



Sustainable competitive advantage and marketing innovation within firms

SCA and
marketing
innovation

A pragmatic approach for Chinese firms

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Abstract

Purpose – There are different views on how to gain a sustainable competitive advantage (SCA) for firms. This topic has become an important research area in strategic management. The purpose of this paper is to provide an approach for Chinese firms to use as a springboard to identify sources of SCA through marketing innovation.

Design/methodology/approach – Based on a cursory review of the generic literature on how to gain SCA, this paper considers innovation as a primary source of a firm's competitive advantage. From a practical viewpoint, marketing innovation is identified as a significant source of SCA, especially for those firms operating in the dynamic and competitive Chinese economic environment. Through an analysis of marketing innovations at the Huawei Technologies Co. Ltd in China, an approach is developed to help managers identify their unique sources of SCA through marketing innovation.

Findings – This study reveals marketing innovation results from a considered analysis of the various marketing factors in the environment and the inter-relationships between these factors. Subsequently, new sources of SCA can be identified, based on a firm's previous sources of competitive advantage. In this process, different types of competitive advantage are viewed in a holistic framework, which provides the basis for improving firm performance.

Practical implications – The approach developed in this paper offers a basis for managers to identify their firm's unique SCA through marketing innovation.

Originality/value – The paper provides insights for academics and professionals in the field and adds to the literature on emerging economies and SCA.

Keywords Strategic management, Sustainable development, Competitive advantage, Marketing strategy, China

Paper type Conceptual paper

Introduction

For two decades, China has maintained a high growth rate because of the reforms, which accompanied the Open Door policy of the late 1970s. A rapid increase in the number of enterprises across China in this period and a flourishing of the private sector, in particular, contributed to China's spectacular economic growth. However, compared with Western firms operating in China, many new Chinese firms lacked competitiveness in both the domestic and international markets. With China's entry into the World Trade Organization in late 2001, the increased competition among the



multinational corporations (MNCs) served to highlight the weak level of competitive advantage of many Chinese firms. Understanding how to improve the competitive advantage of Chinese firms is now a priority for senior managers as well as China's political leadership. Given this critical need, this paper provides a basic model or approach relevant to Chinese firms by which managers can identify and develop their particular sources of sustainable competitive advantage (SCA) through marketing innovation.

Three basic questions in particular are addressed in the context of SCA in China. The first is related to a rationale explaining why the managers of Chinese firms should be engaged with and concerned about developing an SCA that might replace their current successful strategies. A second question concerns the determining factors that make a competitive advantage sustainable while the third is concerned with the process by which Chinese firms achieve SCA. In the context of the latter, a firm's SCA is not derived exclusively from external factors in the market structure (Porter, 1991), completely from inside the firm as articulated in a resource-based view of the firm (Wernerfelt, 1984) or from a firm's internal capabilities alone (Prahalad and Hamel, 1990). In the light of this complexity, the issues pertaining to SCA in Chinese firms are considered in a broad context in which a sustainable innovation-based view of the firm is highlighted as a path to SCA in China's developing marketing economy.

Literature review

The types of firms in a market economy are diverse in terms of their choice of business strategy. However, all firms aim to implement high-value strategies that produce profits as a normal aspiration of business owners. When a particular high-value strategy of a firm cannot be implemented, imitated or replicated successfully by a potential competitor, the strategy provides the firm with a source of SCA. In his study of strategy, Porter's (1991) theory of competition strategy is highly representative of work in the field. Porter (1991) states that the competition strategy of a firm is to seek an advantageous competitive position in a particular industrial environment or to build up a profitable, consistent market position by drawing on various factors that are decisive to being competitive in an industrial sector. In other words, both industry type and competitive strategies are two central points to be considered by managers in a market economy. Obviously, Porter's competition strategy theory explicitly relies on the pursuit of advantages, which are determined by a firm's exogenous variables that require analysis of the competitors and opportunities in the market.

