Making Strategic Decisions in an Emerging Economy: Evidence from Chinese Small- and Medium-Sized Enterprises

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Abstract

Chinese SMEs have contributed significantly to the national economy as the number of Chinese SMEs, particularly privately-owned SMEs, has been rapidly increasing over the past two decades. However, little research has been conducted on how Chinese SMEs make their strategic decisions. This research interviewed owners/managers from 20 Chinese SMEs. It is found that Chinese SME owners/managers underwent less complex processes in their strategic decision-making (SDM). They implemented their strategic decisions very quickly and often used their personal networks to gather information and involve others in the SDM processes.

Key words: Strategic decision-making, SMEs, China, strategic management

Strategic management plays an increasingly important role in today’s business environment due to rapid globalisation, advances in information technologies, disintegration in value chain, outsourcing, and rapid change in consumers’ taste and demands. Such rapid changes in business environment are more evident in China than other countries because of its fast pace of economic development, increasing industry dynamics, accelerating competition, coupled with its transition from a planned to a market-oriented economy.

Chinese SMEs have contributed significantly to the national economy as the number of Chinese SMEs, particularly privately-owned SMEs, has been rapidly increasing over the past two decades. In 2004, there were over three million privately-owned SMEs in China. They have contributed over 34 per cent of the nation’s total industrial output (Huang, Xie, & Chen, 2005). In addition, SMEs have long been recognised as the important sources of innovation. Therefore, the performance of the Chinese SMEs is vital to the national economy, employment, and innovation. Nevertheless, Chinese SME’s performance varies. The averaged life of a Chinese SME was only 4.5 years based on a survey conducted by the Industry and Business Association of China in 2002 (Huang, Xie, & Chen, 2005). One of the common problems identified in Chinese SMEs was management, particularly managerial
decision-making (Huang, Xie, & Chen, 2005). However, little research has been conducted so far on their strategic management.

This paper focuses on strategic decision-making (SDM) in Chinese SMEs as SDM has been long regarded as a being crucial to a firm’s survival and long-term performance (Papadakis & Barwise, 1998). Specially, this paper attempts to answer the following research questions: what are the main steps undertaken by the Chinese SMEs in their strategic decision-making process (SDMP)? what are the major characteristics in such a process? and, which factors influence the steps and characteristics of the SDMP in Chinese SMEs?

Such a study is warranted for several reasons. Firstly, research into the strategic management, particularly in the SDMP, in SMEs has been scarce. Secondly, it can investigate how the dynamics and uncertainties in the environment affect SDM as China has rapid economic growth, and frequently changing and loosely-enforced legal systems. Thirdly, it can also examine how Chinese culture, which differs substantially from that of Westerners, influences the SDMP.

LITERATURE REVIEW OF STRATEGIC DECISION-MAKING IN SMES

A brief overview of strategic management research
As business strategy is concerned with the basis on which a firm can achieve its competitive advantages (Johnson, Scholes, & Whittington, 2005), it is necessary to examine these bases or sources of competitive to better understand how business owners/managers make strategic decisions.

Strategic management research can be broadly grouped into two categories: strategy content and strategy process (Rajagopalan, Rasheed, & Datta, 1993). Strategy content studies have
concentrated on several strategic issues at both corporate and business levels, including market-product choices and diversification (Ansoff, 1965), portfolio management (BCG), strategy matrix (Miles & Snow, 1978), strategic positions (Porter, 1980, 1985), resources-based view (Barney, 1991; Barney & Arikan, 2001; Wernerfelt, 1984), and core competence (Prahalad & Hamel, 1990).

