FDC

Flanders District of Creativity

Knowledge Partner

Vlerick Leuven Gent Management School

the Autonomous Management School of Ghent University and Katholieke Universiteit Leuven

RESEARCH REPORT

Innovation outside the lab: STRATEGIC INNOVATION AS THE ALTERNATIVE

Marion Debruyne and Marie Schoovaerts

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FLANDERS DISTRICT OF CREATIVITY

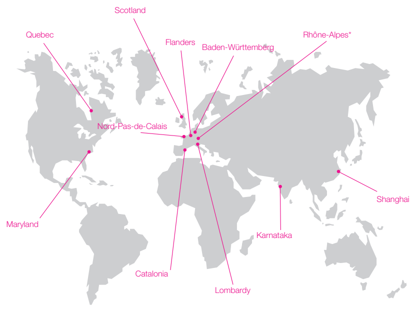
Flanders District of Creativity is the Flemish organization for **business creativity**. It was founded by the Flemish Government as a non-profit organization and enjoys broad support. Flemish businesses, academia, and public institutions use Flanders DC as a platform for cooperation in the pursuit of a more creative region. Creativity is the key ingredient to make companies more successful and to help regional governments ensure a healthy economy with more jobs.

Flanders DC inspires creativity and innovation:

1. by learning from the **most creative** regions in the world,
2. by igniting **creative sparks** in everyday life and business, and
3. through r**esearch, practical business tools and business training**, provided in cooperation with the Flanders DC Knowledge Center.

1. DISTRICTS OF CREATIVITY: INSPIRATION FROM THE MOST CREATIVE REGIONS

Responses to global challenges are best found within an international network of excellence. Flanders DC aims to unite the most dynamic regions in the world within the **'Districts of Creativity'** network, with the single aim of learning from the very best. Every two years, Flanders DC convenes the **Creativity World Forum**, bringing together government leaders, entrepreneurs, and knowledge institutions to exchange ideas about how to tackle pressing economic problems and make their regions hotbeds for innovation and creativity.



*: associate member region

2. RAISING AWARENESS: THE BEST WAY TO PREDICT THE FUTURE IS TO INVENT IT

Flanders DC encourages entrepreneurs and citizens to look ahead and find creative solutions today to tomorrow's problems. Flanders DC has developed an idea generation tool to encourage people and organizations to take the first step toward innovation. In addition, Flanders DC runs a general awareness-raising campaign entitled "Flanders' Future".

3. THE FLANDERS DC KNOWLEDGE CENTRE: ACADEMIC SUPPORT

The **Flanders DC Knowledge Center** entails a cooperation between Flanders DC and the Vlerick Leuven Gent Management School. Each year, the Flanders DC Knowledge Centre publishes several reports and develops various tools, case studies and courses. All these projects focus on the role of creativity in a business environment and identify obstacles to and accelerators of competitive growth.

Below is a list of some of the finished projects and a number of forthcoming projects (for an overview of current projects and available downloads, please consult www.flandersdc.be or see www.vlerick.be/flandersdc):

Research projects and tools:

- THE FLEMISH ECONOMY IN 2015: Challenges for the Future – The Need for a Creative Growth Model. Published in Dutch in September 2005.
- BUSINESS CREATIVITY AS A MOTOR FOR GROWTH IN FLEMISH CITIES AND BRUSSELS. Published in Dutch in November 2005.
- THE CREATIVE ECONOMY: Challenges and Opportunities for DC regions. Published in English in April 2006.
- PLAYERS IN THE TV SECTOR BEAR WITNESS. An exploratory Study in the Creative Industry. Published in Dutch in June 2006.
- HOW TO MOBILIZE AND STIMULATE OUR ELDERLY WORKFORCE. Published in Dutch in June 2006.
- THE CREATIVE INDUSTRY IN FLANDERS. Due to be published in Dutch in November 2006.
- DEVELOPMENT OF A REGIONAL COMPETITIVENESS INDEX. Due to be published in English in November 2006.
- INNOVATION OUTSIDE THE LAB: Strategic Innovation as the Alternative. Published in English in October 2006.
- AN ANALYSIS OF THE NATURE AND THE STRUCTURE OF KNOWLEDGE NETWORKS IN INDUSTRY SCIENCE-RELATIONS. Due to be published in English in December 2006.
- HOW DO ENTREPRENEURS IDENTIFY OPPORTUNITIES IN FLANDERS AND ABROAD. Due to be published in Dutch in December 2006.
- NETWORKING AND INNOVATION CAPACITY IN MULTINATIONAL COMPANIES IN FLANDERS. Due to be published in English in December 2006.
- INNOVATION PROCESSES IN LARGE AND SMALL COMPANIES. Due to be published in Dutch in December 2006.

- ARTECONOMY. How Artists Influence Transformation Processes. Due to be published in Dutch in February 2007
- CREATIVE ENTREPRENEURSHIP. Due to be published in Dutch in March 2007.
- ONLINE LEARNING PLATFORM ON CREATIEVE ENTREPRENEURSHIP. Due to be online in April 2007.
- HOW INNOVATIVE ARE WE REALLY? Due to be published in English in May 2007.
- OPEN INNOVATION IN EUROPE. Due to be published in English in July 2007.
- FLANDERS' ATTRACTIVENESS FOR FOREIGN INVESTMENT. Due to be published in English in November 2008.

Knowledge Sharing

- FLANDERS DC & VACATURE WINTER ACADEMY. From 16 through 19 February 2006.
- A VISITING PROFESSOR FROM AUCKLAND ON CREATIVE PROBLEM SOLVING. September 2006.
- SCHOLARSHIPS FOR GOVERNMENT AND CREATIVE SECTOR - Master Class in Entrepreneurship and Innovation.
- FLANDERS DC FELLOWS. Creative entrepreneurs serving as role models for innovation. First batch in December 2006.
- CREATIVITY TALKS. Monthly sessions on business creativity and innovation from September 2006 through May 2007.

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The partners and members of the Board of Directors of Flanders DC are:

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0 BACKGROUND

This report discusses a study commissioned by Flanders District of Creativity on Flemish companies' strategic innovation.
The study was conducted between December 2005 and August 2006. The main researchers involved in the project were Professor Marion Debruyne, an associate professor, and junior researcher Marie Schoovaerts, both being staff at the Vlerick Leuven Gent Management School.

1 INTRODUCTION

There is mounting recognition that if companies escape from cutthroat competition, they need to move away from established industry recipes. The business press coined the term “strategic innovation” to refer to companies that radically change the rules of the game in an industry by competing in a fundamentally different way. There is no shortage of examples: Amazon in book retailing, Dell in personal computers, Southwest Airlines in the airline industry, IKEA in furniture retailing, and so on.

