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FEATURES OF DECISION-MAKING IN SMES: THE CASE OF SMES IN CHINA

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Abstract

This research has been carried out to understand the decision-making processes in the Chinese small and medium enterprises (SMEs). The research also aimed at understanding the key features of the decision-making processes in these firms as well as to understand the various factors that influence the decision-making process. The research was designed as a qualitative research with an in-depth interview strategy. As part of this, 10 middle and senior managers of Chinese SMEs were interviewed. The research findings indicate that Chinese firms are more rational than is currently understood from the existing literature. However, these firms also utilise intuition where needed to further improve the quality of their decisions. The research also suggests that Chinese SME firms do adopt structured decision-making processes, but their application is dependent on both the kind of organisation and the kind of decision to be taken. The findings also suggest high influence of political behaviour and less influence of social factors on the decision-making processes in these firms. The findings thus contribute to the existing literature through some unique findings as well as verification of some of the existing literature.

Declaration

I declare that this dissertation has been composed solely by myself and that it has not been submitted, in whole or in part, in any previous application for a degree. Except where states otherwise by reference or acknowledgment, the work presented is entirely my own.

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1 Introduction

1.1 Background

Organizations are the result of their decisions, and they determine opportunities, threats, and internal resources and capabilities that determine their success (Blenko et al., 2010). The performance of an organization is depending on various factors in its internal and external environment, but the quality of the final decision and its implementation will distinguish one organization from many organizations (Lyon et al., 2000). Organizations are under tremendous pressure to make quick and bold decisions to ensure that these companies achieve greater success in selected markets (Davenport, 2012). However, these organizations need to evaluate all available options for the organization's potential risks and rewards. The decision-making process is also complicated by the influence of various factors such as psychology, economics, sociology and other management disciplines on this process. Decision-making is also driven by the assumptions by individuals that may be internal (manager) or external (consultant) is responsible for the organization (Van Riel et al., 2004). However, the unstable business environment, ongoing pressure on manager/organizational performance and including capital Higher scrutiny by stakeholders, including the market, also means that the cost of invalid decisions can be very high and can lead to the ultimate failure of the organization (Saaty, 2008). Some recent examples of such failures include large companies like Kodak. As well as several small companies in the real estate, retail and other industries, where changing and unfavorable environments combined with ineffective decisions made over time may cause them to fail (Prenatt et al., 2015).

However, the business environment and related decisions (and decision-making processes) of all companies may not be similar. Changes in the company's business environment and market position may create more opportunities or

challenges in the decision-making process, and in some cases, the process seems more controllable, while in other cases, the company may find itself Unable to respond effectively to business environments (Reynolds, 2006). In addition, decisions about decision types such as regular/unconventional, unique/general and certain/uncertain can also influence the decision process. Further, the nature of the organization, such as its size, human quality, industrial environment, etc., can also influence their decision-making process (Nooraie, 2008). Therefore, the dependence of the organizational decisions and their outcome with regards to the performance of these decisions may thus also differ across firms of different size and may not be same for smaller and larger firms (Nooraie, 2012).

Economic reforms have enabled smaller companies to participate in economic growth in countries such as China (Hoffman, 2017). SMEs in China account for nearly 98% of the total number of registered companies, and they are also responsible for 58% of China's GDP and 75% of new jobs created by the Chinese economy (Hoffman, 2017). This makes it important to ensure the growth and development of these organizations.

1.2 Rationale for the research

The decision-making process is complex because the complex interactions of various factors determine the quality, acceptance, and success rate of these decisions for any organizational environment (Nooraie, 2012). Sharma et al, for instance, (2014) found that organizations' decisions on information technology initiatives depend not only on the quality of decisions, but also on how employees make decisions. LaValle et al. (2011) also emphasizes the importance of rigorous analysis of organizational decision-making performance and analysis of the ability to contribute to effective decision-making. MacEchren et al. (2005) also highlights the importance of advanced computing applications for the availability

of information input and the analysis of managerial decision choices. However, large enterprises have been at the center of research within the organization's internal decision-making process. In addition, most research on organizational decision-making processes is concentrated in organizations in developed markets (Buckley and Ghauri, 2004). However, the business context suggests that the contribution of SMEs to global economic success has been increasing (Hoffman, 2017).

The importance of small and medium enterprises to any economy cannot be emphasized enough. These companies are not only large number but also a major contributor to the country's overall economic activity and employment. These companies have also been found to be more innovative and responsive to their business environment than large companies (Brunetto et al., 2007). At the same time, however, these companies are also facing major problems because of their small scale of operations and limitations in accessing financing and even managing talent (Buonanno et al., 2005). These restrictions may also prevent these companies from making effective decisions (McAdam, 2002), but at the same time, SMEs are found to be more productive and innovative (Buonanno et al., 2005). These unique features make it important to understand the decision-making processes used in these organizations. However, research on the decision-making process of SME companies is still limited (Salles, 2006). In addition, the decision-making process was found to be culturally dependent (Brunetto et al., 2007). In addition, a changing business environment can also influence the decision-making process (Buckley and Ghauri, 2004). However, there is limited evidence on the decision-making process of Chinese SMEs (Huang, 2009), so it is necessary to understand the various drivers of their decision-making.

