



# Strategic decision making in Chinese SMEs

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## Abstract

**Purpose** – This paper aims to examine the process and characteristics of strategic decision making (SDM), and their influencing factors in Chinese small- and medium-sized enterprises (SMEs).

**Design/methodology/approach** – This study adopted a case-study research design. It collected data from 20 Chinese SMEs with multiple approaches, including interviews with owners/managers, focus groups, gathering of internal documents and access to their web site.

**Findings** – Several important conclusions can be drawn. First, the steps involved in the SDM process in Chinese SMEs are less complex than the theoretical models; second, Chinese SME owners/managers rely heavily on their personal networks for identifying opportunities in the business environment, and for information search and advice; third, a firm's ownership significantly influences the degree of participation and the level of political activities in the SDM process; and fourth, decisions made in Chinese SMEs can be implemented quickly partly due to slack legal enforcement in China.

**Practical implications** – For SME owners/managers, a better understanding of the decision-making routes provides a basis for enhancing the quality of the decision-making process. They can expand and/or improve the steps in executing their decision-making process. For Chinese government policy-makers, they can better sponsor training programs in strategic management and develop mentoring programs among SME owners/managers for better connecting them with peers and external advisors. For SME researchers, this paper has pointed out several important areas for future research.

**Originality/value** – This research is one of the pioneering studies on SDM in Chinese SMEs. It provides a detailed description of the SDM process and several important characteristics associated with this process in Chinese SMEs, and thus contributed significantly to our understanding and potential improvement of SDM in Chinese SMEs.

**Keywords** Decision making, Strategic management, Small to medium-sized enterprises, China

**Paper type** Research paper

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 small- and medium-sized enterprises (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. According to a recent media report, Chinese SMEs accounted for 99.8 per cent of total firms in China by the end of 2008. They contributed to 60 per cent of national GDP and employed about 70 per cent of workforces. 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 *et al.*, 2005). One of the common problems identified in Chinese SMEs was management, particularly managerial decision making (Huang *et al.*, 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 being crucial to a firm's survival and long-term performance (Papadakis and Barwise, 1998). Specifically, this paper attempts to answer the following research questions:

- RQ1. What are the main steps undertaken by the Chinese SMEs in their SDM process?
- RQ2. What are the major characteristics in such a process?
- RQ3. Which factors influence the steps and characteristics of the SDM process in Chinese SMEs?

Such a study is warranted for several reasons. First, research into the strategic management, particularly in the SDM process, in SMEs has been scarce. Second, 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. Third, it can also examine how Chinese culture, which differs substantially from that of Westerners, influences the SDM process.

### Literature review of SDM in SMEs

#### *A brief overview of strategic management research*

Strategic management research can be broadly grouped into two categories: strategy content and strategy process (Rajagopalan *et al.*, 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 and Snow, 1978), strategic positions (Porter, 1980, 1985), resources-based view (Barney, 1991; Barney and Arian, 2001; Wernerfelt, 1984), and core competence (Prahalad and Hamel, 1990).

In contrast to strategy content research, strategy process has received relatively little attention (Hutzschenreuter and 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 *et al.*, 2005). The latter has investigated many important issues in making strategic decisions, including dominant strategic paradigms (Eisenhardt and Zbaracki, 1992), strategic decision processes and characteristics (Schwenk, 1995), management and context (Papadakis *et al.*, 1998), decision-making speed (Baum and Wally, 2003), decision-making effectiveness (Dean and Sharfman, 1996) and comprehensiveness (Fredrickson, 1984; Fredrickson and Mitchell, 1984), and the impact on a firm's performance of SDM comprehensiveness, speed, management,

organisational context, and business environment (cf. Rajagopalan *et al.*, 1993). Several literature reviews on SDM have provided a quite comprehensive overview of the progress in this field (Eisenhardt and Zbaracki, 1992; Elbanna, 2006; Rajagopalan *et al.*, 1993; Schwenk, 1995). The following sections briefly examine factors affecting the SDM process and its outcomes before focusing on the SDM process in SMEs.

#### *Factors influencing on the SDM process and its outcomes*

Several important factors have been identified that have influence on the SDM process, including environmental, organisational, and decision-specific factors (Rajagopalan *et al.*, 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 and Wally, 2003; Bourgeois and Eisenhardt, 1988; Fredrickson and 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 and Wally, 2003), the role of top management (Papadakis and Barwise, 2002), politicization (Bourgeois and Eisenhardt, 1988), and ownership and size (Papadakis and 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 *et al.* (1993) have provided a list of the key characteristics that have impacted on the decision outcomes or the firm's performance.

#### *The SDM process: steps and characteristics*

The SDM process 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 SDM process, several strategic decision processes/models have been put forward in the literature of strategic management and organisational studies, including one developed by Mintzberg *et al.* (1976) as shown in Table I. This model reflects a stream of SDM studies that describe the SDM as a sequence of rational steps or phases.