The common thread running through all these success stories is that the companies in question did not innovate in the traditional sense by investing in R&D and then launching next-generation products, but instead challenged conventional thinking within their respective sector (Markides, 1997). They reshaped the way business is done, all the while focusing firmly on delivering customer value to the mass market (Govindarajan and Gupta, 2001; Kim and Mauborgne, 1996; Markides, 1998). This entailed rethinking their target markets, rethinking customer needs and wants, and rethinking the entire value delivery process. Past literature has primarily offered case-based descriptions of what constitutes the primary source of the competitive advantage derived from such an approach. Many questions remain unanswered. Are these really examples of one and the same phenomenon, or are they rather one-time exceptions? Did they come about through sheer good fortune, or are they the fruits of deliberate management practices? Finally, are the characteristics of the approach also drivers of success, or does success hinge on other factors?

Strategic innovation means competing within an existing industry in a fundamentally different way that redefines and enhances customer value.
Unlike traditional innovation, this different way of competing does not entail product innovation as such. Rather, superior value for customers is derived from innovations in organization. Such innovation may relate to the product concept, production, service provision, or the marketing of the respective product or service. *For strategic innovation to occur, activities and capabilities are leveraged in such a way as to offer customer value that breaks with established industry recipes.*

2 RESEARCH QUESTIONS

The objective of the study was to investigate the following research questions:

1. What are the key elements of strategic innovation?
2. Does strategic innovation lead to performance?
3. To what extent do Flemish firms implement the principles of strategic innovation?
4. How do firms that innovate strategically differ from those that don’t?

3 RESEARCH METHOD

A two-pronged approach was adopted, with the study consisting of a qualitative and a quantitative stage.

The qualitative stage involved two case studies, each of which scrutinized a specific company. The objective of the case studies was to gain deeper insights into the phenomenon of strategic innovation. The case studies also provided valuable learning material[1]. Section 4 of this report discusses the case studies in further detail.

The quantitative stage of the study comprised a large-scale survey of Flemish firms. All firms with more than 50 employees and located in Flanders were sent the survey and an accompanying letter. We targeted general managers and vice presidents of the selected firms' strategic business unit (SBU). For firms without such a management structure usually the CEO was selected to fill out the questionnaire. We sent out the questionnaire together with a personalized letter and reply envelope. The letter introduced the research and gave a hyperlink to a website, enabling the respondents to fill out the questionnaire on the Internet if they so desired. Two weeks later, the respondents were sent an e-mail reminder, which was followed up two weeks later. In all, 187 questionnaires were filled out, yielding a 7% response rate. Section 5 contains a report on the results of the research.

A fellow research team at the Research Center for Strategy & Innovation at the Vrije Universiteit Amsterdam (VUA) conducted a similar survey in the Netherlands. Section 5.3 compares the Flemish data with the Dutch data.

[1] The case studies will be submitted to the European Case Clearing House after being cleared by the participating companies.

4 CASE STUDY RESEARCH

To gain a greater insight into the concept of strategic innovation, we conducted two case studies focusing on two distinctly innovative companies: Weekendesk and Eurinpro. These companies fit the definition of strategic innovation that we described in the introduction, and as such offer valuable insights into the key elements that define a strategic innovator. The case studies are useful in two ways: they confirm the findings of the quantitative study and they also provide additional information that affords new insights into those findings.

4.1. Methodology

To find two strategic innovators, we kept a close eye on the business press and selected companies that demonstrated features of strategic innovation. Desk research was conducted to find out whether these companies matched our definition of strategic innovation. Initially, six companies were selected: Carry Flor, Woestijnvis, Accent, Ormit, Weekendesk, and Eurinpro. After careful consideration, Weekendesk and Eurinpro turned out to be the most relevant companies for this research project. In addition, they complement each other, since Weekendesk is a start-up company, while Eurinpro is an incumbent company.

For both case studies, we set up initial meetings to gain an understanding of the respective company's business and confirm that it constituted a valid instance of strategic innovation. After evaluating the information retrieved from these interviews, we drew up a list of all the information that was still needed and then scheduled second and third interviews. Table 1 identifies the interviewees. The topics covered during these interviews were based on the available literature and looked specifically at the company's business model and the skills required to sustain it. The next phase is still ongoing: we are currently writing up the case studies and will then present them to the companies for approval.

→ Table 1 Interviewees at Eurinpro and Weekendesk

First round of interviews		
Marc Verhagen	Weekendesk	CEO
Karoline Neujens	Weekendesk	Marketing Manager
Geert Vanhees	Eurinpro	Marketing Manager
Second round of interviews		
Bart Verhaeghe	Eurinpro	CEO
Third round of interviews		
Marc Verhagen	Weekendesk	CEO
Karoline Neujens	Weekendesk	Marketing Manager
Danny Peeters	Eurinpro	Chief Operations Officer
Eddy Huysman	Eurinpro	Chief Technical Officer
Jan Van Lancker	Eurinpro	General Counsel

4.2. Eurinpro and Weekendesk: A case description

4.2.1. Weekendesk

4.2.1.1. Who, what, how?

Weekendesk is an Antwerp-based company that is active in Belgium, the Netherlands and France. The company has *two product lines*: hotel packages and gift boxes. The customers books his hotel package on the Internet, without any involvement on the part of the hotel or any third party. The focus is on weekend stays within a 200-mile radius. The gift boxes are cardboard boxes that focus on a given theme, and offer a range of "experiences" to the gift's recipient. Examples of such 'experiences' are a helicopter flight, a wellness weekend, a stay at a holiday park, a sauna visit, and so on. Recipients can book the experience of their choice on the website.

Central to Weekendesk's business model is the *Internet*. Customers can only book their hotel packages over the Internet. However, (only) 50% of gift box sales are generated via the Internet; the remaining 50% are generated through selected complementary sales channels, such as Dreamland, AS Adventure, and Connections.

Weekendesk targets specific *customers*: for the hotel business it targets people who are willing to use the Internet to book a hotel, instead of going to a traditional travel agent. For its gift boxes, Weekendesk targets customers who find the idea of giving an experience as a gift appealing. Such people are open to new experiences and want to share them with the recipient of their gift. The choice of sales channels is geared toward these kinds of customers: the Internet as an increasingly popular channel that is being used more and more by consumers to effect purchases of all kinds; AS Adventure as an "outdoor action" store; Connections as a travel agent for adventurous tourists; and Dreamland as a gift store.

