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How strategic orientations influence the building of dynamic capability in emerging economies ☆

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ABSTRACT

Under the fierce pressures of the fast changing environments that characterize emerging economies, firms must develop dynamic capabilities to survive the competition. This study examines how strategic orientation helps build dynamic capability and its contingencies in China's emerging economy. A survey of 380 firms indicates strategic orientations are important drivers of adaptive capability, a key element of dynamic capabilities. The effectiveness of strategic orientations is contingent on market dynamics. In particular, when market demand becomes increasingly uncertain, customer orientation has a weaker impact, whereas technology orientation has a stronger effect on adaptive capability. As competition intensifies, both competitor and technology orientations build adaptive capability more effectively.

During their economic reform processes, emerging economies experience massive, complex changes in their institutions, including government, economic systems, enterprise ownership structures, market environment, and so forth, which creates serious strategic challenges for businesses seeking opportunities (Li et al., 2009). For example, most industries in China undergo deep structural transformation characterized by high structural uncertainty, escalating competitive pressures, and unbalanced growth as a result of industrial policies and regulation. Such dynamics significantly shape managerial assumptions, criteria, and decision making (Zhou et al., 2006).

To face this challenge, some researchers propose that firms must develop dynamic capabilities to renew, reconfigure, and adapt existing firm-specific resources in response to the fast changing environment (Teece et al., 1997). Because building dynamic capabilities requires internal processes and efforts rather than acquisitions from market transactions, they are the most unique and difficult-to-imitate assets a firm can use to achieve and sustain competitive advantage (Griffith and Harvey, 2001). Developing a dynamic capability is especially important for companies in emerging economies, given their turbulent and unprecedented environments. However, despite growing interest in the dynamic capability perspective, most studies remain theoretical and conceptual and call for more empirical research to examine and validate this perspective (Lavie, 2006). As a result, discussions of how firms build dynamic capabilities remain underdeveloped.

Strategic orientation as a strategic choice may provide a source that helps firms build dynamic capabilities in fast changing environments. Recent strategic marketing literature pays special attention to strategic orientation as a significant driver of superior performance in emerging economies (for a review, see Zhou and Li, 2007). Strategic orientation focuses on how firms should interact with external environments such as customers, competitors, and technology to conduct business (Day, 1994; Gatignon and Xuereb, 1997). As such, strategic orientation reflects an outward-looking view of the fit between strategic choices and environment. In contrast, dynamic capability is inward looking, focusing on how to integrate and rejuvenate firm resources. Therefore, strategic orientation as a strategic choice should drive the way firms acquire, allocate, and utilize resources to create dynamic capabilities. As a result, an integration of these two approaches provides new insights into how strategic choice affects internal processes, such as resource reconfiguration and modification. However, extant literature does not touch on the role of strategic orientation in building dynamic capability, which represents a significant research gap.

The effectiveness of firm strategy depends on the fit between strategic choices and market dynamism (Ginsberg and Venkatraman, 1985). Accordingly, the effects of strategic orientation may be contingent on the dynamics of the environment (Day and Wensley, 1988). However, limited research investigates such contingencies in emerging economies, and even previous findings based on the context of developed economies are largely equivocal (Kirca et al., 2005). For instance, whereas some studies support the positive role of customer orientation (Han et al., 1998; Slater and Narver, 1994), others caution that it exerts a

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negative influence in an artistic environment (Voss and Voss, 2000). Zhou et al., (2007) find that customer and competitor orientations have differential effects in developed versus developing markets. Therefore, integrating the contingency view is necessary to further understanding of how strategic orientations drive dynamic capability in emerging economies.

To address these research gaps, this article examines the effects of strategic orientations on dynamic capability in the emerging economy of China by focusing particularly on a key element of dynamic capability, adaptive capability, and studying how strategic orientations (namely, customer, competitor, and technology orientation) influence adaptive capability. Moreover, this article examines whether the strategic orientation-adaptive capability relationship depends on market dynamics (i.e., demand uncertainty and competitive intensity). As such, this research contributes to existing literature by integrating an outward-looking perspective (i.e., strategic orientation) with an inward-looking view (i.e., dynamic capability), scrutinizing their contingency effects, and examining those relationships in a new and challenging empirical context (emerging economies).

1. Conceptual development

1.1. Dynamic capability perspective

The resource-based view (RBV) proposes that competitive advantage is primarily driven by a firm's valuable, rare, inimitable, and nonsubstitutable resources. Although the RBV as a theoretical framework helps explain how firms achieve competitive advantage, the theory does not adequately detail how firms achieve competitive advantage in the context of fast changing environments (Eisenhardt and Martin, 2000). Because resources are context based, their values depend on the characteristics of the given environment; because resources also are relatively stickier than their environment, resource changes and adaptations often lag behind environmental changes (Teece et al., 1997). Therefore, in rapidly changing markets, a dominant focus on core resources may create rigidities that prevent firms from adapting their resources to the new competitive environment (Leonard-Barton, 1992).