2Literature review

2.1 Introduction

The research on the decision-making process of Chinese SMEs with the aim of understanding their decision-making processes in order to be able to assess whether these processes are similar or different to large companies or SMEs in other countries. Therefore, a literature review will help provide a theoretical framework that currently exists on the subject, which will help to study design and evaluate research results. This chapter first provides decision theory and then reviews the literature and empirical research of existing SME decision-making processes.

2.2 Decision-making

Decisions in an organisation involve evaluation of available options to reach conclusion regarding the choice of action (Elbanna, 2006). Decisions need to be taken on a regular basis, however, some may be more important to an organisation due to their impact on the strategic performance of the firm (Zheng et al., 2009). Such decisions are called as strategic decisions. Strategic decisions are thus important to an organisation as the success of these decisions would also determine the overall success of the organisation (Sharma et al., 2014).

Strategic decisions in an organization are characterized by the complexity of the process and also the varied uncertainties involved in it (Mador, 2000). These decisions would also be more vital to the survival and performance of the organisation and would involve the top leaders in an organisation (Sinclair and Ashkanasy, 2005) and thus these would also become the basis for decision-making across the organisation (Papadakis and Barwise, 2002). Elbanna (2006) also adds that the strategic decisions require detailed evaluation of available alternatives as often there may not be one best solution available to the organisation and by their nature, it would be expensive to reverse these decisions without adding to the costs of the organisation. Mador (2000) also states that these decisions are recognised by their extensive scope, comprehensive nature and speed of decision-making required. However, strategic decisions cannot be

classified on the basis of their function or type of decision as what may be strategic to one organisation, may not be so for another. For example, automotive firms would consider their product launch decisions to be strategic due to their extensive scope, comprehensive nature and speed of decision-making required while for a consumer products firm, new product launch may not be strategic to them (Elbanna, 2006).

However, decision-making would also be influenced by the type of decisions that need to be taken and the process for decisions taken for routine, generic and certain context may be different for the decisions pertaining to non-routine, unique and uncertain situations. Decision-making additionally would also get influenced by organisational features such as their scale of operations, skillsets (quality) of the manpower and their industrial context as these would influence the process through which the decisions are made within the organisation (Nooraie, 2008). The dependence of the organisational decisions and their outcome with regards to the performance of these decisions may thus also differ across firms of different size and may not be same for smaller and larger firms (Nooraie, 2012).

Strategic decisions have been evaluated through the various steps or stages that are involved in the process of decision making and at the same time the process itself has been evaluated through the various dimensions that influence decision-making. The following section reviews the varied dimensions involved in the decision making.

2.3 Decision-making models

Decision theory adopts a multidisciplinary approach based on their applicability to groups or individuals and whether they are driven by rational or non-rational processes (Brown, 2005). Rational theories basically support optimal and normative decisions that are backed by clear assumptions being defined in taking decisions while non-rational theories are based on the assumptions of descriptive

and non-optimised processes that focus more on the behavioural aspects rather than scientific logic explaining the process of decision-making. In non-rational theories, the role of emotions and social norms is given higher importance than the scientific methodologies

(Gigerenzer, 2001). However, this classification of rational and non-rational theories has been criticized because they sometimes include features of each other and are thus not as clearly identified as rational or non-rational (Oliveira, 2007). Mintzberg et al. (1976, in Prenatt et al., 2015) highlighted different stages of decision making, such as recognition, diagnosis, search, design, screen, evaluation, choice and authorization, and showed that this is a typical process through which decisions in the organisations are taken. Mintzberg et al. (1976, in Prenatt et al., 2015) also pointed out that strategic decision-making is carried out under ambiguous circumstances, so even the decision-making process is unstructured. However, the authors point out that the decision-making steps can be divided into a central phase, a support phase and a dynamic phase. The central phase will include the identification of alternatives and choices, while the support phase includes steps such as control and communication regarding decision making. However, the phases are complex, including interruptions, delays, feedback, and further recovery of decisions. In this Cohen et al. (2001) also shows that the decision-making process has four aspects and these are the problems, possible solutions, alternatives or opportunities, and participants involved in decision-making. These are the main drivers of organizational decision making. Therefore, it can be seen that the decision-making process is not a linear process and actually includes several factors that must be considered as part of the process. In addition, decisions involve iterations to help organizations improve the quality of their decisions.

Decision-making has been explained by a multidisciplinary approach in which decisions are influenced by the environment in which they are located, and even the characteristics and behavior of the manufacturer's makers influence the

decision-making process. Elbanna and Child (2007) also identified other aspects that could explain the decision-making process. These are the dimensions of rationality, intuition, and political behavior that guide internal decision making within the organization. In addition, even the role of a larger context, such as the nature of decision making, strategic views within the organization, adaptability, and the company's resources and characteristics, are expected to influence decisions within the organization.

2.4 Decision-making dimensions

Decision-making dimensions have been classified into decision-context related aspects and the behavioural dimensions (Prenatt et al., 2015).

