



THE CONCEPT OF MARKET OPPORTUNITY DRIVING COMPETENCE

Company X

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ABSTRACT

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The complexity and dynamic behavior of business ecosystems means that the value perceptions of customers are subject to change. In a business context, such change can be seen as a macro-environmental impact or as a result of the strategic actions of companies pursuing beneficial market positions.

In a business context, strategic orientation in development activities holds two-dimensional significance. In one dimension, the intention is to develop commercial offerings that generate satisfactory financial results in existing market positions. This thesis argues that the other dimension should be considered as well. The second dimension takes into account the future and develops competence that prepares the company for changes, which are inevitable and also beneficial in a business environmental context.

In the case company, strategy was implemented into practice as commercial development projects. Therefore the project portfolio presented an objective, empirical and quantifiable basis for studying the company's actual strategic orientation. An explicit combination of qualitative and quantitative methodology was applied in order to produce findings by mapping the projects into the relevant dimensions. Strategy, in this sense, was seen as the practice of either near-term or forward orientation, based on the share and diversity of development efforts.

The case company did not have strategy review practices that would consider the development of critical competence in the operative framework of development projects, and in relation to future market opportunities. The topic was approached with the aim of contributing in the process of building organizational awareness of this dimension of strategic management, and of bringing into consideration points of development. The conclusion and recommendations are made explicitly on this basis.

Key words: business, strategic orientation, competence management, market opportunities

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ABBREVIATIONS AND TERMS

PLC	Publicly Listed Company
CIS	Common Wealth of Independent States
OEM	Original Equipment Manufacturer
CTL	Cut-to-length method
APM	Aggregate Project Matrix
CEO	Chief Executive Officer
R&D	Research and Development

1 INTRODUCTION

The main strategic objective of the case company is to grow the business profitably. The bar is set high, as the parent company is known for being the most profitable within the industry. This primary objective is the frame of all operations and business development. However, such positions do not come easily in increasingly more dynamic markets, where advantages can be short-lived. This brings forth not only the requirement to find ways to sustain and grow the core offering-based business profitably, but also to utilize emerging, potentially highly profitable market opportunities in the future.

Development activities in the business context hold a two dimensional significance. In one dimension, the intention is to develop commercial offerings that generate satisfactory financial results in existing market positions. Besides strict financial benefits, the other dimension should be considered as well. The other dimension takes into account the future and develops competence that prepares the company for changes, which are inevitable and also beneficial in the business environmental context. In this thesis, the aforementioned approach is called the strategic forward orientation. Competence does not prosper in a vacuum. Thus the operational framework of goal-oriented commercial development provides the right motivation for further advancement, as the intention is to become better in creating value for various customers.

In the case company's operations, adaptation and change are pursued as various development projects. Therefore the project portfolio presents the actual strategic orientation of the case company.

This thesis argues the following

- The difference between the strategic forward orientation and the near-term orientation is in the diversity of development efforts that seek to create customer value.
- By focusing efforts, i.e. choosing certain strategic activities over others, a company ultimately limits its competence.
- In the future, the market opportunities of a company are determined by how it is able to develop competence along with, or ahead of, change.

1.1 Background

The case company does not have strategy review practices that consider the development of critical competence in the operative framework of development projects, and in relation to future market opportunities. The topic was chosen with the ambition to contribute in the process of building organizational awareness of this dimension of strategic management, and to bring into consideration points of development. The objective of this thesis is to generate information, which can be applied to further the strategic thinking models of the organization.

1.2 Research objectives

This thesis seeks to review the case company's strategic orientation in order to formulate a discussion of the case with a theoretical frame of reference.

The research questions that this thesis seeks to answer are

- What can be concluded about the case company's strategic orientation by studying the project portfolio?
- How prepared is the company to pursue the diversity of market opportunities in the future, based on the findings?
- What could be the review model of strategic competence development in the case company's context?

1.3 Validity and reliability of the study

The author wants to emphasize that the case study, as presented in this thesis, considers specifically the explicit context of the case company. The study seeks to produce findings of the case company's strategic orientation by applying a specific combination of qualitative and quantitative methodology. Validity and reliability in this context is considered to result of objectivity, logic and meaningfulness of the research design, considering the case. The research design is described in detail in chapter 4.

The research design applied in the study seeks to take into account the special profile and dimensions of the case company as a developer and manufacturer. Therefore considering validity and reliability, the relevancy of the persons included in the research and usefulness of the data collection methods used in the research, have been considered explicitly in the case company's context. It is important to note that arguing on the universality of the applied methodology is not within the scope of the thesis.

The theoretical framework of market opportunity driving competence as presented in chapter 3 of this thesis acts as the explicit frame of reference for reviewing the material. Therefore validity is limited by the theoretical frame of reference. The results are sought to be explained so that there isn't conflict with the presented theoretical interpretation. Models for theoretical interpretation are discussed in detail in chapter 4. Key findings and analysis are presented in chapter 5.

For reasons of confidentiality, the detailed nature of the development activities related to the projects, or individual project characteristics, are not exposed in this thesis.

2 THE CASE COMPANY

MATERIAL REMOVED FROM THE PUBLIC VERSION OF THE THESIS
FOR THE REASONS OF CONFIDENTIALITY

2.1 The business model of the case company

MATERIAL REMOVED FROM THE PUBLIC VERSION OF THE THESIS
FOR THE REASONS OF CONFIDENTIALITY

2.2 The business environment of the case company

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2.4 Examples - How has the case company been able to utilize opportunities in the past?

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2.4.1 Confidential

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2.4.2 Confidential

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MATERIAL REMOVED FROM THE PUBLIC VERSION OF THE THESIS
FOR THE REASONS OF CONFIDENTIALITY

3 KEY CONCEPTS OF THE THESIS - THE GENERAL AND WORKING THEORIES APPLIED

The central concepts - based on the general and working theories that have been adopted for the purpose of this thesis - are specified, presented and discussed in the following subchapters. The goal of the literature review is to incorporate the theories into a conception of market opportunity driving competence, i.e. how strategic competence development acts as a foundation for future market opportunities.

3.1 Change in systems

Change can be defined as the perceivable difference in the states of an attribute over time. Our awareness of change is due to our awareness of time, interconnecting these cognitive faculties. The common perception is one of a series of changes, or patterns of change, which appear as one (Mansfield 2010, 3). Thus, our perceptions of change are linked to what we choose to focus on and observe. The perspective of the environment is an important point of strategic consideration, as it either limits or expands the horizon of change driven market opportunities.

In their environment, systems are recognizable as hierarchic or networked groups of interdependent components. Complex systems are dynamic by nature, i.e., they change inevitably and are rarely in a state of equilibrium. On a system level, change in behaviour of a single component within a system may affect the behaviour of the whole system over time. Individual components have influence over the whole system of components, where minor changes propagating through the system can cause change on a global scale. Co-evolution within a system means an interactive and iterative change of components, where each component influences another in continuous cycles. Socio-technical systems consist of interacting people and technology, people as the social component and technology as the technical component (ibid, 5-16).

As described by Moore (1993), business ecosystems present various structural and behavioural characteristics of complex and dynamic socio-technical systems. Within business ecosystems, industries converge. Companies serve other companies on multiple

levels forming cooperative networks. Higher up the hierarchy, these companies serve groups of consumers and communities of people as whole. Changes on each level resonate throughout the system. Moore (1993) argues that innovative businesses cannot evolve in a vacuum, but instead require the influence of environmental conditions. The competition for market space between companies in the form of innovative contributions is the driving force of development on each level of the ecosystem, which, in turn, improves the performance of the ecosystem as whole. Within business ecosystems, it is the complex business communities that bring innovations to the market by co-evolving their capabilities cooperatively and competitively (Moore 1993, 75-86).

As opportunities for a business enterprise are only relevant if they hold business potential, this thesis considers changes that relate to demand factors that create, fragment or redefine a market. In this thesis, change of demand factors is categorized logically as follows and presented in the context of a business ecosystem, where the combined economic scale of actors in the specific business context increases vertically on each level. The business ecosystem -context is relevant, considering the case company's role in globally serving the purposes of variety of other companies in different industries.

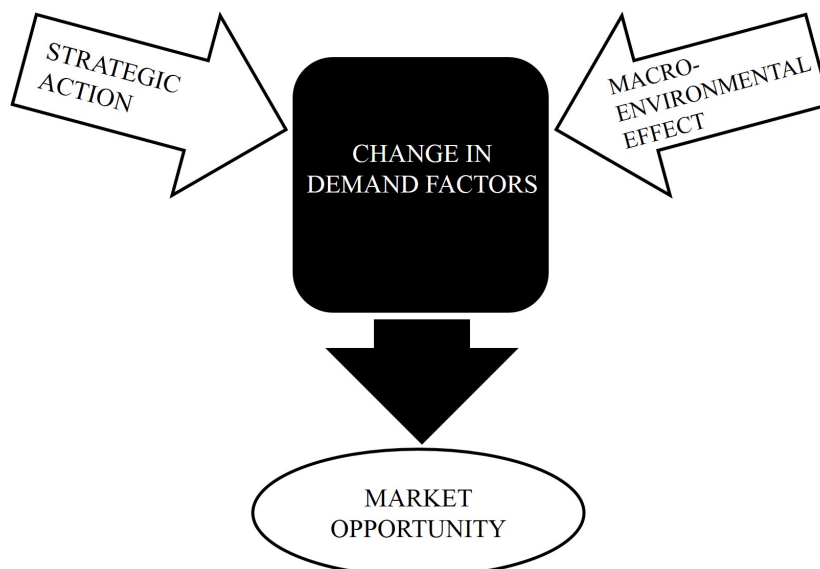


FIGURE 2. The model of the emergence of market opportunity

In this thesis, the following logic is considered to apply to how market opportunities emerge in a business ecosystem, as influenced by change. First, change can be the intentional result of the strategic actions of business enterprises, i.e. strategic change. A business enterprise may pursue change in the form of financial results from its operations, such as improved profitability and growth. From thereon, the operative change factors that will most likely link to the desired change in demand are determined by strategic evaluation. In the business ecosystem, the change is created on the levels of the company's influence - most likely on the level the customer value of the offering of the enterprise holds the most relevance.