In contrast to strategy content research, strategy process has received relatively little attention (Hutzshenreuter & Kleindienst, 2006). This stream of research deals fundamentally with two broad issues: 1) how strategic changes can be implemented in firms; and 2) how a strategic decision is made within an organisation. The former concentrates on the context of change, management style, change tactics, and the change process (Johnson, Scholes, & Whittington, 2005). The latter has investigated many important issues in making strategic decisions, including dominant strategic paradigms (Eisenhardt & Zbaracki, 1992), strategic decision processes and characteristics (Schwenk, 1995), management and context (Papadakis, Lioukas, & Chambers, 1998), decision-making speed (Baum & Wally, 2003), decision-making effectiveness (Dean Jr & Sharfman, 1996), comprehensiveness (Fredrickson, 1984; Fredrickson & Mitchell, 1984), and the impact on a firm’s performance of the SDMP’s comprehensiveness, speed, management, organisational context, and business environment (c.f. Rajagopalan, Rasheed, & Datta, 1993). Several literature reviews on strategic decision-making have provided a quite comprehensive overview of the progress in this field (Eisenhardt & Zbaracki, 1992; Elbanna, 2006; Rajagopalan, Rasheed, & Datta, 1993; Schwenk, 1995). The following sections briefly examine factors affecting the SDMP and its outcomes before focusing on the SDMP in SMEs.
Factors influencing on the strategic decision-making process and its outcomes

Several factors influence the SDMP, including environmental, organisational, and decision-specific factors (Rajagopalan, Rasheed, & Datta, 1993). The environmental characteristics often cover stability/dynamics, favourability/hostility, and complexity. For example, the stability or dynamics of the environment has been found as an important factor moderating the relationship between the decision comprehensiveness and the firm’s performance (Baum & Wally, 2003; Bourgeois III & Eisenhardt, 1988; Fredrickson & Mitchell, 1984; Ginsberg, 1984), although such a relationship is still inconsistent in the past studies.

Organisational factors that have been frequently studied in the strategic decision literature include centralisation (Baum & Wally, 2003), the role of top management (Papadakis & Barwise, 2002), politicization (Bourgeois III & Eisenhardt, 1988), and ownership and size (Papadakis & Barwise, 2002).

Other studies have concentrated on the impact of characteristics of the SDMP, such as rationality, participation, duration, and level of political activities, on its outcomes. For example, Rajagopalan, Rasheed, and Datta (1993) listed the key characteristics that have impacted on the decision outcomes or the firm’s performance.

The strategic decision-making process: steps and characteristics
The SDMP can be examined from two broad perspectives: steps involved in the process and the quality and characteristics of executing these steps. With regard to the steps or major activities undertaken in the SDMP, several strategic decision processes/models have been put forward in the literature of strategic management and organisational studies, including one developed by Mintzberg, Raisinghani and Theoret (1976) as shown in Table 1. This model
reflects a stream of strategic decision-making studies that describe the strategic decision-making process as a sequence of rational steps or phases.

(Insert Table 1 about here)

Other scholars have developed various decision-making models based on key characteristics in executing major steps in SDMP to. For example, Pfeffer (2005) proposed a typology of organisational decision-making models (rational, bureaucratic, organized anarchy, and political power) based on eight dimensions, including goals and preferences, decision process, information and computational requirements, and decisions. Hart (1992) developed an integrative framework that contains five modes: command, symbolic, rational, transactive, and generative based on the role of top management and the degree of participation of organisational members. These models focus on the extent of rationality and the role of participants in the decision-making process and are largely based on the bounded rationality (Simon, 1982) and behavioural theories (Cyert & March, 1962; March & Simon, 1958).

Probably two of the most dominant SDMPs are rational (synoptic) and incremental. A synoptic process is characterised by a high degree of rationality and analysis whereas an incremental process describes the decision-making process considers political behaviours, managerial experiences, and intuition along rationality. Fredrickson (1983) has provided an overview of the differences between these two process models based on motive for initiation, concepts of goals, relationship between means and ends, concept of choice, and comprehensiveness (both analytical and integrative). Recently, Elbanna (2006) conducted an extensive literature review on these two strategic decision-making models, examining the concept and role of rationality, political behaviour, and intuition in strategic decision-making, and called for expanding SMD research into several areas, including national context.
The strategic decision-making process in SMEs

An extensive literature search has resulted in few publications on the SDMP in SMEs. This is not surprising as this research area is still regarded as being uncharted (Gibcus, Vermeulen, & de Jong, 2004).