2.4.1 Decision-context

Decision-making process is expected to be varied based on the nature of the decision. For example, Papadakis and Barwise (2002) point out that crises and opportunities are handled differently within the organization, and in most cases, threat-related decisions are expected to be more comprehensive than those that focus on opportunities. In addition, even the strategic perspective of the organization influences the decision-making process, which will include the impact of senior management on decision making, demographics, and their experience in the industry (Harrison and Pelletier, 2000). In addition, even the attitude of top management or decision makers on environmental impact can influence the decision-making process (Buonanno et al., 2005). Not all industries have similar levels of dynamism in the environment, so policymakers may respond differently to environmental factors such as competition and customer demand. However, as companies become more energetic or complex, the need for environmental adaptation is expected to increase (McAdam, 2002).

The decision-making process is also expected to be influenced by the internal environment of the organization (Saaty, 2008), which will include the culture, structure, resource level (Nutt, 2008) and company performance of the assessment

options. Prenatt et al. (2015) For example, it is found that the performance and comprehensiveness of decision-making are negatively correlated, and March and Simon (Rogers and Blenko, 1955, 1965) explain this by satisfying the negative impact of better performance on rationality. The process of making decisions. In addition, Armstrong (Dane and Pratt, 1973, 2007) pointed out that although strong internal systems are expected to lead to better decisions, more decisions may not always follow the form or rationality required by the process. So a stronger internal system doesn't always mean better decisions. Moreover, even if the size of the organization affects the availability of resources, then the relationship between the entire organization, such as the relationship between leaders/shareholders and managers, can influence the decision-making process (Lyon et al., 2000). Later, the role of scale and relationship in the decision-making process was reviewed, with a particular focus on SMEs.

The next dimension is the behaviour dimension, which is also expected to influence the decision process.

2.4.2 Behavioural dimensions

The behavioural dimensions to the decision-making process have been identified as rationality, political behaviour and intuition.

2.4.2.1 *Rationality*

Rationality when it comes to decision-making is represented by the economic rationality of the decisions (Elbanna, 2006). Rationality per se represents behaviour or decisions that can be classified as reasonable with a frame of reference that can be understood by others (Butler, 2002). Rational behaviour also means that this behaviour would enable the person to achieve the purpose for which the decisions are being taken (Sinclair and Ashkanasy, 2005). Thus, when it comes to decision-making and economic rationality, rational decisions would be ones that would enable the maximisation of the expected economic utility attached to the decision (Elbanna & Child, 2007). This thinking is also the basis

for the theory of expected utility which states that the individuals always work towards maximisation of their expected utility (Larkin et al., 2015).

Rationality, however, may not always be possible entirely and sometimes decisions need to be taken with due consideration to the political and cognitive realities of the decision-context (Snyman and Drew, 2003). These leads decision-makers to take decisions that are boundedly rational and aim towards sufficient rather than optimal utility from the decision process (Elbanna and Child, 2007). This has also been referred to as the theory of bounded rationality where the lack of adequate cognitive resources, limited cognitive ability of the decision-makers, lack of required information or even the reluctant political structures within the organisation may become obstacles to rationality in the decision-making process (Jones et al., 2006). Further, Elbanna (2006) states that rationality has been a key dimension in the empirical evaluations on the effectiveness of decisions in organisational context, but its relationship with the organisational outcomes has been positive, negative as well as inconclusive. This means that rationality is not the only dimension in the decision-making process.

2.4.2.2 *Political behaviour*

Organisations are also political systems and this also influences the process of decision-making within the organisation. Kraus et al. (2008) states that the opinion of the most powerful members of the organisation would usually drive the decision-making processes. This approach is different from rational approach which was driven by objective assessments and lack of bias or judgement (Sharma et al., 2014). Political dimensions are based on the assumptions of individuals having conflicting preferences regarding the achievement of the strategic objectives of the organisation and the conflict is driven by their personal preferences and expectations from the decisions (Reynolds, 2006). Political behaviour further may manifest itself amongst different individuals or even different units within an organisation (Saaty, 2008). Further, political influences may come from both within and outside of the organisation such as the

government agencies or even the customers or shareholders of a firm (Larkin et al., 2015). However, the commonality between all these influencing agents would be their behaviour towards organisational decisions that may make them less effective (Morewedge et al., 2015).

Political influences have the potential to lead to negative outcomes for the organisation as these would prevent the managers from using the required information and taking effective decisions. These influences through the insufficient evaluation of the available alternatives can thus result in poor performance of the decisions (Elbanna, 2006). Further, these influences also impact the process of decision-making and can cause delays and obstructions which can lead to loss of opportunities for the organisation. Political influences can also prevent evaluation of all the other available alternatives and thus can cause long-term damage to the strategic performance of the organisation (Morewedge et al., 2015).

Political influences on their own would thus lead to less efficient decision-making process. However, in situations where the key decision makers are also the influencers and driven by rationality, this approach can also lead to faster decision-making within the organisation (). However, in general, political behaviour is expected to have negative outcomes for the decision-making process (De Martino et al., 2006).

