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Strategic orientations and strategies of high technology ventures in two transition economies

Chung Ming Lau [a,*], Garry D. Bruton [b,1]

[a] Department of Management, Chinese University of Hong Kong, Shatin, NT, Hong Kong
[b] Neeley School of Business, Texas Christian University, Fort Worth, TX 76129, USA

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ABSTRACT

This research examines the relationships among strategic orientation, strategy, and firm performance of high technology ventures in two transition economies – China and Russia. While highlighting the impact of the economy's institutional support of entrepreneurship, we also examine the moderating effects of social networks in the performance of these ventures. This research finds that there is a strong link between strategic orientations and resulting strategies in both transition economies; specifically, the capability building strategies relate to sales and efficiency performance. The entrepreneurial firms' social network also directly influences sales performance, but does not play significant role in moderating performance. Finally, institutional support has an effect on both strategic orientations and firm strategy.

1. Introduction

Entrepreneurs play a critical role in economies transitioning from central control to a market orientation, i.e. transition economies (Peng, 2001). In large measure, this is because the large, old state-owned enterprises that were present when these economies were centrally planned still exist as these nations transit to a market economy. However, these state businesses are difficult to reform and may in fact produce products that are often still not marketable in today's economy. As a result, it is the new entrepreneurial businesses that provide critical economic viability in transition economies (Li, Zhang, & Chan, 2005; Peng, 2001).

One type of entrepreneurial business that governments in transition economies want to encourage is high technology entrepreneurial ventures (Bruton & Rubanik, 2002) since they offer particular benefits to these nations. These benefits include that entrepreneurial firms offer a means for those nations to move from centers of low cost manufacturing to high valued added manufacturing. The high value added manufacturing is associated with higher wages for workers and higher profits for the firms as well as gaining competitiveness in the global economy with high end products. In addition, high technology entrepreneurial ventures promote the employment of highly trained professionals that are often produced in abundance by universities in transition economies. This is particularly the case of the transition economies of China and Russia.

While there are studies on entrepreneurial behaviors and firm performance in high-technology ventures in these two economies (c.f., Bruton & Rubanik, 2002; Phan & Foo, 2004), the strategic orientations and strategies of these entrepreneurial ventures have not been well examined to date (Lau, Yiu, Yeung, & Lu, 2008). Our central questions are: To what extent are high technology entrepreneurial ventures in the two post-socialist economies – Russia and China – similar and different in strategic cognitions and actions? In addition, does their institutional legacy play an important role in these relationships?

This paper examines the impact of strategic orientations on firm strategic behaviors and how these strategies affect performance of high technology ventures in these two economies. It should not be assumed that the environments of all transition economies are homogeneous (Bruton, Ahlstrom, & Puky, 2009; Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004). For instance, an economy's institutional support for entrepreneurship can vary widely among nations and need to be considered in examining entrepreneurship in transition economies. While China and Russia share similar ideological and economic roots in socialism and central economic planning, in other regards they have very different institutional settings (Puffer & McCarthy, 2007). Thus, here we also examine the impact of the institutional background on strategic orientation and actions for both similarities and differences between the two nations which will help to further validate the results as relevant to a variety of transition economies.

Networking is widely seen as a key element in entrepreneurial success (Jack, 2010) and in implementing new technology ventures

* Corresponding author. Tel.: +852 2609 7803.
E-mail addresses: cmlau@cuhk.edu.hk (C.M. Lau), g.bruton@tcu.edu (G.D. Bruton).
[1] Tel.: +1 817 257 7421.

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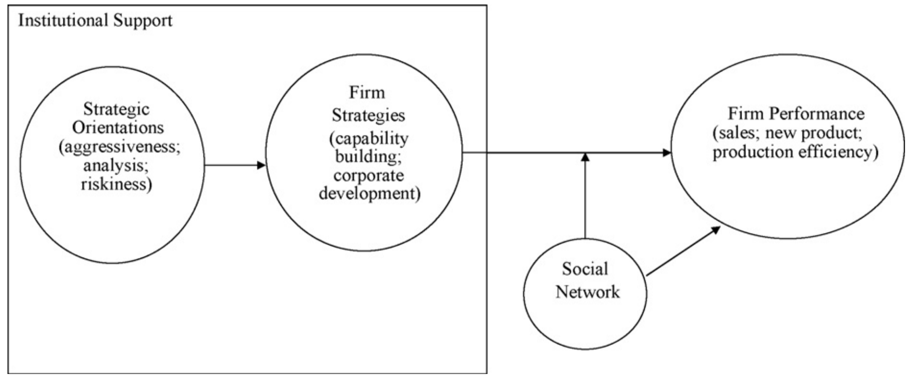

Fig. 1. Relationships between strategic orientation, strategies, and network.