Several studies have focused on the SDMP in SMEs. For example, Jocumsen (2002) investigated 46 strategic marketing decisions in 32 Australian small businesses through in-depth interviews and reported that small business managers followed a simple or ‘much less complex’ process as shown in Figure 1.

(Insert Figure 1 about here)

Jocumsen (2002) also found that Steps 2 -4 are loosely defined and conducted non-sequentially and iteratively. In addition, the boundaries between these steps are blurred and overlap. These suggest a low level of procedural rationality exists in the SDMP in SMEs. Further, the use of internal networks in the SDMP was restricted almost exclusively to family members. SME owners/managers used few external networks in making strategic marketing decisions and, if they did, they only sought advices from bankers, accountants, and governments. This implies a low participation level exists in the SMDP in SMEs.

With regard to analytical comprehensiveness, which includes the identification and selection of goals, generation and evaluation of alternatives, and the number of factors considered (Fredrickson & Mitchell, 1984), Jocumsen (2002) found that SME managers/owners made a extensive use of learned competencies and inherent competencies mostly as intuition and “gut-feeling”. They also used rudimentary analytical tools and considerable written activity. Internal factors influencing strategic decision-making in Jocumsen’s study (2002) included
the decision’s importance, firm size, success of business, organisational structure, and educational level, and risk tolerance of the manager. External factors, such as competition and industry factors, and technology, were found not to influence the SMDP adopted by small business owner/managers. All these findings strongly suggest that small business owners/managers make strategic decisions in an informal and unprofessional way, rely heavily on their own experience and intuition, and involve primarily family members in their SDMP.

Gibcus, Vermeulen and de Jong (2004) focused on analytical comprehensiveness in the SDMP in SMEs in Netherlands. Through telephone-interviews with 646 small firm’s owner/managers, they investigated how small businesses undertake several activities in the SDMP. They asked nine questions in their interview, including the degree of information search, consideration of other possibilities and independence in the SDMP. They reported that a majority of small firm’s owners/managers made the decision independently (77%) and conducted an information search (66%). Both findings support Jocumsen’s (2002) finding that small business owners/managers make strategic decisions based primarily on their own learnt competence and experience and undertake information search within the process. Gibcus, Vermeulen and de Jong (2004) also found that half (50%) of small business managers considered alternatives when making strategic decisions.

Analysing 90 questionnaires from their survey of small firms’ strategic decision-making process in Netherlands, Brouthers, Andriessen and Nicolaes (1998) reported that the small firms behaved neither extremely rationally nor irrationally and that size did matter. The larger of these firms, in terms of their sales and number of employees, act more rationally than the smaller ones. Small firms’ owners/managers were reasonably good at searching and
analysing information, but weak at using quantitative techniques and information in SDM. However, these results were based on a structured questions with multiple scales and may suffer from a number of biases, such as social desirability and the halo effect (Neuman, 2006). All the above-mentioned studies have been conducted in Western countries.

In contrast, Qi (2006) studied the characteristics of the strategy development process in six Chinese township and village enterprises (TVEs) and found that guanxi (interpersonal and inter-organizational relationships and connections) played a pervasive role in determining the strategic process and its final outcome in all cases. These Chinese TVEs used ‘highly simplistic rules of thumb’ in guiding their investment decisions and tended to adopt an outside-in approach in their strategy development at least in the early stage of their development. Top management played a crucial role in developing their firm’s strategy.

In summary, research on the SDMP in SMEs is still scarce and fragmented. SME owners/managers were found to use a less complex process in making their strategic decisions. They carry out these steps in a quite informal way, rely heavily on their own experience, and involve very few people outside their family in the SDMP. The rationality of the SDMP varies with the firm size. Larger small firms are more likely to use rudimentary or simplistic analytical tools and written materials. However, in the Chinese TVEs, interpersonal or inter-organisational networks are heavily used in the SDMP, which differs significantly from those used by Western SME owners/managers.

