

# Strategic Management and the Creation of Technology-Based Firms

## Topic 5. Innovation strategy: the strategic process



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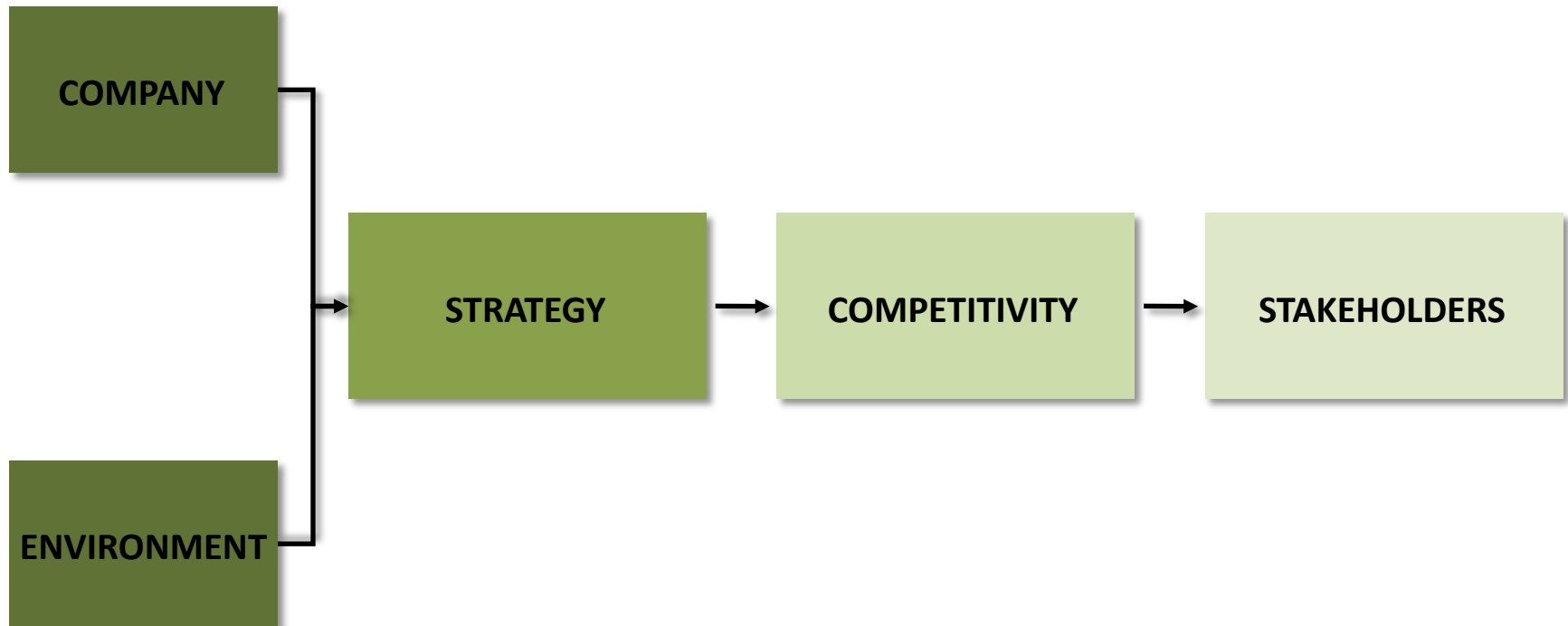
# 1. STRATEGY: CONCEPT AND PROCESS

### Strategy and strategic management

- **Andrews (1965):** strategy is the pattern of major objectives, purposes or goals and essential policies and plans for achieving those goals stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.
- **Hax and Majluf (1997):** strategy is a multi-dimensional concept that embraces all the critical activities of the firm, providing it with a sense of unity, direction and purpose, as well as facilitating the necessary changes induced by its environment.

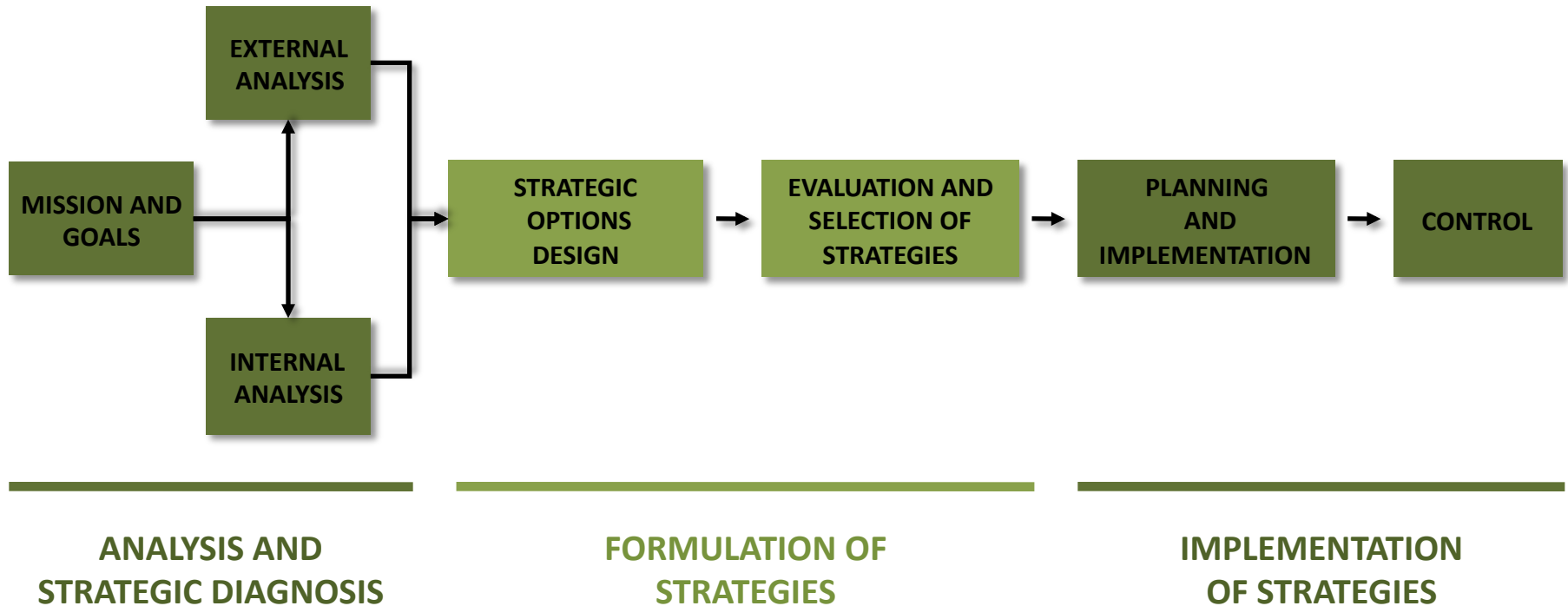


## Elements of the concept of strategy



Source: «Guerras and Navas» (2007).

## Phases of the strategic management process



Source: «Guerras and Navas» (2007).


### Phases of the strategic management process

1. Establishing the company's general mission and goals.
2. Environmental analysis and forecasting (external analysis).
3. Internal analysis and determining the competitive position: the company's strengths and weaknesses.
4. Formulation and design of strategies: on a corporate, business and functional level.
5. Evaluation and selection of strategies.
6. Implementation of the chosen strategy.
7. Elaboration of the strategic plan and strategic control.

# **2. INNOVATION: CONCEPT AND PROCESS**

### Phases of the strategic management process


**INVENTION**: recently-created technology capable of carrying out a practical function and satisfying a need. It normally has to be refined before its commercial application.



Source: «Fernández» (2005).

### Phases of the strategic management process

**INVENTION**: recently-created technology capable of carrying out a practical function and satisfying a need. It normally has to be refined before its commercial application.



#### Two possible origins, not always clearly separable:

- Science used to solve practical problems (applied research).
- Intuitions and hunches with no clear scientific basis (trial and error “research”).

Source: «Fernández» (2005).

**INVENTION**: recently-created technology capable of carrying out a practical function and satisfying a need. It normally has to be refined before its commercial application.



**DEVELOPMENT**: perfecting the invention for it to be viable in the market, resulting in specific products and/or specific production techniques.



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Aimed at discovering market needs, incorporating enough product features to meet those needs, developing prototypes and pilot plants.



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**R + D**

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**R + D + I**

## Topic 5. Innovation strategy: the strategic process

**INVENTION**: recently-created technology capable of carrying out a practical function and satisfying a need. It normally has to be refined before its commercial application.

**DEVELOPMENT**: perfecting the invention for it to be able in the market.

**More about Innovation**

market. Innovation = Invention + Exploitation (Rosenfeld, 1988).

Innovation faces two uncertainties: technological and market-related.

**R + D + I**

## Examples of technological failures

# Microsoft Bob



**NEWS ARTICLE:** Microsoft's obsession with making it easy for everyone to use computers reached an extreme in 1995 with Microsoft Bob. It was a graphical environment for Windows 3.1 or 95 and converted the operating system into a room in which each piece of furniture represented a different application. A dog named Rover provided assistance and advice to users. It was a huge flop, mainly due to the tremendous success of Windows 95, launched that same year ([www.20.minutos.es](http://www.20.minutos.es)).

### Examples of technological failures

#### Apple Newton



**NEWS ARTICLE:** created by Apple in 1993, the Newton can be considered a forerunner to PDAs (personal digital assistants) or ingenuity ahead of its time. Its most noteworthy feature was a handwriting recognition system, whose imprecision was criticised and ended up discrediting the invention more than it deserved. Although its official name was MessagePad, it became widely known as the Newton, the name of the operating system that it used ([www.20.minutos.es](http://www.20.minutos.es)).



