

# Innovation Driven as a Development Strategy for Enterprises in a Transitional Economy

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**Abstract**—The global financial crisis and the downturn in the domestic economy mean increased pressure and impetus to get rid of the inertia of extensive economic growth and deep-seated corporate problems. In this context, timely adjusting business development strategies by improving innovation capacity is called upon so as to adapt businesses in China to external changes and a new economic model. Based on the innovation theory and the theory of transitional development, this paper puts forward the theoretical logic and multi-stage model of development strategy for enterprises in a transitional economy. Meanwhile, this paper explores the gradual process of enterprises obtaining resource base, market base and dynamic competitive advantage.

**Keywords**—innovation; transitional economy; development strategy for enterprises

## I. INTRODUCTION

With the outbreak of global financial crisis in 2008, the world economy lacks momentum for recovery, while China sees mounting downward pressure on its economy in the face of a radical economic restructuring. Under such circumstances, tasks remain as how China can refrain itself from the inertia of extensive economic growth as "new normal" holds the stage and achieve sustained and efficient development so as to promote the successful transformation of China's economy from relying mainly on increasing the consumption of material resources to that of scientific and technological progress, quality workers and management innovation. Targets above remain major challenges our country faces.

Defined as the transformation in resource allocation and economic development, economic restructuring includes changes in development mode, development requirements and development path. As an important segment in our country's economic development, businesses confront immense challenges brought by economic revolution home and abroad. Ushering into a new and rapid changing environment where there is more market competition, cost in materials, ecological restriction and challenges in transformational development, it is even harder and more urgent for enterprises to bring about changes.

Three major problems, comprising challenges lying in market, financing and transformation, exist in development

of China's enterprises. That being said, enterprises in China are in dire need of innovation and adjustment, when demands of external environment and economic restructuring are laid ahead. Therefore, corporate managers should view formulating and carrying out new development strategies as priorities in response for sluggish economic development and other requirements.

## II. LITERATURE REVIEW

The concept of innovation was initiated in 1912 by Austrian-American economist Joseph Bear Pitt, who believed innovation was "implementing a new combination" [1]. By establishing a new production function within the production system, a "new combination" with production elements and conditions unseen before is introduced and implemented. Such portfolio consists of five conditions, namely, (1) introducing new products or improving production quality; (2) adopting new produce methods and technologies; (3) seeking a new market niche; (4) attaining a new source of supply concerning raw material or semi-manufactures; (5) organizing the enterprises in a new fashion. Respectively, the above five conditions relate to innovation in production, technology, business mode, material and organization.

American economist Mansfield (1961) conducted a thorough study on technological innovation from the perspective of revolution, innovation and expanding [2]. It is considered that market and economic values are achieved through application of technological innovation in production system.

Chinese scholar Chen Shiqing first illustrated the concept of transitional economy in his books Copernican Revolution in Economy and Series of Symmetry Economics in a systematic way. [3]

Consequently, Chinese enterprises find it hard to copy the development strategy of western countries. However, on a micro level, the past 30-year stunning and rapid economic development of China, being claimed as "China's miracle", is attributed to the growth of Chinese enterprises. [4]

Wang Haiying (2006) [10] considers transition a dynamic movement which manifests itself in the circle of adapting, transforming and development. Lin Hanchuan (2002) [5]

concentrates on strategy from strategic guidelines, research background, supporting system and resolution. Combining both “external and internal growth theory of enterprises”, Wang Jifa(2006) [6] brought about the idea of internal transformation, with managerial mode, production, market and business procedure being included, and external transformation, referring to industrial aspect. Mao Yunshi and Wu Yao(2009) [7], after doing research on past experience of both domestic and foreign enterprises and macro control of the government, concluded that on a micro level, corporate transformation remained essential for a broader change within the industry. However, although how enterprises should transform themselves in current situation was pointed out, there is still a lack of perspective on innovation theory. [8]

Viewing from abroad, analyzing structure and quiescent condition of enterprises using traditional theories, as well as focus on dynamic process of cross border and domestic enterprises coexist with each other, Child pointed out that dramatic external changes in a transitional economy propelled the formation of distinct internal environment of enterprises, which will further impact the strategy and performance of enterprises. [9] American scholar Warner Firth(1984) promoted “the theory of resource base for enterprises”, identifying enterprises as an entity of allocated resources, which seek balance and growth through continually adjusting its strategies and building on existing resources. [11]

Above all, literatures in the area of development strategy of enterprises in a transitional economy are mostly constructed on a broad level. On a micro level, innovation theory is seldom applied or centralized when discussing how enterprises can transform themselves and formulate its development framework based on detailed transformation factors, strategies and obtaining of transformation capacity. Therefore, this paper is of theoretical significance in its focusing on innovation theory and exploring of business development strategy in a transitional economy on the ground of integrating resource and market bases.