Although much effort has been devoted to the SDMP, its antecedents and outcomes, little progress has been made in understanding how SME owners/managers make their decisions. Moreover, empirical findings so far on the relationships between the SDMP and its outcomes
are still inconsistent (Elbanna, 2006; Rajagopalan, Rasheed, & Datta, 1993). Clearly more empirical studies on SDMP are needed, particularly in different national context (Elbanna, 2006).

RESEARCH METHODS

Research design
Given the scarce information about the SDMP in Chinese SMEs, the current study adopted the case-study research design following procedures suggested by Yin (2003). It explores the SDMP’s patterns, characteristics and influencing factors. The unit of analysis is a single organisation, more specifically, “a holistic case study”, using Yin’s typology, to identify the effect of organisational characteristics on the major concepts investigated. We use theme- and pattern-matching as the major analytical techniques for linking the data to our research questions.

Sampling consideration
As one of the research objectives is to explore the SDMP in Chinese SMEs, we aim to investigate SME’s strategic decision-making with several important variables to achieve both “literal” and “theoretical” replications (Yin, 2003). These variables include ownerships (private vs. state-owned), size (medium vs. small), and sectors (manufacturing vs. services).

With the assistance and facilitation of Anshan Municipal Bureau of SMEs, Anshan Municipal Commission of Agriculture Economy (formerly, Bureau of Town and Village Enterprises), Anshan Small- and Medium-Sized Enterprise Service Centre, and Anshan Small and Medium-Sized Enterprise Research Institute, we have interviewed 20 firms in the City of Anshan and nearby areas. This city is in north-eastern China and is the third largest city in
Liaoning province. The distribution of ownership, size, and sector of the sample is presented in Table 2.

(Insert Table 2 about here)

**Data collection and analysis**

In-depth interview was used as the primary tool for data collection in this study because it has been widely used as a cost-effective way of studying strategic decision-making (Mintzberg, Raisinghani, & Theoret, 1976). Besides the interview, we have also collected relevant documents, such as internal documents, newsletters, product catalogues, where available, and accessed their website if they have one.

A semi-structured approach was employed. A list of interview questions as part of the case study protocol (Yin, 2003) was developed before the interviews. These questions have been developed based on research objectives and literature review, particular the framework provided by Rajagopalan, Rasheed, and Datta (1993). The interview procedure followed that used by Bourgeois III and Eisnehardt (1988). We first asked the SME owners/managers to briefly describe their firm’s background and operation, including goods or services offered, markets served, ownership, and size in terms of the number of employees. Then, we asked them if they have undertaken any major or important strategic decisions over the past three years. If they nod, the interviewees were then asked to select one decision, and to describe the process in details. Next, we explored key characteristics, such as factors taken into consideration, participation, political activities, the speed at which the decision was made, and its economic outcome as outlined by Rajagopalan, Rasheed, and Datta (1993).

Before each interview, we asked the interviewees if a digital recorder could be used for the interview. Five interviewees agreed to do so. Where interviewees were uncomfortable with
the presence of voice recording, notes were taken during the interview. In 16 SMEs, owners or presidents of the companies were the interviewees. The remaining (4) were the vice presidents of the companies. Moreover, in four firms, a group of managers (3-5 persons) participated in the interviews. Overall 30 owners/managers from 20 SMEs were interviewed. These interviews usually lasted 1.5-2 hours and ranged 50 minutes to 2.5 hours.

The analytical techniques suggested by Huberman and Miles (1994) and Yin (2003) for within-case and cross-case analysis were used, particularly theme identification, pattern matching, and explanation building.

FINDINGS AND DISCUSSION

The steps of the strategic decision-making processes and their influencing factors

The interviewees reported strategic decision-making steps that were less complex than many relevant theories suggest. Several steps frequently mentioned by the Chinese SME owners/managers, included idea (decision) initiation, information search and analysis, financial analysis, internal factor consideration, and final decision-making. Overall, these steps are similar to those reported by Jocumsen (2002). However, factors influencing these steps are very different from those reported in the existing literature.