## Examples of technological failures

### Virtual Boy



**NEWS ARTICLE:** The Philips CD-i, the Atari Jaguar, the Apple Bandai Pippin, the Sega MegaDrive 32X ... There have been many flops in the video game console universe, so we'll keep them for another list. However, we are going to make a small exception by mentioning the Virtual Boy, a video game console launched by Nintendo in 1995 inspired by the interest in virtual reality at the time. With a visor as a screen, the games had pretty good 3D graphics, but these were only in two colours: red and black. The few games available to play included 'Mario Tennis' and a tridimensional 'Tetris'. Due to its lack of success, the console never reached Europe ([www.20.minutos.es](http://www.20.minutos.es)).



Schumpeter, in his Theory of Economic Development, introduced two concepts: *innovation* and *entrepreneurship*.



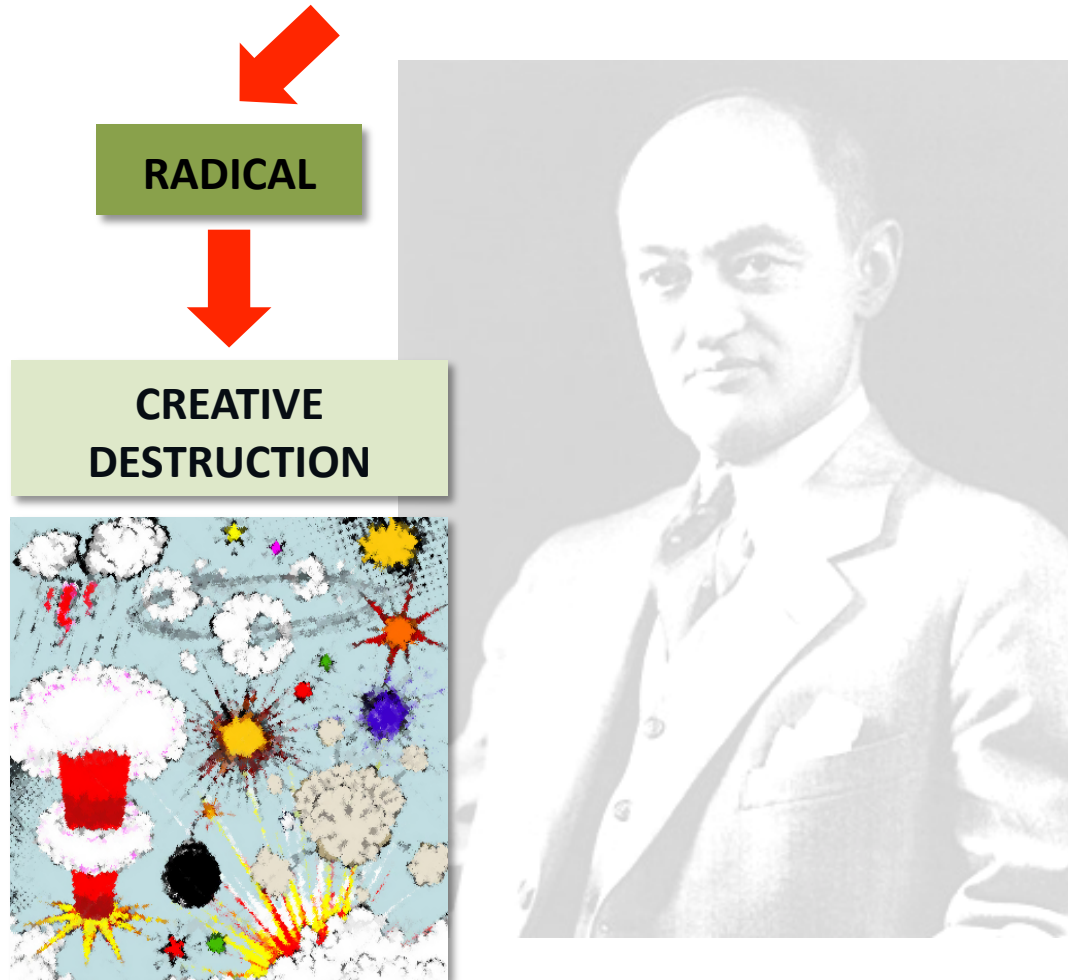
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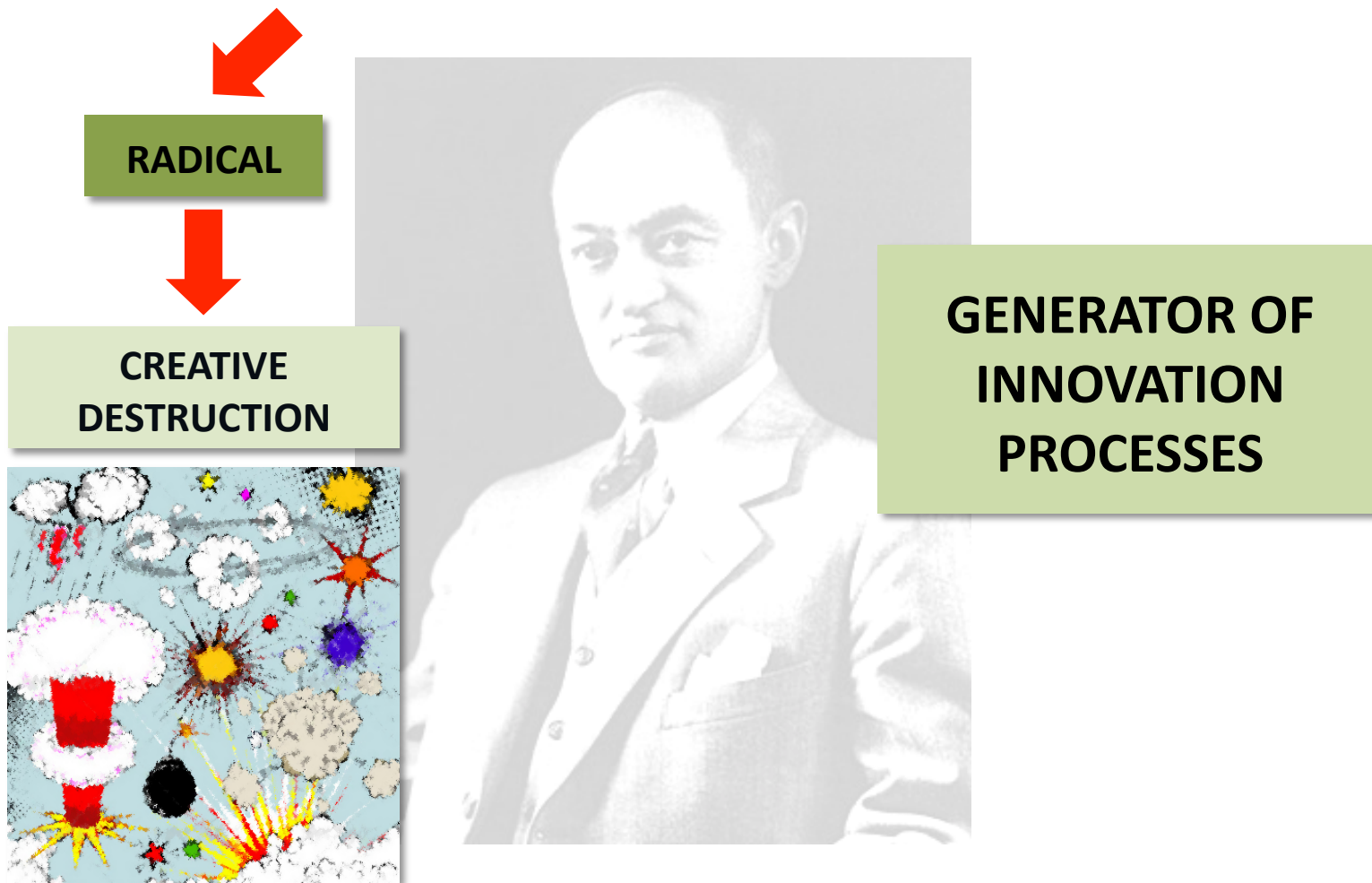
**RADICAL**



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### Innovation can be the source of competitive advantage

#### **In all areas of the company:**

- Development of new or improved products.
- Improvement of production processes.
- Improvement in management at all levels.
- Improvement in business procedures.

## Innovation can be the source of competitive advantage for the company

- **Source of possible differentiation** (ability to continuously launch new products onto the market or to perfect existing goods and services –product innovations–).
- **Source of possible cost leadership** (innovations aimed at improving the company's efficiency –process and management innovations–).

**Innovation can be the source of  
competitive advantage for the company**

**...but, to achieve this, it is necessary  
to manage innovation processes  
within organisations.**

# **3. RELATIONSHIP BETWEEN INNOVATION AND STRATEGY**



### Innovation and innovation strategy

- **Innovation** is the implementation of a new or significantly improved product or process, a new marketing technique or a new organisational method (OCDE, 2005).
- In order to strive for innovation, the company must define its **Innovation Strategy**.
- **We can distinguish between:**
  - Innovation management: the management of strategic and organisational aspects that must be taken into account in order to obtain successful products and processes.
  - Technology management: the management of activities related to the implementation of technology in the organisation's business model, including the generation of technologies, establishing the portfolio of existing and future technologies to be used, or measuring technology's impact on results.

# **4. ANALYSIS AND STRATEGIC DIAGNOSIS: BUSINESS STRATEGY VS. INNOVATION STRATEGY**

## External analysis: business strategy

### Diagnosing threats and opportunities:

#### 1. General environment:

- Factors whose influence is potentially relevant from a global point of view.
- General environmental analysis technique: PEST analysis (Political-legal, Economic, Social-cultural, Technological).

#### 2. Specific environment:

- Factors whose influence is direct and relevant for a specific sector or activity.