2.4.2.3 Intuition

Intuition also plays an important role in decision-making in organisations and this is a mechanism where the judgement of the decision-makers is driven by the non-conscious associations and patterns that are an outcome of the prior experience of the decision-makers (Dane and Pratt, 2007). Intuition is crucial due to its contribution to the quality of decisions, but at the same time, the inability of the managers to identify clear reasoning behind their judgement (Khatri and Ng, 2000). Intuitive decisions are also taken more rapidly and the logical process through which the decision has been taken may not always be clearly identifiable

in this case. However, this is not to say that intuition is the opposite of rationality, but instead it is just the way of thinking that is driven by experience that may not always be possible to reconstruct through a logical process (De Martino et al., 2006). This subconscious nature of intuition also makes it quick and at the same time complex to interpret. However, as the process is not restricted through any rational boundaries, this process often includes a much larger number of variables (De Martino et al., 2006).

Intuition however requires both knowledge and intelligence to be able to apply the thinking in the right context. Khatri and Ng (2000) also state that the intuition is a mix of the judgement, experience and “gut feeling” and thus while there are some elements that can still be explained in a retrospective manner, some of them will remain unexplained. Sadler-Smith and Shefy (2004) have explained this as a composite function of intuition as an outcome of the expertise and that of feeling, which cannot yet to expressed through the rational tools of decision-making.

2.5 Decision-making processes in SME firms

SME firms are different from other larger firms due to their smaller size, limited resources and capabilities and also the organisational systems and structures.

Papadakis and Barwise (2002) state that the smaller firms are expected to have less formal and less rational decision-making processes. Some other aspects where smaller firms are different from larger ones are the higher use of intuition in decisions (Khatri and Ng, 2000), lesser focus on collecting comprehensive information (Gilmore et al., 2001) and stronger influences of the idiosyncrasies of top management/leaders in the decision-making process (Elbanna and Child, 2007).

Kraus et al. (2008), however, state that the decision-making processes in SMEs with regards to their strategies are unique when viewed from the perspective of their focused approach, limited resources and high flexibility of the decision-

making process. SMEs usually have smaller scale of operations than the larger corporations and this leads their decisions to be more focused on one market or segment. This also supports their limited availability of resources since the specialized offerings can usually provide stronger source of competitive advantage if the scale of operations is smaller. Lastly, SME decisions are also more flexible in their approach and this leads these firms to bring out a higher number of innovative offerings more frequently into the market.

Jocumsen (2004) has additionally also highlighted the more intuitive nature of decision-making in the SME firms and stated that these firms also use analytical tools even though they might be more rudimentary in comparison. Jocumsen (2004) however found a higher of internal factors such as decision context like type of decision, organisational structure and profile of the manager to be significant influencer of the decision-making process, while external factors were not found to have a significant influence. The authors additionally also found higher influence of their family members on their decisions even though they tend to rely more on their learned competencies. Gibcus et al. (2008) also found SME owners to be more independent in their decision-making and relied more on their own information search rather than formal mechanisms. Kraus et al. (2008) also highlight that the larger corporations undertake a much larger time-horizon into consideration while taking their decisions while SMEs consider a shorter horizon. Also, while larger corporations tend to adopt a process-driven approach to their decision-making, SMEs also adopt informal or intuitive processes in their decision-making.

Huang (2009) however also found a strong influence of national culture on the decision-making processes of SME firms in China where their interpersonal relationships were found to have a significant impact on the decision-making processes adopted by the top managers. Lee et al. (2001) however found that Guanxi or business relationships are more likely to be utilised in case of uncertain situations and not so much in case of opportunism. This research was however

not focused on SME firms. Decision-making processes in case of Chinese firms have also been found to be highly centralised and influenced by the owners (Zheng et al., 2006). Huang (2009), on the other hand, has studied the decision-making process of Chinese owners/managers and they found the decision-making to be more simplistic than is stated in the theories. The author also found strong influence of relationship networks on the decisions, but the final impact would be varied based on the ownership structures, business environment and political behaviour. Even the lenient regulatory system meant that the decision-making processes in these firms are faster due to lower potential legal hurdles.

2.6 Conclusion

Decision-making processes in Chinese SME firms are still not as well understood. However, the dynamic environment requires an evaluation of the evolving decision-making in this country. SME owners/managers have been found to use less complicated decision-making process, however, the rapidly changing business context and the fast growth experienced by the SME firms makes it important to understand the decision-making processes in Chinese SME firms. Based on this, the aims and objectives of the research are stated below.

2.7 Aims and objectives of the research

The research aims at understanding the key features decision-making processes in Chinese SME firms and also aims at identifying possible improvements in their decision-making processes. The key objectives of the research would be:

- To explore the key features of decision-making processes in SME firms
- To evaluate the major features of decision-making process in the Chinese SMEs
- To recommend improvements in the decision-making processes in the Chinese SMEs in the future

3 Methodology

This section contains discussion on the methodology that has been used for collecting and analysing research data. In this, there is first a review of the research design and then the actual procedures for data collection and analysis.

3.1 Research design

The research is being carried out for the purpose of evaluating the decision-making processes are being used by the Chinese SME firms and then provide a comparison of these methods with the existing theories to be able to recommend possibilities of improvement in these processes. Review of literature indicates that the decision-making processes in organisations are complex and driven by varied factors (Creswell, 2002). Further even organisational context influences the process. The review has also highlighted the limited existing research on the decision-making processes of Chinese firms. The research can be designed as quantitative or qualitative research and these are characterised respectively by their structured and detailed investigation processes (Bryman and Bell, 2015). Quantitative data also allows for higher application of scientific techniques while qualitative data is more suitable where detailed insights into a social phenomenon are required (Saunders et al., 2009). Qualitative research is also suitable for exploratory research and even this research has exploratory purpose with the need to identify the key features and motivations that are driving the decision-making processes in the Chinese SME firms.

