

# Strategic orientation of high-technology firms in a transitional economy<sup>☆</sup>

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## Abstract

Strategic orientation is a critical factor for a firm's competitiveness in a transitional economy context but it is understudied in the current literature. This article examines the antecedents of strategic orientation from both the socio-cognitive and resource-based view perspectives. The study posits that the strategic orientations of firms in a transitional economy context are influenced by the top managers' cognitions and organizational resources. Based on a national survey of high-technology firms in China, the study finds that a stronger market-focused strategic orientation was facilitated by managerial cognitions about the future of the industry and current operation and performance of the firm, as well as organizational resources including an R&D infrastructure, technological alliance, and top managers' foreign experience. The study confirms that strategic orientations should be examined from multiple theoretical perspectives.

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## 1. Introduction

Studies focusing on the outcomes of realized strategies populate the strategic management literature. Very few of them examine how strategies are developed. Nevertheless, the managerial cognitions studies help to understand the process of strategy development by examining how managers come to understand the business environment (Dutton et al., 1989; May et al., 2000; Walsh, 1995). Strategic orientation is a major theme of this line of investigation (Durand and Coeurderoy, 2001).

Broadly defined, strategic orientation is the business direction and objectives that the top management of a firm wants to achieve. Strategic orientation is particularly important in determining a firm's success in a transitional economy context (Luo et al., 2005; Zhou et al., 2005; Zhou and Li, in press). During an institutional transition from a centrally planned economy towards a market-based economy, emerging firms in transitional economies face a key strategic constraint of lacking forerunners for them to learn. Also, the experience in the pre-reform era provides little and not so relevant prior knowledge that enables these firms to evaluate external environment as well as to acquire and exploit resources. Similarly, the business mindset and experience that functioned effectively in the planned economy may become obsolete in the newly emerging market economies (Uhlenbruck et al., 2003).

Accordingly, the need for a focus on managerial cognitions to transform organizations during institutional upheaval is critical (Newman, 2000). Firms in transitional economies are required to explore new mechanisms to learn how to strategize in order to facilitate effective organizational transformation (for incumbents) and to search for how to play under the new rules of the game (for new entrants) during institutional transition. In some sense, the possession of a strong strategic and market-

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oriented mindset is critical for these firms as they now have to engage in the entrepreneurial process with a strategic focus (Bruton et al., 2004).

This article therefore examines how strategic orientation is developed in a new institutional environment. We choose to focus on the high-technology industry in the transitional economy of China. This is because technology-based ventures are critical for the development of transitional economies (Bruton and Rubanik, 2002). Also, high-technology firms are more entrepreneurial and require stronger strategic orientation in order to compete in the industry. In regard to China, high-technology firms are often referred to those firms that have a technology focus and are technology-intensive, and are called ‘high and new technology firms’. These firms are regarded as ‘emerging’ firms as they are ‘new’ to China. Most of the firms are in the chemical, pharmaceutical, electronics, telecommunications, machineries and equipment industries. Although the technology level of these firms may not be always comparable to that of those cutting-edge, world-class high-technology firms in developed countries, the high-technology firms in China have experienced phenomenal growth in the last decade. Some firms have achieved world-class status in terms of marketing, manufacturing, and technological development (Li et al., 2000). Yet, these firms are subject to hostile forces in the transitioning institutional environment (Ahlstrom and Bruton, 2002; Lau et al., 2002a,b).

In China, most of the high-technology firms are young and entrepreneurial ventures, while some of them are spin-offs or reformed ventures from state-owned enterprises in the pre-transition period. The owners and chief executives (who are regarded as entrepreneurs) are operating in a complex social and economic context, with diverse demands and constraints (Lau and Busenitz, 2001). They also need to make use of their limited resources to compete with the larger state-owned enterprises and foreign invested firms. Thus, examining the strategic orientations of these firms allows us to better understand the strategy development process of firms in a transitional economy context.

This study suggests that the development of strategic orientation can be understood by examining both the cognitive mindset of top managers (entrepreneurs) and organizational resources of the firms during institutional transition. This is because the examination of managers’ cognitive mindset is particularly important in situation with high ambiguity and uncertainty, like in the context of a transitional economy, and both the adaptation of indigenous resources and the development of new resources are crucial for strategic competitiveness during institutional transition. This echoes the call of Ginsberg (1994) that there is a need to integrate the cognitive and resource-based perspectives in studying firm strategies. By focusing on ventures that require entrepreneurship, this study also contributes to the understanding of the particularity of high-technology ventures and how their strategic orientations are developed in a new industry sector in a transitional environment. This implies that neither an entrepreneurial cognition nor organizational resources alone are sufficient to develop market-focused strategic orientations in a transitional economy.

## 2. Strategic orientations in a transitional context

Strategic orientation is based on a cognitive understanding and interpretation of the external environment and internal resources, and it represents a resource allocation priority of a firm with long-term growth and shareholders’ wealth as the ultimate objective (Hitt, Dacin, Tyler, and Park, 1997). An orientation is developed in a strategist’s mind that involves different investment and deployment of financial resources and human capital. It represents how aggressively a firm desires to compete in the market, and thus the willingness to explore and develop competencies, products, or markets (Zhou and Li, *in press*). Different strategic orientations involve different investments in time, financial resources, human and political capital. The basis of this orientation is how the top management organizes and interprets information about the environment and the level of necessary resources the firm possesses.

Recent studies have examined what strategic orientations are and the relationships of strategic orientations with organizational design and performance (McKinley et al., 2000; Ramaswamy, et al., 1994; Veliyath and Shortell, 1993). There are similar studies on entrepreneurial cognitions in new venture creation in the field of entrepreneurship as well (e.g., Baron, 2004; Busenitz and Lau, 1996; Durand and Coeurderoy 2001; Shane and Venkataraman, 2000; Wiklund and Shepherd, 2003). However, these studies have been focusing on examining the consequences of different entrepreneurial orientations, such as organizational outcomes like reward system, organizational performance, and intentions of new venture creation. They seldom study the antecedents, and the construct, of orientation itself, especially from a strategic perspective in a transitional economy context.

Further, high-technology ventures are normally regarded as more entrepreneurial. This is especially so in a transitional economy context because the environment is more risky and uncertain, and competitive advantages come from innovative and proactive orientation (Peng, 2001). These firms have to be both strategic and entrepreneurial. Ireland, Hitt, and Sirmon (2003) proposed that the strategic entrepreneurship process should include an entrepreneurial mindset, culture, and leadership, as well as strategic management of resources and application of creativity to develop innovation. Lumpkin and Dess (1996) have also identified several key dimensions of an entrepreneurial orientation. In particular, autonomy, innovativeness, risk-taking, proactiveness, and competitive aggressiveness are the key characteristics of an entrepreneurial process. These dimensions are also relevant to the entrepreneurial nature of high-technology firms. For example, Wiklund and Shepherd (2003) found that entrepreneurial orientation enhanced the relationship between knowledge-based resources and firm performance in small and medium-sized firms.

In fact, in a transitional economy context, firms often face strategic issues related not just to the development of new products and markets, but also to the transformation of current organizational structure, management systems, as well as the development of capable human resources with market-orientation (Li, 2005; Wei and Lau, 2005). They share some

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