### III. DIFFICULTIES FOR CORPORATE DEVELOPMENT IN A TRANSITIONAL ECONOMY

#### A. *Lack of Specific Guidelines in Transitional Operation*

Products, technologies and management of enterprises still lag behind mounting costs in factors of production and accelerated upgrading of domestic consumption, leading to massive pressure for their survival in an environment with drastic changes. Failures to timely adjustment, transformation and improvement in technology have disadvantaged enterprises with comparative edge. In a worse condition where transformation leads to even faster perishing, stress on corporations is thus greater.

#### B. *Lack of Resources and Capacity for Strategic Adjustment*

Resources and capacity of enterprises can determine their strategic changes. Any organization possesses special

capacity and resources accumulated from long-term involvement, acting as the groundwork for their organizational strategy, profit and the key for transformation. In a transitional economy, enterprises should take effective measures to adapt to the changing environment and integrate their advantages into core competitiveness, instead of being restricted by limited resources, capacity, capital, technology, talents, and supportive policies. However, in most cases, the later situation prevails, despite their ambition to change.

#### C. *Lack of Innovation*

In a transitional economy, enterprises can only implement innovation driven strategy in the support of strong innovation capability. However, manufacture power and strength of innovation greatly differ from each other in China. Weaknesses of innovation are manifested in three aspects.

First, with a slow upgrading speed, products and technology are mostly at a low value-added part of the industrial chain. Excessively relying on government and research institute, enterprises do not invest sufficiently in research and development. Thus, the insubstantial commercialization and industrialization of research outcomes exacerbate their dependence on foreign resources and their loss of competitive edge.

Second, with market barriers and incomplete policies remain, it is urgent to carve out an enabling innovation environment. Standing at the lower end of value chain, most enterprises are constrained in acquiring innovation resources out of their own willingness, which further inhibits their innovative strength.

Third, the weak protection mechanism for intellectual property rights cannot serve to foster core competitiveness of enterprises. The deficiency in protection mechanism and system of intellectual property rights has diverted corporations from innovation path.

#### D. *Rising Costs in Resource Elements*

In recent years, China's enterprises have seen sharp increases in resource elements, which have tremendously slashed their profits. These costs, primarily coming from human labor, raw materials, taxes and energy resources, give prominence to augmented human labor spending.

Above all, it is even harder to notch a success given the urgency to respond to the brand-new environment. Reviewing the development status of enterprises is a necessity, while giving an eye to external demands and important opportunities. That is how enterprises can formulate and implement effective measures to adaption.

### IV. THEORETICAL LOGIC OF DEVELOPMENT STRATEGY FOR ENTERPRISES IN A TRANSITIONAL ECONOMY

Targeting at the study of development strategy for enterprises in a transitional economy, this paper upholds the logic guideline of stratified adjustment in strategy as listed in 'Fig. 1'. Specifically, the guideline consists of several aspects listed below.

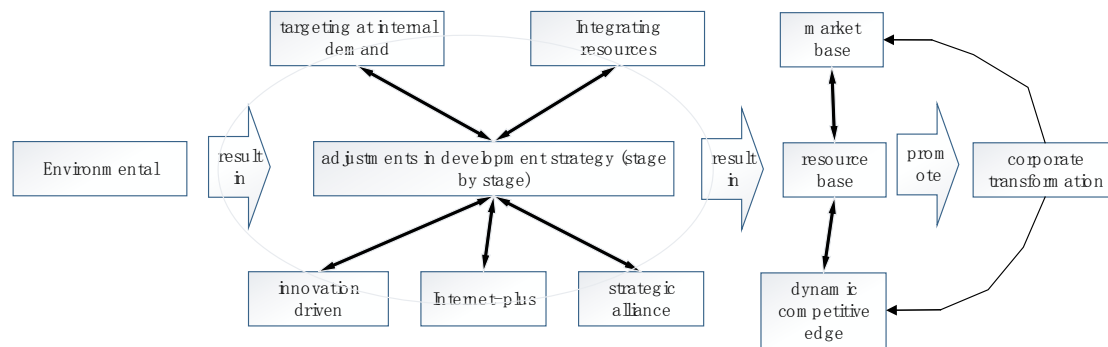


Fig. 1. Theoretical logic of development strategy for enterprises in a transitional economy.

