Create Innovation Strategy is SME Cornerstone for Growing Dynamic Competitive Capability

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Abstract: The approaches of dynamic competitive era make the traditional competition strategy and competitive capabilities theory show its limits than ever before. This paper applies value innovation strategy and dynamic competitive capabilities theory to the research of sustainable development of SMEs, takes new instruction and means of value innovation such as strategic framework, four-step action frame and coordinate axis of “Deletion-Reduction-Addition-Creation” as references, and combines the practical cases to analyze the procedures of construction of dynamic competitive capabilities of SMEs. On the basis of the above, the mode of the construction of dynamic competitive capabilities of SMEs is proposed so as to take it as a way to explore the new method of developing SMEs under the new circumstances.

Key word: SMEs Value Innovation Dynamic Competitive Capabilities

Over decades of development, our small and medium-sized enterprises (SMEs) has developed quickly. However, the practical certification reflects that in China no more than 3.32% SME have the characteristic of high growth rate and gradually growth capabilities, while 96.68% SMEs are in the level of “growth at a slow speed”. Enterprises of this kind are extremely unstable, which is sensibly subject to the external environment. As a whole, we think that the development trend of SMEs is by no means optimistic. Therefore, how to further strengthen the competitive capabilities of SMEs in this tumbling environment, how to better promote the sound development of SMEs and how to make the construction of dynamic competitive capabilities more operative have become the focus on the research of SMEs development under the new situation.

1. Value Innovation Strategy and Dynamic Competitive Capabilities

The new development of strategic management field opens up a new prospect for tackling this difficulty. Since 1980s, western capital countries have entered into stagflation, so the traditional competitive strategy theories cannot meet the objective requirements of new-period sustainable development. W.Chan Kim and Renee Mauborgne, professors of France European MBA School, after having made a 5-year investigation in some enterprises developing in a sustainable way in certain industries, proposed the value innovative strategy and pointed out that the outstanding management performance attributed to the value innovation strategy they persisted.

Different from the thinking modes of traditional competitive strategy in promoting the improvement of market structure and the attainment of the ideal market results by means of enterprise market action under the settled industrial structure, the basis of value innovation strategy is to require the enterprises put their eyes from the suppliers to the demanders, from giving attention and surmounting the deeds and actions of the competitors to promoting the value of the buyers.

The enterprises can probably seek for “Diversity” as well as “by means of seeing the markets”, that is to realize the breakthrough of value for the buyers in relatively low prize by means of surmounting the current competitive boarder to see the market, selecting and reordering the elements of value of buyers in different markets to reconstruct the market & industry border and open a potential demands, of adding and creating certain elements of value not provided by the current industry, and deleting and reducing those provided by the current industry. The nature lies in realizing the value innovation through 4-step action frame—the mode of “Deletion-Reduction-Addition-Creation” based on analyzing strategic layout and researching value curves. During this process, the value innovation

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strategy is successfully implemented by stressing on these 3 complementary characteristics of promoting themes as in the case of focus-emphasis, creation in another way, and customers-convinced.

On the one hand, the common character of value innovation strategy and dynamic competitive capabilities lies in “dynamic innovation”, which means value innovation strategy requires enterprises take meeting the needs of customers as their purpose, and upgrade their products or services aiming at respective enterprises’ providing higher efficiency in its own products for the customers compared with its competitors. On the other hand, dynamic competitive capabilities demands the enterprises continue to innovate and upgrade their own capabilities, creating a series of short-term competitive advantages to acquire long-term ones.

The fundamental objective of the enterprises in applying value innovation strategy lies in obtaining sustainable competitive advantages, sustainable and profitable growth. Nevertheless, the construction of dynamic competitive capabilities is the inevitable requirement for the enterprises to achieve sustainable competitive advantages. Therefore, the value innovation strategy is the cornerstone for constructing dynamic competitive capabilities. And the process of upgrading and achieving sustainable competitive advantages is, as a matter of fact, a process in continuing innovation, implementing value innovation strategy, fostering and constructing dynamic competitive capabilities.(See picture 1-1)

![Picture 1-1 Picture of relation between Value Innovation Strategy And Dynamic Competitive Capabilities](image)

2. Construction of Dynamic Competitive Capabilities of SMEs
2.1 Procedures of Construction of Dynamic Competitive Capabilities of SMEs
(1) Analysis of Competition Status quo

Analysis of competition state quo is the starting point of construction of Dynamic Competitive Capability. As the saying goes “Know the enemy and know yourself, and you can fight a hundred battles.”, SMEs could clearly understand the common and different characters between competitors and themselves, what orientation the competitors are likely to invest, what kinds of value elements the competition lie in, and what effects the buyers can obtain from the products and services provided, etc. so we will adopt the strategic layout which originates from value innovation strategy to analyze the competitive status quo.

