

Strategy Types and Strategic Decision Making Behavior of Private SMEs' Owner/managers in China

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Abstract

Based on cognitive perspective, the paper reports the analysis of how owner/managers of small to medium size enterprises (SMEs) in China adopt different types of strategies and display different characteristics in making strategic decisions. Due to contextual difference, it is found that the types they use are not the same as large corporations and the majority adopted is offensive and stability strategies. Moreover, given the characteristics identified in the analysis, the effectual approach is a better description of their strategic decision making process. Elaboration is provided in the paper on those behavioral characteristics.

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Introduction

A review of the literature in strategic decision-making shows that the management of strategic issues and strategic decisions is found more often in large corporations than in SMEs. The reasons are obvious. First, large corporations have more resources so they can afford to hire specialized people and/or to spend time dealing with strategic issues and formulating comprehensive strategic plans. Secondly, the opportunity cost for large corporations to make a single mistake in the management process is too high, so it is necessary to perform careful strategic planning before making any move. However, the value of strategic planning for small firms, particularly the growth-oriented ones, has been emphasized since the 1950s. According to a brief literature review by Robinson and Pearce (1984), one group of studies found that small firms with strategic planning tend to be more successful than those without strategic planning (Potts 1977; Woodruff & Alexander 1958; Chambers & Golde 1963). Another group of studies traced small firms over time and compared the use of some forms of planning with resulting performance (Christensen 1953; Robinson 1982; Trow 1961). Given an understanding of the value of strategic planning to both large and small firms and based on cognitive perspective of analyzing the behavior of SMEs’ owner/managers, the paper is intended to present a study with specific focuses on exploring the process of strategic planning, especially how the decisions are reached for private SMEs operating in China.

Strategy making is defined as a stream of decisions and a course of action consciously deliberated by senior management. Strategic decision making behavior and processes have been largely researched and documented in the West. In particular, many well known discussions of this area have been described in large and complex organizations, in which multilevel activities are usually involved in the decision process. Knowledge about applying strategy-making in the context of SMEs is very limited, even in the Western literature, no matter whether it is descriptive or prescriptive. Therefore, it is interesting to explore how strategy-making is actually carried out in SMEs. To what extent is the strategy-making process applicable to private entrepreneurs? Moreover, the apparent difference in social, economic and political systems between China and other, Western, countries would certainly lead to different paths of managerial success by private SMEs in making strategic decisions. It is expected that the study will throw some light on the issue of how, and to what extent, the strategic decision-making behavior and processes found among large organizations would be applied to private SMEs in China.

In the next section, we shall review past studies explaining the characteristics of strategic decision making which will also form the descriptive dimensions of strategic decision making used in our study. The third section will describe the method of study and introduce the context that this study is conducted. The findings of decision behaviors of SMEs' owner/managers will be analyzed and presented in the section that follows. The last section will be devoted to drawing conclusion and theoretical implications.

Literature Review on Strategy Types and Strategic Decision Making Behavior

1. Strategy Types

As strategic decisions refer to the decisions on strategy, the best approach to understanding strategic decisions is to investigate the types of strategy in the literature of strategic management. Mintzberg (1978) described strategy as “a pattern in a stream of decisions” and suggested that strategy could be divided into two different types according to its purposeful process: deliberate strategies and emergent strategies. Porter (1996) stated that strategy should be defined from the standpoint of positioning and following the same logic, a number of classification frameworks were proposed in the literature. One classical example is the competitive strategies of cost leadership, differentiation and focus (Porter, 1987). Another example is the classification by Miles and Snow (1978): defenders, prospectors, analyzers, or reactors. From the managers’ definition of decision-making, Simons and Thompson (1998) found in their interview study that there were three different types of decision: problem-focused, goal-focused, and political appeasement. In our study, we focus mainly on corporate level strategy of business development for private SMEs operating in China and how the decision behaviors are different under each type of strategy, so the framework we use is largely based on the general corporate strategy model (e.g. Collis and Montgomery 1997). In principle, three groups of corporate strategies are identified throughout our study: i) offensive strategies, including diversification, integration, joint venture, strategic alliance, etc. ii) stability strategies including market expansion, brand development, expanding production capacity, product/technology development and iii) defensive strategies including internal restructuring, business re-organization, business process re-engineering (BPR), etc.