Some scholars who adhere to a resource-based view of the firm believe that resources contribute to SCA but only when a firm possesses valuable, scarce, inimitable and irreplaceable resources. Particular combinations of these resources deliver a particular type of SCA. For example, Barney (1991) explored the links between a firm's resources and its SCA. He suggested that not all of a firm's resources hold the potential to deliver an SCA. Rather, the firm's resources must possess the attributes of rareness, value, the inability to be imitated and inability to be substituted if an SCA is to be realized. However, in the real world of business, it is unlikely that all firms will have the capacity to possess or access all the resources that satisfy Barney's (1991) conditions. In addition, firms may not have the capacity to utilize these resources in the right combination even if they were accessed in an appropriate manner. In this context, a causal relationship between high profits, SCA and resources is difficult to determine accurately. Given this conjecture, the capability-based view of the firm suggests that the effectiveness of a certain material resource is completely dependent

on who uses it. Nevertheless, Oliver (1997) argues that both resources and institutional capital are indispensable to creating an SCA. The capability-based view of the firm also moves a step closer to understanding how enterprises develop and maintain their sources of competitive advantage. However, it does not explain why some firms, which developed a core competence, eventually lost it because of “core rigidities” within those firms (Leonard-Barton, 1992).

Enterprise knowledge theory (Leonard and Sensiper, 1998; Yu, 2002) suggests that the root of a firm’s SCA comes from the knowledge within the firm as well as the cognitive capacity of people to apply that knowledge. In practice, the tacit knowledge of people can also be tapped as a source of SCA. However, when a modern firm seeks to construct its particular SCA, capturing tacit knowledge can emerge as a barrier. Given the diverse nature of a firm’s accessible resources, three general sources are identified as areas from which SCA can be derived:

- (1) the particular market environment in which a firm is positioned,
- (2) the resources available to the firm to allocate, and
- (3) the firm’s processes that deliver continuous innovation.

Among the three sources, continuous innovation is nominated as the unique and indigenous factor that offers the potential for all firms to obtain and maintain an SCA, even in a resource-constrained environment.

A firm that wants to obtain SCA should possess the capabilities to adapt its operations to the dynamics of the market environment in which it is positioned. In addition, the capacity to develop new forms of competitive advantage before the decline of the previous or current form of competitive advantage is necessary (Jiang, 2002). In this sense, while innovation must be a consistent and continual process, a degree of “creatively destructive innovation” is also a necessary ingredient. Hence, managers of firms must conceive of and develop a competitive advantage as if it was on a continuum. Here, a firm’s competitive advantage curves are connected with each other in successive waves of innovation, as depicted in Figure 1.

SCA and marketing innovation

Schumpeter articulated innovation theory with an economic bent in the 1920s. Because of his background in economics, he defined innovation as a new combination of production factors and production conditions by entrepreneurs. The new combinations identified by Schumpeter include producing new products or bringing new features to

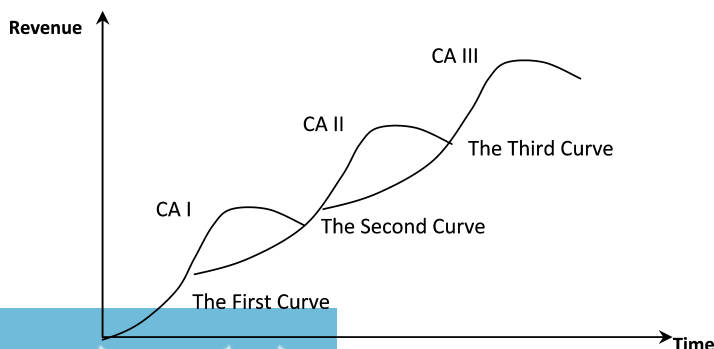


Figure 1.
Competitive advantage as
a continuum

a product, using new production processes, promoting new markets, controlling a new supply sources of raw materials or semi-finished products, and implementing new organizational structures. Therefore, definitions of this type have implications for marketing innovation in general and marketing managers in particular.

Marketing innovation is understood commonly as a continual process. Initially, the entrepreneur holds a potential profit opportunity in the market. Taking commercial profit as the target, the entrepreneur re-combines the key marketing elements and establishes a marketing system with stronger market competitive capabilities to facilitate the launch of new products and the promotion of new markets. Moreover, the characteristics of successful marketing innovations, which include a sound marketing strategy, the path taken in the market, the level of management skills within the firm and its unique organizational culture may be difficult for competitors to imitate or replicate. A particular combination of these factors determines if a marketing innovation will deliver strategic value to a firm. Some examples of the evolution of marketing innovation and its effects on a firm's competitive advantage in China are offered in Table I.