The research process would also be driven by the philosophy of interpretivism, which has a strong connection to the qualitative methodologies (Easterby-Smith et al., 2015). Based on this philosophy, the researcher would be closely involved in the collection of data and also in the identification of key research insights from the perspective of research participants. This philosophy as against positivism, which is more scientific, enables deeper evaluations of phenomenon that require

exploration (Saunders et al., 2009). Further, inductive approach has been applied to help evaluate not only the existing theoretical linkages in the decision-making processes of Chinese SMEs, but to also identify if new theoretical linkages exist for these firms (Creswell, 2002).

The strategy used for collection of research data is the interview strategy, where in-depth interviews with the Chinese SME managers have been carried out to investigate the decision-making processes in their respective organisations. These interviews have been designed as semi-structured interviews as this would help the researcher in asking questions that are necessary to meet the objectives of this research and at the same time also provide the flexibility needed to ask questions that can provide deeper insights on the subject (Creswell, 2002).

3.2 Data collection and analysis

The research basically relies on the use of primary data to understand the decision-making process of Chinese SME firms. However, secondary data has been used for understanding the current context of decision-making and related theories for the decision-making within Chinese SME firms (Saunders et al., 2009). This secondary data has been collected from relevant and reputed academic journals, books and other online sources like websites.

The primary data has been collected through in-depth interviews. The list of questions is attached in the Appendix-1 and this has been developed based on the research objective and the existing literature on decision-making. The research objectives focus on the need to understand the decision-making process in Chinese SMEs, identify the barriers and drivers to their success and to be able to recommend decision-making strategies that may be used by these firms. Some of the decision-making features that have been identified from the literature include the role of rationality and intuition in the process, factors influencing the decision-making such as involvement of managers, use of objective information as well as the political factors that may influence this process. However, while a set of

questions has been used for interviewing respondents, additional questions were added if better understanding was needed.

The sampling strategy for selecting the SME managers was convenient sampling where the managers were identified from the career website LinkedIn and the managers were requested to provide their inputs in understanding the decision-making process in Chinese SME firms (Creswell, 2002). The first 10 managers who showed interest in answering the questions were thus included in the survey. These interviews have been conducted using Skype audio calls.

The interviews were not recorded but the researcher was making physical notes throughout the interview process and these transcripts have then been used for further analysis. The analysis involved thematic content analysis which is a systematic analysis of the content with the objective of identifying key themes related to the research objectives (Saunders et al., 2009). These themes include the varied features of the decision-making process, factors influencing the process and the outcomes of the decision-making process. The themes identified from the interview data have then been compared with the existing literature to compare the decision-making processes within Chinese SME firms with the findings of other researchers.

3.3 Ethical considerations

This research has been conducted as a primary research and involved managers of the Chinese SME firms. Saunders et al. (2009) state that the research involving human participants needs to ensure the safety, privacy and confidentiality of the research participants. The researcher connected with the participants through a social networking website called LinkedIn and thus the candidates were identified. However, the researcher did not record their names or contact details anywhere during the research process. All the responses have been directly transcribed by the researcher during the interview and no recording was done. However, all the participants were provided with the research information sheet

before the interview process so they understood that their responses were not only confidential, but even participation was completely a voluntary decision. Lastly, the research findings have been presented with their pseudonyms that have been developed to indicate their role and position in the organisation and their years of experience (Bryman and Bell, 2015). Thus, the responses presented in the research cannot be traced to these participants.

4 . Findings and analysis

These findings are an outcome of the 10 interviews that were conducted with Chinese managers working in SME firms. The names of the interviews has been kept as confidential so only pseudonyms have been used to present the results (Appendix-2). It can be seen that out of the ten respondents, five each belonged to middle and senior levels. In terms of their roles, 1 was from IT, 2 from marketing, 2 from operations, 3 from sales and 1 from logistics and HR each. In terms of nature of their organisation, 2 belonged to state-owned enterprises (SOE), 5 to a private enterprise (PVT) and 3 to a public-limited (PUB) company. The findings of the interview are also structured around the key themes within decision making (DM) processes and the first theme is the decision-making process itself. The second theme is regarding the key features and factors influencing the decision-making process. The final theme is the perception of the managers about the outcome of the decision-making process.

4.1 Decision-making process

Decision-making in case of SME firms is expected to be less formal and these firms are expected to rely less on the structured management frameworks (Kraus et al., 2008). The research findings, however indicate that even though the DM process in these firms is not as structured, but there are several hints provided by the Chinese managers to indicate the use of a structured approach to decision-

making. Nooraie (2012) however found that the importance of the decision as well as the its implications for the organisation influence the process of decision-making. Size and scale of the organisation, capabilities of the managers as well as the culture of the organisation had been found to influence the decision-making process within the organisation.

