are two approaches of benchmarking: one is driven by cost factors (cost reductions) and the other aims to establish a performance gap that outlines successful competitive parameters to obtain superior performance. This is more clearly seen in figures 9.1a and 9.1b.

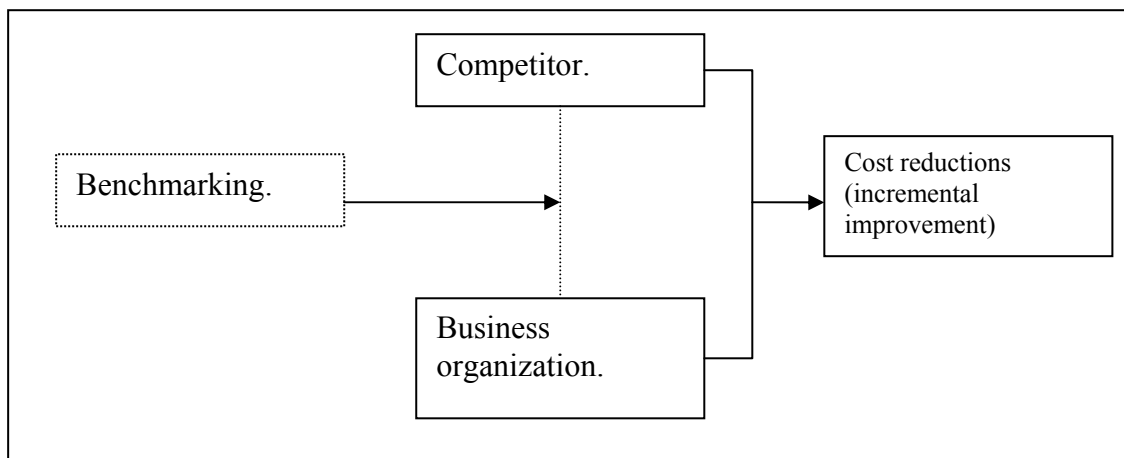


Figure 9.1a Cost-driven benchmarking. Source: Zairi (1992)

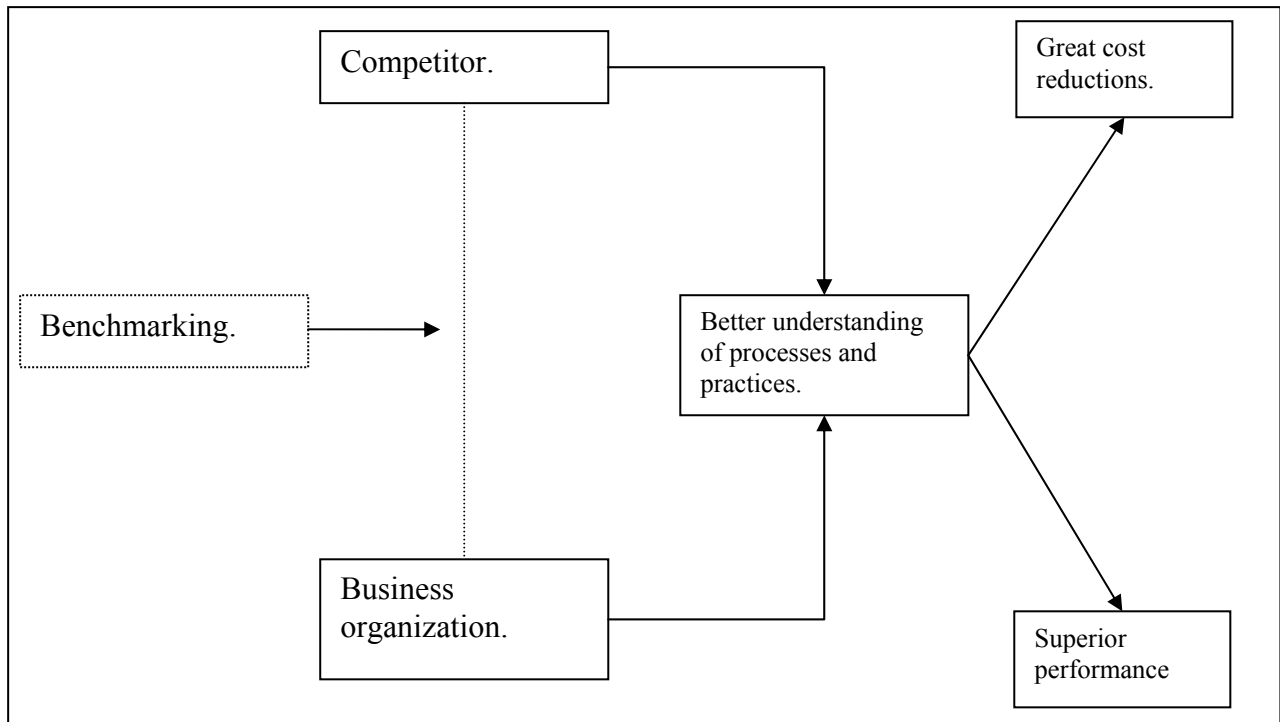


Figure 9.1b Process-driven benchmarking exercises. Source: Zairi (1992)

The first approach (cost driven) will lead to short-term incremental improvements. The second one, however, because it aims to set a gap performance, looks to establish superior specifications that will improve the overall position of the company.

Benchmarking is a way of involving the organization in looking at best practices outside the company-not only what is possible but how it is done. And it is a way of reaching for quantum-leap rather than incremental performance improvements.

This practice is carried out by emulating the best practices of the best companies (be these competitors or not) continuously; reviewing methods, activities, processes. The key characteristic of benchmarking is not a reference or benchmark, but the setting of a standard point and its corresponding variables (expectations, performance and measurements). These variables in turn, reflect the behaviour of the business in the constant changing scenery of the market. Put it another way, as long as

the market keeps on moving, so must the company's variables in order to remain competitive.

This process has two aspects:

- A) *Descriptive benchmarks or processes.* These are the characteristics of the specific processes that lead to the most effective output. These characteristics can be knowledge, technological capabilities, skills and resources among others.

- B) *Quantitative benchmarks or performance measurement.* These metrics establish how big (deep) is the performance gap. They are quantitative in nature; the reason for this is to set a true measurable (quantifiable) comparison between companies.

Complementing the above processes, Zairi (1992) and Bjørn (1999) propose different types of benchmarking, namely:

- 1) *Internal benchmarking.* These comparisons are inside the firm. They analyze at functions, departments or business units in order to optimize performance.

- 2) *External benchmarking.* This comparison is between competitors in the same industry. The objective is to establish the performance gaps at a business-wide level.

- 3) *Generic benchmarking.* This comparison is an inter-industry analysis, i.e., no matter the industry sector the idea is to adopt the best practices in every aspect of the firms being benchmarked.

- 4) *Functional benchmarking*. This comparison is against those companies that might not be competitors but the tasks they realize are within the same technological arena.
- 5) *Performance benchmarking*. This comparison focuses mainly in key figures or performance measurements, i.e., numerical comparisons.
- 6) *Process benchmarking*. This comparison deals not only with figures per se, but with the key processes and activities (Ralston *et al.*, 2001) and the performance of them.
- 7) *Strategic benchmarking*. This comparisons surfaces strategic and higher level impact decisions. This is the best manner to achieve synergy and to integrate key elements of the firm (McAdam and Kelly, 2002).

Because benchmarking (Partovi, 1994) is the search for the best industry practices which will lead to exceptional performance through the implementation of these best practices, this analysis requires time, effort, resources, and management attention. This analysis should include the activities that will be benchmarked and those that will not.

So a thorough, precise and concise benchmark exercise must be planned and executed considering the firm's resources and capabilities. However, priorities should be set in those processes the firm wants to obtain a competitive advantage as a first step to realize this otherwise all efforts can easily end up in a waste of time, money and resources.

Bjørn (1999) establishes four issues (one through four) that support and advocate the use of benchmarking as well as the necessary

activities (A through F and figure 9.2) to carry out this exercise. These issues are:

- 1) Benchmarking makes the firm understands and fosters a vital attitude with its business' processes.
- 2) Benchmarking assist a proactive learning practice in the company and influences change and prosperity.
- 3) Benchmarking helps the company to look for wellsprings for improvement and different manners to do things outside its own environment.
- 4) Benchmarking establishes reference points to enhance the business processes.

The necessary activities are:

- A) To examine and comprehend, i.e., to plan, the firm's processes that will be benchmarked.
- B) To find the benchmarking partners.
- C) To reflect (meditate) upon the partner's processes.
- D) Analyze and conclude the differences between the firm and the competitor, i.e., to establish the performance gap.
- E) To materialize the improvements based on the performance gap.
- F) To review (McAdam and Kelly, 2002) the progress made (or lack of) once improvement takes place.

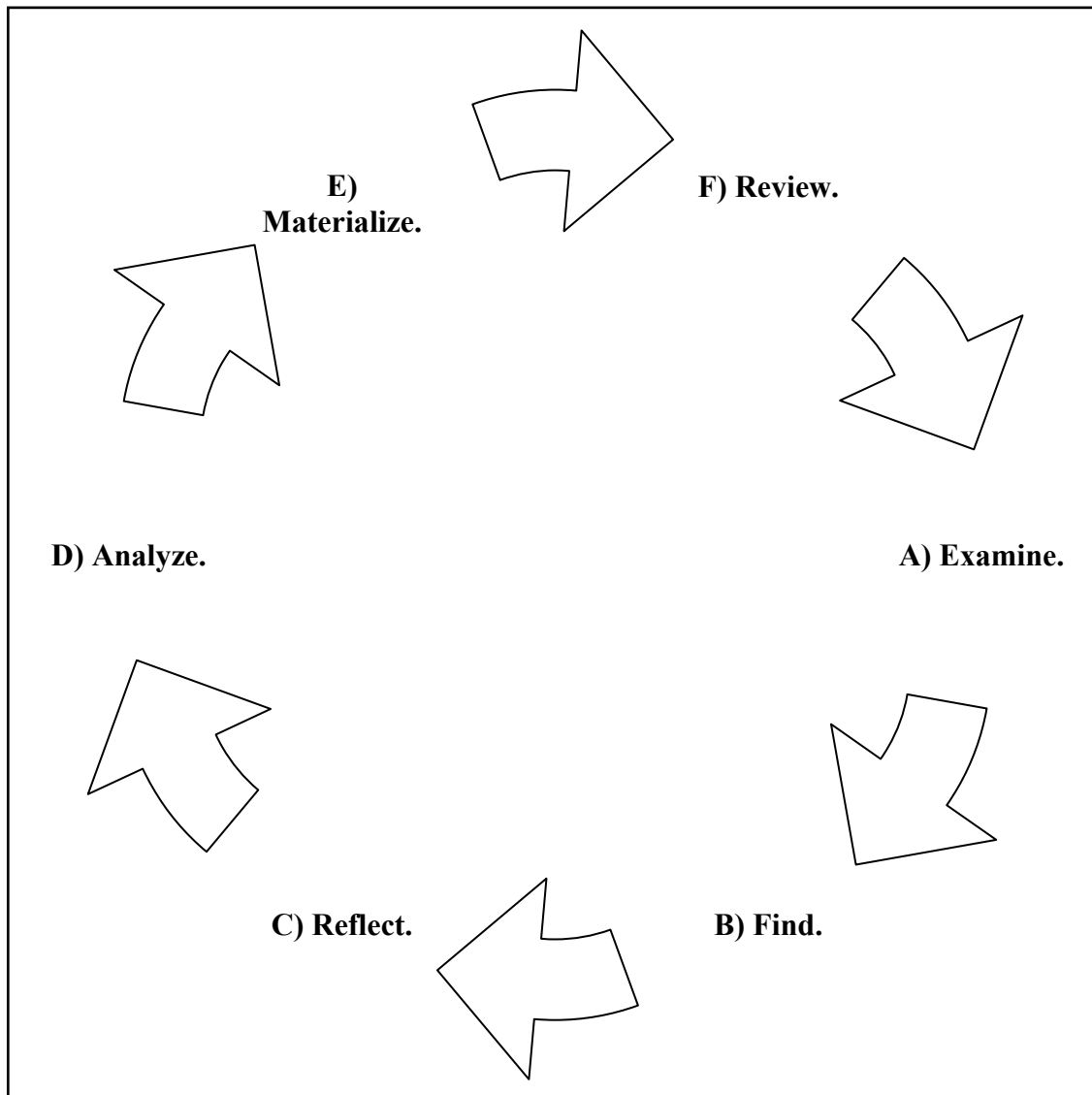


Figure 9.2 The benchmarking process. Source: adapted from Bjørn (1999) and McAdam and Kelly (2002)

Benchmarking gives quality programmes more impetus and motivates organizations to be working on identifying gaps in performance, and developing the right strategies for closing them. It certainly opens windows of opportunity and makes part of the strategy formulation and deployment a more systemized process.

Benchmarking is a very powerful tool that helps organizations to optimize their capability to deliver results. This is achieved by improving the internal processes thus to become superior, consistent, and effective

all the way to the end customer. This is a clear move from merely fulfilling basic requirements to ensuring total satisfaction and even customer delight.

Benchmarking can lead to:

- (1) Improvements to existing performance standards.
- (2) Quantum leaps by instigating new practices and ways of working.
- (3) The road to excellence: creating the learning organization.

Benchmarking adds a new dimension to strategic thinking. It ensures that strategy formulation/implementation is on the right track by constantly checking internal performance, process behaviour against those of the toughest competitors and best in class organizations. For benchmarking to be an effective strategic tool and not detrimental to the long-term survivability of businesses, the focus must be first on the processes and second on the results.

The role of benchmarking through the encouragement of understanding process behaviour ensures that knowledge is gained in various areas and this is really the best catalyst to achieve. It can give the firm the best confidence to develop strategies which are likely to lead to close the gap in the performance levels identified.

McNamee *et al.* (2000) establish a tree-league framework where to categorize companies in order for them to perform a benchmark exercise.

- 1) League one: All the firms are located in the same industry (sub-sector); this enables an individual firm to compare its performance with true rivals.

- 2) League two: All the firms are located in the same industry (sector); this permits an individual firm to compare its performance with other firms who are related with the same product but may not be attending the same product/market niche.
- 3) League tree: All firms of similar size (number of employees) irrespective of industry sector; enables an individual firm to compare its performance with other similarly structured firms. This is a cross-sectoral measure to provide comparisons with strategic peers.

Another kind of benchmarking is competitive benchmarking (Eccles, 1991). This methodology points-out non-financial metrics that supports a new fresh perspective to management.

This process permits the firm to conclude the detailed competitive factors and characteristics that are important in a certain market or business activity (Viedma, 2001; 2004). This is also useful in locating the company's products, services and processes relative to its competitors in the marketplace.

Once the reasons that cause a competitive gap between a firm and a world-wide leader in the same business or market are known, the company has the key to reduce this gap and increase its competitiveness. So even though in many cases, the business practices of the competitors do not represent best-in-class performance or best practices, this information is valuable because competitors' practices affect the perceptions of customers, suppliers, shareholders, potential customers and 'industry watchers' – all of whom have a direct effect on the eventual business success.

As a corollary the following benefits from practising a benchmarking exercise (Table 9.1) as well as its strategic benefits (Prašnikar *et al.*, 2005) are presented.

Objectives	Without benchmarking	With benchmarking
Become competitive.	1. Internally focused. 2. Evolutionary change.	1) Understanding of competition. 2) Ideas from proven practices.
Industry best practices	1. Few solutions 2. Frantic catch up activity	1) Many options. 2) Superior performance.
Defining customer requirement.	1. Based on history or gut feeling. 2. Perception.	1) Market reality. 2) Objective evaluation.
Establishing effective goals and objectives.	1. Lacking external focus. 2. Reactive.	1) Credible, unarguable. 2) Proactive.
Developing true measures of productivity.	1. Pursuing pet projects. 2. Strengths and weaknesses not understood. 3. Route of least resistance.	1) Solving real problems. 2) Understanding outputs. 3) Based on best industry practice.

Table 9.1 Benefits from the practice of benchmarking. Source: Zairi (1992)

The strategic benefits are:

1) It allows more and better strategic planning and controlling.

2) It diminishes the costs of mistaken business decisions.

3) It boosts the company's efficiency via the successful design and implementation of the firm's processes and the continuous enhancement of those processes.

4) It aids to solve business conundrums.

5) It encourages the employees' continuous education, creativity and innovative ideas.

6) It permits the relative evaluation of the business' success and the effectiveness of the factors that contribute to this success.

7) It supports continuous change and nurtures knowledge that in turn grants better and faster flexibility and adaptation in the marketplace.

9.2 Conclusion.

As a consequence, for a firm to improve its competitive position it must analyze those processes that contribute significantly to sustain its competitive advantage. Once these are identified they should be prioritize in order to enhance them.

But in order for the firm to improve its processes these are to be compared against those processes that are performed by best-in-class companies, if possible this should be carried on a world wide basis. Benchmarking thus, helps to perform this analysis in a systematic fashion.

It is not necessary to benchmark against the firms' competitors, unless he has the best-in-class processes. Instead it should focus on those companies that excel in performing those activities that really make a difference to customers. If the benchmark exercise is not done properly, it will not only be costly but worthless; waste of time and human capital. But if done strategically, the payoff should be a sustainable competitiveness.

Chapter Ten

Clusters

*Clustering facilitates the setting up of new enterprises.
(Schmitz, 1995)*

10. Introduction Chapter Ten.

Part of the strategy of the firm is where to locate itself in order to profit the most. This puts forward the idea of strategic locations (clusters).

This is so because within the knowledge economy, firms tend to group in regions where they develop in a much faster way than if they were on their own. It can be thought of these regions as specialized clusters. These clusters definitely contribute to a firm's competitive advantage and in turn also to the nation's competitive advantage.

10.1 Firm's competitive advantage through geographical concentration.

Competition will be among clusters of related business units rather than among individual business units (Porter, 1985, 1990). Coordinated business unit strategies and related diversification into new industries will deepen and extend interrelationships.

It can be assumed that successful firms are frequently concentrated in particular cities or states within a nation. Because of this, nations succeed not in isolated industries, however, but in clusters of industries connected through vertical and horizontal relationships. A nation's economy contains a mix of clusters, whose configuration and sources of competitive advantage (or disadvantage) reflect the state of the economy's development.

The existence of a cluster in several industries that draws on common inputs, skills, and infrastructure also further stimulates government bodies, educational institutions, firms, and individuals to invest in relevant factor creation or factor-creating mechanisms.

Specialized infrastructure is enlarged and spillovers are generated that upgrade factor quality and increase supply. Because of this clustering, sometimes, whole new industries spring up to supply specialized infrastructure to such clusters.

Once a cluster forms, the whole group of industries becomes mutually supporting. Benefits flow, forward, backward and horizontally. Aggressive rivalry in one industry tends to spread to others in the cluster through the exercise of bargaining power, spin-offs, and related diversification by established firms. Entry from other industries within the clusters spurs upgrading by stimulating diversity in R&D approaches and providing a means for introducing new strategies and skills. Information flows freely and innovations diffuse rapidly through the conduits of suppliers or customer who have contact with multiple competitors. Interconnections within the cluster, often unanticipated, lead to the perception of new ways of competing and entirely new opportunities. People and ideas combine in new ways.

The size of the whole cluster encourages greater investment and specialization. Common projects by trade associations involving firms from different industries are not rare. Government and university attention is highlighted. The pull of size and prestige in attracting talent to the cluster becomes stronger. The nation's international reputation in the field grows. The cluster of competitive industries becomes more than the sum of its parts. It has a tendency to expand as one competitive industry begets another.

Mechanisms that facilitate interchange within clusters are conditions that help information to flow more easily, or which unlock information as well as facilitate coordination by creating trust and mitigating perceived differences in economic interest between vertically or horizontally linked firms.

The suppliers that are bounded closely will be best suited for regular exchange and cooperation with industry research and development outbreaks. Sophisticated customers located nearby offer the best possibilities for transmitting information, engaging in regular interchange about emerging needs and technologies, and demanding extraordinary service and product performance. Geographic concentration of an industry acts as a strong magnet to attract talented people. Also, competitive advantage is most sustainable in the cluster if many of the industries have global positions.

Like all the other new organization forms, clusters seem to work well in certain circumstances i.e., when there is a base load of common but variable activity yet a high incidence of completely new, cross-specialty problem-solving needed (Quinn, 1992). They flourish when skills for problems of a certain class can be geographically centralized but move more to a network mode for more dispersed problems.

They require a great deal of trust and mutual respect to operate well. Although cluster groups can solve some problems in short order, they typically take a long time (two to three years) to create the acculturation needed for people to operate continuously in their unstructured environments. They are very dependent on the quality of leadership and the breadth of training and motivation of those who participate.

Others (Carrie, 1999) have named the cluster concept a network of companies, customers and suppliers of all the relevant factors, including materials and components, equipment, training, finance and so on. This network extends to educational establishments and research institutes which provide a large part of their human and technological capital. They are all stakeholders in the end market, influenced by globalisation,

commercialisation, skills development, inward investment, start-ups and trade development.

McEvily *et al.* (1999) define a geographical cluster as a spatially concentrated group of firms competing in the same or related industries that are linked through vertical (buyer-supplier) or horizontal (technology, information, or other resource-sharing) relationships.

In geographical clusters, keeping on a top of developments is achieved by maintaining a network of advisors who are non-overlapping and disconnected. This implies that a firm's configuration of linkages with other actors in the cluster is an important vehicle through which the firm's skills, competencies, and routines are continually upgraded, refreshed, and renewed.

The ability to understand and exploit the cluster level absorptive capacity is enhanced by the common lineage and heritage of the firms in the cluster and their executives (Bell, 2005). Such inadvertent innovation may operate even in the absence of direct network ties, when the imitator cannot simply contact the other firm to learn more about an innovation, but must rely on cues from observing the other, increasing the likelihood of mutation and innovation.

An information source may limit the information it provides, either for strategic reasons (to misrepresent the information) or to be helpful (limiting information to what it believes the other party needs). The more a firm is involved in its network, the more it can compare information across sources and assess its veracity.

Being central in this network may expose managers and their firms to a rich flow of tacit knowledge useful for innovation. Conversely, the institutional network provides opportunities to hear industry news. For

example, if a trade association approves members' new products, then serving on the association's boards and committees provides early warning about competitor actions.

10.2 Conclusion.

Clusters (or networks closely related) are geographic concentrations that have the following characteristics: unique natural resources, scope for innovation given the proximity, economies of scale in production, immediacy to the firm's markets (good access to it), a pool of specialized and highly qualified labour, local equipment suppliers, shared infrastructure, relationships with diverse institutions (universities, local governments, among others.) which when used strategically can provide a competitive advantage.

The clusters provide spillovers, specialized companies, information flow, relations with unrelated industries, trust, respect and collaboration among enterprises and people.

Because they are almost always specialized regions, they can provide a national competitive advantage. The firms within the cluster, if they have externally focus operations (exporting and investing situations) can be considered stronger at a national or local level, when compared with its competitors.

Chapter Eleven

Innovation

*Innovation requires an attitude open to change and organizational flexibility.
(Delmas, 2002)*

11. Introduction Chapter Eleven.

An integral part of the strategy of any firm should be to innovate constantly. This means that in order for a company to remain competitive, it must not only improve the products and services it produces, but it also has to innovate. This calls for correctly using its resources (tangible and intangible), profit from the clusters it is in and benchmark those activities that foster (impulse) its innovation processes.

Now, more than ever this is true as more companies are engaging in businesses that are related, one way or another, within the knowledge economy. In this sense, this chapter sets the groundwork of innovation that will be considered once the strategy formulation framework is presented.

11.1 The frame for innovation.

Industrial innovations come, for the most part, from industrial firms, and those firms that introduce them first are likely to have a competitive advantage because they can obtain patent protection or otherwise prevent imitation, or merely because they are first (Penrose, 1959). A big part of the firm's prestige comes from the firm's ability to explore, experiment, and innovate; it is the weaving of this ability with the firm's market position that gives the reputation to the firm (products and services) itself. In turn this will command the firm's economical expansion.

Innovation in the economic system – and indeed the creation of any sort of novelty in art, science, or practical life – consists to a substantial extent of a recombination of conceptual and physical materials that were previously in existence (Nelson *et al.*, 1982). On the

other hand, innovations in organizational routine similarly consist, in large part, of new combinations of existing routines. An innovation might frame not more than the setting of new ways of organizing information and the available physical materials in the existing routines.

From a technological point of view, Ansoff and McDonnell (1990) state that in fertile technologies product development becomes a critical factor in economic success. The best ultimate performing product seizes the market. Because of this seizing of the market, the products will face stiff competition consequently having a short-lived kingdom. As a result, firms are under constant pressure to innovate.

Barney *et al.* (1990) believe that a firm that innovates may be able to enjoy some temporary advantages in a perfectly competitive world, but in the long run, this advantage will disappear as other firms imitate and increase competition.

Because of this competition, it can be thought that successful firms have developed a tacit collective capability to both innovate and accommodate external change in a way that enables them to continually improve (Collis, 1991). To achieve this, the firm must create dynamic routines that facilitate innovation, foster collective learning, and transfer information and skills within the organization.

As state before, the successful innovation of new processes is critical for continued success of companies (Voss, 1992). Even when process technology is available off the shelf, the ability to implement that process well; to get the best out of it, to continually learn and improve and above all to realise the full business benefits will gain competitive advantage for a company. Managing the innovation and implementation of new processes is increasingly a key task for companies.

Going a step further, Christensen *et al.* (1996) think that in order to ensure the survival of their organizations, managers lack the power to do anything other than to allocate resources to innovative programs that are required of the firm by external customers and investors: the entities that provide the resources the firm needs to survive.

Considering firms as institutions that are able to protect the value of knowledge provides a direct connection between the organizational characteristics of firms on the one hand, and their dynamic strategic behaviour on the other (Porter, 1996). By protecting knowledge, firms may serve to induce investment in strategic innovation, because incentives to innovate depend on the degree to which the innovator can appropriate future rent streams. Additionally to the above, the firms that are able to protect more fully and effectively their knowledge than competitors do, these firms will undoubtedly have a stronger incentive (economic leadership) to keep on innovating.

Intellect and innovation are the sources of virtually all economic value, growth, and strategic edge today (Quinn *et al.*, 1997). Creative processes demand a degree of interactiveness, cultivation of differences, external contact, and freedom of action that professional or routine activities do not.

The creative process will point out winners and not-winners in the global marketplace; the winning firms will be those that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and redeploy internal and external competences (Teece *et al.*, 1997). Conversely, those firms that cannot achieve this will, at best, be followers.

For the Boston Consulting Group (2000) innovation is mostly related with research and development (R&D). Therefore the four stages of R&D (figure 11.1) are:

- 1) Ideation: All the possible ideas that set the pace to innovate.
- 2) Concept development: The prototyping and simulation of the selected ideas.
- 3) Commercial development: Obtaining from the prototype a mass production in a systematic fashion.
- 4) Life-cycle development: The continuous (dynamic) enhancement of the whole system throughout its useful life.

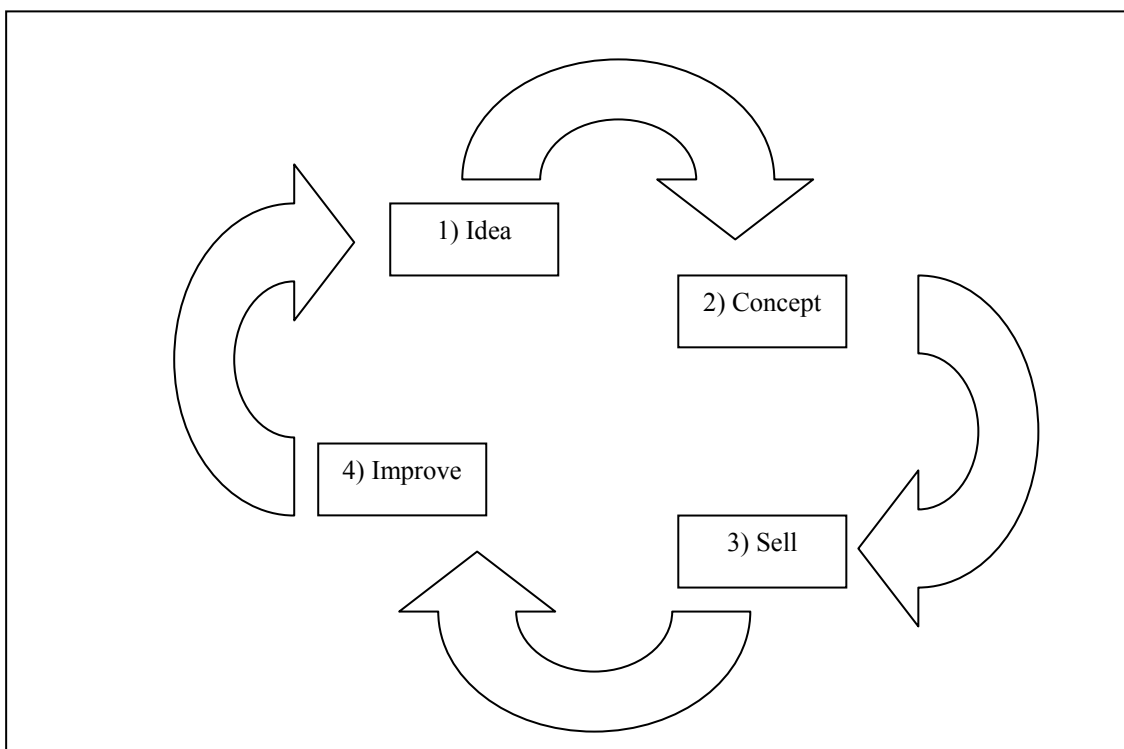


Figure 11.1 The innovation cycle. Source: the author.

Organizations need to continuously renew themselves if they are to survive and prosper in dynamic environments. This renewal challenge is even more pronounced in the current business environment characterized by fast changes in customers, technologies, and competition (Danneels, 2002).

The natural characteristics of innovation will renew (exploit and explore) new firm competences and resources. However, product innovation generates path dependencies by its effect on firm competences, which in turn influence the new products the firm is likely to develop and be successful at. The availability of competences relating to some technologies or customers promotes product innovations based on those competences, whereas the lack of competence relating to other technologies or customers leads to the neglect of other innovation possibilities.

Nevertheless, product development is one of the mechanisms by which firms create, integrate, recombine, and shed resources; this is complemented, as stated before, by bringing together two competences: competence relating to technology and competence relating to customers.

A firm that is always a leader in innovation might attract attention and become a benchmark for competitors, and if competitors recognize its innovations faster, this would reduce persistence (McEvily *et al.*, 2002). However, by continually emphasizing leadership in innovation, a firm may become more competent in exploiting a particular technology, enabling it to consistently develop new products in less time than their competitors.

Furthermore, incremental innovations are made to maximize the performance potential inherent in a given approach to component design.

Knott (2003) believes that a firm's incentive to create is driven by field effects—the competitive atmosphere between the firm and the industry as a whole. Firms will innovate when their shares (and therefore profits) erode. A firm's ability to expropriate is driven by pair-wise agent effects—the tension between two firms. Because of this tension the firm's

share of knowledge that can be obtained from its rivals is ruled by the knowledge that is 'spilled' (leak) by the rival and the distance between them.

This author thinks that given that heterogeneity seems to produce innovation, persistent heterogeneity ought to generate sustainable innovation.

As has been pointed before R&D is a key to innovation. Because of this, the R&D intensity of a firm, relative to its industry rivals, indicates the strategic importance of innovation to a firm (O'Brien, 2003). Certainly, large expenditures on R&D do not guarantee that a firm will be an effective innovator. However, firms that invest in R&D at a much higher rate than their competitors are most likely trying to compete on the basis of innovativeness. Obviously, a firm that is trying to compete on the basis of innovation must continue to innovate in order to stay alive in the marketplace. Being an effective innovator requires more than just developing new products: it requires getting those products to the market.

Complementing the stages of research and development are three different innovation systems (Spender, 2003), namely:

- 1) The innovation system: this is made of resources and institutions, built through interactions among universities, research institutes, and innovating firms that a company can utilize to successfully commercialize innovations (figure 11.2)

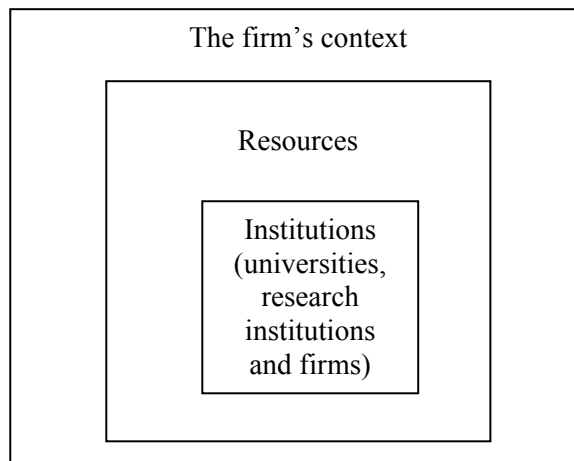


Figure 11.2 The innovation system. Source: the author.

2) The national innovation system (NIS): this is made up of the resources and institutions in a given country that domestic firms can profit from to support their own innovative efforts (figure 11.3)

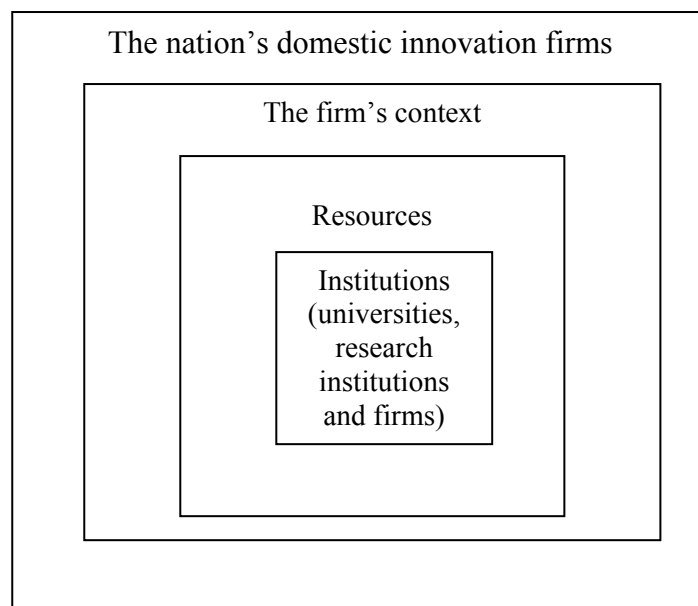


Figure 11.3 The national innovation system. Source: the author.

3) The global innovation system (GIS): is made of resources and institutions that are built through interactions among organizations from several countries and are accessible by firms from around the world (figure 11.4)

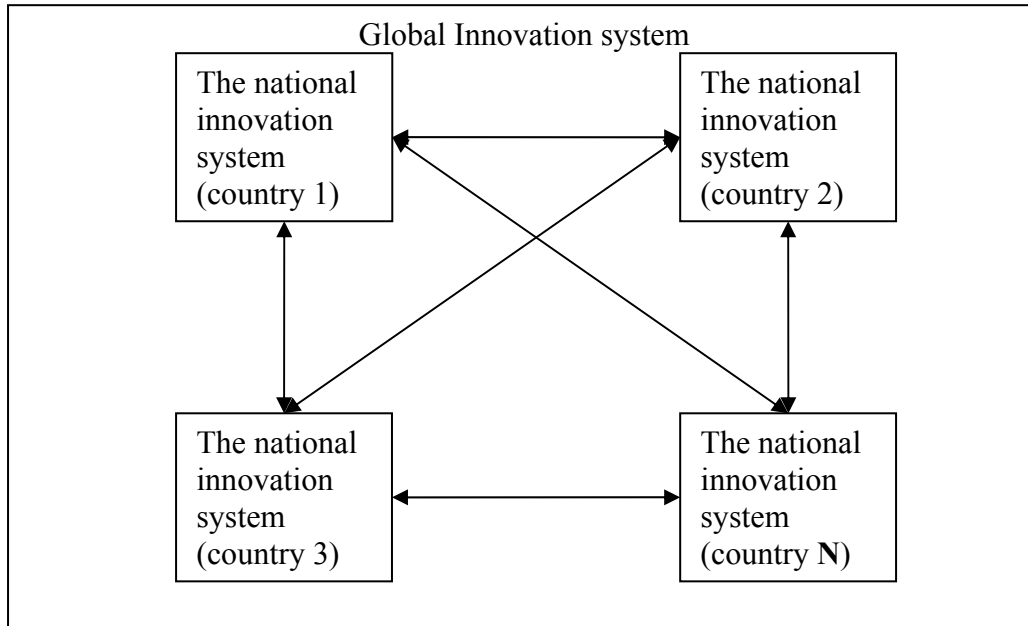


Figure 11.4 The global innovation system. Source: the author.

By acquiring knowledge from the innovation system, a firm can potent its R&D expenditures to attain a greater understanding of its technology than it could have developed by relying only on its internal laboratories. A firm that chooses not to participate and acquire knowledge from (any of) the innovation system risks staying behind the state of the art thus lowering the probability that it will make a technological breakthrough that will end up in a commercial product.

One of the main issues when innovating, are the costs. This is emphasised by Zott (2003). The innovation of products and services carries intrinsically costs and benefits for the firm.

The positive side of it is that a high rate of product and service innovation is likely to end up in a better fit between a company's product and service lines and market and customer needs. Innovation thus permits the firm to charge a higher price for its products and services than if it didn't innovate, since customers do not mind to pay more for products and services that meet their needs and desires better than what is currently available or offered by competitors. On the negative side of it

all the efforts to keep on being different (innovative) when compared to its competitors, are by its own nature, costly.

11.2 Conclusion.

It can be thought of innovation with the following characteristics: produces a competitive advantage, prestige to explore (being the first), experiment (new resources might be developed), new combinations of routines (dynamism), is short lived because of imitation, continuous and expensive. Also new competences are developed.

The firm that engages in incessant innovation must bear in mind that the products and services ought to reach the market, i.e., innovation should be profitable. Put it another way, firms must innovate if they are to survive in the marketplace. Once this happens, successful marketable innovation, the firm is a benchmark at least to its competitors.

The enterprise's innovation processes will accommodate to the external environment, thus reinforcing its dynamism. Even though innovation comes largely from R&D, it might not always be this case. Anyhow, strategic innovation will put the company's knowledge to the edge.

Finally, the firm is not alone; it ought to be part of an innovation system (universities, governments, other companies) in order to achieve a higher rate of success.

Chapter Twelve

Business Intelligence

*Competitive imagination necessarily involves skills in harnessing 'radical' perspectives from the outside to provide insights into strategic futures.
(Hart and Sharma, 2004)*

12. Introduction Chapter Twelve.

An important issue to be placed in a sound strategy is the business intelligence process. This will not only provide information about competitors, resources, activities or innovations as such. It can potentially warn the firm where to invest or not.

So in order for a company to remain competitive it must look outside its walls and observe what its competitors are doing and achieving. To do this, a useful method is through competitive or business intelligence.

12.1 The bits and pieces of BI.

Fuld (1988) believes that a well-organized competitor-monitor program can potentially enhance the company's profits and be guarded against the company from losing business to its competition. For this program to succeed it needs to have:

1. Constancy: study the competitors constantly, or the remaining pieces of information will be missing; pieces that permit to have an early warning that is critical for effective action.
2. Longevity: for a program to fully operate it will take several years to reach the optimum point.
3. Involvement: every single department, from top to bottom needs to be incorporated in the competitor monitoring process.

Business Intelligence (BI) is the activity of monitoring the environment external to the firm for information that is relevant for the decision-making process in the company (Gilad and Gilad, 1988). This concerns the ethical gathering and use of publicly or semipublicly available information as a basis for planning. Publicly available information refers mainly to published data to which the public has access. Semipublic information refers to data obtained from the field, such as information from customers, suppliers, peers, and others.

Therefore, the purpose of a formal BI system is to shift the emphasis from reliance on short-term tactical intelligence, to better use of strategic intelligence in the decision-making process. However, the scope of BI monitoring depends upon the needs of the corporation and the allocation of resources to the business intelligence function.

The six distinct functions of the intelligence activity (function) are:

1. Planning and direction (Kahaner, 1996). This is the step when management gets involved and decides what intelligence it requires.
2. Collection: is the coordinated, motivated, and connected network of employees who access sources of information and report the data in a prescribed manner. This phase involves the actual gathering of raw information from which intelligence will be produced.
3. Evaluation: once the data is been collected it must be assessed and determined its reliability, usefulness and importance.
4. Analysis: consists of collating data, condensing information, presenting conclusions, building scenarios, studying

implications for competitive positioning, and suggesting action. This requires great skills because it urges the analyst to weigh information, look for patterns, and come up with different scenarios based on what he has learned. Is the process of taking information-often seemingly unconnected - and turning it into intelligence.

5. Efficient storage: the data should be placed in such a way that makes it possible to retrieve it for analysis any time.
6. Dissemination: the data must be ready to reach those who need it promptly at the right time. This involves distributing the recently-made intelligence product to those who requested it.

As has been stated, business intelligence is about, mainly, collecting data (information) for further analysis. However, it must be kept in mind a filtering process in order for not to have an overload of information and to assure that what is important gets through to the user, while what is not important is filtered out early on.

Once the steps to gather information have been stated, six areas are listed from where to look for the information required to perform the business intelligence function.

- A. The economic environment.
- B. The competitive environment.
- C. The regulatory and political environment.
- D. The technological environment.
- E. The factor supply environment.
- F. The social and international environments.

A basic feature of the business intelligence system to work efficiently is that top management must be compromised with it. It is well known in management that if top management instills its values throughout the corporation, employees will follow.

If it is to remain successful, a company working near the state of the art boundary must keep trying for rapid and frequent advances (Ansoff and McDonnell, 1990). At the same time, it must be alert to possible breakthroughs by competitors. This means its market position is perpetually in jeopardy from technologically advanced competitors.

Top managers in companies should be deeply conscious of their dependence on a well developed technological intelligence system. Surveillance of literature, attention to competitive developments, and attendance and participation in scientific societies should all be developed and encouraged. In addition, top managers should make a conscious personal effort to understand and keep abreast of the state of the art.

Intelligence from a practical perspective has to take into consideration the changing contours of the international environment (Roukis *et al.*, 1990). Formally, intelligence can be defined as the matter of gathering, processing, interpreting, and communicating the economic, social, technical, and political information needed in the decision-making process. The collection of raw data must relate to specific predetermined targets, and sources and methods of collection must be assiduously identified. However, by itself, raw information is without practical effect until it is converted into intelligence.

This supposes that raising sceptical questions about the intelligence findings enhances the data's usefulness. Asking key members (decision makers) in the firm to be alert that new information improves the quality of the final intelligent report. Consulting, when possible, the best experts

when an unseen problem surges, will definitely improve the decision making outcome.

Consequently, intelligence and sound decision making are integrally related. Complementing this linkage should also be a process for assessing current and programmed collection against critical strategic objectives.

The process of turning information into intelligence involves identifying useful information and processing that information in a way that helps to solve a corporate problem. This means that within an increasingly complex and competitive global environment the daunting job for corporate intelligence is to identify opportunities and threats. One way to achieve this is through technical expertise in the new technology and a service capability; this is so because they have been identified as the real source of future economic power.

While local intelligence is the task of every manager, strategic surveillance and global intelligence should be kept as the responsibility of top management. Usually this mission is assigned to a committee at the strategic apex. As a result the corporate intelligence system refers to information activities and how they relate to corporate communication and the decision-making structure (who needs what and how much information and when to make which decision).

In order to remain competitive intelligence gathering is not a static activity. It reflects what is going on in a dynamic environment. This includes everything, especially the means of communication.

The firsthand view information of the global competitive environment must be in a form that is easy to use and translate into

actions (Flynn, 1996). This means that companies now must know, as much as possible, competitors and markets on a global basis.

To get the needed competitive intelligence information a formal organisation that is responsible for gathering, organizing, analyzing and circulating must be structured.

For Kahaner (1996) competitive intelligence is not only the systematic program for collecting and analyzing information about the competitor activities, but also to consider the general business trends to sharp the company's goals, i.e., the top management vision should be enlarged to have a wider perspective.

According to this author, classification of information and intelligence will be the difference of just utilizing information or performing intelligence competitively. The different types of information are:

- 1st. Primary sources are unadulterated facts directly from the source.
- 2nd. Secondary sources offer altered information.
- 3rd. Public-domain information is a vast sea of data that is open and available to anyone who seeks it.

And the difference between information and intelligence is:

- I. Information is factual. They are numbers, statistics, and scattered bits of data about people and companies and what they've been doing that seems to be of interest.

- II. Intelligence is a collection of information pieces that have been filtered, distilled, and analyzed. This has the characteristic that decisions can be made upon.

Competitive intelligence is not a function; it's a process. Therefore it should appear in all aspects of the business as one seamless, continuous activity not relegated to one area, division, or unit. In this sense managers must view intelligence as a process that moves throughout the organization, touching every facet of everything the company does.

This process (cycle) means that competitive intelligence is never meant to be a one-shot activity; as the company changes so will its intelligence needs.

Behnke and Slayton (1998) believe that competitive intelligence is hard work. It consists of more than just formatting information into attractive charts. It requires the additional effort of coming to conclusions and offering outcomes that executives can consider and act upon. Successful competitive intelligence often requires a change in the behaviour of people (cultural issue).

For Montgomery and Weinberg (1998) the business intelligence process is named strategic intelligence system (figure 12.1) —the selection, gathering, and analysis of information needed for strategic planning. They define three types of intelligence within their system that can be used simultaneously or not:

- i. Defensive intelligence is oriented towards avoiding surprises.
- ii. Passive intelligence is designed to provide benchmark data for objective evaluation.

iii. Offensive intelligence is designed to identify opportunities.

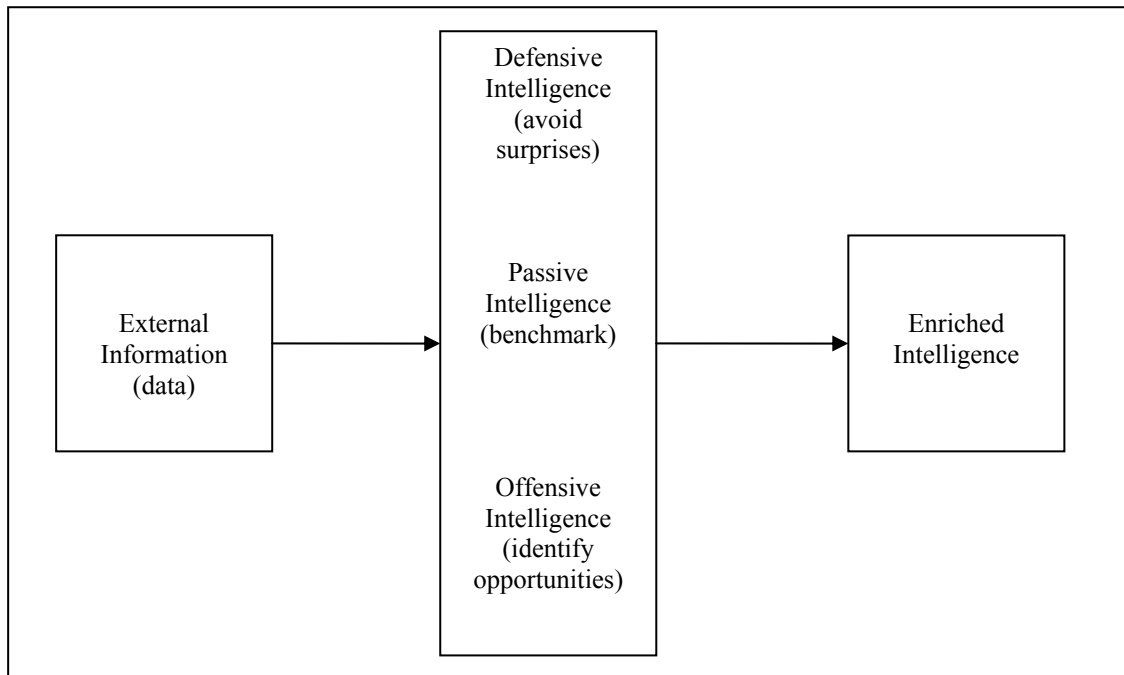


Figure 12.1 The strategic intelligence system. Source: the author.

For Prescott *et al.* (1998) CI systems that effectively create actionable intelligence evolve over time, while creating stable mechanisms to allow this evolution to happen in a systematic way. These authors believe that an important part of a competitive intelligence system is the network the company has, i.e., its employees, customer, suppliers.

Networks are important not only for information collection and analysis, but for changing the way that people interact. Getting a group of diverse managers together to work on a CI project is a good way of transferring knowledge and getting them to act on the intelligence that is produced.

In order for these networks to deliver effective intelligence analysis two important attributes must be considered: credibility and anticipation.

On the one hand the information that lacks credibility no one will believe it and utilize it.

On the other hand is anticipation. This is the ability to assess a current situation with an intelligent mind and be able to put that situation into a future context. These two attributes must go hand in hand if the CI system is to provide useful and successful intelligence.

A competitive intelligence system (Marceau and Sawka, 1999) that is consistent and successful can give the firm a competitive advantage. In order for this to be achieved the following building blocks must be taken into account.

- First. Successful intelligence systems are guided by the necessity of their users, and it must generate intelligence that faces the explicitly stated requirements of decision makers.
- Second. The planning component seeks to define specific and focused intelligence collection targets and to identify the most likely sources for that intelligence. It also points out relevant analytic resources within the company that may be tapped to provide expertise and assistance. The best planning component makes sure that scarce intelligence resources are used wisely.
- Third. Efficient intelligence systems make use of information storage, retrieval and searching applications to facilitate the collection retrieval, archiving, and analysis of information (i.e. processing). Intelligence systems also leverage information services to acquire and exploit relevant secondary information.

Fourth. Proper collection and reporting. The intelligence system must utilize (legally) all the published and non-published sources of information to offer competitive intelligence that is unique and affects specifically the decision making process.

Fifth. For intelligence to be truly decision-relevant and for it to address future competitive situations, intelligence systems must apply robust analytic techniques and methodologies. This aims at producing intelligent intelligence.

The above system will generate a competitive advantage but it will also help organizations to acquire and use that information and knowledge to create winning strategies (Pepper, 1999)

From the competitive intelligence process (Breeding, 2000) it should be clear that set in isolation, competitor intelligence (i.e. monitor the external environment, report core news, identify, research and analyze competitors and automate the basic information) is of little or no value. If an organization knows nothing of its chances of winning, business are very slim.

Competitive intelligence (Gieskes, 2000) is any information or knowledge about the marketplace that keeps the company competitive, including:

- 1) Customer intelligence.
- 2) Product development.
- 3) Brand values.
- 4) New technologies.

5) Sales/marketing intelligence.

6) Regulation/legislation.

This is why if competitive intelligence is not a part of the corporation's strategy it could be considered only an interesting exercise. This idea is supported because competitor intelligence comes from employees (knowledge) and the external environment.

The fast pace of today's environment, demands that competitive intelligence be delivered in real time (7 x 24). But not only this has to be done rapidly; as said earlier information must be filtered and organized in order to be accessible.

Competitive intelligence must be a functional part of the strategic management (process) system (Hovis, 2000). The role of competitive intelligence is to spot those competitors that were not identified before, and act accordingly: internally and structurally.

For this author successful CI facilitates alignment. By showing up targets, helping the company to understand who, what, where, and when, it aligns the whole strategic plan. It keeps the executives informed as a key element in decision-making. Competitor intelligence must be complemented with market intelligence.

For Miree and Prescott (2000) the processes that companies adopt to coordinate intelligence across organizational levels and functions is central to an effective intelligence system. As a consequence of this the intelligence products that are produced must be integrated in the decision making processes in order to improve strategic and tactical activities.

By designing a CI process that produces and coordinates strategic and tactical intelligence, an organization is able to not only meet the specific decision making needs of managers and employees, but it is also able to achieve internal consistency in strategic and tactical actions.

Competitive intelligence (Miller, 2000) is information that's been analyzed to the point where it can be made a critical decision. Driving that information on time to a decision point is where the value lies. Because of this the intelligence process is based on the assumption that managers seek to become better informed about critical issues on a formal and systematic basis. Thus intelligence can assist areas of the firm where management desires a sustained or increased competitive advantage.