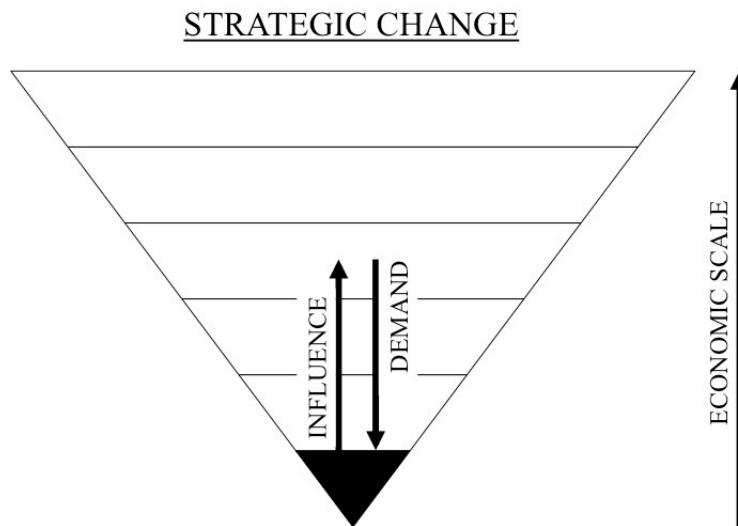


FIGURE 3. The model of influencing change in demand factors by strategic action in a business ecosystem

Second, change for a business enterprise can emerge as the impact of macro-environmental factors. Demand for the offerings of a business enterprise may change due to the impact of forces external to the enterprise. Such factors may be political, economic, social, technological, environmental or legal. In a business ecosystem, the change transfers through levels as reactions of interlinked actors. The higher up in hierarchy the change takes place, the more actors it influences.

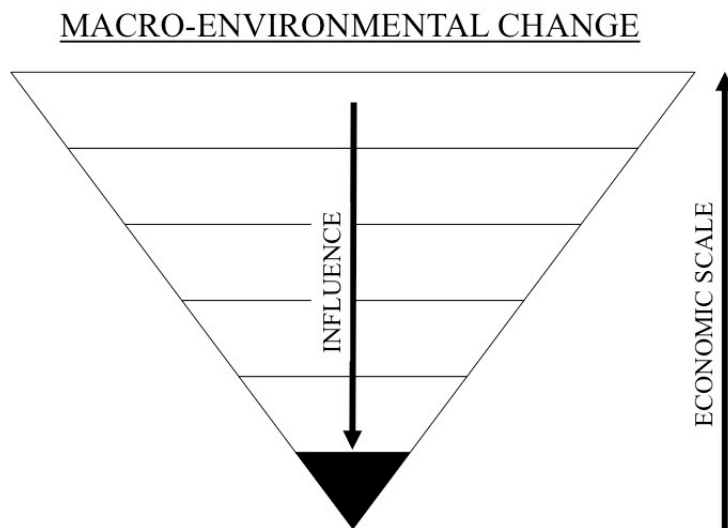


FIGURE 4. The model of macro-environmental factors influencing demand through a business ecosystem

Recognizing the business ecosystem as the broad context of operations may expand the horizons of markets opportunities, as the variety of customer types and the change mechanisms in the operational reality of customers are potentially better understood. This model of strategic thinking stretches beyond the vacuum of single industry to the building of operational strength on the system scale.

3.2 The discovery and creation of market opportunities

As specified for the purposes of this thesis, a market opportunity is the emergence of demand for a differing customer value. In turn, opportunities can be considered on an industry level, as they may be pursued by multiple individuals or firms (Welter, Alvarez 2015, 1400).

In a business context, two types of market opportunities are relevant: the ones that are discovered and the ones that are created. Both discovery theory and creation theory have been studied widely as phenomena of entrepreneurial behaviour with a focus on actions that entrepreneurs take in order to form and exploit opportunities that relate to the appearance of competitive imperfections within a market or industry (Alvarez and Barney

2007, 11-13). Both theories can also be considered to be applicable to organizations where individuals present entrepreneurial behaviour.

Discoverable opportunities are, by definition, exogenous - pre-existing in the environment. In discovery theory such perceivable opportunities arise from changes in the attributes of the context of an industry or market, e.g. customer preferences (Kirzner 1973 in Alvarez and Barney 2007, 13). Shane (2003) deduces that discovery opportunities are formulated by events that disrupt the competitive equilibrium, which exists in a market or industry. Examples of these kinds of events are technological, political, regulatory, social and demographic changes (Shane 2003 in Alvarez and Barney 2007, 13). Therefore, discovery theory implies that change is central in the emergence of new types of demand for differing customer values, regardless of whether the change is created by strategic action, i.e. by the creation of a company, or emerges as a consequence of a change in macro-environmental factors.

The nature of such opportunities suggests that the entrepreneurial course of action would be to systematically scan the environment to discover them (Alvarez and Barney 2007, 13). The central assumption of discovery theory is that there are significant differences between entrepreneurs who are able to exploit opportunities and the ones who are not. This necessary assumption explains why everyone associated with an industry or market does not discover and exploit opportunities (ibid, 16).

Krueger (1998) argues that instead of being discovered, environmental opportunities are constructed, based on perceptions of desirability and feasibility. Opportunity identification is an intentional behavioural process of individuals within an organization, which can be supported by the organization (Krueger 1998, 174).

Previously learned attitudes dictate if opportunities are perceived as personally desirable. Again, individual decision-making is dependent on what has been learned to be desirable by experience. Organizational climate and culture are key in whether seeking opportunities is seen as important and promoted as the target behaviour of individuals within an organization. Social support increases the credibility of a potential opportunity, whereas social opposition lowers it (ibid, 177).

Perceptions of feasibility determine how opportunities are manifested. Even desirable prospective opportunities do not seem desirable, if the perceived individual and/or collective capabilities, i.e. skills and resources, are not seen as requisite, considering the nature of the opportunity. Improved perceptions of individual and collective capabilities increase initiative and persistence, therefore contributing to the search and pursuit of opportunities (ibid, 177).

The human behavioural view of environmental opportunities, relating to discovery theory presented by Krueger (1998), implies that opportunities are perceived through filters of learned attitudes, motivations and capabilities, individual or shared by entire organizations. These aspects are commonly referred to in literature as competence.

In order to encourage the perception of environmental opportunities and promote opportunity seeking, Krueger (1998) suggests establishing a cognitive infrastructure, which supports and enhances the personal and social desirability of environmental opportunity seeking and promotes perceptions of personal and organizational competence to pursue opportunities (ibid, 178).

In contrast to discovery, creation, by definition, is the action or process of bringing something into existence (New Oxford American Dictionary, 2010). In creation theory, opportunities do not exist independent of entrepreneurs. They come into existence by endogenous intentional action (Baker and Nelson 2005; Gartner 1985; Sarasvathy 2001; Weick 1979 in Alvarez and Barney 2007, 15). Therefore, as opportunities only come to existence by action, entrepreneurial behaviour is to act (create) and observe how consumers and markets respond to actions (Alvarez and Barney 2007, 15). This type of entrepreneurial creation is often referred to in literature as innovative behaviour.

The intentional, albeit unpredictable, nature of creation and the fact that opportunity creation in practice is logically possible only by possessing or acquiring the relevant motivation, knowledge and capabilities, implies that competence can be seen as the foundation of market opportunities that can be created. Much of the relevance of creative activities lies in gaining new competence incrementally, in the ability to create unique customer value. Experimentation, the element of learning by trial and error, is an inherent element of creation. Thus, the uncertainty of market opportunity creation relates to knowledge of the activities that result in the desired change of demand factors.

The possibilities to succeed are difficult to predict in advance and the natural outcome can also be economically dissatisfying. The experimental development of market opportunities may relate to turnover very indirectly, making it a choice less safe for business development. Justifying the financing and resourcing of such activities adheres to a different logic of learning value. The intentional nature of market opportunity creation makes it a significant strategic activity, which is either promoted or discarded in an organization, based on the conception of its relevance for the continuity and development of the business.

3.3 Value creation in the business context

The concept of value is a paramount, yet not entirely quantifiable, element in the logic of business. Value and cost are the most fundamental factors of demand, governing customer behaviour. In the classical value exchange model, economic value, i.e. capital, is exchanged for functional or emotional benefits, i.e. value for the customer in the markets. Subjective evaluation between different offerings is made on a cost/benefit basis, where costs can include psychological taxation and the loss of money, time and energy. The increase in value for the customer is created by affecting factors of benefit and cost (Kotler 2000, 11).

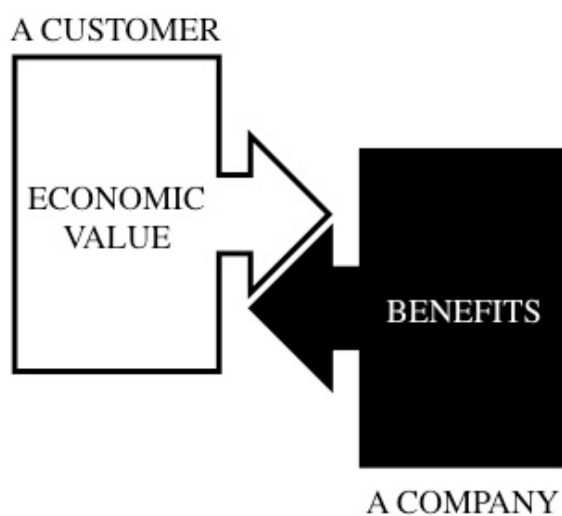


FIGURE 5. The classical value exchange model

Kotler's model considers the cost of value for the customer, which is a relative factor. Customers prefer products that present the value they need at the costs they are willing to accept, making cost consideration an integral element in value creation. Even if the value of products remains static, the cost preferences fluctuate and redirect demand due to the fact that, as the result of macro-environmental factors, customers have varying amounts of economic value to exchange for benefits.