MM-SAL-PUB states "... information is very important in organisational decisions as this helps in not taking better decisions, but in better communications regarding the decisions we have taken..". External environment for instance plays a critical role in the strategic decisions (*MM-IT-PVT*). *MM-SAL-PVT* said "...the firm is always on the look-out for growth opportunities and we keep evaluating how we can benefit from these. Things like government policies, changes in the business networks or any new market or product opportunity is always evaluated by the firm...". Also, 9 of the 10 managers stated that outside-in approach is more prevalent than an inside approach while taking the strategic decisions. *SM-SAL-PVT* said "...the external environment is very dynamic and since the slowdown over the last couple of years, everyone is anxious to include consumer products in their portfolio and not rely entirely on exports. This is also because of the government push towards domestic economy...".

6 out of the 10 managers also specified that they used management frameworks like SWOT analysis and Porter's Five-Forces model etc. This also included 1 manager from SOE firms (*MM-OP-SOE*). *SM-OP-PUB*, however stated "...which decisions would get a better structured approach than others is entirely dependent on the management. They drive the process for information search and analysis..". *SM-MKT-PVT* said "... management does listen to feedback but the time or resources to be deployed on a decision is entirely driven by them...".

The second major part of the decision-making process is the alternative development process (Van Riel et al., 2004). For the Chinese SME firms, the process of alternative development ranges from informal to inexistent. *SM-MKT-PVT-2* said "...I don't know if alternatives are evaluated as we are never asked

questions. We can provide inputs or options, but we know the decision is taken already...”. However, 6 out of 10 suggested some process of alternative development and evaluation. *SM-HR-PUB* said “... alternative analysis is a key part of decision-making. Our management is fairly heterogenous so we always have discussions on what else can be done... don’t remember any decision that did not follow this process...”. *MM-LOG-SOE* on the other hand said “.. totally depends on the situation. We definitely do not waste time when the decision is clearly visible. But if the scale or impact is higher, we also spend more time in information collection and evaluations”.

Gibcus et al. (2008) state that the decisions in SMEs are less structured, but the structure and employee participation in the DM process would be dependent on the nature of the decisions. In the research, *SM-MKT-PVT-1* stated “... some larger strategic decisions may exclude employees and initially only few leaders may be involved, but this is followed by a detailed process and project management approach. *SM-SAL-PVT* who works with a retailer, for instance, described the process through which the site selection for new stores is done. While the city and broader location is decided by the management, the ground work and operational details are worked out by the employees. These findings thus support Gibcus et al. (2008) who found SME owners to be independent and also with the findings of Kraus et al. (2008) who indicated contextual nature of decision-making process in SME firms.

Prenatt et al. (2015) state that comprehensive decisions may not always work for SME firms. They state that structure is not something they would associated with the decision-making processes of SME firms. The research, however indicates that SMEs are smarter in their information search as well as use of alternative development. The Chinese firms depending on their level of evolution (size, capabilities) as well as the need for alternative development, do use these techniques formally and informally. Thus, while processes of information search

and alternative development may not be as structured in case of SME firms, the Chinese SME firms do rely on them when required.

Lyon et al. (2000) emphasise the importance of firm size and resources to their decision-making process. Dane and Pratt (2007) also found the ownership structure to influence the involvement and independence of owners in the decision process. In the research, MM-OP-SOE said "...the boss does not trust others easily and likes to control the decisions very closely. He does not include other managers till the decisions are near the final stages. The participation levels in the decisions is thus poor...". In contrast, MM-IT-PVT said "managers are closely involved in most decisions. We are not only responsible to evaluate the options, but also contribute through our own knowledge and external networks"

Papadakis and Barwise (2002) stated the need for SME firms to be quicker in their decision process and found this to be especially true in case of business threats. They also related this to a need for higher responsiveness and less comprehensiveness in their decisions. Speed of decisions was identified as a key decision features by 5 out of 10 managers. They were all however employees of the private SME firms who hinted "... speed takes precedence over detailed information ...". MM-OP-SOE, however, said "... decisions are delayed as much as possible as no one wants to be responsible for a loss ...".

These findings suggest that the DM processes are indeed driven by their context and the environment of the organisation, their structure as well as the context of the decision process, all influence the DM process. The next section discusses the research findings on the behavioural dimensions of the DM process.

4.2 Behavioural dimensions

Elbanna and Child (2007) found rationality to be of a bounded nature, while Jocusen (2002) has highlighted the SME firms to be driven more by their intuition than their rationality. The research findings indicate that SMEs are

rational in their decisions, even though it may not always be followed as a structure.

MM-IT-PVT said "...the decisions are driven by rational explanations and it is very rare to see the top management imposing their will on the employees. Employees are also included in the decision-making process and their inputs are used for taking decisions that would have better acceptance as well as higher likelihood of being relevant...". MM-SAL-PVT said " even though it could be sometimes difficult to understand why something is being done the way it is, but the past performance of the firm indicates that the management knows what they are doing. Sometimes they may have some regulatory information and they want to act on it quickly and while we may consider this to be a hasty decision, the management is only trying to make the best out of the opportunity. These findings thus support Elbanna and Child (2007) as well as Huang (2009) who found decision-making in China is simplistic but logical.