# General environmental analysis technique: PEST analysis

## What variables must be defined?:

1. **Level of analysis:** world, economic area, country, region or town.
2. **Dimensions of analysis:** social-cultural, economic, technological and political-legal:
  - Social-cultural: beliefs, values, attitudes and forms of life.
  - Economic: economic indicators.
  - Scientific and technological: innovations.
  - Political-legal: salaries, taxes, environment, subventions, public subsidies.

## General environmental analysis technique: PEST analysis

- **Phase 1.** List of key factors in the environment.
- **Phase 2.** Assessment of the key factors in a specific environment.  
According to Likert (1967), they are assessed according to the following scale:
  1. Very negative.
  2. Negative.
  3. Indifferent or balanced.
  4. Positive.
  5. Very positive.
- The strategic profile plots the peaks of **opportunities** and **threats**.

## Company's strategic profile

### Political dimension

- Government's stability.
- Fiscal policy.
- Foreign trade.
- ...

### Economic dimension

- Economic cycles.
- GDP trends.
- Interest rates.
- ...

### Social-cultural dimension

- Demographic factors.
- Social conflict.
- Lifestyle changes.
- ...

### Technological dimension

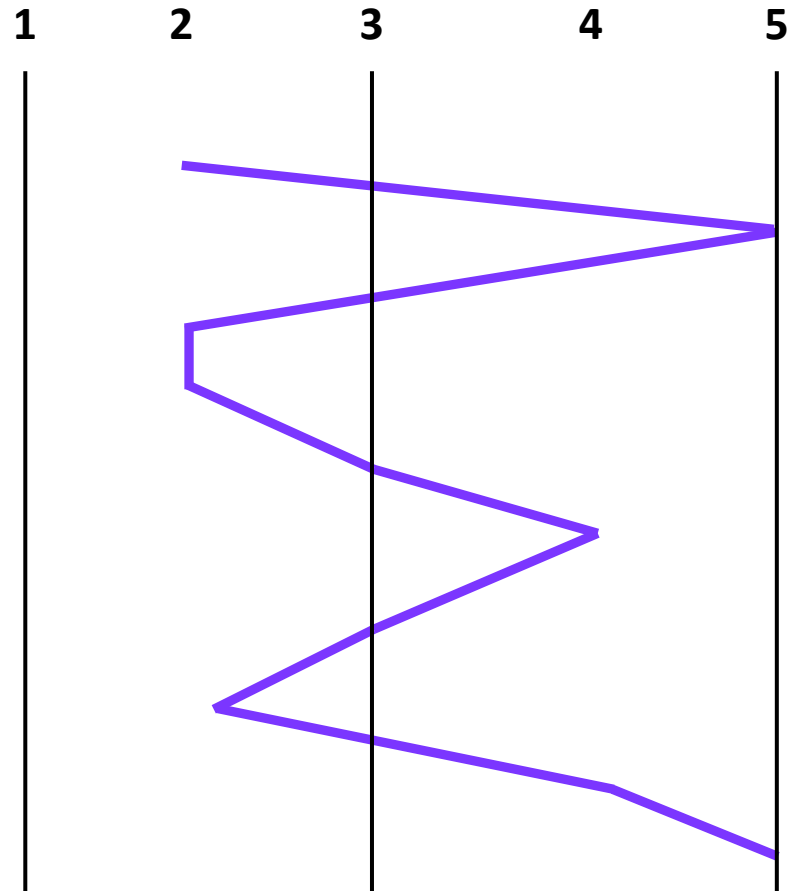
- RDI policy.
- Technological infrastructure.
- New technologies.
- ...

### Ecological dimension

- Environmental policy.
- Waste treatment.
- Energy consumption.
- ...

### Legal dimension

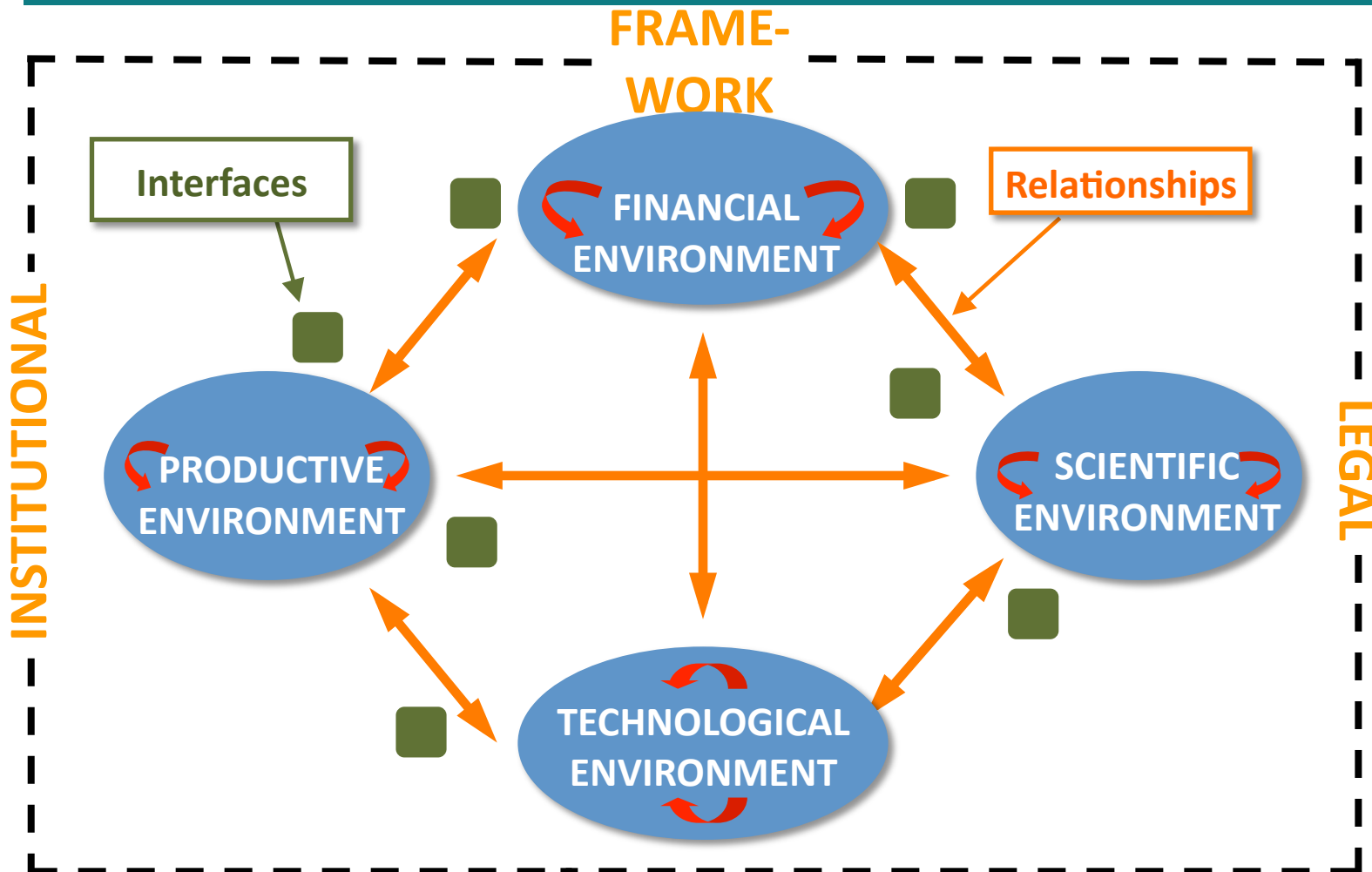
- Protection of competition.
- Labour laws.
- Safety and hygiene in the workplace.
- ...



Source: «Guerras and Navas» (2007).

— Company

## General environmental analysis technique for innovation



Source: Fernández de Lucio (et al.) (1996): «Innovation systems model».

### Specific environmental analysis

#### Specific environment or industry:

- Set of companies that carry out the same economic activity and sell a well-defined product or a line of related products (Bueno and Morcillo, 1993; Guerras and Navas, 2007).
- **Sector limits:**
  1. Technological criterion: applied from the supply side and defines the industry as the set of companies that use similar processes or raw materials.
  2. Market criterion: applied from the demand side and refers to the set of companies that manufacture products that are substitutes for each other.
- Within this criterion, the **subsector** or **branch of activity** is defined.



## Internal analysis: business strategy

- Overall view of the company on the resources, means and skills for tackling the environment, which enables identifying **strengths** and **weaknesses**.
- **Internal analysis techniques:**
  - Economic structure.
  - Functional analysis.
  - **Strategic profile.**
  - Chain of value.
  - Experience curve.
  - Resources and capabilities.