The Customer Driven Concept of customer value considers the value that customers want and what value they believe they can get from buying and using a product. Emphasis is based on what customers perceive as valuable, rather than on what can be objectively determined by the seller. Customers evaluate the preferred attributes and attribute performances of a product, based on their goals for achievement and purposes in a using situation (Woodruff 1997, 140-142).

The Customer Value Hierarchy model, which presents the levels of value desired by a customer, suggests that customers learn to consider value in a result-oriented manner, positioning customer goals and purposes on the highest level of the value hierarchy. Customers learn to think of products as sets of specific attributes and attribute performances, which, when using the product, relate to the desired consequence experiences that facilitate achieving goals and purposes. Satisfaction on each level of the hierarchy feeds back to the value determination process (ibid, 142).

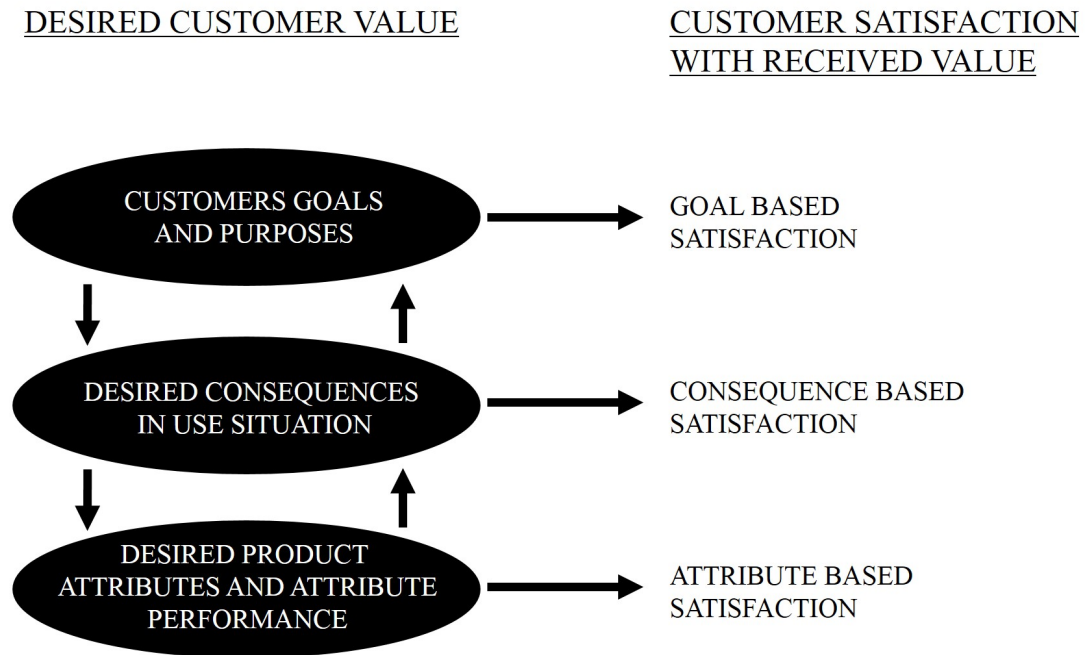


FIGURE 6. The customer value hierarchy model by Woodruff (1997, 142)

The customer driven approach (Woodruff, 1997) conceptualizes the relativity of value for the customer. From the company's perspective, it implies that value creation is in relation to the understanding of the circumstances of use. As the circumstances of use change, so can the value perceived by the customer. The product attributes that result in achieving goals and purposes in certain circumstances of use do not necessarily reach similar results in others. As a result, performance value, highest in the hierarchy, decreases significantly and a new type of demand for differing value emerges.

The model, according to which the companies see customers as objects for observation in order to determine product attributes, is known as company-centric value creation. As the role of customers in industrial systems has become more connected, informed and active, Prahalad and Ramaswamy (2004) suggest replacing company-centric value creation with value co-creation, which brings the value creation process into the marketplace. The interaction between the company and the customer, the creation process itself, becomes the basis of customer value (Prahalad and Ramaswamy 2004, 4).

Considering the complex and dynamic nature of the business ecosystems within which the case company operates, the variety of the offerings and the range and diversity of

customers in different circumstances of use, the options for creating value are limited to learning of the customers, learning from the customers and learning with the customers. The two latter approaches require direct contact with the end-customers, which facilitates scanning and identifying emerging changes in preferences directly, as close cooperation with end-customers is essential.

3.4 The competence-based approach to strategic management

As dynamic networks of people, organizations possess different competences, i.e. skills, knowledge and experience in the utilization of resources. Distinctive high competence activities, unique to an organization, enable companies to outperform their competition in relevant customer value factors. In the business context, competences are relative to the value that a company, in its chosen position, offers in the market, contributing to the uniqueness and/or competitiveness of the offering. From a competence-based view, market share and profitability result from the successful utilization of strategic organizational competences. Collective organizational competences are developed via the strategic management to formulate desirable outcomes, considering the progress and success of the business. The strategic management of competences is, therefore, a critical competence in itself. Competences are also subject to change and depreciate over time. A company, which is able to adapt its competences over time, presents *dynamic capability* (Mills 2002, 9-27).

Hamel and Prahalad (1990) introduced the concept of *core competences*, which argues that sustainable competitive advantage resides in organizational competences, instead of products, making the cumulative development of such distinctive competences central to a corporate strategy. Core competences are defined as company's unique value creation capabilities developed over long-term collective learning. Core competences enable the company to access a variety of markets. They contribute significantly to the perceived customer benefits of the end products and are difficult to imitate by competitors (Hamel & Prahalad 1990, 83-84).

Development of core competences requires focus. A company must decide what product performance attributes it wants to focus on in order to gain world leadership and spe-

cialize its competences in that area. The core products are the physical embodiments of the core competences that branch the variety of end products (ibid, 83-84).

The very term "core competence" implies the strategic decisions and related trade-offs that it incorporates. The requirement of focus in the development of strategic competences that seek to pursue unique advantages via certain attributes ultimately means that development in other, more or less prospective, areas is discarded. It is therefore likely that without strategic management, a company limits its range of competence to its current core business and to the subsequent market opportunities. The question for strategy considerations is does the core business of today provide the revenues, profitability and growth for tomorrow?

Relating to the concept on core competence, Tidd (2006) provides a model of how organisations can identify which competences will be relevant to the future and how they could be developed or acquired. A relationship between strategic competences, innovation management and organizational learning can be discovered and is formulated into the *competence cycle* model. It involves identifying and defining core competences, translating them into processes, products and services and learning systematically from experiences gained in successful and unsuccessful projects to define competence development requirements (Tidd 2006, 5-12).

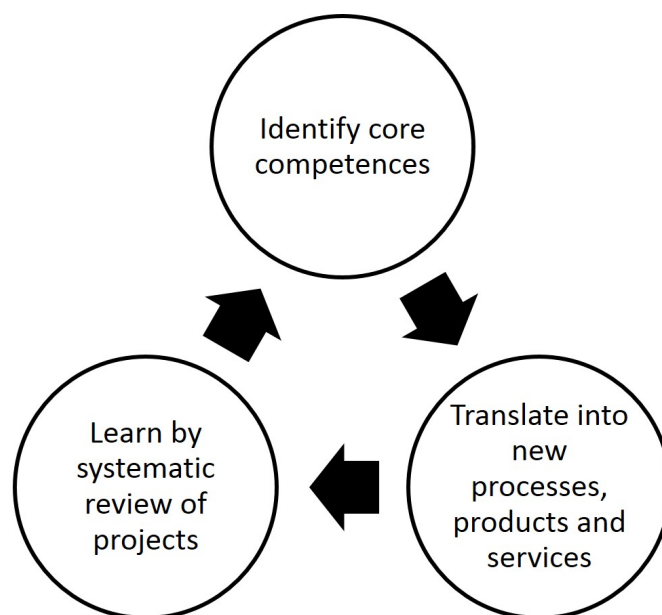


FIGURE 7. The Competence Cycle model by Tidd (2006, 7)

According to Tidd (2006), new competence is developed in projects. Therefore, diversity of projects facilitates competence diversification. In order to develop beyond core competence, there is a need for projects with primary objectives that are set to create new or significantly differing value to customers, and, accordingly, to acquire new competence. The primary objectives of such projects are not to generate a quick return on investments, but, rather, to build a foundation for future market opportunities, i.e. strategic forward orientation. All in all, based on this theory, competence development depends on what projects are seen as worth pursuing by the management of a company.

There is no existing, widely recognized measure for competences. Tidd (2006) proposes components or subsystems as possible measuring levels of functional performance in a generic product. Such measuring can be used in the evaluation of screening processes fit with existing competences by assessing the novelty and complexity factors of a new product concept. The relationship between competences and end products is likely to become most evident in concept generation and selection stages for new product development (ibid, 5-12). This correlates with Woodruff's (1997) notion of customer value and also with Mills (2002) and Hamal and Prahalad's (1990) definition, i.e. that competence can be defined explicitly as the capability to create customer value.

3.5 Strategic orientation and approach

Finding the right strategic style to match the changing operating environment contributes significantly to a company's performance. The extensive survey conducted by Love, Tillmanns and Reeves (2012) pointed out that companies, regardless of industry, commonly applied strategic styles that were misaligned, considering the predictability of their environments, making them ill-prepared to adapt to unforeseeable events or to seize an opportunity to shape an industry to their advantage (Love, Tillmanns and Reeves 2012, 78-81).

The right strategic style is dependent of two factors: a) the predictability of demand, corporate performance, competitive dynamics and market expectations, b) malleability, i.e. the ability to influence these factors. Therefore, a company must recognize the changing nature of its business environment in order to deploy its unique capabilities and resources to best capture the market opportunities available to it (ibid, 78).

Love, Tillmanns and Reeves (2012) categorize strategic planning styles into four types by the environmental conditions in which they are appropriate - classical, adaptive, shaping and visionary. The classic and visionary styles are suitable in predictable environments. The difference is in malleability, as the classic style can be applied in immutable environments, whereas an environment that is open for change provides for a visionary strategic style that capitalizes on market opportunities based on logical development options (ibid, 78-79).

