

Chapter 8

Achieving Competitive Advantage through Innovation: The Case of the Shanghai Supermarket

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ABSTRACT

Innovation in the service/retail sector has not been fully examined in the non-Western literature. This preliminary work presents a study that was conducted in Shanghai, China. Three sets of the literature are consulted: Porter's Generic Strategies Model, Hunt's Resource Advantage Theory (R-A), and previous studies in the service and retail sectors. Findings developed from six selected successful Chinese supermarket companies have identified three types of innovation adopted by Chinese retailers: Technology based, non-technology based, and resource based innovation. The study takes a qualitative approach by using the methods of documentation survey and in-depth interviews with a panel of ten supermarket experts. Some managerial implications are explicated, and the limitations of the study and directions for future studies are discussed.

INTRODUCTION

It has been recognized that innovation is the key to firms' success by promoting long term growth. Traditionally, most innovation studies focus on the manufacturing industries while the service/retail sectors are less investigated. This is likely

because the former is knowledge intensive (KIS) while the latter is less-knowledge intensive as the service/retailing sectors are regarded as innovation process "laggards" or "later adopters" (OECD, 2009). However, the significant developments in service/retailing sectors and related advancements in information technology innovation in

DOI: 10.4018/978-1-4666-0948-8.ch008

these non-manufacturing sectors have triggered recent studies by academicians and professionals. Most of these studies have addressed three main issues: the differences in innovation processes between manufacturing industries and service or retail sectors; the effect of innovation on economic performance, such as financial inputs and outputs; and the relevance in adapting technology and non-technology innovations to different sectors, i.e., manufacturing and service/retailing sectors. However, this third area of innovation, especially from emerging countries, has not been fully explored. This study discusses the issue related to the third area by using the case of the Chinese supermarket sector in Shanghai.

The research findings vary; some hold that technology innovation is crucial for the hi-tech industries while the non-technology innovation is more relevant to service sectors. Also, some studies believe there is not a direct correlation between the innovation and financial performance. For example, the research and development (R & D) inputs are not necessarily positively correlated to financial outputs, such as sales and productivities regardless of implementation of technology and non-technology innovation. However, the research has not specifically addressed which type of innovation would be the most relevant to the service/retail sector which is the important research question directly affecting a firm's business strategy and management execution. Moreover, resource based innovation which uses a firm's internal resources to advance the financial performance in the service/retail sector has not been well addressed. Finally, extant empirical investigations are gleaned mainly from the developed countries, but the research from emerging countries, such as China and India, remains scarce. This preliminary study empirically identifies the types of innovation in supermarket sectors and reports the preferred approach associated with implementation of innovation undertaken by the Chinese supermarket enterprise.

With the foreign retailers' entries and the rapid growth of the Chinese supermarkets, as well as the information technology advancement, adapting innovation is becoming crucial for Chinese retailers to gain a sustainable competitive advantage. The purpose of adapting innovation in the retail sector is twofold: reducing the marginal costs and generating added values to its customers for higher financial returns. Therefore, innovation enables the firm to exploit its resources and create differentiation. The structure for the remainder of this paper is as follows: a literature review of Porter's competitive advantage model, Hunt's resource advantage theory, and the research work on innovation. The main data sources were from both documentation survey and semi-structured in-depth interviews with a panel of supermarket experts. The findings and discussion of the investigation are analyzed. The management implication is discussed. The limitation and the direction of the study are also presented.

LITERATURE REVIEW

The very purpose of innovation is to enable firms to create differentiation in order to gain a competitive advantage. With the relevance of this study, two sets of the literature have been consulted: three schools of study in competitive advantage and the studies regarding the innovation in the service/retailing sector.

Previous Work on Competitive Advantage

A body of previous work on competitive advantage creates the core theoretical background to the research in the areas of differentiation, generic strategies, and resource advantage. Differentiation advantage is the key element of competitive advantage as competition is for differentiation (Alderson, 1957, p.101). The key to success in

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