2. A Cognitive Perspective on the Dimensions of Strategic Decision Making Behavior

Research on strategic decision-making processes has been fairly extensive, and the literature on cognitive perspective provides a large number of studies on decision modes. Each of them uses different approaches to classify the processes and focus on explaining one particular aspect of it (e.g. Eisendardt and Zbaracki, 1992; Hickson, 1987; Lyles and Thomas 1988). There are also some conceptual frameworks on integrating various aspects of strategic decision-making situations (e.g. Hart, 1992). Despite the difference in the names of typologies, it is found that the characteristics of each mode are fundamentally similar. In order to explain behavior and the process with more accuracy, the following characteristics are identified and used as the bases in our study.

Rationality is a dimension defined as the extent to which the decision-making process involves the collection of information relevant to the decision and the reliance upon analysis of this information in making the choice (Dean & Sharfman 1993). Usually, a set of objective criteria is used to evaluate a strategy alternative (Hitt and Tyler 1991). However, research results in the past could not conclusively support that rational decision making behavior will always lead to effective decision performance.

The second characteristics that is common to all decision making process is called political behavior. In fact, political behavior has been regarded as the typical and inevitable aspect of organizational decision-making (e.g. Allison 1971; Pettigrew 1973). There are two underlying assumptions for political decision-making to take place. Firstly, decision actors in organizations have differences in interests due to functional, hierarchical, professional, and

personal factors (e.g. Hickson *et al.* 1986; Pettigrew 1973). Secondly, people in organizations use various political techniques to influence the outcomes of decisions to safeguard or enhance their own interests (e.g. Bacharach & Lawler 1980; Pfeffer 1981).

Openness is one of the key elements in maintaining the organization flexible and adaptable, and it is defined as “the extent to which decision-makers are open to new ideas, informational sources and roles” (Sharfman & Dean 1997). Such characteristics are of particular importance to SMEs in a transitional economy like China where the environment is rather turbulent. Openness also refers to the attitude of managers to welcoming novel alternatives and to avoid searching only for those alternatives that justify past decisions (Staw 1981).

It is found in some studies that decision-makers will cycle back to earlier stages of decision making process in order to re-examine key assumptions, data and solutions when it is required. This is called recursiveness. The greater the frequency of recursiveness, the higher is the flexibility of the decision-making process. The concept of a circular decision-making process has been proposed in the literature to illustrate this adaptation mode. On the contrary, when decisions are made mechanically without revisiting previous plan and reviewing feedback, it would become only a routine decision process. Moreover, the recursiveness concept, according to Sharfman and Dean’s (1997) suggestion, can be extended to include the interaction between strategic formulation and implementation.

Comprehensiveness is defined as “the extent to which an organization attempts to be exhaustive or inclusive in making and integrating strategic decisions” (Fredrickson 1984:

447). The depth and width of decision scope would be checked and examined when comprehensive decision process is present. It is strongly believed that scarce resource of SMEs inhibits their chance of using comprehensive decision process.

Hart (1992) suggested that involvement is a crucial dimension in the strategic decision-making process. It refers to the degree of independent action taken by organizational members. High involvement indicates a greater opportunity for members to participate in strategy formulation and implementation. Strategy-making could be the result of negotiation among coalitions and interest groups in the organization but it might not be applicable to the case of SME environment whereby the owner/manager is quite dominant. Another form of involvement is called fluid participation in which decision-makers come and go in the decision process. It does happen when SMEs consult experts/bankers on an on-and off basis.

Formalization refers to the extent to which firm policies, job descriptions, organization charts, plans, and objective-setting systems are articulated through official communication. When the decision process is formalized it means there is a decision-making system in place. The high degree of formalization implies decision-making requires the firm to go through a systematic process. It is quite obvious that SMEs prefer 'flexibility and informality' to 'bureaucracy and documentation' in the decision process as they could not afford the cost of delayed response to environment.