Adaptive and shaping strategic styles are best suited to unpredictable environments. Both are based on continual short-term planning and overall flexibility in operations, as there are limited possibilities to forecast future developments in one or more of the factors relating to demand, corporate performance, competitive dynamics and market expectations. The difference is that the shaping style can be applied when a company also holds the power to change its environmental conditions, whereas the adaptive style is based on a continued adjustment to conditions that change due to the influence of external forces. Due to the unpredictable nature of the business environment, the adaptive and shaping styles built on strategies of commercial experimentation are best suited to probe the responses of the environment to different offerings (ibid, 78-81).

The strategy approaches presented by Love, Tillmanns and Reeves (2012) clearly relate to the theories of discovery and creation. The classical and adaptive approaches are rather passive and based on a view of structural determinism. According to the adaptive approach, market opportunities do emerge in the environment, but not by the strategic actions of the company in question. Therefore, market opportunities can be discovered, but not created, as such competences are not available or can not be acquired. The remaining strategic option is to adapt to the change by matching the emerging requirements to customer value.

The shaping and visionary approaches, in turn, present structural reconstructionism. The aim of these approaches is to strive to benefit from the changing nature of the environment proactively by creating options for the existing offering. They build on the possibility to initiate change by acquiring further strategic competences that contribute in creating new or significantly differing customer value.

Depending of the scope of the operations and offerings of a company, a universal strategic style may not be applicable. Different organizations under a company may be required to operate in different strategic modes, as the environmental conditions for different business units can vary significantly. Such strategic flexibility enables the management of the business according to changes in the specific business environment, regardless of the general industry trend of development (ibid, 83).

Kim and Mauborgne introduce the differences of competitive arenas regarding possibilities for profitable growth. Their research suggests formulating strategies that reach beyond the boundaries of current business, i.e. competing for shares in crowded markets, where opportunities for profitability and growth decrease as customer perception of supplied value between companies becomes uniform. Instead, by utilizing opportunities of creating a new type of demand by crossing or extending industry boundaries, a company can exceed the growth and profitability limitations of existing markets. It means adopting a strategic approach based on a vision that market opportunities free of competition exist, or can be created and utilized (Kim and Mauborgne 2005, 23-26).

The research of Kim and Mauborgne (2005) observed the new product launches of 108 companies. According to the results, 86 percent of the new product launches were extensions of an existing product line and incremental improvements within an existing market space. These launches constituted only 62 percent of total turnover and 39 percent of net profit. In turn, 14 percent of the new product launches that extended the total range of offerings beyond the competition constituted 38 percent of total turnover and 61 percent of net profit (ibid, 27-28).

The concept of value innovation, which places equal emphasis on value and innovation, is central to a strategy that has a focus extending beyond benchmarking competition to making competition irrelevant. The objective of the strategy based on value innovation is to significantly increase the value received by the customers, as well as the value for a business and, thereby, open new and uncontested market space. Making the strategy sustainable calls for the cost / benefit balance of the offering, which can only be achieved by aligning the strategic management of a company's functional and operative arrangements. As specified by Kim and Mauborgne (2005), incremental improvement in value without innovation results in a low level of differentiation from competition. Based on the research of Tellis and Golder (2002), as specified by Kim and Mauborgne

(2005), being the first on the market with innovation that does not present value is highly problematic in the business context, as such a technology-based approach differs from the needs and requirements of customers at that moment. Therefore, it is difficult to capitalize on (ibid, 33-38).

3.6 Discussion

The complexity and dynamic behaviour of systems, such as business ecosystems, means that customer perceptions of value are subject to change. In the business context, such change can be seen as macro-environmental impacts or as a result of the strategic actions of companies pursuing beneficial market positions (Moore 1993). Therefore, dynamic capability, i.e. the capability of organizations to adapt their competences over time, is essential in order to keep an organization generating satisfactory financial results from the business (Mills 2002). Competence can be defined explicitly as the capability to create customer value (Mills 2002, Prahalad and Hamel 1990). Therefore, competence can be seen as the foundation of market opportunities, as an emerging market position can only be pursued with the capability to offer relevant customer value.

Business ecosystems are subject to change and can be predictable to a greater or lesser extent (Moore, 1993). This brings up the requirement to devise strategies that are aligned with the quality-of-market opportunities and threats that the system facilitates (Love *et al*, 2012). Even more importantly, in order to develop the business to capitalize on the susceptibility the systems have for change, it is necessary to build competence that contributes to the pursuit of emerging market opportunities. In order to exceed the limitations on growth and profitability set by existing markets, the value received by the customers has to be increased significantly (Kim and Mauborgne, 2005). Therefore, the development of strategic competence acts as the foundation for future market opportunities.

4 THE RESEARCH METHODOLOGY

This thesis utilizes a combination of qualitative and quantitative methodology in order to produce findings in the case company's strategic orientation that will be discussed utilizing the theory of opportunity driving competence. According to Alasuutari (2011), in qualitative research, all factors that can be considered reliable and are seen as parts of the pattern studied, must be explained so that there is no conflict with the presented interpretation. The research material is considered to explain structures of logical entities. The material is always reviewed focusing only on what holds relevance from a certain explicit theoretical perspective. The aim is to simplify and combine units of the material by seeking commonalities (Alasuutari 2011, 38-51). The theoretical framework of opportunity driving competence, as presented in chapter 3 of this thesis, acts as the explicit frame of reference for reviewing the material.

According to Alasuutari (2011), the qualitative research process is always unique to certain extent. It is a creative application of basic rules, in which the argumentation for the objectivity, logic and meaningfulness of the research design is prioritized (Alasuutari 2011, 24). The relevancy of the people included in the research and the usefulness of the data collection methods have both been considered within the context of the case company.

The division between qualitative and quantitative has been blurred and questioned, as it reflects reality poorly. The same material can be analysed by applying both methodologies (ibid, 32). The research design applied in this thesis seeks to take into account the special profile and dimensions of the case company as both a developer and a manufacturer. Therefore, quantitative methodology is used, where appropriate, to present the dimensions and scale of specific phenomena, as the research also includes measureable elements. It is important to recognize that this thesis does not strive to make arguments on the universality of the applied theory, but rather to explain the case for discussion with the theory.

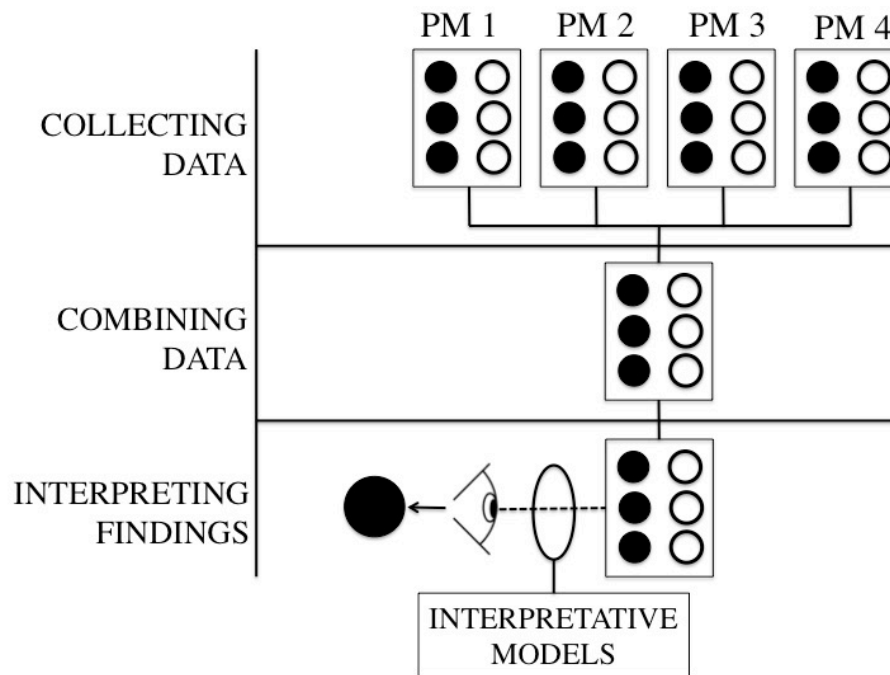


FIGURE 8. The research process

4.1 The product managers' position in the case company's organization

The case company has four key product lines, which, in the formal organization, are managed by persons in product managers' position. These people are seen as relevant for the research due to their formal position that influences the business development of their product lines and, therefore, the development of the business as whole. They were interviewed to further understand their position within the organization in relation to the themes of the research. The interview consisted of 7 structured open questions, selected to provide necessary information of their perceptions. The collected material was summarized by the conformities that arose in their replies.

- Describe your position within the organization
- Describe your position in the organizational hierarchy
- Describe your ability to influence strategic decisions and actions in the company
- Describe your ability to influence the business project portfolio of the company (changing the business or adding to it)
- Describe how you approach business opportunities

- Describe how opportunities are approached in the organization
- What kind of a culture for pursuing opportunities have you recognized in the company

4.2 Auditing strategic orientation as a portfolio of projects

Strategy is implemented into practice as commercial development projects. The mix and proportions of different development projects either enables or hinders the accomplishment of the business strategy. Therefore, past and current development projects and planned initiatives present an objective, empirical and quantifiable basis for auditing the case company's actual strategic orientation. In this sense, strategy is seen as the practice of either near-term or forward orientation, based on the share and diversity of development efforts.

4.2.1 The Aggregate Project Matrix

The case company creates primary customer value by developing functional performance and the relating benefits of its offerings for greater satisfaction in use. This is achieved by affecting the performance of specific product attributes as the result of the development of both, the processes involved and the product composition. Therefore, in the operational framework of commercial development projects, the competence gains are limited to the extent of development efforts related to customer value creation.

The product managers were asked to formulate a list of projects, according to a defined timeframe and criteria that relate to the commercial development of the product line under their management. The chosen time frame was 10 years, including projects that were finished within 5 years previous to the moment of review, projects that are in progress at the moment of review and planned initiatives for the span of the next five years from the moment of review. For the purposes of this research, the criteria for a commercial development project was set as follows.