Strategic intelligence emphasizes its relationship to strategic decision making and business and/or product development. From this tree clear types of intelligence are presented:

1. Business intelligence; this focusing is on monitoring the development of the business' external environment or marketplace.
2. Competitive intelligence; this focuses on the current and potential strengths, weaknesses and activities of organizations with similar products or services within a single industry.
3. Competitor intelligence; this involves profiling a specific competitor.

The common issue of the above classification is intelligence. As a consequence the intelligence function delivers value by promoting actions

that result in an organization's achieving a measurable and sustainable advantage over its competition.

Independently of the business intelligence that is been put forward, the resources that characterize intelligent driven companies are:

- Employ skilled staff.
- Access unique and creative sources.
- Use technologies appropriate to the industry niche.
- Maintain fluid communication lines.
- Foster values and behaviours that support the acquisition and use of insights.

As a corollary it can be stated that the intelligence process it is not only about hard work, but sometimes even requiring a mind-wringing imagination.

Business intelligence (Prescott and Miller, 2001) is, in a legal and ethical manner, collecting, analyzing and applying information about the capabilities, vulnerabilities and intentions of competitors with the objective to have a competitive edge through actionable intelligence.

The activities to carry on the business intelligence function are:

- 1) Cutting-edge tools and techniques such as war game exercises.
- 2) Competitive scenarios to test in operational files so it can be applied to analytical tasks.
- 3) Technology scouting via patent tracking and other tools that reveal areas in which competitors are likely to make breakthroughs.

- 4) Scanning open-source public records.
- 5) Carefully monitoring the Internet and mass media.
- 6) Talking with customers, suppliers, partners, employees, industry experts, and other knowledgeable parties.
- 7) Creating psychological profiles of top decision makers.
- 8) Attending trade shows and conferences smartly – with the aim of gathering data on what rivals are up to and incorporating that awareness into business planning.

The competitive intelligence (Thow, 2003) process may be advantageous and even vital to the survival of the firm. It can open up new markets, discover profitable opportunities, and track competitors' movements. This is to say that an intelligent organization cannot compete without proper direction from the intense intelligence source.

12.2 Conclusion.

In summary the business intelligence process if strategically utilized will make the profits increase and give protection against competitors in the marketplace.

The business intelligence process (figure 12.2) has the following steps: monitor (external data/information), gather, analyze and disseminate actionable intelligence that will help to improve the overall position of the company.

An important step in this process is the filtering one; otherwise those that make decisions will end up buried in a pile of useless

information. That is if information is not turned into actionable intelligence is worthless. The final intelligence outcome should be a difference between the company who has it and uses it and the one that does not.

However to build this process will take time, has to start from the CEO, has to be constant and ethical. This process must be continuous and even though a staff can be in charge of performing this function the other departments of the firm should share information when they have access to it.

Finally, the business intelligence process provides the following alignment:

Tactics → Strategies → Goals

Every single department in the company goes in the same direction.

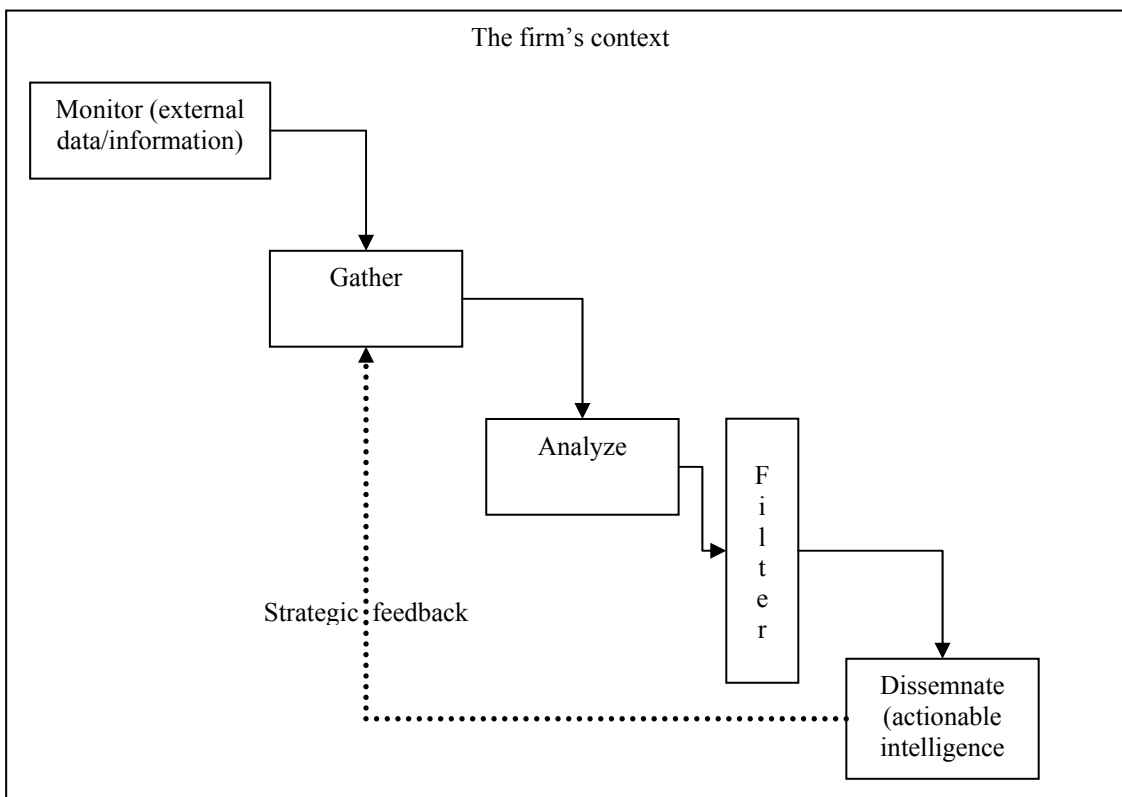


Figure 12.2 The business intelligence process. Source: the author.

Chapter Thirteen

Research Methodology

*In sum, the aim of methodology is to help us to understand, in the broadest possible terms, not the products of scientific inquiry but the process itself.
(Kaplan, 1964)*

13. Introduction Chapter Thirteen.

One important role for science is collecting, defining, categorizing and classifying knowledge (Hubka and Eder, 1996). It includes finding relationships, structuring, and systematizing. This is because the main issue that distinguishes science from practical, everyday work is the rigor of its methodology (Andriessen, 2004). However, an important direction for science is determined primarily by human creative imagination and not by the universe of facts which surrounds us (Lakatos, 1970). Given the importance of science and acknowledging that science has to be a point of reference (Estany, 1990) from where the structuring of theories and models (new or existing ones) are to keep on blooming, this chapter focuses in the methodology that is being used along this thesis. It sets the ground from where the theory and its corresponding model are going to be constructed.

Given that a theory and a model are built, it can be argued that this is a design science (Van Aken, 2001; Andriessen, 2004). This is first a theory is created that describe, predict and explain the world. Second propositions are used to diagnose a situation, define a problem and design practical methods to improve the situation. In this sense it can be thought of this thesis as a design thesis. In the next section Dubin's methodology for building theories is introduced followed by the case study framework.

13.1 Dubin's theory building framework.

Theories provide a set of explanatory concepts (Silverman, 1993). These concepts offer ways of looking at the world which are essential in defining a research problem. Without a theory, there is nothing to research. This is why research tests a hypothetical prediction (Dubin,

1969). The prediction, in turn, has antecedents in an explicit or implicit theoretical model. The research test of the prediction always provides a feedback to the model which it is derived, either to substantiate the model's continued variability or to require its modification. The rejected hypothesis requires the modification of the generating theoretical model or the reference of the results to an alternate model. The confirmed hypothesis requires a renewed search for further tests of the theory.

An essential characteristic of a powerful model is that it distinguishes a realm of phenomena and focuses analytical attention only upon that realm. The consequence is that for that domain the analytical model makes sense and provides understanding of specific empirical facts that are defined as falling within its scope. Now the building blocks of Dubin's theory building methodology are introduced.

13.1.1 The units.

Theories give the scientist opportunity to develop understanding of the relations among units upon which he focuses. However, units are not theories; they are not by themselves the sufficient components of a theory. A collection of units that are called the subject matter of a scientific discipline does not constitute a theory of *that* discipline. It is only when the units are put together into models of the perceived world that theories emerge.

Theories are constructed about the characteristics (properties) of things rather than about the things themselves. Theories are focus upon selected characteristics of objects rather than upon the objects. These ideas suppose that a theory is concerned with modelling the processes and outcomes of particular units interacting in systems, whenever these systems exist and under all conditions of their existence.

As has been mentioned, theories are built with units. These units can be classified as:

1) An attribute unit (AtU) is a property of a thing distinguished by the quality of being present, i.e. presence. The thing always has this quality if the attribute is a property of a thing.

2) A variable unit (VU) is a property of a thing that may be present in degree. There may be some of the property present or a lot of it.

3) A primitive unit (PU) is a unit that it is not defined (undefined).

4) A sophisticated unit (SU) is a unit that is defined.

5) An enumerative unit (EU) is a unit that regardless of the condition of the thing that can be observed or imagined, it will always have that property. It is always present in the thing and is counted in any sample of the things under investigation. This means that any unit for which there is a zero value or an absent condition is not an enumerative unit.

6) An associative unit (AsU) is a property characteristic of a thing in only some of its conditions. In all respects save one it is identical to an enumerative unit. The one difference is that there is a real zero or absent value for associative units.

7) A relational unit (RU) is a property characteristic of a thing that can be determined only by the relation among properties. These relations may be of two general sorts. The first is the relation based on interaction among properties, for example the property of subordination: when a person is in interaction with a superior. The second form of relation is

based on the combination of properties, for example the sex ratio of a population group: (ratio of males to females).

8) A statistical unit (SU) is a property of a thing that summarizes the distribution of that property in the thing. For example, the mean or median income of a population group may be employed as the unit of study, and this measure may be taken to stand for income distribution in the group as a whole.

9) A summative unit (SuM) is a global unit that stands for an entire complex thing. The central feature of a summative unit is that it seems to draw together a number of different properties of a thing and gives them a label that highlights one of the more important.

Units alone are pretty much useless. They must be an integral part of empirical indicators. That is, where there is some confidence that empirical indicators are available or can be invented (i.e., instruments can be developed to produce empirically ascertainable traces), the unit of a theory for which the empirical indicator stands will be called a real unit. Where empirical indicators are not considered to be available to stand for a unit, it will be designated a nominal unit.

The distinction between a real and a nominal unit rests solely upon the probability of finding an empirical indicator for the unit. This means that every nominal unit has the potentiality of being converted into a real unit as long as empirical indicators are developed.

13.1.2 The interactions among the units.

An indispensable step in developing a scientific model is to specify the interactions among the units employed in it. To achieve this, a lawful statement expresses a linkage or connection between two or more units. This is a very important issue because in every formulation of a scientific

problem beyond the description of units, the heart of the statement is the interaction, or relationship, among units.

These scientific laws (interactions) have three important characteristics:

- 1) Laws of interaction themselves are never measured.
- 2) Laws are limited by the capacity of the human mind to invent ways of denoting relationships.
- 3) Laws are not absolute and may be changed as man's needs are changed.

They also exist different laws of interaction, namely:

- A) A categoric law of interaction is one that states that values of a unit are associated with values of another unit. These are symmetrical, i.e., it does not matter whether one or the other of the units comes first in the statement of the law.
- B) A sequential law of interaction is one always employing a time dimension. The time dimension is used to order the relationship among two or more units. These laws assign a temporal ordering to the appearance of values for two or more units joined by law. In the special case in which there is no temporal difference in the appearance of values for two or more units, we have a categoric or a determinant law rather than a sequential law of interaction.
- C) A determinant law of interaction is one that associates determinate values of one unit with determinate values of another unit. The essential components of a determinant law are two: (1) the specific relation is set forth, and (2)

determinate values are assigned to the units related by the law of interaction.

As a corollary it is worthwhile noting that a system has a minimum of one law of interaction. Failure to contain at least one law means there is no theory relating to at least two units.

13.1.3 The limiting values and the domain of the model.

A theoretical model is said to be bounded when the limiting values on the units comprising the model are known. The limiting values are always determinate. The determinate character of these limiting values may be derived either from the characteristic units themselves or from the characteristics of laws by which the units interact. In each instance these limiting values are determined by criteria internal to the model. It is also possible to determine limiting values by criteria external to the model.

Because of this boundedness a system can be considered a close one or an open one. A closed system is usually defined as one in which there is no exchange between the system and its environment. An open system is one in which some kind of exchange takes place between the system and its environment.

As stated before, factors affecting the boundedness of the system can be either internal or external. The most frequent instance in which an external criterion determines the boundary of a model occurs when either a new unit or a new law or both are required to the domain of the model. The most commonly encountered circumstance in which an exterior criterion determines the boundaries of a model is the one in which the model builder admits, after testing the model empirically, that he cannot account for the empirical results without introducing what it's called an intervening variable into the model.

Once the boundness of the system has been established, it is important to define the domain of it. The domain of a model is the territory over which truth statements about the model can be made and, therefore, about the values of the units composing the model. However, when the theoretical model is constructed in the absence of any prior empirical knowledge, the boundaries of the model are determined logically.

This determining, in turn, theoretically specifies the domain over which the model operates as a system. The domain of the model is that portion of the empirical world included within the boundaries. The domain of a model is always bounded. Therefore, to determine the domain of a model requires the determination of its boundaries.

13.1.4 The system state.

The key idea of the system state is that the whole system has unique characteristics when is in that state; an analogy to this could be a position or location. This means that to designate a system state as such is through recognizing the particular values of the units within the whole system when is in *that* location or position.

Thus, a system state is apprehended only by knowing the characteristic values (inclusiveness) of all the units of the system. These values, in turn, must be determinant and persistent over time.

When all units of the system have characteristic and determinant values, and when these constellations of values persist through some time interval, we can designate this is a system state. The length of time over which the system state persists is the state life.

13.1.5 The propositions.

Other aspect of theory building is propositions. Propositions are truth statements about a model that are fully specified in its units, laws of interaction, boundary, and system states. Any truth statement that can be made about such a system is a proposition of the system. However it is very important to note that a collection of propositions is not a theory or scientific model.

The propositional statements are predictions because they state what must be true about the model in operation given the components, units, laws of interaction, boundaries, and system states that characterize the model. Dubin's theory building phases are depicted in figure 13.1

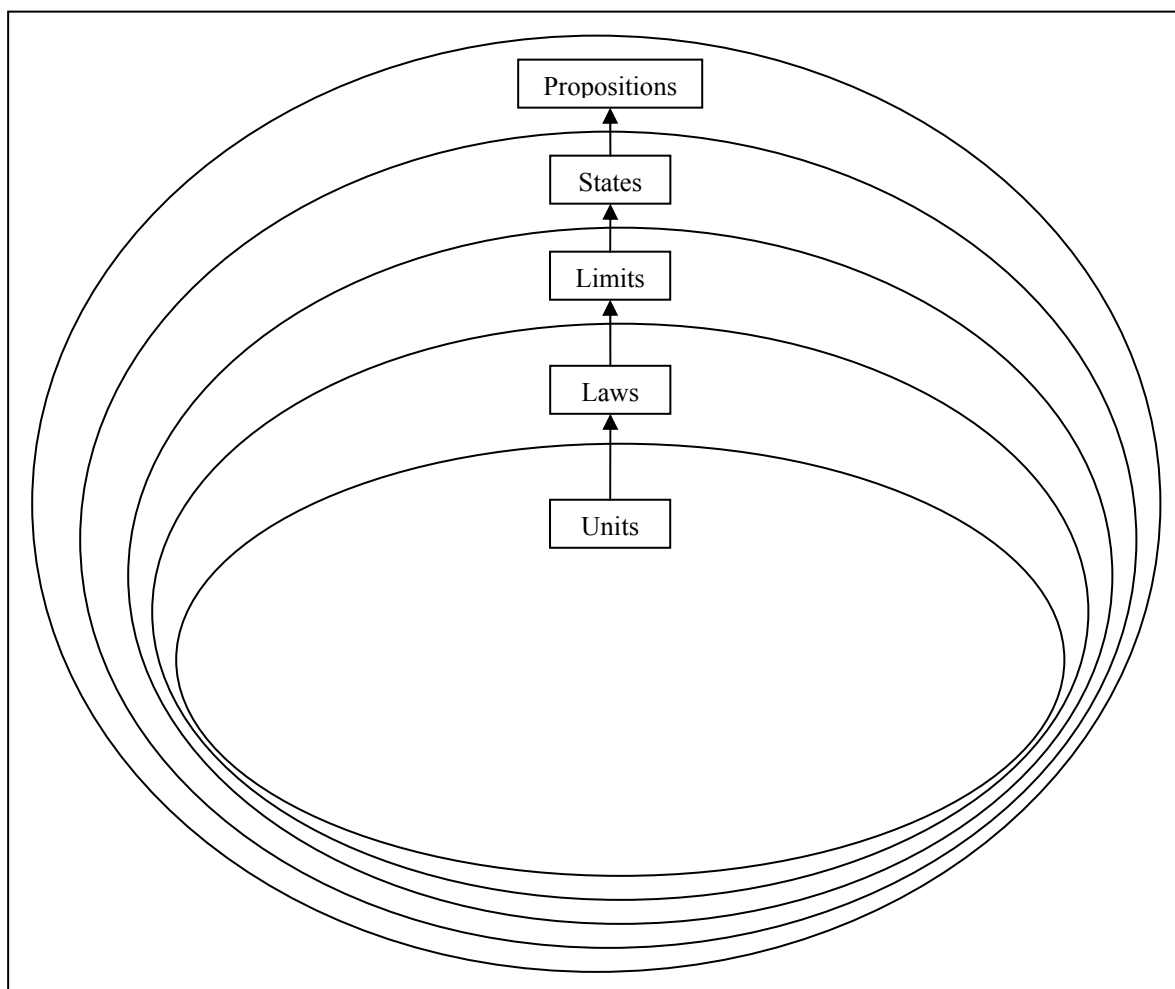


Figure 13.1 Dubin's theory building phases. Source: the author.

13.2 The case study research framework.

In the previous section the frame to build theories was set. As a natural consequence, once the theory and its corresponding model are built they must be tested empirically. For this last step to be achieved successfully, the case study research framework is presented in this section.

The distinctive need for case studies arises out of the desire to understand complex social phenomena within its real-life context and examining contemporary events but when the relevant behaviors cannot be manipulated; this is, intense study of the experiences of a single organization at a single point in time (Kaplan, 1998). This is why using case studies for research purpose remains one of the most challenging of all social science endeavors (Yin, 2003).

This research includes amid other sources of information: direct observation of the events being studied and interviews of the persons involved in these events. But not only this research uses the former mentioned techniques; its main strength is its ability to deal with a full variety of evidence such as documents, artefacts, interviews, archives, questionnaires (Eisenhardt, 1989) among others. The evidence may be qualitative (e.g., words), quantitative (e.g., numbers), or both.

13.2.1 The case study characteristics.

Other characteristics of the case study research (Benbasat *et al.*, 1987) are:

1. One or few entities (person, group, or organization) are examined.
2. The complexity of the unit is studied deeply (intensively) and holistically (Lönqvist, 2004).

3. Case studies are more suitable for the exploration, classification and hypothesis development stages of the knowledge theory building process; the investigator should have an open mind towards exploration.
4. The investigator may not specify the set of independent and dependent variables in advance.
5. The conclusions arrived at depend largely on the ability of the investigator to collate all the gathered information.
6. Changes in site selection and data (information) collection methods could take place as the investigator develops new hypotheses.
7. Case research is useful in the inquiry of *why* and *how* questions because these deal with operational links to be traced over time rather than with frequency incidence. Put it another way the reasons why things happen in a certain way over time.
8. It is more process- or means-oriented and helps the researcher comprehend why certain characteristics or effects occur, or do not occur (Meredith, 1998).
9. The results being obtained are valid within that particular frame (assumptions, beliefs, perspectives) of the investigator. Consequently the potential surfacing of bias (cultural taint) is highly probable.

Once the characteristics of the case study have been defined, a research design is presented. These are the necessary steps to obtain the

expected results in a coherent form. Put it another way is the logical sequence that connects the empirical data to a study's initial research questions and, ultimately, to its conclusions. This is shown in figure 13.2

- 1) The study's objective.
- 2) The testable hypotheses.
- 3) The units of analysis.
- 4) The logic link between data obtained and the hypotheses.
- 5) The criteria to interpret the obtained results.

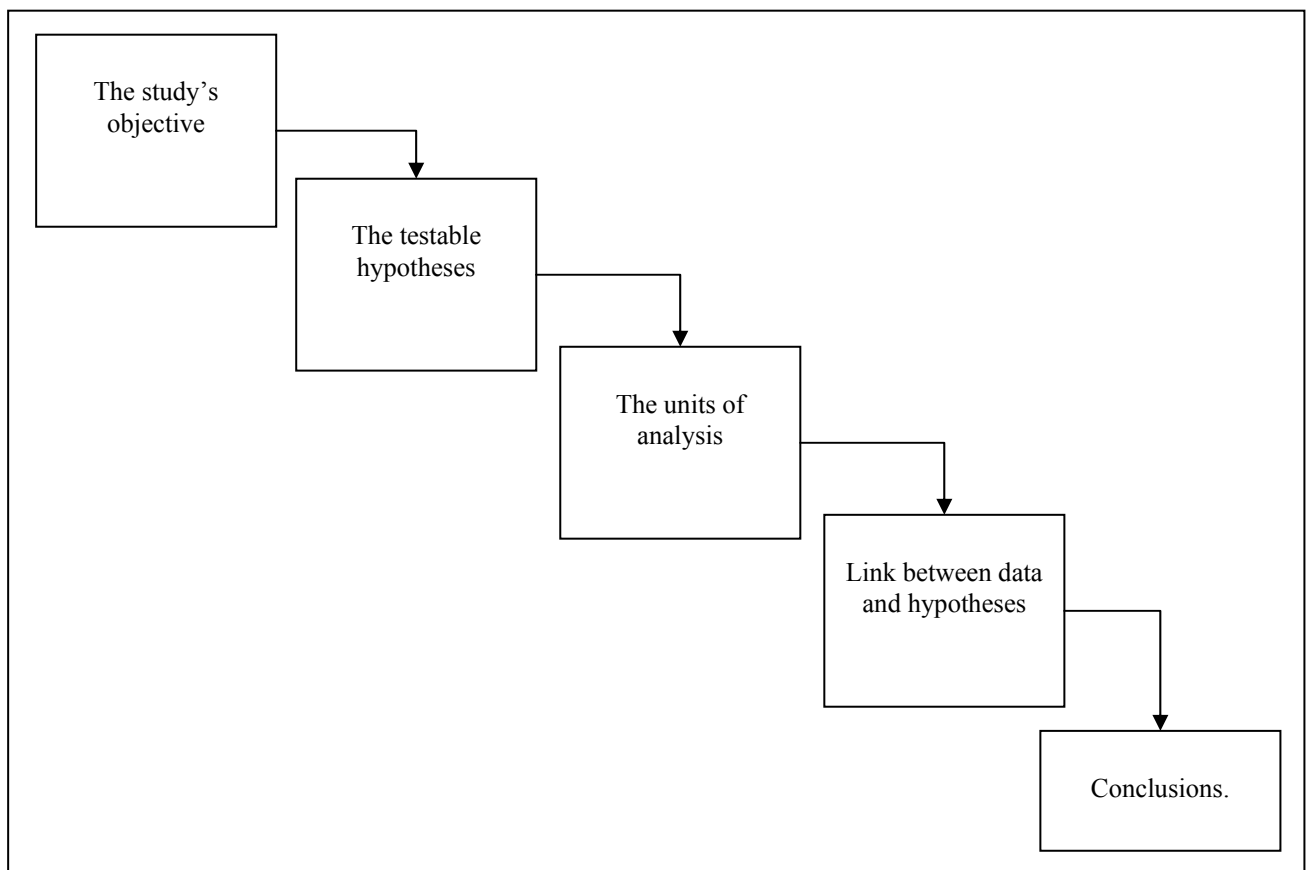


Figure 13.2 The research design. Source: the author.

13.2.2 The case study logical tests.

Because a research design is supposed to represent a logical set of statements, it is important to judge its quality according to certain logical tests. These are:

Construct validity. To meet the test of construct validity, an investigator must be sure to cover two steps: 1) Select the specific types of changes that are to be studied (and relate them to the original objectives of the study) and 2) Demonstrate that the selected measures of these changes do indeed reflect the specific types of change that have been selected.

Internal validity. The investigator is trying to conclude that event 'y' was caused by event 'x'. However if a third factor (event) 'z' was not considered and this affected the whole outcome, the internal validity of the research is threaten. The goal is to demonstrate that the inquiry has been conducted in such a manner as to ensure that the subject was accurately identified and described (Green *et al.*, 2002).

External validity. This entails judgements (analytic generalization) about the relevancy of the study to a second setting. That is the investigator is striving to generalize a particular set of results to some broader theory.

Reliability. The idea is that if another researcher follows the methods of the first researcher and performs the same case study again, the former researcher must arrive to the same results (minimum errors and biases) as the latter researcher did.

13.2.3 The replication logic.

Given that a theory and its model are proposed, the kind of case research study that is being used is the *multiple holistic*. This is so because the evidence from multiple cases (more than one unit of analysis) is more compelling and robust when compared to a single case study. It is holistic because the case study examines only the global nature of the unit. The results from these cases should furnish sound

results either to corroborate or deny the proposed theory and its corresponding model. However for these results to be sound and reliable replication logic must be achieved.

This replication logic means that upon uncovering a significant finding from a single case, the immediate research goal will be to replicate this finding by conducting a second, third, and even more cases. Some of the replications might attempt to duplicate the exact conditions of the original experiment. Other replications might alter one or two experimental conditions considered irrelevant to the original finding, to see whether the finding could still be duplicated. Only with such replications would the original finding be considered robust and worthy of continued investigation or interpretation. An important step in all of these replication procedures is the development of a rich theoretical framework.

13.2.4 The data collection.

A major issue in the case study research is data collection. Since case studies are much more than stand alone questionnaires deep interviews are conducted with key people in order to obtain the required information. Complementing the aforementioned sources of information are: the researcher's observations (either directly or indirectly), news clips, press releases, documents. This last source of data can be either internal or external files. By this is meant that the internal files are within the unit of analysis (company) and external files outside of it, i.e. a third party having some other documents to further amplify the information of the unit being analyzed.

As a corollary it is worthwhile to mention that since various sources of information are used, none is better than the others. Put it another

way the more different sources used in a complementary approach the better (robust) the achieved results.

13.2.5 The case study protocol.

The protocol for gathering the information in a successful manner is a list with the following items:

- 1) The names of sites.
- 2) The names of key interviewed persons.
- 3) A visit calendar for these sites.
- 4) The amount of time spent in each site.
- 5) The specific documents to be reviewed and if not in the same place, where are to be located outside the unit of analysis.

Once the protocol is completed and all the information (data) is gathered a triangulation exercise is held to obtain the general (holistic) picture of the unit of analysis. This means a thorough (cross) analysis of all the sources of information collected. Finally the last two steps in the case study are:

- 1) Cross-reference of observations between units of analysis (triangulation).
- 2) An individual and a global report for each unit of analysis are written.

The reason for these last two steps is twofold. On the one hand with the cross-referencing of information the theory and its model are to be corroborated or denied. The common and divergent factors affecting all the cases will be shown. On the other hand with the individual and the global reports the conclusions and further lines of inquiry will be exposed.

13.3 Conclusion.

A theory is a model of some segment of the observable world. Such a model describes the face appearance of the phenomenon in such terms as structures, textures, forms, and operations. In order that such a model is considered dynamic, it also describes how the phenomenon works, how it functions.

Because of this needed representation and understanding of the observable world, Dubin's methodology (Ardichvili *et al.*, 2003) for theory building provides a comprehensive methodology for theory building that is particularly relevant for applied fields such as management. It comprises:

- 1) Units (i.e., concepts) of the theory.
- 2) Laws of interaction (among the concepts).
- 3) Boundaries of the theory (the boundaries within which the theory is expected to apply).
- 4) System states of the theory (conditions under which the theory is operative).
- 5) Propositions of the theory (logical deductions about the theory in operation).

On the other side of the spectrum is the need to test empirically the theory and its corresponding model, i.e. the representation of the observable world. To achieve this, the case study framework comes in hand to help the researcher. Once the data has been gathered, analyzed, and put it in perspective, the researcher derives its conclusions to determine how accurate does this representation of reality is. However, given the nature of the case study framework this process is an interactive one, i.e. as new data is discover new ideas emerge and so the original design will probably suffer changes.

Chapter Fourteen

The Building of a Theory and its Model

*Effective business models are rich and detailed and the components reinforce each other.
(Linder and Cantrell, 2001)*

14. Introduction Chapter Fourteen.

The previous chapters, in the state of the art, set the ground for the components of our theory and its corresponding model. These are the building blocks that allow formulating a business unit strategy considering the intangibles assets within the context of the knowledge economy.

In the one hand, strategy is the creation of unique, flexible and worthy position encompassing several best-in-class valuable activities (Porter, 1996). Within the context of the knowledge economy, the opportunities to create and sustain (new) economic prosperity are few. This is mainly due to a continuous and fierce competition by either incumbents or new participants in single or multiple markets.

On the other hand, because of the above, managers need to elucidate winning strategies (postures) that allow them continuously (dynamically) face their competitors and pave the road for others to follow, i.e., to become leaders and have followers. Ideally this should be done as costless as possible with the highest (obtainable) profits.

They are several reasons why a sound, well and systematic formulated strategy must be done, namely:

- 1) If management wants to communicate the strategic vision (Love *et al.*, 2002) the best way to do so is through explicit strategies.
- 2) Because the time for a strategy to produce (fresh) wealth (Szulanski and Amin, 2001) is shortening, a way to overcome this situation is through well-balanced strategies formulated at a much faster pace.

- 3) A well-formulated proven strategy (formula) is to become within time a successful business recipe (Viedma, 2003).
- 4) The formulating of strategies (Grant, 1991) just considering the static view (industrial organization economics) that has dominated for many years is not enough for the turbulent times. Therefore in the formulating of reliable strategies intangibles resources need to be considered.

Once the reasons to formulate a strategy have been presented, attention is turn now to our theory, followed by a match between that and Dubin's theory building phases to conclude with the proposed models to formulate business unit strategies be these of innovation, operations or both.

14.1 A theory to formulate business unit strategies.

A sound and a reliable strategy should consider in its inception:

- 1) The business unit intangible resources.
- 2) Its core valuable activities.
- 3) Its capabilities.
- 4) Its products and services.
- 5) Its objectives (goals) and values and
- 6) Its year-end financial results.

The previous characteristics are to be within the internal side of the business unit, this means that an internal analysis should be carried out to obtain these. Presumably (strategic) opportunities will turn out.

From the external (competitors) side of the business unit, a focus (through a benchmarking exercise) must be done to those best-in-world

competitors, so to enhance its internal processes. This is those processes that the business unit wants to improve should be the subject of this analysis (comparison). Once the comparison is performed, the improvement opportunities should arise pointing out what needs to be amended. The benchmarking exercise should be carried out in a priority fashion. This way, resources (tangible and intangible) are optimized.

However to further improve the quality of the strategy another external analyses should be performed. A technological surveillance and business intelligence (process) ought to be carried out to obtain information (data) to be turned into competitive intelligence to better support the decisions of the formulation of the strategy.

The reason why a technological surveillance must be carried out is to help the business unit to discover those technologies (be in the technological industry or not) that could potent the goals (objectives) and maintain its competitive advantage.

The competitive intelligence process comes in hand to obtain data (information) that will help the business unit to profit form this and better comprehend its competitors (or would be) and act accordingly. The analogy is to detect all the possible 'enemies' on a radar screen before they have been physically spotted.

The outcome of these internal and external analyses should be concentrated (consolidated) in a database where key people (mostly managers) can have timely access to it and formulate competitive business unit strategies (operations or innovation).

However, given that the previous strategies have been formulated and put into practice, this information (experience) should contribute to sharpen the current or would-become strategies. This point is basically

referred to the historical (strategic feedback) side of the business unit, i.e., its strategy formulation history.

Last but not least, an important concept to consider into the formulation of the strategy is intuition (and imagination) to where the business unit must be heading, i.e., goals or objectives. Put it another way, strategy formulation is an art. In this sense some leeway (a not-rigidity issue) must be permitted to formulate a strategy.

As a corollary two important point are to be made:

- The strategy formulation process must consider the firms' clients (customers) to fully satisfy them, and not act blindly.
- This strategy formulation process functions not only to elucidate general business units' strategies, but also particular ones, i.e., innovation and operation strategies.

14.2 The components of the theory.

14.2.1 The units of the theory.

The units (Dubin, 1969) of the theory are:

- The (dynamic) capabilities.
- The benchmarking exercise.
- The business intelligence process.
- The goals, objectives and values.
- The key (core) activities.
- The products and services.
- The resources (intangible and tangible assets).
- The strategy.
- The technological surveillance.
- The year-end financial results.

These are the units because they are not theories in themselves but they represent a concept that makes sense, and have the following characteristics:

- They are attribute-units type because they have the property of being present. This means that, for example, for a dynamic capability to exist the characteristic of learning must be present. Because of the previous explanation, these units can also be termed enumerative type because they are present, i.e., not absent.
- Given that these units are defined they can be considered sophisticated. Otherwise pieces of the theory are missing.
- They have a given value. For example, in any given business unit at least must have one resource, capability and so forth. Otherwise it would be an associative unit, i.e., units that have the possibility to have a zero (non-present) value.
- These units are not relational because the concepts can be understood on their own, i.e., they do not need to be in any relationship with each other (unit) to be understood (defined).

A final consideration regarding the summative and relational units should be made. They are not present in this theory for two reasons.

A) Because in this theory are enumerative units, in the *same* theory cannot be relational units. This is a relational unit is not combined in the same theory with enumerative or associative units that are themselves properties of that relational unit (Dubin, 1969).

B) The same can be stated about summative units. Summative units have utility in education of and communication with those who are naïve in a field. Summative units are not employed in scientific models (Dubin, 1969) therefore this theory has no summative units.

14.2.2 The laws of interaction of the theory.

As stated in the methodology chapter, units of a theory are pretty much useless without a law, i.e., the relationships between the units of a theory. In this sense the laws of this theory are:

- 1) *An internal, within the business unit, analysis is required to formulate a sound and reliable strategy.* This means that the first part of the strategy is an internal analysis.
- 2) *Once the internal analysis is performed, an external analysis (benchmarking, business intelligence and technological surveillance) is carried on to complement the formulated strategy.* This means that the second part of the strategy is an internal analysis.
- 3) *The outcome of both (internal and external) analyses is put forth to show a balanced strategy.* This is the summing of all the performed analysis.

The previous tree laws hold the characteristics mentioned in the methodology chapter:

- I) They are not measured themselves.
- II) They denote the relationship between the units (be these internal or external) and
- III) If needed, they could be changed, i.e., they are not absolute.

These tree laws are not categoric laws because the units in the statement must come in *that* order, i.e., they are not symmetrical. If the order is to alter, it will be a senseless statement. This means that first the analyses (internal and external) must be carried out, then put forward and finally the strategy emerges, and not the other way around.

These tree laws are not determinant laws because the units in them are not expressed in value, i.e., in a numerical form (way). For example, as stated before, to formulate a sound strategy, some intuition (in the internal side of the analysis) is needed. To assign a value to intuition it is just not feasible.

The final point considers the sequential laws. These tree laws do fit this definition. This can be easily corroborated because in order for a business unit to have a strategy (ies) first the internal analysis is executed, followed by the external one to lastly formulate a strategy (either general, for innovations or operations). Because of this sequence, the whole strategy formulation process (system) has proved its logic.

14.2.3 The limiting boundaries of the theory.

As was presented in chapter thirteen (methodology) this theory has its limiting values (boundaries) and a domain. The boundaries are set from the units and the laws of interactions among the units. From the unit perspective, all the units set the limits (boundaries) of the theory. This means that they restrict the strategy formulation process (system) to be built from those units.

To formulate a strategy the sequence set must be achieved and no other. A syllogism can help to see this more clearly. Units are part of the internal and external analyses; the (both) analyses end up in formulated

strategies therefore the units are parts (components) of strategies. This is the sequence law explained previously.

At this point the boundaries of the theory have been set from the inside (interior) therefore is a closed system. However once the model is tested empirically, changes might be suffered. If any new units or laws of interaction not previously considered arise, it will be turned into an open system, i.e., has an exchange with the outside. If this is the case new boundaries will be set forward; this means that an exterior boundary criterion will appear.

As from the domain of the theory it can be thought of the business unit level. This means that the strategies formulated considering the (previously defined) units and the (sequential) laws only apply to the business unit, i.e., not corporate strategies. The reason for this is that both, the units and the laws of interaction for corporate strategies, as well as the boundaries, could be different from those of the business units.

14.2.4 The criteria of the theory.

In this theory tree criteria appear. These are inclusiveness, determinacy and persistency (Dubin, 1969).

The criterion of inclusiveness is present because of the characteristic values of the units. This implies that the units can have either positive or negative values. For example a non-desirable social capital relationship has a negative impact (value) on the employees of the firm.

The second criterion being present in this theory is that of determinacy. This is so because the unit can be measured by, for

example, observation. This point is amplified in the case study part of the methodology chapter. Another characteristic of this criterion is that units are distinctive. This means that the mentioned units are unique to this strategy formulation process (system).

The final criterion in this system is that of persistency. By this is meant that the system (strategy formulation process) has a time frame. This is that it lasts for until the business strategy is formulated. However depending of the business unit, the time lapse might be more or less. This supposes that not all strategy formulations processes last the same.

The previous tree criteria have been fulfilled, it can be concluded that the system state of the theory have been introduced. Expressed another way, to a system state be considered as such, these tree conditions are to be satisfied.

14.2.5 The propositions of the theory.

This last phase of Dubin's theory building methodology is the constructing of the propositions. These are:

- 1) If the internal analysis of the business unit resources (tangible and intangible) is carried out systematically, then the first part of a well-formulated and robust strategy (innovations, operations or both) emerges.

- 2) If the external analysis of all the business unit competitors along with the technological surveillance and the business intelligence process are executed in a systematic way, then the second part of a well-formulated and robust strategy (innovations, operations or both) emerges.

It is worthwhile to mention that these propositions are not the theory itself; instead they follow logically from the model to which they apply (Dubin, 1969).

14.3 The models to formulate strategies.

Once that the theory and its components have been introduced the models to formulate strategies be these innovations (figure 14.1) or operations (figure 14.2) are depicted.

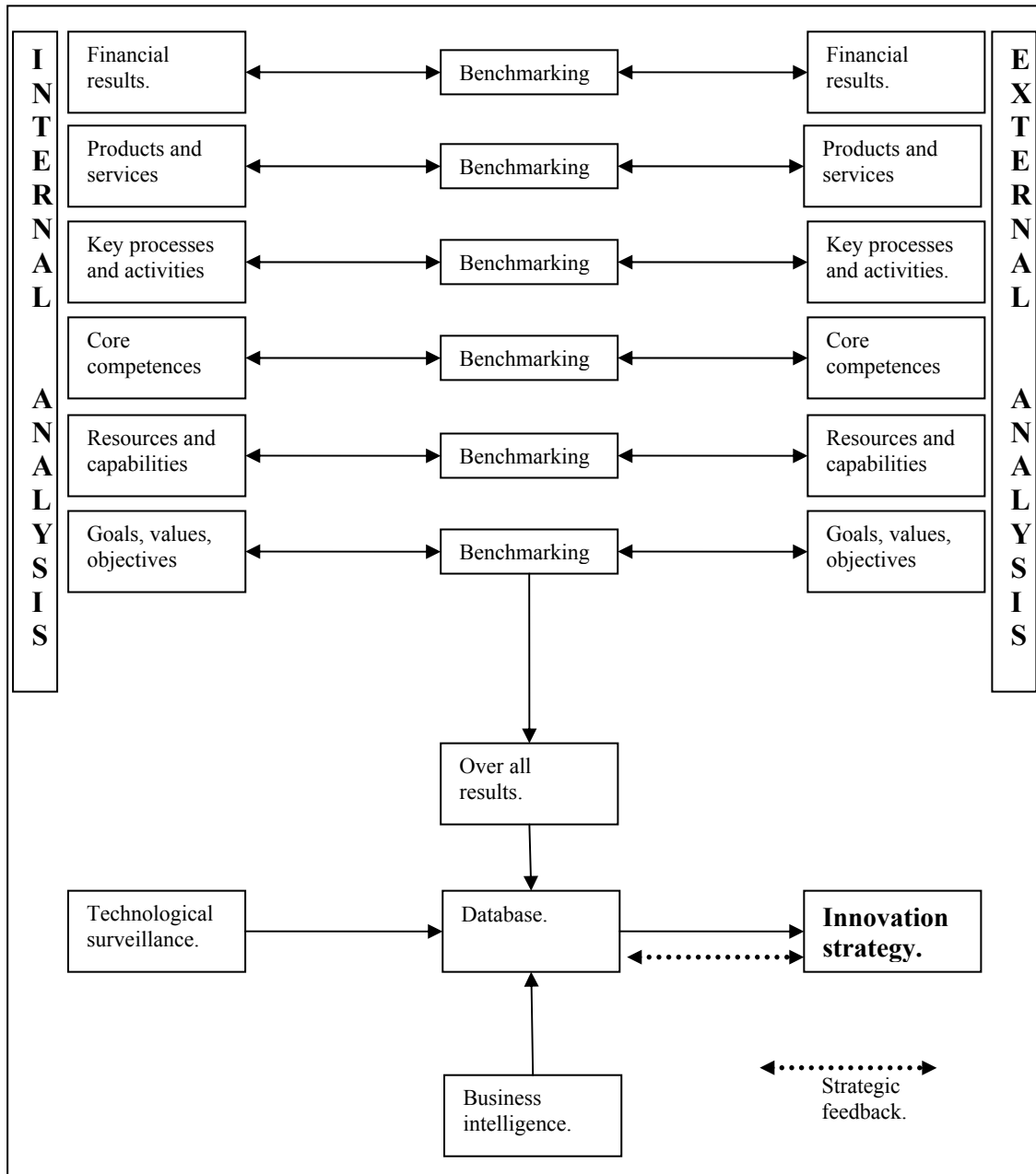


Figure 14.1 The strategy formulation system (process) that produces knowledge for a better formulation and re-formulation of the innovation strategies. Source: modified from Viedma (2003) and the author.

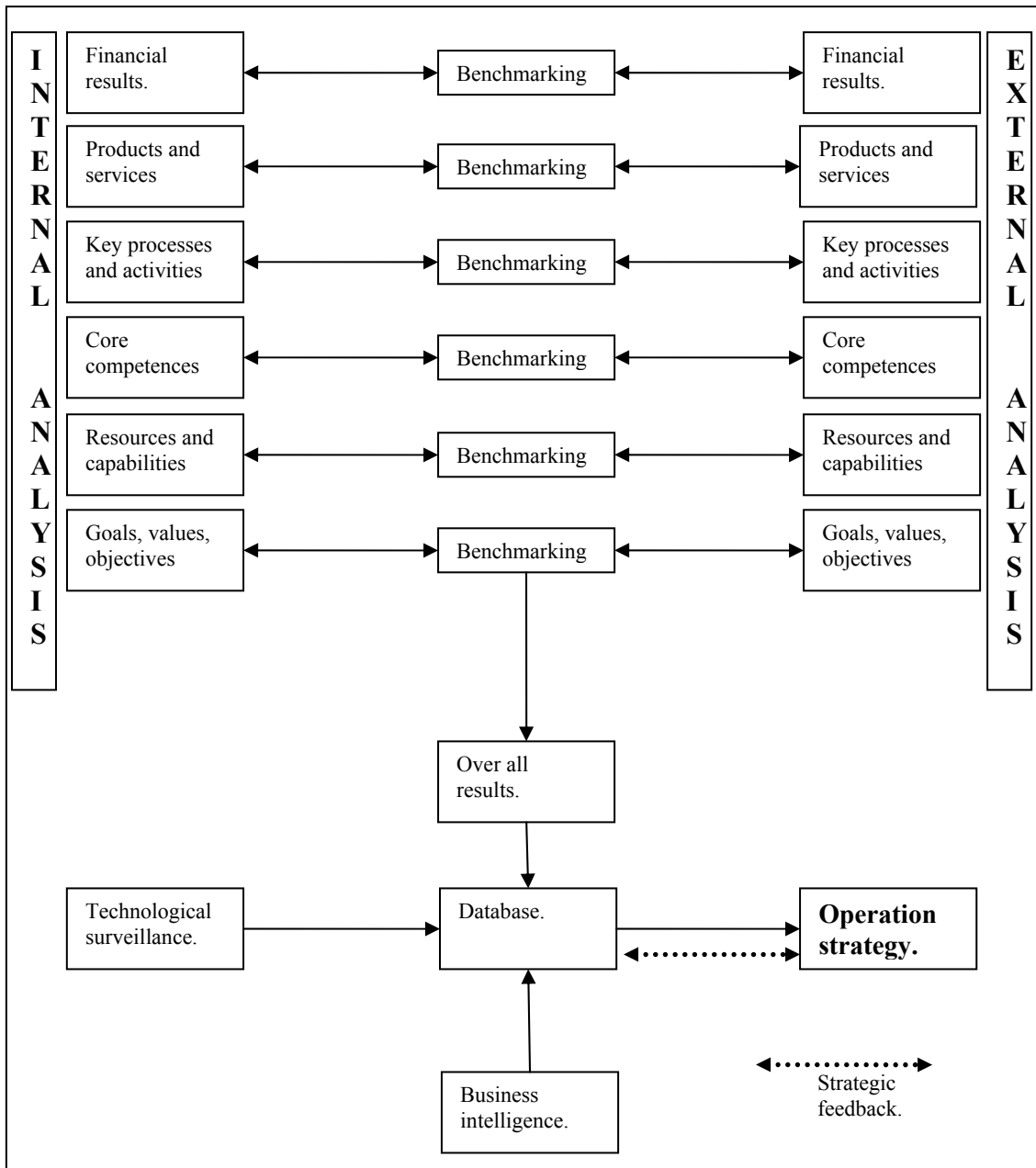


Figure 14.2 The strategy formulation system (process) that produces knowledge for a better formulation and re-formulation of the operation strategies. Source: modified from Viedma (2003) and the author.

Chapter Fifteen

The Catalonian Textile Context

*Innovation involves substantial risks, but also has the potential for
extraordinary returns.
(Hayton, 2005)*

15. Introduction Chapter Fifteen.

This thesis is circumscribed in the Catalonian textile industry. As such, this chapter deals briefly with this context. It starts from Roman times up to the twenty first century.

15.1 The beginning: from Rome to the XIIIth Century.

Rome came to Hispania ages before the Christian era (Castells, 1951). During its domination, the mechanical arts, especially the making of certain wool fabrics were carried with superb knowledge. According to Pliny the wealthiest Romans wore richly fabrics that were made in the municipal province of Egara, in Tarragona. The elevated price of these fabrics was not only due to the fine making but also to the quality and colourful dyeing.

That booming Tarrassa arose from the destruction of the Saracens in 714 AC, leaving way to the Egara's prominent industrial and commercial splendour. Four centuries had to elapse for the worldwide name of the Terrassa's fabrics that were sold in Naples, Sicily, Sardinia, Esmirna, Cairo and Alexandria to become famous.

By the thirteen century good references were of the wool fabrics and their exports to the known world; they specially were sent to Italy, and afterwards Holland, Palermo, Naples and Genoa. Because of this flourishing industry in 1240 some privileges were conceded and by 1279 it was fully recognized as a Villa with a great export capacity of wool weaves, pointing the fact that numerous Jews were in Tarrassa's wool center.

Initially the guilds from Tarrassa, as the rest from Catalonia, were groupings of textile masters, and as such they were named

“parayres (pelaires)” (Torrella, 1953). These were later followed by groupings of weavers and in some cases textile apprentices.

The parayre was the textile craftsman, owner of a factory and sometimes more than one, in which they were two or three looms and the corresponding personnel (masters and apprentices); he not only commanded them, but worked there. These factories were family-owned businesses. The current analogy with this explanation in the XXI century is the textile entrepreneur.

Because of these associations, in 1285 the manufacturers from Tarrassa established an agreement with the Institution *Prohoms de Mar (Promen of sea)* from Barcelona, so that they could sell their products in Palermo and other towns. However in order to sell in Italy they had to fight continuously against the piracy in the Mediterranean coasts. It is believed that these merchants had at their disposition two boats that were the ones that exported and imported textile products to and from Greece and Egypt.

15.2 From the XIVth Century to the XVIth Century.

In the middle ages, Catalonia had shaped a very powerful textile industry that given the positive circumstances, managed to create unions but this industry was not able to make fine fabrics (Torrella, 1952, 1956). The main production was low-quality, i.e. not luxurious, wool cloths that were worn by the working people of the towns or country-side. These people appreciated these cloths because of its high durability.

These cloths that were made by the guilds from Barcelona and their main surrounding villas were also exported to other peninsular

kingdoms such as France, Flanders, Italy among others. This was achieved because of a very efficient and organized commercial network. However these products were not alone; they had to face the competition (big quantities) from the other regions as well.

The textile industry in a first impulse of progress, that had already transformed many flour mulls into cloth mulls, goes a step forward and pushes men and their activities to the flourishing bourgeois cities that had a small population, but heavily visited by merchants from far away countries (Torrella, 1952). In these cities, because of these merchants, were the products that men needed for their activities: wool, soap...this process ends up changing the rural textile landscape into an urban one within a very short time period.

15.3 From the XVIIth century to the XIXth Century.

By 1609, the pelaires and wool weavers promoted a mutiny on Corpus Day because the authorities, the civil and ecclesiastical ones, forbid them to use in the parade the blue flag of the guild (Castells, 1951). Because of this mutiny the parade had to be suspended and the leaders of the mutiny were prosecuted and ended up in jail in the Episcopal Palace in Barcelona. Apart from this guild related issue, the wool industry was decaying as to the quantity produced but not the quality of the product; the chronicles from those days point out that the cloths from Tarrassa were far better than the most renamed ones from Holland and France.

The 13th of December of 1682, Charles III promoted a law stating that the examinations (tests) for any kind of job in the clothing industry were necessary. By this time in the factory was at least one (master) weaver, carder or dyer. Sixteen years later the decrees about apprentices start to regulate this function.

From the beginning of the 1700s, mineral substances were used to dye the cloths. This meant that an important and wide technical impact had on the society at large (Torrella, 1960). Economically speaking it also had its consequences: the long-standing union tradition had been abolished therefore freeing the professional jobs.

Because of this re-shaping of the industry, Catalonia was in a position to face the (rapid) changes at the end of the XVII century. A new epoch of prosperity (economic wealth) was beginning consequently better positioning the region against the political crises and governmental errors and even the foreign wars.

At this point it is worthwhile to remember that even though the economic prosperity, the wool traditionally used in Barcelona, had its origin in the Catalonian regions, especially those near the Pyrenees: Maestrazgo (Aragón); however Castilla and Extremadura were controlled by the French. A document of that time shows that the French held all the commercial operations of the wool: the shearing of sheep and selling the wool at higher prices. Consequently the Catalonian merchants asked not only for lower prices, but to avoid paying the *bolla* tax. These two issues, the ownership of wool by foreigners and the corresponding taxes on wool did not affect the cotton industry.

The *bolla* tax is a tax that was collected only in Catalonia by the General Deputy (*Generalitat*); the main governing body in Catalonia. The origin of this tax dates from the XIII century and was abolished, after a long history of incidences, by Charles III in 1770. As a substitute for this tax other (economic) border rights on imported and national merchandises was imposed.

A key issue by this time was not only the change *per se* but the innovation topic. This was pointed by Narciso Feliú de la Peña. He established the basic philosophy of the modern (renaissance) textile industry based in the absorption and adaptation of all the foreign progresses, namely: machining, working and payment systems, anti-guild policy, new financing and commercial methods and most of all the strengthening of a new cotton manufacturing scheme that would be capable of, at least, equalling the long-standing powerful wool industry. This was so because during the eighteen century the Catalonian cotton industry was highly dependent of imports (Nadal and Ribas, 1970).

The reason for strengthening the cotton industry were not only because of the innovation issues or the dependency of imports, but to return to the glorious days in 1860, were the Catalonian fabrics utilized 20,000 tons of fibre; this was more than ten times the amount from 1820. Basically what the government was looking for was the once held prime place of the Catalonian cotton industry in Europe.