Take the Chinese sanitary wares industry for instance, the following 7 are the main value elements acknowledged unanimously by the whole industry.
- Prize
- Utilization
- Degree of comfort
- Advanced Production Technology
- Materials and Quality of Modern Industrial Products
- Complexity of the Functions
- Highly Invested Marketing

From the picture 2-1, we see all the sanitary wares enterprises in China observe the standard acknowledged unanimously by the whole industry to design their respective value curves. Therefore, internal strategic frame are almost the same. The only difference is: Up-market sanitary wares
manufacturing enterprises provide high-standard value elements with a relatively higher prize in an attempt to achieve differences. However, the value gained by the buyers is almost identical. As for those ordinary sanitary wares enterprises, they provide low-standard value elements with a relatively lower prize. So what they pursue is low-cost strategy. Moreover, the value curves for the two strategy groups are basically similar, while the only distinction lies in the different value elements each get. The buyers get almost the same effects of services provided by all the enterprises in this sanitary wares industry. At last, the development of Chinese sanitary wares industry is still in a low level, and it is becoming more and more prominent as to the influence of nuclear and resources inertia among the internal enterprises. So by analyzing the current competition situation, we can clearly see the hidden reasons of this kind of low development, and speak in a well-defined objective in mind.

(2) Innovation Value Curves

Innovation value curve is the key for the construction of dynamic competitive capabilities. Take the picture 3-1 for example, under this circumstance; if the buyers are continuously given a little more or a little less based on the 7 value elements, the enterprises will be all involved in a common thinking mode, hard to obtain dynamic competitive capabilities, even harder to obtain sustainable, profitable growth. So the only outlet is to change the strategy of this industry, create the value curve, reconsider the value elements of this industry, and take the focus from competitors to buyers. We will adopt the 4-step action frame to innovate the value curve, which is an effective instrument to challenge the current strategic logic and commercial mode. And the following four questions should be answered by the innovators.

● What kinds of elements should be deleted which is considered as indispensable to the enterprise? Characteristics of elements: with any value, even in a decreasing situation, which is the element for enterprises’ competition in a long term.

● What kinds of elements need to be created? Characteristics of elements: new sources and new demands for the buyers’ value.

● What kinds of elements need to be decreased below the standard of the industry? Characteristics of element: design overdone in terms of functions of products or services in order to surmount or defeat the competitors, and what the enterprises give what the buyers need, which adds the costs of the enterprises.

● What kinds of elements should be added above the standard of the industry? Characteristics of elements: value which is ignored by the industry but taken great attention by the buyers for a long time.

Sichuan Jiaxi Industrial CO., LTD is the one who practices this mode. Under the condition of depression in Chinese sanitary wares industry, in 10, 1999 Jiaxi conceptual cask, the first one in China, was trialed successfully. In 12, 1999, Jiaxi Industrial CO., LTD was officially set up. During the first 3-year, the growth rate of sales in this company increased by over 50%, with an growth rate of over 30% this year. Since it was established, it has been 7 years, and “Jiaxi” has developed into a well-known brand in China with over 90 agents, 400 specialty stores and specialty districts. Its sales network can reach as far as all the large and medium-sized cities nationwide except Tibet and over 20 countries and regions. What is more, its products have been exported to Southeast Asia, Europe, America, Canada, Africa, etc, with its concept of “cask” deepening into the hearts of the customers.

With the speed-up of industrialization, more and more modern-industry synthetic materials and high-tech are being used in the industry of sanitary wares. At the same time, the success of Jiaxi Ltd.Com... Lies just in the integration of modern sanitary wares with traditional nature wood products so as to recreate the wood sanitary ware industry and construct the dynamic competitive capability through innovative value curves.
Jiaxi Industrial Ltd. Com. examines closely the current industry logic through four frameworks again. What’s more, it lays its on the characteristics of the natural wood products industry and the potential demands of the customers, creating three essences of value—“Naturally environment protection”, “health and safety”, “cultural connotation”, deleting two essences of value—“advanced production technology”, “modern industry production quality” which can not meet the needs of the customers, cutting the unimportant essences of value as in the case of “Complexity of Function”, “highly invested Marketing” below the industry standard, and adding the important essences of value as in the case of “Prize”, “pragmatics”, “flexibility of comfort” above the industry standard. Thus Jiaxi Industrial Ltd. Com. creates a unique value curve and strategic layout compared with the competitors, so as to overcome nuclear and resources inertia, and make a significant step to construct the dynamic competitive capability.