### Internal analysis: business strategy

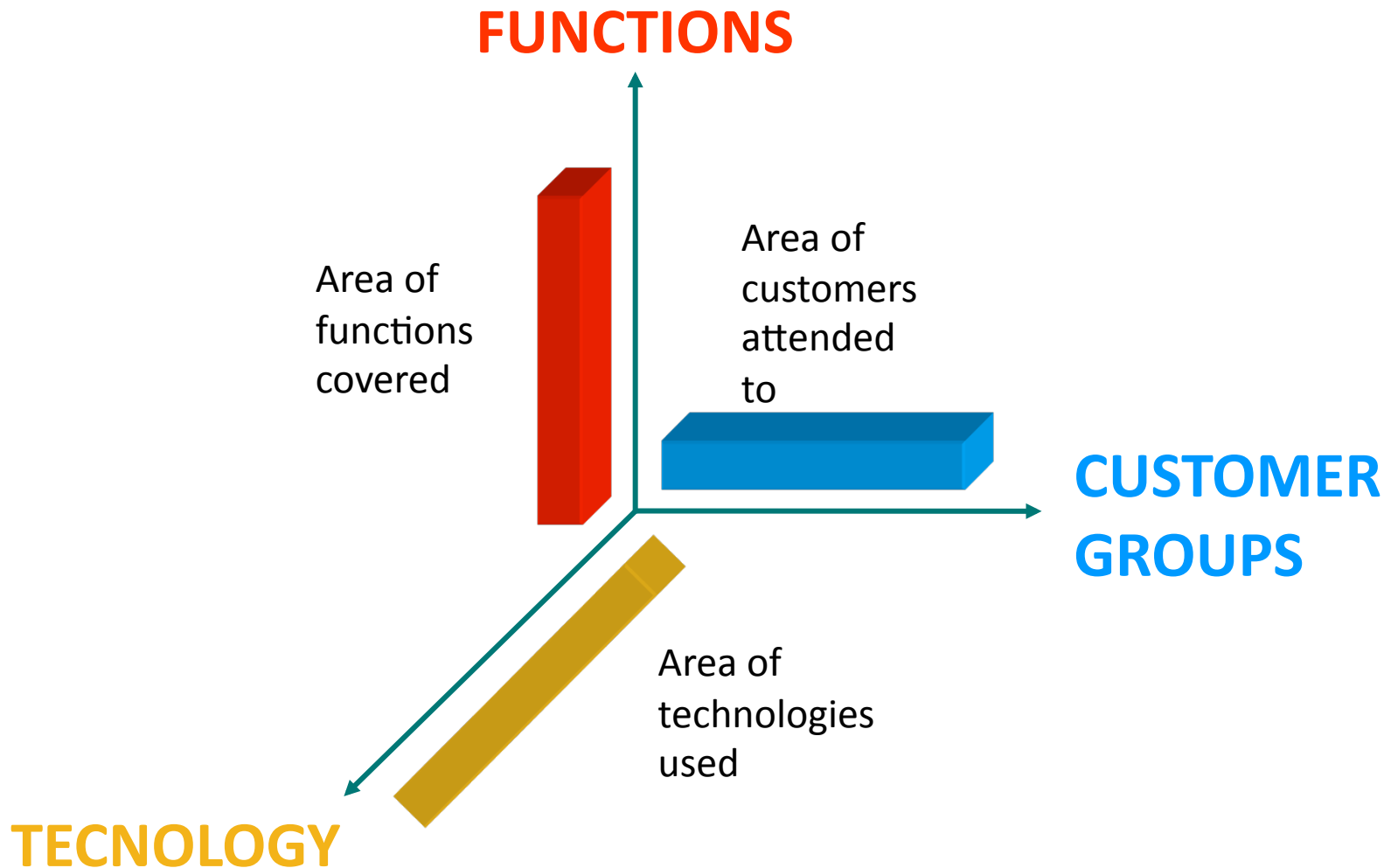
#### Beforehand: **general understanding of the company's activity:**

- The company (age and background, general characteristics such as size, sector, corporate form, belonging to a group, whether it's a family business...).
- Mission, vision, objectives, culture.
- Main financial, commercial, productive, human resource aspects.
- Scope of activity:
  - Product (range, prices, maturity, % sales...).
  - Market (local, national, international, customer groups...).
  - Technology (maturity, diversity, origin...).

#### How:

- **Documentation** obtained through secondary routes, provided or obtained via the web, reports, professional journals.
- **Interviews** with people chosen from the managerial team.....and staff?

## Scope of activity. Abell (1980)



## Company's strategic profile

### Commercial area

- Market share.
- Brand image.

### Production area

- Cost structure.
- Quality control.

### Financial area

- Financial structure.
- Return on investment.

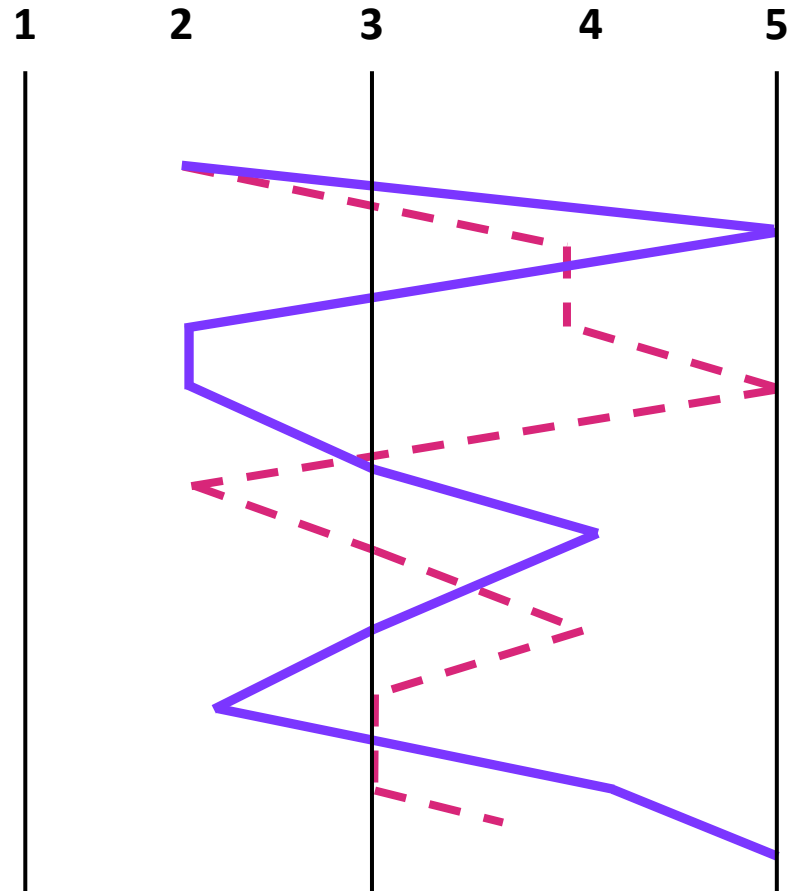
### Technological area

- Technology available.
- R&D efforts.

### Management and organisation

- Organisational structure.
- Business culture.

### HR...



Source: «Guerras and Navas» (2007).

— Company — Competition

## Internal analysis: innovation strategy

**Beforehand: information about the company's existing innovation activity (Technological Innovation in Companies Survey):**

- **Objectives** of the innovation strategy.
- **Types of innovation activities** carried out in the company.
- **Sources of information** used and cooperation in innovation activities.
- **Organisation of innovation activities** in the company.
- **Resources** dedicated to innovation (personnel, R&D expenditure).
- **Effects** derived from innovation activities.
- **Factors** that hinder technological innovation activities.

### Innovation strategy objectives

#### Technological Innovation Survey, INE [*Spanish Statistics Institute*], 2016:

- **Product-focused:** wider product range, entry into new markets, greater market share, better quality...
- **Process-focused:** greater flexibility, greater capacity for the production of goods/services, lower labour costs per unit produced, less materials or energy per unit produced...
- **Employment objectives:** increase in total employment, increase in qualified employment, maintenance of employment.
- **Other objectives:** lower environmental impact, improvement in employees' health and safety, compliance with environmental, health or safety regulatory requirements.

**Objectives of the company's innovation strategy,  
in line with the company's overall strategy.**

### Types of innovation

#### Technological innovations:

- Technological innovation in companies survey.
- [National Statistics Institute](#).

#### Product innovation (goods or services):

- The innovation of products entails introducing into the market **new** or **significantly improved** goods or services as regards their basic features, technical specifications, incorporated software or other intangible components, desired purposes or performance attributes.
- Merely aesthetic changes should not be taken into account, nor should the sale of innovations entirely produced and developed by other companies.
- It must constitute innovation (novelty or improvement) for their company, but not necessarily for their sector or market. It does not matter whether the innovation was initially developed by their company or by others.

### Types of innovation

#### Technological innovations:

- Technological innovation in companies survey.
- [National Statistics Institute](#).

#### Process innovation:

- Process innovation entails the implementation of production methods, logistic systems or delivery or distribution methods, or support activities for their goods and services, such as maintenance systems or computer operations, for purchasing or accounting, that are **new** or lead to **significant** improvement.
- It must constitute innovation (novelty or improvement) for their company, but not necessarily for their sector or market. It does not matter whether the innovation was initially developed by their company or by others.



### Product innovations: examples



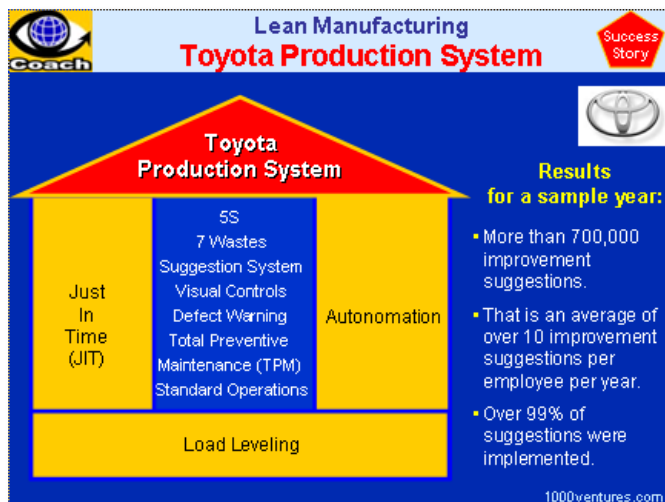
### Product innovations: examples

#### Product technological innovations

(Booz, Allen & Hamilton, 1982; Fernández Sánchez, 2005):

- **New products for the world (10%).** Sony introduced the tape recorder.
- **New product lines (20%).** Bic launched the line of disposable razors.
- **Adding to existing product lines (26%).** Burger King included a vegetarian burger.
- **Improvements to existing products (26%).** New features on mobiles.
- **Repositioning (7%).** Nylon went from being used in the military field to the field of women's stockings and other areas.
- **Cost reduction (11%).** Generic medicines.

## Process innovations: examples



## Types of innovation

### Innovations in management methods:

- Technological innovation in companies survey.
- [National Statistics Institute](#).