4.2.1.2. A strategic innovator?

Weekendesk combines features of both the travel industry and the gift sector, but implements *a business model that is distinctly different from both*. Although Weekendesk's products are somewhat innovative, the company went further than mere *product innovation*: its entire organization was organized in such a way as to deliver superior customer value, offering an innovative product to a new set of customers through a new channel. No other company offers the same as Weekendesk, combining a hotel business and a gift box business.

A number of support activities and capabilities are established to maintain the company's business model: the use of the Internet as a sales channel, a telephone helpdesk, sales and contracting skills needed to conclude deals with hotels and the organizers of the experiences it offers, and the key value of "what you see is what you get." Thus, Weekendesk employs a team of photographers and copywriters to make sure that all the information supplied to customers by the company is as accurate as possible.

4.2.2. Eurinpro

4.2.2.1. Who, what, how?

Eurinpro is a pan-European provider of customer-centric, tailor-made logistic real estate. The company covers the entire process involved in building warehouses, placing its customers first. Depending on its customers' requirements, Eurinpro seeks the best solution at various levels. e.g. in terms of the warehouse's location, quality, and price. Eurinpro concludes a rental agreement with the customer, then sells the whole project, including that rental agreement to an investor, often even before the tenant occupies the building.

Thus, Eurinpro serves two kinds of customers: customers with logistic needs and institutional investors. Accordingly, Eurinpro needs to offer an adequate value proposition to both parties: the customer with a logistic need gets to rent a tailor-made warehouse, and the investor gets to buy a warehouse that is also partially standardized to guarantee its ongoing value.

Eurinpro is faster and less expensive than other providers of logistics real estate. Over time, Eurinpro developed the resources and capabilities it needs to offer such superior value. First of all, the company streamlined the handling of incoming requests for proposals and project management. Its technical department can draw up a proposal within 24 hours. Then it fixes the price, timing of delivery, and quality of the warehouse. The technical department enjoys Eurinpro's full backing, comprising an international matrix structure plus a range of carefully selected employees active in different areas to make sure that Eurinpro operates as a one-stop-shop. In addition, Eurinpro controls a full network of its own (sub)contractors, who channel the knowledge they have acquired over the years by following guidelines governing their work processes. Every division of Eurinpro drafts, follows, and passes on these guidelines to other employees within the company.

4.2.2.2. A strategic innovator?

Unlike Weekendesk, Eurinpro does not combine two business models to create a new one. Rather, Eurinpro has broken with the established recipe followed in its sector by traditional logistics real estate providers and created a new, independent business model. Instead of working along tailor-made, customer-centric lines, traditional real-estate providers follow an on-risk, top-down approach: first they secure a location, then they build the warehouse, and only at the very end of the process does the customer come onto the scene. By contrast, Eurinpro starts with the customer's desires and then builds the appropriate warehouse.

Under the guidance of CEO Bart Verhaeghe, this strategy has created superior customer value for both types of Eurinpro customers, delivering tailor-made warehouses faster and less expensively than the company's rivals.

4.3. Learning points

Eurinpro and Weekendesk operate in completely different environments and offer totally different products, but one thing they have in common is that they have both been strategically innovative at least once. Since Eurinpro and Weekendesk are so different (incumbent versus start-up, pan-European versus a presence in just three European countries, logistics real estate versus the gift business, and so on), it is interesting to see where they converge and where they differ.

To start with, Weekendesk and Eurinpro share *a refusal to follow the dominant recipe in their industry*, steering clear of the strategies pursued by other players in their respective industries. For Eurinpro, this is very clear: the dominant approach in its sector is an on-risk, top-down approach, whereas Eurinpro adopts a diametric, on-demand, customer-centric approach. Weekendesk on the other hand, does not even belong within a single sector, opting instead to combine the features of two businesses (travel and gifts), and add new features to complete its business model.

Furthermore, while rejecting the conventional approach taken within their respective industry, Weekendesk and Eurinpro have *both created new markets*, serving customers who either were not served before, or were unhappy with the manner in which they were being served. Weekendesk appeals to customers who want to use the Internet to control the whole process of selecting, buying, and booking a hotel package or a gift box, and to consumers who are looking for a packaged experience rather than just a stay in a hotel. By contrast, Eurinpro targets two groups of customers: customers with a logistic need and institutional investors who integrate the company's real estate projects into their property portfolio. The first group of customers comprises a growing number of firms that value a logistics real estate provider who follows them around the world providing tailor-made warehouses, and that are open to outsourcing their logistics real estate needs. The second group of customers comprises real estate investors. Hence, both companies gear their services to a new set of customers who were not (well) served before and who now receive superior customer value and have their requirements met in a way that the industry's incumbents are unable to match.

But how can two companies deliver such superior customer value to the markets they opened up? As the two case studies show, Weekendesk and Eurinpro share some characteristics that enabled them to become strategic innovators.

To begin with, *leadership plays a crucial role* in determining the path a company will follow. At Eurinpro, it was CEO Bart Verhaeghe who finalized Eurinpro's business model by narrowing down the strategic focus of the company. At Weekendesk, founders Marc Verhagen and Bruno Spaas decided they wanted to do "something new" on the Internet, so they founded Weekendesk. In both cases, the CEO's had a distinct vision of where they wanted their company to go and didn't care what others in their sector were doing. One striking factor is that in both cases the strategic innovator was an outsider, i.e. not from the industry in question, and developed a completely fresh perspective compared with the prevailing business model.

A second characteristic that enabled Eurinpro and Weekendesk to become strategic innovators was their *specific market orientation*. Both firms are continually experimenting in their markets, and the establishment of their business model entailed continuous learning and adaptation. Especially when it started out, Weekendesk experimented until it found the right, profitable business model, not merely setting up an online booking site, but also introducing the innovative idea of gift boxes. Eurinpro takes this approach even further: after a few turbulent years, all its businesses (office, residential and retail, real estate) were phased out, leaving it with just its logistics real estate business. The current business model was developed, but not taken for granted, and in the wake of the recent acquisition by Macquarie Goodman, Eurinpro is again questioning its current modus operandi and considering the inclusion of fresh elements in its business model.

Eurinpro in particular is adopting a *proactive market orientation* in the running of its business: the company focuses on the latent needs of (future) customers, instead of reacting to expressed needs by existing customers. For example: Eurinpro exited the highly lucrative office real estate market to focus on the logistics real estate market, thereby leaving a lot of money on the table while turning toward a new customer segment. Weekendesk on the other hand initially adopted a proactive market orientation approach, addressing a new kind of customer, but now it wants to continue further down that path and adopt a more reactive approach. From this difference we can conclude that it is one thing being a one-time strategic innovator, and quite another being a company that continuously keeps looking for new ways to adapt its business model.