The examples in Table I share a common feature. In the firms identified, all successfully implemented marketing innovation plans for SCA were based on the unique situation of the firm. Marketing managers segmented marketing factors and deployed marketing innovation activities accordingly. Marketing factors can also be segmented into four general levels, which form the basis for marketing innovation. These levels are those related to product, service, distribution and sales/promotion. Identifying these fundamental levels of marketing is necessary because these elements are central to an enterprise's marketing innovation. In effect, profit is dependent on value-added activities within these levels. One common feature of such activities is the need to listen and respond to the demands of consumers. Developments within these areas combine to affect the capacity of a firm to deliver both value and profit to shareholders and other stakeholders.

Some marketing managers pay exaggerated attention to product innovation as a source of competitive advantage while neglecting other sources of innovation like marketing. This focus clouds the mindset of marketing personnel and reduces greatly the capacity of a firm to create continuous competitive advantages derived from marketing innovation. If the process of continuous innovation within a firm is based on the endogenous resources, then managers who understand comprehensively their competitive surroundings realize quickly that identifying the elements that enrich their firm's marketing strategy is a necessary step. Consequently, a firm's SCA can be the inimitable combination of different marketing factors at the fundamental levels discussed above. In a process similar to productive farmers cultivate their fields by taking into account a range of environmental factors to reap the rewards of their farming techniques, effective marketing managers tap into innovation to enrich the outcomes at each fundamental level to reap their rewards. The case study of Huawei Technologies Co. Ltd in China serves to illustrate many of the points highlighted above concerning marketing innovation.

The case of Huawei Technologies Co. Ltd

The successful experience of the long distance light transmission business of Huawei is a solid example in China of a firm obtaining SCAs by successfully implementing marketing innovation strategies (see www.huawei.com/). According to Huawei's own words, the firm is a "world-leading telecom solutions provider focused on building long-term partnerships with telecom operators." This reputation is built on "passionate employees," "unmatched R&D capabilities" and the capacity to react quickly the needs

Phases	Marketing innovation focus	Effects on firm's competitive advantage	Industry examples in China
1920s	Marketing research	The perfect marketing information system in a company helps top managers gain precise market information on time and gives them the capacity to react rapidly to changed conditions	The widely used Market Information Feedback System developed by the Jiangsu Little Swan Group provides the company with a scientific basis to adopt different flexible, effective marketing strategies
1930s to 1940s	Brand manager system	In order to accomplish marketing assignments, brand managers should master how to communicate with colleagues in other departments and seek their cooperation. It is well recognized that the brand value delivers a corporation's profits	Procter & Gamble Inc. has sold more than 300 products and has been a global leader in the household cleaning, health care, personal care and food product markets. There is no any other company like P&G, which own many leading brands including Tide, Crest, Olay, Pantene, Pamper and the like
1950s to 1960s	Market segmentation – differential marketing	Market segmentation enables marketing managers to analyze and discover new market opportunities according to different market structures and the needs of customers. Every market opportunity may bring more profits to a company and create new competitive advantages	Based on geographical division, Fangzheng Sci-Tech Computer System Ltd prompted “Beijing special supply”, “Shanghai special supply”, “Fangzheng PC in May, a great leap in Southwest” and similar products with regional flavors and product promotion activities. Its PC products are differentiated for commercial use and home use
1970s	Service marketing	Service marketing allows a corporation to transact mutually with buyers through ‘breeding’ customer satisfaction and loyalty – this allows a company to obtain revenues and plan for long-term development	IBM Corporation provides all kinds of resolution plans to customers and assists them deal with their technology problems. IBM even assists them to establish web sites. At least 30% of its global sales come from service
1980s	Global marketing	Marketing globally provides a company with more market opportunities, more revenues and more affluent resources, which are necessary conditions for developing a firm's SCA	The Coke Cola Corporation has manufacturing sites in dozens of countries and has markets in more than a 100 countries. Almost 80 percent of its profits and 2/3rd of its sales come from international markets

(continued)

Table I.
The process of the
evolution of marketing
innovation

Phases	Marketing innovation focus	Effects on firm's competitive advantage	Industry examples in China
1990s to present	Relationship marketing	It is not easy for competitors to replicate personalized customer information and good relationship with customers. Moreover, the experience of public relations that a company accumulates over a long period and a company's tacit knowledge are both difficult for rivals to copy	The Legend Group's "Five heart-related" service promises truly to keep the group and its customers "hear-by-heart." The Legend Group and its partnership with business agents have effectively prevented its agent dealers shifting to its competitors. The Legend Group and its partners established an alliance relationship to enhance its strengths and avoid weaknesses
	Integrated marketing communication	A firm's operational activities, including production, finance, HR and the like should be based on marketing activities and the operational arms should communicate with each other in order to improve the firm's efficiency of operations and propagation	In January 1999, the Integrated Marketing Section of IBM China was established. Its business process is a cycle based on marketing investigation, market management and integrated marketing communication
	Internet marketing	Internet marketing helps marketing managers create new customer value across the globe and use a new set of tools to improve the impact of advertising, price and distribution	DELL Computer Corporation provides the assemble-after-order service to its customers. Otherwise, it also provides technology support and order information to its customers through the internet