Scholars thus extend the RBV further to the dynamic capability perspective, stressing the critical role of capabilities to “integrate, build and reconfigure internal and external competencies to address rapidly changing environments” (Teece et al., 1997, p. 516). From this perspective, firms must adapt, integrate, and reconfigure their resources and competencies continuously in response to changing market conditions; however, entrenched organizational processes and routines, developed from previous paths or the trajectory of resource allocation and competence development, constrain those changes or adaptations (Teece et al., 1997). Recent studies further develop and clarify the concepts of dynamic capabilities. For example, Benner (2006) proposes that responsiveness to technological changes represents an element of dynamic capabilities in the digital photography industry setting (see also Griffith et al., 2006).

Consistent with previous research, this study views effective adaptation to a changing environment (i.e., adaptive capability) as the key element of dynamic capabilities. *Adaptive capability* reflects a firm's ability to reconfigure resources and coordinate processes promptly and effectively to meet rapid environmental changes (Gibson and Birkinshaw, 2004) and thereby captures the essence of dynamic capabilities. Absorptive capacity, the ability to assimilate and utilize new knowledge acquired from external sources, is a related yet distinct element of dynamic capability (Cohen and Levinthal, 1990; Lenox and King, 2004; Tsai, 2001). Whereas adaptive capability emphasizes the reconfiguration of resources and processes to respond to external changes (Gibson and Birkinshaw, 2004), absorptive capability as a learning-based ability focuses on knowledge assimilation and utilization (Tsai, 2001). Firms with a high level of absorptive capacity likely harness new knowledge to enhance their innovative activities (Zaheer and Bell, 2005). Hurley and Hult (1998) also suggest that adaptive capability provides a competitive advantage, especially in turbulent environments. Therefore, methods for building adaptive capability represent critical issues for firms operating in emerging economies.

In their conceptual development, Mckee et al. (1989) posit that strategy types, such as reactor, defender, analyzer, and prospector, affect the increasing levels of adaptive capability. Tuominen et al. (2004) argue that dominant business logics (e.g., market-based, technology-based) influence the level of adaptive capability (e.g., technology searching, global market monitoring). Consistent with previous research, this study postulates that firm strategic orientation drives adaptive capability. According to the dynamic capability perspective, because successful adaptation to internal and external pressures requires organizational slack or surplus, firm resources limit the level of adaptive capability a firm can achieve (Teece et al., 1997). Strategic orientation guides the way a firm interacts with external entities, such as customers, competitors, and technology (Gatignon and Xuereb, 1997), and thus influences the relative emphasis the firm puts on resource acquisition and allocation, and consequently, its adaptive capability development.

Following Gatignon and Xuereb (1997), this study views strategic orientation as a multidimensional construct consisting of three distinct orientations: customer, competitor, and technology (see also Voss and Voss, 2000). Customer orientation emphasizes the sufficient understanding of target customers' changing preferences and places the highest priority on creating superior value for customers continuously; competitor orientation focuses on understanding competitors' strengths and weaknesses and monitoring their activities; technology orientation believes that consumers prefer technologically superior products and firms should keep a close watch on technological changes and heavily invest resources to catch up with state-of-the-art technologies (Gatignon and Xuereb, 1997; Narver and Slater, 1990; Voss and Voss, 2000). The following sections examine how each of the three orientations affects adaptive capability and the contingency effects on environmental dynamics.

1.2. Strategic orientation and adaptive capability

Customer-oriented firms show a continuous, proactive disposition toward identifying and meeting customers' expressed and latent needs (Han et al., 1998). With customer-oriented values, firms excel in creating and maintaining bonds with customers and obtain timely feedback from them. When customer needs change rapidly, customer orientation enables firms to recognize those changes and guides them to invest necessary resources to develop appropriate new products or services, refine production processes, and offer a flexible product line to cater to customers' changing preferences (Slater and Narver, 1998). As a result, customer-oriented firms can adapt to market changes effectively.

By actively collecting competitor-related information and monitoring rivals' behavior, competitor-oriented firms identify their strengths and weaknesses in comparison with their competitors in terms of resources, cost position, and financial performance (Day and Wensley, 1988). With a deep understanding of rivals, a firm can assess its position, determine appropriate strategies, and respond quickly to competitors' actions. Because the objective of a competitor-centered approach is to keep pace with or remain ahead of competitors (Han et al., 1998), a competitor orientation can facilitate firms' capability to adapt to the changing environments. In addition, a competitor orientation helps firms configure or reconfigure their resources while collecting competition-related information and developing capabilities to cope with competitive environments.

Finally, firms guided by a technology orientation accumulate rich technological knowledge stores through past experience and processes, such as heavy investments in R&D, quick acquisition of new technologies, and collection of up-to-date technology information. Such proficiency not only facilitates firms' ability to exploit existing competencies in refining technology and differentiated products to respond