Thirdly, Weekendesk and Eurinpro have been successful strategic innovators because they *developed unique skills* to sustain their business model. This makes it very difficult to copy the company's business model: an imitator would also have to replicate the new skills underlying it, turning their whole organization upside down. For example, Weekendesk focuses on its key value of "what you see is what you get", employing a whole team of in-house copywriters and photographers. If a traditional travel agency wanted to do the same, it would have to completely change its organizational structure. Eurinpro is even more extreme in developing unique skills, with the whole firm being geared toward delivering tailor-made warehouses. To this end the company has its own technical department, it operates an international matrix structure, and it has in-house skills to deliver a one-stop-shop to its customers.

In short, both companies refuse to follow the predominant recipe in their industry and are thereby creating new markets. They can only innovate strategically because they share some characteristics: they have a visionary CEO, are primarily adopting a proactive approach, and have cultivated unique skills to sustain their business model. In addition, we can say that Weekendesk and Eurinpro are different kinds of strategic innovators, the main difference being that Eurinpro has an engrained culture of innovation, whereas Weekendesk innovated once and is now continuing down its chosen path. Further research is needed to establish whether strategic innovation is a one-time event involving the definition of the right set of skills to sustain an innovative business model or whether it is a continuous process that feeds on dynamism.

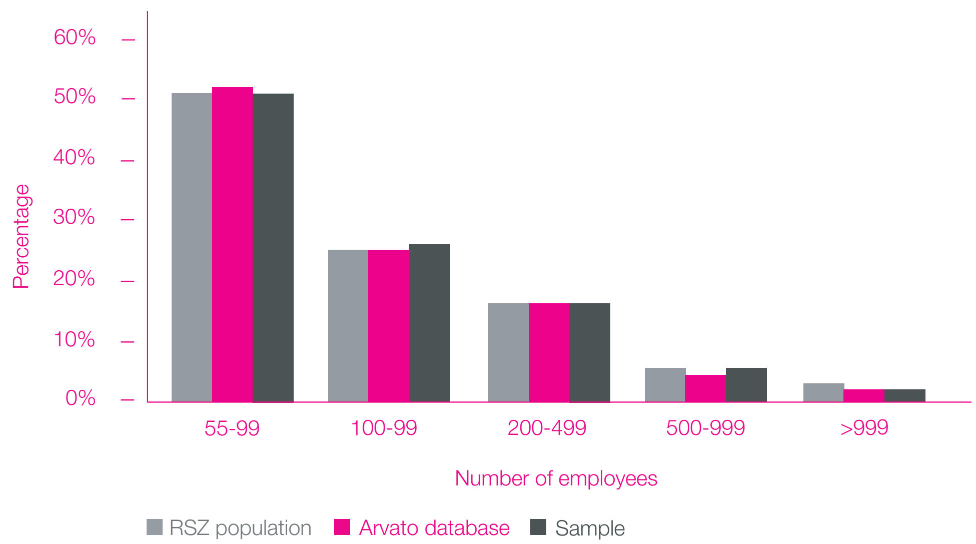
5 SURVEY RESEARCH

Apart from our in-depth investigation of two companies in case studies, a large sample of companies was contacted and asked to participate in a survey on strategic innovation. The following sections discuss the findings of that survey. We begin by presenting the sample of firms. Next, we set out the elements of strategic innovation and assess the extent to which Flemish firms appear to be innovating strategically. We then continue the discussion by providing theoretical and empirical proof of the relationship between strategic innovation and performance. Finally, the drivers of strategic innovation are discussed.

5.1. Sample

The total sample comprised 187 firms and almost perfectly represents the range of Flemish firms with more than 50 employees. Fig. 1 shows the distribution of companies based on their number of employees, as determined from three sources: (1) the social security service (RSZ) table, (2) the Arvato database from which the addresses were obtained and (3) the sample from the survey. The figure shows that there are no significant discrepancies between the population and the sample.

→ Fig. 1 Distribution of companies according to their number of employees



Out of the companies in the sample, 36% are service providers and 64% deliver products. 20% of the firms are business-to-consumer firms, and 80% are business-to-business outfits. On average, our respondents responsible for running their business were 39 years old and employed 280 people.

5.2. What are the key elements of strategic innovation?

Based on our review of the literature, our investigation of the material in the case studies, and our analysis of the quantitative data, we concluded that strategic innovation comprises four factors.

1. Value innovation

This dimension of strategic innovation entails strategic innovators offering both superior and at the same time innovative customer value. Providing superior customer value is essential for achieving a sustainable competitive advantage. Although the conceptualization in the literature of what constitutes "customer value" is rather fragmented, there is a consensus: namely, that customers' perceptions of what suppliers have to offer are a core element of the concept. Woodruff (1997, p. 142) defines customer value as "a customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations".

Value innovation is defined as offering customer value that customers perceive as valuable and new. Value innovation is often confused with strategic innovation. Value innovation, while certainly an element of strategic innovation, is not all-encompassing (Kim and Mauborgne, 1996). So from our analysis, we conclude that value innovation is a necessary component of strategic innovation, but does not cover the entire concept. Value innovation refers to the component of strategic innovation that specifically defines the customer value that the strategic innovator delivers to its customers.

2. New market creation

Strategic innovation entails creating a new market. Strategic innovators do not focus on the same market segments as their competitors, but instead attract new types of customers. In other words, instead of following accepted definitions of market boundaries and segmentation, they develop their own market. New markets can be created within existing industries by identifying unserved customer segments, targeting new combinations of existing customer segments, or redefining how the market is segmented (Markides, 1997).

This component of strategic innovation helps firms to avoid direct competition, because it focuses on customers other than incumbent rivals. For this reason, strategic innovators may not be recognized as direct competitors by existing firms in their sector. Combining value innovation with new market creation entails strategic innovators redefining existing industry boundaries and creating a unique competitive position.

3. Go-to-market innovation

Go-to-market innovation entails strategic innovators deviating from established practices in their industry in the manner in which they reach and serve their customers. For the most part this means that the firm is innovative in how it markets its products or services. For example, the emergence of the Internet created a wealth of opportunities to reach customers using non-traditional methods. The same will probably apply to mobile applications. However, go-to-market innovation need not be limited to using new technologies to reach the market; it could involve any kind of novel approach for marketing a firm's products and services that differs from the practices of its competitors.