Table I.

of customers with a "comprehensive, customized set of offerings." The case of Huawei also helps explain how marketing managers can exploit the marketing elements at four fundamental levels in the context of marketing innovation delivering an SCA.

Huawei was founded in 1988 as a private technology company in the telecommunication sector. Although every year Huawei contributes 10 percent of its annual sales revenue into research and development, until recently it had failed to develop an original product. The senior management team at Huawei realized that if the firm was going to go global through technology purchases and patent licensing, changes were required.

In long distance light transmission, Huawei's market share is currently number one. However, its core technology was purchased from a global leader in the field, which invested over \$70 million in long distance light transmission and product solutions. This marketing innovation, which occurred at the level of the product, allowed Huawei

to gain a significant SCA. When other competitors tried to emulate Huawei's success, Huawei continued to obtain additional forms of SCA through marketing innovation based on service. The senior managers of Huawei also took a bold step and redeployed internal resources to support integrated produce development. A new product was launched into the market within nine months. Prior to 2003, Huawei had no share in the global market. However, the successful launch in 2003 of solutions for large volume, long distance (4,600 km) light transmission saw Huawei's sales grow rapidly outside China. Incredibly, by 2005, Huawei was number one among the long distance light transmission suppliers in the world, and it succeeded in penetrating in the Latin American market. Following this rapid expansion, Huawei reduced significantly its delivery time, which also reduced inventory costs and minimized losses that occurred because of obsolete storage. Here, marketing innovation offered an SCA based on the significant improvements Huawei made in its distribution channels. Of course, Huawei's total sales and profits also rose dramatically. The sales revenue in 2005 was more than five billion dollars, with global sales quickly overtaking local sales.

Huawei's management attained SCAs through the process of continuous innovation within key marketing elements over time at different levels. During its 18-year development period (1988-2007), Huawei's total sales and profits increased tremendously in an environment where competition within the telecommunication technology industry was certainly fierce and dynamic, Huawei's proactive approach to marketing innovation served to deliver SCAs such that it emerged recently to be a China-based international network producer and consolidated its number one position among its Chinese competitors worldwide.

Obtaining an SCA through marketing innovation

Based on the literature and the good practice case of Huawei, a model of how a firm obtains an SCA is described and discussed below. As a precursor to the discussion, three main factors that contribute to a firm's capacity to achieve a marketing innovation are identified and discussed. In addition, the relational aspects among these factors are also discussed. At least three interrelated factors determine the successful outcome of firm's approach to marketing innovation. First, rational strategic choice is the basis for successful marketing innovation. At the base of rational strategic choice is a situation analysis, an approach referred to commonly by the acronym SWOT (that is, internal strengths, weaknesses, external opportunities and threats). Marketing managers use this tool to discover potential customers, create products that customers both desire and require and predict future market conditions. The rational strategic choice drives choices in a change context concerning emerging products, price-function, marketing regulation, a customer orientation and so forth. Second, marketing resources are considered as a series of important elements in the process of marketing innovation and include the distribution network and the service elements among other similar elements. Marketing resources in particular should be difficult for one's competitors to replicate because of the particular combination of human, physical and financial resources devoted over time to develop and accumulate these resources. More importantly, marketing innovation is built on the premise that solid marketing resources exist within a firm.

However, in competitive environments, it is not enough for a firm to have only the capability of selecting strategic alternatives and organizing marketing resources to deliver an SCA – these resources must be deployed (Jiang, 2002). Finally, a firm must establish new competitive advantages and shape the development of the market via

two types of competitive styles. One style is competition through the resources of the traditional marketing environment; the other is competition by transcending the traditional marketing environment, a process depicted in Figure 2. The latter is viewed as a way forward for Chinese firms operating in a competitive and emerging market economy.