To reinforce the cotton industry, Charles III signed a decree in November the 14th of 1771, forbidding the introduction of any kind of cotton weaves into his domains that proceeded from abroad (Castells, 1951). This not only meant the cotton itself, but any kind of fabrics that had traces of the aforementioned product.

So the cotton gave the needed vitality to an industry called *indianas* (Indians); hand- and printing-made fabrics that were very popular all over Europe, specially in France (Torrella, 1961). This industry was born out of exuberance and breaking all the established old working patterns. This new industry installed in particular homes, narrow streets, placing the fabrics in the middle of the streets,

terrible odours, smoke, i.e. pollution. This provoked important social and economic disequilibrium, such as the rapid re-location of workers from one job to another, lack of land near the cities were to raise crops, the raising prices of supplies (food), scarcity of coal, the up rise of rents, the abusive selling of houses to be converted in these new factories, among others.

As a consequence this praised new industry that was initially born free of guilds and unions became almost anarchic, damaging the owners of the factories, and calling for the intervention of the corresponding authorities.

Continuing with the issue of innovation the Catalonian manufacturers, bypassing the surveillance of foreign governments, managed that the French and English textile machines or their blueprints were introduced illegally in the country with not too many years of difference from the country of origin, therefore having access to this new technology.

However this was not a stand-alone effort. The Commercial Council had a major role in this task by supporting the progress of the manufacturers and in some cases improving the available technology as with the "Spinning Jenny" of James Hargreaves. This machine was introduced in Catalonia ten years after it was invented (1773) and modified and improved by Berga, changing the name to "Bergana".

Keeping on with the social changes of this century and to give an impulse to the textile industry, in 1784 (September 2nd) Charles III signed a decree allowing the women to work not only on this industry but in the many arts that were compatible with their everyday life, thus revoking any other previous decree with this

prohibition. So the idea was to set the way to allow the women to work in an industrialized world traditionally ruled by men.

The effects of the technological revolution were felt right away: lowering of costs, prices and the (rising) size of the market. At the same time the spilling of knowledge was reflected in the manufacturing system (mainly staple fibre) and the progressive specialization of the workers that they start looking and considering this new activity as a main source of their income.

All in all the process suffered in the eighteen century altered deeply the textile industry (Nadal and Ribas, 1970). On the one hand the machines affected the new geographic location of the factories and on the other hand the rising costs of these machines forced, to a certain degree, the concentration of factories, i.e. the survival of the strongest one.

To get rid of the early machines, the cotton manufacturer used the power of horses, water or steam. The first one was easily surpassed by the other two. However the water streams were not located everywhere nor was the British coal straightforwardly carried deep inside the territory. Because of this situation it was a factory-moving issue to some shores and to the coasts of the Mediterranean.

Nevertheless a company did manage to use some available technology. The Barcelonese factory of Bonaplata, Rull Vilaregut y Cia, was the first one to install a Watt machine; this was the reason why it was considered at that time a landmark in the economical history of the country. In 1833 it was named "the complete revolution" of the staple fibre and in 1847 was considered as the departing point of the "industrial revolution".

Another example of this industrialization was the capital of the Garraf coast (west of Barcelona), Vilanova. This city triples its manufacturing potential between 1850 and 1861 moving from the seventh and eleventh to the third position in spinnings and weaves. This was done thanks to a steam machine, positioning Vilanova very quickly to the lead of the industrial age.

The previous two examples of industrialization were not one-time efforts, i.e., the industrialization of Catalonia has to be understood in a European context. The Catalonian industry was contemporary of that from Midi and Piedmont (Benaul, 1995). However the Catalonian industry had a time lapse delay of ten to fifteen years against that from France and Belgium. This was even more when compared to the one from Yorkshire. But even this time lapse, as has been stated, did not have an impact in the productivity of fabrics and cloths.

Actually, what happened was just the opposite. Because of this time distance, the Catalonian industry mechanize itself, therefore several improvements occurred: the thread was finer (thin), the dyes enhance their attributes and the final product had a higher quality. The fact that the Catalonian manufacturers achieve these enrichments in their products was also supported on the basis of contracting foreign employees, the travelling of entrepreneurs abroad and the capacity to innovate.

These travelling abroad trips had a good payoff. In 1875 (November), the city of Tarrasa shows its weaves at the exposition in Philadelphia (Castells, 1951). Because of the war against France, the wool was short in supply. This was the reason why in 1876 the main wool consumption came from Castilla, Extremadura, Montevideo,

Buenos Aires and Germany. Again, these trips not only provide the much needed wool but fresh new ideas.

However these industrialization times were not problem-free. In 1877 with the mechanization appeared social problems. In this year the first strike of the mechanical weavers hit the industry. The major progress they achieve was a salary rise: twenty-five pesetas per week. Three years later the working day was twelve hours. In 1899 the working day was eleven and a half hours and by 1910 was reduced to eleven. Because of these social concerns, in 1886 (June 29th), the Chamber of Commerce and Industry was founded.

Less than a year later (January 19th) the Chamber asked the government a request to free from tax paying the oils (grease, lubricants) that were used in the wool industry. This tax is known as consumption tax. The 31st of July of 1887 was published the first number of "*Boletín de la Cámara de Comercio de Tarrassa*" (Tarrassa's Chamber of Commerce Bulletin). This bulletin was dedicated to the study and promotion of the activities and knowledge (industrial and commercial) of the industry.

As the industry kept on expanding, so did its fame. By 1890 all the wool products from Tarrassa were highly regarded for their quality in Portugal. Seven years after this event, the "*Sociedad General de Electricidad*" (General Electric Society) installed on February the 1st a power (electric) plant with a 200 C.V. That same year, as part of the opening process of the industry, the first Russian towel maker company was inaugurated in Catalonia.

A big step was taken in 1904. Given all these fast paced changes, a Royal Decree (May 8th) created and impulsed the major in Engineering in Textile Industries and the only place that was allowed

to teach this all over Spain was the school of Tarrassa. This issue points out the importance of Tarrassa at the national level.

Once the abroad expansion started it was difficult to stop. By 1908 the cloths from Tarrassa were appreciated in Mexico. In November an Export Congress was celebrated in Zaragoza. There the industrialists from Tarrassa seek out the way to export all their excess production. However this was not the only congress that was attended by the industrialists. In 1910 they travelled to Buenos Aires to show their textile products. Fourteen years later Tarrassa participated in a trade show in Havana. That same year (1924) the industrialists went yet to another trade show; this time was in Lima, Peru (December).

Because of all these assistances to trade shows, by 1926 the export markets of Tarrassa were: Portugal, Cuba, France, Italy, Belgium and Algeria. Another important labor shift came in 1927. By this time (February) all the offices and warehouses were working just five days a week, i.e. the English working week. This year two more markets were added to the export list: Romania and Australia.

In the 1930s the industrialists from Tarrassa attended twice the Lyon trade shows (1931 and 1932). This, again, was a major impulse consolidating the Catalanian textile industry abroad. However, the labor changes were kept as well at a steady pace. A year later all the workers from the textile industry had the right to take yearly holidays. Last but not least, on February the 13th of 1933 was inaugurated the Technical-Textile Library (in Tarrassa), which was focused on the textile industry; among other sources of knowledge were held national and foreign magazines, specialized books, diverse related works.

15.4 From the XXth Century to the XXIst Century.

After the historical perspective of the Catalonian textile industry, the attention is turn now to the current situation. As has been stated, one of the main drivers in this industry is the innovation issue. This issue has a great impact in the strategic (excellence) performance (Cardona, 2005). This is so because it exist a high correlation between the expenditure in research and technology and the economical and material welfare (Castells, 2005).

In spite of this, however, in 2002 Spain's total Gross Domestic Product (GDP) expenditure in innovation was around 1.05%. From this figure just 48.4% comes from the private sector (Castells, 2005). As for the Catalonian textile industry, the innovation to sales ratio is 1.99% (Ribera et al., 2005). Complementing the latter figure, in 2002 the Catalonian government set an expenditure for innovation of 1.3% of GDP and in 2003, 1.4% (Pascual, 2006). The figure for Spain for 2004 is 1.07% of the GDP (Lucena, 2006); this is more than half the average of the EU. In conclusion Catalonia spends more than the rest of Spain in research and development.

According to Castells (2005), the reason why in Spain the research activity is low is because the country grows above the European mean, therefore what the country sells is pleasure; pleasure for those who really innovate.

However, the recent economical trends invalidate this argument. The reasons why there was no need to innovate is because the companies were part of global (abroad) networks and as a consequence all the innovations came from these networks. Because of these trends now most of the financial capital is flowing to more innovative countries as compared to Spain. Here are only the

commercial activities, i.e. the selling of the innovations done somewhere else.

The outcome of this is that the Spanish companies will have to invest more on innovation or buy ready-to-sell solutions sometimes not fully functional to their needs. This situation underlies the fact that companies will have to invest in knowledge and information technologies to continually and successfully innovate. However this is an expensive and sometimes painful process. So in order to help companies to overcome this innovation road, the Spanish government has set the Center for the Technological and Industrial Development (Claver, 2006). The main task of this Center is to help those companies that want to innovate in the technology field. It will help them with precise information and the necessary requirements to fulfil.

Along the lines of innovation, an important issue comes from the Textile Technological Institute (Aitex). This institute will stamp the quality seal "Made in Green" to distinguish the products that fulfil the environmental laws and respect the rights of the employees (La Gaceta, 2005). What the institute is looking for is to protect the European textile industry against that from China. In order for companies to obtain this seal, the products should approve very tight controls that guarantee their quality and respect the environment.

Given that in Europe the labour costs are high, the enterprises established here must compete either in quality, design (innovation) or both. An example of this is the Catalonian enterprise from Egara, Simofil (El Periódico, 2005). This company has several competitive advantages against Chinese companies. First, they design (customize) themselves their own weaves. This means, among other things, that they have to make the weaves water-resistant and toxic-

free. This last feature is particularly important because in the weaves from China some traces of formaldehydes (a toxic substance) have been found; this is harmful for children and babies. Another competitive advantage is the acceleration of the delivery (activity) process. Given that they do not produce large amounts of quantities, they can respond faster to their customers. This translates in better (competitive) prices within a shorter lapse of time.

One company that can truly distinguish in the textile industry is Zara. This company is the flagship of the Gallego Inditex Group. The constant update of their fashion stocks has made this company to be in the hundred most valued brands. In fact Inditex has supplanted other big brands such as Prada, Armani or Levi's. Inditex main markets in Europe are: France, Italy, United Kingdom, Germany, Portugal and Greece (Trillas and Hernández, 2006).

Another Spanish (Valencian) company that sets its pace in the fashion industry is Peteranne (Pajín, 2006). The entrepreneurs, Pedro and Anna, make jeans priced at €100. However, they use state-of-the-art technology to design their cloths. They scan the person, which results in a much more accurate garment. The image from this scanning is a tree dimensional one. This system was developed with the support of the Universidad de Alicante. From the above tree examples, it can be concluded that the Spanish textile industry is already mature, but continues to innovate (Caballero, 2006).

Yet one competitive advantage in the European Union is the employee rights. In China the employees work (nearly 80%) without a contract (ABC, 2005). This means that around 60% of the rural immigrants from China that seek a better employment opportunity lack a proper legal contract. This is roughly one hundred million people. The consequences are terrible: they are deprived from

insurance, medical services even in the case of working accidents, a fair salary; they do not pay taxes and can not obtain a pension. As a corollary, because of the toughness of the job market, the would-be employees are forced to accept any post at any price. The companies knowing this they ignore the law, abusing of them.

But the innovation is just one part of the problem. As mentioned before the other side is the manufacturing costs. Given that in Catalonia these are not competitive the textile entrepreneurs prefer to import from China clothes like sweaters, men trousers, blouses, shirts and bras (Navarro, 2005). It is worthwhile to mention that this problem (the costs issue) is not only in Catalonia but in the European Union (EU) as a whole. To understand this in perspective, The European - Chinese textile crisis follows.

15.4.1 The European – Chinese textile crisis.

Because of this crisis, the clothing imports from China, the EU closed its customs (borders) to the Chinese clothes until this year (2006). However not all European countries were equally satisfied with this decision. On the one side some countries (Denmark, Sweden, Germany, Holland, and Finland) criticize this measure, the closing of borders, because their companies could suffer a bankrupt given that they are not supplied with these products; on the other side other countries with a "strong" textile industry (Spain, France and Italy) are afraid of the opposite; if the borders are not closed (or a quotas system is imposed) their industries will suffer the tsunami of the Chinese products (La Gaceta, 2005), as a consequence having a high jobless rate.

In the case of Spain, the numbers are quite eloquent. The textile industry can loose between 30% and 50% of the jobs in the

following five years (Segovia and León, 2005). This is so because of the Chinese clothing imports. The Spanish textile industry has 6,300 companies and provides 240,300 jobs. According to these authors Europe as a whole needs to restructure its labor market and invest more in innovation. The problem is competitiveness not the clothes *per se*.

As mentioned above, the reason why the imports have grown considerably is because in China an employee gets paid US\$2.00 per day whereas in Europe the same employee will get paid US\$ 16.00 per hour. In order to face effectively this issue, in Spain the Ministry of Labour, Valeriano Gómez, will assist, among other regions, Catalonia with financial welfare (El Economista, 2006). The idea is to have a much more flexible labour market.

In the month of August the negotiations between China and the EU continue but without any real progress (Bono and González, 2005). The main agreement was to let all the clothes already detained in the European borders enter the EU. According to these authors, the Head of the Chamber of Commerce from Valencia, Justo Nieto, stated that those products that were above the established quotas should be returned to China. The established quotas in June (Vallejo, 2005) for blouses were twenty four million units, for bras ninety six million units and for shirts were one hundred million units. The total amount of products that surpassed the established quotas was seventy five million units.

By September, the European Trade Commissioner, Peter Mandelson, presented a proposal to the twenty five members of the EU to "solve" the clothing crisis with China (Núñez and Díez, 2005). The proposal stated that in order to solve the conflict with Beijing the quotas for 2005 were to be increased. This would be done by using

part of the amount of the 2006 quotas. Even though Mr. Mandelson presented his proposal to the EU representatives, in it were no requests to the Chinese, i.e., compromises, numbers or any obligations (Aljarilla, 2005). However the EU representatives from Spain, Italy, Portugal, Greece, Belgium, Poland, Austria, Cyprus and Lithuania (Navarro, 2005) rejected this proposal. Supporting the proposal were the north European countries with Sweden and Germany heading the list.

On Monday the 5th of September, the EU Trade Commissioner, Peter Mandelson, reached the long awaited agreement between China and the EU (Aljarilla, 2005). The agreement signalled that both parties were to pay the consequences. From the European side the quotas were raised, allowing more products into the EU territory, and the Chinese would reduce part of the 2006 quotas in order to cover the increase. The agreement allows using 5% of the coming quotas (up to 2007) or 7% of the unused quotas of previous years (Jiménez, 2005). The agreement was ratified on September the 7th by all EU members except Lithuania that abstain its vote (Núñez, 2005).

But even though the agreement was reached for the President of the Trade Commerce Association, Mr. Ferry Hoed, this agreement only works out in the short term (La Gaceta, 2005), i.e., in 2005 but the problem will arise again in 2006. However, the clothes were just a first problem. Now the time has come for the shoes. This is so because the European Commission is likely to impose antidumping penalties on leather shoes made in China and Vietnam because of the state subsidies (Miller, 2006).

Last but not least the trade balance (export vs. import) of the Spanish textile industry is shown. The amounts are in millions (€) and the figure for 2005 is provisional. These are:

1) The total exports from 1995 to 2005 (Table 15.1 and figure 15.1).

2) The total imports from 1995 to 2005 (Table 15.2 and figure 15.2).

3) The total geographical (China) exports from 1995 to 2005 (Table 15.3 and figure 15.3).

4) The total geographical (China) imports from 1995 to 2005 (Table 15.4 and figure 15.4).

SPANISH EXPORTS	
1995	3.038,7 €
1996	3.454,5 €
1997	4.201,5 €
1998	4.785,3 €
1999	5.037,4 €
2000	5.738,1 €
2001	6.228,3 €
2002	6.742,0 €
2003	6.657,9 €
2004	6.731,2 €
2005	6.872,5 €

Table 15.1 Total Spanish textile exports. Source: the author with data from the Ministry of Industry, Tourism and Commerce.

SPANISH IMPORTS	
1995	4.607,0 €
1996	4.954,0 €
1997	5.905,8 €
1998	6.599,8 €
1999	7.119,2 €
2000	8.331,7 €
2001	8.956,8 €
2002	9.414,2 €
2003	9.969,3 €
2004	10.642,8 €
2005	11.623,9 €

Table 15.2 Total Spanish textile imports. Source: the author with data from the Ministry of Industry, Tourism and Commerce.

CHINA EXPORTS	
1995	679,6 €
1996	468,3 €
1997	428,8 €
1998	469,4 €
1999	442,3 €
2000	553,5 €
2001	634,4 €
2002	796,2 €
2003	1.100,4 €
2004	1.162,3 €
2005	1.498,8 €

Table 15.3 Total Spanish textile exports to China. Source: the author with data from the Ministry of Industry, Tourism and Commerce.

CHINA IMPORTS	
1995	1.756,6 €
1996	1.841,4 €
1997	2.528,5 €
1998	2.937,5 €
1999	3.686,0 €
2000	4.713,0 €
2001	5.079,2 €
2002	5.770,8 €
2003	6.729,1 €
2004	8.531,3 €
2005	11.640,1 €

Table 15.4 Total Spanish textile imports from China. Source: the author with data from the Ministry of Industry, Tourism and Commerce.

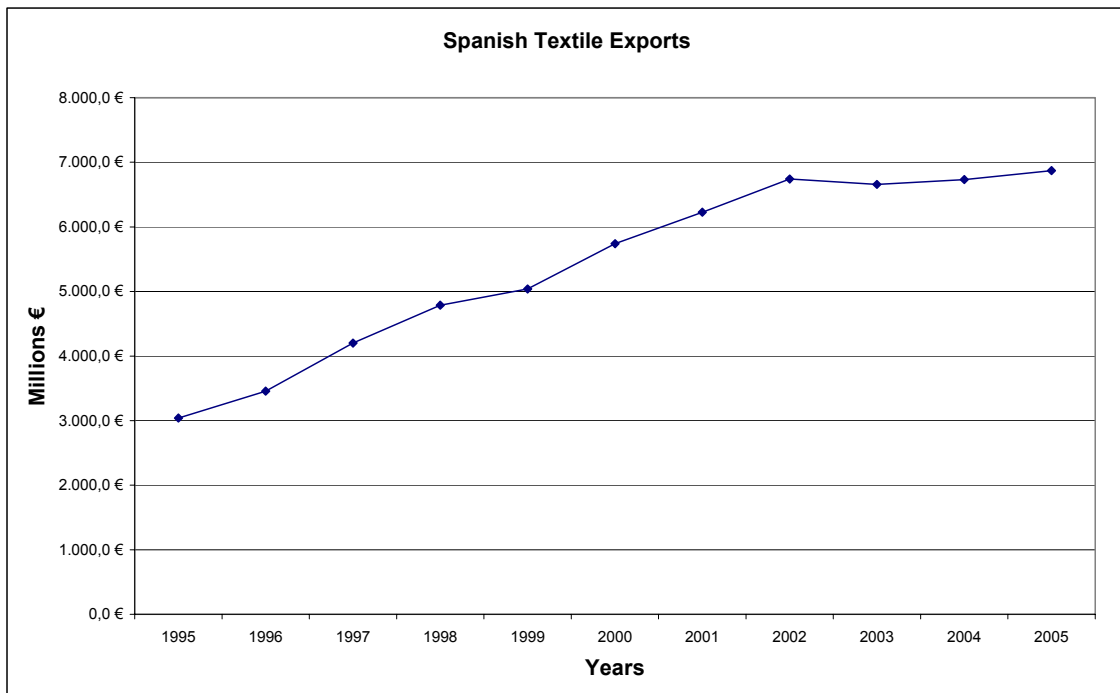


Figure 15.1 Total Spanish textile exports. Source: the author with data from the Ministry of Industry, Tourism and Commerce.

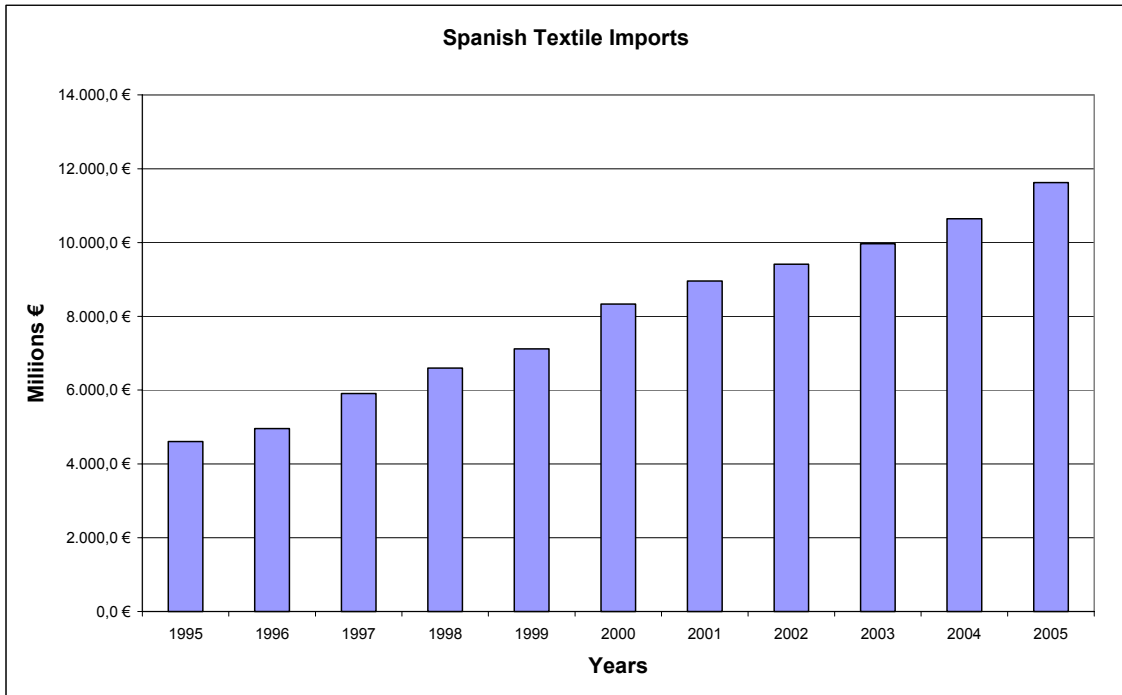


Figure 15.2 Total Spanish textile imports. Source: the author with data from the Ministry of Industry, Tourism and Commerce.

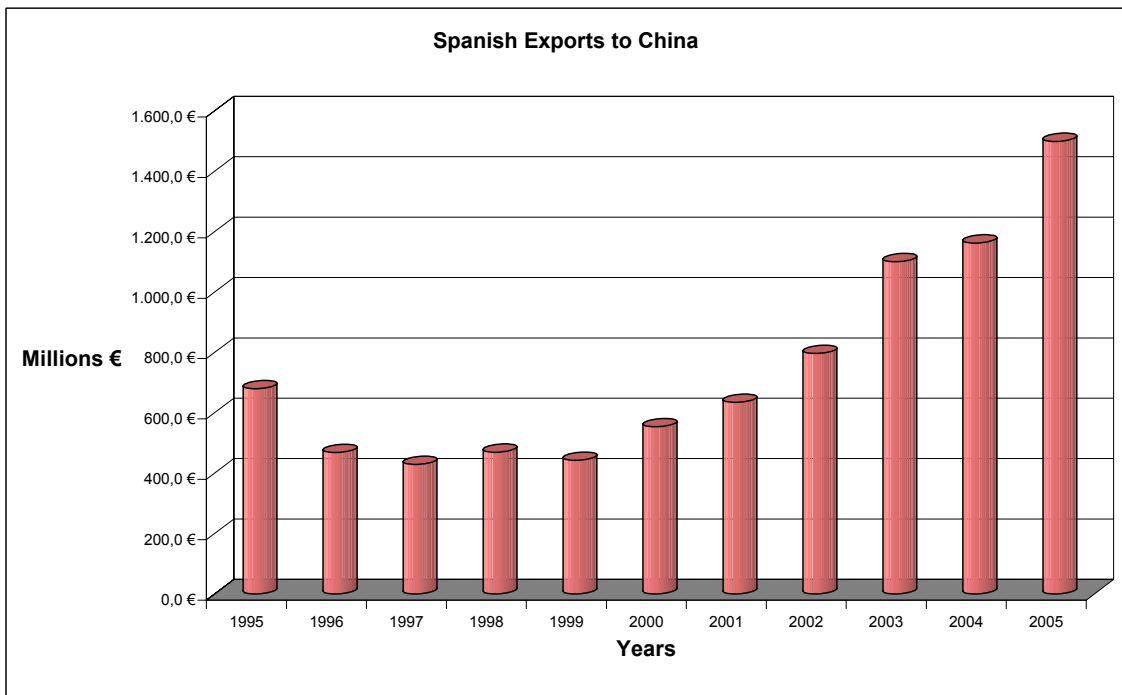


Figure 15.3 Total Spanish textile exports to China. Source: the author with data from the Ministry of Industry, Tourism and Commerce.

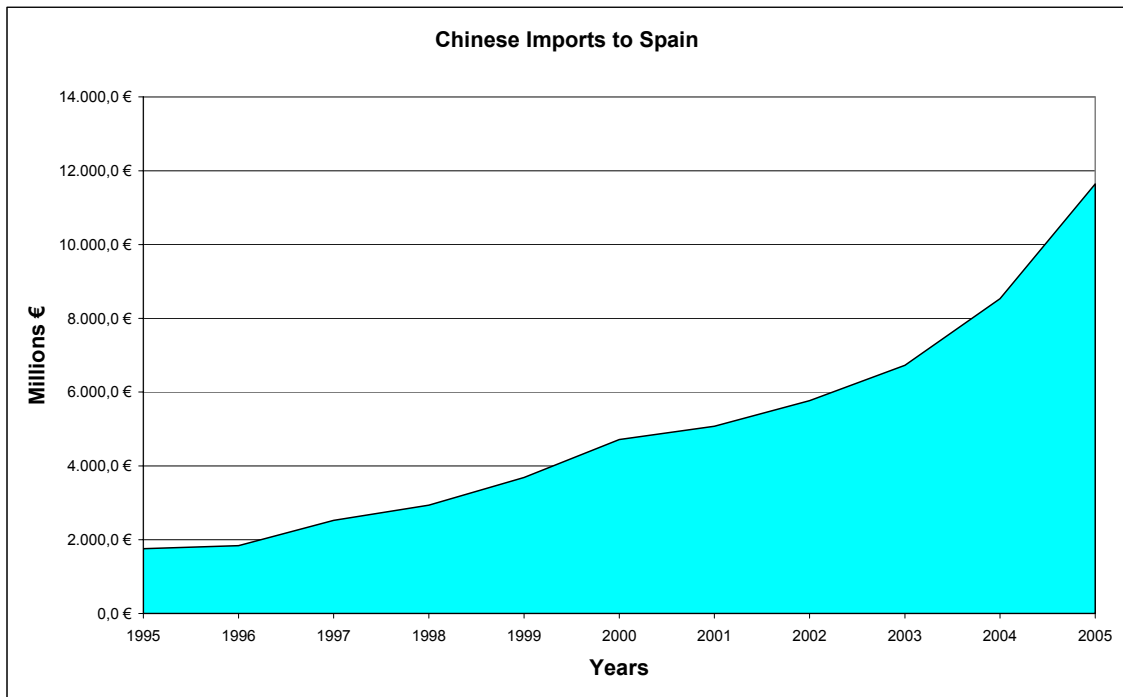


Figure 15.4 Total Spanish textile imports from China. Source: the author with data from the Ministry of Industry, Tourism and Commerce.

15.5 Conclusion.

As was presented in this chapter the Catalonian textile industry has been an innovator since the Roman times. Even though not problem-free, major innovations have driven this industry. The notoriety of the quality of the cloths made in Catalonia in an international context, since those ages, truly corroborate this.

However, new problems (in the XXIst. Century) are considered and faced namely the high (European) costs. As shown form the tables and figures and derived from the high production costs, the Spanish trade balance presents a deficit that unless modified the up rise trend will continue. Nevertheless a key driver maintains this industry alive: imagination of new designs.

This means that Catalonian companies must deeply analyze, increase and utilize their core competences and (intangible) resources to set new innovation strategies facing new entrants, especially Chinese companies. Put it another way, innovation must set the pace (strategies and tactics) for the Catalonian textile industry not only in Spain and Europe but on a worldwide context.

Chapter Sixteen

The Results

*Managers must be judged by what have actually delivered, not just on the basis of what the market believes they will deliver in the future.
(Cobbs and Koller, 1998)*

Case Study One

16. Introduction Chapter Sixteen.

Within the following paragraphs the results of all the researched case are introduced.

16.1.F1. Methodological issues case study one (1).

This is the first case study (Yin, 2003) that was elaborated. For confidentiality reasons, the name of the company¹ and interviewed person will remain anonymous all along this analysis. Hence, from this point onwards both will be named Firm 1 (F1) and Person 1 (P1) respectively.

The author of this research had the knowledge of this Firm through a directory that was constructed from one of the University's databases, namely *Bureau van Dijk – Sabi*. This data base covers a wide range of Spanish and Portuguese companies from several industries. Because of the natural characteristics of F1 and given that this research is carry out on micro, small and medium sized enterprises² to sustain or reject the stated hypotheses, the author chose this firm to be included in the overall study.

Once this directory was built P1 was first contacted through a telephone call. After a brief explanation over the telephone about the author's requests³, P1 accepted to meet in person³ for a full interview. Once this first interview was heard by the author several questions arose naturally. Because of this, a second interview was planned and carried out to further clarify these questions. In both interviews P1

⁽¹⁾ *The words company, firm and enterprise are used interchangeably all over the researched cases.*

⁽²⁾ *The definition of the enterprises is the same all along the researched cases.*

⁽³⁾ *The requests for all of the visited enterprises were: the interview was to be recorded, the duration (on average) of it would be from thirty to forty minutes long and no personal details will be asked, such as sales volume, etc.*

was the same contacted person and the total recording time of the interviews is about thirty minutes.

16.2.F1. Introduction: mission, vision and history.

To begin with the author asked P1 about the firm's mission (Johnson and Scholes, 2002), it stated that this is to earn money. However, even though this clearness in the mission, the author did not see it stated somewhere else, nor P1 show it. Put it another way the mission is totally understood and 'practised every day' but it is not written.

Even though at a first glance this might seem awkward it appears that, after a second thought, it is not. This is so because F1 was founded about twenty years ago. Both of the founders⁴ are Catalanian, around fifty years old and they hold a university degree in business; one of them while studying decided to start a business of its own. So it became a trader of clothes that brought from the UK. In this sense, before the foundation of F1 they have always worked or been related somehow to the fashion world. The other founder joins after finishing school. They started from scratch and selling in local markets, i.e. 'mercadillo' (*swap-meet*).

When asked about the vision (Quinn *et al.*, 1997) of the firm, P1 stated that what the founders have in mind is more; but not only in terms of sales but in terms of size, i.e. to cover more territory. This means to have more selling points (stores). Again, the author did not see the vision nor P1 showed any document where it is stated.

⁽⁴⁾ Even though the author asked to personally interview any or both of the founders, this was not possible given their tight working schedules.

Since its foundation F1 was set in Barcelona. Just at the time of F1 foundation they were around five employees. Currently F1 has only one business unit with about thirteen stores and one hundred twenty employees.

From the previous paragraphs a key point concerning the overall strategy emerges. As mentioned before, even though this is not formally stated in a document the employees from the very first beginning up until now, knew what they were at F1 for. This is also backed by the fact that F1 has remained in the same business for over twenty years, and even though sales are at this moment constant F1 has definitely grew.

So, all this 'sudden' growth absolutely can be due to knowledge of: markets, products, clients and most important employees. This suggests that all the benefits to be accomplished by the initial investment in knowledge creation (Drazin and Rao, 2002) will end up being more than initially planned or thought of course, provided it exists the strategic capacity to achieve so.

16.3.F1. The growth and the products.

This growth was supported because it was a good economic time, i.e. the sales were rising. This is F1 products were particularly attractive to their customers. As a consequence of the expanding sales, the founders started to invest more in opening new stores and to make further clothes, i.e. to produce more. This means that information (Hult *et al.*, 2004) about sales was important, but the knowledge to produce more on time was more important. However F1 competitors did not sit and wait. In fact, some of these competitors actually grew more that F1.

From another perspective, when compared to those competitors that they did not grow more, it is believed that F1 was at the right time and had the right line of products to keep on growing. Put it another way they had the resources (Barney, 1995), not only monetary and physical but most important human, to grow. This means that they had the capabilities to overcome the exact production (amount) of clothes when the market was demanding it, and not produce too early so to have a big physical stock. In other words the managers had the information and took the decision to improve the firm's production capacity efficiently (Nickerson and Zenger, 2004) using advanced knowledge that was reflected in the sales volume. Last but not least, F1 currently has no exports but as will be shown later they do have some imports.

F1 main products are: women's clothes for a 30's age target and middle-income group. Its clothing lines are divided between fifty percent casual-wear and fifty percent formal-wear. F1 does not try to be a 'victim' of the fashion, i.e. *depeche* (quick) mode. However, at some times they were style innovators i.e. they set the trends and in some other occasions they 'took ideas' from somewhere else.

16.3.1.F1. Demand estimation and competitors.

It is believed that the innovation (Gopalakrishnan *et al.*, 1999) process goes hand in hand with the (current) season sales. This means that market demand influences to a great extent this process. So in order for F1 to know (determine) what is demanded is not only via fashion shows, trends and trips, but most important, what the client looks (searches) for. This is explained below.

The demand activity is estimated mainly in two ways: ① they observe what is in the street (what the women are wearing) and ② what the clients look for inside their stores. F1 sales people pay detail

attention observing what is 'wearing the street' in order for not missing anything and communicate it to the designers. However, if the designers also detect a nice idea that can be profitable, they show it to the salespeople. In this sense, both departments scan the outside clothing.

The previous paragraphs corroborate a key point, namely social capital (Blyler and Coff, 2003). This is an internal sound network is in place for these suggestions to happen, i.e. become a design. Because of this social network, ideas cross-fertilize enabling novel combinations of resources that end up in salient real possibilities.

Given that this company hires young women to work in the stores, these are not 'sent out' to the street to find out what the latest fashion is. Part of their duties inside the store are to take good care to observe how the clothes fit to their clients and they also hear and take good note on the comments their clients make about such clothes.

But this 'store intelligence' not only serves the demand. It is a source of F1 competitive advantage (Prašnikar *et al.*, 2005). This is in the stores the female employees perform a very personalized sale, i.e. they care for their clients. They truly look for a unique client service and experience. Inside the store, the author corroborated that the service to the firm's clients is just what previously stated: excellent. With a couple of clients, one employee spent between ten – fifteen minutes with and for them to be pleased, i.e. to have everything they asked for.

The above idea, the client service (Christensen and Bower, 1996), helps to establish another important issue in this case research, namely the competitors. P1 thinks that an additional

difference when compared to its competitors is not only the client service as such, but price. This means that the ratio price-to-quality is a fair one.

But even though the two previous concepts (client service + price-to-quality) are a sword to slash competitors, at the end of the day competitors truly do not matter 'that much'. When P1 explained about F1 closest competitors, it mentioned that all those stores that sell women clothes are in frank competition. It is not only from medium-sized clothing stores but also from big retailers such as El Corte Inglés, Zara and so on. Even though this competitor atmosphere, P1 believes that F1 does not has a direct competitor. This last issue can be somehow corroborated given that they do not exclusively benchmark (Ellis *at al.*, 2002) for fashion ideas against a single (or several) fashion businesses, but to all at varying degrees.

This, when they benchmark, is more or less done informally and not systematically. However, it does hold its importance because at least F1 has a clear knowledge of what is wearing the fashion market.

16.3.2.F1. The rebates.

Given that in this industry *fashion orders*, practically F1 has no clothes leftovers from previous seasons. This means that in case they are some pieces left from the previous season these are sell twice a year in specified months, i.e. in the sales season. This is mainly twice a year in January/February and July/August. These are important peak selling months not only to generate a big chunk of income to the firm, but to also get rid of those clothes that were not sold before.

The author also learned that concerning the rebates issue F1 strictly adheres to the law, i.e. two times per annum. However, if

beside this two-time frame a possibility exists to offer to the clients another rebate they will try to seek a legal permission (allowance) and carry on the rebates. But these, off-season (allowances) rebates are somewhat unusual.

The idea behind this is not only, of course, cash in the wallet but to give the clients up-to-date apparel so women can be dressed up according to the season. Put it another way, clients know that they are not wearing out-of-date clothes. This is corroborated with the fact that F1 only sells clothes that go with the season. No two pieces of clothes are 'repeated' from season to season.

It is worthwhile mentioning that the two-time month rebate sales are stipulated by law however fashion stores are not bounded to obey this law. This means that if the stores want to sell something at a rebate, they must do it exclusively within these months otherwise they can face economic penalties. From the stores' perspective this means that within these months they have the opportunity to sell what's left from the previous season, but if they decide not to do so it is their own choice.

16.4.F1. The operations strategy.

When the author started to inquire about the operations' strategy (Feurer *et al.*, 1995), F1 market share and its competitors own market share, P1 did not know the answers. Even though P1 holds a key position in the organization it mentioned that this information is known only by the founders. However, as will be shown later P1 did show a clear understanding of F1 operations.

As mentioned before F1 produces and designs most of its own products, i.e. the women's apparel. This means that no other

company asks for F1 to design and produce any part of their clothing line; from an internal point of view F1 does not asks any other company to design and produce for it. Everything is done in-house. This is to say, F1 does not outsource (Takeishi, 2001) any part of its production process. All the activities are performed within the firm.

This means that F1 fully exploits its production capacity (Barclay, 2005) which in turn makes it very competent. They have built this strength that over the years has become very important. At the end of the day they seek to increase their market share and profits.

F1 production (operations) process is as follows. In the first place, the designer searches⁵ for the season weaves. This means, again, that fashion signals what is to be wear in that particular season. For example, cotton, linen, ecological, synthetic, and so on. But this is not the only point to consider when the weaves are being chosen, i.e. the materials of the weaves themselves. In this department they look not only for the colour of the weaves but also the texture, durability, availability, market trends and so on.

This means that the raw materials they use in the fabrication of their products are bought and brought from the best (price-quality) available source (supplier). For instance silk from China, jeans from Turkey, leather from India. However, they try to buy only material that is already sold in the country, i.e. they look to reduce their imports not only of finished goods but also of raw materials as well.

The second step is in place once several weaves are seen and discussed with the sales department and the founders. Of all the

⁽⁵⁾ *The production process is tightly closed to the innovation (design) process. This later one is fully described below.*

revisited weaves just a few are chosen. The third step consists of making some clothes, i.e. prototypes. If these prototypes are according to what has been set (planning design) then the exact amount of quantities (based on previous forecasts) are determined. The fourth step is the production of the clothes and the last but key step is the distribution (logistics) of the finished goods to the stores.

When the author asked about the production time, the answer is (approximately) fifteen days. Of course this changes if the clothes are imported. If this is the case the time goes up to several months. Again, this is a powerful reason why importing part of the production can be a negative tactic to follow.

An important issue to consider is that even though they are in the fashion business industry, they keep some basic stocks available on a permanent basis, such as white shirts, etcetera.

Concerning F1 imports very few items are bought outside Spain and they are trying to do so less each time. The goal is to completely avoid this (import) activity because when done in the past, the experiences were not that good. This is so because the tariffs had gone up making this 'import strategy' a costly one. A remarkable point in this is the philosophy of defending (utilising) the national inputs (raw materials). Again, this is also supported by the fact that F1 produces according to what the market demands, i.e. on-time production to satisfy what their clients demand. As a downside consequence, as already mentioned, of this import strategy is the delivery time of finished products in their stores to face this demand; this deliverance period could be extremely long-waiting therefore ending up in economic losses.

About the distribution system (Quinn, 1992) of the merchandise (finished products) the author considers it very efficient. It takes one working day to reach the stores. For F1 this is a key capacity. The reason for this is that their clients have the products (clothes) at the right time. However according to P1 if this supply time were shorter, better. Because of this it can definitely be stated that this delivery capacity gives F1 a competitive advantage in the fashion business.

The previous paragraphs showed that since the arrival of the raw materials up to the delivery of the finished goods to F1 stores all the process is carried within the same company. This can be achieved not only because they only have one business unit but most important because all the employees are working physically in one place. In fact the only employees working outside this business unit are the young maiden in the stores.

All in all it can be said that this operations (business) processes are well coordinated utilising their strategic assets (Littler *et al.*, 2000) to obtain a competitive advantage. Assets such as production, distribution, buying competences, etcetera.

16.5.F1. The innovation strategy.

About the innovation strategy this mainly focuses in the design activities or capabilities (Stalk *et al.*, 1992). These are done in a specific place within this company, i.e. a design department. This department, however, is not totally autonomous. Two 'supervising bosses' check out the overall designs. From one side is the sales department and from the other the founders. The later one is the obvious choice while the former one has specific role in the designing process. It scans the 'street fashion'. This role is explained below.

F1 continually innovates according to the market's demand. This is their innovation strategy is set by the fashion market but without being fashion victims: shows, the 'street trends' and the journeys abroad. This last point means that when they travel outside Catalonia they observe what the fashion is in that (visiting) country or city so at the end of the day they pick 'outside fashion ideas' to enrich their designs. This travelling is mainly done by the founders. Another very important source of innovation comes from what their clientele wants or asks for, i.e. they listen to what the women say.

When designers innovate (creation of a design) they do not use any specialized software, but their head, i.e. their tacit knowledge (Grant and Baden-Fuller, 2004). To complement these activities they also utilize the information from several sources such as the mentioned above. An important point to consider here is that F1 employs persons exclusively dedicated to the design of clothes. These persons are also responsible to seek and discover new materials, i.e. what the clothes should be made of in order to appeal to the clients and also for not to be harmful.

At F1 they design constantly all over the year. This is they cultivate the knowledge (Seely and Duguid, 1998) to design. By permanently refining this knowledge, this core competence enhances; as a consequence the firm is not to dissolve. Usually this means that they perform this activity four times a year (four seasons = spring, summer, autumn and winter) but they do not stick to it strictly, i.e. in between they design new apparel.

However if someone within the company (any employee) sees or discovers something very interesting that could turn out a reliable idea, they can go to this department (sales) and share it. This department is not closed to its own ideas and thoughts. This support

the idea that this firm within the knowledge economy (Ranft and Lord, 2000) appreciates the valuable knowledge of their employees and because of the good relationships among them, knowledge does not reside in the upper echelons.

P1 believes that they currently innovate less than their competitors. However, as mentioned before, they were times when this was the other way around. Again, this is so because of their size; not only the number of people designing but constrained by sales. In this sense, if the current sales are poor the innovation is less.

What can be distilled from the sales – innovation relationship is the following. The design projects are measured in terms of sales. This means that as more different clothes models are sold, the more they will keep on designing new models. So even though the (current) season sets what is to be wear, it is not a tight design schedule. Consequently, from one season to another no same number of clothes is designed. In any case, in order for these designs to see the light the creation department is in charge of achieving this.

Finally it can be stated that F1 evolves along with the fashion general trends, for example romantic or minimalist. However, even though this evolution within the fashion world F1 sticks to its own style, i.e. it does not evolves drastically so to loose its identity.

16.6.F1. The intangibles strategy.

When the author inquire P1 about F1 intangibles (Hall, 1992) strategy, P1 did not knew what an intangible asset is, at least not the formal definition. This implied that the author had to explain with a tangible illustration what an intangible asset is in order for P1 to

comprehend what this concept means and signifies within the context of F1.

Once this concept was explained P1 started to name their intangibles assets, i.e. those that it considers that distinguishes F1 from the competition and in turn give F1 a competitive advantage, (add value to F1 overall operations). This means assets that deliver more value within the firm specific context than outside of it (Holmstrom, 1999). Even though P1 only named the client service as an intangible asset, because the clients are already identified by F1 personnel and they keep on buying regularly, from the whole analysis of F1 the author identified several intangible assets which will be discussed in the results section.

Up to this point the following can be said. The author learned about how F1 makes their intangible assets grow (for example, the clients' service (Hamel, 2002) or the distribution (Porter, 1985) activity). They monitor the employees' daily work and when these assets (embedded in the employees) are not delivering what is expected from them, the necessary measures are taken for those assets to perform as demanded. This is they help employees (talking and analysing the situation) to never low the guard. This is very important because it means that if they allow for these assets to start depleting core rigidities (Leonard-Barton, 1992) can emerge and consequently market share and competitiveness can be lost.

By the time the author asked about F1 capabilities (Grant, 1991) P1 reason that, as mentioned before, they are capable of designing. However, they try not to be victims of the fashion but to remain to what their clients ask for (Skaggs and Youndt, 2004) this is not so 'revolutionary-like' clothes. Put it another way the efficient use of knowledge to lever F1 key capacities which in turn impact its

products and service must be as effective as possible to sustain and, if possible, increase F1 competitive advantage (Alshawi et al., 2003).

When the author inquired about the key activities (Porter, 1996) of the firm the following were mentioned: the price-to-quality relation and design. This makes sense because if the designs are poor quality (not attractive to clients) they will not keep on selling or they will sell whatever quantities they can, not what F1 intends to. Put it another way if they have appealing designs to clients and these are willing to pay for these designs in order to look and feel comfortable, F1 clients would not mind too much the price. In this sense a straight relationship exist between the quality of the design including the weaves (fabrics) and the price clients pay for the clothes.

16.7.F1. Competitive intelligence.

When the competitive intelligence concept was mentioned and explained, P1 understood it fully. Further, it even mentioned that they do not 'keep an eye' in a close detail manner to competitors. They 'pass' from them. This means that F1 focuses on their clients (always at F1 mind) and try to make and deliver their best to them. The clients are the one who really 'dictate' what they want. P1 believes that to focus too much on their competitors is 'craziness', i.e. a waste of time and resources. Instead F1 'monitors' their clients which are tangible just as their opinions and tastes. i.e., F1 focus remains always on their clients (Galvin, 1987).

By accomplishing this activity F1 gets *the* real picture of the market. However once P1 explained that they focus on their clients, the author insisted if they care at all for their competitors and if so, how. P1 claimed that they tend to look at the finished products (generally speaking) to spot which types of clothes F1 does not sells

and it is worthwhile giving a thought to determine if they are to be produced and sell or not.

F1 also pays attention to the way its competitors' stores are furnished, i.e. the lightning, showcases, window dressing, music, and so on. In fact P1 thinks that at F1 they can 'borrow' ideas from competitors in order to enrich themselves. This borrowing of ideas is not to emulate the competitors *per se* but to improve their own stores. In other words this means that they benchmark (Walleck *et al.*, 1991) competitors, even though not systematically.

16.8.F1. Technology.

From the technological capability (Gunther *et al.*, 1995) point of view, as will be seen later, F1 has a web site of its own. This web site is both in English and Spanish; something that is a *must* these days. The site is well design, and, again, with F1 target market in mind. This is the pictures, colours, models and all in the entire web design is pretty much looking to appeal to F1 clients.

A key issue for this firm is that on their web site they advertise the (current) season collection very fast, so they do not have to wait for a printed version of their catalogues. This can also give a technological competitive advantage (McEvily and Chakravarthy, 2002) over those competitors that they lack a universal 'showroom' such as an internet site. Even if they want to use it, for example as a media forum to reach their clients, no problems at all should have in achieving this.

But not only is the web site the available technology at F1. P1 mentioned that this is a fully technological firm. This is so because not only within the stores (selling equipment) they have covered their

technological needs, but most important in the cutting and design of the clothes, i.e. the production process itself. Also within their logistics they have IT support. In fact, within the company the IT department is always looking for the best suitable software and hardware to be used in order to remain competitive. This also is reflected within their website.

16.9.F1. Clusters.

When the issue about clusters (Bell, 2005) was brought up, two answers were obtained. From the F1 stores perspective it did mind the location of these. This is the stores are located within commercial avenues (sites) in order for the firm to sell its products. No matter how fierce the competition is this is the only way to face it. This in turn will support and corroborate everything the firm stands and fight for, i.e. its reason to exist.

From the production facility this is totally different. The building is located in an industrial neighbour but no competitors are around. Only several other companies are near by. F1 bought the building (that used to be another company, but not a textile facility) from the very beginning. They refurnished and automated the site in order for F1 to exist. In this sense, the founders they just look for a convenient place were to start their operations. Once they sat there they remain.

16.10.F1. Additional researched sources.

An important part of the case study is the collection (research) of diverse sources of data to support the overall results.

16.10.1.F1. The advertisements.

In this sense, the author had access to the F1 catalogues and two different types of advertisements. The advertisements are both printed on carbon-like paper. One of them has information about the firm's stores, i.e. where their stores are located in Catalonia. The other one has information about F1 web site and includes three different pictures about F1 products.

16.10.2.F1. The catalogues.

About the catalogues, the author realised, as well as the advertisements, that they are design with F1 target market in mind. This is jovial, well-taken pictures of young females wearing F1 clothes, and in casual and relaxed locations. Locations such as the beach, a park, etcetera. This means that even though there is no written strategy about F1 publicity, there exists a clear understanding about how to show their products to their clients.

16.10.3.F1. Historical records.

When the author asked about the knowledge of previous strategies that delivered what was expected or not, P1 answered that they know this with certainty from the level of sales. This makes intuitive sense. If what was planned (designed, produced and sold) did not have the desired impact, then something in the strategy failed, i.e. the selling forecast was not achieved. From the reverse side of the story the reaching (or surpassing) of the forecast is a clear sign that the strategy was successful.

16.11.F1. Value to clients.

When confronted with the value-to-client issue, P1 let the author know that they take all the necessary steps to 'spoil' the clients and be happy with what they purchase, i.e. have a pleasant time buying and a reliable after-sale service. This way they have a good (high) chance (possibility) for the client to remain with them. This was totally corroborated when the author had the chance to visit one of F1 stores.

16.12.F1. Value to shareholders.

As for the value to shareholders, P1 mentioned two facts: 1) the shareholders (which are the founders) have the satisfaction that what they started over twenty years ago has grown up because of 2) the clients' fidelity to their products and service. Last but not least F1 has stores all over Catalonia and Saragossa. This corroborates the vision of F1.

16.13.F1. The theory to formulate strategies.

Once the author learned and understood how F1 operates, a key moment in all the research process arrived. The author read out the theory to formulate and re-formulate operations and innovation strategies to P1. At all times P1 had the opportunity to ask any questions about concepts or ideas that it did not understand.

P1 considered that the theory is very interesting. However, P1 perceived that this theory focuses mainly on monitoring the competitors and as a consequence tries to beat them. Strictly speaking F1 does not act accordingly with the theory, i.e. they do not benchmark every single item considered in the theory. This could be

explained because competitors are sometimes very big. On the other hand, F1 walks the road already traced by their competitors but that they, the competitors, no longer follow, such as good client service. This is because at F1 they realized that big competitors do not pay close attention to such issues, leaving an empty space (a strategic opportunity) that F1 takes advantage of.

Once the author finished the reading of the theory it showed to P1 the schematized model. At this point it is important to mention that when asked about the strategic feedback P1 corroborated that they keep very detailed attention to their mistakes. This is they learn from history. Of course the persons in charge to mainly analyze this are the founders. This implies that they deeply scrutinize why they had a success or not, the causes and so on. By doing this, they are in a better position to face the future strategic opportunities.

Complemented with the above, the founders give feedback to their employees when they make mistakes. This way everybody knows what went wrong and how they can improve. Because of this feedback, the founders have established a very straight relationship with their employees, i.e. a good rapport inside the company has been set. When asked about training the author learned that F1 offers no formal training whatsoever.

A final comment before the analysis of the results is to be made concerning the schematized model of the theory. P1 stated that even though understandable (with the pertinent explanations of concepts such as intangibles assets made by the author) it seemed 'too big' for F1. Nevertheless the logic behind it appears sensible.

16.14.F1. Results.

