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# Entrepreneurial strategy making and performance in China's new technology ventures – the contingency effect of environments and firm competences

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## Abstract

In this study we examine the contingency value of entrepreneurial strategy making with a sample of technology-based new ventures in China's emerging economy. Our results show that the relationship between entrepreneurial strategy making and performance is moderated by both environmental factors and firm competences. Specifically, entrepreneurial strategy making has a positive relationship with performance when the environment is highly uncertain and when the firm has strong marketing competences.

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*Keywords:* New technology ventures; Entrepreneurial strategy making; Environment and firm competences

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## 1. Introduction

It is widely recognized that today's managers face an environment characterized by rapid technological changes and customer demand changes. To cope with such challenges, both academic scholars and the popular press have suggested that entrepreneurial strategy making will be critical for

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organizational success (Business Week, 2002; Covin & Slevin, 1989; Dess, Lumpkin, & Covin, 1997). Entrepreneurial strategy making, also referred to as entrepreneurial orientation (Lumpkin & Dess, 1996) or entrepreneurial posture (Covin & Slevin, 1989), is an extension of the concept of entrepreneurship from the individual level to the organizational level (Lee, Lee, & Pennings, 2001). It reflects the extent to which a firm is committed to risk-taking, innovation, and proactiveness in developing and implementing its strategies (Miller, 1983).

Despite its appealing nature, the extant literature has consistently revealed that the proposed positive relationship between entrepreneurial strategy making and performance does not exist (Covin & Slevin, 1989; Dess et al., 1997) or at best is very weak (Lee et al., 2001). Instead, scholars have found that this relationship is contingent on contextual variables including environmental hostility (Covin & Slevin, 1989), firm performance (Covin & Slevin, 1991), and competitive strategies (Dess et al., 1997). To extend this line of research, in this study we draw upon the contingency theory (Burns & Stalker, 1961; Lawrence & Lorsch, 1967; Venkatraman & Prescott, 1990) and test the contingency value of entrepreneurial strategy making by examining both external environments (i.e., environmental uncertainty and industry growth) and internal firm competences (i.e., technology and marketing competences) as contingency variables. This represents a response to the call by Lumpkin and Dess (1996) which suggests to examine both environmental and organizational factors as contextual variables in studying the performance implication of entrepreneurial strategy making. Our key argument is that, as entrepreneurial strategy making reflects a firm's risk-taking, innovation, and proactiveness (Miller, 1983), its value on firm performance should depend on the extent to which external environments provide potential opportunities for the firm to explore via this type of strategy making, as well as the extent to which internal competences enable the firm to capture opportunities when implementing this type of strategy making.

In addition, previous studies in this area are mainly limited to firms operating in Western developed markets. There is a paucity of research of the contingency value of entrepreneurial strategy making in other institutional settings. In this study, we will examine this issue in the context of new technology ventures in China, the largest and the fastest growing emerging economy in the world. Emerging economies refer to "low-income, rapid-growth countries using economic liberalization as their primary engine of growth" (Hoskisson, Eden, Lau, & Wright, 2000: 249). China's emerging economy involves significant institutional transitions and is characterized with highly uncertain and dynamic markets. Reforms in the direction of liberalization and marketization in China introduce fundamental and comprehensive changes to "the formal and informal rules of the game that affect organizations as players" (Peng, 2003: 275), which encourage entrepreneurial behavior. For example, during China's economic transition, over 20,000 technology-based new ventures have been founded across the nation in the past 15 years. Although it can be argued that the establishment of new ventures itself is entrepreneurial, new ventures differ in their levels of entrepreneurial strategy making (Lee et al., 2001). More important, how new ventures can benefit from entrepreneurial strategy making is an important yet unexplored issue. Compared with established firms in China, new ventures have little heritage from the traditional planning system. Instead, they were founded after China's economic transition started about two decades ago. In addition, these ventures are relatively more vulnerable to environmental conditions and they tend to have relatively limited resources including both marketing and technological competences (Li & Atuahene-Gima, 2001; Stinchcombe, 1965). Also, it has been argued that the complex and regulatory nature of China's transition environment is characterized with discouraging future-oriented and risk-related decisions (Luo & Park, 2001; Tan & Litschert, 1994). Therefore,

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