Idea (decision) identification. Interviewees mentioned that opportunities provided by the environment initiate idea. The opportunities that acted as triggers included:

1) fast economic growth including that a high level of demand for their products or services. Examples included the demand for corn harvester, quality soy bean oil,
dairy beverages, and tourism. These opportunities offered by external environment were triggers for new product development in several SMEs interviewed.

2) favourable government policies and deregulations. The Chinese governments, at both the state and local levels, frequently introduce new financial and administrative policies to induce investment in certain industries, such as food processing, machinery manufacturing, and waste processing. The Chinese government recent as a member of the World Trade Organization (WTO) obliged to deregulate export control, thereby offering potential opportunities to SMEs for products.

3) external networks. Six of the interviewees mentioned that their personal relationships with Chinese universities were the major source of idea initiation for their new product development. For example, one small firm has reported that it was their links with a government department and two universities that offered it opportunities to develop oil field machinery.

The above findings suggest that the Chinese SME owners/managers widely adopt an outside-in approach in developing their strategies. One reason could be rapid Chinese economic growth over the past two decades. Our findings are supported by those of Qi (2006) in his study of strategy decision-making in the Chinese TVEs.

**Information search and analysis.** Most interviewees did an information search as part of their SDMP. Two factors stand out that affect the information processing: firm size, and owners/managers’ educational qualification. For small firms, the information search was mainly the owner’s responsibility, typically conducted in an informal way and based on informal channels, such as personal relationships, and mass media, such as TV and newspapers. The steps of idea identification and information searching often overlapped.
For the larger small firms, the information search was often conducted by a team, such as a market research team, and was documented. However, the owner/manager’s level of education often moderated this process. Those owners/managers with a university degree, particularly in commerce or management, were more likely to conduct a formal search.

The information gathered was analysed in an imprecise way in the Chinese SMEs. Except when requested by external stakeholders, such as banks or powerful partners, including government department and universities, none of the firms mentioned about any analytical techniques, such as SWOT analysis, 5-force analysis, and macro-environment analysis. Many Chinese SME owners/managers focused on one or two important environmental factors without in-depth analyses. This approach is risky as indicated by one manager.

The newly-built rice processing plant was based on the potential deregulation of rice export in China. Currently, the rice export is controlled by the China Oil and Grain Import and Export Corporation. We expected that the (Chinese) government would deregulate this export practice in the near future as China has become a member of the WTO.

However, the Chinese government has not deregulated the rice export market so far. The rice processing plant has been running far below its design capacity and at a loss since it has been built in 2004.

**Internal factors.** Two important internal factors were often mentioned by the interviewees: financial resources and technical expertise. One owner mentioned that “We will not develop any new products that are vehicle-related”. This was mainly due to the owner’s technical expertise and background as he was a graduate majoring in vehicle-manufacturing and has been working in engineering-used vehicle maintenance and servicing. For others, financial resources were critical as many strategic decisions require financial investment either in technology or construction and Chinese SMEs have great difficulties in obtaining bank loan.
Financial analysis. Financial analysis was another step mentioned by nine of the owner/managers interviewed. However, most of the Chinese SMEs interviewed used a quite simple and informal approach. Broadly, it only involved a simple calculation of the costs (money needed), product’s potential price by benchmarking competitors’ prices, and volume output. No complex calculation, such as discounted cash flow, was ever mentioned during the interviews. A point in this case was the investment decision for setting up a new business for importing coffee tablets from the USA.

My partner has done all the homework regarding where to buy coffee tablets in the USA and the custom clearance procedure in China. I was asked to initially invest RMB 1 million yuan to have a 50% share of profits for importing X amount of coffee tablets. I know its potential market is trucker drivers. So I did a simple market analysis by asking several truck drivers how much they are prepared to pay for a coffee tablet. I also looked at the costs of procurement, transportation and custom tariff. I found there is still a reasonably high margin for this product. So I agreed to invest in this new business.