### Organisational innovations:

- An organisational innovation consists in the implementation, as the result of a strategic decision, for the first time in the company of:
  - **New business practices in the organisation of the company's work or procedures** (for example knowledge management systems, business reengineering, quality management, education and training systems...).
  - **New methods for organising places of work in the company** (for example new systems for distributing responsibilities amongst employees, management of work teams, decentralisation, restructuring departments...).
  - **New methods for managing external relationships with other companies or public institutions** (for example creating, for the first time, alliances, associations, outsourcing or subcontracting).
  - **Excludes mergers or acquisitions**, even though they may be an organisational novelty for the company.

## Types of innovation

### Innovations in management methods:

- Technological innovation in companies survey.
- [National Statistics Institute](#).



### Marketing innovations:

- A marketing innovation is the implementation of new strategies or sales concepts that differ significantly from previous ones and have not been used before, such as:
  - Significant modifications in the **product's design** or in the **packaging** of goods or services.
  - New techniques or channels for **promoting the product** (for example, a new advertising channel, new brands, introducing customer loyalty cards...).
  - New methods for **product positioning** in the market or sales channels (for example franchises or distribution licences, direct sales, only retail sale...).
  - New methods for establishing the **prices of goods or services** (demand-dependent variable price system, discount systems...).
  - **Excludes regular, seasonal changes and other** similar changes in marketing methods.



### Sources of information

SOURCES OF INFORMATION	IMPORTANCE
<b>Internal:</b> <ul style="list-style-type: none"> <li>• Within the company or group of companies (departments, employees...).</li> </ul>	
<b>Market sources:</b> <ul style="list-style-type: none"> <li>• Suppliers of equipment, material, components or <i>software</i>.</li> <li>• Customers.</li> </ul>	
<b>Competitors:</b> <ul style="list-style-type: none"> <li>• Other companies with the same branch of activity.</li> </ul>	
<b>Consultants:</b> <ul style="list-style-type: none"> <li>• Commercial laboratories.</li> <li>• Private R&amp;D institutes</li> </ul>	
<b>Institutional sources:</b> <ul style="list-style-type: none"> <li>• Universities or other higher education centres.</li> <li>• Public research entities.</li> <li>• Technological centres.</li> </ul>	
<b>Other sources:</b> <ul style="list-style-type: none"> <li>• Conferences, trade fairs, exhibitions...</li> <li>• Scientific journals and commercial/technical publications.</li> <li>• Professional and sectorial associations.</li> </ul>	

Source: [Spanish Statistics Institute](#).

### Types of innovation activities

Innovation activities	Product I.	Process I.	Organisational I.	Marketing I.
<b>Research</b> (work carried out to obtain new knowledge).				
<b>Development</b> (systematic work based on existing knowledge in order to obtain new or improved materials, products or processes).				
<b>Incorporation of machinery</b> , equipment or software.				
Use of <b>patents</b> or non-patented inventions and technical <b>knowledge</b> or that of another kind.				
<b>Training</b> of staff.				
<b>Market prospection and advertising</b> for launching new or improved goods/services.				
Design, procedures and technical preparations for <b>production and/or distribution</b> .				
<b>Technological vigilance</b> .				
Introduction of new <b>management systems</b> .				

Source: [Spanish Statistics Institute](#).

### Organisation of innovation activities

<b>ORGANISATION OF ACTIVITIES</b> How do we do it? <b>INNOVATION ACTIVITIES</b> What do we do?	Company or group of companies alone (Make)	Acquired or subcontracted (Buy)	In cooperation with other companies or institutions
Research.			
Development.			
Incorporation of machinery, equipment or software.			
Use of patents or non-patented inventions and technical knowledge or knowledge of another kind.			
Training of staff.			
Market prospection and advertising for launching new or improved goods/services.			
Design, procedures and technical preparations for production and/or distribution.			
Technological vigilance.			
Introduction of new management systems.			
Other activities (indicate which ones).			

Source: [Spanish Statistics Institute](#).



### Organisation of innovation activities

TYPE OF COOPERATION PARTNER / ASSESSMENT OF COOPERATION	
Other companies in their same group, competitors or other companies in the sector.	
Suppliers of equipment, material, components or software or customers.	
Consultants, commercial laboratories, private R&D institutes, universities or other higher education centres, public research entities or technological centres.	

Source: [Spanish Statistics Institute](#).

### Resources dedicated to innovation

- **Staff involved in internal innovation activities:**

- N° of people involved in innovation activities that generate product, process, organisational and/or marketing innovations:
  - N° and % that spend all their day on innovation.
  - N° and % that spend part of their day on innovation.

- **Expenditure on innovation activities:**

- Amount and % expenditure on innovation activities of the company's total expenditure.

Source: [Spanish Statistics Institute](#).

### Innovation results

EFFECTS OF INNOVATIONS INTRODUCED	IMPORTANCE				
	1	2	3	4	5
Wider range of goods or services.					
Entry into new markets or greater market share.					
Better quality goods and services.					
Greater flexibility in production or providing services.					
Greater capacity for production or providing services.					
Lower costs per unit produced.					
Reduction in response times for attending to the needs of customers or suppliers.					
Greater capacity for responding to customer needs.					
Greater employee satisfaction or reduction in employee turnover rates.					
Better exchange of information or communication inside the company.					
Increase in the visibility of products or businesses.					

Source: [Spanish Statistics Institute](#).

### Innovation results

NUMBER AND TYPE OF INNOVATIONS INTRODUCED	Product innovation	Process innovation	Organisational innovation	Marketing innovation
Novelty only for their company.				
Novelty in their market.				

### Registered intellectual and industrial property rights

	Patent	Industrial drawing or model	Trademark	Copyright
Number				

### % turnover due to the introduction of innovations

	% turnover
Radical innovation (novelty for the market).	
Incremental innovation (novelty for the company).	

Source: [Spanish Statistics Institute](https://www.inec.es/).

## Factors that hinder innovation

FACTORS THAT HINDER INNOVATION	1	2	3	4	5
Lack of funding in the company or group of companies.					
Lack of financing from sources beyond the company.					
Innovation is too costly.					
Lack of qualified staff.					
Lack of information on technology.					
Lack of information on markets.					
Difficulty in finding cooperation partners for innovation.					
Market dominated by established companies.					
Uncertainty as regards the demand of innovative goods and services.					

Source: [Spanish Statistics Institute](#).

## Innovation's strategic profile

### Objectives

### Types of innovation

### Sources of information

### Technological area

### Innovation activities

### Organisation of activities

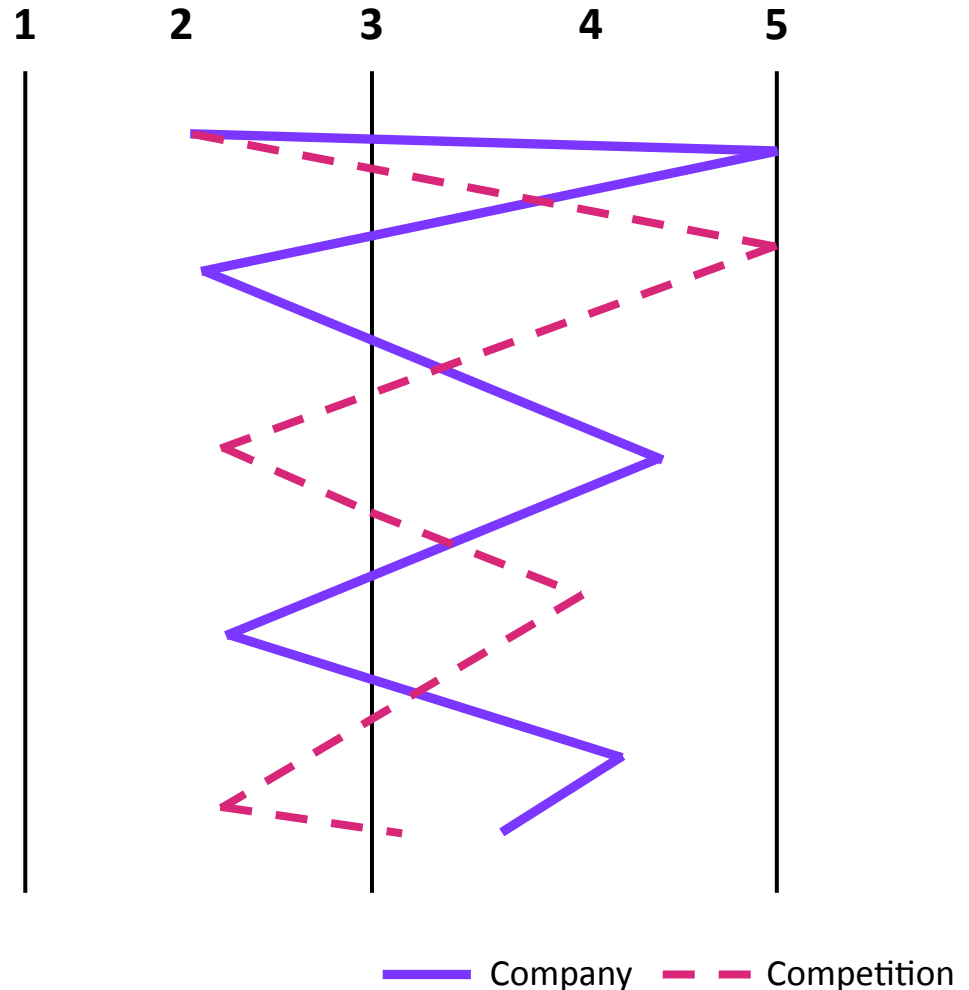
- Internal.
- External.
- Cooperation.

### Resources

- Staff.
- Expenditure.