Other scholars have developed a various decision-making models based on key characteristics in executing major steps in the SDMP process. For example, Pfeffer (2005) proposed a typology of organisational decision-making models (rational, bureaucratic, organized anarchy, and political power) based on eight dimensions,

Phases	Steps
1. The identification phase	1. Decision recognition
2. The development phase	2. Decision diagnosis
	3. Search route
3. The selection phase	4. Design routes
	5. Screen
	6. Evaluation-choices
	7. Authorization

Source: Mintzberg *et al.* (1976)

**Table I.**  
An early model of  
decision-making process

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 mainly on two key aspects of SDM: 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 and March, 1962; March and Simon, 1958).

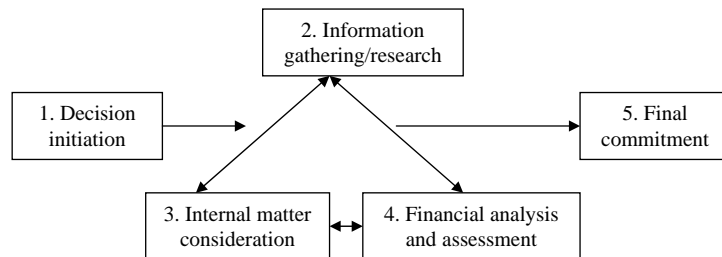
Probably two of the most dominant SDM processes are rational (synoptic) and incremental. A synoptic process is characterised by a high degree of rationality and analysis whereas an incremental process describes the decision-making process through taking into consideration of political behaviours, managerial 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 decision-making models, examining the concept and role of rationality, political behaviour, and intuition, and called for expanding SDM research into several areas, including national context.

*The SDM process in SMEs*

An extensive literature search has resulted in few publications on the SDM process in SMEs. This is not surprising as this research area is still regarded as being uncharted (Gibcus *et al.*, 2004).

Several studies have focused on the SDM process 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.

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 that a low level of procedural rationality exists in the SDM process in SMEs. Furthermore, the use of internal networks in the SDM process 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 SDM process in SMEs.



**Figure 1.**  
A model of the strategic decision-making process in SMEs

Source: Jocumsen (2002)

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 and Mitchell, 1984), Jocusmen (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 SDM in Jocusmen’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 SDM process 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 SDM process.

Gibcus *et al.* (2004) focused on analytical comprehensiveness in the SDMP in SMEs in The Netherlands. Through telephone-interviews with 646 small firm’s owner/managers, they investigated how small businesses undertake several activities in the SDM process. They asked nine questions in their interview, including the degree of information search, consideration of other possibilities and independence in their SDM. They reported that a majority of small firm’s owners/managers made the decision independently (77 per cent) and conducted an information search (66 per cent). Both findings support Jocusmen’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 *et al.* (2004) also found that half (50 per cent) of small business managers considered alternatives when making strategic decisions.

Analysing 90 questionnaires from their survey of small firms’ SDM process in The Netherlands, Brouthers *et al.* (1998) reported that the small firms behaved neither extremely rationally nor irrationally and that size did matter. The larger small firms in their sample, 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 SDM in SMEs is still scarce and fragmented, particularly in emerging economies, like China, where environment has been rapidly changing in recent years. 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 their SDM. The rationality of the SDM process 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 SDM, which differs significantly from those used by Western SME owners/managers.

Although much effort has been devoted to SDM, 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 SDM process and its outcomes are still inconsistent (Elbanna, 2006; Rajagopalan *et al.*, 1993). Clearly more empirical studies on SDM are needed, particularly in different national context (Elbanna, 2006).

### Research methods

#### *Research design*

Given the fact that scarce information exists about SDM in Chinese SMEs, the current study adopted the case-study research design following procedures suggested by Yin (2003). It explores the patterns and characteristics of the SDM process, and their 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 (Miles and Huberman, 1994) for linking the data to our research questions.

#### *Sampling consideration*

As one of the research objectives is to explore SDM in Chinese SMEs, we aim to investigate SME’s SDM 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 northeastern China and is the third largest city in Liaoning province. The interviews were conducted in August 2007. The distribution of ownership, size, sector and annual turnover of the SMEs interviewed is presented in Table II.

#### *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 an cost-effective way of studying SDM

**Table II.**  
The distribution of ownership, size sector, and annual turnovers of the SMEs interviewed

Ownership (N)	Size (number of employees)	Sector	Turnover (RMB)
Family-owned (11)	Small (<100) (12)	Manufacturing (15)	<1 m 5
Private-owned (6)	Medium (<500) (8)	Service (5)	1-5 m 5
State-owned or controlled (3)			>5 m 10

(Mintzberg *et al.*, 1976). Besides, the interviews, we have also collected relevant documents, such as internal documents, newsletters, product catalogues, where available, and accessed their web site 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, particularly the framework provided by Rajagopalan *et al.* (1993). The interview procedure followed that used by Bourgeois and Eisenhardt (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 firm 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 *et al.* (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 (four) 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. The position and demographic information of the interviews are presented in Table III.