Biases and heuristics are the psychological domain of decision-makers and are also regarded as the main characteristics of the bounded rationality decision model. It is the most common

decision behavior when the decision environment is uncertain and complex (Haley and Stumpf 1989). In essence, biases and heuristics are decision rules, cognitive mechanisms, and subjective opinions people use to assist in making decisions. The most relevant example of biases and heuristics in the area of strategic decision-making are: a) prior hypotheses and focusing on limited targets; b) exposure to limited alternatives; c) insensitivity to outcome probabilities; and d) the illusion of manageability (Das and Teng, 1999).

A vision is generally defined as the broad direction of where the company seeks to go at a particular point of time. It is one of the critical characteristics underlying all strategy-making processes (See Hart, 1992). It is assumed that SMEs is usually run by strong leadership and therefore vision-driven management will carry relatively more weight than system-driven management in their decision process.

Pace (or speed) is defined as how quickly the strategic decision is made. In other words, when the time for making a decision is shortened, no matter which steps of the process are simplified, reduced, combined, etc, it can be described as a speedy decision. Eisenhardt (1989) found that, in a high-velocity environment, decision-makers in firms that had superior performance made speedier strategic decisions. Judge and Miller's (1991) study also found evidence to support some of Eisenhardt's (1989) propositions.

In sum, ten descriptive dimensions of strategic decision making behavior and processes have been reviewed and explained above. They include: rationality, political behavior, openness, recursiveness, comprehensiveness, involvement, formalization, biases and heuristics, vision,

and pace (or speed). In the next section, we shall illustrate the context of study and how the data of strategic decision making are collected to tap on the above descriptive dimensions.

Context of Study and Method

The study is targeted at Chinese SMEs owner/managers who set up their business in Hong Kong while running the operations across the border in the mainland. All the respondents in our study belong to the type of “Original Equipment Manufacture” (OEM). It mainly involves supplying firms’ manufacturing finished equipment to the buyer’s specifications, to be sold under the buyer’s brand name (Hobday, 1995). In fact, OEM activities have been emerging and developing in Asia as a response to countries using export driven strategy in the process of industrialization. Because performing the jobs of an OEM supplier does not take on design and marketing activities, the major market risk would be borne by the overseas buyers. For most small to medium enterprises (SMEs), this is the most desirable operation mode as it carries minimum risk, incurs lowest investment but secures customer order, and therefore brings guaranteed profit. In addition, a number of contextual factors are attributable to the OEM development in Hong Kong. First, the subcontracting network was well established to facilitate a form of flexible production which could meet the needs of overseas buyers with satisfaction (Davies, 1998; Hollows and Dilnot, 2001; Lui and Chiu, 2001). Secondly, most of the firms in Hong Kong are small scale family business (Ho, 1992) and their decision-making style is centralized, which enables a rapid response and flexibility. Small scale operations also drive the entrepreneurs to focus on quick returns while limited resources impede the firms to invest in large scale technology projects. With limited market power, they need to follow the demand of overseas buyers by mastering the dynamics of buyer-driven commodity chain (Gereffi, 1999). Thirdly,

due to the fact that Hong Kong government adopted a *laissez faire* policy and its provisions to private sectors were limited to infra-structural and institutional, it has been very difficult for SMEs to get support for investment projects leading to product/market/brand development. On the other hand, in the absence of strong labor movement, Hong Kong manufacturers have plenty of flexibility to organize their production and control the labor costs (Lui and Chiu, 2001), particularly locating their manufacturing facilities in the mainland. Since China is under the process of a dramatic transformation from a command economy to a market economy, it posts a great challenge to private SMEs to formulate and implement strategic decisions effectively. As a consequence, to address the question of how SMEs owner/managers make their strategic decisions in such environment would be of great interest to both researchers and practitioners.