First, environment serves as the groundwork for formulating business strategies. Amid the stagnant economic growth and tremendously changing supply and demand condition in marketplace, comparative advantages of enterprises will gradually perish, abandoning the traditional model driven by resource elements to maintain competitive. It is said that survival and development of enterprises cannot be assured without responding to external environmental change and upgrading demand. Strategies of enterprises are prerequisite for adapting to environment.

Second, only by starting from several standing points below can enterprises adjust their development strategies. Targeting the internal demand is necessary that will expand the market space. When China experiences plunging in exportation and investment, expanding of domestic demand should be pressed ahead. As investment driven market transforms into a consumption driven one, China will gradually become a large consumption market.

In a word, amid economic transition, the enormous potential of domestic market should be singled out which will enlarge the market space for enterprises and access sustainability. As a correspondence, the 18th National Congress of the Communist Party of China instituted the basic outline for innovation driven development and deepening of reform.

## V. DEVELOPMENT STRATEGIES IN STAGES FOR ENTERPRISES IN A TRANSITIONAL ECONOMY

Different situations of enterprises call for different development strategies. Gradual transformation and spanning transformation coexist as two options. Taking effectiveness and efficiency into consideration, these two methods can be applied in different situation.

### A. Spanning Transformation

There is no stage-by-stage development for enterprises in a transitional period. Features of the mode are described as below.

Being more effective and more efficient than gradual transformation, spanning transformation is of strategic significance for developing China's industrial cluster, regional economy and national competitiveness, adding that technology realizes leap-forward development. Mindset of enterprises is likely to be more result-oriented no matter how costly it will be. Consequently, high value segment is added into their transformation mode. By doing so, high-end knowledge can be obtained as well as creatively applied.

### B. Gradual Transformation

Changing environment means emerging difficulties for enterprises. The only road for development remains adjusting strategies. As the adjustment takes time, different segments should be focuses along with transitional stages. The development strategies in stages are listed below in "Fig. 2".

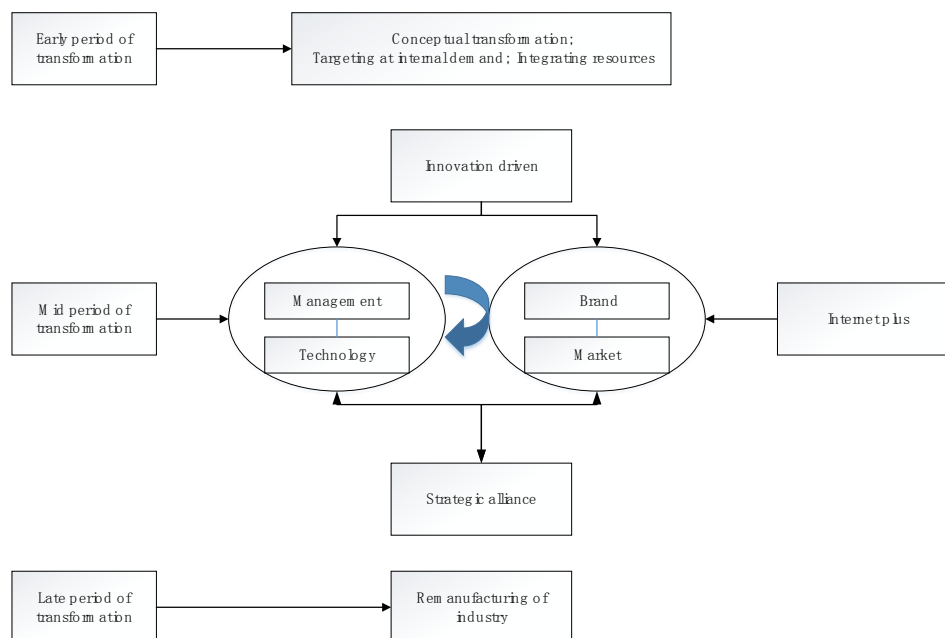


Fig. 2. Development strategies in stages for enterprises in a transitional economy.