(3) Implementation of Value Innovation

The implementation of value innovation is the core of constructing dynamic competitive capability. The work needed to be finished during the enterprise strategy is reflected through the innovation value curve, and then all department directors in charge should ensure the work needed to be done so as to guarantee that value innovation during the process of strategic implementation attains higher support and participation, and the construction of dynamic competitive capability is not merely an ideal or a slogan, rather than an objective which can be achieved jointly by the whole stuff members of the enterprise. And the implementation of value strategy is realized through coordinate axis of “Deletion-Reduction-Addition-creation” from value innovation strategy.

Take Sichuan Jiaxi Industrial CO., LTD for instance, its coordinate axis of “Deletion-Reduction-Addition-Creation” as follows;

<table>
<thead>
<tr>
<th>Deletion</th>
<th>Addition</th>
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<tr>
<td>Advanced production technology: produced</td>
<td>prize: higher than ordinary sanitary wares.</td>
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only by manual hand
- Materials and Quality of Modern Industrial Products: raw material as fragrant cypress tree
- Utilization: the wall of casks with 2-foot thick which keeps the warmth from spreading, its depth-type design with smaller space to occupy, all the parts(underneath type pulley, attach man on the cask) ensured to be movable, and convenient to install, and the products to be manifested according to the customer’s will
- Degree of comfort: strictly control of raw materials with streamline design, in particular, the depth-type design which can obtain the natural hydrant power to massage.

<table>
<thead>
<tr>
<th>Reduction</th>
<th>Creation</th>
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<tr>
<td>Complexity of Function; emphasis only on health care</td>
<td>Nature Environment Protection; strictly control of quality of raw materials and producing workmanship</td>
</tr>
<tr>
<td>Highly invested marketing: low-case marketing mode</td>
<td>Health and Safety: successful utilization of high-tech antibiotics on all the products of Jiaxi wooden bulk with the function of health care</td>
</tr>
<tr>
<td></td>
<td>Cultural Connotation: promotion of “wooden bulk” culture, and publication of commercial romantic novel “Chengdu with 8-month romance” whose stereotype is Jiaxi company</td>
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By filling the implementing strategy move to the coordinate axis, the enterprises could examine closely all procedures of innovative value curve again, consider carefully every essence of value, and make the blueprint of constructing dynamic competitive capability transformed to the specific actions in each department.

2. Mode of construction of SMEs dynamic competitive capability

![Picture 2-2 Mode of Construction of Dynamic Competitive Capabilities of SMEs](image)

As from the picture 2-2, the construction of dynamic competitive capability is a dynamic and circular procedure. Firstly, the enterprises adopt strategy layout to analyze the competition statue quo, ensure the industry competition situation, master the strategic frame of the competitors, then take 4 action framework to reconsider the significant essences of value, create value curves, and look closely at industry logic. At last, coordinate axis of “deletion-reduction-increase-creation” is adopted so as to
realize value innovation and transform the framework of construction of dynamic competitive capability to concrete action conducted by all kinds of departments. What calls one’s attention is that the implementation of value innovation doesn’t necessarily mean the completion of the work to construct dynamic competitive capability. Due to the fierce competition, once innovation value curve of a certain enterprise achieves success, other enterprises will copy its road one after another, which causes the gradual similarity of innovation value curve among enterprises. Meantime, only by reanalyzing the competition statue quo or recreating value curve can the enterprise promptly give up the original advantage and set up new one before its competitors can give any counterattack. And only by this can the enterprise continue to create a series of short-term advantages so as to gain long-term lasting competition advantage, which also shows the nature of dynamic competitive capability. Therefore, the construction of dynamic competitive capability of SMEs is an ever-circling procedure.

3. Conclusions and Prosperity

In conclusion, constructing dynamic competitive capabilities is the necessary road for the healthy development of SMEs in this dynamic competitive era, whereas value innovation strategy is the base for the construction of SMEs. In accordance with the characteristics and statue quo of Chinese SMEs, we draw on experience of instructions and methods of value innovation, taking Sichuan Jiaxi Industrial CO., LTD, which is a well-known regional SME enterprise in Sichuan, as an example to procedures of dynamic competitive capabilities. What is more, on this basis, we propose the mode of construction of dynamic competitive capabilities. This mode owns the characteristics of dynamics, innovation and ever-lasting circulation, which practices the abstract dynamic competitive capabilities theory and solves the operative problems of constructing dynamic competitive capabilities of SMEs.

As for the future research, we will try out means such as quantity and practical investigation, continue to perfect the mode on the basis of taking the objective data, explore the correctness of this mode during the practical process, make a summary-up of management law, and enrich theory system of value innovation strategy and dynamic competitive capability so as to provide a meaningful guide to the administrative practices for SMEs.

References