In the final part of the interview, the author asked nine questions regarding the proposed theory and model. Eight of them are a five-point Likert-type (Larsen, 1995) of questions and the last one an open-end question. In the first eight questions P1 had to mark the statement that it agreed with the most. In the last one it had to give its opinion or make any comments regarding the theory and the model⁶. The Likert-type of questions ranged from TOTALLY AGREE to TOTALLY DISAGREE. P1 answers are presented in Table T1.

Additionally the author showed to P1 a definition of the SWOT analysis (see: annex) so it could better answer the questionnaire.

⁽⁶⁾ *The answer to question #9 is the section: "The Theory to Formulate Strategies".*

Statement Number	Statement	Answer
1	SWOT analysis is enough to formulate operation strategies	Agree
2	SWOT analysis is enough to formulate innovation strategies	Not Agree
3	The previous theory will improve significantly the formulation and re-formulation of my operations' strategies (considering both the internal and external analyses)	Agree
4	The previous theory will improve significantly the formulation and re-formulation of my innovation strategies (considering both the internal and external analyses)	Not Agree
5	The previous theory to formulate and re-formulate operations' strategies is theoretical	Agree
6	The previous theory to formulate and re-formulate innovation strategies is theoretical	Not agree
7	The previous theory to formulate and re-formulate operations' strategies is practical	Agree
8	The previous theory to formulate and re-formulate innovation strategies is practical	Agree

Table T1. P1 Answers

Apart from the questionnaire answered by P1, the author identified several intangible assets that give F1 competitive advantage. These are described below.

The author concedes that this firm is a successful business, given that they have remained in the fashion world for over twenty years. So even during the bad times, F1 has managed, because of their managerial abilities, capacities and knowledge (Madhok and Osegowitsch, 2000), to sail thru troubled waters and arrive to a safe port. They, the founders, have always known that they can count on a good, solid team that stands to keep on mounting. This is their managerial capabilities have well managed F1 human capital (Lovas and Ghoshal, 2000) as a competitive advantage.

Another key capacity of this firm is their production (manufacturing) capability (Schroeder *et al.*, 2002). This is they can produce according to their forecasts which is reflected in the sales. This is also matched with the firm's distribution capacity. Both capacities give F1 a clear competitive advantage. This is also backed by the fact that in this firm the import strategy is not a good one. The tariffs and time to deliver the merchandise can become a negative asset and stop the growth (Penrose, 1959).

Yet another key capacity, a core competence, is the design capability or skill (Madhook, 2002). This is the heart of F1 innovation strategy. Given that they have employees totally dedicated to this activity, these skills or intellectual capital (Clouthier and Gold, 2005) are to be cultivated and grow with formal training and learning by doing (Hatch and Dyer, 2004) in a constant manner. In this sense they will strength this particular capability. By managing strategically this intellectual capital F1 is to profit from it.

Concerning the customer service is a two-sided skill. On the one hand, the superb in-store service makes the clientele return and profit from the products sold. On the other hand by performing this client service comments and ideas about the products and the service

itself are known to the employees in a crystal-clear way. This in turn improves F1 overall operations. These two skills definitely give F1 a truly competitive advantage.

Some other valuable intangible assets that the author identified are: the capacity to seek designs in different places (scan the fashion world) and obtain ideas that could potentially become profitable, the recognisance of new materials, and the way they fit and look good and not harm the clients. All the above intangible assets are embedded in peoples' capabilities, experiences and skills, i.e. valuable human capital (Davenport, 1999).

Another key capacity that has proven extremely valuable is the permanent-focus on the client. This is the clients are the engine that drives the designs, i.e. innovations (Knott, 2003) and as such the author considers this capability a source of competitive advantage. Definitely the sales have a clear impact on the designs but to never loose sight of customer is the idea behind the real innovation. This has also been proven by the fact that F1 current clients are known and they keep on buying.

To sustain this idea the fact that F1 is not a "victim fashion" is to recognise the clients' fidelity this is another virtuous fashion fidelity-client sales cycle.

Complementing the above, the rebates should only be understood as a mean to obtain cash and fund more innovation projects and 'release' the 'old' fashion. This is supported by the fact that clients do pay the price for the quality of the clothes they expect to obtain. This means that if there were no rebates F1 will still be competitive. All in all, the author believes that the price must never be a fighting sword against competition; design and quality are.

A key technological capacity (Danneels, 2002) is the design and constant updating of the website. This can keep at bay those competitors that do not count with this asset, therefore giving F1 a clear advantage. This is strength by the fact that the site is bilingual so their client reach is far more powerful and important. And the speed at which announcements can be published can confer F1 a quick return against any undesirable market situation. This is a high-response rate.

From the value perspective to customer and stakeholders it is clear that both are realised. For the former, an excellent client service has shown the founders that they already have loyal clients; their products are known and recognised because of their quality design.

From the shareholders value perspective, the fact that over twenty years of hard work has made this firm grow over Catalonia and Saragossa and the loyalty of their clients, holds a personal reward. This means that at F1 they create value combining (Fernström, 2005) all their capabilities: client service, production, distribution, design, and so forth.

The clusters issue, as presented, for F1 has two concerns. Being physically in the market (fashion streets) is important because this way the whole spirit of F1 is materialized, but from the physical location of the production facility is totally the opposite. It is completely irrelevant whether the facility is in a cluster or not. Say it different if F1 is near by universities, research centres or other competitors or textile-related firms, is unimportant. A competitive advantage does not emerge from this clustering. It does however make a strategic difference in the first case. Information and knowledge about the fashion market is revealed in the fashion-street agglomerations.

Last but not least the previous paragraphs are shown in the competitive advantage map (Figure F1:1) that links all the elements found at F1. A brief explanation follows. The main two relationships are: the knowledge of the design activities with the value to customers. This is, since the value to the female clients drive innovation, this is highlighted with a double-head arrow. In turn the innovation capability also impulses the value delivered to the clients.

The other relationship is between the design activity and the founders' and sales department opinion. This is also a two-head arrow. However it is worthwhile noting that the first relationship is stronger than the second one, because without clients there is no firm.

Attention is drawn to two constructs: the clusters and competitors. These are in a dashed circle because of their not-so-important impact to F1. As for the cluster situation, even though F1 stores are in commercial sites, the production facility is not.

Concerning the competitors issue and as mentioned before, F1 focuses on their clients instead of systematically benchmarking their competitors. This means that the real focus of F1 is in the value deliver to its clients and not what the competitors are doing. This is why in the map this construct is also dashed.

The rest of the relationships have more less the same weight in the overall map. This is their importance is basically equal.

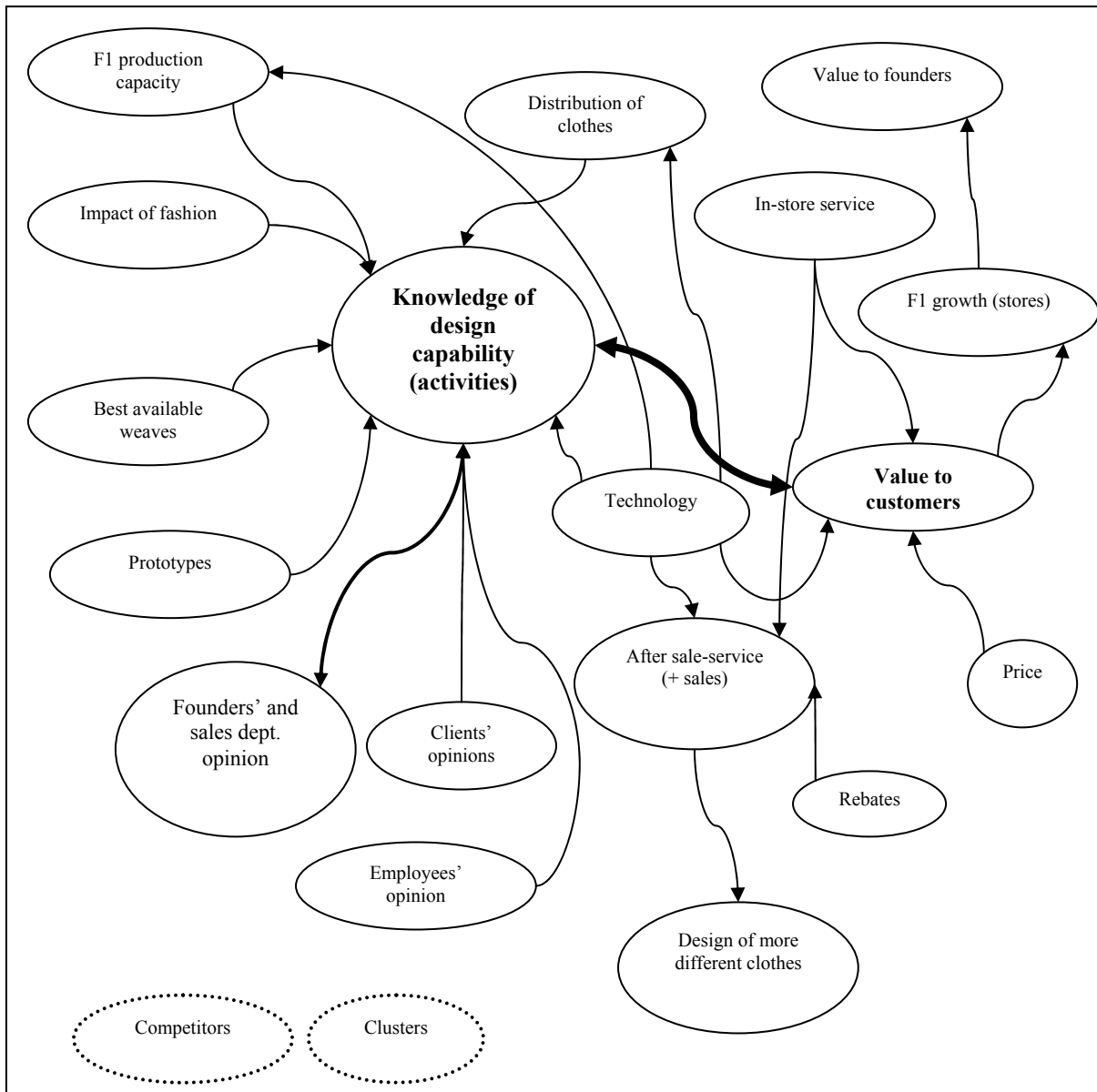


Figure F1:1 Competitive advantage map. Source: adapted from Pike et al. (2005)

The mentioned capacities have definitely taken time to be developed. The founders, supporting the idea of training, should make the employees conscious of this (their) knowledge and rewarded them accordingly. Not just assume the obvious that this knowledge is all right but to encourage the employees to increase it. Further, with F1 solid social capital that has been identified, i.e., formal education, skills and experiences (Maggard, 2004) the crossing of these ideas should also be compensated.

Additionally, even though some of theory's constructs, such as the competitive intelligence (Lackman *et al.*, 2000) one is performed by F1, it is not done in a systematic orderly way nor recognized as such. In this sense the author believes that some constructs do hold by themselves while others not, such as the financial analyses of competitors. This is even though the competitors are analysed the real focus should be more on the clients than on the competitors.

The overall result is that P1, as stated before, considers that the theory and its model are all right but given the fact that the size of F1 is medium, it considers that in order to achieve these 'sound strategies' lots of efforts are to be done to obtain the expected results. This implies that fully dedicated employees should be doing, for example, benchmarking exercises in order to get a true comparison with some (the closest) competitors.

Case Study Two

16.1.F2. Methodological issues case study two (2).

This is the second case study (Yin, 2003) that was performed. For confidentiality reasons the name of both the firm and the interviewed person will remain anonymous. Hence from this point onwards both will be designated F2 and P2 respectively.

P2⁷ was introduced to the author of this research by a mutual acquaintance of both the author and P2. In this sense no data base was used to contact neither this company nor the interviewed person.

P2 was approached initially by telephone. With a brief explanation of what the author was asking and seeking from P2 and F2, P2 agreed to meet in person for a recorded interview.

This first interview was carried out in P2 office, where the whole facilities of F2 are located. This is in the only business unit of F2. The entire interview lasted roughly over one hour long. Once this was finished the author listen to the recorded tape and new questions arose.

Because of P2 tight working agenda it was not possible to meet again for a personal second recorded interview. Yet the second round of questions was emailed to P2 for it to answer them. Once these questions were received by the author they were analysed and the results are presented as well.

⁽⁷⁾ P2 holds a key position within this company therefore it has a whole overview of F2.

16.2.F2. Introduction: mission, vision and history⁸.

When the author asked P2 about F2 mission (Mazur, 2000) P2 said that their mission is to fabricate trimmings to the made-up textiles industry. However the author did not see it stated in any place nor P2 show it.

Then the author asked P2 about the vision (Domm, 2001) of the company it commented that the vision of F2 is to seek and satisfy a highly value-added market that asks for eminent quality products. They look for the trust of a stable and strong client and in turn they offer quality, service, speedy reaction capacity and seriousness in the elaboration of the designs.

The year when F2 was founded was 1987. They were initially two founding families⁹: Family one and Family two. The initial capital of the founding families was of their own. This is no external investors provided additional monetary funds i.e., a family-owned business (Gulbransen, 2005).

Both family members' did not have any formal education specifically they founded the enterprise as in the old days: hard work. Put it another way the history of F2 is that of the men and women who form part of, or have belonged to, the firm.

Even though the company was established formally that year, Family two had been in the textile business from earlier times. This Family decided to buy a machine in order for them to self-supply of trimmings. When they bought this machine they met Family one. In turn, this family had the knowledge and expertise (Penrose, 1959)

⁽⁸⁾ *Some of the information regarding F2 History is taken from its web site.*

⁽⁹⁾ *Again for confidentiality reasons, the names of both families are to be kept anonymous.*

with this kind of machine so this is how both Families met and knew each other.

Both businesses, the clothing and trimmings ones, started to grow because of the good economic situation. So the original idea of the trimmings business supplying only the clothing business was surpassed. This is both families realised that of the total trimmings production only between ten percent and fifteen percent were used in the clothing business. The rest of the production was used by other textile companies; they were selling the exceeding production.

When this situation happened both families realised that they had to found the company, namely F2. At that point in time, when F2 was founded they were between nine and ten employees. The company has always been in Pineda de Mar, the Catalanian *Costa Brava* (Brave Coast).

Currently it exist only one Family. This is so because in 1993 there was a fire and after one year of re-building the facility one of the two founding Families (Family two) withdrew from the venture. Ever since, only the remaining Family (Family one) controls all the monetary resources and the overall destiny of F2.

16.2.1.F2. Values¹⁰.

The present management team maintains the entrepreneurial spirit of the founders having inherited basic values (Mintzberg and Quinn, 1996) such as humility and sacrifice, purpose and decisiveness. From the very beginning, the guiding light has been that of tenacious, humble dedication to hard work and sacrifice.

⁽¹⁰⁾ *Some of the information regarding F2 values is taken from its web site.*

In this sense, at F2 they strive daily to keep up the spirit of the founders by facing up the present with a profound respect for the past and confronting the future with optimism and enthusiasm.

16.2.2.F2. Modern times: exports, competitors, market share.

The actual payroll is composed of twenty-tree employees; well over double the number from the founding era. Nowadays it only exist one business unit. As such this company is only in the textile industry (sector). However once they sold some of their trimmings to the automobile industry (sector).

In the last two years it has been a downward trend in the sales volume at F2. This is so because this industry has a direct impact from the imported textiles¹¹ (finished products) from Asia. In this sense, this year (2006) at F2 they have taken the necessary measures (steps) to correct this trend. If not to make it rise, at least to maintain the present sales level.

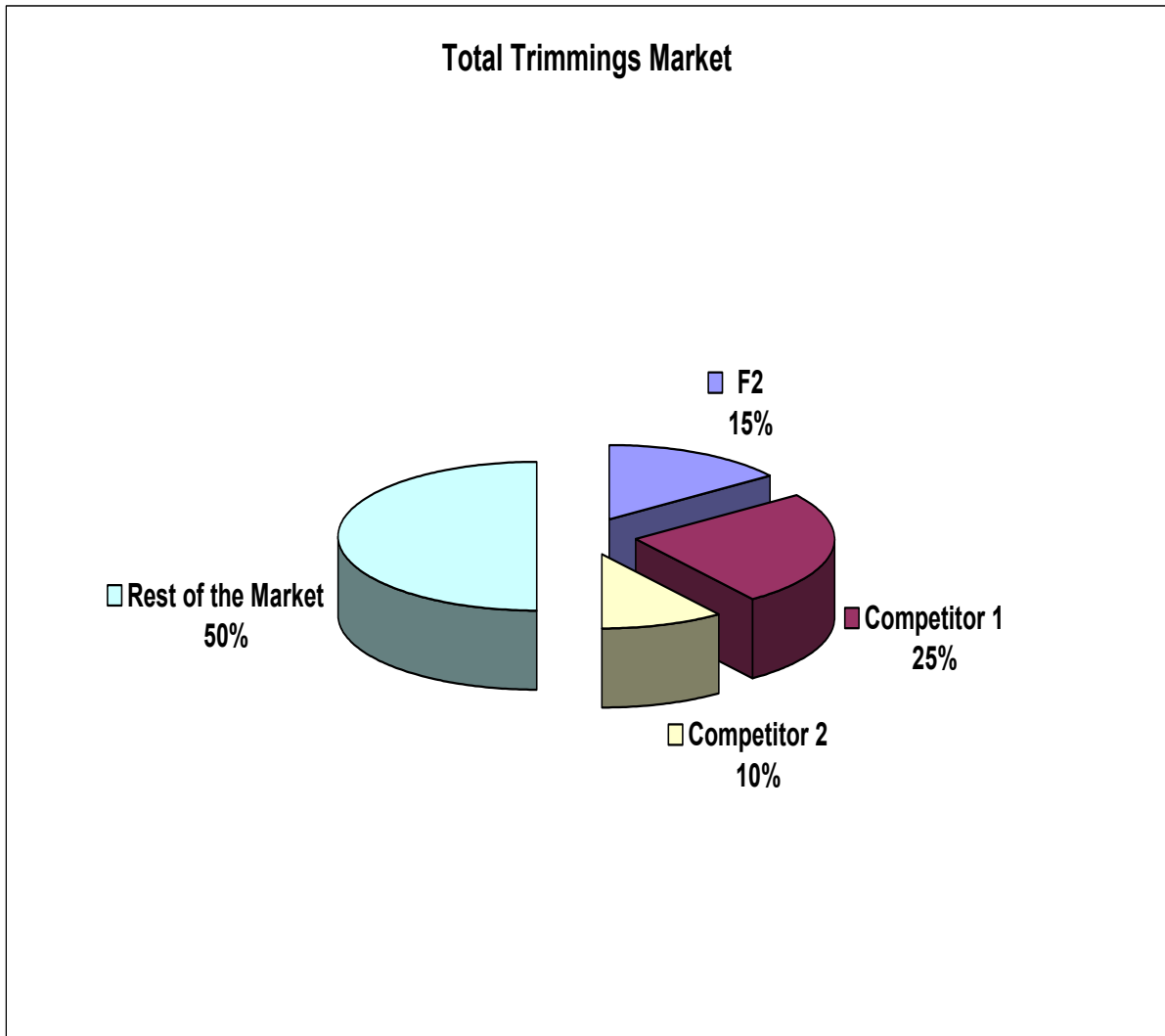
F2 currently has no exports but it has already established contacts to start exporting this year; sometime around the end of 2006. P2 believes that F2 abroad contacts are quite promising and it is confident that F2 exporting predictions will be fulfilled. This will definitely help to boost the sales volume and make this company not so dependent on the national market.

F2 market share is around fifteen in Spain. A larger competitor¹² of F2 holds between twenty – twenty five percent of the market and the third competitor has around ten percent of the

⁽¹¹⁾ This situation will be described with more detail below in the Competitive Intelligence section.

⁽¹²⁾ This is the biggest competitor in the trimmings market.

trimmings market. The rest of the market is divided among the rest of the companies. The whole situation is depicted in Graph F2:1.



Graph F2:1 Total Trimmings Market

16.2.3. F2. Relationship with the banks.

When the author requested P2 opinion about the relationship between F2 and the banks it stated that in general they do not help much. This is even though it understands about the risks involved in lending money, sometimes it would like or appreciate that they, the banks, would take or run some more risks.

Even though there is a good relationship with the banks' executives when the 'money-lending' time comes (for any project)

then they are pretty stiff. So even though the relationship is good, according to P2, it could be better.

16.2.4.F2. Relationship with the government.

The author asked P2 opinion regarding the government and it mentioned that they, as a collective industry, feel abandoned. This is the government has done nothing or almost nothing to help this industry. They, the government, prefer to help other industries with more national 'economic impact' than the textile industry.

P2 put as an example the aircraft industry. When China threatens not to buy some planes then the government makes agreements that allow the Chinese clothes producers to import almost any quantity to Spain so the Chinese government will buy the planes. Otherwise there is no deal.

Also as an industry P2 mentioned that this lacks cohesion from its members. This is they do not, for example, manifest against any governmental injustice and as a consequence there is total absence of support for this industry.

16.3.F2. Products¹³.

F2 specialises in narrow fabrics, laces and cords. These products are utilised to elaborate: women lingerie and men underwear, corsets, tights, children's fashion and pyjamas, sports and swimming wear. Also some home textile products.

Some of the above mentioned products can be alleged basic products. By this is meant that these have been around almost ever

⁽¹³⁾ Part of the information for this section was consulted from F2 web site.

since the company was founded and they are the ones that some clients almost always ask for.

When P2 spoke about the new products it commented that all along the year F2 clients send some specific designs to be developed by them. This is, the clients see and grab a design from somewhere else, take it to F2 and hope that they will develop that particular (modified) design for them, i.e. unique designs. This implies that every year they develop around fifteen percent of new products based on the clients' requests. This is to say that F2 satisfies the new product development considering their clients (Bogue and Ritson, 2006).

An important issue corresponding to their products when compared to those of F2 competitors is the following. P2 believes that they are more less the same; consequently at F2 they do not use the price-issue as a competitive advantage. If they were competing only in price it would be, according to P2, suicide. This is seen more clearly within the next paragraphs.

In the previous two years because of the Asian crisis one competitor went broke. The competitor's strategy focused only in price and this was no longer viable. From this reasoning P2 mentioned that they, F2, does not use this strategy. Instead they try to retain their clients through a good client service (Kapp and Vela, 2004), treating them very nice, and focus on the product's quality (Morgan and Vorhies, 2001) and in return they will obtain the client's fidelity (Cooper *et al.*, 2005)

A key point made by P2 was the price-sensitivity issue abroad. This is now that they are ready to export they realise that when they explored the Moroccan market, F2 products are quite competitive

because even though the similar products in Morocco come from Turkey, the main difference among products is a transport-cost issue. This means that geographically speaking since Spain is nearer from Morocco than Turkey they had no problem when the two products were compared in price and distance (Brekke *et al.*, 2006).

Also there is another factor that contributes to make F2 products more competitive in Morocco. This is time. Because Spain is close to Morocco then Turkey is, it takes less time to deliver the products from Pineda de Mar than from Turkey. So there is a natural increase in the time-delivery relation (Gélinas and Bigras, 2004).

16.4.F2. Competitive advantage.

The competitive advantage (Viedma, 2003) of this company is: flexibility and agility. This is so because they are a family-owned business. When compared with larger companies, these have a tight-programmed schedule. Even though at F2 they also programme their production (Friel, 2005), if a client asks for a special favour (a small amount of certain trimmings) they can respond not only favourably but quickly. P2 believes that F2 structure allows them to do it this way. They are not rigid but flexible.

At F2 they also have a competitive advantage in dyeing. Currently F2 handles tree dyers. This dyeing process is done externally (Madhok, 2002) not inside F2. This is quite convenient because if one of the tree dyeing suppliers cannot dye the trimming at that particular (urgent) moment then they go to the two remaining suppliers and ask for it. So at the end of the day one of the tree will dye the trimming.

This means that they have a good relationship or social capital (Hillman and Hitt, 1999) with all their suppliers, not only with the ones that supply the raw materials but also with the dyers. In fact they only have these two suppliers: one for raw materials and another for dyers. The rest of the process is done completely at F2.

16.5.F2. Operations strategy.

When the author asked P2 about the objective of the operations strategy (Lee and Osteryoung, 2004) it did not mentioned it nor show the strategy written in any document. However, as described below, P2 fully knows what F2 operations are.

When F2 started its operations the labour was more personalised. One single person was 'in charge' of almost making everything. This person took a piece (example) of what was to be produced and show it to the employee of the machine, which then started to produced it. From those days up to now the process has changed. Now computers are utilised, so the whole process is computerised (Swain and Haka, 2000). The production department has a computer where the whole development is supervised, i.e. the production¹⁴ of the trimmings. Also the sales and expedition people¹⁵ have access to the system so all the involved personnel knows what is happening.

The fabrication process (Jain *et al.*, 2003) is not too complicated. In a warehouse are the two main raw materials: polyester and latex. There is a minimum quantity of these materials. From these materials the trimmings are made. Consequently the making of the trimmings is continuous. This is supported by the fact

⁽¹⁴⁾ *The words production and fabrication are used interchangeably.*

⁽¹⁵⁾ *The expedition function is described below.*

that they always have a stock composed of basic trimmings; those more commonly sold.

In the production process (Mittelhammer *et al.*, 2005) they consider the available (basic) stocks, for example the trimmings for pyjamas; this is no matter the design of the pyjama, the trimmings are always the same. In this sense because they know their clients so well they constantly have these stocks because at any time in F2 they know they will be selling these products.

Complementing the above steps, the sales department brings to the firm what the clients ask for i.e., the selling order. Then these are handed to the production department. If what the client wants is already in stock (the basic trimmings), then they proceed to the sale itself. Otherwise they start to fabricate the trimmings.

Because the whole process is not intricate the involved people already know what they have to do. So every day there is a meeting between the two persons from the sales department, one person from production and one person from expeditions i.e., the one that is in charge to visit the clients and deliver what it bought but does not makes the sales order. All of these persons check the production orders. The whole process is not written anywhere. They just know their (production) chores. This way of working has been around ever since the company was founded. Of course there have been some improvements to the process, from a bureaucratic point of view, but it has never been written down.

What this means is that even though the employees know what to do there exists a tacit knowledge component (Styhre, 2004). This is supported by the fact that, as stated before, no written documents

exist but employees know exactly how they must perform their duties.

Even though the production steps are pretty much the same, depending of the kind of product there can be more or less steps. This occurs when the production is of products that are not in stock, i.e. special trimmings. In this case one main difference is dyeing. When this happens additional steps are added. First the trimmings are produced, then dyed and finally they come back to be prepared (iron) for the final client. This whole production process is ignited by the sales of products, i.e. what the client asks for. Put it simply, the sales order (Rummler and Morrill, 2005).

Their main clients are two: big clothing producers and trimmings distributors, which in turn they sell to small clothing companies. Under this circumstance the stocking policy (Dong and Lee, 2003) is determined by the products, i.e., if the trimmings are for pyjamas, women underwear and so forth. If however a client comes by and asks for a particular design they do take care of this situation. What this implies is the precise amount of trimmings that are to be made for this specific client.

As for the client service (Quinn *et al.*, 1997), P2 stated that at F2 they have a commercial – sales department for the promotion of their products, the management of issues related to sales, and the handling of stocks (availability, production orders, delivery dates and so on).

The sales orders go to the expedition people to make all the corresponding observations. Then the products are delivered according to what was agreed. F2 has a delivery transport of their own to cover Barcelona and its radius; however, they have

established contacts with some parcel companies to satisfy their clients outside Catalonia.

16.6.F2. Innovation strategy.

When the author asked if the innovation strategy (Grant, 2005) is somewhere stated (printed), P2 answered that no. However, according to P2 they do innovate because:

- 1) They invest in new machinery;
- 2) They also have someone that innovates technologically this is if there is a need for a special software development in order to have, for example, a better payroll system then they do have someone who is in charge of this IT issues.

Even though the previous two points signal part of the innovation carried at F2, P2 stated that in the finished products innovation is equivalent to design. This is at F2 designing is equivalent to innovating.

F2 innovation process (Hagedoorn, 1993) is according to their environment. This is they are quite receptive about what happens around them but not only outside; inside as well. At F2 they are open to improvements (Oxley and Sampson, 2004). In this sense when this (innovation) construct was mentioned P2 stated that when someone is willing to improve undoubtedly the innovation issue (Porter, 1991) surfaces.

When the author asked about the contribution of every single employee concerning the innovation matter, P2 answered that in deed every single employee has the same opportunity as the CEO to

share its thoughts and they will have P2 word (compromise) that their opinion will be respected and if the innovation is viable put it into practice. Expressed different when an innovation idea emerges then the credit will be given to the employee with the total support of the CEO (Nicholson and Kiel, 2004; van Dijk and van den Ende, 2002).

Because F2 is a family-owned business, again, every single matter (in this case the innovations) passes thru P2 hands so it is the one to decide whether is something positive and practical or not. So, as stated before, when the employees do have an idea they can come to P2 office and share it without a problem. Once the proposal is studied and analysed to solve, in either sense, it is a matter of few days. The benefit of this 'quick-response-to-innovations' is that both sides, on the one hand the employee and on the other hand P2, they do not have to wait long enough or pass through bureaucratic barriers to effective innovation (Salaman and Storey, 2002) to know the answer and the reasons that support this.

In order for F2 to innovate what matters the most is the economic factor. Even this remark when asked about future innovation projects P2 answered that there is no planning for these projects. This is due to the fact that F2 clients continually ask for new designs so up to this moment there has been no need to plan for designs. Put it another way they respond to what their clients need (Reuber and Fischer, 2005) in that particular moment.

The author asked if there exists any outsourcing of designs, and P2 answered that they do not hire any other person or company that designs for F2. This implies that at F2 they have four persons who make the designs, however this is not their only task i.e. they are not

formally the design department. This is so because of their size; a family-own company (Perricone *et al.*, 2001).

When the author inquire about how they managed the external factors that impact the designs (innovations) P2 commented that at F2 when they develop a new design and show it to the client, there is no need to fight with the 'weapon' of price. This is because the client has not seen any similar designs before consequently there is no price-reference (benchmark) that can be compared to that new design. So if the design appeals to the client it will buy it not minding so much about the price. In conclusion, because they are open minded to the external changes (suggestions from clients) these are the ones that dictate how they are to react. This implies that at F2 they react according to what happens and comes from the outside.

Because in this firm they are open minded they gather the external information from trade shows, magazines, suppliers and clients. All this can be achieved because they have a good analysing capability (Amit and Schoemaker, 1993) and good relations with suppliers and clients (Roos *et al.*, 2001. It can be confidently argued that with some clients (the stronger ones) the relationships are better than with the rest of them.

However, when asked about where is concentrated the information that they use to take decisions P2 said that because at F2 they have a very quick reaction to the market, there is no place where this information is gather. This is they do not have a recipient (Quinn, 1992) (electronic or physical) that is filled with this information. P2 mentioned that they have the agility to react to the market trends.

Even though at a first glance this is important, i.e. the gathering of information to make and take decisions, the concentration of this sort of information in a single accessible spot should be part of a strategic reasoning (Nutt, 2002) that at F2 must be considered. The reason for this is to have a better management of the sources of knowledge in order to encompass a better reaction in the market.

The gathering of information is done through several conduits:

- 1) Thru the person that is in charge of supplies F2 gets its knowledge from suppliers about, for example, raw materials.
- 2) Thru the sales department F2 knows what its clients want and this knowledge is also put into practice (Un and Cuervo, 2004).

All this knowledge is channelled through P2 and it is the one that is in charge of taking the corresponding decisions.

When the author asked P2 about why it believes that F2 clients' prefer this firm and not any other P2 replied that this is due to several reasons:

- a) The flexibility (Zahra and Filatotchev, 2004) and
- b) The agility (Barney and Ouchi, 1990) issues are the ones that help to solve the clients' problems.
- c) The client service (Grant, 2005) is also a key point that situates F2 in the top of mind of clients.
- d) A fourth key factor of success is the quality of F2 products, i.e. the value from innovative products (Lawson and Samson, 2001).

For this company to corroborate the quality issue is through a not-so-formal benchmarking (Zairi, 1998) exercise. This is they

compare F2 products against that of the competitors. These comparisons are done with competing products that are sent by F2 clients. By performing this benchmarking exercise is how they determine the quality of F2 products.

This benchmarking issue was fully corroborated by the author when P2 mentioned the technical jargon that is used in the textile industry to describe these comparisons. This is P2 knows F2 business.

The author wanted to know about the percentage of money that is assigned to innovation and where does it come from, (budget, sales, etcetera) so P2 said that, even though not explicit, the amount is little or few so formally there is no official place in the budget for innovation projects. However, P2 truly believes that by the end of this year (2006) they will have a better situation, especially with the exports, so they could afford more innovating projects.

16.7.F2. Intangibles.

The author mentioned about the intangibles constructs (Hall, 1992) and P2 did not know about what the intangibles assets are. So the author gave it a clear example of what an intangible asset is.

Once this was explained the author asked what, in the case of F2, are the intangible assets. P2 answered that the most important intangible asset for this firm is to design. Another very interesting asset (from the author point of view) is the age average of the firm i.e. a young company. This age average implies that they have the willingness to evolve, not to be 'satisfied' with the achieved results, sacrifice and fighting spirit (Itami and Roehl, 1987).

The close relationships with all their suppliers (Blyler and Coff, 2003) are also another intangible asset. P2 specifically mentioned the dyeing process which it considers to be another part of the production process at F2. This is even though this process is totally outsourced the personal closeness of the relationship makes it a very valuable and excellent intangible asset. Put it another way profitable social capital (McEvily and Zaheer, 1999)

Last but not least P2 also considered that the way they treat all of their suppliers when they go for any reason to F2 facility is an intangible asset. They make them feel comfortable and not strangers, i.e. a buyer – supplier stiff relationship.

16.8.F2. Core activities.

When the author inquired about F2 key capacities and activities, those that if absent no company exists P2 answered that one key capacity is the dialogue (speaking – hearing process) that exists at F2. This is so because when a frank and honest dialogue (Kale et al., 2000) takes place then the problems are easier to solve.

This means that at F2 a high involvement degree among all the employees is present and if this were to be decreased or lowered then serious problems would emerge. Put it another way it exists an excellent teamwork (Lee and Miller, 1999) for this company to function.

P2 believes that in order for this company to succeed it is necessary to focus on that they are good at; this is their core activities (Viedma, 2004). This means that they will be successful within their own specialized field. Put it another way they must

exploit their core competences and capabilities (Helfat and Peteraf, 2003) to become and remain successful.

For P2 this not only means that they must focus on the production of specific products but also in the 'handling' of specific clients. Even though this might sound awkward it makes total sense. The basic idea behind this is that they prefer to negotiate with a few good clients than to sell and deliver to many small ones. The idea, explained below, behind this is a profitable cost – benefit relationship (May, 1982).

If a client comes by, and asks for a product that they do not produce, they evaluate the whole request, and decide whether they produce it and sell it to that customer or not. This is if the cost – benefit relation is not profitable then they let the client walk away. In this sense they prefer to sell only to big clothing producers.

16.9.F2. Competitive intelligence.

When the author questioned P2 about the competitive intelligence (Thow, 2003) construct P2 answered that at the national (Spanish) level they are not worried about the established competitors. This is so because the market is from a long time ago already segmented so there is no real preoccupation to monitor them.

Later P2 mentioned that there are not any direct Asian competitors introducing (importing) to Catalonia similar products like the ones from F2. This is what is imported is the finished product not the trimmings. However because of these finished products are not produced in Catalonia but abroad then P2 considers that these Asian producers are indirect competitors. This is because when the imports

happen then the Catalonian textile producers stop producing and consequently there is no selling of trimmings.

In this sense P2 believes that more than competing against any competitors they must compete against a particular situation. They, at F2, face this situation seeking new markets (exporting) and/or reducing the fixed costs (fewer employees). This last issue has been positive because those employees that had to leave the firm (Davenport, 1999) did it by their own will; no legal fighting was necessary.

16.10.F2. Technology.

When the author asked about the technology that is utilised at F2, P2 said that, given the nature of their business, is sufficient their current technological (Hayton, 2003) level to cover their needs. This is they will not invest any more than what is required.

16.11.F2. Value to shareholders.

The author inquired about the value that the strategy is delivering to the shareholders and P2 mentioned that there are times when at F2 they must make some sacrifices in order to harvest not only the profits but the benefits. This is sometimes sacrifices will be needed in order to have better future deals.

16.12.F2. Additional researched material.

16.12.1.F2. Strategies.

At some point in time at F2 they realise, as mentioned before, that it was no longer profitable to fight only with the price weapon. This is so because even though at a first glance might appear very

tempting to start reducing the price, and 'remain competitive', eventually some other competitors will follow this strategy and all of them will end up in losing market share (Villas, 2006). When they realise that it was not wise to compete only in price, they start to follow other strategies so P2 believes that the key strategies for this company are:

- 1) Time with clients,
- 2) New market niches and designs and
- 3) Seeking new external markets (exports).

1) They spend more time with their customers. This is they listen more carefully to what they ask for. This means that they were trying to satisfy them as much as possible but it does not signifies that in the past did not; instead it means that they seek to solve any problems (production urgencies for example) for their clients. Just as P2 putted it relational marketing (Lyon *et al.*, 2004). This strategy worked well even though the sales increase was not that much. The idea was to let the clients know that F2 was nearby. This was also driven by the fact of an internal (country) pressure to sell more in a competitive market.

2) They invested in a new machine. It allows them to produce for the middle-high segment of the market. This is so because when the crisis started several of F2 clients went broke and yet some others stopped producing and became importers of finished products. So at F2 they decided to focus on this segment of the market; a segment that had almost no competition from Asian products. Of course this machine was bought with the thought in mind that could be well utilised with some of the other products that F2 produces; this is they look to fully exploited within the widest possible range of products that they make (Wan, 2005).

This strategy did work well. Of course this 'bet' was safe because they offer this new product to their existing clients. In this sense they did not had to seek for new clients; instead they had more different products to offer to the same clients. This implies that if F2 clients were to look for this new product somewhere else now they had the opportunity to buy it from the usual supplier, i.e. F2.

This investment was also done in a special machine that nobody else has in Spain. The key feature to exploit this machine is the (compulsory) necessity of a person that likes to design and profit from it. This is someone that has taste to design and the patience to do so. Put it another way someone who has excellent design capabilities (Swan *at al.*, 2005). In this sense at F2 they have already someone that partially is dedicated to use (design in) this machine.

3) *The (future) exports of F2 products.* They started to plan the exports with the help of COPCA¹⁶ (*Consortio de Promoción Empresarial*). This means that they took part of COPCA's initiation export programme which allows F2 to count with the consulting services of an export adviser. Because of this export-strategy (Dhanaraj and Beamish, 2003) F2 has already contacted clients in Morocco, Portugal and France. From these tree-country contacts the most advanced negotiations have been in France. Last but not least F2 has been in this programme for one year and a half.

16.12.2.F2. Web site.

F2 has a web site. This is in tree languages: Spanish, French and English. The information is concise and has all the important necessary ingredients to appeal to its clients. Namely, the products, a

⁽¹⁶⁾ COPCA stands for: Consortium for Commercial Promotion of Catalonia. The definition of COPCA is presented in the annex. Source: copca.com

contact e-mail address, where is located (the physical facility) and some photos of:

- 1) A few products,
- 2) The machines they utilise in the daily work and
- 3) The facilities.

The author believes that the whole site is designed with a sense of practicality in mind. This is in this site information regarding what the company does and its catalogues are easily found. In fact since they produce over tree hundred articles, they only show some and the rest of them can be seen once F2 catalogue has been downloaded.

16.12.3.F2. Quality certificate.

P2 mentioned that what really hurts this market is the low-price female underwear. Because these products are imported from (mainly) China there exist no real possibilities to compete. However, when the products are baby clothes more care is to be taken. This is so because these clothes are bounded by law to hold a safety certificate. This certificate is to guarantee that the clothes are not to produce any kind of allergies or damages to the skin. So the imported clothes do not have this certificate therefore cannot compete with the local producers.

A company that already has this safety certificate is F2. What this means is that this firm has utilised its production and design capacities (Porter, 1985) to supply this market with a quality product. From this perspective the author believes that F2 has very few competitors when producing this kind of trimming. The name of the

certificate is OEKO – TEX 100 (Aitex, 2006)¹⁷. It is a quality certificate.

16.13.F2. The theory to formulate strategies.

An important moment came in the interview when the author read out the theory to formulate and re-formulate innovation and operations strategies. P2 at all time had the opportunity to ask any question regarding the theory or its constructs.

P2 believes that the theory is perfect. It mentioned that sometimes F2 strategies are to capture more clients. This is to increase the share of the current market.

Then the author showed P2 the schematized model of the theory and it said that it is all right. However given that F2 is a small company no big analyses are performed. Instead all the analyses carried in here are according to their real possibilities i.e. they analyse with their own resources, capabilities (Mahoney and Pandian, 1992), and needs.

At F2 they are always interested in competitors but they do not analyze them systematically. What they perform in a systematic manner is the paying of close and detail attention at the financial equilibriums. This is they know what their monetary resources (Johnson and Scholes, 2002) are in order to carry out new projects be these of innovation or operations.

⁽¹⁷⁾ *The definition of this certificate is in the annex.*

16.14.F2. Results.

In the final part of the interview, the author asked nine questions regarding the proposed theory and model. Eight of them are a five-point Likert-type (Inandi *et al.*, 2002) of questions and the last one an open-end question. In the first eight questions P2 had to mark the statement that it agreed with the most. In the last one it had to give its opinion or make any comments regarding the theory and the model¹⁸. The Likert-type of questions ranged from TOTALLY AGREE to TOTALLY DISAGREE. P2 answers are presented in Table T2.

Additionally the author showed to P2 a definition of the SWOT analysis (see: annex) so it could better answer the questionnaire.

⁽¹⁸⁾ *The answer to question #9 is the section: "The Theory to Formulate Strategies".*

Statement Number	Statement	Answer
1	SWOT analysis is enough to formulate operation strategies	Agree
2	SWOT analysis is enough to formulate innovation strategies	Agree
3	The previous theory will improve significantly the formulation and re-formulation of my operations' strategies (considering both the internal and external analyses)	Do not agree nor disagree
4	The previous theory will improve significantly the formulation and re-formulation of my innovation strategies (considering both the internal and external analyses)	Do not agree nor disagree
5	The previous theory to formulate and re-formulate operations' strategies is theoretical	Agree
6	The previous theory to formulate and re-formulate innovation strategies is theoretical	Agree
7	The previous theory to formulate and re-formulate operations' strategies is practical	Do not agree nor disagree
8	The previous theory to formulate and re-formulate innovation strategies is practical	Do not agree nor disagree

Table T2. P2 Answers

Apart from these answers, the author identified several key intangible assets from all the available information regarding this company. With this information a competitive advantage map (Figure F2:1) can be depicted and an explanation given.

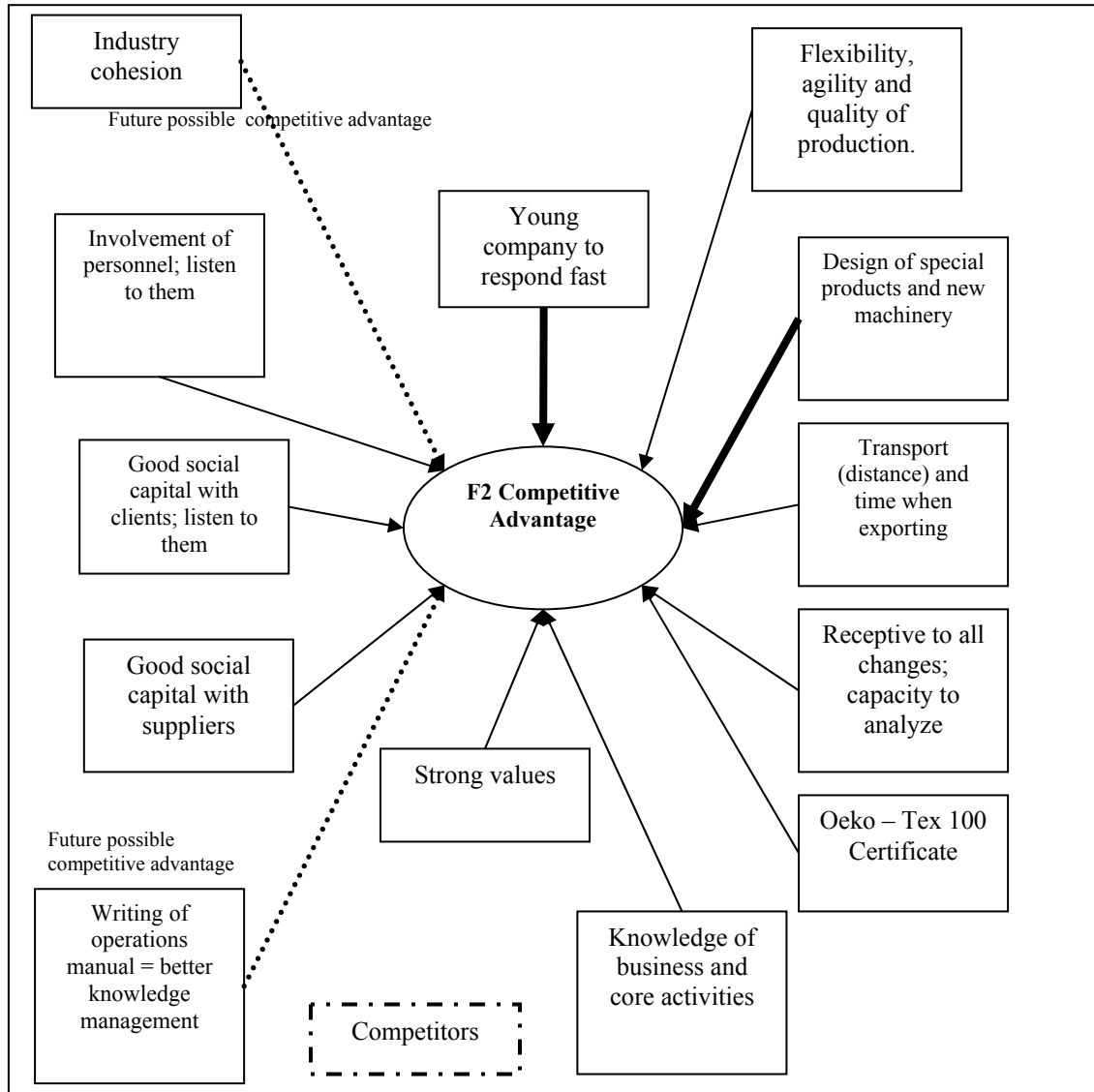


Figure F2:1 Competitive advantage. Source: the author.

The two main links (Young company and Design capability) have the strongest implications to the competitive advantage of F2. This is their contribution to the overall advantage is quite strong and important.

The rest of the intangibles (flexibility, agility, receptiveness, knowledge of business and so on) are also significant but even though their contribution to the competitive advantage is vital yet is less than the two main ones mentioned above. The reason for this is given that this is a young company it can respond faster to the

external changes and here is implicitly stated the design capability, i.e. they can design very fast to respond to what their clients want.

Last but not least is the competitor issue. The way is depicted in the figure represents that has no direct impact in F2 competitive advantage. Even though is recognised by P2 as important the fact that F2 offers customised solutions to its clients means that the relative importance to the competitive advantage is low; furthermore F2 can 'pass' its competitors because the flexibility, agility, quality and design of their products are their best weapons to compete.

In conclusion it can be stated that the presented theory and its model are made with sound constructs but, for the case of F1, the whole of them is too much. This means that given the size of this company and the way they function, P1 considers both that are too large (theoretical).

Case Study Tree

16.1.F3. Methodological issues case study tree (3).

This is the third case study (Yin, 2003) that was elaborated. For confidentiality reasons, the name of the company and interviewed person will remain anonymous all along this analysis. Hence, from this point onwards both will be named Firm 3 (F3) and Person 3¹⁹ (P3) respectively.

This company was selected by the author from a database that was consulted at the University premises, namely *Bureau van Dijk – Sabi*. This data base covers a wide range of Spanish and Portuguese companies from several industries. Because of the natural characteristics of F3 and given that this research is carry out on micro, small and medium size enterprises (MiSME)²⁰ to sustain or reject the stated hypotheses, the author chose this firm to be included in the overall study.

The first contact with this firm was through a brief telephone call explaining to P3 what the author was looking for. Once P3 understood the author's request it accepted to meet personally for a recorded interview.

The author went for a first interview at P3 office and after hearing the recording, additional questions arose. Because of these questions the author asked P3 to meet again which it did happened. The total recording time of both interviews is roughly forty (40) minutes.

⁽¹⁹⁾ *The interviewed person holds a high position in this company.*

⁽²⁰⁾ *MiSME stands for Micro, Small and MEdium size enterprises.*

16.2.F3. History, mission, and vision.

The mission (Ayers, 2002) is to commercialize durable sport products that appeal to their clients. The vision (Ansof and McDonnell, 1990) of the company is to reach the age of fifty. In order for F3 to reach this vision the seeking of new markets is a compulsory task because the sporting market currently is having difficulties (stuck).

The company started over twenty years ago with only three people. All through the years they have grown up until now. Today they have over twenty people working at F3.

It was established in 1980 but not in the premises where it is now. One year later because of their growth they moved offices and introduced two more products: sleeping bags and sporting bags.

Given that in 1982 was held in Spain the Football World Cup they, F3, launched a sporting line with great impact on sales; by 1984 F3 launched some sporting lines for aerobics, dancing and gymnastics.

Because the football market was rapidly consolidating in Spain, at F3 they did not fail to take advantage of this opportunity so they started to introduce new models for practising this sport: shorts, shirts, socks.

It was 1992 when Barcelona was awarded with the Olympic Games, but from early as 1986, F3 moved to another premises from where it could take a better advantage of such an event. This is anticipated the growth sales of sporting goods. But this was not all.

Taking advantage of these new premises, a year later, 1987, F3 introduced special jackets for skiing.

In 1991 F3 introduced a bathing suit line, completely made and designed by them in their Lleida location. By achieving this (internal production) F3 can respond faster and with more flexibility to what the market demands. Six year later F3 introduced another bathing suit line just for the winter; this proved to be an excellent hit in sales.

By 1994, again, taking advantage of Miguel Indurain's²¹ fame in the *Tour de France*, at F3 was launched a bicycling sport line that proved to be very profitable. Even though the overall growth in sales through the years, today F3 sales are stable.

16.3.F3. The products.

This company produces sporting goods such as: shorts, shirts, swimming suits, jogging trousers and sweatshirts among other. These products are for tree main markets: men, women and children.

The products are for all the seasons, i.e. they produce and sell articles to practise sport all year long. F3 also commercializes imported products mainly for the praxis of the swimming sport. An important point to consider is that F3 products are targeted for the middle-high income market. Finally all of F3 products are cited throughout the whole case in order to better explain the researched ideas.

⁽²¹⁾ *This was a famous Spanish bicycling runner now retired.*

16.4.F3. Operations strategy.

The author found out that the operations strategy (Johnson and Scholes, 2002) does not exist as such. People know what they have to do and since this is a small company there is a production manager that its direct chief is P3. In this sense the tacit knowledge (Styhre, 2004) of all these years is set into practice to solve the production issues.

From the reception of the raw materials up to the distribution of the finished products everything is done in-house; with the cited exceptions. F3 distributes as soon as possible and sometimes in less than two days the products are in the retailers' stores.

F3 does not have stores of its own instead it distributes its products through a network of selected retailers in Spain. Currently F3 does not have exports but imports some of the swimming products. Because of these retailers' relationships F3 has a good bond with its clients (Kogut, 2000). If a product is damaged or has a defect at F3 they change it without a problem as soon as possible.

Few products are fabricated outside (Borys and Jemison, 1989) F3. These articles are, among others, the swimming goggles and sandals. The rest of all the products that have F3 trademark are totally produced by this company. In this sense F3 is very flexible and agile to respond to what the market asks for. In fact this is the only company in Spain that produces swimming suits. F3 is capable of producing five thousand swimming suits in ten days.

In the one hand F3 keeps an eye on the competitors²² but it does not pay close (detailed) attention to them (Prašnikor *et al.*,

⁽²²⁾ *The competitor issue will be amplified in the 'Competitive Intelligence' section.*

2005). On the other hand because at F3 they always focus on the quality (Eccles, 1991) of the product P3 mentioned that recently they destroyed one thousand swimming suits because they were defective. This is the quality of the finished product was not up to P3 standards so better destroy them than to sell them somewhere else cheaper.