- Total work duration must be more than one month.
- Related activities are not part of the operative cycle or processes.
- The related activities utilize human resources and/or assets.
- There is a business need for the objective result.

This thesis adopts the *Aggregate Project Matrix (APM)*, as presented by Clark and Wheelwright (2008), to study the nature of the projects in relation to process and product change that affects the performance of specific product attributes. The original application of the APM, by Clark and Wheelwright (2008), is to visualize the coordination of development resources in an intentional manner, which is seen as best in order to support and develop business (Clark and Wheelwright 2008, 993). It holds relevance and potential for the purposes of the research, as it represents the commercial development spectrum of the case company and sets activities in suitable categories.

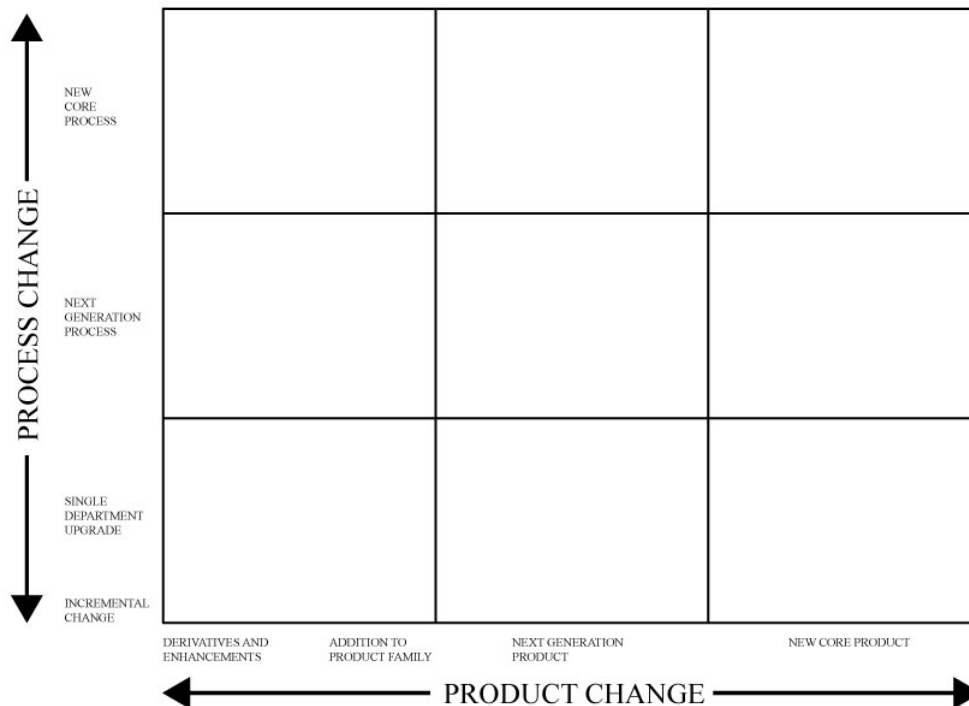


FIGURE 9. The Aggregate Project Matrix by Clark and Wheelwright (2008)

Clark and Wheelwright (2008) have not specified the definitions for process and product change. For the purpose of this research, they were defined as follows: change in process is a change in the dimensions of operative activities, such as development and/or manufacturing, so that the project includes the development or utilization of new processes of the type. A change in a product is a change in product architecture, the design and/or materials used in a product, so that the project includes development on those factors. The product managers included in the study evaluated and positioned projects on this explicit basis and also gave the projects the value of individual related products as project deliverables.

4.2.2 Interpreting the results of the Aggregate Project Matrix

I have further modified the APM and specified 4 descriptive categories, based on the correspondence between project attributes set in the matrix. This provides the basis for the interpretation of the collected research material, as further viewed through explicitly formulated interpretative models that consider the extent of the development efforts. The categories are *process development*, *sustaining and expanding*, *evolutionary adaptation* and *advanced development*.

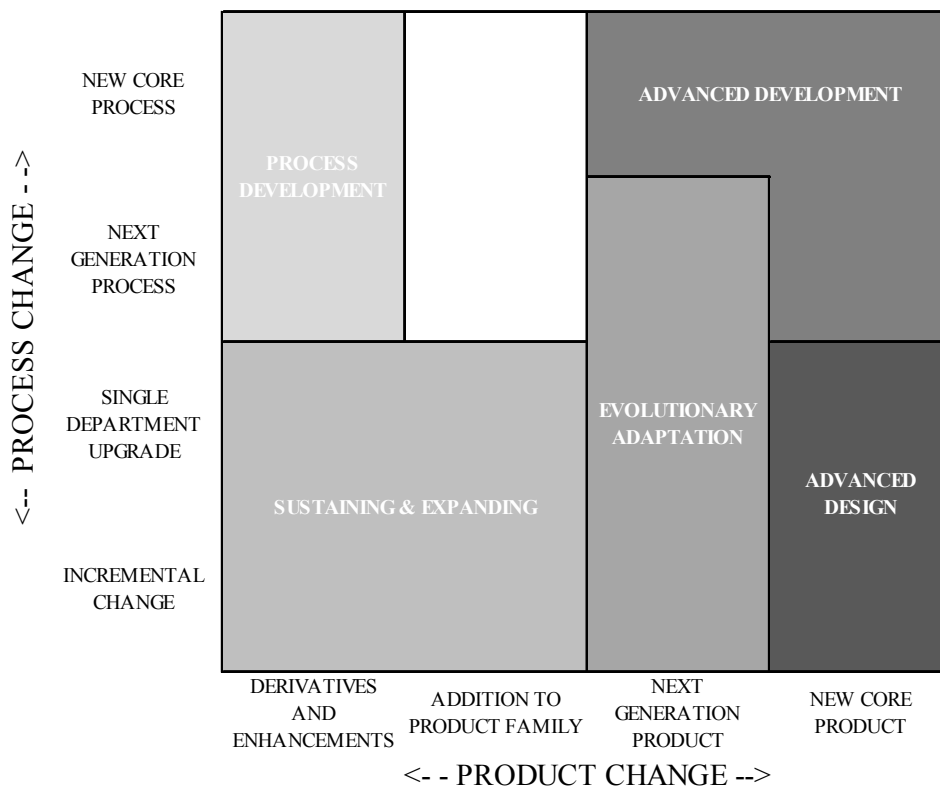


FIGURE 10. The descriptive categories positioned in the Aggregate Project Matrix

As the name implies, the *process development* category holds the development projects that do not incorporate major changes to product attribute performance in product architecture, design or materials. These projects are driven by, e.g., quality improvement and cost reduction agendas with a focus on the financial benefits of core offerings. As the changes to previous operative activities are evolutionary or radical, process development projects have the potential to diversify competence to facilitate market opportunities when customer value is process-driven, e.g. lower acquisition cost is prioritized over further benefit gains. Therefore, focus on this area can be seen as strategic forward orientation.

Sustaining and expanding projects produce incrementally improved product attribute performance by making minor changes to product architecture, design or materials used. The results are versions of the existing offering that offer more of the same customer value, or simply adaptations to incrementally different manufacturing processes. As the name implies, these types of projects are driven by the agenda of sustaining and expanding the financial benefits of core offerings. Therefore, a focus on this area represents the near-term orientation of strategy. The competence gains of such projects can be considered minor or non-existent, as the efforts in both the process and product dimensions are incremental.

Next generation product architecture, design and materials are incorporated through existing, or new, processes in order to facilitate evolutionary product attribute performance in *evolutionary adaptation* projects. These types of projects serve the agenda of the competitive renewal of the core offering, or its adaptation to different purposes in order to sustain and increase financial benefits. The motivation may be a macro-environmental effect or competitor action, which changes environmental circumstances. In such projects, existing and proven solutions act as the basis for development. Evolutionary adaptation projects hold potential to extend core competence to facilitate market opportunities in which the requirement is for better customer value of the core offering. The adaptive approach implies that focus on this area represents the near-term orientation of strategy.

Advanced development and advanced design development projects are, in many ways, leaps to the unknown that require significant efforts and time. Relations to existing and proven solutions are thin, making success less certain. When the objectives are set right, success means breakthrough advancements in the performance of key product attributes or completely new, previously non-existent, product attributes. The motive for advanced development projects is the opportunity of resulting unique advantages that can facilitate new lead positions and the accelerated growth of financial benefits within existing markets or create completely new uncontested markets. Advanced development projects have the potential to facilitate key experiential learning and knowledge gains that diversify and extend competence to new areas. Therefore, focus on this area represents strategic forward orientation.

The working theory of competence driven market opportunities implies that by strategically diversifying efforts in developing customer value based on product attribute performance, an organization facilitates new competence gains and simultaneously forms the basis for the discovery and creation of future market opportunities. By limiting efforts to the extent of *sustaining and expanding* the core offering, the development of competence stagnates and future market opportunities are limited to what is achievable with the established level of capabilities for customer value creation. *Evolutionary adaptation* facilitates gradual gains in adding to core competence and corresponding future market opportunities, as greater efforts are put into development. The competence gains imperative in the pursuit of market opportunities beyond core competence require efforts that extend to the level of *advanced development*. Pursuing activities on this level diversifies organizational competence and exposes corresponding market opportunities for exploitation. Based on this logic, I have formulated interpretative models of the APM that consider competence and market opportunity development in commercial development projects equally.