(Gupta, Cadeaux, & Dubelaar, 2006), especially in transition economy contexts (Hitt, Lee, & Yucel, 2002; Peng & Luo, 2000). As a result, this paper also investigates the role played by social network in the strategies and firm performance relationships.

The paper contributes to the understanding of entrepreneurial ventures in several specific ways. The study enhances the theoretical understanding of the relative effects of institutions, strategic orientations, and firm strategies on performance of high technology ventures in transition economies. Despite the increasing recognition by researchers of the importance of institutional arrangements, there has been only limited investigation focusing on the effects of institutional differences on entrepreneurial systems (Lu, Tsang, & Peng, 2008; Peng, 2003; Thomas & Mueller, 2000). The paucity of examining institutions and their effects is especially true of entrepreneurial domains in transition economies (Giamartino, McDougall, & Bird, 1993). Secondly, data from two unique transition economies are examined. Without such validation it is difficult to ensure that the results found have validity for a wide range of transition economies or instead represent the impact of the unique institutional setting of the given country examined. This approach also contributes to a broader understanding of entrepreneurship in transition economies.

2. Theoretical development and hypotheses

Strategic orientation can be understood as a cognitive understanding and interpretation of the external environment and internal resources. It represents the priority of resource allocation with long-term growth and shareholders' wealth as the ultimate objective (Hitt, Dacin, Tyler, & Park, 1997). The underlying assumption in strategic orientation is that substantive strategic beliefs underpin the strategic actions taken by the firm. These beliefs concern the basic thinking of the organization in domains such as the scope of activities the firm is to pursue, where the firm is to operate, and how it is to operate (Lau et al., 2008; Zhou, Li, Zhou, & Su, 2008). These philosophical underpinnings, the strategic orientation, in turn guide the strategic choices of the firm in many domains (Zhou et al., 2008).

It is well recognized in more developed economies that entrepreneurial orientations and strategic orientations are critical to a high technology entrepreneurial firm's success (Lee, Lee, & Pennings, 2001; Lumpkin & Dess, 2001; Venkatraman, 1989). High-technology ventures that possess a proactive and aggressive mindset can explore and exploit new products and new markets more easily than those that do not (Li & Li, 2009). Thus, some argue that for technology firms the firm's orientation is more important to firm success than any given product strategy (Grinstein & Goldman, 2006).

For high-technology ventures in transition economies, they are facing institutional environments which are not necessarily conducive to firm performance and which is more turbulent than in those developed economies (Lau et al., 2008). It could be argued that appropriate entrepreneurial and strategic orientations are even more critical for entrepreneurial firms' success than for mature firms in transitional economies. The institutional environment of transition economy encourage us to believe that proactive and aggressive mindset would provide even stronger benefits since the environmental turbulence is even greater than in developed markets (Busenitz & Lau, 1996; Li & Kozhikode, 2008; Zhou & Li, 2007).

Building on the recognition that high technology firms in transition economies face a unique environment, we propose the model in Fig. 1 on how these ventures can achieve superior performance. The model emphasizes that the performance of high technology firms in transition economies should be affected by the strategic orientations and the resulting strategies of the technology venture. Specifically, high technology ventures that have strategies focusing on capabilities building (product development and human capital investment) as well as corporate development (alliances, acquisition, and restructuring) to fully exploit market opportunities will perform best.

Although a firm's strategy is a key success factor for entrepreneurial performance (Ireland, Hitt, & Sirmon, 2003), the strategy does not develop independently; instead, it develops as part of the firm's strategic orientation (Morgan & Strong, 2003; Venkatraman, 1989). The immediate outcome of the entrepreneurial firm's strategic orientation is its realized strategy. Such realized strategies are more relevant to firm performance than the firm's intended strategies (Hoskisson, Hitt, Wan, & Yiu, 1999). It is for this reason that the model proposed here includes both the firm's strategic orientations and the resulting strategies when firm performance is considered.

The social networks of the high-technology venture affect firm performance since networking is a key intangible asset in transition economy (Hitt et al., 2002; Peng & Luo, 2000), and without such networking the effects of strategies may not be that salient. Finally, we also consider the institutional support for entrepreneurship as potentially important factor which influence a firm's orientation, strategy, and ultimately performances. Each of the elements and how they relate to performance in transition economies will next be discussed in detail.

2.1. Strategic orientations and realized strategies

Venkatraman (1989), who carefully considered the nature of strategic orientation, conceptualized its component parts as having as many as six dimensions. These dimensions are the guiding principles of managers in developing appropriate strategies when managers are facing opportunities in their market and organizational environment. However, some of these dimensions