P3 idea behind this is that it is far more difficult to re-conquest a client (Galvin, 1997) than to make a new one. Put it another way it is more difficult to retain an existing client than to go for a new one. According to P3 philosophy the clients should never be lost. Once this happens it is very difficult to regain its confidence (Penrose, 1959).

Currently F3 overall production is divided: sixty percent in China and forty percent in Spain; P3 is looking to produce between eighty percent and ninety percent in China and leave between ten percent and twenty percent of the production in Spain. The reasons for this moving of the production are the costs involved. This idea gets supported by the fact that today at F3 some raw materials are imported.

As mentioned before, some of the products (swimming sandals, goggles etcetera) that appear in the catalogue that P3 gave to the author are made (design) exclusively for F3 and some others are standard models, i.e. ordinary models that maybe some of F3 competitors also have. In this case these standard products bear only F3 brand but there is no difference in the model. All in all these models (be unique or not) are not produced in Spain.

The factory is in Lerida (Catalonia) and it was located there because it was a good opportunity to buy it. But this factory is the only one remaining in the town, i.e. there are no competitors or any other institutions that provide any sort of help to F3. Put it another

way the cluster (McEvily and Zaheer, 1999) situation is totally irrelevant to P3. Also in the building where the interviews were carried out are only the distribution and management offices.

P3 mentioned that every week they have a regular meeting with all the personnel of F3 to detect and solve all the problems that they have. This also gives them the opportunity of continuity to solve the previous identified problems.

These meetings produce minutes, which are deemed by the author the strategic archive (Grant and Baden-Fuller, 2004). P3 said that this archive is only consulted by the board of F3. In this way there is always a follow-up path to see whether they improve or not. However at F3 no external archive or system (Gilad and Gilad, 1988) is managed. This is news clips, advertising and so forth.

When the author asked P3 about continuous training (Ellis *et al.*, 2002) it responded that at F3 the people are trained in whatever is needed. In fact at this moment there is a person learning Chinese. This is so because, as already mentioned, at some point in time part of the production of F3 is going to be shipped to China.

P3 believes that in order for this business to grow is necessary to invest (Knott, 2003); be these (capabilities) training (Zairi, 1992), designing (Teece *et al.*, 1997), distributing (Porter, 1985) and so forth. Because P3 invests in this business it mentioned that at F3 the defect rate is very low (0.001%). When this happens an analysis is done to see why it happened, i.e. why the product was defective.

16.5.F3. Innovation strategy.

This firm has been definitely situated in the innovation edge (Inkpen and Choudhury, 1996) since several years in the past up

until now. In the year 2000 F3 made two big innovations: on the one hand a material far more elastic for their gymnastics line and on the other hand a drying system for their shirts line. This drying system allows the shirts to dry faster so the sweat is eliminated from the skin.

Two years later they introduce a full line of sporting goods for men, women, children and big (human) sizes. In 2003 at F3 was introduced a female soccer fashion line. This is the whole outfit for women that practice this sport. Until this moment no other company thought about these ideas.

Several key innovations saw the light of success in 2004:

First: a production of snowing goods for this market was introduced, goods such as caps, gloves and knitted caps.

Second: the introduction of sweaters for men and women, plush-like sweatshirts and pants for the winter took place.

Third: the summer beat the forecasted sales for the fashionable swimming goggles that were introduced.

Fourth: 'Tech Power²³' made its debut; this is a swimming weave that is technologically advanced made with Teflon. The splendid relations (Blyler and Coff, 2003) with Dupont made this achievement possible.

Fifth: the soccer outfit, which was already introduced, incorporated a new weave, the Polysilk, which allows more comfort and sweat-less to the player.

⁽²³⁾ For confidentiality reasons the real brand of the weave will remain anonymous.

By 2005 at F3 they started to promote personalise soccer-team outfits. By performing this F3 can permit entire teams to bring their own designs and be made just as they want. Put it another way the soccer team does not has to 'buy whatever' is in the market. At F3 they will buy whatever they need and want to wear, i.e. total client satisfaction (Christensen and Bower, 1996).

In the swimming line a major breakthrough was developed when at F3 the production of a weave that allows the body of the swimmer to remain dry was carried out. This is the weave does not allows the water to permeate to the body allowing for a much more comfortable swim.

At F3 there are people exclusively designated to innovate and because of this there exists in a continuous manner innovation projects. The designers take ideas for their designs from anywhere but these people know the weaves, their properties and so on. This is they have the required knowledge (Grant and Baden-Fuller, 1995) to understand the 'behaviour' of the weaves under certain circumstances.

All the above mentioned innovations have as a unique focus the client, i.e. what it wants (Porter, 1991). However, complementing the previous paragraph, at F3 the scanning of the sports markets do takes place in order for these designers to complement their (design) innovation thoughts or ideas.

16.6.F3. Value to clients and shareholders.

F3 products are in the middle range of the sporting goods market and, according to P3, they are reasonable in price. This is when compared with its competitors F3 products are price-

competitive. But it is clear to P3 that the best weapons to fight are quality (Schroeder et al., 2002), (innovative) designs (Viedma, 2004) and client service (Quinn, 1992). These are the value to its clients (Porter, 1996).

The value to the shareholders (Chakravarthy, 1986) is money, i.e. P3 is well paid. It makes sense because holding a high key position has been working for over twenty five years so it expects and receives good economical benefits.

Anyway at some point during this stage of the interview P3 mentioned that when F3 products are finished, even though they (the market) might say that they are expensive, for P3 are all right. This is personal satisfaction. However, concerning the price P3 stated that if the products have good quality a solution will be seek in order for these to be affordable once launched in the market.

Nevertheless once the product is recognised by the clientele then the price can be push upward so the margins are not reduced. As an example P3 mentioned that in the 90s the swimming suit for woman had a price of €7.00 and currently (2006) is double that.

16.7.F3. Intangibles.

P3 sees and understands the intangibles (Barney, 1995) as something that costs pretty much as any tangible asset (Hall, 1992). In fact it believes that these assets do get reflected in the balance sheet, such as distribution (Hall, 1993), advertising (Miller, 2003) and so on. However the author of this research identified several which will be discussed in the results section.

16.8.F3. Competitive intelligence.

Concerning the competitive intelligence (Marr, 2004) construct, as mentioned before, F3 does not monitor totally its competitors. This is at F3 they do not systematically perform these actions. Instead at F3 they understand what is available at the market but never losing the real focus: the client. This, the focus on the client (Dalkir, 2005), they do it systematically. Actually this is what drives innovation (Grant, 2005).

16.9.F3. Additional researched material.

16.9.1.F3. The web site.

The researched company has a web site. In it the current season collection is always displayed along with a contact form, History of the company and (supposedly) the same information in Spanish (such as the products) is available in English. The author randomly downloaded one catalogue and the quality of it is all right. It is a PDF file so the resolution is very good.

However if any interested person wants to download this catalogue and does not has the Adobe software, it can also downloaded from here. This is they take care for the client (Breeding, 2000) to have everything it needs to fully access the catalogue without problems. The downside of this site is the English version. This is even though there is a button that grants access to it, when it is clicked nothing happens.

P3 mentioned that the idea of launching the web site was (and is) twofold:

- 1) To have a virtual catalogue which is obtainable on a 7 x 24 basis and

2) To offer F3 clients a continuous contact channel.

In this way they, the clients, can know the nearest retail store where the products of F3 are sold and if any new products are to 'hit' the stores. But even though this is a web of (basically) information, surprisingly this site is visited every day by around one hundred persons.

The way the site operates is as follows. For example if a coach wants the uniforms of its team to be customized then he enters into F3 site and sends an e-mail asking for this information, i.e. the price, delivery time and so forth.

Once this e-mail reaches F3 server it gets analysed and sent to one of F3 clients, i.e. the retail store that sells F3 products. In order for P3 to decide to which retail store the e-mail is to be assigned, the sales level is to decide the future provider of the coach. Because of these profitable bonds (Ahuja, 2000) everybody is to make business; these retail stores are pleased with F3 because they can assure a sell.

In this sense F3 makes business with the retail stores which in turn they make business with the final clients. By doing this F3 keeps track of which retail store buys more of which products.

16.9.2.F3. The catalogues.

P3 gave to the author of this research two catalogues. These are very nice-looking and feeling. In fact the author considers them elegant. Given that these catalogues are printed in paper, the pictures are a little bit clearer than when compared with the ones in the web site; but the differences are neither significant nor important. In any case both pictures do appeal to the target market.

Both catalogues are from the current 2006 season: summer and winter. In both of them nice, colourful, well taken pictures of the products are shown. Since the products are sports goods (uniforms) the wearing of them is done by healthy, young people. In some pictures a black man is a model.

Because the line of products is quite large, women and children appear too. Also some sporting garments such as bags and socking are shown. In every case the name, code, size and colour of the product are signalled.

Last but not least at the end of them the address of the company appears along with the web page and an e-mail address. Also some national distributors (address, fix and mobile telephone numbers) are listed.

16.9.3.F3. Supplementary information.

At some point P3 mentioned that they had a legal dispute about a patent with a recognised firm. The legal battle took between two – two and a half years and finally F3 won the trial. F3 made the other company to withdraw the patent from the market (consequently the product), and because of this trial F3 made the other firm to pay all the expenses that it incurred into.

P3 believes that since F3 is part of a textile association every single member should share information (Zahra and Filatotchev, 2004) so all the members will improve. This is the common problems should be shared and common solutions will arise. But even though F3 has done this (the sharing of information) it has not received any information in return. In this sense P3 believes that when this information exchange between members occurs improvements will come: quantitatively and qualitatively.

As an example P3 mentioned that to implement the code bar (Raff, 2000) was extremely difficult. Again, according to P3, this is because close-minded people do not believe in the rest of the members.

16.10.F3.the theory to formulate strategies.

P3 said that theory is too theoretical but not practical. It is focused too much on competitors instead of focusing on clients (Galvin, 1997). It also believes that the financial results (Yates, 2006) are 'something else' that they are to be treated separately.

P3 also thinks that if there is a current focus on the competitors (Vezmar, 1996) very few steps will be taken to improve F3 overall position. To express it another way is "focus on your business and leave the competitors alone".

It believes that competitors are all (of the sports fashion business); every single competitor has the best, cheapest and prettier products. P3 thinks that F3 must sell its products as *the* most excellent ones at the best possible price. In this sense, P3 believes in what F3 produces instead of controlling the market and the competitors.

16.11.F3. Results.

In the final part of the interview, the author asked nine questions regarding the proposed theory and model. Eight of them are a five-point Likert-type (Inandi *et al.*, 2002) of questions and the last one an open-end question. In the first eight questions P3 had to mark the statement that it agreed with the most. In the last one it had to give its opinion or make any comments regarding the theory

and the model²⁴. The Likert-type of questions ranged from TOTALLY AGREE to TOTALLY DISAGREE. P3 answers are presented in Table T3.

In order for P3 to answer the questionnaire, the author showed to it a description of the SWOT analysis and an example. This is shown at the annex.

⁽²⁴⁾ *The answer to question #9 is the section: "The Theory to Formulate Strategies".*

Statement Number	Statement	Answer
1	SWOT analysis is enough to formulate operation strategies	Do not agree nor disagree
2	SWOT analysis is enough to formulate innovation strategies	Do not agree nor disagree
3	The previous theory will improve significantly the formulation and re-formulation of my operations' strategies (considering both the internal and external analyses)	Do not agree nor disagree
4	The previous theory will improve significantly the formulation and re-formulation of my innovation strategies (considering both the internal and external analyses)	Do not agree nor disagree
5	The previous theory to formulate and re-formulate operations' strategies is theoretical	Agree
6	The previous theory to formulate and re-formulate innovation strategies is theoretical	Agree
7	The previous theory to formulate and re-formulate operations' strategies is practical	Disagree
8	The previous theory to formulate and re-formulate innovation strategies is practical	Disagree

Table T3. P3 Answers

Additionally, as was stated in this case study (**section: Intangibles**) P3 believes that the intangible assets (Voelpel *et al.*, 2006) of F3 are a cost, i.e. they are a part of the balance sheet.

But even though this holds true the author of this research identified several intangible assets within this company, namely: good profitable relations with retailers (Nahapiet and Ghoshal, 1998) that in turn make F3 the sole distributors (Harvey *et al.*, 2000) of some (swimming) products; the capacity to constantly introduce new products (Verona and Ravasi, 2003) in the market and respond to the needs of the clients (Eisenhardt and Brown, 1999); good relationships between the employees (Tetenbaum, 1998), i.e. a strong teamwork; the capability and ability to believe and invest in constant training (Nonaka, 1991) that makes this firm grow; the capability to forge R&D alliances to innovate (Izushi, 1997) new materials that in turn are profitable innovations that end up in the market (Brouthers *et al.*, 1998); and last but not least the key capacity to design (Hadjimanolis, 2000).

From another point of view this firm has a tangible asset that also contributes to its competitive advantage: the capacity to produce very fast in-house (Barney *et al.*, 2001) and outsource (Quinn, 1992) some articles and not losing the quality of them (Lawson and Samson, 2001).

It is believed that the two most important intangibles that this firm has are: design and research and development. In both cases these assets are internal and external. Internally at F3 are people in charge of producing (drawing) the designs for F3 products; be these swimming suits, shirts and so on. This capacity also allows them to particularly design anything that a client asks for. In this sense they can respond not only to the overall market but to a particular customer.

Complementing this analysis at F3 they have the (internal) capacity to constantly innovate new materials, for example 'Efatech

Power', that, in addition to the external capacity to forge profitable alliances with important companies, allows F3 to launch cutting edge products.

These two intangibles (Design and Research) mean that on the one hand at F3 they constantly learn to improve their own products and on the other hand they efficiently manage a profitable social capital (Teece, 2000) relationship that helps F3 to count with remunerative products. In this sense the fundamental capability of learning that has been polished at F3 has proven over the years a key issue. Simply stated if the employees at F3 stop learning this company will definitely bring to a halt continuous innovations consequently being surpassed by competitors.

The rest of the intangible and tangible assets do contribute to the total competitive advantage (Henderson, 1989) of F3. However the previous two mentioned intangibles (Design and Research) are the ones that make the biggest contribution to its lead, which in turn are supported by continuous learning.

The last construct that has a direct impact in F3 competitive advantage (Chakravarthy, 1997) is the competitors (Campbell and Alexander, 1997). This does not mean that at F3 do not pay attention to their competitors; instead it means that the real focus is on the clients (Kim and Mauborgne, 1999) and how to please them. If this is soundly achieved competitors will follow. Put it different the value to clients (Hamel, 1998) will be imitated by competitors. The whole competitive advantage of F3 is depicted in Figure F3:1.

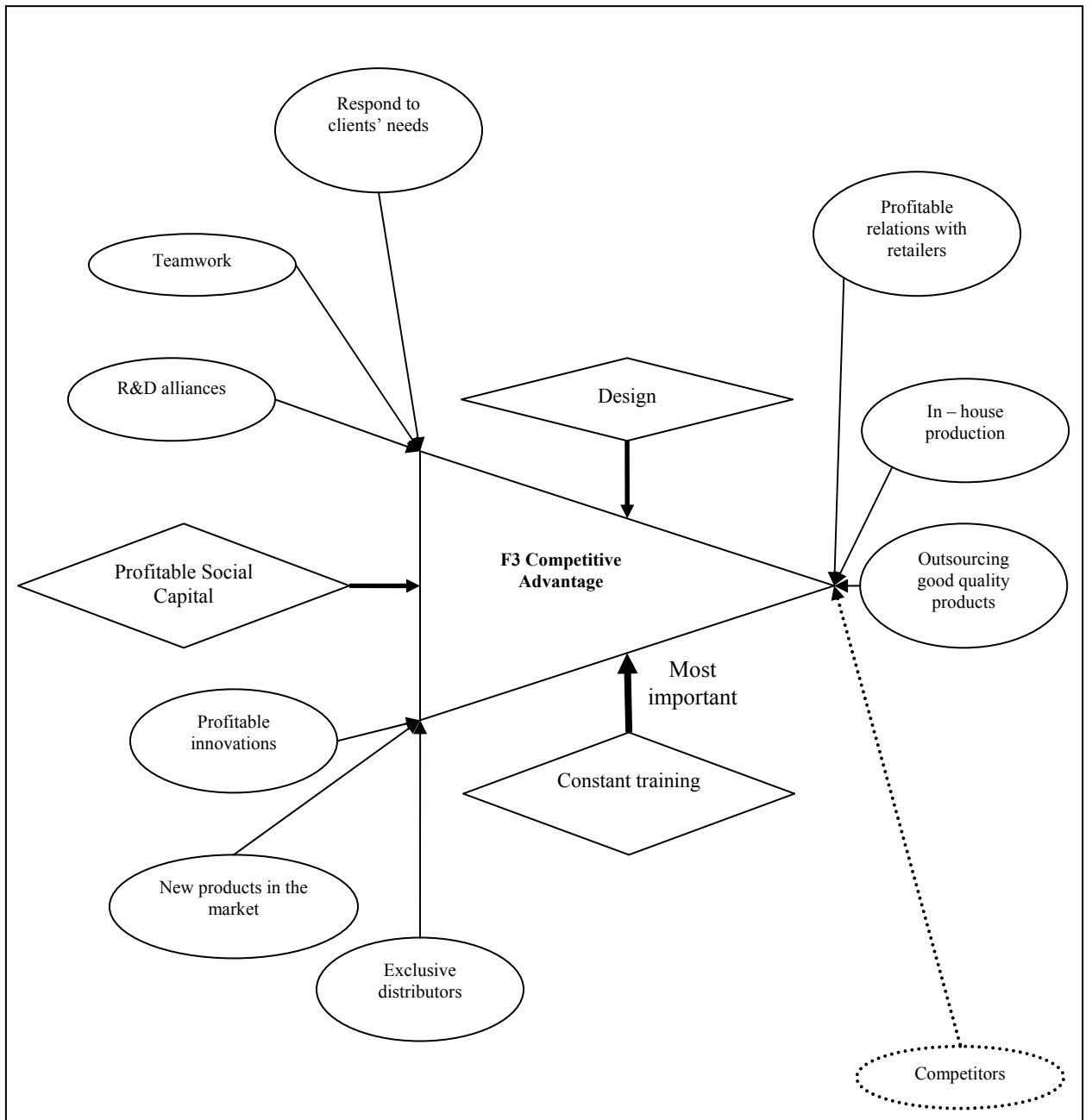


Figure F3:1 Competitive advantage. Source: the author.

Case Study Four

16.1.F4. Methodological issues case study four (4).

This is the fourth case study (Yin, 2003) that was elaborated. For confidentiality reasons, the name of the company and interviewed person will remain anonymous all along this analysis. Hence, from this point onwards both will be named Firm 4 (F4) and Person 4²⁵ (P4) respectively.

The author got acquaintance of this firm through a previous researched company (Case Study Two). In this sense the two interviewed persons know each other. They are not, however, direct competitors. This will be clearly stated in the **Products section**.

The first contact with this firm was through a brief telephone call explaining to P4 what the author was looking for. Once P4 understood the author's request it accepted to meet personally for a recorded interview.

The author went for a first interview at P4 office and after hearing the recording, additional questions arose. Because of these questions the author called P4 to answer them. The total recording time of both interviews is roughly ninety minutes.

16.2.F4. Introduction: mission, vision and history.

The mission (Quinn *et al.*, 1997) of this company is to offer a good quality product at a fair price. However, neither the author saw it anywhere written nor P4 showed it.

When the author asked about the vision (Prescott and Miller, 2001) of the firm P4 mentioned that given the current situation there

⁽²⁵⁾ *The interviewed person holds a high position in this company.*

is no vision. The reason for this thinking is that everything is very complicated.

P4 parents used to have a small textile factory so from those days it had the illusion for the textile world. Because of this P4 has been in the textile industry all its life. This company²⁶ initiated its operations in *Pineda de Mar* (the Catalanian Brave Coast).

Even though P4 inherited the weaving machines ten (10) years earlier it was not until 1998 when F4 was formally founded; at that moment the founders were thirty four and twenty seven years old.

When the weaving machines were sold, at F4 they were only the machines for cutting and making clothes. Four years ago (2002) P4 decided to buy only the clothes (the finished product) and sell it. This is the production of the clothes, since then, was done outside of F4, i.e. the outsourcing of the manufacture (Quinn, 1992).

The formal educational level that the founders had at that initial moment was technical and the whole invested capital has always been of the founders, i.e. a family-owned business (Hubler, 2005). Currently F4 has only one business unit, the one in *Malgrat de Mar* (the Catalanian Brave Coast).

16.2.1.F4. The banks and the government.

Concerning the banks P4 mentioned that they know how to do their job very well. This is they charge interests on the loans they make.

When the author asked about if F4 receives any help from the government, P4 said that they do not have any. Further, F4 is not the

⁽²⁶⁾ *This company is the one from P4 parents.*

only firm in this situation. So P4 does not understand why this situation is happening. This is the government not helping the small producers.

Also when the author mentioned about receiving any help from the textile guild P4 said that it has never been helped by them or any other organisation, be this governmental or not. P4 said that these organisations only help the big ones, especially with the subventions. This is the money that is provided mainly by the government remains in the hands of the big ones and not the small ones.

However P4 noticed that when it comes to the big producers they are the first ones that set a foot in China and because of the subventions they are not hit, financially speaking, very hard.

16.3.F4. The products.

The only products that F4 handles are women underwear. In this sense the mix of products (Hill and Kwon, 1990) of this company is divided between basic products and seasonal products. This means that some of the existing products are the same all year long and the rest changes according to the season. The percentage is bigger for the latter one than for the former one. This is so because of the sales cycle. In this sense P4 decides the launching of new products depending on what the market asks for.

As has always been in any market, the copycat of products is not excluded in this industry. In this sense if a very innovative design (Knott, 2003) reaches the market most likely it will be copied very fast. And if this copy is cheaper, the position of the innovative firm (Fromhold, 2004) is worse off.

Also another log in the fire of competition is diversity. By this P4 meant that companies that used to produce (twenty years ago) only women underwear, now they are also producing, for example, baby underwear, men's outwear, kitchen garments and so forth. The idea was that they were looking to exploit their capabilities (Luo, 2002) (be these of designs or production) to have a bigger share of the market. P4 believes that this diversifying was possible given the Chinese invasion. This is because the Chinese have a big capacity to produce large quantities they can satisfy any market. As a final comment F4 does not export but it does import from China.

But not only were the small producers diversifying their lines (Jaring and Bosch, 2004). P4 also mentioned that years ago Zara did not sell any women underwear; now, it is a market that this company is competing in a fierce way. So Zara buys these clothes from the best producer available, which happens to be a Chinese producer. This has contributed to the lost of the market share of small stores and local producers.

16.3.1.F4. The sales.

During the last tree years the sales have been in a downward steep slope. This has been happening since 2004. In fact in 2005 the sales were at their lowest point. This was feasible because of the Chinese competition. This year (2006) P4 forecasts that sales will also be low.

16.3.2.F4. Market share.

At this point in time (2006) P4 believes that F4 has almost no market share. This is the result of very low sales. Because of this P4 has no idea about the market share of its tree closest competitors.

16.3.3.F4. The brand.

When the author suggested the idea of selling to the higher end of the market (high income people) P4 said that the established brands are the ones that they have not only prestige but the financial muscle to appear on TV.

This is the big brands have enough money to spend on televised advertising and because of this they can charge almost any price. Women, wanting to be wearing the latest fashion, most likely they will pay the price for that publicised underwear. Small producers cannot afford this strategy. This also contributes to the loss of market share.

When the author suggested the idea of allying with other firms (Inkpen and Tsang, 2005) and launching a (common) brand P4 said that unless every single firm pours a lot of money then there is no possibility to start building a brand. This came up because, in P4 opinion, in Europe only remain huge brands. And in Catalonia they are no such big brands.

16.3.4.F4. The rebates.

When the author asked P4 if they have any rebates it said that they don't; instead what they have is 'production shares'. This is clothes leftovers from the previous season. This works in the following way. If in the current season some of the clothes were not able to be sold on time then F4 sells them at any price the (fashion) market is willing to pay.

In this sense the idea behind this manoeuvre is twofold. On the one hand is to sell the goods and not have them occupying warehouse space, consequently 'standing still (idle)' money. On the

other hand is to earn as much money as possible, without incurring in too many losses, i.e. they are sold at (the production) cost.

16.3.5.F4. The competitors.

Concerning the competitors (Gilad and Gilad, 1988) P4 mentioned that before (the Chinese boom) the SMEs²⁷ had a big part of the market. This was so because the big competitors bought products from these SMEs. Now these big competitors went to China leaving most of the SMEs without anything to be produced. This is they took their production to China and left the SMEs 'alone in the wind'.

In this sense P4 believes that the big competitors have eaten almost all the market and very few small companies remain. Big competitors such as: El Corte Inglés, Zara²⁸ and so on.

P4 also mentioned that the Chinese importers brought into Spain finished products that set the threshold very high for the national producers. This is since they produce a lot they can sell it very cheap. And this means that the local producers cannot compete in price.

16.4.F4. Competitive advantage.

P4 believes that today at F4 the only competitive advantage (Luo, 2000) is just price. So when the author asked about the main differences about F4 and its competitors P4 said that the competitors are pretty much in the same situation, this is, price is the only factor to be considered.

⁽²⁷⁾ SME stands for Small and Medium Size Enterprise.

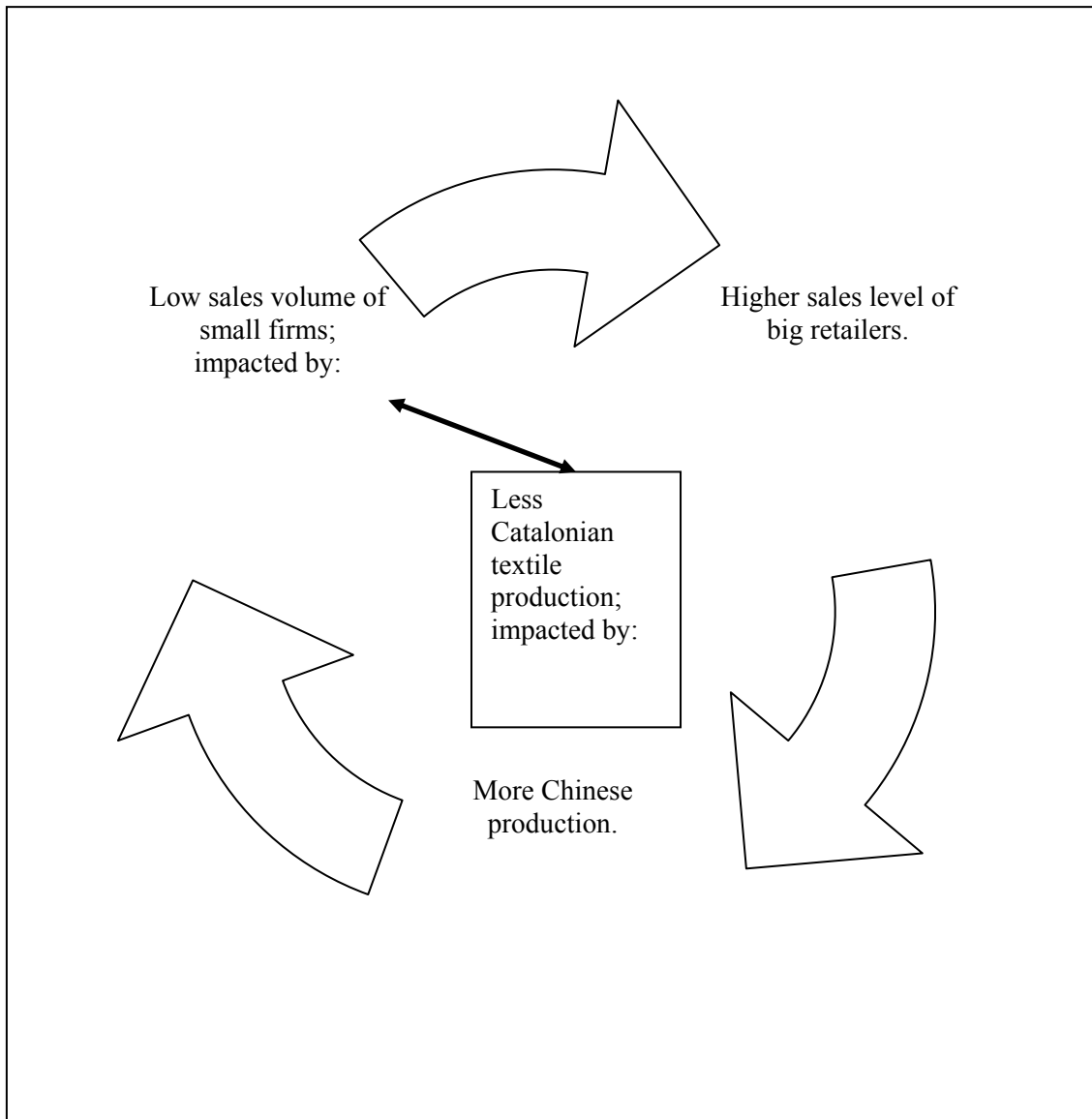
⁽²⁸⁾ These are local (Spanish) competitors in the fashion business.

The reasoning is the following: before the big competitors, such as Zara or Mango²⁹, started to grow and the small clothes producers had a piece of the market, the overall sales were decent. This is every single actor in the market had its share.

According to P4, now that these big competitors doubled their size and that they are located in the selling spaces (malls), the clients prefer to go to these malls instead of visiting the small stores in towns or villages; as a consequence these small stores are not selling, but closing and the production of the SMEs is less and vice versa: the production of the big ones is done more in China and less in Spain.

This implies a vicious circle (Figure F4:1). No sales of small stores = less local (national) production. More sales of big competitors = more production in China = less production in Spain.

⁽²⁹⁾ Both of these companies (Zara and Mango) are big Spanish clothing retailers.



Graph F4:1 The vicious textile production cycle. Source: the author.

16.5.F4. Operations strategy.

When the author asked about the operations strategy (Porter, 1991) P4 mentioned that the two founding pillars are: a good client service (Peteraf, 1993) and price. When the author asked P4 if this strategy is somewhere stated (printed or electronically) it said that it is not.

P4 mentioned that this strategy has changed over the years. This makes sense because first (in 1998) at F4 they were producing and currently (in 2006) they are only importing.

When the author asked how is this strategy formulated P4 answer that the 'market decides' and no one else. Under this view the only instrument that P4 uses to notice this price-change is the daily work. This is every day it identifies several prices and determines the best possible price for F4 products. P4 mentioned that since price is the only fighting-weapon in the market (Draganska and Jain, 2005) this is the pure alternative it has. Put it differently P4 adjusts the price of F4 products to what the market is willing to pay.

In this sense P4 main strategy is through cost (Chandler, 1990). So, even though since the inception of the company the firm has grown, three (3) years ago the opposite trend was felt.

As stated before (**section: THE PRODUCTS**) P4 considers that the only strategy nowadays is to move the production to China. This is to import the finished products (Changying, 2005). Because of this situation P4 is reacting to what it sees and it has no chance of planning anything (Penrose, 1959).

For P4 to start producing in China means that it must go there, ask the Chinese what it wants, take an example to them and finally sit and wait for its container full of merchandise. Once in Barcelona P4 delivers the product. But even this distribution charge the total cost of producing in China is far more competitive than producing here. This is Chinese production + local distribution = better price, whereas Local production + local distribution = worse (not competitive) price.

P4 mentioned that the cost (which in turn is reflected on the price) the Chinese charge is seventy percent lower when compared to the local costs (prices).

P4 mentioned that contrary to the popular belief 'Chinese production = low quality' the garments that it saw in the Southeast part of the country were made with high quality. This is price = quality. More price = more quality and vice versa. Additionally the factories located there (in the SE) are huge clusters (Porter, 1991) with lots of factories and designs that it has not seen somewhere else. Put it another way in China they have good quality designs (Ethiraj *et al.*, 2005) at very competitive prices (Bansal, 2005).

P4 mentioned the fact that F4 used to have clients that they did not bought what was previously order. This is when at F4 was a production lot of, for example, five hundred units and 'suddenly' the buyer did not wanted all of them but just a part, F4 had to keep the rest of the production for itself.

Again, this is because of the speed of the market (Stalk *et al.*, 1992). This last point came up in the interview because the author asked about any successful product in the past. In this sense P4 said that if that were to be the case then this (female underwear) product would still be high-selling. But since fashion dictates what is to be sell or not, some of F4 stocks remain in the shelves.

P4 mentioned that not only to produce in China is cheaper but also the distribution. This came up because the author inquired about the logistics (Jahre and Fabbe, 2005) involved in delivering the clothes to Spain. Given that it exists a huge distance between Europe and China the author assumed that the distribution cost per unit were to be higher when compared to Spain. This is the physical distance was a key factor in deciding to produce or not in China. P4 said that it is cheaper to distribute (bring) a piece of finished product from China than to produce and distribute it in Spain.

P4 corroborated this with an example. If it were to send one piece of underwear to a client produced here in Spain it will have to pay €0.043. This is seven pesetas³⁰. That same product delivered from China in a container is only one and a half pesetas (€0.009).

16.5.1.F4. The production & fashion cycles.

P4 explained to the author the production and fashion cycles (Hamel and Prahalad, 1994) that impacts F4 overall operations. Fashion dictates what is to be wear so the female client seeks and asks for it to the fashion (underwear) retailer. If the retailer does not have it, then the female client goes to the next one and so on.

This makes the retail owners to ask to the underwear sellers (which is not necessarily the producer but could be the importer) for several models (to have variety) and the final consequence is that the production cycle (Teece *et al.*, 1997) is shorter (faster) having a straight impact on the sales.

As already exemplified, because of these shortening cycles and the costs (wages among other) are higher here in Spain when compared to China then it is far more convenient to produce in China and bring it to Spain than to produce and sell it here. All in all the unitary costs are higher in Spain than they are in China.

16.6.F4. The innovation strategy.

When the author asked P4 about the innovation strategy (Christensen and Bower, 1996) it said that it seeks to design nicer designs every time. This is before all this 'catastrophe' P4 identified two seasons: autumn/winter and spring/summer. Then it used to

⁽³⁰⁾ 1 Euro = 166.386 Pesetas. Source: *The Universal Currency converter* (xe.com/ucc/)

have a more or less formal innovation (design) plan (Lawson and Samson, 2001).

Now, because of the rush of the (women underwear fashion) market the (likely) designs have to be on the streets as soon as possible otherwise the sales and market share will be lost.

Given the above explanation at F4 they do not have a formal innovation strategy but P4 has some designs waiting to be launched. This is to say that once P4 has a design idea it draws it and then the whole production process commences. Otherwise P4 stands still.

P4 is the only one in charge of designing which it is equal to innovate (McEvily and Chakravarthy, 2002). It takes ideas from magazines, other designs, wishful thinking and so forth; then it uses a computer programme to design. This programme is not a textile-design software per se but a cross-point software. However, this software is enough for P4 to bring to life its designs, send it to the producers (in China) and they understand what P4 wants and how to do it.

Because of this situation P4 does not believe in R&D (Chakravarthy, 1986); at least not in the textile industry. In some other industries might be research and development but not in this. The logic behind this idea is very simple. Since R&D has a lot of working hours in every product the client must be willing to pay the price for that product. So if P4 charges €6 or €7 per article F4 will be out of business very fast. Last but not least P4 does not have a historical archive (Ansoff and McDonnell, 1990) about the innovations (designs) that were made previously.

16.7.F4. The intangibles strategy.

The author explained to P4 about the meaning of the intangible assets (Dalkir, 2005) and their importance in the context of the firm so when the author mentioned about the intangibles strategy (Marr and Roos, 2005) P4 said that at F4 they do not have such a strategy.

But P4 mentioned some as the client service (Galbraith and Lawler, 1998) and the design (Mintzberg and Quinn, 1996) of pretty underwear. However P4 recognises that the designs can sometimes be very uncertain. This is P4 might design something that it believes is going to turn out a success and it happens just the opposite. These can be termed uncertain intangible assets (Brynjolfsson *et al.*, 2002).

When the author asked P4 how it makes its intangible assets grow (Zollo and Winter, 2002) P4 reasoned that in the case of the client service is to take good care of it, listen and treating it nice. Being honest about which products F4 can deliver and which cannot (Barney and Ouchi, 1990). In this manner P4 builds and strengthens the relationships with its clients (Fukuyama, 1995).

16.8.F4. The core activities.

When the author asked P4 about the key capacities and activities (Viedma, 2004) of F4 it answered that the (almost) only activity the permit this company to stay alive was that of moving the production to China. Otherwise F4 would cease to exist.

16.9.F4. The competitive intelligence.

Once the author explained to P4 about the competitive intelligence (Thow, 2003) construct P4 mentioned that it pays little attention to what F4 competitors are doing (Walleck *et al.*, 1991). P4

cares about its own business (designs, clients and so forth). This is every company must do what it is capable of doing without extremely focusing on the competitors (Porter, 1985).

However P4 does compares the making of F4 products with those of the competitors. By doing this P4 determines the price-quality relationship and once this is established P4 can tell whether F4 clients are paying the right amount or not for what they are buying. So, even though not formally P4 performs a benchmarking exercise (Cuadrado *et al.*, 1985).

16.10.F4. The technology.

When the author inquired about the technology in this firm (Danneels, 2002) P4 mentioned that at F4 are producing the latest garments. These are the ones without seams. This can only be done in very specialized machines that are the top of the best in producing seamless clothes.

Under this idea this company is highly technological (Spencer, 2003). This does not mean that these machines are physically in Malgrat de Mar but that the Chinese that P4 contacted have them. In this sense P4 looked for a firm that was technologically advanced (Corey and Wilson, 2003) to produce and offer a top-quality product that could be competitive.

16.11.F4. The value to clients.

When the author mentioned the construct value to clients (Barney, 2002) P4 said that client service (Herring, 1999) and distribution on time (Peteraf, 1993) to clients (stores) is the value delivered.

16.12.F4. The clusters.

When the author asked P4 why it located F4 in *Malgrat de Mar* it said that because there was no space available in *Pineda de Mar*, the place (town) where P4 lives. This is P4 choose this location because it is nearer from home not because P4 was close to other competitors, research centres, etcetera. Simply: the cluster issue (Porter, 1991) was totally irrelevant for P4 to establish F4.

16.13.F4. Additional researched material.

16.13.1.F4. The web site.

At F4 they are constructing their web page. The decision to build it arose especially when this company started to produce in China. This is to send the designs electronically to China, i.e. via e-mail.

16.13.2.F4. The textile industry.

P4 made a reflection about the European textile process (Kogg, 2003). It mentioned that in Catalonia they were lots of textile companies but because of this crisis few are left. When P4 compared Spain to his European neighbours it concluded that in some other countries this process, the absence of textile companies, (Filatotchev and Toms, 2003)_has taken place long ago. In this sense Spain is to see more companies disappear.

16.13.3.F4. The chinese way of working.

P4 recognises that the Chinese employees work very good, they are disciplined and they are too many. This is in China exists lots of people who are willing to work almost all week long. Because P4 is already producing there it acknowledges that the Chinese are complicated when compared with, in this case, a Catalanian but at

the end of the day it is possible to strike a deal between the two parts (Nissen, 2005).

They are capable of creating nice and original designs (Bowman and Ambrosini, 2003) and the client service (Prahalad and Hamel, 1990) is very good. This is they, the Chinese, already realise that in order to make business with the Westerners they must learn their ways (Grant, 1996a); and because they are doing it they remain competitive (Rindova and Kotha, 2001).

Since P4 went to the SE part of China it realised that at this point in time the working class is not only very hard working but they save their pennies for their children in order for them to have a better future than the ones their parents had.

This means that if they are to work twelve hours a day or more for a better quality of life they will do so. Put it another way they do not have the Western mentality of working and spending. At least, not the working class which happens to be the bulk of the production pyramid.

P4 believes that the (established) Chinese in Catalonia that import all these products to Catalonia lack professionalism (Potts and Matuszewski, 2004). What happens is that they are hard working people that operate with low margins. The other side of the coin is that the stores that they buy these imported products do not know whether they are buying cheap or expensive. This is so because of the availability of importers offering diverse products.

In its trip to China P4 realise that the Chinese do everything: cutting, sewing, dyeing and fort. Put it another way they do not

depend on no one to achieve these tasks and produce for anyone; they are totally capable of producing for others (Hamel, 2002).

16.13.4.F4. The future.

P4 believes that in the not-so-distant future in Catalonia will remain very few textile producing enterprises. This is corroborated because P4 knows some Catalonian competitors that are doing exactly as F4 is doing: they are moving the production to China.

Of those that remain P4 mentioned one puff-producer from Igualada (interior of Catalonia). This company is exporting too much and it has almost the whole market for itself.

P4 believes that in the future will only remain two activities (in Catalonia) distribution (Amit and Schoemaker, 1993) and high-end production (Danneels, 2002), i.e. products for the high-income side of the market and nothing else. As for the distribution the importers will bring the product and the Catalonians are the ones who will distribute it.

It also believes that in the middle future the Indians will also emerge as a 'world production facility', posing a serious competition (or treat) to the Chinese. In this sense also from that part of the world, garments will come to Catalonia.

When the author inquire why P4 keeps on holding to this situation it answered that because its trip to China made P4 to feel the initial illusion when the foundation of this business: love for the textile industry. In this sense P4 believes that things will improve and that F4 will remain in business; but P4 does not sees this business to be inherited by this children.

16.13.5.F4. Supplementary information.

At F4 they go the trade shows only to see what is going on (in the female underwear market) but not to exhibit their designs this is so because it is very expensive. Also P4 does not have in mind to open stores exclusively to sell F4 products. It is very costly and risky: the place, expenses and so forth.

P4 mentioned that nowadays what the industry is missing is professionalism (Clegg *et al.*, 2006). By this P4 meant that every business should focus on those things that it is good at. Put it another way, exploit its core capacities and activities and let the rest of the remaining activities be done by someone else, i.e. to specialize (Houben *et al.*, 1999).

16.14.F4. The theory to formulate strategies.

The author explained concepts such as benchmarking (Bátiz, 2004) and the SWOT analysis (Andrews, 1977) to P4 for it to better understand what the schematized model represents.

In general P4 believes that the theory is practical but given F4 situation it is not feasible. This is the theory is too big. However if all the steps were to be follow correctly definitely at the end of the day a sound reliable strategy (operations and innovation) would emerge.

The reason why at F4 cannot afford to use this theory is because as P4 stated they are 'surviving' every day.

16.15.F4. Results.

In the final part of the interview, the author asked nine questions regarding the proposed theory and model. Eight of them

are a five-point Likert-type (Inandi *et al.*, 2002) of questions and the last one an open-end question. In the first eight questions P4 had to mark the statement that it agreed with the most. In the last one it had to give its opinion or make any comments regarding the theory and the model³¹. The Likert-type of questions ranged from TOTALLY AGREE to TOTALLY DISAGREE. P4 answers are presented in Table T4.

The author also showed to P4 a definition of the SWOT analysis in order for it to fully answer the questionnaire. This definition is shown at the annex.

⁽³¹⁾ *The answer to question #9 is the section: "The Theory to Formulate Strategies".*

Statement Number	Statement	Answer
1	SWOT analysis is enough to formulate operation strategies	Agree
2	SWOT analysis is enough to formulate innovation strategies	Agree
3	The previous theory will improve significantly the formulation and re-formulation of my operations' strategies (considering both the internal and external analyses)	Agree
4	The previous theory will improve significantly the formulation and re-formulation of my innovation strategies (considering both the internal and external analyses)	Agree
5	The previous theory to formulate and re-formulate operations' strategies is theoretical	Agree
6	The previous theory to formulate and re-formulate innovation strategies is theoretical	Agree
7	The previous theory to formulate and re-formulate operations' strategies is practical	Agree
8	The previous theory to formulate and re-formulate innovation strategies is practical	Agree

Table T4. P4 Answers

Apart from these answers the author identified several intangibles (Tsen and James, 2005) that support F4 its competitive advantage (Beinhocker, 1999). These capabilities (Tallman and Fladmoe, 2002) are:

- 1) The capacity to determine a competitive price (Davis, 2004),
- 2) The capacity to design (Kristensen and Lojacono, 2002),
- 3) The capacity to establish and develop foreign profitable relationships (Norman and Ramírez, 1993)
- 4) The capacity to distribute on time (Kim and Mauborgne, 2004),
and
- 5) The capacity to provide a good client service (Vandermerwe, 2000) (care, honesty)

The first capacity is the most important given F4 current situation. This is if F4 is to remain in business P4 must have a clear understanding of the available prices in the market to determine F4 prices'; these, in turn, are what presumably F4 clients' will be willing to pay. In this sense if the wrong price is determined by P4, F4 whole competitive advantage will end up being negligible.

The second capacity is also an important one because F4 designs are the ones that will set this company in its clients' mind. This is if P4 is to have not so many design ideas then it could end up having a poor sales level. This means that in order for F4 to remain competitive through price, P4 must design attractive garments that clients are willing to pay, which in turn will boost sales. The converse is true.

The third capacity, profitable external relations, is a very important one for the following reason: the production of all F4 articles depends on P4 ability to exercise a good and profitable negotiation with the Chinese so they will make and deliver what P4 requests paying what it is fair and not losing its market. In this sense so far the (Chinese) language has proven not to be a negotiating barrier.

The fourth capacity (distribution) makes its contribution to F4 competitive advantage because if the finished products are not on time at the retailers stores then F4 could loose its market share. This is to say that no matter if the finished products are brought from China on time, if P4 is not to deliver them at the promised date, then it could potentially end up losing a sales order and, worst of all, the client's confidence (Govindarajan and Gupta, 2001).

Last but not least the fifth capacity impacts F4 competitive advantage because if the retailers and the final client know that they cannot count on with F4/P4 good service then it is not worthwhile to buy F4 products. Put it differently, if F4 clients know they have an excellent service then they will make this company to remain a player in the female underwear fashion.

The whole competitive advantage map is depicted in Figure F4:2

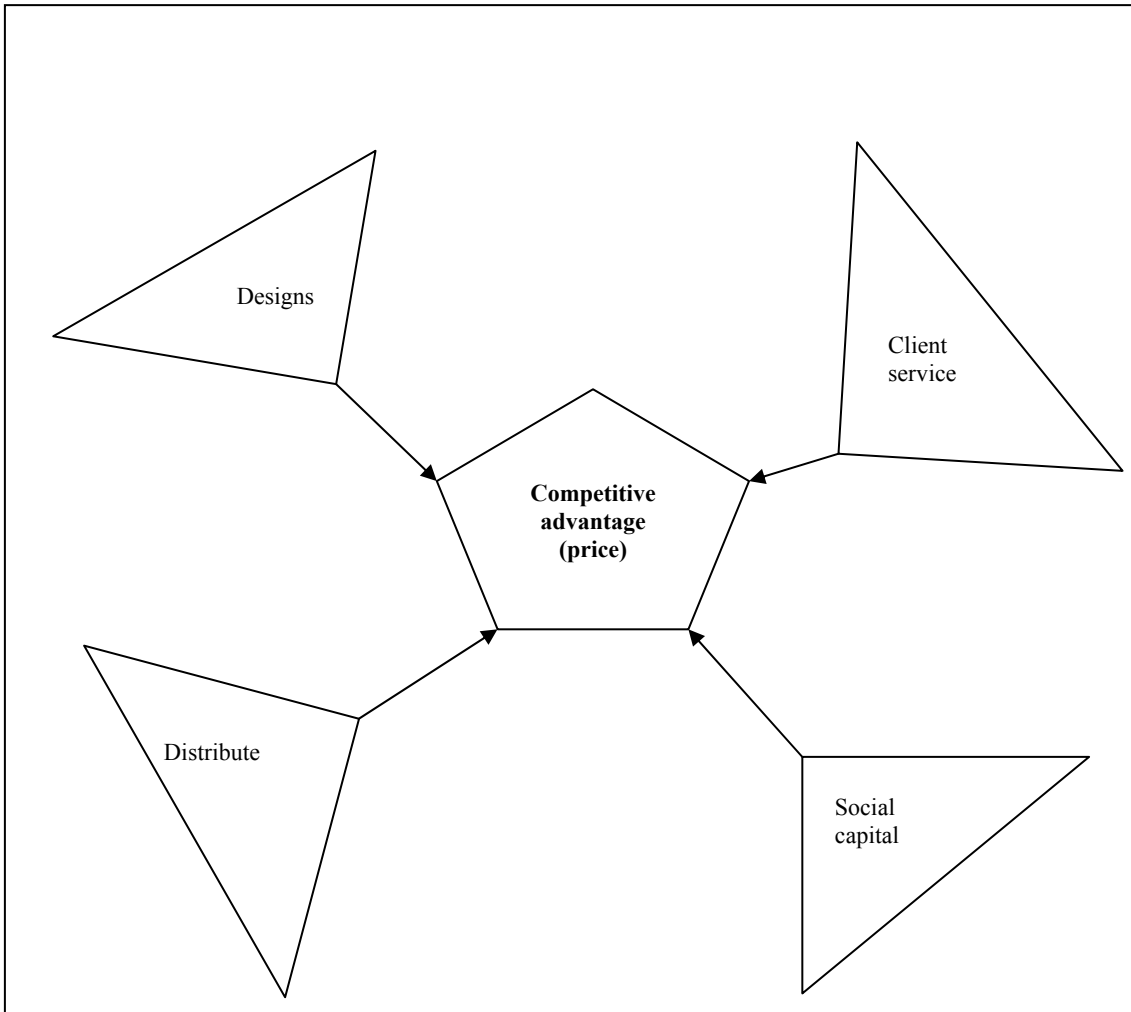


Figure F4:2 Competitive advantage. Source: the author.

Case Study Five

16.1.F5. Methodological issues case study five (5).

This is the fifth case study (Yin, 2003) that was elaborated. For confidentiality reasons, the name of the company and interviewed person will remain anonymous all along this analysis. Hence, from this point onwards both will be named Firm 5 (F5) and Person 5³² (P5) respectively.

The author got knowledge of this firm through a common acquaintance of both.

The first contact with this firm was through a brief telephone call explaining to P5 what the author was looking for. Once P5 understood the author's request it accepted to meet personally for a recorded interview.

The author and P5 met for a first interview and after hearing the recording, additional questions arose. Because of these questions the author called P5 asking to meet again. The total recording time of both interviews is roughly ninety minutes.

16.2.F5. Introduction: mission, vision and history.

The mission (Grant, 2005) of this company is to make garments for other companies. The vision (Johnson and Scholes, 2002) of the company is to subsist. In both cases neither the author saw them in print anywhere nor P5 showed them.

F5 was founded in 1989 by P5. At that point in time the founder had thirty eight years and it did not finish the university. However, before founding this company P5 worked in another textile firm that

⁽³²⁾ *The interviewed person holds a high position in this company.*

was bigger but went broke. In this sense P5 has been in the textile industry for about twenty to thirty years.

Initially F5 was located in *Palau de Plegamans* (Catalonia) and started to make sportswear garments but this has been changing. Nowadays they mainly make working clothes and very few sporting ones. Currently F5 is located in *Caldes de Montbui* (Catalonia) this is five kilometres from the original founding spot.

When the company was founded they were between five and six employees, and the initial founding capital was between €30,000 and €60,000. The whole capital belonged to P5 and its family. Currently (2006) the capital structure is the same: 100% family-provided (Smith and Smith, 2005). The current number of employees is twelve and F5 has only one business unit.

16.2.1.F5. The public organisms and the banks.

When the author asked P5 about its opinion of the public organisms and the banks it said that F5 receives no help at all. Maybe a subsidized credit offered by a bank, but apart from this nothing else.

Concerning about the Spanish legislation for moving financial resources P5 stated that given the free market, it is able to move its resources unreservedly.

16.3.F5. The products.

The main products that this firm produces are: jackets, anoraks, sailing jackets, raincoats, purses and trousers.

16.3.1.F5. Niches.

The major market of this company is the working-garment market. This is working uniforms (police, fire-fighter and so on). This market represents around eighty percent of the total production.

Of all the products they handle about eighty percent are basic ones. This is they have produced them one way or another in the past. The remaining twenty percent are products for unique clients with unique features.