The financial analysis was conducted in an even more simple way, purely gut-feeling, by another small firm investing RMB 10 million yuan in new plant.

My intention is to build a good nest for ‘phoenix’ (businesses). I personally have all the money needed for this investment and I wouldn’t deposit it into a bank. The demand for our product (crane-controlled electronic devices) is very high. We can either grow our products or induce other good businesses to come here for potential joint ventures or manufacturing under licensing.

One interviewee even told us that he had to sell his only car for financing his new plant because he didn’t undertake a detailed financial analysis investing in a new soy bean processing plant.

Two small firms have showed us the feasibility study report for their strategic decision. One was to develop a new product and another is to build a waste processing plant. Both include
the calculation of return on investment and sensitivity analyses for the production output and price. The major motivation for the analyses was the bank’s requirements when applying for a loan. Interestingly, both firms were medium-sized and the owners/managers at both firms were highly educated with a master or bachelor degree in business. This suggests that the external influence and owner/manager’s education level could also contribute to the degree of formality in undertaking financial analysis.

The characteristics of the strategic decision-making process
Several characteristics were found in the present study of the SDMP in the Chinese SMEs. They are notably participation, alternative development, duration or decision-making speed, rationality, and degree of political activities.

Participation. Participation is a crucial factor influencing the quality of the decision made. It is interesting to find that ownership often distinguishes the degree of participation within Chinese SMEs. In family- or privately-owned firms, either small or medium-sized, most strategic decisions are made by the owner with little input from their management team members. They relied heavily on their personal networks for information and advice, instead of internal ones. In the state-owned or controlled firms, decisions were often made after they have been discussed by the management team. It is clear that the level of participation in the state-owned SMEs is higher than in their private counterparts.

Alternative development and consideration. Although veteran researchers in the field of strategic decision-making have strongly advocated expanding the search for alternatives to avoid decision failure (e.g. Nutt, 2004), there was little mentioned by the SME owners/managers interviewed on the development of alternatives in their strategic decision.
It appears that the Chinese SME owners/managers responded to the opportunities quickly and locked in on only a very limited number of ways to taking up these opportunities. Surprisingly, none of the interviewees talked about how they considered alternatives in their decision-making process. It can be said that the Chinese SME owners/managers are good at information search, but weak at the solution development.

**The role of imitation in the SDMP.** Competitor imitation is often used by the interviewees as an important basis for making strategic decisions. For example, one owner of a small firm mentioned the route for her investment decision about building a new brick plant.

My iron ore processing plant has over years generated a pile of waste tailings. It almost occupies all of my workplace available in the plant. I read some advertisements from the local newspapers and TVs for a brick-making machinery. I was a university accounting graduate and did a financial analysis for my potential brick plant. It showed that I can get all my investment back in one-and-half years, but I was not sure if the machinery would work or not. Recently, I visited a brick plant nearby and I saw it (the brick-making machinery) was working well. So, I am going to order one tomorrow. It costs me half a million yuan and I had all the money in my hand bag.

The similar approach to imitating their competitors was adopted by two other SME owners in their decision to build their rice processing plant, and other two (a construction firm and department store management) in making decision on repositioning their business growth strategy.

**Length of time for making the decision.** Attempts were made to explore the length of time taken for making strategic decisions in the Chinese SMEs. However, it was difficult to measure for two reasons. First, the time of initiating the decision was often a result of an ongoing opportunity or problem recognition, environment scanning and external networking. Secondly, the demarcation of the decision-making and implementation is often vague. As
mentioned above, it often overlapped with information searching and analysis. When asked the duration of the strategic decision making, interviewee responses ranged from 1-12 months, depending on the familiarity with the strategic decision. However, it is quite clear from the interviews that private firms, particularly small ones, can make rapid strategic decisions because the owner usually knows their company’s operation very well. He/she usually used his/her own money to implement the decision. Moreover, the management in the privately-owned SMEs is usually centralised, whereas state-owned SMEs need to get approval from their supervising government bodies for major decisions.