4. Competitive disruption

The final element of strategic innovation has to do with the fact that strategic innovators do not belong to existing strategic groups and thereby upset the existing balance between competitors. Several academics have noted that over time an industry develops a dominant business model that becomes the established industry recipe. Prahalad and Bettis (1986) define the concept of "dominant logic" as a mindset or "world view" or the conceptualization of the business and administrative tools required to accomplish goals and make decisions in that business. This model can be viewed at the level of individual firms, but also at the level of an industry. Industry members share similar experiences and environments, and thus also share mental models. This mental model can be viewed as a belief structure that contains the key elements and relationships that govern an industry and form the basis for any company wishing to function within it. (For example, Bettis and Prahalad (1995) mention the presumed importance of the liberal arts for any university, an idea that is universally shared across university administrators and faculty, though there is no clear compelling evidence for their importance). A strategic group is defined as a group of firms within an industry that pursue similar strategies. A strategic innovator, by definition, takes a position outside of existing strategic groups. Competitive disruption measures the extent to which strategic innovators deviate from the structure existing in their industry and adopt an entirely new take on the "rules of the game."

5.3. To what extent do Flemish firms implement the principles of strategic innovation?

Each firm was given a score for each of the four elements of strategic innovation discussed in the previous section. Table 2 summarizes the mean scores awarded for the sample. They were based on the extent to which respondents agreed or disagreed with items that described the company's strategy. They were asked to rate the items on a 7-point Likert scale, ranging from “totally disagree” to “totally agree”. Thus, the scores awarded for elements of strategic innovation should be interpreted on a scale of 1 to 7.

→ Table 2 Mean scores for elements of strategic innovation

Factor	Mean score	Standard deviation	95% Confidence interval around the mean score	
Value innovation	4.88	1.12	4.72	5.04
New market creation	4.14	1.23	3.96	4.32
Go-to market innovation	4.27	1.31	4.08	4.46
Competitive disruption	3.88	1.17	3.71	4.05

Overall, we can conclude that the average firm in our sample does not rate highly with respect to strategic innovation. The mean scores for all elements apart from value innovation hover around the neutral mid-point of the scale. Only value innovation scores somewhat higher, averaging 4.88.
The last two columns of Table 2 display the statistical confidence interval of the mean score for each factor, this being the interval for which we are 95% certain that the mean lies within the interval's boundaries. The first observation regarding these figures is that value innovation scores highest and is thus practiced the most by Flemish firms. This means that in their quest to innovate strategically, firms look primarily for ways of creating customer value. The confidence intervals for the three other elements of strategic innovation overlap, suggesting that none dominates the others.

We also compared our sample to an outside sample. We obtained data on a sample of 110 Dutch firms that were gathered using the same selection and data collection procedures that we followed in our own study. Table 3 compares the scores for each of elements of strategic innovation between the Flemish and Dutch samples.

Table 3 Mean scores for strategic innovation factors for Flemish and Dutch firms

Factor	Mean score Flemish sample	Mean score Dutch sample	Statistically significant difference?
Value innovation	4.88	4.94	NO
New market creation	4.14	4.41	YES
Go-to market innovation	4.27	4.00	YES
Competitive disruption	3.88	4.03	NO

The results show that Flemish firms differ from Dutch firms with respect to two elements of strategic innovation. Dutch firms score higher on average than Flemish firms in new market creation, suggesting that they are more inclined to innovate by seeking out new market segments. Flemish firms, on the other hand, are more likely to be innovative regarding their market approach and score slightly higher on go-to-market innovation than Dutch companies.

5.4. Does strategic innovation lead to performance?

5.4.1. Theoretical foundations for the relationship between strategic innovation and performance

Strategic innovation is all about straying off the beaten track, a practice that runs counter to the usually observed pattern, which is that competitors converge in terms of the strategy they employ. Imitating rivals and complying with industry standards is a low-risk strategy. But this reinforcement of existing competitive relationships impedes differentiation, effectively trapping companies within the existing framework for competition. Sharing similar target markets and competing for the same resources imposes constraints on performance. Lack of variety between competitors leads to more head-to-head competition (Miles et al., 1993). So strategic convergence between similar companies may be harmful in the long run.

So does strategic innovation positively impact on a company's performance? There are several reasons why this is thought to be the case.

1. New market space

Strategic innovation leads to the creation of a unique market space. Coupled with this are the advantages of uniqueness: a first mover advantage, a (temporary) monopoly, switching costs and subsequent customer loyalty. Strategic innovators also develop unique capabilities. The resource-based view holds that a firm's resources and capabilities[2] and products are two sides of the same coin (Wernerfelt, 1984). This implies that a firm's resources underpin the product or service it offers as well as its positioning. Companies that pursue different market strategies therefore require a similarly different set of resources. From that perspective, resources are prerequisites for the customer value that the firm is capable of delivering, and can thus be viewed as antecedents to the range of products it offers.
Because strategic innovators compete on different levels, they employ different resources and often also attract different customer segments than traditional competitors. Accordingly, we need to stress that strategic innovators experience less competition for resources, on both the input and the output sides.

Strategic innovators often constitute groups comprising a solitary firm. The existence of single-firm strategic groups has been reported in the strategic group literature and where their expected performance is discussed as follows: (see McNamara et al, 2003) *"The resource-based view and contestable markets perspectives both suggest that solitary firms will be the highest performers. As noted above, the resource-based view suggests that firms which stake out unique market positions are able to develop resource sets that best serve a segment of the market (Peteraf, 1993). Contestable markets theory (Baumol et al., 1982) offers a complementary perspective. Firms that identify unique market positions isolate themselves from competition and can build a local monopoly. Both lines of reasoning suggest that solitary firms have the highest financial performance potential."*
Recent research on the performance of solitary firms suggests that their performance is lower than that of companies that conform more to an existing group (McNamara et al., 2003; Deephouse, 1999). This finding totally contradicts the notion that "doing things differently" leads to better performance. Of course, such a measure misses an additional component that is part of the strategic innovation concept, namely added value for customers. The strategic group literature only identifies firms in terms of the similarity of their strategies. However, the market perspective is totally ignored. In other words, no consideration is given to whether such different strategies yield different customer value. Accordingly, when drawing conclusions about performance, the only independent variable that enters the equation concerns the similarity in strategy with other competitors.

[2] The resource-based view identifies a firm's resources and capabilities as the main source of its competitive advantage. Resources include the tangible and intangible assets available to a firm, e.g. its know-how, financial resources, and so on. Its capabilities are tangible or intangible procedures that are developed over time using complex interactions and deploying the company's resources. Throughout this paper, we will use the term "resources" to indicate a firm's combined pool of tangible and intangible resources, assets, and capabilities.