### Results

### Difficulties



### SWOT Matrix

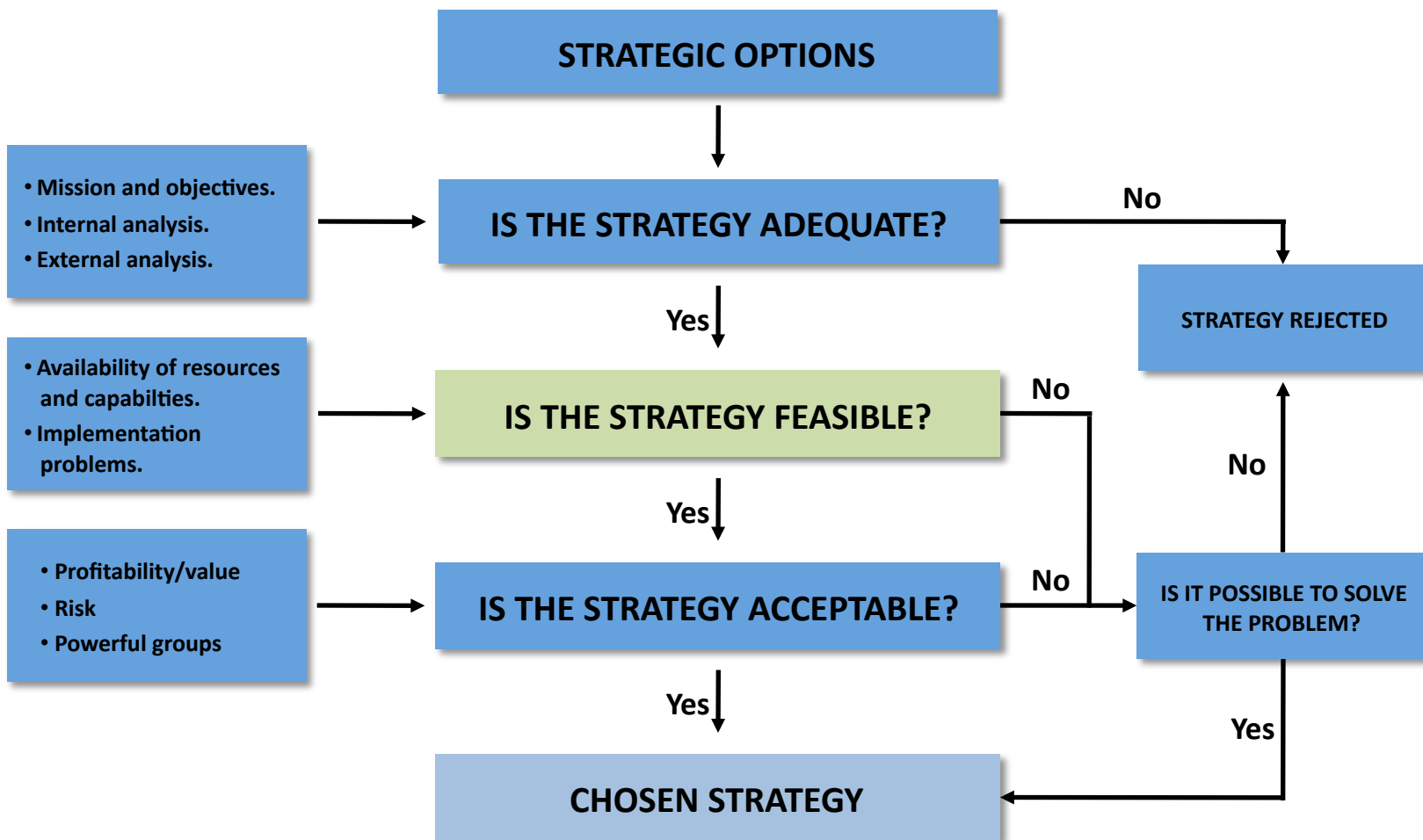
Strengths	Weaknesses
Leadership capacity, trained staff, own patented technology, good relationships with customers and suppliers, availability of financial resources, sufficient financing structure, highly-motivated staff.	Poor reputation, difficulty in accessing distribution channels, little effort in advertising, reduced market share, high production costs, profitability lower than average in the sector.
Opportunities	Threats
High market growth rate, plenty of possibilities for industry segmentation, easy access to foreign markets, location within an industrial district with a wide range of common services, sector of suppliers with a high capacity for innovation.	Existence of many substitute products, easy entry of new competitors, rapid changes in customer needs and tastes, poor economic situation, high price of money, poor general infrastructures, excessive bureaucracy for creating new businesses.

Source: «Guerras and Navas» (2007).

# **5. STRATEGIC FORMULATION**



## Formulation, assessment and selection of strategies



Source: «Guerras and Navas» (2007).

# 5.1.

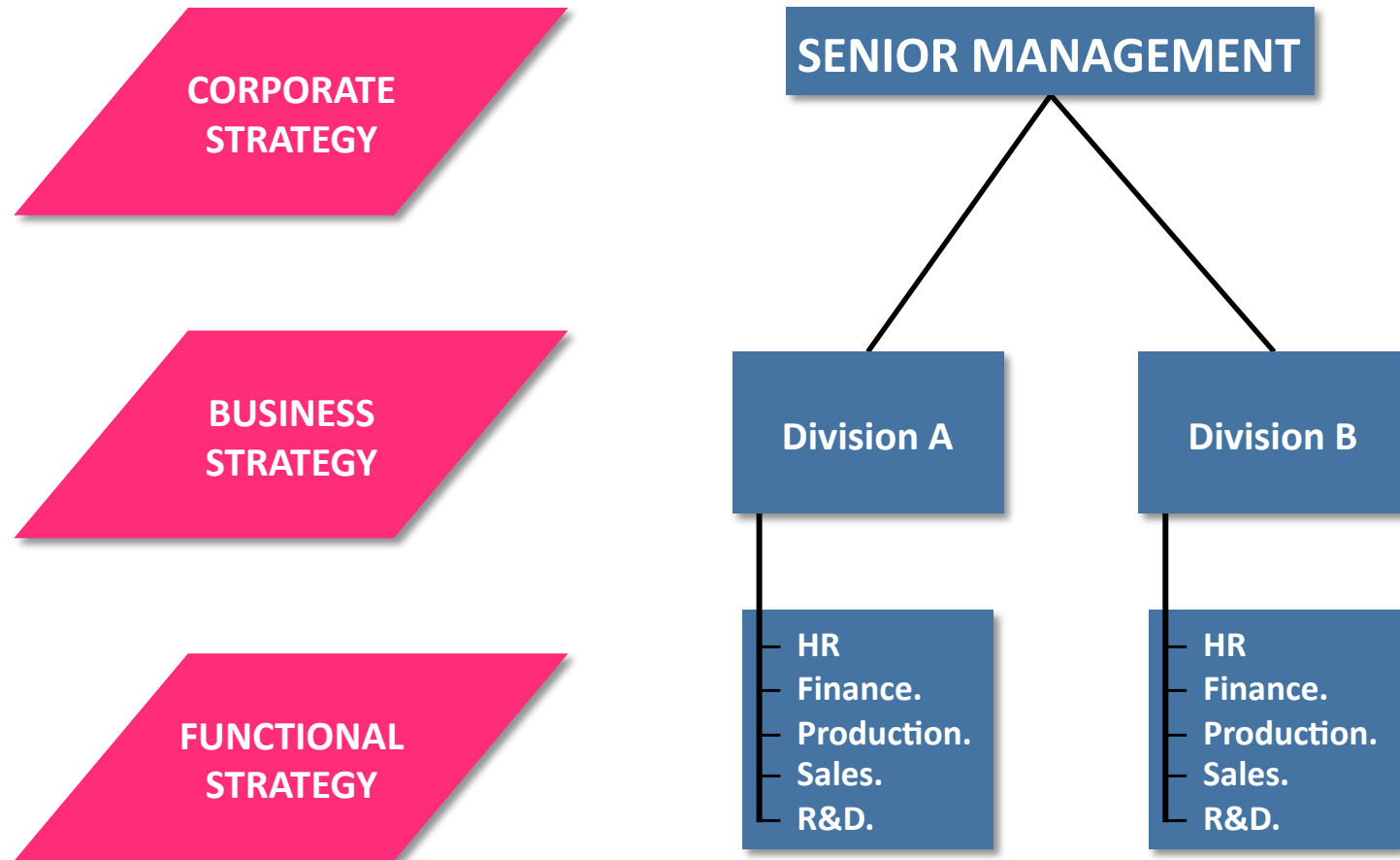
# STRATEGY LEVELS

## Formulation, assessment and selection of strategies

1. **Corporate or company strategy:** company-environment relationship. This constitutes the general managerial action plan of the **diversified** company. Decision-making for positioning the company in different industries and actions for managing diversified businesses. **Scope of activity.**
2. **Business strategy:** this develops internal potential for achieving the best competitive position. It constitutes the managerial plan for the business units (a single one or several ones-diversification). **Distinctive capabilities** and **CA.**
3. **Functional strategy:** this maximizes the productivity of the resources and skills available in each functional area. **Distinctive capabilities** and **synergic effect.**

Source: «Guerras and Navas» (2007).

## Strategy levels (I)



Source: Grant, 1996.

## Strategy levels (II)

**DIVERSIFIED COMPANY**

**Corporate S.**

**SBU**

**SBU**

**SBU**

**Business S.**

**R&D**

**PRODUCTION**

**MK**

**HR**

**FINANCE**

**Functional S.**

Source: Fernández Sánchez, 2005.

## Strategy levels (example)

**Corporate S.**



Emergencies

Humanitarian  
action  
projects

Development  
projects

Fourth World

Raising public  
awareness and  
education for  
development

**Business S.**

Management

Operations

Organisation

Social  
Mobilisation

Communication,  
Marketing and  
Recruitment

**Functional S.**

### Strategy levels (example)

The lines of intervention of Doctors of the World are:

**Emergencies:** The organisation provides urgent help in regions temporarily affected and suddenly struck by hunger, war, disease and natural disasters. Its intervention is aimed at attending to wounded, sick and displaced people and building healthcare or hygiene facilities to meet the population's basic needs.