F5 main market is in Catalonia so P5 believes this is a handicap. One of the main current strategies of P5 is to extend the selling zones; in this way not all of their clients are located within the same part of the country. Last but not least P5 commercial network is made up from word-of-mouth between clients, the labels in the garments (those that the clients do not remove to stick their own brand/label) and the internet site³³.

16.3.2.F5. Sales.

According to P5, during the last tree years the behavior of the sales' level has been stable because at F5 they have moved to other markets. This will be explained below in detail. Lastly this company does export and the figure is roughly ten percent.

16.3.3 F5. Market share and its competitors.

When the author asked P5 about F5 market share (Davies, 2003) and its tree closest competitors it said that F5 closest competitors are in Saragossa and Galicia. However in Catalonia they have no direct competitors. In this sense it can confidently be claimed that F5 holds the totality of the (working-garment) market. However

⁽³³⁾ *The web site issue will be explained below.*

P5 mentioned that also outside Spain they are Spanish enterprises that carry on their production which in turn is brought to the country. This means they are importers of working garments.

16.4.F5.the competitive advantage.

The author concerned about F5 competitive advantage (Eccles, 1991) and P5 said that this is a three-sided weapon namely: the agility (Ansoff and McDonnell, 1990) they possess, the speed of production (Zahra and Filatotchev, 2004) and the reaction (solution) to problems of their clients (S.F. and Sai, 2000). Since they produce small and middle amounts of clothes they can cover that part of the market that the importers don't. This is when the client demands, for example, one hundred fifty anoraks with a specific logo, at P5 they are able to produce this amount within a reasonable time and deliver it in the accorded period.

This cannot be done by a firm that imports over five thousand units of regular anoraks. So the key feature here is the small production and personalisation of the garments (Takeishi, 2001). A key difference between P5 and its competitors is the adaptability to stick to quick changes (Porter, 1996). This is when the client asks for something very specific at P5 they can provide it undoubtedly. Put it another way they adapt to what the client wants (Stalk *et al.*, 1992).

16.5.F5. The operations strategy.

The author asking about the operations strategy (Szulanski and Amin, 2001) P5 mentioned that basically they (mainly) work under the client's order. This is what the clients ask for. They do not work with a physical stock production or a product ready-to-sell.

The process is as follows:

- 1) The buying of the raw materials: fabrics, weaves and the complements.
- 2) The cutting,
- 3) The preparation,
- 4) The making,
- 5) The packaging and
- 6) The shipping of the pieces to their clients.

F5 does not sell directly to the final consumer. This is F5 clients are working-garment distributors.

This strategy was almost the same since the beginning. Initially at F5 they did sell their products to the final client, but since they do not have a commercial network (stores) of their own they prefer to sell only to wholesalers.

So the author asked if this strategy is written in any way or manner and P5 said that it is not. However the employees know what to do because they have been doing it since the company was founded. P5 is the only one that makes this strategy because it believes that this is the best way to do things, i.e. P5 has no internal help to formulate this strategy.

P5 does not use any software to formulate strategies but its own experience. In fact P5 mentioned that the available software in the market is too 'theoretical' for this company. The cost-benefit relationship is not a good one for this to be utilised. This is backed by the fact that at F5 they only produce short and middle quantities. P5 only uses, for example, Excel to determine the production costs

Lastly the author asked P5 about the internal and external factors (Barney, 1995) it considers to formulate this strategy P5 said that the only factors that are considered are experience (Collis, 1991) and how the market is behaving (Roucco and Proctor, 1994) at that moment. This is when at F5 an opportunity is identified it is taken; there is no pre-determined strategy. Additionally P5 believes that the current situation is so bad that it cannot go worse.

16.6.F5. The innovation strategy.

When the author asked about the innovation strategy (Lawson and Samson, 2001) P5 said that the corresponding twenty percent (20%) of the production that is totally new are designs that never existed before. In this sense they make new designs for the client needs i.e. they solve the client problems (Quinn, 1992). Because the clients come to F5 asking for a very specific design, strictly speaking there is no innovation strategy. This is at F5 they solve the client's problem-at-hand.

However at F5 they are open to designs that are not brought to this firm by the clients. This implies that if at any point in time someone at F5 sees a design that could potentially be sold to any existing client in Catalonia or in some other places then it is produced and offered to them. In fact the same new designs can be offered to different clients with minor modifications.

These new designs are done almost only by two people: P5 and the person in charge of the factory. This is performed this way because P5 has a direct relationship with the clients (Danneels, 2002) so it knows them and can offer the best possible solution; also P5 has a straight contact with suppliers (Lovas and Goshal, 2000) so it has information about new materials, etcetera.

The other person in charge of designing does it because he has the production experience so he knows what they are capable of producing or not. Put it another way at F5 there exists a great amount of knowledge between these two persons (Grant and Baden-Fuller, 1995) that allows them to innovate focusing and thinking on the clients (Christensen and Bower, 1996). However with twelve employees there is no formal innovation department.

Again because they personalise the garments (Zott, 2003) they make at F5 does not exist innovation projects waiting in line to see the light. According to P5 in one month there can be tree different new designs and the next none. So the reaction-to-the-market (Proctor, 2000) issue is corroborated once more.

P5 mentioned that at F5 exists a historical archive (Barney, 2002) of previous designs and any new design goes into it once is outlived. Also P5 mentioned that because of their size they do not posses the capacity to steer the market but to obey it, i.e. the market tells them what to produce (Lettiche and van Hattem, 2000). Nevertheless all the launchings of new products are totally decided by P5.

Finally the author asked P5 if at F5 they have an innovation budget it said that no; all the new designs are within the same commercial dynamic of the firm. They look and analyse the materials, trying to solve the problem.

16.7.F5. The intangibles.

The author explained to P5 what these assets are so when the author inquired about F5 intangible assets (Viedma, 2001) it said that they have several, specifically:

- 1) The seriousness to fulfil their word to their clients (Zairi, 1994).
- 2) Excellent client service (Zairi, 1994).
- 3) The capability to design (Porter, 1991).

16.8.F5. The core activities.

Asking about what are F5 core activities (Farjoun, 2002), P5 reasoned that the core activity is the service to clients (Oliver, 1997) even though sometimes this might imply to produce garments that are not gainful. Put it another way they work out the solutions for their clients hoping that in the not so distant future the client will return and ask for something that is truly profitable (for F5).

16.9.F5. The competitive intelligence.

The author explained to P5 what the competitive intelligence (Zott, 2003) construct is and after this explanation P5 said that they monitor what the competitors do (Miller, 2003) but in order for them (F5) to adapt their designs and offer these modified designs to F5 clients.

However they are other occasions when at F5 the clients show to P5 some designs and ask if they have the capacity of producing or not that same garment with some adjustments. In this sense and complementing the above, at F5 they also look for the competitor's catalogues to identify possible trendy – and functional-designs.

16.10.F5. Technology.

At F5 they have the latest technological machines in order for this product diversification to be carried out with the least possible problems.

They have *thermus-to-seal*, printing and other machines to make clothes. Because of this machine availability among the existing firms that produce these kinds of garments F5 is the one that is most capable to face competition in a better way.

16.11.F5. Clusters.

When the author asked P5 why it situated the company (factory) in *Caldes de Montbui* (Catalonia) P5 said that the reason is because they (its family) was living in *Palau de Plegamans* (Catalonia) so they were very near the factory. These two towns are very close.

Later because F5 grew (physical space problems) it was moved (the factory) to *Caldes*. Also in *Caldes* some employees reside so it exist the easiness of living close from their working place.

In any moment no other issues were considered in moving the enterprise; issues such as competitors or universities (knowledge spillovers) (Knott, 2003). This is to say that the cluster (McEvily and Zaheer, 1999) issue was totally irrelevant to P5 when founding F5

Additionally F5 does not have any kind of relationship with any universities, research centres and so on. Only at some point they had the help of some students to work in a specific project. Complementing this last point, F5 has currently no help whatsoever from the European Union.

16.12.F5. Additional researched material.

16.12.1.F5. The catalogue.

P5 gave to the author a catalogue of the products that F5 makes. This is very colourful and has some of the designs that are

done here. Inside are some characteristics of these products: size, colour, and so forth.

In the last page of this catalogue there is a picture of the company and the address where it can be contacted. Within this address a web page is announced.

Last but not least there are some pictures of the products with the logos of different companies; the idea behind these pictures is that when a client comes by can quickly see how the finished product will look like.

16.12.2.F5. The web site.

F5 has a website where its products and history are mentioned and the clients can contact them. It is in Catalanian and Spanish. Although some parts of this site are under construction it can perfectly let the future clients see what this company does, the quality of the products and how to contact them. However it does not has a selling strategy through the internet.

The surfing of this site is also very simple (none complicated) so the client can confidently obtain the information that it is looking for.

16.12.3.F5. Training.

At F5 they do not give formal training to the employees but what they are looking for is to diversify the capabilities of the employees (Grant, 1991). This is at F5 they expect that all the employees are able to do different tasks so they can perform well in several posts. Put it another way they are hoping that employees learn to learn new things and not remain static; they expect to grow the employees' capacities (Grant, 1996a).

The reasons for this are two; the first one is a cost-related fact and the second one is because in this market the seasonality is very high so there are times of the year when the production is very low or high and so the working capability of the employees must be properly exploited.

Also, because of this seasonality at F5 during the year they outsource (Dussage *et al.*, 2000) some parts of the production process; otherwise there exists the possibility for this firm to end up bankrupt. This means that P5 prefers to pay for some other companies so the production is to be done outside (F5) rather than firing employees because they are not enough garments to make.

16.12.4.F5. Some comments.

P5 explained that because of the (high) production costs in the textile industry all over Europe this industry has lost competitiveness. Catalonia has not been different. In fact in this part of the continent the industry was perfectly established: design, distribution and so forth. Because of this lost of competitiveness, infrastructure remains (the physical facilities) and nobody produces (utilises) them. It is more affordable to import and distribute than the to produce and distribute.

According to P5, the big producers outsource their production so they do not even produce here, i.e. their production lines are outside Spain. Complementing this P5 stated that the production cost (outside) is half of that in Catalonia.

Because of this situation several other enterprises have closed. Enterprises like the size of F5; as a consequence F5 has profited from this 'opportunity' that leaves unattended clients. This is at F5 they

have cover a niche of the existing market by also diversifying its production capacities (Drazin and Rao, 2002). Now they can produce (make) trousers, etcetera (**see the section: THE PRODUCTS**).

P5 defined that this market they are in (working garments) is much more stable because of the current legislation but more cost-constraint. This implies that the law makes the employer to provide working clothes to its employees, so here is the opportunity. However to be and remain competitive in this market F5 must follow the legal requirements to produce this clothes. This is the technical specifications of the garments in order for these pieces to be safe. Nevertheless because of these technical specifications, the garments are not cheap.

The stability of the market comes from the fact that the employers must buy these clothes every year; consequently the employers must have some available stock in case there is new hiring. In this sense is more or less predictable.

P5 believes that the importing-boom has gone from '0 to 100' very fast and some clients realise that in this market cost is not everything. This is what remains is the quality of the products (Stalk et al., 1992). In this sense P5 thinks that at the governmental licitations the buyers must give preference to the national producers instead of giving it to the importers, be these national or not. This is the buyers must look for quality and not only price.

16.12.5.F5. The future.

P5 thinks that the future in F5 market is the technical and specialised clothes, i.e. non-flammable garments. Because of this specialisation (Grant, 1996b), which undoubtedly is high, not many

are betting to produce it. For instance an importer will bring a container filled with jackets (plain and simple models) instead of trying to sell these special products.

As a consequence of this reasoning those (F5 among them) that focus and develop this production capacity will have a better chance of succeeding; this also implies that they must carry on some sort of formal R&D (Hagedoorn, 1993) to fruitfully produce these attires. As an example P5 mentioned that one fire-fighter costume is priced between €120.202 and € 300.506 apiece. So the two basic secrets to outperform the competitors in this market are design (Hall, 1992) and technical development (Gunther *et al.*, 1995).

Finally P5 also commented that the quality of the products that are brought from China is diverse, i.e. it exist quality for all pockets. The business of "buying cheap" is a bad business. This is so because there will always be someone that works cheaper.

16.13.F5. The theory to formulate strategies.

The author read out to P5 the theory to formulate operations and innovation strategies and it commented that everything is correct but too theoretical.

However P5 believes that about ten years ago when the market was normal, i.e. much more predictable than today the theory would had worked all right for F5. Nowadays given all the external factors affecting the market the theory might not function well. This is the external actions (factors) could potentially destroy the planning of F5; factors such as political, economical and so on.

16.14.F5. Results.

In the last part of the interview the author apply to P5 a brief questionnaire. This consisted of nine questions. Eight of them are in a Lykert-type (Inandi *et al.*, 2002) form and the last one is an open-end question³⁴.

In the first eight questions P5 had to mark the statement that it agreed with the most. These questions ranged from TOTALLY AGREE to TOTALLY DISAGREE. P5 answers are presented in Table T5.

Additionally the author showed to P5 a definition (see: annex) of the SWOT analysis for it to better answer the aforementioned questionnaire.

⁽³⁴⁾ *The result from this question is the section: 'The Theory to Formulate Strategies'.*

Statement Number	Statement	Answer
1	SWOT analysis is enough to formulate operation strategies	Agree
2	SWOT analysis is enough to formulate innovation strategies	Agree
3	The previous theory will improve significantly the formulation and re-formulation of my operations' strategies (considering both the internal and external analyses)	Totally agree
4	The previous theory will improve significantly the formulation and re-formulation of my innovation strategies (considering both the internal and external analyses)	Agree
5	The previous theory to formulate and re-formulate operations' strategies is theoretical	Agree
6	The previous theory to formulate and re-formulate innovation strategies is theoretical	Agree
7	The previous theory to formulate and re-formulate operations' strategies is practical	Agree
8	The previous theory to formulate and re-formulate innovation strategies is practical	Agree

Table T5. P5 Answers

Apart from P5 answering these questions, the author identified several key intangible assets that in turn support F5 competitive advantage (Figure F5:1).

The exclusive designs for particular clients; these are done very fast. This means the agility to produce quickly and to solution the problems of their clients. These new designs suppose that at F5 they have an open mind to look and identify those designs that are not totally produce in-house. In due course these designs when modified are offered to new or existing clients

These designs are in a historical archive which also helps to support F5 competitive advantage. This is so because at all times the employees involved in the design of new proposals can refer to this data base and come up with better ideas.

At F5 since they fulfil their word (delivery, design and so forth) then this a very important intangible asset that contributes to F5 competitive advantage. Say it different: trust helps F5 to remain competitive.

Another important key asset is that of risking profitability. This, as already explained, means that at F5 they hope to make some designs that might not be profitable (for this firm) with the final thought that later on that same client will return and ask for a real profitable garment.

At F5 they do have a good profitable relationship with their distributors (clients). This is a high-quality social capital.

Because of F5 experience the operations are known to all of F5 employees; this implies that P5 along with its employees know how to react fast and conveniently.

F5 competitive advantage is also supported by the fact that they have their own producing machines but when outsourcing is needed they also have a reliable bond with external suppliers.

Yet another key asset is the training, even though not formally, of the employees. This is the knowledge between employees is passed on constantly. Because of this training the employees diversify their capabilities and at the end of the day F5 has much more valuable knowledge workers.

Further because of this knowledge at F5 they have developed technical garments that, according to P5, they are specialized products and its markets are not very competitive. At F5 they feel confident that because of this technical understanding they can be a key player in this market.

Even though the economical situation has made several F5 competitors to end out of business and the current legislation forces the employers to provide working garments to employees, F5 has the ability to cover these niches (left by its competitors) and profit (from the established law). Put it different F5 can cover (diversify) the available markets with its existing production capabilities.

They also do not work with a physical stock production; this is at F5 they produce according to what the client needs. Lastly, at F5 they have the (prospected) opportunity to expand its commercial territory.

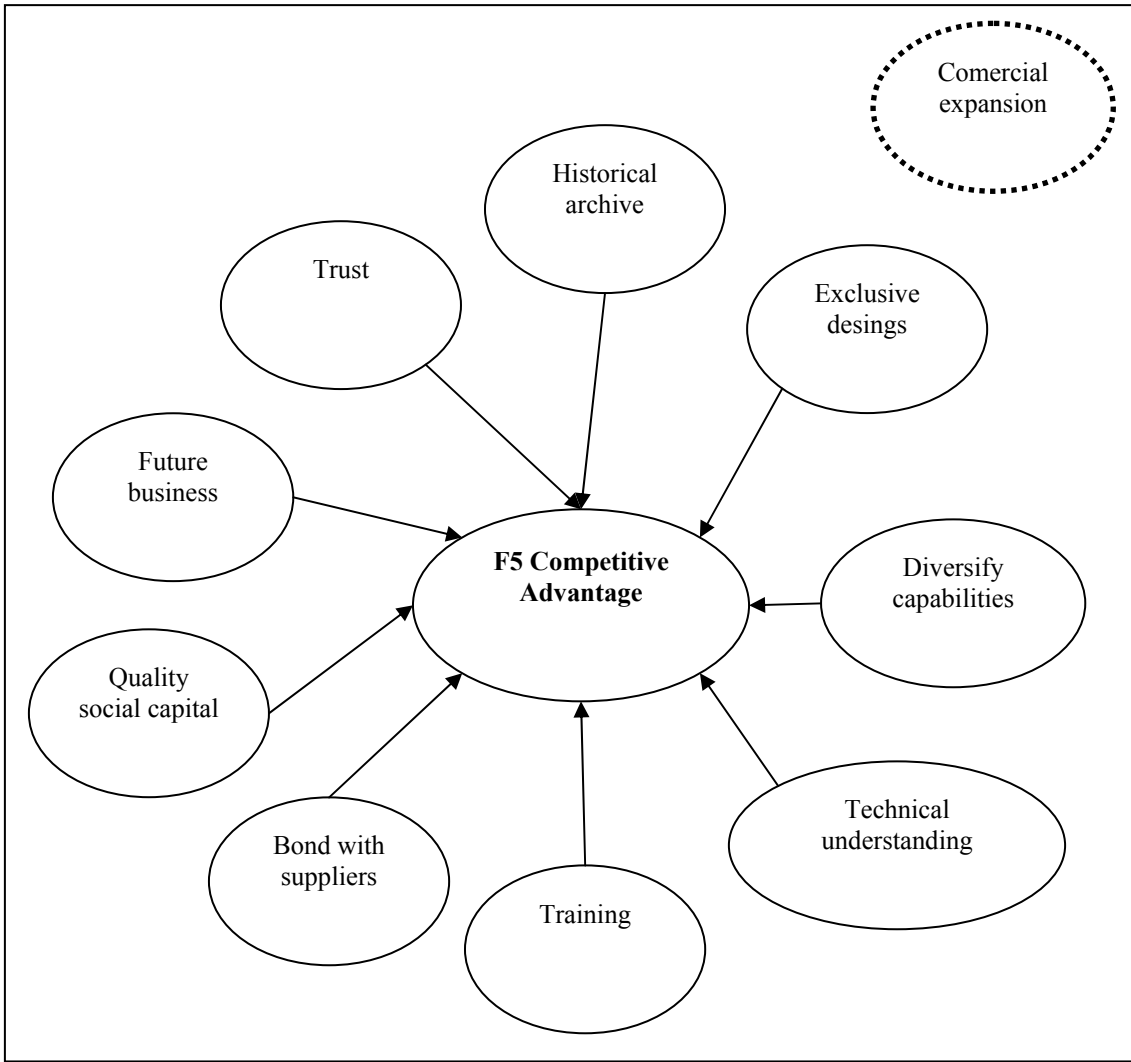


Figure F5:1 Competitive advantage. Source: the author.

Case Study Six

16.1.F6. Methodological issues case study six (6).

This is the sixth case study (Yin, 2003) that was elaborated. For confidentiality reasons, the name of the company and interviewed person will remain anonymous all along this analysis. Hence, from this point onwards both will be named Firm 6 (F6) and Person 6³⁵ (P6) respectively.

The author had knowledge of this company from a textile fair that was held in Barcelona in the month of June. At that moment and place, the author briefly explained to P6 the purpose of the research.

P6 accepted to collaborate and so a full interview was carried out. After hearing the recording the author had more questions so he called P6 in order to meet again.

This second meeting was carried out also in Barcelona so the whole recording time for this case study is around forty minutes.

16.2.F6. Introduction: mission, vision and history.

P6 stated that the mission (Hamel, 2002) of the company is to start something of their own, and the vision (Hamel and Prahalad, 1994) of the firm is to grow at their own pace and to offer value added products. However both of them are not printed anywhere.

Before founding F6, P6 had another job in a hotel; P6 and its partner sold the hotel and they started this company.

The business partner³⁶ of P6 has been in the clothing business for babies for over thirty years, so the clothes that used to design

⁽³⁵⁾ *The interviewed person holds a high position in this company.*

⁽³⁶⁾ *P6 and its business partner are family related.*

were for new born babies. This gets complemented by the fact that P6 likes very much children so this explains the passion it has for designing clothes for them.

The company was founded tree years ago (at the end of 2002) and the sales have been rising ever since. One of the founders had twenty-nine years and the other one fifty-two.

P6 has no formal training; instead it likes to learn too much 'on its own': languages, etcetera and both founders have been entrepreneurial employees, i.e. they work own businesses of their own or family-owned business (Brockhaus, 2004).

F6 was located from the very beginning in *Castelló de Ampuries* (Catalonia), and the initial number of employees was two. The original founding capital was around €30,000 and ever since the whole of this investment belongs to the two founders. F6 has one store in Carcassonne (France). In this sense it can be considered that F6 does export. This company also belongs to the textile guild from this (French) city.

16.2.1.F6. The banks and the government.

When the author solicited P6 opinion about the relationship it has of the banks P6 said that they are essential but it would prefer that they would not be so.

Then the author asked P6 view about the legislation for the mobility of resources it said that the government does not truly facilitates the mobility of financial resources for the micro size firms;

they do it with the big ones but only because of their size. This is the government does not helps much³⁷.

16.3.F6. The products.

Confronted about the products, P6 said that in the very first place they (P6 and its business partner) detected a strategic opportunity (Ansoff, 1987) in the clothing for little female children. This means that both partners started to design fashion clothes for this market. Put it differently they design clothes having in mind the children and not clothes for grown-ups converted into fashion for children.

Initially they started to produce t-shirts and dresses. Currently they make skirts, trousers, caps, scarves, sweaters among other pieces. Now they have a recognised brand and established fashion for all the seasons. The child can be totally dressed by the products of this company. Because of this they work with retail stores in Spain.

At F6 they only handle new products every season. This is only at fairs they keep some stock of articles from the previous seasons to be sold but to the usual clients they only sell new products (designs). The distribution time once the products are finished is, on average, fifteen working days.

16.3.1.F6. The market share.

When the author asked about F6 market share and that of its competitors P6 said that since they make a product of their own, i.e. very unique it is difficult to accurately determine this figure.

⁽³⁷⁾ *Even though P6 opinion about the government, later it will be explained that the situation is different.*

16.3.2.F6. The competitors.

The previous paragraph gave to the author the opportunity to ask P6 about its competitors and it mentioned that F6 main competitor is Petit Bateau (a French firm). This company produces clothes that are also made from cotton, well done the cutting, sewing, dyeing and so on³⁸. However because of F6 own designs P6 believe that at this point in time they do not have too much competitors.

16.3.3.F6. The rebates.

At F6 they do not have rebates with the products from the current season, but with the products from the previous seasons the prices are lower. This, strictly speaking, does not mean rebates but that in order for these products to be sold is better a low-price strategy once they are off-season.

In deed according to P6 if F6 were to have selling points (stores) of its own then they would consider offering rebates.

16.4.F6. The competitive advantage.

When the author asked P6 what differentiates F6 from its competitors it said that mainly is the quality (Stalk et al., 1992) of the clothes. Another key advantage is the fact that they try to transmit the sense of 'made in Catalonia' clothes. This means that when the clients buy their products they realise that they are buying a piece of cloth that is not produce abroad (China) and there is a trade-fair issue (Pelsmaker *et al.*, 2005) in these products.

⁽³⁸⁾ This was corroborated by the author when visiting a store of this firm in Barcelona.

16.5.F6. The operations strategy.

The author gave to P6 an explanation about what is the value chain concept (Porter, 1985) so it could better explain F6 production process. In this sense at F6 they do not have formally an operations strategy (Brown and Cousins, 2004) yet P6 does know the production process.

Initially at F6 they started to sell only in fairs but now both partners decided to sell in established stores. In this sense in a fair they can permit themselves to have the same design for four consecutive years whereas in the stores are obliged to present new designs. Nonetheless this strategy allows them to cash-in and meet new and existing clients. This last point was corroborated by the author.

In fact some of F6 designs have been so successful that both partners must let them 'rest' for a while. This is if a certain design (e.g. a cow or a snail) has very good selling rate both partners decide to take it out of the market and let it out of sight for a time. They do this because at F6 they like to keep on changing (Porter, 1991b).

Currently because of the high production costs in Catalonia at F6 they are evaluating the possibility of producing everything outside Spain. So even though in this year (2006) are still the same two persons that managed this company, they already outsource (Quinn *et al.*, 1997) part of the production.

P6 and its business partner started F6 as an adventure: learning while doing (Zott, 2003). In this sense both founders have been learning about weaves, dyeing techniques and all the necessary steps it takes to produce these clothes.

At F6 they always want to work the best possible way: the designs, the raw materials, the dyeing colours and so forth. Because of this philosophy they do not try to reduce the price with cheaper costs, i.e. the cost-price-benefit relationship is a fair one.

This means that all the pieces are hand-made and one at a time. Because of this the products of this company are expensive but at F6 they are decided to continue working this way. Because all the above is done in a very intuitive manner, they (at F6), try not to have too many returned defective products. This implies a high tacit knowledge (Zollo and Winter, 2002).

At F6 they also achieve this by working with the best people (Penrose, 1959), i.e. the one who dyes, the one who cuts, etcetera. Put it differently the social capital (Sporer, 2004) they exercise must be profitable for both parts: the employee and the employer. All in all this process is done once per year without concerning for the season. This is the way of working is the same all yearlong.

The production process, presented below, was described by P6 to the author. The first two steps are performed by P6 and its business partner. After all these steps (one thru six) are performed F6 distributes to all of its clients.

- 1) They choose the raw materials that are going to be used and then

- 2) They go to a weaver in *Mataró* (Catalonia) that waves the previous materials and makes the kind of fabric they want.

These last four steps are done by P6 external employees.

3) The employees dye the fabrics according to the colours P6 and its business partner choose for the season.

4) After this they cut the fabrics in pieces according to the design presented by P6 and its business partner.

5) Then the fabrics get embroidered to

6) Finally make (assemble) the product.

16.6.F6. The innovation strategy.

When the author asked about the innovation strategy (O'Brien, 2003) P6 said that they have a very clear idea about what they want for this business and this is not to follow any fashion trend. The reason for this is that children also do not follow any fashion trend they just like a certain kind of design (for example a big green cow) and ask their parents to buy it. Expressed differently they put themselves in the child's place to come up with better designs. Because of this at F6 do not formally have an innovation strategy.

At F6 They see what kind of clothes the children want to wear; not what kind of clothes the mothers want their children to wear. According to P6, in the stores, most of the times the children are the ones that choose their clothes. This is they ask their parents what they want because of the designs the clothes have and not because of the fashion.

P6 also believes that the children understand the wearing of clothes as a game. This is the reason why F6 designs have animals with 'life', i.e. the children can touch and squeeze the animals on their shirts and sense them.

All the designs produced in this company are made only by the two founders. They usually make eight designs per annum; four for every season (spring/summer and autumn/winter). In this sense they have already the designs for the next season. This is to state that at F6 they have innovating designs waiting in line (Lawson and Danny, 2001).

Because the interview was done in June at F6 they already have the autumn/winter designs. So whilst in June they sell the summer collection they are at the same time designing the autumn collection.

When the author asked P6 about F6 adaptation to the external changes it said that the way they are managing this enterprise is not conventional; they work very hard and follow their intuition (Clarke and Mackaness, 2001). This is explained below.

For example at F6 they have a single client in Seville. This store sells F6 products very well. However P6 wants only this one store in the whole city to sell its products. No matter how high the sales (demand) are this is to remain the only client. The same happens in other cities such as Carcassonne, Barcelona. P6 even stated that if in any city were the possibility of selling to more stores the answer is the same: no; this is only few clients per city.

The reason for this way of distributing and selling is because P6 thinks that a very important part of this job is to work very well with those people that work with this company. This is a very tight bond (Inkpen and Tsang, 2005) with clients will support and provide very good benefits; but not only economical ones also of trust (Bădescu and Sum, 2005). This implies that F6 clients know how P6 is, thinks, acts. This allows both parts to make truly good business.

Underlying the above explanation is the fact that a win – win relationship is established. If one part is all right the other one must also be all right.

In this sense if they are changes from the outside because of these close relationships with clients (Fromhold, 2004) F6 can react favourably without losing what they have built. P6 gave an example to the author: if at one season only tree designs are done and of these designs one has already been introduced in the past, because of the good relationships there is no problem; the (retail) clients still will support this company and accept the design. This makes sense because this company does not follow fashion; it pays attention to how children want to be dressed.

F6 has a historical archive (Porter, 1991a) of all the designs that were previously made. Because the founding designer partner has been designing for over thirty years, some of these designs can be used again. For example initially it used to design bed sheets; now these designs might become a dress or some other kind of cloth. However they take ideas from many and different sources such as when they travel or walk in the city.

An important point is when the launching of the new products (designs) is to take place. This is done by the two partners. So, even this task gets shared totally by both partners.

P6 mentioned that in this firm both partners do not have an (economic) amount specifically assigned to innovate. Instead what they try to have is some spare time to think future designs. In fact because at F6 they work different some of its designs are made by children. P6 presented to the author a design that was done (draw) by one sibling of F6 founders.

16.7.F6. The intangibles.

When the author asked P6 about F6 intangible assets it said, after a brief explanation from the author, that one key asset is the relationship with clients (Glover *et al.*, 2005). They keep their word of what has been promised (Yuen, *et al.*, 2005) is another valuable asset.

If at F6 they see that if a current client does not work well with this company and its philosophy then both partners prefer to cut it loose and seek for a better one. This is a very important point to consider. What this is about is the following: keep the good clients and let the bad one leave (or fired them).

Even though this might seem obvious or trivial it is not. This is so because what they are interested in this firm is to keep quality no matter the cost. In fact it can be considered that they have developed to ability (capacity) to spot and keep good clients with trust, effort and so on and let the bad ones take care of themselves. At F6 they are faithful to good clients and always help them. The philosophy is 'I give you and you give me'; mutual success (Cohen and Mankin, 1998).

16.8.F6. The core activities.

When the author asked P6 about F6 core activities (Porter, 1991a) it said that the strongest capacity is the design of new products (Quinn, 1992).

According to P6 a key issue is the 'popularity' of their products. This means that when a client³⁹ sees a cloth in a fair in, for example

⁽³⁹⁾ In this case client refers to the final one, i.e. the mother of the child who buys the clothes.

Madrid, and then they see another cloth in another fair (e.g. Bilbao) these clients recognise the designs, texture and so forth. This is people already started to know and identify F6 products.

16.9.F6. Competitive intelligence.

The author asked P6 about the competitors and it said that in the past they have been copied. However at F6 they also tend to look in many different places to find ideas.

But P6 acknowledged that even though they might be copied for a competitor to truly see and understand the whole process is very difficult. This is so because there are several steps before the product is totally finished. Put it different the knowledge in F6 products is highly tacit (Hatch and Dyer, 2004) so it is not easy to understand how the clothes are made even if competitors tear them apart in pieces.

At F6 they do not perform any benchmarking (Zairi, 1994) exercise. Instead they tend to have a mutual adaptation between the client and the company. To achieve this adaptation trust must be established. So, in order for F6 and lastly P6 to build trust is by being direct, honest, giving good service at all times and to everyone with the same level. In short: excellent client service (Miller, 2003) to everyone. A final point to consider within this part of the analysis is the fact that at F6 they are building their website.

16.10.F6. Clusters.

Concerning the clusters (Khan and Ghani, 2004) issue, when the author asked P6 why it situated in this place P6 said that because they (P6 and its business partner) leave near by the firm and can be 'easily' moved. This means that if they need to move their working space it can be done conveniently.

Another point related with the previous one is the relationship that F6 has with research centres or universities and P6 said that no; this is neither F6 nor P6 have any kind of relationship with the aforementioned organizations.

The last argument, related to the clusters section, is the external help. When the author asked P6 if F6 receives any help (be this financial or any other) from the European Union it said that no. In fact P6 mentioned that just about one month and a half ago F6 started to receive the first subsidies from the Catalonian government. This is the first time the government helps in this or any other way.

16.11.F6. Additional researched material.

16.11.1.F6. The cloth.

P6 gave to the author a physical product (swimming bikini) for him to see the quality. The material is 100% cotton. It is green coloured and has a very nice cow that appeals to a child. The cow is very cute and tender. But going beyond this first appearance is the making of the whole piece. All is very well sewed and the dyeing of the colours looks very resistant. This is specifically true given that this is a swimming piece.

This is not different for the cow. In fact the cow is sewed to the bikini. This cow is composed of different sewed parts. In all of them the making is very good along with the dyeing. P6 assured to the author that this piece (as any other they produce) can be washed in the washing machine and it will resist, i.e. not wearing and tearing. The above description confirms all of P6 words.

16.11.2.F6. The catalogues.

P6 also gave to the author two catalogues with F6 products. The first one is a collective catalogue, i.e. it is shared with other handcraft companies. However the picture of F6 products include: the name of the company, what is the target market, who are the managers, a telephone number and an e-mail address. This is all the information for someone (client or provider) interested in contacting this company is shown there.

The most important thing in this catalogue is the fact that there are eight photographs from the products of F6. They are done very nice and appealing to the mothers of the children. The pictures are very clear, i.e. the products can be easily seen and identify. Because the catalogue has a white background and the products are very colourful then the obtained contrast is very good.

All in all it can be confidently argued that this company does have in mind its clients when designing this catalogue, i.e. F6 target niche (Porter, 1982).

The second catalogue includes only F6 products. It is hand-made (following the philosophy of the firm) and in a very convenient size. It is less than half an A4 sheet of paper. In the first page has a brief explanation of who is this company. This explanation is in Catalanian and Spanish.

The pictures of the products are over several colourful backgrounds and also some designs of animals are shown. The pictures are digital-quality so the finish of the whole catalogue is quite good.

In this catalogue two different children appear modelling the products of this firm. In both cases are pretty smiling girls that definitely call the attention of a buying mother or father. But this is no coincidence; they (at F6) try to show how nice and good-looking a child can be with these products. Last but not least in this catalogue are several products. Among them: winter and summer caps, shirts, diapers.

16.12.F6. The theory to formulate strategies.

P6 thinks that the theory is too big for F6 but some of the constructs that has in it are all right (they make sense) but nevertheless are too theoretical.

Since F6 philosophy is to make those designs that appeal to both business partners, they do not mind (too much) about the competitors. Instead, as previously mentioned, both partners take ideas from several places and not only from competitors. In this sense P6 believes that this theory and its model focus too much on rivals.

16.13.F6. Results.

In the last part of the interview the author asked P6 to answer a brief questionnaire. This consisted of nine questions. Eight of them are in a Lykert-type (Inandi *et al.*, 2002) form and the last one is an open-end question⁴⁰.

In the first eight questions P6 had to mark the statement that it agreed with the most. These questions ranged from TOTALLY AGREE to TOTALLY DISAGREE. P6 answers are presented in Table T6.

⁽⁴⁰⁾ The result from this question is the section: 'The Theory to Formulate Strategies'.

Additionally the author showed to P6 a definition of the SWOT (see: annex) analysis; this way P6 can answer easily the questions.

Statement Number	Statement	Answer
1	SWOT analysis is enough to formulate operation strategies	Agree
2	SWOT analysis is enough to formulate innovation strategies	Do not agree nor disagree
3	The previous theory will improve significantly the formulation and re-formulation of my operations' strategies (considering both the internal and external analyses)	Agree
4	The previous theory will improve significantly the formulation and re-formulation of my innovation strategies (considering both the internal and external analyses)	Do not agree nor disagree
5	The previous theory to formulate and re-formulate operations' strategies is theoretical	Totally agree
6	The previous theory to formulate and re-formulate innovation strategies is theoretical	Totally agree
7	The previous theory to formulate and re-formulate operations' strategies is practical	Agree
8	The previous theory to formulate and re-formulate innovation strategies is practical	Do not agree nor disagree

Table T6. P6 Answers

Apart from the analysis of the questionnaire the author identified several key intangible assets that sustain F6 competitive advantage.

At F6 they have a profitable social capital by, for example, being an active member of the Carcassonne (French) Textile Guild. This is by establishing good relations they can afford to have better benefits not only in Catalonia.

Since at F6 they are only two business partners, they have the easiness and quickness to make and take decisions. This means that they can respond much faster to any market change and face competition from a better standing.

The founding stone of F6 was and still is the ability to spot a niche for children. This is they put themselves (P6 and its business partner) in the shoes of their clients (the children). Expressed differently at F6 they know their customers.

Because of their design capabilities and outsourcing relations, at F6 they can produce a wide variety of models that can be available through the years. Of these two assets, the former one is the real key valuable one. This design ability also allows P6 and its partner to have waiting designs in the pipe line to see the light of success.

According to P6, the making of the clothes is a key contributor to F6 advantage. This means that even if competitors buy and tear apart the whole piece they will have a hard time to truly and totally understand how the product is made. This means that the product itself contains a high percentage of tacit knowledge not easily deciphered. In turn, this places F6 ahead of its closest peers.

Another valuable asset is that of their philosophy. This means how they work. Because all F6 clothes are hand-made then both partners truly know the quality of them. This, in turn, helps F6 to be placed in the client's mind as a product that has a high-quality and it

is made in Catalonia. This was corroborated by the author with the piece of cloth P6 gave as part of the research.

The author truly believes that apart from the design capability, the main intangible that F6 and its employees have is the sound ability to keep on learning. From the very beginning both partners knew that if they were not to continuously learn then they end up very soon out of business. In this sense by steady learning they are better prepared to face competitors. This gets complemented by the fact that at F6 they have an open mind to absorb knowledge from anywhere.

About the ability to spot good suppliers and outsource part of F6 production, this helps to the overall competitive advantage. This is at F6 they know their suppliers consequently they trust them to supply the right amounts in the right time to the right place. Even though this building of trust is not easy, with the every day practice grows stronger.

From the other side of the coin, also trust has been built. This means that at F6 they spot a defective piece from a mother then they will change it with the least possible delays. This helps to construct and strength the existing trust among F6 and its mother clients.

Other tangible asset is the historical archive of F6 designs. This implies that one necessary either P6 or its partner can look upon and take or reject ideas. By performing this action both of them can face competitors with a higher rate of success. This is by already knowing which F6 products were triumphant or not they can re-launch them or wait for a better moment. Also they can modify those ideas that were not victorious and turn them the other way around.

Because of their working philosophy they have developed the ability to produce colourful catalogues that appeal to F6 clients. This means a prospect window for F6 products that can be taken anywhere and seen by many others. This will also be achieved by F6 web site once is formally launched.

Last but not least they at F6 have started to receive subsidies from the Catalonian government, which properly utilised will boost the overall competitive position of F6.

All the previous mentioned assets can be clearly identified in Figure F6:1

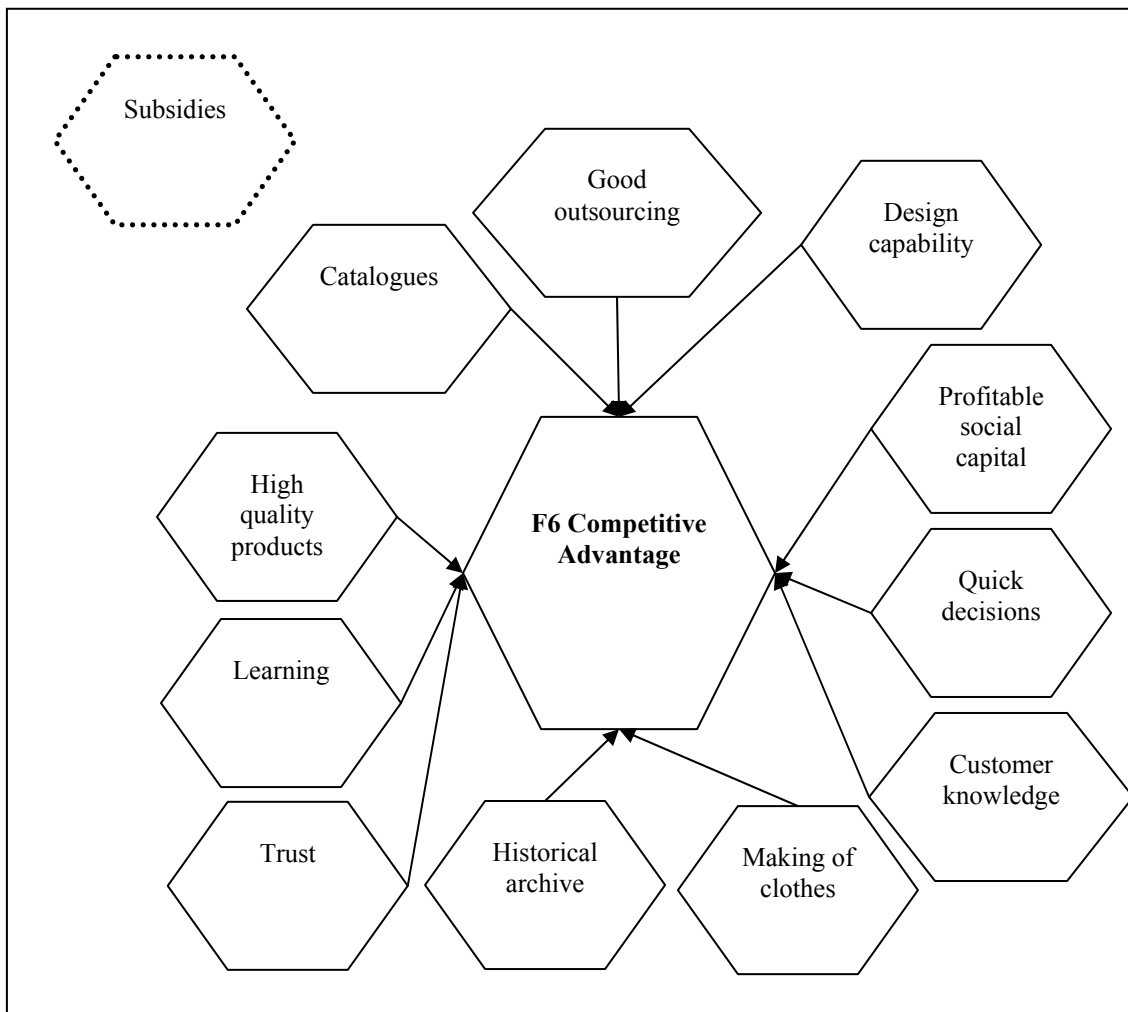


Figure F6:1 Competitive advantage. Source: the author

Case Study

Seven

16.1.F7. Methodological issues case study seven (7).

This is the seventh case study (Yin, 2003) that was elaborated. For confidentiality reasons, the name of the company and interviewed person will remain anonymous all along this analysis. Hence, from this point onwards both will be named Firm 7 (F7) and Person 7⁴¹ (P7) respectively.

The author had knowledge of this company from a textile fair that was held in Barcelona in the month of June. At that moment the author asked one of P7 employees about the possibility of researching F7.

This employee believed that there was no problem with the research so she suggested calling and asking P7 personally. In this way the employee gave to the author P7 telephone number.

The author called P7 and explained what the whole idea was. P7 accepted to collaborate and so a full interview was carried out. After hearing the recording the author had more questions so he called P7 in order to meet again.

This second meeting was carried out so the whole recording time for this case study is around sixty minutes.

⁽⁴¹⁾ *The interviewed person holds a high position in this company.*

16.2.F7. Introduction: vision, mission and history.

When the author asked about the mission (Toftoy and Chatterjee, 2004) of the company P7 said that this is in the first place to subsist and in the second place is to fabricate their (own) products.

As for the vision (Domm, 2001) of the company P7 said that at F7 they expect to keep on growing little by little and find a way of living. In both cases neither P7 showed them nor the author saw them stated somewhere.

F7 was founded by P7 in 1997. At that moment P7 age was forty tree years and it has only one business partner⁴². P7 holds two university degrees (engineer and psychology) but its business partner not. P7 started this business, as will be mentioned later, as a way of living instead of a formal business or enterprise.

Before founding this company P7 has always been in the handcraft industry: textile, ceramics etcetera; so far the amounted experience is well over thirty years.

F7 has always been located in *Montserrat*, a Catalanian town fifty kilometres north from Barcelona. The initial number of employees was two and the founding capital was around €3,000. The current capital of F7 is between €40,000 and €50,000. As for the number of employees, the current figure of them is six.

P7 is the sole shareholder of F7; this has been since F7 founding. However P7 business partner takes part in deciding about F7 from time to time.

⁽⁴²⁾ P7 business partner is a close relative.

On average the sales level is around €100,000 per annum, but the behavior of them during the last three years has been in a downward slope; this behaviour is because it exist too much imported Asian products. At F7 they do not export but they have done it in the past.

Finally, as every other solid firm, at F7 they grew because they saw a good economic opportunity.

16.2.1.F7. The banks and the government.

P7 believes that the government does not helps them (the handcraft industry) and so the banks, i.e. they do not risk that much.

16.3.F7. The products.

F7 products are: purses, backpacks and fashion complements. In this sense at F7 they have a line of basic products and every year they introduce some new designs. The basic line is seventy percent of all the models that were created five or more years ago and the other thirty percent depends on what the market demands. This is they move in tandem to what the market demands from them.

16.3.1.F7. The launching of new products.

Concerning the launching of new products, when the author asked P7 about the 'exact' time it takes a product to reach the market, it stated that, in order to be successful, at F7 they do it by the season i.e. near the summer (sometime around May) and Christmas (before December). Conversely, if at F7 they launch their products before, after or in between these months their success rate might be low.

This launching of products, given that they cannot afford a detailed study of the market that could signal to F7 when exactly is the best launching period, is done by P7 experience and intuition (Mitchell *et al.*, 2005) But this is not 'pure' intuition.

P7 listens to F7 clients (the retail stores) and both, discussing the subject, know when the most appropriate time to do so is. Another way of expressing this idea is that P7 exploits the solid profitable social capital (Nissen, 2005) between F7 and its clients.

Last but not least P7 mentioned that once they have a new product at F7 they contact the very best clients (the ones that have the closest relationship with this firm) and offer these products. This is the retail stores have the 'premiere' of the launching to see how the market will react. However P7 always pays attention to all of F7 clients and identifies that they never run out of product to sell. But even though these close relationships, F7 has no rebates. This is explained mainly because of its size.

16.3.2.F7. The competitors.

Because of F7 size its main competitors are retail stores (big and small) but most of all imported Asian products to Catalonia; yet this situation when the author asked P7 about F7 market share it said that is very little especially because they are competing against imported products. The market share issue gets corroborated by P7 statement that they can produce around twenty thousand purses per annum. This means that F7 production capacity is no match for Asian producers.

16.3.3.F7. The imports.

P7 believes that because of this imported-products crisis the only possible way to compete is through the quality of the products and not through prices. Trying to compete only in price is too critical.

16.3.4.F7. The training and distribution.

As will be shown later the only person in charge of deciding about the training of the employees (Newbert, 2005) is P7. However, this is not totally neither formal not constant. Actually it is done just once when the employee gets hired. P7 mentioned one example: this year at F7 a new employee was hired; she already knew how to saw. In this sense this training is not formal because the way these products are done is basically the same, i.e. the process has remained the same through the years.

As for the distribution time of the finished products P7 said this is between two and tree working days.

16.4.F7. The competitive advantage.

When the author inquired about F7 competitive advantage (Porter, 1991) P7 said that at F7 several advantages are present:

- The first advantage is the products' originality.
- Another one is the quality.
- A third one is the elegance of the product,
- The fourth one is the resistance of the product (made to last).

For P7 this (advantages) make the clients return every year to keep on buying F7 products. So at the end of the day what can be identified here is the fidelity of the clients (Day and Hubbard, 2003)

towards F7 products. This is F7 brand is already positioned (Beverland, 2005) in the mind of its clientele.

16.5.F7. The operations strategy.

P7 said that at F7 they do not have a formal operations strategy (Prater and Ghosh, 2005) but mainly intuition. This can be understood under the light of the kind of company that is researched: a handcrafts production firm (Beverland, 2005). This is the way the products are made is based more on how things have been done in the past instead of a formal procedure. The logic behind this is that every produced piece is more or less unique than the next one.

Because the current economical situation is very difficult at F7 they try not to sale their products only to some retailers but also they go for direct sales, i.e. in trade shows. By achieving this, the turnover grows. This means that when F7 sales only to retailers they earn double the invested; when they sale on their own (in trade shows) they earn four times the invested amount.

Given that P7 is the sole manager of F7 it is also in charge of taking all the decisions concerning the business. For example, if a new employee gets hired, P7 is the one to train him or her or to decide who is to train that new employee. In fact just few decisions are shared with P7 business partner.

This has been ever since the company was founded. Not only because of the size of it but because the products are mainly hand-made, i.e. handcrafts.

However the process has been partially automated. P7 gave the author a (how to cut) example. When the firm started at F7 they used to cut all the pieces (fabrics) by hand; now they use a machine

to do it faster but in the end they do not lose sight of what they are producing.

The idea is to produce a certain amount of products so that F7 can satisfy its clients. Another way of expressing it is to not run out of stock and lose market share.

Also P7 commented that in every single part of the whole production process is a quality control (Lawson and Samson, 2001). If there are some defects the next steps are not executed so the production stops. By achieving this, the employees are sure that what is being done by them is fulfilling a quality standard.

Because of this employee-quality-check at F7 exists between all of them good relationships. Among all the employees P7 has managed to develop these relationships. So and when an employee detects a defect and he or she communicates this to the employee that committed it, this employee listens and corrects his or her fault. This is at F7 exists the attitude towards improving (Zollo and Winter, 2002) with the help of the others.

At F7 they outsource (Mazzawi, 2002) the sewing part of the process; apart from this everything else is done in-house. And not only all these steps are performed in-house no imported raw materials are utilised to make F7 products. However, it is important to mention that even though F7 does outsource part of its production process it does not work for other companies.

Because of their size, F7 does not have the possibility to afford to pay a market research study. In this sense by using P7 intuition and experience they explore new markets. However, at F7 they do have identified their main clients, but they do not sell to big retailers

because this implies that they would have to mass-produce their product; because of their philosophy this is unthinkable.

Complementing this last idea the fact that at F7 they would need to change every year their designs in order for them to sell to big retailers is not part of their vision. Put it another way they make products that last many years not products that are fashionable. They are faithful to their products and clients (Day and Hubbard, 2003). In truth P7 really believes that F7 more than an enterprise is a way of living.

P7 mentioned the fact that they sell their merchandise in some stores (retailers) with exclusive distribution. In this way the clients know where to find F7 products.

Concerning the raw materials these are the same since ten years ago: cotton and the only change in these are the colours.

16.5.1.F7. The production process.

The production process at F7, explained to the author by P7, is as follows:

First is the designing of the product,

Second: Some prototypes are made to see if there is a match between what was designed and what is made, i.e. the look and feel of the product.

Third: Once this prototype is done and approved P7 decides the quantity that is going to be produced.

Fourth: The fabrics are cut, sewn, and the finishes (rivets, etcetera) are done.

Fifth: By the time the product is totally finished P7 distributes it to F7 clients and (sometimes) sells it directly in fairs.

At F7 they do all the activities (Penrose, 1959) beginning with the purchase of raw materials up to the distribution of the finished product.

16.6.F7. The innovation strategy.

As for the innovation strategy (Nelson and Winter, 1982) at F7, P7 said that they have made some important qualitative jumps in the production process, for example when they began they were hand-cutting; now they use a machine. In this sense they innovate in the production process (Bowman and Ambrosini, 2003).

However, P7 believes that at F7 they innovate in the client service (Luo *et al.*, 2004). This is so because in big companies this part of the overall process is too far away from the clients. Under this perspective at F7 they always listen and take care of all of their clients (Fromhold, 2004). This is achieved not only because of their working philosophy but because of their size. This is at F7 they can act in response (and they do so) much more quickly than what competitors can accomplish.