In general, the research paradigm used in this study is qualitative and mainly exploratory in nature so we must emphasize that the data generated are not supposed to be used for generalization. Since knowledge about the strategic decision-making behavior and process of private SMEs is very limited, it is necessary to collect information directly from private entrepreneurs, i.e. decision-makers, to capture the decision-making process and to interpret how they go through such a process. In this study, we conducted in-depth interviews with fourteen SMEs' owner/managers in 2008. The interviews cover the areas of "historical background of the enterprise", "strategic decisions that have been made in the past ten years of development", "the ways that decisions are made" and "perceived effectiveness of specific decision". To ensure content accuracy, written notes were taken and languages that are understood to both were used. In addition, best efforts were made to reduce possible errors arising from retrospective research methods (Miller *et al.* 1997). For example, cross verification on decision making events is made

based on one additional interview with another senior manager of the same company. As indicated above, though the number of interviews in this study is limited, we strongly believe that the rich in-depth interview data could provide us with a comprehensive understanding of how strategic decision making is conducted by private SME owner/managers in China.

Findings and Analysis of Strategic Decision Making Behavior of Private SMEs

1. Decision Types

As revealed by the interview description of 14 SMEs' owner/managers in our study, a total of 151 strategic decisions had been made in the past ten years of development. The analysis of decision types are listed in Table 1. It is clearly noted that 75% of the decisions belong to

Table 1 Types of Strategic Decisions

Decision Types	Frequency (%)
Related Diversification	19.2
Unrelated Diversification	5.3
New Market Expansion	15.2
New Technology Development	9.3
Expanding Production Capacity	10.6
Brand Development	7.9
Vertical Integration (e.g. acquiring suppliers/distributors)	0.7
JV/Strategic Alliance/outourcing	6.0
Internal Restructuring (e.g. downsize, BPR, cost control)	20.5
Business Restructuring	5.3

offensive strategy type and only 25% are of defensive type, implying that private SMEs operating in China adopt a more aggressive approach in their business development path over the past ten years. For example, they tend to diversify into related or unrelated businesses, expand new markets, develop new technology and new brand, increase production capacity and vertically integrate into supply and distribution. Among all strategies, going into related businesses, expanding new markets and production capacity are the most common ones they adopt. Due to limited resources available in SMEs and not much long term capital commitment they could afford, it is not surprising to see only less than 1% of the decisions they adopt belong to vertical integration. Moreover, to form strategic alliance with partners and to outsource (6% of the decisions) might be a better alternative than vertical integration to SMEs in the OEM environment. Since the critical success factors of OEM business, as revealed in the literature, are quality, cost, dependability, flexibility, innovation, service and time (Leong et al. 1990; Chase, 1991; Chen, 1999), it is found in our study that many SMEs owner/managers emphasized BPR, downsizing and reorganization as means of reducing cost while maintaining minimum standard of quality to meet clients' requirement. Therefore, more than 20% of strategic decisions in our analysis refer to such similar approach, aiming at the control of cost, quality and delivery service.

2. Decision Behavior and Process

After reviewing strategic decision types adopted by SMEs' owner/managers in the above section, we would like to present how those decisions are made with reference to the analysis of interview discussions on specific decisions. As most SMEs' owner/managers will approach different decision issues with different processes, past research indicates that

strategic decision behavior is a function of decision types (Schwenk 1988; Wally & Baum 1994). From the analyses, our SMEs' owner/managers in the study do display various types of decision behavior and process across a range of strategic decision types.

