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Team and organizational resources, strategic orientations, and firm performance in a transitional economy ☆

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A B S T R A C T

Firms in transitional economies are learning to develop strategies to exploit new market opportunities though bounded by their lack of market experience and resources as well as institutional and cultural heritage. This paper examines the managerial orientations of top managers in the transitional economy of China by focusing on a firm's team and organizational resources. Specifically, the following antecedents motivate a firm to put more emphases on strategic orientations: the firm has an effective top management team, strong managerial competences, and when the firm has ample endowment of slack resources, social network, and support from the institutional environment. Empirical results support that team orientation, managerial competence, social network, and local institutional support are instrumental in developing market-focused strategic orientations. In addition, strategic orientations with heavy emphases on overall low costs and product innovation relate to higher firm performance.

1. Introduction

Gavetti and Rivkin (2007) call for a focus on the cognitive side of strategy, that is, on the study of how managers understand their environment (both internal and external) and search rationally for an effective strategy to exploit market opportunities (Johnson and Hoopes, 2003; Kabanoff and Brown, 2008; Tripsas and Gavetti, 2000). One major theme of these studies is along the construct of strategic orientation. These studies include the content and dimensions of strategic orientations (Davis and Schul, 1993) and the relationships of orientations with environment, organizational design, location, and ultimately firm performance (Acquaah, 2007; Canina, et al., 2005; Hitt et al., 1995; Morgan and Strong, 2003; Slater et al., 2006; Wiklund and Shepherd, 2003).

Although the study of strategies of firms in transitional economies receives much attention recently, these studies are however fragmented. Most of them focus only on the relationships between competitive strategies and firm performance, network and alliances, corporate governance, and international strategies (Luo and Tung, 2007; Tan et al., 2007; Yiu et al., 2007), but not that much on the discussion of how a firm develops its strategies. Very often, top managers examine context-dependent factors in strategy formulation process. The heuristics of top managers in transitional economies are different from that of managers in mature economies because of the specific institutional and contextual factors of transitional economies (Tan et al., 2007; Wright et al., 2005). Based on their limited and intuitive understanding of the firm, the market, as well as the institutional environment, some managers may behave aggressively when they see the opportunities in the market (Zhou et al., 2009) and put stronger emphases on value-added strategies. Some other managers however are more conservative and may choose to examine cautiously their internal resources before taking actions (Lau et al., 2008).

This study brings together managerial cognitions and behavioral resource-based view perspectives (Gavetti and Rivkin, 2007; Pitelis, 2007) by focusing on the effects of a firm's resources (both team and organizational) on the firm's strategic orientations, and subsequently firm performance in the transitional economy of China. Strategic orientation is about the long-term positioning of a firm in the competitive environment and represents the resource allocation priority of a firm. Within the transitional economy context, the study provides a better picture of how managers develop strategic orientations through their understanding and interpretation of team and organizational resources and what impact these orientations have on firm performance. This paper contributes to the literature by affirming the importance of team and organizational resources in such firms. This in turn allows us to better understand how firm resources are used to develop strategies during economic reform. It thus advances the under-studied strategizing process of firms in transitional economies (Wright et al., 2005).

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2. Resources and strategic orientations

Current managerial cognition literature suggests that chief executives and top management team (TMT) members are instrumental in shaping the strategic directions of a firm (Ensley and Pearce, 2001; Rajagopalan and Finkelstein, 1992) and hence firm performance (McNamara et al., 2002). Their cognitive understanding and assessment of the business environment is critical in strategy development. For example, Tripsas and Gavetti (2000) suggest that these cognitions about the firm are important in the search for new strategies in a new learning environment. Kabanoff and Brown (2008) further argue that the knowledge structures of top managers help them to develop a firm's strategies. This is also true in the case of founding teams in an entrepreneurial setting (West, 2007) and in transitional economies (Zhou and Li, 2007). Therefore, the managerial cognition of top managers about a firm and the environment is central to strategy formulation. This kind of cognition hence would be the basis for the formation of strategic orientations.

Strategic orientation as discussed in the literature is the business direction and objectives that a firm wants to achieve (Hitt et al., 1995; Lau et al., 2008; Morgan and Strong, 2003). It represents how aggressive a firm wishes to compete in the market and the willingness to explore and develop competencies, products, or markets. Following the resource-based view, the resource endowment of a firm is an important consideration in formulating strategies (Barney, 1991). The perception of top managers about the resources of a firm affects how they view the firm's long-term growth and shareholders' wealth (Davis and Schul, 1993). Different strategic orientations thus involve different investment in time, human and financial resources, and even political capital (Wiklund and Shepherd, 2003).