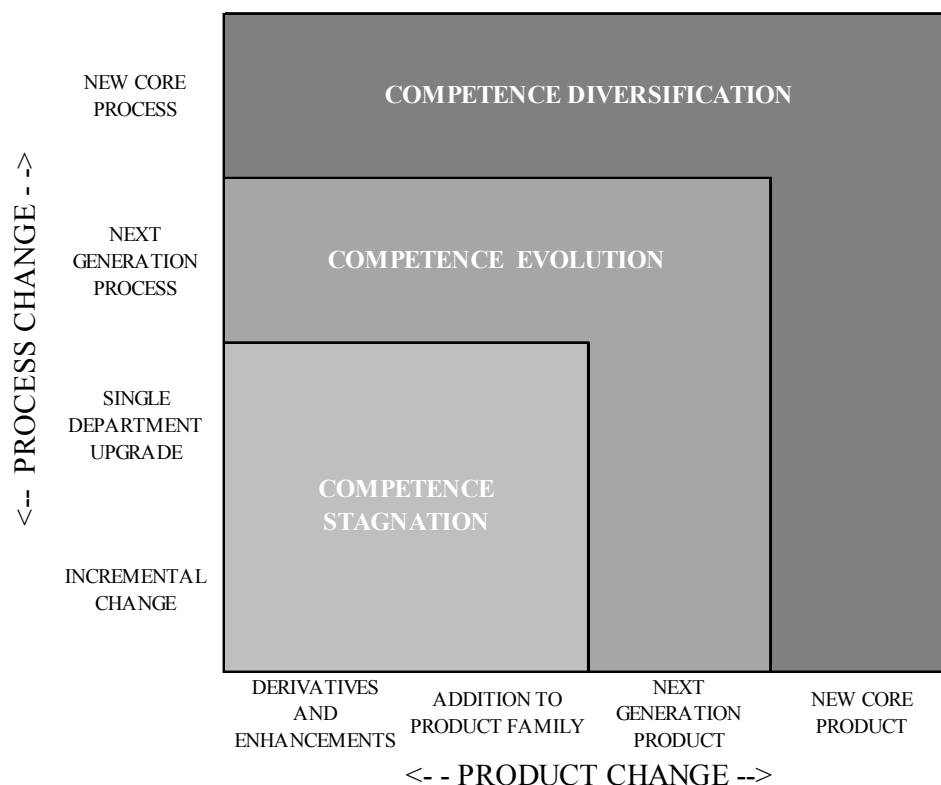


FIGURE 11. The interpretative model for analysing competence development

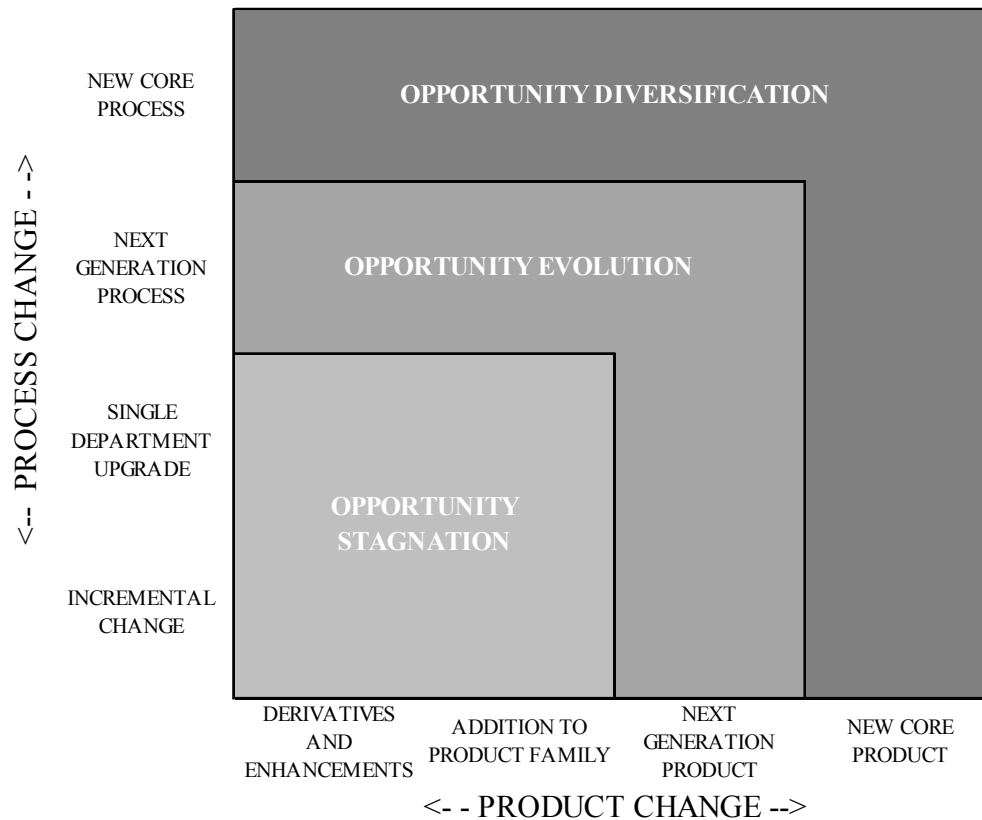


FIGURE 12. The interpretative model for analysing market opportunity development

4.2.3 Ansoff's Matrix

Clark and Wheelwright (2008) consider markets an integral element of commercial development, but the Aggregate Project Matrix does not include this dimension. Therefore, Ansoff's Matrix was chosen as a data collection tool in order to study this dimension. Ansoff's Matrix provides a simplified conception of a company's strategic market orientation (Johnson *et al*, 2011, 232). The product managers were asked to position the projects into the matrix explicitly from the case company's perspective. For data collection purposes, the matrix was modified to not include the original interpretative descriptions for each cell. This was done in order to pass interpretations in the positioning phase. The criteria for positioning the projects was defined and presented as below. The view in this thesis is that a market, specifically, is a certain type of demand in a certain context in which the case company either has, or has not, established a position.

Existing markets

Current market segments where a position is established

New markets

Market segments with no established position

Existing products

Products within the current scope of offering

New products

Products out of the current scope of offering

NEW MARKETS		
EXISTING MARKETS		
	EXISTING PRODUCTS	NEW PRODUCTS

FIGURE 13. Ansoff's Matrix modified for this research

For purposes of interpretation, each cell in both matrices was given the value of the total number of projects corresponding with cell-specific attributes. This provides a basis for determining activity areas of focus by comparative analysis.

4.2.4 Interpreting the results of Ansoff's Matrix

The dimensions of Ansoff's Matrix are the developing novelty of products, or the novelty of markets. By limiting its range to existing markets and existing products, a company's strategic orientation is to pursue a further increase of shares in its current mar-

kets. Strategic diversification is achieved by efforts in both dimensions, thereby increasing the range of products and/or serving different markets (Johnson *et al*, 2011, 232).

The interpretation model of the results makes use of the original interpretative description of Ansoff's matrix (Johnson *et al*, 2011, 232-238), but also considers the theoretical frame of this thesis and the explicit criteria set for positioning the projects. Pursuing market opportunities - defined for the purposes of this thesis as the emergence of new demand for differing value - means diversification in both dimensions and falls into the categories of market development and diversification. Competence, which is relevant in order to pursue market opportunities in the future, therefore develops in projects that can be positioned in these categories. Product development can be seen as adaptation and evolution within an existing market space in which competence gains are limited to the levels process and product. Market penetration means stagnation in both dimensions, as new markets are not pursued and there are no development efforts to introduce improved or different customer value.

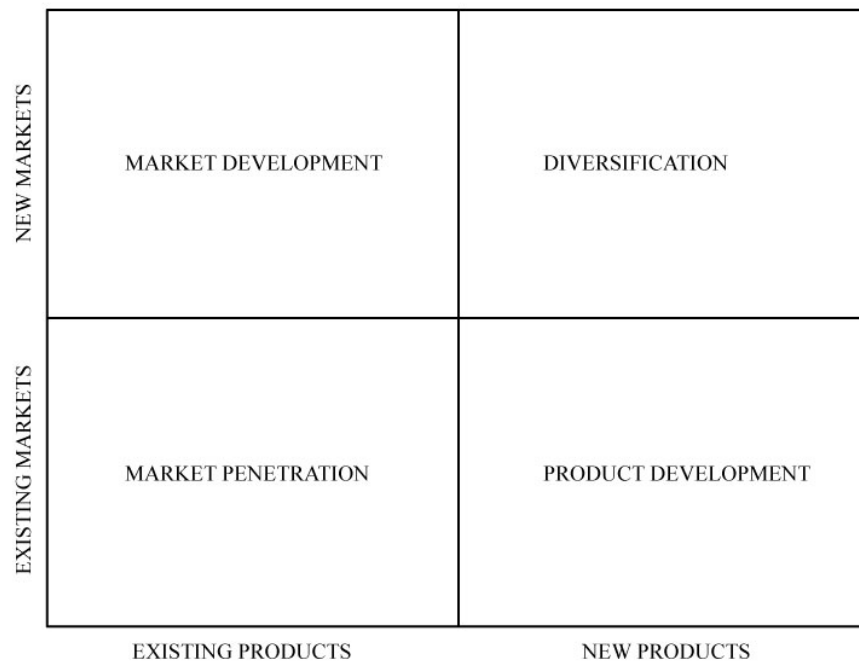


FIGURE 14. The original Ansoff's Matrix with interpretative descriptions

Market penetration

Market penetration projects seek to expand market space for core offerings in established market positions. Development efforts are limited to extending the range of existing products.

Product development

Product development projects seek to sustain or expand market space within the established market positions by developing and introducing modified, new and next generation products. Strategically, it can be seen as adaptation of core offerings to changes in competitive circumstances or in accordance with new macro-environmental standards. Further market space is pursued by developing a variety of products that provide improved customer value to customers with similar requirements.

Market development

Market development projects pursue new market positions with existing or incrementally modified products. Product development is limited to extending the range and adjusting existing products incrementally. Market development can be pursued with existing products when new fits for the customer value of the product can be found. The emphasis is on new marketing efforts.

Diversification

Diversification projects pursue new market positions with new products. Efforts are required in both dimensions in order to create and introduce new customer value to new markets. The motives may be the growth potential and/or buffering market decline of the core business.

5 KEY FINDINGS AND ANALYSIS

5.1 Interviews of the product managers

The replies of the product managers in the interview are summarized herein. The case company's organization has a formal position hierarchy, but it was described as a matrix organization in which hierarchic protocols are, for the most part, discarded. The position of product managers in the case company is formally within the R&D organization, below the top management of the business unit. In any case, they are the top managers of the product line, with the responsibility for complete strategic development of the relevant product offering. They described their position as "CEO" of the product line. They also lead cross-functional "application area teams" that consisted of managers dealing with specific customers and key accounts related to the range of the offering of the product lines.