1) *Early period of transformation*: First, mindset transformation of enterprises is the foundation for business transformation. In other words, “innovative enterprises” with self-competency will replace “institutional enterprises”. Behavior is under the command of mindset, while idea matters in implementing scientific outlook of development. This tells how mindset transformation should be put at the first place.

Second, transition will occur in the aspect of internal and external demand. When external demands are descending, the domestic market ripening and consumption level upgrading, the country will expand domestic demand by exploring suitable market for enterprises, which will nurture more diversified marketplace and expand development space.

Third, representative of core competitiveness of enterprises, development strategy will transform correspondently. The max utilization of business resources helps enterprises occupy favorable positions in marketplace.

Fourth, enterprises should make breakthrough in their core technologies and establish a system for technological innovation relevant to products. On governmental front, managing of innovation driven strategy should be put into place by implementing development plan for major sectors and core industries. A motivation mechanism should be established on personal, business and state level, which will fuel enterprises to be more innovative. Also, the improvement in market system should be accelerated so as to consolidate the foundation for technology innovation.

2) *Mid period of transformation*: Resource advantage of enterprises can be given into full play once the initial stage is completed, laying a more solid groundwork for latter period of transformation. A transition from OEM to ODM

and finally OBM can be pursued as a path toward independent innovation.

First, viewing from internal factors, innovative resources should be allocated, while work along both technology and management innovation. In order to strengthen itself amid fierce competition, enterprises should first equip themselves with the ability of exploring new products, which can be nurtured through technological innovation. With the support of scientific and technological power, enterprises can score success in a transitional economy.

Second, viewing from external factors, a transition from OEM strategy to brand strategy should be realized. Adopting an innovative operation mode in response to requirements of economic restructuring, enterprises can gradually transform its extensive “price competition” to high value “sustainability”.

Third, competition among individual enterprise should be diverted into strategic alliance. At the beginning stage, mission and role of enterprises should be identified. Proper strategic partners should be chosen in line with resources, capacity and needs of enterprises. A community of common interests and a strategic alliance can be formed through uniting enterprises within the same industry and region. That being said, excessive production capacity can be made good use of by delegating work to more specialized production department within the community. With benefits from collaborative network of production, enterprises will absorb effective resources from others, improve technology and management, reduce costs, expand business, strengthen competitiveness and foster sustained and dynamic competitive edge, ultimately elevating the competitiveness of the entire “business community”.

Fourth, while actively advancing Internet-based transformation, Internet tools should be introduced into

various segments including production, sale, management and information dissemination, which will bring about more efficient corporate operation.

3) *Late period of transformation*: Along with effective integration of resources in the early period of corporate transformation, amount of resource will reach a peak for the following array of innovative activities. Due to increasing advantage of resources, enterprises can effectively wipe out unfavorable influences on them. The continuous growth of operational and managerial skills can further enlarge market space and chart specific territories for industries such as ecological service and public service. Also, the emergence of business community will enable breakthrough in business scales, share of resources and upgrade of value chain. Not only individual enterprise, but also the whole business community will become measurably competitive. To a certain degree, industrial landscape and form will be altered, driving enterprises to further implement the strategy of industrial remanufacturing.

Above all, resource base, market base and dynamic competitive advantage are obtained stage by stage in a period of strategy transformation. As a larger group of enterprises improve their competitiveness, the key lies in innovation which requires production elements being perfectly integrated and redistributed for sustained value-creating. To a certain degree, strategies of different stages are not separately, but connectively adopted. Dynamic adjustment is permissible to confront difficulties and access innovation in a transitional economy.

## VI. CONCLUSION

This paper analyzes innovation driven strategy of enterprises in a transitional economy. Firstly, this paper identifies difficulties for enterprise in such economic landscape. Following that is profound analysis on current problems ahead of enterprises, with theoretical logic of development strategies of enterprise in a transitional economy being put forward. In the latter part of the paper, relevant discussion about transformational stages for corporate strategy is presented. An action plan of restructuring and spanning strategy for outmoded enterprises standing at low value chain is introduced. For most enterprises in the face of challenges amid volatile environment, a guideline of gradual transformation is recommended. Meanwhile, reference designators are provided for assessing effectiveness of outline for business transformation. With a focus on business development under the guideline of innovation driven strategy, this paper also analyzes the whole transitional process and proposes guiding principles for transformational enterprises.

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