This is especially critical for firms in transitional economies where resources are limited (Lau et al., 2008; Peng, 2001). Managers assess the endowment of a firm's resources and their relative strengths, which in turn determines what they think the firm can and should do in the future. Thus, the strategic orientations are under the influences of how they perceive the resources and capabilities of the firm. In a transitional economy, managers have been operated in a centrally-planned environment for a long time, and hence cognitively bounded by institutional constraints. Some managers are not able to comprehend and appreciate new market opportunities, while some may take a more risky approach to exploit new markets. Hence top managers have different perceptions about the value of resources in the firm and possible strategies in this unique transitional economy context.

Certain types of resources are specific and particularly relevant to firms under reform. First, the competencies of a firm's leadership and top managers are essential for the firm to put more emphases on developing relevant strategies with a market-focus, especially in transitional economies. Without such perception of competencies, the firm will be in a defending position and take no proactive action. Specifically, good firm performance and good relationship in the top management team reflect the value of top managers and leadership in this new competitive environment (Lau and Ngo, 2004; Sun et al., 2007). Second, the endowment of slack resources, social network, and institutional support are the necessary organizational resources (Houghton et al., 2009; Ma et al., 2009; Pitelis, 2007). Both types of resources are instrumental in developing proactive market-focused strategic orientations. Without these necessary resources, transitional economy firms do not have the competitive edge to operate in a market-oriented economy. Fig. 1 shows the relationships among team and organizational resources and strategic orientations.

Transitional economy firms have two key emphases that address strategic activities firms have to engage in internally and externally (Lau et al., 2008; Luo et al., 2005). One emphasis is cost-based, including improving production efficiency and reducing costs. The other one is market-based, namely focusing on new product development and differentiation of products and services to meet customer needs. These two types of strategic orientations help them to explore and exploit new markets, while at the same time keep operations viable. An aggressive and proactive firm will put more emphases on these strategic orientations than those adopting a defensive position.

Based on some recent empirical studies using emerging economy samples, strategic orientations proposed by Davis and Schul (1993) is more appropriate to describe the strategic emphases of firms in transitional economies (Zhou and Li, 2007; Zhou et al., 2005). Davis and Schul's (1993) focus on what actions firms intend to take in order to remain competitive in the market. Their strategic orientations measure consists of six dimensions: overall low cost, brand differentiation, service differentiation, product differentiation (customer focus), product innovation, and low (variable) cost.

2.1. Team resources

Leadership team in general is the first kind of resources and capabilities that transitional economy firms should possess. This is because top managers play critical leading roles in successful reform of state-owned enterprises (SOEs) and meeting new market challenges (Tsui et al., 2004). Top managers have to provide strategic direction on what the firm should do in order to go beyond surviving the rigorous enterprise reform (Peng et al., 2004; Wei and Lau, 2008). A stable and effective top management team with strategic mindset and emphasizing on human resources is essential for firm performance (Lau and Ngo, 2004; Wei and Lau, 2008). If the team of top managers is working effectively and performing well, it becomes a kind of costly to imitate and valuable resource that is rare in the transitional economies, like China (Ramos-Garza, 2009). When this team has a proactive market-focused strategic orientation, a firm can

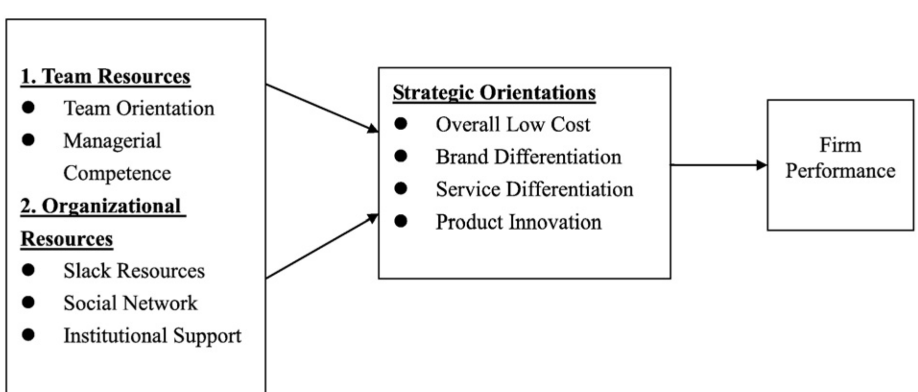

Fig. 1. Effects of team and organizational resources on strategic orientations and firm performance.