In this position, they have the possibility to influence both strategic decisions and actions within the company, such as changing the structure of the product portfolio, by providing the top management of the business units business development proposals, based on their understanding of potential market behavior. This gives them the power to influence the direction of operations with the business opportunities available.

As described by the product managers, the organization does not have a systematic, uniform approach or formal mechanisms for the collection and processing of new business opportunities. The opportunities identified, brought into question and pursued, are dependent on the persistence of individuals, their contributions and lobbying on the decision making level of the formal management hierarchy.

The common approach the product managers took towards identified new business opportunities, as described by them, was to try to evaluate and quantify the market potential - the financial benefit of pursuing the opportunity. For this purpose, the contribution of the sales organizations usually provides the key input. The second point of consideration is the business model and, specifically, the required changes to existing sales and marketing operations. Another dimension of consideration is the company's current manufacturing capability, in relation to the business opportunity and technical feasibility of the required product.

Based on the replies of the product managers, it seems that, as the top managers with the responsibility for the complete strategic development of the relevant product offering, they hold a significant position to influence the business in the organization. All new offering initiatives go through their desk. Organizational support, the culture and approach towards new business opportunities, clearly holds significance. The product managers rely on the capability of the organization to identify potential business opportunities and, correctly motivated, to bring them into consideration. They also rely on the technical development and technological capabilities of the organization.

The importance of perceptions of feasibility became evident during the interviews. The product manager's three dimensions of opportunity evaluation are: potential financial benefit, the business model and technical feasibility. In this type of evaluation, certain competences accentuate. First, the competence of the organization to establish working business models in new market positions and, second, the competence to develop and manufacture technically diverse products.

5.2 Findings from the Aggregate Project Matrix

The review of the projects 5 years back indicates that the case company’s strategic orientation (88% of all projects) has been the sustaining and expanding (44%) and evolutionary adaptation (44%) of the core offering. Process development (6%), advanced development (3%) and advanced design (3%) account for a minority share (12% of all projects). The findings present diversification of development efforts, however, viewing the share of percentages, certain areas of focus become apparent.

The findings imply the following of the strategic orientation

- The orientation focused more on near-term financial benefits than on significantly reaching forward.
- The orientation has been to develop more along with than ahead of change.
- The management of the company has not been actively looking to develop the business beyond the market opportunities that are available via core competence.

In accordance with this strategic orientation, majority competence gains facilitate evolutionary market opportunities that are available via core competence. Yet, the minor shares in the areas relating to competence diversification may result in a diversification of market opportunities in the future.

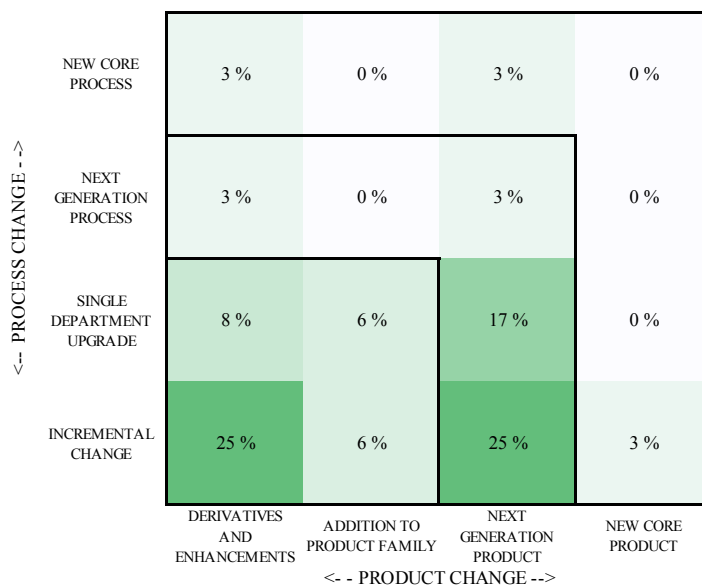


FIGURE 15. The projects 5 years back from the moment of review. Percentages rounded to nearest whole number.

The review of current projects indicates that the case company’s strategic orientation has not shifted significantly. The sustaining and expanding (57%) and evolutionary adaptation (36%) of the core offering still account for the majority share of all development activities (93%). It is noticeable that there are no advanced development or design projects in progress. The findings present minor diversification of development efforts, however, the percentages once again emphasize specific areas of focus.

The findings imply the following of the strategic orientation

- The orientation is more focused on near-term financial benefits than on significantly reaching forward.
- The orientation is to develop more along with than ahead of change.
- The management of the company is not actively looking to develop the business beyond the market opportunities that are available via core competence.
- The percentage of process development projects implies that there is a cost reduction and/or quality improvement agenda concerning a segment of the core offering, which can potentially facilitate new market opportunities.

In majority, competence development is stagnated. In accordance with this strategic orientation, majority competence gains still facilitate evolutionary market opportunities that are available via core competence.

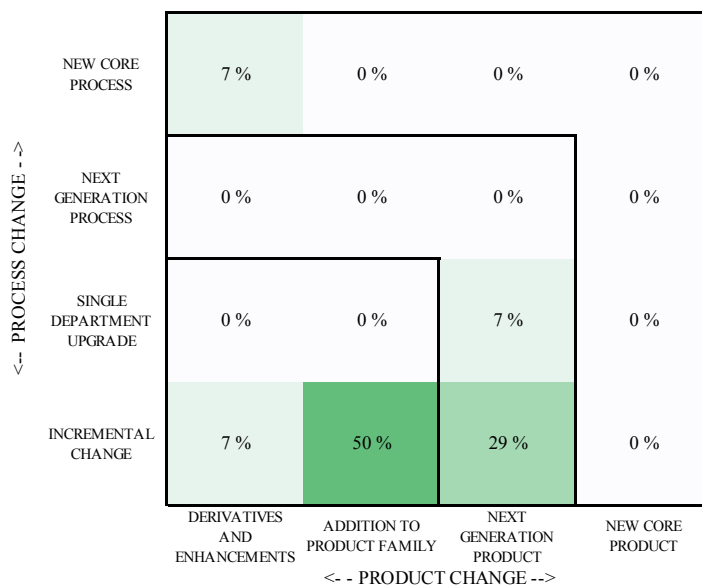


FIGURE 16. The projects at the moment of review. Percentages rounded to nearest whole number.

The review of planned initiatives indicates a significant increase in advanced development (10%) and advanced design (14%) activities. This implies that there is a shift in strategic orientation, compared to the last 5-year period. Nevertheless, sustaining and expanding (36%) and evolutionary adaptation (33%) of the core offering still account for the majority share of all development activities (69%).

The findings imply the following of the strategic orientation

- The orientation is shifting more towards a mode of reaching forward.
- Near term financial benefits are still in focus.
- The plan is to shift the orientation more towards developing ahead of changes.
- The company management is more actively looking to develop the business beyond the market opportunities that are available via core competence.

In accordance with this strategic orientation, increased diversification of development efforts contributes to the gaining of competence, which facilitates evolutionary and diversified market opportunities.

PROCESS CHANGE	NEW CORE PROCESS	0 %	0 %	0 %	7 %
	NEXT GENERATION PROCESS	7 %	0 %	20 %	3 %
	SINGLE DEPARTMENT UPGRADE	3 %	0 %	0 %	7 %
	INCREMENTAL CHANGE	10 %	23 %	13 %	7 %
		DERIVATIVES AND ENHANCEMENTS	ADDITION TO PRODUCT FAMILY	NEXT GENERATION PRODUCT	NEW CORE PRODUCT
		<- - PRODUCT CHANGE ->			

FIGURE 17. The initiatives planned 5 years ahead of the moment of review. Percentages rounded to nearest whole number.

5.3 Findings from Ansoff's Matrix

The review of the projects 5 years back indicates how a majority share of the projects have sought to sustain or expand market space within the established market positions (59%). This result correlates with the agenda of sustaining and expanding, as well as the evolutionary adaptation of the core offering, which represents 88% of all projects. However, the shares are not equivalent, a fact that needs explaining. Certain derivative and next generation product projects have been positioned to pursue market segments that have not been pursued by the case company before, or market segments that have fragmented from a market, where the case company has an established position. These were accounted for as new markets, as the matrix does not consider such market evolution specifically.

The findings represent a 41% diversification into pursuing new market positions - a sum in majority with new offerings (35%). Therefore, the organization has gained new competence in this area during the last 5 years, which is important when the pursuit of future market opportunities is considered.

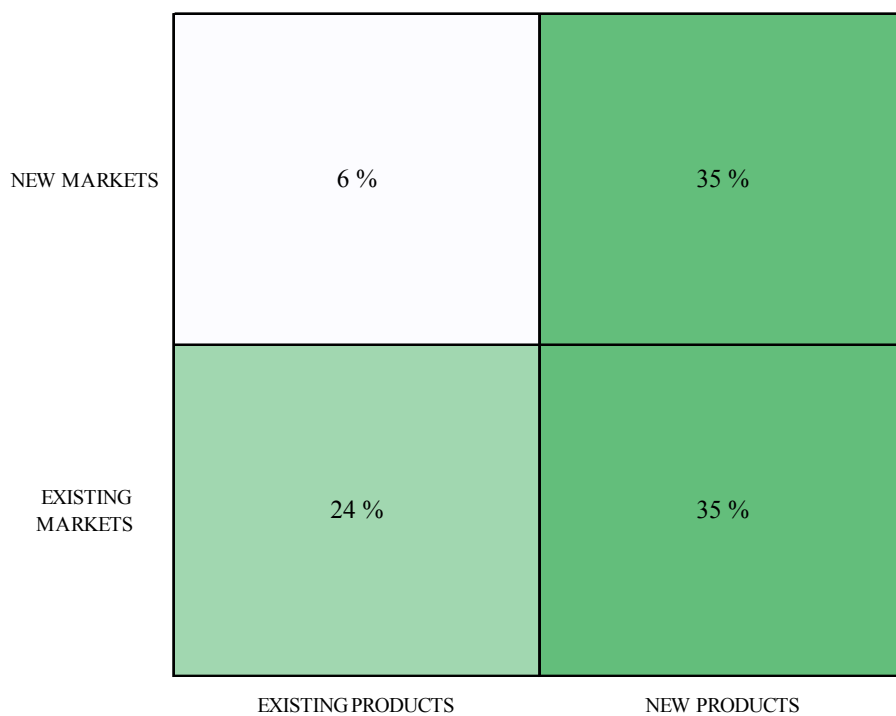


FIGURE 18. The projects 5 years back from the moment of review

The review of current projects indicates that the case company's strategic orientation on markets has shifted, as the majority of projects seek to sustain or expand market space within the established market positions (86%). Diversification projects that account for a 14% minority include additions to a product family and next generation product projects that pursue market segments, where the case company does not have an established position.