In investigating the impact of the speed at which a strategic decision was made and its impact on the effectiveness of a firm’s performance, we need to take a more comprehensive view. One interesting finding from this study was the speed with which decisions were implemented. For example, a rice processing plant with daily processing capacity of 500 tonnes had been completed in 5 months. A brick manufacturing plant was built within 4 months. In the latter case, the owner was producing bricks before construction was completed and the plant was approved by the local government and other business administrative authorities.

**Rationality.** In our interviews, rationality mean a variety of things to the Chinese SME owners/managers, including catching the opportunities offered in the environment, enhancing organisational competence, or growing the organisation. For example, one interviewee talked about the failure he had in developing several new products over the past 5 years because of a lack of understanding of the government licensing approval procedures. He had no regret about these failures, and instead believed that the experience in developing these new products was beneficial to the organisation’s technical competence. This led to fostering the
successful development of a series of other new products. Similarly Jocumsen (2002) reported that rationality can mean sensible or financially reasonable. There is still no consensus on the definition of rationality despite the long history of study on this concept.

**Political activities.** There was no mention at all, in interviews with the family or privately-owned SMEs, of political activities. However, the level of political activities was quite high in all three state-owned or controlled SMEs, either among the senior management within the firm or between the management at the firm and their superior organisation. In all three such SMEs (Table 2), all major investment decisions needed approval by the superior organisation. In addition, employees’ contract and management remuneration were dealt with exclusively by these superior organisations. One interviewee, a deputy director of a state-owned small organisation, complained that his boss (the director) was reluctant in making many important decisions because there was no incentive for him to make these decisions rationally. Another state-owned manager explained that the pending changes of ownership from state-owned to private-owned paralysed strategic decision-making in his organisation for almost one year. It is very clear that ownership has a substantial influence on the level of political activities in the Chinese SMEs.

One interesting and unique phenomenon relevant to the political activities in the strategic decision making in the Chinese SMEs is the role of the Chinese Communist Party. Traditionally, the dual leadership (management and party) is often the source of conflicts of interests in making strategic decisions, particularly in the state-owned enterprises. However, this situation is changing in some Chinese SMEs. A number of private-owned SMEs have created a party secretary position within the firm. Nevertheless, this is implicitly under the leadership of the owner (the president or the more fashionable title, chairman of the board).
The role of the party secretary in a privately-owned firm was mainly to cultivate a desirable organisational culture that can support its business strategy from a HR perspective. For example, in one private-owned medium-sized firm, the party secretary worked harmoniously with the owner in motivating employees to achieve the organisation’s objectives. She was also responsible for developing communication campaigns, such as newsletters, and counselling employees to improve the firm’s performance.

**CONCLUSION AND IMPLICATION**

This paper investigates the SDMP and its characteristics in Chinese SMEs. It also examines the factors influencing such processes. We conducted 20 interviews with the Chinese SME owners/managers.

Several important conclusions can be drawn from analysing the interviews. First, the steps involved in the strategic decision-making process in the Chinese SMEs are less complex than the theoretical models (e.g., Mintzberg, Raisinghani, & Theoret, 1976) suggested. It broadly follows a 5-step process which involves decision identification, information search and analysis, internal factor consideration (particularly technical expertise and financial resource), and decision-making. These steps are not sequential. The quality with which these steps were undertaken was influenced by both organisational factors (the firm’s ownership and size), and individual factors (the owner/manager’s educational qualification and experience).

The second conclusion is that the Chinese SME owners/managers rely heavily on their personal networks for identifying opportunities in the business environment and for information search and advice in making their strategic decision. These relationships include
those with government officials, university academics, and personal friends particularly those working together previously in the state-owned enterprises.

Thirdly, the firm’s ownership significantly influenced the degree of participation in the SDMP. The level of participation is higher in the state-owned SMEs than that in the privately-owned. However, it is not clear how the level of participation influence the quality of the decision made.