P7 also thinks that at F7 they innovate concerning the part of the design (Macpherson *et al.*, 2004). P7 gets ideas from different places but its own personal seal is added. In fact this is an important part of F7 products: the design. P7 argues that they do not copycat the designs (products) in the street because if someone else has already made and commercialize that particular design then it makes

no sense for P7 to do it again. Why bother copying something when it is better to be original?

When the author inquired P7 from where they take the design ideas it said that anyone within the company and even clients can come up to P7 and share their thoughts. However at this point P7 evaluates the ideas and sees if they have all the technical means to carry on with the designs. This is if they do not need to buy any new machines and so on.

The author asked P7 about any design archive (Quinn *et al.*, 1997) it mentioned that they do have a stock of designs that are launched twice per year (autumn/winter and spring/summer). Put it another way at F7 they have designs in the pipeline waiting to see the light.

The downside of this archive is that they do not have a physical historical stock with the previous designs, i.e. the designs that have already launched and commercialized. The only place where they can be found is in P7 head.

These past designs might be used again depending on what the market demands at that particular point in time. For instance they might use metal or plastic or any other materials that were used before.

Because the employees also collaborate (Akdere, 2005) with the designs they too remember what has been done before so they know if in the current season might work that particular design again or not. At the end what is shown here is that it exists a 'virtual design archive'; this helps all at F7 to have new design ideas.

Finally In order for F7 products to be born P7 does not designate any part of F7 budget to innovate; instead ideas come to P7 mind and then it goes home to draw them.

16.7.F7. The intangible assets.

The author explained to P7 what the intangible assets (Barney, 2002) are. Once this explanation was over the author asked P7 about the construct within the context of F7 and it said that this idea is very important.

P7 even considered that all these assets support around forty percent of F7 income. P7 identified the following:

- 1) Good client service (Zairi, 1994);
- 2) Patience to negotiate (Yuen *et al.*, 2005) with the clients, especially when the payments are requested;
- 3) Good relations with the clients (Inkpen and Tsang, 2005)
- 4) Good relations among the employees (Glover and Hemingway, 2005).

All in all P7 takes good care of valuable employees and clients.

In order for these two assets (the third and fourth ones) to grow (Grant, 1996a) P7 is very tolerant and humane to both parties: the employees and the clients. P7 tries to understand each party and act accordingly.

P7 makes the constant effort to build trust because it really believes that when trust is constructed the relationships are far more solid and profitable. Because of this good employee and client

relationships P7 thinks that they also appreciate P7 trustful relations. This is they are grateful for P7 understanding, patience, tolerance and trust (Sahaym, 2005).

16.8.F7. The core activities.

When the author asked about F7 core activities P7 mentioned that the main core activity is the design (Porter, 1985) of new products. Because this process is almost one hundred percent hand-made P7 reasoned that another core activity is the right making of the products.

This means that when the employees do the next step they must have the ability to acknowledge if there is a defect in the previous step. Simply expressed is the fact that employees must be able to recognize the inconsistent knowledge (Grant, 1996b) in the production process even if that is not their speciality.

16.9.F7. Competitive intelligence.

The author explained to P7 about the competitive intelligence (Gilad and Gilad, 1988) issue and it mentioned that they are not too aware of their competitors. As stated before, at F7 they look at different trends but none particularly, i.e. they do not copycat. P7 believes that if they make something that is well done then success follows.

16.10.F7. The value to clients and shareholders.

16.10.1.F7. The value to clients.

When the author asked P7 about what values F7 gives to its clients (Quinn, 1992) it said that these are several. One of the values to clients is good attention and care; another one is comprehension of certain situations and the third one is the satisfaction of the end-

client to have a quality purse. The first two values are related to the retail stores whereas the third one to the final client.

In this sense P7 has identified between thirty percent and forty percent⁴³ of existing clients that buy again in fairs. This is through direct selling of the merchandise.

16.10.2.F7. The value to shareholders.

When the author asked P7 about the value that F7 gives to its shareholders (Chakravarthy, 1986) it said that obviously is the profitability. Complementing this idea P7 observed that if a certain product is not profitable as is expected, then it will do whatever it takes to come up with another product(s) that will make F7 profitable.

16.11.F7. Clusters.

At F7 several issues concerning the cluster (Khan and Ghani, 2004) circumstances are explained.

1) When the author asked P7 why it situated F7 there P7 stated that because here is where it lives. This means that it is a nearness issue. So when F7 was founded P7 had the factory far from its home by one kilometre. Now the factory is located under P7 house.

2) P7 mentioned two additional factors for this location:

A) If P7 were to set up the factory in Barcelona this would be very expensive and not near from home and

B) From this place, *Montserrat*, P7 has no distribution problems for F7 products.

⁽⁴³⁾ Hence why P7 identifies that F7 intangibles support around forty percent of the total income.

3) The author asked P7 if F7 had any relationship with a research or design centre it said that no; mainly because P7 has not, so far, thought about it.

4) The last point has to do with any kind of external help; this means that F7 does not have any direct help from the European Union. Instead they receive it from the Catalonian Handcraft Centre [*Centro de Artesanía de Cataluña*]; but this 'help', which is monetary, has only been started to flow this year. No other kind of help has been provided to F7 by any governmental or non-governmental organization, be this technical, administrative or from any other kind.

16.12.F7. Additional researched material.

16.12.1.F7. The catalogue.

P7 gave to the author a catalogue of F7. This is a catalogue of the Catalonian Textile Guild. This means that it is shared by around ten or more firms.

Nevertheless the pictures of F7 products are very good. They are colourful and five different models of some products are shown. It certainly gives a very clear idea of what these products look and feel like and most important, the quality behind them.

In this catalogue the important details to contact F7 are presented: the telephone number, an e-mail address and the CEO name.

From these pictures the author confirmed the words of P7: the quality and design of these are nice and long-lasting. A key point to consider is the fact that this catalogue is in three languages: Spanish,

English and Catalanian. This is it looks to cover a wide audience of clients.

16.13.F7. The theory to formulate strategies.

By the time the author read out to P7 about the theory to formulate operations and innovation strategies it said that the constructs that are in this theory are a bit theoretical. Additionally, P7 believes that all in all these constructs are too big (high-level constructs) for a firm like the size of F7. In this line of reasoning P7 commented that for it to apply this theory at F7 is almost impossible.

P7 also mentioned that concepts such as the financial analyses are done mainly considering the family business (Kenyon, 2001) perspective. This is if the family is doing well then so is the business. Put it in a different way if internally the family is all right, then it makes no sense to perform external analyses.

P7 believes that this theory is all right for a bigger company; a firm that has employees performing, for example, financial statements and competitor analysis (Miller, 2000) which are far more capable of understanding the language completely.

Complementing this last point, P7 opinion about the language that is used in this theory is that this are too elegant (fancy) words and not mundane. So in order for the 'man on the street' to truly grasp the meaning of this theory the author must write it considering who the target is and inscribe it accordingly. In other words, write the theory in plain, simple, and ordinary language.

16.14.F7. The results.

In the last part of the interview the author asked P7 to answer a brief questionnaire. This consisted of nine questions. Eight of them are in a Lykert-type (Inandi *et al.*, 2002) form and the last one is an open-end question⁴⁴.

In the first eight questions P7 had to mark the statement that it agreed with the most. These questions ranged from TOTALLY AGREE to TOTALLY DISAGREE. P7 answers are presented in Table T7.

Additionally for P7 to answer the questionnaire, the author showed a definition of the SWOT analysis (see: annex).

⁽⁴⁴⁾ *The result from this question is the section: 'The Theory to Formulate Strategies'.*

Statement Number	Statement	Answer
1	SWOT analysis is enough to formulate operation strategies	Agree
2	SWOT analysis is enough to formulate innovation strategies	Totally agree
3	The previous theory will improve significantly the formulation and re-formulation of my operations' strategies (considering both the internal and external analyses)	Agree
4	The previous theory will improve significantly the formulation and re-formulation of my innovation strategies (considering both the internal and external analyses)	Agree
5	The previous theory to formulate and re-formulate operations' strategies is theoretical	Do not agree nor agree
6	The previous theory to formulate and re-formulate innovation strategies is theoretical	Do not agree nor agree
7	The previous theory to formulate and re-formulate operations' strategies is practical	Do not agree nor disagree
8	The previous theory to formulate and re-formulate innovation strategies is practical	Do not agree nor disagree

Table T7. P7 Answers

Beside F7 answers, the author identified several intangible assets that support and enhance F7 overall competitive position these are detailed below and shown in figure F7:1

P7 has developed through its experience the ability to know when to launch a new product. This is also backed by the fact that it is in constant contact with its client so both part can determine as exactly as possible the best date for these launchings.

This way of (closely) working with its clients has made P7 to hold a valuable social capital not only in terms of profitability but also when some other issues surface, namely the paying of product orders.

Also this social capital has proven to be a key asset because F7 end clients do know where to find these products (bags, purses etcetera). This is a two-edge intangible asset that befits on the one side F7 and on the other side the retail stores. All in all, this means that because of the unique features of the products the fidelity of clients contribute to F7 competitive advantage.

In this sense, the author believes that the prime intangible asset that P7 has and supports all of F7 being is the design of new products. This is P7 perfectly knows that once it stops designing F7 competitive advantage will not remain at the market. This design capability is also supported by the originality of the designs themselves, the quality of the finished products, its elegance and resistance. In other words the unique features presented by F7 products.

The design capability developed by P7 means that it is open to new ideas from practically anywhere; this is P7 evaluates if a new design can be profitable and technically feasible. Put it different P7 acknowledges the fact that any good idea might come from anyone, anywhere at anytime.

P7 has also developed good employee relations. This means that P7 knows it can confidently trust them. P7 knows that because of the way of working at F7 (hand-made) its employees can and do develop several making skills that allows them to detect almost any mistake in the production process. The employees have also trust in P7 because they hold responsible for what they do and also contribute to F7 designs. And they know that they will be recognised for this contribution.

P7 has, because of F7 size, developed an efficient distribution capability that allows distributing faster all the products; this is especially convenient when facing competitors. The certainty of having new designed products at the retailer stores in the key seasons supports F7 advantage.

Even though in minor degree, the selling process at F7 also contributes to its advantage. This, as explained above, implies that P7 has identified how to cash-in more money; either at a fair or through retailers.

Because of F7 size, P7 can take the decisions very fast in order to remain competitive. This is P7 can react faster without consulting practically no one and face its competitors from a better standing. The lack of a bureaucratic process helps F7 to answer swift.

P7 has also developed a good outsourcing relationship with the sawing people. This, given that it is a significant step in the production process, has its importance at F7 competitive advantage. P7 knows that the sawed products will be on time at F7 premises to be totally finished which in turn will reach the retail store or fair.

Lastly, because of the fidelity and benefit issue previously mentioned, P7 has polished the ability to deliver value to both parts (clients & shareholder) and remain focus in continuously doing it. This is P7 has not lost sight of the importance of these two pillars supporting F7 competitive advantage.

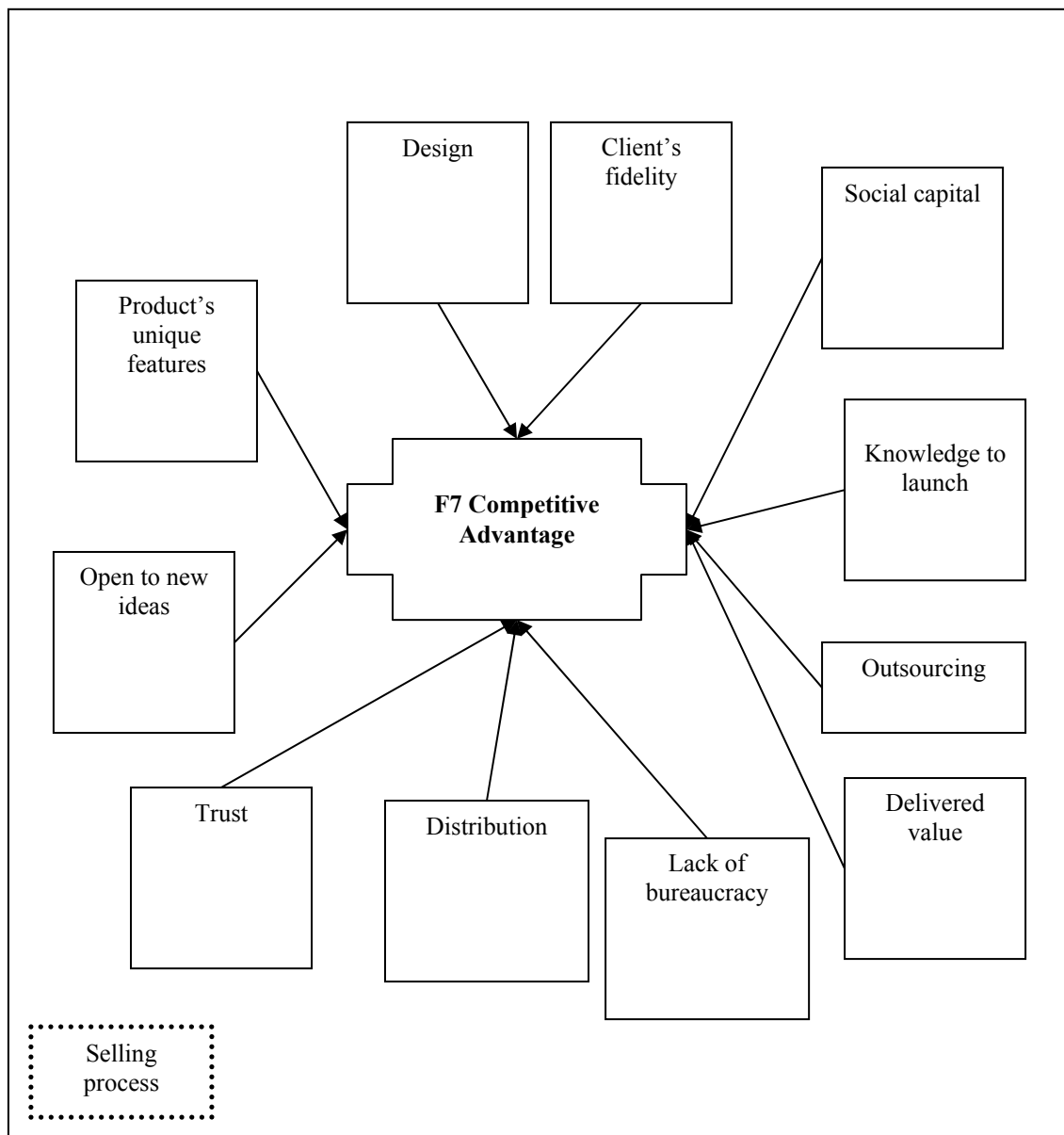


Figure F7:1 Competitive advantage. Source: the author

Case Study Eight

16.1.F8. Methodological issues case study eight (8).

This is the eighth case study (Yin, 2003) that was elaborated. For confidentiality reasons, the name of the company and interviewed person will remain anonymous all along this analysis. Hence, from this point onwards both will be named Firm 8 (F8) and Person 8⁴⁵ (P8) respectively.

The author had knowledge of this company from the Textile Guild in Barcelona. This is a third acquaintance from both, P8 and the author, introduced them.

Because the meeting took place in the Textile Guild, before it, the author explained to P8 what the research was about. Once this was done P8 accepted to collaborate and so a full interview was carried out. After hearing the recording the author had more questions so he e-mailed P8 in order for it to answer these.

All in all, the whole interview took roughly sixty minutes.

16.2.F8. Introduction: vision, mission and history.

This firm is located in *El Papiol* (Catalonia) and its mission (Kald *et al.*, 2000) is to commercialize semi-handmade leather products of high quality: wallets, purses, bags. Concerning the vision (Ogbonna and Harris, 2001) of the company is to keep this position of leadership in Spain and to increase the sales volume. However in both cases P8 did not showed to the author.

⁽⁴⁵⁾ *The interviewed person holds a high position in this company, but it is not family-related.*

F8 was founded in 1985; however before this the company had another name. In this sense what happened was that the company changed its name and professionalizes (Noda and Bower, 1996) successfully itself. So the previous company goes back to around the beginning of the XXth Century; this first company was founded by the grandfather⁴⁶ of the actual owner.

This person (the grandfather) started to sell leather goods (souvenirs) in the 60s to the tourists that visited the *Costa Brava*. These goods were made in its natural town, *Ubrique*, in *Cadiz* and then brought to Catalonia. In due course the grandfather established a factory in Catalonia to make purses and wallets not only for tourists but also for local shops.

Eventually the father (the grandfather's son) invested more and made the factory grow; not only in terms of the size and production, but of diverse (leather) products. When the father achieved this growing he managed to sell to big wholesalers such as *El Corte Inglés*⁴⁷. This point to the facts that: they have been merchants (entrepreneurs) all their life but the formal educational level of all the founders is nonexistent.

This last issue (that of education) is a key fact because, according to P8 the current CEO⁴⁸ of F8 is the best expert of leather products in Spain. This is due to the reality that he knows very well its business because he has been in it for over twenty years. So no matter the formal education the CEO has been learning ever since he was a young sibling. As will be seen later⁴⁹, the continuous learning

⁽⁴⁶⁾ This person, the grandfather, was not the interviewed subject.

⁽⁴⁷⁾ This company is a Spanish retailer that sells diverse goods, such as leather goods, TV, radios, linen and so forth.

⁽⁴⁸⁾ This is the third generation managing F8.

⁽⁴⁹⁾ This will be explained in the Innovation Strategy section.

(Nickerson and Zenger, 2004) has been a very important piece of F8 competitive advantage (Porter, 1996).

In 1995 the current CEO (the son) was in charge of the company because the father had retired. At that point in time the company had between fifteen and sixteen employees. Now, because most of the production is done in Asia, the factory in Ubrique, the commercial site in *El Papiol* and the representative office in Madrid have all together twelve employees.

Currently because of the economical situation the sales have grown but only between two percent and tree percent per annum. Under this view the units sold per annum is practically the same. In this sense, even though it seems as the firm is not growing, according to P8 this company is within a restructuring phase.

16.2.1.F8. The banks and the government.

When the author asked P8 about F8 relationship with banks and the government it said that this company has currently a healthy treasury.

However up to 1998 at F8 they had, as any other company, the necessity of bank loans. Since that moment onwards F8 has adjusted its figures in order to avoid these loans. So even though now F8 can count with several credit lines they usually do not ask them for; this is at F8 they use their own money and not that of the bank.

16.3.F8. The products.

The main products of F8 are: wallets, purses, bags and so forth. Because of this, at F8 it exists only one season, not as in the fashion industry which has two.

Of the current products (they have over five hundred available), these 'suffer' slight improvements or minor modifications⁵⁰ in order to remain competitive.

16.3.1.F8. The market share.

In the leather (purse and wallet) market, F8 has around fifty percent of it. The rest is divided between Loewe, Pierre Cardin, and Louis Vuitton among others.

16.3.2.F8 the rebates.

The author asked P8 if they had any sales season during the year he said that no. This is at F8 they do not have any rebates. If they are to be any rebates at F8 products, then the retailers are the ones who decide.

16.4.F8. The competitive advantage.

According to P8, F8 has no direct competitor. This is so because in Spain it does not exist a firm that produces only leather goods; this is it does not exist a national or international company that makes and sells just leather goods. In this sense, F8 competitive advantage (Grant, 1991) is the fact that is the only and sole producer of leather products in Spain.

⁽⁵⁰⁾ This will be explained in the Innovation Strategy section.

16.5.F8. The operations strategy.

When the time came for P8 to explain F8 operations strategy (Szulanski and Amin, 2001) this was done perfectly; however, this strategy is not written anywhere. Because the production of the goods has been practically the same ever since the foundation, the production steps are known by the employees so there is no need to state it formally. All together the operations of F8 are decided by the owners.

In fact, P8 mentioned that given the size of this company it cannot allow to have employees specialized in many tasks (Hatch and Dyer, 2004), so this is the main reason why the owner or managers strategize (Hitt and Tyler, 1991). This is a common characteristic of micro- and small-size textile Catalanian firms.

Currently only between twenty percent and twenty five percent of the whole production is made in Spain and the rest in Asia. This change in the production process was done in the last tree years. Also F8 does not export. Even though they had exported sometime in the past they do not do it systematically, i.e. according to any strategic planning (Roucco and Proctor, 1994). This, in the words of P8, is a strange situation even to organisms such as the COPCA⁵¹, where it is believed that F8 products are highly exportable.

Part of the main raw material (leather) comes from *Igualada*, in Catalonia. According to P8 here is one of the places in Europe where the best available leather is produced. With these leather producers F8 has carried on all the research projects to improve the quality of the leather.

⁽⁵¹⁾ *This organism is the Consortium for Commercial Promotion of Catalonia. The definition of COPCA is presented in the annex. Source: copca.com*

For instance a few years ago both parts develop a kind of leather that is water-resistant. This is it does no matter the kind of liquid that is spilled nor does the wearing of the wallet, at the end of the day it remains in very good conditions. It seems almost brand new. This was proven by P8 to the author when it showed a wallet; a piece that was bought between two and tree years ago.

Now, some of the productions of leather that is used and produced in Spain have been found in some Asian countries, so this is why F8 has moved some of its leather manufacture to this part of the world. This implies that the quality of the leather in those countries is practically the same as the one at *Igualada*. According to P8 in some cases the quality is superior.

The tanner that produces these kinds of leathers has opened some offices in Asia for this reason but still keeps on working for F8. Because this tanner follows the same processes here and in Asia F8 can guarantee the overall quality of the finished products no matter where are produced or from where the raw materials are brought. This has proven to be a very good competitive advantage to this company especially within the globalisation era.

Once the pieces of leather are within F8 premises, these (between sixty percent and seventy percent) are sent to Asia to make the finished product by the tanner and its employees. This tanner is located in China and the rest of the leathers are bought from nearby countries. Because the eminence of F8 finished products is very important, this company is sure that the tanner's employees have the adequate training to guarantee the quality of the finished product.

Now, the production process commences when the product is designed. Then the product is prototyped i.e., the exact cutting, the

treads, etcetera. It is worthwhile mentioning that this is a complex technical process. This prototype-process is done in China where the quality of the products is very good and it allows F8 to re-make products that once did. The reason for this is that now they have more time to make them. Put it another way: the making of 'old' products is now possible given the outsourcing (Quinn, 1992) of this process.

Concerning the operations through internet, F8 sells through this channel because a few years ago (in 2000) the owners decided to retail directly to the end-client. However this is merely symbolic.

This strategy was chosen because one of F8 main clients (*El Corte Inglés*) sells too many different products through internet. This is F8 board resolute that in order to prevent the sales (of F8 products) from this client through internet, at F8 they determined to vend only in places where there is not any selling of F8 products. Put it differently when F8 sells directly through internet it has a strong negotiating point if *El Corte Inglés* attempts to sell F8 products through this channel.

So if an end-client⁵² wants to buy a product of F8 then it goes to its web page and seeks the nearest store. In case there is none then it can buy directly from F8. By performing this activity F8 does not allow *El Corte Inglés* to sell F8 products directly via the internet.

F8 does not have stores of its own property. As have been mentioned, it only sells its products through a network of retailers. However it exist the idea to have within the following two to three years some of its possession and in these will not only be sold leather products but other complements as well.

⁽⁵²⁾ This end client is the one that uses F8 products, i.e., not the retail store.

This tactic, the opening of F8 stores, will be seriously considered if the sales of leather products within the following years start to decline. This is also backed by the fact that small retailers are disappearing because the end-clients go to mall centres to do their shopping.

Finally, a curious situation at F8 is the fact that the board has some fear to grow. According to P8 words it does not exist a real necessity for this to happen. This is so because, as previously mentioned, this company is leader of the market.

16.6.F8. The innovation strategy.

F8 products have slight or minor modifications therefore they can be considered small innovations (Stalk *et al.*, 1992), but nevertheless innovations. P8 showed to the author a wallet with an inside plastic-cover that protects the person's identification cards. This (plastic-cover) innovation was a motive for a legal dispute that eventually, after two years, F8 won. Now they have the patent for their own exploitation and they are legally protected⁵³.

Also the inside of the wallets are subject of slight innovations: softer for a comfortable touch and feel. At F8 they innovate the designs in the purses, however the men's wallet are basically the same. In this sense at F8 they have around eighty percent of basic products and twenty percent of new products are launched every year.

All the innovations at F8 are done in a committee. This is formed by the owner, the sales persons, and one employee that

⁽⁵³⁾ *In spite of this, the author went to some retail stores and found out that all of F8 competing products have a very similar feature.*

worked as a store clerk. This committee innovates according to their experiences and taking ideas from their clients.

An important part of the committee are the sales representatives, so when the sales people go to visit the clients they listen to them very carefully and take the ideas to improve the F8 products or create new ones.

These five sales people that work at F8 visit the clients as much as twice per year. These persons see all the clients within four months. The seven resting months, the sales people investigate (research) their markets, innovate new products (Grant and Baden, 2004) and go to fairs abroad. Of all these sales persons the one that has the less amount of time (working) in the company is fifteen years. This means that the total knowledge (Grant and Baden, 1995) inside these people is quite large.

Because of these seven months of research frame at F8 they have continuously new products in the pipeline waiting to see the light. In this sense at F8 exists a file (Quint, 2000) that has all the innovating designs that have been created before, so all the involved people can constantly revised it to see what has been done in the past, take (or not) ideas and improve the future.

It is important to notice that these persons are specialists (Un and Cuervo, 2004) in two areas: commerce and product innovation. This specialization makes these people to hold perfect knowledge (Grant, 1996a) of leather products and the different markets for these goods (wallets, purses etcetera). In fact, these people are the ones that with this specialization have created some (if not many) of the current products.

The bottom line is that the board of F8 has a keen worry: knowledge (Drazin and Rao, 2002). This only means that they do train (Zahra and Filatotchev, 2004) the sales people to know as deep as possible the markets where F8 products are. By achieving this, the board is sure that when the sales people go to visit the clients the selling of the products is almost one hundred percent assured. Put it another way the selling of the products created and developed by the sales people is easier and better since they know the product perfectly inside and outside.

The factors (internal and external) (Novicevic *et al.*, 2004) that they consider when innovating are: the competitors (Helfat and Peteraf, 2003) [Loewe *et al.*], the training (Gunther *et al.*, 1995), and the clients (Porter, 1991). Also P8 stated that the toughest competitors of F8 are those that they have lower quality (the finished product) and price, i.e. cheap-quality products. However, according to P8 (now) they are not worried for these competitors.

Complementing the factors issue that F8 considers, this firm has also an outsourcing (Zeffane, 1995) relationship with an external designer that helps within the design of the purses. The idea behind this is to keep on being competitive (Beamish and Asmestead, 2001) in this market.

Last but not least, at F8 innovations are done in the five lines of the products they sell, they also innovate in client service by seeking better ways to serve them without bothering them and a very important matter is the fact that all the above innovations can be achieved because this group has been working together for a long time.

So even though the previous paragraphs have shown F8 innovation strategy (Knott, 2003), this was not shown to the author by P8 i.e., there is no formal innovation strategy. Innovations have been emerging all along F8 history; even though 'planned' never explicitly written.

16.7.F8. The intangibles strategy.

Once the author gave to P8 an explanation about the intangible assets (Bennett, 1994) construct it said that at F8 the first and most valuable asset is the knowledge (Hemphill and Vonortas, 2003) of the leather markets (production and distribution) that holds the CEO of this firm; this knowledge is eventually pour into the company as a whole.

Another key asset is the 'transmission' of this (tacit) knowledge (Grant, 1996b) to the sales people and the external designer in a permanent basis. This way knowledge is in constant flux.

As stated before and complementing the knowledge issue, the CEO makes the sales people visit fairs, trade shows, competing companies, observe other products and asks them to seek for new ideas, services and products. The CEO also informs them about the (whole) production process of the leather goods so he is not the only one holding all the available profitable knowledge in the firm. All in all it can be argued that the available intellectual capital (Ranft and Lord, 2000) in this company is evenly distributed among all its members.

Another intangible key asset is the distribution (Grant, 2005) of the finished products to the clients. The delivery time is twenty four hours. However when a new collection is to 'hit' the market the sales order is done six months in advance. This is for the basic products the delivery time is one day but when new products are ordered by

the client, F8 has to deliver them when the client asks for hence this is the reason why ordering six months earlier.

16.8.F8. The core activities.

When the author asked P8 about the core activities (Littler *et al.*, 2000) it said that if the know-how of the product (Seely and Duguid, 1998) (profession) is taken away then the company disappears.

This implies that when knowing about the products since its inception and then to solve the possible problems signalled by the clients is easier. By performing this then true innovations can be done from the 'roots' of the product and not only nice-looking (form) improvements.

16.9.F8. The competitive intelligence.

When the author explained to P8 the competitive intelligence (Fuld, 1988) concept it said that at F8 does not exist formally any process(es) that are determined to stop competitors, prevent them to act, and identify or discover their innovations.

However, it does exist a systematic procedure to analyse the competitor's products (those available in the market) i.e., competitor analysis (Marr, 2004). So even though the competitor analysis is performed, at F8 they do not execute any benchmarking (Eccles, 1991) exercise, given that they are the leaders in the wallet market.

16.10.F8. The technology.

When the author asked to P8 about how does technology impacts F8 operations it said that technology affects mainly the tanning and the making of the products. In both cases they count with the best available technology to perform these tasks.

16.11.F8. The clusters.

The author wanted to know why did this company located physically in that place instead of, for example, near a university. P8 said that because of the nearness of the owner to the factory. Even though located in an industrial park (Porter, 1990) no direct competitors, research centres or universities are near by this company.

Because of the above the author asked to P8 if this firm had any (collaborating) relationship with direct competitors, research centres or universities and it said that F8 carries its own research with its suppliers. Lastly when the author asked if F8 receives any financial or technical help from the European Union P8 said that no.

All the previous paragraphs point out the fact that the cluster (McEvily and Zaheer, 1999) situation at F8 is totally irrelevant. This is the success of the innovations which in turn are reflected in the products is done totally in-house.

16.12.F8. Additional researched material.

16.12.1.F8. The catalogue.

P8 gave to the author a catalogue of F8 products. Because this company handles over tree hundred articles the catalogue is small due to this. However it gives to the client a very good idea of what kind of products this company has and the quality that supports them.

At the end of this catalogue a good idea surfaces: writing space. This is some pages are left in blank for the following reason. If a client wants to make any comments or observations of the products there it has the available space. This gives the easiness of not having

to write somewhere else and loose the thoughts concerning the products.

The size of the catalogue is half of an A4 sheet of paper, with colourful photographs and all the products have the code number and size.

Since this company has several product lines in the catalogue these are specified as well. This is the client can easily identify to which line the product belongs to. Each line has a brief explanation and also almost at the end of it, before the writing space, the client can see this firm's website.

16.12.2.F8. The web site.

In the web site everything is practically the same, i.e. the products. But a good feature is the fact that is in tree languages: Spanish, Catalanian and English. Also, as previously explained, from the site a client can buy F8 products and more interesting it can customize them. This is if a company wants to make gifts to, for example, its employees, then they can buy wallets with the name and logo of the company and F8 will deliver them. Put it differently they care for the client (Lee and Sai, 2000) to have a good quality and if desired a customized product.

Also in this site the clients (such as *El Corte Inglés*) can see all the available products; in this part of the site new potential distributors can see the requirements to become an F8 distributor.

Last but not least in this site there is a store locator. The user keys-in a postal code and the nearest stores appear by. All in all the web site has the target markets in mind, i.e. the final clients and the distributors.

16.12.3.F8. The training.

When the author asked P8 why the sales people were the only ones that they were trained it said that because they are considered the most productive employees in the whole company, and with the highest IQ capacity. This is the ability to absorb knowledge easily (Gopalakrishnan and Kessler, 1999). This makes sense since they are the ones that visit the clients and do a huge amount of research, be this markets, products, or competitors.

16.13.F8. The theory to formulate strategies.

When the author read the theory to formulate operations and innovation strategies P8 said that it is magnificent for a big enterprise. This is so because in the micro, small or medium enterprise they do not count with the specialized employees to perform all the analyses.

With the SWOT analysis (Barney, 1995), according to P8, is not enough to formulate strategies (of any kind); all the four factors: strengths, weaknesses, opportunities and threats must be specified and in any of these the intellectual capital (Roos *et al.*, 2001) must also be considered. This analysis does not consider the human (capital) value of the enterprise.

16.14.F8. The results.

In the last part of the interview the author asked P8 to answer a brief questionnaire. This consisted of nine questions. Eight of them are in a Lykert-type (Inandi *et al.*, 2002) form and the last one is an open-end question⁵⁴.

⁽⁵⁴⁾ The result from this question is the section: 'The Theory to Formulate Strategies'.

In the first eight questions P8 had to mark the statement that it agreed with the most. These questions ranged from TOTALLY AGREE to TOTALLY DISAGREE. P8 answers are presented in Table T8.

Also a SWOT definition (see: annex) was given to P8 to be able to fully mark its answers.

Statement Number	Statement	Answer
1	SWOT analysis is enough to formulate operation strategies	Do not agree nor disagree
2	SWOT analysis is enough to formulate innovation strategies	Do not agree nor disagree
3	The previous theory will improve significantly the formulation and re-formulation of my operations' strategies (considering both the internal and external analyses)	Agree
4	The previous theory will improve significantly the formulation and re-formulation of my innovation strategies (considering both the internal and external analyses)	Agree
5	The previous theory to formulate and re-formulate operations' strategies is theoretical	Disagree
6	The previous theory to formulate and re-formulate innovation strategies is theoretical	Disagree
7	The previous theory to formulate and re-formulate operations' strategies is practical	Agree
8	The previous theory to formulate and re-formulate innovation strategies is practical	Agree

Table T8. P8 Answers

Apart from P8 responses to the questionnaire, the author identified several assets that give F8 its competitive advantage. These are explained below and depicted in figure F8:1

The owner, from those selling days to tourists, has the vision of a future profitable business. This means that it identified the potential growth of the leather business.

Another key intangible, actually *the* most important assets F8 posses is that of continuous learning. This is especially true for the current CEO. Even though he has no formal training it does has the intelligence to know the value and benefits of knowledge when applied to F8 overall operations.

This gets supported by the fact that it makes the sales people train constantly. Not only on their products but in the competitors products, sending them to fairs and so on.

The learning issue can only be interpreted as profitable knowledge at F8 people. This means that through the years this knowledge has grown consequently positioning F8 in an envious standing. Last but not least F8 CEO has the sensitiveness to 'pass on' all its knowledge to the employees. This means that he already understood that, if the company is to keep on surviving, the available knowledge at F8 must be shared among all (the employees), and keep this attitude for lasting generations.

Another important intangible asset that supports F8 competitive advantage is that of the beneficial social capital between this firm and, the leather producers. This profitable relationship achieves a continuous research and development that is pour onto F8 products. No matter where these leather producers are located, this relationship holds.

Nevertheless the importance of the previous social capital asset, at F8 they have the ability to recognize good pieces of leather;

these pieces definitely contribute to the success of the finished product. This also goes hand in hand with the accumulated knowledge.

Another key relational asset is that of a good relation among F8 and the foreign leather producers; namely the ones in China. Even though these producers are far from Barcelona, at F8 they know that the production order will be on time at F8 warehouse. But not only in terms of delivering is a good relation; most of all, in the quality of the product. In short: the outsourcing relationship is a profitable one for both parts.

The second most important intangible, supported by the learning ability, is the design of F8 products. This is a two-sided activity. From the internal point of view, through the years of continuous designing, they (at F8) currently possess this ability that allows them to make improvements to the product itself; but not only nice-looking improvements also practical enhancements as the ones previously described.

From the external point of view, at F8 they have a good designing relationship with a designer that permits F8 to have creative products. At F8 they know that not only can count with these external designs; most important, they know that they will have them when required.

Another key asset is that of the sound relationship between all the innovation committee. By putting over the table everybody's knowledge at F8 they recognize that the over all improvement of this company is almost assured. This means that every member of this team is open to new ideas and ways of thinking. In few words: solid successful teamwork.

Another important asset is the historical design archive. By reckoning the importance of this files, at F8 they know that at any point in time this can be consulted by any member of the innovation committee; consequently new ideas can be taken or not from here.

Another key asset is timely distribution. This implies that not only the typically sales orders must be delivered on time, but also those orders that are done well in advance. By achieving this at F8 they know that they support a good client service by fulfilling not only the quality of the product, its timely distribution but most important, its word.

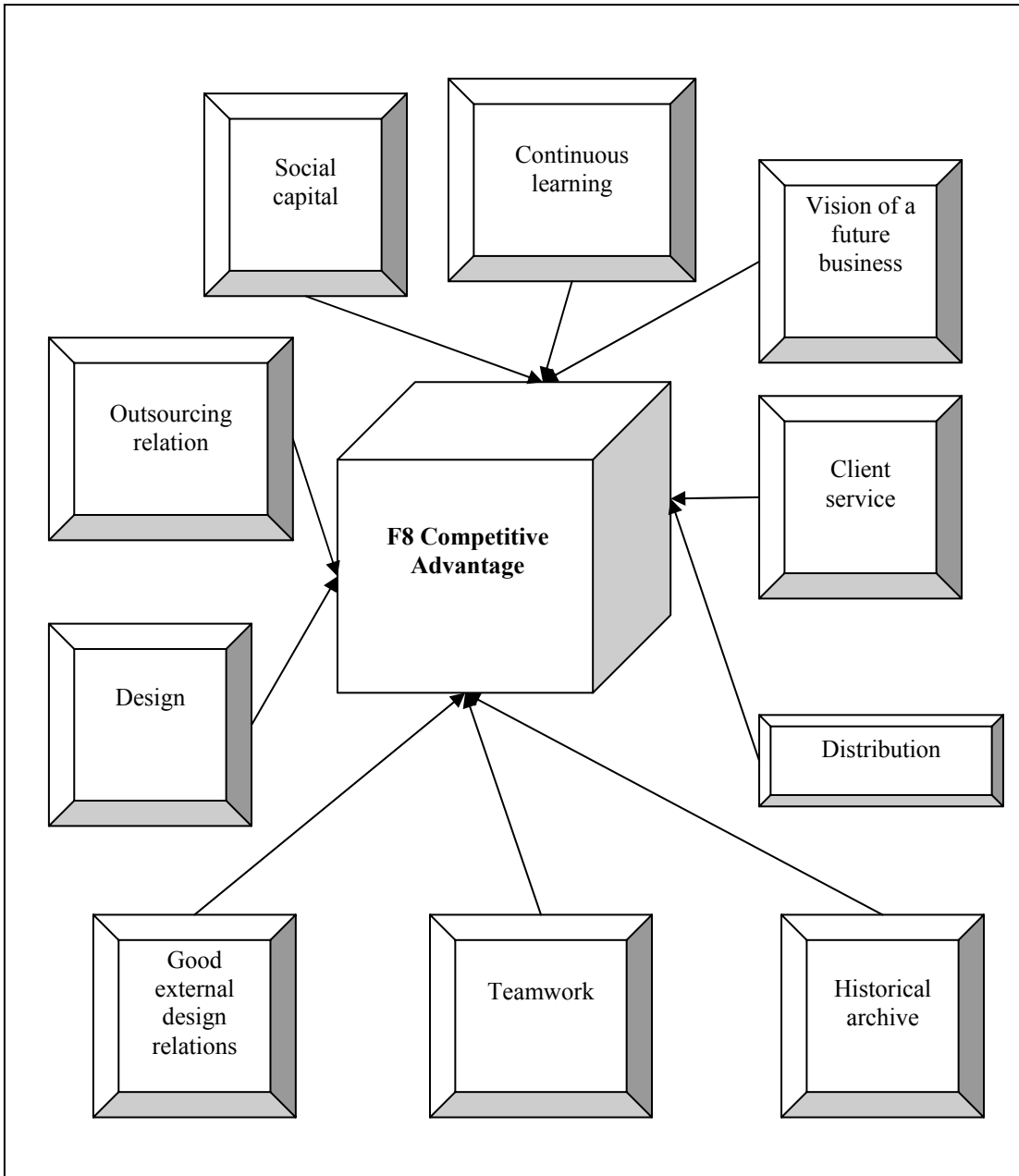


Figure F8:1 Competitive advantage. Source: the author.

Case Study Nine

16.1.F9. Methodological issues case study nine (9).

This is the ninth case study (Yin, 2003) that was elaborated. For confidentiality reasons, the name of the company and interviewed person will remain anonymous all along this analysis. Hence, from this point onwards both will be named Firm 9 (F9) and Person 9⁵⁵ (P9) respectively.

Just as case number eight, the author had knowledge of this company from the Textile Guild in Barcelona. So the third acquaintance from both, P9 and the author, introduced them.

Because the meeting took place in the Textile Guild, before the interview was held, the author explained to P9 what the research was about. Once this was done P9 accepted to collaborate and so a full interview was carried out. After hearing the recording the author had more questions so he e-mailed P9 in order for it to answer these.

All in all, the whole interview took roughly sixty minutes.

⁽⁵⁵⁾ *The interviewed person holds a high position in this company, but it is not family-related.*

16.2.F9. Introduction: mission, vision and history.

The mission (Boomer, 2006) of the company is to commercialize working clothes⁵⁶ and a forty-year old fashion line⁵⁷; in this sense, the vision (Boomer, 2006) of the company is to sell as much as possible and anywhere.

The company is located outside Barcelona (*Viera*) and was founded by the current CEO parents⁵⁸ around forty years ago. At F9 they started making in a small warehouse clothes for pupils and bath dressing gowns for mature women. The marriage had success with these products so they started to grow by producing more.

At the point in time the way of selling was different as it is currently. The demand hugely surpassed the offer. So the marriage faced this demand from companies that asked for the making of customized clothes (clothes of the exact size of the employees).

Now, around ten years ago both siblings (a boy and a girl) joined the company and with them they brought a bit of novelty and innovation.

On the one hand a fashion line was commenced for the mature lady market. This was in line with their distribution channel. This is they sell this fashion line products in stores that offer these kind of garments. These stores were traditionally the distribution channel of F9.

⁽⁵⁶⁾ *The expressions working-garment market and working cloth market are use interchangeably.*

⁽⁵⁷⁾ *According to P9, this fashion line, given its characteristics, is not important as the working garment line. This is corroborated by the sales contribution figure. In this sense the bulk of this case study is focused on the later.*

⁽⁵⁸⁾ *Neither the CEO nor his parents were the interviewed persons.*

However, even though these fashion lines currently (2006) are completely obsolete they represent a small market niche for this company. In turn they have the advantage that almost no one in Spain makes these kinds of garments.

Currently at F9 they are working thirty six employees and it does not export but this tactic (Ansoff, 1990) is in F9 strategic plan for 2010. Before this date, in P9 words, they are not going to achieve this.

16.2.1.F9. The banks and the other institutions.

This company has a good and close relationship with the Textile Guild. Because today the firm is managed by two young people they lack too much experience mainly concerning the legal issues. This situation forces them to assist to the seminars the Guild organizes not only related to the legal aspects of a business but in general to diverse courses. They also utilize the Guild consulting arm as much as they can.

However with other institutions such as the CIDEM⁵⁹, COPCA⁶⁰, and the Ministries of Industry in Madrid and in Catalonia they have never worked so they do not have yet any relationship.

Because F9 has a healthy treasury their relationship with the banks is good. This is they do not use the credit lines that banks usually offer to their clients. All in all they use only the services provided by a local branch of a national bank; P9 defined this relationship as cordial, sympathetic and kind.

⁽⁵⁹⁾ CIDEM stands for Centre for Innovation and Business Development. The definition of the CIDEM is presented in the annex. Source: cidem.com

⁽⁶⁰⁾ This organism is the Consortium for Commercial Promotion of Catalonia. The definition of COPCA is presented in the annex. Source: copca.com

16.3.F9. The products.

Because this company produces for several market niches the products are segmented in several ways.

The fashion for ladies follows the standard seasonal division: two collections per annum. The working clothing market has a unique way of being segmented.

For example in summer the short sleeve is preferred when compared with a long one; however, the people working in a hospital due to the inside temperature they prefer the short sleeve regardless of the weather. In this sense the season affects very little to working clothing market.

Given this explanation the basic collection is only twenty percent of the overall catalogue and the rest are new designed products. Lastly when the author asked if F9 products had any AITEX⁶¹ (OEKO-TEX) seal P9 said that no.

16.3.1.F9. The sales.

In the last tree years the sales have been low. This means that only until five years ago all the sales came from the selling of fashion for the mature-lady market and the garments for school pupils. This is in 2001 the totality of the sales came from these two markets.

From this year (2006) onward the board saw that this fashion for the mature-lady line was constantly declining so they decided to cover another niche in another market.

⁽⁶¹⁾ *The definition of this certificate is in F9 annex.*

Then the niche became the working clothing segment. Today (2006) this market represents around sixty five percent of the sales level and the resting thirty five percent corresponds to the other lines (the fashion for ladies and the pupil robe line).

In P9 words, if this trend continues to develop as has been in the last two years then the working-garment line will surpass the ninety percent of the sales (income) level.

16.3.2.F9. The market share.

The author asked P9 for the market share (Hamel and Prahalad, 1994) of this firm and it said that this corresponding to the fashion for old ladies they have between twenty percent and thirty percent. This market (the fashion for old ladies) P9 define it as a group composed of women aged between fifty and sixty years old and more.

Because this market is constantly aging the competitors are ceasing to produce and P9 believes that eventually (in a tree to four year lapse) F9 will also stop the production of these garments.

P9 judges that the market share of F9 concerning the working clothes is around ten percent. The rest of the market belongs to importers (Chinese and Indian) of these kinds of clothes. However the quality of these products is not like the one of F9. This means that in the market are clothes that can provoke to the user: itches, allergies and so on. In this sense F9 production is safe and guaranties the absolute quality of it.

16.3.3.F9. The imports.

At F9 they execute an import strategy. On the one hand they import raw materials (weaves); these are imported from Italy. On the other hand they import some part (pieces) of the production process from China, India and some Eastern European countries.

16.4.F9. The operations strategy.

When the author asked P9 about the operations strategy (Ansoff, 1987) it said that this strategy has been modified along the years.

In the beginning (forty years ago) the clients used to come to the factory to buy the product or they called and made their buying requests.

After this initial phase some sales people (not related directly with F9) were the ones performing the selling function, i.e. they were selling to F9 clients. By doing this they, the sales people, were able to distribute F9 product in Spain along with other products.

Last year (2005) the board took the decision to have its own sales representatives in different parts of Spain because this way these sales people are only selling F9 products and not other (competing) products as well. So the idea is to focus only in F9 products and not to distribute something else.

This strategy has presented a direct impact in the production area. This is so because in the beginning the production was the maximum possible amount and the sales representatives came, bought the available stock and left to sell it.

Now it is different. Given that there exist too many tough competitors F9 market intervention has to be much more careful and reasoned. The whole production process has to be much sharper. Because of this competition now (2006) there is a person responsible of the production. This is a production director and the co-director.

The production director has several responsibilities.

- 1) To know the sales forecasts from all the regions (in Spain).
- 2) To produce what has been forecasted so there is always the necessary stock to sell.
- 3) To supervise that in the stocks is not too many obsolete products (articles).
- 4) To supervise that all of the production (be this national or not) is successfully executed, i.e. that all the involved factories produce what they are supposed to make.

The production co-director main responsibilities are:

- 1) To supervise that all the pieces of the clothes are in the factories on time to be sewed.
- 2) To supervise all the production process: since the fabric is cut up to when the cloth is finished; then the cloth is returned to *Viera* where the piece is iron and placed in the corresponding warehouse.

The production director is the son of the founder and the co-director of production is his wife.

An important issue to consider is the fact that in the working cloth market the delivery time is between twenty four hours and (up to) forty eight hours. So this means that once a client orders the products these must be at (normally) the client's warehouse within

this time-frame. This implies that at F9 they must have available garments all the time.

This operational process was explained to the author by P9; but the downside of this is the fact that this strategy is not stated formally anywhere, be this printed, electronically or by any other mean. People at F9 know what they have to do but the operations strategy *per se* does not exist.

16.5.F9. The innovation strategy.

A key issue in this company has been the utilisation of the existing knowledge (Corey and Wilson, 2003) from the old ladies fashion market to design new clothes for the working clothing market; specifically they utilise this knowledge to design uniforms that are wear in the supermarkets, grocery stores, beauty parlour and so forth.

This has proved extremely successful because the knowledge has been transferred (Bapuji and Crossan, 2005) and new competences and capabilities have been developed (Madhok and Osegowitsch, 2000). Put it another way a dynamic capability (Newbert, 2005) cycle has been established. The existing knowledge was not allowed to become a (core) rigidity (Leonard, 1992).

Because of this relevance of the existing knowledge they currently have no competitors and F9 has a growing rate of between thirty percent and forty percent per annum in the working-garment market. Expressed differently at F9 they grow not only in terms of sales but also in number of pieces sold.

A good point in this process is that they do not have yet the whole country covered, i.e. only some regions. They just have sales delegates in Madrid and Bilbao.

So concerning F9 clients these find the products in specialized magazines and fairs and they buy the products, but this is not enough considering that F9 needs to cover the south part of the country.

At F9 they also innovate (Lawson and Samson, 2001) in the weaves; this is they innovate technical weaves that are much more resistant to the normal wearing and using than the non-working clothes, i.e. the fashion clothes.

The innovation is a constant process (Luo, 2000) in the design department at F9. This department is constituted by four persons and they also have two external designers innovating not only new garments but new products as well. P9 gave an example but for confidentiality reasons it will not be mentioned.

Again, just as with the operations strategy, at F9 is not a formal stated innovation strategy (Bell, 2005) that corresponds to the constant challenges. The innovation department knows what to design and when to do it but nothing else more than this.

Last but not least, because of F9 operations, new products are designed (Andel, 2005) in summer and in winter.

16.6.F9. The intangible assets.

When the author asked P9 about F9 intangible assets (Quinn, 1992) it said that this company has the knowledge of more than forty years concerning the designs of different garments (ladies, pupils and so on).

This means that in order for this company to produce a determined cloth size the knowledge behind the design to achieve this is of great importance because when the garments are produced once they reach the market the client must feel comfortable wearing, for example, a robe.

This is when the client is trying on a robe it must be sure that when is wearing it, it will feel comfortable knowing that is safe (no itches) and without having the hassle that the cloth is big or small. Put it another way at F9 they have the knowledge (Sporer, 2004) to produce clothes that they will fit almost perfectly any type of body, be this male or female, tall, small, thin or fat.

16.7.F9. The core capabilities.

P9 thinks that all their capabilities (Grant, 1996) and activities (Penrose, 1959) are equally important. For instance it mentioned that if they eliminate the design (Knott, 2003) at F9 they will have to start all over consequently the sales will plummet.

Another example is: if at F9 they remove the commercialization (Porter, 1985) of the products then the sales will also fall. Yet another example P9 gave the author is: if the knowledge they possess is not properly executed (Leonard, 1995) then sales also diminish.

16.8.F9. The competitive intelligence.

The author asked P9 about the competitive intelligence (Thow, 2003) construct and it said that they care a lot of competitors. The reason for this is because at F9 exist two very different product lines: the old lady fashion market and the working garment market. P9 mentioned the largest competitor⁶² and the rest of the pack. In this pack is F9. According to P9 at F9 they are the 2nd or 3rd company behind the largest competitor.

Consequently at F9 they oversee what the rest of the six or seven competitors are doing in order for this firm not to loose sight of their objectives. P9 mentioned that in fact some of these competitors copycat F9 products. This means industrial espionage (Kahaner, 1996): same colours, designs and so on. So they are already taken the necessary steps to end this as soon as possible.

The author asked two questions concerning the competition.

- 1) If and up to what point at F9 they 'borrow' ideas from the competitors, and
- 2) If they are interested in becoming the number one company in providing working clothes in Spain.

P9 said that at F9 they have within the working clothing market a line that is almost number one in Spain. This segment consists of clothes that are used in beauty parlours; within this segment F9 product is the most novel, innovative and the best selling creation. So even though in this segment the probability of F9 being number one is very high, in other product lines no. And they are not interested in reaching this position.

⁽⁶²⁾ *Of the working garment market.*

What they are interested at F9 is the client's fidelity (Day and Hubbard, 2003). They also seek that the sales increase every year just as has been happening. However P9 recognizes that this will have a limit (sometime between 2010 and 2011) that will be set by the natural market product saturation and the competitors being present.