These findings represent an apparent cyclical nature in strategic diversification, as a greater share of efforts focus on a specific area. Competence gains - important in pursuing new market opportunities in the future - are limited to the 14% share of total projects. A significant share of the total amount of projects (50%) does not contribute to developing the customer value of the offering, or to seeking new market positions. Therefore, there are no gains on competence development in these dimensions, considering these projects.

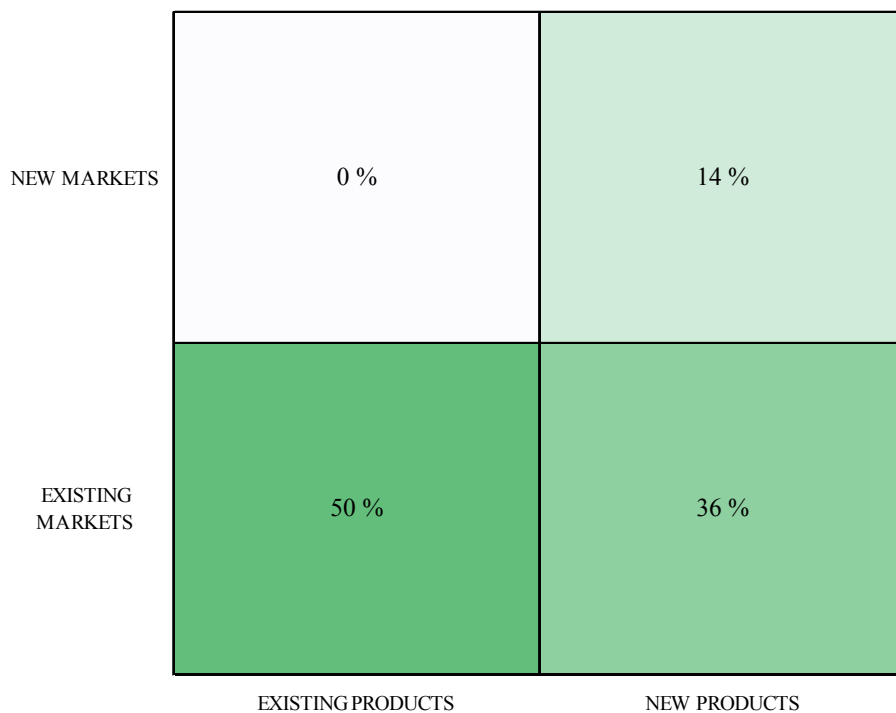


FIGURE 19. The projects at the moment of review

The review of planned initiatives for the next 5 years still indicates the majority agenda to sustain or expand market space within the established market positions (69%). However this share of total projects has decreased. Market diversification with existing and new products represents 31% minority of total development projects in which the driver is further fragmentation of existing market segments, and market segments where the case company does not have an established position. Notable is that the 23% total share of advanced development initiatives do not completely fall into new market development category. Advanced development is as well an option to significantly develop the customer value of the core offering ahead of change.

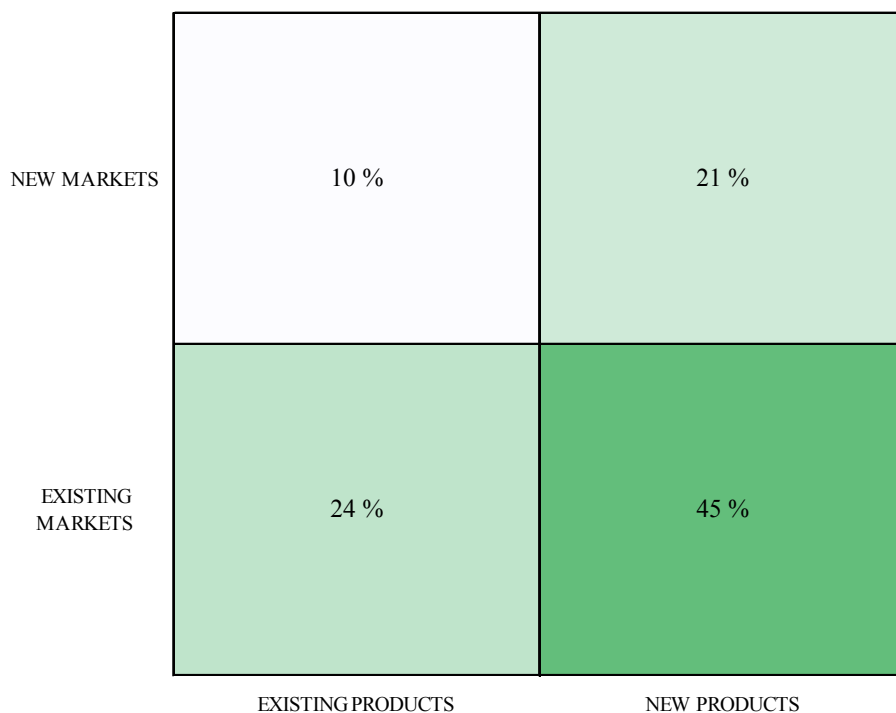


FIGURE 20. The projects 5 years ahead from the moment of the review

6 CONCLUSION AND RECOMMENDATIONS

6.1 What can be concluded about the strategic orientation of the case company by studying the project portfolio?

The case company has, according to a majority in figures, been looking to develop the business within the established market positions by sustaining and expanding the near-term financial benefits of the core offering. This is apparent in the research findings that show how a majority of focus is on actions adapting the core business to the competitive circumstances and extending the range of the core offering. Thus, it can be argued that the case company's strategic orientation is more on near-term financial benefits than reaching new market opportunities.

The findings represent an apparent cyclical nature in strategic diversification in the form of shifting numerical shares in specific focus areas. However, the diversification in the past 5-year period has not extended to advanced development, besides a minor 6% share. The reason behind this phenomenon may be the cyclic influence of the environment, which initiates development activities, i.e. adaptive behavior. The findings in the Aggregate Project matrix and Ansoff's matrix correlate with this conception. Specifically the shifting shares of evolutionary adaptation projects that fall into the area of product development within established market positions. Such strategic behavior can be seen as based on a view of structural determinism, due to which the company does not actively strive to benefit from the changing nature of the environment. Therefore, the case company strategically seeks to adapt to the changes affecting its business by matching the emerging requirements to improved customer value, rather than creating new market space with advanced offerings.

6.2 How prepared is the company to pursue a diversity of market opportunities in the future, based on the findings?

In accordance with this strategy, the case company develops its competence around the core offering in practice, incrementally evolving the attribute performance of the products. The findings present low diversification of development efforts in areas that seek to create significantly differing, or new, customer value.

The case company has restrained its range of competence to its current core business segments and subsequent opportunities. As an outcome, near-term market opportunities for the company reside in the area of its core business segments. However, there are some signs of breaking out this mode by shifting strategic orientation.

The working theory of competence driven market opportunities implies that by strategically diversifying efforts in developing customer value based on product attribute performance, an organization facilitates new competence gains and simultaneously forms the basis for discovery and creation of future market opportunities. As a majority of the case company's development efforts are limited to the extent of sustaining and expanding the core offering, development of new competences has stagnated and future market opportunities are limited to what is achievable within the established level of capabilities in customer value creation. Again, the case company's activities relating to evolutionary adaptation facilitate gradual gains in adding to core competence and the pursuit of corresponding future market opportunities that, according to the study, are likely driven by further fragmentation of existing market segments.

The competence gains that are imperative in order to pursue market opportunities - which lie beyond core competence - require efforts that extend to the level of advanced development. Pursuing activities on this level diversifies organizational competences and exposes corresponding market opportunities for exploitation. The case company has diversified development efforts in this area with a 6% minority sum during the past 5 years. Therefore, the forward thinking, and reaching, initiatives planned for the next 5 years have significant value for the gaining of new, market opportunity driving, competence.

6.3 What could be the review model of strategic competence development in the case company's context?

Growth and profitability are not certain, nor is sustaining business in the core markets. It is a necessity to seek solutions that are beneficial in the future, from the perspective of the continuity and development of the business. Therefore, the inevitability of change in respects to the core business segments must be taken into account, as well as the adequacy of core competence in this context. The strategic options are to develop with or

ahead of changes. For the profitable continuity and growth of the business, it may be central to diversify development efforts in ways that are not fundamental, considering short-term financial benefits, but rather to diversify competence in new areas, where future market opportunities may emerge. The importance of new market opportunities may be significant, considering the main strategic objective of profitable growth. The success of the case company's past is an indication of this.

Specialization in new market opportunities manifests in a company's strategy as an emphasis on activity areas that diversify development operations as the significant majority share of total operations. This thesis recommends establishing the strategic management of competence development as an integrated practice in the project portfolio management of the case company. This practice would enable the management to review how the competence outcomes of the projects potentially facilitate market opportunities in the future. Specifically, the competence of the organizations to establish working business models in new market positions and the competence to develop and manufacture technically diverse products. The Aggregate Project matrix, as applied in the case study, presents potential in such applications. Further iteration of the matrix to include market orientation would increase its illustrative value as whole.

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