3. Behavioral Characteristics of Offensive Strategy Type

First, in making decisions of developing related or unrelated businesses either by internal development or merger and acquisition (M and A), they indicate they have used an extremely rational approach. For example, they undertake research and study, go through procedural analysis, and assess the market and internal resource requirement. No politics is involved though the process is open or semi-open to relevant staff and participative in style. However, there are also a few cases that the decisions are owner-dominated. For example, one SME owner/manager admitted in the interview that the decision is biased toward his own value and the main reason is to try to deliberately avoid personal conflicts among senior staff. In terms of comprehensiveness and complexity, most of them agree that since the process involves a lot of technical consideration, particularly the M and A strategy, it requires a time-consuming negotiation with stakeholders (e.g. banker, accountants and lawyers) and resource allocation. The process is therefore characterized by slow pace, i.e. relatively less speedy than other types of strategy, longer term orientation and visionary in nature. Since 'gut feel' (Sadler-Smith and Shety 2004) and superstition (Tsang 2004) in decision making is quite common among intuitive executives and in particular the Chinese SMEs' owner/managers, we do examine these two major elements in the analysis of making specific offensive strategy. It is interesting to find that only one SME owner/manager indicated that he felt psychologically more comfortable in making related diversification decision after consulting

the *Feng Shui* master. All others responded firmly that they did not rely on intuition nor they saw the need to be superstitious.

4. Behavioral Characteristics of Stability Strategy Type

A number of strategic choices are usually categorized as stable development strategy, including market expansion, product development, capacity expansion, brand development and JV/strategic alliance establishment. According to past studies on the area of strategy formulation, stability strategy is most applicable to firms with less rich resource and under the stable environment. As a result, private SMEs in OEM business tend to fall into such strategy platform. In other words, SMEs' owner/managers are more pragmatic than executives of large corporations and will not take high risk initiative in the area of aggressive strategies like diversification, M and A, and integration. Similarly, the environment of OEM business has been quite stable and it offers no optimistic opportunity for further development. As such, stability strategy is preferable to other options. Based on the results of the analyses, the behavioral characteristics of stability strategy of SMEs are highlighted as follows. First, the process that they undertook is perceived as absolutely rational. They hold meeting, consider market needs, assess internal resource requirement for market expansion and new product/technology/brand development. Some collect market information and opinions from outsiders before the decision is made. Internal discussion is also encouraged but decision is made by the boss or in some SMEs, the board. Second, no bias and heuristics were reported. However, superstition beliefs do prevail and exert influence on SMEs' decisions in a few cases, particularly, in the decisions of developing brand name and driving new markets. Thirdly, the majority of SMEs allow relevant staff participating in the decision process. For

example, staff of marketing department takes part in making decisions related to market expansion while staff of R & D department is involved in making decisions related to product/technology development. As for the other characteristics, the decision making process is perceived by SMEs' owner/managers as 'open', 'partly comprehensive', 'less complex', 'visionary' and 'pretty long term-oriented'. One distinguishing feature that is found in the decision process is non-political, which is in great contrast to many studies on political behavior models of strategic decision making (e.g. Allison 1971; Eisenhardt & Bourgeois 1988).

5. Behavioral Characteristics of Defensive Strategy Type

Defensive strategy includes actions on both internal restructuring and external retrenchment and the main objectives are to improve organizational efficiency and to control cost. Since the decisions have negative implications to staff such as layoff, tighter operational control, personnel change, divestment and reduced staff benefit, etc, the decision process will inevitably arouse staff alert on fighting for self interest. According to the interview results, the process becomes both rational and political. From the perspectives of SMEs' owner/managers and senior management group, rationality is necessary because they have to calculate cost and benefit on each defensive strategic decision. However, political behavior among stakeholders is also generated in the process of internal negotiation. The analysis of our study suggests that the decision could only be arrived after going through a tug-of-war struggle. A balance of interests in the senior management group must be settled by SMEs' owner/manager at the end. Meanwhile, it is also found from the interview results that the whole decision process is not 'open' though it is not as complex as those decisions of

diversification and merger and acquisition. Staff participation in the decision process is also found limited as conflicts would be magnified when involving more staff in the process. In addition, the analysis indicates that the decision of internal retrenching and downsizing requires the staff of accounting department to participate in the process, particularly in providing valuable advices to back up or reject the decision to be made. In terms of time scale, though defensive strategy produces immediate and short term impact on SMEs operation, it is still perceived by owner/managers as a long term oriented decision which requires the spiritual support of company vision and mission. Same as other strategic decision types, superstition is also found in a few cases on reorganization, restructuring and downsizing. The rational might be that defensive strategy is not a desirable one and SME owner/managers seek to find some ways to comfort themselves psychologically when the decision is made.