As for F9 borrowing ideas from other competitors P9 said that since they are the number one in the overall working clothes market, they do not look for competitor's ideas. This is supported by the fact of the copycat issue mentioned before.

16.9.F9. Clusters.

When the author asked P9 about why this company located physically there it said that here is the founder's birth place.

Additionally the author asked if F9 has any source of relationships with: research centres, universities or competitors and P9 said that no; if any research is carried out it is done by them and only by them, i.e. in solitary.

Confronted P9 with the fact that if they (F9) constantly receive any kind of help (technical or financial – economical) from the European Union it said that no; however there was a one-time only when they did received a financial help from the EU and that was when they bought a machine.

From the previous paragraphs it can confidently be argued that the location (Porter, 1991) of F9 and the possible relationships

between F9 and other agents is not only non-existent but unnecessary.

16.10.F9. The technology.

In this firm the technology is basic; this means that the real technological necessity is more on the management of the designs than in the rest of the machines. Also this is backed by the fact that in this industry the clothes are made and considered almost handcraft. Nevertheless, the need of software to control the wastes and software to control the automated cutting is compulsory.

Also at F9 they count with the qualified personnel to use these technologies (design, wastes and cutting). Concerning more management chores at F9 they also the necessary technologies to carry on these as easy as possible. In any case, with the available software in the market is enough.

At F9 they use FoxPro and Dbase (queries). This means that they also have qualified people (Ulrich, 1997) to run these but if they leave the company will face a potential problem. In this sense P9 believes that it is better to have an ERP to prevent any possible personnel leakage. Put it different at F9 they must take care of this valuable human capital (Maggard, 2004).

As for the training (Mace, 1956) this is very punctual. This means that they train the employees only once when they join the company and never again. They are trained according to what are going to work at.

16.11.F9. Additional researched material.

At F9 they have a web page. This will be discussed in the following paragraphs.

The relationship among F9 employees' is cordial (Nissen, 2005) and nice inside the company. But even though these relationships are all right, P9 stated something that is to be taken seriously. P9 believes that a potential problem at F9 is the board, i.e. family conflict (Hall, 2006; Scroggin, 2006; Kellermanns and Eddleston, 2004; Opiela, 2003). This is given that now the siblings hold a key position in the company if they (the two) do not agree on the managerial decisions they could end up in a bankrupted company. This is, of course, a big and huge threat. According to P9 words, 'they must know how to communicate with each other and avoid possible fights'.

Given the above, the parents hired an external consultant that is trying to make the son see and understand that in this world what really matters is to stay focus on the core business (Drucker, 2003) and not to build a brand (for the old lady fashion line) when the market has no potential to profit the company as a whole. Put it differently they must do what they are good at (core capabilities) and outsource (McIvor, 2000) or sell what they are not so first-class or lucrative at.

As for any company archive the author asked P9 if at F9 they have any with previous strategies and it said that last October (2005) they commenced the first strategic plan (Williamson, 1975) at F9 history; which by now has not been concluded. P9 thinks that maybe this plan will not be finished even by year end. In this sense no

historical archive (Barney, 2002) exists and also no formal strategy (Chandler, 1990) has ever been stated.

When the author asked P9 about any strategic feedback (Hwang and Arbaugh, 2006) it mentioned that it does not exist any. In fact it seems like total chaos at F9; the design department designs a profitable and successful product and the sales department only says it is all right, no true congratulations are given.

This means that if an employee has a good design idea because of the internal conflict between the siblings he or she will have problems sharing this design; he or she will face barriers in the production and sales department. Nevertheless this situation they grow each year at least thirty percent.

16.11.1.F9. The web site.

This company has a web site. It is available in Spanish and English and it has the following sections: philosophy, history, catalogue, a future client contact form and a current client form.

Even though this information is totally available in Spanish, it is not in English. This is when a future client visits the site for the first time it will find out that the English button is not working so care must be taken with this.

Nevertheless, all the information in Spanish is totally functional and operational. For instance when a current client needs to contact F9 it can do so by keying-in his or her password.

16.12.F9. The theory to formulate strategies.

When the author asked P9 about the theory to formulate operations and innovation strategies it said that the theory is half practical and half theoretical. It is theoretical because of the (academic) constructs it is made of and it is practical because these constructs are supported by every day practice.

This is to state that no strategy can be totally theoretical. Even though the strategy aims for the future, which is indeed theoretical, once arrived to that point it becomes practical.

As a final remark P9 commented that at F9 they have a very strong weakness: the fighting of the siblings⁶³ but the major strength in this company is the high capacity to innovate (Collis, 1991) working clothes using its previous know-how (Macpherson *et al.*, 2004).

16.13.F9. The results.

In the last part of the interview the author request P9 to answer a brief questionnaire. This consisted of nine questions. Eight of them are in a Lykert-type (Inandi *et al.*, 2002) form and the last one is an open-end question⁶⁴.

In the first eight questions P9 had to mark the statement that it agreed with the most. These questions ranged from TOTALLY AGREE to TOTALLY DISAGREE. P9 answers are presented in Table T9.

⁽⁶³⁾ This situation is fully explained in the section: *Additional Researched Material*.

⁽⁶⁴⁾ The result from this question is the section: *'The Theory to Formulate Strategies'*.

Additionally the author gave to P9 a definition of the SWOT analysis (see: annex) to better answer the questionnaire.

Statement Number	Statement	Answer
1	SWOT analysis is enough to formulate operation strategies	Agree
2	SWOT analysis is enough to formulate innovation strategies	Agree
3	The previous theory will improve significantly the formulation and re-formulation of my operations' strategies (considering both the internal and external analyses)	Agree
4	The previous theory will improve significantly the formulation and re-formulation of my innovation strategies (considering both the internal and external analyses)	Agree
5	The previous theory to formulate and re-formulate operations' strategies is theoretical	Do not agree nor disagree
6	The previous theory to formulate and re-formulate innovation strategies is theoretical	Do not agree nor disagree
7	The previous theory to formulate and re-formulate operations' strategies is practical	Do not agree nor disagree
8	The previous theory to formulate and re-formulate innovation strategies is practical	Do not agree nor disagree

Table T9. P9 Answers

Apart from the applied questionnaire, the author identified several key assets; these are described below.

At F9 they have the ability to utilise the knowledge from the initial business and develop another clothing line. This means that

from the original development of a clothing line for older women they have moved (diversified) to produce a working garment line.

Because of this capability diversification at F9 they still hold the women line, not only for cash purposes, but because it exists a market necessity.

Also because of the capability diversification now they have developed a design ability and safety procurement for the working garment line. This means that at F9, being aware of the competitors lacking these, they have fully utilised them to offer a good competitive product.

Because of the accumulated knowledge from the very beginning, now at F9 they have the ability to identified the best weaves not only to produce better clothes, but more resistant to daily routine.

As was already mentioned, the outsourcing relationship has also proven to be a source of beneficial social capital. At F9 they know that they can trust the outside producers to have the production ready to be deliver on time. But this social capital is not only contained between F9 and the clothe producers. It is also patent between this firm and the external designers.

Another capability that has been developed by continuous practice is that of production. This means that at F9 both of the production directors know what they are capable of producing within a certain amount of time. This capability goes hand in hand with that of distribution. This implies that at F9 they are able to produce the exact amount of clothes in the precise time to be delivered when the clients need them.

Another key capability derived from the possessed knowledge at F9 is that of innovating weaves. This is to say that because of the natural characteristics of the products, at F9 they have come up with much more resistant weaves that support the overall products competitive advantage viz a viz those of the competition. This is important because it proves that at F9 can totally carry R&D by them.

At F9 they also have developed the ability to spot competitors and their copycats. This, even though should be natural on any firm, at F9 they have taken the necessary steps to prevent this situation from keep on happening. This is to say that they possess a sound competitive intelligence to detect all their competitors.

All these assets are illustrated in Figure F9:1

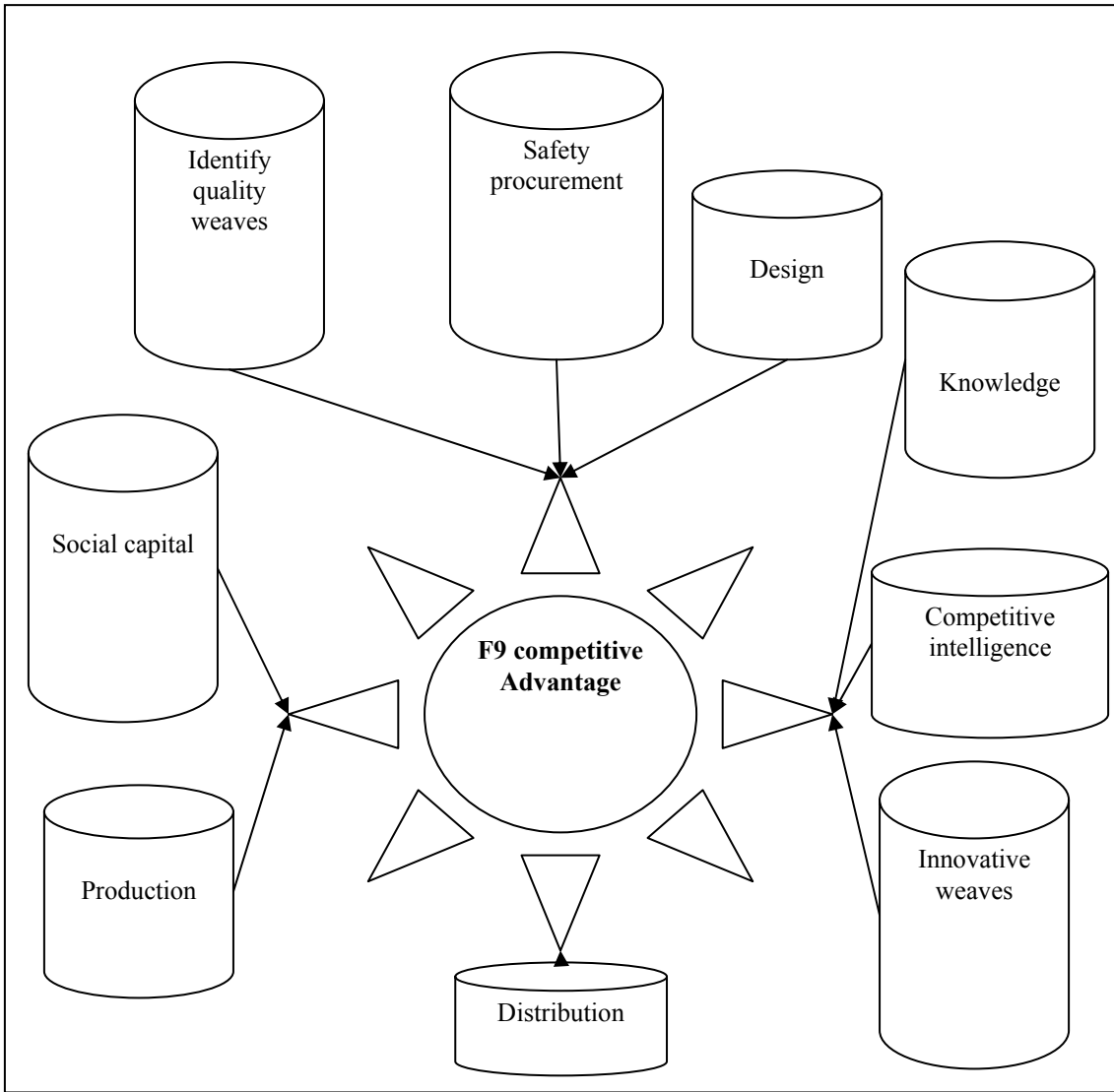


Figure F9:1 Competitive advantage. Source: the author.

Chapter Seventeen Conclusions and Future Research

*When individuals are treated such that their intellectual worth is recognised,
they are willing to share their knowledge
(Kim and Mauborgne, 1998)*

17. Conclusions and future research lines.

17.1. Introduction.

Once all the researched information has been gathered, in this chapter the overall conclusions, limitations, and future research paths will be set.

In this sense first are going to be eschewed the conclusions, then the thesis limitation to finally meet the future research directions.

17.2 Conclusions.

With a summarized table (17.1) and graphs (17.1 through 17.8) and all the previous material from these nine researched cases the following can be claimed regarding the hypotheses.

A) In the case of hypothesis number one, *the most used tool to formulate business unit level strategies is the SWOT framework*, can be argued that it is supported. This is backed by the fact that of all the nine interviewed people seventy seven percent (77.78%) believe that with this framework is enough to formulate operation strategies while fifty five percent (55.55%) totally agree or agree that with this framework is enough to formulate innovation strategies. The remaining responses (22.22%) and (44.44%) do not agree or disagree that with this framework is enough to formulate operations and innovation strategies respectively. From these responses it can be seen that the SWOT framework is far more understandable to use to formulate operation strategies instead of the innovation ones.

B) In the case of hypothesis number two, *within the context of the Knowledge Economy (KE) the simplicity of the SWOT analysis results insufficient to formulate sound, flexible and reliable business unit level strategies*, can be argued that it is not supported, because, as it is shown at the Table 17.1, the researched people hardly disagree (11.11%) that with this framework innovation strategies cannot be formulated. The figure for the operation strategies is non-existent. This means that the interviewed people consider this framework to be sufficient to formulate operations and innovation strategies within the context of the knowledge economy. This is also backed by graphs 17.1 and 17.2

C) In the case of hypothesis number tree, *a new theory and its corresponding model that include, from the internal perspective of the firm, the Activity-based View, the Dynamic Capabilities View and the Resource-based View theories, help within the formulation and re-formulation of business unit level successful strategies when compared with the simplicity of the SWOT analysis*, it is corroborated. This is due to several facts.

1st. Over seventy percent (77.78%) of the researched people at least agree that with the introduced theory is enough to formulate operation strategies; over fifty five percent (55.56%) agree that this model will improve significantly their innovation strategies.

2nd. This means that only twenty two percent (22.22%) do not agree nor disagree that with this theory will improve their operation strategies

and less than forty five percent (44.44%) do not agree or disagree that this theory will significantly improve their innovation strategies when this theory has been utilised. These arguments show that the interviewed people, mainly, are uncertain of the improvement they will have once both strategies are formulated, leaving only a pale eleven percent (11.11%) that don't agree that the theory will improve their innovation strategies.

3rd. Because of the above, none of the nine interviewed people disagree or totally disagree that with this theory cannot significantly improve their operations and innovation strategies.

D) In the case of hypothesis number four, *the technological surveillance, the business intelligence process and a benchmarking exercise, from the external perspective of the firm, help within the formulation and re-formulation of business unit level successful strategies when compared with the simplicity of the SWOT analysis*, it is also corroborated. This can be argued because of the following evidence.

1st. At least fifty percent (55.55%) totally agree or agree that the theory to formulate innovation strategies is theoretical and the figure for the operation side is well over sixty percent (66.67%). What this tells us is the undeniable fact that this theory considers a robust external analysis in order to formulate innovation strategies.

- 2nd. Forty four percent (44.44%) and thirty tree percent (33.33%) either do not agree nor disagree or disagree that with this model the focus is not properly calibrated within the external context of the firm.
- 3rd. This last point can also be affirmed because the interviewed people think that this theory focuses too much on competitors. Put it differently the external analysis is unmistakably present.
- 4th. None of the interviewed persons totally disagrees that this theory and its corresponding model do not focus enough on the external side of the firm (markets, competitors and so on).

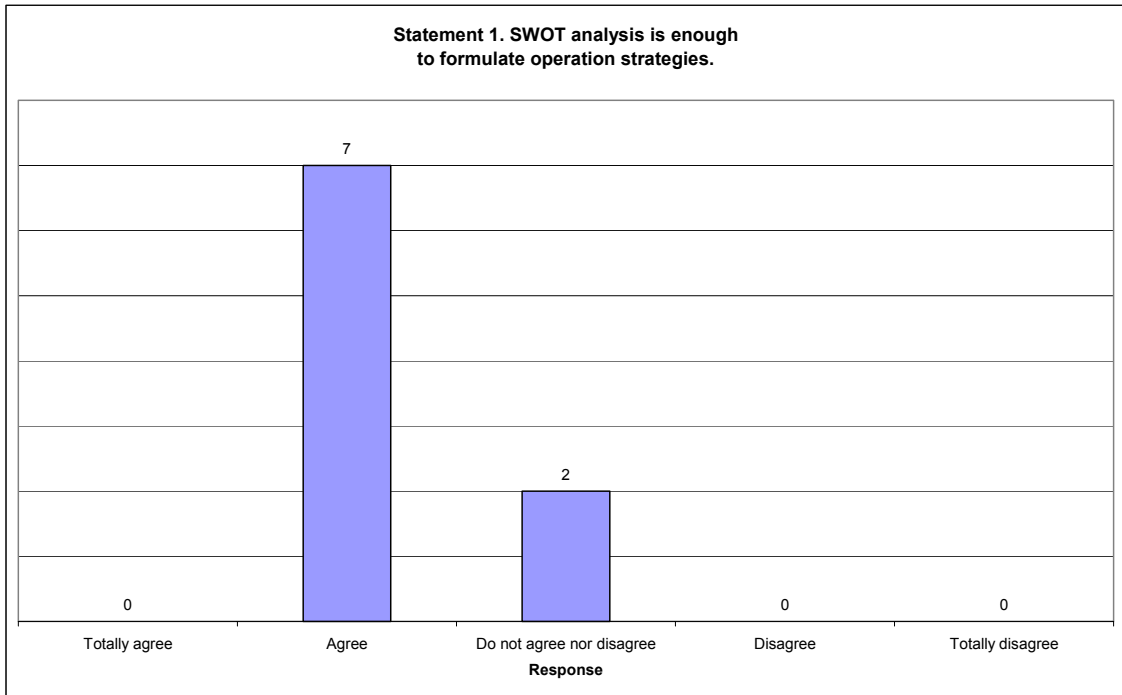
Last but not least the author considers that all the opinions from the interviewed people also corroborate the effectiveness of this theory; be this from an internal analysis (Hypothesis Tree) and an external analysis (Hypothesis Four). However it is also important to note that all the researched persons believe that the theory is too theoretical and not too much practical. This is due to the size of their firms, i.e. micro, small and medium size companies.

This last point signifies that because they see and identified the proposed theory and its corresponding model as too big and theoretical (huge words) for them, the interviewed people conceded to the author that in order for them to fully apply this theory they must have more employees concentrating in specific issues such as competitor analysis, benchmarking and so forth.

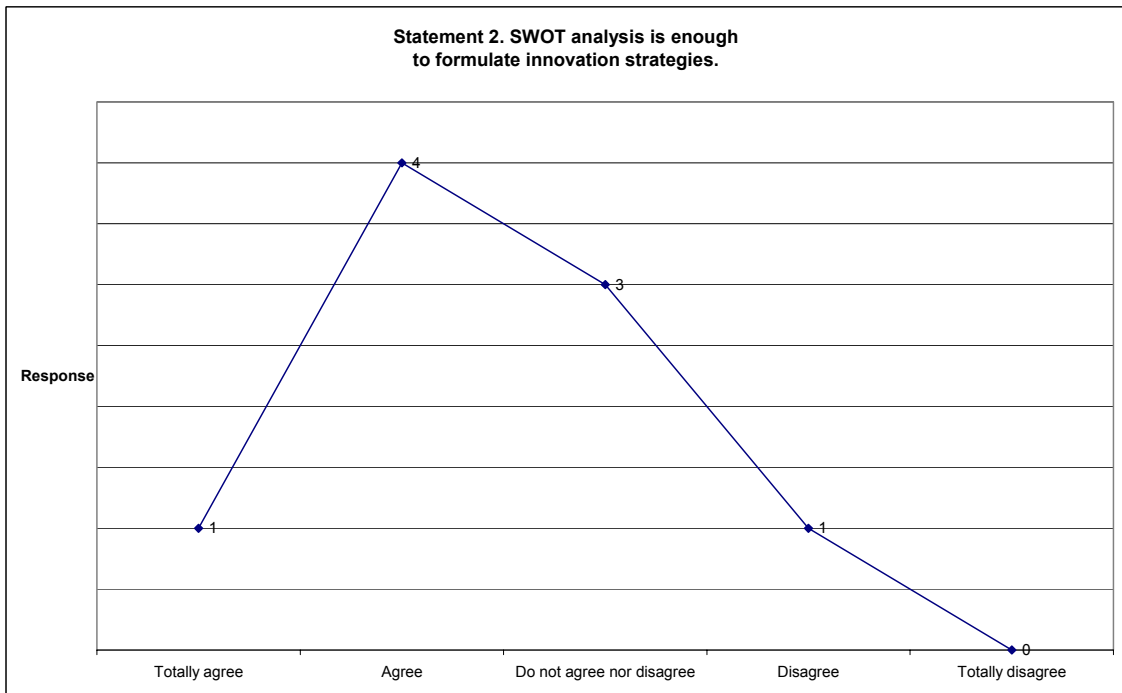
Additionally to the above, it is important to notice that all the interviewed people do not use any tool, framework or theory to formulate no strategy of any kind at all. In this sense, the author believes that if the proposed theory if formally applied, because of the constructs it considers, the overall strategies of these firms should be enhanced. This is to say that the successful making of strategy requires a thorough examination of the firms' competences, capabilities and valuable intangible assets, with a comprehensive analysis of the outside company environment (Gibbert, 2004; Makadok and Barney, 2001); however in every case a key issue is to keep on the constant learning to face challenges with a better standing.

Response Statement	Totally Agree	Agree	Do not agree nor disagree	Disagree	Totally disagree
One	0.00	77.78	22.22	0.00	0.00
Two	11.11	44.44	33.33	11.11	0.00
Tree	11.11	66.67	22.22	0.00	0.00
Four	0.00	55.56	33.33	11.11	0.00
Five	11.11	55.56	22.22	11.11	0.00
Six	11.11	44.44	22.22	22.22	0.00
Seven	0.00	55.56	33.33	11.11	0.00
Eight	0.00	44.44	44.44	11.11	0.00

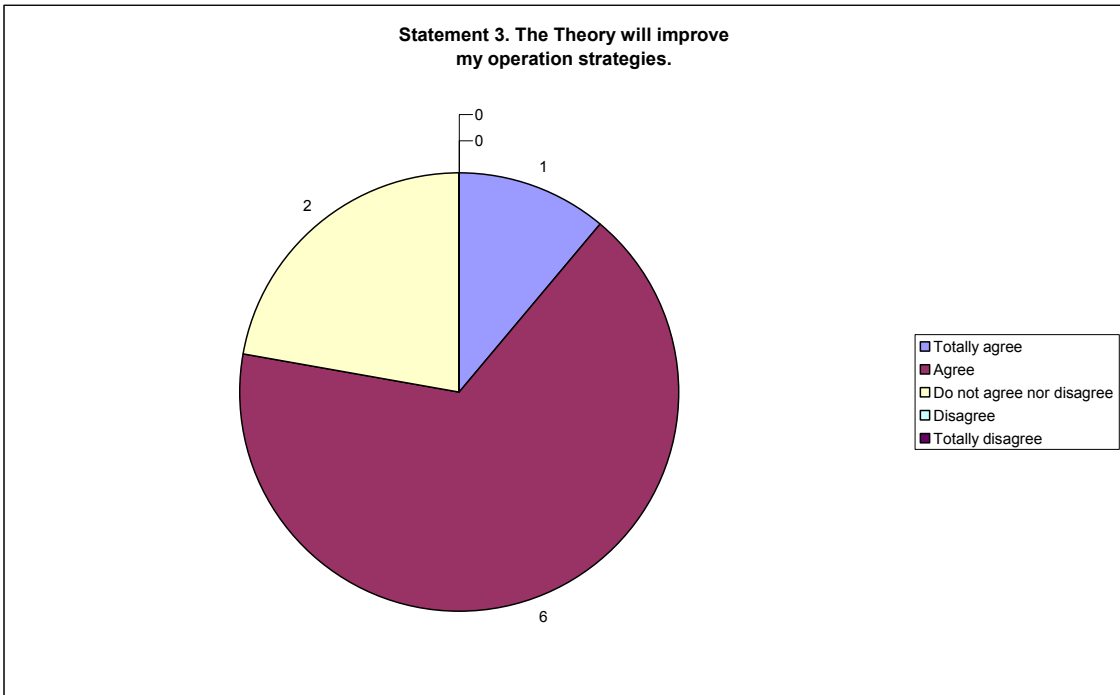
Table 17.1 Response to statements (%)



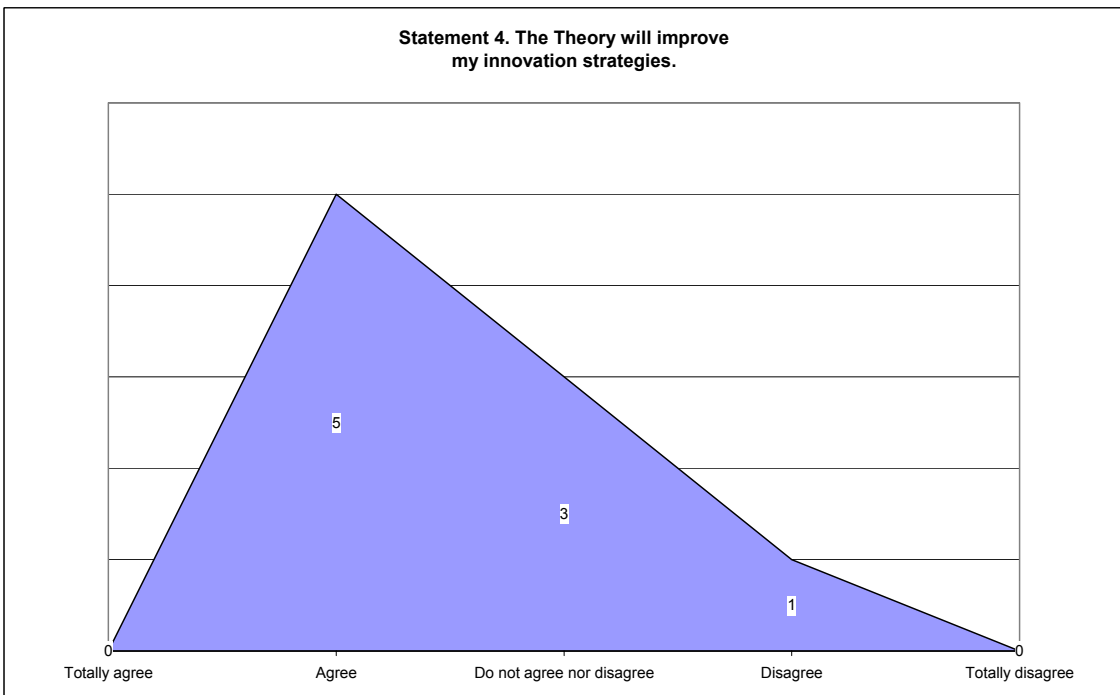
Graph 17.1 Statement number one. Source: the author.



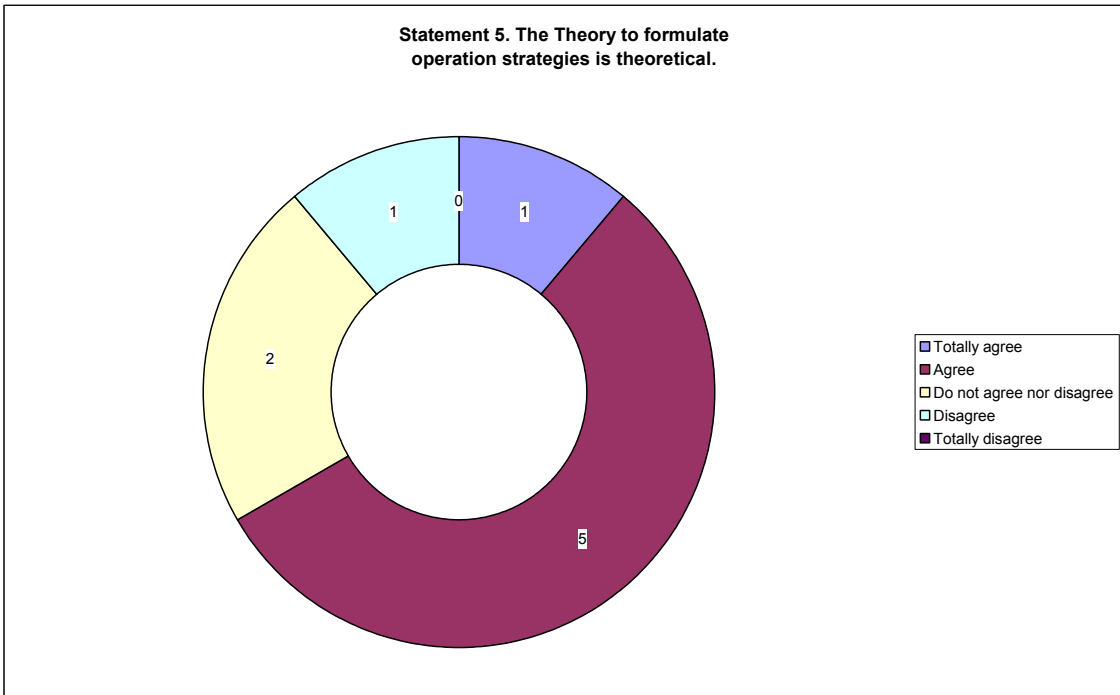
Graph 17.2 Statement number two. Source: the author.



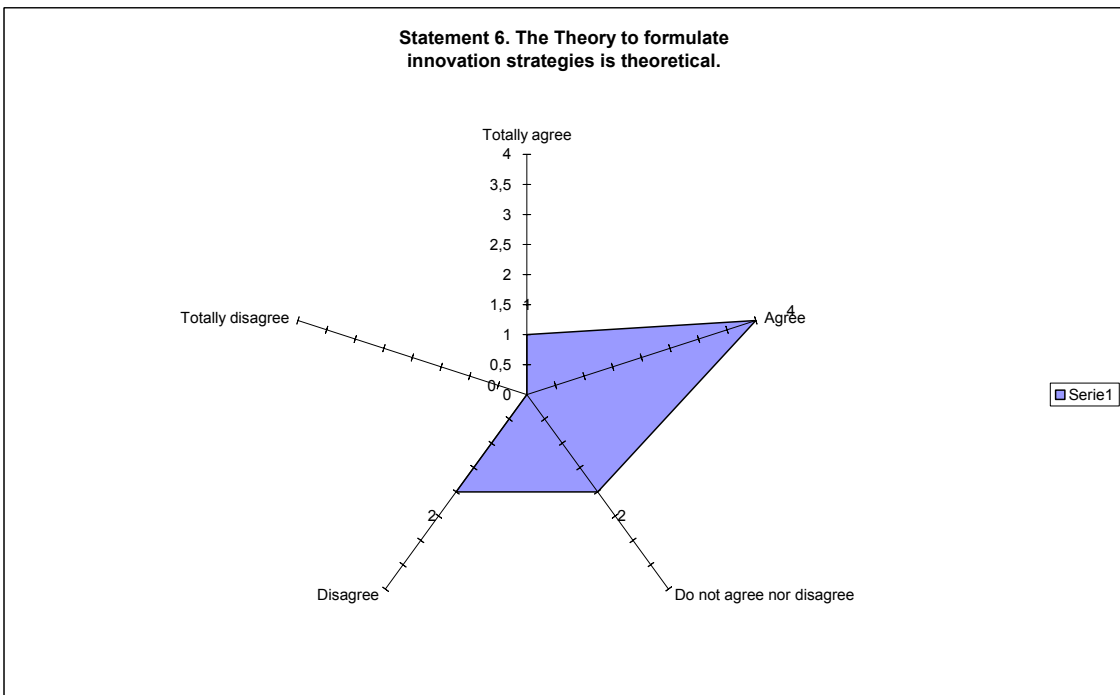
Graph 17.3 Statement number tree. Source: the author.



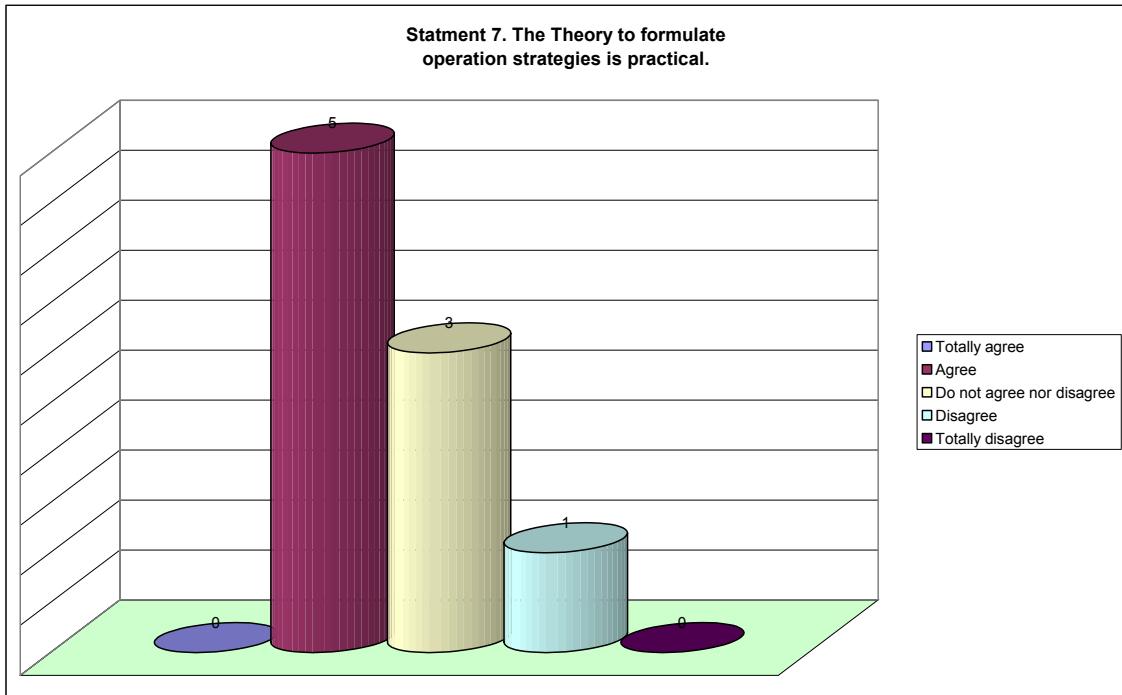
Graph 17.4 Statement number four. Source: the author.



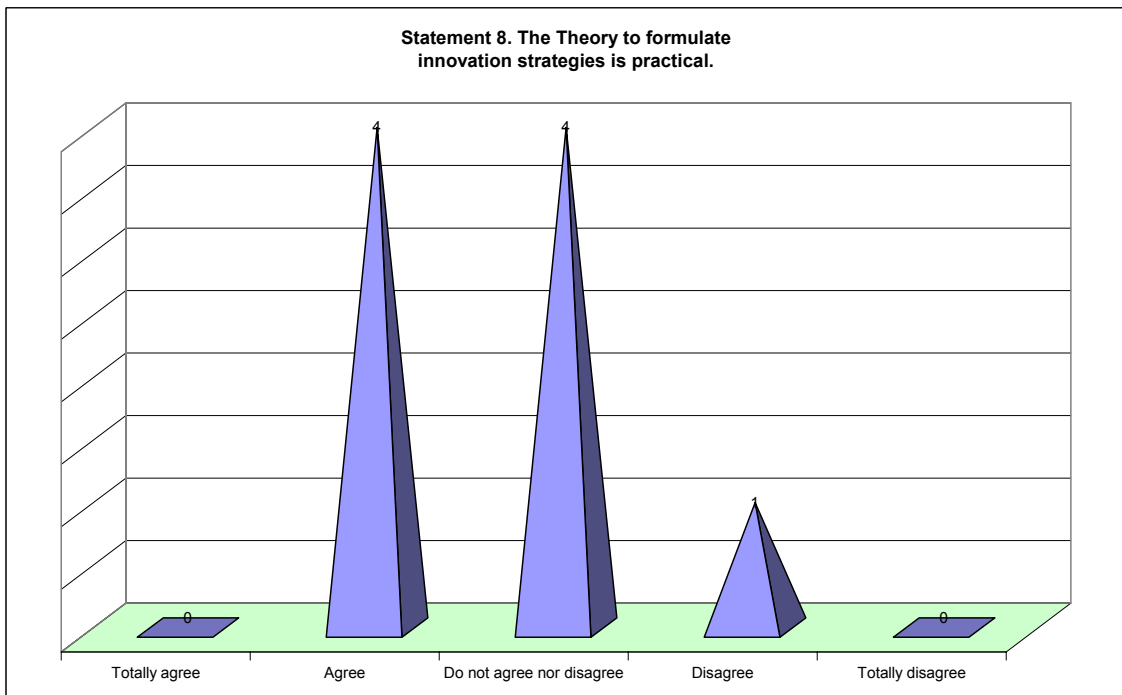
Graph 17.5 Statement number five. Source: the author.



Graph 17.6 Statement number six. Source: the author.



Graph 17.7 Statement number seven. Source: the author.



Graph 17.8 Statement number eight. Source: the author.

Additionally from the opinions made by the respondents and the answers that they provided to the author, several valuable assets were identified by the former. These are the following.

1) As can be seen from all of the researched cases, none of the enterprises has both a mission and a vision properly stated (Murrow, 2005). This is in no way are present in the company for all the employees, including the CEO, to identify them. Even though in almost all the cases the interviewed person was the CEO, a founding partner or a top director, all of them claimed to know both, the mission and vision, but acknowledge that is not formally written.

This is significant to understand because since every employee is important to the firm, these are also impacted by both, the mission and vision. Put it differently every employee can contribute essentially to both in terms of stakeholder and client value (Whetstone, 2005) if the mission and vision of their company is known by them.

2) Following this line of reasoning, in all of the researched cases there is no formal operations and innovation strategy (Moore, 2004; Chesbrough, 2003). Even though all of the questioned persons have a very clear idea of how their business operates and innovates, there is no prescribed statement. Even though in some cases technology does helps with the operations and innovations, still these are not written for all the employees to know them.

As for the operations strategy since people already know what they have to do and they have been doing it for quite some time, there is no 'need' to make this strategy explicit. In case there is a problem, the employees already know how to solve it.

In the case of the innovation strategy, even though in some of the researched companies there is formally an innovation department (and sometimes they carry research) and structure, this innovation task is done mainly by looking and finding ideas in different places.

The author acknowledges that all the researched firms do come across to what their competitors are doing but they do not mimic them. In this sense and as the researched persons stated it, ideas come from anywhere and because of this, there is no 'imperative' to formally write this down in a statement. It does not matter that, as in some cases is patent, innovation projects are in the pipeline waiting to see the light.

Yet all this, the author recognises that any strategy, be this of operations or innovations must be made explicit not only to the top cadre of the firm, but to everyone working for it. This to distinguish that, an explicit strategy will improve performance (Ansoff, 1987). However, a final remark is important to write. Even though these firms lack a strategy (Inkpen and Choudhury, 1995) they are indeed successful and in some cases, as stated above, have been copycatted by their rivals.

3) The fact that some of the researched firms do train their employees makes an important point concerning people. Undoubtedly all the interviewed people acknowledge that their main key asset is that of design; this implies that they fully and totally are aware that their most valuable intangible is the knowledge in the head of their employees (Carpenter *et al.*, 2001).

This is to say that if the designers are to leave the firm serious problems will arise. In spite of this, it also means that inside the company it is an efficient teamwork that feeds this knowledge in order to keep the firm being profitable (McClough and Rogelberg, 2003). However the author also underlines the fact that not all of the remaining firms train systematically their employees. In fact some of them only train the employees while working (van Zolingen *et al.*, 2000) and others only when they join the firm and never after.

The downside of this is the fact that without proper training the firm might lose competitiveness (Palo and Padhi, 2003; Ladzani and van Vuuren, 2002). In this sense the author believes that all the employees at all times must be trained in order for them to be better prepared to face the continuous challenges. This is to say that employees must be players, pioneers and partners within their firms (Ulrich, 1997).

4) All the researched companies have a clear understanding of what values are being delivered to shareholders (Wenner and LeBer, 1989; Day and Fahey, 1990; Bughin, 1997;) and clients (Lo et al., 2005; Davenport et al., 2001; Gibbert *et al.*, 2002). This means that, the focus to deliver profits is well known and understood.

But not only is this understood in terms of economical benefits; most important in terms of client fidelity (Preis, 2003) which in turn will pour those economical benefits. Put it differently: the interviewed persons know that by not losing sight of their clients and delivering what has been promised economical perks will follow. Naturally they must also see and understand how the competitors are behaving in order for these firms to surpass them. However, the constant challenge of satisfying the clients' needs is always present.

5) The researched companies, within the knowledge economy (Parker, 2004; Cesaroni, 2003; Kostianen and Sotarauta, 2003; Ramos *et al.*, 2003; Lu, 2001) fully understand that one of their most key intangible resources (Lado *et al.*, 2006; Mathews, 2002; Poppo and Weiglet, 2000) is that of design in order to remain competitive.

This is to say that the dynamic capability (Lavie, 2006; Chini and Ambos, 2005; Shaym, 2005; King and Tucci, 2002) of continuous designing is to be constantly sharpened for these firms to stay in

business. This design ability is the same for clothes, fashion complements, bags and so forth, i.e. the learning behind this is the key. Under this perspective, the interviewed people admit that the valuable tacit knowledge (Berman *et al.*, 2002) embedded in their employees is a source of competitive advantage (Colbert, 2004; Styhre, 2002; Kinnear and Sutherland, 2000); especially if this is not concentrated in any kind of physical archive.

6) The interviewed firms, even though not all carry on research, they do innovate. The research issue is effective either in terms of strategic alliances (Khanna *et al.*, 1998; Appleyard, 1996; Nohria and Garcia, 1991) or by themselves. This is particularly true in the case of materials and weaves. Yet in the case of alliances, these are few and for specific projects, i.e. not in a constant fashion.

The innovation issue (Wolpert, 2002; Galunic and Eisenhardt, 2001) is understood as designing all year long in order to meet their client needs and remain competitive. This is mainly done in-house but also some have profitable alliances (Elmuti and Kathawala, 2001; Sarkar *et al.*, 2001; Jarrat, 1998; Dyer and Singh, 1988) that allows them to strength its market position. But even these alliances succeed the interviewed firms do keep all the external designs for them therefore having at all times total control of the situation. All in all they manage the produced knowledge (Conner and Prahalad, 1996; Hedlund, 1994) for their own benefit.

7) Because of these alliances and the outsourcing (Aaron *et al.*, 2005; Wu *et al.*, 2005) of part of the firm's production, the interviewed companies have developed a beneficial social capital (Edelman *et al.*, 2004; Carroll and Stanfield, 2003; Dolfsma and Dannreuther, 2003). This is they know that they can count on their suppliers/providers in order to remain competitive.

But this social capital is not only understood from the production side of the firm. It is also important to consider this intangible from the side of the clients (Reed and Srinivasan, 2005; Weisz *et al.*, 2004; Oh *et al.*, 2003). This means that the comprehension of both, the firm and final client, is also a profitable one. The ultimate client fully knows that it can count with the quality of the product. This is also part of the value delivered to clients.

8) The interviewed firms do not have any kind of relationship with: universities, research centres, competitors or any other institutions. This is from the very founding stages of these firms all have set up their business units within the CEO convenience. Put it differently the factories are nearby the CEO home. Also in some cases this situation benefits the employees.

But those firms that have a selling point (store) of themselves, the situation is different. They need to be in a market where to exhibit and retail their products. In this sense from a collaborative point of view the firms are not clustered (De Bernardy, 1999; Longhi, 1999; Poudier and St. John, 1996) but from a wholesale point of view the state of affairs is just the opposite (Capello, 1999; Sternberg and Tamásy, 1999; Bethelt, 2002).

9) The interviewed people acknowledge that they look at the competitor's products. Yet they do not perform systematically a benchmarking (Garnett and Pickrell, 2000; Longbottom *et al.*, 2000) and/or competitive intelligence (Gessner and Volonino, 2005; Srivastava and Cooley, 2003; Weir, 2000) exercise. However they know how to distinguish between good or poor quality products. This, according to the interviewed people, is reflected not only in the quality of their products but most important in the after sale service

they offer to their clients. Service that, presumably, their competitors do not care so much about.

10) From the exposed results it can be concluded that the main objective of the thesis, that of the development of a theory and its corresponding model to formulate and re-formulate operations and innovation strategies at the business unit level, has been also fulfilled.

11) In turn the theory and its model have been validated by researching Catalonian micro, small, and, medium textile companies and this means that the particular objectives A and B (from Chapter Two) have also been satisfied.

12) It has also been fulfilled the particular objective of helping the researched companies to formally identify their valuable intangible assets and keep on profiting from them.

17.3 Thesis limitations.

1) This theory has been validated only in micro, small, and medium textile Catalonian companies. Therefore even though both of the analyses (internal and external) are common to perform in different companies from several industries, it is not to be assumed that this theory and its model will work efficiently in other circumstances. Put it differently for this theory to perform as expected some adjustments might be necessary.

2) This theory focuses on the internal and external analyses of the firm, but not on how the external market processes related to these analyses (Verona and Ravasi, 2003). This is to say that the

theory acknowledges the impact that the external changes have on the firm but not on the process that provoke those impacts.

3) Even though this model and its theory take account of the strategic feedback, it is worthwhile to mention that no intuition is considered in the formulation of the strategies. Under this view the author believes that by fully considering this fact better strategies can be formulated.

4) This theory and its model, as shown by the interviews, is focus only to top directors in companies. This means that the basic assumption is: strategy is formulated at the top. In this sense another limitation of this theory and its model is that of making low levels of the organization to participate when strategies are formulated (Hamel, 1996), so the resulting outcome might be richer.

5) The theory and its model do not explicitly account for intangible strategic liabilities (Arend, 2004). In this sense it is worthwhile to improve the efficiency of both by formally considering this construct in order to formulate much more sound and reliable strategies. Put it differently the strategic liabilities, the resources that hurt and damage the firm's ability to produce rents, must be acknowledged in order to be properly managed and not reduce the company's future capacity to be profitable.

17.4 Future research lines.

Once the conclusions have been presented the future lines of research are set forth.

- 1) The first line of future research is that of putting into practice the theory and its model. As has been exposed, the theory and its model are to formulate innovation and operation strategies. The validation of both has been done by the researched people. The natural following step is to, once the strategies have been formulated, apply those strategies and see whether they respond or not according to what has been planned.
- 2) Following this line of reasoning and once the theory has been applied, it is suitable to identify whether if it responds better under stringent situations (Hart and Banbury, 1994) or stable market conditions (Wooldridge and Floyd, 1990). This is to say up to what point this theory and its model function better and improve the overall situation of the firm: under dynamic or steady situations.
- 3) As has been pointed out, all the researched firms lack a formally stated mission and vision. In this sense a future line of inquiry is that of once these statements are formally established, what is the impact of them in the overall formulated strategies of the firm? This is to say what is the net contribution of a formally stated mission and vision to the operations and innovation strategies once is known by all the employees.
- 4) As has been pointed out, the processes of how the external impacts affect the firm are not considered in this theory and its model. In this sense a future line of research is that of not only understanding those processes but also to develop a

mechanism to detect and analyze those impacts from very early stages before they strike the company and let this act beforehand. This means not reacting but acting.

- 5) As was identified, these firms have no relationship with any kind of organisation. This is so because since their foundation they have not felt the need to, for instance, develop a much more efficient distribution system.

In this sense it is worthwhile to investigate in the future the outcome of, for example, a research link with a university to determine the extent that these kind of relationships might be profitable or not. Put it differently up to what point might be beneficial or not to develop new products, capabilities, processes or any other valuable assets (Burnett *et al.*, 2002; Gulati, 1999; Hamel, 1991) for these firms by belonging to a research and development network or cluster.

- 6) It is recognised that learning is what drives the competitive advantage of firms (Da Silveira, 2002; Weiglet, 2001; Harvey *et al.*, 2000; Camillus, 1997). In this sense, and given that only some of the researched firms do train their employees, how is this learning activity consider when the strategies are formulated and the impact it has on the overall competitive advantage of the firm. Put it differently, what is the direct significance of the learning process in the firms' competitive advantage when it is consider in the company's strategy.

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Annexes

Definition of CIDEM.

CIDEM (Centre for Innovation and Business Development) is an autonomous body of the Catalanian Government's Ministry of Employment and Industry aimed to improve Catalonia's industrial community and increase its competitiveness in the face of different challenges.

It designs and carries out the measures of the Industrial Policy of the Government of Catalonia.

The guidelines of the Industrial Policy are:

- Promotion of Innovation
- Technology Transfer
- Business Development
- Industrial Location

CIDEM offers direct support to companies and entrepreneurs through products and services aimed to improve their market position in all their fields of action and it is the travelling companion for companies and entrepreneurs on the road to business development.

This support is open to all companies regardless of their size and sector. The main objectives of this support are the creation of new companies and the consolidation of the growth of the existing ones, with the objective of having a strong and competitive industrial community on an international level.

CIDEM, as an innovation and business development reference organization, coordinates the different socioeconomic agents (local governments, technological centres, universities, business schools, "incubators", business associations, social agents, etc.) in order to

organize a dynamic environment around the economy in the Catalonian country.

Definition of COPCA.

COPCA (Consortium for Commercial Promotion of Catalonia) is operating under the tutelage of the Department of Industry, Trade and Tourism, is the vehicle used by the Government of Catalonia to internationalise Catalonia companies and adapt them to the new economic global trends:

- A) Increasing market globalisation
- B) Maximum competitiveness among companies and
- C) The need to open oneself to the world.

Definition of OEKO – TEX.

OEKO – TEX 100. This is a certificate for textile articles. Depending on their intended use, the articles to be certified are included in one of the following categories:

Class	Purpose
I	Baby items
II	Items that come into direct contact with the skin
III	Items that do not come into direct contact with the skin
IV	Decorating materials

Definition of the SWOT analysis.

The SWOT analysis is frequently utilised even though in an intuitive manner and without knowing its technical definition. The obtained benefit from this tool is to know the real situation of the company as well as the risks and opportunities that the market offers.

The SWOT analysis means:

S: strengths

W: weaknesses

O: opportunities

T: threats

The strengths and weaknesses are meant to be within the internal side of the company. The threats and opportunities are always the external side of the firm.

In the following chart a practical example is given for the realisation of the SWOT analysis.

<u>SWOT</u>		<u>Date</u>
<u>Objective:</u>		
<u>Product:</u>		
External situation: market, competitors, economic situation...		
Opportunities	Threats	
Internal situation: products: distribution channels, image...		
Strengths	Weaknesses	

Source adapted from: marketing-xxi.com

Questionnaire.

Please mark with an (X) the statement that you agree or disagree with the most.

1. - The SWOT analysis is enough to formulate operation strategies.

Totally agree	Agree	Do not agree nor disagree	Disagree	Totally disagree
---------------	-------	---------------------------	----------	------------------

2. - The SWOT analysis is enough to formulate innovation strategies.

Totally agree	Agree	Do not agree nor disagree	Disagree	Totally disagree
---------------	-------	---------------------------	----------	------------------

3. - The previous theory will improve significantly the formulation and re-formulation of my operations' strategies (considering both the internal and external analyses).

Totally agree	Agree	Do not agree nor disagree	Disagree	Totally disagree
---------------	-------	---------------------------	----------	------------------

4. - The previous theory will improve significantly the formulation and re-formulation of my innovation strategies (considering both the internal and external analyses).

Totally agree	Agree	Do not agree nor disagree	Disagree	Totally disagree
---------------	-------	---------------------------	----------	------------------

5. - The previous theory to formulate and re-formulate operations' strategies is theoretical.

Totally agree	Agree	Do not agree nor disagree	Disagree	Totally disagree
---------------	-------	---------------------------	----------	------------------

6. - The previous theory to formulate and re-formulate innovation strategies is theoretical.

Totally agree	Agree	Do not agree nor disagree	Disagree	Totally disagree
---------------	-------	---------------------------	----------	------------------

7. - The previous theory to formulate and re-formulate operations' strategies is practical.

Totally agree	Agree	Do not agree nor disagree	Disagree	Totally disagree
---------------	-------	---------------------------	----------	------------------

8. - The previous theory to formulate and re-formulate innovation strategies is practical.

Totally agree	Agree	Do not agree nor disagree	Disagree	Totally disagree
---------------	-------	---------------------------	----------	------------------

9. - Additional comments about the theory to formulate strategies.

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