2. Lack of imitation

One of the reasons firms enjoy superior performance through strategic innovation is because it enables them to differentiate themselves from their competitors. Current examples of strategic innovation also stand out because the companies that practice it are not widely copied, in spite of their success. This lack of imitation reinforces the performance of strategic innovators and enables them to establish first-mover advantages in building up a unique position in the industry. In addition, they avoid head-to-head competition. So, to understand strategic innovation it is vital to comprehend why it is not copied when it surfaces in an industry. The nature of incumbent companies goes some way toward explaining this lack of imitation, as we will discuss in the next section. However, the nature of strategic innovation itself also complicates imitation.

Viewing strategic innovation as a form of innovation concerning the resources and capabilities used to compete clarifies the difficulty faced by competitors.

Teece et al (1997) said: *"The key point is that the properties of an internal organization cannot be replicated by a portfolio of business units amalgamated just through formal contracts as many distinctive elements of internal organization simply cannot be replicated in the market….Replication takes time, and the replication of best practice may be illusive."*

This difficulty is exacerbated because for incumbent firms, imitation not only requires replicating the strategic innovator's critical capabilities, but also annihilating their existing capabilities. Strategic innovation breaks with the "dominant logic" and therefore requires "unlearning" from incumbents (Bettis and Prahalad, 1995).

Even if the necessary capabilities are visible and possible to imitate or acquire, there are still additional hurdles to overcome. We can classify these as (1) causal ambiguity, (2) path dependence, and (3) interconnectedness.

Causal ambiguity refers to the difficulty faced in identifying the factors underlying superior performance. This difficulty is faced within the company experiencing the superior performance, and is even more acute for outsiders trying to determine success factors. Causal ambiguity contributes to the difficulty faced by incumbents when identifying exactly what they need to do to adopt a strategic innovation. (For example, many traditional airlines fail to successfully add a low-cost, no-frills carrier to their operations. Delta has adopted a name (Song) for its low-cost airline that is reminiscent of Air Canada's (Jazz), apparently believing that the name is one key element in attaining success).

The following observation has been made regarding competence-destroying innovation (applied to technological capabilities): *For innovation in core subsystems, the acquisition of new competences from external domains is less organizationally challenging than adapting existing competencies to competence-destroying change* (Gatignon et al., 2002). This shows that it may be easier to start from scratch than to shift gears within an existing organization. Scholars have referred to the "stickiness" of resource endowments, implying that companies are to a large extent "stuck" with what they have (Teece et al, 1997). This "stickiness" implies that existing competencies direct the future avenues open to a company. The flip side of this is that companies can become trapped within their current resource base, i.e. core competences can become core rigidities (Leonard-Barton, 1992). The way companies respond to competitive challenges is thus already limited by their current situation. This creates a kind of path dependency in the company's options for change.

Strategic innovation involves a departure from industry practice, represented not only by adopting a single new practice, but by overhauling an entire system. Imitating this innovation entails imitating a complex system, with interdependencies between components. Rivkin (2000) conceptualizes a strategy as a set of choices, whose outcomes are interdependent. For instance, investments in machines for a complex product line are more valuable if the sales force is trained to present the products in question to customers. In other words, the value of each individual part of a strategy will depend on the choices made regarding other parts. This makes it advisable to aim at optimizing the combined set of choices, not individual components. In a similar spirit, Siggelkow (2002) claims that changing only one element in an organizational system is ineffective because it creates an organization that is inconsistent (with no "fit" between its individual elements). Other elements need to be modified at the same time. This view of strategy as a set of decisions whose usefulness is interdependent suggests that such a strategy cannot be imitated just by changing single components. The imitation of strategic innovation entails more than making just a few superficial changes. In short, the same result cannot be attained without adapting the whole system.

3. Lack of competition

It has been recognized that companies envision a limited set of incumbent competitors when formulating their competitive strategy, and that it is mainly this set of competitors that influences their competitive actions (Clark and Montgomery, 1999; Porac and Thomas, 1990). Researchers have commented extensively on decision-makers' tendency to rely on old frameworks to assess new information (Barr and Huff, 1997). This leads established companies to categorize innovative behavior as irrelevant, because it does not fit within existing frameworks of the market or the competitive landscape.

Competitive cognition theory claims that companies do not regard their competitive landscape as a homogenous group. The classification of firms as focal competitors is based on an underlying continuous process in which they are rated along a continuum for a number of relevant attributes, which may be similarity-based or size-based (Clark and Montgomery, 1999). This competitor identification process directs competitive analysis and firms' subsequent behavior. This means that the interpretation of competitive events is affected by a firm's mental model of the competition, which is developed mainly by examining the most similar competitors (Porac and Thomas, 1990; Heil and Robertson, 1991; Reger and Huff, 1993). This means that competitive actions are expected to have an asymmetrical effect on the company's resulting reactions (Chen 1996). Companies that take up a position that deviates from that of their existing competitors therefore escape competitive reaction.

5.4.2. Empirical support for the relationship between strategic innovation and performance

To be able to investigate empirically whether strategic innovation leads to higher performance, we need to define how to measure corporate performance. Two issues are involved here. Firstly, performance is a multidimensional construct, for profit, market share, turnover, and so forth are all valid and potential indicators of performance. A second issue regarding the measurement of performance is that it is difficult to find the right benchmark by which to judge performance in a cross-industry sample.
To address these issues, we adopted our own measure of performance, using items that primarily measure performance relative to either competition or expectations.
The following items were deemed to determine corporate performance:

- In the past three years, we have been more successful than competitors in terms of our profitability.
- In the past three years, we have been more successful than competitors in terms of our market share.
- In the past three years, we have been more successful than competitors in terms of our turnover.
- In the past three years, we have been more successful than competitors in terms of attracting new customers.
- In the past three years, the overall performance of our business unit met expectations.
- In the past three years, the overall performance of our business unit exceeded our competitors' performance.
- The top management of our business unit was very satisfied with our overall performance in the past three years.

The correlation between these seven items of performance is high, and they can be combined in a single one-dimensional "performance" construct.
The table on the next page summarizes the results from regression analyses conducted with performance as the dependent variable. The regression was run with strategic innovation as an overall measure, as well as with the four individual elements of strategic innovation. We also investigated the respective effect of each element on relative profitability, market share, turnover, and success in acquiring new customers. The regression controls for environmental factors that can explain such aspects of performance as demand uncertainty, competitive intensity, technological turbulence, and market growth.