**Humanitarian action projects:** With these programmes, we aim to tackle the urgent needs of populations whose livelihoods are seriously under threat.

**Development projects:** These are long-term projects intended to be integrated into the region's basic healthcare infrastructure. The aim is to lay the foundations for the development of more comprehensive healthcare.

**Fourth World:** These are the people excluded from the welfare society, living in places not reached by social resources, whether they be healthcare, legal support, food or housing. Special attention is paid to drug users and sex workers through preventive healthcare programmes and to immigrants without access to public health services.

**Raising public awareness and education for development:** Our goal is to make society aware of other realities that are difficult to perceive through the mainstream media.

**Source:** Translation of [Médicos Sin Fronteras](#) (MSF).

# 5.2.

# CORPORATE STRATEGIES



### Corporate strategies

- **Cooperation strategies.**
- **Internationalisation strategies.**
- **Growth strategies.**
- **Other** (industry-based strategies...).

# Formulation, assessment and selection of strategies

## Cooperation strategies:

- Franchises.
- Licences.
- Outsourcing.
- Joint ventures.
- Venture capital.
- *Spin-offs*.
- Consortiums...

# Formulation, assessment and selection of strategies

## Internationalisation strategies:

- Without capital investment.
  - Exporting.
  - Contractual systems:
    - a. Production (outsourcing, licensed manufacturing, industrial alliances...).
    - b. Sales (delegations, commercial agents).
    - c. Services (technical assistance, technological assistance and management contract...).
- With capital investment (direct investment).

## Growth strategies

### GROWTH STRATEGIES



Corporate or global strategy level  
(redefining scope of activity)

**Direction of development  
(change in scope of activity):**

- Specialisation (expansion).
- Diversification.

**Methods of development:**

- Internal growth.
- External growth.

## Expansion strategies

**They are aimed at developing the company's existing products and markets:**

- They are based on growing along the same line and maintaining a close relationship with the company's existing situation.
- They are developed using the same technical, financial and commercial resources used for the initial line of products.

Source: Types (Ansoff, 1976).

	<i>Existing</i>	<i>New</i>
<i>Existing</i>	Market penetration	Product development
<i>New</i>	Market development	DIVERSIFICATION

## Diversification: types

		NEW PRODUCTS	
NEW MARKETS	Products \ Customers	Technologically related	Technologically unrelated
	Same type	HORIZONTAL DIVERSIFICATION	
	Customer company	VERTICAL DIVERSIFICATION	
	Similar type	<div>CONCENTRIC DIVERSIFICATION</div> <div>→</div>	
	Different type		
		↓	CONGLOMERATE DIVERSIFICATION

Source: Ansoff, 1976.

# 5.3.

# COMPETITIVE STRATEGIES

## Competitive strategies

### **Competitive strategy (Porter, 1982):**

- Taking offensive or defensive actions to create a defensible position in an industry and thereby yield a superior return on investment for the firm.

**It is aimed at achieving competitive advantage.**

### **Competitive advantage:**

- Any characteristic of the company that really differentiates it from others, placing it in a relatively superior position for competing.



## Competitive strategies (Porter, 1982)



## Cost leadership strategy

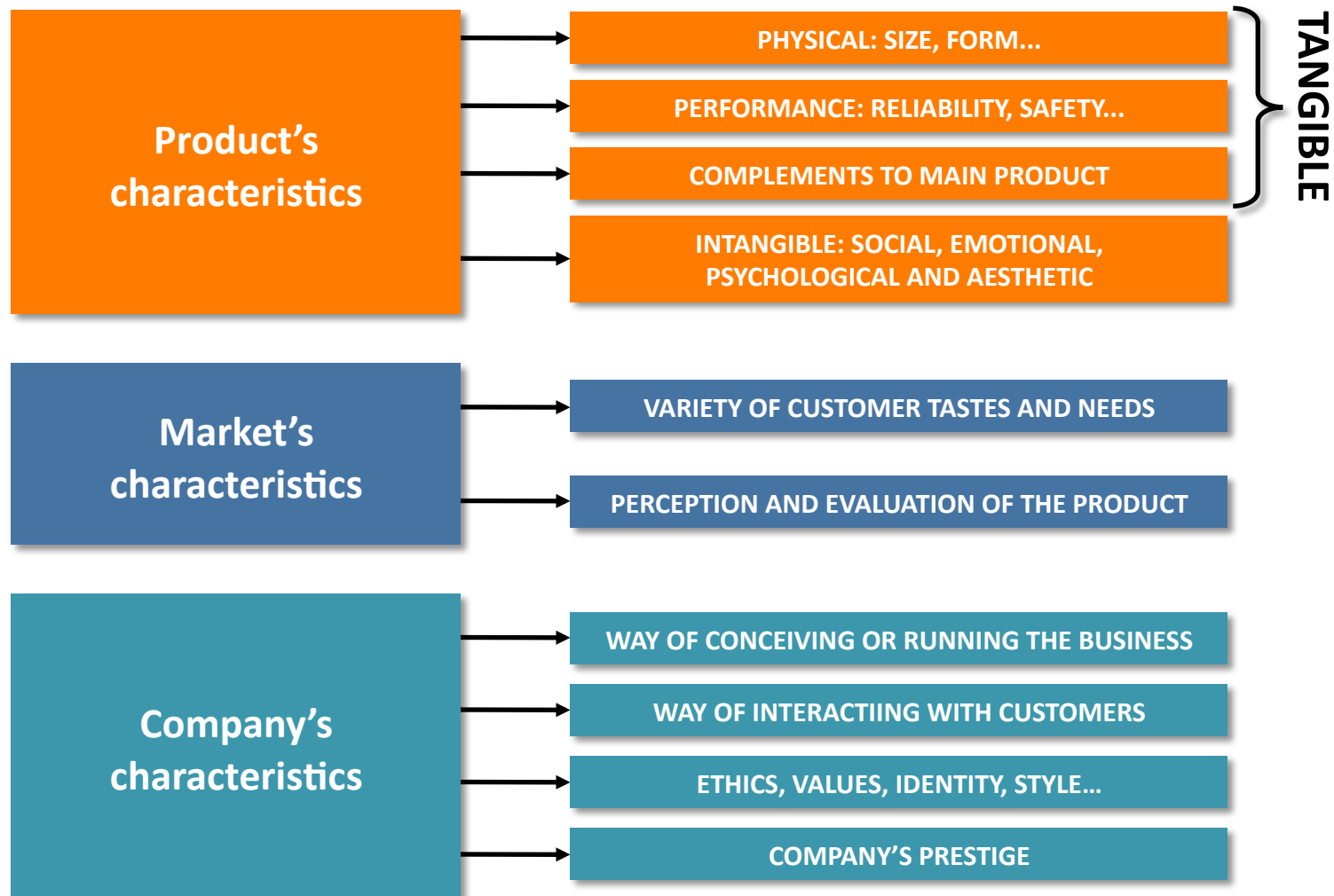
- *The cost leadership strategy is based on achieving «the lowest delivered cost position relative to competition, coupled with both an acceptable delivered quality and a pricing policy to gain profitable volume and market share growth». (Hall, 1980).*
- **Basic idea:**
  - The company has lower costs than its rivals and is in a strong position in relation to suppliers and customers.

### Product differentiation

- **Basic idea:**

- The company or one of its elements is perceived as unique by customers and suppliers.
- The consumer perceives the product as unique and is willing to pay more for it.

### Product differentiation



# 5.4.

# INNOVATION STRATEGIES

### Innovation strategies

- R&D&I is basically a functional strategy but it can also: facilitate the setting in motion of the company's competitive strategy (hierarchical approach: R&D&I strategy at the competitive strategy's service).

**Source:** Fernández Sánchez, 2005.

## Hierarchical approach

### The company's vision determines the R&D&I and technological objectives:

- **Ford (1906).** *«I will build a car for the great multitude».*  
The Research Department's objectives stemmed from his vision:
  - To design a simple and standardised product (Model T, 15 million units sold).
  - To design a production system capable of manufacturing it in large volumes in order to serve the mass market (assembly line).

Source: Fernández Sánchez, 2005.

### **There are two strategies *par excellence* for the R&D&I department: proactive and reactive:**

- Both R&D&I strategies can be a way of achieving both a low cost and differentiation.
- Low-intensity strategies (technology which despite being important is not cutting-edge or capable of creating new businesses or satisfying mass markets) serve to support the focus strategy.

**Source:** Fernández Sánchez, 2005.



### Proactive strategy

- Based on a dynamic R&D policy whose objective is:
  - To constantly introduce new products into the market.
  - To design exclusive production processes.
- Based on identifying new needs and discovering how to satisfy them. Alternatively, it may also seek cost-effective applications for the results of the R&D department.
- Aspires to create a new market or industry (business initiative).
- Requires long-term, persistent and focused efforts.
- Implies assuming a high risk, compensated for by the hope of obtaining a sustained high level of profitability.

Source: Fernández Sánchez, 2005.

### Proactive strategy: technological leadership of products

- The proactive strategy for the technological leadership of products favours the differentiation strategy.