MM-LOG-SOE, however shares entirely different views and said "... the management was only interested in short-term gains and thus always formed strategies that benefited them personally or helped their families and friends. Purchasing was always done from the known contacts and we are never allowed to explore new suppliers. Where is the incentive to act rationally ...". SM-MKT-PVT-1 and MM-IT-PVT however indicated that the management always expected them to follow a logical process in their supplier selection and while they liked to know who was supplying what, the management did not interfere in the selection and tendering processes. Also, Khatri and Ng (2000) say intuition is integral and beneficial to the DM process. MM-IT-PVT said " ... the decisions in the firm can always be explained though logical process and even when intuition plays a role, management leans more towards reasoning than intuition...".

Four respondents (SM-HR-PUB, SM-SAL-PVT-2, SM-OP-PUB, MM-SAL-PUB) further added that "the decisions may be initiated by the top management most of the time, but for marketing and financial inputs a logical process would

be followed...”. This thus supports the definition of rationality being sensible as well as reasonable (Kraus et al., 2008). SM-SAL-PVT also indicated that the firm relies a lot on their external networks for information and resources and while there may be a reliance on intuitive decisions, this is mostly for low-risk decisions. He added that an extensive analysis would be done for high-risk ones or where the investments are higher. He added “... risky decisions are only about 10% of the decisions, while most of the day to day decisions are driven less by rationality and more by intuition...”. He also added, “ ... you can say equal parts rationality and intuition and not just for management but also for the staff ...”

SME and Chinese firms have also been found to rely on their social networks (Zheng et al., 2006). In the research, 8 out of the 10 managers stated that guanxi or social relationships are important to the management, while 2 suggested that the managers are driven more by the organization and performance and less on the social factors. 2 of the managers (SM-MKT-PVT-1, SM-HR-PUB) stated that guanxi is used contextually when it benefits the organization, but in terms of obliging a social contact, the managers are more focused on the organizational performance. These findings are thus different from Huang (2009) who found a significant influence of interpersonal relationships in the decisions of Chinese firms.

Chinese SME managers also state the existence of political influences in their DM process. Reynolds (2006) states the political behaviour to be the higher importance of personal preferences and this is supported by Sharma et al. (2014) who state that political behaviour leads to biased evaluations. Opportunism and political influences have been indicated to be a key part of Chinese decision making (Zheng et al., 2008). In the research, however, varied perceptions were observed. SM-SAL-PVT said “...political influence is there as the management is listening to everyone in the organization and everyone will give their personal views always...”. MM-SAL-PVT said “...strategic decisions are always driven by the top management and junior employees are happy about it as wrong

decisions can sometime cost them their jobs...”. Thus, not only the participation, but lack of participation is driven by political influences within the organisation. MM-LOG-SOE also said “...ever since the second generation of owners have joined the board, several new investments have been made by the organization and these were independently handled by the owners. Some of the investments like in the new health centres happened even though the future cash flows were highly uncertain...”. Even MM-OP-SOE indicated that some of the decisions such as investments in the IT infrastructure were focused on fulfilling the aspirations of the management rather than contributing to future profits.

Thus, nearly all the participants indicated that Chinese SME firms display political behaviour in the organisations.

4.3 Decision outcomes

The participants were also asked about their perceptions about the outcome of the decision-making processes followed within their organization.

MM-SAL-PVT and SM-HR-PUB stated that better decisions can be taken with the higher involvement of employees in the decision-making process. SM-MKT-PVT-1 and MM-SAL-PVT also stated that inclusion of employees may slow down the decision process, but through their market knowledge, these employees can help improve the validity and reliability of the decisions taken by the management.

For the speed of decisions, MM-LOG-SOE stated “... faster is not always better as it can land you in trouble...”, but SM-MKT-PVT-1 and MM-IT-PVT both stated that some of the best decisions in their firms were the ones that were quick, but also included managers that provided their intuitive inputs. SM-MKT-PVT-1 also said that “... it is the long meetings and follow-ups that lead to delays, else structured process can be adopted for all decisions. You can always use a mix of structure and intuition and take decisions that have positive outcome for the firm...”.

MM-SAL-PVT also added that information search and discussion of alternatives has saved them from wrong decisions and has helped them in taking some of the best decisions.

Kraus et al. (2008) also found that SMEs are in a unique context as they not only have quicker decision making, but also the flexibility due to which they can use multiple approaches in their decision processes.

4.4 Discussion on findings

The research findings for the Chinese SME firms thus indicate that the decision-making processes are somehow different from large firms and may also have evolved over the last few years as some findings are different from existing research on decision-making in SME firms. Chinese SME firms are both intuitive and rational, but while the existing literature indicated a higher incidence of intuition than rationality, the participants of the research indicated their firms to have high element of rationality, even though their perceptions stated more of bounded rationality. Further, the DM processes are more structured than was found in the review of literature. Chinese SME firms have been found to use some of the management frameworks like SWOT even though this structured approach to decision making may not always be used. The decision context plays an important role in determining the decision process as well as the behavioural aspects of the decision-making process.