The above section has provided the analysis of the behavioral characteristics of strategic decision making under various strategy types based on the interview description by the private SMEs' owner/managers operating in the OEM environment in China. In the next section, we shall draw the conclusions by summarizing the findings and presenting the overall theoretical implications.

6. Synthesis: A Cognitive Decision Making Behavior of Private SMEs' Owner/managers

As revealed from the above analysis of our study, private SMEs' owner/managers do display somewhat different pattern of strategic decision making behavior across different strategy types. In principle, owner/managers cognitively aware of the justifications in

making decisions on offensive, stability and defensive strategies respectively. The following table provides a summary of their behaviors and the possible reasoning corresponding to each strategic type.

Table 2 A Summary of Strategic Decision Types and Behavioral Characteristics

	<i>Offensive Strategies</i>	<i>Stability Strategies</i>	<i>Defensive Strategies</i>
Rationality	<i>Strong</i>	<i>Strong</i>	<i>Mild</i>
Political Behavior	<i>Mild</i>	<i>No</i>	<i>Mild</i>
Participative Approach	<i>Strong</i>	<i>Mild</i>	<i>Not</i>
Open Approach	<i>Not</i>	<i>Strong</i>	<i>Not</i>
Complexity	<i>No</i>	<i>Partly</i>	<i>Mild</i>
Comprehensiveness	<i>Strong</i>	<i>Mild</i>	<i>Not</i>
Long Term Orientation	<i>Yes</i>	<i>No</i>	<i>No</i>
Superstition	<i>Found rarely</i>	<i>Found rarely</i>	<i>Found occasionally</i>
<i>Explanations on Decision Behavior based on Interview Analysis</i>	<ul style="list-style-type: none"> • <i>more accurate information available</i> • <i>more consultation to reduce risk</i> • <i>need participation to share risk</i> • <i>performance result not immediate</i> 	<ul style="list-style-type: none"> • <i>more routine</i> • <i>less risk</i> • <i>easier to monitor in the process</i> • <i>more open to staff at functional level</i> 	<ul style="list-style-type: none"> • <i>more personal conflicts</i> • <i>less open and less participative so as to avoid debate in the process and decision outcome more accurate</i> • <i>subjective judgment required on decision outcome</i> • <i>Attribute to supernatural power in decision process</i>

Conclusion

In summary, the following behavioral characteristics are identified in our study. Firstly, private SMEs operating in OEM environment in mainland China prefer more aggressive strategic decisions than defensive strategies. Secondly, no matter what strategic type the decisions belong, rationality is perceived by private SMEs' owner/managers as the most common process and being executed. Thirdly, superstition (e.g. Chinese *Feng Shui*) does exist across all types of strategic decisions in the decision making process of Chinese SMEs' owner/managers though it is not a dominant feature. Fourthly, it is evident that political behavior emerges in making decisions of offensive and defensive strategies, but not stability strategies. Fifthly, strategic decision making is 'open' only to those who are either in connection with the decision or knowledgeable about the decision. Sixthly, offensive and stability strategies tend to be more complex than defensive strategies in the decision making process as the later involves more mechanical calculation and internal controllable variables while the former involves the environment which is uncontrollable.

Based on our analysis as highlighted above, it is evident that private SMEs display somewhat different approach in their strategy types as well as decision making behaviors. First, SMEs are usually assumed to be more passive, reactive and cautious in making a move in the process of business development. In addition, the SMEs' owner/managers would be more pragmatic than entrepreneurs who are characterized by their unique profile of innovativeness and opportunity-seeking. As a result, it is believed that SMEs should opt for more defensive strategies and use 'wait and watch' approach to save up resources for sustainable survival and growth. However, the results of our study seem to suggest that most SMEs are quite aggressive in making a bold

move for diversification or at least expanding into new market, new product, new technology and new brand. Many SMEs indicated that cost cutting and restructuring has become a continuous process, and is not regarded as a critical strategic issue. Perhaps, one major factor explaining such difference is due to the maturity of OEM business in China, which has become one of the constraints for further growth of SMEs. In fact, the mentality of ‘grow to survive’ is the guiding principle in their business development plan.