→ Table 4 Regression results for the effect of strategic innovation on performance (*: statistically significant relationship, .05 significance level)

Dependent variable	Overall performance	Overall performance	Relative profitability	Relative market share	Relative turnover	Relative succes in acquiring new customers
Independent variables						
Strategic innovation	1.114*					
Value innovation		.390*	.515*	.397*	.311*	.413*
New market creation		.049	-.024	.118	.060	.263*
Go-to-market Innovation		.274*	.267*	.232*	.157	.142
Competitive disruption		.454*	.433*	.550*	.580*	.426*
Demand uncertainty	.026	.047	-.078	.062	.110	.049
Competitive intensity	-.202*	-.159*	-.078	-.209*	-.189*	-.166*
Technological turbulence	-.109	-.146*	-.107	-.092	-.045	-.190*
Market growth	.183*	.176*	-198*	.179*	.203*	.106

The results in Table 4 show that strategic innovation has a positive effect on business unit performance. When we look at the individual impact of each of the elements of strategic innovation, we see that three out of the four are positively and significantly related to performance. New market creation has a positive effect, but not significantly so. Unsurprisingly, new market creation has a positive effect on a business unit's success in attracting new customers. However, apparently this does not immediately translate into a significant increase in profit or turnover. Both value innovation and competitive disruption have a positive impact on all aspects of performance. Go-to-market innovation apparently leads to profit and market share, but does not significantly affect turnover or the ability to attract new customers.

As for the impact of environmental conditions on business unit performance, we see that demand uncertainty has no effect. Competitive intensity and technological turbulence relate negatively to performance, whereas market growth relates positively to performance. Remarkably, competitive intensity is not significantly linked to profitability. However, it should be borne in mind that profitability is viewed relative to that of competitors. Competitive intensity can be expected to affect the profitability of all rivals to some extent. We do, however, note that competitive intensity has a negative effect on relative market share and turnover. One possible explanation for this finding could be that Flemish firms prefer to sacrifice sales and market share and preserve profitability when faced with competitive pressure.

5.5. How do firms that innovate strategically differ from others?

Now we have established that strategic innovation enhances performance, the next question is how strategic innovation can be stimulated. While Table 2 indicates that on average Flemish firms do not score extremely high on strategic innovation, it also shows that there are large discrepancies between firms' performance. This begs the question as to what differentiates a firm that scores low on strategic innovation from one that achieves a high score. Broadly, two hypotheses can be formulated to explain this. The first hypothesis posits that the environment within which a firm operates impacts on the extent to which the company in question is strategically innovative. In other words, innovative firms operate in a different kind of environment than non-innovative firms. A second hypothesis seeks an explanation rather in the firm's own actions and behavior, suggesting that innovative firms display a different type of behavior than non-innovative firms and are differently organized. The following two sections discuss each of these hypotheses in greater depth.

5.5.1. Environmental predictors of strategic innovation

To see if the environment in which a firm operates can explain whether it is more or less strategically innovative, we investigated the following environmental factors:

- the type of industry: manufacturing or the tertiary sector;
- the type of market: business-to-consumer or business-to-business market;
- market growth: average growth over the past three years;
- demand uncertainty: the extent of change and unpredictability regarding demand and customer needs and wants;
- competitive intensity: the aggressiveness with which firms compete;
- technological turbulence: the extent of change and technological unpredictability.

Each of these environmental characteristics was related to an overall score for strategic innovation (across all four elements).

The results reveal that there is no difference between product-oriented firms and service providers in terms of their level of strategic innovation. There is also no difference between business-to-consumer or business-to-business firms. However, market growth does have an impact: the higher the market growth, the higher the score on strategic innovation. This shows that firms active in growing markets are more likely to invest in strategic innovation.

The effect of demand uncertainty on strategic innovation is positive and significant. This indicates that firms active in a market where customer demands are subject to extensive changes and fluctuation, are more likely to score higher on strategic innovation. This suggests that firms are more likely to experiment in an environment where customers demand a greater pace of change.
Competitive intensity on the other hand is negatively related to strategic innovation, implying that firms get too wrapped up in competing head-on, instead of escaping competition by seeking out a new competitive position.

Technological turbulence has no significant effect on strategic innovation. This result underscores the finding that strategic innovation is unrelated to technological innovation. Strategic innovation can be implemented whether a firm is in a low-tech or high-tech environment, and firms are equally likely to invest in it.

Table 5 provides an overview of the results of a regression analysis of the four significant environmental predictors of strategic innovation.

→ Table 5 Regression coefficients of environmental predictors on strategic innovation
(*: statistically significant relationship, .05 significance level)

	STRATEGIC INNOVATION
Independent variables	
Demand uncertainty	.375*
Competitive intensity	-.182*
Technological turbulence	.106
Market growth	.154*

5.5.2. Organizational predictors of strategic innovation

5.5.2.1. Sense-and-respond capabilities

In this section, we explore which of the firm's procedures and actions prompt strategic innovation. We focus on a broad set of capabilities labeled "sense-and-respond capabilities", a wide set of activities and processes that comprise an organization's ability to respond to its environment. They include gathering information, disseminating information, and responding to such information as a company. The information in question can relate to three domains: the market, competitors, and technology.

A wide range of organizational capabilities and/or organizational characteristics could potentially explain strategic innovation. Organizational capabilities include new product development, speed of decision-making, supply chain management, and other factors. Examples of organizational characteristics are the size of the company, the composition of its staff, its system of remuneration, its organizational structure, its leadership, the composition of its top management team, and so forth. It is impossible to include all these factors in a possible explanation of strategic innovation.

We chose to focus on sense-and-respond capabilities for three main reasons. Firstly, such capabilities can be applied and prove effective across industries. Secondly, sense-and-respond capabilities can be developed by any firm and are thus subject to its own control and efforts. Accordingly, any conclusions about the effectiveness of sense-and-respond capabilities immediately have practical managerial implications. Thirdly, the focus on sense-and-respond capabilities stems from the dynamic nature of any industrial environment. Over time, changes in the business environment (of a regulatory, economic, political, or other nature), customer needs, market composition, demographic changes, and technological advances all create fresh opportunities to carve out new strategic positions. We hypothesize that a firm's sense-and-respond capabilities will help it recognize these changes and the opportunities arising from them and will thus stimulate strategic innovation.

We investigate the following sense-and-respond capabilities of firms:
- reactive market orientation;
- proactive market orientation;
- emerging market orientation;
- reactive competitor orientation;
- proactive competitor orientation;
- reactive technological orientation;
- proactive technological orientation.