One thing that was similar to the literature was the high influence of political behaviour on the decision-making in SME firms. It was however seen that political influences are higher in case of stat-owned and private firms and lesser in the public-limited firms. This could be due to the higher participation of owners in the management decisions in case of private firms and thus a lower opportunity for other managers to promote their personal bias and objectives.

5 Conclusion

This research has been carried out to explore and evaluate the decision-making processes in Chinese SME firms. The research also aimed at identifying the possible ways in which the decision-making processes could be improved in these firms.

The research found that as against the general perceptions, the SME firms in China are quite rational even though not entirely rational. These firms do have formal decision-making processes such as information search and alternative development and evaluation. These firms while being higher in their political influence in decision-making, are not as influenced by their social contacts as is expected from the existing literature. These organisations follow processes that are simplistic and less complicated than larger firms and this could be due to their organisational context and faster decision-making. The research also identified significant influence of their organisational features such as their size, ownership structure, involvement of owners and participation levels of managers in their decision-making processes. Even with the sample of 10 participants, it was however clear that the SME firms are varied in their decision-making processes. In terms of the nature of the organisation, higher incidence of political behaviour was found in state-owned SMEs, while private firms were found to be most rational as per the perceptions of the managers of these firms. State-owned SMEs were found to be more influenced by the personal bias of their leaders and social contacts in their decisions and this can also be interpreted as their lower rationality in their decision-making processes. The decision processes were also found to be more structured in case of public and private firms and they were also found to be faster in case of private firms as against the state-owned firms.

The research findings also help conclude that SME firms may not choose one approach in their decision-making and instead use best practices from across the management field in improving their decision-making process. Use of

management frameworks as well as flexibility in their decision process can allow these firms to reduce the risks and increase the rate of success of their decisions. The key implications of the research are in the form of processes that can help improve the decision-making within the SMEs. The research findings indicate that the managers perceive the structures and management frameworks have helped them in taking more effective decisions. SME firms can thus invest some time and resources in understanding and including these management frameworks as part of their decision-making process. The findings also have an implication for the government agencies or trade organisations that aim towards improving the performance of SME firms in their region. These agencies can help the SME firms through training and orientation programs and help them in developing better understanding on improving their decisions processes.

The key limitations of the research are due to the smaller size of sample and thus the findings may not be representative of all Chinese SME firms. SME firms are quite varied in their features and thus a larger sample size or even a quantitative research can help provide more conclusive results on the decision-making processes in SME firms in China. Additionally, research can also be designed to understand the impact of varied organisational features such as their ownership and size on the decision-making process and their outcomes.

6References

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7 Appendices

7.1 Appendix-1: Interview questions

Introduction questions

- How involved are you with the decision-making within the organization?
- How involved are the owners in the decision-making within the organization? Is the management independent of ownership?
- How is your organization performing in its industry as well as chosen markets?
- How would you describe the business environment of your organization? How stable or unstable is it?

Decision-making process

- Please describe the decision-making process in your organization for both regular and more strategic decisions.
- How does the decision making happen within the organization? Is it focused more on internal aspects or external aspects?
- How do you collect information and how does the information needed for the decisions gets processed within the organization?
- Which factors would you say are most critical in determining the decision-making process within your organization?
- Does the decision-making process also include managers or is it driven more by the top management?

Rationality versus intuition in decision-making

- Would you say the decision-making in your organization is driven by rationality or more by intuitive decision-making?
- What is the importance of facts and figures in the decision-making process within the organization? And how do you search for the required information?

- Is the relevant information always included in the decision-making process? Or do the judgements of managers or top management play a more crucial role?
- How important is the past experience of managers to the decisions taken within the organization?
- What are the various management frameworks that are used by your organization in their decision-making process?

Political behaviour in decision-making process

- Do you feel that the political objectives of managers influence the decision-making process? Can individual goals become more important than the organizational objectives?
- Are people open or secretive in their discussions? Does the position within the organization, or the authority and influence of managers affect their role in decision-making processes?
- Would you say the decision-making takes up the role of negotiations? How strong is the influence of personal bias in the decisions?

Decision-making outcomes

- Can you give examples of some decisions that were successful and some which did not work for the organisation?
- Can you highlight some of the reasons that contributed to the success of failure of a decision?

7.2 Appendix-2: Participant profile and pseudonyms

Pseudonym (to report responses)	Position (in management)	Role	Type	Experience in the firm (in years)	Involvement in DM	Firm performance	Business environment
MM-IT-PVT	Middle	IT	PVT	8	Average	Good	Stable
SM-MKT-PVT-1	Senior	Marketing	PVT	15	High	Very good	Stable
MM-OP-SOE	Middle	Operations	SOE	9	Average	Average	Uncertain
MM-SAL-PVT	Middle	Sales	PVT	11	Average	Good	Stable
SM-HR-PUB	Senior	HR	PUB	18	Average	Average	Stable
MM-LOG-SOE	Middle	Logistics	SOE	10	Low	Not good	Stable
SM-SAL-PVT	Senior	Sales	PVT	16	High	Good	Uncertain
SM-OP-PUB	Senior	Operations	PUB	20	High	Good	Uncertain
SM-MKT-PVT-2	Senior	Marketing	PVT	10	High	Good	Stable
MM-SAL-PUB	Middle	Sales	PUB	12	Low	Not good	Uncertain