Secondly, the question of whether or not SMEs will display a consistent pattern of strategic decision making different from large corporations is *partly* answered in our study. Like many other studies, it is found that SMEs follow quite a rational approach as revealed by their self-reported interviews but a careful examination on the details of their decision making processes, we check out that the owner/managers (i.e. the interviewees) mix up ‘rationality’ with the meaning of ‘open’, ‘participative’, and ‘unbiased’. In other words, rationality is equivalent to open, consultative, meeting, procedure, objective, searching and analyzing information, and conducting market survey, etc. It is therefore important to distinguish the concept of ‘perceived rationality’ and ‘actual rationality’ in the decision making process. In our context, SMEs owner/managers are more concerned on their own ways of interpretation of rationality, so it is more comfortable to conclude that the decision making process of SMEs should be a perceived rational approach.

Thirdly, unlike other studies that there exists a pattern (or mode) of strategic decision making for managers, our findings confirm that the decision behavior of SMEs is always triggered by ‘noises’. The so-called pattern is found without grounded evidence in our interview study and

therefore we label it with ‘random’. Comparing across the characteristics of strategic decision making behavior, some elements like political consideration, biased opinion of certain parties, owner/managers’ dominance, superstitious beliefs, selective consultation, ad hoc but unscientific market survey to collect market information, holding informal meetings, and seeking help from *feng sui* master, etc. emerge from time to time when the owner/managers see the need.

According to decision science, all those elements are actually used to influence the accuracy of prediction of decision outcome so that the decision making process can be more effective.

Actually, two scientific ways under causal approach have been used to deal with decision uncertainty (i.e. analysis and Bayesian estimation) (Knight 1921) but it seems that they are not applicable in the SMEs context. In the study of expert entrepreneur, Sarasvathy (2008) proposed a third approach called effectuation when dealing with the uncertain future. This approach involves controlling and shaping the future rather than trying to predict it and its logic seems more appropriate in explaining how the SMEs’ owner/managers intend to achieve in the process of making strategic decisions. In view of those characteristics found in our study, we claim that SMEs’ owner/managers display an effectual pattern of strategic decision making in OEM business. By and large, they follow rationality procedure for all strategic types and try every means afterwards to shape the possible decision outcome regardless of which strategic types they adopt. The effectual logic seems to fit in the profile of SMEs’ owner/managers with reference to their attribute set.

In conclusion, the paper contributes mainly to the knowledge of strategic decision making behavior of SMEs with specific reference to OEM environment and the context in China.

Specifically, contextual variables play an important role in the choice of strategic decision types

by SMEs while decision types do affect their decision behavior in strategy making process. The findings of our study also contribute to a better understanding on specific pattern of strategic decision making by SMEs, which is different from that of large corporations. The effectual approach seems to be a better explanation on the characteristics identified in the decision process. However, a number of limitations should be cautioned when making interpretations on our findings. First, retrospective interviews are subject to a number of possible biases and errors though every effort has been made throughout the research process to enhance data accuracy and validity. Secondly, interview analysis is subject to personal interpretation and therefore, the results might not be a good reflection of the interviewees' intention. Thirdly, since only 14 SMEs' owner/managers are involved in the study, their strategic decision making behavior might not be a good representative to be used in generalization. Thus, we propose future research should be done on the following directions. First, more data should be collected so as to ascertain statistical relationship between decision types and decision process that is found in our exploratory study. Secondly, factors affecting the behavioral pattern could be identified and tested with reference to its impact on the process. Lastly, it is of great interest to look into what behavioral pattern will lead to better decision performance and why, and as a result, we would have better insight on the development of a more complete theoretical framework of strategic decision making for SMEs.

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