Based on a firm gaining a marketing innovation, the firm is impelled to seek further advantages compared to those possessed by its competitors. However, a firm may be unable to elevate itself to a new plane by creating additional value-added activities for various reasons. For instance, toothpaste merchants all disseminate information, which implies that their unique product(s) can improve your dental health. However, Colgate took it a step further by suggesting to the consumer via a white shell acid-proof contrast ‘scientific’ experiment that only Colgate’s product can truly prevent your teeth from decaying. In this leap to a new plane, Colgate surmounted its competitors. In a different type of marketing innovation, the French firm L’Oreal uses its distribution channels to market its VICHY produce line in another type of marketing innovation that prevailed over its competitors.

In a dynamic competitive environment, a firms’ marketing innovation is a continuous process, as depicted in Figure 3. In this process, every starting point of the cycle must be higher than the previous starting point and every terminal point of the cycle

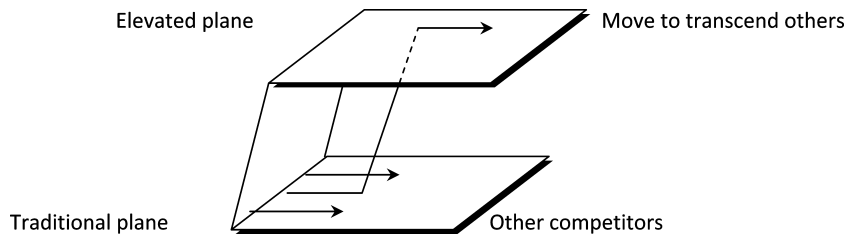


Figure 2.
Competition in a non-traditional marketing environment

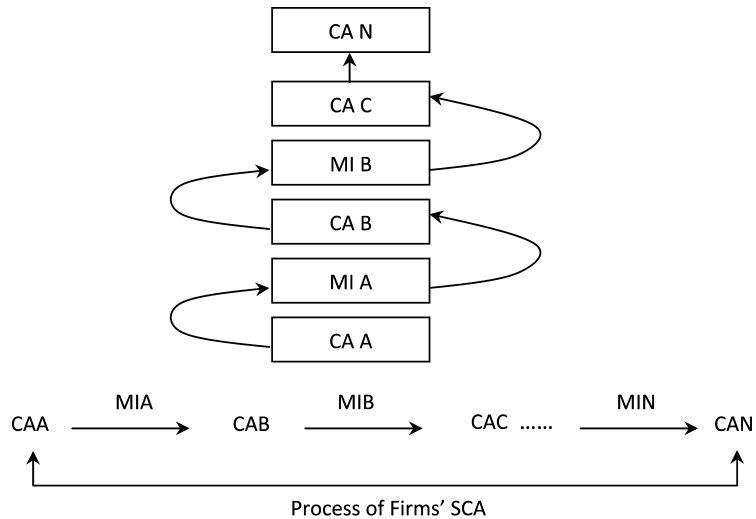


Figure 3.
Model of a firm's SCA through marketing innovation

Note: CA = Competitive Advantage; MI = Marketing Innovation

cycle must be higher than the previous terminal point. Figure 3 shows how one cycle propels another cycle in a higher plane in an environment of unceasing change. Thus, the process of gaining competitive advantage occurs on a continuum – the propelling nature of marketing innovations of this type are the basis for managers to identify their firm's new sources of SCA.

As a dynamic process, marketing innovation has the strong potential to lead quickly to SCA, a process that can be captured and represented by three steps. The initial step consists of revising the strategic alternatives according to the imperatives managers identify in the environment. Subsequently, the firm needs to accumulate and develop their marketing resources in a comprehensive and holistic manner. This process includes selecting and adjusting the style of competition rapidly and appropriately, based on the successive waves of opportunities and threats that emerge in the market. When managers recognize the importance of these steps, their firms are ready to meet new market opportunity, make fresh strategic choices in the context of market change and prepare to counter new competition (threats) that emerge periodically. In the process of managers applying marketing resources to realize their firm's strategic choices, the potential for gaining new sources of SCA is greatly increased.

Discussion

Knowledge-intensive firms, information technology, business network and globalization characterize today's economy. As a result, traditional Chinese enterprises find themselves facing strong challenges in the dynamic, complex and emerging market economy of China (Nolan, 2001). This fast-changing environment is also unprecedented in terms of its openness and intensity. At the same time, the factors that affect the operation of Chinese firms are increasingly more complex and complicated compared to the era before the Open Door reforms. In China as elsewhere, there is now increased pressure from customers, more competition in the market and different types of competition, much of which occurs in virtual space. In this environment, the pressures on managers to renew and reconceptualize their approach to marketing management and marketing innovation are relentless as well as significant.