The firms’ ownership also affects the level of political activities in the Chinese SMEs. Little political activity in the strategic decision-making process in the private-owned SMEs was evident in this study. However, it was found in the state-owned SMEs. Nevertheless, several privately-owned Chinese SMEs had created a position of party secretary to help develop their organisational culture and manage human resources. This is the fourth conclusion drawn from this study.

The length of time for making a strategic decision was shorter in the private SMEs than their state-owned counterpart. The highly centralised management, coupled with the low level of participation, in the private-owned SMEs can be attributed to this. In addition, decisions made in the Chinese SMEs can be implemented quickly.

Finally, besides ‘sensible’ and ‘financially reasonable’, many Chinese owners/managers viewed a ‘rational’ decision as being based on a number of other factors, including growth, competence development, and grabbing opportunities in the environment.
The findings of this study have implications for SME owner/managers, policy-makers and SME researchers. For SME owners/managers, as the first step, understanding of the decision-making routes provides a basis for improving the quality of the process. For example, they can expand the channels for their information search, such as using the Internet, government publications, or hiring external professionals for doing so. They can then expand their decision making process, such as adding alternative development, and setting up criteria for decision evaluation and selection. While making strategic decisions quickly is an advantage identified in this study, private-owned SMEs need to increase their participation rate as this can be a very effective and efficient way of gathering more information and generating more alternatives.

Since the Chinese SME sector has been growing exponentially over the past two decades, their contribution to the Chinese economy has increased dramatically. For Chinese government policy-makers, this paper has at least two implications. First, it has identified an important area for training and management development. Currently, strategic decision-making in many Chinese SMEs are still quite simplistic. Many SME owners/managers lack of relevant skills and knowledge in making important, high quality of decisions. Therefore, the Chinese governments at different levels can sponsor training programs in strategic management. Second, they can also develop mentoring programs among the SME owners/managers. As the Chinese SME managers rely heavily on their external networks for decision identification, it is also important to help them build relationships with universities and relevant government departments.

For SME researchers, this paper has only explored the steps of the strategic decision-making process and its characteristics in the Chinese SMEs. As there is little research on the strategic
management in the Chinese organisations in general, and the Chinese SMEs in particular, more empirical research is urgently needed. These untouched areas include the relationships between the quality of the strategic making process and its impact on the organisational performance, the role of participation and personal networking in the decision-making process, and the links between rationality, the speed of decision-making and the firm’s performance. In a broader context, the relationship between strategy content and the SDMP should be urgently explored in SMEs. Currently, there is no study, to our knowledge, exploring such as relationship. Moreover, strategy implementation is another important area for future research to better understand the impact of SDM on a firm’s performance.

REFERENCES


Table 1 An early model of decision-making process (Mintzberg, Raisinghani and Theoret, 1976)

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<th>Phase</th>
<th>Steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The identification phase</td>
<td>1) Decision recognition</td>
</tr>
<tr>
<td></td>
<td>2) Decision diagnosis</td>
</tr>
<tr>
<td>2. The development phase</td>
<td>3) Search route</td>
</tr>
<tr>
<td></td>
<td>4) Design routes</td>
</tr>
<tr>
<td>3. The selection phase</td>
<td>5) Screen</td>
</tr>
<tr>
<td></td>
<td>6) Evaluation-choices</td>
</tr>
<tr>
<td></td>
<td>7) Authorization</td>
</tr>
</tbody>
</table>
Table 2  The distribution of ownership, size and sector in the sample

<table>
<thead>
<tr>
<th>Ownership (N)</th>
<th>Size (number of employees)</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family-owned (11)</td>
<td>Small (&lt;100) (12)</td>
<td>Manufacturing (15)</td>
</tr>
<tr>
<td>Private-owned (6)</td>
<td>Medium (&lt;500) (8)</td>
<td>Service (5)</td>
</tr>
<tr>
<td>State-owned or controlled (3)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Figure 1 A model of the strategic decision-making process in SMEs (Jocumsen, 2002)