Market orientation entails listening to customers and responding to their interests and wants. A distinction can be drawn here between reactive and proactive market orientation. A reactive market orientation focuses on the manifest and expressed needs of customers, whereas a proactive market orientation focuses on latent and nascent needs of customers (Narver et al., 2004). A third type of market orientation is emerging market orientation, which entails gathering and disseminating information on potential customers and thereby helping the firm to identify emerging, albeit small, customer segments.

Competitor orientation involves activities concerning the gathering of information on competitors, the assessment of competitors, and the response made to these competitors. Again, we distinguish between reactive competitor orientation and proactive competitor orientation. Reactive competitor orientation is geared at past actions and the current strategy, goals and offerings of competitors. Proactive competitor orientation means focusing on the future actions and strategy of competitors and on recognizing potential new competitors.

Srinivasan et al. (2002) discuss the concept of technological sense-and-respond capabilities. Proactive technological orientation refers to an organization's efforts to regularly scan information on new technological opportunities, whether internally or externally. It results in an ability to acquire knowledge about and understand new technological developments. A reactive technological orientation refers to an organization's willingness to respond to new technology in its environment.
Table 6 depicts the areas of reactive and proactive sense-and-respond capabilities that we investigated.

→ Table 6 Overview of proactive and reactive sense and respond capabilities

	Reactive	Proactive
Market orientation	manifest needs of customer	latent needs of customers
Competitor orientation	direct competition	indirect/future competition
Technological orientation	existing technology	new technology

5.5.2.2. Empirical evidence of the effect of sense-and-respond capabilities on strategic innovation

Table 7 provides an overview of the results of a regression analysis of sense-and respond capabilities on strategic innovation, while checking for environmental predictors.

→ Table 7 Regression coefficients of organizational and environmental predictors on strategic innovation (*: statistically significant relationship, .05 significance level)

	Strategic innovation
Independent variables	
Reactive market orientation	.144*
Proactive market orientation	.251*
Emerging market orientation	.057
Reactive competitor orientation	.082
Proactive competitor orientation	.008
Reactive technological orientation	.106
Proactive technological orientation	-.086
Demand uncertainty	.215*
Competitive intensity	-.151*
Technological turbulence	.062
Market growth	.074

The results indicate that both reactive and proactive market orientation lead to strategic innovation. The significance of these organizational predictors is important because these are factors, other than environmental predictors, that are under the firm's control and can be explicitly manipulated to stimulate strategic innovation.

The following types of behavior and attitude reflect reactive market orientation:

- we constantly monitor our level of commitment and orientation to serve our customers' needs;
- we freely communicate information about our successful and unsuccessful customer experiences across the entire business;
- we measure customer satisfaction systematically and frequently;
- data on customer satisfaction are regularly disseminated to all levels of this business unit;
- our strategy for gaining a competitive advantage is based on our understanding of our customers' needs;
- we are more customer focused than our competitors;
- I believe this business exists primarily to serve its customers.

Reactive market orientation can thus be regarded as a culture in which customers occupy a central role. This is reflected in concrete actions to measure customer satisfaction, but it does not stop there. To be truly market oriented, an organization needs to actively work with this information. This means that customer information is disseminated throughout the organization and inspires and guides future actions.

The following types of behavior and attitudes reflect proactive market orientation:

- we help our customers anticipate developments;
- we continuously try to discover additional needs of which our customers are unaware;
- we incorporate solutions to unarticulated customer needs into our new products and services;
- we brainstorm on how customers use our products and services;
- we search for opportunities in areas where customers have a difficult time voicing their needs;
- we work closely with leading users to try and recognize customer needs months or even years before the majority of the market may zero in on them;
- we extrapolate key trends to gain an insight into what users in a current market will need in the future.

The key difference between reactive and proactive market orientation is the latter's forward-looking nature. It is not about responding to customer's current needs, but about anticipating their future requirements.

As is clear from Table 7 above, both reactive and proactive market orientation have a positive impact on strategic innovation. However, proactive market orientation has the largest impact. The conclusion from this is that proactive market orientation leads firms to develop more innovative approaches to reach the market.

6 IMPLICATIONS

In this section we set out a number of implications of this study.

1. Competing in highly competitive environments

How can a firm deal with intense competitive pressure? The tendency is to get wrapped up in destructive competitive battles in an attempt to preserve market share or market dominance. Our results show that high competitive intensity has a negative effect on the firm's performance: specifically, turnover and market share suffer. In spite of strategic innovation's positive effect on performance, we actually observe that firms operating in a highly competitive environment are actually less likely to be strategically innovative. However, it is precisely in such an environment that strategic innovation matters the most. Strategic innovation provides a way for firms to turn around the negative effect of a highly competitive environment, enabling them to deliberately escape the battle for supremacy by choosing to occupy a position in which it is no longer directly competing. On page 22 we discuss how strategic innovators define a new value proposition and create a new market, effectively setting their firm apart from competitors and allowing them to escape head-on competition.
It is a natural reaction for firms that are faced with strong competition to have to focus all their energy and resources on dealing with these competitive battles. Unfortunately, that leaves little time and scant energy and resources to take a step back and consider alternative paths. It is precisely those firms who need strategic innovation most of all that least consider the possibilities it offers! Thus, *a substantial effort is needed to educate firms about the nature and potential of strategic innovation.*

2. Market orientation

Our findings underscore the critical role that market orientation plays in fostering strategic innovation. But what exactly does this mean? As we can see from the discussion on page 35, market orientation translates both into a company culture and into concrete actions. An organization's culture is a deeply rooted set of values and norms that drive behavior within that entity. Having a market-oriented culture implies customers occupying a central role in each decision and action that the firm takes. At the heart of this approach is a mindset that the firm only exists thanks to its customers and that it is therefore critical to listen and respond to customers' needs. *It requires a consistent effort on the part of management to monitor whether this mindset is present, fostered, and stimulated.*
Market orientation also translates into concrete actions that the company takes to monitor market developments and gather information and actively integrate this information in the decision-making process. *A key issue therefore is that the company needs access to market information and/or suitable resources to acquire market information.*

3. Focus on technology

Our results show that strategic innovation is entirely distinct from technological innovation. We also observe that technological turbulence in the market where the firm operates has no impact on strategic innovation, which again reinforces the claim that technology does not play a central role in strategic innovation. Technology can at most be an enabler of innovative business models, but it is neither a necessary component, nor the central focus of such a model.
Actions to foster innovation in organizations should therefore not focus solely on technological innovation, but rather adopt a broader outlook regarding the nature of innovation.

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