The command economy under which several generations of Chinese lived and toiled is now the subject of economic historians. Today, Chinese consumers obtain commodities and services in a vibrant emerging market economy in which comprehensive information about products is readily available, especially over the internet. China's knowledge-rich consumers are a formidable group, which marketing managers ignore at their peril. While diverse in nature, Chinese consumers are highly cognizant of the design aspects of products as well as value and quality factors pertaining to price, after-sale service, payment methods and preferential benefits for credit consumers as well as a range of allied services offered by manufacturers and service providers.

Chinese consumers are also more astute compared to their counterparts of previous decades when it come to bargaining with various manufacturers or providers. The new environment offers consumers broader choices and forces top-level managers to continually develop strategies to reduce the pressures on their business that result from market changes through increased competition. Accompanying the rapidly developing global economy and significant improvements to all forms of technology is the notion that Chinese firms can no longer survive solely by competing with their domestic rivals. In this light, traditional Chinese enterprises must compete with various state-owned enterprises, newly formed MNCs and wholly foreign-owned enterprises. Because of the convergence of traditional competitive measures, in particular those of price and

quality, today the quality of the product and the extent of services provided both loom large in the thinking of senior marketing managers. However, the particular style of products, the nuances of advertisements, the level and availability of after-sales service and even the cultural implication of a brand symbol all have become new and important measures by which Chinese firms can increase their market share.

Conclusion

China's rapid move toward a fully fledged market-oriented system has made increasing numbers of Chinese managers cognizant of how the process of change *per se* is also a powerful force that can be harnessed to develop new sources of SCA. Developing and implementing effective and innovative marketing strategies is part of this change process. In addition, modern approaches to management and technologically advanced enterprise management systems both add to the complexity of the change process and impel Chinese managers to move from traditional ideas about management practices to embrace new developments in the field (see Li *et al.*, 2000). In this light, the major challenge for Chinese managers is to invigorate their approach to managing change and adapt their marketing management strategies in ways that deliver new sources of SCA.

Business history suggests that enterprises will fail under certain business conditions and in certain industry sectors because the top managers live in the shadows cast by past successes. This frame of mind can impose a heavy burden on enterprises in transition. For instance, Du Pont's stubborn defense of nylon, the reaction of the Japanese concerning the simulative type of high-definition television and the German's predisposition for the precise side axis mechanical camera indicate resistance to the winds of change. Conservative approaches may actually reduce the capacity of many firms to compete effectively in their market place. Therefore, the new breed of Chinese marketing managers should not approach change apprehensively; rather, they should proactively tap the change process as an ally. This step will enable their firms to adapt speedily to new market conditions, which is a prerequisite for obtaining an SCA.

Firms that gain competitive advantage often find their rewards immediately following the establishment of that particular competitive advantage. During this period, competitors have only begun to implement measures to counter-attack the success of their rival. However, a competitor's counter-attack signals a changed marketing environment – this is the time when a firm is at risk of gradually losing its competitive advantage. Over time, the competitive advantage is shed – that is, a firm fails to turn the initial competitive advantage into an SCA. In China's rapidly expanding and extremely competitive economy, numerous factors mitigate against the capacity of a firm to gain an SCA. For example, product imitation from competitors and the entries of new competitors into the market are external factors with the potential to erode a firm's competitive advantage. Other internal factors including weak resistance strategies and a lack of counter-attack measures also determine the course of a competitive advantage. Because of the salience of such factors, Chinese managers need to consider carefully and construct their firm's competitive advantage in the context of change if the advantage is to become sustainable.

Competition in China as elsewhere is based on certain economic, political and technological conditions. However, many sources of competitive advantage that once looked impregnable now look less so because of new competitive conditions. In this context, Chinese managers must pay close attention to their survival tactics and seek to innovate continuously as a path to gaining an SCA in their market. In particular, senior managers should tap into the potential of continuous marketing innovation, which is now seen as a powerful tool in gaining SCA.

The approach described in this paper can help focus the thinking of Chinese managers concerning how marketing innovation is implemented at the different levels within their firms. Marketing innovation can be achieved by analyzing various marketing factors and their interrelations in order to discover new competitive advantages that can be built on the bases of previous competitive advantages. In doing so, different competitive advantages are connected on a continuum, and therefore have the potential to deliver positive outcomes through marketing innovation.

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