**Source:** Fernández Sánchez, 2005.

### Proactive strategy: technological leadership of products

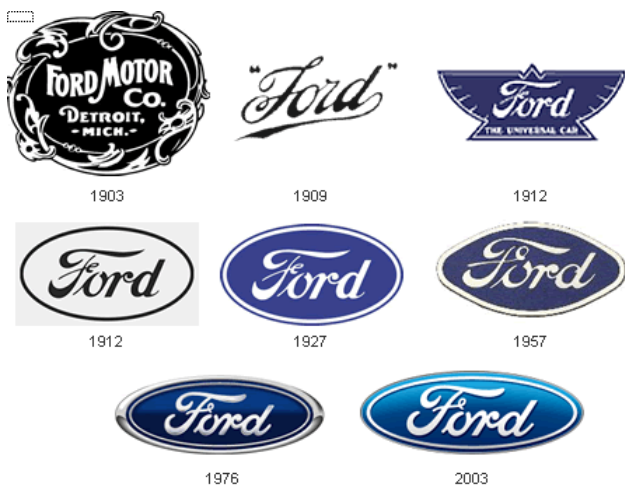


## Proactive strategy: technological leadership of processes

- This favours the differentiation strategy (it usually makes the production process more flexible to achieve product customisation at a reasonable price).
- It may imply a significant reduction in costs, making it a good asset to the cost leadership strategy.

**Source:** Fernández Sánchez, 2005.

### Proactive strategy: technological leadership of processes



### Reactive strategy

- Seeks to maintain competitive leadership by means of radical improvements in processes and incremental improvements in products to increase the user-friendliness, quality and reliability of systems, as well as reducing production costs.
- Follows the wake of the innovator, exploiting their success (less risk): they don't want to be first, but neither last.
- Seeks to avoid the risks of radical innovation, taking advantage of the company's experience in other areas (marketing, manufacturing...).
- Requires rapid imitation and therefore a high R&D capacity, although licences and other mechanisms may also be used.

Source: Fernández Sánchez, 2005.

### Reactive strategy

#### Typical reactive strategy practices:

- **Pure imitation:** same product, lower price.
- **Adding/removing features to/from the original product:** gaining ground in existing markets/attending to more specific segments.
- **Redesigned products:** new uses for the product.
- **Brand products:** advertising, guarantees or free demonstrations.
- **Compatible products:** essential for a good performance of the original product.

Source: Fernández Sánchez, 2005.

### Reactive strategy





### Low-intensity strategies

**Covers market niches not satisfied by anybody but with sufficient potential (reinforces the competitive focus strategy):**

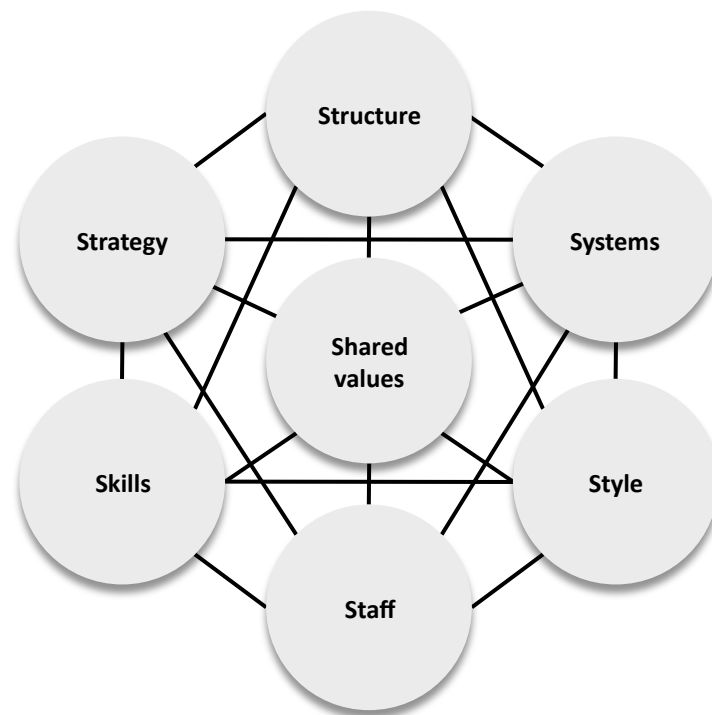
- **Dependent strategy:** the company accepts a subordinate role in relation to a stronger company. It does not take on any technological risk (it uses that of third parties) and it satisfies an established demand.
- **Imitative strategy:** the initial product is imitated by companies with a low capacity for innovation but that can be competitive if any of the following circumstances exist: lower costs of key factors of the production process; high managerial efficiency; favourable legal conditions.
- **Opportunist strategy:** seeks to satisfy the particular needs of a market segment that have not been met.
- **Traditional strategy:** companies whose products remain practically unaltered. They may adopt process innovations, but these are often developed elsewhere and available to the entire industry.

Source: Fernández Sánchez, 2005.

# 6. STRATEGIC IMPLEMENTATION

## Strategic implementation

- A set of activities and decisions that are necessary for putting into effect or carrying out a strategy, in order to achieve objectives. Complex and crucial problem as regards reaching success.
- Activities required for the strategy's correct implementation: the McKinsey 7-S framework.



Source: «Guerras and Navas» (2007).

### Strategic implementation: planning

#### Strategic planning:

- *«The process of deciding on the programs that the organization will undertake and on the approximate amount of resources that will be allocated to each program over the next several years».*

**Source:** Anthony and Govindarajan, 2003.

### Strategic implementation: control

#### The strategic control process:

- The control function in the company is the evaluation, inspection and assessment of the activities carried out in the company as well as decision-making in order to ensure that the decisions taken are fulfilled and the goals set are achieved and, if necessary, to correct any deviations observed.

Source: «Guerras and Navas» (2007).

- The final stage of strategic management is strategic control which consists of analysing and assessing the strategic management process in order to ensure its proper functioning.

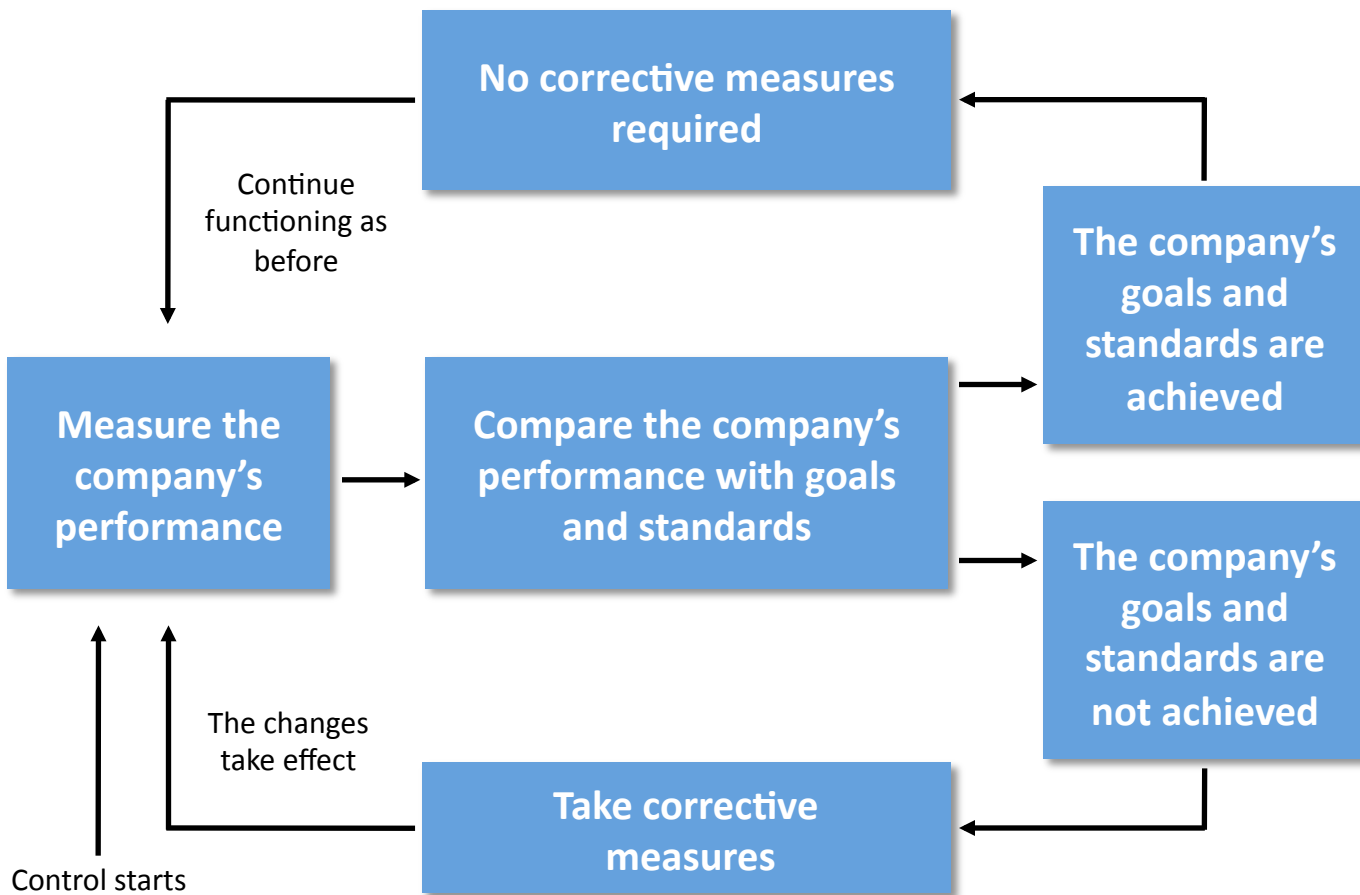
Source: Certo and Peter, 1996.

- The most important goal of strategic control is to help senior management achieve its objectives through analysis and evaluation of the strategic management process.

Source: «Guerras and Navas» (2007).

## Strategic implementation: control

### The strategic control process



Source: Adapted from «Guerras and Navas» (2007).

### Strategic implementation: control

#### Control instruments:

- **Budgetary control:**
  - Income/expenses budget, cash
- **Non-budgetary control:**
  - Statistical information.
  - Reports and special analyses.
  - Personal observation (direct supervision).
  - Surveys (employees and customers).
  - Performance assessment.
  - Internal audit.

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