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 SDM processes and their influencing factors*

The interviewees reported the steps they have taken in their SDM were less complex than many relevant theories suggest. Several steps frequently mentioned by the Chinese SME owners/managers included idea initiation, information search and analysis, financial analysis, internal factor consideration, and final decision making. There was no clear pattern of the sequence of information search and analysis, financial analysis, and internal analysis. Overall, these steps are similar to those reported by Jocusen (2002). All these suggested that the "procedural rationality"

Position	<i>N</i>	Gender	<i>N</i>	Age (year)	<i>N</i>	Education	<i>N</i>
Owner	10	Male	25	<30	3	Diploma and under	9
President	6	Female	5	31-45	8	Degree	20
Vice president	4			46-60	19	Masters	1
Others (e.g. managers of marketing, operation manager and HR)	10						

**Note:** Four group interviews were conducted in four SMEs with the total number of interviewees being 30

**Table III.**  
The position and demographic information of the interviewees

(Dean and Sharfman, 1993) of SDM in Chinese SMEs were low. However, factors influencing these steps are very different from those reported in the existing literature.

*Idea identification.* Interviewees mentioned that opportunities in the environment initiate ideas. The opportunities that acted as triggers included:

- *Fast economic growth including a high level of demand for their products or services.* Examples included the demand for corn harvesters, quality soy bean oil, dairy beverages, and tourism. These opportunities offered by external environment were triggers for new product development in several SMEs interviewed.
- *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 as a new member of the World Trade Organization (WTO) obliged to deregulate export control, thereby offering potential opportunities to SMEs for export.
- *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 new 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. These findings are supported by those of Qi (2006) in his study of strategy decision making in the Chinese TVEs that most Chinese TVEs adopted an outside-in approach in developing their business strategy.

*Information search and analysis.* Most interviewees did search for information as part of their SDM process. Two factors stand out that affect the information processing behaviours in the Chinese SMEs: 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 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 information 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, five-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:



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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.

Collecting information in an informal way and analysing it intuitively often result in poor and fragmented information input into the decision-making process. This could be a cause for low quality of the decisions made.

*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 a relatively large financial investment either in technology or construction. It is widely reported that Chinese SMEs have great difficulties in obtaining bank loan because the Chinese banking system has been designed for large state-owned enterprises, rather than SMEs, particularly privately owned SMEs.

*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 as one interviewee stated:

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 per cent share of profits for importing X amount of coffee tablets. I know its target 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 a 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 would not 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.

The cost for not conducting financial analysis could be very high for SMEs. One interviewee told us that he had to sell his only car for financing his new plant because he did not undertake a financial analysis investing in a new soybean processing plant.

Some Chinese SMEs had conducted a formal financial analysis often due to external requirements. For example, 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.

In summary, the SDM process in Chinese SMEs is still very simplistic with a low level of procedural rationality. The quality in executing these steps is largely influenced by firm size, ownership, and the educational qualification of owner/manager. The Chinese SMEs largely rely on their personal contacts with external stakeholders for generating ideas for their strategic decisions. The next section explores other key characteristics in the SDM process.

#### *The characteristics of the SDM process*

Several characteristics were also investigated in this study. 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 SDM 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 SDM. 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 quick in responding to external stimuli, but weak at the solution development.

*The role of imitation in SDM.* Imitating competitor 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 beneficiation plant has over years generated a pile of waste tailings. It occupies almost the entire place available in the plant. I read some advertisements from the local newspapers and TVs for 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. I had all the money in my handbag. So, I went to the brick-making machine manufacturer the next day and ordered one. It costed me half a million yuan.

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. Second, 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 made, interviewee responses ranged from 1 to 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 for several reasons:

- the owner usually knows their company's operation very well;
- he/she usually used his/her own money to implement the decision; and
- the management in the privately owned SMEs is usually centralised, whereas state-owned SMEs need to get approval from their supervising bodies for major decisions.

One interesting finding from this study was the speed with which decisions were implemented in Chinese SMEs. It is evident that Chinese SMEs can implement their strategic decisions very quickly partly due to slack legal enforcement. For example, a brick manufacturing plant was built within four months. The owner was producing bricks before the plant construction was completed and business 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 five 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 development of his organisation's technical competence. This led to fostering the successful development of a series of other new products. Similarly, Jocusmen (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 II), 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 SDM 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 SDM 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 in Chinese firms). 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 implications

This paper investigates SDM 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 SDM process in the Chinese SMEs are less complex than the theoretical models (e.g. Mintzberg *et al.*, 1976) suggested. It broadly follows a five-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.

Third, 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 SDM 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 due to slack legal enforcement in China.

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, a better 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, SDM in many Chinese SMEs are still quite simplistic. Many SME owners/managers lack of relevant skills and knowledge in making important and 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 SDM 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 SDM process 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.

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